



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

Roll Number

ACCOUNTANCY & AUDITING, PAPER-II

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 at least ONE question 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 (AUDITING)

- Q. 2.** Define professional skepticism and explain its key characteristics. Why should auditors act as though there is always a potential conflict of interest between the auditor and the management of the enterprise under audit? **(20)**
- Q. 3.** What are CAATs? What are some audit procedures that can be performed using CAATs? What advantages are derived from using CAATs in the financial statement audit? **(20)**
- Q. 4.** Define and explain the differences among several kinds of employee frauds that might occur at an audit client. **(20)**

SECTION – II (BUSINESS TAXATION)

- Q. 5. a.** Zia inherited certain assets from his father in the year 20x1. The fair market values of the assets on the date of inheritance were as follows:

	Rs.
25,000 shares of a private limited company	25,00,000
21,000 shares of public listed company	4,62,000
Membership card of Pakistan Stock Exchange	20,000,000
Jewelry	15,00,000

During the tax year 20x5, Zia undertook the following transactions:

- 1) He gifted some of the assets to his 20-year old son Ishaq. The detail and fair market values of the assets are as follows:
- | | Rs. |
|--|------------|
| -----10,000 shares of a private limited company | 2,000,000 |
| -----10,000 shares of a public limited company | 1,700,000 |
| ----- Membership card of Pakistan Stock Exchange | 40,000,000 |
- 2) The remaining shares were sold as follows:
- | | Rs. |
|---|-----------|
| ----- shares of a private limited company | 3,000,000 |
| ----- shares of a public limited company | 1,500,000 |

Ishaq sold all the assets transferred through gift in the same year. The assets fetched the following amounts:

	Rs.
-----10,000 shares of a private limited company	2,500,000
-----10,000 shares of a public limited company	1,500,000
----- Membership card of Pakistan Stock Exchange	55,000,000

Required:

- (i) Based upon the above information, compute the taxable income of Zia and Ishaq for the tax year 20x5 **(10)**
- (ii) Give a brief explanation for the items not included in the taxable income. **(10)** **(20)**

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Q. 6. Explain the correct tax treatment in each of the following situations: **(20)**

1. Mr. Hamza made a total contribution of Rs. 150,000 as a donation to the approved institution mentioned in the 13th schedule. His total income from a business during the tax year 2023 is Rs. 1,800,000.
2. Nine years ago, Masood inherited a rare sculpture of Buddha which had a fair market value of Rs. 200,000 on the date of inheritance. In August 2022, the sculpture was sold by him at Rs. 500,000.
3. In June 2022, Imran entered into an agreement for the sale of the residential plot to Ibrahim, who paid an advance of Rs. 500,000. According to the agreement, Ibrahim was required to pay the balance by August 31, 2022. However, instead of paying the balance amount, he terminated the sale agreement. Imran forfeited the advance of Rs. 500,000 in accordance with the terms of the agreement.
4. In September 2022, Adnan sold his personal car, Toyota Corolla, to one of his cousins at the price of Rs. 500,000 whereas the fair market value of the car was Rs. 20,00,000. The car was purchased by him six years ago at of cost of Rs. 10,00,000.
5. Imran was working as a Chief Financial Officer in Dawood Pakistan (Pvt) Limited, which is a wholly owned subsidiary of Dawood AG, Germany. According to the Company's policy, Imran was sent on secondment to Germany on January 1, 2022, for a period of five years. During this period, half of his salary will be credited to his bank account in Pakistan, whereas the remaining portion will be received by him in Germany.
6. Maqsood provided consultancy services to a listed company. In consideration for his services, he received a net amount of Rs. 45,000 after a tax deduction of Rs. 5,000.

SECTION – III (BUSINESS STUDIES AND FINANCE)

Q. 7. Fitch Industries is in the process of choosing the better of two equal-risk, mutually exclusive capital expenditure projects, M and N. The relevant cash flows for each project are shown in the following table. The firm's cost of capital is 9%. **(20)**

	<u>Project M</u>	<u>Project N</u>
Initial investment-Cash Outflow	-\$40,000	-\$40,000
Year (t)	Cash inflows	Cash inflows
1	\$14,000	\$23,000
2	14,000	12,000
3	14,000	10,000
4	14,000	9,000

- i. Calculate each project's payback period.
- ii. Calculate the net present value (NPV) for each project.
- iii. Calculate the internal rate of return (IRR) for each project.
- iv. Summarize the preferences dictated by each measure you calculated, and indicate which project you would recommend. Explain why?

Q. 8. How have globalization and information technology created new opportunities for entrepreneurs? How does an aging population create opportunities for entrepreneurs? Describe current demographic trends that suggest new goods and services for entrepreneurial businesses. **(20)**
