



ICM

MARCH 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 main contents of an auditor's report. [10]

PART B

2. a) Explain the rights and duties of an auditor. [10]
b) Explain the term **audit sampling**. [10]
3. Explain briefly how you would **verify** the following items:
a) Share capital and reserves
b) Bank balances
c) Vehicles
d) Trade payables (trade creditors) [5 each]
4. a) Explain the principal reasons for the collection and production of audit working papers. [10]
b) Discuss the effect of subsequent events (post balance sheet events) on the financial statements and on the auditor's report. [10]
5. Explain the following terms:
a) Letter of engagement
b) Internal control
c) Inherent risk
d) Corporate governance [5 each]

PART C

6. Write short notes on THREE of the following:
a) PAYE
b) Personal allowances
c) Capital gains tax (CGT)
d) Tax evasion [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

Lyra, aged 46, is a single person who earns £320,000 per year. Lyra has paid 10% of her gross pay into a qualifying pension fund. Lyra has paid £510 in respect of professional subscriptions. Lyra has also paid £2,100 in respect of expenses which are allowable against tax.

Hamid, aged 56, is married (and claims the additional allowance) and earns £130,000. Hamid 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) Lyra

[9]

b) Hamid

[6]

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

	£
Sales	1,600,000
Cost of sales	(800,000)
Distribution costs	(300,000)
Administration expenses	(180,000)
Depreciation of equipment	(25,000)*
Depreciation of IT equipment	(45,000)*

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

Other information:

Original cost of equipment 150,000

Original cost of IT equipment 160,000

Corporation tax (i.e. company taxation) is charged at 20% of the taxable profit.

Initial writing down allowances are:

25% as regards equipment

50% as regards IT equipment

Included in the distribution costs is £22,000 which is deemed non-allowable.

TASK

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

[15]