FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2026 FOR RECRUITMENT TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT
ACCOUNTANCY AND AUDITING, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS	**(PART-I MCQs) MAXIMUM MARKS: 20**
PART-I (MCQs) : MAXIMUM 30 MINUTES	**(PART-II) MAXIMUM MARKS: 80**

NOTE: (i) First attempt **PART-I (MCQs)** on separate **OMR Answer Sheet** which shall be taken back after **30 minutes.**
(ii) Overwriting/cutting of the options/answers will not be given credit.
(iii) There is **no negative** marking. All MCQs must be attempted.

PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ■ on the **OMR Answer Sheet. (20x1=20)**
(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.

1. **Assume a company has a Rs.350 credit (not cash) sale. How would the transaction appear if the business uses accrual accounting?**
(A) Rs.350 would show up on the balance sheet as a sale.
(B) Rs.350 would show up on the income statement as a sale.
(C) Rs.350 would show up on the statement of cash flows as a cash outflow.
(D) The transaction would not be reported because the cash was not exchanged.
2. **Which of the following is an example of capital expenditure?**
(A) Paying for refurbishment as part of upgrading a building
(B) Paying carriage outwards in respect of selling goods
(C) Paying legal fees in order to recover customer debts (D) Paying bonuses to production operatives
3. **Mahnoor invests her car into her business. Which parts of the business' accounting equation will change?**
(A) Capital and liabilities (B) Capital and profit (C) Liabilities and assets (D) Assets and capital
4. **Which of the following errors would be found by extracting a trial balance?**
(A) A transaction has been completely missed in the accounts
(B) The double entries have been made the wrong way round
(C) Different figures have been entered for the debit and credit entries
(D) An expense item has been posted to a non-current asset account.
5. **Working capital is an indication of the firm's ________.**
(A) Asset utilization (B) Amount of noncurrent liabilities (C) Amount of noncurrent assets (D) liquidity
6. **Which of the following principles matches expenses with associated revenues in the period in which the revenues were generated?**
(A) revenue recognition principle (B) Matching principle (C) cost principle (D) full disclosure principle
7. **If the existing current ratio of a company is more than 1, what would be the impact of a credit purchase of inventory on the current ratio?**
(A) Current ratio would increase (B) Current ratio would decrease
(C) Current ratio would decrease but would remain higher than 1 (D) Current ratio would remain same
8. **Which financial statement represents the accounting equation?**
(A) Income Statement (B) Statement of Cash Flows
(C) Balance Sheet (D) Statement of Changes in equity
9. **The original cost of the machine is Rs.19,00,000; machine installation charges are Rs.1,00,000; working life of the machine is 5 years and residual value is Rs. 40,000. If the depreciation is charged on Straight Line basis then 4th year's depreciation will be:**
(A) 372,000 (B) 400000 (C) 392000 (D) 352000
10. **Amount set apart to meet loss due to bad debt is a:**
(A) Provision (B) Appropriation (C) Reserve (D) Commission
11. **House Building advance of Rs.2 Million paid to employees. It is a:**
(A) Asset (B) Revenue Expenditure (C) Capital Expenditure (D) Deferred Revenue Expenditure
12. **Prime cost may be correctly termed as:**
(A) The total of all cost items which can be directly charged to product units.
(B) The sums of all direct materials and labor cost excluding all other cost.
(C) The total costs incurred in producing a finished unit. (D) The sum of the large cost in product cost.
13. **The costs are differentiated between fixed and variable costs under:**
(A) Absorption Costing (B) Direct Costing (C) Standard Costing (D) Marginal Costing
14. **From the following information, find out purchases when raw material consumed is Rs.26,500; Closing stock Rs. 4500 and opening stock Rs.3,000.**
(A) Rs.26500 (B) Rs.25000 (C) Rs.28000 (D) Rs.34000

15. **If an adjustment includes an entry to Accumulated Depreciation, which type of adjustment is it?**
(A) accrual (B) deferral (C) estimate (D) cull

16. **A company's statement of profit or loss for the year ended 31 December 2025 showed a net profit of Rs.83,600. It was later found that Rs.18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition. What would the net profit be after adjusting for this error?**
(A) Rs.106,100 (B) Rs.70,100 (C) Rs.97,100 (D) Rs.101,600

17. **At 30 June 2025 a company's allowance for receivables was Rs.39,000. At 30 June 2026 trade receivables are Rs.517,000. It was decided to write off debts Rs.37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events. What figure should appear in the statement of profit or loss for the year ended 30 June 2026 for receivables expense?**
(A) Rs.61,000 (B) Rs.52,000 (C) Rs.22,000 (D) Rs.37,000

18. **Nishat Textiles computed the following items from its financial records for the current year: Current ratio = 2 to 1; Average age of inventory = 60 days; Average collection period = 30 days; Average payable period = 40 days. The number of days in Nishat Textile's cash conversion cycle for the current year was:**
(A) 50. (B) 90. (C) 78. (D) 42.

19. **Ideally, which of these ratios will indicate the highest return for a levered firm?**
(A) Return on assets (B) Return on invested Capital
(C) Return on Capital Employed (D) Return on common equity

20. **Given a quick (acid-test) ratio of 2.0, current assets of Rs.5,000, inventory of Rs.2,000, prepaid expense = 0, the value of current liabilities is:**
(A) Rs.1,500 (B) Rs.2,500 (C) Rs.3,500 (D) Rs.6,000

PART – II

NOTE: **(i)** **Part-II** is to be attempted on the separate **Answer Book.**
(ii) Attempt **ONLY FOUR** questions from **PART-II** by selecting **TWO** questions from **EACH SECTION**. **ALL** questions carry **EQUAL** marks.
(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.
(iv) Write Q. No. in the Answer Book in accordance with Q. No. in the Q.Paper.
(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(vi) Extra attempt of any question or any part of the question will not be considered.
(vii) **Use of Calculator is allowed.**

SECTION – I

Q. 2. Shakeel formed a business entity to provide bus service for a fee to public and private schools in the Walnut Creek area. The business is organized as a sole proprietorship, called Walnut Creek Transportation Services. The transactions during July, while the new business was being organized, are listed below.

July 1, Shakeel opened a bank account in the name of the business with a deposit of Rs.225,000 cash.

July 3 The new company purchased land and a building at a cost of Rs.120,000, of which Rs.72,000 was regarded as applicable to the land and Rs.48,000 to the building. The transaction involved a cash payment of Rs.30,000 and the issuance of a note payable for the balance of the purchase price.

July 5 Purchased 9 new buses at Rs.27,000 each from Fleet Sales Company. Paid Rs.76,500 cash, and agreed to pay Rs.80,000 by July 31 and the remaining balance by August 15. The liability is viewed as an accounts payable.

July 7 Sold one of the buses at cost to Young Camping Services. The buyer paid Rs.15,000 in cash and agreed to pay the balance within 30 days.

July 8 Upon inspection, one of the buses was found to be defective and was returned to Fleet Sales Company. The amount payable to this creditor was thereby reduced by Rs.27,000.

July 20 Purchased office equipment at a cost of $2,400 cash.

July 31 Issued a check for Rs.80,000 in partial payment of the liability to Fleet Sales Company.

Required

a. Journalize the July transactions. **8**
b. Post to ledger accounts. **6**
c. Prepare a trial balance at July 31, 2025 **6** **(20)**

Q. 3. On April 1, 1997, Hamid Hassan, an attorney, opened her own legal practice, to be known as the Law Office of Hamid Hassan. The business adjusts its accounts at the end of each month. The following trial balance was prepared at April 30, 2025, after one month of operations:

LAW OFFICE OF HAMID HASSAN
Trial Balance April 30, 2025

	Dr	Cr
Cash	Rs. 10060	
Legal Fee Receivable	0	
Unexpired Insurance	3000	
Prepaid office rent	4800	
Office supplies	1460	
Office Equipment	26400	
Accumulated Dep-Office Equipment		0
Notes Payable		16000
Interest Payable		0
Salaries Payable		0
Unearned fee		16020
Hamid Hassan's Capital		20000
Hamid Hasan's Drawing	4000	
Legal Fee Earned		1580
Salaries Expense	2680	
Misc Expenses	1200	
Office Rent expense	0	
Office Supplies Expense	0	
Depreciation Expense-Office Equipment	0	
Interest Expense	0	
Insurance Expense	0	
	Rs.53600	**Rs.53600**

Other Information

i. No interest has yet been paid on the note payable. Accrued interest at April 30 amounts to Rs.180.
ii. Salaries earned by the office staff but not yet recorded or paid amounted to Rs.3,470 at April 30.
iii. Many clients are asked to make an advance payment for the legal services to be rendered in future months. These advance payments are credited to the Unearned Retainer Fees account. During April, Rs.7,700 of these advances were earned by the business.
iv. Some clients are not billed until all services relating to their matter have been rendered. As of April 30, services priced at Rs.4,780 had been rendered to these clients but had not yet been recorded in the accounting records.
v. A professional liability insurance policy was purchased on April 1. The premium of Rs.3,000 for the first six months was paid and recorded as Unexpired Insurance.
vi. The business rents an office at a monthly rate of Rs.1,600. On April 1, three months' rent was paid in advance and charged to the Prepaid Office Rent account.
vii. Office supplies on hand at April 30 amounted to Rs.1,100.
viii. The office equipment was purchased on April 1 and is being depreciated over an estimated useful life of 10 years.

Required

a) Prepare the adjusting entries required at April 30. **10**
b) Determine the amount of net income to be reported in the company's income statement for the month ended April 30, 2025. **10 (20)**

Q. 4. **(a)** June 2025 of Hassan Traders, following errors were highlighted. You are required to prepare journal entries to correct the below errors. **10**

(i) Sales included an outstanding balance of Rs. 500,000 for which a customer would need to pay Rs. 485,000 only if payment is made within 30 days. The customer is expected to pay within 30 days.
(ii) An item was included in closing inventory at its net realizable value of Rs. 490,000. However, the item had a cost of Rs. 450,000.
Periodic inventory method is used to record the inventory transactions

(iii) A sub-total of Rs. 234,000 was carried forward in the purchase day book as Rs. 432,000. Control accounts are not maintained for Debtors and Creditors.

(iv) A credit note issued to a customer of Rs. 128,000 was recorded as credit note received from supplier.

(v) An office machine costing Rs. 3,540,000 with a carrying value of Rs. 2,040,000 as on 1 July 2021 was disposed off on 28 February 2022 for Rs. 1,860,000. The sale proceeds were credited to accumulated depreciation account and full year's depreciation was provided on the machine. Office machines are depreciated at 10% per annum using reducing balance method.

(b) Compare and contrast the "Incurred Loss Model" (IAS 39) with the "Expected Credit Loss (ECL) Model" (IFRS 9). Why was the shift to the ECL model considered necessary by standard setters following the 2008 financial crisis? **10** **(20)**

Q. 5. **(a)** Explain how a cash flow statement can reveal earnings quality and liquidity risk. Identify at least four diagnostic indicators from cash flows that analysts monitor and what each may imply. **12**

(b) Following is the statement of financial position of Qasim Limited (QL) as at 30 June 2025: **8** **(20)**

	2025	**2024**		**2025**	**2024**
Share capital	Rs.480 M	Rs.400 M	Land and building	Rs.748 M	Rs.526 M
Revaluation surplus	135	-	Vehicles	118	96
Retained earnings	337	325	Inventories	365	444
Long-term loan	335	460	A/C receivables	212	185
A/C payables	160	142	Cash and bank	73	111
Advance from customers	69	35			
	1,516 M	***1,362 M***		***1,516 M***	***1,362 M***

Additional information:

i. During the year, land and building were revalued for the first time, resulting in a surplus of Rs. 150 million and incremental depreciation of Rs. 15 million.

ii. Depreciation on building charged to profit or loss amounted to Rs. 72 million.

iii. During the year, vehicles having book value of Rs. 8 million were sold for Rs. 11 million received in cash. Further, sale proceeds of Rs. 6 million of another vehicle (book value Rs. 7 million) disposed off in May 2024 were received in August 2024.

iv. Vehicles costing Rs. 51 million were purchased during the year of which Rs. 12 million is still unpaid.

v. Inventories as at June30, 2025 included work in process inventories of Rs. 96 million (2024: Rs. 80 million) which are not available for sale.

vi. Interest on loan for the year amounted to Rs. 48 million of which Rs. 14 million was capitalized in the cost of a building constructed during the year.

Required:

Prepare QL's statement of cash flows for the year ended 30 June 2025.

SECTION – II

Q. 6. National Limited is engaged in the production of a single product Lunar-1 and uses standard absorption costing system. NL has total production capacity of 6,250 units per month whereas it operates at a normal capacity of 80%. Following information pertains to the month of August 2025: **(20)**

Standard cost card per unit:

	Amount
Direct material (8 kg at Rs. 30 per kg)	240
Direct labor (6 hours at Rs. 25 per hour)	150
Overheads (Rs. 20 per labour hour)	120

Sales and production data:

Budgeted selling price per unit	Rs.700
Budgeted sales	4000 Units
Actual sales	5200 Units
Actual production	5400 Units

Additional information:

i. There was no inventory at the beginning of the month.

ii. 50,000 kg direct material was purchased in bulk in order to avail discount of Rs. 150,000.

iii. Actual material loss was 10% as against the budgeted loss of 6%.

iv. Workers' wages were increased by 10% effective from 1 August 2025 due to prevailing high inflation. This increased workers' efficiency by 5% as compared to the budget.

v. Actual overheads (both fixed and variable) amounted to Rs.720,000. Fixed overheads were over absorbed by Rs. 30,000.

Required

Compute the following variances for the month of August 2025:

a. Sales volume variance
b. Material price and usage variances
c. Labor rate and efficiency variances
d. Fixed overhead expenditure variance
e. Variable overhead expenditure and efficiency variances

Q. 7. **(a)** There are two plants manufacturing the same products under one corporate management which decides to merge them. Following particulars are available regarding the two plants: **10**

	Plant I	Plant II
Capacity operation	100%	60%
Sales in Rs	60000	24000
Variable costs in Rs	44000	18000
Fixed costs `	8000	4000

You are required to calculate for the consideration of the Board of directors:

i. What would be the capacity of merged plant to be operated for purpose of break-even?

ii. What would be the profitability on working at 75 per cent of the merged capacity?

(b) Target Costing reverses the traditional pricing equation. Explain the process of Target Costing. How does this approach encourage "Value Engineering" and cost reduction during the design phase rather than the production phase? **10** **(20)**

Q. 8. Jaleel Limited (JL) is engaged in the production of three products J1, J2 and J3 which it sells in the local market. Presently, JL's manufacturing plant is operating at 80% of its capacity. Following information has been extracted from JL's records for the year ended 31 August 2025: **(20)**

	J1	J2	J3
Production/sales (units)	3,500	6,000	7,000
Machine hours per unit (hours)	8	5	6
Selling price per unit in Rs.	6,200	5,000	7,000
Variable cost per unit in Rs.			
Direct material	900	600	1,000
Direct labour	800	750	1400
Variable overheads	600	700	600
Fixed overheads	8250000		

In order to enter into the international market, on 1 August, 2025, JL hires the services of an export house to market its products, at a monthly payment of Rs. 100,000. JL resultantly receives first export order from a USA based company, Asteroid Limited. Details of the export order are as follows:

Product	Units	Selling price per unit in Rs.
J1	1500	6,500
J2	2000	5500
J3	1500	7500

It is estimated that due to additional packaging, the direct material cost will increase by 10% and due to quality control, other variable overheads will increase by 15%.

A toll manufacturer offers JL to produce J1, J2 and J3 at Rs. 1,800, Rs. 1,600 and Rs. 2,500 respectively subject to provision of material by JL.

The management has decided to produce local orders on priority.

Required:

Prepare a product wise plan for in-house production and outsourcing to maximize JL's profitability for the upcoming year.

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ACCOUNTANCY AND AUDITING, PAPER-II

Roll Number

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PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ■ on the **OMR Answer Sheet. (20x1=20)**
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1. **Management provides detailed explanations for unusually high year-end sales, supported by invoices but not matched by dispatch records. What should the auditor focus on first?**
(A) Customer creditworthiness (B) Cutoff testing for revenue
(C) Review of sales incentives policy (D) None of these
2. **A company uses strong automated controls but bypasses them during system updates, relying solely on manual approvals. The greatest risk arises from:**
(A) Unauthorized transactions (B) Data redundancy (C) Excessive documentation (D) None of these
3. **A taxpayer depreciates machinery at accelerated rates while claiming repairs as revenue expenses. The tax officer should assess whether:**
(A) The business qualifies for minimum tax (B) Expenses result in double deductions
(C) Depreciation exceeds threshold limits (D) None of these
4. **A trader claims full input tax despite selling a portion of goods at exempt rates. The auditor's primary adjustment should consider:**
(A) No adjustment required (B) Increase in output tax rate
(C) Reduction in withholding tax credit (D) Reversal of input tax on exempt supplies
5. **A firm's WACC decreases despite rising interest rates in the economy. This is most likely due to:**
(A) Increase in risk-free rate (B) Reduction in business risk premium
(C) Higher tax shield from debt (D) None of these
6. **Project A has a higher IRR but lower NPV than Project B. The firm should choose B because:**
(A) IRR assumes inconsistent cash flows (B) NPV reflects actual value creation
(C) IRR ignores discounting (D) None of these
7. **A company decentralizes operations but keeps financial decisions centralized. The resulting issue is most likely:**
(A) Loss of strategic vision (B) Delayed operational decisions
(C) Imbalanced authority-responsibility structure (D) None of these
8. **A client's gross profit margin rises sharply while purchase prices remain unchanged. The most plausible audit concern is:** (A) Capitalization of routine expenses (B) Overstatement of cost of goods sold
(C) Overstatement of sales tax refunds (D) Understatement of cost of goods sold
9. **A company pays commission to agents but books it as "marketing support." The primary tax risk is:**
(A) Misclassification of final tax (B) Avoidance of withholding liability
(C) Incorrect sales tax input claim (D) None of these
10. **A portfolio's beta decreases after diversification, but its standard deviation does not fall significantly. This suggests:**
(A) Systematic risk eliminated (B) Market risk increased
(C) Unsystematic risk already minimized (D) None of these
11. **A multinational transitions to an ERP, but legacy modules still process adjustments during peak periods. Audit logs show inconsistent user IDs creating overrides, some from unusual IP ranges. Which risk dominates?**
(A) Weak automated validation (B) Detection risk
(C) Fraud risk from unauthorized access (D) None of these
12. **A client with declining cash flows capitalizes development costs aggressively while lenders tighten covenants. Best audit response?**
(A) Perform sensitivity analysis on assumptions (B) Increase sampling on inventory
(C) Recalculate depreciation (D) None of these
13. **A consultant spends 160 days in Pakistan but earns foreign income routed through a Pakistani bank. He claims non-resident status. Core issue:**
(A) Whether foreign income is Pakistan-source (B) Whether physical presence triggers residency
(C) Whether treaties override local rules (D) None of these

14. **A textile firm records luxury travel for foreign buyers as "entertainment." The officer must assess whether:**
    (A) Section 21 disallows it (B) Depreciation must be recalculated
    (C) Minimum tax applies instead (D) None of these
15. **A manufacturer sells partly to wholesalers and partly to unregistered retailers. CNIC reporting mismatches cause discrepancies. Key concern:**
    (A) Incorrect apportionment of input tax (B) Ineligible zero-rated claim
    (C) Excess customs drawback refund (D) None of these
16. **A firm with volatile EBIT uses high leverage assuming tax deductibility offsets risk. Falling margins expose fixed interest burdens. Error relates to:**
    (A) Pecking Order Theory (B) Overestimating risk tolerance
    (C) Misreading MM tax shield (D) None of these
17. **A long-term project has low early inflows but a huge terminal value. Management selects a low discount rate to approve it. Flaw:**
    (A) Ignoring inflation (B) Understating risk-adjusted discount rate
    (C) Treating cost of capital as payback (D) None of these
18. **Payroll testing reveals identical salaries for sequential employee IDs created within days. HR calls them seasonal workers. Auditor should consider:**
    (A) Labor hour analytics (B) Potential payroll fraud (C) Gratuity confirmation (D) None of these
19. **A construction firm subcontracts work involving the supply of material and specialized installation service, treating the entire payment as subject to Final Tax (FTR) under Section 153. The tax officer's primary task is to assess:**
    (A) Whether the payment for services must be separated from the payment for supply to apply the correct withholding tax rate and determine the final tax status.
    (B) Whether the subcontractor is eligible for a tax credit under Section 62.
    (C) Whether the construction business is eligible for the minimum tax on turnover under Section 113.
    (D) None of these
20. **Management changes costing assumptions mid-year without documentation, affecting product-level margins unevenly. Which assertion is MOST at risk?**
    (A) Rights & obligations (B) Completeness (C) Both (A) & (B) (D) Accuracy / valuation

PART – II

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SECTION – I (AUDITING)

Q. 2. Explain how the concept of true and fair view guides an auditor when management adopts accounting estimates that are technically permissible under IFRS but appear overly optimistic in light of industry conditions. Support your answer with examples and references to International Federation of Accountants (IFAC) guidelines. **(20)**

Q. 3. "Audit risk is not merely a computation; it is a judgment." **(20)**
Discuss this statement in the context of inherent risk, control risk, and detection risk, with particular reference to computerized (EDP) environments.

Q. 4. Provide a critical distinction between the following audit concepts: **(20)**
a. Reasonable assurance and absolute assurance
b. Tests of control and substantive procedures
c. Misstatement and material misstatement
d. Management's responsibility and auditor's responsibility under the Companies Ordinance 1984

SECTION – II (BUSINESS TAXATION)

Q. 5. Ms. Sana, an individual taxpayer, has provided the following data for the Tax Year 2024. Analyze her income components and determine her net tax position under the Income Tax Ordinance, 2001.

Particulars	PKR
A. Salary income (gross)	1,800,000
B. House rent allowance (40% of basic salary)	
C. Net Income from property	450,000
D. Capital gain on listed securities (held for 14 months)	120,000
E. Profit on debt (from a bank deposit)	90,000
F. Donation to an approved NPO (eligible for tax credit)	60,000
G. Business loss carried forward from prior year	80,000
H. Advance tax paid	35,000
I. Tax already withheld on profit on debt	10,000

(a) Analytical Tax Treatment and Regime Justification. Critically analyse the tax regime (NTR, FTR, or SBI) applicable to Capital Gain (D) and Profit on Debt (E). Justify the inclusion of Income from Property (C) in the Normal Tax Regime (NTR) and explain the policy objective behind providing a tax credit for Donation (F). **(10)**

(b) Computation and Final Tax Position

I. Compute Ms. Sana's Total Taxable Income under the NTR. **(10)**

II. Compute her Final Tax Liability (including tax on FTR/SBI items, if any).

III. Determine the Net Tax Payable/Refundable amount.

Show all workings clearly, referencing the applicable tax status for each major component.

Q. 6. Using the Income Tax Ordinance, explain the income tax implications of the following independent scenarios: **(20)**

a. A Pakistani resident receives consultancy fees from foreign clients, deposited in a foreign bank account.
b. A company pays "marketing facilitation charges" to agents but does not withhold tax.
c. A taxpayer records a gain on disposal of machinery but treats it as capital gain instead of business income.
d. An individual receives unexplained credits in his bank account and claims they represent informal loans.
e. An AOP claims tax credit on investments despite negative taxable income.

For each case, classify income, apply relevant rules, and provide the correct tax treatment.

SECTION – III (BUSINESS STUDIES AND FINANCE)

Q. 7. "Financial markets are the backbone of a modern economy." Discuss this statement in the context of Pakistan with reference to the money market, capital market, and financial institutions. **(20)**

Q. 8. **(a)** A firm is analysing the following mutually exclusive projects. The cost of capital is 12%, but management requires a risk-adjusted discount rate of 18% for volatile projects. **(10)**

Year	Project X	Project Y
0	–600,000	–600,000
1	160,000	200,000
2	180,000	150,000
3	220,000	170,000
4	350,000	300,000

Required:

i. Compute NPV of both projects at 18%.

ii. Recommend which project to choose under:

- Value maximization
- Risk minimization
- Cash flow stability

Explain clearly with reference to financial management principles.

(b) Critically evaluate the limitations of IRR, Payback Period, and Accounting Rate of Return as capital budgeting tools. **(10)**

Explain how NPV addresses these limitations and why it is considered the superior method for investment decisions.

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