

SECTION A

QNO: 04

Ans

Definition of Auditing: Auditing is an impartial and methodological examination of the financial statement of any entity to give an opinion on true and fair view. Financial statements includes Balance sheet, Income statement and Cashflow Statement. The basic objective of auditing is to find out and report the degree of accuracy and reliability of financial statements of company. It also ensure that entity is maintaining the books of account documents and vouchers or not.

Definition of Investigation: Investigation implies that an organised, detailed and critical examination of the books of accounts and transaction record (both past and present) of an entity, conducted for a specific purpose or to reveal truth or to establish a fact with the help of evidence.

Key differences between Auditing and Investigation

1. The process of inspecting the financial statement of an entity and then giving an independent opinion on it is known as Auditing.

A careful and detailed study of books of accounts to discover truth is known as Investigation.

2. Auditing is a careful ^{and} detailed study of books of accounts.

Investigation is to discover the truth.

3. The evidence obtained from audit process are persuasive. On the other hand, the nature of evidence obtained from investigation are conclusive.

4. Auditing is conducted every year, but Investigation is conducted as per needs of organization.

5. Auditing is performed by the auditor whereas investigation is performed by experienced/expert team.

6. Auditing is compulsory for every company but the investigation is discretionary.

7. Auditing verifies the true and fair view provided statement by investigation is performed to establish fact.

8. Auditor is appointed by shareholders of company. But investigator is appointed by owner/

management or one-third party.

9- The scope of auditing in general which attempt to give an opinion on financial statements of the company. On the other hand, scope of investigation is limited as it attempts to answer only those questions that are asked in Engagement letter.

Conclusion

Auditing is general process which is common for all the organisation, it is performed annually. It can be internal audit and external audit. On the other hand, Investigation is quite rare, as it is not commonly performed in any organization. Audit report is submitted to shareholders, creditors, government, supplier and management etc. whereas investigation report is handed over to party who organized investigation.

(SECTION C)

Q No: 08

Ans

i) Pay back period

Project A

Year	CashFlows	Cummulative CashFlow	Payback Period
0	(\$ 150,000)	(\$ 150,000)	
1	\$ 45,000	(\$ 105,000)	
2	\$ 45,000	(\$ 60,000)	
3	\$ 45,000	(\$ 15,000)	
4	\$ 45,000	\$ 30,000	3 year 8 months
5	\$ 45,000	\$ 75,000	
6	\$ 45,000	\$ 120,000	

$$\text{Working} = 3 + \frac{30,000}{45,000} = 0.6667$$

Year Month

$$3 + 0.667 \times 12$$

3 years 8 months.

Project B

Year	CashFlows	Cummulative Cash	Payback Per
0	(₹150,000)	(₹150,000)	
1	₹75,000	(₹75,000)	
2	₹60,000	(₹15,000)	
3	₹30,000	₹15,000	3 years + $\frac{15,000}{30,000}$
4	₹30,000	₹45,000	
5	₹30,000	₹75,000	
6	₹30,000	₹105,000	

Working $3 \text{ years} + \frac{15,000}{30,000}$

$3 \text{ years} + 0.2 \times 12$

3 years \Rightarrow 2 months and 12 days

ii) Net Present Value @ discount rate 10%

Year	CashFlows	Discounted CashFlows
0	(₹150,000)	— (₹150,000)
1	$45,000 / (1+0.1)^1 = 45,000 / (1+0.1)^1 =$	40,909.09
2	$45,000 = 45,000 / (1+0.1)^2 =$	37,190.00
3	$45,000 = 45,000 / (1+0.1)^3 =$	33,809.16
4	$45,000 = 45,000 / (1+0.1)^4 =$	30,735.6
5	$45,000 = 45,000 / (1+0.1)^5 =$	27,941.45
6	$45,000 = 45,000 / (1+0.1)^6 =$	25,401.32
		<u>₹1,95,986.7</u>

$$\text{Net Present Value} = \overset{\text{Sum of}}{\text{Discounted Cashflows}} - \text{Initial Investment}$$

$$= 195986.7 - 150,000$$

$$\text{NPV} = 45986.7$$

Project B

Year	Cashflows	Discounted Cashflows.
0	₹(150,000) = 150,000	(150,000)
1	₹75,000 = 75,000	$75,000 / (1+0.1)^1 = 68181.81$
2	₹60,000 = 60,000	$60,000 / (1+0.1)^2 = 49586.77$
3	₹30,000 = 30,000	$30,000 / (1+0.1)^3 = 22539.44$
4	₹30,000 = 30,000	$30,000 / (1+0.1)^4 = 20490.40$
5	₹30,000 = 30,000	$30,000 / (1+0.1)^5 = 18627.63$
6	₹30,000 = 30,000	$30,000 / (1+0.1)^6 = 16934.21$
		196360.26

$$\text{Net Present Value} = \overset{\text{Sum of}}{\text{Discounted Cashflows}} - \text{Initial Investment}$$

$$= 196360.26 - 150,000$$

$$\text{NPV} = 46360.26 \text{ An}$$

iii) Net Present Value @ 9% discount rate

Project A

Year	Cashflows	Discounted Cashflows.
0	₹(150,000)	(150,000)
1	₹45,000 = 45,000	$45,000 / (1+0.09)^1 = 41284.40$
2	₹45,000 = 45,000	$45,000 / (1+0.09)^2 = 37875.59$
3	₹45,000 = 45,000	$45,000 / (1+0.09)^3 = 34748.25$
4	₹45,000 = 45,000	$45,000 / (1+0.09)^4 = 31879.1345$
5	₹45,000 = 45,000	$45,000 / (1+0.09)^5 = 29246.91$
6	₹45,000 = 45,000	$45,000 / (1+0.09)^6 = 26832.02$

$$\begin{aligned} \text{Net Present Value} &= \text{Sum of Discounted Cashflow} - \text{Initial Investment} \\ &= 201866.30 - 150,000 \\ \text{NPV} &= 51866.3071 \end{aligned}$$

Project B

Year	Cashflow	Discounted Cashflow
0	₹ (150,000)	(150,000)
1	₹ 75,000	$= 75000 / (1+0.09)^1 = 68807.33$
2	₹ 60,000	$= 60000 / (1+0.09)^2 = 50500.79$
3	₹ 30,000	$= 30000 / (1+0.09)^3 = 23169.50$
4	₹ 30,000	$= 30000 / (1+0.09)^4 = 21252.75$
5	₹ 30,000	$= 30000 / (1+0.09)^5 = 19497.94$
6	₹ 30,000	$= 30000 / (1+0.09)^6 = 17808.01$
		201112.32

$$\begin{aligned} \text{Net Present Value} &= \text{Sum of Discounted Cashflow} - \text{Initial Investment} \\ &= 201112.32 - 150,000 \\ \text{NPV} &= 51112.32 \end{aligned}$$

iv) Internal Rate of Return

The IRR of Project A is 19.906%.

~~Year~~ ~~Cost~~

The IRR of Project B is 22.712%.

v) According to the above capital budgeting techniques Project B is slightly better on the basis of net present value at the discount rate of 10% but Project A is better at the discount rate of 9%.

QNO: 06

Ans:

i) Business

The term business refers to an organization or entity engaged in commercial, industrial, professional activities. The purpose of business is to organize some sort of economic production of goods or services. Business can be profit entities or non-profit organizations fulfilling charitable mission or furthering a social cause. Business types are sole proprietorship, partnership, public limited company and cooperatives. Such as Samsung, Apple, Walmart and IKEA are well-known business. Business terms mean operations to produce goods, provides services, commercialization and industrialization. Businessmen earn revenue by producing goods such as Apple make iPhone, Macbook and iPad and some business earn revenue by providing services such as Uber and Careem are providing taxi services to consumers.

ii) Non-Profit Organizations

It's a type of organization, which work not to earn profit but for social welfare of society to provide public benefits. Non-profit organization is exempted from tax because donations made to non-profit organization are typically tax-deductible to individuals. Basically, this entity designed to better its community by facilitating donations and grants into program. To become a non-profit organization, entity must serve the public good meet filing requirements, be established as a 501(c)(3) or similar type organization.

Non-profit organizations often have the most passionate individuals and diversified donation streams. Nonprofit also often have limited resources for hiring and regulatory requirements.

iii) Resident Person

A resident person is the who resides at specific place for longer period of time.

Like in west, person can become resident after living 5 years over there to become get permanent residency of the nation world.

ii) P

A public
shows con
economic
publicly
this ty
the gov
funds, c
In some
compon
of a
comp
valu
the
co
ev
w
v

iv) Public Company

A public company is a business whose shares can be freely traded on a stock exchange or over-the-counter. It is known as a publicly traded company. The stock of this type of company belongs to members of the general public as well as pension funds, and their other large investing organizations.

In most cases, the stock of a public company belongs to many investors, while that of a private company are in the hands of comparatively few shareholders. The value of a public company is determined through daily trading. A public company can have contact with a private company which is not listed on a stock exchange and whose shares are only traded/exchanged via a private arrangement with the stockholders.

v) Agricultural Income

Agricultural Income is the amount of money earned from an agricultural business. It typically gets reported separately from other types of income for tax purposes. This income is the revenue earned from a farming business, which often gets reported.

Agriculture income include several other sources of revenue such crop insurance proceeds or dividends from a farming cooperative.

This kind of income accounted for on either cash or accrual basis. Under the cash accounting method, Agricultural income as revenue received within a calendar year.

vi) Banking Company

A Bank is an entity which deals in sell and buying of money. A bank receives money in deposits of accounts of its customers on certain conditions in different type of deposit accounts. The main function of

Banking company accepting money as deposit and lending money as loan to charge interest and pay return on deposit of customers which are credited in bank's saving account.

Bank provides loans to individuals, industries, retail business, Agriculture, and education loan.

Another function of bank which is non-financial based functions like issuing Letter of credit, letter of bank guarantees, safe custody vaults, locker facilities, issuing of credit worthy certificates.

and

SECTION - B (Business Taxation)

QNO: 05

Ans

Basic Salary	Rs 300,000
Dearness allowance	25,000
Computer Allowance	30,000
Gas and electricity Allowance	5,000
Salary Profit on of shares of Pvt Company	12,000
Profit on sale of shares of listed public comp.	<u>9,000</u>
Taxable Income of Abdullah	381,000