FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT, 2012

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)** Candidate must write **Q. No.** in the **Answer Book** in accordance with **Q. No.** in the **Q. Paper.**
(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.
(iv) **Use of simple Calculator is allowed.**

PART-II

COMPULSORY QUESTION

Q. 2. At the beginning of 2000, Mr. Saadiq decided to open an advertising agency called The Best Agency. During 2000 the following transactions occurred.

Saadiq invested Rs. 300,000 cash in the business. In addition, the local bank lent the firm Rs. 100,000. The firm used the cash to purchase land for Rs. 50,000, a building for Rs. 100,000, and office furniture and fixtures for Rs. 80,000. In addition, the firm purchased another Rs. 50,000 of furniture and fixtures on account, all of which will be paid for next year.

The following summary of revenue and expense transactions and other transactions took place during 2000.

1. Commissions earned during the year amounted to Rs. 125,000. By the end of the year, Rs. 110,000 of these commissions had been collected in cash. The firm expects to collect the remaining cash early next year.
2. Various operating expenses of Rs. 105,000 were incurred and paid in cash during the year.
3. Saadiq withdrew Rs. 5,000 from office to pay the utility bills of his residence.

REQUIRED: **(20)**

Using the above information, prepare the following financial statements:

1. Income statement for the year ended December 31, 2000.
2. Statement of owner's equity at December 31, 2000.
3. Balance Sheet as at December 31, 2000.

SECTION-A

Q. 3. For each of the following independent situations, describe the accounting assumptions, characteristics or conventions that have been violated or that is involved. **(12)**

A. Hilary Wong is the sole proprietor of Wong jewellery imports. During march the following items were recorded as expenses on the firm's books:

Rent on office	Rs. 500
Employees' wages	700
Supplies for personal use	100
Advertising	250
Pleasure travel	800

B. The Wright Corporation began business in 2000. The company produces a magazine for nature enthusiasts. Two year subscriptions are offered. The firm has adopted the policy of recognizing revenues when the cash is received.

C. Over the last few years the president of the federal company has purchased a number of paintings to decorate her office. Recently one of the artists died, and his paintings have increased in value by over 200%. The president has therefore instructed the accounting department to increase the recorded cost of the paintings to reflect this change.

D. Earth Airlines has suffered huge losses in recent years and may not be able to continue to operate. The firm's public accountants feel that this information should be disclosed in their opinion.

E. The following footnote was taken from a recent annual report of general motors. "There are various claims and pending actions against the corporation and its subsidiaries with respect to commercial matters, including warranties and product liability, governmental regulations including environmental and safety matters, civil rights, patent matters, taxes and other matters arising out of the conduct of the business. The amounts of liability on these claims and actions at December 31, 1982 were not determinable but in the opinion of the management, the ultimate liability resulting will not materially affect the consolidated financial position or results of operations of the corporation and its consolidated subsidiaries".

F. ABC company's president has decided not to prepare financial statements this year because the company suffered huge losses.

G. A fancy staple machine costing Rs.125 was debited to the office equipment account and will be depreciated over 10 years.

H. Recently fine restaurant hired one of the country's outstanding chefs. Based on the anticipated increased earnings, the firm credited capital for Rs. 100,000.

I. Good times received Rs. 3,200 for unlimited passes to their amusement part. Although half of these passes were not valid until the following year, the entire amount was recorded currently as revenue.

J. Two years ago good times paid Rs. 2,790 for a 3-year insurance policy. No insurance expense appeared on this year's income statement.

Q. 4. Financial statements are described as the major product of the accounting information systems. Explain this statement and briefly describe the four principal financial statements. **(12)**

Q. 5. What is the relationship between the need to prepare financial statements on timely basis and the matching convention? **(12)**

SECTION-B

Q. 6. (A) A partnership is considering the possibility of liquidation because one of the partners, Stewart, is insolvent. Capital balances at the current time are as follows, and profits and losses are divided on a 6:3:1 basis, respectively.

George, Capital	Rs. 70,000
Stewart, Capital	50,000
Thomas, Capital	80,000

Stewart's creditors have filed a Rs. 60,000 claim against the partnership's assets. The partnership currently holds assets reported at Rs. 300,000 and liabilities of Rs. 100,000. If the assets can be sold for Rs. 150,000, what is the minimum amount that Stewart's creditors would receive? **(09)**

(B) The following condensed balance sheet is for the partnership of Andrews, Carroll, and Murray, who share profits and losses in the ratio of 6:2:2, respectively.

Cash	Rs. 70,000
Other assets	130,000
Total assets	**Rs. 200,000**
Liabilities	Rs. 160,000
Andrews, Capital	25,000
Carroll, Capital	10,000
Murray, Capital	5,000
Total liabilities and partners' equity	**Rs. 200,000**

Which partner is most vulnerable to a loss? **(09)**

Q. 7. Why is it necessary to make adjusting entries? Can you think of a situation when adjusting entries would not be required? **(18)**

Q. 8. (A) You have the following information on BB Corp.:

Current ratio	2.0
Quick ratio	1.4
Current liabilities	Rs. 100,000
Inventory turnover	6 x
Gross profit margin	0.20

Given these figures, calculate the firm's sales. **(09)**

(B) Following are the selected data taken from Books of A Ltd at the end of year 2005:

Cash	Rs. 108,000
Account Receivable beg	380,000
Account Receivable end	350,000
Marketable Securities	142,000
Merchandise Inventory beg	120,000
Merchandise Inventory end	150,000
Accounts Payable	200,000
Bills Payable	50,000
Credit Sales (Net)	18,25,000
Cost of Goods Sold	540,000
Total Operating Expenses	600,000

REQUIRED: On the basis of above information, find out: **(09)**

1.	Working Capital	2.	Current Ratio	3.	Quick Ratio	4.	Inventory Turnover
5.	Account Receivable Turnover	6.	Gross Profit Percentage	7.	Net Profit Percentage	8.	Operating Expenses Rate

Q. 9. The non current asset section of Aadil & Co. at December 31, 2005 is as under:-

Land		Rs. 1,000,000
Office equipment	Rs. 5,000,000	
Less: accumulated depreciation	250,000	4,750,000
Machinery	Rs. 600,000	
Less: accumulated depreciation	120,000	480,000
Total non current asset		**6,230,000**

OTHER INFORMATION:

- All assets were purchased on January 2, 2004
- The firm depreciates all assets on a straight line basis with no residual value and with the following lives:

Office equipment	40 years
Machinery	10 years

The following transactions occurred during 2006:

Apr. 01. A new additional equipment was purchased for Rs. 1,000,000 and machinery at a cost of Rs. 50,000. All items were paid for in cash.

Jul. 15. Repairs of Rs. 5,000 were made for cash on machinery.

Sep. 30. Machinery with a cost of Rs. 100,000 and accumulated depreciation of Rs. 20,000 (as of 31st December, 2005) was sold for Rs. 82,000 cash.

Dec. 31. Machinery with a cost of Rs. 50,000 and accumulated depreciation of Rs. 10,000 (as of 31st December, 2005) was traded in for new machinery. The firm received a trade-in allowance of Rs. 32,000. The list price of the new machinery is Rs. 85,000.

REQUIRED:

Make all the required Journal entries. **(09)**

Show all necessary computations. **(09)**

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Roll Number

ACCOUNTING & AUDITING, PAPER-II

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

NOTE: **(i)** Candidate must write **Q.No.** in the **Answer Book** in accordance with **Q.No.** in the **Q.Paper**.
(ii) Attempt **ONLY FOUR** questions from **PART-II,** selecting **ONE** question form **EACH** of the **SECTION A,B,C and D.** All questions carry **EQUAL** marks.
(iii) Extra attempt of any question or any part of the attempted question will not be considered.
(iv) Use of simple calculator is allowed.

PART-II

SECTION-A (COST ACCOUNTING)

Q.2 Following information related to AADIL manufacturing company for the year ended December 31, 2007:

Direct material (beginning)	**Rs.**50,000
Direct material purchased	300,000
Direct material (ending)	20,000
Direct labor	**?**
Factory overhead (70% of conversion cost)	140,000
Work in process (ending)	**?**
Work in process (beginning-30% more than its ending)	**?**
Cost of goods manufactured is 8/15 of sales	**?**
Sales revenue (1000 units)	1,500,000
Finished goods (beginning)(25 units)	30,000
Finished goods (ending)(60 units)	80,000
Administrative & general expenses	210,000
Marketing & selling expenses	20,000

REQUIRED: **(20)**

1. Calculate all missing figures.
2. Prepare statement of cost of goods sold.
3. Income statement for the year ended December 31, 2007.
4. Units manufactured.
5. Per unit cost of goods manufactured.
6. Gross profit per unit sold.

Q.3. Aadil & Co. uses process costing system. The following data is available for the month of July:

Beginning inventory of work in process: Rs.21,220

Manufacturing cost incurred in July:	
Direct materials used	Rs. 56,100
Direct labor	Rs. 29,920
Factory overhead applied	Rs. 82,280
Total Cost to be accounted for	Rs. 189,520

OTHER INFORMATION:

The beginning inventory consisted of 400 units which had been 60% completed as to material and conversion cost during June. In addition to completing these units, the department started 1,800 another units during July in which 1,500 units were completed and transferred to the next department. The 300 units which were 70% completed as to material and conversion cost at July 31.

REQUIRED: **(20)**

a. Prepare quantity schedule. b. Compute the EPU c. Unit cost for July
d. Cost of completed units. e. Cost of W.I.P. Ending units. f. Total cost accounted for
g. Prepare journal entries to record
   i. The manufacturing cost charged during July.
   ii. The transfer of 1,900 units to the department No.2.

SECTION-B (AUDITING)

Q.4. (a) Which persons are not qualified for appointment as auditor of a company under the Companies Ordinance 1984? **(10)**

(b) Who fixes the auditor's remuneration under the Companies Ordinance 1984? **(10)**

Q.5. (a) What does the term "Scope of audit" refer to? How would you describe the "Scope of audit" of a listed company? **(10)**

(b) Why an auditor cannot provide an absolute assurance as a result of audit? Explain. **(10)**

SECTION-C (INCOME TAX)

Q.6. From the following data related to Mr.Hassan for the tax year ending 30th, June 2008:

His Basic salary Rs.10,000 Per Month with the scale Rs.9,000-1,000-20,000, Cost of living allowances is 20% of Minimum time scale, Commission is 12% paid only when annual basic salary exceeds amount of Rs.110,000, Dearness Allowance Rs.30,000, Medical Allowance Rs.12,500, Bonus Rs.2,000 Per Month, Provided a rent free unfurnished accommodation and entitled to an Accommodation Allowance of Rs.15,000 Per Month, Provided a car for his personal use only and the cost of car is Rs.1,180,000, Entertainment Allowance Rs.10,000, the CEO of the organization announce for Special Additional Allowances of 7% of Salary as per rule. Because of his special duty a Special Allowance of Rs.2,000 Per Month is also provided, 9% of the basic salary is contributed as Provident Fund by employer and employee both with interest rate of 6% and fund is recognized, Allowance for gas and electricity 60% of Maximum time scale PM, He paid Zakat under Zakat Ordinance and donated to a Agha Khan Hospital fund of Rs.8,000 and Rs.6,000 respectively.

REQUIRED: Calculate the taxable income. **(20)**

Q.7. Write Short Notes. **(4 x 5=20)**

(**a).** Income exempted from tax **(b).** Sales Tax schedule 1, 2 and 3 **(c).** Sales Tax schedule 4,5 and 6
(d). Capital Value Tax **(e)**. Capital Gain Tax

SECTION-D (BUSINESS ORGANIZATION AND FINANCE)

Q.8. Explain how the typical corporate firm is organized as it relates to the financial management function. **(20)**

Q.9. State the provisions of the companies ordinance 1984 regarding: **(4 x 5=20)**

1. Term of office of first directors of a company.
2. Minimum member of directors of a company.
3. How the casual vacancy among the directors may be filled up?
4. Under what circumstances the election of directors may be declared invalid.

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