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:	**(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) 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.**

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.

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