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PART - II
Section - A (Auditing)

Q3

a) Under the companies Ordinance 1984, the following persons are not qualified for appointment as an auditor of a company:

1) Any officer or employee of the company
2) Any partner or employee of an officer or employee of the company.
3 Any person who is a partner of the company's officers or employee.
4. Any body corporate in which an officer or employee of the company has a substantial interest
5. A person who is a director, partner or officer of the company or who is in employment of the company
6. A person who is indebted to the company for an amount exceeding one thousand rupees.
7. A person who is disqualified by the Securities and Exchange Commission of Pakistan.
8. A person whose spous works at the company which is audited.
9. A person who is wanted for a crime he conducted
10. Any person who is not mentally sane and deserves treatment.

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Introduction

B) An auditor cannot provide absolute assurance as a result of an audit due to several reasons. When an auditor conducts an audit of the companies financial statement there are many factors which limits him to give an absolute assurance or give guarantee on the results of an audit. Some of the reasons are listed below.

1) Sampling

Auditor typically use sampling methods to examine a portion of a company's transactions and records. As a result, ~~(all test)~~ there is always a chance that the sample may not be fully representative of the entire population of transactions, which could lead to potential errors or irregularities being undetected.

2) Estimates and Judgements

Financial statements often involve estimates and judgements, such as the assessment of the useful life of assets or the estimation of contingent liabilities. These are inherently subjective and can be challenging to verify with absolute certainty.

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3) Fraud

Despite the auditor's efforts, there is no guarantee that all instances of fraud or international misstatements will be uncovered during an audit. Individuals within a company may intentionally conceal fraudulent activities, making them difficult to detect.

4) Complexity of Transactions

In a complex business environment, transactions can be intricate and involve various parties. This complexity can make it difficult for auditors to completely understand verify every transaction with absolute certainty.

5) Reliance on Representations

Auditors often rely on representations and documents provided by the company being audited. If these representations are inaccurate or intentionally misleading, the audit conclusions could be compromised.

Conclusion

Due to these factors, an auditor can only provide reasonable assurance that the financial statements are free from material misstatements. Absolute assurance is unattainable due to the inherent limitations of the audit process.

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Section - B

Q5) Taxable Income of Mr. Abdullah

Basic Salary	300,000
Dearness allowance	25000
Computer allowance	30,000
Medical allowance 10,000	
Less 10% of Basic Salary (30,000)	0
Gas and electricity allowance	5000
Salary of watch man	36000
Profit on sale of shares	12000
Leave fair assistance	45000
Employer contribution to provident fund	0
profit on sale of share (public limited)	9000
Total	462,000

This income is not taxable as income upto 600,000 annually is exempted and tax rate is zero percent.

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Q6) i) Business

A business is an entity or an organization that engages in activities with the primary aim of making a profit. Businesses can take various forms, such as sole proprietorships, partnerships, corporations, or limited liability companies. They ~~make~~ may operate in diverse sectors, including manufacturing, services, technology, or retail. Business activities involve the production or exchange of goods and services to meet the needs of customers.

(ii) Non-Profit Organization:

Non-profit Organization (NPO) is an entity that operates for purposes other than making a profit. Instead of disturbing profits to owners or shareholders, any surplus funds generated by NPOs are reinvested into the organization's missions or objectives. NPOs can include charities, educational institutions, religious organizations, and community service groups. They play a crucial role in addressing social issues and providing services to communities.

(iii) Resident Person

A resident person is an individual or entity that is considered a legal resident of a particular country for tax or regulatory purposes. The

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determination of residency often involves factors such as the amount of time spent in the country, the location of the individual's primary residence, and other criteria established by tax laws. Residency status can impact tax obligations, eligibility for certain benefits, and complian with regulatory requirements.

iv) Public Company

A public company is a corporation whose ownership is distributed among the general public through the sale of shares on a stock exchange. Public companies are subject to stringent regulatory and reporting requirements to ensure transparency and protect the interests of shareholders. Shareholders can buy and sell shares of a public company on the stock market, and companies financial performance is closely monitored.

v) (~~Public Company~~) Agriculture Income

(~~A public company is a corporation whose ownership is distributed among~~) It is the income generated from agricultural activities. This includes revenue obtained from cultivating land, raising crops, livestock farming and other agricultural practices. In many jurisdictions, agricultural income may be subject to specific tax regulations that differ from those applicable to other forms of income.

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vi) Banking Company

A banking company is a financial institution that provides a range of financial services including accepting deposits, offering loans, facilitating transactions and provide various banking products. Banking companies play a crucial role in the economy by channelling funds between savers and borrowers.

Section C

Q7

a) $$WACC = \frac{E}{V} \times r_e + \frac{D}{V} \times r_d + \frac{P}{V} \times r_{ps}$$

D = 400 million (debt)
P = 100 (million preferred stock)
E = V - (D + P) = 800 - (400 + 100) = 300 million (equity)
r_d = 8% (cost of debt)
r_{ps} = 9% (cost of preferred stock)
r_e = 12% (cost of common stock)

$$WACC = \frac{300}{800} \times 12\% + \frac{400}{800} \times 8\% + \frac{100}{800} \times 9\%$$

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$$WACC = 0.375 \times 12\% + 0.5 \times 8\% + 0.125 \times 9\%$$

$$WACC = 4.5\% + 4\% + 1.125\%$$

$$WACC = 9.625\%$$

b) **Financial Markets and Their Types**

Financial markets refer to platforms or systems where buyers and sellers trade financial instruments such as stock, bonds, currencies and derivatives. These markets facilitate the flow of capital between investors and borrow. There are two main types of financial markets.

1) **Primary Market**

In the primary market, newly issued securities are bought and sold for the first time. Companies raise capital by issuing new stock or bonds to investors. The Primary market provides a way for businesses to obtain funding directly from investors

2) **Secondary Market**

The secondary market involves the trading of existing financial securities between investors, without the involvement of the issuing company. Investors buy and sell previously issued stocks, bonds and other financial instruments on stock exchanges or over the counter market.

Financial Markets can be categorized into different segments.

1) Stock Market

Where the equities (stocks) are bought and sold of a company.

2) Bond Market

Where debt securities, such as bonds are traded

3) Foreign Exchange Market (forex)

Where currencies are bought and sold

4) Commodity Market

Where commodities like gold, oil and agricultural products are traded

5) Derivative Market

Where financial instruments derived from underlying assets are traded, including options and futures.