Name: Dua Fatima

Accountancy and Auditing

Q.2 Audit assertions related to Class of transactions (revenue and expenses)

The main audit assertains related to class of transactions are:

i) Occurrence - the transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity

ii) Accuracy - the assertion is that all the full amounts of all transactions were recorded without error.

iii) Completeness - all transactions and events that should have been recorded have been recorded, and all related disclosures have been included.

iv) Cut-off - transactions and events have been recorded in the correct accounting period.

v) Classification - transactions and events have been recorded in the proper accounts.

Audit assertions related to account balances (assets/ liabilities/ equities) are:

i) Existence – assets, liabilities and equity interests exist.

ii) Rights and obligations – the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

iii ~~Completeness~~ Accuracy – all assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation has been appropriately recorded.

iv) Completeness – all assets, liabilities, and equity interests that should have been recorded have been recorded, and all related disclosures have been included.

v) Classification – assets, liabilities and equity interests have been recorded in the proper accounts.

Audit assertions related to presentation & disclosure

Accuracy - the assertion is that all information disclosed is in the correct amounts, and which reflect their proper values.

Completeness - the assertion that all transactions that should be disclosed have been disclosed

Occurence - the assertion that disclosed transactions have indeed occured.

Rights and obligations - the assertion that disclosed rights and obligations actually relate to the reporting entity

Understandability - the assertion is that the information included in the financial statements has been appropriately present and is clearly understandable.

Section - B (Business Taxation)

Q.5 Calculation of taxable income of Mr. Abdullah

Basic Salary	Rs. 300,000
Dearness allowance	25,000
Computer allowance	30,000
Gas and electricity allowance	5,000
Profit on sale of shares of Pvt.Ld.Co.	12,000
Leave fare assistance	45,000
Profit on sale of shares of listed public limited company	9,000
Total taxable income	426,000

Q.6 Define the following

(i) Business :- a business is any activity which there is an exchange of a good or service usually for a sum of money. Businesses can be for-profit entities or non profit organizations. Business types range from Limited liability Companies to sole proprietorships, corporations, and partnerships.

ii) Non-profit organization:- A nonprofit organization is one that is not driven by profit, but by dedication to a given cause that is the target of all income beyond what it takes to run the organization. A nonprofit has tax-exempt status.

iii) Resident person:- According to the Income Tax Ordinance 2001, Section 81 (1)
"A person shall be a resident person for a tax year if the person is:-
(a) a resident individual, resident company or resident association of persons for the year; or
(b) the Federal Government

iv) Public company:- A public company is a company with public ownership and has shares that trade on a public market. Because it is public, it is required to meet the Securities and Exchange Commission's strict filing requirements for public companies.

v) Agricultural income:- Agricultural income according the Income Tax Ordinance 2001, is any rent or revenue derived by a person from land which is situated in Pakistan and is used for agricultural purposes. It is also any income derived by a person from land situated in Pakistan from agriculture.

(vi) Banking company:- a banking company according to Income Tax Ordinance 2001, is a banking company as defined in the Banking Companies Ordinance 1962 (LVII of 1962) and includes anybody corporate which transacts the business of banking in Pakistan

Section - C (Business Studies and Finance)

i, a Payback period for project A

3 years $\frac{15}{45} \times 12 = 4$ months

3 years 4 months Ans

(i) b Payback period for project B

2 years $\frac{15}{30} \times 12 = 6$ months

2 years 6 months.

ii, NPV project A at 10%

$$-150,000 + 45,000 \left[\frac{1-(1+10\%)^{-6}}{0.10}\right]$$

$$= -150,000 + 195986.7315$$

$$= \$45,986.73148$$

NPV project B at 10%

		PV	
1	75,000	$\frac{75,000}{(1.1)^1}$	⇒ 68181.81
2	60,000	$\frac{60,000}{(1.1)^2}$	⇒ 49586.77
3	30,000	$\frac{30,000}{(1.1)^3}$	⇒ 22539.44
4	30,000	$\frac{30,000}{(1.1)^4}$	⇒ 20490.40
5	30,000	$\frac{30,000}{(1.1)^5}$	⇒ 18627.63
6	30,000	$\frac{30,000}{(1.1)^6}$	⇒ 16934.22
			196360.268

NPV = 196,360.268 − 150,000
= $46,360.268

iii, NPV project B at 9%

		PV	
1	75,000	$\frac{75,000}{(1.09)}$	⇒ 68807.34
2	60,000	$\frac{60,000}{(1.09)^2}$	⇒ 50500.8
3	30,000	$\frac{30,000}{(1.09)^3}$	⇒ 23165.50
4	30,000	$\frac{30,000}{(1.09)^4}$	⇒ 21252.76
5	30,000	$\frac{30,000}{(1.09)^5}$	⇒ 19497.94
6	30,000	$\frac{30,000}{(1.09)^6}$	⇒ 17888.02
			201112.36

NPV = 201112.36 − 150,000
= $51112.35

NPV project A at 10%

$$-\$150,000 + 45,000\left[\frac{1-(1+9\%)^{-6}}{0.09}\right]$$

$$= -150,000 + 201866.34$$

$$= \$51,866.34$$

iv) Project A IRR

$$\$150,000 + 45000\left[\frac{1-(1+20\%)^{-6}}{20\%}\right]$$

$$= -\$150,000 + 149647.955$$

$$= -352$$

IRR $= \sim 21\%$

Project B IRR $\sim 22\%$

v) Project B → 1st Technique

Project B → 2nd Tecnique used.

Project B → 3rd Technique

Based on the above calculations and analysis, project B should be selected.