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# CSS Past Papers

**Subject: Accountancy and  
Auditing**

**Year: 2020**

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**FEDERAL PUBLIC SERVICE COMMISSION**  
**COMPETITIVE EXAMINATION-2020**  
**FOR RECRUITMENT TO POSTS IN BS-17**  
**UNDER THE FEDERAL GOVERNMENT**  
**ACCOUNTANCY AND AUDITING, PAPER-I**

Roll Number

<b>TIME ALLOWED: THREE HOURS</b>	<b>PART-I (MCQS)</b>	<b>MAXIMUM MARKS = 20</b>
<b>PART-I(MCQS): MAXIMUM 30 MINUTES</b>	<b>PART-II</b>	<b>MAXIMUM MARKS = 80</b>

- NOTE: (i) Part-II** is to be attempted on the separate **Answer Book**.
- (ii)** Attempt **ONLY FOUR** questions from **PART-II** by selecting **TWO** questions from **EACH SECTION**. **ALL** questions carry **EQUAL** 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 Answer Book must be crossed.
- (vi)** Extra attempt of any question or any part of the question will not be considered.
- (vii) Use of Calculator is allowed.**

**PART – II**  
**SECTION – I**

**Q. 2.** On September 1,2011, the account balances of R and Equipment Repair, Inc. were as follows. **(20)**

No.	Debits	No.	Credits
101	Cash Rs. 4,880	154	Accumulated Depreciation Rs. 1,500
112	Accounts Receivable 3,520	201	Accounts Payable 3,400
126	Supplies 2,000	209	Unearned Service Revenue 1,400
153	Store Equipment 15,000	212	Salaries Payable 500
		311	Common Stock 15,000
		320	Retained Earnings 3,600
	Rs.25,400		Rs.25,400

During September the following summary transactions were completed.

- Sept. 8 Paid Rs.1,400 for salaries due employees, of which Rs.900 is for September.
- 10 Received Rs.1,200 cash from customers on account.
- 12 Received Rs.3,400 cash for services performed in September.
- 15 Purchased store equipment on account Rs.3,000.
- 17 Purchased supplies on account Rs.1,200.
- 20 Paid creditors Rs.4,500 on account.
- 22 Paid September rent Rs.500.
- 25 Paid salaries Rs.1,250.
- 27 Performed services on account and billed customers for services provided Rs.1,500.
- 29 Received Rs.650 from customers for future service.

Adjustment data consist of:

Supplies on hand Rs.1,200. Accrued salaries payable Rs.400. Depreciation is Rs.100 per month. Unearned service revenue of Rs.1,450 is earned.

**Required**

- (a) Journalize the September transactions. Prepare a trial balance at September 30.
- (b) Journalize and post adjusting entries. Prepare an adjusted trial balance.
- (c) Prepare an income statement and a retained earnings statement for September and a balance sheet at September 30.

**Q. 3. (A)** Industry A has three companies whose income statements and balance sheets are summarized below. **(10)**

	Company X	Company Y	Company Z
Sales	Rs. 500,000	(d)	(g)
Net income	Rs. 25,000	Rs.30,000	(h)
Total assets	Rs. 100,000	(e)	Rs.250,000
Total asset turnover	(a)	(f)	0.4
Profit margin	(b)	0.4%	5%
Return on total assets (ROA)	(c)	2%	(i)

First supply the missing data in the table above. Then comment on the relative performance of each company.

## ACCOUNTANCY AND AUDITING, PAPER-I

- (B) The Rivers Company reports the following data relative to accounts receivable: (10) (20)

	20X8	20X9
Average accounts receivable	Rs. 400,000	Rs. 416,000
Net credit sales	Rs. 2,600,000	Rs. 3,100,000

The terms of sale are net 30 days.

- (a) Compute the accounts receivable turn over and the collection period, and  
(b) Evaluate the results.

- Q. 4. (A) The Wessal Karim Corporation is considering installing a new conveyor for materials handling (10)  
in a ware house. The conveyor will have an initial cost of Rs. 85,000 and an installation cost of  
Rs. 6,000. Expected benefits of the conveyor are: (a) Annual labor cost will be reduced by  
Rs. 17,000, and (b) breakage and other damages from handling will be reduced by Rs. 600 per  
month. Some of the firm's costs are expected to increase as follows: (a) Electricity cost will  
rise by Rs.200 per month, and (b) annual repair and maintenance of the conveyor will amount  
to Rs.999. Assume the firm uses the MACRS rules for depreciation in the 5-year property  
class. No salvage value will be recognized for tax purposes. The conveyor has an expected  
useful life of 8 years and a projected salvage value of Rs. 4,500. The tax rate is 35 percent.

- (a) Estimate future cash inflows for the proposed project.  
(b) Determine the projects NPV at 10 percent. Should the firm buy the conveyor?

- (B) Majid, Inc., accountants have developed the following data from the company's accounting (10) (20)  
records for the year ended April 30, 2017:

- a) Purchase of plant assets, Rs.59,400.
- b) Cash receipt from issuance of notes payable, Rs.46,100.
- c) Payments of notes payable, Rs.44,000.
- d) Cash receipt from sale of plant assets, Rs.24,500.
- e) Cash receipt of dividends, Rs.4,800.
- f) Payments to suppliers, Rs.374,300.
- g) Interest expense and payments, Rs.12,000.
- h) Payments of salaries, Rs.88,000.
- i) Income tax expense and payments, Rs.37,000.
- j) Depreciation expense, Rs.59,900.
- k) Collections from customers, Rs.605,500.
- l) Payment of cash dividends, Rs.49,400.
- m) Cash receipt from issuance of common stock, Rs.64,900.
- n) Cash balance: April 30, 2016, Rs.40,000; April 30, 2017, Rs.121,700.

**Required:** Prepare Majid's statement of cash flows for the year ended April 30, 2017. Use the  
direct method for cash flows from operating activities.

### SECTION – II

- Q. 5. (A) Modern Geezer Company has two departments. Factory overhead costs are applied based on (10)  
direct labour cost in Department A and machine hours in Department B. The following  
information is available:

Budgeted Items	Dept. A	Dept. B
Direct labour cost	Rs.180,000	Rs.165,000
Machine hours	51,000	40,000
Factory overhead cost	Rs.225,000	Rs.180,000

Actual data for Job #10 are as follows:

Actual Items	Dept. A	Dept. B
Direct materials requisitioned	Rs.10,000	Rs.16,000
Direct labour cost	Rs.11,000	Rs.14,000
Machine hours	5,000	3,000

**Required:**

- (A) Compute the budgeted factory overhead rate for Department A.  
(B) Compute the budgeted factory overhead rate for Department B.  
(C) What is the total overhead cost for Job #10?  
(D) If Job #10 consists of 50 units of product, what is the unit cost of this job?

## ACCOUNTANCY AND AUDITING, PAPER-I

- (B) Chief Manufacturing is a small textile manufacturer using machine-hours as the single indirect-cost rate to allocate manufacturing overhead costs to the various jobs contracted during the year. The following estimates are provided for the coming year for the company and for the Somerset High School Science Olympiad Jacket job. (10) (20)

	<u>Company</u>	<u>Somerset High School Job</u>
Direct materials	Rs. 25,000	Rs. 600
Direct manufacturing labor	Rs. 5,000	Rs. 200
Manufacturing overhead costs	Rs. 20,000	
Machine-hours	40,000 mh	800 mh

**Required:**

- (a) For Chief Manufacturing, determine the annual manufacturing overhead cost-allocation rate.
- (b) Determine the amount of manufacturing overhead costs allocated to the Somerset High School job.
- (c) Determine the estimated total manufacturing costs for the Somerset High School job.

- Q. 6. (A) Sodus Chemical Inc. placed 220,000 liters of direct materials into the mixing process. At the end of the month, 5,000 liters were still in process, 30% converted as to labor and factory overhead. All direct materials are placed in mixing at the beginning of the process and conversion costs occur evenly during the process. Sodus uses weighted-average costing. (10)

**Required:**

- (a) Determine the equivalent units in process for direct materials and conversion costs, assuming there was no beginning inventory.
- (b) Determine the equivalent units in process for direct materials and conversion costs, assuming that 12,000 liters of chemicals were 40% complete prior to the addition of the 220,000 liters.

- (B) Asghar Manufacturing Company sells its products for Rs.33 each. The current production level is 50,000 units, although only 40,000 units are anticipated to be sold. (10) (20)

Unit manufacturing costs are:

Direct materials	Rs. 6.00
Direct manufacturing labor	Rs. 9.00
Variable manufacturing costs	Rs. 4.50
Total fixed manufacturing costs	Rs.180,000
Marketing expenses	Rs.3.00 per unit, plus Rs.100,000 per year

**Required:**

- (a) Prepare an income statement using absorption costing.
- (b) Prepare an income statement using variable costing.

- Q. 7. (A) Big Mind Corporation was recently formed to produce a semiconductor chip that forms an essential part of the personal computer manufactured by a major corporation. The direct materials are added at the start of the production process while conversion costs are added uniformly throughout the production process. June is Big Mind's first month of operations, and therefore, there was no beginning inventory. Direct materials cost for the month totaled Rs.950,000, while conversion costs equaled Rs.4,625,000. Accounting records indicate that 475,000 chips were started in June and 425,000 chips were completed. (10)

Ending inventory was 50% complete as to conversion costs.

**Required:**

- (a) What is the total manufacturing cost per chip for June?
- (b) Allocate the total costs between the completed chips and the chips in ending inventory.

- (B) The following information was gathered for Smart-view Company for the year ended December 31, 2018: (10) (20)

	<u>Budgeted</u>	<u>Actual</u>
Direct labor-hours	75,000 dlh	80,000 dlh
Factory overhead	Rs.600,000	Rs.625,000

Assume that direct labor-hours are the cost-allocation base.

**Required:**

- (a) Compute the budgeted factory overhead rate.
- (b) Compute the factory overhead applied.
- (c) Compute the amount of over/under applied overhead.

## ACCOUNTANCY AND AUDITING, PAPER-I

- Q. 8. (A)** Umar Company produces baseball bats and cricket paddles. It has two departments that process all products. During July, the beginning work in process in the cutting department was half completed as to conversion, and complete as to direct materials. The beginning inventory included Rs.40,000 for materials and Rs.60,000 for conversion costs. Ending work-in-process inventory in the cutting department was 40% complete. Direct materials are added at the beginning of the process. (10)

Beginning work in process in the finishing department was 80% complete as to conversion. Direct materials for finishing the units are added near the end of the process. Beginning inventories included Rs.24,000 for transferred-in costs and Rs.28,000 for conversion costs. Ending inventory was 30% complete. Additional information about the two departments follows:

	Cutting	Finishing
Beginning work-in-process units	20,000	24,000
Units started this period	60,000	
Units transferred this period	64,000	68,000
Ending work-in-process units		20,000
Material costs added	Rs. 48,000	Rs. 34,000
Conversion costs	28,000	68,500
Transferred-out cost	128,000	

**Required:**

Prepare a production cost worksheet, using FIFO for the finishing department.

- (B)** During February the Luqman Manufacturing Company's costing system reported several variances that the production manager was surprised to see. Most of the company's monthly variances are under Rs.225, even though they may be either favorable or unfavorable. The following information is for the manufacturing of garden gates, its only product: (10) (20)
1. Direct materials price variance, Rs.900 unfavorable.
  2. Direct materials efficiency variance, Rs.1,900 favorable.
  3. Direct manufacturing labor price variance, Rs.4,100 favorable.
  4. Direct manufacturing labor efficiency variance, Rs.700 unfavorable.

**Required:**

- (a) Provide the manager with some ideas as to what may have caused the price variances.
- (b) What may have caused the efficiency variances?

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**ACCOUNTANCY & AUDITING, PAPER-II**

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**PART – II**  
**SECTION – I (AUDITING)**

- Q. 2.** Why computerized audit is required in the presence of manual audit? Elaborate the computerized auditing by application of Computer Assisted Audit Techniques (CAAT). (20)
- Q. 3.** Define audit and auditing. Comment on the auditor’s (dependence) consideration of “reasonable assurance” and “True & Fair view” for the financial audit of a corporate entity. (20)
- Q. 4.** Write notes on any TWO of the followings: (10 marks each) (20)  
(a) Audit materiality  
(b) Misstatement and Fraud  
(c) Test of Control and Substantive Procedures

**SECTION – II (BUSINESS TAXATION)**

- Q. 5.** Elaborate the following fundamental definitions/terminologies as defined under Section 2 of the Income Tax Ordinance 2001. (20)  
(a) Heads of Income [Section 11]  
(b) Tax Credits [Section 61 to 65]  
(c) Capital Gains [Section 37 to 38]
- Q. 6.** ABC (Pvt) Limited has earned income from business amounting to Rs. 75056000 during the tax year 2019. It also has a plaza situated in Faisalabad. The rent receivable from plaza amounts Rs. 47543000. Moreover, Company claims the following deductions (in Rs.): (20)
- |   |         |
|---|---------|
| 1. Property repair expenses                   | 4324200 |
| 2. Lawyer fee to defend the title of property | 6050000 |
| 3. Insurance premium of the property          | 1477500 |
| 4. Property tax paid                          | 5422300 |
| 5. Tax with held by the tenants @17.5%        | 8320025 |
| 6. Rental income paid to HBFC                 | 3600000 |
| 7. Administrative and collection charges      | 2900000 |

**Required:** Calculate Total income and the Tax payable by the Company for the tax year 2019. The company is a Non-filer.

**SECTION – III (BUSINESS STUDIES AND FINANCE)**

- Q. 7.** How many legal forms of Business Entity exist in Pakistan? Explain the features of Joint Stock Company and its procedure of formation (stages for formation of a Joint Stock Company-both Public limited and Private Limited companies). (20)
- Q. 8.** XYZ Co. has Rs. 400 million in outstanding debt and Rs. 100 million in preferred stock. Its total value is Rs. 800 million. Its cost of debt (rd) is 8%, its cost of preferred stock is (rps) 9%, and its cost of common stock (rcs) is 12%. The firm has recently had numerous depreciation tax shields as well as low earnings. Consequently, it does not pay taxes. (20)

What is its Weighted Average Cost of Capital (WACC) assuming it will continue to not pay taxes?

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