



**Pakistan Institute  
of Public Finance Accountants**

**Corporate Sector**

**Model  
Solutions**

**Winter Exam-2021**

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# **Financial Accounting**

**(Level-3)**

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Q.1.  
a

	FIFO	AVCO
	Rs.	Rs.
Pineapple(2)	4,600	4,300
Mango(2)	3,900	3,750
Strawberry(2)	<u>1,200</u>	<u>1,200</u>
<b>Revised closing inventory(2)</b>	<b><u>9,700</u></b>	<b><u>9,250</u></b>

07

Q.1. FIFO = 86,300 – 10,200 + 9,700 = **85,800(4)**

07

b AVCO = 86,300 – 10,200 + 9,250 = **85,350(4)**

**Total Marks 14**

- Q.2. 1. Mr. Saleem is a related party as he is son (close family member) of the CEO (member of key management personnel) of the company. The fee for training Rs. 0.5 million paid to Mr. Saleem shall be disclosed along with nature of related party relationship.(2)
2. CEO is related party being member of key management personnel. The amount of loan granted along with terms and conditions including rate of interest and outstanding balance shall be disclosed.(2)
3. Bashir (Pvt.) Limited is a related party being a subsidiary. Nature of related party relationship shall be disclosed. Awarding a contract itself is not a transaction but the contractual commitment needs to be disclosed.(2)
4. The active participation of director nominated by Ali Limited indicates the significant influence over Yasir Limited. No disclosure is required under IAS 24.(2)

(Answers can vary as appropriate)  
(1 mark for each valid point up to a Max of 8 marks)

**Total Marks 08**

Q.3.  
a

<b>Bashir Limited</b>		
<b>Statement of Comprehensive Income</b>		
<b>For the year ended 31 December 2015 (1)</b>		
	Rs.000	Rs.000
Revenue(1)		984
<b>Cost of sales:(3)</b>		
Opening inventory	98	
Purchases	480	
Closing inventory	<u>(105)</u>	<u>(473)</u>
Gross profit		511
Less: Operating Expenses		
Administrative expenses(2)	229	
Distribution costs(2)	<u>197</u>	<u>(426)</u>
Profit from operations(1)		85
Finance costs (13 + 1)(2)		<u>(14)</u>
Profit for the year(1)		<u>71</u>
Administrative expenses: 205 + 3 +11 +9 +1 =229 (2)		

15

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**Q.3.**  
**b**

15

<b>Bashir Limited</b>		
<b>Statement of financial position at 31 December 2015 (1)</b>		
<b>Non-current assets:</b>	<b>Rs.000</b>	<b>Rs.000</b>
Land and buildings (200 – 24)(1)		176
Plant and machinery (1)		<u>99</u>
		275
<b>Current assets:</b>		
Inventory(1)	105	
Accounts Receivable (109-9-3) (2)	97	
Other receivables (1)	<u>3</u>	<u>205</u>
<b>Total assets</b>		<b><u>480</u></b>
<b>Equity:</b>		
Share capital (1)	147	
Revaluation reserve (1)	15	
General reserve (1)	17	
Retained earnings (1)	<u>122</u>	301
<b>Non-current liabilities</b>		
5% debentures (2017) (1)		80
<b>Current liabilities</b>		
Accounts Payable (1)	59	
Other payables (7 + 1) (1)	8	
Cash and cash equivalents (1)	<u>32</u>	<u>99</u>
<b>Total equity and liabilities</b>		<b><u>480</u></b>

**Total Marks 30**

**Q.4.** The bankruptcy of a customer that occurs after the end of reporting period usually confirms that the loss existed at the end of reporting period. (2)  
**a**

Assuming that the Mr. Naseem was doubtful at the end of reporting period, the carrying amount of trade debts should be adjusted and a provision should be recognized.(2)

<b>Particulars</b>	<b>Dr. Rs.</b>	<b>Cr. Rs.</b>
Doubtful debt expense	500,000	
Provision for doubtful debts		500,000

**Q.4.** It is a non-adjusting event as there was no obligation to rectify the problems at the end of reporting period. (2)  
**b**

Impairment test should also consider whether the software was impaired or not at the end of reporting period. The following disclosures may be made:(2)

**Nature:** Rectification of computer software

**Financial Effect:** Rs. 31,000

(Answers can vary as appropriate)

(1 mark for each valid point up to a Max of 8 marks)

**Total Marks 09**

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- Q.5.** 1. This is an adjusting event and the entity has constructive obligation to make refunds. A provision equal to 5% of sales in June 2008 shall be made in the financial statements. 08

This estimate may be subsequently changed if any improved information is received before the financial statements are authorized for issue.

Consequently, cost of sales and cost of inventories may also be changed. (4)

2. This is an adjusting event and evidence of present obligation as a result of past event as the event happened on June 2, 2008 before the end of reporting period.

The outflow is also probable according to lawyers' advice.

The reliable estimate is also available of Rs. 400,000. Therefore, a provision of Rs. 400,000 shall be recognized.(4)

(Answers can vary as appropriate)  
(1 mark for each valid point up to a Max of 8 marks)

**Total Marks 08**

**Q.6.**

Partners' Capital Accounts				
		Ali	Basit	Saleem
		Rs.	Rs.	Rs.
Opening balance	(1)	35,810	26,540	
Profit and loss account 3:2	(2)	6,000	4,000	
Goodwill increase [32,000 – 2,000 existing] 3:2	(2)	18,000	12,000	
Profit on revaluation	(2)	10,590	7,060	
Bank	(1)			38,000
Goodwill written off	(3)	(14,400)	(9,600)	(8,000)
		56,000	40,000	30,000
Cash adjustment (balancing figure)	(2)	(2,000)	(4,000)	
Closing balance- Capital Required 30,000 x 4/1	(2)	<u>54,000</u>	<u>36,000</u>	<u>30,000</u>

**Total Marks 15**

- Q.7.** Each item should be valued at the lower of cost and net realizable value

- a) Table: cost is Rs. 1,250  
NRV: expected selling price is Rs. 450

This item should be valued at Rs. 450 (NRV).(2.5)

- b) Wardrobe: cost is Rs.720  
NRV: expected selling price less repair cost (Rs.750 – Rs.120) i.e., Rs.630

This item should be valued at Rs.630 (NRV).(2.5)

- c) Dresser: cost is Rs. 1,832  
NRV: expected selling price less commission less delivery costs (Rs. 2,250 less Rs.105 less Rs. 158) i.e., Rs. 1,987

This item should be valued at Rs. 1,832 (cost)(3)

**Total Marks 08**

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**Q.8.**

Date	Particulars	Debit Rs.	Credit Rs.
01-07-14	Cash (40% x 2,000,000)(1)	800,000	
	Receivables (balancing figure)(1)	991,000	
	Car Sales [800,000+991,736](1)		1,791,736
30-06-15	Receivable (10% x 991,736)(1)	99,174	
	Finance Income(1)		99,174
30-06-16	Receivable (208,264 – 99,174)(1)	109,090	
	Finance income(1)		109,090
30-06-16	Cash(0.5)	1,200,000	
	Receivables(0.5)		1,200,000

**Total Marks      08**

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# **Business Commn. & Report Writing**

**(Level-3)**





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(Note: The answers of examinees may vary; the requirement is that the answers must portray the clarity of concepts. Moreover, for some questions, the proposed answers are longer: the examinee may have written shorter as per marks)

**Q.1.** The examinee may write any 5 of the following guidelines:

- 1) Retain an open mind avoiding bias and judgment.
- 2) Try to avoid distractions and focus your attention particularly at the start and end of discussions.
- 3) Maintain interest and make an effort to listen.
- 4) Watch for non-verbal cues; listen to the tone of voice.
- 5) Pick up the main ideas by distinguishing between supporting evidences and the key issues.
- 6) Wait before interruption.
- 7) Assess what the other person is saying by identifying potential bias, omissions and assumptions.
- 8) Prepare to listen and focus on grasping the main concepts.
- 9) Take notes; however this should not distract from listening.
- 10) Don't anticipate; show patience and don't jump to conclusion.

**Total Marks 05**

**Q.2.** Examinee may write any 3 of the following functions Communication networks

1. Providing the means for organizing the activities of individuals, groups and other sub-units within the organisation.
2. Providing instruments for directing the activities of the organisation as a whole.
3. Facilitating the exchange of information within the organisation, and
4. Ensuring the flow of information between the organisation and the external environment in which it exists.

**Total Marks 03**

**Q.3.** Perception can be defined as a process by which individuals establish, organize and interpret their sensory impressions towards the external world in order to give a meaningful and coherent picture of the environment. However, what an individual perceives can be significantly different from the actual reality and may also be different from what others perceive of the same situation.

Perception of the external world is also deeply embedded in beliefs, values and attitudes of individuals.

When the perceiver looks at a thing and attempts to interpret it, then his personal characteristics deeply influence that interpretation. These characteristics include attitudes, motives, interests, experience, expectations and beliefs, e.g. if you expect teachers to be mentors, old people to be forgetful, then you are perceiving them as such, irrespective of their actual traits.

**Total Marks 05**

*Contd.....*



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**Solutions – Bus. Commn. & Report Writing**

**Q.4.** The key purposes of communication can be summarised as

- 1) Acquiring information – collecting, analyzing, checking and processing numerous types of communication both internal and external to an organisation. This often involves initiatives to generate ideas and solutions.
- 2) Disseminating information – sharing information to those who need it to perform their job, make a decision or solve a problem. This might involve coordinating plans and communicating goals and structures.
- 3) Maintaining relationships – relationships between co-workers and with both suppliers and customers need managing through effective and appropriate communication to ensure continuity of operations and ultimate profitability of the organisation.

**Total Marks 06**

**Q.5.** The answer may be shorter than the one given below:

05

**a** Consideration means empathizing with others and taking into account such factors as the message recipient's view point, mind-set, education level, mood, desires and needs.

You should try to think of things from your recipients' perspective. For example: What do they really need? What emotions might they currently be feeling? What emotions might your message generate? Do you need to adjust your message to illicit a different kind of emotion?

Consider current or potential problems being faced by the recipient. For example, you may know that a key issue for the recipient of your message is the high number of faulty product returns. You could refer to this issue in your communication and offer a solution by demonstrating how your product will reduce the high number of returns.

Self-respect of the recipient is paramount as any loss of respect, insult or humiliation could instantly alienate the communication recipient.

In summary, modify the content and style of your message to suit the audience's needs whilst still ensuring your message is complete.

**Q.5.** The suggested solution is given below though answers may vary.

06

- b**
- (i) Due to six months long period of lockdown, there was a drop of 40% in the sale.
  - (ii) We will consider your suggestions for improvement.
  - (iii) Thank you, we will let you know if your suggestion is required.

**Total Marks 11**

**Q.6.** The answer must be shorter:

1. **Physical noise:** Physical noise is something external to the speaker and listener that makes it difficult to hear what is being said – for example loud background music in a restaurant, extremely high temperatures or very bright (or dim) lighting.
2. **Psychological noise:** Psychological noise refers to inert qualities that impact how we communicate and interpret others. For example a loss of concentration or a wandering of the mind, preoccupation with a problem, battling with prejudice.
3. **Physiological noise:** Physiological noise describes the interference to either the sender or recipient from any physiological issue that interferes with communication. Examples might include a migraine, hunger, fatigue or medication.
4. **Semantic noise:** Semantic noise describes the lack of a shared meaning in communication which arises from using terminology and jargon. This exists when words themselves are not mutually understood and can often arise in technical areas such as discussions with lawyers, medical professionals, accountants and scientists etc.

**Total Marks 04**



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**Q.7.** Stereotypes refer to generalized ideas or images about certain group of people that are widely accepted by others. Stereotypes have four main characteristics:

1. They are simpler than the reality.
2. They are acquired from others rather than on one's own experience.
3. They are erroneous by their very nature.
4. They resist change if entrenched deeply.

**Total Marks 05**

**Q.8.** The examinees may write any 5 of the Difference given below:

<b>Oral communication</b>	<b>Written communication</b>
Oral communication is less formal.	Written communication is formal, planned and detailed.
It produces a prompt response of some kind.	It causes a response after lapse of some time.
Oral communication is not valued much for legal purposes.	It carries more authority and is proof of a transaction.
Oral communication is highly flexible.	It is rigid and inflexible.
It is an active transfer of information.	It is precise and direct.
Here the speaker can get the audience engaged psychologically.	It is less personal.
It is subjective and spontaneous.	It is objective and deliberate

**Total Marks 05**

**Q.9.** Agenda is a list of items to be discussed at a formal meeting

In the business environment an agenda is used to communicate the items to be discussed at a formal meeting.

The contents of an agenda for a formal meeting would include the following: (the examinees may write any 5 items)

- (i) Title, date, time and place of the meeting;
- (ii) Purpose of the meeting;
- (iii) Minutes of the previous meeting
- (iv) Matters arising from the last meeting
- (v) Apologies for absence vi. Main body
- (vi) Any other business (AOB)
- (vii) Date of next meeting;

**Total Marks 07**

**Q.10. Circular Letter:** Used to share the same information with a large audience. Used to announce new information such as a new director, or clarify policies (following a number of violations). Circular letters tend to be general in nature given their large audience. 03

**a**  
**(i)**

**Q.10. Memorandum:** memos are often informally written paper-based messages exchanged between colleagues within an organisation. A note, document or other communication that records or reminds about events and observations. Typically used to communicate messages related to day-to-day activities such as conveying telephone messages or to remind someone of an appointment. 03

**a**  
**(ii)**

*Contd.....*



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**Q.10. The format of a memo:**

04

**b**

To: Receiver's name From: sender's name Date: Subject:
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**Total Marks 10**

**Q.11.** Persuasive Letter is a letter written to persuade an organization or individual/s towards accepting the writer's (sender's) issue, interest or perspective.

Featured: (Examinees may write an AIDA formula/ approach)

AIDA: Attention-Interest-Desire-Action.

OR any 4 of the following features:

1. Get the reader's attention by mentioning benefits of the message to the reader.
2. Build the reader's interest by emphasising relevance of the message to the reader.
3. Increase the reader's desire by supporting the viewpoints stated in the message with relevant evidence. Attempt to convince the reader to make the change as suggested in the message.
4. Motivate the reader to take action and state the positive result of the action. The action should have clarity and be easy to adopt.
5. Present emotional and logical appeals in a balanced manner. Substantiate the appeal by presenting facts and evidence for complex ideas and recommendations.
6. Reinforce the Proposal/Request by providing additional evidence of the benefits of the message and establish the sender's credibility in presenting the message.
7. Anticipate objections from the reader and be prepared.

**Total Marks 06**

**Q.12.** A Social Networking sites allow individuals:

05

**a**

1. To have free web space to upload content, all posts are organised in descending order with the last post coming first. Further, all content is published in real time, and becomes visible instantly.
2. To get a distinct web address that would become the identity of that person or business. The members can then use their web address to promote themselves or their business,
3. To build their profiles. The profiles serve a dual purpose: on one hand, they allow friends or contacts to identify members from their profiles; and on the other hand, the data entered by the members is used by social networking sites to connect with other members who have similar interests and background,
4. To send e-mails to each other. The social networking sites also send e-mail alerts whenever a member is tagged in a post or any other important activity is carried out. This enables members of these forums to learn when a fellow member has connected to them.
5. To leave messages on their friends' profiles. In addition, social networking sites often have a private messaging feature as well.



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- Q.12. b** (i) **Blogs:** The term blog has been derived from the words web log. Web logs or blogs are webbased journals. It is defined as the act of posting content on a blog (a web log or online journal) or posting comments on someone else’s blog. 03
- (ii) **Podcasting:** Podcasting is a method of publishing files to the internet, this activity allows users to get subscribed to a feed and receive new files automatically by subscription that usually covers no cost. 03

**Total Marks 11**

- Q.13.** The precis must be written in one paragraph. It must reflect precisely the theme of the Passage; No Reproduction of Important Sentences; Have Brevity and Clarity; Inclusion of Statistical Information; Observe Proportion and word count must be given.

**Total Marks 10**

- Q.14.** The format of a report should be:

Date

To: Name of receiver, Designation, Name of organization

From: Name of sender, Designation

Subject Line

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/ suggestions 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.

**The End**

**Total Marks 12**

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# **Taxation**

## **(Level-3)**

# Winter Exam-2021

## Solution - Taxation

Q.1.

**Mr. Adrees**  
**Computation of Taxable Income**  
**Tax year 2021**

	<b>Rs.</b>
<b>Income from Salary</b>	
Basic salary (200,000 x 12 )	2,400,000
Medical allowance	240,000
Rent free accommodation Higher of 45 x 2400000 or Rs 1200,00	1,200,000
Insurance premium -Exempt	-
Employer's contribution to provident fund	30,000
Concessional loan	-
Leave encashment (chargeable on receipt basis)	100,000
Total income from salary	3,970,000
<b>Capital gain</b>	
Gain on sale of shop (15,000,000-14,000,000) X 50%	500,000
Gain on sale of Inherited property (18,000,000 -7,000,000) X 75%	8,250,000
	8,750,000
Capital gain on sale of securities Loss on disposal of shares	-
Total income	12,720,000
Less: Separate block of income - Capital gain from sale of immovable property	(8,750,000)
Taxable income	3,970,000
Less: Donation to non- profit organization covered under 2nd schedule  (Lower of 2,000,000 or 30% of taxable income i.e 1,191,000)	(1,191,000)
	2,779,000
Since salary income is more than 75 % of the taxable income, the slab applicable to salaried individual shall be applied	
<b>Tax liability</b>	
On Rs. 2,500,000	195,000
On Remaining Rs. 279,000 @ 17.5%	48,825
	243,825
Less: Reduction in tax liability because of full time professor 25%	(60,956)
	182,869
Tax on gain of immovable property (8,750,000 x 5%)	437,500
	620,369
Less: Withholding tax	(160,000)
<b>Tax payable</b>	<b>460,369</b>

**Total Marks 15**

**Winter Exam-2021**  
**Solution - Taxation**

<b>Q.2</b>	Cost	(100,000,000- 10% x100,000,000)	90,000,000	<b>06</b>
.	Import charges		400,000	
<b>(a)</b>	Freight charges		200,000	
	Installation charges		100,000	
	Cost		90,700,000	
	Less: Initial allowance		(22,675,000)	
			68,025,000	
	Less: Tax depreciation	(68025 x 15% )x50%	(5,101,875)	
	Tax WDV		62,923,125	

**Q.2 Income from business** **05**  
**Building**

<b>(b)</b>	Consideration (N-1) (10 / 8 x 5)		6.25	
	Less: Tax WDV		6.25	
	Cost		(0.60)	
	Accumulated depreciation (6-5.4)		(5.65)	
	Income from business		0.60	

**Gain on disposal of immovable property (Taxable as separate block of income)**

**Land**

Consideration (N-1) (10 / 8 x 3)		3.75	
Less: Cost		(2.0)	
Gain / loss		1.75	

**Note:**

1. Where two or more assets are disposed of in a single transaction and actual consideration for each asset is not specified, the total consideration received shall be apportioned between assets disposed of in proportion to their respective fair market values at the time of the transaction. therefore, the consideration of Rs. 10 million will be apportioned as per the fair market values of land and building.
2. Where consideration received on the disposal of building exceeds its cost the consideration shall be treated as cost of the asset.

**Total Marks 11**

**Q.3** According to Income Tax Ordinance 2001, any amount or fair market value of any property received without consideration or received as gift will be included in Income from Other Sources of the person who received the amount or property. However, if gift is received from relative as defined in such section (5) of section 85, it will not be included in income from other source. **02**

As the gift is received by Saqib from his friend, exemption will not be available. Therefore, Rs. 4.5 million, being the fair market value of property, will be included in Income from Other Sources of Saqib.

**Q.3** Any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number shall be treated as income chargeable to tax under the head "Income from Other sources" for the tax year in which it was received. **04**

Therefore, it is advised Mr. Kamal should obtain loan within the above-mentioned bounds otherwise it will be treated as income in the hands of Mr. Kamal chargeable under the head "Income from other sources".



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## Solution - Taxation

- Q.3** Any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof shall be chargeable to tax under the head "Income from other source" in tax year in which it was received and the following nine tax years in equal proportion. **04**
- (c)

Therefore Rs. 55,000  $(650,000-100,000)/ 10$  is chargeable to tax in TY 2021 under the head "Income from Other Sources."

**Total Marks 10**

- Q.4. Taxable income** Rs. In million **04**

(a) Agriculture income - Exempt	(Rs. 4,550 X 140,000) = Rs. 637 Million	
Income from business		
Gross revenue		310
Less: Fair value of produce	(Rs. 4,550 X 60,000)	(273)
Less: other expenses		(19)
<b>Taxable Income – Income from Business</b>		<b>18</b>

- Q.4.** An individual shall be a resident individual for a tax year if the individual is present in Pakistan for a period of, or periods amounting in aggregate to 183 days or more in the tax year. As Naseem is present in Pakistan for a period of 181 (31+28+31+30+31+30) days in tax year 2020, he would be considered as non-resident for tax year 2020. **01**
- (b)
- (i)

- (ii) The foreign source income of an individual will be exempt from tax if - **04**
- a) he is a resident solely because of his employment; and
- b) he is present in Pakistan for a period or periods not exceeding 3 years.

However, under following circumstances foreign source income of an individual will be chargeable to tax if any foreign source income is brought into or received in Pakistan.

Naseem has earned fee of USD 18,000 in USA. However, the amount has been brought into Pakistan on 10 January 2021 to his personal bank account. Therefore, this foreign source income will be taxable because it is brought into Pakistan.

Similarly, income from business earned in USA will also be taxable to the extent it is received in Pakistan i.e. 40%. The remaining 60% will remain exempt as all of the above-mentioned conditions are fulfilled.

- Q.4.** The fair market value of these assets shall be treated as cost of the assets when received: **03**

- (c)
- Under a gift from a relative, bequest or will;
  - By succession, inheritance or devolution;
  - On a distribution of assets on dissolution of an association of person; or
  - On a distribution of assets on liquidation of a company.
  - The cost of a personal assets treated as acquired by the business shall be the fair market value of the asset determined at the date it is applied to business use.

**Total Marks 12**

**Winter Exam-2021**  
**Solution - Taxation**

- Q.5.** Rehan is required to disclose following particulars in his wealth Statement. **04**
- (a)
- a) Total assets and liabilities of the person as on the last date of tax year.
  - b) Total assets and liabilities of his spouse, minor children, and other dependents as on the date.
  - c) Any assets transferred by him to any other person during the period and the consideration for the transferred.
  - d) Total expenditure incurred by him and his spouse, minor children and other dependents during the period and details of such expenditures.
  - e) The reconciliation statement of wealth.
- Q.5.** An appeal may be filed with Commissioner (Appeal) if a person is not satisfied with the order passed by the tax department such as: **04**
- (b)
- (i) Best judgment assessment. (ex parte assessment)
  - (ii) Amendment or further amendment of assessment
  - (iii) Recovery order in respect of an alleged defaults on account of withholding tax
  - (iv) Order imposing any penalty or default surcharge.
- Q.5.** i) Danish should comply with the following requirement on cessation of his business: **05**
- (c)
- He shall give Commissioner a notice within 15 days of the discontinuance i-e by 15 February 2020.
  - He shall himself or being required by the commissioner by notice, furnish a return. The period of return will start from 1st day of tax year (of discontinuous) and will end on the date of discontinuous. This period will be treated as separate tax year;
  - The return will be furnished by Danish by the due date specified in the notice.
- ii) If a taxable source of income ceases to exist either:
- before the commencement of the year or.
  - during the tax year,
- Then any subsequent benefit derived from it shall be taxable in normal way assuming that the source has not been ceased at the time income was derived. Therefore Rs. 1,300,000 received from Insurance company would be considered as income from business of Danish and would be taxable in the normal way.

**Total Marks 13**

## Winter Exam-2021 Solution - Taxation

Q.6.

### Uzair Computation of Sales tax liability For the month of February 2021

<u>Calculation of tax liability</u>	<u>Rs.</u>
Output tax (2,000,000 X 17%)	340,000
Less: Input tax (lower of)	
- Actual input tax	-
- 90% of output	306,000
	340,000
Add: Further tax @ 3% of sales to unregistered (2,000,000 x 3%)	60,000
Sales Tax payable	400,000
Refundable against exports (W-2.1)	337,302
Input tax to be carried forward	-
<b>(W-1) Input tax (Other than Fixed Assets)</b>	
Taxable supplies from unregistered person of 3,500,000	-
<b>(W-2) Apportionment of input tax</b>	
	<b>Input tax</b>
	<b>(Fixed assets)</b>
	<b>Turnover</b>
Taxable local supplies	2,000,000
Zero rated	2,500,000
Exempt	3,800,000
	8,300,000
<b>(W-2.1) Machine input</b>	
Machine input (5,000,000 x 17%)	850,000
For zero rated	(850,000 / (2,500,000 + 3,800,000)) x 2,500,000
For exempt sale	(850,000 / (2,500,000 + 3,800,000)) x 3,800,000
	<b>337,302</b>
	<b>512,698</b>

# Winter Exam-2021

## Solution - Taxation

Khizar

### Computation of Sales tax liability For the month of February 2021

<u>Calculation of tax liability</u>		<u>Rs.</u>
Output tax	(10,000,000 X 17%)	1,700,000
Less: Input tax (lower of)		
- Actual input tax	1,206,452	
- 90% of output	1,530,000	<u>(1,206,452)</u>
		493,548
Less: Input tax on machine		(1,020,000)
Input tax to be carried forward		<u><u>(526,452)</u></u>

#### **(W-1) Input tax (Other than Fixed Assets)**

Taxable supplies from registered person (11,000,000 x 17%)	1,870,000
Exempt goods of 3,000,000	-
	<u><u>1,870,000</u></u>

#### **(W-2) Apportionment of input tax**

	<u>Input tax</u>		
	<u>Turnover</u>	<u>Other than Fixed assets</u>	<u>Fixed assets</u>
Taxable local supplies	10,000,000	1,206,452	1,020,000
Zero rated	-	-	-
Exempt	5,500,000	663,548	-
	<u>15,500,000</u>	<u>1,870,000</u>	

#### **(W-2.1) Machine input**

Machine input	(6,000,000 x 17%)	1,020,000
---------------	-------------------	-----------

**Total Marks 15**

**Q.7.**  
**(a)**

The duties of the National Finance Commission to make recommendations to the President with regards to finance related matters include:

- (i) The distribution between the Federation and the Provinces of the net proceeds of the taxes.
- (ii) The making of grants - in - aid by the Federal government to the Provincial Governments.
- (iii) The exercise by the Federal Government and the Provincial Governments of the
- (iv) borrowing powers conferred by the Constitution;
- (v) Any other matter relating to finance, referred to the Commission by the President.

**04**

**Winter Exam-2021**  
**Solution - Taxation**

- Q.7.** Following taxes are covered in the scope of legislation of Provinces: **04**  
**(b)**
- Agriculture income tax
  - Sales tax on services
  - Taxes on transfer of immovable property
  - Professional tax
- Q.7.** Pillars of tax administration which safeguard the interest of taxpayers and avoid abuse of powers by the tax administration are as follows: **03**  
**(c)**
- Fairness:**  
Strive to be impartial, fair, neutral and consistent in administering the law without regards to race, social or economic circumstances.
- Transparency:**  
All proceedings must be transparent and must be seen as transparent.
- Accountability:**  
There must be a strong system of accountability for wrong doers which should curb corruption, nepotism and maladministration.
- Total Marks 11**
- Q.8.** Where a registered person pays the amount of tax less than the tax due as indicated in his return, the short paid amount of tax along with default surcharge shall be recovered from such person by stopping removal of any goods from his business premises and through attachment of his business bank account, without giving him a show cause notice and without prejudice to any other action prescribed under section 48 of this Sales Tax Act or the rules made thereunder: **04**  
**(a)**
- Q.8.** Documents required for the deduction of input tax: **03**  
**(b)** **A taxable supply of goods**  
**(i)** Tax invoices bearing his name and registration number.
- Goods imported into Pakistan**  
Bill of entry or a goods declaration showing his name and registration number, duly cleared by the Custom authorities
- Goods purchased in an auction**  
Treasury receipt showing his name, registration number and the payment of sales tax.
- Q.8.** **Retention of retain the record and document for six years** **02**  
**(b)** A person shall retain the record and documents for a period of six years after the end of the tax period  
**(ii)** to which such record or documents relate or till the final decision in any proceedings.
- Q.8.** **Destruction of goods** **02**  
**(c)** In order to destroy the goods, the following conditions must be fulfilled.
- i) Prior permission from the Collector of Sales Tax having jurisdiction.
  - ii) Goods should be destroyed under the supervision of an inland revenue officers of sales Tax not below the rank of an Assistant Collector as may be deputed by the Collector for the purpose.

**Total Marks 11**

**Winter Exam-2021**  
**Solution - Taxation**

- Q.9.**
- i) **Non- fund banking services:** includes all non - interest based services provided or rendered by the banking companies or non-banking financial institutions against a consideration in the form of a fee or commission or charges.
  
  - ii) **Goods:** means goods leviable to excise duty under this Act or as specified in the First Schedule and includes goods manufactured or produced in non- tariff areas and brought for use or consumption to tariff area.

**Total Marks      02**

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# **Management Strategy**

**(Level-3)**



## Winter Exam-2021 Solutions – Management Strategy

- Q.1. Strategy** – It is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as “A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process”.
- Q.1. Business Strategy** – It is a strategy for each separate business the company has diversified into.
- Q.1. Corporate Strategy** – It is a strategy for the company and all of its businesses as a whole.
- Q.1. Functional Strategy** – Then there is a strategy for each specific functional unit within a business e.g. marketing, sales or production strategies

**Total Marks 10**

**Q.2. ABC Limited 15**

The Managing Director,  
ABC Limited.

Subject: **Report of Implementing Software Controls**

Dear Sir,

This is with reference to the task assigned to the undersigned on the above cited subject. A detailed report is being produced here for your consideration please.

### **Physical Access and Security Controls**

The most important element of implementing Physical Access and Security Controls in any organization to implement security element is to develop Policies and procedures for information security. This may include the following:

- Importance of information assets
- Need for security
- Defining sensitive and critical assets
- Accountabilities

Following are the physical exposures:

- Unauthorized entry
- Damage or theft of equipment
- Copying or viewing of copyrighted information
- Alteration of sensitive equipment/ information
- Public disclosure of sensitive information
- Abuse of data processing resources
- Embezzlement

To mitigate the physical access exposures following controls are suggested:

- Door locks (combination – bolting- electronic)
- Biometric access to facilities
- Manual logging of activities
- Electronic logging of events





## **Winter Exam-2021**

### **Solutions – Management Strategy**

- ID's/badges for employees
- Surveillance cameras
- Security guards deputed on facilities
- Controlled visitor access

Following are Logical access exposures:

- Viruses – self repetitive
- Data leakage
- Wire tapping
- Remote shutdowns
- Hacking

To overcome following are proposed:

- Corporate Licensed Antivirus equipment and software to be deployed
- Firewall are deployed
- Password and Logon ID policy to be developed and implemented
- No personal e-mail, gadgets allowed to prevent data leakage
- Firewall and VPN to be used to prevent Remote shutdowns and hacking possibility
- Continuous monitoring of policies and update as and when required
- Security monitoring committee to formed
- IS/IT Audit on regular basis

#### **Application Controls**

**15**

The application level controls are intended to address three major Application sub systems

- i. Input Controls
- ii. Output controls
- iii. Processing controls

#### **INPUT CONTROLS**

Components in the input subsystem are responsible for bringing both data and instructions into the information system. Data can be input into an information system in diverse ways. For example, it can be entered directly into an information system via a keyboard, a touch screen, scanners or a mouse. Following steps are proposed to ensure data integrity:

- i. Data entry
- ii. Data validation and verifications
- iii. Data cleaning

Validation of input data must be ensured by putting in following checks:

- i. Field Checks
- ii. Record Checks
- iii. Batch Checks
- iv. File Checks



## **Winter Exam-2021**

### **Solutions – Management Strategy**

#### **OUTPUT CONTROLS**

Refers to how the output is generated, distributed and then eliminated. Following controls must be placed to ensure integrity:

- i. Timely generation of outputs
- ii. Authorization of individuals using/generating the information
- iii. Proper storage of the paper based outputs
- iv. Shredding of papers not being used
- v. Periodic review of reports being generated
- vi. Decision on period of time to keep the data

#### **PROCESSING CONTROLS**

Following controls must be in place to ensure the integrity of the software system:

- i. Data Quality. Processes to ensure the accuracy, completeness, credibility and timeliness of data.
- ii. Audit Trail. Capturing logs such that data access can't go unnoticed
- iii. Information Security
- iv. Define Data Custodian
- v. Define Data Controller
- vi. Segregation of Duties
- vii. Backup of data as per backup policy

**Total Marks 30**

**Q.3.** The objectives of Human Resource Management, in an organization, is to obtain maximum individual development, desirable working relationships between employers and employees, and to affect the molding of human resources as contrasted with physical resources. The basic objective of human resource management is to contribute to the realization of the organizational goals. However, the detailed objectives of human resource management are as follows:

- (i) To ensure effective utilization of human resources, all other organizational resources will be efficiently utilized by the human resources.
- (ii) To establish and maintain an adequate organizational structure of relationship among all the members of an organization by dividing of organization tasks into functions, positions and jobs, and by defining clearly the responsibility, accountability, authority for each job and its relation with other jobs in the organization.
- (iii) To generate maximum development of human resources within the organization by offering opportunities for advancement to employees through training and education.
- (iv) To ensure respect for human beings by providing various services and welfare facilities to the personnel.
- (v) To ensure reconciliation of individual/group goals with those of the organization in such a manner that the personnel feel a sense of commitment and loyalty towards it.
- (vi) To identify and satisfy the needs of individuals by offering various monetary and non-monetary rewards

**Total Marks 10**



## **Winter Exam-2021**

### **Solutions – Management Strategy**

**Q.4.** Talent acquisition and recruitment have many overlapping job duties, there are a few key differences between these two roles. While recruiters primarily focus on filling open positions, talent acquisition managers and specialists focus more on creating a long-term human resources plan for companies.

Talent acquisition professionals help companies create a brand that attracts more specialized talent while recruiters are more likely to fill jobs that require more of a generalized skill set. A company looking for leaders, specialists and executives would hire a talent acquisition professional rather than a recruiter. Talent acquisition professionals' expertise helps them fill high-level jobs that require a more specific skill set. They mostly work in niche industries such as medicine, law, finance and technology.

**Total Marks 10**

- Q.5.**
1. Value and the creation of customer value.
  2. Total cost of ownership
  3. Integration of processors.
  4. Reduction of cycle time

**Total Marks 05**

**Q.6. Characteristics of Vision**

1. A vision must be clear and written in well-articulated words
2. A vision must drive the organization to a common goal
3. A vision must be capable of attract / retains people to organization
4. A vision must guide the organization's decision makers
5. A vision must establish a standard of excellence

**Characteristics of Mission**

1. It should be feasible A mission should always aim high but it should not be an impossible statement
2. It should be precise
3. It should be clear
4. It should be distinctive
5. It should indicate major components of strategy

**Total Marks 05**



## **Winter Exam-2021**

### **Solutions – Management Strategy**

#### **Q.7. Why is leadership development important?**

Having effective leaders within the management of a company can help achieve the company's desired goals and ensure that both employees and managers are reaching their highest potential. Knowing what areas of development each leader needs can help train better managers and can promote workplace effectiveness and efficiency.

#### **Key areas of leadership development:**

1. Decision-making
2. Communication
3. Organizational culture
4. Performance
5. Mentoring
6. Organization
7. Trust
8. Change
9. Creativity
10. Emotional intelligence

**Total Marks 10**

#### **Q.8. The Seven R's of Change Management**

1. The REASON behind the change?
2. RISKS involved in the requested change?
3. RESOURCES required to deliver the change?
4. Who RAISED the change request?
5. RETURN required from the change?
6. Who is RESPONSIBLE for creating, testing, and implementing the change?
7. RELATIONSHIP between suggested change and other changes?

#### **Processes for implementing change**

1. Identify What Will Be Improved
2. Present a Solid Business Case to Stakeholders
3. Plan for the Change
4. Provide Resources and Use Data for Evaluation
5. Communication
6. Monitor and Manage Resistance, Dependencies, and Budgeting Risks
7. Celebrate Success
8. Review, Revise and Continuously Improve

**Total Marks 20**

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# **Financial Reporting**

**(Level-4)**



## Winter Exam-2021 Solutions – Financial Reporting

Q.1.

	PL	SL	Adjustments	Consolidated
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
Revenue	150	80	(2.50)	227.50
Cost of sales	<u>(72)</u>	<u>(45)</u>	<u>1.25</u>	<u>(115.75)</u>
Gross profit	78	35	(1.25)	111.75
Distribution expenses	(14)	(5)	--	(19.00)
Administrative expenses	(25)	(12)	(0.50)	(37.50)
Other income	<u>15</u>	<u>1</u>	<u>0.75</u>	<u>16.75</u>
Profit before tax	54	19	(1.00)	72.00
Income tax expense	<u>(19)</u>	<u>(3)</u>	<u>--</u>	<u>(22.00)</u>
Profit for the year	35	16	(1.00)	50.00
Non-controlling interest	<u>--</u>	<u>(3.63)</u>	<u>--</u>	<u>(3.63)</u>
Net profit attributable to group	<u>35</u>	<u>12.37</u>	<u>(1.00)</u>	<u>46.37</u>

### Workings W-1

	Rs. (m)	Rs. (m)
Goodwill		
Cost of investment	-	-
Cash (2x0.75)x20	30.0	-
Contingent consideration	1.0	-
FV of NCI (2x0.25x10)	5.0	36.0

Fair value of net assets acquired	-	-
Share capital	20.0	-
Pre-acquisition profits	12.0	-
General reserves	4.0	-
Fair value gain	2.0	(38.0)
Bargain purchase gain	-	(2.0)
<b>W-2 Adjusting entries</b>	-	-
Contingent consideration	-	-
Increase in contingent consideration	-	-
Administrative expenses	0.50	-
Contingent consideration payable	-	0.50
Sales	2.50	-
Cost of sales	-	2.50
Cost of sales (2.50x25/125)	0.50	-
Closing stock	-	0.50
Cost of sales	1.00	-
Closing stock	1.00	-
Pre-acquisition reserves	-	2.00
Other income (1.0x75%)	0.75	-
NCI	0.25	-
Dividend	-	1.00



## Winter Exam-2021 Solutions – Financial Reporting

Other income	0.50	-
Property, plant and equipment	-	0.50
Property, plant and equipment	0.25	-
Cost of sales (1.5/2-1/2)	-	0.25
Cost of control account	2.00	-
Other income	-	2.00
<b>W – 3 Non-controlling interest</b>	<b>Rs. (m)</b>	-
Profit for the year	16.00	-
FV gain on inventory	(1.00)	-
Gain on sale of PPE	(0.50)	-
Adjusted profit	14.50	-
Share of profit (14.50x25%)	3.63	-

**Total Marks 25**

**Q.2.**

Deferred tax liability/(asset)	2020	2019
	Rs. (000)	Rs. (000)
<b>Taxable temporary difference</b>		
Accelerated tax depreciation on property, plant and equipment		
2020 (20,500-15,450) x 30%	1,515.00	2,117.50
2019 (18,250-12,200) x 35%		
Intangible assets		
2020 (1520 x 30%), 2019 (1,700 x 35%)	456.00	595.00
Interest receivable to be taxed on receipt basis		
2020 (200 x 10%), 2019 (150 x 10%)	20.00	15
Dividend receivables		
2020 (400 x 15%), (200 x 15%)	60.00	30
	2,051.00	2,757.50

<b>Deductible temporary difference</b>		
Un-paid liabilities		
2020 (2,500 x 30%)	(750.00)	(700.00)
2019 (2,000 x 35%)		
	(750.00)	(700.00)
Net deferred tax liability	1,301.00	2,057.50

**Total Marks 15**



## Winter Exam-2021 Solutions – Financial Reporting

**Q.3.**

Date	Description	Debit	Credit
		Rs.	Rs.
<b>01-01-2020</b>	Right of use asset (ROU) (100,000+167,743+28,698)	296,441	
	Lease liability [(3.03x50,000)+(0.635x25,000)]=151,868+15,875		167,743
	Bank		100,000
	Provision of decommissioning cost (0.635x45,000)		28,698
<b>31-12-2020</b>	Interest expense (Profit or loss)	3,444	
	Provision of decommissioning cost (28,698x12%)		3,444
<b>31-12-2020</b>	Depreciation account (Profit or loss)	74,110	
	Accumulated depreciation account (296,441/4)		74,110
<b>31-12-2020</b>	Interest expense (Profit or loss)	20,129	
	Lease liability (167,743x12%)		20,129
<b>31-12-2020</b>	Lease liability account	50,000	
	Bank		50,000
	Payment of annual rental		

**Total Marks 15**

**Q.4.**

	2020 (000)	2019 (000)
<b>Basic EPS</b>		Re-stated
<b>Basic EPS (Rs. / share)</b>	<b>2.08</b>	<b>1.69</b>
		2.40x4/5x22/25
Earnings	1,590	--
Weighted average number of shares	761	

**W – 1 Weighted average number of shares = (114+227+420)=761**

01-01-2020      500x2/12x6/5x25/22=114

01-03-2020      600x4/12x25/22=227

01-07-2020      840x6/12=420

31-12-2020

**W – 2 Bonus fraction = Shares after bonus issue/shares before bonus issue = 6/5 or 600/500**

**W – 3 Right fraction = Cum right price / Theoretical ex-right price = 25/[(25x5)+(14.50x2)]/7=25/22**

**Total Marks 15**





## Winter Exam-2021 Solutions – Financial Reporting

Q.5. Statement of Financial Position	2019	2018
	Rs. (m)	Rs. (m)
Noncurrent asset (500+10.88)	500.00	510.88
Equity and liabilities		
Equity – ordinary share capital	200	200
Noncurrent liabilities	300	300

### Statement of comprehensive income

#### Profit or loss account

Interest expense	(59.63)	--
------------------	---------	----

#### W – 1 Interest on loan capitalized

Interest on loan – 2018 $[300 \times 14.5\% \times 3/12]$ – capitalized		10.88
Interest on loan – 2019 $[300 \times 15.0\% \times 3.5/12]$ – Capitalized	16.88	--
Interest on loan – 2019 $[300 \times 15.0\% \times 8.5/12]$ – Expensed	31.87	--
To be expensed out in current year as change in accounting estimate		
The whole amount capitalized in previous year and current year	27.76	

**Total Marks 12**

- (i) The property will be classified into owner's occupied property (PPE) (three floors) Rs. 60 million  $(100 \times 3/5)$  and investment property (Two floors) Rs. 40 million  $(100 \times 2)$ . The owner's occupied property will be accounted for under the provisions of IAS 16 (Property, plant and equipment) and depreciation expense of Rs. 3 million  $[\{100 - (100 \times 2/5)\} / 20]$  will be charged to profit or loss account and the carrying value of PPE in the statement of financial position will be Rs. 57 million. The investment property will be measured under IAS 40 (Investment property) as the accounting policy is to measure the investment property under fair value method therefore, a fair value gain of Rs. 8 million  $[(120 \times 2/5) - 40]$  will be charged to profit or loss account and carrying value of investment property in statement of financial position will be Rs. 48 million. **06**
- (ii) The noncurrent asset if held for sale will be classified under IFRS 5 (Noncurrent asset held for sale and discontinued operations) will be measured on initially and subsequently at lower of carrying value and fair value less cost to sell. As at the date of initial measurement the carrying value was lower therefore, it remained at its carrying value of Rs. 15 million. However, at the subsequent measurement the fair value less cost to sell has dropped to Rs. 12 million an impairment loss of Rs. 3 million will be recognized. The impairment loss of Rs. 1.5 million will be charged against revaluation surplus and Rs. 1.5 million will be charged to profit or loss account. **06**
- (iii) The investment will be classified as amortized cost financial asset and an interest income will be recognized on effective rate on initial value of Rs. 1,700,000. The interest income for the year will be Rs. 244,970 but receipt for the year at coupon rate will be Rs. 200,000 the excess interest income will be added in the value of investment which will be Rs. 1,744,970. The next year interest income will be calculated on the new carrying value. The amortization schedule for all the five years will be as under: **06**



**Winter Exam-2021**  
**Solutions – Financial Reporting**

Year	Opening balance	Interest income	Receipt	Closing balance
1	1,700,000	244,970	(200,000)	1,744,970
2	1,744,970	251,450	(200,000)	1,796,420
3	1,796,420	258,864	(200,000)	1,855,284
4	1,855,284	267,346	(200,000)	1,922,630
5	1,922,630	277,370	(2,200,000)	--

**Total Marks 18**

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# **Management Accounting**

**(Level-4)**



## Winter Exam-2021 Solutions – Management Accounting

**Q.1.** Stakeholders of management accounting are:

- |                     |   |
|---------------------|---|
| (a) Managers, and   | 1 |
| (b) Decision makers | 1 |

**Expectations of stakeholders from the study of management accounting in:**

- |  |     |
|--|-----|
| • a fast-paced and highly-competitive business environment | 0.6 |
| • Planning, Forecasting, and Budgeting                     | 0.6 |
| • Managing costs   | 0.6 |
| • Project Management Decisions                             | 0.6 |
| • Performance Tracking                                     | 0.6 |

**Total Marks 05**

**Q.2.** Budgeting is an important component of financial success for any business. A budget is a business's financial plan to better manage monthly, quarterly and annual affairs. The purpose of budgeting is as follows:

- Provides a benchmark of evaluating performance against financial goals and objectives
- Helps an organization allocate financial resources between various operating groups
- An effective communication tool used to express financial goals and objectives of the organization
- Enables the organization to authorize the use of financial resources

Forecasting is a process that allows businesses to use historical data to make financial projections in the long-run. The purpose of forecasting is as follows:

- A useful tool that provides information to make intelligent business decisions
- Helps to identify unexpected issues; therefore, allowing timely corrective action
- Allows companies to quickly identify potential opportunities
- An effective communication tool used to express expected/anticipated financial results.

**Total Marks 05**



**Winter Exam-2021**  
**Solutions – Management Accounting**

Q.3.

03

	January \$	February \$	March \$	April \$
<b>Receipts:</b>				
Sales (Current month sales x 50% x 95%)	30875	33250	34438	36219
(Last month sales x 50%)	32000	32500	35000	36250
Bank Loan	_____	<u>60000</u>	_____	_____
Total receipts	<u>62875</u>	<u>125750</u>	<u>69438</u>	<u>72469</u>
Purchases (current month purchases x 50% x 96%)	26880	27840	29280	30720
(last month purchases x 50%)	26000	28000	29000	30500
Direct wages	12000	12000	13200	13200
Rent (\$60000 x 1/4)	15000			15000
Debentures interest (\$200000 x 8% x 6/12)	8000			
Other dividends	_____	<u>12000</u>	_____	_____
Net Payments	<u>87880</u>	<u>79940</u>	<u>71480</u>	<u>89420</u>
Net receipts (payments)	(25005)	<u>45910</u>	(2042)	(16951)
Bank balance at start	<u>12000</u>	<u>(13005)</u>	<u>32905</u>	<u>30863</u>
Bank balance at end	<u>(13005)</u>	<u>32905</u>	<u>30863</u>	<u>13912</u>

**Total Marks 30**



## Winter Exam-2021

### Solutions – Management Accounting

- Q.4.** Transfer price, also known as transfer cost, is the price at which related parties transact with each other, such as during the trade of supplies or labor between departments. Transfer prices may be used in transactions between a company and its subsidiaries, or between divisions of the same company in different countries.

Example:

Assume entity A is in Pakistan (a high tax country), while entity B is in UAE (a low tax country). It would benefit the organization as a whole for more of Company ABC's profits to appear in entity B's division, where the company will pay lower taxes.

In that case, Company ABC may attempt to have entity A offer a transfer price lower than market value to entity B when selling them the wheels needed to build the bicycles. Entity B would then have a lower cost of goods sold (COGS) and higher earnings, and entity A would have reduced sales revenue and lower total earnings.

**Total Marks 06**

- Q.5.** Many large organizations have de-fictionalized structures. In these organizations, a vital part of the head office management's role is measuring the performance of the divisions and of divisional managers. Managers and divisions should only be assessed in relation to aspects of performance they can control.

Goal congruence – measures should encourage divisional managers to make decisions which are in the company's best interests overall.

**Total Marks 07**

- Q.6.** In the nonprofit sector and public welfare organization, Boards of Directors, Managers and Employees, Volunteers, Consumers and Clients, Advocacy Groups, and Funding Organizations all have a stake in the effective use of performance measures to improve management and decision making, performance, and accountability.

Performance measurement systems are used to support a variety of management functions, including the following:

- Monitoring and reporting
- Strategic planning
- Budgeting and financial management
- Program management
- Program evaluation
- Performance management
- Quality improvement, process improvement
- Contract management
- External benchmarking
- Communication with the public

**Total Marks 07**



## Winter Exam-2021 Solutions – Management Accounting

**Q.7.**  
**(a)**

<b>Break even in units =</b>	Fixed expenses	Rs. 135,000	<b>5,000 Units</b>
	Contribution Margin per unit	90-63	
<b>Break even in Value =</b>	Fixed expenses	Rs. 135,000	<b>Rs.450,000</b>
	Contribution Margin ratio	(90-63)/90	

**(c)**

**It will result increase in breakeven point, as it lowers per unit contribution**

<b>Present</b>	<b>Units</b>	<b>Rs.</b>	<b>Total</b>
Sales	8,000	90	720,000
Variable cost	8,000	63	504,000
Contribution margin	8,000	27	216,000
Fixed expenses			135,000
Profit			81,000
<b>Proposed</b>	<b>Units</b>	<b>Rs.</b>	<b>Total</b>
Sales	10,000	81	810,000
Variable cost	10,000	63	630,000
Contribution margin	10,000	18	180,000
Fixed expenses			135,000
Profit			45,000
Target profit + Fixed expenses		(72,000+135,000)	<b>11,500</b>
Contribution Margin per unit		(81-63)	<b>Units</b>

**Total Marks 10**

**(b)** When variable expenses as a % of sale increase then contribution margin & CM ratio will decrease which will consequently decrease breakeven point.



## Winter Exam-2021 Solutions – Management Accounting

**Q.8.** The annual relevant costs and benefits of further processing JP1 are as follows:

Revenue from selling FP1 (per kilogram)	28
Variable further processing cost	<u>(6)</u>
Additional variable revenue from further processing	22
Opportunity cost: sales of JP1 forgone	<u>(10)</u>
Benefit per kilogram from further processing	12
Number of kilograms produced each year	10,000
Total annual benefits before directly attributable fixed costs	120,000
Directly attributable fixed costs of further processing	<u>(96,000)</u>
Net annual benefits of further processing	<u><u>24,000</u></u>

Recommendation: The joint product should be processed to make FP1, because this will increase annual profit by Rs. 24,000.

**Total Marks 20**

**Q.9. Material A** – As there is no inventory, all 40 units required will have to be bought in at Rs.7 per unit. This is a clear cash outflow caused by the decision to make the new product. Therefore, the relevant cost of Material A for the new product is (40 units x Rs.7) = Rs.280. **10**

(a)

**Material B** - The 100 units of the material already in inventory has no other use in the company, so if it is not used on the new product, then the assumption is that it would be sold for Rs.12/unit. If the new product is made, this sale won't happen and the cash flow is affected. The original purchase price of Rs.10 is a sunk cost and so is not relevant. In addition, another 50 units are needed for the new product and these will need to be bought in at a price of Rs.14/unit.

The total relevant cost for Material B is:

100 units x Rs.12 (lost sale proceeds) =	Rs.1,200
50 units x Rs.14 (current purchase price) =	<u>Rs.700</u>
	Rs.1,900

**Material C** – This material is regularly used in the company, so if the 50 units in inventory are diverted to the new product then this will mean that inventory will need to be replenished. In order to do this, Material C purchases for existing products will be accelerated by 50 units. The current purchase price of Rs.22 will be used to determine the relevant cost of Material C as this will be the value of each unit purchased. The original purchase price of Rs.20 is a sunk cost and so is not relevant. Therefore, the relevant cost of Material C for the new product is (120 units x Rs.22) = Rs.2,640.

A company has a new project which requires the following three types of labour:

Labor	Hours required	Additional information
Unskilled	12,000	Paid at Rs.8 per hour and existing staff are fully utilized. The company will hire new staff to meet this additional demand.
Semi-skilled	2,000	Paid at Rs.12 per hour. These employees are difficult to recruit and the company retains a number of permanently employed staff, even if there is no work to do. There is currently 800 hours of idle time available and any additional hours would be fulfilled by temporary staff that would be paid at Rs.14/hour.





## Winter Exam-2021 Solutions – Management Accounting

Skilled	8,000	Paid at Rs.15 per hour. There is a severe shortage of employees with these skills and the only way that this labour can be provided for the new project would be for the company to move employees away from making Product X. A unit of Product X takes 4 hours to make and makes a contribution of Rs.24/unit.
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**Q.9.** Taking each type of labour in turn:

**10**

(b) **Unskilled** – 12,000 hours are required for the project and the company is prepared to hire more staff to meet this need. The incremental cash outflow of this decision is  $(12,000 \text{ hours} \times \text{Rs.}8) = \text{Rs.}96,000$ .

**Semi-skilled** - Of the 2,000 hours needed, 800 are already available and already being paid. There is no incremental cost of using these spare hours on the new project. However, the remaining 1,200 hours are still required and will need to be fulfilled by hiring temporary workers. Therefore, there is an extra wage cost of  $(1,200 \text{ hours} \times \text{Rs.}14) = \text{Rs.}16,800$ .

**Skilled:** Determining the relevant cost of labour if it is diverted from existing activities is tricky and is often done incorrectly. If this is the case, then the relevant cost is the variable cost of the labour plus the contribution foregone from not being able to use the labour for its existing purpose.

The temptation is to see that the same number of skilled employees are paid before and after being moved to the new project and therefore the opportunity cost of contribution foregone from diverting hours away from the existing production of Product X is the **only** relevant cost ( $\text{Rs.}24/4 \text{ hours} = \text{Rs.}6 \text{ per hour}$ ). This is incorrect.

Say, for example, that 4 hours of labour were simply removed by ‘sacking’ an employee for four hours, one less unit of Product X could be made. Using the contribution foregone figure of Rs.24 is the net effect of losing the revenue from that unit **and** also saving the material, labour and the variable costs. In this situation however, the labour is simply being redeployed so Rs.24 understates the effect of this, as the labour costs are not saved.

Therefore, the relevant cost of skilled labour is:

8,000 hours x Rs.15 (current labour cost per hour) =	Rs.120,000
8,000 hours x Rs.06 (lost contribution per hour diverted from making Product X) =	<u>Rs.48,000</u>
	Rs.168,000

**Total Marks    20**



## Winter Exam-2021 Solutions – Management Accounting

Q.10  
(a)

Payback	3 years
---------	---------

02

End of year(s)	Cash flows	Balance Investment
-	(10,000)	(10,000.00)
1	(10,000)	(20,000.00)
2	10,000	(10,000.00)
3	10,000	-
4	10,000	-
5	10,000	-

(b)

Discounted Payback	3.49 Years
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02

End of year(s)	Cash flows	Dis Rate 10%	PV	Balance Investment
-	(10,000)	1.00	(10,000)	(10,000)
1	(10,000)	0.91	(9,091)	(19,091)
2	10,000	0.83	8,264	(10,826)
3	10,000	0.75	7,513	(3,313)
4	10,000	0.68	6,830	
5	10,000	0.62	6,209	

(c)

End of year(s)	Cash flows	Dis. Rate 10%	PV
-	(10,000)	1.00	(10,000)
1	(10,000)	0.91	(9,091)
2	10,000	0.83	8,264
3	10,000	0.75	7,513
4	10,000	0.68	6,830
5	10,000	0.62	6,209

NPV	9,726
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02

(d)

Internal rate of return		15.91			
End of year(s)	Cash flows	Dis Rate 10%	PV	Dis Rate 16%	PV
-	(10,000)	1.00	(10,000)	1.00	(10,000)
1	(10,000)	0.91	(9,091)	0.86	(7,837)
2	10,000	0.83	8,264	0.74	6,142
3	10,000	0.75	7,513	0.64	4,813
4	10,000	0.68	6,830	0.55	3,772
5	10,000	0.62	6,209	0.48	2,956
			<b>9,726</b>		<b>(153)</b>

04

**Total Marks 10**

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# **Audit, Assurance & Ethics**

**(Level-4)**



**Winter Exam-2021**  
**Solutions – Audit, Assurance & Ethics**

- Q.1 Sufficiency** (of audit evidence) is The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence, whereas **Appropriateness** (of audit evidence) is The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based. 03
- (a)

**(Each of the two definitions in answer above have 1.5 marks each)**

- Q.1** Operating effectiveness of controls means effectiveness of a control in preventing, or detecting and 03  
(b) correcting, material misstatements at the assertion level.

- Q.1** Those policies and procedures that help ensure that management directives are carried out. Control 03  
(c) activities are a component of internal control.

- Q.1** The auditor shall design and perform tests of controls if: 03

- (d) The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively(that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or

Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

**(each one of a and b above has 1.5 marks each)**

- Q.1** The auditor shall design and perform tests of controls if: 05

- (e) The auditor’s assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively(that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or

Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

**(each one of a and b above has 1.5 marks each)**

**Total Marks 17**

- Q.2** If management does not provide one or more of the requested written representations, the auditor shall:

- (i) Discuss the matter with management.
- (ii) Reevaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- (iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor’s report, if management does not provide a written representation that:
  - (a) It has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation; or that
  - (b) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement; or that
  - (c) All transactions have been recorded and are reflected in the financial statements, the auditor shall disclaim an opinion on the financial statements.

The auditor shall disclaim an opinion on the financial statements

**(i and ii have 1 mark each whereas iii has 3 marks)**

**Total Marks 05**



## Winter Exam-2021

### Solutions – Audit, Assurance & Ethics

- Q.3** (a) Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or **close family** member;
- (b) Self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;
- (c) Advocacy threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
- (d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and
- (e) Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived

**Total Marks 10**

- Q.4** A chartered accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:
- (a)
- Others within the firm or employing organization.
  - Those charged with governance.
  - A professional body.
  - A regulatory body.
  - Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

- Q.4** Following are circumstances where chartered accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:
- (b)
- a) Disclosure is required by law, for example:
- (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; (2)
- b) Disclosure is permitted by law and is authorized by the client or the employing organization; and (1)
- c) There is a professional duty or right to disclose, when not prohibited by law:
- (i) To comply with the quality review of a professional body;
  - (ii) To respond to an inquiry or investigation by a professional or regulatory body; (2)
  - (iii) To protect the professional interests of a chartered accountant in legal proceedings; or (1)
  - (iv) To comply with technical and professional standards, including ethics requirements. (1)

**Total Marks 12**



**Winter Exam-2021**  
**Solutions – Audit, Assurance & Ethics**

- Q.5** Adequate planning benefits the audit of financial statements in several ways, including the following: *(Any five from the below got 1 mark each)* 05
- (a) Helping the auditor to devote appropriate attention to important areas of the audit.
- (b) Helping the auditor identify and resolve potential problems on a timely basis.
- (c) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- (d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- (e) Facilitating the direction and supervision of engagement team members and the review of their work.
- (f) Assisting, where applicable, in coordination of work done by auditors of components and experts.
- 
- Q.5** As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls. 05
- (b)
- 
- Q.5** The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including: 05
- (c)
- The size and complexity of the entity.
  - The area of the audit.
  - The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).
  - The capabilities and competence of the individual team members performing the audit work.
- 
- Q.5** For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following: 05
- (d)
- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
  - Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
  - The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.
  - Other procedures required by the firm's system of quality control for initial audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

**Total Marks 20**



## Winter Exam-2021

### Solutions – Audit, Assurance & Ethics

**Q.6** The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures: 08

- (a) Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- (b) Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

**Q.6** If controls over a particular financial statement item are deficient, the auditor would place more reliance on Test of details rather than substantive analytical procedures. 04

Auditor normally uses analytical procedures to obtain supplementary/collaborative Audit Evidence. Analytical procedures normally do not provide sufficient appropriate Audit Evidence to base the Audit conclusion and the Auditor has to apply test of Details. If the control over a particular financial statement item are deficient the Auditor place more reliance on Test of Details rather than substantive analytical procedures.

**Total Marks 12**

**Q.7** Factors to consider when designing confirmation requests include: 08

- (a)
- The assertions being addressed.
  - Specific identified risks of material misstatement, including fraud risks.
  - The layout and presentation of the confirmation request.
  - Prior experience on the auditor similar engagements.
  - The method of communication (for example, in paper form, or by electronic or other medium).
  - Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorization.
  - The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).

(Any 4 from the above has 1.5 marks each whereas the 5<sup>th</sup> one would get 1 mark)

**Q.7** A **positive external confirmation** request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. (3) 08

A **blank external confirmation** request is a confirmation request that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of "blank" confirmation request may



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**Solutions – Audit, Assurance & Ethics**

result in lower response rates because additional effort is required of the confirming parties. (3)

A **Negative confirmation** request is a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request. (2)

**Q.7** The auditor shall use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level if all of the following are present: **08**

- (a) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- (b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous account balances, transactions or conditions;
- (c) A very low exception rate is expected; and
- (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

(Any 3 from the above has 2 marks each)

**Total Marks 24**

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# **Business Organization**

**(Level-4)**



## Winter Exam-2021 Solutions – Business Organization

- Q.1.**
- a) Getting the Board Right. ...
  - b) Performance Evaluation of Directors. ...
  - c) True Independence of Directors. ...
  - d) Removal of Independent Directors. ...
  - e) Accountability to Stakeholders. ...
  - f) Executive Compensation. ...
  - g) Founders' Control and Succession Planning. ...
  - h) Risk Management.

**Total Marks 10**

**Q.2. Accountability**

Corporate accountability refers to the obligation and responsibility to give an explanation or reason for the company's actions and conduct.

In brief:

- The board should present a balanced and understandable assessment of the company's position and prospects;
- The board is responsible for determining the nature and extent of the significant risks it is willing to take;
- The board should maintain sound risk management and internal control systems;
- The board should establish formal and transparent arrangements for corporate reporting and risk management and for maintaining an appropriate relationship with the company's auditor, and
- The board should communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose.

**Total Marks 06**

**Q.3. Responsiveness**

Good governance requires that institutions and processes try to serve all stakeholders within a reasonable timeframe.

**Rule of law**

Good governance requires fair legal frameworks that are enforced impartially. It also requires full protection of human rights, particularly those of minorities. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force.

**Transparency**

Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media.

**Consensus oriented**

There are several actors and as many view points in a given society. Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development. This can only result from an understanding of the historical, cultural and social contexts of a given society or community.

**Total Marks 08**

*Contd.....*



## Winter Exam-2021 Solutions – Business Organization

**Q.4. Committees** receive their **authority** from the board. Staff members or other individuals The board of directors typically establishes committees and delegates some of its responsibilities to these committees. Some of the most common committees include: 05

- **Audit Committee:** The audit committee is responsible for recommending the appointment of an independent external auditor and proposing the auditor's remuneration. The audit committee also monitors the company's financial reporting process, including the application of accounting policies. It also presents an annual audit plan to the board and monitors its implementation by the internal audit function which it supervises.
- **Governance Committee:** The governance committee ensures that the company adopts good corporate governance practices.
- **Remuneration Committee:** The remuneration or compensation committee develops remuneration policies for the directors and key executives of the company and presents them for approval by the board or shareholders.
- **Nomination Committee:** This committee establishes the nomination procedures and policies, including eligibility criteria for board directorship.
- **Risk Committee:** This committee supervises the risk management function of the company.
- **Investment Committee:** The investment committee reviews material investment opportunities proposed by management, such as expansion plans or acquisitions, and considers their viability.

**Total Marks 10**

**Q.5.** Regardless of an organization's health, type, or status, boards have the following 10 basic responsibilities:

**1. Establish the organization's vision, mission, and purpose.**

The organization's vision is the founding members' view of what they want the organization to be and what purpose it serves. The board is also responsible for writing a mission statement, which is what the organization intends to do to fulfill the vision. The board should consider the vision while doing its strategic planning to ensure that their planning continually aligns with the vision. Everyone who is directly or indirectly connected with the organization should be aware of the vision and the board plays a large role in that.

**2. Hire, monitor, and evaluate the chief executive.**

Boards have the task of identifying, recruiting, and appointing the most qualified individual they can find to serve as the chief executive. In addition, the board writes the chief executive's job description. Before conducting an executive search, the board needs to consider the organization's needs, strengths, and weaknesses in considering the skills and abilities that a leader can bring to help the organization move forward. The new leader should be clear on what the board expects for his or her first year of service.

**3. Provide proper financial oversight.**

Board directors work together to establish a budget and ensure that there are proper internal controls in place for incoming and outgoing funds. Even small companies and startups should have an audit committee and do an internal audit every year.

*Contd.*



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**4. Ensure the organization has adequate resources.**

Every organization needs resources and it's the board's responsibility to ensure that every part of the organization has adequate resources for the organization to meet its obligations and fulfill its mission. Boards need to carefully consider the best way to allocate money and other resources for the benefit of the organization and its stakeholders. Nonprofit board directors should expect to make regular donations to the organization and use their personal and professional network to advance the mission of the organization.

**5. Create a strategic plan and ensure that it's followed.**

Boards set goals and objectives according to a strategic plan so that they have a guide for how to meet the organization's goals and needs applicable to nonprofit board positions. A SWOT (strengths, weaknesses, opportunities, and threats) analysis is usually part of the strategic planning process. The strategic plan may be done every year or every few years. Strategic planning should account for short and long-term goals. Boards monitor progress on the goals based on reports received from management.

**6. Ensure legal compliance and ethical integrity.**

All organizations have to abide by rules and laws. Board directors have a fiduciary duty to ensure that their organization is in full compliance with its legal obligations. Board directors should behave in a truthful, ethical manner and thus, set an example for others. Legal compliance also entails setting up policies to establish acceptable behavior such as the Whistleblower policy, Code of Conduct, and Code of Ethics.

**7. Manage resources responsibly.**

Board directors are accountable to many individuals and groups. For this reason, boards need to ensure that they're protecting the organization's assets and managing them responsibly. Board directors have a legal duty to be transparent and accountable for their actions and inactions. Board directors are generally protected from liability for judgment errors as long as they act responsibly and in good faith and do proper due diligence when making decisions.

**8. Recruit and orient new board members and assess board performance.**

The board is responsible for recruiting, nominating and appointing new board directors that have the right mix of skills and abilities to help the organizations fulfill and advance its mission. Boards need to be as objective as they can be about their own performances. Most boards do a self-evaluation every year with the goal of identifying their weaknesses and forming a plan to improve the board's performance.

**9. Enhance the organization's public standing.**

Reputation is an important factor in an organization's functioning. The board serves as a link between the company and its stakeholders. Every interaction with stakeholders presents opportunities to share the organization's culture, mission, accomplishments, and goals. Stakeholders expect boards to be transparent and accountable. Organizations that operate openly and honestly enjoy the benefit of having a trusting relationship with their stakeholders. It's important for boards to have a designated spokesperson who can effectively articulate the organization's good work or answer to stakeholders in times of crisis.

**10. Strengthen the organization's programs and services.**

Boards decide which programs most exemplify the organization's mission. By factoring the organization's resources and demands, boards can make decisions about whether their current and proposed programs and services align with the organization's mission and purpose. When programs compete for funds and other support, boards have to make tough decisions about priorities.



## Winter Exam-2021 Solutions – Business Organization

**Q.6.** **Pure risk**, also called downside risk, is a risk where there is a possibility that an adverse event might occur. **Events might turn out to be worse than expected, but they cannot be better than expected.**

- For example, there might be a safety risk that employees could be injured by an item of machinery. This is a pure risk, because the expectation is that no-one will be injured but a possibility does exist.

**Speculative Risk**, also called two-way risk, exists when the actual future event or outcome might be either better or worse than expected.

- An investor in shares is exposed to a speculative risk, because the market price of the shares might go up or down. The investor will gain if prices go up and suffer a loss if prices go down.

**Total Marks 06**

**Q.7. Shareholders:** However, a share acquisition is related to certain risks: it is possible that a shareholder will not receive the percentage of profit he or she expects. **Financial crises and political upheavals can influence a company's operations.** Efficient risk management can **contribute to shareholder value enhancement by enhancing capital allocation** and improving returns through value based management. Further, studies have clearly shown that risk reduction directly impacts future cash flows and in turn business valuations and shareholder value. Since stockholders are able to externalize some of the downside of business risks, **they'll tend to be risk-preferring**

**Q.7. Suppliers:** Supplier risk refers to **any risk relating to the operation or organisation of a supplier that may potentially have a negative impact on the activity of a client company.** For many years, supplier risk management has been a major issue for procurement departments.

- Strategy risk. This type of risk involves choosing the right supply management strategy.
- Market risk. Market risk involves your company brand, compliance, financial and market exposure.
- Implementation risk.
- Performance risk.
- Demand risk.

Supplier risk management can **enable companies to predict dilemmas and prepare appropriate solutions for the suppliers in their supply chain.** These factors should be considered before engaging in a relationship with a new supplier or renewing one with a long-time supplier.

**Q.7. Credit risk** is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, it refers to the risk that a **lender may not receive the owed principal and interest**, which results in an interruption of cash flows and increased costs for collection.

- Credit Default Risk
- Concentration Risk
- Country Risk

*Contd.....*



## Winter Exam-2021 Solutions – Business Organization

The result is that **higher credit risk** accompanies higher liquidity risk by depositors' demand. Financial companies raise debts that must be constantly renewed and used to finance assets as more debts in the banking system provide a higher « bank-run » risk. Why Do the Risks for Banks Matter? Due to the large size of some banks, **overexposure to risk can cause bank failure and impact millions of people**. By understanding the risks posed to banks, governments can set better regulations to encourage prudent management and decision-making.

**Total Marks 08**

**Q.8.** High Profitability/ Low Probability

**a**

**Q.8.** Low Profitability/High Probability

**b**

**Q.8.** Low Profitability/Low Probability

**c**

**Total Marks 06**

**Q.9. 1. Control Environment:**

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control.

**2. Risk Assessment:**

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed.

A precondition to risk assessment is the establishment of objectives, linked at different levels of the entity. Management specifies objectives within categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyze risks to those objectives. Management also considers the suitability of the objectives for the entity. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective.

*Contd.....*



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### 3. Control Activities:

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

**Total Marks 08**

**Q.10.** Change in:

- Political environment
- Economic conditions.
- Cultural environment'
- Technological changes.
- Environmental concerns.
- Legal constraints.

**Total Marks 05**

**Q.11.**

1. Effect on exports
2. Effect on imports
3. Inflation
4. Debt burdens
5. Economic growth rate

**Total Marks 06**

**Q.12. Disintermediation and re-intermediation** are important issues in supply chain management within the industry as they both affect the intermediaries in the supply chain. **Disintermediation** eliminates intermediaries of a supply chain and **re-intermediation** adds new elements to the supply chain.

#### **Roles of Market Intermediaries:**

Four important roles of market intermediaries are:

- Aggregate buyer demand and seller products to achieve economic scale or scope.
- Protect buyer and seller from the opportunistic behavior of other participants in a market by becoming an agent of trust.
- Facilitate the market by reducing operating costs.
- Matching buyer and seller

**Total Marks 04**

*Contd.....*



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#### **Q.13. Containerisation**

The costs of ocean shipping have come down, due to containerisation, bulk shipping, and other efficiencies. The lower unit cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to those in export markets, and it makes markets more contestable globally.

#### **Technological change**

Rapid and sustained technological change has reduced the cost of transmitting and communicating information – sometimes known as “the death of distance” – a key factor behind trade in knowledge products using web technology

#### **Economies of scale**

Many economists believe that there has been an increase in the minimum efficient scale (MES) associated with some industries. If the MES is rising, a domestic market may be regarded as too small to satisfy the selling needs of these industries. Many emerging countries have their own transnational corporations

#### **Differences in tax systems**

The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI). Many countries have become engaged in tax competition between each other in a bid to win lucrative foreign investment projects.

#### **Less protectionism**

Old forms of non-tariff protection such as import licensing and foreign exchange controls have gradually been dismantled. Borders have opened and average import tariff levels have fallen.

That said, it is worth knowing that, in the last few years, there has been a rise in non-tariff barriers such as import quotas as countries have struggled to achieve real economic growth and as a response to persistent trade and current account deficits.

#### **Growth Strategies of Transnational and Multinational Companies**

In their pursuit of revenue and profit growth, increasingly global businesses and brands have invested significantly in expanding internationally. This is particularly the case for businesses owning brands that have proved they have the potential to be successfully globally, particularly in faster-growing economies fuelled by growing numbers of middle class consumers.

**Total Marks 06**

#### **Q.14. Interactivity**

The power of the Internet allows consumers to become interactive with marketing collateral. Interactivity starts with the ads themselves. Google has pioneered TrueView ads in YouTube. TrueView ads allow the user the option to skip a video ad after watching 5 seconds. Advertisers only pay for ads that are not skipped. This level of interactivity provides benefits to both the advertiser and the audience. For the advertiser, their ad buys are more efficient and they get a feedback loop about the effectiveness of their creation. For the audience, they make the decision about the ads that are interesting and presumably will be served more ads that meet their interests.

**04**





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#### **Intelligence**

Internet marketing provides a level of intelligence due to the fact that extensive market research is conducted in a cost effective manner. The Internet provides information about consumers and companies are able to gather this information and use it for their benefit.

#### **Individualization**

Advertisements and other marketing activities on the Internet can be customized to an individual's location, demographic, age, gender, interests, and more; the ability to target a certain demographic or geographic area is also how Internet marketing excels in individualization.

#### **Integration**

The integration of traditional and online marketing methods such as a billboard or magazine with a QR code is evolving and marketers are utilizing the concept of integration daily; combining different media channels via Internet marketing also allows the point of interactivity and intelligence to occur.

#### **Independence of Location**

Being able to do the marketing of a product or service from a personal computer at home is a great advantage of Internet marketing, as well as the ability to be reached as a consumer from anywhere with a wifi connection whether it be via mobile device or computer.

**Total Marks 09**

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