

- (C) Out of the following, which error would **not** be detected by preparing the Trial Balance?
- (1) An amount of Rs.45,000/- received from a debtor has been credited to trade receivable account as Rs.54,000/-.
 - (2) The money received from the disposal of a Motor Vehicle has been debited to cash account and credited to sales account.
 - (3) A payment of telephone expenses of Rs.15,000/- has not been recorded in the relevant expense account.
 - (4) A trade purchase of Rs.75,000/- has been debited to both purchase account and trade payable account.
- (D) The following information relates to a company which carries out the business of manufacturing and selling goods to the local market for the year ended 31st March 2013:

	Rs.'000
Credit balance of VAT control Account as at 01 st April 2012	375
Sales (including VAT @ 12%)	33,600
Local purchase of material (including VAT @ 12%)	11,200
Other purchases (including VAT @ 12%)	5,600

As per the above information, the net VAT liability as at 31st March 2013 to be settled to Inland Revenue Department should be:

- (1) Rs.3,600,000/-.
 - (2) Rs.1,425,000/-.
 - (3) Rs.576,600/-.
 - (4) Rs.2,175,000/-.
- (E) A company acquired furniture on 01st April 2012 for Rs.500,000/- on credit for the use of the company. Furniture are depreciated at the rate of 25% per annum on the straight line method at cost.

Which of the following would be the correct accounting equation after incorporating these transactions as at 31st March 2013?

	Equity (Rs.)	+	Liability (Rs.)	=	Assets (Rs.)
(1)	-	+	500,000	=	+500,000
(2)	+125,000	+	375,000	=	+500,000
(3)	-125,000	+	500,000	=	+375,000
(4)	-125,000	+	375,000	=	+250,000

- (F) The favourable balance in the bank statement of **XYZ (Pvt) Ltd.** as at 31st March 2013 was Rs.425,300/-, but the cash book showed a balance different to that balance.

The following reasons were identified for the difference:

- Cheques deposited but not realized were Rs.30,000/-.
- Cheques issued and not presented for payments were Rs.43,500/-.
- Overdraft interest of Rs.13,700/- has not been recorded in Cash book.

Bank balance appearing in the cash book before the adjustments as at 31st March 2013 would be:

- | | |
|----------------------|----------------------|
| (1) Rs.411,800/- Dr. | (2) Rs.425,100/- Dr. |
| (3) Rs.425,500/- Dr. | (4) Rs.398,100/- Dr. |

- (G) Out of the following, which statement shows the correct impact to the profit when the current year's closing stock is overstated?

- (1) Current year profit will not be changed.
- (2) Current year profit will be understated and next year's profit will be overstated.
- (3) Current year's profit will be understated.
- (4) Current year's profit will be overstated and the next year's profit will be understated.

- (H) What would be the effect to the working capital when accrued expenditure is settled in cash?

- | | |
|----------------|------------------------|
| (1) No change. | (2) Decreases. |
| (3) Increases. | (4) None of the above. |

- (I) The following information is extracted from the books of accounts of a retail shop:

	Rs.
Opening Stock	7,200,000
Closing Stock	9,600,000
Purchases	16,800,000

Using the above information, a gross profit of Rs.15,600,000/- was arrived at. However, the subsequent checking revealed that the closing stock has been overstated by Rs.400,000/- while the opening stock has been understated by Rs.800,000/-:

The correct gross profit ratio of this retail shop is:

- | | | | |
|----------|----------|----------|----------|
| (1) 52%. | (2) 48%. | (3) 55%. | (4) 60%. |
|----------|----------|----------|----------|

- (J) Which of the following transactions is recorded in the general journal of a company?
- (1) Cash purchases of fixed assets for office use.
 - (2) Credit purchases made with the intention of resale.
 - (3) Credit purchases made.
 - (4) Purchases of fixed assets on credit for office use.
- (K) Which one of the following statements is **incorrect** regarding the scope of an internal auditor?
- (1) Internal auditor examines the efficiency of non-financial activities.
 - (2) Internal auditor expresses an audit opinion on the financial statements of the company.
 - (3) Internal auditor reviews the internal controls in operation.
 - (4) Internal auditor checks the implementation of policies of the company.
- (L) Which one of the following is **not** a control mechanism that can be introduced as an internal check?
- (1) Division of work.
 - (2) Job rotation.
 - (3) Accounting controls.
 - (4) Appointing an external auditor.
- (M) Out of the following, the item which is **not** considered as a fraud:
- (1) Manipulation or alteration of records or documents.
 - (2) Misappropriation of assets.
 - (3) Mathematical or clerical mistakes in the accounting data.
 - (4) Embezzlement of cash.
- (N) Internal Control System means:
- (1) A system established to detect fraud and error of a business.
 - (2) Policies and procedures adopted by the management of an entity in achieving managements' business objectives.
 - (3) A system established to obtain reports on frauds.
 - (4) A system established to check the arithmetical accuracy of a set of financial statements.
- (O) Which one of the following **cannot** be considered as an element of internal controls in a company?
- (1) Segregation of duties.
 - (2) Budgeting.
 - (3) Shareholders' meeting.
 - (4) Delegation of financial authority.

(02 marks each, Total 30 marks)

SECTION - B

Compulsory Questions

Answer both(02) questions of this Section

50 marks

02. (A) List two(02) documents to be submitted to incorporate a private limited company under the Companies Act No. 07 of 2007. (02 marks)

- (B) The Following Trial Balance is extracted from the books of accounts of **Accurate Measure (Pvt) Ltd.** a company engaged in importing & selling of measuring instruments:

Trial Balance as at 31st March 2013

	Dr.(Rs.'000)	Cr.(Rs.'000)
Stated Capital (2,000,000 Ordinary Shares)		40,000
Retained Earnings as at 01 st April 2012		10,500
12% Debentures		6,000
Property, Plant & Equipment at Cost:		
Land	18,300	
Building	35,000	
Motor Vehicles	15,875	
Machinery	14,320	
Office Equipment	6,060	
Accumulated Depreciation as at 01 st April 2012:		
Building		11,000
Motor Vehicles		9,350
Machinery		2,300
Office Equipment		2,075
Payment for the New Vehicle	1,000	
Inventory as at 01 st April 2012	12,355	
Trade Receivables / Trade Payables	13,760	7,300
Cash in Hand	500	
Provision for Income Tax for the Year of Assessment 2011/12		6,000
Bank Overdraft		9,800
Sales		211,575
Purchases	122,705	
Distribution Expenses	11,155	
Administration Expenses	30,800	
Finance Expenses	12,200	
Income Tax Paid	8,370	
Interim Dividends Paid	13,500	
Total	315,900	315,900

The following additional information is also provided:

- (1) The physical inventories balance as at 31st March 2013 consists of five different types of measuring instruments as detailed below:

Product	No. of units available	Cost per unit (Rs.)	Net Realizable Value (NRV) per unit (Rs.)
AM 1	500	11,300	12,000
AM 2	200	6,800	6,400
AM 3	50	9,500	8,800
AM 4	40	25,550	27,000
AM 5	40	8,100	7,700

The company's policy is to value its inventories on individual item basis.

- (2) There was a robbery reported in the stores on 20th March 2013 and subsequent investigations revealed that a stock costing of Rs.1,700,000/- was lost. In response to the loss of stocks, the insurance company has agreed to pay 90% of the cost of goods as the insurance claim on 31st March 2013. No entries have been made in the books of accounts regarding this.
- (3) Property, Plant and Equipment are to be depreciated on the straight line method at cost and estimated useful life of the assets are as follows:

Building	20 years
Motor Vehicles	5 years
Machinery	8 years
Office Equipment	4 years

- (4) A motor vehicle which was purchased on 30th June 2011 at a cost of Rs.2,400,000/- was valued at Rs.1,725,000/- and was given in part exchange for a new vehicle valued at Rs.2,725,000/- on 31st March 2013. In this regard, no entries have been made in the books of accounts other than accounting for the cash payment of Rs.1,000,000/-.
- (5) Administration expenses include rent paid for the office for a period of one year from 01st July 2012 at a monthly rent of Rs.250,000/-.
- (6) Accrued audit fee as at 31st March 2013 is Rs.275,000/-.
- (7) Tax liability for the year 2011/12 is finalized as Rs.4,350,000/- which was paid during the year. The total income tax liability for the year of assessment 2012/13 is estimated as Rs.8,500,000/-.
- (8) As per the debenture certificates, interests are to be paid on every six months, as follows:

Period	Due Date
01 st April to 30 th September	01 st October
01 st October to 31 st March	01 st April

However the debenture interest has not been accounted for the 2nd half of the year.

You are required to prepare, for the use of the management of **Accurate Measure (Pvt) Ltd.** the following:

- (a) Statement of Comprehensive Income (Income Statement) for the year ended 31st March 2013. (12 marks)
- (b) Statement of Financial Position (Balance Sheet) as at 31st March 2013. (11 marks)
- (Total 25 marks)

03. Lal, Nihal and Dayal have been carrying on a business of importing and selling of household appliances as a partnership under the name of **Happy Partners**, sharing profits and losses in the ratio of 6 : 5 : 4 respectively among the partners:

The partners' agreement contained the following:

- Interest at the rate of 12% per annum is to be paid on long term loans given by partners.
- Partners are entitled to receive the following monthly salaries:

Lal - Rs.40,000/-.

Nihal - Rs.30,000/-.

Dayal - Rs.60,000/-.

On 30th September 2012, **Dayal** retired from the partnership and the partners agreed to the following conditions with the retirement.

- (1) Goodwill of the partnership as at 30th September 2012 was valued at Rs.3,000,000/-. It was agreed to record the effect of the value of the Goodwill through partners' capital accounts without showing the goodwill account in the books of accounts.
- (2) At the date of the retirement, **Dayal** agreed to take over one of the motor vehicles of the partnership at the carrying value (book value) of Rs.800,000/- as a part settlement of his dues. Cost of this vehicle was Rs.1,750,000/-.
- (3) An amount of Rs.900,000/- has been paid to **Dayal** at the date of retirement and the balance due is to be considered as a long term loan. **Happy Partners** agreed to pay interest bi-annually on 01st October and on 01st April computed at the rate of 12% per annum.
- (4) Only the amount paid in cash of Rs.900,000/- to **Dayal** on 30th September 2012 was recorded in a separate account.
- (5) The new partnership agreement contains the following:
 - (i) Interest of 12% per annum is to be paid on partners' long term loans.
 - (ii) Partners are entitled to the following monthly salaries:

Lal - Rs.50,000/-

Nihal - Rs.40,000/-
 - (iii) Profits and losses are to be shared between **Lal** and **Nihal** in the ratio of 3 : 2.

The **Trial Balance** as at 31st March 2013 was as follows:

Description	Debit (Rs. '000)	Credit (Rs. '000)
Capital Accounts as at 01 st April 2012:		
Lal		3,600
Nihal		2,800
Dayal		1,700
Current Accounts as at 01 st April 2012:		
Lal	672	
Nihal		900
Dayal		128
Part settlement - Dayal on 30 th September 2012	900	
Purchases / Sales	12,600	28,000
Inventories as at 01 st April 2012	1,050	
Property, Plant & Equipment as at 01 st April 2012:		
Land & Building at cost (Land Value is Rs 2.4 million)	7,200	
Motor Vehicles at cost	12,000	
Accumulated Depreciation as at 01 st April 2012:		
Building		1,980
Motor Vehicles		3,600
Trade Receivables / Trade Payables	2,362	4,463
Cash in Hand and at Bank	300	
Long term loan from Nihal (Received on 01 st January 2012)		200
Administration Expenses	3,267	
Distribution Expenses	5,020	
Finance Expenses	2,000	
	47,371	47,371

The following additional information is also provided;

- (1) Property, plant and equipment are to be depreciated on the straight line basis at cost and the depreciation rates of the assets are as follows:

Building - 5% per annum.

Motor Vehicles - 10% per annum.

- (2) The inventories as at 31st March 2013 were Rs.1,400,000/-.
- (3) Accrued expenses and prepayments are as follows:

	As at 31 st March 2013	
	Accrued (Rs.)	Prepayment (Rs.)
Administration Expenses	-	50,000
Distribution Expenses	100,000	-

- (4) An amount of Rs.10,000/- is to be written off as bad debts during the first six months and a further Rs.19,000/- is to be written off as bad debts during the last six months of the year.
- (5) Sales of the partnership for the period from 01st April 2012 to 30th September 2012 were Rs.16,800,000/-.
- (6) Gross Profit and Distribution Expense should be apportioned between two periods on the basis of turnover. Unless otherwise stated, all other revenue and expenses are to be apportioned on the time basis.

You are required to prepare, the following financial statements of **Happy Partners:**

- (a) The Trading, Profit and Loss and Appropriation Account of the partnership for the period ended 30th September 2012 and 31st March 2013 in columnar form. (12 marks)
 - (b) The statement of Financial Position (Balance sheet) of **Happy Partners** as at 31st March 2013. (06 marks)
 - (c) Partners' capital accounts and current accounts in columnar form for the year ended 31st March 2013. (07 marks)
- (Total 25 marks)

SECTION - C

Answer any two (02) questions only from this Section
20 marks

- 04. (A)** The following salary records have been extracted from the books of **Y Ltd.** for the month of December 2013:

Total Gross Salary	(Rs.)	162,000/-
Annual Bonus	(Rs.)	162,000/-
Total Other Allowances	(Rs.)	68,000/-
Salary advance to be deducted	(Rs.)	25,000/-
PAYE deductions	(Rs.)	2,200/-
Deductions for bank loans	(Rs.)	3,500/-
Employees Provident Fund (EPF) contribution:		
Employer		12%
Employee		8%
Employees Trust Fund (ETF) contribution:		
Employer		3%
Overpaid net salaries in the previous month to be recovered in this month (EPF has been deducted & paid along with ETF)	(Rs.)	4,600/-

- The company's practice is to record the salary related transactions on the last day of the month & pay the net salary and other statutory payments by 5th of the subsequent month.
- Contributions of EPF and ETF are not computed on bonus.

You are required to prepare, salary control account of **Y Ltd.** for the month of December 2013. (06 marks)

- (B) You are given the following information of **Safety (Pvt) Ltd.:**

Safety (Pvt) Ltd. **Income Statement for the year ended 31st March 2013**

	Rs.('000)
Sales (Turnover)	6,800
Less: Cost of Sales	4,200
Gross Profit	2,600
Less: Expenses	
Distribution Expenses	520
Administration Expenses	800
Finance Expenses - Interest on Bank Loan	260
Profit Before Tax	1,020
Income Tax	(200)
Profit After Tax	820

Safety (Pvt) Ltd.
Statement of Financial Position as at 31st March 2013

	Rs.('000)
Property, Plant & Equipment	1,500
Investments	400
Current Assets:	
Inventories	1,020
Trade Receivable	560
Prepayments	300
Cash in Hand & at Bank	160
Total Assets	3,940
Equity	2,200
Non Current Liabilities:	
Bank Loan	720
Current Liabilities:	
Trade Payables	520
Accrued Expenses	500
Total Equity & Liabilities	3,940

You are required to calculate, the following ratios for the year ended 31st March 2013:

- (a) Gross Profit Ratio.
 - (b) Current Assets Ratio.
 - (c) Quick Assets Ratio.
 - (d) Return on Capital Employed. (04 marks)
- (Total 10 marks)

- 05.** (A) Identify three(03) limitations of Internal Controls. (03 marks)
- (B) What is meant by "Control Environment" in respect of Internal Controls of an organization? (02 marks)
- (C) State five(05) measures that can be applied by the management to ensure that stock is adequate and protected against loss or misuse. (05 marks)
- (Total 10 marks)

- 06.** (A) List four(04) activities of an Internal Auditor. (04 marks)
- (B) State four(04) functions of an Accounting System. (04 marks)
- (C) List two(02) methods of understanding the Internal Control System of an organization. (02 marks)
- (Total 10 marks)