



# ICM

JUNE 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. Outline the differences between internal control and internal check. [10]

**PART B**

2. a) Explain the normal stages of an audit. [12]  
b) Outline the FOUR fundamental accounting principles adhered to in the preparation of the final accounts. [8]
3. Explain briefly how you would **verify** the following items:  
a) Accounts receivables (debtors)  
b) Stocks and WIP  
c) Accounts payable (creditors)  
d) Long-term loans [5 each]
4. a) Outline the principal CONTENTS of an auditor's report. [10]  
b) Explain the principal factors that an auditor needs to consider when designing a sample in respect of audit testing. [10]
5. Explain the following terms:  
a) Corporate governance  
b) Letter of engagement  
c) An auditor's rights  
d) 'True and fair' [5 each]

**PART C**

6. Write short notes on THREE of the following:  
a) PAYE  
b) Allowable expenses  
c) Capital gains tax (CGT)  
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.

Filiz, aged 45, is a single person who earns £82,000 per year. Filiz has paid 10% of her gross pay into a qualifying pension fund. Filiz has also paid £700 in respect of professional subscriptions. Filiz has also paid £900 in respect of expenses which are allowable against tax.

Abdul, aged 58, is married (and claims the additional allowance) and earns £110,000. Abdul 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) Filiz

[9]

b) Abdul

[6]

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

	£
Sales	1,700,000
Cost of sales	(800,000)
Distribution costs	(300,000)
Administration expenses	(250,000)
Depreciation of equipment	(30,000)*
Depreciation of IT equipment	(35,000)*

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

**OTHER INFORMATION:**

Original cost of equipment 180,000

Original cost of IT equipment 160,000

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 £19,000 which is deemed non-allowable.

**TASK**

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

[15]