A Key to Success in

Test of FPSC regarding the appointment of

Senior Auditor

B-16

Part-II (80% Professional)

Accounting Principles & Procedure:

- ***Transaction:-***

Any financial dealing between two person or things is a transaction. It may be relate to purchase and sells goods, receipt and payment of cash and rendering of service by one party to another.

OR

A business event which can be measured in terms of money and which must be recorded in books of account is called transaction.

- ***Classification:-***

Transaction may be divided into two groups.

(1) ***Cash Transaction:-***

If the value of a transaction in met is cash immediately, it is called cash transaction. e.g. We buy furniture for Rs. 2000/- from Zubair and immediately pay him in cash. It is cash transaction.

(2) ***Credit Transaction:-***

If a transaction is made with the consent to make the payment in some future time, against such transaction.

Business:-

Any legal activity which is done for the purpose of earning profit is known as business. e.g. banking business, an insurance business, etc.

- ***Proprietor:-*** He is owner of a business. He invests capital in it, gives his time and attention to it. He is entitled to receive the profit or bear loss arising out of it.
- ***Capital:-*** It is the source of funds provided by the owner of the business and it is long term liability of the business which is re-payable to the owner at the time of dissolution of the business or any other case.
- ***Drawing:-*** The amounts of cash or goods taken away by owners from the business for his personal use are known as drawings.
- ***Purchases:-*** In accounting language the word "purchases" has special meaning. When tradable goods are brought in business it is called that purchases have been made.
    - **Cash Purchases:-** If goods are purchases from a supplier and payment is made to him at the same time, such purchases are known as "cash purchases".
    - **Credit Purchases or Purchases on Account:-** When goods are purchased from seller/supplier and payment is not made to him at the same time, rather the payment is arranged to be made at some future date, such purchases are known as "credit purchases" or "purchases on account".
    - **Purchases Return or Returns Outwards:-** Goods once purchased may subsequently be sent back to the seller for certain reasons, i.e. goods are defective, not according to specification, damaged or below standard. Such return of goods to the seller is known as "purchases return".
    - **Purchases Discount:-** The concession given by the supplier to the buyer on purchases of goods is known as purchases discount.
- **Sales: -** When goods of the business are sale out to someone others for earning profit, this is known as sale is made the business.
    - **Cash Sales:-** If goods are sold to customers at a specific price and price of goods is received from them at the time of sale of goods, such sales are known as "cash sales".
    - **Credit Sales:-** If goods are sold to customers and he does not pay the price of goods at the same time but to make payment on some future date, the sales are called "credit sales" or "sales on account".
    - **Sales Returns or Return Inwards:-** If a customer to whom goods have been sold finds that the goods are defective, unsatisfactory, below standard Or not according to the specification, he may return these goods to the seller. Such return of goods is known as "sales return".
- **Trade Discount:-** Discount allowed by manufacturer or wholesaler at the time of selling goods to retailer as a deduction from the list price or catalogue price is called trade discount.
- **Debtors/Accounts Receivable:-** A person who owes money to another is debtor when we say that we owe Mr. Amir Rs. 5000/ we mean that we have received from Mr. Amir 5000/ which we have to repay. We stand as debtor to Mr. Amir for Rs. 5000/ it is also termed as account receivable.
- **Creditors/Accounts Payable:-** A person who pays out something or to whom money owing is a creditor. It is also termed as accounts payable.
- **Commission:-** It is form of remuneration for services rendered by one person to another.
- **Expenses:-** Expenses are the cost of the goods and services used up in the process of obtaining revenue. e.g. Salaries, Insurance, rent etc.

Appropriation Accounts

Federal Appropriation Accounts show the audited accounts of expenditure from the appropriations for the year with full explanations of all important variations between the original and modified appropriations and expenditure.

The Federal Appropriation Accounts of defence services deal with:

- ✓ A general review of expenditure on Defence Service. This will include explanation for variation between the original modified Appropriation and the actual by Main Heads of Accounts.
- ✓ Changes in form of the Accounts or in their classification.
- ✓ Misc. observations.
- ✓ Federal Appropriation Accounts showing the figures for original modified Appropriation and actual by Major Heads.

- **Goods merchandise:-** It includes all merchandise commodities, which are purchased by the business for selling purpose.
- **Stock Inventory:-(List of Goods)** Goods or merchandise on hand that is goods remaining unsold is called stock in trader inventory.
- **Bad debt:-** A bad debt is a business loss. The debts, which are irrecoverable from debtors, are called "bad debts"
- **Depreciation:-** Gradual decrease in the machinery value of an asset due to usage in business is known as depreciation. Depreciation is a loss to the business.

Fluctuation:- The decrease or increase in value of an asset not due to use in business is known a fluctuation.

- **Petty cash book:** - A book, in which small cash payments recorded, which are not convenient to record in the main cash book directly (like postage traveling expenditure purchase of stationery are recorded) is petty cash book.
- **Imprest system;** A system in which a fixed sum of money is given to cashier for the month is called Imprest system.
- **Assets:-** These are the things of value possessed by a trader such as Building, Stock, Debtor, Cash, Goodwill etc. Assets have the following kinds mentioned below:-

Fixed Assets:- Assets which have long life and which are bought for use in business for long period of time are called fixed assets e.g. Land Buildings, Furniture etc.

Current Assets/ Circulatory/ Floating Assets:- Assets which have short life and which can be converted into cash quickly to meet the short terms liabilities are called current assets e.g stock, Debtor, Cash etc. These are also called circulatory or floating assets.

Tangible Assets:- Assets which have physical existence and which can be seen, touched or felt are called tangible assets e.g land buildings, machinery.

Intangible Assets:- Assets which have no Physical existence and which cannot be seen, touched or felt are called intangible assets e.g Good will, patent right, Trade mark etc.

Liquid or Quick Assets:- Assets which can be converted into cash very quickly or which are already in the form of cash are called liquid or Quick assets. E.g cash in hand, cash at bank etc.

Wasting Assets: Those assets whose value gradually reduce on account of use ar finally exhausted completely are called wasting assets.

- **Liabilities:-** Liabilities are debts or obligation of a business which are payable to outsiders or the persons inside the business like owners of the business.

  Fixed liabilities:- Fixed liabilities, which are repayable after a long Period. E.g. long term loan, capital etc.
  Current Liabilities:- The debts that are repayable within a short period are called current or short-term liabilities e.g Creditors, bills payable bank overdraft.

  Contingent liabilities: Contingent liabilities is not a liabilities at present but may or may not become liability in future it depends upon certain future event.

- **Contra Entry:-** An entry in which cash a/c and bank a/c involved and it is recorded on both sides of cash book is called contra entry.

- **Accounting:-** Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transaction and events, which are, in part at least, of a financial character, and interpreting the result thereof.

- **Book Keeping:-** Bookkeeping is the art of recording monetary transactions in the books of accounts in a proper manner.

- **Accounting & Accountancy:-** The two words "Accounting" and "Accountancy" are often used to mean the same thing. But it is not correct. Accountancy is a main subject and Accounting is one of its branches. The word "Accountancy" is for wide and extensive compared to Accounting. It covers the entire body of theory and practice. i.e. Books Keeping, Accounting, Costing, Auditing, Transaction.

- **Financial Accounting:-** The main purpose of Financial Accounting is to ascertain the true result (profit or loss) of the business operations during a particular period of time and to state the financial position of the business on a particular point of time.

- **Management Accounting:-** It is accounting for the management i.e. accounting, which provides necessary information to the management for discharging their duties. It take decisions and to control activities.

- **Cost Accounting:-** The main object of cost accounting is to determine the cost of product and to the business in controlling the costs by indication avoidable losses and wastes.

- **Cash System of Accounting:-**Under this system of accounting, transactions are recorded only when cash is received or paid, whether they are related to current year or not.

- **Accrual System of Accounting:** The system under which all items of revenues and expenses relating to the current accounting period whether received or paid in cash or not are taken into consideration while determing the profit or loss of the business, is called accrual system of accounting or Mercantile system of accounting.

Accrual Revenues:- The revenue, which we have been earned in the current year but has not been received in cash within the current year, it will be received in next year, is known as accrued revenue e.g. accrued commission (CR), Rent receivables etc.

Accrual Expenses or Outstanding Expenses:-
The expenses which have been incurred during the current year but have not been paid till the end of the current year are called outstanding expenses payable e.g. Wages Payable, accrued Salaries etc.

Capital Expenditure: An expenditure, which results in the acquisition of permanent asset in the business for the purpose of earning revenue, is known as capital expenditure.

Revenue Expenditure: All those expenditure which are incurred in the day-to-day conduct and the administration of a business and the effect of which is completely exhausted within the current accounting year are known as Revenue Expenditures. These are also known as Expenses, Expired Cost.

- **Debit Note:-** If goods bought on credit are returned to seller for a solid reason the buyer debit the seller account and inform the seller throu a note. This note is called debit note.
- **Credit Note: -** If goods sold on credit are returned by the buyer, t seller credits the buyer account and informs the buyer through a note. T note is called credit note.
- **Cash Discount: -** It is a deduction or allowance given by a creditor t debtor before the due date.
- **Trade Discount:-** Discount allowed by manufacturer or wholesale the time of selling goods to retailer as a deduction from the list price catalogue price is called trade discount.

FINAL ACCOUNT

t is prepared to determine the profit and loss of the business and its nancial position.

TRADING & PROFIT & LOSS ACCOUNT/ INCOME TATEMENT

s the name of this account, it is made up two accounts that in trading ccount and profit & loss account. Trading Account in prepared to etermine the gross profit or gross loss of a trader while profit & loss ccount is prepared to determine the net profit or net loss of a trader.

Trading & profit & loss account/income statement is prepared in oth ways. It is prepared in T form (T Account) as well as in report orm.

DIRECT EXPENSES

irect expenses are those which are incurred to convert the raw aterial into finished goods. Direct expenses are charged to Trading ccount for example wages, freight, cartage, excise duty etc.

MANUFACTURING EXPENSES

anufacturing Expenses are those which are relating to manufacturing ocess/factory such as factory insurance and factory repair etc. these penses are direct expenses and shall be charged to Trading Account.

PROFIT & LOSS ACCOUNT

ofit & Loss Account is prepared to determine the net profit or net loss a trader.

COST OF GOODS SOLD

dicates the cost price of goods which have been sold during a given riod. Simply it can be written as Opening Stock + Cost of goods rchase = Cost of Goods Sold – Closing Stock.

7. GROSS PROFIT.

The excess of the net income from sales over the cost of goods sold i called gross profit and through this, we can obtain net profit or ne income of the business.

8. OPERATING EXPENSES.

Operating expenses are two types there are. Selling expenses an administrative or general expenses. Selling Expenses are incurre directly and entirely due to sale of goods for example Salaries c Salesman, Advertisement etc.

Administrative or General Expenses are incurred due to th administration of business for examples office Salaries, Office Supplie etc.

9. NET PROFIT

The final figure on the Profit & Loss Account is called net profit or n loss and which is carried to the balance sheet.

10. BALANCE SHEET

It is a statement which shows the financial state of the expenditure. It the statement of all the assets and liabilities. It is prepared after tradi and profit & loss account.

DEFINE ASSETS AND WHAT ARE THE MAIN TYPES OF ASSETS/ CLASSIFICATION OF ASSETS.

ASSETS

Any valuable thing possessed by the firm or owner of the business in called asset for example Building, Plant, Machinery, etc.

TYPE/ CLASSIFICATION OF ASSETS

The main types of classes are as follows:-

i. ***FIXED ASSETS***

Fixed Assets are those which are acquired not for sale but only for permanent use in the business are called fixed assets e.g. Plant, Machinery, Land, Building etc.

ii. ***FLOATING/ CIRCULATING/CURRENT ASSETS***

Floating or circulating or current assets are those which are held for sale and which are converted into cash after sometime for example Bill Receivable, Stock of Goods etc.

iii. ***LIQUID ASSETS***

Liquid assets are those which are with us in cash or which are easily converted into cash for example cash in hand, cash at bank etc.

iv. ***WASTING ASSETS***

Wasting Assets are those which have become depreciated through fair wear & tear with the passage of time. It is a sub class of fixed asset e.g. Land, Building, Machinery etc.

v. ***FICTITIOUS ASSETS/ INTANGIBLE ASSETS.***

Fictitious or intangible assets are those whi have no physical existence and which neither can seen with eyes nor touched with hands for examp Good Will, Prepaid Insurance etc.

vi. ***CONTINGENT ASSETS***

Contingent Assets are those which are arise af happening of a certain event. For example uncall capital for a limited company.

vii. **Outstanding Assets**

Out Standing Assets are those when expens paid in advance are called outstanding assets f. example prepaid wages etc.

DEFINE LIABILITY? WHAT ARE THE TYPES/ CLASSIFICATIO OF LIABILITIES?

LIABILITY

The outstanding amount against the assets of the fi is called liability.

TYPE OF LIABILITY

There are following types of liabilities:-

a. ***FIXED LIABILITIES***

These are the liabilities which are not paya immediately or in near future. These liabilities a payable after a long period of time for example lo term loans etc.

b. ***CURRENT LIABILITIES***

These liabilities are payable immediately or near future such as creditors, Bank loans etc.

c. ***CONTINGENT LIABILITIES.***

These are liabilities which are arises after happening of a certain event. The event may or may not involve. Thus a contingent liabilities may or may not involve the payment of money

These liabilities are not recorded in the balance sheet. It is just sufficient to make a foot note on balance sheet for example a pending case against a person in court etc, debtor fails to fulfill his obligation.

d. ***OUT STANDING LIABILITIES***

Outstanding expense or unearned income is called out standing liability for example outstanding wages, outstanding rent, outstanding salary etc.

ACCOUNTING EQUATION

ASSETS = LIABILITIES + CAPITAL

DEFINE CAPITAL? WHAT ARE THE TYPES?

RULES OF DEBIT AND CREDIT

FOR ASSETS ACCOUNTS:

Increase in an asset is debit.................... Dr.

Decrease in an asset is credit..................Cr.

FOR LIABILITIES ACCOUNTS:

Increase in a liability is credit.................... Cr.

Decrease in a Liability is Debit...................Dr.

FOR PROPRIETORSHIP/CAPITAL ACCOUNT:

Increase in Capital is Credit ....Cr.

Decrease in Capital is Debit ....Dr.

FOR REVENUE ACCOUNTS

Increase in Revenue is Credit.......................Cr.

Decrease in Revenue is Debit........................Dr.

FOR EXPENSES ACCOUNTS

Increase in Expense is Debit.........................Dr.

Decrease in Expense is Credit........................Cr.

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CAPITAL

Sum of cash or goods invested in business by the owner is called capital.

TYPE OF CAPITAL

The following are the main types of the Capital

a. **TRADING CAPITAL**
The profit of the funds of a concern which represented by fixed or floating assets is called Trading capital.

b. **FIXED CAPITAL**
The portion of the funds of a concern, which represented by fixed assets, is called fixed capital

c. **CIRCULATING CAPITAL**
The portion of the funds of a concern w represented by floating or circulating assets is circulating capital.

d. **WORKING CAPITAL**
The excess of the floating assets over the liabilities is called working capital

e. **LOAN CAPITAL**
Debentures or other fixed loans are called loan c

f. **WATERED CAPITAL**
It is represented by fictitious assets

DESCRIBES THE DIFFERENCE BETWEEN THE TRIAL BALANCE & BALANCE SHEET?

Sr. No.	TRIAL BALANCE	Sr. No.	BALANCE SHEET
01	It is the list of balance obtained from the ledger account.	01	It is a statement of assets and liabilities.
02	It contains the balances of all accounts real, nominal& personal A/C's.	02	It contains the balances of assets and liabilities.
03	It is prepared before trading and profit & loss Account.	03	It is prepare after trading and profit and loss account.
04	It does not contain the value of closing stock.	04	It contains the value of closing stock which appears on the assets side.
05	Expenses due but not paid income due but not received do not appear in the trial balance.	05	Expenses due but not paid, income due but not received appears in the balance sheet.

OUTSTANDING EXPENSE

Expenses incurred but have not been actually paid are called out standing expenses for example outstanding wages, outstanding rent etc. these are shown in profit & loss account as expenses and shown in the balance sheet as liabilities.

PREPAID EXPENSES

Expenses paid in advance before they have fallen due are called prepaid expenses for example prepaid rent, prepaid wages etc. these are shown in profit & loss account by deducting from the relevant account on debit side and shown in balance sheet as assets

ACCRUED INCOME

Earning or income such as interest on loan, commission, dividend and rent receivable from tenant is called accrued income. This will be shown in profit & loss account as income on credit side and will be shown in balance sheet as an asset

UN EARNED INCOME

Income received in advance but not earned is called un earned income for example rent, interest commission and discount etc which might have been receivable in advance but full service have not been given so for this will be shown in profit & loss account by deduction from the relevant account on credit side and will be shown in balance sheet as liability.

SOME IMPORTANT DEFINITIONS

PRIME COST

The sum of direct material, direct labour are called prime cost. It is also called basic or flat cost.

1. **CONVERSION COST/ TOTAL COAST**
It is the total cost which converts the basic raw martial from one stage of production to the next stage of production. It is the cost which converting the direct raw material into prepared material or finished goods excluding the cost of raw material.

2. **MARGINAL COST**
It is the difference in the cost of alternatives is called marginal cost. ΔTC/ΔQ

3. **FACTORY COST/ TOTAL WORK COST/ TOTAL MAIN COST**
This cost is made up of prime cost plus factory overhead. In other words, it is the figure by which completed goods are shown in the inventory. This is also known as total works cost or total manufacturing cost.

4. ***VARIABLE COST/ FLUCTUATION COSTS***
Variable costs are those which fluctuate in proportion to the volume of production are called variable costs e.g. direct material and direct labour.

5. ***FACTORY OVERHEAD***
Factory overhead are those costs which are indirectly related with production and are incurred before the goods are put into the finished goods.

6. ***FIXED/ CONSTANT COSTS***
Fixed/ constant costs are those costs which remain fixed total except the charges in the volume of production or sale.

7. ***OVER TRADING***
Means purchasing beyond your capital is called over trading.

8. ***OVER HEADS***
Over-heads are indirect expenses e.g. selling expenses administration expenses and financing expenses are called overheads.

9. **COST OF GOODS MANUFACTURED**
Cost of goods manufactured is a summary of the costs included in the manufacture of goods e.g. cost materials, labors etc.

10. **DIRECT LABOUR/ WAGES**
The labour engaged directly in the production of goods and which converts the raw material into finished goods is called direct labour.

11. **INDIRECT LABOUR**
Which is not involved directly in the production manufacturing from but helps the manufacturing process indirectly is called indirect labour.

12. **INDIRECT EXPENSES**
In direct expense are those which are not directly related to the production but helps in-directly in the production process is called indirect expense e.g. rent, insurance, Gen expenses etc.

13. **TURN OVER**
The total sales of a trader within a given period is called turn over.

14. **DIRECT COST**
The aggregate of the material which is directly used in the course of manufacture is called direct cost.

15. INDIRECT COST.
The aggregate of the material which is not directly used in the course of manufacture is called indirect cost e.g. repair to machinery, inspection etc.

16. GOOD WILL
The value of a business bought as a going concern over and above the cash price of its marketable assets such as houses, lands and plants etc.

17. SINKING FUNDS
A sinking fund is a reserve created out of profit and usually invited outside the business in early marketable securities.

18. DEPRECIATION
Depreciation means the gradual decrease in the value of an asset. The net results of asset deprecation are that sooner or later the asset will become useless.

19. DIVIDEND
The term dividend means the profit of a company which is distributed among its shareholders. It is the liability of the company and appears in the balance sheet on liability side.

20. BAD DEBTS
Irrecoverable recoveries from debtors are called bad debts.

21. DOUBTFUL DEBTS
When the recoveries from debtors are seems, to become bad debt, such debts are called doubtful debts.

22. TRANSFER ENTRY
Transfer Entries are the entries, which are intended to transfer an item form one head of account to another

23. PETTY CASH & PETTY CASH BOOK
The sum of small money which is required for the purpose of small payment.

24. SUSPENSE ACCOUNT.
The word suspense means uncertainty. It is an account in which the transactions are not entered in its proper head due to lack of information.

25. PUNCHING MEDIA
Punching Media is an extract of certain date pertaining to a voucher which is sent by audit sections of Controller's Office to the Data Management section of MAG's Office for compilation.

26. PREFERENCE SHARE
These are the shares whose holders have preferential rights in respect of the payment of dividend and repayment of capital in the event of winding up. The rate of dividend on these shares is fixed.

27. PARTNERSHIP DEED
It is a document which contains all necessary rules and regulations which are required to run the partnership business.

28. ACCOMMODATION BILL
Accommodation Bill is a bill of exchange which has been drawn and accepted for financial assistance.

29. BILL OF EXCHANGE
It is an unconditional order in writing to pay addressed by one person to another, and a person who gives must be sign in it and a person who receives it must be accepted. It may be drawn on any paper. Stamp Duty has to be paid on bill of exchange. It can be drawn is sets.

30. **Promissory Note.**
It is an unconditional promise in writing signed by the maker to pay on demand. There are only two parties the drawer in

to the payee. There is no need of acceptance. It is never drawn in sets.

31. Bank DRAFT.

Commercial Banks give the facility of transferring money from one place to another place. So it means that the bank draft is a source of transferring money from one place to another. It is an order from one bank to its other branch at another place to pay the specified sum to or the order of the holder on demand for value received.

32. POSTAL ORDER.

It is an instrument like bank draft but the postal department issues it.

33. BANK OVER DRAFT.

When a customer is authorized to overdraw an agreed amount in excess of his bank balance is called our draft/Bank overdraft. The bank charged the interest on the amount which is overdrawn by the customer.

34. TYPE OF DEPRECIATION

There are following types of depreciation.

a. *Straight line method*

b. *Diminishing method/ Reducing method*

c. *Annuity method*

d. *Depreciation fund method.*

e. *Revaluation method.*

35. ANNUITY

It is methods of depreciation in which the valued of an asset along with interest are written down annually by equal installments until the book value is reduced to nil. The annual charge is to be made out by way of depreciation, which is found out from annuity tables.

36. MEMORANDUM OF ASSOCIATION.

It is a document which contains the right, powers and objects of company business. It is the main document of the business.

37. ARTICLES OF ASSOCIATION

It is a document, which contains the rules and regulations of the business.

38. RESERVE FUNDS

It is a fund, which is made against profits of the business to avoid the losses uncertain condition which may arise in future. It is the liability of the business.

COMPANY AND ITS TYPES

Company means an association of persons who contribute money or money's worth for a common stock and uses it for a common purpose of business.

KIND OF COMPANIES

a. *on the basis of liability*

b. *on the basis of investment*

a. *On The Basis Of Liability*

(i) **Unlimited Company:** In these companies, the liability of the members is unlimited. It may or may not house share capital. When this company winds up, the private property of the members is also liable to pay company's debt.

(ii) **Companies limited by share**

In these companies, the liability of the members is limited to the value of their share.

(iii) **Companies limited by Guarantee**

In these companies every member gives guarantee to contribute a specified amount of money at the winding up of company. This company may be formed with or without share capital.

b. *ON THE BASIS OF INVESTMENT*

I. PRIVATE COMPANY

Private company is a company which has the following characteristics

i. Minimum members are **two** and maximum members are **50**

ii. The shares of the company are **not** transferable.

iii. The company uses the word **private with its name.**

iv. It is not necessary for the company to issue prospectus.

II. PUBLIC COMPANY

Public Company has the following characteristics

a. Minimum members must be **"Seven"** and no limit for maximum members.

b. The word **limited** is used after the name of company.

c. Shares are easily transferable.

d. It is necessary for the company to issue prospects.

Differentiates between a private company and a public company.

	PRIVATE COMPANY		PUBLIC COMPANY
1	In private Company Minimum members are **two** and maximum members are **fifty**.	1	In Public Company minimum members must be **Seven** and there is **no limit** for maximum members.
2	The shares of the company are not transferable .	2	The shares of the company are transferable .
3	The company uses the word "Private" with its name .	3	The Company was the word "Limited" after its name.
4	It is not necessary for the company to issue prospectus .	4	It is necessary for the company to issue prospectus .
5	A private company cannot sells its shares to public .	5	A public company can sells its share.
6	The audit of the company is not compulsory .	6	The audit of the company is compulsory.
7	The member of directors must be at least two.	7	The number of directors must be at least seven .

BRANCHES OF ACCOUNTING

Financial Accounting: it is the original form of accounting. It is mainly confined to the preparation of financial statements for the use of outsiders like creditors, bankers and financial institutions etc. the main purpose of financial accounting is to calculate profit or loss made by the business during the year and exhibit financial position of the business as on a particular date.

Cost Accounting: The main purpose of cost accounting is to determine the of the product and to help the management in the control of cost. In the first phase it determines the standards of all the elements of cost i.e. Direct Material, Direct Labour and FOH cost for production department to control the cost of the product.

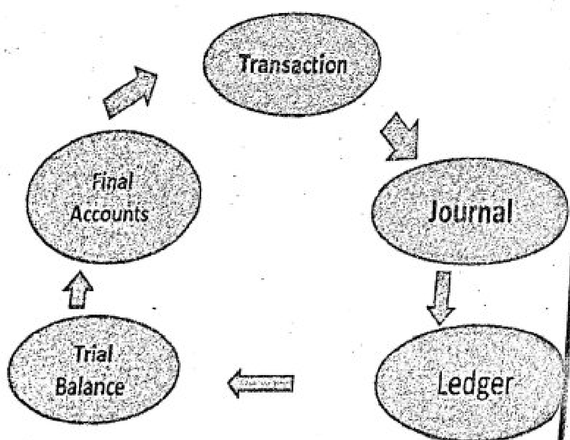
Management Accounting: Accounting which provides necessary information to the management for discharging its functions. It is the reproduction of financial accounts in such a way as will enable the management to take decision and to control activities.

System of Accounting

Cash system of Accounting: It is a system in which accounting entries are made only when cash is received or paid. No entry is made when a payment or receipt is merely due.

Accrual System of Accounting: It is a system in which accounting entries are made on the basis of amount having become due for payment or receipt. For example payment system of salaries of PMAD.

ACCOOUNTING CYCLE/ACCOUNTING PROCEDURE.



COST ACCOUNTING SYSTEM

It is a system of collecting, processing and evaluating the operating data i.e. cost of products, cost of operation,cost of processing the jobs, cost of material used, cost of labour used etc. for internal planning and control as well as for external control and reporting.

System of Cost Accounting

i) Actual Cost Accounting System

ii) Standard Cost Accounting System

NATURE/PURPOSE OF COST ACCOUNTING

it is helpful and provide the guidelines in the following ways

- PLANNING
- Controlling
- Evaluation of alternatives
- Internal Reporting
- External Reporting

- Pricing of products and projects.
- Analysis of Financial Statements

KINDS OF COST

Standard Cost: It is the predetermined cost of manufacturing a single unit or a specific Quantity of Goods. It has two components, a physical standard (i.e., standard quantity of inputs per unit of output) and a price standard (i.e. rate per unit of output)

Fixed Cost: Cost which is not change with the change of Production activity, e.g Rent of Factory Building

Variable Cost: which change according to the change of activity level, e.g. D. Material and D.Labour cost of the product.

Semi-variable Cost: composed of both fixed and variable cost of production eg. Cost of electricity consumed in the factory.

i) Cost for lighting and air conditioning purpose is fixed cost

ii) Electricity consumed for driving the machines is the Component which change with the activity level of output

CONTROLLABLE COST

Which may control by the manager with some planning activity, e.g for a production, cost of D. material and D. Labour cost control with some strict control over the activity?

UNCONTROLLABLE COST

Depreciation of plant, accidental losses, insurances, taxes, supervisor salaries etc.

Capacity level

It means ability to produce up to a specific level and it is also known activity level or volume for capacity.

Theoretical Capacity

It is a maximum capacity level that could be attained if there were 100% Utilization of time and resources. This level can never be achieved because of unavoidable interruptions e.g. Sunday holidays, repairs, maintenance, break down of machines and break down of electricity etc.

Practical capacity

It is the maximum activity level that can be attained under effective working condition. (Theoretical capacity level –unavoidable losses.)

Expected Actual Capacity

It is the level which is expected to be attained during the financial year for which the budget is being prepared. It is heavily dependent on the market demand for the products. It may be equal to or less then the practical capacity. Term Annual Budget volume and Master Volume are also used to denote expected Actual Capacity.

Normal Capacity

Normal Capacity is the average of expected Actual Capacity over a number of year. The object of computing such and average activity level is to smooth out the effects of seasonal, cyclical and trend variations.

Factory Over Heads

All manufacturing Costs other then the Direct Material and Direct Labour costs are collectively termed as Factory Overhead cost. It is also known as manufacturing overheads, indirect material, indirect labour, power, lights, depreciation charges, repairs, cleaning and maintenance charges. etc. Some examples of FOH is given below.

ELEMENTS OF VARIABLE OVERHEADS

- Pay & allowances and over time (officers/staff employed in Production shop).
- General shop labour
- Over Time / Piece Work
- Wages Under / Over Allocation.
- Shop store (consumable)
- Maintenance & repair services
- Idle time

- Maintenance & repair of tools for general shop use
- Utilities Expenses
  - ✓ Electricity
  - ✓ Gas
  - ✓ Steam
  - ✓ Compressed air high pressure
  - ✓ Water
  - ✓ Ice

ELEMENTS OF FIXED OVERHEADS

- Pay & Allowances (officers & staff of non production shops / manager & above)
- Pay & Allowances (officers & staff of services at factory level i.e. TPT, telephone & yard etc.
- Admin expenses at factory level
- Group insurance
- Misc. Charges
- Assistance package
- Store adjustment / loss

- TA / DA
- Shop Store (other than consumable items)
- Maintenance of Building
- Maintenance / repair of Plant & Machinery.
- Maintenance & repair of TPT., Rail & Road
- Repair of Furniture
- Depreciation

KINDS OF FACTORY OVERHEADS

Plant wise or Blanket Rate:

It is a kind of rate which is calculated for the whole factory over head expenses of entire Factory.

Shop/Departmental Rate:

This type of rate may be calculated for all the shops of the factory separately through which the product pass.

DEPRECIATION

Value of an asset gradually reduces on account of use. Such reduction in value is known as depreciation. or we can say that depreciation is the gradual and permanent decrease in the value of fixed asset from any cause.

Kinds of Depreciation

1) **Depreciation:** This term is used with reference to tangible fixed assets for their reduction in value.
2) **Depletion:** The depletion is used for the depreciation of wasting assets such as mines, oil well, timber trees etc.
3) **Amortization:** The term amortization is used in respect of intangible assets like patents, copyright, leasehold and good will which are recorded at cost.

MATHODS OF DEPRECIATION

There are following methods of depreciation.

a. **Straight line method:** under this method the expected life of an asset is first calculated, in years. After this scrap value deducted from the cost of the asset then net value divided on the useful life of the asset. In this way a **fixed amount** calculated which is charged every year from the value of an asset. Depreciation of copy right, patent and short lease etc.

Formula:

$$\text{Depreciation} = \frac{\text{Cost of Machinery} - \text{Breakup Value(Scrap value)}}{\text{Estimated life of Machinery}}$$

b. Diminishing method/ Reducing method/written down value method.

Under this method the asset is depreciated at fixed percentage calculated on the debit balance of the asset which is diminished year after year on account of depreciation. Depreciation of machinery and plant etc.

c. Annuity method

According to this method the cost of the asset and interest are written down annually by equal installments until the book value of the asset in question is reduced to nil or its breakup value at the end of its effective life. These charges made by way of depreciation out of annuity tables.

This is applicable on long leases assets.

d. Depreciation fund method/Sinking Fund Amortization method.

Under this method a fund known as depreciation Fund is created and an amount is added at this accommodated fund until the life of the asset.

It is suitable whenever it is desired not only to charge depreciatio0n but also to replace the asset as happens in case of plant and machinery and other wasting assets.

e. Insurance policy system.

Under this method the amount represented by the depreciation fund, instead of being used to buy securities is paid to an insurance company as premium. The insurance company issues a policy promising to pay a lump sum at the end of the working life of the asset for its replacement.

JOURNAL,LADGER & CASH BOOK

JOURNAL:

The word journal has been derived from the French word "Jour". Jour means day. So journal mean daily. Transactions are recorded daily in Journal and hence it has been named so.

It is a book of original entry to record chronologically, means date wise recordings are made on daily biases. It is also called Day Book, as per the recording of entries.

Important Features of journal Entries.

- *Journal is the first successful step of the Double Entry system. A transaction is recorded first of all in the journal. So, journal is called book of original entry.*
- *A transaction is recorded on the same day it takes place. so, journal is called Day Book.*
- *Transactions are recorded chronologically. So, journal is called Chronological Book.*
- *For each transaction the names of the two concerned accounts indicating which is debited and which is credited, are clearly written in two consecutive lines. This makes ledger-posting easy. That is why journal is called "Assistant to ledger "or "Subsidiary Book ".*
- *Narration is written below each entry.*

- *The amount is written in the last two columns----debut amount in Debit Column and credit amount in Credit Column.*

Example of Journal

✓ Jan 15,2012 Mr. Malik Zaman started Business with cash Rs. 15,00,000/-

✓ Jan 21,2012. Purchase Building for Cash Rs. 12,00,000/-

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 Jan-15	Cash Account Capital Account Started business with cash	P-No.03 & 04	15,00,000	15,00,000
Jan-21	Building Account Cash Account Purchase Building on cash	P-NO 05 & 03	12,00,000	12,00,000

LEDGER ACCOUNTS

When all the transactions for a given period have been journalized, the next step is to classify them according to the accounts affected. For example all transactions relating to cash must be put in one place. Similarly, all transactions with a customer or a supplier must also be assembled at one place. The book in which this classification is done is called the Ledger.

Recording of data from original book of entry/journal to ledger is known as posting of data.

FEATURES OF LEDGER BOOK

- It has two identical sides ---Left side is Debit side and Right side is called Credit side.
- Debit aspect of all the concerned transaction is recorded on Debit side, while credit aspect on Credit side according to date:
- Difference of the totals of the two sides represents balance. The excess of Debit side over Credit side indicates debit balance and vice versa.
- Usually balance is drawn at the end of the year and recorded on deficit side to make the two sides equal. This balance is known as closing balance.
- *The closing balance of the current year will be the opening balance of the next year.*

- Separate account is opened for each item of assets, liabilities, expense and revenue. In this way relevant closing balance is transferred to Trial Balance accordingly.
- Complete and reliable information is available in respect of each and every account.

EXAMPLE OF POSTING FROM JOURNAL TO LEDGER ACCOUNTS

✓ Jan 15,2012 Mr. Malik Zaman started Business with cash Rs. 15,00,000/-

✓ Jan 21, 2012. Purchase Building for Cash Rs. 12,00,000/-

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2012 Jan-15	Cash Account Capital Account Started business with cash	P-No.03 & 04	15,00,000	15,00,000
Jan-21	Building Account Cash Account Purchase Building on cash	P-NO 05 & 03	12,00,000	12,00,000

LEDGER ACCOUNTS (POSTING OF DATA FROM JOURNAL TO LEDGER)

Cash Accounts

Date	Particular	J.F.	Amount Rs.	Date	Particular	J.F.	Amount Rs.
2012				2012			
Jan-15	Capital a/c		15,00,000	Jan-21	Building a/c		12,00,000
				Jan-31	Balance a/c B/F		3,00,000
Jan-31	Total		15,00,000		Total		15,00,000

Capital Accounts

Date	Particular	J.F.	Amount Rs.	Date	Particular	J.F.	Amount Rs.
2012				2012			
Jan-31	Balance a/c B/F		15,00,000	Jan-21	Capital a/c		15,00,000
Jan-31	Total		15,00,000		Total		15,00,000

Building Accounts

Date	Particular	J.F.	Amount Rs.	Date	Particular	J.F.	Amount Rs.
2012				2012			
Jan-21	Cash a/c		12,00,000				
				Jan-31	Balance a/c B/F		12,00,000
Jan-31	Total		12,00,000		Total		12,00,000

TRIAL BALANCE

Having posted all the transactions into the ledger, it is necessary to check the correctness of the work done before proceeding further. In order to test the arithmetical accuracy of our ledger we should prepare a statement called the Trial Balance.

A trial Balance is a statement prepared by taking out the debit and credit balances of all accounts appearing in the ledger.

Example of Trial Balance

Note: please carry on the above stated example

Ledger Accounts	L.F	Dr. Balance	Cr. Balance
Cash Accounts		3,00,000	-
Capital Accounts		-	15,00,000
Building Accounts		12,00,000	-
Total		15,00,000	15,00,000

CASH BOOK

The cash book is the book of original entry in which transactions relating only to cash receipts and payments are recorded in detail. When the cash is received it is entered on the debit or left side and similarly cash is paid out, the same is recorded on the credit or the right hand side of the cash book.

The cash book is balanced at the end of a given period by inserting the excess of the debit on the credit side as "By balance carried down" to make both sides agree. The balance is then shown on the debit by "to balance brought down" to start the next period.

Kinds of Cash Book

The following are the three forms of Cash Books met with in practice:

✓ **Simple or Single Column Cash Book**

Dr. (Receipt Side) Cr. (Payment Side)

Date	Particular	J.F.	Amount Rs.	Date	Particular	J.F.	Amount Rs.

Double Column Cash Book

Dr. (Receipt Side) Cr. (Payment Side)

Date	Particular	V.No	J.F.	Disc	Amount Rs.	Date	Particular	V.No	J.F.	Disc	Amount Rs.

✓ ***Triple Column Cash Book***

Dr. (Receipt Side) Cr. (Payment Side)

Date	Particular	V.No	J.F.	Disc	Disc	Cash	Bank	Date	Particular	V.No	J.F.	Disc	Disc	Cash	Bank

PUBLIC PROCUREMENT RULES,2004

Islamabad, June 9, 2004

NOTIFICATION

S.R.O. 432(I)/2004.- In exercise of the powers conferred by section 26 of the Public Procurement Regulatory Authority Ordinance, 2002 (XXII of 2002), the Federal Government is pleased to make the following rules, namely:-

1. Short title and commencement.-

(1) These rules may be called the Public Procurement Rules, 2004.
(2) They shall come into force at once.

GENERAL PROVISIONS

2. Definitions.-

(1) In these rules, unless there is anything repugnant in the subject or context,-

(a) "**bid**" means a tender, or an offer, in response to an invitation, by a person, consultant, firm, company or an organization expressing his or its willingness to undertake a specified task at a price;

(b) "**Bidder**" means a person who submits a bid;

(c) "**competitive bidding**" means a procedure leading to the award of a contract whereby all the interested persons, firms, companies or organizations may bid for the contract and includes both national competitive bidding and international competitive bidding;

(d) "**Contractor**" means a person, consultant, firm, company or an organization who undertakes to supply goods, services or works;

(e) "**Contract**" means an agreement enforceable by law;

(f) "**corrupt** and fraudulent practices" includes the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty;

(g) "**emergency**" means natural calamities, disasters, accidents, war and operational emergency which may give rise to abnormal situation requiring prompt and immediate action to limit or avoid damage to person, property or the environment;

(h) "**lowest evaluated bid**" means,-

(i) a bid most closely conforming to evaluation criteria and other conditions specified in the bidding document; and

(ii) having lowest evaluated cost;

(i) "**Ordinance**" means the Public Procurement Regulatory Authority Ordinance, 2002 (XXII of 2002);

(j) "**Repeat orders**" means procurement of the same commodity from the same source without competition and includes enhancement of contracts;

(k) "**Supplier**" means a person, consultant, firm, company or an organization who undertakes to supply goods, services or works; and

(l) "**value for money**" means best returns for each rupee spent in terms of quality, timeliness, reliability, after sales service, up-grade ability, price, source, and the combination of whole-life cost and quality to meet the procuring agency's requirements.

(2) The expressions used but not defined in these rules shall have the same meanings as are assigned to them in the Ordinance.

3. Scope and applicability.-
Save as otherwise provided, these rules shall apply to all procurements made by all procuring agencies of the Federal Government whether within or outside Pakistan.

4. Principles of procurements.- Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

5. International and inter-governmental commitments of the Federal Government.- Whenever these rules are in conflict with an obligation or commitment of the Federal Government arising out of an international treaty or an agreement with a State or States, or any international financial institution the provisions of such international treaty or agreement shall prevail to the extent of such conflict.

6. Language.-
(1) All communications and documentation related to procurements by the Federal Government shall either be in Urdu or English or both. Except where a procuring agency is situated outside the territories of Pakistan and procurements are to be made locally, the procuring agency may use the local language in addition to Urdu or English.
(2) Where the use of local language is found essential, the original documentation shall be in Urdu or English, which shall be retained on record; for all other purposes their translations in local language shall be used:
Provided that such use of local language ensures maximum economy and efficiency in the procurement.
(3) In case of the dispute reference shall be made to the original documentation retained on record.

7. Integrity pact.- *Procurements exceeding the prescribed limit shall be subject to an integrity pact, as specified by regulation with approval of the Federal Government, between the procuring agency and the suppliers or contractors.*

Issued within thirty days of the expiry of the said period enabling the supplier or contractor to submit the final bill. Except for unsettled claims, which shall be resolved through arbitration, the bill shall be paid within the time given in the conditions of contract, which shall not exceed sixty days to close the contract for final audit.

PROCUREMENT PLANNING

. Procurement planning.-

Within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future.

. Limitation on splitting or regrouping of proposed procurement.-

Save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

Specifications.-

Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications. However if the procuring agency is convinced that the use of or a reference to a brand name or a catalogue number is essential to complete an otherwise incomplete specification, such use or reference shall be qualified with the words "or equivalent".

. Approval mechanism.-

All procuring agencies shall provide clear authorization and delegation of powers for different categories of procurement and shall only initiate procurements once approval of the competent authority concerned has been accorded.

PROCUREMENT ADVERTISEMENTS

. Methods of advertisement.-

(1) Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency:

Provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under clause (b) of rule 42; and

(2) All procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

(3) In cases where the procuring agency has its own website it may also post all advertisements concerning procurement on that website as well.

(4) A procuring agency utilizing electronic media shall ensure that the information posted on the website is complete for the purposes for which it has been posted, and such information shall remain available on that website until the closing date for the submission of bids.

Response time.-

(1) The procuring agency may decide the response time for receipt of bids or proposals (including proposals for pre-qualification) from the date of publication of an advertisement or notice, keeping in view the individual procurement's complexity, availability and urgency. However, under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice. All advertisements or notices shall expressly mention the response time allowed for that particular procurement along with the information for collection of bid documents which shall be issued till a given date, allowing sufficient time to complete and submit the bid by the closing date:

Provided that no time limit shall be applicable in case of emergency

(2) The response time shall be calculated from the date of first publication of the advertisement in a newspaper or posting on the web site, as the case may be.
(3) In situations where publication of such advertisements or notices has occurred in both electronic and print media, the response time shall be calculated from the day of its first publication in the newspapers.

. Exceptions.-

It shall be mandatory for all procuring agencies to advertise all procurement requirements exceeding prescribed financial limit which is applicable under sub-clause (i) of clause (b) of rule 42. However under following circumstances deviation from the requirement is permissible with the prior approval of the Authority,-
(a) the proposed procurement is related to national security and its publication could jeopardize national security objectives; and
(b) the proposed procurement advertisement or notice or publication of it, in any manner, relates to disclosure of information, which is proprietary in nature or falls within the definition of intellectual property which is available from a single source.

PRE-QUALIFICATION, QUALIFICATION AND DIS-QUALIFICATION OF SUPPLIERS AND CONTRACTORS

. Pre-qualification of suppliers and contractors.-

(1) A procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily.
(2) A procuring agency while engaging in pre-qualification may take into consideration the following factors, namely:-
(a) Relevant experience and past performance;

(b) Capabilities with respect to personnel, equipment, and plant;
(c) Financial position;
(d) Appropriate managerial capability; and
(e) Any other factor that a procuring agency may deem relevant, not inconsistent with these rules.

Pre-qualification process.-

(1) The procuring agency engaging in pre-qualification shall announce, in the pre-qualification documents, all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other information that the procuring agency deems necessary for pre-qualification.
(2) The procuring agency shall provide a set of pre-qualification documents to any supplier or contractor, on request and subject to payment of price, if any.
Explanation.- For the purposes of this sub-rule price means the cost of printing and providing the documents only.
(3) The procuring agency shall promptly notify each supplier or contractor submitting an application to pre-qualify whether or not it has been pre-qualified and shall make available to any person directly involved in the pre-qualification process, upon request, the names of all suppliers or contractors who have been pre-qualified. Only suppliers or contractors who have been pre-qualified shall be entitled to participate further in the procurement proceedings.
(4) The procuring agency shall communicate to those suppliers or contractors who have not been pre-qualified the reasons for not pre-qualifying them.

Qualification of suppliers and contractors.-

A procuring agency, at any stage of the procurement proceedings, having credible reasons for or prima facie evidence of any defect in supplier's or contractor's capacities, may require the suppliers or contractors to provide information concerning their professional, technical, financial, legal or managerial competence whether already pre-qualified or not:

Provided that such qualification shall only be laid down after recording reasons therefore in writing. They shall form part of the records of the procurement proceeding.

Disqualification of suppliers and contractors.-

The procuring agency shall disqualify a supplier or contractor if it finds, at any time, that the information submitted by him concerning his qualification as supplier or contractor was false and materially inaccurate or incomplete.

. Blacklisting of suppliers and contractors.-

The procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority:

METHODS OF PROCUREMENT

. Principal method of procurement.-

Save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Open competitive bidding.-

Subject to the provisions of rules 22 to 37 the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than the prescribed financial limit which is applicable under sub-clause (i) of clause (b) of rule 42

. Submission of bids.-

(1) The bids shall be submitted in a sealed package or packages in such manner that the contents are fully enclosed and cannot be known until duly opened.

(2) A procuring agency shall specify the manner and method of submission and receipt of bids in an unambiguous and clear manner in the bidding documents.

Bidding documents.-

(1) Procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately after the publication of the invitation to bid.

(2) For competitive bidding, whether open or limited, the bidding documents shall include the following, namely:-

(a) Invitation to bid;
(b) Instructions to bidders;
(c) Form of bid;
(d) Form of contract;
(e) General or special conditions of contract;
(f) Specifications and drawings or performance criteria (where applicable);
(g) List of goods or bill of quantities (where applicable);
(h) Delivery time or completion schedule;
(i) Qualification criteria (where applicable);
(j) bid evaluation criteria;
(k) Format of all securities required (where applicable);
(l) Details of standards (if any) that are to be used in assessing the quality of goods, works or services specified; and
(m) Any other detail not inconsistent with these rules that the procuring agency may deem necessary.

(3) Any information, that becomes necessary for bidding or for bid evaluation, after the invitation to bid or issue of the bidding documents to the

Prospective bidders shall be provided in a timely manner and on equal opportunity basis. Where notification of such change, addition, modification or deletion becomes essential, such notification shall be made in a manner similar to the original advertisement.

(4) Procuring agencies shall use standard bidding documents as and when notified by regulation by the Authority:

Provided that bidding documents already in use of procuring agencies may be retained in their respective usage to the extent they are not inconsistent with these rules and till such time that the standard bidding documents are specified by regulations.

(5) The procuring agency shall provide a set of bidding documents to any supplier or contractor, on request and subject to payment of price, if any.

Explanation. - For the purpose of this sub-rule price means the cost of printing and providing the documents only.

. Reservations and preference.-

(1) Procuring agencies shall allow all prospective bidders to participate in procuring procedure without regard to nationality, except in cases in which any procuring agency decides to limit such participation to national bidders only or prohibit participation of bidders of some nationalities, in accordance with the policy of Federal Government.

(2) Procuring agencies shall allow for a preference to domestic or national suppliers or contractors in accordance with the policies of the Federal Government. The magnitude of price preference to be accorded shall be clearly mentioned in the bidding documents under the bid evaluation criteria.

Bid security.-

The procuring agency may require the bidders to furnish a bid security not exceeding five per cent of the bid price.

Bid validity.-

(1) A procuring agency, keeping in view the nature of the procurement shall subject the bid to a bid validity period.

(2) Bids shall be valid for the period of time specified in the bidding document.

(3) The procuring agency shall ordinarily be under an obligation to process and evaluate the bid within the stipulated bid validity period. However under exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity.

(4) Bidders who;-

(a) Agree to extension of their bid validity period shall also extend the validity of the bid bond or security for the extended period of the bid validity;

(b) Agree to the procuring agency's request for extension of bid validity period shall not be permitted to change the substance of their bids; and

(c) Do not agree to an extension of the bid validity period shall be allowed to withdraw their bids without forfeiture of their bid bonds or securities.

. Extension of time for submission of bids.-

Where a procuring agency has already prescribed a deadline for the submission of bids and due to any reason the procuring agency finds it necessary to extend such deadline, it shall do so only after recording its reasons in writing and in an equal opportunity manner. Advertisement of such extension in time shall be done in a manner similar to the original advertisement.

OPENING, EVALUATION AND REJECTION OF BIDS

Opening of bids.-

(1) The date for opening of bids and the last date for the submission of bids shall be the same. Bids shall be opened at the time specified in the bidding documents. The bids shall be opened at least thirty minutes after the deadline for submission of bids.

(2) All bids shall be opened publicly in the presence of the bidders or their representatives who may choose to be present, at the time and place announced prior to the bidding. The procuring agency shall read

aloud the unit price as well as the bid amount and shall record the minutes of the bid opening. All bidders in attendance shall sign an attendance sheet. All bids submitted after the time prescribed shall be rejected and returned without being opened.

Evaluation criteria.-

Procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

. Evaluation of bids.-

(1) All bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. Save as provided for in sub-clause (iv) of clause (c) of rule 36 no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

(2) For the purposes of comparison of bids quoted in different currencies, the price shall be converted into a single currency specified in the bidding documents. The rate of exchange shall be the selling rate, prevailing on the date of opening of bids specified in the bidding documents, as notified by the State Bank of Pakistan on that day.

(3) A bid once opened in accordance with the prescribed procedure shall be subject to only those rules, regulations and policies that are in force at the time of issue of notice for invitation of bids.

Clarification of bids.-

(1) No bidder shall be allowed to alter or modify his bid after the bids have been opened. However the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

(2) Any request for clarification in the bid, made by the procuring agency shall invariably be in writing. The response to such request shall also be in writing.

Discriminatory and difficult conditions.-

Save as otherwise provided, no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty. In ascertaining the discriminatory or difficult nature of any condition reference shall be made to the ordinary practices of that trade, manufacturing, construction business or service to which that particular procurement is related.

. Rejection of bids.-

(1) The procuring agency may reject all bids or proposals at any time prior to the acceptance of a bid or proposal. The procuring agency shall upon request communicate to any supplier or contractor who submitted a bid or proposal, the grounds for its rejection of all bids or proposals, but is not required to justify those grounds.

(2) The procuring agency shall incur no liability, solely by virtue of its invoking sub-rule (1) towards suppliers or contractors who have submitted bids or proposals.

(3) Notice of the rejection of all bids or proposals shall be given promptly to all suppliers or contractors that submitted bids or proposals.

. Re-bidding.-

(1) If the procuring agency has rejected all bids under rule 33 it may call for a re-bidding.

(2) The procuring agency before invitation for re-bidding shall assess the reasons for rejection and may revise specifications, evaluation criteria or any other condition for bidders as it may deem necessary.

. Announcement of evaluation reports.-

Procuring agencies shall announce the results of bid evaluation in the form of a report giving justification for acceptance or rejection of bids at least ten days prior to the award of procurement contract.

. Procedures of open competitive bidding.-

Save as otherwise provided in these rules the following procedures shall be permissible for open competitive bidding, namely:-

(a) Single stage – one envelope procedure.-

Each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any). All bids received shall be opened and evaluated in the manner prescribed in the bidding document.

(b) Single stage – two envelope procedure.- (i) The bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal;

(ii) The envelopes shall be marked as "FINANCIAL PROPOSAL" and "TECHNICAL PROPOSAL" in bold and legible letters to avoid confusion;

(iii) Initially, only the envelope marked "TECHNICAL PROPOSAL" shall be opened;

(iv) The envelope marked as "FINANCIAL PROPOSAL" shall be retained in the custody of the procuring agency without being opened;

(v) The procuring agency shall evaluate the technical proposal in a manner prescribed in advance, without reference to the price and reject any proposal which does not conform to the specified requirements;

(vi) During the technical evaluation no amendments in the technical proposal shall be permitted;

(vii) The financial proposals of bids shall be opened publicly at a time, date and venue announced and communicated to the bidders in advance;

(viii) After the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity period, publicly open the financial proposals of the technically accepted bids only. The financial proposal of bids found technically non-responsive shall be returned un-opened to the respective bidders; and

(ix) The bid found to be the lowest evaluated bid shall be accepted.

(c) Two stage bidding procedure.-

First stage

(i) The bidders shall first submit, according to the required specifications, a technical proposal without price;

(ii) The technical proposal shall be evaluated in accordance with the specified evaluation criteria and may be discussed with the bidders regarding any deficiencies and unsatisfactory technical features;

(iii) After such discussions, all the bidders shall be permitted to revise their respective technical proposals to meet the requirements of the procuring agency;

(iv) The procuring agency may revise, delete, modify or add any aspect of the technical requirements or evaluation criteria, or it may add new requirements or criteria not inconsistent with these rules:

Provided that such revisions, deletions, modifications or additions are communicated to all the bidders equally at the time of invitation to submit final bids, and that sufficient time is allowed to the bidders to prepare their revised bids:

Provided further that such allowance of time shall not be less than fifteen days in the case of national competitive bidding and thirty days in the case of international competitive bidding;

(v) Those bidders not willing to conform their respective bids to the procuring agencies technical requirements may be allowed to withdraw from the bidding without forfeiture of their bid security;

Second stage

(vi) The bidders, whose technical proposals or bids have not been rejected and who are willing to conform their bids to the revised technical requirements of the procuring agency, shall be invited to submit a revised technical proposal along with the financial proposal;

(vii) The revised technical proposal and the financial proposal shall be opened at a time, date and venue announced and communicated to the bidders in advance; and

(viii) The revised technical proposal and the financial proposal shall be evaluated in the manner prescribed above. The bid found to be the lowest evaluated bid shall be accepted:

Provided that in setting the date for the submission of the revised technical proposal and financial proposal a procuring agency shall allow sufficient time to the bidders to incorporate the agreed upon changes in the technical proposal and prepare their financial proposals accordingly.

(d) Two stage - two envelope bidding procedure.-

First stage

(i) The bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal;

(ii) The envelopes shall be marked as "FINANCIAL PROPOSAL" and "TECHNICAL PROPOSAL" in bold and legible letters to avoid confusion;

(iii) Initially, only the envelope marked "TECHNICAL PROPOSAL" shall be opened;

(iv) The envelope marked as "FINANCIAL PROPOSAL" shall be retained in the custody of the procuring agency without being opened;

(v) The technical proposal shall be discussed with the bidders with reference to the procuring agency's technical requirements;

(vi) Those bidders willing to meet the requirements of the procuring agency shall be allowed to revise their technical proposals following these discussions;

(vii) Bidders not willing to conform their technical proposal to the revised requirements of the procuring agency shall be allowed to withdraw their respective bids without forfeiture of their bid security;

Second stage

(viii) after agreement between the procuring agency and the bidders on the technical requirements, bidders who are willing to conform to the revised technical specifications and whose bids have not already been rejected shall submit a revised technical proposal and supplementary financial proposal, according to the technical requirement;

(ix) The revised technical proposal along with the original financial proposal and supplementary financial proposal shall be opened at a date, time and venue announced in advance by the procuring agency:

Provided that in setting the date for the submission of the revised technical proposal and supplementary price proposal a procuring agency shall allow sufficient time to the bidders to incorporate the agreed upon changes in the technical proposal and to prepare the required supplementary financial proposal; and

(x) The procuring agency shall evaluate the whole proposal in accordance with the evaluation criteria and the bid found to be the lowest evaluated bid shall be accepted.

. Conditions for use of single stage two envelope, two stage and two stage two envelope bidding procedures.-

Single stage one envelope bidding procedure shall ordinarily be the main open competitive bidding procedure used for most of the procurement. Other appropriate procedures of open competitive bidding shall be selected in the following circumstances, namely:-

(a) single stage two envelope bidding procedure shall be used where the bids are to be evaluated on technical and financial grounds and price is taken into account after technical evaluation;

(b) two stage bidding procedure shall be adopted in large and complex contracts where technically unequal proposals are likely to be encountered or where the procuring agency is aware of its options in the market but, for a given set of performance requirements, there are two or more equally acceptable technical solutions available to the procuring agency; and

(c) two stage two envelope bidding method shall be used for procurement where alternative technical proposals are possible, such as certain type of machinery or equipment or manufacturing plant

ACCEPTANCE OF BIDS AND AWARD OF PROCUREMENT CONTRACTS

Acceptance of bids.-

The bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

. Performance guarantee.-

Where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

Limitation on negotiations.-

Save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder:

Provided that the extent of negotiation permissible shall be subject to the regulations issued by the Authority.

Confidentiality.-

The procuring agency shall keep all information regarding the bid evaluation confidential until the time of the announcement of the evaluation report in accordance with the requirements of rule 35.

Alternative methods of procurements.-

A procuring agency may utilize the following alternative methods of procurement of goods, services and works, namely:-

(a) Petty purchases.-

Procuring agencies may provide for petty purchases where the object of the procurement is below the financial limit of twenty five thousand rupees. Such procurement shall be exempt from the requirements of bidding or quotation of prices:

Provided that the procuring agencies shall ensure tha procurement of petty purchases is in conformity with the principles o procurement prescribed in rule 4:

Provided further that procuring agencies convinced of the inadequacy of the financial limit prescribed for petty purchases in undertaking their respective operations may approach the Federal Government for enhancement of the same with full and proper justifications.

(b) Request for quotations.-

A procuring agency shall engage in this method of procurement only if the following conditions exist, namely:-

(i) The cost of object of procurement is below the prescribed limit of one hundred thousand rupees:

Provided that the respective Boards of Autonomous bodies are authorized to fix an appropriate limit for request for quotations method of procurement subject to a maximum of rupees five hundred thousand which will become financial limit under this sub-rule:

(ii) The object of the procurement has standard specifications;

(iii) Minimum of three quotations have been obtained; and

(iv) The object of the procurement is purchased from the supplier offering the lowest price:

Provided that procuring agencies convinced of the inadequacy of the financial limit prescribed for request for quotations in undertaking their respective operations may approach the Federal Government for enhancement of the same with full and proper justifications;

(c) direct contracting.- A procuring agency shall only engage in direct contracting if the following conditions exist, namely:-

(i) The procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier:

Provided that the same are not available from alternative sources;

(ii) Only one manufacturer or supplier exists for the required procurement:

Provided that the procuring agencies shall specify the appropriate forum, which may authorize procurement of proprietary object after due diligence; and

(iii) Where a change of supplier would oblige the procuring agency to acquire material having different technical specifications or characteristics and would result in incompatibility or disproportionate technical difficulties in operation and maintenance:

Provided that the contract or contracts do not exceed three years in duration;

(iv) Repeat orders not exceeding fifteen per cent of the original procurement;

(v) In case of an emergency:

Provided that the procuring agencies shall specify appropriate forum vested with necessary authority to declare an emergency;

(vi) When the price of goods, services or works is fixed by the government or any other authority, agency or body duly authorized by the Government, on its behalf, and

(vii) For purchase of motor cars from local original manufacturers or their authorized agents at manufacturer's price.

(d) Negotiated tendering.- A procuring agency may engage in negotiated tendering with one or more suppliers or contractors with or without prior publication of a procurement notification. This procedure shall only be used when,-

(i) The supplies involved are manufactured purely for the purpose of supporting a specific piece of research or an experiment, a study or a particular development;

(ii) For technical or artistic reasons, or for reasons connected with protection of exclusive rights or intellectual property, the supplies may be manufactured or delivered only by a particular supplier;

(iii) For reasons of extreme urgency brought about by events unforeseeable by the procuring agency, the time limits laid down for open and limited bidding methods cannot be met. The circumstances invoked to justify extreme urgency must not be attributable to the procuring agency:

Provided that any procuring agency desirous of using negotiated tendering as a method of procurement shall record its reasons and justifications in writing for resorting to negotiated tendering and shall place the same on record.

On account payments.- All procuring agencies shall make prompt payments to suppliers and contractors against their invoices or running bills within the time given in the conditions of the contract, which shall not exceed thirty days.

Entry into force of the procurement contract.-

A procurement contract shall come into force,-

(a) Where no formal signing of a contract is required, from the date the notice of the acceptance of the bid or purchase order has been given to the bidder whose bid has been accepted. Such notice of acceptance or purchase order shall be issued within a reasonable time; or

(b) Where the procuring agency requires signing of a written contract, from the date on which the signatures of both the procuring agency and the successful bidder are affixed to the written contract. Such affixing of signatures shall take place within a reasonable time:

Provided that where the coming into force of a contract is contingent upon fulfillment of a certain condition or conditions, the contract shall take effect from the date whereon such fulfillment takes place.

Closing of contract.-

(1) Except for defect liability or maintenance by the supplier or contractor, as specified in the conditions of contract, performance of the contract shall be deemed close on the issue of overall delivery certificate or taking over certificate which shall be issued within thirty days of final taking over of goods or receiving the deliverables or completion of works enabling the supplier or contractor to submit final bill and the auditors to do substantial audit.

(2) In case of defect liability or maintenance period, defect liability certificate shall be issued within thirty days of the expiry of the said period enabling the supplier or contractor to submit the final bill. Except for unsettled claims, which shall be resolved through arbitration, the bill shall be paid within the time given in the conditions of contract, which shall not exceed sixty days to close the contract for final audit.

MAINTENANCE OF RECORD AND FREEDOM OF INFORMATION

. Record of procurement proceedings.-
(1) All procuring agencies shall maintain a record of their respective procurement proceedings along with all associated documentation for a minimum period of five years.
(2) Such maintenance of record shall be subject to the regulations framed in this regard from time to time.

Public access and transparency.- As soon as a contract has been awarded the procuring agency shall make all documents related to the evaluation of the bid and award of contract public:
Provided that where the disclosure of any information related to the award of a contract is of proprietary nature or where the procuring agency is convinced that such disclosure shall be against the public interest, it can withhold only such information from public disclosure subject to the prior approval of the Authority.

REDRESSAL OF GRIEVANCES AND SETTLEMENT OF DISPUTES

Redressal of grievances by the procuring agency.-
(1) The procuring agency shall constitute a committee comprising of odd number of persons, with proper powers and authorizations, to address the complaints of bidders that may occur prior to the entry into force of the procurement contract.
(2) Any bidder feeling aggrieved by any act of the procuring agency after the submission of his bid may lodge a written complaint concerning his grievances not later than fifteen days after the announcement of the bid evaluation report under rule 35.
(3) The committee shall investigate and decide upon the complaint within fifteen days of the receipt of the complaint.
(4) Mere fact of lodging of a complaint shall not warrant suspension of the procurement process.
(5) Any bidder not satisfied with the decision of the committee of the procuring agency may lodge an appeal in the relevant court of jurisdiction.

Arbitration.-
(1) After coming into force of the procurement contracts, disputes between the parties to the contract shall be settled by arbitration.
(2) The procuring agencies shall provide for a method of arbitration in the procurement contract, not inconsistent with the laws of Pakistan.

Mis-procurement.-
Any unauthorized breach of these rules shall amount to mis-procurement.

Overriding effect.-
The provisions of these rules shall have effect notwithstanding anything to the contrary contained in any other rules concerning public procurements:
Provided that the prevailing rules and procedures will remain applicable only for the procurement of goods, services and works for which notice for invitation of bids had been issued prior to the commencement of these rules unless the procuring agency deems it appropriate to re-issue the notice for the said procurement after commencement of these rules.

ANNUAL BUDGET & CONTROL OVER EXPENDITURE

GOVT. BUDGETING SYSTEM

A government budget is the forecast by a government of its revenue and expenditure for a specific period of time. Through budgetary process a Govt. decides how much to spend, the purpose for which it will be spent and where the money will come from.

It is a way of process to determine size and composition of revenue and expenditure to run the Govt activities.

The Annual Budget Statement comprising the estimated receipt and expenditure of the Federal Government pertaining to every financial year shall be laid before the National Assembly by the Federal Government.

The Annual Budget Statement shall separately indicate the charged and other expenditure proposed to be made from the Federal Consolidated Fund. It is constituted under the *Article 80 of the 1973 Constitution:*

BUDGET CYCLE

A common pattern of budgetary process consists of following stages:

- ✓ Preparation
- ✓ Authorization
- ✓ Implementation
- ✓ Evaluation

FUNCTIONS OF BUDGET

- ❖ TOOL OF ACCOUNTABILITY.
- ❖ INSTRUMENT OF ECONOMIC POLICY.
- ❖ AID TO MANAGEMENT.

Budget cycle

The budget cycle consists of six phases:

Setting of budget policy and initiatives –

Cabinet will meet to determine budget policy, initiatives and priorities. The budget policy, initiatives and priorities will then be communicated to the Ministry of Finance, who will then communicate these to ministries and departments via the financial advisers

· **Preparation** - The preparation of the budget papers commences in October of each financial year with the preparation and submission of entity estimates and the subsequent review and consolidation of those submissions by the Ministry of Finance

· **Authorization** - This phase commences with the submission of the annual budget to the Assembly and is completed when the entity gains control over its appropriations ·

Implementation - The next step in the cycle is for the entity to implement the activities for which it has been funded. The recording and control of these activities is the subject of the accounting system ·

Reporting - Reporting is the first step through which individuals within the entity and the Minister are held accountable for the implementation of the budget. This step involves both internal and external reporting ·

Performance review - This phase incorporates both internal and external review and together with the reporting phase covers most of what is referred to as accountability. The principal offices concerned with the review of performance are the Auditor-General's office and the Public Accounts.

Federal Consolidated Fund : comprises all federal revenues, all loans raised by the government and all moneys received by it in repayment of any loan.

Public Account :

All other moneys received by or on behalf of the Federal Government or received by or deposited with the Supreme Court or any other federal court shall constitute the public account of the Federation.

Procedure of Annual Budget of PMAD

(Para-114 of procedure of MAG office)

Cont Military Account

Each CMA prepares his own Budget Estimates and submits them to the Concern Section on the dates prescribed. B.Estimates for the MAG office is prepared by the General Sec received from various controllers. G sec checked and compared the past actual and received Estimated of the Current year with regard to any abnormal expenditure. After the checked made of the Estimated figures they consolidate the organization wise and send to the respective Budget Directorates on due date.

Military Accountant General

Para-115

Budget Estimates for the Following Year. These are prepared by the various controllers and the G sec of the MAG's office based on the actual strength of the offices concerned. It should be reached to

Admin sec by the 25th July and the budget Estimates by the 25th Oct each year supported by necessary justification.

The above stated estimates are scrutinized and submitted to the respective Budget Directorates before 25th Sep and 15th Dec each year.

Preliminary Revised Estimates: (Para-118)

This estimate is a forecast as accurate as possible of what the actual expenditure of the year is likely to be. All important changes tending to increase or decrease the budget estimates during the year are taken into account in the preparation of these estimates. It is based on the actual expenditure for the first 2 months of the year.

Revised Estimates (Para-119): This is more accurate estimates of what the expenditure of the year is likely to be and is based mainly on actual expenditure for the first 3 months of the year. It is submitted by the controller and the "G" sec of MAG office by the 25th Oct each year and consolidated estimate is submitted to the respective Budget Directorate before 15th Dec, each year.

Control of Expenditure within the limit: The MAG controls all expenditure for keeping the expenditure within the sectioned allotment. The actual expenditure compiled under several detailed heads by the DM sec of MAG office in shape of Expenditure statement in respect of all Pakistan Defence Services' and issue an extracts monthly. The actual expenditure compiled by the different CMAs under detail heads like Transportation, Hiring of Accommodation, Medical Charges, Welfare grant, Repair/Renovation, Contingencies and Misc Expense etc. are compared with their proportionate allotments and cases where found variation brought to the notice of head of office concerned.

CMA = Cont Military Accounts.

PENSION

PENSION IS A PERIODICAL PAYMENT TO THE GOVT. SERVANT AFTER THE RETIREMENT BY THE GOVERNMENT IN CONSIDERATION OF HIS/ HER PAST SERVICES RENDERED FOR THE GOVERNMENT.

Family:

The "family" under Pension-Cum-Gratuity Scheme includes the following relatives of the govt. servant:

1- Wife or Wives (in case of male govt. servant)

2. Husband (in case of female govt. servant.

3. Children of the government servant.

4. Widow or Widows and children of a deceased son of the govt servant.

KINDS OF PENSION

Compensation Pension:

If govt. wants to reduce the establishment, the govt. servants have the option to take compensation pension or gratuity to which he may be entitled for the service he has already rendered.

INVALID PENSION

It is awarded when a govt. servant who by bodily or mental infirmity is permanently incapacitated for the public service, or for the particular branch of it to which he belongs.

The infirmity has, however, to be certified by a duly constituted Medical Board.

SUPERANNUATION PENSION

It is granted to a govt. servant who is entitled or compelled, by rule, to retire at a particular age i.e. 60 years.

RETIRING PENSION

A retiring pension is granted to a govt. servant who is permitted to retire after completing qualifying service of 25 years.

In case of voluntary retirement of govt. servant the Heads of Departments are responsible for ensuring verification of qualifying service by the Audit within one month from the date of receipt of applicant for voluntary retirement after 25 years qualifying service.

If the qualifying service comes out to be less than 25 years, the govt. servant will have to continue in service till he mpletes that length of service. This fact should be pointed t by the Head of the Department to the Govt. servant before piry of three months notice period.

nditions of qualifying service.

The service begins to qualify for pension from the date the employee takes charge of the office to which he is first appointed. The service must be under government. A government servant does not qualify his service for pension unless he is appointed and his duties and pay are regulated by the government.

he employment must be substantive and permanent.

he continuous temporary service of more than 5 years counts or pension or gratuity .Continuous temporary service of less han 5 years immediately followed by confirmation is also ount for pension or gratuity.

Emoluments reckoned for pension

The term "Emoluments" means which a government servant was receiving immediately before his retirement and includes:

- Pay as defined in FR 9(21) (a)(i).
- Personal Pay
- Technical Pay
- Increments accrued during L.P.R.
- Indexed Pay
- Annual Increment in the year of retirement *if service is* six months in that year.
- Senior Post Allowance (apply to officers who retire on or after 1-5-1977).
- Any other addition to pay which may specifically be declared by President as emoluments reckoning for pension.
- Orderly allowance is paid as an additional pension to B-20 & above.

❖ Medical Allowance is paid with the pension.

Note: The term "Average" means the average calculated upon the last 12 months of service. If the pay of a government servant has been reduced otherwise than as penalty, the average of last 3 years pay can be calculated if opted by the pensioner.

PENSION DOCUMENTS

The following documents are prepared before the cas submitted to the competent authority for approval of pension.

- ✓ Revised CSR 25 (approved application form)
- ✓ LPC (last pay Certificate)
- ✓ PFA-357
- ✓ Banker's Name
- ✓ Copy of CNIC of the Pensioners
- ✓ Photo Graph
- ✓ Death Certificate & Nomination in case of family pension
- ✓ Service Performa
- ✓ List of family members
- ✓ Option Certificate
- ✓ Commutation of Civilian Pension
- ✓ Under taking/not to take participate in politics
- ✓ Article 922(a) CSR
- ✓ Concerned from recovery of Govt dues
- ✓ No demand Certificate
- ✓ Daily office order Part-II (retirement order)
- ✓ Signature and Thumb impression

HEADS OF GOVT ACCOUNTS

- Revenue Division
- Capital Division
- Debt Division
- Remittance Division

RCDR

The following main heads of Accounts deals as under.

Revenue Division

Deals with the proceeds of taxation and other receipts classed as Revenue and the Expenditure there from.

Capital Division:

Deals with the expenditure usually met from Reserved/ borrowed fund, Being incurred with the object of increasing concrete assets (Plant, Machinery etc.), or Of reducing

recurring liabilities such as those for future pensions by payment of the capitalized value.

Debts Divisions:

It comprises long term debts and short term debts

eg: A/P, Preliminary expenses etc. receipts in respect of which Government becomes liable to repay the moneys received (known as "deposits"), and the payments in respect of which Government has a claim to recover the amounts paid (known as Advances).

Remittance Division:

It shall embrace all merely adjusting heads under which shall appear items in transit between different account (eg MID/CID schedules), circles in Pakistan including the Accounts Department of the Ambassador for Pakistan in United Kingdom as well as the Account Department of the diplomatic representative of the Government of Pakistan in any other foreign country.

SCRUTINY OF CONTRACT AND AUDIT OF LOCAL PURCHASE BILLS

Contractor bills are divided into two main classes

- i. Bills for store purchased locally for stock in supply or store Depots and for direct delivery to consuming units.
- ii. Bills for hired transport including carriage of personal luggage on transport indents and of Military passenger and their baggage on the authority of road and river warrants.
- **NOTE:- the term "*store Depot*" as used includes an Arsenal , Ordnance, clothing, Medical store and remount Depot, a heavy Repair shop and a Mechanical Transport store Depot.**
- **The Term "*supply Depot*" means the HQrs of Supply Depot or sub depot thereof holding separate stock of store"**

All contractor bills should be paid as soon as possible. After audit they will be entered in the Income Tax Register by an auditor. The entries in the bill and income tax register will be checked by AAO.

The register and bills submitted to the officer in charge of the section for scrutiny and approval and be submitted to disbursement section.

Payment / expenditure / expense.

Scrutiny of contract

- The contracts must be concluded by the competent administrative authority. Sanction has been accorded by an authority competent to sanction it. All orders received from time to time by the Govt must be kept in view. Lowest tender must be accepted, if other than lowest is accepted than reasons must be recorded. Price current rates have been obtained from civil authorities. Tenders are issued to all contractors on list of approved contractor. The selected rates compare favorably with last year's contract rates and the price current rates. Terms of the contract must be precise and no room left for ambiguity. No contract involving an uncertain or indefinite liability or any condition of unusual character should be entered into without previous consent of the competent financial authority. Competent financial authority means the authority within whose financial powers the amount at issue falls" Contract must be placed only after tenders have been called. The original copy of the contract is duly signed by contractor, witnesses and the officer concluding the contract. The schedules are framed according to instructions contained in regulations and letters from Govt and administrative authorities. "Schedule may be of delivery or rate etc". Amount of security must be deposited. The amount of security deposited is noted on the schedule and is correctly calculated in accordance with the terms of the contract and rules laid down in FR Vol I, 1986.

If the security is waived sanction of the QMG is necessary.

The rates must be clearly written in words and figures.

The rates accepted are same as are noted in the comparative statement and have not been tampered.

AUDIT OF LOCAL PURCHASE BILLS

The bills should be audited in accordance with the general rules laid down in Military Audit Code. The purchase is within the financial power of the officer in charge. A letter of sanction must be obtained when necessary by the officer in charge of the Armed Forces Medical Store & Depot. The rates charged should agree with those in the contract Register rate sanctioned by the Director General Medical services. Bills and vouchers must be in prescribed form and original. The detail work up to the total and totals are in words and figures. No erasures and alternation, if it happens it must be attested by the officer as many times as made alternations are made. Bills must be signed in ink. No stamped signature is accepted. No signature on the bill by the subordinate officer is acceptable. When a local purchase bill has been passed for payment by the officer, and before it is sending to the Disbursement section, the auditor will detach the CRVs etc and enter the total number on a proforma." Monthly summary" of CRVs etc will be kept in a loose pad until the end of the month.

At the end of the month the auditor will add up the total number of CRVs and make sure that the number is actually in his pad and will forward to the concerned LAO office.

Auditor should not at liberty to make relaxation in audit of their own motion it is considerable importance that the prescribed check should be observed in true spirit"

General Rule of Audit and Scrutiny

- Bills and vouchers must be in prescribed form and original.
- The detail work up to the total and the totals are in words and figures.
- No erasures and alternation, if it happens it must be attested by the officer as many times as alternations are made.
- Bills must be signed in ink. No stamped signature is accepted.
- No signature on the bill by the subordinate officer is acceptable.
- The copies of sanctions are certified by the sanctioning officer or by the gazetted officer authorized to sign for him.
- Revenue stamp must be affixed and defaced.
- In case agreement is effected between two different documents, facts must be written down on both the documents.

- Income tax and sales tax must be deducted.
- Claims preferred after 12 months need sanction of the competent authority.
- Necessary entries must be made in prescribed audit register.
- *All documents after payment must be stamped "PAID".*

DUTIES OF AN AUDITORS

DUTIES WITH RESPECT TO DAK:-

- Count the letters and bills, delivered to you by the Dak supervisor or the group accountant before initialing the receipt.
- See that the letters etc actually pertains to the portion of the work dealt with you. If a particular letter or bill does not pertain to you, it should be transferred to the group concerned (if in the same section) or to the section concerned on the same day through the work book or record section, as the case may be, in no case should the letter or bill not pertaining to you, be kept with you.

MAINTENANCE OF WORK BOOK:-

Each auditor will maintain a work book in which:-

- Enter immediately all letters and bills etc, received on each day in your work book. The number thus entered must tally with the receipt given by you.
- Mark the disposal of each letter and bill in your work book showing therein the date of submission of the disposal and the date of its dispatch.
- Prepare daily outstanding list of letters and bills, etc, in the work book at the close of each day, showing the number outstanding as also the date of oldest letter and bill etc, in hand.

- Submit your work book daily to A.A.O. of the group.

MAINTENANCE OF Note BOOK:-

- Maintain a note book in which all important orders and decisions affecting the work dealt with in your section, especially those relating to the portion of work allotted to you, are properly noted. Submit your note book to the AAO for examination every month. However a master note book will be maintained by the AAOs, and shall be handed over to his successor on his transfer/relinquishment of charge.

Disposal of Correspondence:-

- All letters and bills etc, received by you should be dealt with promptly and systematically. In fact it should be your Endeavour to dispose of your correspondence etc. on the date of receipt or on the following day at the least.

- *If any special difficulty is encountered, or delay is anticipated in dealing with a particular case, you should bring the matter promptly to the notice of AAO. You should not delay or neglect such cases for prolonged periods, in order that attention may be given to other work.*

Duties with respect to Files:-

a) Give a "Subject" on each file opened by you.

b) Allot a number to each new file opened with reference to the fil index register (maintained in AN Section) and enter it subject in that register against the particular number allotted.

c) Keep your files neat and in tidy manner.

d) Allot page numbers to correspondence in the file and link and interlink the correspondence when necessary.

e) Do not file correspondence letters in the subject file.

f) Open a new part of the file after it has reached between 150 to 200 pages.

Do not keep "Dead" files in the section, transfer them to "Record Section" after due approval.

Duties with respect to Registers:-

- Ensure that fly leaf instructions are pasted in the each registe and are being initialed by the AAO every month.
- Keep all register posted up to date
- Submit all registers to the officer in charge or group officer as and when required / asked
- Demand / Payment register is one of the most important register, see that all new demands are duly noted in this register

and all demands adjusted on receipt of bills, treasury receipts are properly scored out.

ies with respect to Bills:-

) Deals with the bills promptly, e.g. arithmetical calculations, rates, etc.

) Verification of signatures.

) After subjecting each bill to audit check, enface it with payment order.

) Submit each bill with the relevant register e.g. provisional payment register to AAO

) If the payment of the bills affects the demand register make necessary entries in that register simultaneously with submission of bills

) Prepare punching medium and cheque slip at the time of payment

) Check the punching medium if prepared by the unit accountant

) *Pursue promptly all objections raised as a result of Post Audit of bills, etc until they are settled.*

Duties with respect to Reports & Returns:-

a) A list of reports and returns due in and due out is required to be kept by the Auditor, see that with reference to this list all reports and returns due in are actually received by you in time and necessary use of them for which they are rendered by outside parties is made without delay.

b) Similarly, see that reports and returns due out with reference to the list of reports and returns are submitted by the auditor to the AAO in sufficient time to admit to their being dispatched to the parties concerned on due dates.

LAN	WAN
ecommunication lines	leased telecommunication lines

Financial planning

It is the task of determining how a business will afford to achieve its strategic goals and objectives. Usually, a company creates a Financial Plan immediately after the vision and objectives have been set. The Financial Plan describes each of the activities, resources, equipment and materials that are needed to achieve these objectives, as well as the timeframes involved.

The Financial Planning activity involves the following tasks;-

- Assess the business environment
- Confirm the business vision and objectives
- Identify the types of resources needed to achieve these objectives
- Quantify the amount of resource (labor, equipment, materials)
- Calculate the total cost of each type of resource
- Summarize the costs to create a budget
- Identify any risks and issues with the budget set

Performing Financial Planning is critical to the success of any organization. It provides the Business Plan with rigor, by confirming that the objectives set are achievable from a financial point of view. It also helps the CEO to set financial targets for the organization, and reward staff for meeting objectives within the budget set.

The role of financial planning includes three categories:

1. Strategic role of financial management
2. Objectives of financial management
3. The planning cycle

When drafting a financial plan, the company should establish the **planning horizon**. Which is the time period of the plan, whether it is on a short-term (usually 12 months) or long-term (2–5 years) basis? Also, the individual projects and investment proposals of each operational unit within the company should be totaled and treated as one large project. This process is called **aggregation.**

Re-appropriation of Accounts

Re-appropriation of funds from the primary unit of appropriation to another such unit within a grant or appropriation may be sanctioned by a Competent Authority at any time before the close of the Financial year to which such grants or appropriation relates subject to the provision of Rule 10 of Delegation of Financial Power Rules, 1978 and also subject to such other general /specific instructions as may be laid down by the Finance Ministry in this respect. Re-appropriation shall be made only when it is known /anticipated that the appropriation for the unit from which funds are being re-appropriated will not be utilized in full or that saving can be effected in the appropriation for the said unit. Funds as a whole will not be re-appropriated from any unit with the ntention of restoring the diverted re-appropriation to that unit when aving becomes available under other units later in the financial year.

All cases of re-appropriation involving savings of more tha 10 lakhs for the plan heads relating to a Ministry / Department whole would have to be referred to the Ministry of Finance decision giving detailed justification in support of the proposal.

Supplementary and excess grants

If in respect of any financial year it is found-

(a) That the amount authorized to be expended for a particular se for the current financial year is insufficient, or that a need has arise expenditure upon some new service not included in the Annual Bu Statement for that year; or

(b) That any money has been spent on any service during a finan year in excess of the amount granted for that service for that year;

The Federal Government shall have power to authorize expendit from the Federal Consolidated Fund, whether the expenditure charged by the Constitution upon that Fund or not, and shall cause be laid before the National Assembly a Supplementary Bud Statement or, as the case may be, an Excess Budget Statement, setti out the amount of that expenditure.

1. Strategic role of financial management
2. Objectives of financial management
3. The planning cycle

When drafting a financial plan, the company should establish the **planning horizon**. Which is the time period of the plan, whether it is on a short-term (usually 12 months) or long-term (2–5 years) basis? Also, the individual projects and investment proposals of each operational unit within the company should be totaled and treated as one large project. This process is called **aggregation.**

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All cases of re-appropriation involving savings of more than Rs. 10 lakhs for the plan heads relating to a Ministry / Department as a whole would have to be referred to the Ministry of Finance for a decision giving detailed justification in support of the proposal.

Supplementary and excess grants

If in respect of any financial year it is found-

(a) That the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year; or

(b) That any money has been spent on any service during a financial year in excess of the amount granted for that service for that year;

The Federal Government shall have power to authorize expenditure from the Federal Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the National Assembly a Supplementary Budget Statement or, as the case may be, an Excess Budget Statement, setting out the amount of that expenditure

Settlement of Audit Objections

a. **COVERAGE**

The internal audit of all Units/formations is carried out by the CLA (DS) through LAOs working at the station. All cash and store accounts are audited by the LAOs. The audit of numerical store/cash accounts is generally carried out to the extent prescribed from time to time by the M.A.G. If during the visit to a Unit/Formation, difficulty is experienced in obtaining full and fair access to any essential account or record in obtaining any important explanation etc., the LAO reports full facts of the case to the CLA(DS); M.A.G to extend the scope of audit.

The audit of all Units/Formations is carried out on half yearly basis. Besides general scrutiny of the accounts for the entire period one month in a half year period is selected for detailed audit.

As a result of internal audit, the following amount has been deposited/refunded by the Units/Formations during the last three years.

b. **COMPETENCE OF PERSONNEL**

The Local Audit offices comprise Accounts Officer, Assistant Accounts Officer and S/Auditors. These Accounts Officer and Assistant Accounts Officer are experienced and well versed with the rules/regulations. The audit reports rendered by them are further scrutinized at DCLA(DS) and CLA(DS) level. Before issuing the reports, these are also discussed by the LAOs with the COs of the respective units. As such it is a fact that competency of the LAOs staff is beyond doubt.

It is worth mentioning fact that P.M.A.D has its own offices as well as residential buildings at most of the stations and it is least dependant on Defense services in this regard. As such they carry out the audit independently.

c. **REPORTING PATTERN**

On completion of the audit of the Accounts of certain period the objections/observations noted are discussed by the LAOs with the CO of the Unit concerned. After discussion, the Audit report is issued to units with a copy to the DCLA (DS) and Audit Section of the CLA(DS).

The reports are scrutinized and objections categorized in accordance with the following principles:-

CATEGORY-A Procedural points/observations and minor objections.

CATEGORY-B Items of financial irregularities and procedural lapses requiring Govt. sanction/sanction of higher authorities.

CATEGORY-C Items considered fit for inclusion in the G.S.A. Report.

Regularizing the Audit Objection

Cases of Category-A may be settled by the LAOs concerned if reply to the objections is found satisfactory or necessary action to regularize the same has been taken by the executive. The settlement of the cases under Category-B & C requires approval of DCLAs/CLA(DS).

RESPONSIVENESS TO EXTERNAL AUDIT

Dy. M.A.G monitors the reports of the D.G. Defense Audit and works as a liaison officer between CsMA & DGDA. The reports are also discussed by Directors with the CsMA at regional/local levels. Progress action is taken, and Advance Paras and disciplinary action is taken against the concerned staff where the laxity is noticed.