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FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN PBS-17, UNDER THE FEDERAL GOVERNMENT, 2003

ACCOUNTANCY AND AUDITING, PAPER-I

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

NOTES: (i) Attempt **FOUR** questions in all, including **QUESTION NOS.5 AND 6** which are **COMPULSORY. QUESTION NO. 5** carries **40 marks.** All other questions carry **EQUAL** marks i.e. **20 each.**

(ii) Give workings to solution of questions, wherever relevant.

1. Explain various concepts of Budgeting as practiced globally. State budgeting system being followed in Pakistan. Identify five limitations of the above system and suggest directions of change for improvement.

2. Explain various legal provisions governing principles of accounting and provisions relating to preparation of financial statements relating to banks in Pakistan.

3. Peshawar Manufacturing Company was established in June, 1999 to manufacture a single product using a machine costing Rs.1,000,000. The machine is expected to last for four years and then have a scrap value of Rs.130,000. The machine will produce a similar number of goods each year and annual profit before depreciation is expected to be in the region of Rs.500,000. The Finance Manager has suggested that the machine should be depreciated using either the "Straight – Line Method" or the "Reducing Balance Method". If the latter method is used, it is estimated that depreciation rate of 40% would be appropriate.

REQUIRED:

(1) Calculate annual depreciation charge and net book value of the machine at the end of 2000, 2001 and 2002 using:

(a) Straight – Line Method.

(b) Reducing Balance Method.

(2) Offer your comments on the use and implication of these two methods for the years 2000 to 2002.

(3) Advise management as to which method should be more appropriate.

4. The Directors of Master Public Limited Company requires Rs.500 million to invest in a new project. Extracts from the financial statements are as under:

Profit and Loss Account for the year ended December 31:

Particulars	2001 Million Rs.	2002 Million Rs.
Sales	6,175	6,329
Operating Profit	350	320
Less: Interest Payable	30	30
Net Profit before Income Tax	320	290
Net Profit after tax	128	116
	192	174

Summarised Balance Sheet as at December 31:

Particulars	2001 Million Rs.	2002 Million Rs.
Assets:		
Fixed Assets (Net)	901	1,664
Stocks	447	426
Debtors	308	321
Balance at Bank	52	11
	1,708	1,822
Capital & Liabilities:		
Paid up Capital	500	500
Reserves and Surpluses	525	649
Loan – 10% Debentures	300	300
Creditors	205	207
Taxation Payable	128	116
Dividends	50	50
	1,708	1,822

REQUIRED:

Undertake financial analysis by using pertinent ratios and present your candid review on the performance of the Company.

COMPULSORY QUESTIONS

5. The following balances were extracted from the ledger of Mr. Irshad as on June 30, 2003:

Particulars		Rs.
Property – at cost		90,000
Equipment – at cost		57,500
Stock		27,400
Purchases		259,600
Sales		405,000
Discount allowed		3,370
Provision for depreciation	- Property	12,500
	- Equipment	32,500
Discount received		4,420
Salaries and wages		52,360
Bad debts		1,720
Loan interest		1,560
Carriage outward		5,310
Other operating expenses		38,800
Trade Debtors		46,200
Trade Creditors		33,600
Provision for doubtful debts		280
Cash in hand		151
Bank Overdraft		14,500
Drawings		28,930
Loan @ 15%		12,000
Capital July 1, 2002		98,101

The following additional information as at June 30, 2003 is available:

1. Stock at the close of business was valued at Rs.25,900.
2. Depreciation for the year ended on June 30, 2003 has yet to be provided as follows:
   (a) Property: 1% using straight line method.
   (b) Equipment: 15% using straight line method.
3. Salaries and wages are accrued Rs.1,400.

4. Other operating expenses include certain expenses prepaid by Rs.1,500. Other expenses include this heading are accrued by Rs.2,000.
5. The provision for doubtful debts is to be adjusted so that it is 0.5% of trade debtors as at June 30, 2003
6. "Purchases" include goods valued at Rs.1,040 which were withdrawn by Mr. Irshad for his personal use.

REQUIRED:

1. Prepare Trading and Profit and Loss Account for the year ended on June 30, 2003 and Balance Sheet as on the above date.
2. Present Adjusting and Closing entries.

6. Deliver the correct answer in the answer book. Over writing is not allowed. Overwritten answers will carry no grade. The following format should be used for answer:

S.No.	Correct Alphabet of answer	Rationale

(1) Acid Test Ratio is calculated as under:

(a) $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ (b) $\frac{\text{Fixed Assets}}{\text{Current Liabilities}}$

(c) $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ (d) None of these.

(2) Deferred cost is a:

(a) Liability (b) Asset

(c) None of these.

(3) Work sheet is:

(a) Balance Sheet (b) Fund Flows Statement

(c) A combination of Profit and Loss Account and Balance Sheet items.

(d) None of these.

(4) Banks, for the preparation of financial statements, are governed under:

(a) Banking Companies Ordinance, 1962.

(b) State Bank of Pakistan Act.

(c) None of these.

(5) Return on investment is computed:

(a) $\frac{\text{Investment}}{\text{Profit}} \times 100$ (b) $\frac{\text{Profit} \times 100}{\text{Investment}}$

(c) None of these.

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ACCOUNTANCY AND AUDITING, PAPER-II

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

NOTES:
(i) Attempt **FIVE** questions in all, including **QUESTION NO.9** which is **COMPULSORY.**
(ii) Select at least **ONE QUESTION** from each of the **PARTS A, B, C AND D.**
(iii) All questions carry **EQUAL** marks.

PART "A" (COST ACCOUNTING)

1. "Cost Accounting is considered as a tool of management." Explain various aspects of the above statement and explain dimensions as to how cost accounting can serve as tool of management.

2. The following standards have been established for the operation of the X Company:

Standards:

Materials: Quantity per unit $2\frac{1}{2}$ yards price per yard Rs.17.

Labour: Time per Unit 3.6 hours. Hourly rate Rs.18.40.

Overhead: Fixed charge Rs.24,000 per month.

Variable Rate Rs.15.00 per unit.

Production for the month 40,000 units.

Actual Reports for the month of April.

Production 41,200 Units.

Material used 10,510 yards at average of Rs.17.40.

Labour 15,276 hours at average of Rs.18.80.

Overhead – variable: Rs.66,750.

REQUIRED:

Prepare a statement showing actual and standard costs and amounts of variances. Use the two-variance method for overhead.

PART "B" (AUDITING)

3. Differentiate between "Internal Control" and "Internal Audit". Suggest ten point Internal Control System for Inventories.

4. Present a lucid analysis of Liabilities of an Auditor. Cite case law wherever relevant.

PART "C" (INCOME TAX)

5. Present salient features of law governing "Income from Business" under the current income tax of Pakistan.

6. The following information relating to Miss Y is available relating to year ended on 30-6-2003:

Particulars	Rs.
1. Salary	240,000
2. Bonus Received	60,000
3. Conveyance allowance received	7,600
4. Leave enchashment	80,000
5. Dividend Received	70,000
6. Income from Prize Bonds	100,000

REQUIRED:

Compute Taxable Amount for assessment year 2003 – 2004.

ACCOUNTANCY AND AUDITING, PAPER-II

PART "D" (BUSINESS ORGANIZATION AND FINANCE)

7. Currently several Business Combinations are taking place. These are through several methods including Mergers and Acquisitions:
REQUIRED:
   (a) List steps involved in Business Combinations.
   (b) Explain five benefits of business combinations.

8. Explain the formulas governing the following ratios to be calculated in a large manufacturing Company:
   (1) Times Interest (Mark up) earned.
   Note: State minimum acceptable standard.
   (2) Debt Servicing Ratio.
   (3) Liquid Ratio.
   Note: Suggest the minimum acceptable ratio.
   (4) Debt Equit Ratio.
   Note: Suggest a fair ratio in a capital intentive company project.

COMPULSORY QUESTION

9. Deliver the correct answer in the answer book by using the following format and giving rationale for your answer which carries half grade weight. Any overwritten answer will not carry any grade.

S.No.	Correct answer *	Rationale

* Give the alphabet or serial number which you consider represents correct answer.

(1) Rent of the premises constitutes variable expense for cost allocation:
(a) True (b) False

(2) Sugar used in a sugarcane company is:
(a) Variable cost (b) Fixed cost
(c) None of these.

(3) An auditor is liable under the following circumstances:
(a) Third Party Liabilities
(b) Fraud perpetrated in a highly sophisticated circumstances.
(c) None of these.

(4) Agricultural income is taxable under the Income Tax Laws of Pakistan.
(a) True (b) False

(5) Principal and markup payment within one year constitutes long term liability for disclosure in the balance sheet of a company.
(a) True (b) False

(6) Ordinarily one can have the following partners in a partnership in Pakistan under the Partnership Act, 1932:
(a) 10 (b) 20
(c) 30 (d) None of these.

(7) Working Capital finance can be termed as "Running Finance" in a limited company.
(a) True (b) False

(8) Income from Capital gains arising out of trading on a stock exchange in Pakistan is taxable these days.
(a) True (b) False

(9) Conversion Cost is Calculated as under:
(a) Labour Plus materials (b) Labour plus overheads
(c) None of these.

(10) Current Ratio can be calculated as under:
(a) $\frac{\text{Current Liabilities}}{\text{Current Assets}}$ (b) $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
(c) None of these.

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