



**FEDERAL PUBLIC SERVICE COMMISSION  
SPECIAL COMPETITIVE EXAMINATION-2023  
FOR RECRUITMENT TO POSTS IN BS-17  
UNDER THE FEDERAL GOVERNMENT**

Roll Number

**ACCOUNTANCY AND AUDITING, PAPER-I**

<b>TIME ALLOWED: THREE HOURS</b>	<b>(PART-I MCQs) MAXIMUM MARKS: 20</b>
<b>PART-I (MCQs) : MAXIMUM 30 MINUTES</b>	<b>(PART-II) MAXIMUM MARKS: 80</b>
<b>NOTE: (i) First attempt PART-I (MCQs) on separate OMR Answer Sheet which shall be taken back after 30 minutes.</b>	
<b>(ii) Overwriting/cutting of the options/answers will not be given credit.</b>	
<b>(iii) There is no negative marking. All MCQs must be attempted.</b>	

**PART-I (MCQs)(COMPULSORY)**

**Q.1. (i) Select the best option/answer and fill in the appropriate Box  on the OMR Answer Sheet.(20x1=20)**  
**(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.**

- 1. The primary function of accounting is to:**

(A) Record the economic data. (B) Provide the information basis for action.  
(C) Recording and classifying business transactions. (D) None of these
- 2. The concept of conservatism will have the effect of:**

(A) Understatement of assets (B) Understatement of liabilities  
(C) Overstatement of assets (D) None of these
- 3. On December 1, 2022, Bridgestone Corporation invested Rs.50,000 in a new delivery truck. The truck is being depreciated at a monthly rate of Rs.500. During 2022, the company issued stock for Rs.80,000 and declared dividends of Rs.5,000. Its net income in 2022 was Rs.70,000. Bridgestone's ending Retained Earnings balance as reported in its December 31, 2022, balance sheet was Rs.95,000. Its beginning Capital Stock balance on January 1, 2022, was Rs.200,000. Given this information, the total stockholders' equity reported in the company's balance sheet dated December 31, 2022 would be equal to:**

(A) Rs.245,000 (B) Rs.445,000 (C) Rs.350,000 (D) Rs.375,000
- 4. Book-keeping is mainly concerned with:**

(A) Recording of financial data relating to business transactions.  
(B) Designing the systems in recording, classifying, summarizing the recorded data.  
(C) Interpreting the data for internal and external users. (D) None of these
- 5. Receipt and payments account is:**

(A) A nominal account (B) A real account (C) A personal account (D) None of these
- 6. The main objective of charging depreciation is:**

(A) To calculate true profit (B) To show the true financial position in the balance sheet  
(C) To provide funds for replacement of fixed assets. (D) None of these
- 7. In the event of dissolution of a partnership firm, the provision for doubtful debts is transferred to:**

(A) Sundry debtors account (B) Partners' capital accounts (C) Realisation account (D) None of these
- 8. Which of the following accounts would never appear in the after-closing trial balance?**

(A) Unearned revenue (B) Dividends (C) Accumulated depreciation. (D) None of these
- 9. An auditing firm while auditing the accounts of a business firm found that total stockholders' equity was understated and liabilities were overstated. Which of the following errors could have been the cause?**

(A) Failure to record the earned portion of fees received in advance  
(B) Failure to record interest accrued on a note payable  
(C) Failure to make the adjusting entry to record revenue that had been earned but not yet billed to clients  
(D) None of these
- 10. When a business is organized as a corporation, which of the following statements is true?**

(A) Stockholders are liable for the debts of the business in proportion to their percentage ownership of capital stock.  
(B) Fluctuations in the market value of outstanding shares of capital stock do not directly affect the amount of stockholders' equity shown in the balance sheet.  
(C) Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.  
(D) Each stockholder has the right to bind the corporation to contracts and to make other managerial decisions
- 11. Morgan Moving Corporation was organized with authorization to issue 100,000 shares of Rs.1 par value common stock. Forty thousand shares were issued to Tom Morgan, the company's founder, at a price of Rs.5 per share. No other shares have yet been issued. Which of the following statements is true?**

(A) Morgan owns 40 percent of the stockholders' equity of the corporation.  
(B) The corporation should recognize a Rs.160,000 gain on the issuance of these 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.

ACCOUNTANCY AND AUDITING, PAPER-I

12. In financial statement analysis, the most difficult of the following items to predict is whether:
- (A) The company will be liquid in six months.  
 (B) The company's market share is increasing or declining.  
 (C) The market price of capital stock will rise or fall over the next two months.  
 (D) None of these.
13. During the current year, two transactions were recorded in the Land account of Duke Industries. One involved a debit of Rs.320,000 to the Land account; the second was a Rs.210,000 credit to the Land account. Duke's income statement for the year reported a loss on sale of land in the amount of Rs.25,000. All transactions involving the Land account were cash transactions. These transactions would be shown in the statement of cash flows as:
- (A) Rs.210,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.  
 (B) Rs.185,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.  
 (C) Rs.235,000 cash provided by investing activities, and Rs.320,000 cash disbursed for investing activities.  
 (D) None of these.
14. Multiple costing is a technique of using two or more costing methods for ascertainment of cost by:
- (A) The same firm (B) Several firms (C) The same industry (D) The several industries
15. Which of the following are true regarding activity-based costing?
- (A) A primary goal of using ABC is a more useful allocation of manufacturing overhead to product lines.  
 (B) Under ABC, direct labor hours are never used to allocate overhead costs to activity pools or product lines.  
 (C) The use of ABC is justified when each of a firm's product lines consumes approximately the same amount of overhead resources but the current allocation scheme assigns each line a substantially different amount.  
 (D) None of these
16. If Power Products uses process costing, which of the following are likely to be true?
- (A) The products are created to customer specifications.  
 (B) The products use different amounts of direct labor.  
 (C) The products are created with repetitive processes.  
 (D) None of these
17. An unfavorable overhead volume variance indicates that:
- (A) Total fixed overhead has exceeded the standard amount budgeted.  
 (B) Variable overhead per unit has exceeded the standard amount budgeted.  
 (C) Actual production output was less than the normal volume of output.  
 (d) Actual production output was more than the normal volume of output.
18. The Work in Process Inventory 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 labor costs assigned to production totaled Rs.3,000. Manufacturing overhead was assigned to production amounted to Rs.3,600. If the cost of finished goods manufactured was Rs.37,700, the balance of the Work in Process Inventory account at the end of February would be equal to:
- (A) Rs. 9,900 (B) Rs. 2,100 (C) Rs. 1,500 (D) Rs. 5,700
19. During the current year, the net sales of Ridgeway, Inc., were 10 percent below than last year's level. You should expect Ridgeway's semivariable costs to:
- (A) Decrease in total, but increase as a percentage of net sales.  
 (B) Increase in total and increase as a percentage of net sales.  
 (C) Decrease in total and decrease as a percentage of net sales.  
 (D) Increase in total, but decrease as a percentage of net sales.
20. Premo Pens, Inc., is in the process of developing a new pen to replace its existing top-of-the-line Executive Model. Market research has identified the critical features the pen must have, and it is estimated that customers would be willing to pay Rs.30 for a pen with these features. Premo's production manager estimates that with existing equipment it will cost Rs.26 to produce the proposed model. The current Executive Model sells for Rs.24 and has a total production cost of Rs.20. A competitor sells a pen similar to the proposed model, but without Premo's patented easy retract feature, for Rs.28. It is estimated to cost the competitor Rs.25 to produce. If Premo seeks to earn a 22 percent return on sales on the new model, which of the following represents the target cost for the new pen?
- (A) Rs. 26.00 (B) Rs. 19.80 (C) Rs. 24.00 (D) Rs. 23.40

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**ACCOUNTANCY AND AUDITING, PAPER-I**

- Q. 3.** Davidson Limited purchased new furniture for its store on May 1, 2019. The furniture is expected to have a 10-year life and no residual value. The following expenditures were associated with the purchase.

Cost of the furniture	Rs.110,000
Freight charges	3,750
Sales taxes	19,800
Installation of furniture	7,500
Cost to repair furniture damaged during installation	4,000

**Instructions:**

- (a) Compute depreciation expense for the years 2019 through 2023 under each depreciation method listed. (10)  
 (1) Straight-line, with fractional years rounded to the nearest whole month.  
 (2) 200 percent declining-balance, using the half-year convention.
- (b) Davidson Limited has two conflicting objectives. Management wants to report the highest possible earnings in its financial statements, yet it also wants to minimize its taxable income reported to the tax authorities. Explain how both of these objectives can be met. (04)
- (c) Assume that Davidson Limited sold the old furniture that was being replaced. The old furniture had originally cost Rs.30,000. Its book value at the time of the sale was Rs.4,000. (06) (20)  
 Record the sale of the old furniture under the following conditions.  
 1. The furniture was sold for Rs.7,800 cash.  
 2. The furniture was sold for Rs. 2,500 cash.

- Q. 4** X, Y and Z were partners sharing profits and losses in the ratio of two-third, one-sixth and one-sixth, respectively. Balance sheet of the firm as on December 31, 2022 was as follow.

Assets	Rs.	Liabilities	Rs.
Cash	20,000	Sundry Creditors	30,000
Debtors	30,000		
Stock	30,000	Capital:	
Premises	60,000	X	80,000
X's Loan	10,000	Y	20,000
		Z	20,000
<b>TOTAL</b>	<b>150,000</b>	<b>TOTAL</b>	<b>150,000</b>

X died on January 1, 2023. Firm had taken joint policy of Rs.60,000. The policy amount was realized on January 15, 2023. As per partnership deed goodwill was valued at 2 years' purchase of average profit of three completed years. Deceased partner was paid out his dues on February 1, 2023, available cash balance being supplemented by a loan from the firm's bankers. Profits for the preceding three years were Rs.40,000, Rs.40,000, and Rs.46,000, respectively.

**Instructions:**

- Show the ledger accounts of the partners and the balance sheet of Y and Z as it would stand after the death of X. (You may ignore the amount of interest, if any). (20)
- Q. 5** The following is the statement of Receipts and Payments of a Welfare Hospital for the year ending 31" December 2022.

Receipts	Rs.	Payments	Rs.
Opening Balances:			
Cash	500	Furniture purchased	100
Bank	8,000	Salaries	23,000
Govt. Securities	180,000	Instruments purchased	500
Subscriptions	25,000	Diet expenses	2,000
Interest	9,000	Surgery and dispensary	1,000

**ACCOUNTANCY AND AUDITING, PAPER-I****PART-II**

TIME ALLOWED: THREE HOURS	(PART-I MCQs)	MAXIMUM MARKS: 20
PART-I (MCQs): MAXIMUM 30 MINUTES	(PART-II)	MAXIMUM MARKS: 80
NOTE: (i) <b>PART-II</b> is to be attempted on the separate <b>Answer Book</b> .		
(ii) Attempt <b>ONLY FOUR</b> questions from <b>PART-II</b> by selecting <b>TWO</b> questions from <b>EACH SECTION</b> . <b>ALL</b> questions carry <b>EQUAL</b> marks.		
(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.		
(iv) Write Q. No. in the Answer Book in accordance with Q. No. in the Q. Paper.		
(v) No Page/Space be left blank between the answers. All the blank pages of the Answer Book must be crossed.		
(vi) Extra attempt of any question or any part of the question will not be considered.		
(vii) <b>Use of Calculator is allowed.</b>		

**SECTION- I**

- Q. 2.** Satellite World was founded in 2021 to apply a new technology for efficiently transmitting closedcircuit (cable) television signals without the need for an in-ground cable. The company earned a profit of Rs.115,000 in 2021, its first year of operations, even though it was serving only a small test market. In 2022, the company began dramatically expanding its customer base. Management expects both sales and net income to more than triple in each of the next five years. Comparative balance sheets at the end of 2021 and 2022, the company's first two years of operations, are as follow:

**Additional Information:**

The following information regarding the company's operations in 2022 is available in either the company's income statement or its accounting records.

- Net income for the year was Rs.440,000. The company has never paid a dividend.
- Depreciation for the year amounted to Rs.147,000.
- During the year the company purchased plant assets costing Rs.2,200,000, for which it paid Rs.1,850,000 in cash and financed Rs.350,000 by issuing a long-term note payable. (Much of the cash used in these purchases was provided by short-term borrowing, described as follows.)
- In 2022, Satellite World borrowed Rs.1,450,000 against a Rs.5.5 million line of credit with a local bank. In its balance sheet, the resulting obligations are reported as notes payable (short-term).
- Additional shares of capital stock (no par value) were issued to investors for Rs.500,000 cash.

SATELLITE WORLD  
Comparative Balance Sheets

	December 31	
	2021	2022
<b>Assets</b>		
Cash and cash equivalents	Rs.80,000	Rs.37,000
Accounts receivable	100,000	850,000
Plant and equipment (net of accumulated depreciation)	600,000	2,653,000
<b>Totals</b>	<b>Rs.780,000</b>	<b>Rs.3,540,000</b>
<b>Liabilities &amp; Stockholders' Equity</b>		
Notes payable (short-term)	Rs. –0–	Rs.1,450,000
Accounts payable	30,000	63,000
Accrued expenses payable	45,000	32,000
Notes payable (long-term)	390,000	740,000
Capital stock (no par value)	200,000	700,000
Retained earnings	115,000	555,000
<b>Totals</b>	<b>Rs.780,000</b>	<b>Rs.3,540,000</b>

**Instructions:**

- (a) Prepare a formal statement of cash flows for 2022, including a supplementary schedule of noncash investing and financing activities. (Cash provided by operating activities is to be presented by the indirect method.) (16)
- (b) Briefly explain how operating activities can be a net use of cash when the company is operating so profitably. (04) (20)

**ACCOUNTANCY AND AUDITING, PAPER-I**

Receipts	Rs.	Payments	Rs.
Donations	4,000	Rent and taxes	500
Miscellaneous	300	Insurance	200
		Office expenses	700
		Miscellaneous expenses	100
		Closing balances:	
		Bank	18,000
		Cash	700
		Govt. Securities	180,000
<b>TOTAL</b>	<b>226,800</b>	<b>TOTAL</b>	<b>226,800</b>

The detail of other assets on 1<sup>st</sup> January 2022 were:

Furniture Rs.2,000, Land Rs.50,000, Building Rs.1,50,000, Instruments Rs.3,500. The Govt. Securities of the face value of Rs.2,00,000 (cost Rs.1,80,000) represents investments of the 2021 Endowment Fund. The subscriptions received include Rs.10,000 for the year 2021 but Rs.7,000 is outstanding for 2022. Salaries paid include Rs.1,000 for 2021 but Rs.1,500 is payable for 2022. Interest received includes Rs.2,000 for 2021 but Rs.2,300 is outstanding for 2022.

**Instructions:**

Prepare the Income and Expenditure Account for the year and the Balance sheet as on 31<sup>st</sup> December 2022.

**(20)****SECTION II**

- Q. 6.** Boothe Company uses job order cost accumulation and applies overhead based on direct labor hours. Any underapplied or overapplied overhead is adjusted directly to Cost of Goods Sold at the end of each month. On April 1, job cost sheets indicated the following.

	Job 201	Job 202	Job 203	Job 204
Direct Materials	Rs.3,590	Rs.2,000	Rs.1,480	Rs.2,000
Direct Labor	2,700	1,500	1,000	1,200
Applied Overhead	2,160	1,200	800	960
Total Cost	Rs.8,450	Rs.4,700	Rs.3,280	Rs.4,160
Job Status	Finished	In process	In process	In process

On April 30, Finished Goods contained only Jobs 204 and 207, which had the following total costs.

	Job 204	Job 207
Direct Materials	Rs.2,970	Rs.2,450
Direct Labor	2,200	1,900
Applied Overhead	1,760	1,520
Total Cost	Rs.6,930	Rs.5,870

Besides working on Jobs 204 and 207 in April, the company continued work on Jobs 202 and 203 and started work on Jobs 205 and 206. A summary of direct materials used and direct labor hours worked on Jobs 202, 203, 205, and 206 during April showed the following.

	Job 202	Job 203	Job 205	Job 206
Direct Materials	Rs.1,250	Rs.555	Rs.2,500	Rs.1,980
Direct Labor	100	75	105	50

**ACCOUNTANCY AND AUDITING, PAPER-I****Other information:**

- (1) On April 30, the only jobs still in process were 203 and 206.
- (2) All workers are paid Rs.20 per hour. Wage rates have been stable throughout the year.
- (3) The company maintains only one raw materials account (Materials Control) from which it issues both direct and indirect materials. The balance in this account was Rs.2,700 on April 1.
- (4) All sales are billed on account at 150% of total cost.
- (5) Other items in April:
 

Depreciation, Factory Equipment	Rs.1,375
Raw Materials Purchased	11,550
Indirect Labor	2,500
Factory Rent and Utilities	2,700
Indirect Materials Used	2,790

**Instructions:****(05 marks each)****(20)**

- (a) Determine the April 30 balances for Materials Control and for Work in Process.
- (b) Prepare all journal entries required for Job 202 in April.
- (c) Calculate the cost of goods manufactured in April. (A complete statement of cost of goods manufactured is not required.)
- (d) Calculate the overapplied or underapplied overhead for April.

- Q. 7** Standard Cabinet Company manufactures a single model of a commercial prefabricated wooden cabinet. The company uses a process cost system with an average cost flow assumption. It maintains a separate work in process account for each of its two producing departments, Cutting and Assembly. The basic cabinet components are cut out of wood in the Cutting Department and then transferred to the Assembly Department, where they are put together with the addition of hinges and handles purchased from outside vendors. Data related to manufacturing operations in August are provided below.

	Cutting	Assembly
Units in beginning inventory	200	250
Units started in process in Cutting Department this period	600	-
Units transferred from Cutting to Assembly this period	650	650
Units transferred from Assembly to Finished Goods this period	-	800
Units in ending inventory		
Cutting Department (90% materials, 60% conversion cost)	150	-
Assembly Department (40 % materials, 20% conversion cost)	-	100

	Cutting	Assembly
<b>Cost in beginning inventory</b>		
Cost from preceding department		Rs.17,410
Materials	Rs.5,365	3,451
Labor	530	3,611
Factory Overhead	795	3,611
<b>Cost added during the current period</b>		
Materials	26,035	14,273
Labor	8,350	20,989
Factory Overhead	12,525	20,989

**Instructions:**

- (a) Prepare a cost of production report for each department for August. **(15)**
- (b) Prepare the appropriate general journal entries to record the charge to the producing departments for the costs incurred during August and to record the transfer of units from Cutting to Assembly and from Assembly to Finished Goods Inventory. **(05) (20)**

**ACCOUNTANCY AND AUDITING, PAPER-I**

- Q. 8.** Employees in the Fabrication department of Alexandar company are currently paid Rs.10 per hour for an 8 hour shift. For the several weeks, production has averaged 5 units per hour per worker. Factory overhead in this department is Rs.12 per direct labour hour. Employees and management are considering the following proposal:

Units Assembled per 8-Hour Day	Piecework Rate for all Units Produced for the Day
up to 44	Rs.2.00
45 to 49	2.12
50 to 54	2.20
55 to 59	2.30
60 and above	2.40

**Instruction:**

- (a) Prepare an analysis schedule for the proposal, showing production at each of the following level, 40, 45, 50, 55, and 60 units per 8-hour day. Compute unit cost to the nearest Rupee. (15)
- (b) Does the piecework proposal appear advantageous to the employees and/or to the management? (05) (20)

