



ICM

DECEMBER 2016

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. Discuss the various STAKEHOLDERS who need to rely on audited financial statements. [10]

PART B

2. a) Outline the THREE types of visits by the external audit team. [10]
b) Explain the DUTIES of the external audit team. [10]
3. Explain briefly how you would **verify** the following items:
a) Receivables (debtors)
b) Payables (creditors)
c) Premises
d) Long-term liabilities [5 each]
4. a) Explain the reasons for, and the major contents of a letter of engagement. [10]
b) Explain the importance of the use of internal control systems. [10]
5. Explain the following:
a) The audit of the payroll. [6]
b) Action to be taken on discovery by an auditor of potential errors or fraud. [8]
c) The role of an internal auditor. [6]

PART C

6. Write short notes on THREE of the following:
a) Tax evasion
b) VAT
c) Tax bands
d) The basic principles of taxation [5 each]

continued overleaf

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.

Sophie, aged 44, is a single person who earns £108,000 per year. Sophie has paid 8% of her gross pay into a qualifying pension fund. Sophie has also paid £800 in respect of professional subscriptions. Sophie has also paid £600 in respect of expenses which are allowable against tax.

Francois, aged 59, is married (and claims the additional allowance) and earns £125,000. Francois has paid 20% of his gross pay into a qualifying pension.

TASKS

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

a) Sophie

[9]

b) Francois

[6]

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

	£
Sales	1,800,000
Cost of sales	(950,000)
Distribution costs	(260,000)
Administration expenses	(180,000)
Depreciation of equipment	(25,000)*
Depreciation of IT equipment	(40,000)*

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

Other information:

Original cost of equipment	180,000
Original cost of IT equipment	200,000

Corporation tax (i.e. company taxation) is charged at 17% of the taxable profit.

Initial writing down allowances are:

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

Included in the distribution costs is £16,000 which is deemed non-allowable.

TASK

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

[15]