



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

Roll Number

TIME ALLOWED: THREE HOURS

PART-I (MCQs) : MAXIMUM 30 MINUTES

(PART-I MCQs) MAXIMUM MARKS: 20

(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.

- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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

ACCOUNTANCY AND AUDITING, PAPER-II (2026)

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

- NOTE: (i) Part-II is to be attempted on the separate Answer Book.
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(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.
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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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- 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.
- 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
- 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
- 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.
- Working capital is an indication of the firm's _____.**
(A) Asset utilization (B) Amount of noncurrent liabilities (C) Amount of noncurrent assets (D) liquidity
- 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
- 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
- Which financial statement represents the accounting equation?**
(A) Income Statement (B) Statement of Cash Flows
(C) Balance Sheet (D) Statement of Changes in equity
- 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
- Amount set apart to meet loss due to bad debt is a:**
(A) Provision (B) Appropriation (C) Reserve (D) Commission
- 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
- 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.
- The costs are differentiated between fixed and variable costs under:**
(A) Absorption Costing (B) Direct Costing (C) Standard Costing (D) Marginal Costing
- 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

ACCOUNTANCY AND AUDITING, PAPER-I (2026)

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

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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)

ACCOUNTANCY AND AUDITING, PAPER-I (2026)

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

- No interest has yet been paid on the note payable. Accrued interest at April 30 amounts to Rs.180.
- Salaries earned by the office staff but not yet recorded or paid amounted to Rs.3,470 at April 30.
- 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.
- 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.
- 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.
- 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.
- Office supplies on hand at April 30 amounted to Rs.1,100.
- The office equipment was purchased on April 1 and is being depreciated over an estimated useful life of 10 years.

Required

- Prepare the adjusting entries required at April 30.
- Determine the amount of net income to be reported in the company's income statement for the month ended April 30, 2025.

10
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.

- 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.
- 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

ACCOUNTANCY AND AUDITING, PAPER-I (2026)

- (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: Standard cost card per unit: (20)

	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%.

ACCOUNTANCY AND AUDITING, PAPER-I (2026)

- 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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1. _____ is a systematic examination of the books and records of a business.
(A) Auditing (B) Vouching (C) Verification (D) Checking
2. An auditor is like a:
(A) Blood hound (B) Watch dog (C) May both (A) & (B) according to situation (D) None of these
3. The fundamental objective of the audit of a company is to:
(A) Protect the interests of the minority shareholders (B) Detect and prevent errors and fraud
(C) Assess the effectiveness of the company's performance (D) Attest to the credibility of the company's accounts
4. Internal check is carried on by:
(A) Staff specially appointed for the purpose (B) Internal auditor
(C) Supervisor of the staff (D) Members of the staff
5. When issuing unqualified opinion, the auditor who evaluates the audit findings should be satisfied that the:
(A) Amount of known misstatement is documented in working papers
(B) Estimates of the total likely misstatement is less than materiality level
(C) Estimates of the total likely misstatement is more than materiality level
(D) Estimates of the total likely misstatement cannot be made
6. An auditor should not accept a loan on favourable commercial terms from an audit client because of the threat to his or her independence. The threat would be a:
(A) Self-interest threat (B) Self-review threat (C) Advocacy threat (D) Familiarity threat
7. Which of the following statements is, generally, correct about the reliability of audit evidence?
(A) To be reliable, evidence should conclusive rather than persuasive
(B) Effective internal control system provides reliable audit evidence
(C) Evidence obtained from outside sources routed through the client (D) All of these
8. The authority to remove the first auditor before the expiry of term is with:
(A) The shareholders in a general meeting (B) The shareholders in the first annual general meeting
(C) The Board of Directors (D) The Central Government
9. A progressive tax system is one where?
(A) Marginal tax rates are high
(B) Higher income taxpayers pay more taxes than do lower income taxpayers.
(C) Marginal tax rates are low.
(D) Higher income taxpayers pay a greater percentage of their income in taxes than do lower income taxpayers.
10. If a tax on a good is doubled, the deadweight loss from the tax:
(A) Doubles (B) Stays the same (C) Increase by a factor of four. (D) Could rise or fall
11. When tax on a good start small and is gradually increased, tax revenue:
(A) Will fall (B) Will rise (C) Will first rise and then fall (D) Will first fall and then rise
12. In normal circumstance, taxes are charged on:
(A) Gross Receipt (B) Total Income (C) Taxable Income (D) Gross Income
13. Which of the following is the main tool of Fiscal Policy?
(A) Deficit Financing (B) Subsidies (C) Transfer Payments (D) Taxes
14. Taxes are important instrument of which of the following policy?
(A) Monetary Policy (B) Fiscal Policy (C) Trade Policy (D) Economic Policy
15. Which of the following enjoys limited liability?
(A) A general partnership. (B) A corporation. (C) A sole proprietorship. (D) None of these
16. A project's profitability index is equal to the ratio of a project's future cash flows to the project's:
(A) Present value; initial cash outlay (B) Net present value; initial cash outlay
(C) Present value; depreciable basis (D) Net present value; depreciable basis
17. The discount rate at which two projects have identical _____ is referred to as Fisher's rate of intersection.
(A) Present values (B) Net present values (C) IRRs (D) Profitability indexes
18. You are considering investing in a zero-coupon bond that sells for \$250. At maturity in 16 years, it will be redeemed for \$1,000. What approximate annual rate of growth does this represent?
(A) 8 percent. (B) 9 percent. (C) 12 percent. (D) 25 percent

ACCOUNTANCY AND AUDITING, PAPER-II

19. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:
(A) A premium (B) A discount (C) Cannot be determined without more information (D) Face value
20. The trade terms "2/15, net 30" indicates that:
(A) A 2% discount is offered if payment is made within 15 days.
(B) A 15% discount is offered if payment is made within 30 days.
(C) A 2% discount is offered if payment is made within 30 days.
(D) A 30% discount is offered if payment is made within 15 days.

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 at least ONE question 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 (AUDITING)

- Q. 2. What are the different types of financial audit? Discuss the situations where each type of audit is applicable. (20)
- Q. 3. What are the audit working papers? Why should these be carefully preserved by the auditor? (20)
- Q. 4. Differentiate between the following audit terms: (5 each) (20)
- a. Internal audit and external audit
 - b. Vouching and Verification
 - c. Qualified audit report and Unqualified audit report
 - d. Disclaimer of opinion and Adverse opinion

SECTION – II (BUSINESS TAXATION)

- Q. 5. Mr. Usman Kabir is a registered manufacturer. From the following data, compute the sales tax payable for august 2021 (20)
- | | | |
|-----|---|-----------|
| 1. | Taxable supplies at 15% discount (discount is not the normal practice) | 2,300,000 |
| 2. | Taxable supplies to associated person (open market price 350,000) | 300,000 |
| 3. | Supplies to consumers (inclusive of sales tax) | 200,000 |
| 4. | Supplies to employees | 100,000 |
| 5. | Taxable purchases from registered person (original invoices are available) | 1,400,000 |
| 6. | Input tax not claimed (outstanding) in relevant period (claimed in fifth succeeding period) | 15,000 |
| 7. | Fixed asset purchased during August 2021 from non-registered person | 1,500,000 |
| 8. | Furniture, furnishing and office equipments purchased | 200,000 |
| 9. | Electrical appliance purchased from non-business (personal) use | 100,000 |
| 10. | Purchase of diaries for valued customers (at the start of new financial year) | 60,000 |
| 11. | Withholding tax deducted as withholding agent | 50,000 |
| 12. | Withholding tax deducted by withholding agent | 70,000 |
| 13. | Mobile phone set purchased by marketing staff | 150,000 |
| 14. | Goods purchased in auction (treasury challan is not available) | 400,000 |
| 15. | Unconsumed stock at the time of filing return (purchased 30 days before filing return) | 250,000 |
| 16. | Imported tax goods (bill of entry is not available) | 500,000 |
| 17. | Sales tax paid on electricity bill | 30,000 |

Q. 6. What are the inadmissible deductions under the head of “Income from Other Resources”? (20)
Explain in detail.

SECTION – III (BUSINESS STUDIES AND FINANCE)

Q. 7. Why are financial markets important to the health of the economy? Explain in the context of (20)
Pakistan.

Q. 8. (a). ABC is evaluating a capital investment project. The after-tax cash flows for the project (10)
are listed as follows:

Year	YEAR EXPECTED CASH FLOW
0	- 400,000
1	50,000
2	50,000
3	150,000
4	350,000

The risk-free rate is 8 percent, the firm’s weighted average cost of capital is 10 percent, and the management-determined risk-adjusted discount rate appropriate to this project is 15 percent. Should the project be accepted? Explain, why or why not?

(b). Explain what is meant by the time value of money. Why is a bird in the hand worth two (10)
(or so) in the bush? Which capital budgeting approach ignores this concept? Is it optimal?



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2025 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.
- In financial accounting, goodwill is classified as:**
(A) Tangible asset (B) Intangible asset (C) Current liability (D) Contra asset
 - Which of the following statement about the accounting cycle is TRUE?**
(A) The cycle begins with financial statement preparation. (B) Adjusting entries are optional.
(C) Closing entries transfer balances from temporary accounts to retained earnings.
(D) The post-closing trial balance includes temporary accounts.
 - The purpose of reversing entries is:**
(A) To correct errors in the trial balance (B) To simplify recording certain transactions in the next period
(C) To adjust financial statements (D) To close permanent accounts
 - Accounting information is said to be relevant when it:**
(A) Is free from material error. (B) Influences the decision-making of users.
(C) Can be compared across entities. (D) Is supported by evidence from independent sources.
 - The predictive value of accounting information refers to its ability to:**
(A) Validate past decisions. (B) Highlight errors in accounting practices
(C) Influence future investment decisions. (D) Support regulatory compliance.
 - If two companies in the same industry use different depreciation methods, the comparability of their financial information may be compromised unless:**
(A) The companies belong to the same regulatory framework. (B) They operate in similar markets.
(C) The companies use IFRS standards. (D) Full disclosure of the methods is provided
 - Which financial statement in a sole proprietorship reflects the owner's withdrawals for personal use?**
(A) Income Statement (B) Statement of Financial Position
(C) Statement of Cash Flows (D) Statement of Owner's Equity
 - When a corporation issues shares above their par value, the excess amount is credited to:**
(A) Retained Earnings (B) Share Premium Account (C) Capital Account (D) Revenue Account
 - A partnership decides to incorporate into a private company. What happens to the partners' equity accounts?**
(A) They are closed and converted into common stock. (B) They are retained in the company's balance sheet.
(C) They are written off as expenses. (D) They are transferred into the retained earnings account.
 - Which of the following is a financial statement prepared specifically by not-for-profit organizations?**
(A) Statement of Comprehensive Income (B) Statement of Profit and Loss
(C) Receipts and Payments Account (D) Statement of Changes in Equity
 - Which financial statement is unique to public sector accounting?**
(A) Statement of Financial Performance (B) Statement of Cash Flows
(C) Appropriation Account (D) Statement of Changes in Equity
 - A not-for-profit organization's annual report emphasizes the use of funds to achieve its mission rather than profitability. This highlights:**
(A) Faithful representation in financial reporting. (B) The focus on accountability over profitability.
(C) Compliance with government regulations. (D) The reliance on accrual accounting.
 - Which costing method is most suitable for industries where products are unique and produced to customer specifications?**
(A) Process costing (B) Activity-based costing (C) Job order costing (D) Marginal costing
 - Marginal costing is primarily used for:**
(A) Financial reporting. (B) Decision-making related to fixed costs.
(C) Short-term decision-making. (D) Preparing budgets for external stakeholders.
 - Over-applied overhead means:**
(A) Actual overheads are less than applied overheads. (B) Actual overheads are greater than applied overheads.
(C) Fixed costs were not allocated properly. (D) Direct labor costs were overstated.
 - A manufacturing company is considering whether to produce in-house or outsource production. Relevant costs for this decision include:**
(A) Fixed costs of the company. (B) Historical costs of production.
(C) Direct variable costs and outsourcing costs. (D) Total costs incurred in the prior year.

ACCOUNTANCY AND AUDITING, PAPER-I

17. Zero-based budgeting (ZBB) requires managers to:
- (A) Justify only incremental changes in budgeted amounts. (B) Prepare budgets based on historical costs.
(C) Justify all budgeted expenditures from scratch. (D) Ignore past costs entirely.
18. In responsibility accounting, costs that a manager can directly influence are called:
- (A) Uncontrollable costs. (B) Fixed costs. (C) Indirect costs. (D) Controllable costs
19. A company has an annual fixed cost of \$200,000/-, a variable cost of \$20 per unit, and a selling price of \$50 per unit. How many units must the company sell to break even?
- (A) 8,000 (B) 7,000 (C) 6,000 (D) 10,000
20. In a sales mix decision, the product with the highest contribution margin per unit should be:
- (A) Sold exclusively, regardless of customer demand (B) Prioritized when resources are constrained
(C) Avoided to reduce risk. (D) Discounted to maximize revenue.

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. ABC Traders is a sole proprietorship owned by Mr. Ali. Below are the financial details of the business as of December 31, 2024:

- i. Cash in hand: **PKR 50,000**
- ii. Accounts Receivable: **PKR 80,000**
- iii. Inventory: **PKR 120,000**
- iv. Office Equipment (at cost): **PKR 200,000.**
- v. Accumulated Depreciation on Office Equipment: **PKR 40,000**
- vi. Accounts Payable: **PKR 60,000**
- vii. Loan Payable to Bank: **PKR 100,000**
- viii. Owner’s Capital (as of January 1, 2024): **PKR 300,000**
- ix. Owner’s Drawings during the year: **PKR 30,000**
- x. Net Income earned during the year: **PKR 90,000**

Required:

- a) Categorize the above details under different heads of accounting equation. 5
b) Prepare the balance sheet of ABC Traders as of December 31, 2024 using the information above. 15 (20)

Q. 3. Continued with the data provided in Question No 1, Additional Adjustments in the accounts of ABC Traders as of December 31, 2024 are as follow:

- a) **Accrued Salaries** of **PKR 10,000** are unpaid and unrecorded.
- b) **Office Equipment Depreciation:** Straight-line method over **5 years** with no residual value.
- c) **Unearned Revenue** of **PKR 15,000** was incorrectly recorded as sales revenue.
- d) **Supplies Expense** of **PKR 5,000** needs to be recorded for supplies used during the year.
- e) **Accrued Interest** on the bank loan of **PKR 4,000** remains unpaid and unrecorded.

Required:

- a) Prepare the necessary **adjusting journal entries** for the above adjustments. 6
b) Prepare an **Income Statement** for the year ended **December 31, 2024.** 7
c) Update the **Balance Sheet** to reflect these adjustments. 7 (20)

ACCOUNTANCY AND AUDITING, PAPER-I

Q. 4. XYZ Corporation, a merchandising company, is preparing its financial records for the year ended December 31, 2024. Below are the extracted balances from the general ledger:

Balances of the Items	Amount in PKR
Cash:	70,000
Accounts Receivable:	200,000
Inventory (Beginning):	150,000
Purchases:	500,000
Purchase Returns and Allowances:	30,000
Sales Revenue:	900,000
Sales Returns and Allowances:	20,000
Office Supplies:	10,000
Prepaid Insurance:	24,000
Office Equipment:	300,000
Accumulated Depreciation - Office Equipment:	80,000
Accounts Payable:	90,000
Salaries Payable:	12,000
Bank Loan Payable (Non-Current):	150,000
Salaries Expense:	100,000
Utilities Expense:	45,000
Rent Expense:	60,000
Depreciation Expense:	30,000
Owner's Capital (January 1, 2024):	400,000
Owner's Drawings:	50,000

Additional Information for Adjustments

- i. Inventory at the end of the year is **PKR 120,000**.
- ii. Office supplies used during the year are **PKR 6,000**.
- iii. Insurance expired during the year amounts to **PKR 8,000**.
- iv. Accrued salaries at year-end are **PKR 15,000**.
- v. Depreciation on office equipment is recorded using the straight-line method over 10 years (no residual value).

Required:

- a) Prepare an unadjusted Trial Balance as of December 31, 2024. 10
- b) Incorporate the adjustments and prepare the adjusted Trial Balance. 10 (20)

Q. 5. Ali, Bilal, and Sara formed a partnership business on **January 1, 2024**, under the name **ABS Traders**. The partners agreed to share profits and losses in the ratio **3:2:1** respectively. The following balances were provided at the end of the first year, **December 31, 2024**:

Particulars	Amount (PKR)
Cash	80,000
Accounts Receivable	150,000
Inventory	200,000
Furniture & Fixtures	100,000
Accounts Payable	90,000
Loan Payable	110,000
Ali's Capital (Jan 1, 2024)	200,000
Bilal's Capital (Jan 1, 2024)	150,000
Sara's Capital (Jan 1, 2024)	100,000
Ali's Drawings	30,000
Bilal's Drawings	20,000
Sara's Drawings	10,000
Net Income for the Year	120,000

ACCOUNTANCY AND AUDITING, PAPER-I

Required:

- i. Using the data provided, prepare an **unadjusted trial balance** as of **December 31, 2024**. 5
- ii. Distribute the **Net Income of PKR 120,000** among the partners (Ali, Bilal, and Sara) based on their agreed profit-sharing ratio of **3:2:1**. 5
- iii. Calculate the **adjusted capital balances** for each partner after considering their profit ratio. 5
- iv. Prepare the **Capital Accounts** for Ali, Bilal, and Sara in a **T-account format** or in a statement form. 5 (20)

SECTION – II

Q. 6. ABC Manufacturing produces custom furniture. Below are the details for the month of November 2024:

Accounting Activities/Items	Amounts in PKR
Beginning Balances:	
Raw Materials Inventory (Nov 1, 2024):	120,000
Work-in-Process (WIP) Inventory (Nov 1, 2024):	80,000
Finished Goods Inventory (Nov 1, 2024):	150,000
Transactions During November:	
Raw materials purchased during November (paid in cash):	350,000
Direct materials issued to production:	280,000
Indirect materials issued:	50,000
Total direct labor incurred: (80% paid in cash; 20% accrued).	200,000
Total indirect labor incurred (paid in cash):	60,000
Total factory overhead incurred including: - Depreciation on machinery: PKR 70,000 - Utilities: PKR 50,000 - Other factory expenses: PKR 130,000	250,000
Manufacturing overhead applied to production at 120% of direct labor cost .	
Ending Balances	
Raw Materials Inventory (Nov 30, 2024):	140,000
Work-in-Process (WIP) Inventory (Nov 30, 2024):	100,000
Finished Goods Inventory (Nov 30, 2024):	180,000
Sales	
Total finished goods transferred to Cost of Goods Sold:	650,000
Total sales for November (80% received in cash, 20% on account).	800,000

Required:

- a) Prepare the Raw Materials Inventory T-account, including purchases, usage, and ending balance. 7
- b) Calculate the total manufacturing costs added to production during November. 7
- c) Prepare the **Work-in-Process Inventory T-account**, including beginning balance, costs added, and ending balance. 6 (20)

ACCOUNTANCY AND AUDITING, PAPER-I

Q. 7. XYZ Furniture Ltd. manufactures wooden chairs. The following **standard costs** were established for producing one chair:

Cost Component	Standard Rate	Standard Quantity per Chair
Direct Materials	PKR 500 per unit	2 units
Direct Labor	PKR 300 per hour	4 hours
Factory Overhead	PKR 100 per direct labor hour	Applied at a rate of 50% of direct labor cost

During **November 2024**, the company produced **1,000 chairs**, and the following actual data was recorded:

- i.

Materials:

a.

2,100 units of direct materials were purchased and used.

b.

Total cost of materials: PKR 1,120,000.
- ii.

Labor:

a.

3,800 hours of direct labor were worked.

b.

Total labor cost: PKR 1,160,000.
- iii.

Factory Overhead:

a.

Actual overhead incurred: PKR 200,000.

b.

Overhead applied at the standard rate based on actual direct labor hours.

Required:

Calculate and interpret the results of:

i.

the **Material Price Variance** and the **Material Quantity Variance**.

7

ii.

the **Labor Rate Variance** and the **Labor Efficiency Variance**.

7

iii.

the **Overhead Spending Variance** and the **Overhead Efficiency Variance**.

6

(20)

Q. 8. ABC Café operates a specialty coffee shop that sells handcrafted beverages and desserts. The café incurs a Total Fixed Costs: PKR 1,000,000 including monthly rent of PKR 500,000, salaries of PKR 300,000, Utilities and Miscellaneous Expenses of PKR 200,000. The owner wants to determine its break-even point to plan for future growth. The following data is provided:

Product Line Information

1. Coffee Drinks (Regular)	2. Desserts (Premium)
i. Selling Price: PKR 400 per cup ii. Variable Cost: PKR 180 per cup iii. Current Sales Mix: 70%	i. Selling Price: PKR 600 per item ii. Variable Cost: PKR 280 per item iii. Current Sales Mix: 30%

Required:

i.

Calculate the **contribution margin** for both coffee drinks and desserts.

7

ii.

Compute the **weighted average contribution margin (WACM)** based on the sales mix.

7

iii.

Determine the **break-even sales in units** for the café.

6

(20)



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2024 FOR RECRUITMENT
TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT
ACCOUNTANCY AND AUDITING, PAPER-II

Roll Number

TIME ALLOWED: THREE HOURS

PART-I (MCQs) : MAXIMUM 30 MINUTES

(PART-I MCQs) MAXIMUM MARKS: 20

(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. Minor's income is clubbed to:

- (A) Father's income (B) Mother's income
(C) Father's or mother's income, whichever is greater (D) None of these

2. From which head of income an assessee never incurs any loss?

- (A) Property (B) Salary (C) Capital gain (D) None of these

3. Commissioner of Income Tax is appointed by:

- (A) FBR (B) Ministry of finance (C) Central govt. (D) None of these

4. Capital assets include:

- (A) Shares (B) Personal effects (C) Gold deposit bonds (D) None of these

5. Highest Appellate authority in FBR is also known as:

- (A) High court (B) Appellate tribunal (C) Supreme court (D) None of these

6. Gratuity received by a govt. employee is:

- (A) Fully exempted (B) Partly exempted (C) Fully taxable (D) None of these

7. Which of the following statement is not true?

- (A) Management fraud is more difficult to detect than employee fraud
(B) Internal control system encourages the possibility of occurrence of employee fraud and management fraud
(C) The auditor's responsibility for detection and prevention of errors and frauds is critical.
(D) All of these

8. Which of the following is not a limitation of audit as per AAS-4?

- (A) Objectivity of auditor's judgment (B) Selective testing
(C) Persuasiveness of evidence (D) None of these

9. Professional skepticism requires that the auditor assume that management is:

- (A) Reasonably honest (B) Neither honest nor dishonest (C) Not necessarily honest (D) None of these

10. For which of the following, Audit is optional?

- (A) Trusts. (B) Joint stock companies. (C) Proprietorship concern. (D) None of these

11. When the markets required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:

- (A) Premium (B) Discount (C) Par (D) None of these

12. In conducting a vertical common-size analysis every balance sheet item is divided by _____ and every income statement is divided by _____.

- (A) Its corresponding base year balance sheet item; its corresponding base year income statement item
(B) Its corresponding base year income statement item; its corresponding base year balance sheet item
(C) Net sales or revenues; total assets. (D) Total assets; net sales or revenues

13. The firm of Sun and Moon purchased a share of Acme.com common stock exactly one year ago for \$45.

During the past year the common stock paid an annual dividend of \$2.40. The firm sold the security today for \$85. What is the rate of return the firm has earned?

- (A) 5.3% (B) 88.9% (C) 94.2% (D) None of these

14. Market interest rates and the prices of bonds in the secondary market.

- (A) Generally move in opposite directions. (B) Generally move in the same direction.
(C) Sometimes move in the same direction, sometimes in opposite directions. (D) None of these

15. Which of the following best describes going-concern value?

- (A) The price a security "ought to have" based on all factors bearing on valuation.
(B) The amount a firm could be sold for as a continuing operating business.
(C) The amount of money that could be realized if an asset or a group of assets is sold separately from its operating organization. (D) None of these

16. The risk of material misstatement comprises:

- (A) Inherent risk (B) Control risk (C) Both (A) & (B) (D) None of these

17. Heads of income under the income tax ordinance 2001 are:

- (A) Six (B) Five (C) Four (D) None of these

ACCOUNTANCY AND AUDITING, PAPER-II

18. Mr. Ahmed has a taxable income of PKR 1,200,000. If the exemption limit is PKR 600,000, what is the taxable amount, and how much tax does he owe at a rate of 25%_____?
- (A) Taxable amount: PKR 1,200,000; Tax: PKR 150,000 (B) Taxable amount: PKR 1,200,000; Tax: PKR 300,000
(C) Taxable amount: PKR 600,000; Tax: PKR 150,000 (D) None of these
19. Which of the following set of ratios relates the market price of the firm's common stock to selected financial statement items?
- (A) Liquidity Ratios (B) Leverage Ratios (C) Market Value Ratios (D) None of these
20. The DuPont Approach breaks down the earning power on shareholders' book value (ROE) as follows: ROE = _____.
- (A) Net profit margin × Total asset turnover × Equity multiplier
(B) Total asset turnover × Gross profit margin × Debt ratio
(C) Total asset turnover × Net profit margin (D) None of these

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 at least ONE question 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 (AUDITING)

- Q. 2. What is meant by CAATs? Highlight benefits and procedures pertaining to usage of CAATs for financial statement audits of firms. (20)
- Q. 3. Identify differences between vouching and verification. What are the points to be considered by an auditor during verification? (20)
- Q. 4. What are the basic principles, which govern the auditor's professional responsibilities, and which should be complied with whenever an audit is carried out, as per AAS-1 (20)

SECTION – II (BUSINESS TAXATION)

- Q. 5. Discuss the legal provisions regarding exemption of following under Income Tax Ordinance 2001. (5 each) (20)
- (a) Pension
(b) Profit on debt
(c) Medical charges
(d) Agricultural Income
- Q. 6. For the purposes of this question you should assume that today's date is 15 June 2018. Naseer is 63 years old and is resident in Pakistan. He files his tax returns regularly. During the tax year 2018, he earned the following income:
- (1) Salary income of Rs. 750,000 from his employment on a contract basis. From this amount, tax of Rs.14,500 was deducted at source.
(2) Net income of Rs. 200,000 from a solitary trading transaction.
(3) Gross dividend income of Rs. 450,000 from a company engaged in the production of sugar. Tax was deducted at source from this amount at the prescribed rate.
In addition to the above, Naseer's son, who is a taxpayer in Pakistan, gave Naseer a cash gift of Rs. 400,000 through a prescribed banking channel.
- Required:
- (a) Compute Naseer's tax liability for the tax year 2018, giving reasons for any reduction of tax liability on account of his age. (10)
- (b) Explain, by giving reasons, why the gift received by Naseer from his son is not taxable. (10)

ACCOUNTANCY AND AUDITING, PAPER-II

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7. What are different forms of business entities? Highlight different features of a Corporation and its advantages over other organizational forms. (20)
- Q. 8. Carbide Chemical Company is considering the replacement of two old machines with a new, more efficient machine. It has determined that the relevant after-tax incremental operating cash flows of this replacement proposal are as follows: (20)

END OF YEAR

0	–Rs.404,424
1	Rs.86,890
2	Rs.106,474
3	Rs. 91,612
4	Rs. 84,801
5	Rs. 84,801
6	Rs. 75,400
7	Rs. 66,000
8	Rs. 92,400

What is the project’s net present value if the required rate of return is 14 percent? Is the project acceptable?



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2024 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. The accountant of Usman and Sons Pvt. Ltd. discovered that a sale of PKR 20,000 to a customer was recorded in last year's accounts, although the goods were delivered in the current year. The company follows the accrual basis of accounting. What is the impact on the current year's profit after correcting this error?**
(A) Increase by PKR 20,000 (B) Decrease by PKR 20,000 (C) No change (D) None of these
- 2. XYZ Co. has a balance of PKR 30,000 in Trade Payables. A reconciliation of the control account revealed the following:**
1. An invoice of PKR 4,000 from a supplier was recorded twice.
2. Purchase returns of PKR 2,000 were not recorded.
3. A discount received of PKR 1,000 was ignored.
What is the correct balance in Trade Payables after the three aforementioned adjustments?
(A) PKR 25,000 (B) PKR 23,000 (C) PKR 26,000 (D) None of these
- 3. ABC Co. had an opening inventory of PKR 100,000, purchases of PKR 600,000, purchase returns of PKR 40,000, and a closing inventory of PKR 80,000. The company's total sales for the year were PKR 1,000,000, with sales returns amounting to PKR 20,000. Its total expenses, excluding the cost of goods sold, were PKR 200,000, and it received a government grant of PKR 10,000. What is the company's gross profit for the year?**
(A) PKR 420,000 (B) PKR 400,000 (C) PKR 620,000 (D) None of these
- 4. Faisal Ltd. revalued its property from the original cost of PKR 400,000 to PKR 600,000. The accumulated depreciation on the property was PKR 100,000, and the company spent PKR 40,000 on improvements just after the revaluation. What will be the revaluation surplus recorded in the revaluation reserve?**
(A) PKR 980,000 (B) PKR 600,000 (C) PKR 300,000 (D) None of these
- 5. Shortly after the end of the reporting period, Company AXA's factory was damaged by a natural disaster. The factory was insured, however, the insurance claim process is ongoing. This factory accounted for 20% of the company's production capacity. How should this event be reported in the financial statements of the company?**
(A) As a non-adjusting event, with disclosure in the notes about the event and its potential financial impacts.
(B) As a non-adjusting event, with a provision for the estimated insurance receivable.
(C) Recognize an impairment loss for the factory and an insurance receivable in the financial statements.
(D) None of these
- 6. Company P holds a 25% stake in Company S. During the year, Company S reports a significant profit and decides to issue dividends. Additionally, Company S revalues its property, plant, and equipment, resulting in a substantial increase in its net assets. Considering the equity method, how should Company P reflect these changes in its financial statements?**
(A) Increase in investment carrying amount due to profit, decrease due to dividend
(B) Increase in investment carrying amount due to revaluation of PPE
(C) Recognition of dividend as income (debit cash received or dividend receivable and credit other income) with no change in carrying amount
(D) None of these
- 7. Company P acquires 80% of Company S for PKR 4,000,000. The carrying value of Company S's identifiable net assets at the time of acquisition is PKR 2,400,000. From independent valuation it was found the fair value of S's assets are PKR 3,000,000. Calculate goodwill using the Proportionate Goodwill Method.**
(A) PKR 2,120,000 (B) PKR 1,600,000 (C) PKR 1,800,000 (D) None of these
- 8. During the year, Company X had Net Sales of PKR 600,000, Cost of Goods Sold of PKR 360,000, Operating Expenses of PKR 100,000, Interest Expense of PKR 20,000, Dividend Income of PKR 10,000, Dividend Paid to the Ordinary Shareholders of PKR 15,000, and a Tax Rate of 25%. What is the Net Profit of Company X to appear in the statement of profit or loss?**
(A) PKR 97,500 (B) PKR 110,500 (C) PKR 82,500 (D) None of these
- 9. A company bought a machine for PKR 200,000. It expects the machine to produce 20,000 units over its life. In the first year, 2,000 units were produced, and in the second year, 3,000 units were produced. Using the units of production depreciation method, what is the total accumulated depreciation at the end of the second year?**
(A) PKR 20,000 (B) PKR 30,000 (C) PKR 50,000 (D) None of these

ACCOUNTANCY AND AUDITING, PAPER-I

10. Company AAA is calculating its basic earnings per share (EPS). If the company has a net income of PKR 3 million, preferred dividends of PKR 600,000, and 1,600,000 ordinary shares outstanding for the first half of the year and 2,400,000 for the second half, what is the basic EPS?
- (A) PKR 1.20 per share (B) PKR 1.50 per share (C) PKR 1.75 per share (D) None of these
11. Factory ABB had total costs of PKR 40,000 for 1,600 hours of production and PKR 56,000 for 2,400 hours. What would be the total cost for 2,000 hours of production using the high/low method?
- (A) PKR 46,000 (B) PKR 48,000 (C) PKR 50,000 (D) None of these
12. If a company's EOQ is 600 units, the cost of ordering is PKR 10 per order, and the cost of holding one unit per year is PKR 4, what is the annual demand?
- (A) 72,000 units (B) 36,000 units (C) 18,000 units (D) None of these
13. For Company A, the average daily usage is 1,200 units, minimum daily usage is 1,000 units, average lead time is 3 weeks, and the reorder level is 50,400 units. What should be the minimum inventory level for the company?
- (A) 21,600 units (B) 24,200 units (C) 25,200 units (D) None of these
14. Company Z uses an overhead absorption rate based on direct labor hours to absorb manufacturing overheads. At the beginning of the year, company Z estimated manufacturing overheads would be PKR 300,000 and direct labor hours would be 30,000. The actual figures for the year were PKR 256,000 for manufacturing overheads and 17,600 direct labor hours. The cost records for the year will show which of the following?
- (A) Under-absorption of PKR 80,000 (B) Over-absorption of PKR 80,000
(C) Under-absorption of PKR 106,000 (D) None of these
15. In August 2020, OS Co. incurs the following costs and revenues in manufacturing and selling 20,000 units of its products (amount in PKR):

Production supervision	5,000
Factory premises costs (rental and insurance)	8,000
Direct materials	15,000
Direct labor	16,500
Depreciation of machinery	6,000
Selling and administration costs	13,000
Sales	90,000

- What is the marginal cost per unit of cake?
- (A) PKR 2.155 per unit (B) PKR 1.575 per unit (C) PKR 3.050 per unit (D) None of these
16. A clothing manufacturer uses 2 meters of fabric at PKR 3 per meter and 1 meter of lining at PKR 2 per meter for a dress. If the plan is to make 300 dresses, what is the total budget for material?
- (A) PKR 2,400 (B) PKR 900 (C) PKR 1,800 (D) None of these
17. Company C's sales price variance in December 2022 is calculated using the following data. Budgeted sales are 1,000 units, and actual sales are 1,200 units. Budgeted revenue was PKR 25,000 and actual revenue was PKR 32,400.
- (A) PKR 2,400 (Favorable) (B) PKR 2,400 (Adverse) (C) PKR 2,000 (Favorable) (D) None of these
18. Calculate the materials usage variance using the following information: Total budgeted cost of material A = PKR 25,000. Total actual cost of material A = PKR 37,600. Standard usage of material A in production = 5,000 units. Actual usage of material A in production = 4,700 units.
- (A) PKR 1,500 (Adverse) (B) PKR 1,500 (Favorable) (C) PKR 1,250 (Favorable) (D) None of these
19. What does a high asset turnover ratio generally indicate when evaluating the performance of a company?
- (A) High efficiency in using assets to generate sales (B) Low sales generation from assets
(C) Poor operational efficiency (D) High long-term investment
20. AZA Co. needs 100 hours of labor for a project. The current labor rate is PKR 50 per hour. They have no spare capacity and can hire additional staff at PKR 60 per hour. What is the relevant cost of labor for this job?
- (A) PKR 5,000 (B) PKR 6,000 (C) PKR 1,000 (D) None of these

ACCOUNTANCY AND AUDITING, PAPER-I **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. The accountant of LRN Co. has prepared the following list of account balances as at 31 December 2014:

Trial balance as at 31 December 2014:

	PKR'000	PKR'000
50pesa ordinary shares (fully paid)		450
10% debentures (secured)		200
Retained earnings 1.1.2014		242
General reserve 1.1.2014		171
Land and buildings 1.1.2014 (cost)	430	
Plant and machinery 1.1.2014 (cost)	830	
Accumulated depreciation:		
Buildings 1.1.2014		20
Plant and machinery 1.1.2014		222
Inventory 1.1.2014	190	
Sales		2,695
Purchases	2,152	
Ordinary dividend	15	
Debenture interest	10	
Wages and salaries	254	
Light and heat	31	
Sundry expenses	113	
Suspense account		135
Trade accounts receivable	179	
Trade accounts payable		195
Cash	126	
	4,330	4,330

Notes to trial balance:

- (a) Sundry expenses include PKR 9,000 paid in respect of insurance for the year ended 1 September 2015. Light and heat does not include an invoice of PKR 3,000 for electricity for the three months ending 2 January 2015, which was paid in February 2015. Light and heat also include PKR 20,000 relating to salesman's commission.
(b) The suspense account is in respect of the following items:

	PKR'000
Proceeds from share issue of 100,000 ordinary shares	120
Proceeds from sale of plant	300
	480
Less consideration for acquisition of MAY & Co	285
	135

- (c) The net assets of Mary & Co were purchased on 3 March 2014. Assets were valued as follows:

	PKR'000
Equity instruments	231
Inventory	34
	265

ACCOUNTANCY AND AUDITING, PAPER-I

All the inventory acquired was sold during 2014. The equity instruments were still held by Learning at 31.12.2014. Goodwill has not been impaired in value.

(d) The property was acquired some year ago. The buildings element of the cost was estimated at PKR 100,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 December 2014 the property is to be revalued at PKR 800,000.

(e) The plant which was sold had costs PKR 350,000 and had a net book value of PKR 274,000 as at 1.1.2014. PKR 36,000 depreciation is to be charged on plant and machinery for 2014.

(f) The management wish to provide for:

- Debenture interest due
- A transfer to general reserve of PKR 16,000
- Audit fees of PKR 4,000

(g) Inventory as at 31 December 2014 was valued at PKR 220,000 (at cost)

(h) Tax is to be ignored

(i) Take all depreciation to cost of sales

(20)

Required:

Prepare the financial statements of LRN Co as at 31 December 2014. You do not need to produce notes to the statements.

Q. 3. (a) The objective of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations specifies, amongst other things, accounting for and presentation and disclosure of discontinued operations.

Required:

Define a discontinued operation and explain why the disclosure of such information is important to users of financial statements.

(08)

(b) RCR Co's sole activity is the operation of hotels all over the world. After a period of declining profitability, Radar's directors made the following decisions during the year ended 31 March 2013:

- it disposed of all of its hotels in country A;
 - it refurbished all of its hotels in country B in order to target the holiday and tourism market.
- The previous target market in country B had been aimed at business clients.

Required:

Treating the two decisions separately, explain whether they meet the criteria for being classified as discontinued operations in the financial statements for the year ended 31 March 2013.

(6)

(c) At a board meeting on 1 July 2012, PPP Co's directors made the decision to close down one of its factories on 31 March 2013. The factory and its related plant would then be sold.

A formal plan was formulated, and the factory's 250 employees were given three months' notice of redundancy on 1 January 2013. Customers and suppliers were also informed of the closure at this date.

The directors of PPP Co. have provided the following information:

Fifty of the employees would be retrained and deployed to other subsidiaries within the group at a cost of PKR 125,000; the remainder will accept redundancy and be paid an average of PKR 5,000 each.

The factory plant has a carrying amount of PKR 2.2 million but is only expected to sell for PKR 500,000 incurring PKR 50,000 of selling costs; however, the factory itself is expected to sell for a profit of PKR 1.2 million.

The company rents a number of machines under operating leases which have an average of three years to run after 31 March 2013. The present value of these future lease payments (rentals) at 31 March 2013 was PKR 1 million; however, the lessor has said they will accept PKR 850,000 which would be due for payment on 30 April 2013 for their cancellation as at 31 March 2013.

Penalty payments due to non-completion of supply contracts are estimated at PKR 200,000.

Required:

Explain and quantify how the closure of the factory should be treated in PPP Co's financial statements for the year ended 31 March 2013.

(6)

Note: The closure of the factory does not meet the criteria of discontinued operation.

ACCOUNTANCY AND AUDITING, PAPER-I

- Q. 4. On 1 January 2012, VX Co. acquired 90% of the equity share capital of GN Co. in a share exchange in which VX Co. issued two new shares for every three shares it acquired in GN Co. Additionally, on 31 December 2012, VX Co. will pay the shareholders of GN Co. PKR 1.76 per share acquired. VX Co's cost of capital is 10% per annum. At the date of acquisition, shares in VX Co. and GN Co. had a stock market value of PKR 6.50 and PKR 2.50 each, respectively.

Income statements for the year ended 30 September 2012

	VX CO PKR'000	GN CO PKR'000
Revenue	64,600	38,000
Cost of sales	(51,200)	(26,000)
Gross profit	13,400	12,000
Distribution costs	(1,600)	(1,800)
Administrative expenses	(3,800)	(2,400)
Investment income	600	Nil
Finance costs	(420)	Nil
Profit before tax	8,080	7,800
Income tax expense	(2,800)	(1,600)
Profit for the year	5,280	6,200
Equity as at 1 October 2011		
Equity shares of PKR 1 each	30,000	10,000
Retained earnings	54,000	35,000

The following information is relevant:

- (i) At the date of acquisition, the fair values of GN Co's assets were equal to their carrying amounts with the exception of two items:
 - An item of plant had a fair value of PKR 1.8 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
 - GN Co. had a contingent liability which VX Co. estimated to have a fair value of PKR 450,000. This has not changed as at 30 September 2012. GN Co. has not incorporated these fair value changes into its financial statements.
- (ii) VX Co's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, GN Co's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- (iii) Sales from VX Co. to GN Co. throughout the year ended 30 September 2012 had consistently been PKR 800,000 per month. VX Co. made a mark-up on cost of 25% on these sales. GN Co. had PKR 1.5 million of these goods in inventory as at 30 September 2012.
- (iv) VX Co. investment income is a dividend received from its investment in a 40% owned associate which it has held for several years. The underlying earnings for the associate for the year ended 30 September 2012 were PKR 2 million.
- (v) Although GN Co. has been profitable since its acquisition by VX Co, the market for GN Co's products has been badly hit in recent months and VX Co. has calculated that the goodwill has been impaired by PKR 2 million as at 30 September 2012.

Required:

- (a) Calculate the consolidated goodwill at the date of acquisition of Greca. (6)
- (b) Prepare the consolidated income statement for Viagem for the year ended 30 September 2012. (14)

- Q. 5. (a) The accounting treatment of investment properties is prescribed by IAS 40 Investment Property

Required:

- (i) Define investment property under IAS 40 and explain why its accounting treatment is different from that of owner-occupied property; (3)
- (ii) Explain how the treatment of an investment property carried under the fair value model differs from an owner-occupied property carried under the revaluation model. (2)

ACCOUNTANCY AND AUDITING, PAPER-I

(b) Sikandar Co. owns the following properties at 1 April 2012:

Property A: An office building used by Sikandar Co. for administrative purposes with a depreciated historical cost of PKR 2 million. At 1 April 2012 it had a remaining life of 20 years. After a reorganization on 1 October 2012, the property was let to a third party and reclassified as an investment property applying Sikandar’s policy of the fair value model. An independent valuer assessed the property to have a fair value of PKR 2.3 million at 1 October 2012, which had risen to PKR 2.34 million at 31 March 2013.

Property B: Another office building sub-let to a subsidiary of Sikandar Co. At 1 April 2012, it had a fair value of PKR 1.5 million which had risen to PKR 1.65 million at 31 March 2013.

Required:

Prepare extracts from Sikandar Co's entity statement of profit or loss and other comprehensive income and statement of financial position for the year ended 31 March 2013 in respect of the above properties. In the case of property B only, state how it would be classified in Sikandar Co. consolidated statement of financial position. (5)

Note: Ignore deferred tax.

(c) Sikandar Co’s main item of plant is a furnace which was purchased on 1 October 2009. The furnace has two components: the main body (cost PKR 60,000 including the environmental provision – see below) which has a ten-year life, and a replaceable liner (cost PKR 10,000) with a five-year life.

The manufacturing process produces toxic chemicals which pollute the nearby environment. Legislation requires that a clean-up operation must be undertaken by Shawler on 30 September 2019 at the latest. Shawler received a government grant of PKR 12,000 relating to the cost of the main body of the furnace only.

The following are extracts from Shawler’s statement of financial position as at 30 September 2011 (two years after the acquisition of the furnace):

	Carrying amount (PKR)
Non-current assets	
Furnace: main body	48,000
replaceable liner	6,000
Current liabilities	
Government grant	1,200
Non-current liabilities	
Government grant	8,400
Environmental provision	18,000 (present value discounted at 8% per annum)

Required:

- (i) **Prepare equivalent extracts from Sikandar Co’s statement of financial position as at 30 September 2012;** (3)
- (ii) **Prepare extracts from Sikandar Co’s income statement for the year ended 30 September 2012 relating to the items in the statement of financial position.** (3)

(d) On 1 April 2012, the government introduced further environmental legislation which had the effect of requiring Sikandar Co. to fit anti-pollution filters to its furnace within two years. An environmental consultant has calculated that fitting the filters will reduce Sikandar Co’s required environmental costs (and therefore its provision) by 33%. At 30 September 2012 Shawler had not yet fitted the filters. (4)

Required:

Advise Sikandar Co. as to whether they need to provide for the cost of the filters as at 30 September 2012 and whether they should reduce the environmental provision at this date.

SECTION – II

Q. 6. HN is a fitness center, offering 'pay as you go' gym facilities. It has a fully fitted gym with the capacity to accommodate 200 users at one time. It also has 100 car parking spaces and an onsite cafe, both of which are only for customers using the gym. The fitness center has shower facilities for customers and HN provides all customers with a clean towel to use on entry. It is open 360 days a year, from 7.00am until 9.00pm. Customers pay PKR 8.40 for access to the gym for one hour plus unlimited time in the café. If customers want to use the car park, they have to pay an additional PKR 1 per visit and 80% of visiting customers use the car park. HN has been monitoring the number of customers attending throughout each day for the month of June, which was considered to be an average month, and for which HN was open for 30 days. It

has determined that the average number of customers per day is 330 with 40 of these customers attending during the time of 9.00am to 5.00pm .



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The total costs of the fitness center for June, excluding the café, have also been recorded and analyzed as follows:

Fixed costs per month = PKR 48,000

Variable cost per customer = PKR 1.20

On average, half of the customers also used the cafe in June, with an average spending per customer of PKR 2.20. Of this spending, 60% related to drinks, which have a profit margin of 60%, and the remainder related to food items, which have a profit margin of 40%. The specific fixed costs associated with running the café are PKR 3,600 for the month.

Creche proposal

After reviewing all of the above information, the manager of HN has put together a proposal to close the café at the fitness center and convert it into a creche for children. This would mean that parents could leave their children in the creche whilst they use the fitness center between the hours of 9.00am and 5.00pm only. The charge for the creche would be PKR 4 per child, per hour.

Initial research suggests that customers have an average of two children each. The creche is expected to attract new customers and increase the average number of customers between 9.00am and 5.00pm by 300%. Only these new customers will use the creche facilities. Car park usage is expected to continue to be 80%. The fixed costs associated with running the creche are estimated to be PKR 8,000 per month, with a variable cost of PKR 0.50 per child, per hour.

Required: (20 marks)

- (a) Calculate both the number of customers HN needs to break even and the margin of safety as a percentage for the month of June for:
 - (i) The gym; and (5)
 - (ii) The café. (5)
- (b) Explain what each of your calculations in (a) tells Health Nuts about the performance of the gym and the café. (5)
- (c) Advise Health Nuts, considering both financial and non-financial factors, whether it should replace the café with a crèche. (5)

Q. 7. Y Co. owns a number of restaurants. It is a well-established company, and its restaurants have gained a favorable reputation for the quality of their meals.

Y Co’s restaurants are all set in rural locations, where there is limited competition and this enabled them to develop a loyal customer base. Restaurants design their own menus and décor to fit with the requirements of their local market.

Y Co has been consistently profitable, however as is the case across the restaurant industry, profit margins are quite low and there is still a constant need for Y Co to monitor costs.

One of Y Co’s restaurants is located in the small town of Town C. Town C has recently been the location for the filming of a popular television series and visitor numbers to the town have increased significantly as a result. Y Co’s restaurant in Town C has noticed a similar increase in customer numbers.

At the start of the current month a new restaurant opened in Town C. The manager of Y Co’s restaurant in Town C has expressed concerns about the impact this new competitor will have on their ability to achieve profit targets for the rest of the year.

Budgets for all of Y Co’s restaurants are prepared by the head office. At the start of each year, restaurant managers are given an annual budget, which is split into months. At the end of each month, the manager receives a statement comparing actual monthly performance against budget.

The statement for the Town C restaurant for the most recent completed month is as follows:

	Actual	Budget	Variance
Number of customers	1,800	1,500	
	PKR	PKR	PKR
Revenue	87,300	75,000	12,300 F
Costs:			
Food and drink	26,100	22,500	3,600 A
Staff wages	38,250	31,500	6,750 A
Heat, light and power	8,100	7,500	600 A
Rent, rates and other overheads	12,600	12,000	600 A
Profit	2,250	1,500	750 F

Notes:

- (1) Rent, rates and other overheads are apportioned to its restaurants by Y Co’s head office, based on a fixed annual charge.

ACCOUNTANCY AND AUDITING, PAPER-I

(2) All other budgeted costs are treated as variable costs, based on the expected number of customers.

Y Co currently adopts an incremental approach to budgeting, with the annual budget figures for each year being based on the previous year’s figures. However, a new finance director has recently joined the company, and he has questioned whether this is suitable for all Y Co’s restaurants.

The new finance director has also suggested that the company should adopt a more participative approach to budgeting.

Required:

- (a) (i) Prepare a flexed budget for the Town C restaurant. (6)
- (ii) With reference to your answer from part (i), explain the main weaknesses in the current monthly budget statements issued to the restaurants as a basis for managing performance. (6)
- (b) Discuss whether an incremental approach to budgeting is appropriate for Y Co. (8)

Q. 8. BBB Ltd. is involved in a manufacturing business, it uses standard costing to evaluate its performance for every given period. In period A the management of the company is very disappointed in the performance of the company, they have hired a management accountant to help them better understand the actual picture of the business and make decisions. Following is the budget control report shared with the consultant that is prepared by accounts assistant:

	Budgeted	Actual
Sale (units)	30,000	24,000
Revenue (PKR)	60,000	52,800
Direct material (PKR)	15,000	14,400
Fixed overheads (PKR)	10,000	10,300

Required:

- (a) Calculate the following variances used flexed budgets (that is, considering actual activity level):
 - i. Total sales variance (3)
 - ii. Total direct material variance (3)
 - iii. Total fixed overheads variance (3)
- (b) The management has provided the following additional data to better understand the variances:

	Budgeted	Actual
Direct labor cost (PKR)	7,500	72,00
Labor hours	6,000	5,600

- i. Calculate labor rate variance. (4)
- ii. Calculate labor efficiency variance. (4)
- iii. Explain why this segregation of total labor variance is important. (3)



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FOR RECRUITMENT TO POSTS IN BS-17
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Roll Number

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book . (ii) Attempt ONLY FOUR questions from PART-II by selecting at least ONE question 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.		

PART – II
SECTION – I (AUDITING)

- Q. 2.** Define professional skepticism and explain its key characteristics. Why should auditors act as though there is always a potential conflict of interest between the auditor and the management of the enterprise under audit? (20)
- Q. 3.** What are CAATs? What are some audit procedures that can be performed using CAATs? What advantages are derived from using CAATs in the financial statement audit? (20)
- Q. 4.** Define and explain the differences among several kinds of employee frauds that might occur at an audit client. (20)

SECTION – II (BUSINESS TAXATION)

- Q. 5. a.** Zia inherited certain assets from his father in the year 20x1. The fair market values of the assets on the date of inheritance were as follows:

	Rs.
25,000 shares of a private limited company	25,00,000
21,000 shares of public listed company	4,62,000
Membership card of Pakistan Stock Exchange	20,00,000
Jewelry	15,00,000

During the tax year 20x5, Zia undertook the following transactions:

- 1) He gifted some of the assets to his 20-year old son Ishaq. The detail and fair market values of the assets are as follows:
- | | |
|--|------------|
| | Rs. |
| -----10,000 shares of a private limited company | 2,000,000 |
| -----10,000 shares of a public limited company | 1,700,000 |
| ----- Membership card of Pakistan Stock Exchange | 40,000,000 |
- 2) The remaining shares were sold as follows:
- | | |
|---|-----------|
| | Rs. |
| ----- shares of a private limited company | 3,000,000 |
| ----- shares of a public limited company | 1,500,000 |

Ishaq sold all the assets transferred through gift in the same year. The assets fetched the following amounts:

	Rs.
-----10,000 shares of a private limited company	2,500,000
-----10,000 shares of a public limited company	1,500,000
----- Membership card of Pakistan Stock Exchange	55,000,000

Required:

- (i) Based upon the above information, compute the taxable income of Zia and Ishaq for the tax year 20x5 (10)
- (ii) Give a brief explanation for the items not included in the taxable income. (10) (20)

ACCOUNTANCY & AUDITING, PAPER-II

- Q. 6. Explain the correct tax treatment in each of the following situations: (20)
- 1. Mr. Hamza made a total contribution of Rs. 150,000 as a donation to the approved institution mentioned in the 13th schedule. His total income from a business during the tax year 2023 is Rs. 1,800,000.
 - 2. Nine years ago, Masood inherited a rare sculpture of Buddha which had a fair market value of Rs. 200,000 on the date of inheritance. In August 2022, the sculpture was sold by him at Rs. 500,000.
 - 3. In June 2022, Imran entered into an agreement for the sale of the residential plot to Ibrahim, who paid an advance of Rs. 500,000. According to the agreement, Ibrahim was required to pay the balance by August 31, 2022. However, instead of paying the balance amount, he terminated the sale agreement. Imran forfeited the advance of Rs. 500,000 in accordance with the terms of the agreement.
 - 4. In September 2022, Adnan sold his personal car, Toyota Corolla, to one of his cousins at the price of Rs. 500,000 whereas the fair market value of the car was Rs. 20,00,000. The car was purchased by him six years ago at of cost of Rs. 10,00,000.
 - 5. Imran was working as a Chief Financial Officer in Dawood Pakistan (Pvt) Limited, which is a wholly owned subsidiary of Dawood AG, Germany. According to the Company's policy, Imran was sent on secondment to Germany on January 1, 2022, for a period of five years. During this period, half of his salary will be credited to his bank account in Pakistan, whereas the remaining portion will be received by him in Germany.
 - 6. Maqsood provided consultancy services to a listed company. In consideration for his services, he received a net amount of Rs. 45,000 after a tax deduction of Rs. 5,000.

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7. Fitch Industries is in the process of choosing the better of two equal-risk, mutually exclusive capital expenditure projects, M and N. The relevant cash flows for each project are shown in the following table. The firm's cost of capital is 9%. (20)

	Project M	Project N
Initial investment-Cash Outflow	-\$40,000	-\$40,000
Year (t)	Cash inflows	Cash inflows
1	\$14,000	\$23,000
2	14,000	12,000
3	14,000	10,000
4	14,000	9,000

- i. Calculate each project's payback period.
 - ii. Calculate the net present value (NPV) for each project.
 - iii. Calculate the internal rate of return (IRR) for each project.
 - iv. Summarize the preferences dictated by each measure you calculated, and indicate which project you would recommend. Explain why?
- Q. 8. How have globalization and information technology created new opportunities for entrepreneurs? How does an aging population create opportunities for entrepreneurs? Describe current demographic trends that suggest new goods and services for entrepreneurial businesses. (20)



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ACCOUNTANCY AND AUDITING, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS
PART-I(MCQS): MAXIMUM 30 MINUTES

PART-I (MCQS)
PART-II

MAXIMUM MARKS = 20
MAXIMUM MARKS = 80

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.

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(vi) Extra attempt of any question or any part of the question will not be considered.

(vii) Use of Calculator is allowed.

PART – II
SECTION – I

Q. 2. (A) What are the Accounting Principles? Define any four accounting principles shortly. (5)

(B) What are the Accounting Conventions? Define any four accounting conventions shortly. (5)

(C) The below mentioned balances are extracted from the books of Emerging Technologies Pvt. Ltd. as on 31st August 2022.

Head of Account	Amount
Sundry expenses	166,000
Opening Stock	400,000
Premises	3,775,000
Furniture	1,350,000
Machinery	2,600,000
Drawings	250,000
Purchases	6,455,000
Sales	12,262,000
Discount received	47,000
Discount allowed	54,000
Carriage outward	18,000
Returns inward	122,000
Return outwards	28,000
Closing Stock	372,500
Wages and salaries	1,750,000
Cash in hand	940,000
Rent, rates and taxes	137,000
Rent received in advance	53,000
Bills receivables	192,000
Trade creditors	2,076,000
Book debts	3,150,000
Bills payable	130,000
Bank loan	580,000
Capital	6,200,000
Carriage inward	17,000

Required: Prepare a Trial Balance as on that date in a proper format.

(10) (20)

Q. 3. Deluxe Software Private Limited closes its books on 31st December every year. You are provided with the following data:

Shareholders Equity

(Rs.'000')

2021

2020

Opening

700

600

Profit after tax

220

200

920

800

Dividend

(100)

(100)

Closing

820

700

Other data

Number of Shares (in '000s)

60

60

ACCOUNTANCY AND AUDITING, PAPER-I

Required:

(a) On the basis of above data, compute the following for the year 2020 and 2021

(5)

- a. Earnings per share (EPS)
- b. Return on closing equity (ROE)
- c. Book value per share (BV)

(5)

(b) Compute dividend per share and rate of dividend for the year 2022.

(c) For the year ending 31st December 2022 the management decided to aim for EPS Rs.4.00 (9% higher than for the year 2021) and return on closing equity of 25%. Compute the estimated book value as at 31st December 2022 assuming that management targets are achieved. Also compute estimated figures for Profit after Tax, Dividend and Equity.

(10) (20)

Q. 4. (A) Post-closing Trial Balance of Premium Fabrics Private Limited for the year ended December 31, 2021 and 2022 are as follows:

	2022	2021
Equities and Liabilities		
Issued and paid-up capital	5,000,000	5,000,000
Short-term running finance	3,000,000	800,000
Unappropriate profit	400,000	300,000
Trade Creditors	3,000,000	1,000,000
Accumulated Depreciation:		
Plant and Machinery	900,000	600,000
Motor Vehicle	420,000	280,000
	12,720,000	7,980,000
Assets		
Land and Building	2,500,000	1,500,000
Plant and Machinery	3,000,000	2,500,000
Motor vehicles	620,000	580,000
Stock in Hand	3,600,000	1,100,000
Trade debtors	3,000,000	2,300,000
	12,720,000	7,980,000

Additional data:

- During the year 2022, a dividend @ 10% was distributed to the shareholders. The paid-up value of each share is Rs. 10/-
- A Motor vehicle, having original cost of Rs. 100,000 and depreciated book value of Rs. 60,000 was sold for Rs. 80,000.
- Gross funds generated from operations during the year was Rs. 1,060,000.

Required: prepare a cash flow statement of Premium Fabrics as per IAS-7 for the year 2022.

(B) Mr. Haider started a business on March 1st 2022 with a capital of Rs. 645,000. His newly appointed bookkeeper records transaction on simple papers. His cash book page shows following transactions for the year.

(10)

Particulars	Amount	Particulars	Amount
Expenses Paid	27,500	Sales on cash	322,000
Receipts from debtors	241,000	Drawings of Mr. Haider	25,500
Purchase of Motorbike	92,000	Payments to creditors	322,000
Purchases on cash	148,000		

On December 31st 2022 value of closing stock is 46,000. The payables and receivables are Rs.125,000 and Rs. 80,000 respectively. Useful life of motorbike is 8 years and salvage value will be 32000. Bookkeeper decided to use the straight-line method of depreciation for the whole useful life of motorbike.

Required: Prepare Trading and Profit and Loss account and Balance Sheet as on 31st December 2022.

(10) (20)

SECTION – II

Q. 5. (A) Eagle Star is a manufacturing company. The Company uses Rowan Premium bonus scheme for its workers payroll. Workers are also entitled to dearness allowance of Rs. 2,400 per week of 48 hours. Mr. Afzal is one of the workers of that company. His basic wage rate is 1,200 per day of 8 hours. His time sheet for the week is as under:

Job Name	Time Allowed	Time Taken
Crafting	25 hours	20 hours
Assembling	30 hours	20 hours
Idle time (Waiting)	----	8 hours

Required: Calculate gross wage of Mr. Afzal for the week.

(10)

ACCOUNTANCY AND AUDITING, PAPER-I

(B) An Automobile factory will use 500,000 tyres for its production in coming year. The incremental cost of placing an order is Rs. 8,000. The cost of storing a tyre for whole year is Rs. 2000. Lead time on an order is 5 days and the company wishes to keep reserve supply of two days usage. Usage per day will be constant in whole work year. Company work year consists of 250 days.

Required: Calculate Economic Order Quantity and Reorder point. (10) (20)

Q. 6. (A) A manufacturing company of Lahore submits the following information for the year ending 31st December 2022:

Particulars	Amount	Particulars	Amount
Sales	4,500,000	Raw Material 1 st January	150,000
Purchases	2,020,000	Finished Goods 1 st January	700,000
Tools Expenses	45,000	Indirect Labour	50,000
Depreciation of Plant	45,000	Power, Heat & Light	30,000
Work in process 1 st January	300,000	Finished Goods 31 st December	605,000
Purchase Retunes	20,000	Depreciation of machinery	60,000
Fire Insurance	8,000	Raw Material 31 st December	290,000
Direct Labour	590,000	Work in Process 31 st December	250,000
Misc. Manufacturing Costs	9,000	Indirect Material Consumed	50,000
Selling Expenses	5% of sales	Administrative Expenses	2% of sales

Required: Prepare an Income Statement for the year ended 31st December 2022 (10)

(B) Khizra manufacturing corporation has fixed cost for the year ended 31st December 2022 is Rs. 400,000. Variable cost per unit is Rs. 20. Each Unit sells at Rs. 100.

- Required:
- a) Break Even point (both in units and value) (2)
 - b) If turnover for the next year is Rs. 800,000, calculate the estimated contribution and profit, assuming the cost and selling price remain the same (4)
 - c) A profit target of Rs. 400,000 has been desired for the next year. (4) (10) (20)
Calculate the turnover required to achieve the desired result.

Q. 7. The Balance Sheet of Fazal Din & Co. as on 31st December 2021 was as follows:

BALANCE SHEET			
Liabilities & Capital	Amount	Assets	Amount
Current Liabilities	Rs. 17,500	Cash	Rs. 5,000
<u>Paid-up-Capital</u>		Accounts Receivable	Rs. 10,000
3,000 ordinary shares of Rs. 10		Materials	Rs. 4,000
each	Rs. 30,000	Work in Process	Rs. 2,000
Retained Earnings	Rs. 10,000	Finished Goods	Rs. 6,000
		Prepaid expenses	Rs. 500
		Fixed Assets(net)	Rs. 30,000
	<u>Rs. 57,500</u>		<u>Rs. 57,500</u>

During the year 2022 the retained earnings increase 50% as a result of good business. No dividend was paid during the year. Balances of Accounts receivables, prepaid expenses, current liabilities and paid-up capital were the same as 31st December 2022 as they had been on 31st December 2021, Inventories were reduced as follows:

Material	50%
Work in process	50%
Finished goods	33-1/3%

Fixed Assets were reduced by depreciation of Rs. 4,000 charged 3/4th to factory overhead and 1/4th to administrative expenses. Sales were made of Rs. 60,000 on account of finished goods costing Rs. 40,000. Direct labor cost was Rs. 9,000. Factory overhead was applied at the rate of 100% of direct labor cost, leaving Rs. 2,000 under applied which was closed to cost of goods sold account. Total marketing and administrative expenses amounting to 10% and 15% respectively of the gross sales.

- Required:
- (a) An Income statement for 2022, along with the details of Cost of goods manufactured and sold (10)
 - (b) A balance Sheet as on 31st December 2022. (10) (20)

Q. 8. A chemical factory manufactures three kinds of chemicals namely Eucalyptus oil, Hexachlorobenzen and Toxaphene. In the last week of December 2022, the records were:

Labor Grade	No of Employees	Rate per hour (Rs.)	Hours Worked by each employee
I	12	40	40
II	36	32	42
III	8	28	40
IV	2	16	44

Output and standard times during the same week were as follows:

Components	Output (In Units)	Standard Minutes for each unit
Eucalyptus oil	888	30
Hexachlorobenzen	1800	54
Toxaphene	960	66

Normal working hours per week are 38. Overtime is paid at the premium of 50 % of the normal hour rate.

Group Incentive Scheme:

A group incentive scheme is in operation. The time saved is expressed as a percentage of hours worked and is shared between the group as a proportion of the hours worked by each grade. The incentive rate is 75% of the normal hour rate.

Required: Prepare the payroll for the last week of December 2022 showing the basic pay, overtime (20) and incentive amount as separate totals for each grade of labor.



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ACCOUNTANCY AND AUDITING, PAPER-II

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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.
- Which of the following is the part of audit?**
(A) Internal control system (B) Internal audit (C) External audit (D) All of these
 - External auditor of any public limited company in Pakistan is considered as:**
(A) An employee of the company (B) An executive director (C) An elected director (D) None of these
 - CAAT stands for:**
(A) Computer assisted Audit Techniques (B) Chartered Accountant Association for Trans nations
(C) Computerized Accounting and Audit Techniques (D) None of these
 - General Auditing Principles and Techniques commonly applicable to the various types of undertakings including:**
(A) Merchandising (B) Manufacturing (C) Insurance (D) All of these
 - Currently Joint Stock Companies are created/formed in Pakistan according to the:**
(A) Companies Ordinance 1984 (B) Companies Act, 1913 (C) Companies Act, 2017 (D) None of these
 - Public limited companies in Pakistan can start their operations/business after getting the:**
(A) Certificate of incorporation (B) Certificate of commencement of business
(C) Memorandum of Association (D) None of these
 - The decision rule in finance proclaims that you should purchase an asset if it is worth**
(A) More than it costs (B) More than it can be maximally sold for (C) Less than it costs (D) All of these
 - The present value formula is: $PV = F \cdot \frac{1}{(1+r)^n}$. What do we call $\frac{1}{(1+r)^n}$?**
(A) Annuity factor (B) Present value factor (C) Future value factor (D) Both (A) & (B)
 - The factor applicable to calculate future value from the present value at a specific rate of return with given time period is known as:**
(A) Discount factor (B) Compound factor (C) Annuity factor (D) None of these
 - The financial planning process begins with _____ financial plans that in turn guide the formation of _____ plans and budgets.**
(A) Short run; long run (B) Short run; operating (C) Long run; strategic (D) Long run; short run
 - The _____ decision involves efficiently managing the assets on the balance sheet on a day-to-day basis, especially current assets.**
(A) Asset management (B) Financing (C) Investment (D) Accounting
 - Shareholder's wealth in a firm is represented by:**
(A) The number of people employed in the firm.
(B) The book value of the firm's assets less the book value of its liabilities.
(C) The amount of salary paid to its employees. (D) The market price per share of the firm's common stock.
 - If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?**
(A) The stock has a low level of risk. (B) The stock offers a high dividend payout ratio
(C) The market is undervaluing the stock. (D) The market is overvaluing the stock
 - The adjusting entry to record the accrual of income tax expense includes a:**
(A) Debit to income tax payable. (B) Credit to income tax expense.
(C) Credit to accounts payable. (D) Credit to income tax payable.
 - Which of the following types of business organizations terminates when its ownership structure changes?**
(A) Proprietorships only (B) Proprietorships and corporations
(C) Partnerships and proprietorships (D) Partnerships and corporations
 - The _____ own the corporation, but the _____, who are elected by the stockholders appoint officers to manage the business.**
(A) Stockholders, officers (B) Stockholders, board of directors
(C) Officers, board of directors (D) Board of directors, officers
 - Tax Credit on charitable donation can only be claimed if it was paid through:**
(A) Cash (B) Cheque (C) Property in kind (D) All of these
 - Imputable Income is defined under sub section _____ of the Income Tax Ordinance.**
(A) 31 (B) 29A (C) 28A (D) 29
 - Deduction in computing Income chargeable under the head of income from other sources is explained under section:** (A) 38 (B) 40 (C) 39 (D) 20
 - Electronic resource is defined under sub section _____ of the Income Tax Ordinance.**
(A) 19E (B) 19B (C) 19C (D) 19D

PART – II

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SECTION – I (AUDITING)

- Q. 2. Elaborate the role and responsibilities of an auditor by explaining auditor’s professional & legal rights, responsibilities & duties, and liabilities. (20)
- Q. 3. (a) What is meant by internal audit? List out the main differences between internal audit and external audit. (10)
- (b) Elaborate the role of corporate governance in corporate entities. As professional, comment on relationship between internal audit and corporate governance to attain institutional objectives through regulatory compliance. (10)
- Q. 4. Explain the Computer Information Systems (EDP Systems) and discuss application of Computer-Assisted Audit Techniques (CAAT) to ensure fair practices in organization in the contemporary world. (20)

SECTION – II (BUSINESS TAXATION)

- Q. 5. (a) Briefly explain the administrative set up of different tax authorities [207(2) to (4A)]. List out functions and powers of the Board. (10)
- (b) Elaborate the following fundamental definitions/terminologies: (10)
- i. Assessment [2(5)] as per Income Tax Ordinance 2001.
- ii. Taxpayer [2(66)] as per Income Tax Ordinance 2001.
- iii. Tax year [2(68) & 74] as per Income Tax Ordinance 2001.
- iv. Sales Tax [2 (29A)] as per Sales Tax Act 1990
- v. Output Tax [2 (20)] as per Sales Tax Act 1990
- Q. 6. (a) Mr. Jameel is an officer in an autonomous organisation. He is in pay scale of (Rs. 150000-10000-250000). During the tax year he received Rs. 2400000 as basic salary. Moreover, he also received the followings: (10)
- | | |
|------------------------------|-------|
| | Rs. |
| i. Dearness Allowance | 18000 |
| ii. Cost of Living Allowance | 24000 |
| iii. Bonus | 20000 |
| iv. Commission | 30000 |
- The employer of Mr. Jameel has also provided the services of a driver and a housekeeper. The organisation paid Rs. 40000/- per month to each of these employees. Compute the Taxable Income of Mr. Jameel and tax liability.
- (b) Consider the details provided regarding Mr. Jameel (in question 6.a) and incorporate additional details for perks provided by the organization during the year. The organization also paid the domestic bills of Mr. Jameel including Telephone Rs. 12000; Water Rs. 6000; Electricity Rs. 9600 and Gas Rs. 4800. Calculate the taxable income and tax liability of Mr. Jameel by considering these utility/facilities. (10)

Note: Calculations for Question 6 a. and 6 b. should be based on the rates applicable to the Tax Year 2022.

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7.

(a)

Define business combination and its scope. Explain causes of business combinations and types of combinations.

(10)

(b)

List out the characteristics and features of Joint Stock Company. Moreover, explain the process for creation/formation of joint stock companies according to Companies Act 2017 with example.

(10)
- Q. 8.

(a)

Explain the nature and scope of financial markets and institutions in Pakistan.

(10)

(b)

Ms. Maryam Fatima is 30 years of age, and her salary next year will be Rs. 40,000. Ms. Maryam forecasts that her salary will increase at a steady rate of 5% per annum until her retirement at age 60. If the discount rate is 8%, what is the PV of these future salary payments? Moreover, If Ms. Maryam Fatima saves 5% of her salary each year and invests these savings at an interest rate of 8%, how much will she have saved by age 60?

(10)



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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)
(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.
- The primary function of accounting is to:**
(A) Record the economic data. (B) Provide the information basis for action.
(C) Recording and classifying business transactions. (D) None of these
 - The concept of conservatism will have the effect of:**
(A) Understatement of assets (B) Understatement of liabilities
(C) Overstatement of assets (D) None of these
 - On December 1, 2022, Bridgestone Corporation invested Rs.50,000 in a new delivery truck. The truck is being depreciated at a monthly rate of Rs.500. During 2022, the company issued stock for Rs.80,000 and declared dividends of Rs.5,000. Its net income in 2022 was Rs.70,000. Bridgestone's ending Retained Earnings balance as reported in its December 31, 2022, balance sheet was Rs.95,000. Its beginning Capital Stock balance on January 1, 2022, was Rs.200,000. Given this information, the total stockholders' equity reported in the company's balance sheet dated December 31, 2022 would be equal to:**
(A) Rs.245,000 (B) Rs.445,000 (C) Rs.350,000 (D) Rs.375,000
 - Book-keeping is mainly concerned with:**
(A) Recording of financial data relating to business transactions.
(B) Designing the systems in recording, classifying, summarizing the recorded data.
(C) Interpreting the data for internal and external users. (D) None of these
 - Receipt and payments account is:**
(A) A nominal account (B) A real account (C) A personal account (D) None of these
 - The main objective of charging depreciation is:**
(A) To calculate true profit (B) To show the true financial position in the balance sheet
(C) To provide funds for replacement of fixed assets. (D) None of these
 - In the event of dissolution of a partnership firm, the provision for doubtful debts is transferred to:**
(A) Sundry debtors account (B) Partners' capital accounts (C) Realisation account (D) None of these
 - Which of the following accounts would never appear in the after-closing trial balance?**
(A) Unearned revenue (B) Dividends (C) Accumulated depreciation. (D) None of these
 - An auditing firm while auditing the accounts of a business firm found that total stockholders' equity was understated and liabilities were overstated. Which of the following errors could have been the cause?**
(A) Failure to record the earned portion of fees received in advance
(B) Failure to record interest accrued on a note payable
(C) Failure to make the adjusting entry to record revenue that had been earned but not yet billed to clients
(D) None of these
 - When a business is organized as a corporation, which of the following statements is true?**
(A) Stockholders are liable for the debts of the business in proportion to their percentage ownership of capital stock.
(B) Fluctuations in the market value of outstanding shares of capital stock do not directly affect the amount of stockholders' equity shown in the balance sheet.
(C) Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.
(D) Each stockholder has the right to bind the corporation to contracts and to make other managerial decisions
 - Morgan Moving Corporation was organized with authorization to issue 100,000 shares of Rs.1 par value common stock. Forty thousand shares were issued to Tom Morgan, the company's founder, at a price of Rs.5 per share. No other shares have yet been issued. Which of the following statements is true?**
(A) Morgan owns 40 percent of the stockholders' equity of the corporation.
(B) The corporation should recognize a Rs.160,000 gain on the issuance of these shares.
(C) If the balance sheet includes retained earnings of Rs.50,000, total paid-in capital amounts to Rs.250,000.
(D) In the balance sheet, the Additional Paid-in Capital account will have a Rs.160,000 balance, regardless of the profits earned or losses incurred since the corporation was organized.

ACCOUNTANCY AND AUDITING, PAPER-I

12. In financial statement analysis, the most difficult of the following items to predict is whether:
- (A) The company will be liquid in six months.
(B) The company's market share is increasing or declining.
(C) The market price of capital stock will rise or fall over the next two months.
(D) None of these.
13. During the current year, two transactions were recorded in the Land account of Duke Industries. One involved a debit of Rs.320,000 to the Land account; the second was a Rs.210,000 credit to the Land account. Duke's income statement for the year reported a loss on sale of land in the amount of Rs.25,000. All transactions involving the Land account were cash transactions. These transactions would be shown in the statement of cash flows as:
- (A) Rs.210,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.
(B) Rs.185,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.
(C) Rs.235,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.
(D) None of these.
14. Multiple costing is a technique of using two or more costing methods for ascertainment of cost by:
- (A) The same firm (B) Several firms (C) The same industry (D) The several industries
15. Which of the following are true regarding activity-based costing?
- (A) A primary goal of using ABC is a more useful allocation of manufacturing overhead to product lines.
(B) Under ABC, direct labor hours are never used to allocate overhead costs to activity pools or product lines.
(C) The use of ABC is justified when each of a firm's product lines consumes approximately the same amount of overhead resources but the current allocation scheme assigns each line a substantially different amount.
(D) None of these
16. If Power Products uses process costing, which of the following are likely to be true?
- (A) The products are created to customer specifications.
(B) The products use different amounts of direct labor.
(C) The products are created with repetitive processes.
(D) None of these
17. An unfavorable overhead volume variance indicates that:
- (A) Total fixed overhead has exceeded the standard amount budgeted.
(B) Variable overhead per unit has exceeded the standard amount budgeted.
(C) Actual production output was less than the normal volume of output.
(d) Actual production output was more than the normal volume of output.
18. The Work in Process Inventory account had a beginning balance of Rs.4,200 on February 1. During February, the cost of direct materials used was Rs.29,000, and direct labor costs assigned to production totaled Rs.3,000. Manufacturing overhead was assigned to production amounted to Rs.3,600. If the cost of finished goods manufactured was Rs.37,700, the balance of the Work in Process Inventory account at the end of February would be equal to:
- (A) Rs. 9,900 (B) Rs. 2,100 (C) Rs. 1,500 (D) Rs. 5,700
19. During the current year, the net sales of Ridgeway, Inc., were 10 percent below than last year's level. You should expect Ridgeway's semivariable costs to:
- (A) Decrease in total, but increase as a percentage of net sales.
(B) Increase in total and increase as a percentage of net sales.
(C) Decrease in total and decrease as a percentage of net sales.
(D) Increase in total, but decrease as a percentage of net sales.
20. Premo Pens, Inc., is in the process of developing a new pen to replace its existing top-of-the-line Executive Model. Market research has identified the critical features the pen must have, and it is estimated that customers would be willing to pay Rs.30 for a pen with these features. Premo's production manager estimates that with existing equipment it will cost Rs.26 to produce the proposed model. The current Executive Model sells for Rs.24 and has a total production cost of Rs.20. A competitor sells a pen similar to the proposed model, but without Premo's patented easy retract feature, for Rs.28. It is estimated to cost the competitor Rs.25 to produce. If Premo seeks to earn a 22 percent return on sales on the new model, which of the following represents the target cost for the new pen?
- (A) Rs. 26.00 (B) Rs. 19.80 (C) Rs. 24.00 (D) Rs. 23.40

PART-II

TIME ALLOWED: THREE HOURS	(PART-I MCQs)	MAXIMUM MARKS: 20
PART-I (MCQs): MAXIMUM 30 MINUTES	(PART-II)	MAXIMUM MARKS: 80
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 the 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. Satellite World was founded in 2021 to apply a new technology for efficiently transmitting closedcircuit (cable) television signals without the need for an in-ground cable. The company earned a profit of Rs.115,000 in 2021, its first year of operations, even though it was serving only a small test market. In 2022, the company began dramatically expanding its customer base. Management expects both sales and net income to more than triple in each of the next five years. Comparative balance sheets at the end of 2021 and 2022, the company’s first two years of operations, are as follow:

Additional Information:

The following information regarding the company’s operations in 2022 is available in either the company’s income statement or its accounting records.

1. Net income for the year was Rs.440,000. The company has never paid a dividend.
2. Depreciation for the year amounted to Rs.147,000.
3. During the year the company purchased plant assets costing Rs.2,200,000, for which it paid Rs.1,850,000 in cash and financed Rs.350,000 by issuing a long-term note payable. (Much of the cash used in these purchases was provided by short-term borrowing, described as follows.)
4. In 2022, Satellite World borrowed Rs.1,450,000 against a Rs.5.5 million line of credit with a local bank. In its balance sheet, the resulting obligations are reported as notes payable (short-term).
5. Additional shares of capital stock (no par value) were issued to investors for Rs.500,000 cash.

SATELLITE WORLD		
Comparative Balance Sheets		
December 31		
	2021	2022
Assets		
Cash and cash equivalents	Rs.80,000	Rs.37,000
Accounts receivable	100,000	850,000
Plant and equipment (net of accumulated depreciation)	600,000	2,653,000
Totals	Rs.780,000	Rs.3,540,000
Liabilities & Stockholders' Equity		
Notes payable (short-term)	Rs. –0–	Rs.1,450,000
Accounts payable	30,000	63,000
Accrued expenses payable	45,000	32,000
Notes payable (long-term)	390,000	740,000
Capital stock (no par value)	200,000	700,000
Retained earnings	115,000	555,000
Totals	Rs.780,000	Rs.3,540,000

Instructions:

- (a) Prepare a formal statement of cash flows for 2022, including a supplementary schedule of noncash investing and financing activities. (Cash provided by operating activities is to be presented by the indirect method.) (16)
- (b) Briefly explain how operating activities can be a net use of cash when the company is operating so profitably. (04) (20)

ACCOUNTANCY AND AUDITING, PAPER-I

Q. 3. Davidson Limited purchased new furniture for its store on May 1, 2019. The furniture is expected to have a 10-year life and no residual value. The following expenditures were associated with the purchase.

Cost of the furniture	Rs.110,000
Freight charges	3,750
Sales taxes	19,800
Installation of furniture	7,500
Cost to repair furniture damaged during installation	4,000

- Instructions:**
- (a) Compute depreciation expense for the years 2019 through 2023 under each depreciation method listed. (10)
- (1) Straight-line, with fractional years rounded to the nearest whole month.
- (2) 200 percent declining-balance, using the half-year convention.
- (b) Davidson Limited has two conflicting objectives. Management wants to report the highest possible earnings in its financial statements, yet it also wants to minimize its taxable income reported to the tax authorities. Explain how both of these objectives can be met. (04)
- (c) Assume that Davidson Limited sold the old furniture that was being replaced. The old furniture had originally cost Rs.30,000. Its book value at the time of the sale was Rs.4,000. (06) (20)
- Record the sale of the old furniture under the following conditions.
1. The furniture was sold for Rs.7,800 cash.
2. The furniture was sold for Rs. 2,500 cash.

Q. 4 X, Y and Z were partners sharing profits and losses in the ratio of two-third, one-sixth and one-sixth, respectively. Balance sheet of the firm as on December 31, 2022 was as follow.

Assets	Rs.	Liabilities	Rs.
Cash	20,000	Sundry Creditors	30,000
Debtors	30,000		
Stock	30,000	Capital:	
Premises	60,000	X	80,000
X's Loan	10,000	Y	20,000
		Z	20,000
TOTAL	150,000	TOTAL	150,000

X died on January 1, 2023. Firm had taken joint policy of Rs.60,000. The policy amount was realized on January 15, 2023. As per partnership deed goodwill was valued at 2 years' purchase of average profit of three completed years. Deceased partner was paid out his dues on February 1, 2023, available cash balance being supplemented by a loan from the firm's bankers. Profits for the preceding three years were Rs.40,000, Rs.40,000, and Rs.46,000, respectively.

- Instructions:**
- Show the ledger accounts of the partners and the balance sheet of Y and Z as it would stand after the death of X. (You may ignore the amount of interest, if any). (20)

Q. 5 The following is the statement of Receipts and Payments of a Welfare Hospital for the year ending 31" December 2022.

Receipts	Rs.	Payments	Rs.
Opening Balances:			
Cash	500	Furniture purchased	100
Bank	8,000	Salaries	23,000
Govt. Securities	180,000	Instruments purchased	500
Subscriptions	25,000	Diet expenses	2,000
Interest	9,000	Surgery and dispensary	1,000

ACCOUNTANCY AND AUDITING, PAPER-I

Receipts	Rs.	Payments	Rs.
Donations	4,000	Rent and taxes	500
Miscellaneous	300	Insurance	200
		Office expenses	700
		Miscellaneous expenses	100
		Closing balances:	
		Bank	18,000
		Cash	700
		Govt. Securities	180,000
TOTAL	226,800	TOTAL	226,800

The detail of other assets on 1st January 2022 were:
Furniture Rs.2,000, Land Rs.50,000, Building Rs.1,50,000, Instruments Rs.3,500. The Govt. Securities of the face value of Rs.2,00,000 (cost Rs.1,80,000) represents investments of the 2021 Endowment Fund. The subscriptions received include Rs.10,000 for the year 2021 but Rs.7,000 is outstanding for 2022. Salaries paid include Rs.1,000 for 2021 but Rs.1,500 is payable for 2022. Interest received includes Rs.2,000 for 2021 but Rs.2,300 is outstanding for 2022.

Instructions:
Prepare the Income and Expenditure Account for the year and the Balance sheet as on 31st December 2022. (20)

SECTION II

Q. 6. Boothe Company uses job order cost accumulation and applies overhead based on direct labor hours. Any underapplied or overapplied overhead is adjusted directly to Cost of Goods Sold at the end of each month. On April 1, job cost sheets indicated the following.

	Job 201	Job 202	Job 203	Job 204
Direct Materials	Rs.3,590	Rs.2,000	Rs.1,480	Rs.2,000
Direct Labor	2,700	1,500	1,000	1,200
Applied Overhead	2,160	1,200	800	960
Total Cost	Rs.8,450	Rs.4,700	Rs.3,280	Rs.4,160
Job Status	Finished	In process	In process	In process

On April 30, Finished Goods contained only Jobs 204 and 207, which had the following total costs.

	Job 204	Job 207
Direct Materials	Rs.2,970	Rs.2,450
Direct Labor	2,200	1,900
Applied Overhead	1,760	1,520
Total Cost	Rs.6,930	Rs.5,870

Besides working on Jobs 204 and 207 in April, the company continued work on Jobs 202 and 203 and started work on Jobs 205 and 206. A summary of direct materials used and direct labor hours worked on Jobs 202, 203, 205, and 206 during April showed the following.

	Job 202	Job 203	Job 205	Job 206
Direct Materials	Rs.1,250	Rs.555	Rs.2,500	Rs.1,980
Direct Labor	100	75	105	50

ACCOUNTANCY AND AUDITING, PAPER-I

Other information:

- (1) On April 30, the only jobs still in process were 203 and 206.
- (2) All workers are paid Rs.20 per hour. Wage rates have been stable throughout the year.
- (3) The company maintains only one raw materials account (Materials Control) from which it issues both direct and indirect materials. The balance in this account was Rs.2,700 on April 1.
- (4) All sales are billed on account at 150% of total cost.
- (5) Other items in April:
 - Depreciation, Factory Equipment Rs.1,375
 - Raw Materials Purchased 11,550
 - Indirect Labor 2,500
 - Factory Rent and Utilities 2,700
 - Indirect Materials Used 2,790

Instructions: (05 marks each) (20)

- (a) Determine the April 30 balances for Materials Control and for Work in Process.
- (b) Prepare all journal entries required for Job 202 in April.
- (c) Calculate the cost of goods manufactured in April. (A complete statement of cost of goods manufactured is not required.)
- (d) Calculate the overapplied or underapplied overhead for April.

Q. 7 Standard Cabinet Company manufactures a single model of a commercial prefabricated wooden cabinet. The company uses a process cost system with an average cost flow assumption. It maintains a separate work in process account for each of its two producing departments, Cutting and Assembly. The basic cabinet components are cut out of wood in the Cutting Department and then transferred to the Assembly Department, where they are put together with the addition of hinges and handles purchased from outside vendors. Data related to manufacturing operations in August are provided below.

	Cutting	Assembly
Units in beginning inventory	200	250
Units started in process in Cutting Department this period	600	-
Units transferred from Cutting to Assembly this period	650	650
Units transferred from Assembly to Finished Goods this period	-	800
Units in ending inventory		
Cutting Department (90% materials, 60% conversion cost)	150	-
Assembly Department (40 % materials, 20% conversion cost)	-	100

	Cutting	Assembly
Cost in beginning inventory		
Cost from preceding department		Rs.17,410
Materials	Rs.5,365	3,451
Labor	530	3,611
Factory Overhead	795	3,611
Cost added during the current period		
Materials	26,035	14,273
Labor	8,350	20,989
Factory Overhead	12,525	20,989

Instructions:

- (a) Prepare a cost of production report for each department for August. (15)
- (b) Prepare the appropriate general journal entries to record the charge to the producing departments for the costs incurred during August and to record the transfer of units from Cutting to Assembly and from Assembly to Finished Goods Inventory. (05) (20)

ACCOUNTANCY AND AUDITING, PAPER-I

Q. 8. Employees in the Fabrication department of Alexandar company are currently paid Rs.10 per hour for an 8 hour shift. For the several weeks, production has averaged 5 units per hour per worker. Factory overhead in this department is Rs.12 per direct labour hour. Employees and management are considering the following proposal:

Units Assembled per 8-Hour Day	Piecework Rate for all Units Produced for the Day
up to 44	Rs.2.00
45 to 49	2.12
50 to 54	2.20
55 to 59	2.30
60 and above	2.40

Instruction:

- (a) Prepare an analysis schedule for the proposal, showing production at each of the following level, 40, 45, 50, 55, and 60 units per 8-hour day. Compute unit cost to the nearest Rupee. (15)
- (b) Does the piecework proposal appear advantageous to the employees and/or to the management? (05) (20)



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2022
FOR RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT

Roll Number

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book . (ii) Attempt ONLY FOUR questions from PART-II by selecting at least ONE question 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.		

PART – II
SECTION – I (AUDITING)

- Q. 2.** Define audit planning. What factors should be considered by an auditor in developing an audit plan. (20)
- Q. 3.** (a) Define an audit program. Give its advantages and disadvantages. (10)
(b) What are the purposes/benefits of conducting audit through a fixed audit program? (10) (20)
- Q. 4.** (a) Define 'Fraud' as applied to accounting. What are different types of frauds? (10)
(b) How will you detect and prevent the frauds related with embezzlement of cash? (10) (20)

SECTION – II (BUSINESS TAXATION)

- Q. 5.** ABC is a private limited company. The company manufactures and supplies consumer goods. ABC sells its product through various distributors in Karachi, Lahore and Islamabad. The following is the profit and loss account of ABC for the year ended on June 30, 2021: (20)

	Rs."000"		Rs."000"
Sundry expenses	2,240	Gross Profit	235,200
Office salaries	29,120	Interest on bank deposit	300
Rent, rates & taxes	8,960	Recovered bad debts	448
		(Allowed in the past)	
Legal charges	2,016	Dividend	672
Finance charges on leased assets	350		
Advertisement	5,600		
Auditor's fees	6,720		
Cost of issue of debentures	5,600		
Loss on sales of furniture	2,240		
Provident fund contribution	7,840		
Bad debts	4,480		
Vehicle expenses	8,960		
Fire insurance premium	7,840		
Preliminary expenses	1,008		
Provision for taxes	10,080		
Provision for bad debts	4,480		
Liquidated damages	3,360		
Depreciation	44,800		
Net Profit	80,926		
Total	236,620	Total	236,620

ACCOUNTANCY & AUDITING, PAPER-II

Additional Information:

- a) Sundry expenses include donation of Rs. 502,000 paid to an unrecognized charitable institution.
- b) Office salaries include Rs.6,000,000 paid to one of the directors.
- c) Provident Fund is recognized by the Income Tax Department.
- d) Vehicle expenses are not vouched and verifiable to the extent of Rs.1,881,000.
- e) Actual depreciation works out to Rs.32,650,000 only.
- f) Lease rental for the year are Rs.1,750,000.

Required: Calculate the taxable income and tax liability of the company for the tax year 2021 from the above data.

- Q. 6.** Discuss ten allowable deductions under the head of “income from business” under section 20 of Income Tax Ordinance 2001. (20)

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7.** (a) What is the purpose of financial markets? How can this purpose be accomplished efficiently? (10)
- (b) Discuss the functions of financial intermediaries. (10) (20)
- Q. 8.** Why do bonds with long maturities fluctuate more in price than do bonds with short maturities, given the same change in yield to maturity? (20)



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2022
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 30 MINUTES

PART-I (MCQS)

PART-II

MAXIMUM MARKS = 20

MAXIMUM MARKS = 80

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.

PART – II
SECTION – I

Q. 2. Campus Theater adjusts its accounts every month. The company's unadjusted trial balance dated August 31, current year, appears as follows. Additional information is provided for use in preparing the company's adjusting entries for the month of August. (Bear in mind that adjusting entries have already been made for the first seven months of current year, but not for August.)

CAMPUS THEATER
Unadjusted Trial Balance
August 31, Current Year

Cash	\$ 24,000	
Prepaid film rental	37,440	
Land	144,000	
Building	201,600	
Accumulated depreciation: Building	\$ 16,800	
Fixtures and equipment	43,200	
Accumulated depreciation: fixtures and equipment	14,400	
Notes payable	216,000	
Accounts payable	5,280	
Unearned admissions revenue (YMCA)	1,200	
Income taxes payable	5,688	
Capital stock	48,000	
Retained earnings	55,932	
Dividends	18,000	
Admissions revenue	366,240	
Concessions revenue	17,220	
Salaries expense	82,200	
Film rental expense	113,400	
Utilities expense	11,400	
Depreciation expense: building	5,880	
Depreciation expense: fixtures and equipment	5,040	
Interest expense	12,600	
Income taxes expense	48,000	
	\$746,760	\$746,760

Other Data

- Film rental expense for the month is \$18,240. However, the film rental expense for several months has been paid in advance.
- The building is being depreciated over a period of 20 years (240 months).
- The fixtures and equipment are being depreciated over a period of five years (60 months).
- On the first of each month, the theater pays the interest that accrued in the prior month on its note payable. At August 31, accrued interest payable on this note amounts to \$1,800.
- The theater allows the local YMCA to bring children attending summer camp to the movies on any weekday afternoon for a fixed fee of \$600 per month. On June 28, the YMCA made a \$1,800 advance payment covering the months of July, August, and September.
- The theater receives a percentage of the revenue earned by Tastie Corporation, the concessionaire operating the snack bar. For snack bar sales in August, Tastie owes Campus Theater \$2,700, payable on September 10. No entry has yet been made to record this revenue.

ACCOUNTANCY AND AUDITING, PAPER-I

7. Salaries earned by employees, but not recorded or paid as of August 31, amount to \$2,040. No entry has yet been made to record this liability and expense.
8. Income taxes expense for August is estimated at \$5,040. This amount will be paid in the September 15 installment payment.
9. Utilities expense is recorded as monthly bills are received. No adjusting entries for utilities expense are made at month-end.

Required:

- (a) For each of the numbered paragraphs, prepare the necessary adjusting entry (including an explanation). (08)
- (b) Refer to the balances shown in the unadjusted trial balance at August 31. How many months of expense are included in each of the following account balances? (Remember, Campus Theater adjusts its accounts monthly. Thus, the accounts shown were last adjusted on July 31, current year.) (09)
 1. Utilities Expense
 2. Depreciation Expense
 3. Accumulated Depreciation: Building
- (c) Assume the theater has been operating profitably all year. Although the August 31 trial balance shows substantial income taxes expense, income taxes payable is a much smaller amount. This relationship is quite normal throughout much of the year. Explain. (03) (20)

Q. 3. During the current year, Hitchcock Developers disposed of plant assets in the following transactions.

- Feb. 10. Office equipment costing \$24,000 was given to a scrap dealer at no charge. At the date of disposal, accumulated depreciation on the office equipment amounted to \$21,800.
- Apr. 1. Hitchcock sold land and a building to Claypool Associates for \$900,000, receiving \$100,000 cash and a 5-year, 9 percent note receivable for the remaining balance. Hitchcock's records showed the following amounts:
Land, \$50,000; Building, \$550,000; Accumulated Depreciation: Building (at the date of disposal), \$250,000.
- Aug. 15. Hitchcock traded in an old truck for a new one. The old truck had cost \$26,000, and its accumulated depreciation amounted to \$18,000. The list price of the new truck was \$39,000, but Hitchcock received a \$10,000 trade-in allowance for the old truck and paid \$28,000 in cash. Hitchcock includes trucks in its Vehicles account.
- Oct. 1. Hitchcock traded in its old computer system as part of the purchase of a new system. The old system had cost \$15,000, and its accumulated depreciation amounted to \$11,000. The new computer's list price was \$8,000. Hitchcock accepted a trade-in allowance of \$500 for the old computer system, paying \$1,500 down in cash and issuing a 1-year, 8 percent note payable for the \$6,000 balance owed.

Required:

- (a) Prepare journal entries to record each of the disposal transactions. Assume that depreciation expense on each asset has been recorded up to the date of disposal. Thus, you need not update the accumulated depreciation figures stated in the problem. (16)
- (b) Will the gains and losses recorded in part affect the gross profit reported in Hitchcock's income statement? Explain. (04) (20)

Q. 4. S, T and Q were partners sharing profits in the proportion of 3:2:1. Their capitals on 31st December 2021, stood at \$45,000, \$15,000 and \$15,500 respectively after adjustments of net profit of \$18,000 for the year ending that date and drawings of \$6,000, \$4,000 and \$2,000 respectively. It was discovered that while ascertaining the profits, the accountant did not take into consideration the following matters:

1. Interest @ 6% p.a. on capital as on January 1, 2021.
2. Q was entitled to a salary of \$2,000 p.a. of which \$490 was unpaid.
3. Till December 31, 2020, partners were sharing profits equally. Land costing \$12,000 was purchased on the date of reallocation of profit, but no entry has been passed in that respect for which each partner contributed equal capital.
4. A loan of \$5,000 from T as brought-forward from 2020 carrying interest at 8% p.a. was merged into his capital on July 1, 2021. No interest on loan was, however, charged to Profit and Loss Account.

Required:

Work out a Profit and Loss Adjustment Account and show the Journal Entries necessary for readjustments of Capital Accounts and the revised Capital Accounts of partners, assuming that all their dues are to be adjusted in the Capital Accounts. (20)

SECTION – II

Q. 5. Listed below are five items that may—or may not—require disclosure in the notes that accompany financial statements.

- (a) Mandella Construction Co. uses the percentage-of-completion method to recognize revenue on long-term construction contracts. This is one of two acceptable methods of accounting for such projects. Over the life of the project, both methods produce the same overall results, but the annual results may differ substantially.

ACCOUNTANCY AND AUDITING, PAPER-I

- (b). One of the most popular artists at Spectacular Comics is leaving the company and going to work for a competitor.
- (c). Shortly after the balance sheet date, but before the financial statements are issued, one of Coast Foods’s two processing plants was damaged by a tornado. The plant will be out of service for at least three months.
- (d). The management of Soft Systems believes that the company has developed systems software that will make Windows ® virtually obsolete. If they are correct, the company’s profits could increase by 10-fold or more.
- (e). College Property Management (CPM) withheld a \$500 security deposit from students who, in violation of their lease, kept a dog in their apartment. The students have sued CPM for this amount in small claims court.

Required: (20)

For each case, explain what, if any, disclosure is required under generally accepted accounting principles. Explain your reasoning.

Q. 6. Juarez Inc. had the following inventories on March 1:

Finished Goods	\$15,000
Work in Process	19,070
Materials	17,000

The work in process account controls three jobs:

	Job 621	Job 622	Job 623
Materials	\$2,800	\$3,400	\$1,800
Labour	2,100	2,700	1,350
Applied Factory-Overhead	1,680	2,160	1,080
Total	\$6,580	\$8,260	\$4,230

The following information pertains to March operations:

- (1) Materials purchased and received cost \$19,000 at terms n/30.
- (2) Materials requisitioned for production cost \$21,000. Of this amount, \$2,400 was for indirect materials; the difference was distributed: \$5,300 to Job 621; \$7,400 to Job 622; and \$5,900 to Job 623
- (3) Materials returned to the storeroom from the factory totaled \$600, of which \$200 was for indirect materials, the balance from Job 622.
- (4) Materials returned to vendors totaled \$800.
- (5) Payroll of \$38,000 was accrued in March.
- (6) Of the payroll, direct labor represented 55%; indirect labor, 20%; sales salaries, 15%; and administrative salaries, 10%. The direct labor cost was distributed: \$6,420 to Job 621; \$8,160 to Job 622; and \$6,320 to Job 623.
- (7) Factory overhead, other than any previously mentioned, amounted to \$9,404.50. Included in this figure were \$2,000 for depreciation of factory building and equipment and \$250 for expired insurance on the factory. The remaining overhead, \$7,154.50, was unpaid at the end of March.
- (8) Factory overhead was applied to production at a rate of 80% of the direct labor cost to be charged to the three jobs, based on the labor cost for March.
- (9) Jobs 621 and 622 were completed and transferred to the finished goods warehouse,
- (10) Both Jobs 621 and 622 were shipped and billed at a gross profit of 40% of the cost of goods sold.
- (11) Cash collections from accounts receivable during March were \$69,450.

Required:

- (a) Prepare job order cost sheets to post beginning inventory data. (5)
- (b) Journalize the March transactions with current postings to general ledger inventory accounts and to job order cost sheets. (10)
- (c) Prepare a schedule of inventories on March 31. (5) (20)

Q. 7. Wheeler Company, a small supplier of computer parts, is currently producing a new computer sensory unit. The company has been producing 150 units per week and factory overhead (all fixed) was estimated to be \$1,200 per week. The following is a schedule of the pay rates of three workers assigned to the new component:

Employee	Hourly rate
Clancy, D	\$6.00
Lukan, T	8.00
Schott, J	7.00

Customers have been calling in for additional units, but management does not want work to exceed 40 hours per week. To motivate its employees to produce more, the company decided to institute an incentive wage plan. Under the plan, each worker would be paid a base rate per hour, as shown in the following schedule, and a premium of \$1 per unit for all units when the total number exceeds 150.

Employee	Base rate
Clancy, D	\$3.50
Lukan, T	5.50
Schott, J	4.50

ACCOUNTANCY AND AUDITING, PAPER-I

The first week the plan was put into operation, production increased to 165 units. The shop superintendent studied the results and considered the plan too costly. Production had increased 10%, but the labour cost had increased by approximately 23.2%. The superintendent requested permission to redesign the plan to make the labour cost increase proportionate to the productivity increase.

Required:

- (a) Calculate the dollar amount of the 23.2% labour cost increase. (10)
- (b) Give an opinion, supported by figures, as to whether the shop superintendent was correct in assuming that the incentive wage plan was too costly, and discuss other factors to be considered. (10) (20)

Q. 8. WKZ Inc., with \$20,000,000 of par stock outstanding, plans to budget earnings of 6% before income tax, on this stock. The Marketing Department budgets sales at \$12,000,000. The budget director approves the sales budget and expenses as follows:

Marketing	15% of sales
Administrative	5%
Financial	1%

Labor is expected to be 50% of the total manufacturing cost; materials issued for the budgeted production will cost \$2,500,000; therefore, any savings in manufacturing cost will have to be in factory overhead. Inventories are to be as follows:

	Beginning of Year	End of Year
Finished goods.....	\$800,000	\$1,000,000
Work in Process.....	100,000	300,000
Materials.....	500,000	600,000

Required:

Prepare the budgeted cost of goods manufactured and sold statement, showing the budgeted purchases of materials and the adjustments for inventories of materials, work in process, and finished goods. (20)





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ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book . (ii) Attempt ONLY FOUR questions from PART-II by selecting at least ONE question 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.		

PART – II
SECTION – I (AUDITING)

- Q. 2.** Explain in detail why there is an established need for auditing services for each of the following organizations. **(5 marks each) (20)**
- (a) Publicly owned corporations (b) Privately owned corporations
(c) State and local government agencies (d) Partnerships
- Q. 3.** Explain computer audit approaches and also write a detailed note on the characteristics of Electronic Data Processing (EDP) system. **(20)**
- Q. 4.** Write a detailed note on the types of audit and auditors (GAAS). **(20)**

SECTION – II (BUSINESS TAXATION)

- Q. 5.** (a) According to the income tax ordinance, 2001, what do we mean by Resident and Non-Resident persons (sections 81-84)? Elaborate on the different types of resident persons. **(10)**
(b) According to the income tax ordinance, 2001, what do we mean by tax year [section 2(68)]. Elaborate on different kinds of tax years. **(10) (20)**
- Q. 6.** From the following data, calculate the tax payable by Mr. Sohail Aslam for the year ended 30th June 2020: **(20)**
- (a) Salary Rs. 195,000 p.m.
(b) Special pay Rs. 25,000 p.m.
(c) Bonus for the year Rs. 585,000.
(d) Conveyance Allowance Rs. 15,000 p.m.
(e) Free accommodation provided by the employer. He was entitled to a house allowance of Rs. 420,000.
(f) Medical expenses reimbursed by his employer under the contract of employment Rs. 24,000.
(g) Zakat paid under the Zakat Ordinance during the year Rs. 48,000.
(h) Donation to the approved charitable institutions under section-61 Rs. 500,000.
(i) Legal expenses during the year Rs. 30,000.
(j) Amount paid for approved pension scheme during the year Rs. 190,000.
(k) Shares of listed companies purchased Rs. 10,00,000.

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7.** (a) Give hypothetical journal transactions that will have the following types of effects (10)
on the elements of balance sheet equation (Assets = Liabilities + Owner's Equity).
- (i) Increase in an asset and increase in a liability. (02)
 - (ii) Decrease in an asset and decrease in a liability. (02)
 - (iii) Increase in one asset and decrease in another asset. (02)
 - (iv) Increase in an asset and increase in owner's equity. (02)
 - (v) Increase in one asset, decrease in another asset and increase in a liability. (02)
- (b) Using the information given in the following table, complete the balance sheet given (10) (20)
underneath and write it down in answer book provided. Show there the required
calculations as well.

Table

Long Term Debt to Equity	0.5 to 1
Total assets turnover	2.5 times
Average Collection Period (assume 360 day year and all sales on credit)	18 days
Inventory turnover	9 Times
Gross Profit Margin	10 %
Acid-test ratio	1 to 1

Balance Sheet

Cash	\$	Notes and Notes Payable	\$100,000
Accounts Receivable		Long-Term Debt	
Inventory		Common Stock	100,000
Plant and Equipment		Retained Earnings	100,000
Total Assets	\$	Total Liabilities and shareholders' equity	\$

- Q. 8.** Explain in detail the factors which are related to the risk structure of interest rates. (20)



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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) **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.
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(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.
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(vii) **Use of Calculator is allowed.**

PART – II
SECTION – I

- Q.2.** You are required to prepare **Income Statement** for the period ending 31st December, 2019: **(20)**

Merchandise Opening Inventory.	18,000	Office Rent Expenses	2000
Sales Discount	4,000	Traveling Expenses	1,300
Sales Return & Allowances	2,000	Office Supplies Expense	700
Purchases	1,80,000	Interest Expense	1,700
Carriage	1,600	Postage Expense	200
Sales Salaries	12,000	Insurance Expense	400
Rent Expense-selling	1,200		
Advertising expense	1,400	Sales	2,17,000
Utilities expense-selling	900	Purchases Discount	1,700
Depreciation exp.-selling	400	Purchases Return. & Allow.	1,300
Office Salaries	8,000	Interest Earned	3,800

- Q.3.** A, B are two partners sharing profits and losses in the ratio of 3:1. They admit K as a partner and he pays Rs. 30,000 as capital. The new ratio is to be 3:1:1. The goodwill of the firm is to be based on 3 years' purchase of the average 4 years' profits which are Rs. 15,000, 12,000, 18,000, 19,000.

Required:

Show the journal entries, if:

- (A) K pays for the goodwill in cash. **(10)**
(B) He is unable to bring the cash for the goodwill. **(10) (20)**

- Q.4.** XYZ purchased a delivery truck for the distribution of its finished products for Rs. 65,000 on 1st January, 2013. The expected useful life of that truck was five years and a salvage value of Rs. 5,000.

Required:

Calculate the following:

- (A) The annual depreciation expense by applying sum of the year digit method. **(10)**
(B) Pass journal entries and prepare depreciation schedule. Also state the assumptions of this method. **(10) (20)**

ACCOUNTANCY AND AUDITING, PAPER-I

SECTION – II

- Q. 5.** Attock Engineering Co. Ltd produces machines as per customer's specifications. The following data pertains to job order no. 1122:
- | | | |
|----------------------------|----------------------|----------------------|
| Description: 6 machines. | Week ending 14/08 | week ending 21/08 |
| Material used Deptt. A | Rs. 4800 | Rs.2600 |
| Direct labor rate Deptt. A | Rs. 40/ hour | Rs. 40/ hour |
| Labor hour used Deptt A | 1200 | 800 |
| Direct labor rate Deptt B | Rs. 42/ hour | Rs. 42/ hour |
| Labor hour used Deptt.B | 600 | 280 |
| Machine hours. Deptt B | 400 | 240 |
| Applied FOH Deptt. A | Rs. 20/ labor hour | Rs. 20/ labor hour |
| Applied FOH Deptt. B | Rs. 18/ machine hour | Rs. 18/ machine hour |
- Marketing and administrative costs are charged to each order @ 20% of the cost to manufacture.
- Required:** Prepare job order cost sheet. Calculate sales price of the job, assuming that it has been contracted with a mark-up of 40% of cost. (20)
- Q. 6.** Volter company's contribution format income statement for the recent year is given below:
- | | <u>Total (Rs.)</u> | <u>Per unit (Rs.)</u> | <u>% of sales</u> |
|----------------------|--------------------|-----------------------|-------------------|
| Sales (20,000) units | 1,200,000 | 60 | 100% |
| Less Variable Exp. | 900,000 | 45 | ?% |
| Contribution margin | 300,000 | 15 | ?% |
| Less fixed Exp. | 240,000 | | |
| Operating income | 60,000 | | |
- Management is anxious to improve the company's profit performance and has asked you for an analysis of number of items.
- Required:**
- (A) Compute the company's CM ratio and variable expense ratio. (10)
- (B) Compute the company's breakeven point in both units and sales rupees. (10) (20)
- Q. 7.** Brooks Inc. uses process costing. The costs for Department 2 for April were:
- | | |
|--------------------------------|-----------|
| Cost from preceding department | Rs.20,000 |
| Cost added by department: | |
| Materials | Rs.21,816 |
| Labor | 7,776 |
| FOH | 4,104 |
| | 33,696 |
-
- The following information was obtained from the department's quantity schedule:
- | | |
|------------------------|-------|
| Units received | 5,000 |
| Units transferred out | 4,000 |
| Units still in process | 1,000 |
- The degree of completion of the work in process as to costs originating in department 2 was: 50% of units were 40% complete; 20% were 30% complete; and the balance were 20% complete.
- Required:** The cost of production report for Department 2 for April. (20)
- Q. 8.** When setting its predetermined overhead application rate, Tasty Inc. estimated its overhead would be Rs.75,000 and manufacturing would require 25,000 machine hours in the next year. At the end of the year, it found that actual overhead was Rs.74,000 and manufacturing required 24,000 machine hours.
- Required:**
- (A) Determine the predetermined overhead rate. (10)
- (B) What is the overhead applied during the year? (10) (20)



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Roll Number

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book . (ii) Attempt ONLY FOUR questions from PART-II by selecting at least ONE question 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.		

PART – II
SECTION – I (AUDITING)

- Q. 2.** Why computerized audit is required in the presence of manual audit? Elaborate the computerized auditing by application of Computer Assisted Audit Techniques (CAAT). (20)
- Q. 3.** Define audit and auditing. Comment on the auditor’s (dependence) consideration of “reasonable assurance” and “True & Fair view” for the financial audit of a corporate entity. (20)
- Q. 4.** Write notes on any TWO of the followings: (10 marks each) (20)
- (a) Audit materiality
 - (b) Misstatement and Fraud
 - (c) Test of Control and Substantive Procedures

SECTION – II (BUSINESS TAXATION)

- Q. 5.** Elaborate the following fundamental definitions/terminologies as defined under Section 2 of the Income Tax Ordinance 2001. (20)
- (a) Heads of Income [Section 11]
 - (b) Tax Credits [Section 61 to 65]
 - (c) Capital Gains [Section 37 to 38]
- Q. 6.** ABC (Pvt) Limited has earned income from business amounting to Rs. 75056000 during the tax year 2019. It also has a plaza situated in Faisalabad. The rent receivable from plaza amounts Rs. 47543000. Moreover, Company claims the following deductions (in Rs.): (20)
- | | |
|---|---------|
| 1. Property repair expenses | 4324200 |
| 2. Lawyer fee to defend the title of property | 6050000 |
| 3. Insurance premium of the property | 1477500 |
| 4. Property tax paid | 5422300 |
| 5. Tax with held by the tenants @17.5% | 8320025 |
| 6. Rental income paid to HBFC | 3600000 |
| 7. Administrative and collection charges | 2900000 |

Required: Calculate Total income and the Tax payable by the Company for the tax year 2019. The company is a Non-filer.

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7.** How many legal forms of Business Entity exist in Pakistan? Explain the features of Joint Stock Company and its procedure of formation (stages for formation of a Joint Stock Company-both Public limited and Private Limited companies). (20)
- Q. 8.** XYZ Co. has Rs. 400 million in outstanding debt and Rs. 100 million in preferred stock. Its total value is Rs. 800 million. Its cost of debt (rd) is 8%, its cost of preferred stock is (rps) 9%, and its cost of common stock (rcs) is 12%. The firm has recently had numerous depreciation tax shields as well as low earnings. Consequently, it does not pay taxes. (20)
- What is its Weighted Average Cost of Capital (WACC) assuming it will continue to not pay taxes?



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ACCOUNTANCY AND AUDITING, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS

PART-I(MCQS): MAXIMUM 30 MINUTES

PART-I (MCQS)

PART-II

MAXIMUM MARKS = 20

MAXIMUM MARKS = 80

NOTE: (i) Part-II is to be attempted on the separate Answer Book.

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(vii) Use of Calculator is allowed.

PART – II
SECTION – I

Q. 2. On September 1, 2011, the account balances of R and Equipment Repair, Inc. were as follows. (20)

No.	Debits		No.	Credits	
101	Cash	Rs. 4,880	154	Accumulated Depreciation	Rs. 1,500
112	Accounts Receivable	3,520	201	Accounts Payable	3,400
126	Supplies	2,000	209	Unearned Service Revenue	1,400
153	Store Equipment	15,000	212	Salaries Payable	500
			311	Common Stock	15,000
			320	Retained Earnings	3,600
		<u>Rs.25,400</u>			<u>Rs.25,400</u>

During September the following summary transactions were completed.

- Sept. 8 Paid Rs.1,400 for salaries due employees, of which Rs.900 is for September.
10 Received Rs.1,200 cash from customers on account.
12 Received Rs.3,400 cash for services performed in September.
15 Purchased store equipment on account Rs.3,000.
17 Purchased supplies on account Rs.1,200.
20 Paid creditors Rs.4,500 on account.
22 Paid September rent Rs.500.
25 Paid salaries Rs.1,250.
27 Performed services on account and billed customers for services provided Rs.1,500.
29 Received Rs.650 from customers for future service.

Adjustment data consist of:

Supplies on hand Rs.1,200. Accrued salaries payable Rs.400. Depreciation is Rs.100 per month. Unearned service revenue of Rs.1,450 is earned.

Required

- (a) Journalize the September transactions. Prepare a trial balance at September 30.
(b) Journalize and post adjusting entries. Prepare an adjusted trial balance.
(c) Prepare an income statement and a retained earnings statement for September and a balance sheet at September 30.

Q. 3. (A) Industry A has three companies whose income statements and balance sheets are summarized below. (10)

	Company X	Company Y	Company Z
Sales	Rs. 500,000	(d)	(g)
Net income	Rs. 25,000	Rs.30,000	(h)
Total assets	Rs. 100,000	(e)	Rs.250,000
Total asset turnover	(a)	(f)	0.4
Profit margin	(b)	0.4%	5%
Return on total assets (ROA)	(c)	2%	(i)

First supply the missing data in the table above. Then comment on the relative performance of each company.

ACCOUNTANCY AND AUDITING, PAPER-I

(B) The Rivers Company reports the following data relative to accounts receivable: (10) (20)

	20X8	20X9
Average accounts receivable	Rs. 400,000	Rs. 416,000
Net credit sales	Rs. 2,600,000	Rs. 3,100,000

The terms of sale are net 30 days.

- (a) Compute the accounts receivable turn over and the collection period, and
(b) Evaluate the results.

- Q. 4. (A) The Wessal Karim Corporation is considering installing a new conveyor for materials handling in a ware house. The conveyor will have an initial cost of Rs. 85,000 and an installation cost of Rs. 6,000. Expected benefits of the conveyor are: (a) Annual labor cost will be reduced by Rs. 17,000, and (b) breakage and other damages from handling will be reduced by Rs. 600 per month. Some of the firm’s costs are expected to increase as follows: (a) Electricity cost will rise by Rs.200 per month, and (b) annual repair and maintenance of the conveyor will amount to Rs.999. Assume the firm uses the MACRS rules for depreciation in the 5-year property class. No salvage value will be recognized for tax purposes. The conveyor has an expected useful life of 8 years and a projected salvage value of Rs. 4,500. The tax rate is 35 percent. (10)
- (a) Estimate future cash inflows for the proposed project.
(b) Determine the projects NPV at 10 percent. Should the firm buy the conveyor?

(B) Majid, Inc., accountants have developed the following data from the company’s accounting records for the year ended April 30, 2017: (10) (20)

- a) Purchase of plant assets, Rs.59,400.
- b) Cash receipt from issuance of notes payable, Rs.46,100.
- c) Payments of notes payable, Rs.44,000.
- d) Cash receipt from sale of plant assets, Rs.24,500.
- e) Cash receipt of dividends, Rs.4,800.
- f) Payments to suppliers, Rs.374,300.
- g) Interest expense and payments, Rs.12,000.
- h) Payments of salaries, Rs.88,000.
- i) Income tax expense and payments, Rs.37,000.
- j) Depreciation expense, Rs.59,900.
- k) Collections from customers, Rs.605,500.
- l) Payment of cash dividends, Rs.49,400.
- m) Cash receipt from issuance of common stock, Rs.64,900.
- n) Cash balance: April 30, 2016, Rs.40,000; April 30, 2017, Rs.121,700.

Required: Prepare Majid’s statement of cash flows for the year ended April 30, 2017. Use the direct method for cash flows from operating activities.

SECTION – II

- Q. 5. (A) Modern Geezer Company has two departments. Factory overhead costs are applied based on direct labour cost in Department A and machine hours in Department B. The following information is available: (10)

Budgeted Items	Dept. A	Dept. B
Direct labour cost	Rs.180,000	Rs.165,000
Machine hours	51,000	40,000
Factory overhead cost	Rs.225,000	Rs.180,000

Actual data for Job #10 are as follows:

Actual Items	Dept. A	Dept. B
Direct materials requisitioned	Rs.16,000	Rs.16,000
Direct labour cost	Rs.11,000	Rs.14,000
Machine hours	5,000	3,000

Required:

- (A) Compute the budgeted factory overhead rate for Department A.
(B) Compute the budgeted factory overhead rate for Department B.
(C) What is the total overhead cost for Job #10?
(D) If Job #10 consists of 50 units of product, what is the unit cost of this job?

ACCOUNTANCY AND AUDITING, PAPER-I

- (B) Chief Manufacturing is a small textile manufacturer using machine-hours as the single indirect-cost rate to allocate manufacturing overhead costs to the various jobs contracted during the year. The following estimates are provided for the coming year for the company and for the Somerset High School Science Olympiad Jacket job. (10) (20)

	Company	Somerset High School Job
Direct materials	Rs. 25,000	Rs. 600
Direct manufacturing labor	Rs. 5,000	Rs. 200
Manufacturing overhead costs	Rs. 20,000	
Machine-hours	40,000 mh	800 mh

- Required:
- (a) For Chief Manufacturing, determine the annual manufacturing overhead cost-allocation rate.
- (b) Determine the amount of manufacturing overhead costs allocated to the Somerset High School job.
- (c). Determine the estimated total manufacturing costs for the Somerset High School job.

- Q. 6. (A) Sodus Chemical Inc. placed 220,000 liters of direct materials into the mixing process. At the end of the month, 5,000 liters were still in process, 30% converted as to labor and factory overhead. All direct materials are placed in mixing at the beginning of the process and conversion costs occur evenly during the process. Sodus uses weighted-average costing. (10)

- Required:
- (a) Determine the equivalent units in process for direct materials and conversion costs, assuming there was no beginning inventory.
- (b) Determine the equivalent units in process for direct materials and conversion costs, assuming that 12,000 liters of chemicals were 40% complete prior to the addition of the 220,000 liters.

- (B) Asghar Manufacturing Company sells its products for Rs.33 each. The current production level is 50,000 units, although only 40,000 units are anticipated to be sold. (10) (20)

Unit manufacturing costs are:	
Direct materials	Rs. 6.00
Direct manufacturing labor	Rs. 9.00
Variable manufacturing costs	Rs. 4.50
Total fixed manufacturing costs	Rs.180,000
Marketing expenses	Rs.3.00 per unit, plus Rs.100,000 per year

- Required:
- (a) Prepare an income statement using absorption costing.
- (b) Prepare an income statement using variable costing.

- Q. 7. (A) Big Mind Corporation was recently formed to produce a semiconductor chip that forms an essential part of the personal computer manufactured by a major corporation. The direct materials are added at the start of the production process while conversion costs are added uniformly throughout the production process. June is Big Mind's first month of operations, and therefore, there was no beginning inventory. Direct materials cost for the month totaled Rs.950,000, while conversion costs equaled Rs.4,625,000. Accounting records indicate that 475,000 chips were started in June and 425,000 chips were completed. (10)
- Ending inventory was 50% complete as to conversion costs.

- Required:
- (a) What is the total manufacturing cost per chip for June?
- (b) Allocate the total costs between the completed chips and the chips in ending inventory.

- (B) The following information was gathered for Smart-view Company for the year ended December 31, 2018: (10) (20)

	Budgeted	Actual
Direct labor-hours	75,000 dlh	80,000 dlh
Factory overhead	Rs.600,000	Rs.625,000

Assume that direct labor-hours are the cost-allocation base.

- Required:
- (a) Compute the budgeted factory overhead rate.
- (b) Compute the factory overhead applied.
- (c) Compute the amount of over/under applied overhead.

Q. 8. (A) Umar Company produces baseball bats and cricket paddles. It has two departments that process all products. During July, the beginning work in process in the cutting department was half completed as to conversion, and complete as to direct materials. The beginning inventory included Rs.40,000 for materials and Rs.60,000 for conversion costs. Ending work-in-process inventory in the cutting department was 40% complete. Direct materials are added at the beginning of the process. (10)

Beginning work in process in the finishing department was 80% complete as to conversion. Direct materials for finishing the units are added near the end of the process. Beginning inventories included Rs.24,000 for transferred-in costs and Rs.28,000 for conversion costs. Ending inventory was 30% complete. Additional information about the two departments follows:

	Cutting	Finishing
Beginning work-in-process units	20,000	24,000
Units started this period	60,000	
Units transferred this period	64,000	68,000
Ending work-in-process units		20,000
Material costs added	Rs. 48,000	Rs. 34,000
Conversion costs	28,000	68,500
Transferred-out cost	128,000	

Required:

Prepare a production cost worksheet, using FIFO for the finishing department.

(B) During February the Luqman Manufacturing Company's costing system reported several variances that the production manager was surprised to see. Most of the company's monthly variances are under Rs.225, even though they may be either favorable or unfavorable. The following information is for the manufacturing of garden gates, its only product: (10) (20)

- 1. Direct materials price variance, Rs.900 unfavorable.
- 2. Direct materials efficiency variance, Rs.1,900 favorable.
- 3. Direct manufacturing labor price variance, Rs.4,100 favorable.
- 4. Direct manufacturing labor efficiency variance, Rs.700 unfavorable.

Required:

- (a) Provide the manager with some ideas as to what may have caused the price variances.
- (b) What may have caused the efficiency variances?



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2019
FOR RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT

Roll Number

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book. (ii) Attempt ONLY FOUR questions from PART-II by selecting at least ONE question 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.		

PART – II
SECTION – I (AUDITING)

- Q. 2.** Explain shortly all audit assertions related to class of transactions (revenue and expenses), account balances (assets/liabilities/equities), and presentation & disclosure. (20)
- Q. 3.** Define and explain different types of audit risks. How these risks are used to manage the audit assignment. (20)
- Q. 4.** What are Computer Assisted Audit Techniques (CAATs) that can be used in e-commerce environment. (20)

SECTION – II (BUSINESS TAXATION)

- Q. 5.** (a) Explain the concept of input tax, output tax, zero rated supply, exempt supply and input tax credit. (10)
- (b) From the following data, calculate the tax payable by Mr. Aslam for the year ended 30th June 2018: (10) (20)
- (i) Salary Rs. 19,500 pm.
 - (ii) Special pay Rs. 3,000 p.m
 - (iii) Bonus for the year Rs. 38,000.
 - (iv) Conveyance allowance Rs. 1,500 p.m
 - (v) Free accommodation provided by the employer. He was entitled to a house allowance of Rs. 72,000.
 - (vi) Medical expenses reimbursed by his employer under the contract of employment Rs. 24,000.
 - (vii) Zakat paid under Zakat Ordinance during the year Rs. 11,300.
 - (viii) Donation to approved charitable institutions under section 61 Rs. 15,000.
 - (ix) Legal expenses during the year Rs. 6,000.
 - (x) Amount paid for approved pension scheme during the year Rs. 90,000.
 - (xi) Shares of listed companies purchased Rs. 6,000.
- Q. 6.** (a) What deductions are not allowed to be deducted before arriving at the taxable profits of a business? (10)

- (b) Mr. Mohammad Adil received the following emoluments during the year ended 30th June 2018. (10) (20)
- | | | |
|-------|---|----------------|
| (i) | Basic Salary (Scale 55,000-5,000-70,000) | Rs.60,000 P.M. |
| (ii) | House rent allowance | 25,000 P.M |
| (iii) | Utilities allowance | 14,250 P.M |
| (iv) | Medical allowance | 10,000 P.M. |
| (v) | Agricultural income | 130,000 P.M. |
| (vi) | Payment of Loan installment on 30.06.2018 | 1,00,000 |
- He claims the following deductions:
- | | | |
|------|----------------------|----------|
| (i) | Zakat paid | 67,428 |
| (ii) | Investment in shares | 2,25,000 |
- Notes**
- (i) Mr. Mohammad Adil received an interest free loan of Rs. 12,00,000 from his employer on 01.07.2017.
- (ii) His employer has provided him a new car to be used for personal and official purposes. The car costs the employer Rs. 15,00,000.
- Required.** Calculate the tax payable by Mr. Mohammad Adil.

SECTION – III (BUSINESS STUDIES AND FINANCE)

- Q. 7. (a) Explain Yield To Maturity (YTM), its calculation, and the procedure used to value bonds that pay interest semiannually. (8)
- (b) Joan Messineo borrowed \$15,000 at a 14% annual rate of interest to be repaid over 3 years. The loan is amortized into three equal, annual, end-of-year payments. (12) (20)
- (i) Calculate the annual, end-of-year loan payment.
- (ii) Prepare a loan amortization schedule showing the interest and principal breakdown of each of the three loan payments.
- (iii) Explain why the interest portion of each payment declines with the passage of time.
- Q. 8. (a) Explain the relationships among financial decisions, return, risk and the firm’s value. (10)
- (b) Nicholson Roofing Materials, Inc., is considering two mutually exclusive projects, each with an initial investment of \$150,000. (10) (20)
- The company’s board of directors has set a maximum 4-year payback requirement and has set its cost of capital at 9%. The cash inflows associated with the two projects are shown in the following table:

Cash inflows (CF _t)		
Year	Project A	Project B
1	\$45,000	\$75,000
2	45,000	60,000
3	45,000	30,000
4	45,000	30,000
5	45,000	30,000
6	45,000	30,000

- (i) Calculate the payback period for each project.
- (ii) Calculate the NPV of each project at 10%.
- (iii) Calculate the NPV of each project at 9%.
- (iv) Derive the IRR of each project.
- (v) Rank the projects by each of the techniques used. Make and justify a recommendation.



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ACCOUNTANCY AND AUDITING, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS

PART-I(MCQS): MAXIMUM 30 MINUTES

PART-I (MCQS)

PART-II

MAXIMUM MARKS = 20

MAXIMUM MARKS = 80

- NOTE: (i)** Part-II is to be attempted on the separate **Answer Book**.
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(vii) **Use of Calculator is allowed.**

PART – II
SECTION – I

Q. No. 2. Some amounts are omitted in each of the following financial statements. (20)

	<u>XY. Co.</u>
Total assets	Rs. 37,500
Total liabilities	?
Common stock	2,500
Retained earnings	13,500
Revenue	24,000
Expenses	?
Retained earnings, Jan. 1	?
Net income	7,500
Dividends	6,000
Retained earnings, Dec. 31	13,500

Instruction: Determine the missing amounts.

- Q. No. 3.** (a) Burno Co. purchased equipment on Jan. 1, 2005 at a total invoice cost of Rs.280,000, additional costs of Rs.5,000 for freight and Rs.25,000 for installation were incurred. The equipment has an estimated salvage value of Rs.10,000 and an estimated useful life of five years. What is the amount of accumulated depreciation at Dec. 31,2006 if the straight-line method of depreciation is used? (8)
- (b) A plant asset cost Rs.27,000 when it was purchased on Jan. 1, 2008. It was depreciated by the straight-line method based on a 9-year life with no salvage value. On June 30, 2008, the asset was discarded with no cash proceeds. What gain or loss should be recognized on the retirement? Pass the entry. (6)
- (c) On June 30, 2010 B. Co. sells office furniture for Rs.60,000 cash. The office furniture originally cost Rs.150,000 when purchased on Jan 1, 2005. Depreciation is recorded by the straight-line method over 10 years with a Salvage value of Rs.15,000. (6) (20)

Q. No. 4. The balance sheet of AB Ltd. is as under: (20)

Liabilities		Assets	
Equity share capital (Rs. 100 each)	1,000,000	Plant & equipment	640,000
Retained earning	368,000	Land & building	80,000
Sundry creditors	104,000	Cash	160,000
Bills payable	200,000	Sundry debtors	360,000
Other current liabilities	20,000	Allowance for B/D (40,000)	320,000
		Inventory	480,000
		Prepaid expenses	12,000
	<u>1,692,000</u>		<u>1,692,000</u>

Required:

Compute the following:

- | | |
|--------------------------|----------------------|
| 1. Working capital | 2. Current ratio |
| 3. Quick or liquid ratio | 4. Super quick ratio |

SECTION – II

Q. No. 5. The AB & Co produces a chemical which requires processing in three departments. (20)
The following is the data to the operation of department III for September, 2008.

Units in process at start 50% completed as to Mat. & C.C	5,000
Unit received from Department II	40,000
Unit transferred to finished store room	35,000
Normal units lost	1,000
Balance of units is in process:	
100% completed as to material & 50% as to C.C.	
Cost of beginning inventory P.D.Rs.10, 000 .Mat.Rs.10, 000. CC. Rs.5000	
Cost transferred from Department II	
Rs.30, 000	
Cost added:	
Material	Rs. 8,800
Conversion cost	Rs.16200

Required: Prepare cost of production report of Department III by Weighted Average.

Q. No. 6. (a) K Co. was totally destroyed by fire during June. However, certain fragments (10)
of its cost records with the following data were recovered: idle capacity
variance, Rs.1,266 favorable; spending variance, Rs.879 unfavorable; and
applied factory overhead Rs.16, 234.

Required:
Determine (1) The budget allowance, based on capacity utilized, and (2) the
actual factory overhead.

(b) A Co. uses 100% Bonus plan with a wage rate of Rs.20 per hour and the (10) (20)
standard production is 40 units per hour. Bonus will be given for the time
saved. Following is the data of Mr. X:

	Units produced
Monday	360
Tuesday	400
Wednesday	350

Required: Determine Mr. X's total earning, the time saved, daily earnings and
the labor cost per unit.

Q. No. 7. ABC Company's most recent contribution format income statement is shown below: (20)

	Total	Per Unit
Sales (20,000 units)	\$300,000	\$15
Less variable expenses	180,000	9
Contribution margin	120,000	6
Less fixed expenses	70,000	
Net operating income	\$50,000	

Required:
Prepare a new contribution format income statement under each of the following
conditions.

- (a) Sales volume increases by 15%.
- (b) Selling price decreases by \$1.5 per unit, and sales volume increases by 25%.
- (c) Selling price increases by \$1.5 per unit, fixed expenses increases by \$20,000 and
the sales volume decreases by 5%.
- (d) Selling price increases by 12%, variable expense increases by 60% per unit and
sales volume decreases by 10 %.

Q. No.8. The following information is gathered from the labor records of Binamul & Co. Payroll
allocation for direct labor is Rs. 1, 31,600

Time card analysis shows that 9,400 hours were worked on productions lines.
Production reports for the period showed that 4,500 units have been completed, each
having standard labor time of 2 hours and a standard labor rate of Rs. 15 per hour.
Calculate the labor variances.



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Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS

PART-I(MCQS): MAXIMUM 30 MINUTES

PART-I (MCQS)

PART-II

MAXIMUM MARKS = 20

MAXIMUM MARKS = 80

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PART-II

SECTION-A (AUDITING)

Q. No. 2. What system of Internal check would you recommend for a large manufacturing company to prevent fraud in connection with the purchase of raw material on credit basis? (20)

Q. No. 3. A fraud has been committed in a business. Being a Manager of Accounts you are asked by the authorities to take up investigative measures and steps to extract the fraudulent matter. Discuss the measures and steps you will take in this regard. (20)

Q. No. 4. What is meant by Auditor's Report? Describe the key characteristics of a good audit report, along with the significance of Auditor's report to show the transparent picture of the company. (20)

SECTION-B (BUSINESS TAXATION)

Q. No. 5. (A) Define the concept of sales tax & describe the sales tax act of 1990. (20)
Identify the official positions of Inland revenue officers and their powers.
(B) Mr. Sartaj is registered under the Sales Tax Act, 1990 as a manufacturer as well as a commercial importer. He has provided you the following information for the month of February, 2016:

	Rs. in Million
Export sales – manufactured goods	35
Local sales of exempt manufactured goods	25
Taxable supplies – manufactured goods	130
Taxable supplies – commercial imports	70
Purchases	
• Local purchases of raw material from:	
Registered person	180
Unregistered persons	60
• Commercial imports	50

All the above amounts are exclusive of sales tax. Commercial imports have been stated at C&F value and are subjected to customs duty at the rate of 10%. There was no stock of commercial imports at the beginning or end of the month.

Required:

Compute the sales tax liability of Mr. Sartaj along with input tax to be carried forward (if any) in his sales tax return for the month of February 2016. (Ignore the effect of minimum value addition in case of commercial imports)

ACCOUNTANCY AND AUDITING, PAPER-II

- Q. No. 6. (A) Identify the main features of Income Tax ordinance 2001. Also discuss the exemptions and tax concessions available to a taxpayer under that ordinance. (20)
- (B) Mr. Ahmed is an employee of a company. He has submitted the following information for the tax year 2016.

	Rs.
Basic Salary per annum	340,000
Bonus	56,000
Cost of living allowance	66,000
Dearness allowance	32,000
Rent free unfurnished accommodation – annual value	162,000
Company maintained car for personal and official use, cost of vehicle is.	980,000
Utility allowance	58,000
Leave encashment	31,600
Leave Fare Assistance provided every year	22,600
Hotel bills paid by the company relating to a pleasure trip	28,400
Employee’s contribution towards provident fund	30,000
Zakat paid under Zakat and Ushr Ordinance	15,000
Tax deducted by the company for salary	35,000

Required: Compute the total income, taxable income and tax liability of Mr. Ahmed.

SECTION-C (BUSINESS STUDIES & FINANCE)

- Q. No. 7. (A) Identify the major barriers that hamper global business in an open economy. (20)
- (B) Consider a coupon bond that has a face value of \$1000, has a yield of 16%, pays a semi annual coupon of 70, and matures in one year 'assuming that the bond will pay the face value amount that the cost coupon payment on the maturity date. Calculate the price of the bond.
- Q. No. 8. (A) Describe the economic systems, also Identify which system is more beneficial for the economic development of the country. (20)
- (B) XYZ company presently pays a dividend of \$ 1.50 per share on its common stock. The company expects to increase the dividend at a 20% annual rate the first four years and at the rate of 13% at the next four years then the growth on the dividend at a 7% thereafter. This phased growth patterns is in keeping with the expected life cycle of earnings. You are required a 16% return to invest in this stock. What value should you place on a share of this Stock?



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ACCOUNTANCY AND AUDITING, PAPER-I

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PART-II
SECTION-I

Q. 2. Bella Beauty Salon's unadjusted trial balance for the current year follows: (20)

Bella Beauty Salon Trial Balance December 31		
Cash.....	\$ 4,200	
Prepaid insurance	1,480	
Shop supplies	990	
Shop equipment	3,860	
Accumulated depreciation shop equipment		\$ 770
Building.....	57,500	
Accumulated depreciation-building		3,840
Land	55,000	
Unearned rent		1,600
Long-term notes payable.....		50,000
Bella Hanson, Capital		49,860
Rent earned		2,400
Fees earned.....		23,400
Wages expense.....	3,200	
Utilities expense	690	
Property taxes expense.....	600	
Interest expense.....	4,350	
Totals.....	\$131,870	\$131,870

Additional information:

- a. An insurance policy examination showed \$1,240 of expired insurance.
- b. An inventory count showed \$210 of unused shop supplies still available.
- c. Depreciation expense on shop equipment, \$350.
- d. Depreciation expense on the building, \$2,220.
- e. A beautician is behind on space rental payments, and this \$200 of accrued revenues was unrecorded at the time the trial balance was prepared.
- f. \$800 of the Unearned Rent account balance was earned by year-end.
- g. The one employee, a receptionist, works a five-day workweek at \$50 per day. The employee was paid last week but has worked four days this week for which she has not been paid.
- h. Three months' property taxes, total \$450, have accrued. This additional amount of property taxes expense has not been recorded.
- i. One month's interest on the note payable, \$600, has accrued but is unrecorded.

Required: Based on the above information, prepare the adjusting journal entries for Bella's Beauty Salon and adjusted trial balance for Bella's Beauty Salon.

- Q. 3. (A) A corporation had stockholders' equity on January 1 as follows: (20)
Common Stock, \$10 par value, 1,500,000 shares authorized, 600,000 shares issued;
Paid-in Capital in Excess of Par Value, Common Stock, \$1,000,000;
Retained Earnings, \$2,500,000.
Required: Prepare journal entries to record the following transactions:
Feb. 15 The board of directors declared a 10% stock dividend to stock holders of record on
March 1, to be issued on April 15. The stock was trading at \$8 per share prior to the dividend.
March 30 Sold 100,000 shares of common stock for \$11 per share.
March 31 Issued the stock dividend.
- (B) Company installs a computerized manufacturing machine in its factory at the beginning of
the year at a cost of \$42,300. The machine's useful life is estimated at 10 years, or 363,000
units of product, with a \$6,000 salvage value. During its second year, the machine produces
35,000 units of product.
Required: Determine the machine's second-year depreciation under the straight-line
method.

- Q. 4. The following financial data were taken from the annual financial statements of Smith Corporation: (20)

Details	2007	2008	2009
Current assets	\$ 450,000	\$ 400,000	\$ 500,000
Current liabilities	390,000	300,000	340,000
Sales	1,450,000	1,500,000	1,400,000
Cost of goods sold	1,180,000	1,020,000	1,120,000
Inventory	280,000	200,000	250,000
Accounts receivable	120,000	110,000	105,000

- Required: (A).** Based on these data, calculate the following for 2008 and 2009:
1. Working capital 2. Current ratio
3. Acid-test ratio 4. Accounts receivable turnover
5. Merchandise inventory turnover 6. Inventory turnover in days
- (B).** Evaluate the results of your computations in regard to the short-term liquidity of the firm.

SECTION-II

- Q. 5. The marketing department of Graber Corporation has submitted the following sales forecast for the (20)
upcoming fiscal year.
- | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|-----------------------|-------------|-------------|-------------|-------------|
| Budgeted unit sales . | 16,000 | 15,000 | 14,000 | 15,000 |
- The selling price of the company's product is \$22.00 per unit. Management expects to collect 75% of sales in
the quarter in which the sales are made, 20% in the following quarter, and 5% of sales are expected to be
uncollectible. The beginning balance of accounts receivable, all of which is expected to be collected in the first
quarter, is \$66,000. The company expects to start the first quarter with 3,200 units in finished goods inventory.
Management desires an ending finished goods inventory in each quarter equal to 20% of the next quarter's
budgeted sales. The desired ending finished goods inventory for the fourth quarter is 3,400 units.
- Required:** 1. Prepare the company's sales budget and schedule of expected cash collections.
2. Prepare the company's production budget for the upcoming fiscal year.
- Q. 6. Valenko Company provided the following account balances for the year ended December 31 (20)
(all raw materials are used in production as direct materials):
- | | |
|---|-----------|
| Selling expenses | \$215,000 |
| Purchases of raw materials | \$260,000 |
| Direct labor | ? |
| Administrative expenses | \$160,000 |
| Manufacturing overhead applied to work in process | \$340,000 |
| Total actual manufacturing overhead costs | \$350,000 |
- Inventory balances at the beginning and end of the year were as follows:
- | | Beginning of Year | End of Year |
|---------------------------|-------------------|-------------|
| Raw materials | \$50,000 | \$40,000 |
| Work in process | ? | \$33,000 |
| Finished goods | \$30,000 | ? |
- The total manufacturing costs for the year were \$675,000; the cost of goods available for sale total \$720,000;
the unadjusted cost of goods sold total \$665,000; and the net operating income was \$35,000. The company's
over-applied or under-applied overhead is closed entirely to cost of goods sold.
- Required:** Prepare schedules of cost of goods manufactured and cost of goods sold and an income statement.
(Hint: Prepare the income statement and schedule of cost of goods sold first followed by the schedule of cost
of goods manufactured.)

Q. 7. Linden Company manufactures and sells a single product. Cost data for the product as follows: (20)

Variable costs per unit:	
Direct materials	\$ 6
Direct labor	12
Variable factory overhead	4
Variable selling and administrative	3
Total variable costs per unit	\$25
Fixed costs per month:	
Fixed manufacturing overhead	\$240,000
Fixed selling and administrative	180,000
Total fixed cost per month	\$420,000

The product sells for \$40 per unit. Production and sales data for May and June, the first two months of operations, are as follows:

	Units	Units
	Produced	Sold
May	30,000	26,000
June	30,000	34,000

Income statements prepared by the accounting department, using absorption costing, are presented below:

	May	June
Sales	\$1,040,000	\$1,360,000
Cost of goods sold	780,000	1,020,000
Gross margin	260,000	340,000
Selling and administrative expenses	258,000	282,000
Net operating income	\$ 2,000	\$ 58,000

Required:

- Determine the unit product cost under:
 - Absorption costing.
 - Variable costing.
- Prepare contribution format variable costing income statements for May and June.
- Reconcile the variable costing and absorption costing net operating incomes.

Q. 8. The PVC Company manufactures a high-quality plastic pipe that goes through three processing stages prior to completion. Information on work in the first department, Cooking, is given (20)

below for May: Production data:

Pounds in process, May 1: materials 100% complete; conversion 90% complete	70,000
Pounds started into production during May	350,000
Pounds completed and transferred to the next department.	?
Pounds in process, May 31: materials 75% complete; conversion 25% complete	40,000

Cost data:

Work in process inventory, May 1:	
Materials cost	\$86,000
Conversion cost	\$36,000
Cost added during May:	
Materials cost	\$447,000
Conversion cost	\$198,000

The company uses the weighted-average method.

Required:

- Compute the equivalent units of production.
- Compute the costs per equivalent unit for the month.
- Determine the cost of ending work in process inventory and of the units transferred out to the next department.
- Prepare a cost reconciliation report for the month.



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ACCOUNTANCY AND AUDITING, PAPER-II

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PART-II
SECTION-A (AUDITING)

- Q. No. 2.** As an Auditor of an entity, during your interim visit you observed that Internal Control were not in use throughout the period under Audit. What are the Control Objectives you would like to consider for your purpose? **(20)**
- Q. No. 3.** What is materiality? Discuss materiality in planning and performing an Audit in relations to ISA-320. **(20)**
- Q. No. 4.** Financial Statements of a company are prepared in accordance with International Financial Reporting Standards. Being an Auditor what consideration would be taken while planning & performing Audit based on this condition? **(20)**

SECTION-B (BUSINESS TAXATION)

- Q. No. 5.** (a) What is Income from Property? What are possible deduction allowed under Income from Property, explain in detail? **(10)**
- (b) You are Manager of a Tax Consultant Firm. One of your internee is assigned to prepare an assessment report of your client. Following is the information provided by client **(10)**
- | | |
|--|----------------|
| Basis Salary | Rs. 40,000 p.m |
| (30,000-5,000-60,000), | |
| Free accommodation facility provided | |
| Cost of motor Vehicle provided for personal use only | Rs. 700,000 |
| Concessional loan @8% p.a Rs. 3000,000 whereas the benchmark rate was 10%. | |
| Medical Allowance | Rs. 50,000 |
| Flying allowance | Rs. 200,000 |
| Agricultural Income | Rs. 90,000 |
| Special allowance | Rs. 5,000 |
| Dearness Allowance | Rs. 12,000 |
- Required:** Calculate the Taxable Income & Tax Payable based on above data.
- Q. No. 6.** (a) What is Sales Tax? What procedure a person should follow to get himself registered under Sales Tax Act, 1990? What are conditions under Sales Tax Act, 1990, where registration becomes compulsory? **(10)**

ACCOUNTANCY AND AUDITING, PAPER-II

- (b) Shahid Dairy Products Ltd is registered manufacturer of Ice-Cream. Data regarding its business for the month of May-2015 is given below. . (10)

1. Sales to registered persons	Rs. 300,000
2. Sales to consumer (Including tax)	Rs. 150,000
3. Sales to Non registered person	Rs. 100,000
4. Sales to school children during factory visit	Rs. 20,000
5. Sales of Dairy products to retailers	Rs. 200,000
6. Purchase of Milk & vegetables without brand name	Rs. 70,000
7. Purchase of Milk & vegetables from registered person	Rs. 50,000
8. Purchase of cream from non-registered person	Rs. 80,000
9. Ice Cream flavour imported	Rs. 30,000
10. Purchase of syrup from wholesaler (used in ice cream)	Rs. 18,000

Required: Compute the sales Tax liability of Shahid Dairy Products Ltd for month of May-2015 (**Note: Purchase of Milk & Ice cream at Sr. No 6 & 7 is Zero rated**)

SECTION-C (BUSINESS STUDES & FINANCE)

- Q. No. 7. (a) Explain the Contemporary challenges posed by business now a days in Pakistan. (10)

- (b) You have just the following information about ABC Ltd, which pays tax @ 35% p.a (10)

- 7000 Bonds with 8% coupon, face value of \$1000 & maturity period of 15 years, payments to be made semi-annually, currently sold at 90% of par value.
- 300,000 common shares outstanding, currently selling at \$ 60 per share having beta of 1.10.
- 20,000 outstanding shares of \$6 preferred shares, selling at \$95 per share.

Required: Work out overall cost of capital assuming 7% market risk premium and 5% risk free rate of return.

- Q. No. 8. (a) Define & explain Business Cycle and discuss its implications in detail. (10)

- (b) Mr. Tom has \$ 50,000/- that he can deposit in any of the three saving accounts for a period of three years. Bank A compounds interest on annual basis, Bank B compounds interest on semi-annually basis and bank C compounds interest on quarterly basis. All these banks have a stated rate of 5% per annum.

Required:

- (1) Compute Effective Annual Rate (EAR), Mr. Tom can earn from each bank. (4)

- (2) What amount would Mr. Tom have at the end of 3rd year, leaving all interest paid on deposit (no withdrawals), from each bank? (6)



**FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION - 2016
FOR RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT**

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80
NOTE: (i) Part-II is to be attempted on the separate Answer Book. (ii) Attempt FOUR Questions from PART-II, 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) Candidate must 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 attempted question will not be considered. (vii) Use of calculator is allowed.		

PART-II
SECTION-A

Q. 2. Global Service Company was organized on April 1, 2015. The company prepares quarterly financial statements. The adjusted trial balance at June 30, 2015 is given below.

	Debits		Credits
Cash	5,190	Accumulated depreciation	700
Accounts receivable	480	Notes payable	4,000
Prepaid rent	720	Accounts payable	790
Supplies	920	Salaries and wages payable	300
Equipment	12,000	Interest payable	10
Dividends	500	Unearned rent revenue	400
Salaries and wages expense	7,400	Share capital-ordinary	11,200
Rent expense	1,200	Service revenue	11,360
Depreciation expense	700	Rent revenue	900
Supplies expense	160		
Utilities expense	350		
Interest expense	40		
Total Debits	29,660		29,660

- (a). Prepare an income statement for the Quarter April 1 to June 30. (10)
 (b). Prepare statement of Retained Earnings. (5)
 (c). Prepare a Balance Sheet with proper headings. (5)

Q. 3 (a). Pool and Burns, who share profits and losses equally, decide to dissolve their partnership at June 30, 2015. Their balance sheet on that date was as follows:

	(Rs.)	(Rs.)
Buildings		80,000
Tools and fixtures		2,900
		82,900
Debtors	8,400	
Cash	600	
	9,000	
Sundry creditors	(4,100)	
Net current assets		4,900
Total Assets		87,800
Capital account. Pool		52,680
Burns		35,120
		87,800

The debtors realized Rs. 8,200, the building Rs. 66,000 and tools and fixtures Rs. 1,800. The expenses of dissolution were Rs. 400 and discounts totaling Rs. 300 were received from creditors.

Required: Prepare the accounts necessary to show the results of the realization and of the disposal of the cash. (10)

ACCOUNTANCY AND AUDITING, PAPER-I

- (b). The trial balance before and after adjustment for Mushtaq company at the end of its fiscal year is presented below.

Mushataq Company				
Trial Balance				
December 31, 2015				
	Before adjustment		After adjustment	
	Debit	Credit	Debit	Credit
Cash	10,400		10,400	
Accounts receivable	8,800		10,000	
Supplies	2,300		700	
Prepaid insurance	4,000		2,500	
Equipment	14,000		14,000	
Accumulated Depreciation-equipment		3,600		4,900
Accounts payable		5,800		5,800
Salaries and wages payable				1,100
Unearned rent revenue		1,500		800
Share capital ordinary		12,000		12,000
Retained earnings		3,600		3,600
Service revenue		34,000		35,200
Rent revenue		11,000		11,700
Salaries and wages expense	17,000		18,100	
Supplies expense			1,600	
Rent expense	15,000		15,000	
Insurance expense			1,500	
Depreciation expense			1,300	
	71,500	71,500	75,100	75,100

Instructions : Prepare the adjusting journal entries that were made during the period.

(10)

- Q. 4 (a).** On January 1, 2015, Hydri Construction acquired a small excavator for Rs.85,000. This device had a 4-year service life. It is expected that the equipment will be sold for Rs.10,000 salvage value at the end of 4 years. The company uses the double-declining balance depreciation method.

- Prepare a schedule showing annual depreciation expense, accumulated depreciation and related calculations for each subsequent year.
- Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 2015.
- Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for Rs.10,000.

(10)

- (b). Rabika Limited has the following balance sheet and income statement for 2015
(in thousands rupees)

B lance sheet			
Cash	Rs. 400	Accounts payable	Rs. 320
Accounts receivable	1,300	Accruals	260
Inventories	2,100	Short-term loans	1,100
Current assets	3,800	Current liabilities	1,680
Net fixed assets	3,320	Long-term debt	2,000
		Shareholders' equity	3,440
Total assets	7,120	Total liabilities & Equity	7,120
Income Statement			
Net sales (all credit)		Rs. 12,680	
Cost of goods sold*		8,930*	
Gross profit		Rs. 3,750	
Selling, general, and admin expenses		2,230	
Interest expense		460	
Profit before taxes		Rs. 1,060	
Taxes		390	
Profit after taxes		Rs. 670	

* Includes depreciation of Rs. 480

On the basis of this information, compute the following:

- Current ratio
- Acid test ratio
- Average collection period
- Inventory turnover ratio
- Debt to net worth ratio
- Gross profit margin
- Net profit margin
- Rate of return on common stock equity

ACCOUNTANCY AND AUDITING, PAPER-I**SECTION-B**

Q. 5 (a). The records of the Electronic Equipment Company show the following information for the year ended 31 December 2015:

	(Rs.)
Material purchased	1,946,700
Inventories, January 1, 2015:	
1) Finished goods (100 calculator)	43,000
2) Material	268,000
Direct labour	2,125,800
Factory overhead	764,000
Marketing expense	516,000
General and administrative expenses	461,000
Sales (14,200 calculators)	6,634,000
Inventories, December 31, 2015:	
1. No unfinished work on hand.	
2. Finished goods (200 calculators) costed at Rs.395 each.	
3. Material	167,000

(10)**Required:**

- An income statement for the period.
- The number of units manufactured.
- The unit cost of calculators manufactured.
- The gross profit per unit sold.
- The income per unit sold.
- The ratio of gross profit to sales.
- The income to sales percentage.

(b). The Homes Garments Company has decided to distribute the costs of service departments by the algebraic method. The producing departments are Cutting department and Sewing department. The service departments are Maintenance and cafeteria, and monthly data are:

	Actual factory overhead	Services provided by	
	Costs before distribution	Maintenance	Cafeteria
	(Rs.)		
Cutting department	126,000	40%	50%
Sewing department	87,000	50%	30%
Maintenance department	30,000	---	20%
Cafeteria	26,400	10%	---

Required:**(10)**

Total factory overhead of producing department Cutting after distribution of service department costs.

Q. 6 (a). Ten employees work as a group in Altech Manufacturing Company. When the group's weekly production exceeds the standard number of pieces per hour, each worker in the group is paid a bonus for the excess production in addition to wages at hourly rates. The amount of bonus is computed by first determining the percentage by which the group's production exceeds the standard; one-half of this percentage is then applied to a wage rate of \$9 to determine hourly bonus rate. The standard rate of production before a bonus can be earned is 200 pieces per hour for total hours worked.

Production record for the week

	<u>Hours worked</u>	<u>Production</u>
Monday	80	17,824
Tuesday	74	16,206
Wednesday	80	18,048
Thursday	78	17,480
Friday	72	16,733

Required:

- 1) Calculate the group's bonus for each day and for the week
- 2) The week's earnings of each employee.

(10)

- (b). The Cambridge Company uses job order costing. At the beginning of December two jobs were in process:

	<u>Job 369</u>	<u>Job 372</u>
Material	Rs 20,000	Rs. 7,000
Direct labour	10,000	3,000
Applied factory overhead	15,000	4,500

There was no inventory of finished goods on December 1. During the month, Jobs 373, 374, 375, 376, 378 and 379 were started.

Material requisitions for December totaled Rs. 130,000, direct labour cost, Rs.100,000 and actual factory overhead, Rs. 160,000. Factory overhead is applied at a rate of 150% of direct labour cost.

The only job still in process at the end of December is No. 379, with cost of Rs. 14,000 for material and total Rs. 9,000 for direct labour and applied overhead.

Job No. 376, the only finished job on hand at the end of December, has a total cost of Rs. 20,000.

Required:

- (1). T-accounts for Work in Process, Finished Goods, Cost of Goods sold, Factory overhead Control and Applied Factory Overhead. (4)
- (2). General journal entries to record:
 - (a). Cost of goods manufactured (2)
 - (b). Cost of goods sold (2)
 - (c). Closing of over-or-under applied overhead to Cost of Goods Sold. (2)

Q. 7 (a). The budgeted results of Best Gases Limited are as under:

Product	Sale value (Rs.)	PV ratio %
Oxygen gas	1,250,000	50
Nitrogen gas	2,000,000	40
Acetylene gas	3,000,000	30

Fixed overheads for the period are Rs 2,511,000. The management is worried about the results. (10)

Required: Prepare a statement showing amount of loss, if any being incurred at present and recommend a change in the sale value of each product as well as the total sale value maintaining the same sale-mix which will eliminate the said loss.

- (b). Fedder manufacturing company provides the following information concerning its 2015 operations:

Number of units produced	45,000
Selling price per unit (Rs.)	30
Variable costs per unit (Rs.):	
Direct labour	6
Direct material	7
Manufacturing overhead	3
Selling and administrative	2
Fixed costs(Rs.):	
Manufacturing overhead (Rs.)	180,000
Selling and administrative (Rs.)	116,000
Units sold	33,000

There was no beginning inventory for the firm.

Required:

- Prepare an absorption costing income statement for Fedder manufacturing company. (10)
- Prepare a variable costing income statement for Fedder manufacturing company.
- Reconcile the difference in profits under the two income statements.

Q. 8. Seven Seas Ltd. has developed a process for the manufacture of after-shave. Material is added at the beginning of the process and conversion costs are incurred uniformly. Detail for the month ended December 31, 2015 are as follows:

Work-in-process at 1st December, 2015: 4,000 Units 75 % complete.

Work-in-process at 31st December, 2015: 15,000 Units 60% complete

Units added in process during the month of December, 2015: 30,000 units.

	<u>Materials</u>	<u>Conversion cost</u>
Value of opening work-in-process (Rs.)	108,000	85,000
Cost added during December, 2015	300,000	475,000

Required: Using weighted average basis, prepare a cost of production report for the process for December, 2015. Showing:

- (a). A quantity schedule; (3)
- (b). Cost charged to process; (4)
- (c). Cost of equivalent units; (5)
- (d). Cost of finished goods; (4)
- (e). Value of closing work-in-process (4)



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT, 2014

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED:	(PART-I MCQs)	30 MINUTES	MAXIMUM MARKS: 20
THREE HOURS	(PART-II)	2 HOURS & 30 MINUTES	MAXIMUM MARKS: 80

- NOTE:**(i) Part-II is to be attempted on the separate **Answer Book**.
(ii) Attempt **ONLY FOUR** questions from **PART-II**, selecting **ONE** question from **EACH SECTION A,B,C and D. ALL questions carry EQUAL marks**.
(iii) Candidate must write **Q. No.** in the **Answer Book** in accordance with **Q. No.** in the **Q. Paper**.
(iv) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(v) Extra attempt of any question or any part of the attempted question will not be considered.
(vi) Use of Simple Calculator is allowed.

PART-II

SECTION-A (COST ACCOUNTING)

- Q. No. 2.** When Financial Accounting delivers the goods, why Cost Accounting records are needed? Make out a case for introduction of Cost Accounting in all Industries. State your rationale with expected productive results. (20)

- Q. No. 3.** The following information is available regarding Job No. 101: (20)

<u>Direct Labour Cost</u>	<u>Cost (Rs.)</u>	<u>Hours</u>
Week of November 2	75,000	600
Week of November 9	83,000	750
Week of November 16	82,000	720
Week of November 23	460,000	400

Direct Material Cost:

Material purchased direct for the job:	Rs. 580,000
Material issued from store:	Rs. 120,000

Manufacturing Expenses:

Applied @ Rs. 80 per direct labour hour

Other Direct Manufacturing Cost:

Loading & Shipping and Installation: Rs. 75,000

Administrative and Selling Expenses:

To be charged @ 10 % of total cost to make and install

Selling price of the machine is Rs. 1,525,000

Required:

Prepare a Job Order Cost Sheet including a summary showing the Profit or the Loss relating to above Job number.

SECTION-B (AUDITING)

- Q. No. 4.** Explain various types of Audit Reports required by a duly qualified Auditor under the Companies Ordinance, 1984. First list the names of Audit Reports and later explain the salient feature governing the above Audit Reports. Along with this, briefly explain the four types of Audit Reports with expression of Auditor's opinion. (20)

- Q. No. 5.** Describe procedures governing verification of the following items: (5 each) (20)

- Deferred taxation
- Investments held
- Cash in transit
- Long term liabilities

ACCOUNTANCY AND AUDITING, PAPER-II

SECTION-C (INCOME TAX LAW)

- Q. No. 6. The following data are available relating to Mr. X for the year ended on June 30, 2012: (20)
- | | |
|---|---------------|
| 1. Salary | Rs. 2,400,000 |
| 2. Bonus | 400,000 |
| 3. Prize Bond Winning | 200,000 |
| 4. Dividends received from listed company | 400,000 |
| 5. Casual Income | 200,000 |
| 6. Rent received from owned property | 400,000 |

Required:

Compute Taxable Income and Tax payable by Mr. X under different sources of Income.

- Q. No. 7. Describe procedure involved under Universal Self-Assessment Scheme under Income Tax Law. What checks and balances exist for successful and smooth operation of the above scheme? (20)

SECTION-D (BUSINESS ORGANIZATION AND FINANCE)

- Q. No. 8. You have been invited by management to form a Public Listed Company in Pakistan. State steps which you will take to implement the above directive. List points in the light of Companies ordinance 1984 for formation of the above Listed Company. (20)

- Q. No. 9. Describe the following terms used in the field of finance in Pakistan. Illustrate your answer. (5 each) (20)
- (a) Bridge Finance
 - (b) NIB modes of financing
 - (c) Quick ratio
 - (d) Inventory turnover



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT, 2014
ACCOUNTANCY AND AUDITING, PAPER-I

Roll Number

TIME ALLOWED: THREE HOURS (PART-I MCQs) 30 MINUTES (PART-II) 2 HOURS & 30 MINUTES
MAXIMUM MARKS: 20 MAXIMUM MARKS: 80

NOTE: (i) Part-II is to be attempted on the separate Answer Book.

(ii) Attempt ONLY FOUR questions from PART-II, selecting TWO questions from EACH SECTION. ALL questions carry EQUAL marks.

(iii) Candidate must write Q. No. in the Answer Book in accordance with Q. No. in the Q. Paper.

(iv) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.

(v) Extra attempt of any question or any part of the attempted question will not be considered.

(vi) Use of simple calculator is allowed.

PART-II
SECTION-A

Q2: The following figures are taken from the books of Sun Company Limited as on December 31, 2013.

Debit balances	Rs.	Credit balances	Rs.
Opening stock	50000	Purchases returns	1000
Purchases	160000	Sales	300000
Carriage	4000	Discount	1500
Furniture	15000	Profit and loss	35000
Salaries	45000	Share capital	500000
Rent	34800	Sundry creditors	20000
Dividend paid	4500	General reserve	30000
Sundry debtors	60000	Salaries payable	2500
Machinery	300000	Provision for bad debts	9500
Premises	200000	Bad debts recovered	500
Cash at bank	9700	Bank loan 10% taken 1.1.2013	50000
Directors fee	9000		
Bills receivable	21000		
Trade expenses	9000		
Prepaid insurance	1500		
Bad debts	2000		
Interest on bank loan	4500		
Investments market price (Rs. 19000)	20000		
	950000		950000

Adjustments:

- (1) The average stock at the year-end was worth Rs. 65000. (2) Create a provision for income tax Rs. 10000. (3) Increase provision for bad debts by Rs. 12000. (4) Depreciate machinery at 10%; furniture at 15%; and Premises at 5%. (5) There is pending law suit for Rs. 50000 against the company for infringement of trade marks. (6) The machinery account includes new machinery worth Rs. 25000 purchased on January 1, 2012. This machinery is still lying unpacked at the end of December 31, 2013.

Prepare trading and profit and loss account; profit and loss appropriation account for the year ended December 31, 2013 and balance sheet as at that date as per Companies Ordinance 1984.

Q3: The following is the balance sheet of Shine Company as on December 31, 2013.

Liabilities	Rs.	Assets	Rs.
Equity share capital	120000	Fixed assets	360000
Reserves and surplus	80000	Less depreciation	100000
6% mortgage debentures	140000		260000
Current liabilities:		Current assets:	
Creditors	12000	Cash	10000
Bills payables	20000	Investment	30000
Outstanding expenses	2000	Stock	60000
Taxation provision	26000	Sundry debtors	40000
	400000		400000

Other information: Net sales Rs.600000; cost of goods sold Rs.516000; net income before tax Rs.40000; net income after tax Rs.20000.

Required: Calculate current ratio; acid test ratio; debt equity ratio; gross profit ratio and operating ratio.

Q4: Prepare cash flow statement from the following balance sheets of X Ltd for the year ended December 31, 2013.

	2012	2013		2012	2013
Liabilities and capital	Rs.	Rs.	Assets	Rs.	Rs.
Share capital	40000	50000	Building	20000	16000
General reserve	7000	11000	Machinery	8000	14000
Profit and loss	3000	3400	Goodwill	6000	4000
9% debentures	10000	8000	Debtors	24000	32000
Sundry creditors	4600	1000	Stock	3600	4000
			Cash	3000	3400
	64600	73400		64600	73400

Adjustments: Depreciation charged on building Rs.10000 and on machinery Rs.6000

SECTION B

Q5: A, B, and C were partners sharing profits and losses in the ratio of 2:2:1. C decided to retire on December 31, 2013. The following is the balance sheet of partnership firm

Balance sheet December 31, 2013			
Liabilities	Rs.	Assets	Rs.
Sundry Creditors	10000	Stock of goods	10000
Reserve account	2000	Sundry Debtors	10000
Capital account A	24000	Bills receivable	4000
Capital account B	16000	Bank A/c	10000
Capital account C	12000	Land and building	30000
	64000		64000

A and B decided to share profits and losses in the ratio of 3:2 in future. Goodwill is valued at Rs. 10000. Land and building was appreciated by Rs.6000 and stock by Rs.2000. There was bad debt loss of Rs.1000 but not recorded in books. A and B decided to bring sufficient cash to settle the account of C and to make their capital proportionate. They also decided to maintain Rs.15000 bank balances for meeting the day to day business expenses. Prepare necessary journal entries and prepare balance sheet of newly constituted firm.

Q6: Fast Ltd purchased machinery on January 1, 2011 and its book value was Rs.40500 on January 1, 2013. The company had been writing off depreciation at 10% per annum on diminishing balance method. The company disposed-off machinery for Rs.8400 on July 1, 2013 and book value of such machinery was Rs.12150 on January 1, 2011. It was decided that during 2013 sufficient depreciation should be written off to make up depreciation at 10% on original cost basis. Books are closed on December 31 each year. Pass necessary journal entries and prepare machinery account

Q7: Hassan started business on January 1, 2013 with a capital of Rs.90000. He kept cash book and a record of his receivable and payables in a diary. His cash book showed following transactions for the year.

	Rs.
Expenses paid	22000
Cash purchases	56000
Cash sales	42000
Payments to creditors	100000
Receipts from debtors	140000
Personal drawings	10000
Purchase of a motor cycle	60000

On December 31, 2013 the stock was valued at Rs.20000. The payables and receivables were Rs.120000 and Rs.110000 respectively. Provide depreciation motor cycle at the rate of 20%. Prepare trading and profit and loss account for the year ended December 31, 2013 and balance sheet as on date.

Q8: From the following particulars prepare Profit and Loss Account (vertical format) of ABC Bank Limited for the year ended December 31, 2013

	Rs.
Mark-up earned	35000
Mark-up expensed	37000
Income from dealing in foreign currency	4500
Commission, exchange and brokerage	1200
Administrative expenses	16000
Non-mark-up income	19000
Other income	22000
Income tax provision	1500
Other provisions	200
Gain on sale of securities	13000
Bad debts written off	5000
Provision for diminution in value of investments	7000
Provision against non-performing loans	2500
Dividend income	5400
Other charges	4700



FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT, 2011

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED:	(PART-I MCQs)	30 MINUTES	MAXIMUM MARKS: 20
THREE HOURS	(PART-II)	2 HOURS & 30 MINUTES	MAXIMUM MARKS: 80
NOTE: (i) First attempt PART-I (MCQs) on separate Answer Sheet which shall be taken back after 30 minutes.			
(ii) Overwriting/cutting of the options/answers will not be given credit.			
(iii) Use of calculator is allowed.			

(PART-I MCQs) (COMPULSORY)

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (1 x 20=20)

- (i) In a manufacturing company, the costs debited to the Work in Process Inventory account represent:
- Direct materials used, direct labour, and manufacturing overhead.
 - Cost of finished goods manufactured.
 - Period costs and product costs.
 - None of these.
- (ii) The Work in Process Inventory account had a beginning account had a beginning balance of Rs. 4,200 on February 1. During February, the cost of direct materials used was Rs. 29,000 and direct labour cost applied to production was Rs. 3000. Overhead is applied at the rate of Rs. 20 per direct labour hour. During February, 180 direct labour hours were used in the production process. If the cost finished goods manufactured was Rs. 34,100, compute the balance in the Work in Process Inventory account at the **end** of February.
- Rs. 9,900
 - Rs. 1,500
 - Rs. 2,100
 - Rs. 5,700
 - None of these
- (iii) The purpose of an overhead application is to:
- Assign an appropriate portion of indirect manufacturing costs to each product manufactured.
 - Determine the type and amount of costs to be debited to the Manufacturing Overhead account.
 - Charge the Work in Process Inventory account with the appropriate amount of direct manufacturing costs.
 - Allocate manufacturing overhead to expense in production to the number of units manufactured during the period.
 - None of these
- (iv) If Gurgson, Inc uses a **job order** cost system, each of the following is true, EXCEPT:
- Individual job cost sheets accumulate all manufacturing costs applicable to each job, and together constitute a subsidiary ledger for the Work in Process Inventory account.
 - Direct labour cost applicable to individual jobs is recorded when paid by a debit to Work in Process Inventory and a credit to Cash, as well as by entering the amount on the job cost sheets.
 - The amount of direct materials used in individual jobs is recorded by debiting the Work in Process Inventory account and crediting the Materials Inventory account, as well as by entering the amount used on job cost sheets.
 - The manufacturing overhead applied to each job is transferred from the Manufacturing Overhead account to the Work in Process Inventory account, as well as entered on the individual job cost sheets.
 - None of these
- (v) When a job cost system is in use, **underapplied** overhead:

ACCOUNTANCY AND AUDITING, PAPER-II

- a. Represents the cost of manufacturing overhead that relates to unfinished jobs.
 - b. Is indicated by a credit balance remaining at year-end in the Manufacturing Overhead account.
 - c. Is closed out at year-end into the Cost of Goods Sold account if the amount is not material.
 - d. Results when actual overhead costs incurred during a year are less than the amounts applied to individual jobs.
 - e. None of these.
- (vi) Shabbir Manufacturing has operations that involve three processing departments: Assembly, Painting, and Packaging. Debits to the Work in Process Inventory: Painting Department account could involve a credit to any of the following, EXCEPT:
- a. Work in Process Inventory: Packaging Department
 - b. Direct Labour
 - c. Manufacturing Overhead
 - d. Work in Process Inventory: Assembly Department
 - e. None of these
- (vii) When **actual** overhead costs incurred are charged to processing departments each month:
- a. The cost of infrequent items, such as a major plant refurbishing, is spread uniformly over all units produced throughout the year
 - b. Under or overapplied overhead may occur, but it is treated in the same as when an overhead application rate is used.
 - c. It is no longer necessary to compute the equivalent final units of production for individual departments.
 - d. The monthly per-unit cost of producing a product will vary from fluctuations in the level of production when a significant portion of overhead cost is fixed.
 - e. None of these.
- (viii) When a business is organized as corporation:
- a. Stockholders are liable for the debts of the business only in proportion to their percentage ownership of capital stock.
 - b. Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.
 - c. Fluctuations in the market value of outstanding shares of capital stock do not affect the amount of stockholders' equity shown in the balance sheet.
 - d. Each stockholder has the right to bind the corporation to contracts and to make other managerial decisions.
 - e. None of these.
- (ix) Which of the following is NOT a characteristic of common stock of a large, publicly owned corporation?
- a. The shares may be transferred from one investor to another without disrupting the continuity of business operations.
 - b. Voting rights in the election of the board of directors
 - c. A cumulative right to receive dividends
 - d. After issuance, the market value of the stock is unrelated to its par value.
 - e. None of these.
- (x) Tri-State Electric is a profitable utility company that has increased its dividend to common stockholders every year for 62 consecutive years. Which of the following is **least** likely to affect the market place of the company's **preferred** stock?
- a. The company's earnings are expected to increase significantly over the next several years.
 - b. An increase in long-term interest rates
 - c. The annual dividend paid to preferred shareholders
 - d. Whether or not the preferred stock carries a conversion privilege.
 - e. None of these
- (xi) The primary purpose of showing special types of events separately in the income statement is to:
- a. Increase earnings per share.
 - b. Assist users of the income statement in evaluating the profitability of normal, ongoing operations.
 - c. Minimize the income taxes paid on the results of ongoing operations

ACCOUNTANCY AND AUDITING, PAPER-II

- d. Prevent unusual losses from recurring
 - e. None of these
- (xii) Which of the following situations would NOT be presented in a separate section of the current year's income statement of Zeeshan Corporation? During the current year:
- a. Zeeshan's Peshawar headquarters are destroyed by a flood.
 - b. Zeeshan sells its entire juvenile furniture operations and concentrates upon its remaining children's clothing segment.
 - c. Zeeshan changes from the straight-line method of depreciation to the double declining balance method
 - d. Zeeshan's accountant discovers that the entire price paid several years ago to purchase company offices in Islamabad had been charged to Land account; consequently, no depreciation has ever been taken on these buildings.
 - e. None of these
- (xiii) When a corporation has outstanding both common and preferred stock:
- a. Primary and fully diluted earnings per share and reported only if the preferred stock is cumulative
 - b. Earnings per share are reported for each type of stock outstanding.
 - c. Earnings per share may be computed without regard to the amount of dividends declared on common stock
 - d. Earnings per share may be computed without regard to the amount of the annual preferred dividends.
 - e. None of these
- (xiv) The statement of retained earnings:
- a. Need to be prepared if a separate statement of stockholder's equity accompanies the financial statements.
 - b. Indicates the amount of cash available for the payment of dividends
 - c. Includes prior period adjustments and cash dividends, but not stock dividends.
 - d. Shows revenues, expenses and dividends for the accounting period.
 - e. None of these
- (xv) On December 10, 2008, Star Corporation reacquired 2,000 of its own Rs 5 par stock at a price of Rs 60 per share. In 2009, 500 of the treasury shares are reissued at a price of Rs. 70 per share. Which of the following statements is correct?
- a. The treasury stock purchased is recorded at cost and is shown in Star's December 31, 2008, balance sheet as an asset.
 - b. The two treasury stock transactions result in an overall reduction in Star's stockholder's equity of Rs. 85,000
 - c. Star recognizes a gain of Rs. 10 per share on the reissuance of the 500 treasury shares in 2009.
 - d. Star's stockholder's equity was increased by Rs. 110,000 when the treasury stock was acquired.
 - e. None of these
- (xvi) J.Q. Corporation was organized with authorization to issue 100,000 shares of Re. 1 par value common stock. Forty thousand shares were issued to Hassan Mir, the company's founder, at a price of Rs. 5 per share. No other shares have yet been issued.
- a. J.Q. owns **40%** of the stockholder's equity of the corporation.
 - b. The corporation should recognize a Rs. 160,000 gain on the issuance of the shares.
 - c. If the balance sheet includes retained earnings of Rs. 50,000, total **paid-in** capital amounts to Rs. 250,000
 - d. In the balance sheet, the Additional Paid-in Capital account will have a Rs. 160,000 balance, regardless of the profits earned or losses incurred since the corporation was organized.
 - e. None of these
- (xvii) Which ratio best measures a company's success in earning net income for its owners?
- a. Profit Margin
 - b. Return on common stockholders' equity
 - c. Price earnings ratio
 - d. Dividend yield
 - e. None of these
- (xviii) Which of the following is true for an installment note requiring a series of equal total cash payments?
- a. Payments consist of increasing interest and decreasing principal

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- b. Payments consist of changing amounts of principal but constant interest
 - c. Payments consist of decreasing interest and increasing principal
 - d. None of these
- (xix) How does a stock dividend impact assets and retained earnings?
- a. Stock dividends does not transfer assets to stockholders
 - b. Stock dividend requires an amount of contributed capital to be transferred to retained earning account
 - c. Stock dividend does transfer assets to stockholders
 - d. None of these
- (xx) Which of the following is least useful as a basis for comparison when analyzing ratios?
- a. Company results from a different economic setting
 - b. Standards from past experience
 - c. Rule of Thumb Standards
 - d. Industry Wages
 - e. None of these

PART-II

NOTE:(i) PART-II is to be attempted on separate Answer Book.
(ii) Attempt ONLY FOUR questions from PART-II, selecting ONE question from each SECTION except SECTION –C, where the choice is mentioned.
(iii) Extra attempt of any question or any part of the attempted question will not be considered.

SECTION –A
COST ACCOUNTING

Q. 2 The Balances in the perpetual inventory accounts of Sonny Manufacturing Co. at the beginning and end of the current year are as follows:

	End of Year	Beginning of Year
Inventory accounts:		
Materials	Rs. 25,800	Rs. 22,000
Work in Process	8,000	5,000
Finished goods inventory	24,000	38,000

The total amounts debited and credited during the year to the accounts used in recording manufacturing activities are summarized below:

Account:	Debit Entries	Credit Entries
Materials Inventory.....	Rs. 410,000	Rs. ?
Direct Labour	189,000	192,000
Manufacturing Overhead	393,600	393,600
Work in Process Inventory	?	?
Finished Goods Inventory	?	?

INSTRUCTIONS

- a. Using this data, state or compute for the year the amounts of: (10)
- 1. Direct materials purchased
 - 2. Direct materials used
 - 3. Payments of direct labour payrolls
 - 4. Direct labour cost assigned to production
 - 5. The overhead application rate used during the year, assuming that overhead was applied as a percentage of direct labour costs
 - 6. Total manufacturing costs charged to the work in process inventory account during the year
 - 7. The cost of finished goods manufactured

ACCOUNTANCY AND AUDITING, PAPER-II

8. Cost of goods sold

- b. Prepare a schedule of the cost of finished goods manufactured. (10)

Q.3 Aladdin Electric manufactures several products, including an electric garage door opener called the Door Tender. Door Tenders are completely processed in one department and are then transferred to the finished goods warehouse. All manufacturing costs are applied to Door Tender units at a uniform rate throughout the production process. The following information is available for July:

Beginning inventory of work in process	Rs. 21,200
Manufacturing costs incurred in July:	
Direct Material used	56,100
Direct Labour	29,920
Manufacturing overhead applied	82,280
Total costs to be accounted for	Rs. 189,520

The beginning inventory consisted of 400 units which had been 60% completed during June. In addition to completing these units, the department started and completed another 1,500 units during July and started work on 300 more units which were 70% completed at July 31.

INSTRUCTIONS

- a. Compute the equivalent full units of production in July. (10)
- b. Prepare journal entries to record (1) the manufacturing costs charged to the department during July and (2) the transfer of 1,900 completed units to the finished goods warehouse. (10)

SECTION – B

BUSINESS ORGANIZATION & FINANCE (20 MARKS)

- Q.4. Mario Valenti owns Valenti Ford, a successful automobile dealership. For 25 years, Valenti has operated the business as a sole proprietorship and has acted as both owner and manager. Now, he is 70 years old and is planning on retiring from active management. However, he wants the dealership to stay in the family; his long-term goal is to leave the business to his two children and five grandchildren. Valenti is wondering whether or not he should incorporate his business. If he were to reorganize Valenti Ford as a corporation, he could then leave an appropriate number of shares of stock to each of his heirs. Otherwise, he could leave the entire business to his heirs to be operated as a partnership. In selecting the appropriate form of business entity, Valenti has formulated the following objective:
1. **Ownership:** Valenti wants each of his two children to own 25% of the business and each of his five grandchildren to own 10%.

2. **Continuity of existence:** Valenti wants the business to continue indefinitely, even if one or more of the heirs should die or should no longer want to participate in ownership.

3. **Management:** When Valenti retires, he plans to give Joe Heinz, a long-time employee, responsibility for managing the business. Although, Valenti wants to keep the ownership of the business in the family, he does not believe that any of his family members have the time and experience to manage the business on a daily basis. In fact, Valenti believes that two of his grandchildren simply have no “business sense,” and he does not want them to participate in the management.

4. **Income taxes:** Valenti wants to organize the business in a manner which will minimize the income taxes to be paid by his heirs. He expects that all the earnings of the business will normally be distributed to its owners on an annual basis.

5. **Owners’ Liability:** Valenti recognizes that an automobile dealership might become liable for vast amounts of money, if, improper repairs caused a customer’s car to be involved in an accident. Although, the business carries insurance, he wants to be sure that his heirs’ equity in the business

ACCOUNTANCY AND AUDITING, PAPER-II

does not place their personal assets at risk in the event of business losses.

INSTRUCTIONS

- a. For each of the five numbered paragraphs above, explain how the choice of business organization (partnership or corporation) relates to Valenti’s stated objective. (10)
- b. In light of your analysis in part a, above, would you recommend that Valenti reorganize Valenti Ford as a corporation, or leave the business unincorporated so that his heirs may operate it as a partnership? (10)

Q.5. The year-end balance sheet of LaserTech, Inc., includes the following stockholders’ equity section (with certain details omitted):

Stockholders’ equity:

Rs. 8 cumulative preferred stock, Rs. 100 par value, callable at Rs. 103,200,000

Shares authorized	Rs. 6,000,000	
Common stock, Rs. 2 par value, 5,000,000 shares authorized:		
Issued	Rs. 3,600,000	
Subscribed	1,400,000	5,000,000
Additional paid-in capital:		
Preferred	Rs. 240,000	
Common (including subscribed shares)	25,000,000	25,240,000
Retained Earnings		3,690,000
Total stockholders’ equity		Rs. 39,930,000

Assets of the corporation include subscriptions receivable, Rs. 5,600,000.

INSTRUCTIONS

On the Basis of this information, answer the following questions and show any necessary supporting computations. (20)

- a. How many shares of preferred stock have been issued?
- b. What is the total annual dividend requirement on the outstanding preferred stock?
- c. What was the average price per share received by the corporation for its common stock, including shares subscribed?
- d. What is the average amount per share that subscribers to common stock have yet to pay on their subscriptions?
- e. What is the total amount of legal capital, including shares subscribed?
- f. What is the total paid-in capital, including shares subscribed?
- g. What is the book value per share of common stock? (Assume no dividends in arrears.)
- h. Total dividends of Rs. 780,000 were declared on the preferred and common stock during the year, and the balance of retained earnings at the beginning of the year was Rs. 2,302,000. What was the amount of net income for the year?

SECTION – C

AUDITING

- Q.6. Define ANY TEN of the following: (2 x 10 = 20)
- 1. Compliance Audit
 - 2. Standard unqualified opinion
 - 3. Public Company Accounting Oversight Board
 - 4. Qualified Opinion
 - 5. Adequate disclosure
 - 6. Internal Control
 - 7. Indirect financial interest
 - 8. Joint closely held investment
 - 9. Audit committee
 - 10. Independence
 - 11. Inspection
 - 12. Direct financial Interest
 - 13. Ethics Rulings

ACCOUNTANCY AND AUDITING, PAPER-II

- 14. Attest engagement
- 15. Integrated Audit

SECTION – D
INCOME TAX

- Q.7.** ABC (Pvt) Ltd Company has filed Income Tax Return u/s 114 of Income Tax Ordinance 2001 for tax year 2010 showing taxable income at Rs. 500,000. Tax payable has been calculated @30% at Rs.150,000. Tax credit under section 147 has been claimed at Rs.10,000. During the course of Audit Income Tax Department discovers the following:-
- a. The Balance Sheet shows Cash loan from director amounting to Rs. 100,000.
 - b. The tax payer has provided the proof of only Rs. 5000/ of tax credit claimed u/s 147.
 - c. The donation of Rs. 50,000 has been made to an organization not covered by exemptions under the Second Schedule of Income Tax Ordinance 2001.
- You are required to do the following:-
- 1. Identify the section of Income Tax Ordinance 2001 under which the department may take the remedial measure to calculate the correct figure of taxable Income (10)
 - 2. Calculate the correct amount of Taxable Income and the tax payable. (10)
- Q.8.** Account for corporate income taxes: explain the effects of these taxes on before-tax profits and losses? (20)





FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT, 2011

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED:	(PART-I MCQs)	30 MINUTES	MAXIMUM MARKS: 20
THREE HOURS	(PART-II)	2 HOURS & 30 MINUTES	MAXIMUM MARKS: 80
NOTE: (i) First attempt PART-I (MCQs) on separate Answer Sheet which shall be taken back after 30 minutes.			
(ii) Overwriting/cutting of the options/answers will not be given credit.			
(iii) Use of calculator is allowed.			

(PART-I MCQs) (COMPULSORY)

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (1 x 20=20)

- (i) According to the rules of debit and credit for balance sheet accounts:
- (a) Increases in asset, liability, and owner's equity accounts are recorded by debits.
 - (b) Decreases in asset and liability accounts are recorded by credits.
 - (c) Increases in asset and owner's equity accounts are recorded by debits.
 - (d) Decreases in liability and owner's equity accounts are recorded by debits.
 - (e) None of these
- (ii) On March 31, the ledger for Majid House Cleaning consists of the following:
- | | | | |
|----------------------------------|------------------|----------------------------------|------------------|
| <i>Cleaning equipment</i> | <i>Rs.27,800</i> | <i>Accounts receivable</i> | <i>Rs.21,000</i> |
| <i>Accounts Payable</i> | <i>15,700</i> | <i>Cash</i> | <i>6,900</i> |
| <i>M. Poppins, capital</i> | <i>20,000</i> | <i>Salaries payable</i> | <i>9,600</i> |
| <i>Office Equipment</i> | <i>2,000</i> | <i>Cleaning supplies</i> | <i>2,600</i> |
| <i>Automobile</i> | <i>7,500</i> | <i>Notes Payable</i> | <i>22,500</i> |
- (a) Rs. 67,800
 - (b) Rs. 93,100
 - (c) Rs. 25,300
 - (d) Rs. 65,300
 - (e) None of these
- (iii) The balance in the owner's capital account of ABC Company at the beginning of the year was Rs.65,000. During the year, the company earned revenue at Rs.430,000 and incurred expenses of Rs.360,000; the owner withdrew Rs. 50,000 in assets, and the balance of Cash account increased by Rs.10,000. At year-end, the company's net income and the year-end balance in the owner's capital account were, respectively:
- (a) Rs.20,000 and Rs.95,000
 - (b) Rs.70,000 and Rs.95,000
 - (c) Rs.60,000 and Rs.75,000
 - (d) Rs.70,000 and Rs.85,000
 - (e) None of these

Q) Use the following information in questions (iv) and (v).

Accounts appearing in the trial balance of Eastside Plumbing at May 31 are listed below in alphabetical order:

<i>Accounts payable</i>	<i>Rs.2,450</i>	<i>Equipment</i>	<i>Rs.16,200</i>
<i>Accounts receivable</i>	<i>3,100</i>	<i>J.T. Golden, capital</i>	<i>11,000</i>
<i>Accumulated Depreciation:</i>		<i>J.T. Golden, drawing</i>	<i>2,100</i>
<i>Equipment</i>	<i>8,100</i>	<i>Other expenses</i>	<i>900</i>
<i>Advertising expense</i>	<i>150</i>	<i>Service revenue</i>	<i>4,800</i>
<i>Cash</i>	<i>2,900</i>	<i>Supplies expense</i>	<i>1,000</i>

No adjusting entry has yet been made to record depreciation expense of Rs. 270 for the month of May.

(iv) The balance of XYZ Company capital account appearing in the May 31 balance sheet should be:

ACCOUNTANCY AND AUDITING, PAPER-I

- (a) Rs. 11,650
 - (b) Rs. 8,630
 - (c) Rs. 11,380
 - (d) None of these
- (v) In an **after-closing** trial balance prepared at May 31, the total of credit column will be:
- (a) Rs. 26,620
 - (b) Rs. 22,200
 - (c) Rs. 13,830
 - (d) None of these
- (vi) Before month-end adjustments are made, the January 31 trial balance of Hanan Excursions contains revenue of Rs. 9,300 and expenses of Rs. 5,780. Adjustments are necessary for following items:
- Portion of prepaid rent applicable to January, Rs. 900
 - Depreciation for January, Rs. 480
 - Portion of fees collected in advance earned in January, Rs. 1,100
 - Fees earned in January not yet billed to customers, Rs. 650
- Net Income for Hanan Excursions' January income statement is:
- (a) Rs. 3,520
 - (b) Rs. 5,690
 - (c) Rs. 2,590
 - (d) None of these
- (vii) On December 31, Elite Property Management made an adjustment entry to record Rs. 300 management fees earned but not yet billed to Hayat's, a client. This entry was reversed on January 1. On January 15, Hayat's paid Elite Rs. 1,200, of which Rs. 900 was applicable to the period January 1 through January 15. The Journal Entry made by Elite to record receipt of the Rs. 1,200 on January 15 includes:
- (a) A credit to Management Fees Earned of Rs. 1,200
 - (b) A credit to Accounts Receivable of Rs. 300
 - (c) A debit to Management Fees Earned of Rs. 300
 - (d) A credit to Management Fees Earned of Rs. 900.
 - (e) None of these
- (viii) Pisces Market presently has current assets totaling Rs. 300,000 and a current ratio of 2.5 to 1. Compute the current ratio immediately **after** Pisces pays Rs. 30,000 of its accounts payable
- (a) 3 to 1
 - (b) 3.33 to 1
 - (c) 2.2 to 1
 - (d) 2.25 to 1
 - (e) None of these
- (ix) Ahsan Brothers, a retail store, purchased 100 television sets from Lucky Electronics on account at a cost of Rs. 200 each. Lucky offers credit terms of 2/10, n/30. Ahsan Brothers determines that 10 of these television sets are defective and returns them to Lucky for full credit. In recording this return, Ahsan Brother will:
- (a) Debit Sales Returns and Allowances
 - (b) Debit Accounts Payable, Rs. 1,960
 - (c) Debit Cost of Goods Sold, Rs. 1,960
 - (d) Credit Inventory, Rs. 2000
 - (e) None of these
- (x) Which of the following is NOT an accurate statement?
- (a) Expressing the various items in the income statement as a percentage of net sales illustrates the use of component percentages.
 - (b) An increase in the market price of bonds causes the yield rate to decline.

ACCOUNTANCY AND AUDITING, PAPER-I

- (c) A high debt ratio is viewed favorably by long-term creditors as long as the number times interest earned is at least 1.
- (d) In measuring the Rupee or percentage change in quarterly sales or earnings, it is appropriate to compare the results of the current quarter with those of the same quarter in the preceding year.
- (e) None of these
- (xi) Which of the following actions will improve the "quality" of earnings, even though the total amount of earnings may not increase?
- (a) Increasing the uncollectable accounts expense from 1% to 2% of net credit sales to reflect current conditions
- (b) Switching from an accelerated method to the straight-line method for depreciating assets
- (c) Changing from LIFO to the FIFO method of inventory valuation during a period of rising prices
- (d) Lengthening the estimated useful lives of depreciable assets
- (e) None of these
- (xii) Ahmad Corporation's net income was Rs. 400,000 in 1993 and Rs.160,000 in 1994. What percentage increase in net income must Ahmad achieve in 1995 to offset the decline in profits in 1994?
- (a) 60%
- (b) 150%
- (c) 600%
- (d) 67%
- (e) None of these
- (xiii) Of the following situations, which would be considered the most favorable for the common stockholders?
- (a) The company stops paying dividends on its cumulative preferred stock, the price-earnings ratio of common stock is low
- (b) Equity ratio is high; return on assets exceeds the cost of borrowing
- (c) Book value per share of common stock is substantially higher than market value per share; return on common stockholder's equity is less than the rate of interest paid to creditors
- (d) Equity ratio is low; return on assets exceeds the cost of borrowing
- (e) None of these
- (xiv) During 1994, Bilal Corporation had sales of Rs. 4,000,000, all on credit. Accounts receivable averaged Rs. 400,000 and inventory levels averaged Rs. 250,000 throughout the year. If Bilal's gross profit rate during 1994 was 25% of net sales, which of the following statements are correct? (Assume 360 days in a year.)
- (a) Bilal "turns over" its accounts receivable more times per year than it turns over its average inventory.
- (b) Bilal collects the amount of its average accounts receivable in about 36 to 37 days.
- (c) Bilal's operating cycle is 66 days
- (d) The quality of Bilal's working capital would improve if the company could reduce its inventory and receivables turnover rates
- (e) All of these
- (xv) On April 1, 1993, XYZ Construction paid Rs. 10,000 for equipment with an estimated useful life of 10 years and a residual value of Rs. 2000. The company uses the double-declining balance method of depreciation and applies the half-year convention to fractional periods. In **1994**, the amount of depreciation expense to be recognized on this equipment is:
- (a) Rs. 1,600
- (b) Rs. 1,440
- (c) Rs. 1,280
- (d) None of these
- (xvi) Delta Company sold a plant asset that originally had cost Rs. 50,000 for Rs. 22,000 cash. If Delta correctly reports a Rs. 5000 gain on this sale, the **accumulated depreciation** on the asset at the date of sale must have been:

ACCOUNTANCY AND AUDITING, PAPER-I

- (a) Rs. 33,000
 - (b) Rs. 28,000
 - (c) Rs. 23,000
 - (d) None of these
- (xvii) In which of the following situations would Aashi Industries include goodwill in its balance sheet?
- (a) The fair market value of Aashi’s net identifiable assets amounts to Rs. 2,000,000. Normal earnings for this industry are 15% of net identifiable assets. Aashi’s net income for the past five years has averaged Rs. 390,000.
 - (b) Aashi spent Rs. 800,000 during the current year for research and development for a new product which promises to generate substantial revenue for at least 10 years.
 - (c) Aashi acquired Star Electronics at a price in excess of the fair market value of Star’s net identifiable assets.
 - (d) A buyer wishing to purchase Aashi’s entire operation has offered a price in excess of the fair market value of Aashi’s net identifiable assets.
 - (e) None of these
- (xviii) When a partnership is formed,
- (a) A written partnership agreement, signed by all partners, must be filed in the state in which the partnership is formed.
 - (b) Each partner may bind the business to contracts and may withdraw an unlimited amount of assets from the partnership, unless these rights are limited in the partnership contract.
 - (c) Each members of the partnership is entitled to participate equally in the earnings of and management of the partnership, unless the partnership is a limited partnership.
 - (d) The partnership must file an income tax return and pay income taxes on its net income.
 - (e) None of these
- (xix) Omar and Rizwan have capital account balances of Rs. 80,000 and Rs. 100,000, respectively, at the beginning of 1994. Their partnership agreement provides for interest on beginning capital account balances, 10%; salaries to Omar, Rs. 30,000, and to Rizwan, Rs. 24,000; residual profit or loss dividend 60% to Omar and 40% to Rizwan. Partnership net income for 1994 is Rs. 62,000. Neither partner made any additional investment in the partnership during 1992, but Omar withdrew Rs. 1,500 monthly and Rizwan withdrew Rs. 1,000 monthly throughout 1994. The partnership balance sheet at December 31, 1994, should include:
- (a) Capital, Omar, Rs. 94,000
 - (b) Capital, Omar, Rs. 112,000
 - (c) Capital, Rizwan, Rs. 30,000
 - (d) Total partner’s equity, Rs. 242,000
 - (e) None of these
- (xx) When a partnership is liquidated:
- (a) Any cash distribution to partners is allocated according to the profit and loss sharing ratios
 - (b) Cash distributed to each partner in an amount equal to his or her capital account balance prior to the sale of partnership assets.
 - (c) Any gain or loss on disposal of partnership assets is divided among the partners according to their relative capital account balances.
 - (d) A partner who maintained a credit balance in his or her capital account prior to liquidation may end up owing cash to the partnership if partnership assets are sold at a loss.
 - (e) None of these.

PART-II

NOTE:(i) **PART-II** is to be attempted on separate Answer Book.

(ii) Attempt **ONLY FIVE** questions from **PART-II**. **Question No. 2 is COMPULSORY**. Select any **TWO** questions from each of the **SECTIONS – A and B**.

(iii) **Extra attempt of any question or any part of the attempted question will not be considered.**

ACCOUNTANCY AND AUDITING, PAPER-I

Q. 2) A trial balance and supplementary information needed for adjustments at September 30, 2004 are shown on the following page for Cinepax Stage & Theater. The company follows a policy of adjusting and closing its accounts at the *each of the month*. (20)

CINEPAX STAGE & THEATER			
Trial Balance			
September 30, 2004			
Cash	Rs. 17,500		
Prepaid film rental	65,000		
Land	75,000		
Building	210,000		
Accumulated Depreciation: building		Rs. 6,125	
Projection equipment	90,000		
Accumulated Depreciation: Projection equipment		7,500	
Notes Payable		200,000	
Accounts payable		8,500	
Unearned admissions revenue		5,200	
Ahmad Khan, capital		200,925	
Ahmad Khan, drawing	10,500		
Admissions revenue		68,750	
Salaries expenses	21,250		
Light and power expense	7,750		
	Rs.497,000		497,000

- a. Rental expense for the month is Rs. 42,275, all of which had been paid in advance.
- b. The building is being depreciated over a period of 20 years (240 months).
- c. The protection equipment is being depreciated over a period of 5 years (60 months).
- d. No entry has yet been made to record interest payable accrued during September. At September 30, accrued interest totals Rs. 1,800.
- e. When tickets are sold to future performances, Cinepax credits its Unearned Admissions Revenue account. No entry has yet been made recording that Rs. 3,650 of these advance ticket sales were for performances given during September.
- f. Cinepax receives a percentage of the revenue earned by Variety Corp., the concessionaire operating the snack bar. For snack bar sales in September, Variety Corp., owes Cinepax Rs. 6,200, payable on October 10. No entry has yet been made to record this revenue. (Credit Concessions Revenue)
- g. Salaries earned by employees, but unpaid as of September 30, amount to Rs. 3,750. No entry has yet been made to record this liability and expense.

INSTRUCTIONS

Prepare:

- a. An income statement, a statement of changes in owner’s equity, and a balance sheet.
- b. The adjusting and closing entries required at month’s end.

SECTION – A

Q.3. Listed below are 12 technical accounting terms: (12)

Accounting period	Depreciation	Net income
Accrual basis of accounting	Expenses	Realization
Cash basis of accounting	Income statement	Revenue
Closing entries	Matching	Conservatism

Each of the following statements may (or may not) describe one of these technical terms. For each statement, indicate the accounting term described, or answer “None” if the statement does not correctly describe any of the terms.

- a. The span of time covered by an income statement.
- b. An increase in owner’s equity as a result of earning revenue and incurring expenses.
- c. An accounting concept intended to avoid overstatement of financial strength or earnings.

ACCOUNTANCY AND AUDITING, PAPER-I

- d. The generally accepted accounting principle used in determining when expenses should be offset against revenue.
- e. The generally accepted accounting principle used in determining when to recognize revenue.
- f. Recognizing revenue when it is earned and expenses when the related goods or services are used in the effort to obtain revenue.
- g. The systematic allocation of the cost of a long-lived asset, such as a building or equipment, to expense over the useful life of the asset.
- h. The procedures for transferring the balances of the revenue, expense, Income Summary, and owner drawing accounts into the owner’s capital account.

Q.4. Explain the double- entry system of accounting. (12)

Q.5. When do accountants consider revenue to be realized? What basic question about recording revenue in accounting records is answered by the *realization principle*? (12)

SECTION – B

Q.6. The CDE partnership is being liquidated. After all liabilities have been paid and all assets sold, the balances of the partners’ capital accounts are as follows: Ahmad, Rs. 42,000 credit balance; Jawad, Rs. 16,000 *debit* balance; Ali, Rs. 53,000 credit balance. The partners share profits and losses: Ahmad, 10%; Jawad, 60%; Ali, 30%. (18)

- a. How should the available cash (the only remaining asset) be distributed if it is impossible to determine at this date whether Jawad will be able to pay Rs. 16,000 he owes to the firm? Draft the journal entry to record payment of all available cash at this time.
- b. Draft the journal entries to record a subsequent partial payment of Rs. 13,000 to the firm by Jawad, and the distribution of this cash. Prepare a schedule (similar to the one prepared in part a) showing computation of amount to be distributed to each partner.

Q.7. During the current year, East-West Airlines earned net income of Rs. 50 million from total revenue of Rs. 350 million. The company services primarily cities in Pakistan but also has service to several foreign countries. Three events are described below, along with the treatment accorded to these events in the company’s financial statements. (18)

This case focuses upon the question of “materiality”. Therefore, some items described below may be viewed as *immaterial*.

- a. During the year, the company purchased Rs. 5 million in spare parts to be used in aircraft maintenance. All of these purchases were charged immediately to Maintenance Expense. No adjusting entry was made at year-end to reflect approximately Rs. 50,000 in spare parts remaining on hand, because the amount was considered immaterial.
- b. The company’s internal auditors discovered that the vice president of in-flight services had embezzled Rs. 100,000 from the airlines by authorizing payments to a fictitious supplier of in-flight meals. The vice president was fired, and criminal charges currently are pending against her, as is a civil lawsuit to recover the embezzled funds. In the income statement, this Rs. 100,000 loss was deducted from revenue as part of the Flight Operations Expenses, which totaled more than Rs. 200 million. No special disclosures were made, because the amount of the embezzlement was considered immaterial.
- c. Shortly after year-end, the company suspended all flight operations to a particular foreign country as a result of political unrest. These flights provided approximately 2% of the company’s revenue and net income during the current year. Cancellation of service to this country was not disclosed in notes to the current year’s financial statements, because operations of the current year were not affected.

INSTRUCTIONS

Explain whether in your own judgment you concur or disagree with the treatment accorded to these events by East-West in its current financial statements. If you recommend a different financial statement presentation, explain why you do. In each case, indicate whether or not you consider the item “material”, and explain your reasons. Consider each of these three situations *independently* of the others.

ACCOUNTANCY AND AUDITING, PAPER-I

Q.8. At the end of the year, the following information was obtained from the accounting records of the Agility Office Products:

Sales (all on credit).....	Rs. 2,700,000
Cost of goods sold	1,755,000
Average Inventory.....	351,000
Average accounts receivable.....	300,000
Interest expense.....	45,000
Income taxes.....	84,000
Net income.....	159,000
Average investment in assets.....	1,800,000
Average stockholders' equity.....	795,000

INSTRUCTIONS

- a. From the information given, compute the following:
- 1. Inventory Turnover
 - 2. Accounts receivable turnover
 - 3. Total operating expenses
 - 4. Gross profit percentage
 - 5. Return on average stockholders' equity
 - 6. Return on average assets
- b. Agility has an opportunity to obtain a long-term loan at an annual interest rate of 12% and could use this additional capital at the same rate of profitability as indicated above. Would obtaining the loan be desirable from the viewpoint of the stockholders? Explain. (18)

Q.9. A tractor which cost Rs. 30,000 had an estimated useful life of 5 years and an estimated salvage value of Rs. 10,000. Straight-line depreciation was used. Give the entry (in general journal form) required by each of the following alternative assumptions:

(18)

- a. The tractor was sold for cash of Rs. 19,500 after 2 years' use.
- b. The tractor was traded in after 3 years on another tractor with a fair market value of Rs. 37,000. Trade-in allowance was Rs. 21,000. (Recorded any implied gain or loss.)
- c. The tractor was scrapped after 7 years' use. Since scrap dealers were unwilling to pay anything for the tractor, it was given to a scrap dealer for his services in removing it.



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Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED:

(PART-I) 30 MINUTES

MAXIMUM MARKS:20

(PART-II) 2 HOURS & 30 MINUTES

MAXIMUM MARKS:80

- NOTE:** (i) **First attempt PART-I (MCQ) on separate Answer Sheet which shall be taken back after 30 minutes.**
(ii) **Overwriting/cutting of the options/answers will not be given credit.**

**PART – I (MCQ)
(COMPULSORY)**

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)

- (i) Which of the following is a clearing account?
(a) manufacturing summary (b) manufacturing overhead (c) accumulated depreciation
(d) accounts payable (e) None of these
- (ii) Which one is not a feature of process costing?
(a) classification of costs into fixed and variable (b) emergence of more than one product
(c) equivalent production (d) duration of work is long
(e) None of these
- (iii) The process loss not allowed to affect the cost of goods units is:
(a) normal loss (b) standard loss (c) abnormal loss (d) material loss (e) None of these
- (iv) Which stock control method concentrates efforts on selected items of inventory?
(a) Periodic inventory system (b) perpetual inventory system (c) inventory turnover ratio
(d) ABC analysis (e) None of these
- (v) Continuous stock taking is a part of:
(a) Periodic inventory (b) annual stock taking (c) perpetual inventory
(d) ABC analysis (e) None of these
- (vi) Agriculture, forestry, hunting and fishing is included in:
(a) Genetic industry (b) Extractive industry (c) Manufacturing industry
(d) Construction industry (e) None of these
- (vii) The minimum number of directors in unlisted public limited company is:
(a) 5 (b) 10 (c) 3 (d) 7 (e) None of these
- (viii) In Pakistan chamber of commerce and industry is registered with:
(a) Registrar of firms' (b) registrar of companies' (c) registrar of societies
(d) registrar of clubs (e) None of these
- (ix) A co-operative society can be formed in Pakistan under Co-operative Societies Act:
(a) 1904 (b) 1912 (c) 1925 (d) 1942 (e) None of these
- (x) Which of the following partnership can be formed for indefinite period?
(a) limited partnership (b) joint venture (c) partnership at will
(d) particular partnership (e) None of these
- (xi) Repetition of client clerical routines such as footing and posting is called:
(a) vouching (b) reperformance (c) scanning (d) tracing (e) None of these
- (xii) The direction of testing from the source document to the accounting record is called:
(a) vouching (b) sampling (c) tracing (d) verification (e) None of these
- (xiii) Which of the following internal controls is usually studied and evaluated in detail?
(a) control over salesmen performance (b) control over machine idle time
(c) quality control over production (d) control over stores and pricing (e) None of these
- (xiv) Which of the following liability of an auditor has occurred when auditor failed to study articles of association and the directors paid dividend out of capital?
(a) negligence (b) misfeasance (c) libel (d) breach of contract (e) None of these
- (xv) Visual examination of accounting record and schedules to identify unusual items or inconsistencies is called:
(a) observation (b) scanning (c) inquiry (d) inspection (e) None of these
- (xvi) Which of the following is revenue expenditure?
(a) cost of feasibility report (b) legal expenses of income tax appeal
(c) cost of issuance of additional capital (d) cost of preparation of partnership deed
(e) None of these
- (xvii) Which of the following is not capital asset?
(a) shares of a company (b) jewellery (c) coin (d) copy rights (e) None of these

ACCOUNTANCY AND AUDITING, PAPER-II

- (xviii) Ground rent is an income from:
(a) agriculture (b) salary (c) business (d) other sources (e) None of these
- (xix) Which of the following is admissible expenditure in respect of income from business?
(a) fines and penalties (b) income tax (c) excise duty
(d) cost of permanent sign-board (e) None of these
- (xx) Which one of the following is an agricultural income?
(a) income from poultry farm (b) income from cultivation of rice
(c) income from sale of water for irrigation (d) royalty income from mines (e) None of these

PART – II

NOTE:	(i) PART-II is to be attempted on the separate Answer Book .
	(ii) Attempt ONLY FOUR questions from PART-II , selecting ONE question from EACH SECTION A,B,C and D . All questions carry EQUAL marks.
	(iii) Extra attempt of any question or any part of the attempted question will not be considered.
	(iv) Use of simple calculator is allowed.

SECTION-A (Cost Accounting)

Q 2. The Constant Company had the following inventories of the beginning and end of January. (20)

	January 1	January 31
Material	Rs. 10000	Rs.38000
Work-in-process	?	110000
Finished goods	50000	150000

During January, the cost of material purchased was Rs. 138000 and the factory overhead of Rs. 90000 was applied at the rate of 50 % of Direct Labour Cost. In January cost of goods sold was Rs. 200000.

Required: Prepare ledger accounts showing the flow of the cost of goods manufactured and sold.

Q 3. ZEE Company produces digital watches in large quantities. The company has two departments, assembly and testing. The manufacturing costs in the assembly department during January were direct material cost Rs.36000; labour cost Rs. 23750; and overhead Rs.14250. Work on 1000 watches was started in assembly department during January, but only 900 watches were fully completed. All the parts had been placed in process, but rest of the watches are one-half complete as to conversion cost.

Required: Prepare cost of production report for assembly department

(20)

SECTION – B (Auditing)

Q.4. What are the advantages and limitations of auditing?

(20)

Q.5. What is the difference between investigation and auditing?

(20)

SECTION – C (Income Tax)

Q.6. Define the following:

(20)

- (i) business (ii) non-profit organisation (iii) person
(iv) public company (v) financial institution

Q.7. The following information is available in respect of Mr. Abdullah for tax year ending on June 30, 2009

(20)

Basic salary	Rs.300000
Dearness allowance	25000
Computer allowance	30000
Medical facility by employer	10000
Gas and electricity allowance	5000
Salary of watch man paid by employer	36000
Profit on sale of shares of private limited company	12000
Leave fare assistance	45000
Employer contribution to provident fund	35000
Profit on sale of shares of listed public limited company	9000

Calculate taxable income of Mr. Abdullah

SECTION – D (Business Organization and Finance)

Q.8. What is the difference between unlisted public limited company and cooperative society?

(20)

Q.9. What is memorandum of association? What are its contents?

(20)



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Roll Number

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED:	(PART-I) 30 MINUTES	MAXIMUM MARKS:20
	(PART-II) 2 HOURS & 30 MINUTES	MAXIMUM MARKS:80

- NOTE:** (i) **First attempt PART-I (MCQ) on separate Answer Sheet which shall be taken back after 30 minutes.**
(ii) **Overwriting/cutting of the options/answers will not be given credit.**

PART – I (MCQ)
(COMPULSORY)

Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)

- (i) Which of the following is an example of internal transaction?
(a) cash received from debtor (b) goods sold on credit (c) supplies consumed in the office
(d) salaries paid to employees (e) None of these
- (ii) A Company's reported opening balance of accumulated depreciation is Rs.150. The closing balance of accumulated depreciation is Rs.125. The current year depreciation is Rs.175. The depreciation on disposed assets is:
(a) Rs.150 (b) Rs.200 (c) Rs.250
(d) Rs.100 (e) None of these
- (iii) Which of the following is an example of non-exchange transaction?
(a) goods lost by fire (b) electric charges paid (c) machinery purchased on credit
(d) carriage paid on furniture (e) None of these
- (iv) A Company receives 40 % of monthly sales and 50% in the following month and rest is received in third month. The sales for January are Rs. 20; February Rs. 30 and March Rs. 40. The collection for March is:
(a) Rs.27 (b) Rs.30 (c) Rs.33
(d) Rs.36 (e) None of these
- (v) The time limit for payment of dividend for a listed public limited company is:
(a) 30 days (b) 45 days (c) 60 days
(d) 90 days (e) None of these
- (vi) The time limit for payment of dividend for an unlisted limited company is:
(a) 90 days (b) 60 days (c) 45 days
(d) 30 days (e) None of these
- (vii) As per Companies Ordinance 1984 a listed public limited company is bound to prepare its financial statements on:
(a) yearly basis (b) half-yearly basis (c) quarterly basis
(d) daily basis (e) None of these
- (viii) As per Companies Ordinance 1984 loose tools are recorded under the head of:
(a) current assets (b) fixed assets (c) long-term investment
(d) long-term deposits (e) None of these
- (ix) A Company reports stock velocity 30 days. Creditors' velocity is 20 days. The debtors' velocity is 15 days. The operating cycle of the company is:
(a) 25 days (b) 50 days (c) 45 days
(d) 65 days (e) None of these
- (x) Left side of an account means the word debit is described as:
(a) noun (b) pronoun (c) verb
(d) adverb (e) None of these
- (xi) A company reports stock velocity 30 days. The debtors' velocity is 20 days. Creditors' velocity is 25 days. The operating cash cycle of the company is:
(a) 75 days (b) 55 days (c) 50 days
(d) 25 days (e) None of these
- (xii) In Pakistan a commercial bank can be formed and is registered under the:
(a) Companies Ordinance 1984 (b) Banking Companies Ordinance 1962
(c) State Bank of Pakistan Act 1956 (d) Modaraba Companies Ordinance 1980 (e) None of these

ACCOUNTANCY AND AUDITING, PAPER-I

- (xiii) In Pakistan a commercial bank prepares its annual accounts under the:
(a) Companies Ordinance 1984 (b) Banking Companies Ordinance 1962
(c) State Bank of Pakistan Act 1948 (d) Modaraba Companies Ordinance 1980 (e) None of these
- (xiv) A Company pays income tax at the rate of 40%. The net income after tax is Rs. 24. The net income before tax is:
(a) Rs.40 (b) Rs.80 (c) Rs.24
(d) Rs.16 (e) None of these
- (xv) In Pakistan insurance company can be formed and is registered under the:
(a) Companies Ordinance 1984 (b) Banking Companies Ordinance 1962
(c) Insurance Ordinance 2000 (d) Modaraba Companies Ordinance 1980 (e) None of these
- (xvi) The working of the insurance company is governed by the:
(a) Companies Ordinance 1984 (b) Banking Companies Ordinance 1962
(c) Insurance Ordinance 2000 (d) Modaraba Companies Ordinance 1980 (e) None of these
- (xvii) Which of the following transactions would result in an increase in the current ratio?
(a) paid cash for a one-year insurance policy
(b) collected an account receivable
(c) used the allowance method to write-off an uncollectible account
(d) borrowed money by issuing a long-term note
(e) None of these
- (xviii) A and B are partners with capital of Rs. 8000 and Rs. 6000 respectively. They admit C as partner with 1/4 share in the profits of the firm. C brings Rs. 10000 as his share of capital. The share of A's goodwill is:
(a) 16000 (b) 8000 (c) 4000
(d) 2000 (e) None of these
- (xix) A, B and C are partners in a partnership firm. The profit sharing ratio was 3:2:1. The goodwill of the firm was valued at Rs.12000. They change their profit sharing ratio as 4:4:2. The value of gain or loss of goodwill to A is:
(a) Gain Rs. 1200 (b) Loss Rs.1200 (c) Gain Rs.800
(d) Loss Rs.800 (e) None of these
- (xx) A and B are the partners in a firm. They admit C into the firm. The new ratio is agreed to be 5:3:4. A and B made equal sacrifice to accommodate C. The old ratio of B is:
(a) 14/24 (b) 15/24 (c) 9/24
(d) 10/24 (e) None of these

PART – II

NOTE:	(i) PART-II is to be attempted on the separate Answer Book .
	(ii) Attempt ONLY THREE questions from PART-II including QUESTION NO. 2 which is COMPULSORY having 30 marks. Rest of the questions carry 25 MARKS EACH .
	(iii) Extra attempt of any question or any part of the attempted question will not be considered.

Q 2: Write the short note on the following?

(3 each)

- What is meant by event in accounting?
- What is the meaning of equity?
- Define separate entity concept.
- Narrate the meaning of conservatism.
- Differentiate among provision, reserve and fund.
- What is meant by footing?
- What is amortisation?
- What is controlling account?
- Define contingent assets.
- What is the meaning of sales term 1/10 E.O.M?

Q 3: The Charitable Trust had the following balance sheet as on December 31, 2009.

(25)

Liabilities		Assets	
	Rs.		Rs.
Salaries payable	3000	Cash	1500
Subscription received in advance	500	Equipment	8000
Capital fund 11200		Stock of medicine	1600
Add life membership fee 2500		Furniture	6000
Add surplus 1900	15600	Subscription due and receivable	2000
	19100		19100

ACCOUNTANCY AND AUDITING, PAPER-I

The accompanying income and expenditure account was the following:

Income and Expenditure Account for the year ended December 31, 2009

Expenditure	Rs.	Income	Rs.
To salaries	35000	By entrance fee	300
To cost of medicine used	6700	By subscription	36100
To depreciation of equipment	600	By miscellaneous receipts	150
To miscellaneous expenses	1500	By profit on sale of furniture	200
To surplus	1900	By grant from government	8950
	45700		45700

Adjustments: The equipment stood at Rs.6000; subscription due and receivable totalled Rs.2500; whereas subscription already received for next year were Rs.700; closing stock of medicine Rs.1100. Prepare receipts and payments account for the year 2009.

Q 4: Below is given the balance sheet of Sunlight Company Limited as on 31st December, 1988.

(25)

Liabilities	Rs.	Assets	Rs.
Share capital	200000	Fixed assets	550000
Reserve fund	150000	Stock in trade	250000
Bank overdraft	200000	Liquid assets	150000
Sundry creditors	400000		
	950000		950000

Bank overdraft is a permanent arrangement made with the bank. Calculate current ratio; quick ratio; debt-equity ratio; fixed assets ratio; and proprietary ratio.

Q 5: Following are summarised balance sheets of a company. Prepare a Comparative balance sheet.

(25)

Liabilities	2004	2005	Assets	2004	2005
	Rs.	Rs.		Rs.	Rs.
Ordinary capital Rs.10	38000	46000	Fixed assets	40000	45000
Reserves	5000	5400	Investment	4000	8000
Loans	600	1600	Current assets	1000	2000
Current liabilities	1400	2000			
	45000	55000		45000	55000

Q 6: The following figures are taken from the books of Sheen Company Limited as on December 31, 2009.

(25)

	Rs.		Rs.
Opening stock	75000	Purchases returns	10000
Purchases	245000	Sales	340000
Wages	30000	Discount	3000
Carriage	950	Profit and loss	15000
Furniture	17000	Share capital	100000
Salaries	7500	Creditors	17500
Rent	4000	General reserve	15500
Trade expenses	7050	Bills payable	7000
Dividend paid	9000		
Debtors	27500		
Plant and machinery	29000		
Cash at bank	46200		
Patents	4800		
Bill receivables	5000		
	508000		508000

Adjustments: Closing stock was valued at retail price Rs.105600 which was 20% higher than cost price. Provide for income tax Rs.19827. Depreciate plant and machinery at 15%; furniture at 10%; and patents at 5%. There was outstanding rent Rs.800 and salaries Rs.900. Make provision for bad debts Rs.510. Provide for manager remuneration at 10% of net profit before tax. The directors proposed dividend at 10% on paid up capital. Prepare trading and profit and loss account for the year ended December 31, 2009 and a balance sheet as at that date.



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COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS
IN BPS – 17 UNDER THE FEDERAL GOVERNMENT, 2008.

Roll Number

ACCOUNTANCY & AUDITING

TIME ALLOWED: THREE HOURS MAXIMUM MARKS:100

PAPER -1

PART – I (MCOS)

Q.1 Select the best option/answer and fill in the appropriate box on the Answer Sheet.

1. Identify the item that is likely to serve as source document:

- a. Trial balance
- b. Income statement
- c. Balance sheet
- d. Invoice from supplier

2. Identify which of the normal balances (in parentheses) assigned to the following accounts is incorrect:

- a. Office supplies (Debit)
- b. Cash (Debit)
- c. Wages payable (Credit)
- d. Free earned (Debit)

3. The formula (Cost less salvage value/Total capacity in units x units extracted) refers to which depreciation method:

- a. Straight line
- b. Units of production
- c. Declining balance
- d. Depletion

4. While passing adjusting entries for what type of transactions expenses are debited and assets are credited:

- a. Accrued revenue
- b. Accrued expenses
- c. Declining balance
- d. Depletion

5. Of the following statements, which one is untrue for the corporate form of organization:

- a. It is a separate legal entity
- b. It has a limited life
- c. Income that is distributed to owners is usually taxed twice
- d. Ownership rights can be easily transferred

6. For each transaction, double-entry accounting requires which of the following:

- a. Debits to asset accounts must create credits to liability or equity accounts
- b. A debit to a liability account must create a credit to an asset accounts
- c. Total debits must equal total credits

7. When costs are rising, which method reports higher net income:

- a. LIFO
- b. FIFO
- c. Average
- d. The most recent purchase price

8. A transaction caused Rs. 20,000 decrease in both total assets and total liabilities. This transaction could have been:

- a. Purchase of an asset for Rs. 20,000 cash
- b. Asset costing Rs. 20,000 destroyed by fire
- c. Repayment of Rs. 20,000 bank loan
- d. Collection of Rs. 20,000 account receivable

9. What percentage of profit a bank has to transfer to statutory reserve until it inflates to paid-up capital of the bank:

- a. 5%
- b. 10%
- c. 20%
- d. 25%

10. Identify the correct answer with regards to depreciation expense:

- a. Is an application of the matching principle?
- b. Is a closing entry?
- c. Usually includes an offsetting credit either to cash or accounts payable.
- d. Is not an adjusting entry?

11. Comparison of a company's financial condition and performance across time is a:

- a. Ration analysis
- b. Horizontal analysis
- c. Vertical analysis
- d. None of these

12. Income and expenditure account in a non trading institution records transaction of:

- a. Revenue nature only
- b. Capital nature only
- c. Both (a) & (b)
- d. Income of revenue nature and expenditure of revenue and capital nature

13. At the time of admission of a new partner, goodwill raised should be written off in:

- a. New profit sharing ratio
- b. Old profit sharing ration
- c. Sacrificing ratio
- d. Gaining ratio

14. A and B are partners in the ratio of 2:1. They admit C for $\frac{1}{4}$ shares who contribute Rs. 3000 for his share of goodwill. Total value of the goodwill of the firm is:

- a. Rs. 3000
- b. Rs. 9000
- c. Rs. 12000
- d. 15000

15. Second hand machinery worth Rs. 10, 000 was purchased, repairing of the machinery cost Rs. 1,000. The machinery was installed by own workers. Wage for this being Rs. 200, the machinery account should be debited for:

- a. Rs. 10,000
- b. Rs. 11,000
- c. Rs. 11,200
- d. None of these

16. If net sales Rs. 100,000 cost of goods sold Rs. 55,000, administrative expenses Rs. 5300, selling expenses Rs. 4375, Interest expense Rs. 500, the operating profit is:

- a. Rs.35325
- b. Rs.45000
- c. Rs.39700
- d. Rs.34825

17. Which of the ratio best reflects a company's ability to meet immediate interest payment?

- a. Debit ratio
- b. Equity ratio
- c. Times interest earned
- d. None of these

18. Identify which items are subtracted from the list amount and not recorded when computing purchase price:

- a. Freight in
- b. Trade discount
- c. Purchase discount
- d. Purchase return

19. Bonus payable only on the maturity of the policy is termed as:

- a. Cash bonus
- b. Reversionary bonus
- c. Interim bonus
- d. Bonus is reduction of premium

20. Rebate on bill discounted (unearned discount) is:

- a. An expense
- b. An income
- c. A liability
- d. An asset

Q.2 Give short answer to the following:

- i. Define each component of accounting equation.
- ii. Identify stakeholders in Insurance Company.
- iii. Identify the meaning of accounting related acronym GAAP.
- iv. Define adjusted trial balance.
- v. Describe financing activities in the context of cash.
- vi. Explain the difference between financing reporting and financial statements.
- vii. Explain salvage value of an asst.
- viii. Define Franchises and licenses
- ix. Explain acronym FOB destination.
- x. Explain accrual accounting system.
- xi. Explain Matching Concept.
- xii. Define Debit Note.
- xiii. Describe re-valuation Accounts.
- xiv. What is meant by interim accounts?
- xv. Bring out the importance of preparing Trial Balance.

Q.3 The Following Balances appeared in the books of X Ltd. As on 31st December 2006.

Debit Balances Rs. Credit Balances Rs.
Building 50,000 Subscribed & Paid up Capital 3,00,000
Purchases 50,451 General Reserve 1,25,000
Manufacturing Exp 1,79,500 Unclaimed Dividends 3,663
Establishment Exp 1,407 Trade Creditors 18,029
General Charges 15,539 Sales 4,91,974
Machinery 10,000 Depreciation Reserve 35,500
Motor Vehicles 7,500 Interest on Investments 4,272
Furniture 250 Profit & Loss A/c (01-01-06) 8,423
Opening Stock 86,029 Staff Provident Fund 18,750
Book Debts 11,690
Investments 1,44,475
Cash 36,120
Director's Fees 900
Interim Dividend 7,500
TOTAL 1,005,611 TOTAL 1,005,611

From these balances and the following information, prepare the company's Balance Sheet as on 31st December, 2006 and its profit and Loss Account for the year on that date:

- The stock on 31st December, 2006 was valued at Rs. 74,340.
- Provide Rs. 5,000 for depreciation on fixed assets, Rs. 3,250 for Managing Director's commission and Rs. 750 for the company's contribution to their staff provident fund.
- Interest accrued on investment amounted to Rs. 1,375.
- A provision of Rs. 4,000 for taxes in respect of profit 2006 is considered necessary.
- The directors propose a final dividend @ 5%

Q.4. The following data are extracted from the published accounts of two companies in an industry:

X CO. Ltd Y CO. Ltd

Rs. Rs.
Sales 16,00,000 15,00,000
Profit after tax 61,500 79,000
Equity Capital 5,00,000 4,00,000
(Rs. 10 per share fully paid)
General Reserve 1,16,000 3,21,000
Long-Term Debts 4,00,000 3,30,000
Creditors 1,91,000 2,74,500
Bank Credit (short term) 30,000 1,00,000
Fixed Assets 7,99,500 7,95,000
Inventories 1,65,500 4,40,500
Other Current Assets 2,72,000 2,26,000

You are required to calculate the following Ratios of both companies;

- Current ratio
- Quick Ratio
- Net profit Ratio
- Stock turn over
- Debt equity ratio

Q.5. Rizwan Company is preparing a cash budget for July. The following estimates were made:

- (a) Expected cash balance, July 1, Rs.5, 000.
- (b) Income tax rate is 40% based on accounting income for the month, payable in the following month.
- (c) Rizwan's customers pay for 50% of their purchase during the month of purchase and the balance during the following month. Bad debts are expected to be 2%
- (d) Merchandise is purchased on account for resale, with 25% of purchases paid for during the month of purchase and the balance paid during the following month.
- (e) Marketing and administrative expenses are all paid in the current month.
- (f) Dividends of Rs.15, 000 are expected to be declared and paid during July.
- (g) Rizwan's desire is to have a minimum month-end cash balance of Rs.5, 000.
- (h) Other budgets include the following estimates:

June (Rs.)	July (Rs.)
Sale (all on account)-----	30,000 40,000
Purchase -----	10,000 15,000
Depreciation Expenses-----	5,000 6,000
Cost of Goods Sold-----	12,000 16,000
Other marketing expenses -----	9,000 10,000

Requirement: Prepare a cash budget for July. (25)

**Q.6. Given below is the Receipts and payments account of the Fan Club for the (25)
year ending 31st December 2006:**

Rs.	Rs.
Balance B/D 10,250	Salaries 6,000
Subscription: Genera expenses 750	
2005 400	Drama expenses 4,500
2006 20,000	Newspapers etc. 1,500
2007 600	Municipal taxes 400
Donations 5,400	Charity 3,500
Proceeds of drama tickets 9,500	investments 20,000
Sale of waste paper 450	Electricity 9,000
TOTAL 47,100	TOTAL 47,000

Prepare the Club's income and expenditure account for the year ended on 31st December , 2006 and its balances sheet as on that data, after taking the following information into account:

- a) There are 500 members, each paying an annual subscription of Rs. 50, Rs. 500 being in arrears for 2005.
- b) Municipal taxes amounting to Rs.400 per annum have been paid upto 31st March 2007, and Rs. 500 for salaries is amounting .
- c) Buildings stood in the books at Rs. 50,000 and it is required to write off depreciation at 5 percent.
- d) Three percent interest has accrued on investment for five months.



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Roll Number

ACCOUNTANCY & AUDITING

TIME ALLOWED: THREE HOURS MAXIMUM MARKS:100

PAPER - II

PART – I (MCO)

Q.1 Select the best option/answer and fill in the appropriate box on the Answer Sheet.

1. A job-order costing system is most appropriate for which of the following types of manufacturing?

- a. Flour milling
- b. Paper manufacturer
- c. Automobile manufacturer
- d. Shipbuilders

2. The predetermined overhead is:

- a. Determined at the end of the accounting period
- b. Determined by dividing the allocation base by the estimated overhead
- c. Used in a normal cost system
- d. Never applied to the work in process at the end of the period

3. Actual overhead costs appear:

- a. On a job cost sheet
- b. In the work in process account
- c. In the financial goods account
- d. In the manufacturing overhead accounts

4. Which of the following is a clearing account?

- a. Manufacturing summary
- b. Manufacturing overhead
- c. Depreciation expense
- d. Accumulated depreciation

5. Which of the following is a benefit of a just-in-time (JIT) inventory system?

- a. Decreased facility-level activity
- b. Reduction in investment funds
- c. Reduction in skilled labour
- d. Reduction in waste

6. The basic concept which recognizes that the cost of internal control should not exceed the benefits expected to be derived is known as:

- a. Reasonable assurance
- b. Management responsibility
- c. Limited liability
- d. Management by exception

7. Which of the following eliminates details from the working trial balance by classifying and summarizing similar or related items?

- a. Lead schedules
- b. Control accounts
- c. Supporting schedules
- d. Accounts analysis

8. Which of the following would be least likely to be considered a control objective?

- a. Safeguarding assets
- b. Detecting management fraud
- c. Accuracy of accounting data
- d. Adherence to managerial policies

9. Which of the following statements is false?

- a. Checklist is a method of internal control for a small business
- b. Two types of audit tests are compliance tests and substantive tests
- c. Materiality and audit risk have direct relationship
- d. Internal control consists of both accounting controls and administrative controls

10. Which of the following is principle purpose of evaluation on internal control?

- a. Compliance with auditing standards
- b. Checking efficiency of management
- c. Issuance of letter of weakness in internal control
- d. Determining nature, timing and extent of substantive audit test
- e. None of these

11. Which of the following assets is not eligible for initial depreciation allowance?

- a. Vehicle for factory labour
- b. Professional books
- c. Vehicle plying for hire
- d. Ship

12. Which of the following is capital asset under the Income Tax Ordinance, 2001?

- a. Shares of a company
- b. Copy rights
- c. Patents rights
- d. Stock of goods

13. Which of the following is an agricultural income?

- a. Royalty income for miners
- b. Income from cultivation of rice
- c. Income from sale of irrigation water
- d. Income from poultry farm

14. Which of the following expenditures is admissible under the head income from Business?

- a. Cost of issue of shares
- b. Wealth tax
- c. Loss by fire
- d. Interest payable to partner

15. Which of the following rental income is exempted from tax under the head Income from Property?

- a. Property income held under trust
- b. Self-occupied residential property
- c. Income from agricultural building
- d. All of these

16. The face values and market value of shares remain the same in case of:

- a. Public limited company
- b. Co-operative society
- c. Single member company
- d. Private limited company

17. Which of the following combination of business makes different types of goods and have in common either raw material or final product?

- a. Horizontal
- b. Vertical
- c. Circular
- d. Lateral

18. The status of Chamber of Commerce and Industry in Pakistan is:

- a. Partnership
- b. Association of persons
- c. Limited company
- d. Club

19. Markets are necessary because:

- a. Demand always exceeds supply
- b. Barter cannot work properly
- c. Competition is encouraged
- d. Buyers and sellers are different people

20. Discovery of business opportunities and arrangement of property, funds, and management ability to set up a business is called:

- a. Incorporation
- b. Integration
- c. Amalgamation
- d. Promotion

PART II

Section-I (Cost Accounting)

Q.2 The Solo Company uses process cost system. Tailoring department of the company produces cotton shirts. All direct materials are introduced at the process. Conversion costs are incurred uniformly throughout the process. The company started 500 shirts. It completed and transferred 400 shirts. At the end of the month 80 shirts were in process. Each shirt in ending work in process was 75% converted. Cost incurred during May; direct materials Rs. 43200 and conversion costs Rs. 92000.

Required: Prepare Cost of Production for the month of May, 2007

Q.3 The materials analyst for moderate Company is asked to determine the number of units of material A to order for March delivery. The production schedule calls for 10000 units of this material for January operations; 13500 units for February; and 14800 units for March. On January 1, the inventory shows 10000 units on hand; 14000 units are on order for January delivery; and 13000 units on order for February delivery; and 7500 units minimum reserve inventory is maintained.

Required: Determine the quantity to order for March delivery.

SECTION-II (Auditing)

Q.4 Draw a specimen of unqualified audit report of a public limited company?

Q.5 Differentiate between internal audit and statutory audit?

SECTION-III (Income Tax)

Q.6 What are various sources of income chargeable to tax under the head "Income from other sources"?

Q.7 Mr. Ali is an officer in AB Company Ltd. He supplied information for the year ending June 30, 2007 as started below:

- i. Basic salary per month Rs. 25000.
- ii. Dearness allowance Rs. 14000.
- iii. House Rent allowance per month Rs. 12500.
- iv. Gas and electricity allowance Rs. 15000.
- v. Conveyance allowance Rs. 2500 per month.
- vi. Medical allowance Rs. 1500 per month.
- vii. Leave fare assistance including hotel bill Rs. 13000
- viii. Insurance money received on maturity of policy Rs. 150000.
- ix. Income from Khas Deposit Certificate Rs. 500.

Required: Calculate tax liability of Mr. Ali.

SECTION-IV (Business Organization & Finance)

Q.8 Define business combination? What are the causes of business combinations?

Q.9 Differentiate between unlisted company and listed company in Pakistan?

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ACCOUNTANCY & AUDITING
PAPER - I

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PART - I

Q.1. Answer the following short questions:

- (a) Prepare the two adjusting entries required to record accrued salaries expense and accrued legal fees revenue.
- (b) Define provision for bad debts.
- (c) Give two examples of contra items which appear in the balance sheet of a bank.
- (d) What is meant by interim accounts?
- (e) Briefly explain the periodic inventory system.
- (f) State the matching principle.
- (g) What do you understand by worksheet?
- (h) List the accounting procedures involved in the accounting cycle.
- (i) Describe revaluation account.
- (j) Bring out the importance of preparing trial balance.

Q.2. Following information is developed from the accounting records of Sana Chemicals Limited:

- (1) Current Ratio = 2.5
- (2) Liquid Ratio = 1.5
- (3) Proprietary Ratio (Fixed Assets to Proprietor's Fund) = 0.75
- (4) Working Capital = Rs.150,000
- (5) Reserves and Surplus = Rs.100,000
- (6) Bank Overdraft (Current Liability) = Rs. 25,000

Required: Find out Current Assets, Current Liabilities, Stock, Liquid Assets and Fixed Assets. Also prepare a statement of Proprietor's Fund and a Balance Sheet.

Q.3. The following Trial Balance was extracted from the books of Orix Industries Limited as on 31st December, 2006.

	Rs.	Rs.
Share Capital -----	x -----	280,000
Office Salaries -----	19,860	
Machinery and Plant -----	128,400	
Opening Stock -----	72,940	
Purchases -----	292,620	
Purchases Returns -----	x -----	4,290
Sales -----	x -----	572,140
Sales Returns -----	3,210	

Loan on Mortgage -----	x -----	85,000
Manufacturing Wages -----	123,140	
Travellers's Salaries and Commission ----	32,760	
Factory Fuel and Lighting -----	4,280	
Office Expenses -----	3,220	
Interest on Loan -----	4,250	
Carriage Inward -----	4,310	
Carriage Outward -----	3,420	
Discount -----	x -----	780
Provision for Bad Debts -----	x -----	2,500
Freehold Premises -----	142,000	
Office Rent and Rates -----	2,710	
Factory Rates and Insurance -----	2,220	
Office Furniture -----	5,000	
Machinery Repairs -----	3,980	
Royalties paid -----	4,710	
Bad Debts -----	2,190	
Sundry Debtors -----	62,840	
Sundry Creditors -----	x -----	17,210
Cash in Hand -----	3,270	
Cash at Bank -----	22,730	
Bill Receivable -----	17,860	
Total.....	961,920 ----	961,920

Additional Information:

- Closing Stock Rs.87,210.
- Depreciation to be provided on Machinery and Plant at 10% and Office Furniture at 5%.
- The provision for Bad Debts is to be increased by Rs.4,000.
- Outstanding Wages Rs.3,210 and Salaries Rs.920.
- Insurance Premium Rs.2,400 is included in Machinery Repairs by mistake.

Requires: Prepare Trading and Profit and Loss Account for the year ended 31st December, 2006 and a Balance Sheet as on that date.

Q.4. Using the information given below, prepare Cash Budget showing expected Cash Receipts and Disbursements for the month of April, 2007 and the Cash Balance expected as of April 30, 2007.

- Bank Loan due on April 10, Rs.90,000 plus Rs.4,500 interest.
- Depreciation for April, Rs.2,100.
- Two years Insurance Policy due April 14, for renewal Rs.1,500 to be paid in cash.
- Cash Balance March 31, Rs.80,000.
- Merchandise purchases for April Rs.500,000, 40% paid in the month of purchase, 60% paid in next month.
- Account receivable as of March 31, Rs.60,000 from February sales, Rs.450,000 from March sales.
- Salaries due in April Rs.90,000.
- Other expenses for April, payable in April Rs.45,000.
- Accrued taxes for April, payable in June 2007 Rs.7,500.
- Sales for April Rs.1,000,000, half collected in the month of sale, 40% in next month, 10% in third month.
- Accounts payable March 31, Rs.460,000.

Q.5. Ahmad and Bilal carry on business in partnership, sharing profits and losses in the proportion of 2/3 and 1/3 respectively. The Balance Sheet at 31st December, 2006 was as follows:

Ahmad's Capital ----- 15,000
 Bilal's Capital ----- 10,000
 Creditors ----- 2,000
 Bank Overdraft ----- 15,000
Total. ----- 42,000

Plant and Machinery --- 4,000
 Stock ----- 22,000
 Debtors ----- 15,000
 Cash ----- 1,000
Total. ----- 42,000

They agreed to admit Saeed into partnership and give him 1/4 share in the profits on the following terms:

- (1) Saeed should bring Rs.3,000 for Goodwill and Rs.20,000 as Capital.
 - (2) The plant and machinery to be reduced by 10 percent, and a provision to be created for bad debts to the extent of Rs.440. The stock to be taken at a valuation of Rs.25,000.
 - (3) The Capital Accounts of Ahmad & Bilal be adjusted on the basis of their profit sharing ratio.
- No account of Goodwill is to be opened in the books of the firm.

Required: Make Journal Entries to record the above transactions. Also prepare the Partners' Capital Accounts and Opening Balance Sheet of the new Firm.

PART – II (MCQS) COMPULSORY QUESTION

Q.6. Write only the correct answer in the Answer Book. Do not reproduce the question.

- (1) Which of the following best describes the nature of an asset?
 - (a) Something with a ready market value
 - (b) An economic resource, which will provide some future benefits, owned by a business.
 - (c) The amount of the owner's investment in a business
 - (d) None of these
- (2) A balance sheet is prepared to find out financial position of a firm:
 - (a) For a specified period
 - (b) On a particular date
 - (c) At the time of sale of business
 - (d) None of these
- (3) The preparation of work sheet:
 - (a) Constitutes creation of a formal financial statement
 - (b) Eliminates the need for entering adjusting entries in the journal
 - (c) Provides the information needed for journalizing adjusting and closing entries
 - (d) None of these
- (4) Assets would be overstated if necessary adjusting entry was omitted for:
 - (a) Expired Insurance
 - (b) Accrued Salaries
 - (c) Accrued Interest Earned

(5) The book value of the depreciable asset is best defined as:

- (a) The un-depreciated cost of the asset
- (b) The price that the asset would fetch if offered for sale
- (c) Accumulated depreciation of the asset since acquisition
- (d) None of these

(6) Which of the following is not an intangible asset?

- (a) A patent
- (b) A trademark
- (c) An investment in marketable securities
- (d) None of these

(7) A company has current ratio of 2 to 1 at the end of year 1. Which one of the following transactions will increase this ratio?

- (a) Sales of bonds payable at a discount
- (b) Declaration of a 20% cash dividend
- (c) Collection of a large account receivable
- (d) None of these

(8) If sales increase by 10% from year 1 to 2 and cost of goods sold increases only 6%, the gross profit on sales will increase by:

- (a) 4%
- (b) 10%
- (c) 6%
- (d) None of these

(9) Which of the following is not an acceptable inventory method?

- (a) Lower of cost or market
- (b) Sales value
- (c) Specific identification
- (d) None of these

(10) Which of the following amounts appears in both the income statement and balance sheet?

- (a) Net Income
- (b) Accumulated depreciation
- (c) Dividends
- (d) None of these

(11) Both the accounts for depreciation expense and accumulated depreciation:

- (a) Are closed at the end of the period
- (b) Appear in the Adjusted Trial Balance Columns of the worksheet
- (c) Appear in the Trial Balance Columns of the worksheet
- (d) None of these

(12) When a partnership is liquidated:

- (a) Any cash distribution to partners is allocated according to the profit and loss sharing ratio.
- (b) Cash is distributed to each partner according to his or her capital account balance before the sale of partnership assets.
- (c) Any gain or loss on disposal of partnership assets is divided among the partners according to their relative account balances.
- (d) None of these

(13) In projecting the future profitability of a trading company, investors will be least concerned with changes in:

- (a) The gross profit rate
- (b) The quick ratio
- (c) Sales volume
- (d) None of these

(14) Revenue is most commonly recognized at the time when:

- (a) Cash is collected
- (b) The order is received from customers
- (c) The sale is made
- (d) None of these

(15) Which of the following list of accounts is used to compute the cost of goods sold?

- (a) Purchases, inventory, and sales returns.
- (b) Gross profit, purchase returns and carriage inward.
- (c) Inventory, net sales and purchases
- (d) None of these

(16) Which of the following is ascertained by drawing up an income and expenditure account?

- (a) Cash in hand
- (b) Surplus or Deficiency
- (b) Capital Fund
- (d) None of these

(17) On April 1, Hassan & Company received and paid a Rs.700 bill for the advertising done in March. In addition to this bill the company paid Rs. 6,100 during April for expenses incurred in that month. Hassan & Company paid Rs.3,600 as salary to employees for work done in April. Based on these facts, total expenses for the month of April were:

- (a) Rs.6,100
- (b) Rs.6,800
- (c) Rs.10,700
- (d) None of these

(18) Which of the following categories of accounts are closed at the end of an accounting period?

- (a) Temporary accounts
- (b) Permanent accounts
- (c) Personal accounts
- (d) None of these

(19) A retail store had current assets of Rs.72,000 and a current ratio of 2 to 1. The amount of working capital must have been:

- (a) Rs.144,000
- (b) Rs.108,000
- (c) Rs.72,000
- (d) None of these

(20) Bond holders would be most interested in which of the following?

- (a) Quick ratio
- (b) Inventory turnover
- (c) Times interest earned
- (d) None of these

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**ACCOUNTANCY & AUDITING
PAPER - II**

NOTE: (i) Attempt FIVE questions in all including question No. 8 which is compulsory. All questions carry EQUAL marks.
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(iii) Candidate must draw two straight lines (=====) at the end to separate each question attempted in Answer Books.

PART – A (Cost Accounting)

Q.1. Explain Classifications of Cost under the following headings:

- (i) Direct and Indirect costs
- (ii) Fixed and variable costs
- (iii) Product cost and period costs
- (iv) Controllable and Non controllable costs

Q.2. Hamza Manufacturing Company collects its cost data by the job order cost accumulation procedure. For job No 0010, for customer Hunzala Ltd; the following data is available:

Direct Material Cost -----	Direct Labour Cost
Jan 06 Issued Rs.2,000 -----	11 Jan, 150 hours @ 12 per hour
Jan 10 Issued Rs.1,500 -----	20 Jan, 200 hours @ 11 per hour
Jan 18 Issued Rs.1,000	

Factory overhead is applied @ 5 per direct labour hour. Hunzala Ltd. placed the order for 1,000 units on Jan 05, 2007.

The Hamza Manufacturing Company started the work on job No 0010 on Jan 06, 2007 and job was completed on Jan 20, 2007 (one day before the date wanted by the customer). The sale price of the job was contracted with a mark up of 20% of cost.

Required: Prepare a Job Order Cost Sheet assuming that Selling and Administrative Expenses are 15% on Sales.

PART – B (Auditing)

Q.3. What is an “Audit Program?” What are the contents of “Audit Program?” Discuss its advantages, disadvantages and how its disadvantages be curtailed?

Q.4. Discuss in detail the rights and duties of an auditor of a Public Ltd. Company with reference to Companies Ordinance 1984.

PART – C (Income Tax)

Q.5. What do you mean by the term “Rent Chargeable to Tax?” What are allowable deductions for determining taxable income from Property under Income Tax Ordinance 2001?

Q.6. Ms Maryam is an accountant in Meridian Hotel. Her pay scale is Rs.4000-250-9000.

The other particulars of her income for the tax year ending June 30, 2006 are detailed below:

- (1) Basic Salary Rs.8,000 per month.
- (2) Bonus Rs.4,000.
- (3) Rent free unfurnished accommodation provided by the employer. The annual rental value of the accommodation of Rs.24,000.
- (4) Salary of the watchman Rs.600 per month born by employer.
- (5) Conveyance allowance Rs.10,200. Conveyance is owned and maintained by the employee.
- (6) Interest free loan obtained from employer Rs.80,000.
- (7) Medical allowance Rs.12,600.
- (8) Income from non professional writings Rs.4,200.
- (9) Bonus shares received from Public Ltd. Co. Rs.8,000.
- (10) Subsidized lunch facility Rs.10,000.
- (11) Motor Vehicle tax paid Rs.500.

Required: Calculate the tax liability of Ms Maryam.

PART – D (Business Organization & Finance)

Q.7. What is Cooperative society? How does it differ from Joint Stock Company? Explain in detail.

Q.8. There is an imperative importance of Finance in the growth and development of a business. Discuss.

COMPULSORY QUESTION

Q.9. Write only the correct answer in the Answer Book. Do not reproduce the question.

(1) If annual requirement is 50,000 units, cost per unit Rs.15, ordering cost Rs.20 per order and holding cost 10% of the purchase price then what is economic order quantity?

- (a) 577
- (b) 1816
- (c) 1866
- (d) 1155

(2) Average, minimum and maximum daily usage is 400, 180 and 520 units Respectively. Lead time 10 to 15 days and reorder quantity 8000 units. What is reorder level:

- (a) 5000
- (b) 6000
- (c) 7800
- (d) 8000

(3) The amount of overtime premium contained in direct wages would normally be classified as:

- (a) Part of prime cost
- (b) Factory overhead
- (c) Direct labour cost
- (d) Administrative overhead

(4) Cost of Goods sold Rs.14,000. Purchases Rs.14,000 Carriage Inward Rs.1,000, carriage outward Rs.1,500 and closing inventory Rs.13,000. What is the opening inventory?

- (a) Rs.10,500
- (b) Rs.11,500
- (c) Rs.12,000
- (d) Rs.13,000

(5) Which one of the following statements is incorrect with respect to external auditors:

- (a) External auditors are independent of organization
- (b) The responsibility of external auditor is fixed by statute
- (c) External auditors report to the members
- (d) External auditors work may range over many areas of activities as determined by the management

(6) The first auditor of a Public Limited Company is appointed by the directors with in:

- (a) 30 days of incorporation
- (b) 60 days of incorporation
- (c) 90 days of incorporation
- (d) 120 days of incorporation

(7) Audit working papers are the property of:

- (a) Client
- (b) Accountant
- (c) Auditor
- (d) Registrar of Companies

(8) Which of the following would be least likely to be considered an objective of a system of internal control:

- (a) Checking the accuracy and reliability of accounting data
- (b) Detecting management fraud
- (c) Encouraging adherence to managerial policies
- (d) Safeguarding assets

(9) Benchmark rate of interest for the tax year 2006 was:

- (a) 5%
- (b) 6%
- (c) 7%
- (d) 8%

(10) Dividend income is subject to tax at source at:

- (a) 0%
- (b) 5%
- (c) 10%
- (d) 15%

(11) If cost of goods sold Rs.450,000, Opening stock Rs.125,000 and Closing stock Rs.175,000 then inventory turnover ratio is:

- (a) 2 times
- (b) 3 times
- (c) 4 times
- (d) 5 times

(12) If cost of good sold Rs.600,000, Operating expenses 40,000, sales Rs.820,000, Sale return Rs.20,000 then operating ratio is:

- (a) 50%
- (b) 80%
- (c) 90%
- (d) 100%

(13) Tax deducted at source will be treated as:

- (a) Taxable
- (b) Exempt
- (c) Deductible from net tax
- (d) Deductible from total income

(14) If rent received is Rs.1000 per month, token money forfeited Rs.500, insurance premium paid Rs.100, water charges Rs.100, the net property income will be:

- (a) Rs.12,000
- (b) Rs.12,300
- (c) Rs.12,400
- (d) Rs.12,500

(15) One of the basic purposes of business combination is:

- (a) To provide better services to the community
- (b) To sell the goods at competitive prices
- (c) To reap profit by eliminating competition
- (d) To increase sales

(16) A cooperative society is registered under cooperative society act of:

- (a) 1925
- (b) 1930
- (c) 1984
- (d) 1948

(17) Which one of the following is not considered a legal document of Joint Stock Company:

- (a) Memorandum of association
- (b) Articles of association
- (c) Prospectus
- (d) Shares

(18) Which one of the following is to be repaid in the last in case of liquidation of company:

- (a) Equity capital
- (b) Preference Capital
- (c) Debentures
- (d) Preferential Creditors

(19) Average relief is allowed on the following expenditures except:

- (a) Donation for charitable purpose
- (b) Investment in shares
- (c) Mark-up on housing finance
- (d) Contribution to employees children education fund

(20) The most important reason for having an annual audit is to:

- (a) Provide assurance to investors & others stake holders that financial statements are dependable.
- (b) Enable Directors to avoid personal responsibility for any deficiency in the financial statement.
- (c) Meet the requirement of government agency.
- (d) Provide assurance that fraud, if any exists, will be brought to light.

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PART – I

Q1. Explain and illustrate legal provisions governing preparation of banking companies and financial statements in Pakistan.

Q2. The books of Safeer Manufacturing Co. engaged in assembling refrigerators showing the following information for the ix months ended on December 31, 2005.

Particulars	Rs
Material purchased-----	1,041,250
Stock-July 1, 2005:	
Material-----	1, 25,000
Finished goods (50 refrigerators) -----	20,575
Director Labour -----	1,025,000
Factory Overheads-----	435,050
Selling expenses -----	214,000
General & Admn. Expenses -----	241,500
Financial Management expenses -----	9,200
Sales (6000 refrigerators) -----	3,180,000
Stock – December 31, 2005:	
Material -----	75,000
Finished goods (250 refrigerators)	
You can calculate the amount of closing stock	
Refrigerators at cost	
There was no work-in-process at the end of the year.	

Required:

- (1) An income statement.
- (2) Number of Unites manufactures
- (3) Unit cost of refrigerators manufactured
- (4) Gross Profit and the Net profit per unit sold.

Q3. The following is the trial balance of Metropolitan Company (Private) Limited as on June 30, 2005:

Particulars	Debit	Credit
Plant & Machinery -----	375,000	
Wages -----	90,000	
Vehicles -----	71,000	

Furniture and Fixtures -----	30,000		
Carriage inward -----	5,000		
Carriage outward-----	6,250		
Freehold Land -----	75,000		
Purchasing expenses -----	28,750		
Insurance -----	6,250		
Rates and taxes -----	25,000		
Office supplies -----	5,750		
Electricity -----	48,500		
Salaries -----	40,000		
Opening stock -----	56,750		
Purchases -----	325,000		
Sales return -----	8,250		
Discount -----	3,000		
Bad debts -----	4,375		
Mark-up & bank charges -----	5,625		
Cash in hand -----	7,125		
Short term deposit -----	50,000		
Repairs & maintenance -----	14,500		
Postage, telegram & telephone -----	5,000		
Sundry debtors -----	116,100		
Capital -----	500,000		
Investment -----	37,500		
Sales -----	795,000		
Purchases return -----	10,750		
Sundry Creditors -----	61,600		
Bank Overdrafts -----	29,375		
Reserve for doubtful debt -----	7,500		
Discount & Commission -----	4,250		
Interest received -----	3,125		
Dividend Income -----	5,625		

The following adjustments are required to be made into the accounts:

- (1) Closing stock Rs. 73,000.
- (2) Depreciation to be provided at following rates:
 - (a) Freehold land ----- 5%
 - (b) Vehicles ----- 20%
 - (c) Other assets ----- 10%
 (Plant & Machinery and furniture and Fixtures)
- (3) Reserve for doubtful debt is required to be kept at 5% of the debtors balance.
- (4) Prepaid insurance Rs. 1,500 and rates & taxes – Rs. 375
- (5) Outstanding wages Rs. 3,000 and salary Rs. 8, 375

Required:

Prepare trading profit and loss account and balance sheet as at 30-06-2005.

4. Working capital of X Company at December 31-2005 exceeds the working capital at December 31-2004 by Rs. 50,000 as reported blow.

2005 2004

Particulars Rs Rs

Current Assets

Cash, Marketable securities 150,000 250,000

& accounts receivable
Merchandise inventory 450,000 250,000
Total Current Assets 600,000 500,000
Current Liabilities 300,000 250,000
300,000 250,000

Required:
Undertake liquidity analysis with particular reference to:
(1) Current ratio
(2) Quick ratio
(3) Working capital
First calculate the ratios, later compare the same with reference to standard ratios and later present a lucid analysis.

Q5. Explain various types of depreciation methods relating to:
(a) Fixed assets
(b) Wasting assets
Illustrate your answer properly in respect of how various depreciation methods are used.

COMPULSORY QUESTION

Q6. Answer all questions in the following format. An overwritten answer can carry no marks. Correct answers and rationale will carry equal grade:

- S. No True/False Rationale
- (1) There is no difference between Financial Report and Financial statement. (True/False)
 - (2) Calculating number of days uncollected of sales is known as Collection Index. (True/False)
 - (3) Wages paid for construction of a plant is revenue expenditure. (True/False)
 - (4) Times interest earned is a great interest for a banker. (True/False)
 - (5) Budgeted Profits are always high when pessimistic approach for preparing budget is followed. (True/False)
 - (6) Work Sheet only presents Balance Sheet figures. (True/False)
 - (7) Trial Balance is prepared from ledger. (True/False)
 - (8) Banks are governed under the Companies Ordinance, 1984 only for preparation of their financial statements. (True/False)
 - (9) Suspense Account is a clear account with no question to be asked. (True/False)
 - (10) Ledgers are prepared from vouches much before transactions are recorded in the Journal. (True/False)

FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS
IN BPS – 17 UNDER THE FEDERAL GOVERNMENT, 2006

ACCOUNTANCY & AUDITING
PAPER - II

PART – A: (COST ACCOUNTING)

Q1. Explain the rationale supporting cost Accounting. How will it contribute to the efficient allocation of resources? Illustrate your answer.

Q2. Pervaiz Products Company uses a standard Cost System. For the year ended March 31 the company results may be summarized as under:

Particulars	Standard	Actual
Production (in units)		
Material price per pound		
Material quantity		
Direct Labour hours		
Direct Labour Cost per hour		
Factory overhead:		
(Variable expenses) 490,000		
(Fixed expenses) 210,000		
700,00		
Actual overhead 140,000		
Rs. 60,00		
280,000lbs		
7,000		
Rs. 22,50		
700,000 143,000		
Rs.62,50		
290,000lbs		
6,900		
Rs.22,00		

Rs.716,500
There is no inventory of work-in-process at the beginning or at end of the above fiscal year.

Required:

- (1) Prepare a statement showing analysis of variances.
- (2) Compute actual and standard cost per unit of product.

PART – B (AUDITING)

Q3. State major contents of Annual Audit Report of a listed Public limited company under the Companies Ordinance, 1984.

Q4. Differentiate amongst the following:

- (a) Internal Audit (b) Internal Control
- (c) External Audit

PART – C: (INCOME TAX)

Q5. Define the following terms as have been used in the Income Tax Ordinance, 2001:

- (a) Amalgamation (b) Business
- (c) Depreciable (d) Income

Q6. The following particulars in respect of Mohammad Ali for the year ended on June 30, 2005 are available:
Particulars Rs

- (1) Salary per month
 - (2) House property let out @ Rs. 3000 pm
 - (3) Profit on his 1/3rd share from a tailoring shop (AOP)
 - (4) Director’s fee
 - (5) Dividend received from companies listed on Stock Exchange in Pakistan
- 72,000
36,000
33,600
21,000
9,600
He is a sleeping partner in the above AOP
Required:
Compute taxable income

PART – D: (BUSINESS ORGANIZATION & FINANCE)

Q7. Present a lucid analysis of operational of a joint Stock Company.

Q8. Explain major role of financial institutions. Are there any limitations in respect of their impact?

COMPULSORY QUESTION

Q9. Present your answer in the following format. Overwritten answers will carry no marks. One marks is for correct answer and one mark is for rationale:
S. No True/False Rationale

- (1) Every limited company is legally required to get their account audited by a practicing Chartered Accountant. (True/False)
- (2) Conversion Cost consists of Director Material. (True/False)
- (3) Standard Costing Procedures are not relevant in job costing. (True/False)
- (4) Second Schedule is annexed to the Income Tax ordinance, 2001 and deals with exemptions from income tax. (True/False)
- (5) There can never be an insurance of a Valid nature without insurable interest. (True/False)
- (6) A loan taken from a bank for a period longer than two years is known as short-term loan. (True/False)
- (7) Income Tax is livable on every person with an annual income of Rs. 80,000. (True/False)
- (8) Audit Engagement letter is always obtained after the end of the audit. (True/False)
- (9) Internal Audit is compulsory under the Companies Ordinance, 1984. (True/False)
- (10) Cost Accounting and Financial Accounting can be never be reconciled. (True/False)

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS
IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2001.ACCOUNTANCY AND AUDITING
PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: Attempt FOUR questions in all, including QUESTION # 1 and 6 which are compulsory. Question # 1 carries 40 Marks and all others carry 20 marks each.

1. The following trial balance is extracted from the books of a merchant on December 31, 2000:

Particulars	Debit Rs.	Credit Rs.
Furniture fittings	6,400	
Motor Vehicles	62,500	
Buildings	75,000	
Capital account		125,000
Bad debts	1,250	
Provision for bad debts		2,000
Sundry debtors and creditors	38,000	25,000
Stock on January 1, 2000	34,600	
Purchases and sales	54,750	154,500
Bank overdraft		28,500
Sales and purchases returns	2,000	1,250
Advertising	4,500	
Mark up (on overdraft)	1,180	
Commission		3,750
Cash	6,500	
Taxes and insurance	12,500	
General expenses	7,820	
Salaries	33,000	
	340,000	340,000

The following adjustments are to be made:

- Stock in hand on December 31, 2000 was Rs. 32,000
- Depreciate building at the rate of 5% Furniture & fittings @ 10% and motor Vehicles @ 20%
- Rs. 850 is due for mark-up on bank overdraft
- Salaries Rs. 3,000 and taxes Rs. 1,200 are outstanding
- Insurance amounting to Rs. 1000 is prepaid
- One third commission received in respect of the work to be done next year
- Write off a further sum of Rs. 1000 as bad debt and provision for bad debts to be made equal to 10% on Sundry debtors

Required:

Prepare a Trading and Profit & loss account for the year ended December 31, 2000 and balance sheet as on that date.

2

- What is the journal entry for treatment of surplus arising out of revaluation of fixed assets?
- At where in the balance sheet of a company surplus arising out of revaluation of fixed assets is to be disclosed?
- What are the legal restrictions on disposal of surplus arising out of revaluation of fixed assets?
- What is the purpose to which the surplus arising out of revaluation of fixed assets can be applied?

ACCOUNTANCY AND AUDITING, PAPER-I

- (e) What disclosures are required in the financial statements consequent upon revaluation of assets?
- In the first balance sheet after the revaluation?
 - In the balance sheets subsequent to the first balance sheet after revaluation?
- (f) What is the value of revalued fixed assets for depreciation purposes?
3. Comparative data for Mehdi Corporation Ltd. for the two-years period 1999-2000 are presented below:

	1999 Rs.	2000 Rs.
Net Sales	1,000,000	1,200,000
Cost of Goods sold	630,000	760,000
Gross Profit on Sales	340,000	440,000
Selling, General, and other expenses	300,000	340,000
Net operating income	10,000	90,000
Income Taxes	15,000	35,000
Net Income	25,000	55,000
Dividends paid	30,000	40,000
Net increase (decrease) in retained earning	(5,000)	15,000

BALANCE SHEET DATA

	1999 Rs.	2000 Rs.
Assets:		
Cash	35,000	55,000
Trade notes and accounts receivable	320,000	400,000
Inventory (at cost)	380,000	420,000
Prepaid expenses	10,000	30,000
Plant and Equipment (net)	600,000	680,000
Intangibilities	100,000	100,000
Other assets	5,000	15,000
	<u>1,450,000</u>	<u>1,700,000</u>
Liabilities and shareholders Equity		
	Rs.	Rs.
Trade notes and accounts Payable	165,000	205,000
Wages, interest, dividends Payable	25,000	45,000
Income taxes Payable	15,000	35,000
Miscellaneous Current liabilities	15,000	10,000
5% bonds payable	300,000	300,000
Deferred revenues	10,000	10,000
6% Preferred shares, Rs. 100 par	200,000	200,000
Ordinary Share Capital (Rs. 10 each)	400,000	500,000
Premium on Share Capital	200,000	260,000
Appropriated Profits	60,000	80,000
Inappropriate Profits	<u>60,000</u>	<u>55,000</u>
	<u>1,450,000</u>	<u>1,700,000</u>

V AND AUDITING, PAPER-I

Required:

From the foregoing data calculate the following for 2000:

- (1) The ratio of net sales to average total assets
- (2) The ratio of net sales to average plant and Equipment,
- (3) The rate earned on net sales
- (4) The gross profit rate on net sales
- (5) The rate earned on average total sales
- (6) The rate earned on average shares holders equity
- (7) The number of times bond interest requirements were earned (before income taxes)
- (8) The number of times preferred dividend requirements were earned

4. The following is the balance sheet of the X Co. as on 31 December 2000:

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
12,000 shares of Rs. 10 each		Land & Building	100,000
fully paid	120,000	Plant & Machinery	40,000
Sundry Creditors	30,000	Stock	15,000
Bank Overdraft	28,000	Sundry Debtors	22,000
		Profit & loss A/c	1,000
	178,000		178,000

The Company went into voluntary liquidation and the assets were sold to the Y Co. Ltd. For Rs. 150,000 payable as to Rs. 60,000 in cash (which sufficed to discharge the creditors and bank and pay the cost of winding up Rs. 2,000) and as to Rs. 90,000 by the allotment of 12,000 shares of Rs. 10 each of Y Co. Ltd. Rs. 7.50 per share paid up to the shareholders of X Co. Ltd.

You are required to:

- (a) Prepare ledger accounts to close the books of X Ltd.
 - (i) Realisation Account
 - (ii) Shareholders Account
 - (iii) Cash Account
 - (iv) Sundry Creditors Accounts
 - (v) Bank Account
- (b) Give journal entries for recordings these transactions in the books of Y Co. Ltd.

5. A fire occurred on September 11, 2001 in the go-down of Electronic media Company Limited, Which destroyed the greatest part of their stock and the following information was collected on that date:

	Rs.
Stock at cost as at January 1, 2000	100,000
Stock at cost as at January 1, 2001	150,000
Purchases from January 1, 2001 to September 11, 2001	200,000
Sales from January 1, 2001 to September 11, 2001	440,000

During the current year cost of purchases has risen by 10% above last's year's level. Selling prices has gone by 5% Salvage value of stock after fire was Rs. 10,000.

Required:

From the above data calculate the amount of claim to be lodged with the Sunrise Insurance Company Limited for loss of stock

6. Twenty multiple choice questions are given below. You are required to present your answer book in the shape of following suggested format. No marks will be awarded for overwritten answer:

ACCOUNTANCY AND AUDITING, PAPER-I

S No.	Choice	Rationale for answer
-------	--------	----------------------

- (1) Books of original entry are called:
(a) Ledger (b) Worksheets (c) Journal (d) None of these.
- (2) For preparing balance sheets prepaid expenses are showed as part of
(a) Liability (b) Equities (c) Assets (d) None of these.
- (3) Unpaid and unrecorded expenses are called:
(a) Prepaid expenses (b) Accrued expenses (c) Additional expenses
(d) None of these.
- (4) Amount, cash, or other assets removed from business by owner is:
(a) Capital (b) Drawings (c) Assets (d) None of these.
- (5) Under the diminishing balance method, depreciation amount is:
(a) Payment (b) Receipt (c) Expenditure (d) None of these.
- (6) Users of accounting information include:
(a) The Tax Authorities (b) Investors (c) Creditors (d) All of these.
- (7) The business form(s) in which the owner(s) is (are) personally liable is (are) the:
(a) Partnership only (b) Proprietorship only (c) Corporation only
(d) Partnership and proprietorship (e) None of these.
- (8) The investment of personal assets by the owner:
(a) Increases total assets and increases owner's equity.
(b) Increases total assets only.
(c) Has no effect on assets but increases owner's equity.
(d) Increases assets and liabilities.
(e) None of these.
- (9) All of the following are forms of business organisations except:
(a) Proprietorship (b) Corporation (c) Retailer (d) Partnership
(e) None of these.
- (10) Economic resources of a business that are expected to be of benefit in the future are referred to as:
(a) Liabilities (b) Owner's equity (c) Withdrawals (d) Assets
(e) None of these.
- (11) An owner investment of land into the business would:
(a) Decrease withdrawals (b) Increase liabilities (c) Increase owner's equity
(d) Decrease assets (e) None of these.
- (12) A cash purchase of supplies would:
(a) Decrease owner's equity (b) Increase liabilities
(c) Have no effect on total assets (d) None of these.
- (13) An owner investment of cash into the business would:
(a) Increase assets (b) Decrease liabilities (c) Increase withdrawals
(d) Decrease owner's equity (e) None of these.
- (14) The payment of rent each month for office space would:
(a) Decrease total assets (b) Increase liabilities (c) Increase owner's equity
(d) None of these.
- (15) Real accounts are related to:
(a) Assets (b) Expenses and Incomes
(c) Customers and Creditors etc. (d) None of these.

ANCY AND AUDITING, PAPER-I

- (16) Which one of the following accounts would usually have a debit balance?
(a) Cash (b) Creditors (c) Accounts Payable
(d) Salaries Expense (e) None of these.
- (17) Quick Assets include, which of the following?
(a) Cash (b) Accounts Receivable (c) Inventories
(d) Only (a) and (b) (e) None of these.
- (18) Net income plus operating expenses is equal to:
(a) Net Sales (b) Cost of goods available for sale (c) Cost of goods sold
(d) Gross Profit (e) None of these.
- (19) The maximum number of partners in Pakistan can be fixed at the following:
(a) 20 (b) 50 (c) 75 (d) None of these.
- (20) Balance sheet is always prepared;
(a) For the year ended (b) As on a specific date (c) None of these



FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2001.

ACCOUNTANCY AND AUDITING PAPER-II

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: Attempt FIVE questions in all, including QUESTION # 9 which is **COMPULSORY**.
ONE question must be attempted from each part. All questions carry equal marks.

PART - A : COST-ACCOUNTING

1. (a) Briefly describe the functions of the financial accountant and management accountant highlighting the limitations of financial accountant in carrying out the management objectives.
(b) Describe the roles in respect of authority, responsibility and accountability of financial accountant and management accountant clearly defining the inter-relation.
2. (a) Define characteristic difference between Fixed Cost and Variable Cost
(b) Following information of the manufacturing unit is made available to you for the month of July 1996

BUDGET DATA:

Units	1000
Material used	3 kg per unit @Rs. 20 per kg
Labour per unit	2 hours
Labor rate per hour	Rs. 10.00

FACTORY OVERHEADS:

Fixed	Rs.10,000
Variable	Rs. 20,000

ACTUAL PERFORMANCE

Units completed	900
Materials used	2750 kg at Rs. 22 per kg
Labor hours worked	1850 hours at Rs. 11 per hour
FOH incurred	Rs. 26900

Required:

Compute Two Variance for each of the following items

- (a) Materials (b) Labour (c) Factory overheads

PART - B : AUDITING

3. (a) Explain the term "teeming and lading" How can this type of fraud be prevented?
(b) What is the responsibility of an auditor in detection of frauds.
4. During the Audit of Meat Packers Ltd. you are assigned to cover the audit of the payrolls of 800 employees

ACCOUNTANCY AND AUDITING, PAPER-II

Enumerate the test, you would carry out to ensure that:

- (1) All employees are genuine
- (2) Payments are only made for work done
- (3) Statutory documents are properly effected in accordance with the law
- (4) Proper allocation of wages is made to various departments.

PART - C: INCOME TAX

5. Mr. Amjad has rented out a home at a monthly rent of Rs. 10000. He has incurred the following expenses in respect of the house?

Property tax	Rs 2000
Rent collection charges	Rs 8000
Interest on loan from HBFC	Rs. 6000
As per rent deed the tenant will bear repair charges.	

Required:

Compute the income of Mr. Amjad chargeable under the head, Income from house property.

6. An aggrieved assessee from an assessment order may make an application to the Income Tax settlement commission for the settlement of case, describe the procedure and manner in which the commission dispose off an application for settlement.

PART - D: BUSINESS ORGANISATION AND FINANCE

7. You are the officer responsible for meetings in your organization, outline the procedure regarding the organization of a meeting of the board of Directors under the following heads:

- (1) The day before the meeting
- (2) During the meeting
- (3) After the meeting

8. Define Joint Stock Companies and Sole-proprietorship. Also state the differences between the two forms of business organisations.

COMPULSORY QUESTION

9. Twenty multiple choice questions are given below. You are required to present your answer book in the shape of following suggested format. No marks will be awarded for overwritten answer:

S No.	Choice	Rationale for answer
(1)	The measurable value of an alternative use of resources is referred to as: (a) An opportunity cost (b) An imputed cost (c) A differential cost (d) A sunk cost (e) None of these	
(2)	A quantitative expression of management objectives is an: (a) Organizational chart (b) Management chart (c) Budget (d) Procedural chart (e) None of these	
(3)	A cost center is: (a) A unit of production in relation to which costs are ascertained. (b) A location which is responsible for controlling direct costs (c) Part of the factory overhead system by which costs are gathered (d) Any location or department which incurs cost (e) None of these.	

FANCY AND AUDITING, PAPER-II

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- (4) At break-even point of 400 units sold the variable costs were Rs.400 and the fixed costs were Rs.200. What will be the 401 units sold contributing to profit before income tax?
 (a) Rs.0.00 (b) Rs.0.50 (c) Rs.1.00 (d) Rs.1.50 (e) None of these.
- (5) In considering a special order situation that will enable a company to make use of currently idle capacity, which of the following cost will be irrelevant:
 (a) Materials (b) Depreciation (c) Direct labour
 (d) Variable factory overhead (e) None of these.
- (6) A fixed cost:
 (a) May change in total when such change is not related to changes in production
 (b) Will not change in total because it is not related to changes in production
 (c) Is constant per unit for each unit of change in production
 (d) May change in total, depending on production with the relevant range
 (e) None of these.
- (7) Completion of a job is result in:
 (a) DR Finished goods CR WIP
 (b) DR Cost of goods CR Finished goods
 (c) DR WIP CR FOH control
 (d) DR FOH control CR FOH applied
 (e) None of these.
- (8) Operating cost is often named as:
 (a) Manufacturing cost plus commercial expenses
 (b) Prime cost plus factory overheads.
 (c) Direct material plus direct labour
 (d) Selling plus administrative expenses
 (e) None of these.
- (9) Expenses such as rent and depreciation of a building are shared by several departments these are:
 (a) Indirect expenses (b) Direct expenses (c) Joint expenses
 (d) All of the above (e) None of these.
- (10) If under-applied FOH is closed to cost of goods sold, the journal entry is:
 (a) DR Cost of goods sold CR FOH control
 (b) DR FOH control CR Cost of goods sold
 (c) DR FOH control CR Profit & loss account
 (d) None of these.
- (11) Re-order quantity --3600 units
 Maximum consumption --900 units per week
 Minimum consumption --300 units per week
 Re-order period --5 weeks
 Based on this data Re-order level is:
 (a) 4500 units (b) 3900 units (c) 1200 units
 (d) 400 units (e) None of these.
- (12) The time lag between indenting and receiving material is called:
 (a) Lead time (b) Idle time (c) Stock out time (d) None of these

ACCOUNTANCY AND AUDITING, PAPER-II

- (13) A credit balance remaining in FOH Control account is called:
(a) Over applied overhead (b) Under-applied overhead
(c) Actual overhead (d) None of these
- (14) Direct material cost plus direct labour cost is called:
(a) Prime cost (b) Conversion cost (c) Product cost
(d) All of these (e) None of these.
- (15) Productivity means:
(a) The ability to produce. (b) All units produce
(c) Good units Produced (d) None of these
- (16) A segment of the business that generates both revenue and cost is called: (a)
(a) Profit Center (b) Cost Center
(c) Cost driver (d) All of these (e) None of these
- (17) Verification includes:
(a) Checking vouchers (b) Examining audit report (c) None of these
- (18) Audit of a bank is generally conducted through:
(a) Routine checking (b) Vouching
(c) Balance sheet audit (d) None of these.
- (19) Economic resources of a business that are expected to be of benefit in the future are referred to as:
(a) Liabilities (b) Owner's equity (c) Withdrawals
(d) Assets (e) None of these.
- (20) Short-Term Loan can be best described as:
(a) If the period is three years (b) If the period is less than one year.
(c) If the period is over one year. (d) None of these.

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FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS
IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2002

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: Attempt **FOUR** questions in all, including **QUESTION NOS. 5 & 6** which are **COMPULSORY**. Question No. 5 carries 40 marks. All other questions carry **EQUAL** marks i.e. 20 each.

1. Explain concept of depreciation. Spell out its implication on Profit and Loss Account and Balance Sheet. Identify four ways of depreciating fixed assets. Illustrate your answer.

2. Explain ten principles of Accounting and their applications to Investment concerns.

3. The following information relating to Dawood Company in respect of year 2001 is available:

Net Sales	1,200,000
Cost of goods sold	760,000
Gross profit on sales	440,000
Selling, general and other expenses	350,000
Operating income	90,000
Income -- tax	40,500
Net income	49,500
Dividend paid	35,000
Net increase in retained earnings	14,500

Balance Sheet Data

<u>Assets</u>	<u>Rs.</u>
Cash	60,000
Accounts Receivables	300,000
Inventory at cost (Beginning of year Rs.420,000)	380,000
Prepaid expenses	30,000
Land, building and equipment	760,000
Intangible assets	100,000
Other fixed assets	70,000
	1,700,000

Capital and Liabilities

	<u>Rs.</u>
Accounts Payable	120,000
Accrued expenses	25,000
Income tax payable	39,500
Miscellaneous Current liabilities	10,000
Bonds	300,000
Deferred revenues	10,000
Paid up share Capital	700,000
Additional paid-in Capital	310,000
Retained earnings	
- appropriated	80,000
- unappropriated	105,500
	1,700,000

ACCOUNTANCY AND AUDITING, PAPER-I

REQUIRED: Calculate the following ratios and offer your comments in terms of interpretation:

- (1) Amount of working capital (compute amount).
- (2) Current Ratio.
- (3) Acid Test Ratio.
- (4) Days accounts receivable uncollected (use 360 days per year and assume all sales on credit basis)
- (5) Inventory turnover rate.
- (6) Ratio of shareholders equity to total liabilities

4. Explain and illustrate the concepts underlying the following:

- (a) Flexible Budgeting.
- (b) Fixed Budgeting.
- (c) Rolling Budgeting.

COMPULSORY QUESTIONS

5. The unadjusted trial balance at the end of the first year of operation is shown below:

Particulars	Debit (Rs.000)	Credit (Rs.000)
Cash	200	
Accounts Receivable	1,500	
Prepaid Advertising	400	
Supplies on hand	3,000	
Equipment	9,600	
Accounts Payable		800
Naseer's Capital		10,000
Naseer's drawing	3,600	
Service fees earned		14,000
Rent expense and other expenses	5,500	
Wage expense	1,000	
	24,800	24,800

Further information as at December 31, 2001 is as under:

1. Prepaid advertising covers the months of December 2001 to March 2002.
2. Supplies on hand at December 31 was Rs.1,300,000.
3. Annual depreciation on the equipment is Rs.1,200,000.
4. Service fee earned but not yet billed at December 31, 2001 was Rs.400,000.
5. Rent of Rs.500,000 for December has not been paid.
6. Accrued wages at December 31, were Rs.150,000.

REQUIRED: Prepare final account financial statements including balance sheet.

6. From the following multiple choice questions give correct answer in your answer book in the following suggested format:

S.No. of the question	Correct Answer indicate only alphabet	Rationale

1.	Maximum number of partners in a Partnership firm set up in Pakistan under Partnership Act, 1932 is:			
(a)	5	(b)	25	
(c)	20	(d)	None of these.	

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ACCOUNTANCY AND AUDITING, PAPER-I

2	Preparation of final financial reports is governed in Pakistan under:			
	(a) No law	(b) Companies Ordinance 1984 only.		
	(c) None of these.			
3	Depreciation is based on:			
	(a) Economic life of asset	(b) Declared life of asset by supplier.		
	(c) Normal life of asset	(d) None of these.		
4	Inventory turnover is calculated as under:			
	(a) $\frac{\text{Cost of Goods Sold}}{\text{Closing Inventory}}$	(b) $\frac{\text{Gross Profit}}{\text{Closing Inventory}}$		
	(c) $\frac{\text{Sales}}{\text{Opening Inventory}}$	(d) None of these.		
5	There is a difference between:			
	(a) Worksheet and Balance Sheet	(b) Worksheet and Profit and Loss Account		
	(c) Worksheet as combination of results of profits and financial position	(d) None of these.		
6	Deferred Revenue is a:			
	(a) Liability	(b) Asset		
	(c) None of these.			
7	Preparation of annual report of a firm is governed under:			
	(a) Partnership Act 1932.	(b) Under Partnership Deed		
	(c) None of these.			
8	Deferred Taxation amount be treated as:			
	(a) Foot note	(b) An item in the Balance Sheet on asset side		
	(c) None of these.			
9	Return of Equity will be calculated as under:			
	(a) $\frac{\text{Operating Profit} \times 100}{\text{Equity}}$	(b) $\frac{\text{Net Profit} \times 100}{\text{Paid up Capital only}}$		
	(c) None of these.			
10	Current maturity of long term loan is:			
	(a) Current Liability	(b) Long Term Liability		
	(c) None of these.			

ACCOUNTS AND AUDITING, PAPER-II

PART "D" BUSINESS ORGANIZATION AND FINANCE

7. Currently business combinations are taking place globally and domestically. State principles governing business combinations as part of negotiation.
8. State comprehensive note on terms and conditions governing long term financing relating to an industrial concern.

COMPULSORY QUESTION

9. From the following multiple choice questions give correct answer in your answer book in the following suggested format. No mark(s) will be awarded for an overwritten answer:

S.No. of the question	Correct Answer indicate only alphabet	Rationale for the answer
-----------------------	---------------------------------------	--------------------------

1	Prime cost is calculated as under:	
(a)	Manufacturing Cost	(b) Direct Material plus factory overheads
(c)	Cost of Goods Sold	(d) None of these.
(c)	Direct Labour + Direct Material	
2	Process Cost is very much applicable in:	
(a)	Construction Industry	(b) Pharmaceutical Industry.
(c)	Air line company.	(d) None of these.
3	The latest computation of variances of manufacturing overheads is in one the following ways:	
(a)	Two variance approaches	(b) Three variance approaches
(c)	Four variance approaches	(d) None of these.
4	Random sampling in auditing means:	
(a)	Selection through convenience sampling	(b) Selection through scientific sampling approach.
(c)	None of these.	
5	Expenditure incurred in procuring machinery is:	
(a)	An admissible expenditure for tax purposes	(b) Not admissible for tax purposes
(c)	None of these as an independent expenditure.	
6	Increase in income constitutes:	
(a)	Inflows	(b) Outflows
(c)	None of these.	
7	M & A stands for:	
(a)	Mergers & Analysis	(b) Mergers & Acquisitions
(c)	Mergers & Allocation	(d) None of these.
8	An endowment insurance policy can be taken in respect of:	
(a)	Fire insurance	(b) Accident insurance.
(c)	Life insurance	(d) None of these.
9	Audit and special audit are the same:	
(a)	In Insurance Company	(b) In Banking Company
(c)	None of these.	
10	Acid Test is the same as:	
(a)	Quick test	(b) Liquid test
(c)	None of these.	

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2003

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTES:

- (i) Attempt **FOUR** questions in all, including **QUESTION NOS. 5 AND 6** which are **COMPULSORY**. **QUESTION NO. 5** carries **40 marks**. All other questions carry **EQUAL** marks i.e. **20 each**.
- (ii) Give workings to solution of questions, wherever relevant.

1.

Explain various concepts of Budgeting as practiced globally. State budgeting system being followed in Pakistan. Identify five limitations of the above system and suggest directions of change for improvement.

2.

Explain various legal provisions governing principles of accounting and provisions relating to preparation of financial statements relating to banks in Pakistan.

3.

Peshawar Manufacturing Company was established in June, 1999 to manufacture a single product using a machine costing Rs. 1,000,000. The machine is expected to last for four years and then have a scrap value of Rs. 130,000. The machine will produce a similar number of goods each year and annual profit before depreciation is expected to be in the region of Rs. 500,000. The Finance Manager has suggested that the machine should be depreciated using either the "Straight - Line Method" or the "Reducing Balance Method". If the latter method is used, it is estimated that depreciation rate of 40% would be appropriate.

REQUIRED:

- (1) Calculate annual depreciation charge and net book value of the machine at the end of 2000, 2001 and 2002 using:
 - (a) Straight - Line Method.
 - (b) Reducing Balance Method.
- (2) Offer your comments on the use and implication of these two methods for the years 2000 to 2002.
- (3) Advise management as to which method should be more appropriate.

4.

The Directors of Master Public Limited Company requires Rs. 500 million to invest in a new project. Extracts from the financial statements are as under:
Profit and Loss Account for the year ended December 31:

Particulars	2001 Million Rs.	2002 Million Rs.
Sales	6,175	6,329
Operating Profit	350	320
Less: Interest Payable	30	30
Net Profit before Income Tax	320	290
Net Profit after tax	128	116
	192	174

Summarised Balance Sheet as at December 31:

ACCOUNTANCY AND AUDITING, PAPER-I

Particulars	2001 Million Rs.	2002 Million Rs.
Assets:		
Fixed Assets (Net)	901	1,664
Stocks	447	426
Debtors	308	321
Balance at Bank	52	11
	1,708	1,822
Capital & Liabilities:		
Paid up Capital	500	500
Reserves and Surpluses	525	649
Loan – 10% Debentures	300	300
Creditors	205	207
Taxation Payable	128	116
Dividends	50	50
	1,708	1,822

REQUIRED:

Undertake financial analysis by using pertinent ratios and present your candid review on the performance of the Company.

COMPULSORY QUESTIONS

5.

The following balances were extracted from the ledger of Mr. Irshad as on June 30, 2003:

Particulars	Rs.
Property – at cost	90,000
Equipment – at cost	57,500
Stock	27,400
Purchases	259,600
Sales	405,000
Discount allowed	3,370
Provision for depreciation - Property	12,500
- Equipment	32,500
Discount received	4,420
Salaries and wages	52,360
Bad debts	1,720
Loan interest	1,560
Carriage outward	5,310
Other operating expenses	38,800
Trade Debtors	46,200
Trade Creditors	33,600
Provision for doubtful debts	280
Cash in hand	151
Bank Overdraft	14,500
Drawings	28,930
Loan @ 15%	12,000
Capital July 1, 2002	98,101

The following additional information as at June 30, 2003 is available:

- Stock at the close of business was valued at Rs.25,900.
- Depreciation for the year ended on June 30, 2003 has yet to be provided as follows:
 - Property: 1% using straight line method.
 - Equipment: 15% using straight line method.
- Salaries and wages are accrued Rs.1,400.

STANCY AND AUDITING, PAPER-I

4. Other operating expenses include certain expenses prepaid by Rs.1,500. Other expenses include this heading are accrued by Rs.2,000.
5. The provision for doubtful debts is to be adjusted so that it is 0.5% of trade debtors as at June 30, 2003
6. "Purchases" include goods valued at Rs.1,040 which were withdrawn by Mr. Irshad for his personal use.

REQUIRED:

1. Prepare Trading and Profit and Loss Account for the year ended on June 30, 2003 and Balance Sheet as on the above date.
 2. Present Adjusting and Closing entries.
6. Deliver the correct answer in the answer book. Over writing is not allowed. Overwritten answers will carry no grade. The following format should be used for answer:

S.No.	Correct Alphabet of answer	Rationale

- (1) Acid Test Ratio is calculated as under:

- | | |
|--|--|
| (a) $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | (b) $\frac{\text{Fixed Assets}}{\text{Current Liabilities}}$ |
| (c) $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ | (d) None of these. |

- (2) Deferred cost is a:

- | | |
|--------------------|-----------|
| (a) Liability | (b) Asset |
| (c) None of these. | |

- (3) Work sheet is:

- | | |
|---|--------------------------|
| (a) Balance Sheet | (b) Fund Flows Statement |
| (c) A combination of Profit and Loss Account and Balance Sheet items. | |
| (d) None of these. | |

- (4) Banks, for the preparation of financial statements, are governed under:

- | |
|--|
| (a) Banking Companies Ordinance, 1962. |
| (b) State Bank of Pakistan Act. |
| (c) None of these. |

- (5) Return on investment is computed:

- | | |
|--|--|
| (a) $\frac{\text{Investment}}{\text{Profit}} \times 100$ | (b) $\frac{\text{Profit} \times 100}{\text{Investment}}$ |
| (c) None of these. | |

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2003

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTES:

- (i) Attempt FIVE questions in all, including QUESTION NO.9 which is COMPULSORY.
- (ii) Select at least ONE QUESTION from each of the PARTS A, B, C AND D.
- (iii) All questions carry EQUAL marks.

PART "A" (COST ACCOUNTING)

1. "Cost Accounting is considered as a tool of management." Explain various aspects of the above statement and explain dimensions as to how cost accounting can serve as tool of management.

2. The following standards have been established for the operation of the X Company:
Standards:

Materials: Quantity per unit $2\frac{1}{2}$ yards price per yard Rs.17.

Labour: Time per Unit 3.6 hours. Hourly rate Rs.18.40.

Overhead: Fixed charge Rs.24,000 per month.

Variable Rate Rs.15.00 per unit.

Production for the month 40,000 units.

Actual Reports for the month of April.

Production 41,200 Units.

Material used 10,510 yards at average of Rs.17.40.

Labour 15,276 hours at average of Rs.18.80.

Overhead – variable: Rs.66,750.

REQUIRED:

Prepare a statement showing actual and standard costs and amounts of variances. Use the two-variance method for overhead.

PART "B" (AUDITING)

3. Differentiate between "Internal Control" and "Internal Audit". Suggest ten point Internal Control System for inventories.

4. Present a lucid analysis of Liabilities of an Auditor. Cite case law wherever relevant.

PART "C" (INCOME TAX)

5. Present salient features of law governing "Income from Business" under the current income tax of Pakistan.

6. The following information relating to Miss Y is available relating to year ended on 30-6-2003:

Particulars	Rs.
1. Salary	240,000
2. Bonus Received	60,000
3. Conveyance allowance received	7,600
4. Leave encashment	80,000
5. Dividend Received	70,000
6. Income from Prize Bonds	100,000

REQUIRED:

Compute Taxable Amount for assessment year 2003 – 2004.

ACCOUNTANCY AND AUDITING, PAPER-II

PART "D" (BUSINESS ORGANIZATION AND FINANCE)

7. Currently several Business Combinations are taking place. These are through several methods including Mergers and Acquisitions:

REQUIRED:

- (a) List steps involved in Business Combinations.
- (b) Explain five benefits of business combinations.

8. Explain the formulas governing the following ratios to be calculated in a large manufacturing Company:

- (1) Times Interest (Mark up) earned.
Note: State minimum acceptable standard.
- (2) Debt Servicing Ratio.
- (3) Liquid Ratio.
Note: Suggest the minimum acceptable ratio.
- (4) Debt Equit Ratio.
Note: Suggest a fair ratio in a capital intensive company project.

COMPULSORY QUESTION

9. Deliver the correct answer in the answer book by using the following format and giving rationale for your answer which carries half grade weight. Any overwritten answer will not carry any grade.

S.No.	Correct answer *	Rationale
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* Give the alphabet or serial number which you consider represents correct answer.

- (1) Rent of the premises constitutes variable expense for cost allocation:
(a) True (b) False
- (2) Sugar used in a sugarcane company is:
(a) Variable cost (b) Fixed cost
(c) None of these.
- (3) An auditor is liable under the following circumstances:
(a) Third Party Liabilities
(b) Fraud perpetrated in a highly sophisticated circumstances.
(c) None of these.
- (4) Agricultural income is taxable under the Income Tax Laws of Pakistan.
(a) True (b) False
- (5) Principal and markup payment within one year constitutes long term liability for disclosure in the balance sheet of a company.
(a) True (b) False
- (6) Ordinarily one can have the following partners in a partnership in Pakistan under the Partnership Act, 1932:
(a) 10 (b) 20
(c) 30 (d) None of these.
- (7) Working Capital finance can be termed as "Running Finance" in a limited company.
(a) True (b) False
- (8) Income from Capital gains arising out of trading on a stock exchange in Pakistan is taxable these days.
(a) True (b) False
- (9) Conversion Cost is Calculated as under:
(a) Labour Plus materials (b) Labour plus overheads
(c) None of these.
- (10) Current Ratio can be calculated as under:
(a) $\frac{\text{Current Liabilities}}{\text{Current Assets}}$ (b) $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
(c) None of these.

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2004.

ACCOUNTANCY & AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: (i) Attempt **FOUR** questions in all, including **QUESTION Nos. 5 AND 6** which are **COMPULSORY**. **QUESTION NO. 5** carries 40 marks. All other questions carry **EQUAL** marks i.e. 20 marks each.

(ii) Give workings to solution of questions, wherever relevant.

1. What is a Trial Balance? Why is it prepared? What are the two methods of preparing it and which of them is a better one and why?

2. Answer the following short questions briefly. Each question carries two marks.

- (a) Define ledger
- (b) List three disadvantages of not preparing the Trial Balance.
- (c) Give two examples of errors of principle.
- (d) State two methods of charging depreciation on fixed assets.
- (e) What is reserve for doubtful debts?
- (f) Why is revaluation account prepared?
- (g) Enumerate at least four reasons for which a cheque is dishonoured.
- (h) What are capital receipts?
- (i) Name two methods of preparing final accounts from incomplete records.
- (j) What do you understand by closing entries?

3. Given below is the Receipts and Payments Account of the Eagle Club for the year ending 31st December 2003.

	Rs.		Rs.
Balance b/d	10,250	Salaries	6,000
Subscriptions		General expenses	750
2002	400	Drama expenses	4,500
2003	20,500	Newspapers etc.	1,500
2004	600	Municipal taxes	400
Donations	5,400	Charity	3,500
Proceeds of Drama tickets	9,500	Investments	20,000
Sales of waste paper	450	Electricity Charges	1,450
		Balance c/d	9,000
	<u>47,100</u>		<u>47,100</u>

Required: Prepare the Club's Income and Expenditure Account for the year ended 31st December 2003 and its Balance sheet as on that date, after taking the following information into account:

- (a) There are 500 members, each paying an annual subscription of Rs.50, Rs.600 being in arrears for 2002.
- (b) Municipal taxes amounting to Rs.400 per annum have been paid up to 31st March 2004 and Rs.500 for salaries is outstanding.
- (c) Building stood in the books at Rs.60,000 and it is required to write off depreciation at 5 per cent.
- (d) Four per cent interest has accrued on investments for five months.

4. A and B were in partnership sharing profit and losses in the proportion of three fourth and one fourth respectively. Their Balance Sheet stood as follows on 31st December 2003.

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Creditors	37,500	Cash at bank	22,500
Capital Account		Bill Receivable	3,000
A	40,000	Bank Debts	16,000
B	10,000	Stock	20,000
		Furniture	1,000
		Building	25,000

87,500

87,500

ACCOUNTANCY & AUDITING, PAPER-I:

They admitted C into partnership 1st January 2004 on the following terms:

- (a) That C pays Rs.10,000 as his capital for 1/5 share in the future profits.
- (b) That goodwill for Rs.20,000 is raised in the books of the new firm.
- (c) That stock and furniture are reduced by 10% and that a 5% provision is made for likely bad debts.
- (d) That the value of the buildings is increased by 20% and
- (e) That the capital Accounts of A and B are readjusted on the basis of their profit sharing ratios.

Required: Pass the necessary journal entries and give the ledger Accounts and opening Balance Sheet of the new firm.

COMPULSORY QUESTIONS

5.

The following balances appeared in the books of a merchant on 31st December, 2003:

	Rs.		Rs.
Building	70,000	Carriage on Purchases	1,291
Motor Trucks	12,000	Carriage on Sales	800
Furniture	1,640	Reserve for Bad Debts	1,320
Sundry Debtors	15,600	Establishment	2,135
Sundry Creditors	18,852	Taxes & Insurance	783
Stock	15,040	Interest (Cr.)	340
Cash in hand	988	Bad Debts	613
Cash at Bank	14,534	Audit Fee	400
Bills Receivable	5,844	General charges	3,950
Bills Payable	6,930	Travelling Expenses	325
Purchases	85,522	Discount (Dr.)	620
Sales	1,21,850	Investments	8,922
Capital	92,000	Sales Returns	285

Required:

Prepare Trading and Profit and Loss Account for the year ended 31st December 2003 and Balance Sheet as on that date. In doing so take the following matters into consideration.

- (i) Stock on 31st December, 2003 amounted to Rs.15,500.
- (ii) Depreciate Motor Trucks at 20 per cent and Furniture at 10 per cent.
- (iii) Increase Bad Debts Reserve by Rs. 1,000.
- (iv) Salaries Rs.500 and Taxes Rs. 150 are outstanding.
- (v) Un-expired Insurance Rs.50.
- (vi) Interest accrued on Investments Rs. 210.
- (vii) Rent due for a portion of the Building let Rs. 150.
- (viii) A bill receivable for Rs.500 was discounted in December 2003 but was not due till January next.

6.

Deliver the correct answer in the Answer Book. Over writing is not allowed.

Over-written answer will carry no grade.

- (1) The need for keeping a record of income and expenditures in a clear and systematic manner has given rise to the subject of:
 - (a) Book Keeping
 - (b) Accounting cycle
 - (c) Manufacturing
 - (d) None of these
- (2) If proper books of accounts are not kept in a business the amount of profit:
 - (a) Can be ascertained
 - (b) Cannot be ascertained
 - (c) Easily ascertained
 - (d) None of these
- (3) The stage under which transaction are recorded chronologically in the books of accounts is called:
 - (a) Summarizing
 - (b) Classifying
 - (c) Recording
 - (d) None of these
- (4) Book-keeping is mainly concerned with:
 - (a) Recording of a financial data relating to business transactions
 - (b) Designing the systems in recording, classifying, summarizing the recorded data
 - (c) Interpreting the data for internal and external users
 - (d) None of these

ACCOUNTANCY & AUDITING, PAPER-I:

- (5) The term expense and expenditure are:
(a) Same in nature (b) Different in nature
(c) Opposite in nature (d) None of these
- (6) When goods are given away as charity or free samples, the purchases account should be:
(a) Debited (b) Credited
(c) Recorded in balance sheet (d) None of these
- (7) The sale of a business asset on credit is recorded in:
(a) Sales journal (b) General journal
(c) Cash receipt journal (d) None of these
- (8) The discount account is a:
(a) Personal account (b) Real account
(c) Nominal account (d) Asset account
(e) None of these
- (9) The payments side of the cash book is under cost by Rs.200 when overdraft as per bank statement is the starting point:
(a) Rs.200 will be deducted (b) Rs.200 will be added
(c) Rs.400 will be added (d) Rs.400 will be deducted
- (10) All the direct expenses are charged to:
(a) Balance sheet (b) Profit and Loss Account
(c) Trading account (d) None of these
- (11) Those liabilities which arise only on the happening of some event, are called:
(a) Current liabilities (b) Contingent liabilities
(c) Outstanding liabilities (d) Fixed liabilities
- (12) Marshalling of balance sheet means:
(a) The ordering of its assets and liabilities
(b) The totaling of its assets and liabilities
(c) Excess of assets over liabilities
(d) None of these
- (13) Commission received in advance is to be considered as:
(a) Outstanding expense (b) Accrued income
(c) Prepaid expense (d) Unearned income
- (14) The provision for discount on creditors is often not provided in keeping with the principle of:
(a) Materiality (b) Consistency
(c) Conservatism (d) Realization
- (15) Which one of the following is not considered the permanent part of the accounting record:
(a) Journal (b) Trial Balance
(c) Balance Sheet (d) Final Account
- (16) A working paper which is prepared by the accountant for his own convenience is called:
(a) Work sheet (b) Cash flows statement
(c) Balance sheet (d) Final accounts
- (17) Any expenditure incurred to increase the profit earning capacity of the concern is a:
(a) Revenue expenditure (b) Current expenditure
(c) Capital receipt (d) Capital expenditure
- (18) Depreciation on fixed assets is an example of:
(a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) None of these
- (19) The capital receipts are shown in the balance sheet on the:
(a) Liability side (b) Asset side
(c) Debit side (d) None of these
- (20) Error due to wrong allocation as expenditure between capital and revenue is regarded as:
(a) Error of omission (b) Error of principle
(c) Compensating errors (d) Error of commission
- *****

FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN
BPS-17 UNDER THE FEDERAL GOVERNMENT, 2004.

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

- NOTE:** (i) Attempt **FIVE** questions in all, including **QUESTION NO. 9** which is **COMPULSORY**.
(ii) Select at least **ONE QUESTION** from each of the **PARTS A, B, C and D**. All questions carry **EQUAL** marks.

PART-A: (COST ACCOUNTING)

1. Define Cost Accounting. Discuss its objectives and distinguish it from financial accounting.

2. The following data relate to the Shirley Company:

		<u>Inventories</u>	
		<u>Ending</u>	<u>Beginning</u>
Finished goods	Rs.	95,000	Rs. 10,000
Work in process		80,000	70,000
Direct materials		95,000	90,000
Costs incurred during the period:			
Costs of goods available for sale			Rs. 684,000
Total manufacturing costs			584,000
Factory overhead			167,000
Direct materials used			193,000

Required: Statement of cost of goods sold, including all beginning and ending inventories.

PART-B: (AUDITING)

3. Define Final Audit and explain its merits and demerits.

4. What is an Audit Program? Explain its advantages and limitations.

PART-C: (INCOME TAX)

5. (a) Discuss the residential status of the Following Taxpayer:

- (i) Individual (ii) Company (iii) Association of Person

(b) List down the **CONSTITUENTS** of Income Tax Law in Pakistan.

6. From the following data, calculate income tax payable by Mr. Fahad for the tax year ending 30th June, 2003.

	Rs.
(1) Basic Salary	15,000 P.M.
(2) Bonus	10,000
(3) Senior Post Allowance	2,000
(4) House Rent Allowance	1,25,000
(5) Medical allowance	4,000
(Actual Expenditures incurred Rs.3000)	
(6) Entertainment Allowance	6,000
(Actual Expenditures incurred Rs.7000)	
(7) Gas and Electricity Allowance	18,000
(8) Leave encashment	2,500
(9) Special pay	2,000
(10) Orderly allowance	5,000
(11) Income as non professional writer	4,500
(12) Special Allowance	8,000
(13) Donation to Bait-ul-Mal	2,000
(14) Zakat Paid	3,000

ACCOUNTANCY & AUDITING, PAPER-II:

PART-D : (BUSINESS ORGANIZATION AND FINANCE)

7. (a) Describe registration of partnership. What are the consequences of non-registration?
(b) Enumerate rights, duties and liabilities of partners?
8. (a) Define business finance and discuss the advantages and disadvantages of debt financing.
(b) What is a capital market? Explain in detail.

COMPULSORY QUESTION

9. Deliver the correct answer in the Answer Book. Do not reproduce the question. Over-writing is not allowed. Over-written answer will carry no grade.

- (1) The heat treatment department at Noori Pipe is the third department in a sequential process. The work in process account for the department would consist of:

- (a) Cost transferred in from the prior department
(b) Materials costs added in the heat treatment department
(c) Conversion costs added in the heat treatment department
(d) All of the above
(e) None of the above

- (2) Jingo Products uses the weighted average method in its process costing system. Last month in the milling department the cost per equivalent unit for conversion cost was Rs. 105. A total of 540 equivalent units of conversion cost were used to compute this unit's cost. The total conversion cost added during the month was Rs. 54,500. What was the amount of conversion cost in the beginning work in process inventory?

- (a) Rs. 0 (b) Rs. 2,200 (c) Rs. 4,200
(d) Rs. 3,000 (e) None of these

- (3) Shalivard Corp. uses the FIFO method in its process costing system. The company had Rs. 6,000 of materials cost in its beginning work in process inventory and the company added Rs. 75,000 in materials cost during the period. The equivalent units of production for materials were 20,000. The unit cost per equivalent unit for materials would be:

- (a) Rs. 3.75 (b) Rs. 4.05 (c) Rs. 0.30
(d) Rs. 3.30 (e) None of these

- (4) Costs in the beginning work in process inventory are added to the cost of the current period when making units cost calculations by:

- (a) The FIFO cost method (b) The weighted average cost method
(c) The quantity schedule method (d) LIFO method
(e) None of these

- (5) A chemical process has normal wastage of 10% of input. In a period, 2500 kgs of material were input and there was an abnormal loss of 75 kgs. What quantity of good production was achieved?

- (a) 2175 kgs (b) 2250 (c) 2325 kgs
(d) 2425 kgs (e) None of these

- (6) Premium on issue of shares can be used for:

- (a) Payment of dividends (b) Writing off preliminary expenses
(c) Paying fees to directors (d) Redemption of debentures
(e) None of these

- (7) Right shares mean the shares which are:

ACCOUNTANCY & AUDITING, PAPER-II:

- (8) Pre incorporation profit is to be credited to:
- (a) Capital Reserve
 - (b) Profit and Loss account above the line
 - (c) Profit and loss account below the line
 - (d) General Premium
 - (e) None of these
- (9) The excess of purchase price over the net assets is:
- (a) Goodwill
 - (b) Capital Reserve
 - (c) Preliminary expenses
 - (d) Share Premium
 - (e) None of these
- (10) Statutory report is necessary in the case of:
- (a) All Companies
 - (b) Public Limited Companies
 - (c) Foreign Companies
 - (d) Private Limited Companies
 - (e) None of these
- (11) Dividends are usually paid on:
- (a) Called up capital
 - (b) Paid up capital
 - (c) Paid up capital call in advance
 - (d) Subscribed capital
 - (e) None of these
- (12) Provision for taxation of a previous year was Rs. 100,000 and tax assessed for that year Rs. 80,000. The adjustment for this is:
- (a) A debit of Rs. 100,000 above the line
 - (b) A credit of Rs. 80,000 below the line
 - (c) A credit of Rs. 20,000 above the line
 - (d) A credit of Rs. 20,000 below the line
 - (e) None of these
- (13) Amount set apart to meet losses due to bad debt is a:
- (a) Provision
 - (b) Reserve
 - (c) Liability
 - (d) Contingent liability
 - (e) None of these
- (14) Advance Payment of tax is in the nature of:
- (a) Asset
 - (b) Revenue expense
 - (c) Liability
 - (d) Prepaid expense
 - (e) None of these
- (15) Values that express preferred behavior and the means by which one achieves his/her goals are known as:
- (a) Terminal values
 - (b) Dominant values
 - (c) Instrumental values
 - (d) Affective values
 - (e) None of these
- (16) Evaluative-positive or negative-concerning people, objects, or events are called:
- (a) Perceptions
 - (b) Attitudes
 - (c) Beliefs
 - (d) Values
 - (e) None of these
- (17) The auditor is required to report that Financial Statements are:
- (a) True & Correct
 - (b) True & Fair
 - (c) Complete & Correct
 - (d) Covering all required records
 - (e) None of these
- (18) The auditors are appointed by the following authorities:
- (a) Creditors
 - (b) Debtors
 - (c) Share holders
 - (d) Directors
 - (e) None of these
- (19) Interim audit is conducted for examining the account for:
- (a) Full one year
 - (b) Next one year
 - (c) Previous one year
 - (d) For a part of current year
 - (e) None of these
- (20) Payment should be made preferably through:
- (a) Cross cheque
 - (b) Bank Draft
 - (c) Pay order
 - (d) Cash basis
 - (e) None of these

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2005.

ACCOUNTANCY & AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: (i) Attempt FOUR questions in all, including QUESTION Nos. 5 & 6, which are **COMPULSORY**. QUESTION NO.5 carries 40 marks. All other questions carry **EQUAL** marks i.e. 20 marks each.

(ii) Give workings to solution of questions, wherever relevant.

Q.No.1: Answer the following short questions briefly.

- Define Accrual-system of accounting.
- Describe three basic functions of an accounting system.
- Define worksheet.
- What do you understand by capital loss? Give an example of capital loss.
- Prepare rectifying entry for sales book over cast by Rs. 900.
- Make an adjusting entry for prepaid rent Rs. 1000.
- Define "budget".
- What do you understand by adjusting entries? Make three adjusting entries with your own figures.
- List down the four types of book keeping errors.
- Describe bad debts recovered.

Q.No.2: Differentiate between the following:

- Capital expenditure and Revenue expenditure.
- Single entry system and double entry system of bookkeeping.
- Receipts & payment account and Income & Expenditure account.
- Straight-line method and diminishing balance method of depreciation.

Q.No.3: Best manufacturing purchased molding machine for Rs.3,00,000 on 1st January 2000. It cost Rs. 6000 on erection of the machine. On 1st July in the same year an additional machinery costing Rs.1,50,000 was acquired. On 1st January 2002, the machine purchased on 1st January 2000 was disposed off at a price of Rs.75,000. Depreciation was provided for annually on 31st December @ 10% per annum on the cost of the machine. In the year 2002, however, the following changes were introduced:

- The existing method of depreciation was replaced with written down value method.
- The rate of depreciation was increased from 10% to 15%.

Required:

Machine account as it would appear at 31st December each year from year 2000 to 2004.

ACCOUNTANCY & AUDITING, PAPER-I:

Q.No.4: S & Y are partners with profit sharing ratio as 2:1. The position of the firm 31st December 2004 when they decided to dissolve the business was as follows:

Liabilities	Rs.	Assets	Rs.
Sundry Creditor	1,50,000	Plant & Machinery	2,50,000
General Reserve	1,00,000	Furniture	40,000
Capital Accounts:		Stock	1,00,000
S	2,20,000	Debtors	2,00,000
Y	2,20,000	Cash at bank	1,00,000
Total	6,90,000	Total	6,90,000

The details of realisation was as follows:

1. S took over plant & machinery and furniture at book value less 10%.
2. Y took over the stock at Rs. 1,75,000.
3. Debtors realized Rs. 1,85,000.
4. Sundry creditors were settled at a discount of 5%.

Required:

Prepare necessary journal entries and ledger accounts to close the books of the firm.

COMPULSORY QUESTIONS

Q.No.5: Following is the Trial Balance of Rizwan & brothers as on December 31, 2004.

Particulars	Debit Rs.	Credit Rs.
Drawings	42,600	
Machinery	69,000	
Opening Stock	87,600	
Purchases	6,00,000	
Capital Account		2,55,000
Sales		7,14,000
Sales Return	12,600	
Purchases Return		11,400
Salaries	26,400	
Stationary	19,200	
Apprentice Fee Received		4,800
Bank overdraft		8,400
Bad debts	10,200	
Accounts Receivable	1,92,000	
Accounts Payable		60,000
Provision for bad debts		6,000
Total	10,59,600	10,59,600

ACCOUNTANCY & AUDITING, PAPER-I:

Adjustments:

1. Stock on December 31, 2004 was Rs. 1,02,000.
2. Increase bad debts provision on account receivable to 5% and provide discount reserve on account receivable at 2%.
3. Depreciate machinery by 10%.
4. Goods taken away by the owner for his personal use Rs. 2,400.
5. Machinery purchased Rs. 6,000 was wrongly included in purchases.
6. Unused stationary for Rs. 1,800 wrongly included in closing stock.
7. Apprentice fee to be adjusted for four years.

Note: No depreciation should be charged on the machinery purchased during the year and on carriage paid on such machinery.

Required:

Trading and Profit & Loss Account for the year ended Dec 31, 2004 and Balance Sheet after taking into account the above adjustments.

Q.No.6:

Select the most suitable option.

- (1) The purchase of machinery on account would:
 - (a) Increase an asset and decrease another asset
 - (b) Increase an asset and decrease liability
 - (c) Increase an asset and increase liability
 - (d) Decrease an asset and increase a liability
- (2) In general, the accounts in the Income Statement are known as:
 - (a) Real Account
 - (b) Contra Asset
 - (c) Nominal Account
 - (d) Unrecorded revenue account
- (3) In general terms, financial assets appear in the Balance Sheet at:
 - (a) Face Value
 - (b) Current Cash Value
 - (c) Cash
 - (d) Estimated future sales value
- (4) A limited Co; sold marketable securities cost Rs. 80,000 for Rs. 92,000 cash. In Co's income statement and statement of cash flows respectively, this will appear as:
 - (a) A Rs. 12,000 gain and Rs.92,000 cash receive
 - (b) A Rs. 92,000 gain and Rs.8,000 cash receive
 - (c) A Rs. 12,000 gain and Rs.80,000 cash receive
 - (d) A Rs. 92,000 sales and Rs.92,000 cash receive
- (5) Which of the following is least important as a measure of short-term liquidity.
 - (a) Debtor Ratio
 - (b) Current Ratio
 - (c) Cash flow from operating activities
 - (d) Quick Ratio
- (6) Uzma Ltd; Net Income was Rs. 4,00,000 in 2003 and Rs. 1,60,000 in 2004. What percentage increase in net income must achieve in 2005 to off set the decline in profits in 2004?
 - (a) 60%
 - (b) 150%
 - (c) 200%
 - (d) 70%
- (7) Which of the following does not describe accounting?
 - (a) Language of Business
 - (b) Is an end rather than a mean to an end
 - (c) Useful for decision making
 - (d) Used by business government, non profit organizations and individuals.

ACCOUNTANCY & AUDITING, PAPER-I:

- (8) External uses of financial accounting information include all of the following except:
- (a) Investors (b) Labour Unions
(c) Line Manager (d) General Public
- (9) A fixed budget is:
- (a) A budget for single level of activity
(b) A budget which ignored inflation
(c) Used only for fixed cost (d) An overhead cost budget
- (10) Heavy expenditure on advertisement of a new product is a:
- (a) Capital expenditure (b) Revenue expenditure
(c) Deferred Revenue expenditure (d) None of the above
- (11) Subscriptions received in advance is:
- (a) An Income (b) An Asset (c) A Liability (d) A Loss
- (12) At the time of admission of a new partner, goodwill raised should be written off in:
- (a) New profit sharing ratio (b) Old profit sharing ratio
(c) Sacrificing ratio (d) Gaining ratio
- (13) A and B are partners in the ratio of 2:1. They admit C for $\frac{1}{4}$ share who contributes Rs.3000 for his share of goodwill. The total value of the goodwill of the firm is:
- (a) Rs. 3,000 (b) Rs. 9,000 (c) Rs. 12,000 (d) Rs. 15,000
- (14) Sales to Mustafa of Rs. 10,000 not recorded in the books would affect:
- (a) Sales Account (b) Mustafa Account
(c) Sales Account and Mustafa Account
(d) None of the above
- (15) Depreciation is a process of:
- (a) Valuation (b) Allocation
(c) Both a & b (d) None of these
- (16) Loss on sale of an asset should be written off against:
- (a) Share premium account (b) Sales account
(c) Depreciation fund account (d) None of the above
- (17) Income and expenditure account reveals:
- (a) Cash in hand (b) Surplus or deficiency
(c) Capital account (d) None of the above
- (18) Which of the following is true regarding the work sheet.
- (a) It is the form, which an accountant uses for his own aid and convenience
(b) It assists in the orderly preparation of the adjustments and financial statements at the end of the account periods
(c) It can substitute for Journal and Ledger
(d) Only a & b are true
- (19) The post closing trial balance will:
- (a) Contain only income statement accounts
(b) Contain only balance sheet accounts
(c) Contain both income statement and balance sheet accounts
(d) Be prepared before closing entries are posted to the ledger
- (20) The cost of goods and services used up in the process of obtaining revenue are called:
- (a) Net Income (b) Revenue (c) Expenses (d) Liabilities

FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS-17 UNDER THE FEDERAL GOVERNMENT, 2005.

ACCOUNTANCY & AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

- NOTE:** (i) Attempt FIVE questions in all, including QUESTION No. 9, which is COMPULSORY.
(ii) Select at least ONE QUESTION from each of the PART A, B, C and D. All questions carry EQUAL marks

PART-A: (Cost Accounting)

Q.No.1: Distinguish between: (20)

- Cost accounting and financial accounting.
- Job order costing and process costing.
- Joint product cost and by-product cost.
- Standard cost and budget.

Q.No.2: Rahmat Manufacturing Company uses process costing. The costs incurred in department No. 2 during the month of January were: (20)

Direct Material Cost	Rs. 1,98,000
Direct Labour Cost	Rs. 1,18,800
Factory Overheads	Rs. 79,200

The quantity schedule shows that 50,000 units were received from department 1 at a unit cost of Rs. 9. During the month 30,000 units were completed and transferred to next department. 5000 units were completed but in hand. 5000 units were lost during processing. The remaining units were in process at the end of the month. The degree of completion of the in process units was as follows:

- 40% of the units were 50% complete.
- 20% of the units were 60% complete.
- 20% of the units were 40% complete.
- Balance of the units was 30% complete.

Required:

Cost of production report for department No 2 for the month of January.

PART-B: (Auditing)

Q.No.3: What is Internal control? Explain principles of Internal control. Also differentiate between Internal check, Internal audit and Internal control. (20)

Q.No.4: Define continuous audit. Discuss advantages and disadvantages of continuous audit. Suggest the steps that can be taken to reduce the drawbacks of continuous audit. (20)

Contd... P/2

ACCOUNTANCY & AUDITING, PAPER-II:

PART-C: (Income-Tax)

Q.No.5: Explain the term "Income from Business" under section 18. What are various incomes of a person that shall be chargeable under the head "Income from Business" under section 18 of Income tax ordinance 2001? (20)

Q.No.6: Compute the taxable income of Mr. Waqar who during the tax year ended June 30, 2004 derived income from the following sources: (20)

	<u>Rs</u>
1 Salary	1,00,000
2 Loss from speculation on shares	4,000
3 Annual leave fare assistance	10,000
4 Interest free loan received from employer	90,000
5 Overtime payment received	10,000
6 Rent ceiling paid by the employer	1,50,000
7 Zakat paid	2,000
8 Tax deducted at source	1,000
9 Conveyance allowances (Conveyance provided by employer partly for personal and partly for official purpose, expenditure Rs. 12,000)	4,700
10 Share from AOP	8,000
11 Gratuity received from the employer (Approved by CBR)	2,10,000
<u>Amount claimed for Rebate</u>	
(a) Shares of listed companies purchased	13,658
(b) Personal legal expenditure	5,000
(c) Life insurance premium paid by employee	10,000

PART-D: (Business Organization and Finance)

Q.No.7: Define "Joint Stock Company". Identify and explain the main points of difference between Joint Stock Company and other forms of business organization. (20)

Q.No.8: What is Business Finance? Discuss in detail various financial sources available to a new venture. (20)

Contd... P/2

- Q.No.9: Deliver the correct answer in the answer book. Do not reproduce the question. Over writing is not allowed. Over writing answer will carry no grade:
- (1) State which of the following are characteristics of job costing:
- (i) Homogeneous Products (ii) Customer driven production
(iii) Complete production possible within a single accounting period.
- (a) (i) only (b) (i) and (ii) only
(c) (ii) and (iii) only (d) (i) and (iii) only
(e) None of above
- (2) State which of the following are characteristics of contract costing:
- (i) Homogeneous Products (ii) Customer driven production
(iii) Short time scale from commencement to completion of the cost unit
- (a) (i) and (ii) only (b) (i) and (iii) only
(c) (ii) and (iii) only (d) (ii) only
(e) None of above
- (3) The following extract is taken from the production cost budget of S. Ltd;
- | | | |
|----------------------|--------|--------|
| Production (Units) | 2,000 | 3,000 |
| Production Cost (Rs) | 11,100 | 12,900 |
- The budget cost allowance for an activity level of 4,000 units is
- (a) Rs. 7,200 (b) Rs. 14,700 (c) Rs. 17,200
(d) Rs. 22,200 (e) None of these values
- (4) Direct costs are:
- (a) Costs which can be identified with a cost center but not identified to a single cost unit.
(b) Costs which can be identified with a single cost unit
(c) Costs incurred as a direct result of a particular decision.
(d) Costs incurred which can be attributed to a particular accounting period.
(e) None of above
- (5) A master budget comprises:
- (a) The budgeted profit and loss account
(b) The budgeted cash flow, budgeted profit and loss account and budgeted balance sheet.
(c) The budgeted cash flow.
(d) The entire set of budgets prepared.
(e) None of above
- (6) The best description of a by-product is a Joint product which:
- (a) Has no economics value
(b) Accounts for a relatively small proportion of the total sales value of the production process.
(c) Accounts for a relatively small proportion of the total value of the production process.
(d) Will need to be disposed off at a cost.
(e) None of above
- (7) What type of budget is designed to take into account forecast changes in costs, prices etc.
- (a) Rolling budget (b) Functional Budget
(c) Flexible Budget (d) Master Budget
(e) None of them

Car 2d - P/4

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ACCOUNTANCY & AUDITING, PAPER-II:

- (8) Working capital is the:
- (a) Effective capital of the company when the business is in full swing
 - (b) Capital borrowed from the bank
 - (c) Difference between the current assets and current liabilities
 - (d) None of them
- (9) The most acceptable method of measuring income is:
- (a) To match the costs with revenue
 - (b) To find out this difference in net worth as on two dates
 - (c) To apply normal rate of return on capital invested
 - (d) None of above
- (10) Up to what level Agriculture income is exempt from tax?
- (a) Rs. 80,000
 - (b) Rs. 100,000
 - (c) Totally exempt
 - (d) Totally taxable
 - (e) None of the above
- (11) Average relief is available on the following except:
- (a) Donation for charitable purpose
 - (b) Investment in shares
 - (c) Retirement Annuity scheme
 - (d) Mark up on Housing Finance Scheme
 - (e) Donations to Baitul-Mal Fund
 - (f) None of above
- (12) Special tax relief is granted to a senior citizen if his age is:
- (a) 50 years or above
 - (b) 60 years or above
 - (c) 65 years or above
 - (d) None of the above
- (13) When preparing balance sheet of a company, Goodwill, Patents, Trade Mark and designs come under the head of:
- (a) Fixed Assets
 - (b) Fictitious Assets
 - (c) Current Assets
 - (d) Miscellaneous Expenditure
 - (e) None of above
- (14) When debentures are issued at par and are redeemable at premium, credit given to premium on redemption of debentures account is in the nature of a:
- (a) Personal Account
 - (b) Real Account
 - (c) Nominal Account
 - (d) None of the above
- (15) In comparison to the external auditor, an internal auditor is more likely to be concerned with:
- (a) Internal Administrative Control
 - (b) Cost Accounting Procedures
 - (c) Operational Auditing
 - (d) Internal Accounting Control
 - (e) None of above
- (16) An auditor's unqualified short form report:
- (a) Implies only, that items disclosed in the financial statement and foot notes are properly presented and takes no position on the adequacy of disclosure.
 - (b) Implies that disclosure is adequate in the financial statements and foot notes.
 - (c) Explicitly states that disclosure is adequate in the financial statements and foot notes
 - (d) Explicitly states that all material items have been disclosed in conformity with generally accepted accounting principles
 - (e) None of above

concl...-P/S

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ACCOUNTANCY & AUDITING, PAPER-II:

- (17) The role of finance function in the future will be:
(a) Tactical (b) Professional Advisor
(c) Stewards (d) Specialist team member
(e) None of above
- (18) In principle current Assets are financed from:
(a) Retained Earning (b) Long term debts
(c) Issue of fresh Capital (d) Current Liabilities
(e) None of above
- (19) A non-banking asset is:
(a) Item of office equipment (b) Bank premises
(c) Secured property acquired from defaulting borrower
(d) All of the above (e) None of the above
- (20) When preparing a production budget, the quantity to be produced equals:
(a) Sales quantity + Opening stock + Closing stock
(b) Sales quantity - Opening stock + Closing stock
(c) Sales quantity - Opening stock - Closing stock
(d) Sales quantity
(e) None of the above