FEDERAL PUBLIC SERVICE COMMISSION
COMPETITIVE EXAMINATION-2026 FOR RECRUITMENT
TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT

Roll Number

ACCOUNTANCY AND 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) First attempt **PART-I (MCQs)** on separate **OMR Answer Sheet** which shall be taken back after **30 minutes.**
(ii) Overwriting/cutting of the options/answers will not be given credit.
(iii) There is **no negative** marking. All MCQs must be attempted.

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. **Management provides detailed explanations for unusually high year-end sales, supported by invoices but not matched by dispatch records. What should the auditor focus on first?**
   (A) Customer creditworthiness (B) Cutoff testing for revenue
   (C) Review of sales incentives policy (D) None of these
2. **A company uses strong automated controls but bypasses them during system updates, relying solely on manual approvals. The greatest risk arises from:**
   (A) Unauthorized transactions (B) Data redundancy (C) Excessive documentation (D) None of these
3. **A taxpayer depreciates machinery at accelerated rates while claiming repairs as revenue expenses. The tax officer should assess whether:**
   (A) The business qualifies for minimum tax (B) Expenses result in double deductions
   (C) Depreciation exceeds threshold limits (D) None of these
4. **A trader claims full input tax despite selling a portion of goods at exempt rates. The auditor's primary adjustment should consider:**
   (A) No adjustment required (B) Increase in output tax rate
   (C) Reduction in withholding tax credit (D) Reversal of input tax on exempt supplies
5. **A firm's WACC decreases despite rising interest rates in the economy. This is most likely due to:**
   (A) Increase in risk-free rate (B) Reduction in business risk premium
   (C) Higher tax shield from debt (D) None of these
6. **Project A has a higher IRR but lower NPV than Project B. The firm should choose B because:**
   (A) IRR assumes inconsistent cash flows (B) NPV reflects actual value creation
   (C) IRR ignores discounting (D) None of these
7. **A company decentralizes operations but keeps financial decisions centralized. The resulting issue is most likely:**
   (A) Loss of strategic vision (B) Delayed operational decisions
   (C) Imbalanced authority-responsibility structure (D) None of these
8. **A client's gross profit margin rises sharply while purchase prices remain unchanged. The most plausible audit concern is:** (A) Capitalization of routine expenses (B) Overstatement of cost of goods sold
   (C) Overstatement of sales tax refunds (D) Understatement of cost of goods sold
9. **A company pays commission to agents but books it as "marketing support." The primary tax risk is:**
   (A) Misclassification of final tax (B) Avoidance of withholding liability
   (C) Incorrect sales tax input claim (D) None of these
10. **A portfolio's beta decreases after diversification, but its standard deviation does not fall significantly. This suggests:**
    (A) Systematic risk eliminated (B) Market risk increased
    (C) Unsystematic risk already minimized (D) None of these
11. **A multinational transitions to an ERP, but legacy modules still process adjustments during peak periods. Audit logs show inconsistent user IDs creating overrides, some from unusual IP ranges. Which risk dominates?**
    (A) Weak automated validation (B) Detection risk
    (C) Fraud risk from unauthorized access (D) None of these
12. **A client with declining cash flows capitalizes development costs aggressively while lenders tighten covenants. Best audit response?**
    (A) Perform sensitivity analysis on assumptions (B) Increase sampling on inventory
    (C) Recalculate depreciation (D) None of these
13. **A consultant spends 160 days in Pakistan but earns foreign income routed through a Pakistani bank. He claims non-resident status. Core issue:**
    (A) Whether foreign income is Pakistan-source (B) Whether physical presence triggers residency
    (C) Whether treaties override local rules (D) None of these

14. **A textile firm records luxury travel for foreign buyers as "entertainment." The officer must assess whether:**
    (A) Section 21 disallows it (B) Depreciation must be recalculated
    (C) Minimum tax applies instead (D) None of these
15. **A manufacturer sells partly to wholesalers and partly to unregistered retailers. CNIC reporting mismatches cause discrepancies. Key concern:**
    (A) Incorrect apportionment of input tax (B) Ineligible zero-rated claim
    (C) Excess customs drawback refund (D) None of these
16. **A firm with volatile EBIT uses high leverage assuming tax deductibility offsets risk. Falling margins expose fixed interest burdens. Error relates to:**
    (A) Pecking Order Theory (B) Overestimating risk tolerance
    (C) Misreading MM tax shield (D) None of these
17. **A long-term project has low early inflows but a huge terminal value. Management selects a low discount rate to approve it. Flaw:**
    (A) Ignoring inflation (B) Understating risk-adjusted discount rate
    (C) Treating cost of capital as payback (D) None of these
18. **Payroll testing reveals identical salaries for sequential employee IDs created within days. HR calls them seasonal workers. Auditor should consider:**
    (A) Labor hour analytics (B) Potential payroll fraud (C) Gratuity confirmation (D) None of these
19. **A construction firm subcontracts work involving the supply of material and specialized installation service, treating the entire payment as subject to Final Tax (FTR) under Section 153. The tax officer's primary task is to assess:**
    (A) Whether the payment for services must be separated from the payment for supply to apply the correct withholding tax rate and determine the final tax status.
    (B) Whether the subcontractor is eligible for a tax credit under Section 62.
    (C) Whether the construction business is eligible for the minimum tax on turnover under Section 113.
    (D) None of these
20. **Management changes costing assumptions mid-year without documentation, affecting product-level margins unevenly. Which assertion is MOST at risk?**
    (A) Rights & obligations (B) Completeness (C) Both (A) & (B) (D) Accuracy / valuation

PART – II

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.**

SECTION – I (AUDITING)

Q. 2. Explain how the concept of true and fair view guides an auditor when management adopts accounting estimates that are technically permissible under IFRS but appear overly optimistic in light of industry conditions. Support your answer with examples and references to International Federation of Accountants (IFAC) guidelines. **(20)**

Q. 3. "Audit risk is not merely a computation; it is a judgment." **(20)**
Discuss this statement in the context of inherent risk, control risk, and detection risk, with particular reference to computerized (EDP) environments.

Q. 4. Provide a critical distinction between the following audit concepts: **(20)**
a. Reasonable assurance and absolute assurance
b. Tests of control and substantive procedures
c. Misstatement and material misstatement
d. Management's responsibility and auditor's responsibility under the Companies Ordinance 1984

SECTION – II (BUSINESS TAXATION)

Q. 5. Ms. Sana, an individual taxpayer, has provided the following data for the Tax Year 2024. Analyze her income components and determine her net tax position under the Income Tax Ordinance, 2001.

Particulars	PKR
A. Salary income (gross)	1,800,000
B. House rent allowance (40% of basic salary)	
C. Net Income from property	450,000
D. Capital gain on listed securities (held for 14 months)	120,000
E. Profit on debt (from a bank deposit)	90,000
F. Donation to an approved NPO (eligible for tax credit)	60,000
G. Business loss carried forward from prior year	80,000
H. Advance tax paid	35,000
I. Tax already withheld on profit on debt	10,000

(a) Analytical Tax Treatment and Regime Justification. Critically analyse the tax regime (NTR, FTR, or SBI) applicable to Capital Gain (D) and Profit on Debt (E). Justify the inclusion of Income from Property (C) in the Normal Tax Regime (NTR) and explain the policy objective behind providing a tax credit for Donation (F). **(10)**

(b) Computation and Final Tax Position

I. Compute Ms. Sana's Total Taxable Income under the NTR. **(10)**

II. Compute her Final Tax Liability (including tax on FTR/SBI items, if any).

III. Determine the Net Tax Payable/Refundable amount.

Show all workings clearly, referencing the applicable tax status for each major component.

Q. 6. Using the Income Tax Ordinance, explain the income tax implications of the following independent scenarios: **(20)**

a. A Pakistani resident receives consultancy fees from foreign clients, deposited in a foreign bank account.
b. A company pays "marketing facilitation charges" to agents but does not withhold tax.
c. A taxpayer records a gain on disposal of machinery but treats it as capital gain instead of business income.
d. An individual receives unexplained credits in his bank account and claims they represent informal loans.
e. An AOP claims tax credit on investments despite negative taxable income.

For each case, classify income, apply relevant rules, and provide the correct tax treatment.

SECTION – III (BUSINESS STUDIES AND FINANCE)

Q. 7. "Financial markets are the backbone of a modern economy." Discuss this statement in the context of Pakistan with reference to the money market, capital market, and financial institutions. **(20)**

Q. 8. **(a)** A firm is analysing the following mutually exclusive projects. The cost of capital is 12%, but management requires a risk-adjusted discount rate of 18% for volatile projects. **(10)**

Year	Project X	Project Y
0	–600,000	–600,000
1	160,000	200,000
2	180,000	150,000
3	220,000	170,000
4	350,000	300,000

Required:

i. Compute NPV of both projects at 18%.

ii. Recommend which project to choose under:

- Value maximization
- Risk minimization
- Cash flow stability

Explain clearly with reference to financial management principles.

(b) Critically evaluate the limitations of IRR, Payback Period, and Accounting Rate of Return as capital budgeting tools. **(10)**

Explain how NPV addresses these limitations and why it is considered the superior method for investment decisions.

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