FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BPS – 17 UNDER THE FEDERAL GOVERNMENT, 2007.

ACCOUNTANCY & AUDITING
PAPER - I

NOTE: (i) Attempt FIVE questions in all including question No. 8 which is compulsory. All questions carry EQUAL marks.
(ii) Extra attempt of any question or any part of the attempted question will not be considered
(iii) Candidate must draw two straight lines (==================) at the end to separate each question attempted in Answer Books.

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 Receiveable --------------------- 17,860
Total……….............…………… 961,920 ---- 961,920

Additional Information:
(a) Closing Stock Rs.87,210.
(b) Depreciation to be provided on Machinery and Plant at 10% and Office Furniture at 5%.
(c) The provision for Bad Debts is to be increased by Rs.4,000.
(d) Outstanding Wages Rs.3,210 and Salaries Rs.920.
(e) 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 mont h 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

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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 statue
(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.