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FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS
IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2002

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS

MAXIMUM MARKS: 100

NOTE: Attempt **FOUR** questions in all, including **QUESTION NOS. 5 & 6** which are **COMPULSORY**. Question No. 5 carries 40 marks. All other questions carry **EQUAL** marks i.e. 20 each.

1. Explain concept of depreciation. Spell out its implication on Profit and Loss Account and Balance Sheet. Identify four ways of depreciating fixed assets. Illustrate your answer.
2. Explain ten principles of Accounting and their applications to Investment concerns.
3. The following information relating to Dawood Company in respect of year 2001 is available:

Net Sales	1,200,000
Cost of goods sold	760,000
Gross profit on sales	440,000
Selling, general and other expenses	350,000
Operating income	90,000
Income – tax	40,500
Net income	49,500
Dividend paid	35,000
Net increase in retained earnings	14,500

Balance Sheet Data

<u>Assets</u>	<u>Rs.</u>
Cash	60,000
Accounts Receivables	300,000
Inventory – at cost (Beginning of year Rs.420,000).	380,000
Prepaid expenses	30,000
Land, building and equipment	760,000
Intangible assets	100,000
Other fixed assets	70,000
	<u>1,700,000</u>

Capital and Liabilities

	<u>Rs.</u>
Accounts Payable	120,000
Accrued expenses	25,000
Income tax payable	39,500
Miscellaneous Current liabilities	10,000
Bonds	300,000
Deferred revenues	10,000
Paid up share Capital	700,000
Additional paid-in-Capital	310,000
Retained earnings	
– appropriated	80,000
– unappropriated	<u>105,500</u>
	<u>1,700,000</u>

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REQUIRED: Calculate the following ratios and offer your comments in terms of interpretation:

- (1) Amount of working capital (compute amount).
- (2) Current Ratio.
- (3) Acid Test Ratio.
- (4) Days accounts receivable uncollected (use 360 days per year and assume all sales on credit basis)
- (5) Inventory turnover rate.
- (6) Ratio of shareholders equity to total liabilities

4. Explain and illustrate the concepts underlying the following:
- (a) Flexible Budgeting.
 - (b) Fixed Budgeting.
 - (c) Rolling Budgeting.

COMPULSORY QUESTIONS

5. The unadjusted trial balance at the end of the first year of operation is shown below:

Particulars	Debit (Rs.000)	Credit (Rs.000)
Cash	200	
Accounts Receivable	1,500	
Prepaid Advertising	400	
Supplies on hand	3,000	
Equipment	9,600	
Accounts Payable		800
Naseer's Capital		10,000
Naseer's drawing	3,600	
Service fees earned		14,000
Rent expense and other expenses	5,500	
Wage expense	1,000	
	24,800	24,800

Further information as at December 31, 2001 is as under:

1. Prepaid advertising covers the months of December 2001 to March 2002.
2. Supplies on hand at December 31 was Rs.1,300,000.
3. Annual depreciation on the equipment is Rs.1,200,000.
4. Service fee earned but not yet filled at December 31, 2001 was Rs.400,000.
5. Rent of Rs.500,000 for December has not been paid.
6. Accrued wages at December 31, were Rs.150,000.

REQUIRED: Prepare final account financial statements including balance sheet.

6. From the following multiple choice questions give correct answer in your answer book in the following suggested format:

S.No. of the question	Correct Answer indicate only alphabet	Rationale

1	Maximum number of partners in a Partnership firm set up in Pakistan under Partnership Act, 1932 is:		
	(a) 5	(b) 25	
	(c) 20	(d) None of these.	

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2	Preparation of final financial reports is governed in Pakistan under:			
	(a) No law	(b) Companies Ordinance 1984 only.		
	(c) None of these.			
3	Depreciation is based on:			
	(a) Economic life of asset	(b) Declared life of asset by supplier.		
	(c) Normal life of asset	(d) None of these.		
4	Inventory turnover is calculated as under:			
	(a) $\frac{\text{Cost of Goods Sold}}{\text{Closing Inventory}}$	(b) $\frac{\text{Gross Profit}}{\text{Closing Inventory}}$		
	(c) $\frac{\text{Sales}}{\text{Opening Inventory}}$	(d) None of these.		
5	There is a difference between:			
	(a) Worksheet and Balance Sheet	(b) Worksheet and Profit and Loss Account		
	(c) Worksheet as combination of results of profits and financial position	(d) None of these.		
6	Deferred Revenue is a:			
	(a) Liability	(b) Asset		
	(c) None of these.			
7	Preparation of annual report of a firm is governed under:			
	(a) Partnership Act 1932.	(b) Under Partnership Deed.		
	(c) None of these.			
8	Deferred Taxation amount be treated as:			
	(a) Foot note	(b) An item in the Balance Sheet on asset side.		
	(c) None of these.			
9	Return of Equity will be calculated as under:			
	(a) $\frac{\text{Operating Profit} \times 100}{\text{Equity}}$	(b) $\frac{\text{Net Profit} \times 100}{\text{Paid up Capital only}}$		
	(c) None of these.			
10	Current maturity of long term loan is:			
	(a) Current Liability	(b) Long Term Liability		
	(c) None of these.			

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

NOTE: Attempt FIVE questions in all, including QUESTION NO. 9 which is **COMPULSORY**. Select one question from each of the PARTS A, B, C and D. All questions carry **EQUAL** marks.

PART "A" COST ACCOUNTING

1. Explain ten uses of Cost Accounting in real life. Highlight points giving edge to Cost Accounting over Financial Accounting in respect of above uses.
2. A product passes through two processes. The output of each process is treated as raw material for the next process. The expenditures incurred during a period were as under:

Particulars	Process	
	A (Rs)	B (Rs)
Raw materials	400,000	200,000
Direct Labour	60,000	40,000
Factory Overhead	100,000	100,000
Total Manufacturing Cost	560,000	340,000

10,000 units were issued to the process – A and after processing, the output of each process is as under:

Particulars	Output	Normal Loss
	(Units)	%
Process A	9,750	2
Process B	9,400	5
No Stock of material or work in process was left at the end.		

REQUIRED: Prepare Process Accounts to show the cost of the finished articles.

PART "B" AUDITING

3. State and explain Limitations of Audit. Outline an audit program for vouching acquisition of fixed assets in a limited company.
4. Explain duties of an auditor for conducting various types of audits under the Companies Ordinance 1984.

PART "C" INCOME TAX

5. Present a lucid review of tax rates governing various types of income-tax assesses contained in the First Schedule of the Income Tax Ordinance, 1979.
6. The following information available in respect of Mr. "A" for the assessment year 2002 – 2003:

	Rs.
Basic Salary	360,000
Arrears of salary	50,000
Leave encashment	25,000
House rent allowance	200,000
Rent received from a Company	360,000
Other information is as under:	
- Repairs	100,000
- Interest on loan for house construction	75,000
- Municipal tax	15,000
- Insurance premium paid	10,000

Required: Compute taxable income for assessment year 2002 – 2003.

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PART "D" BUSINESS ORGANIZATION AND FINANCE

7. Currently business combinations are taking place globally and domestically. State principles governing business combinations as part of negotiation.
8. State comprehensive note on terms and conditions governing long term financing relating to an industrial concern.

COMPULSORY QUESTION

9. From the following multiple choice questions give correct answer in your answer book in the following suggested format. No mark(s) will be awarded for an overwritten answer:

S.No. of the question	Correct Answer indicate only alphabet	Rationale for the answer

1	Prime cost is calculated as under:	
(a)	Manufacturing Cost	(b) Direct Material plus factory overheads
(c)	Cost of Goods Sold	(d) None of these.
2	Process Cost is very much applicable in:	
(a)	Direct Labour + Direct Material	(b) Pharmaceutical Industry.
(c)	Construction Industry	(d) None of these.
3	The latest computation of variances of manufacturing overheads is in one the following ways:	
(a)	Air line company.	(b) Three variance approaches
(c)	Two variance approaches	(d) None of these.
4	Random sampling in auditing means:	
(a)	Selection through convenience sampling	(b) Selection through scientific sampling approach.
(c)	None of these.	
5	Expenditure incurred in procuring machinery is:	
(a)	An admissible expenditure for tax purposes	(b) Not admissible for tax purposes
(c)	None of these as an independent expenditure.	
6	Increase in income constitutes:	
(a)	Inflows	(b) Outflows
(c)	None of these.	
7	M & A stands for:	
(a)	Mergers & Analysis	(b) Mergers & Acquisitions
(c)	Mergers & Allocation	(d) None of these.
8	An endowment insurance policy can be taken in respect of:	
(a)	Fire insurance	(b) Accident insurance
(c)	Life insurance	(d) None of these.
9	Audit and special audit are the same:	
(a)	In Insurance Company	(b) In Banking Company
(c)	None of these.	
10	Acid Test is the same as:	
(a)	Quick test	(b) Liquid test
(c)	None of these.	
