



Time Allowed: 2 Hours 45 Minutes

Maximum Marks: 90

Roll No.:

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation and language where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) **Question Paper must be returned to invigilator before leaving the examination hall.**

**Marks**

- Q. 2 (a)** M/s. Sardar Group of companies is one of the largest business groups of the country having various entities involved in diversified businesses. The Head Office of the group is situated in Lahore while the manufacturing and operational facilities of different entities of group are situated at various locations. The group has set up a centralized “Treasury Function” at Karachi which reports to one of the sponsor directors Mr. Gulshan, who has a masters degree in finance from an internationally renowned university and is also the Chairman of the “Investment Committee” of the group. You have recently been appointed as a Head of Treasury and have been requested to make a presentation for the Investment Committee on the following:
- Financial risks
  - The role of treasury in managing the financial risks.

**Required:**

Keeping in view the above scenario, answer the following:

- (i)** Define the term financial risk and list down various types of the financial risks. **05**
- (ii)** Briefly explain the role of “treasury function”, risks associated with centralization of “treasury function” and approaches to manage risks at “treasury function”. **08**

- (b)** M/s. Global Limited is a renowned multinational company, engaged in manufacturing of food processors. The Sales Manager of the company received a huge order of manufacturing food processors and communicated this order to Production Manager of the company. The Production Manager estimated that the order will be 60% of the normal production capacity and his team will meet the order within due time. However, the production manager is worried about the insufficient working capital and discussed the scenario with Chief Financial Officer (CFO) of the company to enhance finance to mitigate the risk of over trading. The CFO apprised that the company cannot generate fund through equity capital and reliance will have to be placed on borrowings.

**Required:**

Enumerate any seven risks associated with over trading where the management is unable to raise more equity capital.

**07**

PTO

- Q. 3 (a)** M/s. Air Signals Limited (ASL) is a company listed on local stock exchange since 1<sup>st</sup> July, 2000. The principal office of the company is situated in Karachi. ASL is engaged in the business of manufacturing of mobile phones, accessories, and wireless communication equipments etc. The sales of the company include 55% exports in 20 countries. In addition to direct exports, the company has also 10 other wholly owned subsidiaries to undertake manufacturing or trading of its products in various countries. The financial year of the company ends on December 31<sup>st</sup> every year. The management of the company has decided to change the auditors of the company and appointed M/s. Price and Co., Chartered Accountants to carry out audit of the books of the accounts of the ASL for the year ended December 31, 2012.

**Required:**

As an Audit Supervisor, you have been assigned a task to undertake audit of Air Signals Limited. The review of management letter of prior year reveals various weaknesses in the internal control system of the company. The manager of your firm has called you to prepare a checklist outlining at least eight (8) conditions and events which may indicate the risk of material misstatement in the financial statements of Air Signals Limited.

08

- (b) (i)** How the remuneration of the auditor is fixed under section 252(8) of the Companies Ordinance, 1984?

02

- (ii)** Who can sign the audit report under section 257(1) of the Companies Ordinance, 1984?

02

- (c)** Define the following terms:

**(i)** Performance Materiality

02

**(ii)** Auditor's Expert

02

**(iii)** Engagement Quality Control Reviewer

02

- Q.4 (a)** M/s. Alpha and Co., Chartered Accountants is an auditor of M/s. Air Conditioning Limited (ACL) for the year ended June 30, 2012. The company is listed on Karachi Stock Exchange. The financial statements of the company have been approved by the Board of Directors on September 15, 2012 and an audit report on the company's Financial Statements was signed on the same date. The audited financial statements were sent to the publisher for publishing. The Annual General Meeting (AGM) of the company was scheduled on October 30<sup>th</sup> 2012 and notice for AGM along with copies of audited financial statements were planned to be issued on 7<sup>th</sup> of October 2012. Prior to June 30, 2012, a dispute has arisen between the foreign customer and company regarding the shipment of defective goods worth US\$ 1.6 million. Based on the contract it was agreed that any dispute will be settled through arbitration. On arising of dispute, the matter was referred to arbitration for resolution. On 2<sup>nd</sup> October, 2012, the arbitrator has issued its award worth US\$ 2 million and same was published in local news paper.

**Required:**

Elaborate responsibilities of M/s. Alpha and Co., Chartered Accountants and course of action after becoming aware of arbitration award of US\$ 2 million against the company.

10

		<b>Marks</b>
	<b>(b)</b> List down at least five review procedures for each of the following components of balance sheet:	
	(i) Loans payables	<b>05</b>
	(ii) Investment	<b>05</b>
<b>Q.5</b>	<b>(a)</b> The International Standards of Auditing require an auditor to exercise professional judgment in planning and performing an audit of financial statements. Define professional judgment. Identify the areas regarding which an auditor should exercise professional judgment during an audit.	<b>07</b>
	<b>(b)</b> Discuss the matters which need to be communicated by the auditor with those charged with governance in relation to the following:	
	➤ financial statement audit	
	➤ planned scope and timing of the audit	<b>03</b>
<b>Q.6</b>	<b>(a)</b> M/s. Triplet Limited (TL) is a public limited company. The company's profit before tax is Rs.15 million. During the course of the audit, the auditor became aware that lawsuit for Rs. 8 million has been filed by the company's main competitor against TL alleging a breach of copyright. This case is ongoing and will not be resolved prior to the audit report being signed. The matter is correctly disclosed as contingent liability.	
<b>Required:</b>		
	<b>(i)</b> In the light of the above case, is there modification of the audit opinion required if no, then how shall the matter noted above be included in the auditor' report? What is meant by an emphasis of matter paragraph in the auditor's report?	<b>03</b>
	<b>(ii)</b> Identify the circumstances under which the auditor would be required to include an emphasis of matter paragraph in an audit report.	<b>03</b>
	<b>(iii)</b> Specify the requirements of International Standards on Auditing while including an emphasis of matter paragraph in the auditor's report.	<b>04</b>
	<b>(b)</b> Enumerate any eight (8) advantages of cost audit and also discuss the major considerations the cost auditor should keep in view while planning the cost audit program.	<b>12</b>

**THE END**