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COMPUTER BASED EXAMINATIONS

Gateway Assessment-2

[MANAGERIAL LEVEL-2]

MODEL PAPER



**For
Members of
NIBAF-P**

Examination Department

MULTIPLE CHOICE QUESTIONS (MCQs):

1. Zaid Limited's trial balance shows a debit balance of Rs. 2.1 million brought forward on current tax and a credit balance of Rs. 5.4 million on deferred tax. The tax charge for the current year is estimated at Rs. 16.2 million and the carrying amount of net assets is Rs. 13 million in excess of their tax base. The applicable tax rate on the company is 29%. The amount of tax that will be recorded in the statement of profit or loss of Zaid Limited for the year ended December 31, 2022 would be: (04 Marks)

| | |
|---|-------------------|
| A | Rs. 3.77 million |
| B | Rs. 19.93 million |
| C | Rs. 1.63 million |
| D | Rs. 8.7 million |

2. Following are the extracts of comparative statement of financial position of Jaffer Limited (JL) as at December 31:

| | 2022 | 2021 |
|---------------------------------|--------------|--------------|
| Non-current assets | | |
| Cost | 93,500,000 | 80,000,000 |
| Accumulated depreciation | (43,000,000) | (48,000,000) |
| | 50,500,000 | 32,000,000 |

Additional information:

- During the year ended December 31, 2022, JL redesigned its display areas in all of its outlets. The previous displays had cost Rs. 10 million and had been written down by Rs. 9 million. There was an unexpected cost of Rs. 500,000 for the removal and disposal of the old display areas.
- JL also revalued the carrying amount of its property upwards by Rs. 5 million. The accumulated depreciation on these properties of Rs. 2 million was reset to zero.

In lieu of acquisition of non-current assets, the amount that will be recorded by JL in its statement of cash flows of JL would be: (04 Marks)

| | |
|---|------------------|
| A | Rs. 18.5 million |
| B | Rs. 25.5 million |
| C | Rs. 23.5 million |
| D | Rs. 20.5 million |

3. During the year ended December 31, 2022, Sheroz Limited (SL) recognized an income of Rs. 3,000,000 as government grant on January 1, 2022, for purchasing an asset costing Rs. 5,000,000. The asset has a useful life of ten years and is depreciated on a 20% reducing balance basis. SL has a policy to recognize all grants received as deferred income. Which one of the following represents correct amount of government grant received by SL? (02 Marks)

| | |
|---|----------------|
| A | Rs. 3,000,000 |
| B | Rs. 6,000,000 |
| C | Rs.15,000,000 |
| D | Rs. 25,000,000 |

4. On January 1, 2022, Salman Limited (SL) sold a property at its fair value of Rs. 20 million. SL then leased it back under a five-year lease agreement, paying Rs. 1,500,000 per annum on December 31st each year. The present value of rentals payable was Rs. 5,990,000. The carrying amount of the property on January 1, 2022 was Rs. 16 million and it had a remaining useful life of 20 years. Which one of the following options represent the correct amount in respect of profit on disposal of property to be recorded in the statement of profit or loss of SL for the year ended December 31, 2022? (02 Marks)

| | |
|---|---------------|
| A | Rs. 2,802,000 |
| B | Rs. 4,000,000 |
| C | Rs. 8,490,000 |
| D | Rs. 4,800,000 |

5. On January 1, 2022, Hashim Limited (HL) leased out one of its building for a period of four years under an operating lease. The carrying value of the building is Rs. 47,800,000 and its remaining useful life is 25 years with no residual value. As per terms of the agreement Rs. 3,200,000 was paid by lessee as initial deposit and further rentals of Rs. 2 million will be paid at the end of next two years and Rs. 6,400,000 will be paid for the following two years. HL will recognize _____ amount as lease income for the year ended December 31, 2022. (02 Marks)

| | |
|---|---------------|
| A | Rs. 2,000,000 |
| B | Rs. 5,200,000 |
| C | Rs. 5,000,000 |
| D | Rs. 3,200,000 |

6. Which one of the following transactions involving the issuance of shares and does not come under the definition of a “share-based” payment under IFRS 2? (02 Marks)

| | |
|---|---|
| A | Employee share purchase plans. |
| B | Employee share option plans |
| C | Share-based payment relating to an acquisition of a subsidiary. |
| D | Share appreciation rights |

7. “The excess of the acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities, and contingent liabilities over cost” (formerly known as negative goodwill) should be _____. (02 Marks)

| | |
|---|---|
| A | Amortized over the life of the assets acquired. |
| B | Reassessed as to the accuracy of its measurement and then recognized immediately in profit or loss. |
| C | Reassessed as to the accuracy of its measurement and then recognized in retained earnings. |
| D | Carried as a capital reserve indefinitely. |

8. Which one of the following does not form a part of stockholding cost? (02 Marks)

| | |
|---|-------------------------------------|
| A | Cost of insurance and pilferage |
| B | Shipping and handling |
| C | Opportunity cost of capital tied up |
| D | None of the above |

9. _____ is a method of accounting that can be used with JIT production systems. (02 Marks)

| | |
|---|-------------------------|
| A | Back flush accounting |
| B | Throughput accounting |
| C | Quality cost accounting |
| D | Kaizen costing |

10. Fazal Wood Limited (FWL) has the nominal cost of capital at 20% per annum. If the inflation is recorded at 8%. The real rate cost of capital would be _____. (02 Marks)

| | |
|---|--------|
| A | 29.60% |
| B | 28.00% |
| C | 16.00% |
| D | 11.11% |

11. Tufail Enterprises uses regression analysis method for forecasting its sales value and wishes to determine the sales for the last week of the month of May in year 6. The regression equation for its sales is shown below:

$$Y = 156 \text{ million} + 800,000X$$

Where:

Y= Total sales in Rs.

X= is the number denoted for the number of weeks (January 1st week year 4 as the starting month 0)

The seasonal variation for the month of May is +8%.

Assume 4 weeks in a month.

The forecast sales for the month of May year 6 would be: (02 Marks)

| | |
|---|-----------------|
| A | Rs. 248,800,000 |
| B | Rs. 248,000,000 |
| C | Rs. 267,840,000 |
| D | Rs. 268,704,000 |

12. 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 production in the month of June was 2,825 kg.

The Material Price Variance at the time of issue was: (02 Marks)

| | |
|---|------------------------|
| A | Rs. 2,081.25 Adverse |
| B | Rs. 2,081.25 Favorable |
| C | Rs. 2,250 Adverse |
| D | Rs. 2,250 Favorable |

13. Kite Limited currently expects monthly credit sales of Rs. 750,000. The variable costs of sales are Rs. 600,000 per month that are payable in the month of sales. It is estimated that if the credit period allowed to debtors were to be increased from 30 days to 60 days, sales volume would increase by 25%. All customers would be expected to take advantage of the extended credit. If the cost of capital is 12% per annum, annual benefit from extending credit period will be _____. (04 Marks)

| | |
|---|---------------|
| A | Rs. 135,000 |
| B | Rs. 315,000 |
| C | Rs. 450,000 |
| D | Rs. 1,125,000 |

14. Faham Health care contains 450 beds. The average occupancy rate is 85% per month. In other words, on average, 84% of the health care's bed are occupied by patients. At this level of occupancy, the health care's operating costs are Rs. 4,800 per occupied bed per day, assuming a 30-day month, This Rs.4,800 figure contains both variable and fixed cost elements.

During the month of August, the health care's occupancy rate was only 64%. A total of Rs.49,005,000 in operating cost was incurred during the month.

Using high-low method, the estimated variable cost per occupied bed on a daily basis is: (04 Marks)

| | |
|---|-------------------|
| A | Rs. 985 per day |
| B | Rs. 1,110 per day |
| C | Rs. 2,010 per day |
| D | Rs. 5,850 per day |

15. In case of a listed company, any dividend payable in cash shall be paid through _____. (02 Marks)

| | |
|---|---|
| A | cheque or warrant or electronic mode directly into the bank account |
| B | cheque or warrant only |
| C | electronic mode directly into the bank account designated by the entitled shareholders. |
| D | None of these |

16. Under the Listed Companies (Code of Corporate Governance) Regulations, 2019, no person shall be appointed as the Head of internal audit unless he/she has _____ relevant experience in audit or finance or compliance function and is a member of the Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan. (02 Marks)

| | |
|---|-------------|
| A | four years |
| B | three years |
| C | five years |
| D | ten years |

17. In accordance with the Companies Act, 2017, a "private company" is a company which, by its articles, limits the number of its members to _____ not including persons who are in the employment of the company. (02 Marks)

| | |
|---|--------------|
| A | fifty |
| B | one hundred |
| C | seventy five |
| D | ten |

18. As per Regulation 13 of the Companies (Further Issue of Shares) Regulations, 2020, relating to issue of Employee Stock Option Scheme, which one of the following statements, is not true? (02 Marks)

| | |
|---|---|
| A | There shall be a minimum period of one year between the grant of option and vesting of option. |
| B | In case of failure to exercise the option, the lapsed options may be granted to other employees within a period of sixty days from the date of lapse. |
| C | An option granted to an employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner. |
| D | An employee shall not have the right to receive any dividend till shares are issued to such employee on exercise of option. |

19. Under the Public Offering Regulations, 2017, “Price Band” in case of Book Building means Floor Price with an upper limit of _____ above the Floor Price, allowing Bidder to make Bid at Floor Price or within the Price Band. (02 Marks)

| | |
|---|-----|
| A | 10% |
| B | 50% |
| C | 25% |
| D | 40% |

20. The section 57 of Companies Act, 2017 states that:

“No prospectus shall be issued by or on behalf of a company unless on or before the date of its publication, a copy thereof signed by every person who is named therein as a director or proposed director of the company has been filed with the registrar.”

In case of any contravention of this section, the company and every person who is a party to the issue, publication or circulation of the prospectus shall be liable to a penalty not exceeding of _____ on the standard scale. (04 Marks)

| | |
|---|------------|
| A | level 2 |
| B | level 3 |
| C | level 1 |
| D | No penalty |

DESCRIPTIVE QUESTIONS:

21. Lily Limited (LL) acquired a plant on July 1, 2018 at a cost of Rs. 1 million which had a useful life of ten years with no residual value. The asset had been correctly depreciated up to June 30, 2023. At that date the asset was damaged and an impairment review was performed. On June 30, 2023, the fair value of the asset less cost to sell was Rs. 300,000 and the expected future cash flows were Rs. 85,000 per annum for the next five years. The current cost of capital is 10% and a five year annuity of Re. 1 per annum at 10% would have a present value of Rs 3.791.

Required:

Calculate the amount that would be charged to statement of profit or loss against impairment of plant for the year ended June 30, 2023. (06 Marks)

Solve/ Type Your Answer Here

22. Hamza Limited borrowed Rs. 5 million at 10% per annum from ABC Bank Limited on January 1, 20X2 for the construction of a building which is a qualifying asset.

- The construction began on January 1, 20X2 when all criteria of capitalization of borrowing costs were met.
- The construction costs of Rs. 4 million were paid evenly between March 1, 20X2 and December 31, 20X2.
- The surplus funds are invested in a fixed deposit and earned interest at 6% per annum. No capital portion of the loan was repaid during the year ended December 31, 20X2.

Required:

Calculate the amount of borrowing cost to be capitalized and investment income for the year ended December 31, 20X2. (06 Marks)

Solve/ Type Your Answer Here

23. On December 31, 2022, Rabia Limited (RL), had accrued interest payable of Rs. 84,000. During the year ended December 31, 2022, RL charged Rs. 1,050,000 to statement of profit or loss in respect of unwinding a discount related to a provision. The statement of cash flow showed Rs. 203,000 as interest paid. The closing balance on accrued interest payable account was Rs. 105,000. The company has a discount rate of 6%.

Required:

What amount of interest expense company have to charge to its statement of profit or loss for the year ended December 31, 2022? (06 Marks)

Solve/ Type Your Answer Here

24. Comment on the statement: “Budgeting is an iterative process”. (03 Marks)

Solve/ Type Your Answer Here

25. Semolia Pvt. Limited manufactures a single Product ‘Syem’. The extracts from the flexed budget for production cost are as follows:

| | Capacity Utilized | |
|----------------------|-------------------|------------------|
| | 80% | 70% |
| | Rs. | Rs. |
| Direct Material | 540,000 | 480,000 |
| Direct Labour | 435,000 | 420,000 |
| Production Overheads | 870,000 | 810,000 |
| | <u>1,845,000</u> | <u>1,710,000</u> |

At 78% of production capacity, the total production costs in the budget would be _____. (05 Marks)

Solve/ Type Your Answer Here

26. Silver Start Limited (SSL) manufactures 25,000 units of Product ‘M’ each year for its own use in production line. The cost per unit for Product ‘M’ is as follows:

| | Rs. |
|---------------------------------|--------------|
| Direct Materials | 720 |
| Direct Labour | 1,050 |
| Variable manufacturing overhead | 480 |
| Fixed manufacturing overhead | 1,500 |
| Total cost per unit | <u>3,750</u> |

An outside supplier has offered to sell 25,000 units of Product ‘M’ each year to SSL for Rs.3,525 per unit. If SSL accept this offer, the facilities now being used to manufacture Product ‘M’ could be rented to another company at an annual rent of Rs. 22,500,000. However, SSL has determined that Rs. 900 of the fixed manufacturing overhead applied to Product ‘M’ would continue even if Product ‘M’ were purchased from the outside supplier.

The Net rupee benefit or loss of accepting the outside supplier’s offer is _____. (05 Marks)

Solve/ Type Your Answer Here

27. Lemaan Manufacturing Company (LMC) pay account payables on the 10th day after purchase. The average collection period is 30 days, and the average age of inventory is 40 days. The company currently has annual sales of approximately Rs. 270 Million and purchases of Rs. 210 Million. The company is considering a plan that would stretch its account payables by 20 days. If LMC pays 15% per annum for its resource investment, what annual savings can it realize by this plan? Assume 360 days in a year. (05 Marks)

Solve/ Type Your Answer Here

28. Discuss the following restriction in the light of the relevant section of the Companies Act, 2017: "Subsidiary company not to hold shares in its holding company." (05 Marks)

Solve/ Type Your Answer Here

29. As per section 208 of the Companies Act, 2017, a company may enter into any contract or arrangement with a related party only in accordance with the policy approved by the Board. What are these related party transactions? (05 Marks)

Solve/ Type Your Answer Here

30. What are the consequences of non-compliance of provisions relating to commencement of business? (04 Marks)

Solve/ Type Your Answer Here

THE END