FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION FOR RECRUITMENT TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT, 2011

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-II

TIME ALLOWED: THREE HOURS	**(PART-I MCQs)**	**30 MINUTES**	**MAXIMUM MARKS: 20**
	(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) In a manufacturing company, the costs debited to the Work in Process Inventory account represent:
a. Direct materials used, direct labour, and manufacturing overhead.
b. Cost of finished goods manufactured.
c. Period costs and product costs.
d. None of these.

(ii) The Work in Process Inventory account had a beginning account had a beginning balance of Rs. 4,200 on February 1. During February, the cost of direct materials used was Rs. 29,000 and direct labour cost applied to production was Rs. 3000. Overhead is applied at the rate of Rs. 20 per direct labour hour. During February, 180 direct labour hours were used in the production process. If the cost finished goods manufactured was Rs. 34,100, compute the balance in the Work in Process Inventory account at the *end* of February.
a. Rs. 9,900
b. Rs. 1,500
c. Rs. 2,100
d. Rs. 5,700
e. None of these

(iii) The purpose of an overhead application is to:
a. Assign an appropriate portion of indirect manufacturing costs to each product manufactured.
b. Determine the type and amount of costs to be debited to the Manufacturing Overhead account.
c. Charge the Work in Process Inventory account with the appropriate amount of direct manufacturing costs.
d. Allocate manufacturing overhead to expense in production to the number of units manufactured during the period.
e. None of these

(iv) If Gurgson, Inc uses a *job order* cost system, each of the following is true, EXCEPT:
a. Individual job cost sheets accumulate all manufacturing costs applicable to each job, and together constitute a subsidiary ledger for the Work in Process Inventory account.
b. Direct labour cost applicable to individual jobs is recorded when paid by a debit to Work in Process Inventory and a credit to Cash, as well as by entering the amount on the job cost sheets.
c. The amount of direct materials used in individual jobs is recorded by debiting the Work in Process Inventory account and crediting the Materials Inventory account, as well as by entering the amount used on job cost sheets.
d. The manufacturing overhead applied to each job is transferred from the Manufacturing Overhead account to the Work in Process Inventory account, as well as entered on the individual job cost sheets.
e. None of these

(v) When a job cost system is in use, *underapplied* overhead:

a. Represents the cost of manufacturing overhead that relates to unfinished jobs.
b. Is indicated by a credit balance remaining at year-end in the Manufacturing Overhead account.
c. Is closed out at year-end into the Cost of Goods Sold account if the amount is not material.
d. Results when actual overhead costs incurred during a year are less than the amounts applied to individual jobs.
e. None of these.

(vi) Shabbir Manufacturing has operations that involve three processing departments: Assembly, Painting, and Packaging. Debits to the Work in Process Inventory: Painting Department account could involve a credit to any of the following, EXCEPT:
a. Work in Process Inventory: Packaging Department
b. Direct Labour
c. Manufacturing Overhead
d. Work in Process Inventory: Assembly Department
e. None of these

(vii) When *actual* overhead costs incurred are charged to processing departments each month:
a. The cost of infrequent items, such as a major plant refurbishing, is spread uniformly over all units produced throughout the year
b. Under or overapplied overhead may occur, but it is treated in the same as when an overhead application rate is used.
c. It is no longer necessary to compute the equivalent final units of production for individual departments.
d. The monthly per-unit cost of producing a product will vary from fluctuations in the level of production when a significant portion of overhead cost is fixed.
e. None of these.

(viii) When a business is organized as corporation:
a. Stockholders are liable for the debts of the business only in proportion to their percentage ownership of capital stock.
b. Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.
c. Fluctuations in the market value of outstanding shares of capital stock do not affect the amount of stockholders' equity shown in the balance sheet.
d. Each stockholder has the right to bind the corporation to contracts and to make other managerial decisions.
e. None of these.

(ix) Which of the following is NOT a characteristic of common stock of a large, publicly owned corporation?
a. The shares may be transferred from one investor to another without disrupting the continuity of business operations.
b. Voting rights in the election of the board of directors
c. A cumulative right to receive dividends
d. After issuance, the market value of the stock is unrelated to its par value.
e. None of these.

(x) Tri-State Electric is a profitable utility company that has increased its dividend to common stockholders every year for 62 consecutive years. Which of the following is *least* likely to affect the market place of the company's *preferred* stock?
a. The company's earnings are expected to increase significantly over the next several years.
b. An increase in long-term interest rates
c. The annual dividend paid to preferred shareholders
d. Whether or not the preferred stock carries a conversion privilege.
e. None of these

(xi) The primary purpose of showing special types of events separately in the income statement is to:
a. Increase earnings per share.
b. Assist users of the income statement in evaluating the profitability of normal, ongoing operations.
c. Minimize the income taxes paid on the results of ongoing operations

d. Prevent unusual losses from recurring
e. None of these

(xii) Which of the following situations would NOT be presented in a separate section of the current year's income statement of Zeeshan Corporation? During the current year:
a. Zeeshan's Peshawar headquarters are destroyed by a flood.
b. Zeeshan sells its entire juvenile furniture operations and concentrates upon its remaining children's clothing segment.
c. Zeeshan changes from the straight-line method of depreciation to the double declining balance method
d. Zeeshan's accountant discovers that the entire price paid several years ago to purchase company offices in Islamabad had been charged to Land account; consequently, no depreciation has ever been taken on these buildings.
e. None of these

(xiii) When a corporation has outstanding both common and preferred stock:
a. Primary and fully diluted earnings per share and reported only if the preferred stock is cumulative
b. Earnings per share are reported for each type of stock outstanding.
c. Earnings per share may be computed without regard to the amount of dividends declared on common stock
d. Earnings per share may be computed without regard to the amount of the annual preferred dividends.
e. None of these

(xiv) The statement of retained earnings:
a. Need to be prepared if a separate statement of stockholder's equity accompanies the financial statements.
b. Indicates the amount of cash available for the payment of dividends
c. Includes prior period adjustments and cash dividends, but not stock dividends.
d. Shows revenues, expenses and dividends for the accounting period.
e. None of these

(xv) On December 10, 2008, Star Corporation reacquired 2,000 of its own Rs 5 par stock at a price of Rs 60 per share. In 2009, 500 of the treasury shares are reissued at a price of Rs. 70 per share. Which of the following statements is correct?
a. The treasury stock purchased is recorded at cost and is shown in Star's December 31, 2008, balance sheet as an asset.
b. The two treasury stock transactions result in an overall reduction in Star's stockholder's equity of Rs. 85,000
c. Star recognizes a gain of Rs. 10 per share on the reissuance of the 500 treasury shares in 2009.
d. Star's stockholder's equity was increased by Rs. 110,000 when the treasury stock was acquired.
e. None of these

(xvi) J.Q. Corporation was organized with authorization to issue 100,000 shares of Re. 1 par value common stock. Forty thousand shares were issued to Hassan Mir, the company's founder, at a price of Rs. 5 per share. No other shares have yet been issued.
a. J.Q. owns *40%* of the stockholder's equity of the corporation.
b. The corporation should recognize a Rs. 160,000 gain on the issuance of the shares.
c. If the balance sheet includes retained earnings of Rs. 50,000, total *paid-in* capital amounts to Rs. 250,000
d. In the balance sheet, the Additional Paid-in Capital account will have a Rs. 160,000 balance, regardless of the profits earned or losses incurred since the corporation was organized.
e. None of these

(xvii) Which ratio best measures a company's success in earning net income for its owners?
a. Profit Margin
b. Return on common stockholders' equity
c. Price earnings ratio
d. Dividend yield
e. None of these

(xviii) Which of the following is true for an installment note requiring a series of equal total cash payments?
a. Payments consist of increasing interest and decreasing principal

b. Payments consist of changing amounts of principal but constant interest
c. Payments consist of decreasing interest and increasing principal
d. None of these

(xix) How does a stock dividend impact assets and retained earnings?
a. Stock dividends does not transfer assets to stockholders
b. Stock dividend requires an amount of contributed capital to be transferred to retained earning account
c. Stock dividend does transfer assets to stockholders
d. None of these

(xx) Which of the following is least useful as a basis for comparison when analyzing ratios?
a. Company results from a different economic setting
b. Standards from past experience
c. Rule of Thumb Standards
d. Industry Wages
e. None of these

PART-II

NOTE:(i) **PART-II** is to be attempted on separate Answer Book.
(ii) Attempt **ONLY FOUR** questions from **PART-II,** selecting **ONE** question from each **SECTION except SECTION –C, where the choice is mentioned.**
(iii) **Extra attempt of any question or any part of the attempted question will not be considered.**

SECTION –A
COST ACCOUNTING

Q. 2 The Balances in the perpetual inventory accounts of Sonny Manufacturing Co. at the beginning and end of the current year are as follows:

	End of Year	*Beginning of Year*
Inventory accounts:		
Materials …………………………	*Rs. 25,800*	*Rs. 22,000*
Work in Process …………………	*8,000*	*5,000*
Finished goods inventory ………	*24,000*	*38,000*

The total amounts debited and credited during the year to the accounts used in recording manufacturing activities are summarized below:

Account:	*Debit Entries*	*Credit Entries*
Materials Inventory……………….	*Rs. 410,000*	*Rs. ?*
Direct Labour ………………………	*189,000*	*192,000*
Manufacturing Overhead …………	*393,600*	*393,600*
Work in Process Inventory ………	*?*	*?*
Finished Goods Inventory …………	*?*	*?*

INSTRUCTIONS

a. Using this data, state or compute for the year the amounts of: **(10)**

1. Direct materials purchased
2. Direct materials used
3. Payments of direct labour payrolls
4. Direct labour cost assigned to production
5. The overhead application rate used during the year, assuming that overhead was applied as a percentage of direct labour costs
6. Total manufacturing costs charged to the work in process inventory account during the year
7. The cost of finished goods manufactured

8. Cost of goods sold

b. Prepare a schedule of the cost of finished goods manufactured. **(10)**

Q.3 Aladdin Electric manufactures several products, including an electric garage door opener called the Door Tender. Door Tenders are completely processed in one department and are then transferred to the finished goods warehouse. All manufacturing costs are applied to Door Tender units at a uniform rate throughout the production process. The following information is available for July:

Beginning inventory of work in process ………………………………………	***Rs. 21,200***
Manufacturing costs incurred in July:	
Direct Material used …………………………………………………	***56,100***
Direct Labour …………………………………	***29,920***
Manufacturing overhead applied ……………………………	***82,280***
Total costs to be accounted for	***Rs. 189,520***

The beginning inventory consisted of 400 units which had been 60% completed during June. In addition to completing these units, the department started and completed another 1,500 units during July and started work on 300 more units which were 70% completed at July 31.

INSTRUCTIONS

a. Compute the equivalent full units of production in July. **(10)**

b. Prepare journal entries to record (1) the manufacturing costs charged to the department during July and (2) the transfer of 1,900 completed units to the finished goods warehouse. **(10)**

SECTION – B

BUSINESS ORGANIZATION & FINANCE (20 MARKS)

Q.4. Mario Valenti owns Valenti Ford, a successful automobile dealership. For 25 years, Valenti has operated the business as a sole proprietorship and has acted as both owner and manager. Now, he is 70 years old and is planning on retiring from active management. However, he wants the dealership to stay in the family; his long-term goal is to leave the business to his two children and five grandchildren. Valenti is wondering whether or not he should incorporate his business. If he were to reorganize Valenti Ford as a corporation, he could then leave an appropriate number of shares of stock to each of his heirs. Otherwise, he could leave the entire business to his heirs to be operated as a partnership. In selecting the appropriate form of business entity, Valenti has formulated the following objective:

1. **Ownership:** Valenti wants each of his two children to own 25% of the business and each of his five grandchildren to own 10%.
2. **Continuity of existence:** Valenti wants the business to continue indefinitely, even if one or more of the heirs should die or should no longer want to participate in ownership.
3. **Management:** When Valenti retires, he plans to give Joe Heinz, a long-time employee, responsibility for managing the business. Although, Valenti wants to keep the ownership of the business in the family, he does not believe that any of his family members have the time and experience to manage the business on a daily basis. In fact, Valenti believes that two of his grandchildren simply have no "business sense," and he does not want them to participate in the management.
4. **Income taxes:** Valenti wants to organize the business in a manner which will minimize the income taxes to be paid by his heirs. He expects that all the earnings of the business will normally be distributed to its owners on an annual basis.
5. **Owners' Liability:** Valenti recognizes that an automobile dealership might become liable for vast amounts of money, if, improper repairs caused a customer's car to be involved in an accident. Although, the business carries insurance, he wants to be sure that his heirs' equity in the business

does not place their personal assets at risk in the event of business losses.

INSTRUCTIONS

a. For each of the five numbered paragraphs above, explain how the choice of business organization (partnership or corporation) relates to Valenti's stated objective. **(10)**

b. In light of your analysis in part **a**, above, would you recommend that Valenti reorganize Valenti Ford as a corporation, or leave the business unincorporated so that his heirs may operate it as a partnership? **(10)**

Q.5. The year-end balance sheet of LaserTech, Inc., includes the following stockholders' equity section (with certain details omitted):

Stockholders' equity:		
Rs. 8 cumulative preferred stock, Rs. 100 par value, callable at Rs. 103,200,000		
Shares authorized ……………………………………………………………		*Rs. 6,000,000*
Common stock, Rs. 2 par value, 5,000,000 shares authorized:		
Issued ………………………………………………………………………	*Rs. 3,600,000*	
Subscribed ……………………………………………………………………	*1,400,000*	*5,000,000*
Additional paid-in capital:		
Preferred …………………………………………………………	*Rs. 240,000*	
Common (including subscribed shares) …………………………	*25,000,000*	*25,240,000*
Retained Earnings ……………………………………………………………………………		*3,690,000*
Total stockholders' equity ………………………………………………………		*Rs. 39,930,000*

Assets of the corporation include ***subscriptions receivable, Rs. 5,600,000.***

INSTRUCTIONS

On the Basis of this information, answer the following questions and show any necessary supporting computations. **(20)**

a. How many shares of preferred stock have been issued?

b. What is the total annual dividend requirement on the outstanding preferred stock?

c. What was the average price per share received by the corporation for its common stock, including shares subscribed?

d. What is the average amount per share that subscribers to common stock have yet to pay on their subscriptions?

e. What is the total amount of legal capital, including shares subscribed?

f. What is the total paid-in capital, including shares subscribed?

g. What is the book value per share of common stock? (Assume no dividends in arrears.)

h. Total dividends of Rs. 780,000 were declared on the preferred and common stock during the year, and the balance of retained earnings at the beginning of the year was Rs. 2,302,000. What was the amount of net income for the year?

SECTION – C

AUDITING

Q.6. Define **ANY TEN** of the following: **(2 x 10 = 20)**

1. Compliance Audit
2. Standard unqualified opinion
3. Public Company Accounting Oversight Board
4. Qualified Opinion
5. Adequate disclosure
6. Internal Control
7. Indirect financial interest
8. Joint closely held investment
9. Audit committee
10. Independence
11. Inspection
12. Direct financial Interest
13. Ethics Rulings

14. Attest engagement
15. Integrated Audit

SECTION – D

INCOME TAX

Q.7. ABC (Pvt) Ltd Company has filed Income Tax Return u/s 114 of Income Tax Ordinance 2001 for tax year 2010 showing taxable income at Rs. 500,000.Tax payable has been calculated @30% at Rs.150,000.Tax credit under section 147 has been claimed at Rs.10,000. During the course of Audit Income Tax Department discovers the following:-

a. The Balance Sheet shows Cash loan from director amounting to Rs. 100,000.

b. The tax payer has provided the proof of only Rs. 5000/ of tax credit claimed u/s 147.

c. The donation of Rs. 50,000 has been made to an organization not covered by exemptions under the Second Schedule of Income Tax Ordinance 2001.

You are required to do the following:-

1. Identify the section of Income Tax Ordinance 2001 under which the department may take the remedial measure to calculate the correct figure of taxable Income **(10)**

2. Calculate the correct amount of Taxable Income and the tax payable. **(10)**

Q.8. Account for corporate income taxes: explain the effects of these taxes on before-tax profits and losses? **(20)**

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