FEDERAL PUBLIC SERVICE COMMISSION

Roll Number

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

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)** 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)**

ACCOUNTANCY AND AUDITING, PAPER-I

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.

<u>REQUIRED:</u>

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

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

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