Dua Fatima 65/80

Accountancy and Auditing Paper II

Section-A (Auditing) 15

Q3 Persons not qualified for appointment as auditor under the Companies Ordinance 1984 7

Under Section 254 A person shall not be qualified for appointment as an auditor:-

in a public or private company which is subsidiary of a public company unless he is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance 1961.

in a private company having paid up capital of three million rupees or more unless he is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance 1961.

a a person who is, or at any time during the preceding three years was, a director, other officer or employee of the company. 8

b a person who is a partner of, or in the employment of, a director, officer or employee of the company;

c the spouse of a director of the company

d a person who is indebted to the company.

e a body corporate

f a person or his spouse or minor children, or in case of a firm, all partners of such firm who holds any shares of an audit client or any of its associated companies

need to explain a detail , why as well..

b) An auditor cannot provide an absolute assurance as a result of audit due to the following reasons:

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Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore an audit conducted in accordance with generally accepted auditing standards may not detect a material misstatement

i, Inherent Limitations of an audit

Inherent limitations of an audit arise due to the following reasons:

⇒ Audit evidence is persuasive rather than conclusive

⇒ Inherent limitations of an accounting system:

Use of judgment in establishing estimates for reporting purposes.

Human error

Absence of clear instructions on accounting treatment

Room for more than one possible interpretations of the requirements.

Degree of uncertainty and complexity of the transactions involved.

ii, Use of sampling techniques

In sampling, auditor applies audit procedures only to a small portion of the whole population, instead of checking each and every element of the population.

iii) Cost-benefit limitations

1. Conducting audit engagement requires resources which auditor might not have.
2. In auditor's judgment cost of gaining additional assurance will be higher than the benefit gained and thus not obtained.

iv) Other Limitations

1. Practical/or legal Limitations to obtain sufficient evidence
2. Limitations applied or forced by the management
3. Limitations as agreed upon in engagement letter.
4. Auditor does not have investigative rights
5. Situation that may cause an entity to stop being a going concern.

very good

Section -B (Business Taxation)

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Q.5. Taxable income of Mr. Abdullah

Basic Salary		300,000
Dearness Allowance		25000
Computer Allowance		30000
medical facility	exempted	10000
Gas and electricity allowance		5000
Profit on Sale of shares of private limited company		12,000
Profit on sale of shares of listed public company	not charged to tax	9000
Leave fare assistance		45000
Taxable Income		436,000

Q.6 **Definitions:-**

1, Business :- Business is an economic activity that involves the exchange, purchase, sale or production of goods and services with a motive to earn profits and satisfy the needs of customers. Business can be both profit or non-profit organization that function to gain profits or achieve a social cause respectively.

ii, Non-profit organization

A non-profit organization exists to serve a community or advance a social cause. These organizations are usually tax-exempt and usually provide a public benefit. Funding received by non-profit organizations are usually tax-deductable to individuals and businesses that make them and the non-profit itself pays no tax on the funds and donations it receives.

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iii, Resident person

A person is resident in Pakistan for income tax purposes in case where the individual is present in Pakistan for a period or periods aggregating to 183 days or more in a tax year (1 July through 30 June) irrespective of their nationality.

iv, Public company

A public company is defined

as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities to the general public through stock market.

A public company is defined as a company which is not a private company in the Companies Ordinance 1984.

v) Agricultural Income

According to the Income Tax Ordinance 2001, agricultural income refers to:

Any rent or revenue derived by a person from land situated in Pakistan used for agriculture purposes.

vi) Banking Company

Banking Company means a banking company as defined in the Banking Companies Ordinance, 1962 and includes any body corporate which transacts the business of banking in Pakistan.

Section-C (Business Studies and Finance)

Where is formulae and working of PB?

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Q8. Pay back period for each project:

i) in $(000)

Initial investment = $150,000

Project A 45 + 45 + 45 + 15

1 2 3 4 months

Payback period for project A = 3 years 4 months

Project B in $ (000)

Initial investment = $150,000

75 + 60 + 15

1 2 6 months

Payback period for project B = 2 years 6 months.

ii) Project A → NPV

$\boxed{\text{At } 10\%}$

$$NPV = 45000 \times \frac{1-(1+10\%)^{-6}}{10\%} - 150{,}000$$

NPV = $45 986.73 Ans

Project B

$\boxed{\text{At } 10\%}$

PV

year 1 $= \frac{75000}{(1.10)^1} = 681812$

year 2 $= \frac{60,000}{(1.10)^2} = 4958677$

year 3 $= \frac{30,000}{(1.10)^3} = 22539.4$

year 4 $= \frac{30,000}{(1.10)^4} = 204904$

Year 5 $= \frac{30,000}{(1.10)^5} = 1862763$

Year 6 $= \frac{30,000}{(1.10)^6} = 16934.2$

196360.2179

NPV $= 196360.2179 - 150,000$

$= \$46360.2179$ Ans

Project A

NPV → At 9%

NPV $= 45000 \times \frac{1-(1+0.09)^{-6}}{0.09} - 150,000$

NPV $= \$51866.34$ Ans

Project B

			PV
year 1 =	$\frac{75000}{(1.09)^1}$	=	68807.34
year 2 =	$\frac{60,000}{(1.09)^2}$	=	50500.8
year 3 =	$\frac{30,000}{(1.09)^3}$	=	23165.5
year 4 =	$\frac{30,000}{(1.09)^4}$	=	21252.75
year 5 =	$\frac{30,000}{(1.09)^5}$	=	19497.94
year 6 =	$\frac{30,000}{(1.09)^6}$	=	17888.01

NPV = 201112.35 − 150,000
= \$5112.34981 Ans

iv) IRR

Project A

$$0 = NPV \sum_{t=6} \frac{(45000 \times 6)}{(1+IRR)^6} - 150,000$$

$$IRR = 45000 \frac{(1+0.2)^{-6}}{0.2} - 150,000$$

$$NPV = -352.04$$

IRR = ~20% Ans//

Project B

$$0 = NPV \sum_{t=6} \frac{CF_{total}}{(1+IRR)^6} - 150\,000$$

IRR = ~25% Ans//

v) Ranking Projects by each technique

	Project A	Project B
1. Payback	3 years 4 months	2 years 6 months
2. NPV	45986.7	46360
3. IRR	20%	25%

Based on the above Project B is preferable