FEDERAL PUBLIC SERVICE COMMISSION

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

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-I

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

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

(PART-I MCQs) (COMPULSORY)

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

(i) According to the rules of debit and credit for balance sheet accounts:
(a) Increases in asset, liability, and owner's equity accounts are recorded by debits.
(b) Decreases in asset and liability accounts are recorded by credits.
(c) Increases in asset and owner's equity accounts are recorded by debits.
(d) Decreases in liability and owner's equity accounts are recorded by debits.
(e) None of these

(ii) On March 31, the ledger for Majid House Cleaning consists of the following:

Cleaning equipment	*Rs.27,800*	*Accounts receivable ....*	*Rs.21,000*
Accounts Payable	*15,700*	*Cash ....*	*6,900*
M. Poppins, capital	*20,000*	*Salaries payable ....*	*9,600*
Office Equipment	*2,000*	*Cleaning supplies ....*	*2,600*
Automobile	*7,500*	*Notes Payable ....*	*22,500*

(a) Rs. 67,800
(b) Rs. 93,100
(c) Rs. 25,300
(d) Rs. 65,300
(e) None of these

(iii) The balance in the owner's capital account of ABC Company at the beginning of the year was Rs.65,000. During the year, the company earned revenue at Rs.430,000 and incurred expenses of Rs.360,000; the owner withdrew Rs. 50,000 in assets, and the balance of Cash account increased by Rs.10,000. At year-end, the company's net income and the year-end balance in the owner's capital account were, respectively:
(a) Rs.20,000 and Rs.95,000
(b) Rs.70,000 and Rs.95,000
(c) Rs.60,000 and Rs.75,000
(d) Rs.70,000 and Rs.85,000
(e) None of these

Q) Use the following information in questions **(iv)** and **(v).**
Accounts appearing in the trial balance of Eastside Plumbing at May 31 are listed below in alphabetical order:

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

No adjusting entry has yet been made to record depreciation expense of Rs. 270 for the month of May.
(iv) The balance of XYZ Company capital account appearing in the May 31 balance sheet should be:

(a) Rs. 11,650
(b) Rs. 8,630
(c) Rs. 11,380
(d) None of these

(v) In an *after-closing* trial balance prepared at May 31, the total of credit column will be:
(a) Rs. 26,620
(b) Rs. 22,200
(c) Rs. 13,830
(d) None of these

(vi) Before month-end adjustments are made, the January 31 trial balance of Hanan Excursions contains revenue of Rs. 9,300 and expenses of Rs. 5,780. Adjustments are necessary for following items:

- Portion of prepaid rent applicable to January, Rs. 900
- Depreciation for January, Rs. 480
- Portion of fees collected in advance earned in January, Rs. 1,100
- Fees earned in January not yet billed to customers, Rs. 650

Net Income for Hanan Excursions' January income statement is:
(a) Rs. 3,520
(b) Rs. 5,690
(c) Rs. 2,590
(d) None of these

(vii) On December 31, Elite Property Management made an adjustment entry to record Rs. 300 management fees earned but not yet billed to Hayat's, a client. This entry was reversed on January 1. On January 15, Hayat's paid Elite Rs. 1,200, of which Rs. 900 was applicable to the period January 1 through January 15. The Journal Entry made by Elite to record receipt of the Rs. 1,200 on January 15 includes:
(a) A credit to Management Fees Earned of Rs. 1,200
(b) A credit to Accounts Receivable of Rs. 300
(c) A debit to Management Fees Earned of Rs. 300
(d) A credit to Management Fees Earned of Rs. 900.
(e) None of these

(viii) Pisces Market presently has current assets totaling Rs. 300,000 and a current ratio of 2.5 to 1. Compute the current ratio immediately *after* Pisces pays Rs. 30,000 of its accounts payable
(a) 3 to 1
(b) 3.33 to 1
(c) 2.2 to 1
(d) 2.25 to 1
(e) None of these

(ix) Ahsan Brothers, a retail store, purchased 100 television sets from Lucky Electronics on account at a cost of Rs. 200 each. Lucky offers credit terms of 2/10, n/30. Ahsan Brothers determines that 10 of these television sets are defective and returns them to Lucky for full credit. In recording this return, Ahsan Brother will:
(a) Debit Sales Returns and Allowances
(b) Debit Accounts Payable, Rs. 1,960
(c) Debit Cost of Goods Sold, Rs. 1,960
(d) Credit Inventory, Rs. 2000
(e) None of these

(x) Which of the following is NOT an accurate statement?
(a) Expressing the various items in the income statement as a percentage of net sales illustrates the use of component percentages.
(b) An increase in the market price of bonds causes the yield rate to decline.

(c) A high debt ratio is viewed favorably by long-term creditors as long as the number times interest earned is at least 1.
(d) In measuring the Rupee or percentage change in quarterly sales or earnings, it is appropriate to compare the results of the current quarter with those of the same quarter in the preceding year.
(e) None of these

(xi) Which of the following actions will improve the "quality" of earnings, even though the total amount of earnings may not increase?
(a) Increasing the uncollectable accounts expense from 1% to 2% of net credit sales to reflect current conditions
(b) Switching from an accelerated method to the straight-line method for depreciating assets
(c) Changing from LIFO to the FIFO method of inventory valuation during a period of rising prices
(d) Lengthening the estimated useful lives of depreciable assets
(e) None of these

(xii) Ahmad Corporation's net income was Rs. 400,000 in 1993 and Rs.160,000 in 1994. What percentage increase in net income must Ahmad achieve in 1995 to offset the decline in profits in 1994?
(a) 60%
(b) 150%
(c) 600%
(d) 67%
(e) None of these

(xiii) Of the following situations, which would be considered the most favorable for the common stockholders?
(a) The company stops paying dividends on its cumulative preferred stock, the price-earnings ratio of common stock is low
(b) Equity ratio is high; return on assets exceeds the cost of borrowing
(c) Book value per share of common stock is substantially higher than market value per share; return on common stockholder's equity is less than the rate of interest paid to creditors
(d) Equity ratio is low; return on assets exceeds the cost of borrowing
(e) None of these

(xiv) During 1994, Bilal Corporation had sales of Rs. 4,000,000, all on credit. Accounts receivable averaged Rs. 400,000 and inventory levels averaged Rs. 250,000 throughout the year. If Bilal's gross profit rate during 1994 was 25% of net sales, which of the following statements are correct? (Assume 360 days in a year.)
(a) Bilal "turns over" its accounts receivable more times per year than it turns over its average inventory.
(b) Bilal collects the amount of its average accounts receivable in about 36 to 37 days.
(c) Bilal's operating cycle is 66 days
(d) The quality of Bilal's working capital would improve if the company could reduce its inventory and receivables turnover rates
(e) All of these

(xv) On April 1, 1993, XYZ Construction paid Rs. 10,000 for equipment with an estimated useful life of 10 years and a residual value of Rs. 2000. The company uses the double-declining balance method of depreciation and applies the half-year convention to fractional periods. In *1994*, the amount of depreciation expense to be recognized on this equipment is:
(a) Rs. 1,600
(b) Rs. 1,440
(c) Rs. 1,280
(d) None of these

(xvi) Delta Company sold a plant asset that originally had cost Rs. 50,000 for Rs. 22,000 cash. If Delta correctly reports a Rs. 5000 gain on this sale, the *accumulated depreciation* on the asset at the date of sale must have been:

(a) Rs. 33,000
(b) Rs. 28,000
(c) Rs. 23,000
(d) None of these

(xvii) In which of the following situations would Aashi Industries include goodwill in its balance sheet?
(a) The fair market value of Aashi's net identifiable assets amounts to Rs. 2,000,000. Normal earnings for this industry are 15% of net identifiable assets. Aashi's net income for the past five years has averaged Rs. 390,000.
(b) Aashi spent Rs. 800,000 during the current year for research and development for a new product which promises to generate substantial revenue for at least 10 years.
(c) Aashi acquired Star Electronics at a price in excess of the fair market value of Star's net identifiable assets.
(d) A buyer wishing to purchase Aashi's entire operation has offered a price in excess of the fair market value of Aashi's net identifiable assets.
(e) None of these

(xviii) When a partnership is formed,
(a) A written partnership agreement, signed by all partners, must be filed in the state in which the partnership is formed.
(b) Each partner may bind the business to contracts and may withdraw an unlimited amount of assets from the partnership, unless these rights are limited in the partnership contract.
(c) Each members of the partnership is entitled to participate equally in the earnings of and management of the partnership, unless the partnership is a limited partnership.
(d) The partnership must file an income tax return and pay income taxes on its net income.
(e) None of these

(xix) Omar and Rizwan have capital account balances of Rs. 80,000 and Rs. 100,000, respectively, at the beginning of 1994. Their partnership agreement provides for interest on beginning capital account balances, 10%; salaries to Omar, Rs. 30,000, and to Rizwan, Rs. 24,000; residual profit or loss dividend 60% to Omar and 40% to Rizwan. Partnership net income for 1994 is Rs. 62,000. Neither partner made any additional investment in the partnership during 1992, but Omar withdrew Rs. 1,500 monthly and Rizwan withdrew Rs. 1,000 monthly throughout 1994. The partnership balance sheet at December 31, 1994, should include:
(a) Capital, Omar, Rs. 94,000
(b) Capital, Omar, Rs. 112,000
(c) Capital, Rizwan, Rs. 30,000
(d) Total partner's equity, Rs. 242,000
(e) None of these

(xx) When a partnership is liquidated:
(a) Any cash distribution to partners is allocated according to the profit and loss sharing ratios
(b) Cash distributed to each partner in an amount equal to his or her capital account balance prior to the sale of partnership assets.
(c) Any gain or loss on disposal of partnership assets is divided among the partners according to their relative capital account balances.
(d) A partner who maintained a credit balance in his or her capital account prior to liquidation may end up owing cash to the partnership if partnership assets are sold at a loss.
(e) None of these.

PART-II

NOTE:(i) **PART-II** is to be attempted on separate Answer Book.
(ii) Attempt **ONLY FIVE** questions from **PART-II. Question No. 2 is COMPULSORY.** Select any **TWO** questions from each of the **SECTIONS – A and B.**
(iii) **Extra attempt of any question or any part of the attempted question will not be considered.**

ACCOUNTANCY AND AUDITING, PAPER-I

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

CINEPAX STAGE & THEATER
Trial Balance
September 30, 2004

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

a. Rental expense for the month is Rs. 42,275, all of which had been paid in advance.

b. The building is being depreciated over a period of 20 years (240 months).

c. The protection equipment is being depreciated over a period of 5 years (60 months).

d. No entry has yet been made to record interest payable accrued during September. At September 30, accrued interest totals Rs. 1,800.

e. When tickets are sold to future performances, Cinepax credits its Unearned Admissions Revenue account. No entry has yet been made recording that Rs. 3,650 of these advance ticket sales were for performances given during September.

f. Cinepax receives a percentage of the revenue earned by Variety Corp., the concessionaire operating the snack bar. For snack bar sales in September, Variety Corp., owes Cinepax Rs. 6,200, payable on October 10. No entry has yet been made to record this revenue. (Credit Concessions Revenue)

g. Salaries earned by employees, but unpaid as of September 30, amount to Rs. 3,750. No entry has yet been made to record this liability and expense.

INSTRUCTIONS

Prepare:

a. An income statement, a statement of changes in owner's equity, and a balance sheet.

b. The adjusting and closing entries required at month's end.

SECTION – A

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

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

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

a. The span of time covered by an income statement.

b. An increase in owner's equity as a result of earning revenue and incurring expenses.

c. An accounting concept intended to avoid overstatement of financial strength or earnings.

d. The generally accepted accounting principle used in determining when expenses should be offset against revenue.

e. The generally accepted accounting principle used in determining when to recognize revenue.

f. Recognizing revenue when it is earned and expenses when the related goods or services are used in the effort to obtain revenue.

g. The systematic allocation of the cost of a long-lived asset, such as a building or equipment, to expense over the useful life of the asset.

h. The procedures for transferring the balances of the revenue, expense, Income Summary, and owner drawing accounts into the owner's capital account.

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

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

SECTION – B

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

a. How should the available cash (the only remaining asset) be distributed if it is impossible to determine at this date whether Jawad will be able to pay Rs. 16,000 he owes to the firm? Draft the journal entry to record payment of all available cash at this time.

b. Draft the journal entries to record a subsequent partial payment of Rs. 13,000 to the firm by Jawad, and the distribution of this cash. Prepare a schedule (similar to the one prepared in part a) showing computation of amount to be distributed to each partner.

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

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

a. During the year, the company purchased Rs. 5 million in spare parts to be used in aircraft maintenance. All of these purchases were charged immediately to Maintenance Expense. No adjusting entry was made at year-end to reflect approximately Rs. 50,000 in spare parts remaining on hand, because the amount was considered immaterial.

b. The company's internal auditors discovered that the vice president of in-flight services had embezzled Rs. 100,000 from the airlines by authorizing payments to a fictitious supplier of in-flight meals. The vice president was fired, and criminal charges currently are pending against her, as is a civil lawsuit to recover the embezzled funds. In the income statement, this Rs. 100,000 loss was deducted from revenue as part of the Flight Operations Expenses, which totaled more than Rs. 200 million. No special disclosures were made, because the amount of the embezzlement was considered immaterial.

c. Shortly after year-end, the company suspended all flight operations to a particular foreign country as a result of political unrest. These flights provided approximately 2% of the company's revenue and net income during the current year. Cancellation of service to this country was not disclosed in notes to the current year's financial statements, because operations of the current year were not affected.

INSTRUCTIONS

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

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

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

INSTRUCTIONS

a. From the information given, compute the following:

1. Inventory Turnover
2. Accounts receivable turnover
3. Total operating expenses
4. Gross profit percentage
5. Return on average stockholders' equity
6. Return on average assets

b. Agility has an opportunity to obtain a long-term loan at an annual interest rate of 12% and could use this additional capital at the same rate of profitability as indicated above. Would obtaining the loan be desirable from the viewpoint of the stockholders? Explain. **(18)**

Q.9. A tractor which cost Rs. 30,000 had an estimated useful life of 5 years and an estimated salvage value of Rs. 10,000. Straight-line depreciation was used. Give the entry (in general journal form) required by each of the following alternative assumptions: (18)

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

****

FEDERAL PUBLIC SERVICE COMMISSION

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

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

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

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

(PART-I MCQs) (COMPULSORY)

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

(i) In a manufacturing company, the costs debited to the Work in Process Inventory account represent:
- a. Direct materials used, direct labour, and manufacturing overhead.
- b. Cost of finished goods manufactured.
- c. Period costs and product costs.
- d. None of these.

(ii) The Work in Process Inventory account had a beginning account had a beginning balance of Rs. 4,200 on February 1. During February, the cost of direct materials used was Rs. 29,000 and direct labour cost applied to production was Rs. 3000. Overhead is applied at the rate of Rs. 20 per direct labour hour. During February, 180 direct labour hours were used in the production process. If the cost finished goods manufactured was Rs. 34,100, compute the balance in the Work in Process Inventory account at the *end* of February.
- a. Rs. 9,900
- b. Rs. 1,500
- c. Rs. 2,100
- d. Rs. 5,700
- e. None of these

(iii) The purpose of an overhead application is to:
- a. Assign an appropriate portion of indirect manufacturing costs to each product manufactured.
- b. Determine the type and amount of costs to be debited to the Manufacturing Overhead account.
- c. Charge the Work in Process Inventory account with the appropriate amount of direct manufacturing costs.
- d. Allocate manufacturing overhead to expense in production to the number of units manufactured during the period.
- e. None of these

(iv) If Gurgson, Inc uses a *job order* cost system, each of the following is true, EXCEPT:
- a. Individual job cost sheets accumulate all manufacturing costs applicable to each job, and together constitute a subsidiary ledger for the Work in Process Inventory account.
- b. Direct labour cost applicable to individual jobs is recorded when paid by a debit to Work in Process Inventory and a credit to Cash, as well as by entering the amount on the job cost sheets.
- c. The amount of direct materials used in individual jobs is recorded by debiting the Work in Process Inventory account and crediting the Materials Inventory account, as well as by entering the amount used on job cost sheets.
- d. The manufacturing overhead applied to each job is transferred from the Manufacturing Overhead account to the Work in Process Inventory account, as well as entered on the individual job cost sheets.
- e. None of these

(v) When a job cost system is in use, *underapplied* overhead:

a. Represents the cost of manufacturing overhead that relates to unfinished jobs.
b. Is indicated by a credit balance remaining at year-end in the Manufacturing Overhead account.
c. Is closed out at year-end into the Cost of Goods Sold account if the amount is not material.
d. Results when actual overhead costs incurred during a year are less than the amounts applied to individual jobs.
e. None of these.

(vi) Shabbir Manufacturing has operations that involve three processing departments: Assembly, Painting, and Packaging. Debits to the Work in Process Inventory: Painting Department account could involve a credit to any of the following, EXCEPT:
a. Work in Process Inventory: Packaging Department
b. Direct Labour
c. Manufacturing Overhead
d. Work in Process Inventory: Assembly Department
e. None of these

(vii) When *actual* overhead costs incurred are charged to processing departments each month:
a. The cost of infrequent items, such as a major plant refurbishing, is spread uniformly over all units produced throughout the year
b. Under or overapplied overhead may occur, but it is treated in the same as when an overhead application rate is used.
c. It is no longer necessary to compute the equivalent final units of production for individual departments.
d. The monthly per-unit cost of producing a product will vary from fluctuations in the level of production when a significant portion of overhead cost is fixed.
e. None of these.

(viii) When a business is organized as corporation:
a. Stockholders are liable for the debts of the business only in proportion to their percentage ownership of capital stock.
b. Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.
c. Fluctuations in the market value of outstanding shares of capital stock do not affect the amount of stockholders' equity shown in the balance sheet.
d. Each stockholder has the right to bind the corporation to contracts and to make other managerial decisions.
e. None of these.

(ix) Which of the following is NOT a characteristic of common stock of a large, publicly owned corporation?
a. The shares may be transferred from one investor to another without disrupting the continuity of business operations.
b. Voting rights in the election of the board of directors
c. A cumulative right to receive dividends
d. After issuance, the market value of the stock is unrelated to its par value.
e. None of these.

(x) Tri-State Electric is a profitable utility company that has increased its dividend to common stockholders every year for 62 consecutive years. Which of the following is *least* likely to affect the market place of the company's *preferred* stock?
a. The company's earnings are expected to increase significantly over the next several years.
b. An increase in long-term interest rates
c. The annual dividend paid to preferred shareholders
d. Whether or not the preferred stock carries a conversion privilege.
e. None of these

(xi) The primary purpose of showing special types of events separately in the income statement is to:
a. Increase earnings per share.
b. Assist users of the income statement in evaluating the profitability of normal, ongoing operations.
c. Minimize the income taxes paid on the results of ongoing operations

d. Prevent unusual losses from recurring
e. None of these

(xii) Which of the following situations would NOT be presented in a separate section of the current year's income statement of Zeeshan Corporation? During the current year:
a. Zeeshan's Peshawar headquarters are destroyed by a flood.
b. Zeeshan sells its entire juvenile furniture operations and concentrates upon its remaining children's clothing segment.
c. Zeeshan changes from the straight-line method of depreciation to the double declining balance method
d. Zeeshan's accountant discovers that the entire price paid several years ago to purchase company offices in Islamabad had been charged to Land account; consequently, no depreciation has ever been taken on these buildings.
e. None of these

(xiii) When a corporation has outstanding both common and preferred stock:
a. Primary and fully diluted earnings per share and reported only if the preferred stock is cumulative
b. Earnings per share are reported for each type of stock outstanding.
c. Earnings per share may be computed without regard to the amount of dividends declared on common stock
d. Earnings per share may be computed without regard to the amount of the annual preferred dividends.
e. None of these

(xiv) The statement of retained earnings:
a. Need to be prepared if a separate statement of stockholder's equity accompanies the financial statements.
b. Indicates the amount of cash available for the payment of dividends
c. Includes prior period adjustments and cash dividends, but not stock dividends.
d. Shows revenues, expenses and dividends for the accounting period.
e. None of these

(xv) On December 10, 2008, Star Corporation reacquired 2,000 of its own Rs 5 par stock at a price of Rs 60 per share. In 2009, 500 of the treasury shares are reissued at a price of Rs. 70 per share. Which of the following statements is correct?
a. The treasury stock purchased is recorded at cost and is shown in Star's December 31, 2008, balance sheet as an asset.
b. The two treasury stock transactions result in an overall reduction in Star's stockholder's equity of Rs. 85,000
c. Star recognizes a gain of Rs. 10 per share on the reissuance of the 500 treasury shares in 2009.
d. Star's stockholder's equity was increased by Rs. 110,000 when the treasury stock was acquired.
e. None of these

(xvi) J.Q. Corporation was organized with authorization to issue 100,000 shares of Re. 1 par value common stock. Forty thousand shares were issued to Hassan Mir, the company's founder, at a price of Rs. 5 per share. No other shares have yet been issued.
a. J.Q. owns *40%* of the stockholder's equity of the corporation.
b. The corporation should recognize a Rs. 160,000 gain on the issuance of the shares.
c. If the balance sheet includes retained earnings of Rs. 50,000, total *paid-in* capital amounts to Rs. 250,000
d. In the balance sheet, the Additional Paid-in Capital account will have a Rs. 160,000 balance, regardless of the profits earned or losses incurred since the corporation was organized.
e. None of these

(xvii) Which ratio best measures a company's success in earning net income for its owners?
a. Profit Margin
b. Return on common stockholders' equity
c. Price earnings ratio
d. Dividend yield
e. None of these

(xviii) Which of the following is true for an installment note requiring a series of equal total cash payments?
a. Payments consist of increasing interest and decreasing principal

b. Payments consist of changing amounts of principal but constant interest
c. Payments consist of decreasing interest and increasing principal
d. None of these

(xix) How does a stock dividend impact assets and retained earnings?
a. Stock dividends does not transfer assets to stockholders
b. Stock dividend requires an amount of contributed capital to be transferred to retained earning account
c. Stock dividend does transfer assets to stockholders
d. None of these

(xx) Which of the following is least useful as a basis for comparison when analyzing ratios?
a. Company results from a different economic setting
b. Standards from past experience
c. Rule of Thumb Standards
d. Industry Wages
e. None of these

PART-II

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

SECTION –A
COST ACCOUNTING

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

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

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

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

INSTRUCTIONS

a. Using this data, state or compute for the year the amounts of: **(10)**

1. Direct materials purchased
2. Direct materials used
3. Payments of direct labour payrolls
4. Direct labour cost assigned to production
5. The overhead application rate used during the year, assuming that overhead was applied as a percentage of direct labour costs
6. Total manufacturing costs charged to the work in process inventory account during the year
7. The cost of finished goods manufactured

8. Cost of goods sold

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

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

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

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

INSTRUCTIONS

a. Compute the equivalent full units of production in July. **(10)**

b. Prepare journal entries to record (1) the manufacturing costs charged to the department during July and (2) the transfer of 1,900 completed units to the finished goods warehouse. **(10)**

SECTION – B

BUSINESS ORGANIZATION & FINANCE (20 MARKS)

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

1. **Ownership:** Valenti wants each of his two children to own 25% of the business and each of his five grandchildren to own 10%.
2. **Continuity of existence:** Valenti wants the business to continue indefinitely, even if one or more of the heirs should die or should no longer want to participate in ownership.
3. **Management:** When Valenti retires, he plans to give Joe Heinz, a long-time employee, responsibility for managing the business. Although, Valenti wants to keep the ownership of the business in the family, he does not believe that any of his family members have the time and experience to manage the business on a daily basis. In fact, Valenti believes that two of his grandchildren simply have no “business sense,” and he does not want them to participate in the management.
4. **Income taxes:** Valenti wants to organize the business in a manner which will minimize the income taxes to be paid by his heirs. He expects that all the earnings of the business will normally be distributed to its owners on an annual basis.
5. **Owners’ Liability:** Valenti recognizes that an automobile dealership might become liable for vast amounts of money, if, improper repairs caused a customer’s car to be involved in an accident. Although, the business carries insurance, he wants to be sure that his heirs’ equity in the business

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

INSTRUCTIONS

a. For each of the five numbered paragraphs above, explain how the choice of business organization (partnership or corporation) relates to Valenti's stated objective. **(10)**

b. In light of your analysis in part **a**, above, would you recommend that Valenti reorganize Valenti Ford as a corporation, or leave the business unincorporated so that his heirs may operate it as a partnership? **(10)**

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

Stockholders' equity:		
Rs. 8 cumulative preferred stock, Rs. 100 par value, callable at Rs. 103,200,000		
Shares authorized		*Rs. 6,000,000*
Common stock, Rs. 2 par value, 5,000,000 shares authorized:		
Issued	*Rs. 3,600,000*	
Subscribed	*1,400,000*	*5,000,000*
Additional paid-in capital:		
Preferred	*Rs. 240,000*	
Common (including subscribed shares)	*25,000,000*	*25,240,000*
Retained Earnings		*3,690,000*
Total stockholders' equity		*Rs. 39,930,000*

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

INSTRUCTIONS

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

a. How many shares of preferred stock have been issued?

b. What is the total annual dividend requirement on the outstanding preferred stock?

c. What was the average price per share received by the corporation for its common stock, including shares subscribed?

d. What is the average amount per share that subscribers to common stock have yet to pay on their subscriptions?

e. What is the total amount of legal capital, including shares subscribed?

f. What is the total paid-in capital, including shares subscribed?

g. What is the book value per share of common stock? (Assume no dividends in arrears.)

h. Total dividends of Rs. 780,000 were declared on the preferred and common stock during the year, and the balance of retained earnings at the beginning of the year was Rs. 2,302,000. What was the amount of net income for the year?

SECTION – C

AUDITING

Q.6. Define **ANY TEN** of the following: **(2 x 10 = 20)**

1. Compliance Audit
2. Standard unqualified opinion
3. Public Company Accounting Oversight Board
4. Qualified Opinion
5. Adequate disclosure
6. Internal Control
7. Indirect financial interest
8. Joint closely held investment
9. Audit committee
10. Independence
11. Inspection
12. Direct financial Interest
13. Ethics Rulings

14. Attest engagement
15. Integrated Audit

SECTION – D

INCOME TAX

Q.7. ABC (Pvt) Ltd Company has filed Income Tax Return u/s 114 of Income Tax Ordinance 2001 for tax year 2010 showing taxable income at Rs. 500,000.Tax payable has been calculated @30% at Rs.150,000.Tax credit under section 147 has been claimed at Rs.10,000. During the course of Audit Income Tax Department discovers the following:-

a. The Balance Sheet shows Cash loan from director amounting to Rs. 100,000.

b. The tax payer has provided the proof of only Rs. 5000/ of tax credit claimed u/s 147.

c. The donation of Rs. 50,000 has been made to an organization not covered by exemptions under the Second Schedule of Income Tax Ordinance 2001.

You are required to do the following:-

1. Identify the section of Income Tax Ordinance 2001 under which the department may take the remedial measure to calculate the correct figure of taxable Income **(10)**

2. Calculate the correct amount of Taxable Income and the tax payable. **(10)**

Q.8. Account for corporate income taxes: explain the effects of these taxes on before-tax profits and losses? **(20)**

****