**FEDERAL PUBLIC SERVICE COMMISSION**
**COMPETITIVE EXAMINATION-2018**
**FOR RECRUITMENT TO POSTS IN BS-17**
**UNDER THE FEDERAL GOVERNMENT**

**Roll Number**

# ACCOUNTANCY AND AUDITING, PAPER-I

| | |
|---|---|
| **TIME ALLOWED: THREE HOURS**<br>**PART-I(MCQS): MAXIMUM 30 MINUTES** | **PART-I (MCQS) MAXIMUM MARKS = 20**<br>**PART-II MAXIMUM MARKS = 80** |

**NOTE: (i)** **Part-II** is to be attempted on the separate **Answer Book.**
**(ii)** Attempt **ONLY FOUR** questions from **PART-II** by selecting **TWO** questions from **EACH SECTION**. **ALL** questions carry **EQUAL** marks.
**(iii)** All the parts (if any) of each Question must be attempted at one place instead of at different places.
**(iv)** Candidate must write Q. No. in the Answer Book in accordance with Q. No. in the Q.Paper.
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**(vi)** Extra attempt of any question or any part of the attempted question will not be considered.
**(vii)** **Use of Calculator is allowed.**

## PART – II
## SECTION – A

**Q. No. 2.** Following is the summary of closing balances (unadjusted trial balance) of Muddasar Co. for the year ended on December 31, 2016. **(20)**

| **Accounts** | **Amount (Rs.)** | **Accounts** | **Amount (Rs.)** |
|---|---|---|---|
| Cash | 80000 | Accounts Receivable | 35200 |
| Store Supplies | 5000 | Prepaid Rent | 11240 |
| Furniture | 7600 | Accumulated Depreciation on Furniture | 1520 |
| Insurance | 8500 | Plant & Machinery | 45000 |
| Accumulated Dep. on | | Capital | 165000 |
| Plant & Machinery | 9000 | Drawings | 31000 |
| Accounts Payable | 8500 | Salaries Expenses | 9500 |
| Sales Revenue | 212980 | Purchases | 95000 |
| Advertising Expenses | 7000 | Purchase Returns | 6500 |
| Wages | 10 000 | Opening Merchandise Inventory | 45000 |
| Sales Returns | 3000 | Miscellaneous Expenses | 5000 |
| Commercial Expenses | 5460 | | |

Additional Information (adjustments) needs settlements at the end of period to show the true picture of the financial performance of Co.

i. Closing Merchandise Inventory valued at Rs. 35 000
ii. Store supplies on hand at the end of year is Rs. 1500
iii. It is noticed that Prepaid Rent amounting Rs. 9240 was expired during the period
iv. Prepaid Insurance is valued Rs. 1500 at the end of the period
v. Outstanding salaries are Rs. 3000
vi. Depreciation is charged @ 10 % for Plant & Machinery and @ 7% for Furniture

**Required:** Based upon above information, prepare Adjusting Entries, Adjusted Trail Balance and Income Statement & Balance Sheet.

**Q. No. 3.** The Income Statement of the Abdul Rehman & Co for the year on December 31 (for each year 2015 & 2016) is given as under: **(20)**

| | **2016** | **2015** |
|---|---|---|
| Sales | **Rs.** 900,000 | **Rs.** 800,000 |
| Cost of goods sold Beginning inventory | 43,000 | 40,000 |
| Purchases | 637,000 | 483,000 |
| Goods available for sale | 680,000 | 523,000 |
| Ending inventory | 70,000 | 43,000 |
| Cost of goods sold | 610,000 | 480,000 |
| Gross margin | 290,000 | 320,000 |
| Operating expenses | 248,000 | 280,000 |
| Income before taxes | 42,000 | 40,000 |
| Income taxes | 17,000 | 18,000 |
| Net income | 25,000 | 22,000 |
| Plus: Retained earnings, beginning balance | 137,000 | 130,000 |
| Less: Dividends | 0 | 15,000 |
| Retained earnings, ending balance | 162,000 | 137,000 |

The Balance sheet of the Company as on December 31 for each year is given as under:

| | 2015 | 2016 |
|---|---|---|
| **Assets** | **Rs.** | **Rs.** |
| Cash | 20,000 | 17,000 |
| Marketable securities | 20,000 | 22,000 |
| Notes receivable | 4,000 | 3,000 |
| Accounts receivable | 50,000 | 56,000 |
| Merchandise inventory | 70,000 | 43,000 |
| Prepaid expenses | 4,000 | 4,000 |
| Property, plant & equipment (net) | 340,000 | 310,000 |
| Total assets | **508,000** | **455,000** |
| **Liabilities and Stockholders' Equity** | | |
| Accounts payable | 40,000 | 38,000 |
| Salaries payable | 2,000 | 3,000 |
| Taxes payable | 4,000 | 2,000 |
| Bonds payable, 8% | 100,000 | 100,000 |
| Preferred stock, 6%, Rs100 par, cumulative | 50,000 | 50,000 |
| Common stock, Rs 10 par | 150,000 | 125,000 |
| Retained earnings | 162,000 | 137,000 |
| Total liabilities and stockholders' equity | **508,000** | **455,000** |

**Required:** Horizontal Analysis and Vertical Analysis for the above given financial statements (Income Statement & Balance Sheet) of Abdul Rehman & Co. and comment on the results.

**Q. No. 4.** **(a)** The XYZ Co. purchased a large machine 5 years ago at a total cost of Rs. 400,000. The accumulated depreciation on this machine is Rs. 290,000. The corporation sold the machine at Rs.10, 000 gain. (10)

**Required:** Calculate the amount would be reported as cash flow from this sale.

**(b)** On April 1, 1993 Ayesha Industries purchased new equipment at a cost of Rs. 325000. Useful life of this equipment was estimated at 5 years, with a residual value of Rs. 25000. For tax purposes, however, this equipment is classified as "3- year property". (10) **(20)**

**Required:** Compute the annual depreciation expense for each year until this equipment becomes fully depreciated under each depreciation methods listed below (Because you will record depreciation for only a fraction of a year in 1993, depreciation will extend through in all methods except MACRS) and show supporting computations.

i. Straight –line, with depreciation for fractional years rounded to the nearest whole month.
ii. 20%-declining-balance method, with the half-year convention. Limit depreciation in 1998 to an amount which reduces the undepreciated cost to the estimated residual value.
iii. Sum-of-the-years'-digits, with the half-year convention
iv. MACRS accelerated rates for "3-year property"

## SECTION-B

**Q. No. 5.** Proprietor (Owner) of ABC Industries has limited knowledge of Cost & Managerial Accounting who prepared Income Statement for his business for the year ended on December 31, 2016 that is given as under: **(20)**

| | (Rs.) | (Rs.) |
|---|---|---|
| Sales | | 675000 |
| Less: Expenses | | |
| Direct Labour | 137500 | |
| Indirect Labour | 18000 | |
| Selling & Administrative Salaries | 48000 | |
| Raw materials purchased | 248500 | |
| Electricity bill | 22500 | |
| Insurance expired | 6000 | |
| Depreciation of factory equipments | 33000 | |
| Depreciation of sales equipments | 4500 | |
| Rent of Premises | 75000 | |
| Advertising | 81500 | 674500 |
| Net Profit | | 500 |

The Owner has some doubts about the accuracy of the above statement and has requested you (as Professional Accountant) to check over the statement and make necessary corrections based upon following additional information.

(i) 80% of the electricity bill, 75% of insurance expired and 70% of Rent of Premises associated to Factory operations and the remaining amounts are applicable to Selling and Administrative activities.

(ii) Beginning Inventory (January 1, 2016) and Ending Inventory (December 31, 2016) in Rs. were:

| | | |
|---|---|---|
| Finished Goods | 50000 | 60000 |
| Work in Progress | 42500 | 30000 |
| Raw Material | 7500 | 18000 |

(iii) Factory overhead is applied @ Rs. 5 per machine hour. The total machine hours are 26400 during the year. Factory overhead variance is charged to cost of goods sold, finished goods and work in process ending inventories.

**Required:**

(a) Prepare cost of goods manufactured and cost of goods sold statement indicating cost of goods sold at normal and at actual.

(b) Prepare revised income statement

(c) Explain the reason for difference between net profit as per Owner's Income statement and revised statement (prepared by you).

**Q. No. 6.** **(a)** Delight Food Products produces Squash Cubes by continuous processing in three departments i.e. A, B and C. During November 2017 Department B received 8000 cubes from the Department A (preceding department) and transferred 5500 cubes to Department C (next department). During the month there was a normal loss of 400 cubes at the end of process. Moreover, 600 cubes, 75% completed, were lost due to negligence of a worker in the B department. There was no work in process beginning inventory, the ending inventory was estimated as 60% completed. Following product costs were charged to the department during the month of November: (10)

| | |
|---|---|
| Cost from preceding department | Rs. 16400 |
| Direct Material | 2000 |
| Direct Labour | 3625 |
| Factory Overhead | 5075 |
| | 27100 |

It is noticed that all materials are added at the start of process in Department B.

**Required:** Prepare the Cost of Production Report for the month of November, 2017(for Department B).

**(b)** Ahmad Enterprises produces and sells the finest quality golf clubs in all of Clay County. The company expects the following revenues and costs in 2017 for its Elite Quality golf club sets: (10) **(20)**

| | |
|---|---|
| Revenues (400 sets sold @ Rs. 600 per set) | Rs. 240,000 |
| Variable costs | Rs. 160,000 |
| Fixed costs | Rs. 50,000 |

**Required:** How many sets of clubs (unit) must be sold for Ahmad Enterprises to reach their breakeven point?

**Q. No. 7.** XYZ Enterprises applies factory overhead @ 60% of direct labour cost. During the year 2016 following actual costs were recorded: **(20)**

| | **(Rs.)** |
|---|---|
| Direct Labour cost | 580000 |
| Factory Overhead cost | 428000 |

At the end of the year following balances appear in the some of the Control Accounts:

| | |
|---|---|
| Cost of Goods Sold | 1750000 |
| Finished Goods | 500000 |
| Work in Progress | 250000 |

**Required:**

(i) Based upon above given information, determine under-applied or over-applied factory overhead.

(ii) Pass general journal entry to close factory overhead applied account at the end of year.

(iii) Pass general journal entries to dispose off under applied or over applied factory overhead in the following cases:

- (a) The variance is considered as a significant amount
- (b) The variance is considered as an insignificant amount
- (c) The variance is considered as cause by poor scheduling of production and excessive spending

**Q. No. 8.** **(a)** Ayesha & Co. Prepared following estimates for the year 2017: (10)

| | |
|---|---|
| Fixed factory overhead (in Rs) | 450 000 |
| Variable factory overhead (in Rs) | 600 000 |
| Direct labour hours | 200 000 |

However, actual results for the cost for the year 2017 were recorded as follows:

| | |
|---|---|
| Fixed Factory overhead (in Rs) | 450 000 |
| Variable Factory overhead (in Rs) | 680 000 |
| Direct labour hours | 220 000 |

**Required**: based upon above given information, Calculate:

(i) Total Factory overhead variance
(ii) Capacity variance
(iii) Budget variance

**(b)** Calculate the total fixed cost of the shipping department of Areeba & Co. based upon the following information for the year 2016: (10) **(20)**

| | |
|---|---|
| Salaries | Rs.800,000 75 percent of employees on guaranteed contracts |
| Packaging | Rs.400,000 depending on size of item(s) shipped |
| Postage | Rs.500,000 depending on weight of item(s) shipped |
| Rent of warehouse space | Rs.250,000 annual lease |

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# ACCOUNTANCY AND AUDITING, PAPER-II

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## PART – II
## SECTION – A (AUDITING)

**Q. No. 2.** How an internal control system helps the management in conduct of their business affairs? Explain the difference among internal check, internal audit and internal control. **(20)**

**Q. No. 3.** ABC Company is an audit and assurance firm, which has recently accepted the audit of XYZ. Explain the purpose of auditing financial statement of XYZ and the three elements of audit risk faced by the company. **(20)**

**Q. No. 4.** Due to the inherent limitations of audit, auditors are only able to offer 'reasonable assurance' over the truth and fairness of the financial statements rather than absolute assurance. Keeping in view the above statement, explain the limitation of audit of financial statement. **(20)**

## SECTION – B (BUSINESS TAXATION)

**Q. No. 5.** **(A)** Explain the law regarding the definition of business and taxability of business income along with the relevant examples under section (18) of Income Tax Ordinance 2001. (10)

**(B)** Mr. Atif is working as Chief accountant of a multi-national company. He received the following income during the tax year 2017. He is a non-filer. (10) **(20)**

| | |
|---|---|
| Basic Salary | Rs. 12,00,000 |
| Bonus | 300,000 |
| House Allowance | 500,000 |
| Conveyance Allowance | 200,000 |
| Utilities Allowance | 100,000 |
| Zakat Paid | 180,000 |
| Capital gain on sale of securities (holding period more than 12 months but less than 24 months) | 70,000 |
| Agricultural Income | 400,000 |

**Required:** Calculate his tax payable.

**Q. No. 6.** **(A)** What is the scope of sales tax? What is the procedure for transfer of registration and deregistration under Sales Tax Act, 1990? (10)

**(B)** Mr Abdul Packages Ltd is a registered manufacturer of candies. Data regarding his business is given below: (10) **(20)**

| | |
|---|---|
| Taxable turnover to registered person | Rs. 5,000,000 |
| Taxable turnover to non-registered person | 18,000 |
| Sales to retailers | 50,000 |
| Exempted sales | 60,000 |
| Supplies to DTRE registered person | 25,000 |
| Zero rated supply | 70,000 |
| Supplies donated | 150,000 |
| Taxable purchases from registered person | 200,000 |
| Taxable purchases from non-registered person | 90,000 |
| Taxable Purchases from wholesaler | 60,000 |
| Imported raw material specified in SRO 644(1) 2016 | 100,000 |
| Sales tax paid on PTCL dues | 9,000 |
| Sales tax paid on electricity bill | 3,000 |

**Required:** Calculate the sales tax liability for July 2016

## SECTION-C (BUSINESS STUDIES AND FINANCE)

**Q. No. 7.** **(A)** Information technology is perceived as an important source of future economic prosperity and employment growth. Explain the role of information technology in business organisation in Pakistan's scenario. (10)

**(B)** You have been hired as a financial advisor to Raheel Abbas. He has received two offers for playing professional basketball and wants to select the best offer, based on considerations of money only. Offer A is a Rs.10m (offer for Rs.2m a year for 5 years). Offer B is a Rs.11m (offer of Rs.1m a year for four years and Rs.7m in year 5).
**Required:** Calculate the present value of each contract by assuming a range of interest rate (8% - 14%). What is your advice regarding the contracts. (10) **(20)**

**Q. No. 8.** **(A)** Define financial markets and explain the features and classification of financial markets. (10)

**(B)** ABC Company is considering a new product line to supplement its range line. It is anticipated that the new product line will involve cash investment of Rs.700,000 at time 0 and Rs. 1.0 million in year 1. After tax cash inflows of Rs. 250,000 are expected in year 2, Rs 300,000 in year 3, Rs. 350,000 in year 4, and Rs. 400,000 each year thereafter through year 10. Through the product line might be viable after year 10, Company prefers to be conservative and end all calculations at that time. (10) **(20)**
**Required: (a)** if the required rate of return is 15% what is the net present value of the project. Is it acceptable?
**(b)** What is its internal rate of return?
**(c)** What would be the case if the required rate of return was 10%?

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