

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

**ACCOUNTANCY & AUDITING**

**TIME ALLOWED: THREE HOURS MAXIMUM MARKS:100**

**PAPER - 1**

**PART – I (MCQS)**

**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:**

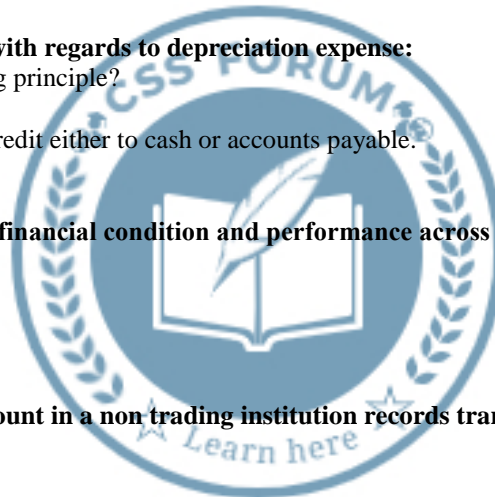
- a. Revenue nature only
- b. Capital nature only
- c. Both (a) & (b)
- d. Income of revenue nature and expenditure of revenue and capital nature

**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     |                                       |
| <b>TOTAL 1,005,611</b>     | <b>TOTAL 1,005,611</b>                |

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     |
| <b>TOTAL 47,100</b>               | <b>TOTAL 47,000</b>   |



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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**PAPER - II**

**PART – I (MCQ)**

**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:**

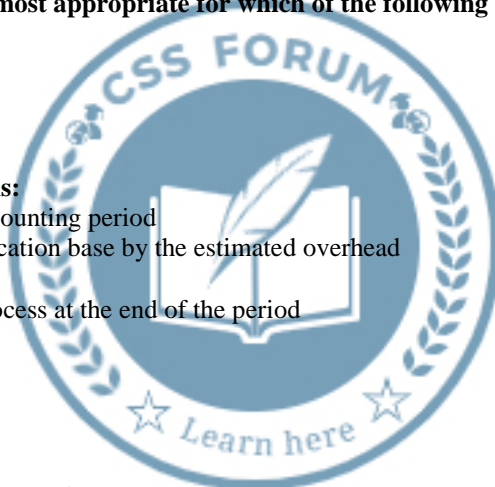
- a. On a job cost sheet
- b. In the work in process account
- c. In the financial goods account
- d. In the manufacturing overhead accounts

**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 Pakistanis:**

- 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 June30, 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?

