FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2022
FOR RECRUITMENT TO POSTS IN BS-17
UNDER THE FEDERAL GOVERNMENT

Roll Number

ACCOUNTANCY AND AUDITING, PAPER-I

TIME ALLOWED: THREE HOURS	**PART-I (MCQS)**	**MAXIMUM MARKS = 20**
PART-I(MCQS): MAXIMUM 30 MINUTES	**PART-II**	**MAXIMUM MARKS = 80**

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. Campus Theater adjusts its accounts every month. The company's unadjusted trial balance dated August 31, current year, appears as follows. Additional information is provided for use in preparing the company's adjusting entries for the month of August. (Bear in mind that adjusting entries have already been made for the first seven months of current year, but not for August.)

CAMPUS THEATER
Unadjusted Trial Balance
August 31, Current Year

Cash	$ 24,000	
Prepaid film rental	37,440	
Land	144,000	
Building	201,600	
Accumulated depreciation: Building		$ 16,800
Fixtures and equipment	43,200	
Accumulated depreciation: fixtures and equipment		14,400
Notes payable		216,000
Accounts payable		5,280
Unearned admissions revenue (YMCA)		1,200
Income taxes payable		5,688
Capital stock		48,000
Retained earnings		55,932
Dividends	18,000	
Admissions revenue		366,240
Concessions revenue		17,220
Salaries expense	82,200	
Film rental expense	113,400	
Utilities expense	11,400	
Depreciation expense: building	5,880	
Depreciation expense: fixtures and equipment	5,040	
Interest expense	12,600	
Income taxes expense	48,000	
	$746,760	**$746,760**

Other Data

1. Film rental expense for the month is $18,240. However, the film rental expense for several months has been paid in advance.
2. The building is being depreciated over a period of 20 years (240 months).
3. The fixtures and equipment are being depreciated over a period of five years (60 months).
4. On the first of each month, the theater pays the interest that accrued in the prior month on its note payable. At August 31, accrued interest payable on this note amounts to $1,800.
5. The theater allows the local YMCA to bring children attending summer camp to the movies on any weekday afternoon for a fixed fee of $600 per month. On June 28, the YMCA made a $1,800 advance payment covering the months of July, August, and September.
6. The theater receives a percentage of the revenue earned by Tastie Corporation, the concessionaire operating the snack bar. For snack bar sales in August, Tastie owes Campus Theater $2,700, payable on September 10. No entry has yet been made to record this revenue.

7. Salaries earned by employees, but not recorded or paid as of August 31, amount to $2,040. No entry has yet been made to record this liability and expense.
8. Income taxes expense for August is estimated at $5,040. This amount will be paid in the September 15 installment payment.
9. Utilities expense is recorded as monthly bills are received. No adjusting entries for utilities expense are made at month-end.

Required:

(a) For each of the numbered paragraphs, prepare the necessary adjusting entry (including an explanation). **(08)**

(b) Refer to the balances shown in the unadjusted trial balance at August 31. How many months of expense are included in each of the following account balances? (Remember, Campus Theater adjusts its accounts monthly. Thus, the accounts shown were last adjusted on July 31, current year.) **(09)**
1. Utilities Expense
2. Depreciation Expense
3. Accumulated Depreciation: Building

(c) Assume the theater has been operating profitably all year. Although the August 31 trial balance shows substantial income taxes expense, income taxes payable is a much smaller amount. This relationship is quite normal throughout much of the year. Explain. **(03) (20)**

Q. 3. During the current year, Hitchcock Developers disposed of plant assets in the following transactions.

Feb. 10. Office equipment costing $24,000 was given to a scrap dealer at no charge. At the date of disposal, accumulated depreciation on the office equipment amounted to $21,800.

Apr. 1. Hitchcock sold land and a building to Claypool Associates for $900,000, receiving $100,000 cash and a 5-year, 9 percent note receivable for the remaining balance. Hitchcock's records showed the following amounts:
Land, $50,000; Building, $550,000; Accumulated Depreciation: Building (at the date of disposal), $250,000.

Aug. 15. Hitchcock traded in an old truck for a new one. The old truck had cost $26,000, and its accumulated depreciation amounted to $18,000. The list price of the new truck was $39,000, but Hitchcock received a $10,000 trade-in allowance for the old truck and paid $28,000 in cash. Hitchcock includes trucks in its Vehicles account.

Oct. 1. Hitchcock traded in its old computer system as part of the purchase of a new system. The old system had cost $15,000, and its accumulated depreciation amounted to $11,000. The new computer's list price was $8,000. Hitchcock accepted a trade-in allowance of $500 for the old computer system, paying $1,500 down in cash and issuing a 1-year, 8 percent note payable for the $6,000 balance owed.

Required:

(a) Prepare journal entries to record each of the disposal transactions. Assume that depreciation expense on each asset has been recorded up to the date of disposal. Thus, you need not update the accumulated depreciation figures stated in the problem. **(16)**

(b) Will the gains and losses recorded in part affect the gross profit reported in Hitchcock's income statement? Explain. **(04) (20)**

Q. 4. S, T and Q were partners sharing profits in the proportion of 3:2:1. Their capitals on 31st December 2021, stood at $45,000, $15,000 and $15,500 respectively after adjustments of net profit of $18,000 for the year ending that date and drawings of $6,000, $4,000 and $2,000 respectively. It was discovered that while ascertaining the profits, the accountant did not take into consideration the following matters:
1. Interest @ 6% p.a. on capital as on January 1, 2021.
2. Q was entitled to a salary of $2,000 p.a. of which $490 was unpaid.
3. Till December 31, 2020, partners were sharing profits equally. Land costing $12,000 was purchased on the date of reallocation of profit, but no entry has been passed in that respect for which each partner contributed equal capital.
4. A loan of $5,000 from T as brought-forward from 2020 carrying interest at 8% p.a. was merged into his capital on July 1, 2021. No interest on loan was, however, charged to Profit and Loss Account.

Required:

Work out a Profit and Loss Adjustment Account and show the Journal Entries necessary for readjustments of Capital Accounts and the revised Capital Accounts of partners, assuming that all their dues are to be adjusted in the Capital Accounts. **(20)**

SECTION – II

Q. 5. Listed below are five items that may—or may not—require disclosure in the notes that accompany financial statements.

(a) Mandella Construction Co. uses the percentage-of-completion method to recognize revenue on long-term construction contracts. This is one of two acceptable methods of accounting for such projects. Over the life of the project, both methods produce the same overall results, but the annual results may differ substantially.

(b). One of the most popular artists at Spectacular Comics is leaving the company and going to work for a competitor.

(c). Shortly after the balance sheet date, but before the financial statements are issued, one of Coast Foods's two processing plants was damaged by a tornado. The plant will be out of service for at least three months.

(d). The management of Soft Systems believes that the company has developed systems software that will make Windows ® virtually obsolete. If they are correct, the company's profits could increase by 10-fold or more.

(e). College Property Management (CPM) withheld a $500 security deposit from students who, in violation of their lease, kept a dog in their apartment. The students have sued CPM for this amount in small claims court.

Required: **(20)**

For each case, explain what, if any, disclosure is required under generally accepted accounting principles. Explain your reasoning.

Q. 6. Juarez Inc. had the following inventories on March 1:

Finished Goods $15,000
Work in Process 19,070
Materials 17,000

The work in process account controls three jobs:

	Job 621	Job 622	Job 623
Materials	$2,800	$3,400	$1,800
Labour	2,100	2,700	1,350
Applied Factory-Overhead	1,680	2,160	1,080
Total	**$6,580**	**$8,260**	**$4,230**

The following information pertains to March operations:

(1) Materials purchased and received cost $19,000 at terms n/30.
(2) Materials requisitioned for production cost $21,000. Of this amount, $2,400 was for indirect materials; the difference was distributed: $5,300 to Job 621; $7,400 to Job 622; and $5,900 to Job 623
(3) Materials returned to the storeroom from the factory totaled $600, of which $200 was for indirect materials, the balance from Job 622.
(4) Materials returned to vendors totaled $800.
(5) Payroll of $38,000 was accrued in March.
(6) Of the payroll, direct labor represented 55%; indirect labor, 20%; sales salaries, 15%; and administrative salaries, 10%. The direct labor cost was distributed: $6,420 to Job 621; $8,160 to Job 622; and $6,320 to Job 623.
(7) Factory overhead, other than any previously mentioned, amounted to $9,404.50. Included in this figure were $2,000 for depreciation of factory building and equipment and $250 for expired insurance on the factory. The remaining overhead, $7,154.50, was unpaid at the end of March.
(8) Factory overhead was applied to production at a rate of 80% of the direct labor cost to be charged to the three jobs, based on the labor cost for March.
(9) Jobs 621 and 622 were completed and transferred to the finished goods warehouse,
(10) Both Jobs 621 and 622 were shipped and billed at a gross profit of 40% of the cost of goods sold.
(11) Cash collections from accounts receivable during March were $69,450.

Required:

(a) Prepare job order cost sheets to post beginning inventory data. **(5)**
(b) Journalize the March transactions with current postings to general ledger inventory accounts and to job order cost sheets. **(10)**
(c) Prepare a schedule of inventories on March 31. **(5)** **(20)**

Q. 7. Wheeler Company, a small supplier of computer parts, is currently producing a new computer sensory unit. The company has been producing 150 units per week and factory overhead (all fixed) was estimated to be $1,200 per week. The following is a schedule of the pay rates of three workers assigned to the new component:

Employee	Hourly rate
Clancy, D	$6.00
Lukan, T	8.00
Schott, J	7.00

Customers have been calling in for additional units, but management does not want work to exceed 40 hours per week. To motivate its employees to produce more, the company decided to institute an incentive wage plan. Under the plan, each worker would be paid a base rate per hour, as shown in the following schedule, and a premium of $1 per unit for all units when the total number exceeds 150.

Employee	Base rate
Clancy, D	$3.50
Lukan, T	5.50
Schott, J	4.50

The first week the plan was put into operation, production increased to 165 units. The shop superintendent studied the results and considered the plan too costly. Production had increased 10%, but the labour cost had increased by approximately 23.2%. The superintendent requested permission to redesign the plan to make the labour cost increase proportionate to the productivity increase.

Required:

(a) Calculate the dollar amount of the 23.2% labour cost increase. **(10)**

(b) Give an opinion, supported by figures, as to whether the shop superintendent was correct in assuming that the incentive wage plan was too costly, and discuss other factors to be considered. **(10)** **(20)**

Q. 8. WKZ Inc., with $20,000,000 of par stock outstanding, plans to budget earnings of 6% before income tax, on this stock. The Marketing Department budgets sales at $12,000,000. The budget director approves the sales budget and expenses as follows:

Marketing	....	15% of sales
Administrative	....	5%
Financial	....	1%

Labor is expected to be 50% of the total manufacturing cost; materials issued for the budgeted production will cost $2,500,000; therefore, any savings in manufacturing cost will have to be in factory overhead. Inventories are to be as follows:

	Beginning of Year	End of Year
Finished goods…………	$800,000	$1,000,000
Work in Process…………	100,000	300,000
Materials………………...	500,000	600,000

Required:

Prepare the budgeted cost of goods manufactured and sold statement, showing the budgeted purchases of materials and the adjustments for inventories of materials, work in process, and finished goods. **(20)**

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