

# MODEL PAPERS

## [COMPUTER BASED EXAMINATIONS]

- **Managerial Level-2**

- [M4] Financial Accounting & Corporate Reporting
- [M5] Advanced Management Accounting
- [M6] Corporate Governance and Business Laws

- **Strategic Level-1**

- [S1] Advanced Financial Accounting & Corporate Reporting
- [S2] Audit & Assurance
- [S3] Business Taxation

- **Strategic Level-2**

- [S4] Strategic Management Accounting
- [S5] Strategic Financial Management
- [S6] Strategic Management

- **Local Laws Gateway Examination [LLG]**

**Effective from February 2024 Examinations**

**EXAMINATION DEPARTMENT**

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. Government grants related to assets, including non-monetary grants at fair value, shall be presented in \_\_\_\_\_.

A	statement of cash flows
B	statement of profit or loss
C	statement of financial position
D	statement of changes in equity

2. As per IFRS 16 'Leases', which of the following information a lessee shall disclose for the reporting period?

A	Interest expense on lease liabilities
B	Depreciation charge for right-of-use assets by class of underlying assets
C	Income from sub-leasing right-of-use assets
D	All of the above

3. Raana Limited acquired office equipment worth Rs. 780,000 on January 01, 2022. The useful life of equipment is estimated to be 6 years and the residual value is expected to be Rs. 150,000. The company uses diminishing balance method of depreciation at the rate of 15% per annum. The amount of depreciation of the office equipment for the year ended December 31, 2023 is \_\_\_\_\_.

A	Rs. 117,000
B	Rs. 99,450
C	Rs. 94,500
D	Rs. 80,325

4. Leena Limited imported raw materials from Africa worth Rs.2,000,000. The company paid Rs.80,000 as import duties, Rs.500,000 for transportation of the materials from Africa and Rs.60,000 as port handling charges for loading the materials at Africa. Marketing expenses were Rs.75,000 and the general administrative overheads amounted to Rs.80,000. The value of inventories as per IAS 2 – 'Inventories' is \_\_\_\_\_.

A	Rs.2,795,000
B	Rs.2,640,000
C	Rs.2,000,000
D	Rs.2,715,000

5. A company enters into a contract to build a factory for one of its customers. The agreed price of the project is Rs. 2 million with a specified completion date of December 31, 2023. However, the contract also provided that the company will receive an additional incentive of Rs. 300,000, if the factory is completed by November 30, 2023. The company estimated that there is a 30% probability of building the factory by November 30, 2023 and 70% in December 2023. The expected value of transaction price for the contract is \_\_\_\_\_.

A	Rs. 2,030,000
B	Rs. 2,090,000
C	Rs. 2,600,000
D	Rs. 1,400,000

6. Economic consequences of accounting standard-setting means that \_\_\_\_\_.

A	Standard-setters must ensure that no new costs are incurred when a new standard is issued.
B	Standard-setters must give first priority to ensure that companies do not suffer any adverse effect as a result of a new standard.
C	Accounting standards can have detrimental impacts on the wealth level of providers of financial information.
D	The objective of financial reporting should be politically motivated to ensure acceptance by the general public.

7. A non-current asset held for sale should be measured at \_\_\_\_\_.

A	The higher of the asset's carrying amount when originally classified as held for sale and its fair value less costs to sell.
B	The asset's carrying amount when originally classified as held for sale, less any accumulated depreciation since that date
C	Fair value less costs to sell.
D	The lower of the assets carrying amount when originally classified as held for sale and its fair value less costs to sell.

8. Identify the best option from the following that does not indicate a borrowing of funds in connection with IAS 23 "Borrowing Cost".

A	Interest expense calculated using the effective interest rate method.
B	Interest in respect of lease liabilities
C	Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest
D	Actual or imputed cost of equity

9. In accordance with IFRS 3 'Business Combinations', an entity shall account for each business combination by applying the acquisition method, this method requires to fulfil the following requirements, except:

A	Recognizing and measuring goodwill or a gain from a bargain purchase
B	Determining the acquisition date
C	Recognizing revenues from external customers
D	Identifying the acquirer

10. IFRS 16 'Leases' is applicable on all type of leases including\_\_\_\_\_.

A	Leases of biological assets
B	Leases to explore for or use minerals, oils, natural gas and similar non-regenerative resources
C	Leases of right-of-use assets in a sublease
D	Licenses of intellectual property granted by a lessor

11. Which of the following cost are not included in the carrying amount of an item of property, plant and equipment?

A	Initial operating losses
B	Cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity
C	Costs of relocating or reorganizing part or all of an entity's operations
D	All of these

12. In accordance with IAS 38, 'Intangible Assets', \_\_\_\_\_ are money held and assets to be received in fixed or determinable amounts of money.

A	monetary assets
B	intangible assets
C	residual value
D	entity-specific value

13. Which one of the following description defines information that is relevant to users of financial statements?

A	Information that influences the decisions of users
B	Information that is comparable from one period to the next
C	Information that has been prudently prepared
D	Information that is free from error, bias and is faithful representation of events

14. Sameera Limited (SL) purchased an intangible asset on January 1, 2016 amounted to Rs. 331,500 that was to be amortized over 17 years. On July 1, 2023 the company incurred legal costs amounted to Rs. 171,000 to successfully defend the patent. The amount of amortization expense that SL should record for the year ended December 31, 2023 is \_\_\_\_\_.

A	Rs. 37,500
B	Rs. 29,565
C	Rs. 28,500
D	Rs. 19,500

15. Following data relates to the inventory of Aareb Limited (AL):

	<b>Rupees.</b>
Raw material	200,000
Direct labour	65,000
Import duties	30,000
Storage cost	40,000
Recoverable sales tax	15,000
Production overhead	22,000

AL would value the above inventory in its financial statements at a cost of \_\_\_\_\_.

A	Rs. 347,000
B	Rs.357,000
C	Rs.317,000
D	Rs. 387,000

16. Following data relates to Sara Limited:

	<b>Rs. (000)</b>
Net credit sales	20,000
Trade Receivables -closing	6,000
Trade Receivables-opening	10,000
Purchases (on credit)	16,000
Trade Payables (closing)	7,600
Trade Payables (opening)	8,000

For the purpose of Statement of Cash Flows under direct method \_\_\_\_\_ will be the payment to supplier:

A	Rs. 1.8 million
B	Rs. 8 million
C	Rs. 8.2 million
D	Rs. 15.6 million

17. Bareera Limited (BL) successfully receives a government grant of Rs. 1,500,000 on January 1, 2023 for purchasing an asset which costs Rs. 500,000. The asset has a ten year useful life and is depreciated on a 20% reducing balance basis. BL has a policy to account for all grants received as deferred income. \_\_\_\_\_ amount of income will be recognized in respect of the grant in the year ended December 31, 2023.

A	Rs. 1,500,000
B	Rs. 500,000
C	Rs. 300,000
D	Rs. 150,000

18. Hamid Limited received a loan amounted to Rs. 15 million on January 1, 2023 at the rate of 10%. The loan was raised specifically to finance the construction of a factory which is a qualifying asset. The construction began on March 1, 2023, and was not yet completed at December 31, 2023. The amount of interest to be capitalized to the cost of factory for the year ended December 31, 2023 is \_\_\_\_\_.

A	Rs.1,250,000
B	Rs.1,125,000
C	Rs.1,500,000
D	Rs.13,500,000

19. The following information relates to a construction contract of Saboor Limited (SL):

Contract price	Rs. 9,000,000
Costs to date	Rs. 5,200,000
Estimated costs to complete	Rs. 1,200,000
Estimated stage of completion	35 %

The costs that should be recognized in Statement of Profit or Loss of SL for the year ended June 30, 2020 is \_\_\_\_\_.

A	Rs. 2,240,000
B	Rs. 6,400,000
C	Rs. 5,200,000
D	Rs. 4,000,000

20. Yousuf Limited reported profit before tax amounted to Rs. 5 million after accounting for depreciation of Rs. 400,000. During the year non-current assets were purchased for Rs. 3 million, receivables increased by Rs. 50,000, inventories decreased by Rs. 60,000 and trade payables increased by Rs. 120,000. The increase in cash and bank balances during the year amounted to \_\_\_\_\_.

A	Rs. 2,530,000
B	Rs. 5,530,000
C	Rs. 5,170,000
D	Rs. 2,170,000

21. Reena Pharmaceutical Limited (RPL) started development of a drug for its new medicine on April 1, 2023 and spent Rs. 60,000 per month until the project was completed on September 30, 2023. The management was confident for the success of the project on June 1, 2023. The drug has an estimated useful life of five years. The amortization of development cost that will be charged to Statement of Profit or Loss of RPL for the year ended December 31, 2023 would be \_\_\_\_\_.

A	Rs. 120,000
B	Rs. 12,000
C	Rs. 240,000
D	Rs. 48,000

22. Wahaj Limited accounting record shows the following details for the year ended March 31, 2020:

	<b>Rupees.</b>
Income tax payable for the year	120,000
Over provision in relation to the previous year	9,000
Opening provision for deferred tax	5,200
Closing provision for deferred tax	6,400

The income tax expense that will be shown in the Statement of Profit or Loss the year ended March 31, 2020 is \_\_\_\_\_.

A	Rs. 99,400
B	Rs. 140,600
C	Rs. 122,200
D	Rs. 116,200



### **DESCRIPTIVE QUESTIONS:**

1. Kashan Limited bought an equipment amounted to Rs. 3,750,000 on January 1, 2021. It had a useful life of five years. On January 1, 2023 the asset was revalued to Rs. 4,500,000. The expected useful life of the asset remained unchanged. In such scenario calculate the amount of revaluation surplus for the equipment.

Solve/ Type Your Answer Here

2. Classify the following items as financial assets, financial liabilities or none of them:

- 1 Cash and Bank
- 2 Patent and trade mark
- 3 Trade payables
- 4 Warranty payables
- 5 Government notes receivables
- 6 Dividend payables
- 7 Deferred tax
- 8 Prepaid expenses

Solve/ Type Your Answer Here

3. Conceptual framework defines the interrelated elements that most directly relate to measuring the performance and financial status of a business enterprise. Enlist and explain those elements.

Solve/ Type Your Answer Here



4. On October 1, 2020, Haroon Limited (HL) acquired 85% of the share capital of Safeer Limited (SL). The profit for the year ended December 31, 2022 of SL was Rs. 5,760,000. Profits are deemed to accrue evenly over the year. At December 31, 2022, SL's statement of financial position represent equity share capital and retained earnings amounted to Rs. 32 million and 28.8 million, respectively. What were the net assets of SL on acquisition?

Solve/ Type Your Answer Here

5. In the light of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' describe the conditions that need to be fulfill in order to classify an asset a held for sale.

Solve/ Type Your Answer Here

6. Following is an extract of trial balance of Rida Limited (RL) as at December 31, 2019:

	Debit	Credit
		Rupees.
Revenues		5,000,000
Cost of sales	2,250,000	
Administrative and selling expenses	1,000,000	
Finance costs	500,000	

**Additional Information:**

- On January 1, 2019 the professional valuer revalued RL's building to Rs. 4.5 million. The company purchased this building four years ago at a cost of Rs. 5 million. This revaluation has not yet been reflected in the above financial statements. The company depreciates the building at 3% per annum using diminishing balance method. The company charges depreciation to administrative and selling expenses.
- Tax rate applicable to company is 29%.

**Required:**

What amount would be recorded in Statement of Profit and Loss and Other Comprehensive Income of RL for the year ended December 31, 2019?

Solve/ Type Your Answer Here

7. A cash-generating unit consists of the following assets at their carrying values as at December 31, 2019:

	Rupees. '000'
Plant	90,000
Building	40,000
Goodwill	30,000
Current assets	60,000

On December 31, 2019, an impairment review was undertaken in which it was determined that the estimated amount of cash-generating unit is Rs. 160 million.

**Required:**

Explain how the impairment loss of cash-generating unit would be allocated to the above assets as per IAS 36 'Impairment of assets'.

Solve/ Type Your Answer Here

8. Consider the following issues that were discussed during a Board of Directors meeting of Faham Limited (FL) on December 31, 2019:

- 1) Directors decided to pay bonus to employees.
- 2) The management has estimated that Lahore branch of FL will be reporting losses for the year ended December 31, 2020.
- 3) Directors have approved a policy of refunding purchases by dissatisfied customers. There is no legal obligation to do so.

**Required:**

As per IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' explain whether or not the above issues result in present obligation as at December 31, 2019.

Solve/ Type Your Answer Here

THE END

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. Which of the following are the components of time series?

A	Trend, systematic variations, cyclical variations, relative variations
B	Trend, seasonal variations, cyclical variations, random variations
C	Trend, seasonal variations, systematic variations
D	Systematic variations, cyclical variations, relative variations

2. Capital budgeting methods to analyze information on financials include:

A	internal rate of return
B	net present value
C	accrual accounting rate of return
D	All of these

3. A flexible budget is:

A	A budget that comprises variable costs only
B	A budget that is constantly being changed
C	A budget that will be changed at the end of every month to reflect the actual costs of a department
D	A budget that is adjusted to reflect different costs at different activity levels

4. The current worth of a sum of money to be received at a future date is called:

A	Real value
B	Future value
C	Present value
D	Salvage value

5. Which one of the following statements best defines the Ideal Standards?

A	These costs are the minimum costs that are possible under the most efficient operating conditions
B	These standards act as a base for providing a comparison with actual costs through a period of years with the same standard, and efficiency trends can be established over time.
C	These are the costs that should be incurred under efficient operating conditions
D	None of these

6. The effectiveness of the present value method has been appropriately questioned as a capital expenditure evaluation technique because:

A	The average rate of return on investment method is usually more accurate and useful.
B	The payback method is theoretically more reliable.
C	The computation involves some difficult mathematical applications that most accountants cannot perform.
D	Predicting future cash flows is often difficult and clouded with uncertainties.

7. The following statements have been made regarding marginal costing and absorption costing methods in the context of pricing decisions. Identify the incorrect statement.

A	Marginal costing is appropriate for short-term decision-making.
B	Absorption costing when used for pricing decisions includes the total cost of the product.
C	Marginal costing ensures the recovery of all costs incurred in selling prices.
D	Marginal costing is more appropriate than absorption costing for use in one-off pricing decisions.

8. If the sales price and the variable cost per unit both increase by 10% and the fixed cost does not change, the effect on the contribution margin per unit and the contribution margin ratio is that:

A	the contribution margin per unit increases and the contribution margin ratio remains unchanged.
B	the contribution margin per unit and the contribution margin ratio both remain unchanged.
C	the contribution margin per unit and the contribution margin ratio both increase.
D	the contribution margin per unit increases and the contribution margin ratio decreases.

9. The formula for calculating the variable overhead total variance is:

A	(Standard hours less actual hours) x variable overhead absorption rate
B	Actual variable overhead expenditure less budgeted variable overhead expenditure
C	Actual variable overhead less (standard hours x actual production x variable overhead absorption rate)
D	Actual variable overhead less (actual hours x actual hours worked x variable overhead absorption rate)

10. Which of the following would increase the break-even output level?

A	Higher production costs per unit of output
B	Lower fixed costs
C	Lower output level
D	Higher selling prices for each unit sold

11. \_\_\_\_\_ is sometimes referred to as super-variable costing.

A	Product life cycle costing
B	Throughput accounting
C	Marginal costing
D	Direct costing

12. Ahmed Company plans to sell 48,000 units of product 'A' next year. Opening inventory of 'A' is expected to be 4,000 units and Ahmed Company plans to increase inventory by 20 percent by the end of the year. How many units of product 'A' should be produced next year?

A	48,800
B	49,200
C	47,600
D	49,550

13. Al Jadeed Manufacturing sold 20,000 units of its product for Rs. 100 per unit in the current year. Variable cost per unit is Rs 60 and total fixed costs are Rs 200,000. What are the contribution margin and operating income of the company?

A	Rs.800,000 and Rs.600,000
B	Rs.700,000 and Rs.500,000
C	Rs.600,000 and Rs.800,000
D	Rs.500,000 and Rs.700,000

14. Fresh Foods Limited, bakery would like to buy a new machine for putting icing and other toppings on pastries. These are now put on by hand. The machine that the bakery is considering costs Rs.90,000 new. It would last the bakery for eight years but would require an Rs.7,500 overhaul at the end of the fifth year. After eight years, the machine could be sold for Rs. 6,000.

The bakery estimates that it will cost Rs.14,000 per year to operate the new machine. The present manual method of putting toppings on the pastries costs Rs.35,000 per year. In addition to reducing operating costs, the new machine will allow the bakery to increase its production of pastries by 5,000 packages per year. The bakery realizes a contribution margin of Re.0.60 per package. The bakery requires a 16% return on all investments in equipment. What is the new machine's net present value? Use the incremental cost approach.

PV table						PV table cumulative					
n	14%	15%	16%	17%	18%	n	14%	15%	16%	17%	18%
1	0.877	0.870	0.862	0.855	0.847	1	0.877	0.870	0.862	0.855	0.847
2	0.769	0.756	0.743	0.731	0.718	2	1.647	1.626	1.605	1.585	1.566
3	0.675	0.658	0.641	0.624	0.609	3	2.322	2.283	2.246	2.210	2.174
4	0.592	0.572	0.552	0.534	0.516	4	2.914	2.855	2.798	2.743	2.690
5	0.519	0.497	0.476	0.456	0.437	5	3.433	3.352	3.274	3.199	3.127
6	0.456	0.432	0.410	0.390	0.370	6	3.889	3.784	3.685	3.589	3.498
7	0.400	0.376	0.354	0.333	0.314	7	4.288	4.160	4.039	3.922	3.812
8	0.351	0.327	0.305	0.285	0.266	8	4.639	4.487	4.344	4.207	4.078
9	0.308	0.284	0.263	0.243	0.225	9	4.946	4.772	4.607	4.451	4.303
10	0.270	0.247	0.227	0.208	0.191	10	5.216	5.019	4.833	4.659	4.494

A	Rs.13,400
B	Rs.13,100
C	Rs.12,200
D	Rs.12,500

15. Keto Motel has annual fixed costs of Rs. 480 Million for its 400-room motel, average daily room rents of Rs. 7,500, and average variable costs of Rs. 1,500 for each room rented. It operates 365 days per year.

If the motel is 50% occupied throughout the year, the net income/ (loss) on rooms will be \_\_\_\_\_

A	Rs. 438 million
B	Rs. 198 million
C	(Rs. 42 million)
D	(Rs. 139 million)

16. Karen Limited has a key resource (bottleneck) of Facility A which is available for 6260 minutes per period.

Budgeted factory costs and data for two products, A and B, are shown below:

Product	Selling price per unit	Material cost per unit	Time in Facility A
	Rs.	Rs.	Minutes
A	1,400	800	1
B	1,400	700	2

Budgeted factory costs per week are as under:

	Rs.
Direct labour	1,000,000
Indirect labour	500,000
Power	70,000
Depreciation	900,000
Space costs	320,000
Engineering	140,000
Administration	200,000

The cost per factory minute is \_\_\_\_\_.

A	Rs. 340
B	Rs. 356
C	Rs. 450
D	Rs. 500

17. Zeeshan Limited operates a throughput accounting system. The details of product 'S' are:

	Rs. per unit
Selling price	Rs. 4,998
Material cost	Rs. 1,774
Conversions costs	Rs. 2,454
Time on bottleneck resource	6.5 minutes

The return per hour for product S is:

A	Rs. 16,376
B	Rs. 22,652
C	Rs. 23,484
D	Rs. 29,760



18. Silver Metal Limited is considering whether to manufacture or purchase a particular component XY53. This would be in batches of 10,000 and the buying price would be Rs. 1,300 per unit. The marginal cost of manufacturing component XY53 is Rs. 950 and the component would have to be made on a machine that was currently working at 100% capacity. If the component was manufactured, it is estimated that the sales of the finished product WD- 895 would be reduced by 1,000 units. WD-895 has a marginal cost of Rs. 12,000 per unit and sells for Rs. 16,000 per unit.

Should Silver Metal Limited manufacture or purchase Component XY53?

A	Buy, Savings of Rs. 500,000
B	Manufacture, Savings of Rs. 500,000
C	Buy, Savings of Rs. 3,500,000
D	Manufacture, Savings of Rs. 3,500,000

19. Rattler Limited is considering investing in a project that requires an initial outflow of Rs. 100 million and will generate expected cash inflows in terms of today's rupees of Rs. 26 million over each of the next four years. The company's monetary cost of capital is 20% and inflation is predicted to be 11% over the next four years.

Rattler Limited's present value of cash inflow in Year-3 is:

PRESENT VALUE INTEREST FACTOR $PVIF(r, n) = (1 + r)^{-n}$									
Period (n)	Interest Rate (r)								
	1%	3%	5%	8%	9%	11%	15%	18%	20%
1	0.990	0.971	0.952	0.926	0.917	0.901	0.870	0.847	0.833
2	0.980	0.943	0.907	0.857	0.842	0.812	0.756	0.718	0.694
3	0.971	0.915	0.864	0.794	0.772	0.731	0.658	0.609	0.579
4	0.961	0.888	0.823	0.735	0.708	0.659	0.572	0.516	0.482
5	0.951	0.863	0.784	0.681	0.650	0.593	0.497	0.437	0.402
10	0.905	0.744	0.614	0.463	0.422	0.352	0.247	0.191	0.162

A	Rs.19,110,000
B	Rs. 20,644,000
C	Rs. 24,076,000
D	(Rs. 13,888,000)

20. The PV ratio of Bazzle Limited is 35%. BEP is 45% of the total capacity. Capital turnover is 2.5 and profit is 12% on capital employed. At what level i.e. percentage of capacity Bazzle is operating?

A	35%
B	48%
C	50%
D	52%

21. Falak Garments Company sells ready-made garments. The forecasted annual demand for its premium denim is 150,000.

The company wishes to use a reorder point system. It has the order quantity set at 387. To allow for uncertainties in delivery and customer demand, it wants to hold 5 weeks of demand as safety stock. What should be its reorder point if the delivery lead time is 3 weeks? Assume a 52-week year.

A	8,654
B	14,423
C	20,192
D	23,077

22. The standard price for Material 'N' is Rs. 54.75 per kg. During the month of May, 3,000 kg were purchased at Rs.54 per kg. The quantity of Material 'N' issued during the month was 2,775 kg and the quantity allowed for the month of June production was 2,825 kg.

The Material Price Variance at the time of issue was \_\_\_\_\_.

A	Rs. 2,081.25 Adverse
B	Rs. 2,081.25 Favourable
C	Rs. 2,250 Adverse
D	Rs. 2,250 Favourable

23. An organization is considering a project that provides a positive net present value of Rs. 715,000 at 15%. At a discount rate of 20%, it has an adverse net present value of Rs.4, 183,000. What is the internal rate of return?

A	16.73%
B	16.37%
C	15.73%
D	15.37%

24. Magna Pvt. Limited has witnessed the following labour costs trend:

Output (units)	Costs (Rs.)
8,000	129,000
13,000	211,500
10,000	153,000

There is an increase in fixed costs by Rs.22,500 for output in excess of 11,000 units.

Using the high low method what is the estimated cost of purchasing 15,000 units?

A	Rs. 213,000
B	Rs. 235,500
C	Rs. 244,500
D	Rs. 267,000

### **DESCRIPTIVE QUESTIONS:**

1. Determine the nominal and effective cost of trade credit under the credit terms of 4/16, net 32. Assume a 360-day year.

Solve/ Type Your Answer Here

2. A team of management consultants and company executives concluded that a standard cost installation was a desirable vehicle for accomplishing the objectives of progressive management. State some uses of standard costs that can be associated with the above decision.

Solve/ Type Your Answer Here

3. Semaab Veterinary Hospital has purchased new lab equipment for Rs. 2,019,750. The equipment is expected to last for 3 years and to provide cash inflows as follows:

Year(s)	Cash Inflows Rs.
1	675,000
2	900,000
3	?

Assuming that the equipment will yield exactly a 15% rate of return, what is the expected cash inflow for year 3?

PRESENT VALUE INTEREST FACTOR $PVIF(r, n) = (1 + r)^{-n}$									
Period (n)	Interest Rate (r)								
	1%	3%	5%	8%	10%	11%	15%	18%	20%
1	0.990	0.971	0.952	0.926	0.909	0.901	0.870	0.847	0.833
2	0.980	0.943	0.907	0.857	0.826	0.812	0.756	0.718	0.694
3	0.971	0.915	0.864	0.794	0.751	0.731	0.658	0.609	0.579
4	0.961	0.888	0.823	0.735	0.683	0.659	0.572	0.516	0.482
5	0.951	0.863	0.784	0.681	0.621	0.593	0.497	0.437	0.402
10	0.905	0.744	0.614	0.463	0.386	0.352	0.247	0.191	0.162

Solve/ Type Your Answer Here

4. Camela Fertilizers Limited (CFL) produces, urea under the name of 'Cam-urea', using the following standard proportions and costs of materials:

	Quantity Kg	Cost Rs. Per kg	Amount Rs.
Material-X	55	75	4,125
Material-Y	45	120	5,400
Material-Z	65	45	2,925
	165	75.4545	12,450
Standard Shrinkage (39.39%)	65		
Net weight and cost	100	124.5	12,450

A recent production run yielding 100 output kg required an input of:

Quantity Kg	Cost Rs. Per kg
----------------	--------------------

<b>Material-X</b>	45	77.25
<b>Material-Y</b>	55	90
<b>Material-Z</b>	70	42

Material mix variance \_\_\_\_\_ and Material yield variance \_\_\_\_\_.

Solve/ Type Your Answer Here

5. Overtrading happens when a business tries to do too much too quickly with too little long-term capital so that it is trying to support too large a volume of trade with the capital resources at its disposal. Enlist the symptoms of overtrading.

Solve/ Type Your Answer Here

6. What are the similarities and dissimilarities between standards and budgets?

Solve/ Type Your Answer Here

**THE END**

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. As restricted under the provision of section 87 of the Companies Act, 2017, no company shall, either by itself or through its nominees, hold any shares in its \_\_\_\_\_ except under conditions as specified in the Act.

A	holding company
B	holding company, having 75% shareholding of subsidiary
C	holding company, having 90% shareholding of subsidiary
D	holding company, having 100% shareholding of subsidiary

2. As per the Rule Book of Pakistan Stock Exchange Limited (PSX) "Small and Medium Sized Enterprise (SME)" means a public company, registered under the Companies Ordinance, 1984, having a post issue paid up capital not less than Rs.25 million and not more than \_\_\_\_\_.

A	Rs. 100 million
B	Rs. 150 million
C	Rs. 175 million
D	Rs. 200 million

3. According to Anti-Money Laundering Act, 2010, which of the following activities are performed by a "financial institution"?

A	Acceptance of deposits and other repayable funds from the public.
B	Lending in whatsoever form.
C	Financial leasing.
D	All of these

4. After the first general meeting, every company shall hold general meeting once in every calendar year within a period of \_\_\_\_\_ following the close of its financial year.

A	sixty days
B	ninety days
C	one hundred and fifty days
D	one hundred and twenty days

5. As per section 151 of the Companies Act, 2017, every company shall keep records of resolutions and meetings from the date of the resolution, meeting or decision and it shall be preserved at least for \_\_\_\_\_ in physical form.

A	twenty five years
B	five years
C	ten years
D	twenty years

6. In accordance with the Companies Act, 2017, the record of every substantial shareholder or officer of a company incorporated under the Company law having shareholding in a foreign company or body corporate shall be kept by the \_\_\_\_\_.

A	Registrar
B	Commission
C	FBR
D	The relevant company

7. Under Section 132 of the Companies Act, 2017, a general meeting shall be held, within \_\_\_\_\_ months from the date of incorporation of the company.

A	twelve
B	sixteen
C	nine
D	eighteen

8. For the purpose of section 181 of the Companies Act, 2017, a non-executive director means, a person on the board of the company who:

A	is not from among the executive management team and may or may not be independent.
B	is expected to lend an outside viewpoint to the board of a company.
C	undertakes to devote his whole working time to the company and involves in managing the affairs of the company.
D	is not a beneficial owner of the company or any of its associated companies or undertakings.



9. Under the Securities Act, 2015 an “expert” includes:

A	banker
B	engineer
C	securities advisor
D	All of these

10. The Companies (Further Issue of Shares) Regulations, 2020 shall be applicable to companies issuing further capital by way of all of the following except:

A	right shares
B	bonus shares
C	shares with differential rights excluding preference shares
D	employee stock option schemes

11. Under Anti-Money Laundering Act, 2010, “transfer” means \_\_\_\_\_ or any other form of transfer of right, title, possession or lien.

A	sale
B	purchase
C	mortgage
D	All of these

12. In accordance with section 294 of the Companies Act, 2017, in the case of winding up of a company limited by shares, which of the following is most appropriate statement?

A	No contribution shall be required from any present member
B	No contribution shall be required from any past member
C	No contribution shall be required from any past or present member exceeding any amount unpaid on the shares in respect of which he is liable as such member.
D	No contribution shall be required from any past or present member.

13. Under section 27 of the Companies Act, 2017, no subscriber of the memorandum of a company limited by shares, shall take less than \_\_\_\_\_ share(s).

A	one
B	ten
C	fifty
D	one hundred

14. Under the Securities Act, 2015, “regulations” means regulations made by the \_\_\_\_\_ under this Act.

A	Federal Government
B	State Bank of Pakistan
C	Commission
D	None of these

15. How many persons associated for any lawful purpose may, by subscribing their names to a memorandum of association and complying with the requirements of section 14 of the Companies Act, 2017, in respect of registration, form a public company?

A	At least four or more
B	one or more
C	two or more
D	three or more

16. As per Securities Act, 2015, “Securities” in the case of listed instruments do not include:

A	shares and stock of a company (shares).
B	loan stock, bonds, Sukuk and other instruments creating or acknowledging indebtedness.
C	modaraba certificates, participation term certificates and term finance certificates.
D	bills of exchange promissory notes and certificates of deposit.

17. As per section 131 of the Companies Act, 2017, the notice of a statutory meeting shall be sent to the members at least \_\_\_\_\_ days before the date fixed for the meeting along with a copy of statutory report.

A	7
B	21
C	14
D	30

18. As per section 2 of the Companies Act, 2017, “promoter” means a person: (Select wrong option)

A	who is named as a subscriber to the memorandum of association of a company.
B	who has been named as such in a prospectus.
C	who has control over affairs of the company, directly or indirectly.
D	who acts in accordance with the advice, directions or instructions of the board of the company.

19. As per section 81 of the Companies Act, 2017, where, on issuing shares, a company has transferred a sum to the share premium account, it shall not be used for which one of the following purposes?

A	To write off the preliminary expenses of the company.
B	To write off revaluation loss.
C	To write off the expenses of, or the commission paid or discount allowed on, any issue of shares of the company.
D	To issue bonus shares to its members.

20. National Executive Committee to combat money laundering constituted under section 5 of the Anti-Money Laundering Act, 2010, shall be chaired by the:

A	Governor SBP.
B	Minister on Foreign Affairs.
C	Minister for Finance.
D	Chairman SECP.

21. Under section 241 of the Companies Act, 2017, the payment of dividend in kind shall only be in the form of shares of a \_\_\_\_\_ held by the distributing company.

A	listed company
B	public company
C	private company
D	All of these

22. How many persons associated for any lawful purpose may, by subscribing their names to a memorandum of association and complying with the requirements of this Act in respect of registration, form a public company?

A	At least four or more
B	one or more
C	two or more
D	three or more

23. The notice of a statutory meeting shall be sent to the members at least \_\_\_\_\_ days before the date fixed for the meeting along with a copy of statutory report.

A	7
B	21
C	14
D	30

24. Which one of the following is not required for conversion of an unlimited company into a limited company?

A	Prior approval of the Commission in writing.
B	Passing of a special resolution in this behalf by the unlimited company.
C	Amendments in the memorandum and articles of association.
D	Prior approval of the Registrar of Companies

25. Every public company having a share capital shall, within a period of \_\_\_\_\_ days from the date at which the company is entitled to commence business or within nine months from the date of its incorporation whichever is earlier, hold a general meeting of the members of the company, to be called the “statutory meeting”:

A	120
B	90
C	180
D	60

26. As per the Companies Act, 2017, The first chief executive shall hold office up to \_\_\_\_\_ or, if a shorter period is fixed by the subscribers at the time of his appointment, for such period.

A	the first annual general meeting of the company
B	the second annual general meeting of the company
C	one year
D	three years

27. In the event of a company being wound up, which of the following statements is not true?

A	A past member shall not be liable to contribute if he has ceased to be member for one year or upwards before the commencement of the winding up.
B	A past member shall not be liable to contribute in respect of any debt or liability of the company contracted after he ceased to be a member.
C	A past member shall not be liable to contribute unless it appears to the Court that the present members are unable to satisfy the contributions required to be made.
D	A past member is not liable to contribute any money at all

28. As per the Companies (Incorporation) Regulations, 2017, the applicant for reservation of name shall propose \_\_\_\_\_ names for the company in the order of priority, out of which any one may be approved by the registrar.

A	two
B	three
C	four
D	five

29. As per the Listed Companies (Code of Corporate Governance) Regulations, 2019, it is mandatory that no person shall be elected or nominated or hold office as a director of a listed company including as an alternate director of more than \_\_\_\_\_ listed companies simultaneously.

A	seven
B	five
C	ten
D	six

30. Under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, a “venture project” shall not engage in which of the following business activities?

A	arms and ammunitions
B	high explosives
C	gold financing
D	All of these

## **DESCRIPTIVE QUESTIONS:**

1. In accordance with Public Offering Regulations, 2017:
  - a. What is the meaning of an “Investment Agent”?
  - b. What are the responsibilities of an “Investment Agent”?

Solve/ Type Your Answer Here

2. Fakhar Industries Limited was incorporated on May 2, 2023. The company has not appointed its first auditor in pursuance of section 246 of the Companies Act, 2017 until June 7, 2023. Mr. Jamil Ahmed being the Company Secretary, has been asked to provide guidance to the Board as to:
  - a. What is the deadline for the appointment of first auditor/auditors?
  - b. What will be his/ her tenure?

Solve/ Type Your Answer Here

3. According to section 8 of the Listed Companies (Code of Corporate Governance) Regulations, 2019:
  - a) What does an executive director mean?
  - b) What other directions it provides regarding the number of executive directors in the Board and the constitution of the Board for this purpose.

Solve/ Type Your Answer Here

4. The Companies Act, 2017, provides a list of statements which are treated as “financial statements” in relation to a company. What are these statements?

Solve/ Type Your Answer Here

5. In accordance with the Public Offering Regulations, 2017, the issuer of securities, while submitting draft prospectus to the securities exchange is required to comply with certain requirements with respect to the contents of the draft prospectus and advertisement. Briefly state the said requirements.

Solve/ Type Your Answer Here

6. As per Section 81 of the Companies Act, 2017, for what purposes may "the share premium account" be used?

Solve/ Type Your Answer Here

7. If the licence issued to associations with charitable and not for profit objects under Section 42 of the Companies Act, 2017, is revoked by the Commission what effects will it have on the relevant company according to Section 43 of the Act?

Solve/ Type Your Answer Here



8. If a company, through inadvertence or otherwise, is registered by a name in contravention of the provisions of section 10 of the Companies Act, 2017 or the name was obtained by furnishing false or incorrect information:
- a) What is the procedure available for rectification of such name as per the section 11 of the Act?
  - b) If the company fails to report compliance with the direction or makes default in complying with the direction issued by the registrar, what would be the consequences of this failure or default?

Solve/ Type Your Answer Here

9. Under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, what does venture project mean?

Solve/ Type Your Answer Here

THE END

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. As per IAS 19, Employee Benefits, which one of the following is not a category of employee benefits?

A	Short-term benefits
B	Medium-term benefits
C	Post-employment benefits
D	Other long-term benefits

- 2.

		No. of Shares
January 1, 2023	Opening balance	500,000
July 31, 2023	New shares issued for cash	120,000
December 31, 2023	Closing balance	620,000

From the information as given in the above table, the weighted average number of shares outstanding for 2023 will be \_\_\_\_\_.

A	375,000
B	415,000
C	310,000
D	550,000

3. Paramount Limited purchased 80% of the issued ordinary share capital of Star Limited four years ago, when the retained earnings of Star Limited were Rs.20 million:

- At acquisition, the fair value of the plant of Star Limited was Rs. 10 million in excess of its book value. Depreciation is to be charged at 20% using the straight-line method.
- Paramount Limited sells goods to Star Limited at a markup of 25%. At December 31, 2022, the inventories of Star Limited included Rs.50 million of goods purchased from Paramount Limited.
- Retained earnings of parent and subsidiary at reporting date were Rs. 215 million and Rs. 48 million respectively.

The amount of consolidated retained earnings at reporting date will be \_\_\_\_\_.

A	Rs.221 million
B	Rs.231 million
C	Rs.241 million
D	Rs.251 million

4. Given below are the extracts from consolidated statements of financial position of Shaheen Limited for the year ended June 30:

	Rs. in million	
	2022	2023
Share capital (Rs.10 each)	8,000	5,000
Reserves	3,650	1,865
Non-controlling interest (NCI)	1,170	850
Long-term loans	1,850	1,750
<b>Following information is relevant:</b>		
Net profit attributable to:		Rs. in 'million'
Owner of the parent		2,678
NCI		683

**Required:**

As per IAS 7, *Statement of Cash Flows*, net cash flows from financing activities of Shaheen Limited for the year ended June 30, 2023, should be:

A	Rs. 1,896 million
B	Rs. 1,844 million
C	Rs. 1,949 million
D	Rs. 1,955 million

5. When preparing consolidated statement of financial position, which of the following assets of the subsidiary would not be fair valued?

A	Land
B	Trade receivables
C	Inventory
D	Brand name

6. Which of the following companies would qualify to be regarded as subsidiaries of Alpha?

A	Gamma in which Alpha has 30% shares and two places on the board of directors
B	Beta in which Alpha has 10% votes and a place on the board of directors
C	Delta in which Alpha has 51% votes but no place on the board of directors
D	None of these

7. IFRS 2 applies to share-based payment transactions in which an entity \_\_\_\_\_ goods or services.

A	acquires
B	delivers
C	transfers
D	All of these

8. Which of the following statement(s) is / are correct?

A	Goodwill is reported continuously as an asset unless it is impaired.
B	Goodwill needs to be written off as soon as it is identified.
C	Goodwill should be amortized over an estimated useful life.
D	Goodwill should be amortized over an estimated useful life not exceeding twenty years.

9. Which of the following is the best theoretical justification for consolidated financial statements?

A	In form the companies are one entity, in substance they are separate.
B	In form and substance the companies are separate.
C	In form and substance the companies are one entity.
D	In form the companies are separate, in substance they are one entity.

10. As per IAS 19, how should an entity determine the discount rate to be used to discount cash flows relating to plan assets?

A	By taking into account the specific risk associated with the business.
B	By reviewing investment or actuarial risk.
C	By using local bank interest rates.
D	By reference to market yields at the balance sheet date on high quality corporate bonds.

11. Which one of the following is not a financial instrument?

A	Equity securities
B	Futures and forwards
C	Currency swaps
D	Commodity futures contracts

12. If a parent company also has direct shareholding in a sub-subsidiary, it is an example of \_\_\_\_\_.

A	Simple group
B	Vertical group
C	'D' shaped group
D	None of these

13. Which one of the following statements is true while preparing consolidated statement of financial position?

A	Parent company does not deserve any portion of fair valuation gain.
B	The gain on fair valuation should be divided between the parent company and the non-controlling interest in proportion to their relative shareholding.
C	Non-controlling interest does not deserve any portion of fair valuation gain.
D	The gain on fair valuation should be divided equally between the parent company and the non-controlling interest irrespective of their shareholding.

14. On 1st January 2022, Afaaq Limited's issued share capital was 840,000 ordinary shares of Rs.10 each. On 1st April 2022, the company issued another 210,000 ordinary shares and on 1st October 2022 the company issued a further 350,000 shares. Both issues were made at full market price. The weighted average number of shares outstanding during the year to 31st December 2022 should be:

A	1,085,000
B	955,000
C	1,120,500
D	999,600

15. Shaheen Limited had 15% share-holding in Saahil Limited for the last two years. On April 1, 2019, Shaheen Limited acquired another 40% shares of Saahil Limited. Following are the statements of profit or Loss of the above companies for the year ended December 31, 2019:

**Statements of Profit or Loss  
for the year ended December 31, 2019**

	Rs. '000'	
	Shaheen Limited	Saahil Limited
Sales revenue	59,000.0	31,600.0
Cost of goods sold	(38,500.0)	(22,400.0)
Gross profit	20,500	9,200
Operating expenses	(5,900.0)	(1,980.0)
Profit before tax	14,600	7,220
Income tax expense	(5,725.0)	(2,540.0)
Profit after tax	8,875	4,680.0

Consolidated profit or loss for the year ended December 31, 2019 will be \_\_\_\_\_.

A	Rs.12,385,000
B	Rs.13,385,000
C	Rs.14,385,000
D	Rs.15,385,000

16. Following data relates to Strong Steel Limited for the year ended December 31, 2019:

	Rs. in million
Current service costs	36.00
Pensions paid to former employees	71.20
Contributions paid by the company	109.50
Net present value (NPV) of the pension obligation – as at January 01, 2019	305.00
NPV of the pension obligation – as at December 31, 2019	394.40
Fair value of the plan assets – as at January 01, 2019	465.00
Fair value of the plan assets – as at December 31, 2019	568.60
Yield on high quality corporate bonds (per annum)	10.00%

What net amount of gains/ losses arising from annual valuation of obligation and plan assets will be recognized in other comprehensive income OCI as per IAS 19, Employee Benefits?

A	Rs.75.30 net loss
B	Rs.75.30 net gain
C	Rs.79.45 net loss
D	Rs.79.45 net gain

17. In 2022, Farhan Chemical Limited had earnings of Rs.78,750,000 and 7,500,000 ordinary shares of Rs.10 each. In addition, it also had in issue Rs.3,000,000 12% convertible loan notes, which are convertible in three years' time at the rate of 3 ordinary shares for every Rs.70 of loan note. The applicable income tax is 29%. Diluted earnings per share is \_\_\_\_\_.

A	Rs.10.36
B	Rs.10.97
C	Rs.10.21
D	Rs.10.55



18. Al Fate h Limited has share capital of 200 million ordinary shares of Rs.10 each and Rs. 40 million 10% redeemable prefe rence shares. The gross profit for the current year was Rs.400 million and trading expenses were Rs.100 million. Al Fateh Limited paid the required preference share dividend and an ordinary dividend of Re. 0.84 per share. The tax charge for the year was estimate d at Rs.80 million. The basic EPS for the year is \_\_\_\_\_.

A	Rs.1.25
B	Rs.1.34
C	Rs.1.08
D	Rs.2.05

19. Sporting goods (SG) manufacturer decided to discontinue one of its divisions producing water sports equipment, due to a lack of sales. SG re-measured the net defined benefit liability using current information. Before the curtailment a net present value of the obligation was Rs.98,000 and fair value of plan asset Rs.77,000. After the curtailment, the liability is reduced to Rs.89,000 and plan assets increased to Rs.78,000.

What journal entry will be required for the above transaction?

		Dr. (Rs.)	Cr. (Rs.)
(i)	Defined benefit liability	10,000	
	Curtailment gain (PL)		10,000
(ii)	Curtailment loss (PL)	10,000	
	Defined benefit liability		10,000
(iii)	Defined benefit liability	9,000	
	Curtailment gain (PL)		9,000
(iv)	Curtailment loss (PL)	9,000	
	Defined benefit liability		9,000

A	Option (i) is correct
B	Option (ii) is correct
C	Option (iii) is correct
D	Option (iv) is correct

20. Asif Limited, a parent with subsidiaries, holds 40% of the equity shares in Beenish Limited. Following information is also relevant:

Sales to associate from Asif Limited during the year	4,500,000
Mark up on cost	25%
Unsold goods at year end	100%

The consolidated retained earnings will be debited with Rs. \_\_\_\_\_



A	360,000
B	600,000
C	400,000
D	120,000

21. Al-Huda Limited paid Rs.750,000 to acquire 60% of equity in Bestway Chemical Limited on 1st January 2020. Bestway Chemical Limited's Statement of financial position as at 31st December 2022 reports its Share capital as Rs.500,000, Share premium as Rs.50,000, and Retained earnings as Rs.320,000. On 1st January 2020 Bestway Chemical Limited's retained earnings were Rs.180,000, the fair value of its non-current assets were Rs.90,000 more than the book value and Bestway Chemical Limited's shares were quoted at Rs.2.40 each. As at 31st December 2022, Rs.10,000 of profits reported by Bestway Chemical Limited is unrealized because they are related to sales made to Al-Huda Limited. Bestway Chemical Limited's shares have a par value of Rs.1 each. What will be the non-controlling interest to be included in the consolidated statement of financial position as at 31st December 2022?

A	Rs.480,000
B	Rs.536,000
C	Rs.864,000
D	Rs.532,000

22. "A narrative report that relates to financial statements that have been prepared in accordance with relevant International Financial Reporting Standards (IFRS). It also expresses an opinion on an entity's prospects and other information not presented in the financial statements." Which one of the following best describes the above statement?

A	Management commentary
B	Financial reporting
C	Sustainability reporting
D	Audit report

23. \_\_\_\_\_ can be reported using either the Direct method or Indirect method.

A	Cash flows from investing activities
B	Cash flows from financing activities
C	Cash flows from operating activities
D	All of these

## DESCRIPTIVE QUESTIONS:

1. IFRS S2 signifies the climate related disclosure. What is the objective of climate related financial disclosures on governance?

Solve/ Type Your Answer Here

2. Sustainability is the ability to continue a defined behavior indefinitely. Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. There are three important aspects of sustainability which are also known as three pillars of sustainability. Explain them in brief.

Solve/ Type Your Answer Here

3. Abid Limited has 130,000 ordinary shares of Rs.10 each in issue. Total earnings in 2023 was Rs. 2,100,000. The company also had in issue the following loans in 2023 :

- a) Rs.2,500,000 of 18% convertible loan stock, convertible in four years' time at the rate of 3 shares per Rs.400 of stock
- b) Rs.5,000,000 of 12% convertible loan stock, convertible in two years' time at the rate of 2 shares per Rs.350 of loan.

Tax rate is 29%.

Total earnings in 2023 was Rs. 2,100,000

**Required :**

By calculating incremental EPS relating to the above loans, determine which one of the loans are antidilutive.

Solve/ Type Your Answer Here

4. Following data pertains to Abid Chemicals for the year ended June 30, 2023

	<b>In million</b>
No of ordinary shares (Rs.10 each)	8,750
	<b>Rs. in million</b>
15% convertible loan stock (convertible in three years' time at the rate of three shares per Rs.80 of loan)	1,750
13% convertible loan stock (convertible in one year's time at the rate of four shares per Rs.60 of loan)	3,500
The total earnings for the year ended June 30, 2023	20,900
Income tax rate	29%

What are the incremental earnings per share (EPS) relating to 15% and 13% convertible loans? Which one of the convertible loans, is dilutive?

Solve/ Type Your Answer Here

5. IFRS 9 Financial Instruments, specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. It applies to all entities and to all types of financial instruments. Which entities and financial instruments are not covered by the Standard? (Enumerate any eight of them)

Solve/ Type Your Answer Here

6. Under what conditions, a parent is exempted to present consolidated financial statements?

Solve/ Type Your Answer Here

7. When presented along with the other components of financial statements, a statement of cash flows provides additional information to users of financial statements. Describe them.

Solve/ Type Your Answer Here

8. As per IFRS 2, there are certain conditions that must be satisfied for the counterparty to become entitled to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. There are two types of vesting conditions i.e., market-based and non-market-based vesting conditions. Explain market based vesting conditions with few examples.

Solve/ Type Your Answer Here

**THE END**

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. \_\_\_\_\_ is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

A	Audit risk
B	Professional judgement
C	Professional skepticism
D	Detection risk

2. As per ISA 240, identify which one of the following definitions best define 'Fraud'?

A	Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.
B	An intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.
C	A process comprising an ongoing consideration and evaluation of the firm's system of quality control.
D	The record of work performed, results obtained, and conclusions the practitioners reached.

3. As per ISA 220, the engagement quality control reviewer shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusion reached in formulating the auditor's report. This evaluation shall involve the following, except:

A	Discussion of significant matters with the engagement partner.
B	Review of the financial statements and the proposed auditor's report.
C	Review of selected audit documentation relating to the significant judgements the engagement team made and the conclusions it reached.
D	Professional behavior of the engagement team member.

4. The degree to which the auditor is justified in believing that the estimate based on a random sample will fall within a specified range is called \_\_\_\_\_.

A	Non-sampling
B	Sampling risk
C	Precision
D	Confidence level

5. In accordance with ISA 570 (Revised), which one of the following is an operating condition that may cast significant doubt on the entity's ability of a going concern?

A	Net liability or net current liability position
B	Loss of key management without replacement
C	Inability to pay creditors on due dates.
D	Negative operating cash flows

6. What is the main reason auditors need to be independent?

A	The laws and regulation requires it
B	To provide more regulation for auditors so it looks like the audit is of a high quality
C	To ensure the financial statements give a true and fair view
D	To ensure users of the audit report can place reliance on it and have faith it is not biased

7. In accordance with ISA 720 (Revised), when the auditor may not be able to conclude whether or not a material misstatement of the other information exist. Which of the following action he may consider to take?

A	Obtaining advice from the auditor's legal council
B	Considering the implications for the auditor's report
C	Withdrawing from the audit, where withdrawal is possible
D	All of the these can be considered

8. Identify the best option from the following which does not indicate a significant factor of preliminary engagement activities.

A	Materiality
B	Professional skepticism
C	Anticipation of result for future audits
D	Consideration of volume of transaction

9. Which one of the following could be used by the client to monitor the effectiveness of the company's controls?

A	Internal audit assignments
B	Segregation of duties
C	Authorizations of payments
D	Performing bank reconciliations

10. As per ISA 220, \_\_\_\_\_ is an individual with authority to bind the firm with respect to the performance of a professional service engagement.

A	Network
B	Partner
C	Network firm
D	Staff

11. \_\_\_\_\_ is the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached.

A	Accounting cycle
B	Audit documentation
C	Audit engagement letter
D	Appropriate audit evidence

12. Which one of the following does not represent code of ethics for professional accountants for a cost auditor?

A	Independence
B	Integrity
C	Professional competence and due care
D	Disclosure of a company's information

13. Select the best option from the following which is not suitable for an auditor who is professionally skeptical.

A	Reasonably question the authenticity of documentation
B	Carefully evaluate the reliability of audit evidence
C	Favorably question contradictory evidence
D	Reasonably question the honesty and integrity of management

14. Which one of the following matter will not be included in the audit strategy?

A	The need for professional skepticism
B	Specific audit procedures to respond to the risks assessed
C	Communication with the client
D	Risk assessment and materiality



15. Which one of the following controls would ensure goods dispatched to customers are invoiced?

A	Performing credit checks on customers
B	Authorization of discounts to customers
C	Matching invoices to goods dispatched notes
D	Matching sales orders to goods dispatched note

16. In accordance with ISA 200, select the best option from the following which indicates the responsibility of management and those charged with governance to provide the auditor with:

A	Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements
B	Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit
C	Additional information that the auditor may request from management and, where appropriate, those charged with governance for purpose of the audit
D	All of these

17. \_\_\_\_\_ of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the \_\_\_\_\_ of the risks of material misstatement and also by the quality of such audit evidence.

A	Appropriateness, auditor's assessment
B	Sufficiency, auditor's assessment
C	Appropriateness, management's assessment
D	Sufficiency, management's assessment

18. \_\_\_\_\_ refers to, when the auditor assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the company of the existing terms of the audit engagement

A	Preconditions for an audit
B	Recurring audits
C	Monitoring
D	Inspection

19. Identify the best option from the following which does not indicate fundamental ethical principle?

A	Integrity
B	Independence
C	Professional competence and due care
D	Confidentiality

20. An experience auditor is an individual who has practical audit experience, and a reasonable understanding of:

A	Audit processes
B	ISAs and applicable legal and regulatory environment
C	The business environment in which company operates
D	All of these

21. Audit documentation may be recorded on paper or on electronic or otherwise media. Which one of the following does not represent example of audit documentation?

A	Audit programs
B	Analysis
C	Summaries of significant matters
D	Correspondence via phone call

22. The internal auditor has concluded that an engagement client's system of internal controls is inadequate to achieve management's objectives. The most appropriate next step is to \_\_\_\_\_.

A	Tests controls to determine whether they are functioning as designed
B	End the engagement and issues report about inadequate controls
C	Draw preliminary conclusions about internal control
D	Contact the engagement client's direct supervisor to recommend that the head of the department or function under audit is

23. The inherent limitations of an audit arise from the following, except:

A	The nature of financial reporting
B	The nature of audit procedures
C	Inadequate planning
D	The need for the audit to be conducted within a reasonable period of time and at a reasonable cost

24. \_\_\_\_\_ of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the \_\_\_\_\_ of the risks of material misstatement and also by the quality of such audit evidence.

A	Appropriateness, auditor's assessment
B	Sufficiency, auditor's assessment
C	Appropriateness, management's assessment
D	Sufficiency, management's assessment

25. \_\_\_\_\_ refers to, when the auditor assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the company of the existing terms of the audit engagement.

A	Preconditions for an audit
B	Recurring audits
C	Monitoring
D	Inspection

26. The responsibilities for \_\_\_\_\_ are divided between \_\_\_\_\_ and those charged with governance and varies according to the resources and structure of an entity.

A	Audit, management
B	Financial reporting, management
C	Financial reporting, auditor
D	Audit, auditor

27. Throughout the audit engagement, the \_\_\_\_\_ shall remain alert, through observation and making \_\_\_\_\_ as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.

A	Engagement partner, inspection
B	Management, inspection
C	Engagement partner, inquiries
D	Management, inquiries

28. Audit documentation may be recorded on paper or on electronic media. Which one of the following does not represent example of audit documentation?

A	Audit programs
B	Analysis
C	Summaries of significant matters
D	Correspondence via phone call

29. Which one of the following is not a valid substantive procedure for non-current assets?

A	Inspection of board minutes to ensure the acquisition was authorized
B	Physical inspection of the assets to confirm existence
C	Inspection of purchase invoices to verify the cost of additions
D	Recalculation of a depreciation charge

30. What is the main reason auditors need to be independent?

A	The laws and regulation requires it
B	To provide more regulation for auditors so it looks like the audit is of a high quality
C	To ensure the financial statements give a true and fair view
D	To ensure users of the audit report can place reliance on it and have faith it is not biased

### **DESCRIPTIVE QUESTIONS:**

1. What particulars relating to 'Wages and Salaries' shall be included in Cost Auditor's Report to the Directors of the company?

Solve/ Type Your Answer Here

2. Mr. Zohaib is conducting the audit of Rumesa Limited. In accordance with ISA 540, what activities he should undertake in responding to the assessed risks of material misstatement, while taking into account the nature of the accounting estimate?

Solve/ Type Your Answer Here

3. In the light of ISA 706, explain the difference between an Emphasis of Matter Paragraph and Other Matter Paragraph.

Solve/ Type Your Answer Here

4. Aarif and Co. is conducting the audit of Sehrish Limited (SL) for the financial year ended December 31, 2022. Management of SL has refused to allow for sending direct confirmation to debtors for trade receivables balances. Being the Audit Manager of Aarif and Co. what procedures you will perform in accordance with ISA 505?

Solve/ Type Your Answer Here

5. ISA 260 (Revised), deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements. Explain any four examples of matters that might be communicate d to them by the auditor.

Solve/ Type Your Answer Here

6. In the light of ISA 402, describe the sources of information that can be used by the auditor for obtaining an understanding of the services provided by a Service Organization.

Solve/ Type Your Answer Here

7. Supervision involves both direction and review of audit work. Explain supervision responsibilities in relation to cost audit.

Solve/ Type Your Answer Here

8. In accordance with Companies (Audit of Cost Accounts) Rules, 1998, who shall not be appointed as cost auditor of a company?

Solve/ Type Your Answer Here

9. Mr. Liaqat is conducting the audit of Fawad Limited for the financial year ended December 31, 2012. Enlist the steps that he may take in order to obtain a general understanding of the legal and regulatory framework, and how the company complies with that framework in accordance with ISA 250 (Revised).

Solve/ Type Your Answer Here

**THE END**

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. Which one of the following best describes 'capital asset' as per section 37 of the Income Tax Ordinance, 2001?

A	Any stock-in-trade, consumable stores, or raw materials held for business.
B	Any property concerning which the person is entitled to a depreciation deduction under section 22 or an amortization deduction under section 24.
C	Any movable property excluding capital assets specified in sub-section (5) of section 38 held for personal use by the person or any member of the person's family dependent on the person.
D	Property of any kind held by a person, whether or not connected with a business.

2. The following shall be excluded from the calculation of Alternate Corporate Tax, except:

A	Income which is subject to tax other than under Division II of Part I of the First Schedule or minimum tax under any of the provisions of this Ordinance.
B	Accounting profit before tax.
C	Exempt income.
D	Income subject to tax credit under section 65D, 65E and 100C.

3. Interest free loan is made to Mr. Hammad by his employer Mr. Jamshed during the tax year 2021. The amount to be included in the salary income of Mr. Hammad on account of interest free loan shall be computed at the rate of \_\_\_\_\_ per annum.

A	8%
B	10%
C	12%
D	14%

4. Which one of the following amounts is not included under the head of 'Income from property'?

A	Rent received or receivable for a tax year
B	Forfeited deposit paid under a contract for the sale of land
C	Ground rent
D	1/10th of non-adjustable advance received in relation to building



5. Income of an Association of Persons is taxable at the rates applicable to which one of the following?

A	Public company
B	Private company
C	Salaried individual
D	Individual non-salaried person

6. Imported goods shall be charged to tax at such rate as is in force in case the goods are entered for home consumption, on the date of \_\_\_\_\_.

A	Making payment for the goods to the supplier
B	Goods declaration is presented
C	Goods received by the importer
D	Filing sales tax return

7. Dividend income is chargeable to tax \_\_\_\_\_.

A	Business income
B	Salary income
C	Separate block of income
D	Capital gain

8. Under section 106 of the Income Tax Ordinance, 2001. Where a foreign-controlled resident company other than a financial institution, has a foreign debt-to-foreign equity ratio in excess of \_\_\_\_\_ ratio at any time during a tax year, a deduction shall be disallowed for the profit on debt paid by the company on that part of the debt which exceeds the ratio.

A	Three to four
B	One to two
C	Two to three
D	Three to one

9. Where there is reason to believe that a person has claimed input tax credit or refund that was not admissible to him, the proceedings against him shall be completed within \_\_\_\_\_ days.

A	Ninety
B	Sixty
C	Thirty
D	Forty

10. Federal Excise Duty shall be levied and collected at the rate of \_\_\_\_\_ percent ad valorem except the goods or services specified in the First Schedule.

A	Seventeen
B	Fifteen
C	Ten
D	Fourteen

11. On an application of taxpayer extension for furnishing the return can be granted up to fifteen days duration by the \_\_\_\_\_.

A	Federal Board of Revenue
B	Chief Commissioner Inland Revenue
C	Commissioner Inland Revenue
D	Deputy Commissioner Inland Revenue

12. Mr. Shoaib is a Manager Finance of at Ittehad Limited. In terms of employment, he has been provided a medical allowance amounting to Rs. 90,000 per annum and medical reimbursement amounting to Rs. 200,000. NTN of the medical practitioner was available. In this scenario, the amount taxable in terms of this facility provided to him is \_\_\_\_\_.

A	Rs. 290,000
B	Rs. 90,000
C	Rs. 110,000
D	Rs. 20,000

13. During the quarter ended December 31, 2022, Beena Limited made a capital gain of Rs. 2,000,000 on the disposal of securities which she purchased on March 2, 2022.

The amount of \_\_\_\_\_ as advance income tax will be payable by Beena Limited during the quarter ending December 31, 2022, in respect of the disposal of the securities.

A	Rs. 30,000
B	Rs. 40,000
C	Rs. 100,000
D	Rs. 50,000

14. Farooq Limited (FL) is registered under the Sales Tax Act, of 1990. Following are the details of sales and purchases made during the month of February 2023:

	Rupees
Local taxable sales to registered person	1,500,000
Local taxable sales to unregistered person	5,000,000
Zero-rated supplies	2,500,000
Exempt supplies	500,000
Purchases from a registered supplier	6,500,000

Considering the above scenario sales tax liability of Farooq Limited (FL) for the month of February 2023 is \_\_\_\_\_.

A	Rs. 1,170,000
B	Rs. 800,526
C	Rs. 569,474
D	Rs. 369,474

15. Following information is relevant for Mr. Taha for the tax year 2023:

	Rupees.
Salary income	6,000,000
Income from other sources	4,000,000
Zakat deducted by bank	300,000
Donations to institution specified under clause 61 of part 1 of 2nd schedule	900,000

The taxable income of Mr. Taha for the tax year 2023 would be \_\_\_\_\_.

A	10,000,000
B	8,800,000
C	7,000,000
D	4,000,000

16. Abrish Limited purchased a capital asset on March 1, 2023 for Rs. 5,000,000 and paid Rs. 200,000 of freight costs to transport the asset to its premises. Rs. 150,000 was also incurred on its installation. The cost of the capital asset for tax purposes is \_\_\_\_\_.

A	Rs. 5,000,000
B	Rs. 5,350,000
C	Rs. 5,200,000
D	Rs. 5,150,000

17. Following data relates to Jamil Limited for the month of March 2023:

Sales:	Rupees.
Taxable supplies	7,600,000
Zero-rated supplies	2,000,000
Exempt supplies	1,200,000
	<u>10,800,000</u>

Purchases from registered persons, the payments were made as under:

	Rupees.
Online transfer of funds from the business bank account of the company to the business bank account of the supplier	1,200,000
Cash payment into the business bank account of the supplier	65,000
Payment by credit card into the business bank account of the supplier	1,100,000
	<u>2,365,000</u>

Calculate the amount of input tax that will be apportionable on exempt supplies:

A	Rs.43,444
B	Rs. 38,983
C	Rs. 64,972
D	Rs. 61,877

18. Ammar Limited, a multinational company is registered under the Sales Tax Act, 1990. As part of a strategic tripartite contract, AL supplied chairs worth Rs. 500,000 in small villages and towns at a discounted price of Rs. 300,000. The terms of the contract stipulate that the balance amount will be reimbursed to the company by the Government of Pakistan. The correct value of output tax on the supply of chairs would be \_\_\_\_\_.

A	Rs.36,000
B	Rs. 51,000
C	Rs.110,000
D	Rs. 54,000

19. Mr. Farukh has a taxable income for the tax year 2023 amounted to Rs. 2,000,000. Tax liability determined amounted to Rs. 120,000. During the year, he made donations to private charitable institution through cheque amounted to Rs. 700,000. The amount of tax credit that he can claim in respect of donations is \_\_\_\_\_.

A	Rs.700,000
B	Rs. 36,000
C	Rs. 450,000
D	No amount can be claimed

20. Five years ago, Mr. Kabeer had purchased 20,000 shares of Rs.10 each of an unlisted public company at Rs. 140 per share. After one year of acquisition, he received 8,000 bonus shares from the company, no tax was paid at the time of issuance of bonus shares, during the tax year 2023 he sold 75% of the bonus shares at a price of Rs. 145 per share. The taxable capital gain for the tax year 2023 is\_\_\_\_\_.

A	Rs. 270,000
B	Rs. 202,500
C	Rs. 30,000
D	Rs. 870,000

21. Ms. Tahira purchased a computer on July 1, 2020 at a cost of Rs. 250,000 eligible for initial allowance. The computer is used 80% for business and 20% for her personal purposes. The depreciation expense allowable for business use for the tax year 2023 would be\_\_\_\_\_.

A	Rs.62,500
B	Rs. 45,000
C	Rs.107,500
D	Rs. 31,500

22. JHP Limited paid a fee amounted to Rs. 200,000 to one of its Board of Directors, Mr. Shenil, for attending a meeting of the Board of Directors on December 5, 2022. Mr. Shenil's other taxable income under the head 'Income from other sources' amounted to Rs. 955,000 during the tax year 2023. \_\_\_\_\_ is the amount of tax which JHP Limited should have deducted from the payment it made to Mr. Shenil during the tax year 2023.

A	Rs. 40,000
B	Rs. 231,000
C	Rs. 151,000
D	No deduction of tax is required

## **DESCRIPTIVE QUESTIONS:**

1. In the light of section 109 of the Income Tax Ordinance, 2001, define the term 'Tax avoidance scheme' and explain under what circumstances the Commissioner may exercise his power to re-characterization or disregard a transaction.

Solve/ Type Your Answer Here

2. In the light of section 2 (43A) of the Sales Tax Act, 1990, clarify the term 'Tier-1' retailers'.

Solve/ Type Your Answer Here

3. Explain the term 'Adjustment' in the light of Section 2 (2) of Federal Excise Act, 2005.

Solve/ Type Your Answer Here

4. In the light of section 2(12A) of the Sales Tax Act, 1990, explain the concept of 'green industry'.

Solve/ Type Your Answer Here

5. Explain tax treatment of transactions under dealership arrangements under section 108B of the Income Tax Ordinance, 2001.

Solve/ Type Your Answer Here

6. The sales tax on account of minimum value addition shall be levied and collected at import stage from the importers on all taxable goods as are chargeable to tax under section 3 of the Sales Tax Act, 1990. List down the conditions in which the provisions of this section does not apply.

Solve/ Type Your Answer Here

7. Following data relates to Saima Limited (SL) for the month of November 2022:

	Rupees.
Local taxable supplies to a registered person	5,000,000
Local taxable supplies to un-registered person	1,500,000
Export supplies	3,000,000
Purchases from registered suppliers	4,000,000
Purchases from unregistered suppliers	1,000,000
Sale of exempt goods	1,000,000

- An inspection of the creditor's ledger reveals that an amount of Rs. 250,000 is still outstanding on account of the purchases made from a registered supplier on May 25, 2022. The input tax on the said purchases was accounted for in the relevant tax period.

**Required:**

Calculate the sales tax liability of SL for the month of November 2022.

Solve/ Type Your Answer Here



8. Following data relates to Ms. Farah for the tax year 2023:

- Basic salary and house rent allowance amounted to Rs. 1,750,000 and 750,000 respectively.
- Company maintained car has been provided for personal use which has a fair market value of Rs. 3 million.
- 70% tax is to be borne by the company and 30% tax shall be deducted from her salary.

**Required:**

Calculate taxable income of Ms. Farah for the tax year ended 2023.

[Rates of Tax for Salaried Individuals]		
S. No.	Taxable income	Rate of tax
1.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 plus 12.5% of the amount exceeding Rs. 1,800,000
2.	Where taxable income exceeds Rs.2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 plus 20% of the amount exceeding Rs. 2,400,000
3.	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 405,000 plus 25% of the amount exceeding Rs. 3,600,000

Solve/ Type Your Answer Here

9. During the tax year 2023, Mr. Saad earned gross rent from his property amounting to Rs. 4.8 million. An amount of Rs. 800,000 was spent in respect of repair expense. Allowable deductions other than repairs amounted to Rs. 700,000. Calculate total tax liability of Mr. Saad on gross rent basis for the tax year ended June 30, 2023.

INCOME FROM PROPERTY		
S. No.	The gross amount of rent	Rate of tax
1.	Where gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000.	Rs. 15,000 + 10% of the gross amount exceeding Rs. 600,000.
2.	Where the gross amount of rent exceeds Rs. 2,000,000.	Rs. 155,000 + 25% of the gross amount exceeding Rs. 2,000,000.

Solve/ Type Your Answer Here

**THE END**

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. Identify the stage in the product life cycle at which the variable production costs per unit fall further due to economies of scale and learning effects.

A	Decline stage
B	Market development stage
C	Product development stage
D	Maturity stage

2. \_\_\_\_\_ costing aims to reduce current costs by using various tools such as value analysis and functional analysis.

A	Standard
B	Life cycle
C	Throughput
D	Kaizen

3. Which of the following statements best defines the cost of quality conformance?

A	Costs that are incurred to prevent defective products from failing into the hands of customers or that are incurred as a result of defective units.
B	Costs incurred as the result of a failure to meet the quality standards for a product.
C	A product cost estimate derived from a competitive market price.
D	The degree to which a product or service meets or exceeds its design specifications and is free of defects or other problems that mark its appearance or degrade its performance.

4. Which one of the following is an activity-based management-related technique?

A	output/input ratio analysis
B	customer profitability analysis
C	industry value analysis
D	activity-based cost analysis

5. \_\_\_\_\_ is a way customers react to prices.

A	Price sensitivity
B	Price perception
C	Compatibility from substitute products
D	Demand perception

6. \_\_\_\_\_ is termed as the amount of each resource that will be unused if a specific linear programming solution is implemented.

A	Shadow price
B	Non-negativity
C	Constraints
D	Slack variable

7. A management decision may be beneficial for a given profit center, but not for the entire company. From the overall company viewpoint, this decision would lead to \_\_\_\_\_.

A	Goal congruence
B	Centralization
C	Self-optimization
D	Maximization

8. \_\_\_\_\_ can help in reviewing the costs of a product during the design stage to reduce costs and increase the functionality of a product.

A	Value engineering
B	Knowledge engineering
C	Situational engineering
D	Process engineering

9. In Activity-Based Costing, \_\_\_\_\_ activities are carried out regardless of which customers are served, which products are produced, how many batches are run, or how many units are made.

A	Monopolistic
B	Perfect competition
C	Oligopoly
D	Monopoly

10. Which of the following methods of allocating the costs of service departments provides the broadest recognition of departments served?

A	Step-down allocation.
B	Reciprocal allocation.
C	Direct allocation.
D	Arbitrary allocation.

11. Value-based management is:

A	A structured system of targets to motivate people to enhance the organization's value
B	Another name for management by objectives
C	A structured system of targets used in the private sector to motivate people to enhance shareholder value
D	A structured system of targets used in the public sector to motivate people to improve service to the public through an understanding of the organization's values

12. Uxbridge Limited is considering developing a new product 'Alpha'. During its product life, 18,000 units of the product will be sold for Rs. 12,300 per unit. Production is expected to be in batches of 1,000 units throughout the life of the product.

The direct labour cost is expected to reduce due to the effects of learning for the first 8 batches produced. Thereafter, the direct labour cost will remain constant at the same cost per batch as the 8th batch. The direct labour cost of the 1st batch of 1,000 units is expected to be Rs. 5, 250,000 and a 90% = -0.152 learning effect is expected to occur.

The direct material and variable costs (other than labour costs) will be Rs. 6, 000 per unit throughout the life of the product. There are no fixed costs allocable to this product.

The expected direct labour cost of the 8th batch is \_\_\_\_\_.

A	Rs. 3,827,275
B	Rs. 30,618,197
C	Rs. 3,277,950
D	Rs. 27,340,247

13. Delta Limited (DL) received an order to supply 2,000 units of Product-T at Rs. 1,000 per unit. The capital investment on this special order is Rs. 2,000,000 and DL's targeted ROI is 16%. The estimated labour and overhead costs are Rs.560 per unit.

What should be the cost of material to be used in Product-T?

A	Rs.160
B	Rs.230
C	Rs.280
D	Rs.560

14. Oflam Limited has two Divisions 'M' and 'N'. Division M manufactures one product 'T' which has the production cost of Rs. 180 inclusive of absorbed fixed overheads amounting Rs. 30. The current market price of product 'T' is Rs. 250.

Product 'T' is sold to external market as well as Division N.

The market where the product can be sold is perfectly competitive. If sold in the market the company will incur variable selling costs of Rs. 35 per unit.

Assuming, if the total demand for Product 'T' is more than sufficient for Division M and satisfies its production capacity. What would be the minimum acceptable price for Product 'T' that Division M may offer to Division N?

A	Rs.280
B	Rs.250
C	Rs. 215
D	Rs.185

15. BSD Limited is engaged in manufacturing and selling of three products A, B and C. Extracts from the weekly profitability statements are as under:

	A	B	C	Total
	Rs.	Rs.	Rs.	Rs.
<b>Sales</b>	150,000	225,000	300,000	675,000
<b>Variable cost of sales</b>	60,000	135,000	150,000	345,000
<b>Fixed costs</b>	45,000	45,000	45,000	135,000
<b>Profit</b>	45,000	45,000	105,000	195,000

Note that fixed costs are absorbed using a unit absorption rate.

If the sales revenue mix of the products produced and sold were revised to A 25%, B 55% and C 25% then the new average contribution to sales ratio \_\_\_\_\_

A	Would remain unchanged
B	Would be higher
C	Would be lower
D	This cannot be determined from the information provided

16. Sefam Limited has a maximum demand of 150,000 units for its product J. The demand will be reduced by 50 units for every increase of Re. 1 in the selling price. The company has determined that profit is maximized at a sales volume of 63,000 units per annum. Profit maximizing selling price for product J is Rs. \_\_\_\_\_ per unit.

A	1,360
B	1,550
C	1,600
D	1,740

17. Farman Furniture Pvt. Limited (FFPL) is in the process of preparing a quotation for a special job for a customer. The job will require 800 units of Material V. 500 units are already present in stock at a book value of Rs.1,000 units as a result of purchasing. The net realizable value per unit is Rs. 400. The replacement price unit is Rs.1,200. There is no other use of Material V. The relevant cost of Material N for the special job is \_\_\_\_\_.

A	Rs. 560,000
B	Rs.620,000
C	Rs. 860,000
D	Rs. 960,000

18. Faisal Limited manufactures two products F and G which give a contribution of Rs. 600 per unit and Rs. 900 per unit, respectively. The product F and G are budgeted to sell in the proportion 2 units of F for every 1 unit of G. Faisal Limited incurs Rs. 2,800,000 fixed costs per period and its production capacity is 4,000 units of F and 2,000 units of G. Faisal Limited's break-even point is:

A	55.55% capacity
B	66.66% capacity
C	922 units of F and 461 units of G
D	92.31% capacity

19. Division H of ASM Limited is considering a project that will increase annual net profit by Rs.2,250,000 but will require average stock levels to increase by Rs. 15 Million. The current target return on investment is 15% and the imputed interest cost of capital is 14%. Keeping the scenario under consideration, would the performance measurement criteria of ROI and/ or RI motivate the managers of Division H to act in the interests of the group as a whole?

A	ROI- No, RI- No
B	ROI-No, RI- Yes
C	ROI- Yes, RI- Yes
D	The information is not enough for decision-making



20. Division R of Chemco Limited has reported annual operating profits of Rs. 60.3 Million after charging Rs. 10 Million full costs of launching a new product that is expected to last five years. Division R has a risk-adjusted cost of capital of 15%. The historical cost of assets in Division R, as reflected on the statement of financial position is Rs. 150 Million, and the replacement cost has been estimated at Rs. 258 Million. The EVA of Division R is \_\_\_\_\_.

A	Rs. 29.6 Million
B	Rs. 30.4 Million
C	Rs. 28.4 Million
D	Rs. 31.6 Million

21. THM Limited the manufacturer of children's goods is considering introducing a new product, the 'Electric Car'. The new product is structurally identical to existing products, but it is made from premium quality materials and has a distinctive and high-quality appearance. Market research indicates that the product can be sold for Rs. 37,500. The company budgets for a 55 % profit margin. Materials are expected to be 80% of the total cost. A supplier has offered to provide the materials for Rs.16,500. What price reduction must be negotiated to meet the target cost?

A	Rs. 375
B	Rs. 3,000
C	Rs. 4,125
D	Cost reduction is not required

22. Shine Limited (SL) buys a chemical for Rs.1,920,000, which it breaks down into two components:

Component	Sales value (Rs.)	Allocated costs (Rs.)
A	1,120,000	960,000
B	640,000	960,000

Component A can be converted into Product A if Rs.960,000 is spent on further processing. Product A would sell for Rs. 1,920,000.

Component B can be converted into Product B if Rs. 1,280,000 is spent on further processing. Product B would sell for Rs. 2,400,000.

What processing decision should the company make in order to maximize profits?

A	Discontinue both
B	Continue both
C	Continue A, Discontinue B
D	Discontinue A, Continue B



23. The Damam Limited (DL) manufactures three products, P, Q and R, as the result of initial joint processing plus separable processing after the split off point. Records for the month of October reflects the following:

Product	P	Q	R	Total
Materials used				Rs.2,250,000
Joint processing cost				Rs.2,550,000
Separable processing costs	Rs.750,000	Rs.1,200,000	Rs.1,050,000	
Units produced	6,000	12,000	6,250	
Units sold	4,000	9,000	4,250	
Sales price (Rs. per unit)	750	562.5	600	

Assuming no beginning inventory and using the market value method for joint cost allocation, the total cost assigned to ending inventory is:

A	Rs.2,286,600
B	Rs.750,000
C	Rs.855,000
D	Rs. 2,250,000

24. Zafar Limited (ZL) has observed that a 90% (0.1522) learning curve ratio applies to all labour-related costs each time a new model enters production. It is anticipated that 320 units will be manufactured during 2020. Direct labour cost for the first lot of 10 units amounts to 1000 hours at Rs. 120 per hour. Variable overhead cost is assigned to products at the rate of Rs. 30 per direct labour hour. Total labor-related costs to manufacture 320 units of output:

A	Rs. 10,498
B	Rs. 188,957
C	Rs. 153,055
D	Rs. 62,177

## DESCRIPTIVE QUESTIONS:

1. Tree Resorts Limited (TRL) operates three resorts in northern areas of Pakistan the name 'Apple Resort' (AR), 'Oak Resort' (OR), and 'Walnut Resort' (WR). These resorts operate as separate investment centres. The following data is available for these resorts:

	<u>AR</u>	<u>OR</u>	<u>WR</u>
	--- Rupees in thousands ---		
Sales	600,000	700,000	1,250,000
Average operating assets	150,000	350,000	250,000
Net operating income	36,000	49,000	50,000
Minimum required rate of return	17.5%	12.5%	20.0%

**Required:**

Compute Return On Investment ROI and Residual income (RI) for each resort of Tree Resorts Limited (TRL).

Solve/ Type Your Answer Here

2. A mobile manufacturing company, Zeta Limited uses target costing to produce relatively low-cost, symmetrical mobiles in the country, paying one of the highest hourly labour wages across the globe. Suggest ways through which the unit cost per mobile could be reduced.

Solve/ Type Your Answer Here

3. What is linear programming? What are the requirements (conditions) to solve a problem of linear programming?

Solve/ Type Your Answer Here

4. Differentiate between value analysis and functional analysis.

Solve/ Type Your Answer Here

5. Delta Division operates as an investment centre. The managing director of the division attended a seminar last week on Economic Value Added (EVA), a tool of performance measure, and was quite impressed by the idea. He has asked you to calculate the EVA of Delta Division. The requisite information are as under:

- The book value of the non-current assets is Rs.166,000 but their replacement value is estimated to be Rs.196,000. Working capital in the division has a value of Rs.38,000.
- The operating profits of the division for the year just ended were Rs.37,000, after charging historical cost depreciation of Rs.16,200 and the costs of a major advertising campaign is Rs.12,000. The advertising campaign is expected to boost revenues for two years. An economic depreciation charge for the period would have been Rs.24,600. The risk-adjusted weighted average cost of capital (WACC) for the company is 11% per annum. Ignore taxation.

Calculate the Economic Value Added (EVA) for Delta Division.

Solve/ Type Your Answer Here

6. Dawood Confectionary estimates the number of batches of a specific type of cake that should be baked every day. The daily demand for the cake ranges from 12 to 14 batches and each batch of cake that is baked and sold yields a positive contribution of Rs.1,000. However, each batch of baked cake that remains unsold yields a negative contribution of Rs.400. If Dawood Confectionary adopts the minimax regret decision rule, calculate the number of batches of cake that the confectionary should bake each day. Justify your answer with reasoning.

Solve/ Type Your Answer Here

7. Only variable costs can be differential costs. Justify your statement.

Solve/ Type Your Answer Here

**THE END**

9 of 9

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. The discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero is classified as:

A	positive rate of return
B	a negative rate of return
C	external rate of return
D	internal rate of return

2. Mergers can be classified as \_\_\_\_\_ depending on the type of company that is acquired.

A	vertical
B	conglomerate
C	horizontal
D	All of these

3. Shareholders' wealth comes from which of the following sources?

A	Only dividends received
B	Only from the market value of the shares
C	Both from dividends received and the market value of the shares
D	None of these

4. If the coupon rate is equal to the going rate of interest then the bond will be sold:

A	at par value.
B	below its par value.
C	more than its par value.
D	seasoned par value.

5. The asset beta (unlevered beta) is the beta of a company on the assumption that the company uses only \_\_\_\_\_ financing.

A	equity financing
B	equity and long-term financing
C	equity and short-term financing
D	equity, short-term and long-term financing

6. Price to cash flow ratio is calculated by dividing the per-share stock price by the per-share \_\_\_\_\_ cash flow.

A	operating
B	investing
C	financing
D	net cash

7. Which one of the following is not a systematic risk?

A	recessions
B	fluctuations in currencies
C	changes in interest rates
D	losses caused by labour problems

8. The weighted average cost of debt, preferred stock and common equity are classified as:

A	cost of salvage
B	cost of interest
C	cost of capital
D	cost of taxation

9. Mehran Limited is considering to start five new projects next year. All projects entail equal amounts of risk. The company relies 100% on equity financing and the cost of equity financing is 20%.

The following table shows the relevant cash flows of these projects:

Project	Rs. in million		
	Cash Flows		
	Time 0	Time 1	Time 2
A	(350)	220	620
B	(520)	110	775
C	(450)	410	715
D	(710)	180	1,050
E	(450)	350	545

Cash outflows shown in the above table are the minimum amounts of investment required for each project. Lower levels of investment cannot be undertaken for any project. It is expected that the availability of capital will be limited to Rs.1,500 million at commencement. Given the limited financial resources, Mehran Limited can undertake projects \_\_\_\_\_ to maximize its profits.

A	A, B and E
B	B, and D
C	C, A, and E
D	A, B and C

10. Following information relates to Sameer Limited:

Cost of debt	8%
Cost of equity	18%
No of equity shares	3,200,000
Market price of equity shares	Rs.35 per share
Market price of bond	Rs.35,000,000
Tax rate	29%

What is the weighted average cost of capital?

A	15.73%
B	14.87%
C	16.23%
D	15.07%

11. Abbas Limited requires an investment of Rs.360 million and needs to increase its working capital by Rs.40 million. Earnings before taxes are Rs.3,600 million and it sets off against Rs.240 million of depreciation. Tax rate is 29%.

What is the free cash flow?

	Rs. in million
Investment required	755
Increase in working capital required	92
Earnings before tax	7,400
Depreciation for the year	499
Tax rate	29%

A	Rs.4,906 million
B	Rs.4,521 million
C	Rs.4,272 million
D	Rs.4,025 million

12. A company with cost of capital of Rs.10% has undertaken a project with the following cash flows:

	Rs. in million		
Year	Purchase of plant	Running costs	Savings
0	(13,723)		
1		(3,950)	13,650
2		(4,580)	11,120

In order to break even, the cost of plant is required to be increased/ decreased by Rs.\_\_\_\_\_.

A	500 million
B	600 million
C	700 million
D	800 million



## **DESCRIPTIVE QUESTIONS:**

1. Capital budgeting is the process that a business uses to determine which proposed fixed asset purchases it should accept, and which should be declined. This process is used to create a quantitative view of each proposed fixed asset investment, thereby giving a rational basis for making a judgment. What are various methods of capital budgeting? Briefly describe the merits and demerits of any two of them.

Solve/ Type Your Answer Here

2. What are the limitations of the Capital Asset Pricing Model (CAPM) for the selection of a portfolio?

Solve/ Type Your Answer Here

## **CASE STUDY:**

1. Phantom Automobile Group (PAG) is a leading player in the automotive industry comprising Phantom Automobile Limited (PAL) and its two subsidiaries. The group is competing with more than fifteen competitors in a highly competitive environment. PAL was established in 2016 through a management buy-out (MBO) from a listed company Albert Engineering Limited (AEL) and is managed by four key MBO Team Members.

PAL is situated at a large, relatively under-utilized site. The site was purchased from AEL at the time of MBO. A part of the under-utilized site was sold to a Telecommunication Corporation during the year 2024 which has resulted in a substantial capital gain on sale.

Mr. Sajid Zafar is the Chairman of the group. He and his family own 65% of the 1,000,000 ordinary shares of Rs.10 each in PAL.

Since MBO, the group has witnessed a drastic increase in the annual revenue.

You, are an Audit Manager of Spencer Consultancy Firm (SCF) and have recently conducted the audit of PAL for the year ended June 30, 2024.

You have received the following memorandum from the Audit Partner of SCF.

## Memorandum:

Mr. Sajid Zafar wants to realize his investment in PAL, so that he may opt for another investment opportunity. At the moment, he is indecisive about whether to retain control of the business or deviate from the prospective opportunity.

The following are the issues that Mr. Sajid is confronting:

- He is keen to know the worth of his holding in the PAL and the suitable method for realizing his investment.
- Since 2016, the staff has grown substantially and remained highly motivated in the business. However, he is concerned about the problems that might develop if new owner(s) acquire the majority shareholdings.

To keep his management personnel contented, Mr Sajid is willing to introduce a share option scheme as a part of the remuneration package for the staff to incentivize them.

Furthermore, with his decision to realize the investment, he is anxious about the issue of sustainability that needs to be prioritized at PAL. He believes that the other three shareholders are not concerned about it and think that the success of PAL should only be judged on financial aspects.

## Required:

Prepare a report for the audit partner, addressing all the areas of concern of Mr Sajid and deliberating the following:

- (a) The possible options available to Mr Sajid for realizing his investment. [10 Marks]
- (b) Using the information as appended in **Annexure-1**, estimate the value of Mr. Sajid's holding, using dividend growth and free cash flows valuation methods. You may ignore the tax issues that might arise if Mr Sajid realizes his investment. [15 Marks]

### ANNEXURE-1

#### Phantom Automobile Group Information Pack – for the year ended June 30, 2024

##### 1) History

The group was the subject of a management buy-out from Albert Engineering Limited (AEL), in 2016 and continues to be owned and managed by a buy-out team. The shareholding ownership structure is as follows:

<u>Name</u>	<u>Shareholding</u>
• Mr. Sajid Zafar and Family	65%
• Mr. Ghazanfar Khan	12%
• Mr. Luqman Baig	12%
• Mr. Azeez Kamal	11%

##### 2) Possible flotation of shares:

The possibility of PAL for floating shares is presently under review. The share flotation will enable the shareholder directors to realize some of their investment in PAL and provide access to capital markets.

##### 3) Competitors

The group is diverse in activity; the companies that most closely resemble PAL are Faisal Engineering Limited (FEL) and Crest Allied Limited (CAL).

##### 4) Management

The subsidiaries of PAL are managed at an operational level by three of the shareholder directors. The fourth, and majority, shareholder director is the group's Chairman who provides strategic direction to the group.

##### 5) Capital expenditure

PAL recognizes the need to replace existing plants over the next few years due to normal wear and tear and also the need to maintain its competitive advantage by applying the latest technology.

#### 6) Summary trading results

The impact of investment and the benefit of productivity improvements have resulted in a reduction in employee numbers while continuing to increase output. Sales, profit and staff number growth have been as follows:

	Rs. in million					
Years	2019	2020	2021	2022	2023	2024
Sales	68,400	70,376	75,810	79,068	83,482	83,594
Cost of sales	48,358	50,248	53,370	53,054	53,516	53,542
Gross profit	20,042	20,128	22,440	26,014	29,966	30,052
Operating costs	13,092	12,942	14,738	17,098	21,378	21,442
Operating profit	6,950	7,186	7,702	8,916	8,588	8,610
Profit on disposal of property	–	–	–	–	–	26,768
Profit before interest	6,950	7,186	7,702	8,916	8,588	8,610
Interest	(1,700)	(1,300)	(1,920)	(1,960)	(1,240)	1,198
Profit before tax	5,250	5,886	5,782	6,956	7,348	9,808
Tax	(1,523)	(1,707)	(1,677)	(2,017)	(2,131)	(2,844)
Profit after tax	3,728	4,179	4,105	4,939	5,217	6,964
Dividends	1,640	1,700	1,776	1,844	1,920	2,000
Staff numbers	522	515	511	502	494	490
Gross profit margin	29.3%	28.6%	29.6%	32.9%	35.9%	35.9%

Following the property disposal in this most recent year, PAL has Rs.35,200 million of cash on its statement of financial position.

#### 7) Forecast figures 2025 – 2029

- Sales and gross profits to rise by 10% each year.
- Other operating costs excluding depreciation to rise by 3% per annum.
- Depreciation for the year 2025 to remain at the 2024 figure of Rs. 4,000 Million; the only change in the period 2025-2029 is a rise to Rs. 5,200 million from the year 2028 due to the acquisition of new assets.
- Significant expenditure of Rs. 12,000 million on non-current assets in the year 2028. Other non-current asset acquisitions and disposals to cancel out each year.
- The interest for 2025-2029 will remain at 2024 level.
- Working capital levels to increase at the start of each year to be 10% of that year's predicted sales.
- Tax to be charged at 29% of taxable profits over 2025-2029. Depreciation is fully tax allowable against profits.

#### 8) Sector and company information

The current risk-free interest rate is 15%. The following company and sector information are provided.

	Company	Sector
P/E ratio	12.3	9.625
Beta	1.00	0.65
Expected return	20.00%	N/A

Solve/ Type Your Answer Here



2. Being the owner of a well-reputed management consultancy firm TBG Consultants. The Managing Director of Best Tech Limited (BTL) has approached you to provide consultancy on investment and financing decision-making.

BTL is a multi-product subsidiary of Great Ways Limited (GWL). The primary business of BTL is the manufacturing of data communications components which it mainly sells to original equipment manufacturers (OEM). Its secondary and lesser-developed business is based on supply and support contracts for specialist IT management network systems, mainly to domestic medium-sized enterprises.

Your team, comprising Mr Abdullah, a research analyst, and Mr Shakir, a part-qualified finance professional, has collected and analyzed the BTL insight and external environment and shared the following report with you (**Extracts available**):

- **Report on Best Tech Limited**

**Subject: Organizational overview, the external environment, business expansion and payment difficulties**

Date: 20 April 2024

**Notes:**

**Organizational overview:**

Best Tech Limited (BTL) was initially a privately owned high technology company established in 2006 by a computer engineer Mr. Hameed. Due to rapid expansion in the following years, BTL needed additional capital to fund its future growth and was subsequently listed on the Pakistan Stock Exchange (PSX) in 2020. Thirty per cent of the floated shares were purchased by institutional investors, and BTL also borrowed long-term funds to infuse leverage in its capital structure. Before flotation, the company was primarily financed through the founders' share capital, retained earnings, and short-term finance.

**External environment:**

BTL is headquartered in Zenia, a prosperous and developed nation with a stable political but highly regulated environment. The government has promoted the growth of national telecommunications infrastructure by making significant investments. Nearly 75% of the population is connected to the internet via various devices. Additionally, the government is proposing a new carbon tax that will impact companies involved in manufacturing and providing IT network services. The electronics and IT industry has recently emerged as a sector with an increasing carbon footprint due to applications including component cooling devices, complex telecommunications network components, and cloud computing technology. Although BTL can roughly estimate its total carbon footprint from manufacturing and supplying components from its factory, it has yet to develop formal systems and processes to address this issue.

**Business Expansion:**

BTL is considering expanding its business and plans to explore other relevant markets. For this purpose, it has identified three independent projects that can help achieve its target. The following data is available for analysis:

	‘million’		
Project	X	Y	Z
Development costs already incurred (Rs.)	150	160	120
Estimated cost of plant and machinery (Rs.)	2,800	4,800	1,200
Unit sales per annum (Nos.)	75	80	120

The selling price and variable costs per unit for each project are estimated below:

	Rs.		
Project	X	Y	Z
Selling price	80	50	100
Materials	24	9	50
Labour	24	10	20
Variable overheads	14	5	21

- The useful life of the plant and machinery in all of the three projects is five years with zero salvage value. The company charges depreciation on a straight-line basis over the useful life of the plant and machinery.
- The development costs of projects will be written off in the year they are incurred. The company allocates general administration costs to projects at 5% of the selling price. However, there is no impact on administration costs with the introduction of the above projects.
- The working capital of 20% of the expected annual sales, will be required immediately in each case and will be recovered in full when the projects end in five years.
- The funds available for investment are limited to Rs. 10,400 million. However, all three projects are divisible.
- The cost of capital of BTL is 18%. Ignore taxation.

#### Accounts Payable:

BTL is performing quite well in the last many years in terms of market share. In the last year, the company achieved a turnover of Rs. 7,000 million, with a net profit margin of 10%.

Presently, the company is facing difficulties in paying its accounts payable on time. Though, the terms of purchase are net 30 days, its accounts payable extend to 60 days. The company intends to increase bank borrowings to meet its current trade obligations. The statement of the financial position of the company is as under:

#### Best Tech Limited Statement of Financial Position As on June 30, 2023

		Rs. in million	
Cash	200	Accounts payable	1,200
Accounts receivable	600	Bank loans	1,400
Inventory	2,800	Accruals	400
Current assets	3,600	Current liabilities	3,000
Land and buildings	1,200	Long-term debt	1,400
Equipment	1,200	Share capital (Rs. 10 each)	600
		Retained earnings	1,000
Total assets	6,000	Total liabilities and equity	6,000

**Required:**

Based on your findings, prepare the consultancy report and associated tasks for BTL based on:

- (a) An analysis of the financial viability of the prospective options available to BTL. **[15 Marks]**
- (b) Determination of the additional financing requirement needed to eliminate the past due accounts payable of BTL. Your calculation must include ratio analysis together with the justification of the external financing facility. **[10 Marks]**

Solve/ Type Your Answer Here

THE END

**MULTIPLE CHOICE QUESTIONS (MCQS):**

1. \_\_\_\_\_ is the method for analyzing the information for implications, while creating strategic intelligence.

A	Sensing
B	Using
C	Organizing
D	Processing

2. The adequacy and suitability of the resources and competencies the organization has, and which are necessary for its future success, is called \_\_\_\_\_.

A	financial capacity
B	dynamic capability
C	strategic capability
D	core capability

3. According to Michael Porter, \_\_\_\_\_ offers a bird's eye view of an organization and what it does.

A	value chain
B	supply chain
C	critical success factor
D	product life cycle

4. \_\_\_\_\_ view of strategy treats organizations as being as automatic and machine-like as possible.

A	Emergent
D	Chaotic
B	Rational
C	Freewheel opportunism



5. \_\_\_\_\_ is the method for analyzing the information for implications, while creating strategic intelligence.

A	Sensing
B	Using
C	Organizing
D	Processing

6. According to Michael Porter, \_\_\_\_\_ offers a bird's eye view of an organization and what it does.

A	value chain
B	supply chain
C	critical success factor
D	product life cycle

7. Which of the following is an example of diversifiable pure risk?

A	Flood
B	Unemployment
C	Building fire
D	Changes in input prices

8. \_\_\_\_\_ refers to behavioral tendency, when facing a choice between risky alternatives, to prefer less risk rather than more.

A	Risk taker
B	Risk tolerant
C	Risk neutral
D	Risk aversion

9. Which one of the following is not a part of Porter's competitive five forces model?

A	the threat from substitute products
B	rivalry between organizations in an industry
C	the convergence of an organization's technology
D	the bargaining strength of an organization's customers

10. The purpose of product life cycle analysis can be best described as:

A	to determine the market share and growth potential of an organization's products
B	to identify and manage the risks associated with an organization's product offerings
C	to understand and plan for the cash flow required by an organization's product offerings
D	to increase the probability that new products will become 'stars'

11. The following are the advantages of a formal system of strategic planning, except:

A	Identification of risk
B	Focus on decision-making
C	Routine and regular
D	Better control

12. The talent and potential of individuals in the organization, is an example of \_\_\_\_\_.

A	capabilities
B	resource
C	competences
D	strategy

13. Barriers to entry is the key factor that influences the competitive force of \_\_\_\_\_, in Porter's five forces model.

A	Bargaining power of suppliers
B	Bargaining power of customers
C	Threat of new entrants to the industry
D	Rivalry among current competitors in the industry

14. According to the five factors model, an attractive industry would have all of the following characteristics except:

A	low barriers to entry.
B	suppliers with low bargaining power
C	a moderate degree of rivalry among competitors
D	few good product substitutes

15. Identify the approach an organization undertakes for formulating competitive strategy using scenarios, when it plays a 'wait' and 'see' game. It is safer, but sacrifices first-mover advantages.

A	Hedge
B	Assume the most probable
C	Flexibility
D	Hope for the best

16. Which one of the following is termed as the limiting factor of culture and structure of an organization in resource audit?

A	Make-up
B	Methods
C	Management
D	Materials

17. \_\_\_\_\_ is the activity in value chain which undertakes storing of the product and distributing it to the customers.

A	Procurement
B	Firm infrastructure
C	Inbound logistics
D	Outbound logistics

18. \_\_\_\_\_ is a mnemonic that serves as a criteria to guide in the setting of objectives.

A	SWOT
B	AIDA
C	TARA
D	SMART

19. Firms that are able to build relational capital are more able to:

A	Increase turnover
B	Appoint friends and relatives to senior management positions
C	Decide on an appropriate range of products
D	Transfer knowledge to their alliance partners

20. Goals for markets will involve the following type of decision, except:

A	Capital productivity
B	Coverage
C	Market leadership
D	Positioning

21. \_\_\_\_\_ decisions commit an organization to specific products, markets, resources, and technologies over extended period of time.

A	Strategic planning
B	Strategic formulation
C	Strategic evaluation
D	Strategic implementation

22. According to Peter Ducker, the prime task of strategic management is thinking through overall \_\_\_\_\_ of a business.

A	vision
B	target
C	mission
D	strategy

23. The guidelines offered by R.T. Lenz for effective strategic management, includes;

A	Welcome bad news and encourage devil's advocate thinking.
B	Inspiring.
C	Identifying the utility of a company's products.
D	Enduring.

24. Johnson, Scholes and Whittington brought the idea of cultural web to help organization analyze its current culture and identify which aspects of culture needs to be changed to achieve strategic goals. Which of the following is not an aspect of cultural web.

A	Symbols.
B	Shared values
C	Paradigm
D	Rituals and routines

25. As argued by Michel Porter, only the \_\_\_\_\_ factors are the roots of sustainable competitive success.

A	Basic
B	Advanced
C	External
D	Internal

26. The process of 'due diligence' involves:

A	Submitting a firm's accounts to auditors
B	Putting out to tender for a contract
C	Bidders for a firm investigating a firm's operations and financial situation prior to potential acquisition.
D	Putting a plan in place for post-merger integration

27. SWOT is an abbreviation for:

A	Internal Strengths (S), Internal Weaknesses (W)), External Opportunities (O), External Threats (T).
B	Internal Strengths (S), Integrated Weaknesses (W), External Opportunities (O), External Threats (T).
C	External Strengths (S), External Weaknesses (W), Internal Opportunities (O), Internal Threats (T).
D	External Strengths (S), Internal Weaknesses (W), External Opportunities (O), Internal Threats (T).

28. Value added is:

A	The cost saving through production and marketing efforts within the firm.
B	The value that a firm adds through the development of dynamic capabilities.
C	The value that a firm adds to bought-in materials and services through outsourcing.
D	The difference between the cost of inputs and the market value of outputs.

29. At which stage of foresight project, the future is tend to be anticipate?

A	Monitoring
B	Transformation
C	Projection

D	Analysis
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30. \_\_\_\_\_ are often quite specific and well-defined, though they can also embody comprehensive purposes.

A	Targets
B	Objectives
C	Goals
D	Vision

### **DESCRIPTIVE QUESTIONS:**

1. The advent of 21st century is actually the spreading of technology so far. Everything is automated from creation of vouchers to transfer of funds within a short span of time. With all these activities, risk is inevitable. More number of transactions, more amount of risk involved. Block chain is one of the technology that makes it difficult to change, enhance or update the entity's data. Briefly describe the block chain technology and how does it help an entity in securing its data?

Solve/ Type Your Answer Here
------------------------------

2. Dazzler Pvt. Limited was established as a private limited company, engaged in the business of manufacturing of ready-made garments 7 years ago. It was initially a small set up that grew well over the span of time. With the persistent growth in the local market, the company is now willing to tap in the foreign market via exports. The company wishes to devise a strategy that could help it to perform just as efficiently as it is doing in the local market. Being a strategist, identify the steps that Dazzler Pvt. Limited should adopt in managing strategy using its Critical Success Factors (CSFs).

Solve/ Type Your Answer Here
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3. Why is it important not to view the concept of “whistle blowing” as “tattle-telling” or “ratting” on another employee?

Solve/ Type Your Answer Here

4. Explain why successful strategy implementation often hinges on whether the strategy formulation process empowers managers and employees.

Solve/ Type Your Answer Here

5. Determine where the XYZ Limited's OLED TVs are likely to fall in the product life cycle and comment on the competitive forces it might encounter.

Solve/ Type Your Answer Here

6. Marketing-oriented companies are vibrant, communicative businesses that actively seek ways to understand what their customers want and create products specifically designed for those customers, the sales-oriented companies are businesses that focus most of their efforts on developing a sales force to promote and sell their products and services. As a consequence, the organization which focuses on sales rather than marketing is likely to have difficulty in analyzing profitability derived from its different customer groups.

Elaborate the benefits which an organization may obtain from carrying out customers profitability analysis.

Solve/ Type Your Answer Here



7. Competitive advantage might be achieved if a competitor possesses a unique or rare capability. This could take the form of unique resources or rare competencies. Elucidate the extent to which rarity of competencies might provide sustainable competitive advantage.

Solve/ Type Your Answer Here

8. How do the levels of strategy differ in a large firm versus a small firm?

Solve/ Type Your Answer Here

9. Comment on the validity of the statement. A stability strategy is a do-nothing strategy.

Solve/ Type Your Answer Here

THE END

**Subject: Local Laws Gateway Examination [LLG]****Time Allowed: 03 Hours****Maximum Marks: 100****MULTIPLE CHOICE QUESTIONS (MCQS):**

1. For becoming an Attorney General of Pakistan, the person must be qualified to be appointed as a \_\_\_\_\_.

A	Judge of supreme court.
B	Judge of high court.
C	Commissioner of Federal Board of Revenue
D	Session judge.

2. As per the Companies Act, 2017, "layer" in relation to a holding company mean its:

A	Subsidiary.
B	Joint venture.
C	Associate.
D	All of these

3. The 'Doctrine of Privity' of contract state that \_\_\_\_\_.

A	a contract cannot confer any right on one who is not a party to the contract, even though the very object of the contract may have
B	been to benefit him.
C	a contract can confer right on one who is not a party to the contract, if the contract benefits him.
D	a contract always confers right on one who is not a party to the contract.

4. The position of a stranger to a contract and that of the stranger to a consideration is \_\_\_\_\_.

A	partially different
B	partially same
C	entirely different
D	entirely same

5. When the consent of a party is obtained by coercion, undue influence, fraud or misrepresentation, the contract is \_\_\_\_\_.

A	void
B	voidable
C	valid
D	illegal

6. Which one of the following statement is false?

A	A contract is not voidable if fraud or misrepresentation does not induce the other party to enter into a contract.
B	A party cannot complain of fraudulent silence or misrepresentation if he had the means of discovering the truth with ordinary means.
C	In case of fraud or misrepresentation, aggrieved party can either rescind or affirm the contract.
D	A party who affirms the contract, can also change his option afterwards if he so decides.

7. As per section 2 of the Companies Act, 2017, “promoter” means a person: (Select wrong option)

A	who is named as a subscriber to the memorandum of association of a company.
B	who has been named as such in a prospectus.
C	who has control over affairs of the company, directly or indirectly.
D	who acts in accordance with the advice, directions or instructions of the board of the company.

8. As per section 81 of the Companies Act, 2017, where, on issuing shares, a company has transferred a sum to the share premium account, it shall not be used for which one of the following purposes?

A	To write off the preliminary expenses of the company.
B	To write off revaluation loss.
C	To write off the expenses of, or the commission paid or discount allowed on, any issue of shares of the company.
D	To issue bonus shares to its members.

9. Under section 301 of the Companies Act, 2017, in which one of the following circumstances may a company not be wound up by Court?

A	if the company is unable to pay its debts
B	if the company has, by special resolution, resolved that the company be wound up by the Court; or
C	if default is made in delivering the statutory report to the registrar or in holding the statutory meeting
D	if default is made in holding any annual general meetings

10. Under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, “asset management services” does not include \_\_\_\_\_.

A	the services provided for management of open-ended schemes offering of investment schemes under trust deeds.
B	issue of redeemable securities.
C	the services provided for management of closed-end schemes.
D	the services provided for management of open-ended schemes offering of investment schemes under trust deeds.

11. As per section 10 of the Companies (Further Issue of Shares) Regulations, 2020, a company shall, within \_\_\_\_\_ days from the date of issue of shares, submit a report to the Commission clearly indicating the shares issued to (i) directors; (ii) associated companies etc.

A	15
B	30
C	45
D	60

12. Under the Anti-Money Laundering Act, 2010, “financial institution” includes any institution carrying on the activity of:

A	Operating leasing.
B	Acceptance of deposits and other repayable funds from the public.
C	Lending in whatsoever form.
D	Money or value transfer.

13. As per section 151 of the Companies Act, 2017, every company shall keep records of resolutions and meetings from the date of the resolution, meeting or decision and it shall be preserved at least for \_\_\_\_\_ in physical form.

A	twenty five years
B	five years
C	ten years
D	twenty years

14. Where there is reason to believe that a person has claimed input tax credit or refund that was not admissible to him, the proceedings against him shall be completed within \_\_\_\_\_ days.

A	Any stock-in-trade, consumable stores, or raw materials held for business.
B	Any property concerning which the person is entitled to a depreciation deduction under section 22 or an amortization deduction under section 24.
C	Any movable property excluding capital assets specified in sub-section (5) of section 38 held for personal use by the person or any member of the person's family dependent on the person.
D	Property of any kind held by a person, whether or not connected with a business.

15. Which one of the following best describes 'capital asset' as per section 37 of the Income Tax Ordinance, 2001?

A	Ninety
B	Sixty
C	Thirty
D	Forty

16. Federal Excise Duty shall be levied and collected at the rate of \_\_\_\_\_ percent ad valorem except the goods or services specified in the First Schedule.

A	Seventeen
B	Fifteen
C	Ten
D	Fourteen

17. On an application of taxpayer extension for furnishing the return can be granted up to fifteen days duration by the \_\_\_\_\_.

A	Federal Board of Revenue
B	Chief Commissioner Inland Revenue
C	Commissioner Inland Revenue
D	Deputy Commissioner Inland Revenue

18. During the quarter ended December 31, 2023, Beena Limited made a capital gain of Rs. 2,000,000 on the disposal of securities which she purchased on March 2, 2023. The amount of \_\_\_\_\_ as advance income tax will be payable by Beena Limited during the quarter ending December 31, 2023, in respect of the disposal of the securities.

A	Rs. 30,000
B	Rs. 40,000
C	Rs. 100,000
D	Rs. 50,000

19. Mr. Shoaib is a Manager Finance of at Ittehad Limited. In terms of employment, he has been provided a medical allowance amounting to Rs. 90,000 per annum and medical reimbursement amounting to Rs. 200,000. NTN of the medical practitioner was available. In this scenario, the amount taxable in terms of this facility provided to him is \_\_\_\_\_.

A	Rs. 290,000
B	Rs. 90,000
C	Rs. 110,000
D	Rs. 20,000

20. Five years ago, Mr. Kabeer had purchased 20,000 shares of Rs.10 each of an unlisted public company at Rs. 140 per share. After one year of acquisition, he received 8,000 bonus shares from the company, no tax was paid at the time of issuance of bonus shares, and during the tax year 2024, he sold 75% of the bonus shares at a price of Rs. 145 per share. The taxable capital gain for the tax year 2024 is \_\_\_\_\_. Which one of the following best describes 'capital asset' as per section 37 of the Income Tax Ordinance, 2001?

A	Rs. 270,000
B	Rs. 202,500
C	Rs. 30,000
D	Rs. 870,000

## **DESCRIPTIVE QUESTIONS:**

1. As per section 96 of the Securities Act, 2015, a listed company shall disclose to the public forthwith any price sensitive information relating to the company or its subsidiaries which has come to the company's knowledge and which would be material to an investor's investment decision. What information does it include?

Solve/ Type Your Answer Here

2. As per section 30 of the Listed Companies (Code of Corporate Governance) Regulations, 2019, the Board a company may constitute a risk management committee. What matters may be included in the terms of reference of the committee?

Solve/ Type Your Answer Here

3. In accordance with Public Offering Regulations, 2017:
  - a. What is the meaning of an "Investment Agent"?
  - b. What are the responsibilities of an "Investment Agent"?

Solve/ Type Your Answer Here



4. In accordance with section 9 of the Public Offering Regulations, 2017, the issuer of securities, while submitting draft prospectus to the securities exchange is required to comply with certain requirements with respect to the contents of the draft prospectus and advertisement. Briefly state the said requirements.

Solve/ Type Your Answer Here

5. According to Section 298 of the Companies Act, 2017, if a contributory dies, whether before or after being placed on the list of contributories of a company, to what extent shall his/her legal representatives be liable to contribute.

Solve/ Type Your Answer Here

6. As per section 11 of the Companies Act, 2017, what is the procedure for making rectification in the name of a company which, through inadvertence or otherwise, is registered by a name in contravention of the provisions of section 10 of the Act or the name was obtained by furnishing false or incorrect information?

Solve/ Type Your Answer Here

7. The following data relates to Saima Limited (SL) for the month of November 2023:

	Rupees
Local taxable supplies to a registered person	5,000,000
Local taxable supplies to un-registered person	1,500,000
Export supplies	3,000,000
Purchases from registered suppliers	4,000,000
Purchases from unregistered suppliers	1,000,000
Sale of exempt goods	1,000,000

- An inspection of the creditor's ledger reveals that an amount of Rs. 250,000 is still outstanding on account of the purchases made from a registered supplier on May 25, 2023. The input tax on the said purchases was accounted for in the relevant tax period.

**Required:** Calculate the sales tax liability of SL for the month of November 2023.

Solve/ Type Your Answer Here

8. Following data relates to Ms. Farah for the tax year 2023:

- Basic salary and house rent allowance amounted to Rs. 1,750,000 and 750,000 respectively.
- Company maintained car has been provided for personal use which has a fair market value of Rs. 3 million.
- 70% tax is to be borne by the company and 30% tax shall be deducted from her salary.

**Required:**

Calculate taxable income of Ms. Farah for the tax year ended 2023.

[Rates of Tax for Salaried Individuals]		
S. No.	Taxable income	Rate of tax
1.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 plus 12.5% of the amount exceeding Rs. 1,800,000
2.	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 plus 20% of the amount exceeding Rs. 2,400,000
3.	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 405,000 plus 25% of the amount exceeding Rs. 3,600,000

Solve/ Type Your Answer Here

9. Under section 21 of Income Tax Ordinance 2001, write down any six inadmissible expenses while computing the income of a person under the head "Income from Business".

Solve/ Type Your Answer Here

**THE END**