

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	
	<u>340,000</u>	<u>340,000</u>

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.

- 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?

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- (c) What disclosures are required in the financial statements consequent upon revaluation of assets?
- i. In the first balance sheet after the revaluation?
 - ii. 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	<u>630,000</u>	<u>760,000</u>
Gross Profit on Sales	340,000	440,000
Selling, General, and other expenses	<u>300,000</u>	<u>340,000</u>
Net operating Income	10,000	90,000
Income Taxes	<u>15,000</u>	<u>35,000</u>
Net Income	25,000	55,000
Dividends paid	<u>30,000</u>	<u>40,000</u>
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>

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	<u>28,000</u>	Sundry Debtors	22,000
		Profit & loss A/c	<u>1,000</u>
	<u>178,000</u>		<u>178,000</u>

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:

	<u>Rs.</u>
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:

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S No.	Choice	Rationale for answer
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- (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.

- (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

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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

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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	Rs2000
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
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- (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.

- (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 CRWIP
 (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

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- (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)
 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.

FEDERAL PUBLIC SERVICE COMMISSION

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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

Assets	Rs.
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

	Rs.
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
	1,200,000

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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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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.		

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ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: Attempt FIVE questions in all, including QUESTION NO. 9 which is **COMPULSORY**. Select one question from each of the **PARTS A, B, C** and **D**. All questions carry **EQUAL** marks.

PART "A" COST ACCOUNTING

1. Explain ten uses of Cost Accounting in real life. Highlight points giving edge to Cost Accounting over Financial Accounting in respect of above uses.
2. A product passes through two processes. The output of each process is treated as raw material for the next process. The expenditures incurred during a period were as under:

Particulars	Process	
	A (Rs)	B (Rs)
Raw materials	400,000	200,000
Direct Labour	60,000	40,000
Factory Overhead	100,000	100,000
Total Manufacturing Cost	560,000	340,000

10,000 units were issued to the process – A and after processing, the output of each process is as under:

Particulars	Output (Units)	Normal Loss %
Process A	9,750	2
Process B	9,400	5
No Stock of material or work in process was left at the end.		

REQUIRED: Prepare Process Accounts to show the cost of the finished articles.

PART "B" AUDITING

3. State and explain Limitations of Audit. Outline an audit program for vouching acquisition of fixed assets in a limited company.
4. Explain duties of an auditor for conducting various types of audits under the Companies Ordinance 1984.

PART "C" INCOME TAX

5. Present a lucid review of tax rates governing various types of income-tax assesses contained in the First Schedule of the Income Tax Ordinance, 1979.
6. The following information available in respect of Mr. "A" for the assessment year 2002-2003:

	Rs.
Basic Salary	360,000
Arrears of salary	50,000
Leave encashment	25,000
House rent allowance	200,000
Rent received from a Company	360,000
Other information is as under:	
- Repairs	100,000
- Interest on loan for house construction	75,000
- Municipal tax	15,000
- Insurance premium paid	10,000

Required: Compute taxable income for assessment year 2002 - 2003.

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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
		Cost of Goods Sold		
	(c)	Direct Labour + Direct Material	(d)	None of these.
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	12,500
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.

ACCOUNTANCY 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.

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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.

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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

* 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.

Liabilities	Rs.	Assets	Rs.
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
	<u>87,500</u>		<u>87,500</u>

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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) Shahzad 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	4,40,000	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 Trail 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

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)
- a) Cost accounting and financial accounting.
 - b) Job order costing and process costing.
 - c) Joint product cost and by-product cost.
 - d) 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

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
(c) (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
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Production Cost (Rs)	11,100	12,900
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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

Contd... P/4

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2

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

contd...-P/5

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
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