



ICM

SEPTEMBER 2015

AUDITING & TAXATION

Instructions to candidates:

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- b) Answer ALL of Part A, any THREE questions from Part B and any TWO questions from Part C
- c) Part A carries 10% of the marks, Part B carries 60% of the marks and Part C carries 30% of the marks. Marks for each question are shown in []
- d) Non-programmable calculators are permitted in this examination

PART A

- 1. Explain which **STAKEHOLDERS** are likely to rely on audited financial statements. [10]

PART B

- 2.
 - a) Explain the **DUTIES** of an auditor. [10]
 - b) Explain the term **true and fair view**. [10]
- 3. Explain briefly how you would **verify** the following items:
 - a) Trade debtors
 - b) Research and development expenditure
 - c) Bank overdrafts
 - d) Long-term liabilities [5 each]
- 4.
 - a) Explain the importance of reviewing all accounting policies adopted by a company being audited. [10]
 - b) List the normal **CONTENTS** of an auditor's report. [10]
- 5.
 - a) Outline the **THREE** usual audit visits. [10]
 - b) Explain the audit planning process. [10]

PART C

- 6. Write short notes on the **THREE** of the following:
 - a) VAT
 - b) Tax avoidance
 - c) Capital gains tax
 - d) PAYE [5 each]

7. The following information applies to any personal tax calculations:

TAX RATES

20% on the first £30,000 of taxable income

40% on the next £70,000 of taxable income

50% on any further taxable income

PERSONAL ALLOWANCES

Single person £9,000

Additional allowance of £5,000 can be claimed by one of the partners in a marriage

PENSION CONTRIBUTIONS

Up to the age of 49 a maximum of 15% of gross pay can be paid tax free into a qualifying pension fund

From age 50 a maximum of 20% can be paid in

Axel, aged 39, is a single person who earns £76,000 per year. Axel has paid 6% of his gross pay into a qualifying pension fund. Axel has also paid £450 in respect of professional subscriptions. Axel has also paid £800 in respect of expenses which are allowable against tax.

Brita, aged 58, is married (and claims the additional allowance) and earns £84,000. Brita has paid 10% of her gross pay into a qualifying pension.

TASKS

Calculate the taxable pay and the total tax payable for EACH of the following:

a) Axel

[8]

b) Brita

[7]

8. The following is the summarised internal profit and loss account of HCP Ltd after its first year of trading:

	£
Sales	1,700,000
Cost of sales	(810,000)
Distribution costs	(360,000)
Administration expenses	(220,000)
Depreciation of equipment	(35,000) *
Depreciation of IT equipment	(45,000) *

*Already included in either distribution costs or administration expenses above.

Other information:

Original cost of equipment	170,000
Original cost of IT equipment	160,000

Corporation tax (i.e. company taxation) is charged at 19% of the taxable profit.

Initial writing down allowances are:

- 25% as regards equipment
- 50% as regards IT equipment

Included in the distribution costs is £9,000 which is deemed non-allowable.

TASK

Calculate HCP Ltd's total taxable profit AND the total tax charge for the year.

[15]