



The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examination

Model paper
3 hours – 100 marks

Gateway Examination – II

Audit & Assurance

- Q.1 (a) Discuss the course of action which may be adopted by the auditor if pre-conditions of audit are not present. (03)
- (b) Apart from profit before tax, list any **four** benchmarks which can be used to determine the materiality at the financial statement level. (02)
- (c) State any **two** factors which the auditor should consider to ensure reliability of audit evidence. (02)
- (d) State the conditions under which it may be appropriate to send negative confirmations. (02)
- (e) State the auditor's responsibility with respect to events between the end of the reporting period and the date of the auditor's report. (02)
- (f) Give any **three** audit procedures to ensure completeness of list of related parties provided by the management. (02)
- Q.2 (a) You are the auditor of Information Limited (IL), which is engaged in the development of customized software. During the last three years IL has become the leading software developer in the industry due to completion of large number of projects.
- During the initial meeting the client has informed that:
- IL has achieved a growth of 60% as compared to the growth target of 30% set for the financial year ended 30 June 2016 and the board of directors are considering to distribute 25% of the profit to the management staff as performance bonus.
 - one of the competitors has shown its willingness to acquire IL.
- Required:**
Identify the fraud risk factors in the above situation. (03)
- (b) You are the audit manager responsible for the audit of Clocks (Private) Limited (CPL). While reviewing the draft planning document prepared by the audit senior, you observed that he has assessed risk of material misstatement due to fraud and risk of management override of control as low due to the fact that CPL has been an audit client of the firm for the last 10 years and no material misstatement had been reported in the previous years.
- Required:**
Draft an email to be sent to the audit senior to guide him with regard to the above matter. (04)

- Q.3 (a) State four substantive procedures for verification of share premium account appearing in the statement of financial position. (02)
- (b) State the matters that auditor needs to consider where the written representation provided by the management is inconsistent with other audit evidence. (02)
- (c) Identify the factors that are considered in determining the independence of internal auditors. (02)
- (d) State key features of a review engagement which distinguish it from a statutory audit and identify two types of review engagements. (02)

- Q.4 (a) As the engagement partner, you have reviewed the working papers of Nadeem Limited (NL) in which the audit team has highlighted the certain contingent assets have been disclosed in the draft financial statements in which inflow of economic benefits is possible but not probable. The management is of the view that International Financial Reporting Standards does not prohibit making additional disclosures which enhance the users understanding of the financial statements.

Required:

Discuss the possible impact on the audit report. (03)

- (b) Your firm is the auditor of ABD Limited (ABDL). After the acquisition of majority shareholding in HG Motors (Private) Limited (HGM), ABDL has decided to replace the existing auditors of HGM in the next annual general meeting and has approached you for appointment as HGM's auditors for the next year.

Required:

Explain the responsibilities of your firm and the existing auditors in the above situation under the Code of Ethics for Chartered Accountants. (03)

- Q.5 (a) You have been assigned to plan the test of controls in respect of receiving of goods and invoices from suppliers of Bhurban Limited. In this regard, you are required to identify the controls that you expect to see to address the above risks. (02)
- (b) In the context of control activities explain what is included in 'Performance reviews'. (02)
- (c) Specify any **four** main categories of general controls that an auditor would expect to find in a computer based information system. (02)
- (d) Following IT related controls are being employed at Vision Limited:
- (i) The general ledger system is automatically updated with sub-ledger transactions (e.g. Accounts Receivable) every night through batch processing.
 - (ii) The system automatically maintains second copies of all programs and data files.
 - (iii) Access to programs and data files is restricted using passwords.
 - (iv) Invoices that are entered into the system are physically counted.
 - (v) Firewalls (software and hardware) are installed to restrict unauthorized access.
 - (vi) Screen warnings are displayed as regards incomplete processing.
 - (vii) Vision Limited has service level agreements with reliable software companies, for technical support.
 - (viii) Review of output against expected values.

Required:

In respect of each control, determine whether it is a preventive, detective or corrective control. (02)

Q.6 Briefly discuss the following concepts:

- | | |
|---|------|
| (a) Audit trail in a computerized environment | (02) |
| (b) 'Professional skepticism' | (03) |
| (c) 'systematic sampling' | (01) |
| (d) 'advocacy threat' and give an example thereof | (02) |

Taxation

Q.7 Wajahat, aged 48 years, is a marketing manager in Nayaab (Pvt.) Limited (NPL), a company engaged in the manufacture and supply of tissue papers. The details of his monthly emoluments during the year ended 30 June 20X6 are as under:

	Rupees
Basic salary	70,000
Dearness allowance	10,000
Conveyance allowance	8,000

In addition to the above, Wajahat was also provided the following:

- (i) Provident fund (PF) contribution of Rs. 8,400 per month. An equal amount per month was contributed by Wajahat to the fund. Interest income of Rs. 391,000 at the rate of 20% of accumulated balance of PF was credited to his PF account.
- (ii) Reimbursement of electricity bills during the year amounting to Rs. 60,000.

Following further information is also available:

- (i) Wajahat received net dividend of Rs. 78,200 from BEE Limited, a company listed on Pakistan Stock Exchange Limited. Withholding tax and zakat deducted from dividend amounted to Rs. 9,200 and Rs. 4,600 respectively. He also received dividend of Rs. 65,000 from a company in U.A.E through normal banking channels. However, no tax was withheld either in Pakistan or U.A.E.
- (ii) Wajahat contributed Rs. 890,000 in an approved pension fund under the Voluntary Pension System Rules, 2005.
- (iii) On 1 September 20X5, Wajahat started a tuition centre for the students of finance in a posh locality. He received tuition fees of Rs. 2,198,000 and incurred following expenses:
 - Monthly salary of Rs. 50,000 paid to himself and Rs. 35,000 to his friend Yousuf who taught financial accounting at the centre.
 - Travelling, boarding and lodging expenses of Rs. 300,000. These expenses were incurred by Wajahat in Sri Lanka for attending teachers training workshop.
 - Rs. 250,000 against purchase of used computers for the centre.
 - Other miscellaneous expenses amounting to Rs. 195,000.
- (iv) Wajahat's total taxable income during the previous tax year was Rs. 1,850,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by/refundable to Wajahat during the tax year 20X6.

Note: Show all relevant exemptions, exclusions and disallowances. Tax rates are given on the last page.

(15)

- Q.8 (a) In the light of the provisions of the Income Tax Ordinance, 2001, identify the circumstances under which the Commissioner of Income Tax may require a person to furnish a return of income for a period of less than twelve months. (03)
- (b) Under the provisions of the Income Tax Ordinance, 2001, explain the term 'Rent' in context of 'Income from property'. (02)
- (c) What do you understand by the terms 'Security' and 'Derivative products' as provided in the Income Tax Ordinance, 2001 and Rules made thereunder? (03)

Q.9 Baqir, Asad and Rahi are members of an association of persons (BAR) and share profits and losses in the ratio of 5:3:2 respectively. BAR is engaged in the business of trading consumer electronics and has two independent branches one each in Tehran and Dubai. Following information has been extracted from BAR's profit and loss account for the year ended 31 December 2015:

	Rupees
Sales	30,000,000
Cost of sales	(20,500,000)
Gross profit	9,500,000
Administrative and selling expenses	(4,732,000)
Financial charges	(980,000)
Other income	1,700,000
Profit before taxation	5,488,000

Additional information:

Cost of sales includes:

- (i) Closing stock which has been valued at net realizable value of Rs. 1,820,000. The cost of closing stock under absorption costing was Rs. 1,950,000.
- (ii) Provision of Rs. 75,000 against slow moving stores and spares.
- (iii) Freight charges of Rs. 160,000. These were paid in cash to Momin Goods Transport for transporting goods to customers in Multan.

Administrative and selling expenses include:

- (i) Commission of Rs. 290,000 paid to Baqir, annual performance award of Rs. 310,000 paid to Rahi and Rs. 455,000 paid to AB Bank Limited in final settlement of a loan obtained by Asad for the construction of his house in Muree.
- (ii) Provision for bad debts of Rs. 735,000. The opening and closing balances of provision for bad debts amounted to Rs. 1,100,000 and Rs. 1,435,000 respectively. Bad debts written off include a loan of Rs. 280,000 provided to a supplier.
- (iii) Sales promotion expenses of Rs. 275,000. These expenses were paid by Rahi through his personal credit card.
- (iv) Rs. 86,000 paid to an institution operated by Federal Government for the training of industrial workers in Punjab.

Further information:

For the year ended 31 December 2015 Dubai branch made a profit of Rs. 1,500,000 and Tehran branch made a loss of Rs. 1,800,000. These figures are not included in the above profit and loss account.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by BAR and the amount to be carried forward, if any, for tax year 2016. Assume tax and accounting depreciation is same. (12)

- Note:**
- Your computation should commence with the profit before tax figure of Rs. 5,488,000.
 - Show all relevant exemptions, exclusions and disallowances.
 - Tax rates are given on the last page.

Q.10 Bashir is registered under the Sales Tax Act, 1990 and is engaged in the business of export and supply of consumer goods. Following information has been extracted from his records for the month of February 2015.

	Rupees
Supplies	
To registered persons	25,980,000
To unregistered persons	2,500,000
Exempt supplies	1,874,000
Export to USA	2,000,000
Purchases	
Purchases from registered person	21,710,000
Import of a machine	2,500,000

Following additional information is also available:

- (i) supplies to registered persons include goods amounting to Rs. 300,000 which were supplied to an associated company at a special discount of 25%.
- (ii) input tax amounting to Rs. 55,900 was paid in January, 2015 but inadvertently it could not be claimed in the return for January 2015.
- (iii) a registered supplier had supplied goods worth Rs. 500,000 to Bashir in February 2015. However, Bashir did not receive the sales tax invoice from the supplier.
- (iv) the imported machine was put into operation during February, 2015.
- (v) sales tax credit of Rs. 410,000 is to be brought forward from January 2015.

Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax, wherever applicable.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute sales tax payable/refundable and input tax credit to be carried forward, if any, for tax period February 2015. (08)

Q.11 (a) Baber Associates, who is registered with the Inland Revenue Department for sales tax purposes, has supplied a heavy duty motor to Mubarak Enterprises on one month's credit. However, due to sharp decline in petroleum prices, the price of the motor has reduced by 10% in the local market. Upon request from Mubarak Enterprises, Baber Associates has finally agreed to reduce the price of motor by 8%.

In view of the Sales Tax Rules, 2006 describe the procedure which may be followed by both the parties to give effect to the above price change. (03)

(b) Saleem is registered under the Sales Tax Act, 1990 and is engaged in the business of export and distribution of electronic appliances.

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, advise Saleem on the concept of provisional and final adjustment in relation to 'Apportionment of input tax'. (02)

(c) Under the Sales Tax Act, 1990 and Rules made thereunder, briefly describe the concept of 'Residual input tax'. How it differs from 'Residual input tax credit'? (02)

(THE END)