

ACCOUNTANCY AND AUDITING, PAPER-I



**FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION FOR
RECRUITMENT TO POSTS IN BPS-17 UNDER
THE FEDERAL GOVERNMENT, 2009**

ACCOUNTANCY AND AUDITING, PAPER-I

S.No.	
R.No.	

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

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

PART – I (MCQ)
(COMPULSORY)

- Q.1. Select the best option/answer and fill in the appropriate box on the Answer Sheet. (20)**
- (i) Which of the following transactions represent an expense?
(a) The owner withdrew Rs. 1,600 from the business for personal use
(b) Purchased a photocopying machine for Rs. 2,750 cash
(c) Purchased medical supplies for cash from Healthcare Labs. Rs. 1,630
(d) Received a telephone bill amounting to Rs. 550 to be paid within ten days.
- (ii) Which of the following statements about accounting procedures is not correct?
(a) The journal shows in one place all the information about specific transactions arranged in chronological order.
(b) A ledger account shows in one place all the information about changes in a specific asset or liability or owner's equity.
(c) Posting is the process of transferring information from ledger accounts to the journal.
(d) The product of the accounting cycle is the formal financial statements such as balance sheet and income statement.
- (iii) Which of the following financial statements reflects the overall financial position of the business?
(a) Statement of cash flows
(b) Income Statement
(c) Balance Sheet
(d) Statement of owner's equity
- (iv) Trial Balance is prepared:
(a) To ensure arithmetical accuracy of accounting records.
(b) To establish complete accuracy of accounting records.
(c) To determine the amounts payable to suppliers for purchase of goods on credit.
(d) To ensure efficient use of resources of the business.
- (v) The net sales of Fresh Foods were Rs. 200,000 for the current month. If the cost of goods available for sale was Rs. 180,000 and the gross profit rate was 35%, the ending inventory must have been:
(a) Rs. 70,000 (b) Rs. 1,30,000 (c) Rs. 50,000 (d) Rs. 63,000
- (vi) In the accounting cycle:
(a) Closing entries are made before adjusting entries.
(b) Closing entries are made after the adjusting entries.
(c) Adjusting entries are made after financial statements are prepared.
(d) Financial statements are prepared after closing trial balance.
- (vii) Which of the following is an intangible asset?
(a) An investment in marketable securities. (b) Leasehold land.
(c) Loose tools. (d) Copy rights.

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- (viii) Expense is recorded in the accounting records when:
- (a) Cash is paid
 - (b) The purchase order is placed with the supplier
 - (c) Purchases are made
 - (d) None of these
- (ix) The cash basis of accounting:
- (a) Is widely used by manufacturing firms.
 - (b) Is often used by merchandising firms.
 - (c) Usually results in a larger amount of tax than under accrual basis accounting.
 - (d) Can not be used in filing income tax returns.
- (x) The straight-line method of depreciation:
- (a) Generally gives best results because it is easy to apply
 - (b) Should be use din a period of inflation, because it accumulates the fund for the replacement of asset at a uniform rate.
 - (c) Is the best method used for wasting assets.
 - (d) Ignores fluctuations in the rate of asset usage.
- (xi) Which of the following accounts are not closed at the end of an accounting period?
- (a) Revenue accounts
 - (b) Expense accounts
 - (c) Drawing accounts
 - (d) Asset accounts
- (xii) Under periodic inventory system cost of good sold is determined and recognized in the books of accounts:
- (a) At the time of purchase of goods
 - (b) At the time of sale of goods
 - (c) At the end of the year
 - (d) None of these
- (xiii) Which of the following is not a use of working capital?
- (a) Repayment of long term debt
 - (b) Cash dividend declared but not paid
 - (c) Payment of an account payable
 - (d) Acquisition of treasury stock.
- (xiv) A transaction caused a Rs. 10,000 decrease in both assets and total liabilities. This transaction could have been:
- (a) Purchase of furniture for Rs. 10,000
 - (b) An asset costing Rs.10,000 was destroyed by fire
 - (c) Repayment of bank loan Rs. 10,000
 - (d) Collection of a Rs.10,000 account receivable
- (xv) Which ratio indicates a firm's ability to pay current liabilities in the shortest possible time?
- (a) Current Ratio
 - (b) Equity Ratio
 - (c) Debt Ratio
 - (d) Quick Ratio
- (xvi) If we add the average number of days to turn the inventory over and the average age of receivables (in number of days), we arrive at:
- (a) The company's fiscal period
 - (b) The sales volume of the business
 - (c) The company's operating cycle
 - (d) Nothing meaningful
- (xvii) Which of the following is least important in determining the fair market value of a share?
- (a) Earnings and dividends per share
 - (b) Book value per share
 - (c) The available supply of shares and the demand to purchase the shares.
 - (d) The par value of share.
- (xviii) Financial statements prepared by a business firm are most likely to be:
- (a) Fully reliable
 - (b) Tentative in nature
 - (c) Relevant for all types of decisions
 - (d) Always misleading
- (xix) One of the following is not an officer of a company:
- (a) Share registrar
 - (b) Controller
 - (c) Secretary
 - (d) Treasurer
- (xx) A deficit appears on the balance sheet:
- (a) Among the assets
 - (b) As a deduction from total paid-up capital
 - (c) Among the liabilities
 - (d) None of these

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PART – II

NOTE:	<p>(i) PART-II is to be attempted on the separate Answer Book.</p> <p>(ii) Attempt ONLY THREE questions from PART-II including QUESTION NO. 2 which is COMPULSORY having 30 marks. Rest of the questions carry 25 MARKS EACH.</p> <p>(iii) Extra attempt of any question or any part of the attempted question will not be considered.</p>
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Q.2. Write short notes on the followings: **(3 each)**

- (i) What is a compound journal entry?
- (ii) Define subsidiary ledger.
- (iii) Identify two major causes of depreciation on plant assets.
- (iv) What is meant by statement of cash flows?
- (v) Briefly explain the perpetual inventory system.
- (vi) State the principle of realization.
- (vii) What do you understand by realization account?
- (viii) Describe the term accelerated depreciation.
- (ix) What do you understand by limited partnership?
- (x) Define closing entries and give two examples.

Q.3. Complete the 2007 balance sheet for Premier Industries using the information that follows it. **(25)**

Premier Industries			
Balance Sheet at December 31, 2007			
Cash	Rs. 30,000	Accounts Payable	Rs. 120,000
Marketable securities	25,000	Notes Payable	---
Accounts receivable	---	Accruals	20,000
Inventories	---	Long-term debt	---
Net fixed assets	---	Stockholders' equity	600,000
	<hr/>		<hr/>

The following financial data for 2007 are also available:

- 1) Sales totaled Rs. 1,800,000
- 2) The gross profit margin was 25 percent
- 3) Inventory turnover was 6.0.
- 4) There are 360 days in the year.
- 5) The average collection period was 40 days.
- 6) The current ratio was 1.60.
- 7) The total asset turnover ratio was 1.20.
- 8) The debt ratio was 60 percent.

Q.4. The cash balance, November 30, 2007 is Rs. 30,000. Sales proceeds are collected as follows: 75% month of sale, 15% second month and 10% third month. **(25)**

Raleigh Company			
Budgeted Income Statement for the Month Ended December 31, 2007 (in thousands)			
Sales			Rs. 300
Inventory, November 30	Rs. 50		
Purchases	190		
Cost of goods available for sale	<hr/>	240	
Inventory, December 31	40		
Cost of goods sold			<hr/>
Gross margin			200
			Rs. 100
Operating expenses			
Wages	Rs. 36		
Utilities	5		
Advertising	10		
Depreciation	1		
Office expenses	4		
Insurance and property taxes	1		
Operating Income			<hr/>
			57
			<hr/>
			Rs. 43

Accounts receivable are Rs. 43,000 on November 30, 2007, consisting of Rs. 16,000 from October sales and Rs. 27,000 from November sales.

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Accounts payable on November 30, 2007 are Rs. 150,000. Raleigh Company pays 35% of purchases during the month of purchase and the remainder during the following month. All operating expenses requiring cash are paid during the month of recognition. Insurance and property taxes are paid annually in December, however.

Required: Prepare a cash budget for December.

Q.5. Saeed and Rasheed carried on business in partnership. On 31st December 2007 Saeed retired. Their Balance Sheet at that date was as follows: (25)

<u>Liabilities and Capital</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Accounts Payable	10,000	Land and Building	5,000
Notes Payable	8,000	Plant and Machinery	12,000
Saeed – Capital Account	21,000	Loose Tools	4,000
Rasheed – Capital Account	14,000	Patterns and Models	2,000
		Inventory	15,000
		Accounts Receivable	11,000
		Notes Receivable	2,500
		Cash	1,500
	53,000		53,000

Profits and Losses were shared in the proportions of Saeed two-thirds, and Rasheed one-third. Rasheed agreed to take over the business on the following terms:-

The Land and Building were to be taken over by Saeed at the amount stated in the Balance Sheet, and Rasheed was to rent the premises at Rs. 250 per annum.

Revaluations were to be made which resulted as follows:-

Plant and Machinery, Rs. 10,000; Loose Tools, Rs. 4,400; Patterns and Models, Rs. 1,800; and Inventory, Rs. 12,000.

Saeed agreed to allow the amount due to him (Less Rs. 300 which was to be paid to him in cash) to remain as a loan to Rasheed at 5 percent interest.

Required: Make necessary Journal entries to give effect to the above transactions and prepare Rasheed's Balance Sheet.

Q.6. The following is the Trial Balance at 30th June 2008 of the L.Y. Manufacturing Company, Limited:- (Rupees in thousands) (25)

	<u>Rs.</u>	<u>Rs.</u>
Inventory, 1 st July, 2007	7,500	
Sales		35,000
Purchases	24,500	
Productive Wages	5,000	
Discounts	700	500
Salaries	750	
Rent	495	
General Expenses	1,705	
Profit and Loss Account, 1 st July, 2007		1,503
Interim Dividend paid, February 2008	900	
Share Capital – 1,000 shares of Rs. 10 each fully paid		10,000
Accounts Receivable and Accounts Payable	3,750	1,750
Plant and Machinery	2,900	
Cash in hand and at Bank	1,620	
Reserve		1,550
Loan to Managing Director	325	
Bad Debts	158	
	50,303	50303

Adjustments:

- (1) Depreciate Machinery at 10% per annum.
- (2) Reserve 4% discount on Accounts Receivable.
- (3) Allow 2% discount on Accounts Payable.
- (4) One Month's Rent at Rs. 45 per month was due on 30th June, 2008.
- (5) Reserve 5% for bad and doubtful debts.
- (6) Inventory on 30th June 2008 was Rs. 8,200.

Required: Trading and Profit and Loss Account for the year ended 30th June 2008, and the Balance Sheet as on that date.



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ACCOUNTANCY AND AUDITING, PAPER-II

S.No.	
R.No.	

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

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

PART – I (MCQ)
(COMPULSORY)

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

- (i) Audit programme is prepared by:
(a) Audit staff (b) Chief Accountant (c) Directors
(d) Audit Management (e) None of these
- (ii) Verification is carried out for:
(a) Closing stock (b) Rent income (c) Dividend Received
(d) Wages & Salaries (e) None of these
- (iii) Retiring auditor can be appointed at:
(a) Statutory Meeting (b) AGM (c) Directors Meeting
(d) Creditors Meeting (e) None of these
- (iv) Unqualified report is favourable for:
(a) Management (b) Creditors (c) Debtors
(d) Employees (e) None of these
- (v) Normally test checking is adopted in case of:
(a) Continuous Audit (b) Final Audit (c) Interim Audit
(d) Special Audit (e) None of these
- (vi) In partnership minimum number of members is:
(a) 2 (b) 3 (c) 4
(d) 5 (e) 20
- (vii) In Public Ltd. Company, minimum number of members is:
(a) 2 (b) 3 (c) 5
(d) 7 (e) 10
- (viii) Short term finance can be arranged through:
(a) Sales of Debentures (b) Sales of Shares (c) Bank loan
(d) Debtors collection (e) None of these
- (ix) Statutory meeting is necessary in case of:
(a) Private Ltd. Co. (b) Public Ltd. Co. (c) Partnership
(d) Cooperative Society (e) None of these
- (x) Current Companies Ordinance is that of:
(a) 1932 (b) 1984 (c) 2001
(d) 2002 (e) 2003
- (xi) The Addition of Material and Labour is called:
(a) Conversion cost (b) Prime cost (c) Financial cost
(d) Absorption cost (e) None of these
- (xii) Expenses can be called as:
(a) Expired cost (b) Project cost (c) Prime cost
(d) Conversion cost (e) None of these
- (xiii) EOQ is adopted to have efficient:
(a) Material Management (b) Labour Management (c) FOH Management
(d) Selling Expenses Control (e) None of these
- (xiv) Which of the following is Fixed cost:
(a) Rent (b) Income Tax (c) Repair

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- (d) Electricity (e) Insurance
- (xv) The statement prepared under process costing is called:
(a) Cost of goods sold statement (b) Income statement (c) Cost of Production Report
(d) Variance statement (e) None of these
- (xvi) Current Income Tax Ordinance is that of:
(a) 1990 (b) 2001 (c) 2002
(d) 2003 (e) 2008
- (xvii) Which of the following will be considered as capital expenditure?
(a) Material Expenses (b) Machinery Purchased (c) Labour Paid
(d) FOH applied (e) Income Tax Paid
- (xviii) Which of the following is exempted from tax at present?
(a) Agricultural Income (b) Bank Profits (c) Salary Income
(d) Profit of Public Ltd. Co. (e) Profit Private Ltd. Co.
- (xix) If Income year of a salaried person ends on 30th June, 2008, then tax year would be:
(a) 2007 – 08 (b) 2008 – 09 (c) 2009 – 10
(d) 2008 (e) None of these
- (xx) Which of the following can be adjusted against Income Tax Liability:
(a) Withholding Tax on Telephone Bills
(b) Excise duty paid
(c) Custom duty paid
(d) Sales tax paid
(e) Trade tax paid

PART – II

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

Q.2. ABC company made the following data available from its accounting records and reports: **(20)**

- (i) Rs. 60,000 estimated Factory overhead.
- (ii) 20,000 estimated direct Labour hours
- (iii) Rs. 3 pre-determined Factory overhead rate.
- (iv) One third of the rate is variable cost oriented.
- (v) During the year, the company worked on 21,000 direct Labour hours.
- (vi) Actual Factory overhead expenses for the year were Rs. 63,100.

You are required to calculate spending and idle capacity variances.

Q.3. The records of MN Company show the following information for the year ending 30th June, 2008.

(i) Material used.	Rs. 880,000
(ii) Direct Labour	580,000
(iii) Indirect Labour	92,000
(iv) Light and Power	8,520
(v) Depreciation	9,400
(vi) Repair of Machinery	11,600
(vii) Misc. Factory overhead	58,000
(viii) Opening Wip inventory	82,400
(ix) Opening Finished Goods inventory	68,600
(x) Ending Wip inventory	85,000
(xi) Ending Finished Goods inventory	63,000

During the year 36,000 units were completed. You are required to calculate:-

- (a) A cost of Goods sold statement for the year ending on 30th June, 2008.
- (b) The unit cost of Goods manufactured.

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- (c) The amount of over or under applied factory overhead if the company applies factory overhead on the basis of 30% of direct labour cost.

SECTION – B (Auditing)

- Q.4.** What is meant by a Qualified report? Give specimen of such report after the completion of annual audit of a Public Limited Company. (20)
- Q.5.** Under what circumstances an auditor can be held liable for Negligence? Support your answer with relevant legal cases. (20)

SECTION – C (Income Tax)

- Q.6.** Explain the legal provisions governing the exemption of following items from Income Tax:- (20)
- (i) Pensions (ii) Facility of accommodation (iii) Income of Trusts
(iv) Income of Modarba

- Q.7.** The following information is available in respect of Mr. Hassan for Tax year ending on 30th June, 2008. (20)

(i) Salary	Rs. 300,000
(ii) Income from Agriculture	15,000
(iii) Income from Poultry farm	12,000
(iv) Payment to workers welfare fund	5,000
(v) Entertainment bills reimbursed	10,000
(vi) Telephone Bills reimbursed	6,000
(vii) Efficiency honorarium	10,000
(viii) Profit on sale of inherited house	14,000
(ix) Over time payments received	7,000
(x) Remuneration for literary work	9,000
(xi) Dividend income from private company	17,000
(xii) Zakat paid	3,000

You are required to calculate taxable Income of Mr. Hassan for the year ending on 30th June, 2008.

SECTION – D (Business Organization and Finance)

- Q.8.** Explain the legal procedure in respect of establishment of a Public Limited Company. (20)
- Q.9.** Explain the duties and functions of a Financial Manager of a large scale business. (20)
