

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Second Year First Semester Examination in Bachelor of Business Administration /

Bachelor of Commerce 2012/2013 (March 2015) (Proper/Repeat)

DAF 2032 Auditing and Taxation

Answer All Questions

Calculator Permitted

Time: Two (02) hours

Part I Taxation

Number of Questions: -04

Answer all the Questions

Note: - Any assumption should be stated clearly

Pages:- 01 - 04

Time: 01 Hour

Q 01

"N.M Stores" at Chenkalady is a super market which had been started by Narendramody in 1989. This business has been donated to his only son srisena by a last will during the year 2013. Mr.Srisena received Rs-2,415,000/- as Net profit for the Year ended 31st March 2014.

Notes

1. Net profit includes following profit /Income

(a). Gross interest from NSB of his 14 years old daughter Rs.140,000/-

(b). Profit from sale of Van- Rs.150, 000/-

(c). Gross rent from a store Rs. 200,000/-

2. Land & Building opening balance as at 01.04.2013 was Rs.1, 950,000/- These was purchased during the year 1989.

He has constructed a new building during the year 2013/2014 for Rs.550,000/-, and rented out to be used as a stores. Annual rent from this building was Rs.200, 000/-

3. Motor vehicle opening balance as at 01.04.2013 was Rs.200,000/-. This include a lorry was purchased during the Y/A-2011/2012 at a cost Rs. 1,000,000/- and a van (for distribution) for Rs.600, 000/- was purchased during the Y/A-1989/1990 in addition to these a car also has been included.

Above van has been disposed on 30.03.2014 and a new van was purchased at a cost of Rs.1, 000, 000/- on 31.03.2014 and was used in the business on the same day. Provision for depreciation of the van disposed was Rs. 250,000/-

4. Furnitures at the opening balance includes, furniture's purchased during the Y/A 2010/2011 for Rs. 100,000/-.

During this Y/A Rs.50, 000/- worth of new furniture's were purchased and used in business.

5. A new (locally manufactured) computer has been purchased at a cost of 180, 000/- and used in this business during this Y/A.
6. Book depreciations for this year and as follow.

	Rs
Buildings	60,000/-
Motor vehicle	340,000/-
Furnitures	15,000/-
Computer	45,000/-
Total	460,000/-

7.

Provision for Bad debt A/C

Debtors A/C Bal. c/f		10,000	Bal. b/f.	110,000	
General	155,000		Specific provision	70,000	
Specific	85,000				180,000
		240,000	Cash A/c		30,000
			P & L A/c		40,000
		250,000			250,000

(a). Detail of specific provisions

Opening balance Rs.		Closing balance Rs.	
Baja	50,000	Bala	-
Mala	<u>20,000</u>	Mala	20,000
	<u>70,000</u>	Sala	40,000
		Kala	<u>25,000</u>
			<u>85,000</u>

(b). Provision for bad debt for this year Rs.40, 000/-

(c). Rs-30,000/- represent the debt written off in the previous year.

This year an amount of Rs- 10,000/- receivable from Mr.Vasitharan has been written off.

8. Mr.Sirisena got a vehicle (canter) on 01.10.2012 under three years lease. Monthly lease rent payable Rs.20, 000/- total lease rent paid as per the P&L A/c for the Y/A-2013/2014 is 240,000/-

9. Rs-90,000/- was paid for rates & repair to the building. However, 15% of this amount was paid for the building rented out.

10. Donation made during the year Rs- 400,000/- represent as follows.

	Rs.
Wheel chairs of the govt.hospital	350,000
Cash donation to an old boy association	25,000
Bed sheets to the home for elders (an approved charity)	<u>25,000</u>
	<u>400,000</u>

11. Insurance payments:-

Premium of Mr.Srisena's life Insurance	300,000
Fire & flood insurance to his "NM Stores"	100,000
Fire & Flood insurance of his house	<u>100,000</u>
	<u>500,000</u>

12.Total NBT paid as per the P&L A/c Rs.965, 000/-, Total Sale for the year was Rs.76,500,000/- (Turn over exceeded Rs-3m/- in every Quarters)

13.Telephone & Electricity chargers for this year was Rs.140, 000/- 20% of this expense includes charges for his resident.

14. Motor vehicle repair expenses were Rs-145,000/-. This includes an expense of Rs- 24,000/ incurred for the repair of his car.

15. The lose incurred for the Y/A 2012/2013 was Rs.700,000/-. However, Rs-195,000/- was b/f to this Y/A as un absorbed loss.

16. The P&L A/c for the Y/A 2013/2014 of Mr.Srisena includes following expenses as wel.

	Rs.
Advertisement	200,000
Entertainment Expenses	75,000
Income Tax paid	50,000
Purchase of cash counter (Machine)	140,000

17. Annuity paid for his ex wife 100,000/-

Note:

All other expenses at the P&L A/c were allowable for tax purposes.

You are required to calculate.

Adjusted trade profit of Mr.Sirisena	(40 Marks)
Total statutory income	(05 Marks)
Total Assessable Income	(05 Marks)

Total Taxable income

(05 Marks)

Tax payable by Mr.Sirisena for the Y/A 2013/2014

(05 Marks)

(Total 60 Marks)

- Q 2. Dr.Abans was a doctor at a Government hospital. On his retirement he runs a medical centre called "Health Care" in Batticaloa. His profits & income for the Y/A 2013/2014 are as follows.

Pension	720,000
Professional income	800,000
Adjusted profit from Health care	1,200,000
Agriculture income	<u>85,000</u>
	<u>2,805,000</u>

He has submitted his IT return together with the audited accounts and other related documents to the Inland Revenue Department on 27.11.2014.

However, he received a notice of assessment to gather with a letter of intimation under section 163 (3) of the IRD Act no 10 of 2006, stating that "the return has been rejected for the reason that the rental income had not been declared....".

Dr.Abans state that Mrs.M.Abans has rented out a building to the peoples bank, and she enjoys the income as the building was received from her parents as her marriage gift.

If Dr.Abans seeks your advice to make an appeal against the assessment, what is your advice in relation to a valid appeal?

(20 Marks)

- Q 3. Mr.Andru has two houses. One at Anuradapura, is occupied by him. Rating assessment of this house is Rs-100,000/- and rates payable is 25% of the rating assessment. The other one at Gampaha is rented out at a monthly rent of Rs.80, 000/- it was constructed during the Y/A 2002/2003 at a cost of Rs.2, 000,000/-.

The floor area is 2500 square feet.

Rates paid by him were Rs-20,000/- and it is 10% of the rating assessment.

Calculate the income from property of Mr.Andru for the Y/A 2013/2014.

(10 Marks)

- Q 4. Give short notes.

Qualifying payments

Normal tax rates and Concessionary rate(special tax rates)

(10 Marks)

(Total 100 Marks)

Part II Auditing

Number of Questions:- 05

Pages:- 05 - 06

Answer all the Questions

Time: 01 Hour

01. (a) Define the following terms.
(i) Assurance engagement
(ii) Auditing
(b) Briefly explain the major elements of assurance services.
(c) List four (04) benefits of an assurance engagement
- (10 Marks)
(05 Marks)
(05 Marks)
(Total 20 Marks)
02. An internal audit is established by the management while proprietors or shareholders arrange for an external audit.
You are required to list.
(a) Three main differences and three main similarities between internal and external audit.
(b) What are the matters that external audit considers in using of specific work of internal auditors.
(c) State the basic elements of an auditor's report as mentioned in SLAUS 700.
- (08Marks)
(04 Marks)
(08 Marks)
(Total 20 Marks)
03. Vouching is an important technique in auditing.
(a) What do you understand by vouching?
(b) List four (04) important points to be noted when vouching of the following payments recorded in the cash book of the organized.
(i) Purchases Rs. 250,000
(ii) Foreign travelling Rs. 75,000
(iii) Advertisement expenses Rs. 25,000
- (05 Marks)
(15 Marks)
(Total 20 Marks)
04. (a) Write short notes on the following
(i) Accountability
(ii) Financial statements
(iii) Audit evidence

(iv) Audit risk

(4 X 4 = 16 Marks)

(b) Discuss the objective of an audit engagement letter.

(04 Marks)

(Total 20 Marks)

05. (a) (i) State three (03) primary objectives of audit working papers / documentation.

(03 Marks)

(ii) What are the factors affecting form and content of audit working papers.

(04 Marks)

(b) Explain the following types of audit opinion and state situation in which each of these opinions are expressed.

- Unqualified opinion

- Disclaimer opinion

(10 Marks)

(c) In what situations an auditor's report is considered to be modified.

(03 Marks)

(Total 20 Marks)