



**Pakistan Institute
of Public Finance Accountants**

Corporate Sector

**Model
Solutions**

Winter Exam-2018

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Business Laws

(Level-2)



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Solutions – Business Law

Ans.1 According to Sec 46 of Companies Act, 2017:

Conversion of public company into private company and vice-versa :

- (1) A public company may be converted into a private company with the prior approval of the Commission in writing by passing a special resolution in this behalf by the public company amending its memorandum and articles of association in such a manner that they include the provisions relating to a private company in the articles and complying with all the requirements as may be specified: Provided that in case of conversion of a listed company into a private company, the Commission shall give notice of every application made to it, to the securities exchange and shall take into consideration the representation if any, made to it by the securities exchange.
- (2) On an application for change in status of a company under sub-section (1), if the Commission is satisfied that the company is entitled to be so converted, such conversion shall be allowed by an order in writing.
- (3) A copy of the order, confirming the conversion under sub-section (2), duly certified by an authorized officer of the Commission shall be forwarded to the company and to the registrar within seven days from the date of the order.
- (4) A copy of the memorandum and articles of association as altered pursuant to the order under sub-section (2) shall, within fifteen days from the date of the order, be filed by the company with the registrar and he shall register the same and thenceforth the memorandum and articles so filed shall be the memorandum and articles of the newly converted company.
- (5) If a company, being a private company, alters its articles in such a manner that they no longer include the provisions which, under sub-section (1) of section 2, are required to be included in the articles of a company in order to constitute it a private company, the company shall—
 - a. As on the date of the alteration, cease to be a private company; and
 - b. File with the registrar a copy of the memorandum and articles of association as altered along with the special resolution.
- (6) If default is made in complying with the provisions of any of the preceding subsections, the company and every officer of the company who is in default shall be liable to a penalty not exceeding of level 2 on the standard scale.

Total Marks 10

Ans.2 According to Sec 237 of Companies Act, 2017:

Quarterly financial statements of listed companies :

Every listed company—Quarterly Financial Statements of listed companies. shall prepare the quarterly financial information within the period of:

- (a) one month (30 days) of the close of first and third quarters of its year of accounts; and
- (b) two months (60 days) of the close of its second quarter of its year of accounts:

Provided that the cumulative figures for the half year, presented in the second quarter accounts shall be subjected to a limited scope review by the statutory auditors of the company in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan and approved by the Commission. Provided further that the Commission may, upon an application by the company, extend the period of filing in case of accounts of first quarter for a period not exceeding thirty days, if the company was allowed extension in terms of sections 223.



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(2) The quarterly financial statements shall be posted on the company's website for the information of its members and also be transmitted electronically to the commission, securities exchange and with the registrar within the period specified under sub-section (1):

Provided that a copy of the quarterly financial statements shall be dispatched in physical form if so requested by any member without any fee.

provided further that the Commission may specify the time period for which the quarterly financial statements shall be made available on the website of the company

(3) The provisions of section 232 shall be applicable to the quarterly financial statements.

(4) If a company fails to comply with any of the requirements of this section, every director, including chief executive and chief financial officer of the company who has by his act or omission been the cause of such default shall be liable to a penalty of level 2 on the standard scale.

Total Marks 10

Ans.3 According to Sec 109 of Companies Act, 2017: 05
(a) Company to report satisfaction of charge:

A company shall give intimation to the registrar in the manner specified, of the payment or satisfaction, in full, of any mortgage or charge created by it and registered under this Part, within a period of thirty days from the date of such payment or satisfaction.

Ans.3 According to Sec 12 of Companies Act, 2017: 04
(b) Change of name by a company:

A company may, by special resolution and with approval of the registrar signified in writing, change its name:

Provided that no approval under this section shall be required where the change in the name of a company is only the addition thereto, or the omission there from, of the expression — (Private) or — (SMC-Private) or — (Guarantee) Limited or — Limited or — Unlimited, as the case may be, consequent upon the conversion of the status of a company in accordance with the provisions of sections 46 to 49.

Total Marks 09

Ans.4 According to Sec 40 of the Contract Act 1872: 02
(a) No, a contract of Personal Skill cannot be referred by 3rd parties.

If it appears from the nature of the case that it was the intention of the parties to any contract that any promise contained in it should be performed by the promisor himself, such promise must be performed by the promisor.

Ans.4 Following are the few areas of jurisdiction of the High Court 02
(b)

- a) Original civil jurisdiction
- b) Appellate civil jurisdiction
- c) Appellate criminal jurisdiction
- d) Supervisory jurisdiction
- e) Constitutional jurisdiction

Total Marks 10



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Ans.5 a) No she cannot avail the remedy of specific performance. because damages for breach of contract are available as remedy 05
(a)

Ans.5 b) According to sec 61(2)(b) of Sale of Goods Act 1930: 05
(b) In the absence of a contract to the contract, the Court may award interest at such rate as it thinks fit on the amount of the price--- (b) to the buyer in a suit by him for the refund of the price in case of a breach of the contract on the part of the seller--- from the date on which the payment was made.

Total Marks 10

Ans.6 **According to Sec 2(14) of the Companies Act 2017:**

Chief Executive: in relation to a company means an individual who, subject to control and directions of the board, is entrusted with whole, or substantially whole, of the powers of management of affairs of the company and includes a director or any other person occupying the position of a chief executive, by whatever name called, and whether under a contract of service or otherwise

According to Sec 186 of the Companies Act 2017:

Appointment of first chief executive:

(1) Every company shall have a chief executive appointed in the manner provided in this section and section 187.

(2) The name of first chief executive shall be determined by the subscribers of the memorandum and his particulars specified under section 197 shall be submitted along with the documents for the incorporation of the company.

(3) The first chief executive shall, unless he earlier resigns or otherwise ceases to hold office, hold office up to the first annual general meeting of the company or, if a shorter period is fixed by the subscribers at the time of his appointment, for such period.

(4) Notwithstanding anything contained in this section, the Government shall have the power to nominate chief executive of a public sector company in such manner as may be specified.

According to Sec 189 of the Companies Act 2017:

Restriction on appointment of chief executive: No person who is ineligible to become a director of a company under section 153 or disqualified under sections 171 or 172 shall be appointed or continue as the chief executive of any company.

Total Marks 10

Ans.7 Agency may be created in following ways: 04

(a) **According to Sec186 of Contract Act 1872:**

Agency by Express Agreement: The authority of an agent may be expressed or implied.

According to Sec187 of Contract Act 1872:

Agency by Implied Agreement: An authority is said to be express when it is given by words spoken or written. An authority is said to be implied when it is to be inferred from the circumstances of the case; and things spoken or written, or the ordinary course of dealing, may be accounted circumstances of the case.

According to Sec237 of Contract Act 1872:

Agency by Estoppel: When an agent has, without authority, done acts or incurred obligations to third persons on behalf of his principal, the principal is bound by such acts or obligations if he has by his words or conduct induced such third persons to believe that such acts and obligations were within the scope of the agent's authority.

Agency by Holding out: The principal is bound by the acts of the agent if on an earlier



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occasion he made other persons to believe that the person doing some acts on his behalf is doing with authority. But if he has limited authority the principal is not bound for his acts beyond that authority.

Agency by Necessity: Agency by necessity gives an authority to a person to act as an agent for another without any consent of other persons.

According to Sec196 of Contract Act 1872:

Agency by Ratification: Where acts are done by one person on behalf of another, but without his knowledge or authority, he may elect to ratify or to disown such acts. If he ratify them, the same effects will follow as if they had been performed by his authority

Agency by operation of law: An agency arises by operation of law. Under partnership act, every partner is an agent of the firm and the act of the partner to carry on business of the firm binds the firm.

Total Marks 10

Ans.8 According to Sec 28 of Partnership Act 1932:

Holding out. – (1) Anyone who by words spoken or written or by conduct represents himself, or knowingly permits himself to be represented, to be a partner in a firm, is liable as a partner in that firm to anyone who has on the faith of any such representation given credit to the firm, whether the person representing himself or represented to be a partner does or does not know that the representation has reached the person so giving credit.

a) Ali is responsible to 3rd party for breach of Zahid's firm vicarious liability.

Zahid will pay the amount to Ali, Zahid's firm is also liable to 3rd party

b) Remedy of breach can be recovered –

Total Marks 08

Ans.9 According to Sec 68 of the Companies Act 2017:

(a) Repayment of money received for shares not allotted:

- (i) Where a company issues any invitation to the public to subscribe for its shares or other securities, the company shall refund the money in the case of the unaccepted or unsuccessful applications within the time as may be specified.
- (ii) If the refund required by sub-section (1) is not made within the time specified, the directors of the company shall be jointly and severally liable to repay that money with surcharge at the rate of two percent for every month or part thereof from the expiration of the fifteenth day and, in addition, shall be liable to a penalty of level 3 on the standard scale.

Total Marks 09

Ans.10 According to Sec4 of Contract Act 1872:

(a) The communication of a proposal is complete: when it comes to the knowledge of the person to whom it is made. The communication of an acceptance is complete,– as against the proposer, when it is put in a course of transmission to him, so as to be out of the power of the acceptor; as against the acceptor, when it comes to the knowledge of the proposer. The communication of a revocation is complete,– as against the person who makes it, when it is put into a course of transmission to the person to whom it is made, so as to be out of the power of the person who makes it; as against the person to whom it is made, when it comes to his knowledge.

04



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Ans.10 Following are the characteristics of the contingent contract” 03

- (b)**
- a) The performance of a contingent contract depends upon the happening or non-happening of some future event.
 - b) The event must be collateral to the contract
 - c) The event must be uncertain

Total Marks 07

Ans.11 a) Ten years’ experience as an advocate of a High Court or 03

- (a)**
- b) Ten years’ service as a civil servant including three years’ experience as a District Judge or
 - c) Ten Years’ experience in a judicial office.

Ans.11 According to Sec 21 Partnership Act 1932: 07

- (b) Partner's authority in an emergency:** A partner has authority, in an emergency; to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances, and such acts bind the firm.

Ali is not found guilty of breach or negligence. His act was to protect from loss with good intention.

Total Marks 10

Business Economics

(Level-2)



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Q.1. Total Utility: Total satisfaction or utility obtained from total quantity of a good or service consumed. 04
(a)

Marginal Utility: change in total utility due to consumption of one more unit of a good or service.

MU = change in TU/ change in quantity (explained later in detail)

Relationship between Total Utility and Marginal Utility

When a consumer consumes successive units of a commodity or service, the utility obtained from every next unit decreases. And with continuous consumption of a good TU increases, reaches at maximum and then falls. Relationship between TU and MU can be expressed as:

- With continuous consumption when total utility increases, the MU remains positive ($MU > 0$). It is referred to as *positive utility*.
- With continuous consumption of a good, when TU reaches at maximum, the MU becomes zero. It is referred as *zero utility*. It is the point where consumer has no further desire of a good and known as *point of satiation or point of saturation*.
- With continuous consumption, when TU starts decreasing, the MU is negative ($MU < 0$). It is referred as *negative utility*.

Q.1. Factors causes shift in demand curve 06

(b)

- (i) **Change in price of substitute good:** A substitute good is defined as any product or service that can adequately substitute for the primary product or service. In case of substitute, if price of one good increases, the demand for others increases and if price of one good decreases, the demand for other decreases. An example of substitute goods is butter and margarine. As the price of margarine decreases, then the demand for butter decreases. This causes a leftward shift of the demand curve.
- (ii) **Consumer Income:** Changes in consumers' income cause a change in the demand for a good or service. When consumer's income increases, demand for goods also increases, causing the demand curve to shift to the right. This is because consumers spend more money when they have higher incomes. When consumer's income falls, the demand for goods decreases. For example, during times of recession when job layoffs occur, consumer spending and the demand for goods decrease. This results in a shift of demand curve to the left.
- (iii) **Expected Price of Good:** when consumers expect, in future the price of a good will increase, the current demand will be increased and the demand curve will be shifted outward. On the other hand if consumers expect, in future price will decrease, the current demand will be decreased and the demand curve will be shifted inward.
- (iv) **Taste change**
- (v) **Habit**
- (vi) **Prices of substitutes**
- (vii) **Population change.**

(A student may write any 3)

a) Definition of Total Utility and Marginal utility: 2 Marks, Relationship of TU and MU: 2 Marks

b) Three causes of shift in Demand Curve: $3 \times 2 = 6$ Marks

Total Marks 10



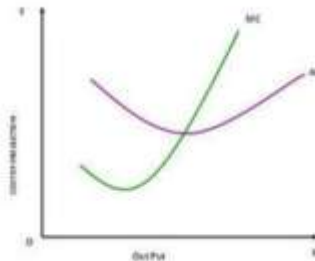
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Q.2. Average Cost: Cost per unit of output is called average cost. It can be obtained dividing the total cost by units of output. $AC = \frac{TC}{Q}$ 04

Marginal Cost: The change in total cost or variable cost due to one unit change in output level.

$$MC = \frac{\Delta TC}{\Delta Q}$$

Relationship between Average Cost and Marginal Cost:



- When Average Cost decreases, marginal Cost may decrease or increase but lesser than Average Cost.
- When Average Cost is minimum, marginal Cost is equal to Average Cost.
- When Average Cost increases, marginal Cost is greater than Average Cost.

Q.2. (b) 06

Units (Output)	Total Cost (Rs.)	Fixed Cost (Rs.)	Variable Cost (Rs.)	Marginal Cost (Rs.)	Average Total Cost (Rs.)
0	10,000	10,000	0	-	-
500	15,000	10,000	5,000	10	30
1,000	18,000	10,000	8,000	6	18
1,500	20,000	10,000	10,000	4	13.33

a) Definitions of AC & MC: 2 Marks, Relationship between AC and MC: 2 Marks

b) Four Missing Columns: $4 \times 1.5 = 6$ Marks

Total Marks 10

Q.3. (a) Multiplier effect: The number of time change in national income due to initial change in investment. It is denoted by K. 04

$$K = \frac{\text{Change in National Income}}{\text{Change in Investment}}$$

In simple closed economy the multiplier effect is,

$$K = \frac{1}{1 - MPC} \text{ or } \frac{1}{MPS}$$

MPC is the proportion of change in income is spent on goods and services.

$$MPC = \frac{\text{Change in Consumption}}{\text{Change in Income}}$$

The greater the proportion of change in income is spent on goods and services, the greater will be the value of multiplier and lesser the proportion of income is spent on goods and services, the lesser will be the value of multiplier.

Q.3. (b) $K = \frac{1}{1 - MPC}$ 03
(i) $K = \frac{1}{1 - 0.8} = 5$

Q.3. (b) If investment increases by 50,000, there is five times increase in national income. 03
(ii) $5 = \frac{\text{Change in National Income}}{\text{Change in Investment}}$
 $5 = \frac{\text{Change in Investment}}{50,000}$



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Change in Investment = $50,000 * 5 = \text{Rs. } 2,50,000$

a) Definition of Multiplier: 1 Mark, Role of Multiplier: 3 Marks

b) Calculation of Multiplier with Formula: 3 Marks, Effect on National income: 3 Marks

Total Marks **10**

Q.4. Direct Tax: Tax whose burden cannot be shared with other and paid directly to the Government by the person on which it was imposed.

04

Examples: Income tax, Property Tax, Wealth Tax, Capital gain Tax

Indirect Tax: A tax whose burden can be shared with others. This tax increases the price of a good, meaning the tax is paid when the good is bought.

Examples: Sales Tax, Excise Duty, Value added Tax

Q.4. Advantages of Direct Tax

06

(b)

1. **Equitable:** people with higher income pay more into society than those with less income, creating a more equitable distribution of (net) wealth.
2. **Cost of collection is low:** meaning it is an economical way of raising revenue, saving expense.
3. **Relative certainty:** the government can estimate how much it will receive allowing better planning of projects.

Disadvantages of Direct Tax

1. **Possible to evade:** it is possible to falsify tax claims meaning the correct amount is not always paid.
2. **Unpopular:** it is very obvious when a direct tax is being paid meaning the end user will often try to find ways to avoid paying it.
3. **Discourage savings/ investment:** if too high, then it would leave consumers and firms less money to put to other causes that could reap reward.

a) Difference between Direct and Indirect Tax: 3 Marks, Examples: 1 Mark

b) Three advantages and three disadvantages: $3+3=6$ Marks

Total Marks **10**

Q.5. Money: An officially-issued legal tender used as a medium of exchange, usually through Currency notes and coins is called money.

Functions of Money:

The problems that come with bartering have led to the evolution of money in its current form. The functions that money should be able to possess, in part due to identifying the problems of the barter system, are explained below.

There are four functions that money undertakes in modern society

Medium of exchange: Money allows goods and services to be traded without the need for a barter system. Barter systems rely on there being a double coincidence of wants between the two people involved in an exchange

Store of value: This can refer to any asset whose “value” can be used now or used in the future i.e. its value can be retrieved at a later date. This means that people can save now to fund spending at a later date.

Unit of account: This refers to anything that allows the value of something to be expressed in an understandable way, and in a way that allows the value of items to be compared.



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Standard of deferred payment: this refers to the expressing of the value of a debt i.e. if people borrow today, then they can pay back their loan in the future in a way that is acceptable to the person who made the loan.

Definition of Money: 1 Mark, functions of Money: 3 Marks

Total Marks 04

- Q.6.** Balance of trade is the difference in the value of exports and imports of only visible (a) (tangible) items. Balance of trade includes imports and exports of goods alone i.e., visible items. **02**

Balance of payments is the overall record of all economic transactions of a country with the rest of the world. In Balance of payments both visible and invisible items are included. Balance of Payments is split into three parts: (tangible & intangible)

- (i) Current Account
- (ii) Capital Account
- (iii) Official Financing Account

- Q.6. Reasons of Current Account Deficit in Pakistan:** **08**
(b)

1. **Narrow export base:** Pakistan is basically an agrarian country, the major exports are therefore agricultural products such as rice, cotton, leather, fish etc. Our export base has remained narrow and that too concentrated in relatively low value added products.
2. **Consumption:** Due to ever rising number of population and consumption habits, Pakistan has remained a consumption oriented country.
3. **Lack of automated machinery:** Due to the reduced level of technological advancements in the production process the production has faltered and the decline in the quality has subsequently affected the exports.
4. **Political instability:** The uncertainty that has prevailed in the country over the years on the political scene has impacted the efficiency of the industries.
5. **Debt Servicing:** Pakistan has obtained loan from multiple countries for which it regularly pays off the interest as well, the interest payments to have affected the balance of payment very adversely.

a) difference between balance of trade and balance of payments: 2 Marks

b) Four causes of current account deficit in Pakistan: 4*2=8 Marks

Total Marks 10

- Q.7. Free Market Economy:** A free market economic system is an economic or market system in which the basic economic decisions regarding the allocation of resources, production and distribution depends on the free choice of buyers and sellers. All resources are owned by individuals and there is less or no government control in this type of market system. In free market system the free choice of buyers and sellers refers to the demand and supply forces in the market.

Features of Free Market Economy

(i) Private Property:

In this economy private property is allowed. All means of production like machines, implements, mines and factories etc. come under private property.



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(ii) Price Mechanism:

Capitalist economy is gained by price mechanism. Here prices are determined by the interaction of demand and supply without the interference of any kind by the government or any other external forces.

(iii) Freedom of Enterprise:

In this system every individual is independent to his means of production in any occupation that one likes.

(iv) Sovereignty of that consumer:

Under this system, consumer plays the most vital role. The entire production pattern is based on the desires, wishes and the demand of the consumer.

(v) Profit Motive:

The maximization of profit is the main motive of the producer. Profit guides the production in this type of economy.

(vi) No Government Interference:

Under capitalistic system, government does not interfere in day-to-day economic activities. This means producers and consumers are free to take decisions.

Definition of Market Economy: 2 Marks, Explanation of at least four features of Free Market Economy: 4*1.5=6 Marks

Total Marks 08

Q.8. Elasticity of Supply: A measure of the responsiveness of quantity supplied to a change in the price of the good. 04

(a)

$E_s = \text{Percentage change in quantity supplied} / \text{Percentage change in price}$

Factors affecting the price elasticity of supply:

- (i) Production and Stock Capacity
- (ii) Time Period
- (iii) Ease of entrance and exit from the market
- (iv) Greater ability for firms to switch resources to and from substitutes in Production
- (v) Nature of the product – Perishable or Durable
- (vi) Capital Requirement
- (vii) Laws of returns.

(b)

Price (Rs.)	Quantity /output	Total Revenue (Rs.)	Marginal Revenue (Rs.)	Total Cost (Rs.)	Marginal Cost (Rs.)	Profit or Loss (Rs.)
20	0	0	-	4	-	-4
16	1	16	16	10	6	6
12	2	24	8	14	4	10
10	3	30	6	20	6	10
7	4	28	-2	28	8	0
4	5	20	-8	40	12	-20
0	6	0	-20	54	14	-54

06

Profit maximizing output of a firm is Q=3 where MR=MC, at profit maximizing output price is Rs.10. The profit of firm is at this output is Rs.10.

- a) Definition of Price elasticity of Supply: 2 Mark, Determinants of elasticity of supply: 2 Marks
- b) Complete filling of missing values= 4 marks, Profit maximizing output and price: 1 Mark, Profit at this output: 1 Mark

Total Marks 10



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Q.9. National Income: National Income is the monetary value of the flow of goods and services produced by the economy during a year, after adjusting govt. subsidies and indirect taxes.	02
(a)	
Q.9. Gross Domestic Product(GDP) at market prices	02
(b) (i) $GDP \text{ at market Prices} = C+I+G+ (X-M) = 18,000+5,920 + 4500+ (3450-3640) = 28,230$ million dollars	
Q.9. Gross National Product (GNP) at market prices	02
(b)(ii) $GNP \text{ at market Prices} = GDP \text{ at market prices} + \text{Net income from abroad} = 28,230+ 210= 28,440$ million dollars	
Q.9. Net National Product or National income at market prices	02
(b)(iii) $\text{Net National Product} = GNP \text{ at market prices} - \text{Depreciation of Capital} = 28,440- 1750= 26,690$ million dollars	
Q.9. GDP at Factor Cost	02
(b)(iv) $GDP \text{ at factor cost} = GDP \text{ at market prices} - \text{indirect Tax} + \text{Subsidies} = 28,230- 2500+ 300= 26,030$ million dollars	
a) Definition of National income:2 Marks	
b) Calculation of GDP, GNP, NNP and GDP at factor cost: 4*2=8 Marks	
Total Marks	10

Q.10. Fixed Exchange Rate:	04
(a) A fixed exchange rate denotes a nominal exchange rate that is set firmly by the monetary authority with respect to a foreign currency or a basket of foreign currencies.	
Floating Exchange Rate:	
A floating exchange rate is determined in foreign exchange markets depending on demand and supply, and it generally fluctuates frequently.	
(b) Devaluation of currency: Devaluation describes a policy of deliberately weakening the domestic currency against others; usually by reducing its parity value within a fixed rate system.	06

The objective is to reduce balance of payments deficits by:

- Making imports more expensive;
- Making exports cheaper.

The effectiveness of the policy depends on:

The price elasticity of demand for imports. If the demand is inelastic then a rise in the price of imports will not significantly reduce the volume demanded. It will however increase total expenditure on imports thus deepening the deficit.

Demand for imports may be price inelastic due to:

- firmly entrenched preferences for overseas goods;
- lack of flexibility of domestic firms to replace imports;
- dependence on imported raw materials and food.

The price elasticity of demand for exports. If demand for exports is price inelastic then a fall in their price will not significantly increase volume demanded. It will however reduce total expenditure and thus deepen the deficit. Demand for exports rendered inelastic by:

- Poor perceived quality of exports;
- Lack of flexibility of domestic firms to take advantage of export demand.



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- a) Difference between Fixed and Floating Exchange rate: 2+2
b) Effect of devaluation of currency on exports and imports: 2 Marks, Effectiveness of this policy: 4 Marks

Total Marks 10

Q.11. Real interest rate

- (a) The real interest rate is the one that is inflation adjusted. It is so named because it states the real rate that the lender would receive after it has been adjusted for the inflation. For instance; if a bond compounds annually and has a nominal interest rate of 10% and the inflation rate is 6% then the real interest rate is only 4%. 02

Q.11. Depreciation of Capital:

- (b) Reduction in the value of capital stock over the time is called depreciation of capital. It is also known as capital consumption. 02

Q.11. Gross Domestic Product:

- (c) Gross domestic (GDP) is a monetary measure of the market value of all with in a country the final goods and services produced in a period (quarterly or yearly) of time. Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. Imports are not included in it. 02

Q.11. Foreign Exchange Rate:

- (d) An exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the price of one currency in terms of another currency. 02

Total Marks 08

Cost Accounting

(Level-2)

Winter Exam-2018

Solutions – Cost Accounting

Q.1. 35 units x 3.2/unit = (112) But 120 is minimum salary so 120 would be paid to labour. 03
(a)

Q.1. 40 units x 3.2/unit = 128 03
(b) 4 units x 3.5/unit = 14
 Total salary = 128+14= 142 would be paid to employee.

Q.1. Direct cost is a type of cost which is directly identifiable and traceable to main product or cost 04
(c) object for example wood for table or chocolate for brownies while indirect cost is cost which is not directly identifiable to main product or cost object for example electricity bill or rent of factory.

So direct labour is one who is directly working or associated to the product e.g. manufacturing labour or machine operatives

Indirect labor is the one who is not directly working onto manufacturing the product e.g. factory supervisor or factory manager etc.

Total Marks 10

		Rs / labour hour	
Q.2.	Cutting department OAR = 10000/5000	= 2/labour hour	06
(a)	Assembly department OAR = 15000/7500	=2/labour hour	
(i)	Finishing department OAR = 25000/8000	=2.5/labour hour	

2 marks for calculation of each rate

Rs / machine hour

Q.2.	Cutting department OAR = 10000/4500	= 2.22/machine hour	06
(a)	Assembly department OAR = 15000/5000	= 3/machine hour	
(ii)	Finishing department OAR = 25000/10000	= 3.125/ machine hour	

2 marks for calculation of each rate

Q.2. In this case labour hour is most suitable base for overheads absorption as labour is a major 03
(b) activity and most of the overheads are derived on the basis of labour hours. The departments are labour intensive

		Rs / Hour		
Q.2.	Cutting department	= 2/hour	x 1 hour	= 2/unit
(c)	Assembly department	= 2/hour	x 1.5 hours	= 3/unit
	Finishing department	= 2.5/hour	x 2.5 hours	= 6.25/unit
	Cost per unit	= 6.25+3+2+25 = Rs.36.25/unit		

1 mark

1 mark

1 mark

2 marks

Total Marks 20

Q.3. 50000kg x 10 = 500,000 03
(a) Actual material cost = 475,000
 Variance = 25,000 favorable

Q.3. 45,000 units x 1kg/unit = 45,000kg 03
(b) Actual quantity used = 50,000 kg

5000kg	
X	
10	
50,000 Adverse	

Q.3. Material price variance is favourable-this can arise due to better prices negotiated with supplier, 02
(c) or discounts availed on bulk purchasing etc.

Material usage variance is adverse-the reasons can be more wastage than expected, old machine using more material of lack of staff training etc 02

Total Marks 10

Winter Exam-2018

Solutions – Cost Accounting

Q.4.
(a)
(i)

FIFO	Material received			Material issued			Material balance		
Date	Units	Per unit	Total	Units	Per unit	Total	Units	Per unit	Total
1st March	10	2.00	20						
2nd March	70	2.20	154						
3rd March				10	2.00	20			
				30	2.20	66			
	40	2.20	88						
4th March	50	2.30	115						
5th March				10	2.20	22			
							30	2.20	66
							50	2.30	115
				VALUE OF ISSUED MATERIAL		108	C/S Value		181

10

1 mark for recording each transaction
1 mark for calculation value of issues
2 marks for calculation of value of closing stock

Q.4.
(a)
(ii)

Wt Avg	Material received			Material issued			Material balance		
Date	Units	Per unit	Total	Units	Per unit	Total	Units	Per unit	Total
1st March	10	2.00	20						
2nd March	70	2.20	154						
Average price	80	2.175	174						
3rd March				40	2.175	87			
	40	2.175	87						
4th March	50	2.30	115						
Average price	90	2.244	202						
5th March				10	2.244	22.44			
							80	2.244	179.52
				VALUE OF ISSUED MATERIAL		109.44	C/S VALUE		179.52

10

1 mark for recording each transaction
1 mark for calculation value of issues
2 marks for calculation of value of closing stock

Q.4.
(b)

1. Profit would be higher in FIFO as cost of sales will have lower values (older ones) so the resultant profits will be high.
2. If FIFO is used then closing stock value would be high as inexpensive material would be issued to production and expensive material is still available in the form of closing stock.
3. Cost of sales would be low as the older (outdated) values would be charges.

10

3 marks for each valid point

Total Marks 30

Winter Exam-2018
Solutions – Cost Accounting

Q.5.
(a)

	Job 1	Job 3	Job 4	Marks
	Rs.	Rs.	Rs.	
Work in progress at the beginning of the period	5,260	6,940	–	1
Direct materials in the period	1,120	6,010	3,360	3
Direct labour in the period	580	5,170	2,980	3
Production overheads (Working 1)	<u>522</u>	<u>4653</u>	<u>2682</u>	5
Total production cost	7482	22773	9022	3
Non production cost	<u>3741</u>	<u>11387</u>	<u>4511</u>	2
Total cost	<u>11223</u>	<u>34160</u>	<u>13533</u>	2
Selling price (60% markup) working 2	<u>17957</u>	<u>54656</u>	<u>21653</u>	6

25

(Working 1) OAR = $11,430 / 12700 \times 100 = 90\%$ of labour cost

Working 2- Job 1:

11223 x 160%

Similarly can be calculated for job 3 and 4

Q.5. Job costing is different from batch costing in a way that in job costing a single unit is being produced and that is the cost unit. **(b)** 05

However in batch costing, a batch consisting of several identical units are being produced. The cost unit in batch costing is not a single unit but a batch.

Total Marks 30

Financial Accounting

(Level-3)

Winter Exam-2018
Solutions – Financial Accounting

Plant and machinery at cost			
	Rs.		Rs.
Balance b/d	195,000 (1)	Disposal	35,000 (1)
Bank	42,000 (1)	Balance c/d	202,000
	<u>237,000</u>		<u>237,000</u>
Balance b/d	202 000 (1)		

Provision for depreciation on plant and machinery			
	Rs.		Rs.
Disposal	7,000 (1)	Balance b/d	68,250(1)
Balance c/d	89,400	Income statement	28,150(1)
	<u>96,400</u>		<u>96,400</u>
		Balance b/d	89 400 (1)

Q.1. Responses could include: 04
(b) Plant and machinery often lose more value in the earlier years of its life (2)
 due to usage (2)
 and maintenance costs may be higher in the later years (2)
Max 4 marks
Accept other valid points.

Total Marks 12

Q.2. Periodic weighted average cost = Total cost / total units(1) 07
(a) Total cost = Rs. 1,005 + (25 × Rs. 12) + (25 × Rs. 15) = Rs. 1,680(3)
 Total units = 100 + 25 + 25 = 150(1)
 Therefore: Rs. 1,680/150 units = Rs. 11.20 per unit.
 Closing inventory = 100 + 25 + 25 – 40 = 110 units × Rs. 11.20 = Rs. 1,232.00(2)

Q.2. Sales revenue = (40 × Rs. 20) = Rs. 800(0.5) 02
(b) Cost of sales = Rs. 1,680 – Rs. 1,232 = Rs. 448(0.5)
 Gross profit = Rs. 800 – Rs. 448 = Rs. 352(1)

Total Marks 09

Revenue per draft profit or loss	27,000(1)	07
Servicing costs (800 x 2 x 130%)	<u>(2,080)(4)</u>	
	<u>24,920(1)</u>	

Total Marks 06

Winter Exam-2018
Solutions – Financial Accounting

Q.4.
(a)

Branch Adjustment Account

08

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Stock reserve a/c	23,000(0.5)		By Stock reserve a/c (66,000 x 50/150)	22,000(2)
	To Goods sent to Branch a/c	2,000 (0.5)		By Goods sent to Branch a/c (204,000 x 50/150)	68,000(2)
	To Branch stock a/c	2,000(0.5)			
	To Shortage (Load)	1,000 (0.5)			
	To Gross Profit c/d	62,000			
		<u>90,000</u>			<u>90,000</u>
				By Gross Profit b/d	62,000
	To Branch expenses a/c:				
	Rent 2,400				
	Salaries 24,000				
	Petty expenses <u>2,400</u> (500+2000-100)	28,800 (1)			
	To Branch debtor's a/c: discount	2,400 (0.5)			
	To shortage (cost)	2,000 (0.5)			
	To Net Profit	28,800			
		<u>62,000</u>			<u>62,000</u>

Q.4.
(b)

Branch Adjustment Account

03

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	22,000 (0.5)		By Branch Cash a/c	93,000 (0.5)
	To Branch stock a/c (credit sales)	87,000 (0.5)		By Branch expenses a/c (discount allowed to debtors)	2,400 (0.5)
				By sales returns	3,000 (0.5)
				By Balance c/d	10,600 (0.5)
		<u>109,000</u>			<u>109,000</u>

Q.4.
(c)

Branch Stock Account

04

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	66,000 (0.5)		By branch a/c-cash sales	106,000 (0.5)
	To Goods sent to Branch a/c	204,000 (0.5)		By branch debtor's a/c- credit sales	87,000 (0.5)
	To Branch Debtors a/c: Sales return	3,000 (0.5)		By Branch Adjustment A/c Allowance to customer on selling price (already Adjusted while invoicing)	2,000 (0.5)
				By goods sent to branch a/c: Returns to head office	6,000 (0.5)
				By shortage -in-stock a/c	3,000 (0.5)
				By Balance c/d	69,000
		<u>273,000</u>			<u>273,000</u>

Total Marks 15

Winter Exam-2018
Solutions – Financial Accounting

Q.5. **Mustafa Limited**

Statement of changes in equity for the year ended 31st August 2017

	Ordinary Share Capital	Share Capital premium	Revaluation Reserve	Retained Earnings
				Rs.
Balance at 1 st Sept. 2016	200,000	80,000	40,000	37,500
Rights issue	80,000(1)	48,000(1)	-	-
Interim dividend paid				(44,800)(1)
Revaluation			(40,000)(2)	(8,000)(2)
Profit for the year				22,500(1)
Balance at 31 st Aug. 2017	<u>280,000</u>	<u>128,000</u>	-	<u>7,200</u>

Total Marks 08

Q.6. **Ali, Jehangir and Malik**
(a) **Capital accounts at 1 October 2014**

	Ali	Jehangir	Malik		Ali	Jehangir	Malik
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Goodwill (2)	16,000	16,000	8,000	Balance b/d (1)	139,800	128,000	
Loan (1)	15,000			Bank (1)			27,000
				Inventory(1)			5,000
Balance c/d (1)	128,800	132,000	24,000	Goodwill (2)	20,000	20,000	-
	<u>159,800</u>	<u>148,000</u>	<u>32,000</u>		<u>159,800</u>	<u>148,000</u>	<u>32,000</u>
				Balance b/d	128,800	132,000	24,000

Q.6. **Ali, Jehangir and Malik**
(b) **Current Accounts**

	Ali	Jehangir	Malik		Ali	Jehangir	Malik
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Drawings(1)	16,000	24,000	8,000	Balance b/d (1)	9,500	7,500	
Interest on drawings(1)	480	720	240	Loan Interest(1)	1,500		
Balance c/d(1)	40,180	28,680	21,560	Interest on capital(1)	9,660	9,900	1,800
				Salary(1)			10,000
				Share of residual profit(1)	36,000	36,000	18,000
	<u>56,660</u>	<u>53,400</u>	<u>29,800</u>		<u>56,660</u>	<u>53,400</u>	<u>29,800</u>
				Balance b/d(1)	40,180	28,680	21,560

Total Marks 18

Winter Exam-2018
Solutions – Financial Accounting

Q.7.

10

Tahir Limited	
Income Statement for the year ended 30 June 2015	
	Rs.
Revenue(1)	526,000
Cost of sales W-1(1)	<u>(350,100)</u>
Gross Profit(1)	175,900
Administrative expenses W-3(1)	(38,796)
Selling and distribution expenses W-2(1)	(67,010)
Profit from operations(1)	70,094
Finance costs(1)	<u>(1,250)</u>
Profit for the year(1)	<u>68,844</u>

W-1 Cost of sales(1)	
Inventory at 1 July 2014	37,500
Purchases	342,000
Inventory at 30 June 2015	(29,400)
	<u>350,100</u>

W-2 Selling & Distribution expenses (3)	
Selling and distribution expenses	37,510
Depreciation on warehouse buildings	12,000
Depreciation on motor vehicles	17,500
	<u>67,010</u>

W-3 Administrative expenses (3)	
Administrative expenses	36,130
Depreciation on office equipment	2,350
Bad debts	200
Increase in provision for Doubtful debts	116
	<u>38,796</u>

Depreciation office equipment 25 000 – 1500 × 10%

Total Marks 18

Winter Exam-2018
Solutions – Financial Accounting

10

Q.7.

Tahir Limited	
Statement of financial Position as at 30 June 2015	
	Rs.
Assets	
Non-current assets	
Property, plant and equipment W-1	337,150
Current assets	
Inventory	29,400(1)
Trade and other receivables	4,579(1)
Cash and cash equivalents	<u>27,200(1)</u>
Total Assets	<u>398,329</u>
Equity and liabilities:	
Equity	
Ordinary share capital	140,000(1)
General reserve	50,000(1)
Retained earnings	<u>176,434(1)</u>
Total equity	<u>366,434</u>
Non-current liabilities	
5% Debentures (2014 – 2025)	<u>25,000(1)</u>
Current liabilities	
Trade and other payables	6,895(1)
Total equity and liabilities	<u>398,329</u>

W-1 Non-current assets (3)			
	Cost	Accumulated Depreciation	Net Book Value
	Rs.	Rs.	Rs.
Warehouse buildings	300,000	24,000	276,000
Motor vehicles	70,000	30,000	40,000
Office equipment	25,000	3,850	21,150
	<u>395,000</u>	<u>57,850</u>	<u>337,150</u>

Trade receivables 5020 – 200 (1) – 241 (1)

Retained earnings 140990 + 68844 – 8400 – 25000 (2) = 176,434

Total Marks 20

Q.8. No sale has taken place as control of the good has not been transferred, but Ahmed must show that it is holding Rs. 90,000 which belongs to Ali (iii & v).

Total Marks 06

Q.9. **Benefits**

- Quicker and cheaper than a new share issue (2)
- More likely to be fully subscribed than a new share issue (2)
- Results in a cash inflow (2)
- Does not have to be repaid (2)
- Would avoid any dilution of ownership (2)

Max 4 marks
Accept other valid points

Limitation

- Can lead to a fall in the share price (2)

Max 2 marks
Accept other valid points

Total Marks 06

Business Commn. & Report Writing

(Level-3)



Winter Exam-2018
Solutions – Bus. Commn. & Report Writing

- Q.1.** The examinee may write any 3 situations as given below.) 03
- (a)**
1. Sharing information to those who need it to perform their job, make a decision or solve a problem.
 2. Sharing information for coordinating plans.
 3. Communicating goals and structures.
 4. Giving and taking feedback.
- Q.1.** (The examinee may write any 4 reasons as given below.) 04
- (b)**
1. Fear for the boss's reaction
 2. Lack of communication skills
 3. Lack of trust
 4. Misunderstanding regarding importance of their feedback to the boss
 5. Absence of serious interest in the task
 6. They feel peer pressure.
- Total Marks** **07**
- Q.2. Filtering of Information** – this refers to the sender's deliberate suppression or manipulation of information so that it may be seen in a more favorable perspective by the receiver. It includes receiver's concealing of information which is not considered to be in accordance with the expectations or viewpoints of the receiver.
- Information overload**—this suggests the exposure to or provision of too much information or data. This can become a huge issue particularly with emails whereby the recipient is so swamped with the volume of messages that he is simply unable to read, interpret and act on all the communications received.
- Total Marks** **06**
- Q.3.** (The examinee may write any 5 of the given attributes.)
1. Courteous messages are sincere and tactful, thoughtful and appreciative.
 2. They carry expressions and terminology that show respect.
 3. They do not include irritating expressions and clichés.
 4. They do not contain questionable humour and flippancy
 5. These messages are unbiased. The language of such messages is not offensive for particular groups or individuals. It means no prejudice against culture, religion, gender, ethnic origin, age and physical features.
 6. Courteous messages take into consideration both viewpoints as well as feelings of the receiver.
 7. Courteous messages are positive and focused on the audience.
- Total Marks** **05**



Winter Exam-2018
Solutions – Bus. Commn. & Report Writing

Q.4. (The examinee may write any general opinions; still the answer should reflect the following points)

Self-confidence:

Self-confidence is our assessment of our own abilities to do something and achieve success. High levels of self-confidence help us to take actions based on perspectives and values we hold. It provides us with the strength to achieve the goals in our lives. One should have a strong feeling of being an individual who is positive, successful, has capabilities and can contribute something meaningful to the society. One must think and find ways to solve issues rather than surrender to the circumstances.

Self-assertiveness:

Self-assertiveness refers to the capability to take a stand and perform suitable actions to guard perspectives and positive values in which one strongly believes.

Patience, courage and determination are the major attributes needed to improve any adverse situation. One should behold firmly to the principles, ethics and rules one strongly believes in.

Total Marks 06

Q.5. The letter should consist of the following format/sections:

Sender's address (Assumed)

Date

Receiver's name, designation and the address (given)

Salutation

Subject line (it should not contain negative words or it may be avoided)

First paragraph: describe the problem. Be clear and concise.

Second paragraph: State exactly what you want done and how long you are willing to wait for a response. Be reasonable.

Donot write angry, sarcastic, or threatening statements. The person reading your letter probably is not responsible for the problem, but may be very helpful in resolving it. Include copies of relevant documents.

Third paragraph should be closing the message and prompting quick action.

Sign off

Total Marks 13

Q.6. Free Web hosting is exactly that – zero cost to the user. The Web host covers their costs (and profit) through selling advertising that is added automatically to Web pages through pop-ups, frames and scripts. As you would expect though, given the zero cost to users the quality of service (space, bandwidth or software) is typically lower than that of paid-for Web hosts.

06

Standard Web hosting is a broad term covering the most common form of paid Web hosting. The market for Standard Web hosting is highly competitive. A standard fee would secure a specific amount of server space on a Web hostingsystem that provides high-speed servers and quality software. The Web host would typically use a shared system granting each user say 10GB space on a 200GB server. Variations on the package could typically include:



Winter Exam-2018

Solutions – Bus. Commn. & Report Writing

- Bandwidth charges – there may be an upper ceiling beyond which extra charges are levied.
- Administrative access – can vary between a Web-based console and telnet access.
- Operating system – varies between Windows and Linux.

Q.6. (The content of the answer would be similar to the one given below. However the (b) answer may be shorter in length.)

06

Electronic commerce or ecommerce is a term for any type of business, or commercial transaction that involves the transfer of information across the Internet. Ecommerce allows consumers to electronically exchange goods and services with no barriers of time or distance.

Shopping cart software is an operating system used to allow consumers to purchase goods and or services, track customers, and tie together all aspects of ecommerce into one cohesive whole.

E-commerce is the activity of buying or selling of products on online services or over the Internet. In other words, e-commerce describes the suite of tools required to take orders and payment for selling products online. Common examples include Paypal and eBay.

Smaller Web hosts do not tend to offer either the quality or quantity of tools required to support a professional and robust Ecommerce environment. Large companies dealing in online business need to invest in shopping cart software, Ecommerce tools, and database builders and secure servers to support online business.

Many Ecommerce Web hosts will lease their SSL certificates to Websites for an additional fee and typically include features like shopping carts.

Total Marks

12

Q.7. (The examinee may write any 5 of the following guidelines. The answer may be shorter for 5 marks)

1. Obtain insight into the differences and the similarities that exist. Obviously dissimilarities in the culture and communication patterns are in focus yet similarities should also be given due importance as they would form a general human base that would contribute towards bridging the distances between both the parties.
2. You may not have enough of time or interest in learning about another culture yet you can communicate in a much better way if you can develop general communication skills that can help you communicate well with people belonging to any culture. These skills are general to any type of communication, examples include; responsibility of the communication process, patience, empathy, respect, clarity, acceptance, etc.
3. Unless you have fluency over the language of the other party, write in your own language otherwise take the help of a translator when and if needed.
4. Clarity should be in focus, avoid using slangs, jargons, idioms and difficult words, and instead use short and precise words that state the purpose clearly and objectively. Paragraphs should be short and on target.



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Solutions – Bus. Commn. & Report Writing

5. At times meetings become inevitable and just can't be avoided. Oral communication is essential for developing business rapport and provides the opportunity of getting immediate feedback.
6. Due to cultural differences there are chances of errors and one should stay alert to the possibilities of misunderstanding and hidden conflicting signals or the possibility of misreading other person's indications.
7. Try explaining your intent with the use of examples and repeat the content where needed, practice active listening, accept the fact that gestures and expressions mean differently in different cultures. Take responsibility of the communication process and adapt to the style of person in front, make every effort to ensure that the other party has understood what you meant and vice versa. Follow up as well in writing afterwards.
8. Be flexible and have empathy for the other party . If there is an absence of will and desire to adapt to the other party, even better insight into the similarities and differences might not lead to solutions. Try being on the lookout for signals that suggest you should change your own communication style or your interpretation and understanding of the communication style of the other person.
9. Approach intercultural communication with a positive attitude and with an objective of understanding the other side of the picture rather than speaking about or safeguarding your own.
10. Keep away from ethnocentrism that attempts at explaining everything on the basis of one's own social and cultural values. Instead, understand how a concept, product or practice fits into the other culture.

Total Marks 05

Q.8. Answer: The examinee may use a letter or a memo format for this report. However, it should contain the following sections:

1. **Introduction or Term of reference:** The introduction answers the following:
 - Who ordered the report?
 - What is the purpose of the report?
 - Where does the information come from?
 - Are recommendations given?
2. **Methodology:** The methodology is the description of the procedure adopted for the survey or investigation of the matter.
3. **Findings:** The findings section should simply present information without drawing conclusions.
4. **Conclusion:** Conclusion is basically a summary of a problem written about in the Findings section.
5. **Recommendations:** The last section of a report is the recommendations section. For each concluding point, a recommendation is given. The recommendations are given in the same order as the conclusions have, and are numbered for easy reference.

Total Marks 14



Winter Exam-2018
Solutions – Bus. Commn. & Report Writing

Q.9. The examinee may select the following unprofessional statements and may give their opinion against each:

1. “I am **impressed with Azam Khan’s personality** and would like to have your evaluation of his performance.”

Reason: The person replying would support your opinion as you are already impressed. He would not be able to give fair opinion.

2. “I am eager to know why he left your company”

Reason: It may be a confidential matter.

3. “Also, please let me know whether you would hire him back if there is an opening in your company.”

It seems unethical to make someone, who is already favoring you, answerable.

4. “In addition, I would like to know about his character, personal life and attitude.”

Reason: It is against work ethics to inquire about an employee’s personal life etc.

5. “Thanking you in anticipation.”

6. Reason: It is an obsolete statement for a professional letter.

Total Marks 09

Q.10. The circular may follow the format as given below:

06

Letterhead
Circular letter

Reference: 8357240/DL

All employees

5 May 20XX

ABC Division

Salutation,

Subject line

Body (The body may consist of the following points:

- Announcing the appointment of new HR Manager
- Describing his professional experience and qualification
- Hoping his addition will bring benefits
- Expectation of good relation among employees
- May also include the description of the role of HR manager
- May announce a schedule of meeting with him.

Complimentary close

Signature

Name

Designation

Total Marks 13



Winter Exam-2018
Solutions – Bus. Commn. & Report Writing

Q.11. (The examinee may write any 5 of the given differences.)

Creative thinking	Critical thinking
1. When you think creatively you are exploring many new ideas.	1. When you are thinking critically you are making choices.
2. Creative thinking tries to create something new.	2. Critical thinking seeks to measure worth or validity in something that already exists.
3. Creative thinking is non-judgmental.	3. Critical thinking is judgmental.
4. Creative thinking is expansive/ lateral.	4. Critical thinking is selective/ vertical.
5. Creative thinking is generative, divergent and subjective in nature.	5. Critical thinking is analytic, convergent and objective in nature.
6. Creative thinking is carried on by contravening established principles.	6. Critical thinking is carried on by applying established principles.
7. Creative thinking is going past the limitations, thinking out of the box and being novel and fresh in one's ideas.	7. Critical thinking, on the other hand, is more evaluative in nature and analyses a particular existing thing.
8. Creative thinking talks about possibilities.	8. Critical thinking talks about probabilities
9. With creative thinking you can find wrong questions.	9. With critical thinking you can find wrong answers.

Total Marks 05

- Q.12.**
- a. Tapping fingers = impatience**
 - b. Shrug = indifference**
 - c. Sit up straight = alertness**
 - d. Hunched = negativity**
 - e. Lounging = relaxation**

Total Marks 05

Taxation

(Level-3)

Winter Exam-2018
Solution - Taxation

- Q.1. Normal Tax Year** 06
- (a) Normal tax year is a period of 12 months ending on 30th day of June and is denoted by the Calendar Year in which the said date falls.
- Special Tax Year**
Where a person's income year is different from the normal tax year, or where, by an order, a person has been allowed by the Commissioner to use a 12 months' period different from normal tax year, such income year or such period shall be that person's special tax year and shall be denoted by the calendar year relevant to the normal tax year in which the closing date of the special tax year falls.
- Transitional Tax Year**
Where the tax year of a person changes as a result of an order by the Commissioner of Income Tax either from the normal tax to special tax year or vice versa, the period between the end of the last tax year prior to change and the date on which the changed tax year commences shall be treated as transitional tax year.
- Q.1. Change of tax year from normal to special** 04
- (b)
- A person shall apply in writing to the Commissioner for change in tax year from normal to special.
 - The Commissioner shall grant permission only if he is satisfied that the company has a compelling need to use special tax year.
 - While giving the permission, the Commissioner may impose such conditions as he may think fit.
- Q.1. Tax year & Due date** 02
- (c)
- Tax is 2019
 - Due date for filing of return is 30th September 2019.
- Total Marks** **12**
- Q.2.** The following persons can appear as the authorized representative of a taxpayer before the Appellate Tribunal Inland Revenue: 06
- (a)
- (i) A person representative of the person.
 - (ii) a current full-time employee of the taxpayer.
 - (iii) any officer of a scheduled bank with which the taxpayer maintains a current account or has other regular dealings.
 - (iv) any legal practitioner entitled to practice in any civil court in Pakistan.
 - (v) any accountant.
 - (vi) any income tax practitioner.
- Q.2. Resident Individual** 06
- (b) An individual shall be a resident individual for a tax year if the individual
- (i) is present in Pakistan for a period of, or periods amounting in aggregate to 183 days or more in the tax year; or (Rule 14 of Income Tax Rules, 2002)
 - (ii) is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.

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Solution - Taxation

Rule 14 of Income Tax Rules, 2002

The following rules provides for the determination of a person as resident individual.

- a) Part of a day that an individual is present in Pakistan(including the day of arrival in, and the day of departure from, Pakistan) counts as a whole day of such presence;
- b) The following days in which an individual is wholly or partly present in Pakistan count as a whole day of such presence, namely:
 - (i) a public holiday;
 - (ii) a day of leave, including sick leave;
 - (iii) a day that the individual's activity in Pakistan is interrupted because of a strike, lock-out or delay in receipt of supplies; or
 - (iv) a holiday spent by the individual in Pakistan before, during or after any activity in Pakistan; and
 - (v) A day or part of a day where an individual is in Pakistan solely by reason of being in transit between two different places outside Pakistan does not count as a day present in Pakistan.

Total Marks

12

Q.4. Zero Rated Supply

03

- (a) Zero-rated supply means a taxable supply which is charged to tax at the rate of zero per cent under section 4 of Sales Tax Act, 1990.

Sales Tax Account

03

Sales tax account means an account representing the double entry recording of sales tax transactions in the books of account.

Total Marks

06

Q.5. Circumstances in which Commissioner Inland Revenue can make Best Judgment

05

(a) Assessment Order

The Commissioner Inland Revenue is empowered to issue a best judgment assessment order where a taxpayer has committed any of the following defaults:

- Failure to furnish a statement of final taxation in response to a notice issued by the Commissioner;
- Failure to furnish return of income in response to a notice issued by the Commissioner;
- Failure to furnish a return of income in the case of a taxpayer being a non-resident ship or aircraft owner or charterer of ship or aircraft;
- Failure to furnish a wealth statement; or
- Failure to furnish accounts and other relevant documents as required by the Commissioner or other persons authorized to conduct an audit.

Q.5. Circumstances in which company can be treated as Resident

04

- (b) A company is treated as a resident company for a tax year if:

- It is incorporated or formed by or under any law in force in Pakistan;
- The control and management of its affairs is situated wholly in Pakistan at any time in the tax year;
- It is a provincial government in Pakistan;
- It is a local government in Pakistan.

Winter Exam-2018
Solution - Taxation

Q.5. CIR can demand any person being individual to furnish wealth statement and contents of wealth statement 05

(c) The Commissioner may, by notice, require any individual to file a wealth statement. It will contain following particulars:

- The person's total assets and liabilities as on the date or dates specified in such notice;
- the total assets and liabilities of the person, his spouse, minor children and other dependents on the date specified in the notice;
- assets transferred by the person to any other person during the period specified in the notice and the consideration for the transfer;
- the detail of expenditures incurred by the person, his spouse, minor children and other dependents during the period specified in the notice; and
- Wealth Reconciliation Statement.

Total Marks 14

Q.6.

Taxable income of Javed – Tax Year 2018

Taxable income of Javed	Amount in Rs.
Income from property W-1 (2,700,000* 50%)	1,350,000
Income from Other Sources W-2 (480,000*50%)	240,000
Income from Other Sources - Amount borrowed from Rizwan	1,000,000
	2,590,000
Less: Separate block of income - Income from property	(1,350,000)
	1,240,000

W.1: Computation of joint taxable income under income from property Rs.

Income from property	
Rent received by joint owner for 12 months	3,600,000
Less: Amount received on account of utilities, cleanliness & Security (75,000*12)	(900,000)
Rent chargeable to tax	2,700,000

Deduction of expenses against income from property is allowed only for company therefore no deduction is allowed

W.2: Computation of income from other sources Rs.

Income from other sources	
Amount received on account of utilities, cleanliness & Security	900,000
Less: Actual expense incurred (35,000 * 12)	(420,000)
	480,000

Total Marks 05

Q.7. Deceased Individual :

- (a) Yes, the tax authorities would be able to recover the amount of outstanding liability from the legal representative of Mr. M:
- (i)

The legal representative is liable for :-

- * Any tax that Mr. M would have become liable for if he had not died; and
- * Any tax payable in respect of the income of Mr. M's estate.

The liability of the legal representative shall be limited to the extent to which Mr. M's estate is

03

Winter Exam-2018

Solution - Taxation

capable of meeting the liability and such liability shall be the first charges on Mr. M's estate, in preference to any other outsourcing liability of the deceased.

Q.7. Comment on the status of the proceedings: 02

- (a) Any proceeding taken against Mr. M before his death shall be treated as taken against the legal representative and may be continued against him from the stage at which the proceeding stood on the date of Mr. M's death.
- (ii)

Q.7. Associates: 02

- (b) Two persons are associate where the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person
- (i)

Q.7. Circumstances in which a member of an association of persons and the association may be regarded as associates: 02

- (ii) Where the member, either alone or together with an associate or associates under another application of section 85 of the Income Tax Ordinance, 2001 , controls fifty per cent or more of the rights to income or capital of the association;

Q.7. A person should apportion the expenditure for the purpose of claiming deduction, where expenditure relates to 04

- (c)
- (ii)
 - i. The derivation of more than one head of income; or
 - ii. Derivation of income comprising of taxable income and any class of income on which the tax collected at source is treated to be a final tax liability of the person
 - iii. The derivation of income chargeable to tax under a head of income and to some other purpose

Total Marks 13

Q.8. Temporary Registration 06

- (a) Where a manufacturer applies for registration without having installed machinery, temporary registration as manufacturer shall be allowed within 72 hours to him for a period of 60 days subject to furnishing of the complete list of machinery to be imported along with import documents.

After temporary registration, the person is allowed to import machinery, raw material, etc. as a manufacturer but he will submit a post-dated cheque equal to the difference in duties and taxes to be available as manufacturer. i.e. 3% value addition tax which is payable by a commercial importer.

If the machinery is not install within 60 days of issuance of the temporary registration, such temporary registration shall be disabled and the post-dated cheque submitted shall be encashed.

A person holding temporary registration shall file monthly return but shall not issue a sales tax invoice and if such invoices issued, no input tax credit shall be admissible against such invoice.

No sales tax refund shall be paid to the person during the period of temporary registration and the amount of input tax may be carried forward to his returns for subsequent tax periods.

Q.8. Differences between zero rated supplies and exempt supplies: 04

Points	Zero rated supply	Exempt supply
Definition	"Zero rated supply" means a taxable supply which is chargeable to sales tax at 0 %.	"Exempt supply" means a supply which is exempt from sales tax
Goods	Goods exported or goods listed in 5th schedule	Goods specified by FBR with approval through notification and goods listed in 6th Schedule

Winter Exam-2018

Solution - Taxation

Invoice	Tax invoice shall be raised but sales tax shall be charges at 0%	No Sales tax invoice is required
Input tax credit	Input tax on Zero rated supplies is refundable from FBR	Input tax on exempt supplies is inadmissible therefor, neither adjustable nor refundable.
Registration	Sales tax registration is required where a person wants to claim refund	Sales tax registration is not required where a person is engaged exclusively in exempt supplies

Total Marks 10

Q.9. Dutiable supply means a supply of dutiable goods made by a manufacturer other than a supply of goods which is exempt under section 16 of the Act. 02

Q.9. Duty means any sum payable under the provisions of FED Act or the rules made there under and includes the default surcharge and the duty chargeable at zero percent. 02

Q.9. Goods means good leviable to excise duty under FED Act or as specified in the First Schedule and includes goods manufactured or produced in non-tariff area and brought for use to tariff area. 02

Total Marks 06

Q.10. Following taxes can be imposed by the Provincial Government: 04

- (a)
- Agriculture income tax
 - Sales tax on services
 - Taxes on transfer of immoveable property
 - Professional taxes
 - Tax on luxury houses
 - Tax on registration of luxury vehicles
 - Property tax

Q.10. The duty of the National Finance Commission is to make recommendations to the President as to: 04

- (b)
- The distribution between the Federation and the Provinces of the net proceeds of the taxes;
 - The making of grant-in-aids by the Federal Government to the Provincial Government;
 - The exercise by the Federal Government and the Provincial Government of the borrowing powers conferred by the Constitution; and
 - Any other matters relating to finance referred to the Commission by the President.

Total Marks 08

Financial Reporting

(Level-4)



Winter Exam-2018
Solutions – Financial Reporting

Q.1.

XYZ Limited
Statement of comprehensive income
For the year ended December 31, 2017

	2017	2016
	RS.	Rs.
	(000)	(000)
Profit before tax	5,150.0	5,375.0
Tax expense	(487.5)	(1,387.5)
Profit after tax	4,662.5	3,987.5

XYZ Limited
Statement of comprehensive income
For the year ended December 31, 2017

	Ordinary share capital	Retained earnings	Total
	Rs. (000)	Rs. (000)	Rs. (000)
Brought forward balances -16- restated	10,000	12,837.5	22,837.5
Profit after tax for 2016 [5,375-1,387.5]	--	3,987.5	3,987.5
Carried down balances 2016	10,000	16,825	26,825
Profit after tax for 2017 [5150-487.5]	--	4,662.5	4,662.5
Carried down balances 2017	10,000	21,487.5	31,487.5

Workings: -

W – 1 Opening retained earnings	Rs. (000)	Rs. (000)
Balance -2016 (15,250 – 2,500)		12,750.0
Borrowing cost wrongly expensed out		125.0
Deferred tax impact (125x30%)		(37.5)
		12,837.5
	2017	2016
	Rs. (000)	Rs. (000)
W – 2 Profit before tax	5,275	3,250
Borrowing cost wrongly expensed out	--	125
Extra depreciation	[125+125]/10 (25)	--
Cost of intangible asset	--	2,000
Extra amortization	(100)	--
	5,150	5,375
W – 3 Tax expense for the year	525	750.0
Increase in deferred tax liability	--	37.5
Effect of extra depreciation (25x30%) – reversal	(7.5)	--
Increase in deferred tax liability	--	600
Effect of extra amortization (100x30%) – reversal	(30)	--
	487.5	1,387.5

Total Marks

17



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Solutions – Financial Reporting

- Q.2.** The cost of license will be Rs. 5.5 million (5.2+0.3) including the cost of documentation. As the renewal fee is very nominal therefore, the useful life of the license will be 20 years. The annual amortization as no other pattern is available be measured on straight line basis at Rs. 0.275 million. The equipment and office establishment expenses will be capitalized under IAS 16 and will be depreciated according to their useful life. The expenses paid Rs. 1.5 million for advertisement and Rs. 1.0 for recruitment and training of employees will be charged to profit or loss account.

Total Marks 12

- Q.3.** IFRS 15 provides a five step approach for revenue recognition as under: -

- i) Identification of contract with customer
- ii) Identification of performance obligations
- iii) Identification of transaction price
- iv) Allocation of transaction price
- v) Recognition of revenue

The detail of which is as under: -

- i) Identification of contract with customer**

A contract with a customer will be within the scope of IFRS 15 if all the following conditions are met:

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

If a contract with a customer does not yet meet all of the above criteria, the entity will continue to re-assess the contract going forward to determine whether it subsequently meets the above criteria. From that point, the entity will apply IFRS-15 to the contract.

- ii) At the inception of the contract, the entity should assess the goods or services that have been promised to the customer, and identify as a performance obligation:**

- a good or service (or bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

- iii) The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When making this determination, an entity will consider past customary business practices.**

Where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract.

Variable consideration can arise, for example, as a result of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. Variable consideration is also present if an entity's right to consideration is contingent on the occurrence of a future event.

The standard deals with the uncertainty relating to variable consideration by limiting the amount of variable consideration that can be recognized. Specifically,



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variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved.

However, a different, more restrictive approach is applied in respect of sales or usage-based royalty revenue arising from licenses of intellectual property. Such revenue is recognized only when the underlying sales or usage occur.

- iv) Where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices.

If a standalone selling price is not directly observable, the entity will need to estimate it. IFRS 15 suggests various methods that might be used, including:

- a) Adjusted market assessment approach
- b) Expected cost plus a margin approach
- c) Residual approach (only permissible in limited circumstances).

Any overall discount compared to the aggregate of standalone selling prices is allocated between performance obligations on a relative standalone selling price basis. In certain circumstances, it may be appropriate to allocate such a discount to some but not all of the performance obligations.

Where consideration is paid in advance or in arrears, the entity will need to consider whether the contract includes a significant financing arrangement and, if so, adjust for the time value of money. A practical expedient is available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

- v) Revenue is recognized as control is passed, either over time or at a point in time. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. This includes the ability to prevent others from directing the use of and obtaining the benefits from the asset.

An entity recognizes revenue over time if one of the following criteria is met:

- the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
- the entity's performance creates or enhances an asset that the customer controls as the asset is created; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
- If an entity does not satisfy its performance obligation over time, it satisfies it at a point in time.

- a) As per above discussion there will be two distinct performance obligations license, customization and installation services will be one performance obligation as the customer cannot get benefit from any of them individually and updates will be second performance obligation. The transaction price will be divided into these two performance obligations according to their standalone selling prices if available otherwise cost plus method or any other appropriate method can be used. The revenue from license, customization and installation will normally be recognized at point of time when control over software transferred to customer however, revenue from updates will be recognized over the time using straight line method or some other appropriate method.
- b) The hardware and operating system will be one performance obligation and maintenance services will be second performance obligation. The revenue from first will be recognized at the point of time of delivery and from maintenance services will be recognized over the time either straight line or some other



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appropriate method. The maintenance service of this type are not more covered under IAS 37.

			Total Marks	15	
Q.4.	a)	Tax expense	Rs. (000)	Rs. (000)	06
	(a)	Current tax		975	
		Deferred tax		1,807	
				2,782	
Q.4.	b)	Deferred tax liability /(asset)	Closing	Opening	06
			Rs. (000)	Rs. (000)	
		Accelerated depreciation	1,602	1,500	
		Un-used tax losses	--	(1,705)	
		Un-used tax credits	--	(950)	
			1,602	1,155	
Q.4.	c)	Reconciliation of tax expense with tax on accounting profit			06
		Tax on taxable profit		2,782	
		Tax on accounting profit		3,075	
		Effect off: -			
		Donation (450x30%)		135	
		Capital gain (1,450x30%)		(435)	
		Effect of rate (5,500-4,839)x1%		7	
				2,785	

Workings

W – 1 Current tax

	Rs. (000)	Rs. (000)
Profit before tax		10,250
Add: -		
Accounting depreciation	3,000	
Donation	450	3,450
Less: -		
Tax depreciation	3,500	
Capital gain	1,450	(4,950)
Taxable profit for the year		8,750
Less: - un-used tax loss brought forward		(5,500)
Taxable profit		3,250
Current tax @ 30%		975

W – 2 deferred tax closing

	Taxable temporary differences	Deductible temporary difference	Deferred tax liability	Deferred tax asset
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Accelerated depreciation	5,339	--	1,602	--
Un-used tax losses	--	--	--	--



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W – 3 deferred tax expense/(income) for the year

	Rs. (000)	Rs. (000)
Deferred tax opening balance		
Accelerated depreciation		1,500
Un-used tax losses (5,500 x 31%)		(1,705)
Un-used tax credit		(950)
		(1,155)
Deferred tax expense for the year		1,807
Adjustment against tax payable		950
Closing deferred tax liability		1,602

Total Marks 15

Q.5.
(a)

Parent company group
Consolidated Statement of Comprehensive Income
For the year ended June 30, 2018

20

	P Co. Rs. (000)	S Co. Rs. (000)	Adjustments Rs. (000)	Consolidated Rs. (000)
Revenue	30,050	15,350	(3,000)	42,400
Cost of sales	(18,230)	(9,375)	1,925	(25,680)
Gross profit	11,820	5,975	(1,075)	16,720
Operating expenses	(6,635)	(2,610)	--	(9,245)
Operating profit	5,185	3,365	(1,075)	7,475
Finance cost	(1,450)	(500)	100	(1,850)
Investment income	250		(250)	--
Profit before tax	3,985	2,865	(1,225)	5,625
Tax expense	(1,250)	(1,035)	--	(2,285)
Profit after tax	2,735	1,830	(1,225)	3,340
Attributable to: -				
Owners of parent company				3,028
Non-controlling interest				312
				3,340
Other comprehensive income				
<i>Items that may not be reclassified to Profit or loss account</i>				
Revaluation surplus	3,510	--	--	3,510
Other comprehensive income	3,510	--	--	3,510
Total comprehensive income				
Attributable to: -				
Owners of parent company				6,538
Non-controlling interest				312
				6,850

Q.5.
(b)

	Rs. (000)
Goodwill	
Cost of investment	9,750
Fair value of NCI	4,000
	13,750
Fair value of net assets acquired	(10,500)
	3,250

04



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Adjustments	Debit	Credit
	Rs. (000)	Rs. (000)
i)		
Cost of sales	250	
Tangible assets		250
Extra depreciation on fixed assets		
ii)		
Sales	3,000	
Cost of sales		3,000
Elimination of intra group sales		
iii)		
Cost of sales	125	
Closing stock		125
Elimination of un-realized profit on closing stock		
iv)		
Investment income	150	
NCI	100	
Dividend		250
Elimination of dividend income		
v)		
Investment income	100	
Interest expense		100
Elimination of interest income		
vi)		
Cost of sales	150	
Intangible assets		150
Recognition of amortization		
vii)		
Opening retained earnings	100	
Cost of sales		100
Elimination of un-realized profit on opening stock		
viii)		
Cost of sales	650	
Goodwill		650
Impairment on goodwill		
ix)	Rs. (000)	Rs. (000)
Calculation of NCI		
Profit after tax		1,830
Effect off: -		
Extra depreciation	(250)	
Extra amortization	(150)	
Impairment loss on goodwill	(650)	(1,050)
		780
NCI share @ 40%		312

Note effect on intra group sale of fixed asset will be nil because only gain on disposal are eliminated.



Winter Exam-2018 Solutions – Financial Reporting

Q.6.

Statement of Financial Position	2017	2016
	Rs. (000)	Rs. (000)
Assets		
Noncurrent assets		
Fixed assets	110,000	72,000
Deferred tax asset $(95,000 - 72,000) \times 30\%$	--	6,900
Equity and Liabilities		
Equity		
Revaluation surplus	14,000	--
Non-current liabilities		
Deferred tax liability $(110,000 - 90,250) \times 30\%$	5,925	--
Statement of Comprehensive Income		
Profit or Loss Account		
Depreciation	3,790	5,000
Deficit / (reversal of deficit)	(21,790)	23,000
Deferred tax (income)/expense	6,825	(6,900)
Other Comprehensive Income		
Revaluation surplus	(20,000)	--
Deferred tax expense	6,000	
W – 1 calculation of carrying value and depreciation		Rs. (000)
Cost on start of year		100,000
Depreciator for the year	100,000/20	(5,000)
Deficit for the year		(23,000)
Revalued amount at the end of 2016		72,000
Depreciation for the year 2017	72,000/19	3,790
Carrying value before revaluation		68,210
Deficit reversal up limit of 90,000		21,790
Revaluation surplus		20,000
Revalued amount		110,000
W – 3 Calculation of deferred tax (asset)/liability	Carrying Value	Tax base
2016	72,000	95,000
2017	110,000	90,250

Total Marks

Management Accounting

(Level-4)



Winter Exam-2018

Solutions – Management Accounting

Q.1. Production (in units) required for the year: **10**

	Units
Sales for the year	720,000
Add: Desired ending finished-goods inventory on December 31	75,000
Deduct: Beginning finished-goods inventory on January 1	<u>120,000</u>
Required production during the year	<u>675,000</u>

Purchases of raw material (in units), assuming production of 750,000 finished units: **10**

Raw material required for production (750,000 x 2)	1,500,000
Add: Desired ending inventory on December 31	67,500
Deduct: Beginning inventory on January 1	<u>52,500</u>
Required raw-material purchases during the year	<u>1,515,000</u>

Total Marks 20

Q.2. An imputed cost, also known as a hidden or implicit cost, is the price of production factors that a firm owns and utilizes. It is called “imputed” because the firm does not report it on its financial statements as a separate cost. **05**

Although implicit costs do not require financial expenditure, it is a cost of production. If the factors of production were not used to produce a particular good, they could be used for other productive activities, thereby generating additional income for the firm.

The Imputed costs are the opportunity costs that the firm gives up when using its resources. For instance, if a company uses its own buildings for production, it loses the income from renting it or selling to a third party. As this is not a financial expenditure, the firm does not report it on its financial statements.

Example – 1

2.5

Mariam is an economist looking for a job. Her cousin, Javed, tells her that with her skills and knowledge, it would be best to start her own business instead of working for somebody else. Mariam thinks that Javed is right. So, she decides to follow her childhood dream and open a bookstore. She believes that she will be able to run it with a profit since she knows how the market operates, and how the book prices are determined.

Mariam invests an initial capital of Rs. 50,000 in her venture. If she worked for an esteemed financial institution, she would earn Rs. 80,000 per year. What is Mariam’s implied cost?

Mariam is giving up Rs. 80,000 to start her own venture. So, Rs. 80,000 is the opportunity cost, i.e. the money that she would earn per year if she hadn’t decided to open a bookstore. As an economist, she will measure the economic profit of the business by including both the explicit and imputed costs. If the total revenues of her business exceed both the explicit and imputed costs, Mariam’s venture has an economic profit.

Example – 2

2.5

A business owns a building that is used as a warehouse. Alternative use of the building could have been that it is rented out and thus rental incomes. Thus imputed cost of using building as a warehouse is rentals sacrificed.

Total Marks 10



Winter Exam-2018

Solutions – Management Accounting

Q.3.	56,889 / 98	= 581	05
(a)	581 x 100	= 58,050	
	Capacity of the stadium is 58,050		
Q.3.	Current capacity	= (3,478 / 92) x 100 = 3,780	10
(b)	New capacity	= 3,780 x 1.15 = 4,348	
	Friday customers	= 3,478 + 340 = 3,818	
	Capacity utilization	= 3,818 / 4,348 x 100 = 87.82%	

Total Marks 15

Q.4. The advantages of Management Accounting in manufacturing industry are as below:

(i) Planning

A key focus of management accounting is planning for the future. Management accountants develop reports that are more detailed than financial accountants. They can include information about specific products, market reach and regional information. Based on the information obtained from reports such as surveys, budgets or competitor analysis, managers can set objectives and outline how they will be achieved.

(ii) Controlling

The information obtained from management accounting gives managers a greater sense of control over an organization's success. Since the information provided in management accounting reports are only used internally, they do not have to adhere to IAS /IFRS.

(iii) Decision-making

Management accounting also considers how certain decisions may affect a manager's behavior. A manager makes long-term decisions that have a lasting impact, so management accounting is used to develop plans and convey information with the goal of improving management decisions. Budgets are an important aspect of management accounting, but they are not included in financial accounting because of its focus on historical data.

(iv) Problem-solving

Management accounting considers actual performance and compares it to goals and future outlooks. This information is used to identify issues that may arise in budgets or production changes and develop alternatives. Sometimes, the accounting information that a company currently has may not be sufficient in solving a problem, so management accounting gives managers the option of requesting additional information with limited time constraints.

(v) Goal Setting

Management accounting helps with goal setting by making the numbers transparent. Managers can measure and note performance while setting goals and making adjustments to motivate employees with the ultimate goal of driving revenue.

Total Marks 05



Winter Exam-2018

Solutions – Management Accounting

Q.5.
(a)

Income Statement

	Product Alpha		Product Beta		Total	
	(Rs.)	%	(Rs.)	%	(Rs.)	%
Sales	1,400,000	100%	600,000	100%	2,000,000	100%
Less Variable expenses	560,000	40%	180,000	30%	740,000	37%
Contribution Margin Ratio	840,000	60%	420,000	70%	1,260,000	63%
Less fixed expenses	-	-	-	-	1,197,000	-
Net Operating income	-	-	-	-	63,000	-

10

(b) Computation of Break-even point:

05

The PQR Company sells two products. Its break-even point can be computed by dividing the total fixed expenses by overall contribution margin ratio (CM ratio).

Fixed expenses/Overall CM ratio $1,197,000 / 63\% = \mathbf{1,900,000}$

Total Marks 15

Q.6. In connection with the inventory management certain terms are basic. Explain each of the following:

(a)

(a) Economic order quantity

02

Economic order quantity is the order size which minimizes the associated annual costs of the inventory.

(b) Order point

02

The order point to the low point of stock level which, when reached, means a replenishing order should be placed.

(c) Lead time

02

Lead time is the interval between the placing of an order and delivery of the ordered goods.

(d) Safety stock

02

Safety stock is the minimum inventory that provides a cushion against reasonably expected maximum demands and against variations in lead time.

(e) Cost of carrying inventories

02

The costs of carrying inventories include storage costs, handling costs, taxes, insurance, interest on the investment, and obsolescence. Only variable costs are relevant in developing data for inventory models.

Q.6. (a) Safety stock + (Av daily use x lead time)

03

(b)

Order point: $4,000 + (500 \times 7 \text{ days}) = 7,500 \text{ liters}$

(b) Safety Stock + EOQ/2

02

Average inventories: $4,000 + \underline{5,000} = 6,500 \text{ liters}$

(c) Safety Stock + EOQ

02

Normal maximum inventory: $4,000 + 5,000 = 9,000 \text{ liters}$

(d) Normal Max. Inv + Lead time x (av daily use – min. daily use)

03

Absolute maximum inventory: $9,000 + 7 \text{ days } (500 - 800) = 6,900 \text{ liters}$

Total Marks 20



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Q.7.	Cost of new well (time 0)	(108,250)	
	Present value of annual savings: (Rs. 16,150 x 6.710*)	<u>108,367</u>	
	Net Present Value	<u>117</u>	7.5
	*At 8%, 10 years = 6.710		7.5

The governing board should approve the new well, because the project's net present value is positive.

Total Marks 15

Audit, Assurance & Ethics

(Level-4)



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Q.1 2 marks for each area

A professional accountant in public practice may quote whatever fee he deems appropriate with following restrictions:

- a) Undercutting (Quoting a fee significantly lower than previous auditor) is not allowed unless:
 - Scope and Quantum of work differs from previous audit, and
 - All applicable assurance standards, QCR, guidelines will be complied with.
- b) Auditor should not charge contingent fee for any assurance or non-assurance service. It creates unacceptable Self-Interest Threat and Intimidation Threat. However, fee is not regarded as contingent if a Court or other Public authority has established it.
- c) For initial engagements, Incoming auditor cannot accept appointment as auditor if retiring auditor's fee is outstanding.
- d) For recurring audits, Fee should not be Overdue. (ie fee should be paid for any professional service before issuance of next year's assurance report or it may be equivalent to loan)
- e) No undue dependence on fee from a single client (where the fees from a single client exceed 15 per cent of the firm's total fees, safeguards are necessary to reduce the proportion.)

Total Marks 10

Q.2 Other appropriate answers also given full marks 1.5 mark per quality

06

- (a) (a) A qualified external auditor should possess the following personal qualities.

Integrity

There is an expectation from users of audited information that an auditor will at all times be honest, fair and truthful. If an auditor does not display these attributes then it is unlikely that others will rely on his judgment or opinion.

Objectivity

As with integrity (above) an auditor's objectivity must be beyond question if he/she is to report as auditor. Consequently a qualified auditor must have the ability to retain independence of mind whilst carrying out his/her professional duties, irrespective of any pressure that is brought to bear.

Professional Skepticism this is an Audit Appose Not a person

During the course of an audit assignment, the auditor must find sufficient appropriate evidence to support the audit opinion.

In determining the quantity and quality of this evidence, the auditor must know when it is prudent to exercise professional skepticism. For example, in deciding the extent of reliance to be placed on a specific verbal management representation.

Good Communication Skills

In order to carry out a satisfactory audit, the auditor must be able to communicate effectively with individuals, possessing varying levels of seniority, and experience and with different cultural backgrounds. If the auditor is unable to communicate effectively both orally and in writing, it is likely that ineffective audit procedures will be carried out.

Good Information Technology Skills

Most entities make use of information technology for financial reporting and operational purposes. Similarly, most audit firms use computer-assisted audit techniques to assist them in their audit work. Consequently if an auditor does not possess good information technology skills then he/she may not be able to contribute effectively to the audit process.



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Thorough Knowledge of Accounting and Auditing Issues

Given that it is the auditor's responsibility to prepare a report on the financial statements of an entity, it is important that the auditor retains contemporary knowledge of relevant accounting and auditing issues. This knowledge should include developments in both accounting and auditing standards.

(b) (3 marks will be awarded for definitions similar to the one below) 03

Materiality is concerned with errors in, or omissions from, a set of financial statements. It can be defined in the following terms:

‘Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.’

(c) 1.5 marks per situation with an example. (only 0.5 marks if example not given) 06

An auditor may need to obtain audit evidence from an expert to provide an independent:

- Valuation of assets, for example land and buildings.
- Determination of quantities of assets, for example stockpiles of minerals.
- Determination of the condition of plant and machinery, for example a large engineering machine.
- Determination of a valuation using specialized techniques, for example in an actuarial valuation.
- Measurement of completed works, for example on a long term building contract.
- Legal opinion, for example on the interpretation of the terms of a legal agreement

(d) 1.5 marks per point – other relevant answers to be given full marks as well 06

(i)

Management typically provide accounting estimates in connection with:

- General provisions for the write down of inventory valuation
- Depreciation provisions
- Accrued revenue
- Provisions for losses on lawsuits
- Profits or losses on construction contracts in progress
- Provisions to meet warranty claims

(d) The auditor should adopt one or a combination of the following approaches in the audit of an 04

(ii)

estimate:

- Review and test the process used by management to develop the estimate i-e basis of estimate
- Use an independent estimate for comparison with that prepared by management
- Review subsequent events which confirm the estimate made. i-e bases of estimate

Total Marks 25

Q.3 2 marks per point

- Review interim financial statements for period since year end in order to detect trends and potential trading difficulties.
- Review major entries in nominal ledgers or journal records since year end and agree to supporting evidence. Unusual items could represent post year end events.
- Review after date cash from customers and credit notes issued for sales returns and



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- allowances. This provides evidence as to the recoverability of debts.
- Check the bank reconciliation to ensure all ‘un-presented cheques’ and ‘outstanding lodgments’ have been cleared. This provides evidence as to the accuracy of the cash figure.
 - Check market prices or material prices for impact on inventory valuation. This is to provide evidence of NRV.
 - Review the cash book for evidence of large loans or financing arrangements, significant sales of non-current assets or other unusual transactions, all of which could be post year end events.
 - Review minutes of the meetings of shareholders and board of directors in the period since the statement of financial position date. Important post year end events may have been discussed in these meetings.
 - Review contingencies and provisions included in the financial statements in the light of the latest available information to determine whether adjustment is required. If, for example, a case has been settled this would represent a post year end event.
 - Obtain details from the company or its legal counsel concerning pending litigation, settlements, claims or contractual charges. If there have been changes in status this would be a post year end event.
 - Ask the directors if there have been any post year events that require adjustment or disclosure. They should be in the best position to know.
 - Consider the need to obtain written representation concerning events which may have occurred. Written evidence from the directors is better than verbal evidence.

Total Marks 10

Q.4 2 marks per point

1. The company’s sales for 10 months are Rs. 130 million, which given an annual sales of Rs. 156 million, is a 41.8% increase over the previous year. The annual profit before tax is Rs. 4.8 million, compared with Rs. 8 million last year, which is a fall of 40%. It appears the company is increasing sales at the expense of profits. If profits are falling, the actual profit for the 10 months to 30 November 2017 may be even less than the Rs. 4 million shown by the monthly accounts. The fall in profit indicates problems which may not be fully reflected in the monthly accounts.
2. Audit work will have to be carried out on the new computerized inventory control system. Computer audit specialists within the audit firm will probably have to be used. It may be appropriate to carry out this work before the year end, so that any problems with the system can be highlighted and either overcome or allowed for at the year end.

The company says it will not be carrying out an inventory count at the year end, so as auditor I will have to place considerable reliance on the accuracy of the inventory quantities reported by the inventory control system.
3. Reliability problems with the company’s products could create the following problems:
 - Certain inventory being un-saleable, and thus worth less than cost (or even being worth only scrap value)
 - Legal claims against the company
 - Customers not paying for the products.

Further details will have to be obtained about legal claims against the company and customers refusing to pay their outstanding receivables. Information can be obtained for this by inspecting correspondence with customers and discussing the matter with the company’s staff, including the company secretary, sales director and the credit controller.



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- The audit risks with these problems include:
 - The difficulty in estimating the costs (i.e. the costs of defending legal claims and damages which may have to be paid, and the cost of the bad debts)
 - The risk that there may be more claims and bad debts, which relate to the year under review, but may not become apparent until after the audit report is signed
 - The value of the faulty inventory held at the year end. The selling price of inventory sold between the year end and the audit will have to be checked to ensure it is valued at the lower of cost and net realizable value. There may be problems determining the value of year-end inventory which is still held at the time of the audit.
4. The increase in the credit period and sales to new customers will result in the following audit risks:
- new customers tend to have a higher risk than existing ones, thus increasing the risk of bad debts
 - increasing the credit period tends to attract customers who are a poor credit risk. This is for two reasons, first the longer credit limit will reduce the customer's cash flow problems, and secondly it attracts customers who already have cash flow problems, as these customers are unable to pay other suppliers within the shorter credit period.

With the large increase in receivables, the company is probably experiencing liquidity problems. Are the company's borrowing facilities adequate, and is there a risk the company may not be a going concern?

Total Marks 08

Q.5 2 marks for explanation of confidentiality
1 mark per exception

Professional accountants should not:

- **Disclose** confidential information acquired as a result of professional relationships unless, permitted by client/employer or required by law or there is a professional right or duty to disclose.
- **Use** confidential information for his personal advantage or advantage of third party.

Confidential information may be disclosed in following circumstances:

- If disclosure is permitted by client/employer
- If disclosure is required by law e.g.
 - o Disclosure of infringements of the law.
 - o Production of documents in the course of legal proceedings.
- When there is a professional right or duty to disclose:
 - o To comply with technical standards and ethics requirements (e.g. when required to communicate with lawyer, professional or regulatory authorities)
 - o To comply with Quality Control Review Program of the Institute.
 - o To respond to an inquiry/investigation by the institute or other regulatory authority.
 - o To protect the professional interest of a chartered accountant in legal proceedings.

Total Marks 07



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Q.6 2 marks per point

	Misunderstanding	Correct Fact	
a)	Financial Statements are prepared by auditor.	Financial Statements are prepared by management.	02
b)	Auditor provides absolute assurance.	Auditor does not provide absolute assurance because of inherent limitations of audit.	02
c)	Auditor checks all transactions of entity.	Auditor checks only sample of transactions.	02
d)	Audit assures efficiency and effectiveness of management.	Audit does not assure efficiency and effectiveness of management.	02
e)	Audit assures future viability of entity.	Audit checks only past transactions and does not assure future viability of entity.	02

Total Marks **10**

Q.7 2 marks per point

006

(a) External confirmation – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

Positive confirmation request – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request

Q.7 2 marks per point

04

(b) If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- (a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
- (b) Evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and
- (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

Total Marks **10**

Q.8 2 marks per answer; if the answer is false but the correct statement is not explained, NO marks will be given for that statement.

Statement 1 –false

The auditor shall not refer to the work of an auditor’s expert in an auditor’s report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor’s report that the reference does not reduce the auditor’s responsibility for the auditor’s opinion

Statement 2-true.

Statement 3-true



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Statement 4- false

An auditor's expert may be either an auditor's internal expert (who is a partner or staff of the firm), or an auditor's external expert.

Statement 5- True

Total Marks 10

Q.9 2 marks per deficiency

Deficiency	Errors that could result from the deficiency
No authorization is required in order for employees to Order goods. Order forms are not sent directly to responsible person for authorization.	There is no central control over reorder levels and therefore efficiency of the business may be lost. In addition the best prices may not be achieved without a central buying policy.
The order forms are not pre-numbered.	Difficult to check that all goods ordered are for the purpose of the business.
No evidence of lists of authorized suppliers to be used.	Difficult to check that all commitments have been recorded and, as a result, that liabilities are not understated.
No physical check of goods received to purchase order or goods received note.	The quality of goods received may not be satisfactory with the consequence that inventory valuation and liabilities may be overstated.
No check of goods received note to purchase order.	Liabilities could be overstated if the goods received are less than the goods received note
No checks exist to agree quantities invoiced to quantities ordered or received or on quality of goods.	Purchases and liabilities may be misstated, being over or under invoiced
No reliable evidence exists to ensure all invoices are authorized by management (i.e. invoices not initialled).	Possible overstatement of purchases and liabilities by invoices not being passed for authorization by person ordering the goods.
No procedures to ensure safekeeping and return of invoices.	Loss of invoices in transit could occur which may result in understatement of liabilities in the nominal ledger account
No segregation of duties between recording in the nominal ledger and purchase ledger.	Non-detection of erroneous purchase entries.
No arithmetic check on input of purchase invoices.	Non-detection of erroneous purchase entries.
No segregation of duties in either function. Although the cashier pays suppliers, she does so only on the advice of Rahim.	Again the validity of the purchases, inventory and Liabilities balances in the financial statements is called into question.
No System of Quality checking of the purches	The purches many not be of the requested suitable for production

Total Marks 10
