



ICM

MARCH 2017

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 CONTENTS of an auditor's report to the shareholders of a company. [10]

PART B

2.
 - a) Explain the accounting records that an auditor would expect to enable him to carry out an audit. [10]
 - b) Outline the TWO main reasons that an auditor can give if they resign. [6]
 - c) List FOUR of the five recognised Supervisory Bodies. [4]
3. Explain briefly how you would verify the following items:
 - a) Development expenditure
 - b) Inventory and Work in Progress
 - c) Accruals
 - d) Bank overdrafts [5 each]
4.
 - a) As regards fraud and other irregularities, auditors are primarily concerned with two types of fraud – misappropriation of assets and/or misstatements in financial reporting. Give and briefly explain ONE example of each. [10]
 - b) Explain the functions of an ICQ in the audit planning process. [10]
5.
 - a) Outline the contents of a letter of engagement. [10]
 - b) Discuss the expression '**true and fair**'. [10]

PART C

6. Write short notes on the UK tax treatment of THREE of the following:
 - a) PAYE
 - b) Personal allowances
 - 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.

Miranda, aged 43, is a single person who earns £120,000 per year. Miranda has paid 5% of her gross pay into a qualifying pension fund. Miranda has also paid £500 in respect of professional subscriptions.

Miranda has also paid £1,000 in respect of expenses which are allowable against tax.

Kelvin, aged 58, is married (and claims the additional allowance) and earns £160,000. Kelvin 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) Miranda

[9]

b) Kelvin

[6]

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

	£
Sales	1,600,000
Cost of sales	(900,000)
Distribution costs	(300,000)
Administration expenses	(160,000)
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	140,000
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 £20,000 which is deemed non-allowable.

TASK

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

[15]