



FEDERAL PUBLIC SERVICE COMMISSION
SECTION OFFICERS PROMOTIONAL EXAMINATION - 2016

Roll No. 555

ACCOUNTANCY AND AUDITING

TIME ALLOWED: THREE HOURS	MAXIMUM MARKS: 100
NOTE:(i) Attempt FIVE questions in all by selecting at least TWO questions from EACH SECTION. ALL Questions carry EQUAL Marks. (ii) All the parts (if any) of each Question must be attempted at one place instead of at different places. (iii) Candidate must write Q. No. in the Answer Book in accordance with Q. No. in the Q. Paper. (iv) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed. (v) Extra attempt of any question or any part of the attempted question will not be considered. (vi) Leave some blank space and draw two horizontal lines (==) at the end of each answer. (vii) Use of Calculator is allowed.	

SECTION-A (PRINCIPLES OF ACCOUNTING)

- Q. 1.** Nick Charles operates a private investigating business called Nick Charles Investigations. The business adjusts and closes its accounts each month. At May 31, 2016, the trial balance appears as follows:

Cash	\$20,150	Accounts payable	6,900
Fee receivable	37,800	Unearned retainer fee	24,000
Unexpired insurance	2,000	Nick Charles – Capital	51,600
Prepaid rent	8,400	Nick Charles – Drawing	2,400
Office supplies	1,050	Fee earned	24,800
Office equipment	17,100	Telephone expense	1,200
Accumulated depreciation Office equipment	5,700	Travel expense	3,400
		Salaries expense	19,500

Further Data:

- The useful life of the office equipment was estimated to be five years.
- Fee of \$6,400/- were earned during the month by performing the services for clients who had paid in advance.
- Salaries earned by employees during the month, but not yet recorded or paid amounting to \$1,700/-.
- On May 1, the business moved into a new office and paid first three months' rent in advance.
- Investigative services rendered during the month but not yet collected or billed to clients amounting to \$2,900/-.
- Office supplies on hand May 31, amounting to \$600/-.
- On April 1, \$2,400/- was paid as the premium for six months' liability insurance.

Required:

- Prepare the adjusting entries required on May 31, 2016. (5)
- Prepare multi-step Income Statement and Balance Sheet for Nick Charles Investigations. (15) (20)

- Q. 2.** Revenue and expense data for the current calendar year for Shahzad & Company and for the electronics industry are as follows. The Shahzad & Company data are expressed in rupees. The electronics industry averages are expressed in percentages (see Table-01)

Required:

- Prepare a common-sized Income Statement comparing the results of operations for Shahzad & Company with the industry average. Round to two decimal place. (12)
- As far as the data permit, comment on significant relationships revealed by the comparison. (8) (20)

Table-01

	Shahzad & Company (Rs.)	Industry Average
Sales	2,100,000	105%
Sales returns and allowances	100,000	500%
Net sales	2,000,000	100%
Cost of goods sold	1,040,000	6000%
Gross Profit	960,000	40%
Selling expenses	560,000	22%
Administrative expenses	300,000	1200%
Total operating expenses	860,000	34%
Operating income	100,000	6%
Other income	60,000	300%
	160,000	9%
Other expense	40,000	200%
Income before income tax	120,000	7%
Income tax expense	60,000	600%
Net income	60,000	1%

ACCOUNTANCY AND AUDITING

- Q. 3.** The Adjusted trial balance of Falcon Industries indicates the following account balances at the end of the current year.

	<u>Rs.</u>
Cash	17,800
Accounts receivable	105,200
Allowances for doubtful debts	2,000
Inventory	28,500
Showroom fixtures	32,400
Accumulated depreciation	6,400
Notes payable	9,000
Accounts payable	38,000
Furqan Capital	70,000
Furqan Drawings	32,000
Ahmad Capital	60,000
Ahmad Drawings	24,000
Sales	648,000
Cost of goods sold	391,000
Selling expenses	110,000
Administrative expenses	92,500

There were no changes in partners' capital accounts during the year. Falcon Industries uses perpetual inventory system. The partnership agreement provides that Mr. Furqan is allowed 15% and Mr. Ahmad is allowed 10% interest on invested capital as of the beginning of the year and that the residual net income is to be divided according to ratio of invested capital.

Required:

- (1) Prepare Income Statement for the current year using the appropriate accounts from the above list. At the bottom of the income statement, prepare schedule of income distribution. (8)
- (2) Prepare a statement of Partners' Capital for the current year. (6)
- (3) Prepare a Balance Sheet at the end of the year. (6) (20)

- Q. 4.** Fraz Corporation installs a computerized manufacturing machine in factory at the beginning of year at a cost of Rs. 200,000/-. Useful life of machine is expected to be 10 years with a residual value of Rs. 25,000/-. Total production estimated from the machine is 40,000 units.

You are required to prepare machine's depreciation schedule for the first year, under:

- (1) Straight line (2) Double declining balance (3) Units of production (5 × 4 = 20)
- (4) Sum of years' digit method.

SECTION-B (PRINCIPLES OF AUDITING)

- Q. 5.** An auditor is an independent person who examines the financial statements of an entity and accompanying disclosures. After such examination, a report is issued by auditor, attesting to the fairness of presentation of the financial statements and related disclosures. Based on this concept, discuss the importance of independence of auditor. Also, discuss in detail the rights and duties of an auditor. (20)
- Q. 6.** Fundamental Principles of Auditing are applied to audit the books of business accounts. As an auditor, discuss in detail the application of auditing principles and techniques to be considered in Trading, Commercial and Industrial undertakings. (20)
- Q. 7.** Suppose as a General Manager of Pakistan International Airline (PIA), during the Annual General Meeting, you are discussing the agenda points of establishment of an internal audit department and appointment of an independent auditor. In this context, discuss the reasons for and against having internal audit department. Also, provide valid justifications for detailed examination of books of accounts by an auditor. (20)
- Q. 8.** An auditor report is a written opinion of an auditor regarding an entity's financial statements in a specific format. Keeping in view this uniformity of audit report, discuss in detail the elements and types of Audit Report. Also, discuss the matters which do not affect the auditor's opinion. (20)