

PART – I (AUDITING)

01. (a) Discuss briefly the objectives of an audit of financial statements. (06 Marks)
- (b) What are the ethical principles or general principles governing the auditors' professional responsibilities? (06 Marks)
- (c) (i) Differentiate the term fraud and error. (08 Marks)
- (ii) Discuss the auditor's general responsibility in the prevention and detection of fraud. (05 Marks)
- (d) State conditions and events which increase the risk of fraud and error. (Total 25 Marks)
02. (a) Briefly explain the reasons for auditor documenting their work. (05 Marks)
- (b) What are the factors affecting the form and content of working papers. (06 Marks)
- (c) State six types of information and documents ordinarily included in the working papers. (06 Marks)
- (d) Explain the contents of (i) Permanent Audit File (ii) Current Audit File (08 Marks)
- (Total 25 Marks)

03. (a) What are the principle contents of an **audit engagement letter**? (05 Marks)
- (b) Discuss how an **audit engagement letter** is useful for an effective and smooth conduct of audit. (05 Marks)
- (c) (i) What are the advantages of adequate **audit planning**? (05 Marks)
- (ii) What are the factors determining the **extent of planning**? (04 Marks)
- (d) What are the important aspects to be covered in an audit plan? (06 Marks)
- (Total 25 Marks)

04. (a) List the sources of information used by an auditor to identify the nature of the business for an entity. (05 Marks)
- (b) Discuss the advantages and disadvantages of **pre – prepared audit programme** (06 Marks)
- (c) Discuss the different **sources of evidence** available to auditor and assess their relative **appropriateness**. (05 Marks)
- (d) Write short notes on the following:
- (i) Internal control and internal check.
- (ii) Internal audit and external audit.
- (iii) Analytical procedure.

(03X03=09 Marks)

(Total 25 Marks)

PART – II (TAXATION)

01. Mr. Shanger is the owner of a grocery shop at Eravur from 1990. The profit and loss account prepared for the year of assessment 2008/2009 is given below:

	Rs.		Rs.
Salaries & Wages	2050000	Gross Profit	7658000
EPF & ETF Contribution	420000	Profit on sale of lorry	250000
Legal Expenses	15000	Insurance receipt	100000
Bonus	125000	Interest on Loan	300000
Lease Rent	250000	Lorry hiring income	120000
Transport	485000		
Rates	18000		
Electricity	56400		
Water	7800		
Telephone	28400		
Postage	2500		
Motor vehicle maintenance	662000		
Advertising	300000		
Bad Debt and Provision	45700		
Loss of Stock	125000		
Depreciation	894000		
Building repairing	175000		
Interest	65000		
Donations	72400		
Insurance	136000		
Turnover Tax	520900		
Income Tax	60000		
Loss on sale of Computer	15000		
Sundry expenses	12500		
Net Profit	1886400		
	8428000		8428000

Notes:

01. The Movements of Fixed Assets are as follows:

	Balance as at 01.04.2008	Additions	Disposals	Balance as at 31.03.2009
Cost:	Rs.	Rs.	Rs.	Rs.
Land & Building	1500000	-	-	1500000
Motor Vehicle	4300000	1500000	1000000	4800000
Furniture	120000	-	-	120000
Computer	240000	-	80000	160000
Office Equipment	220000	-	-	220000
	6380000	1500000	1080000	6800000
Depreciation:				
Building	500000	-	-	500000
Motor Vehicle	920000	790000	760000	950000
Furniture	96000	48000	-	144000
Computer	54000	12000	30000	36000
Office Equipment	88000	44000	-	132000
	1658000	894000	790000	1762000

(a) The lorry disposed during the year was purchased on 15th Feb.2004

(b) Motor Vehicles include a car costing at Rs.900000 that was used for business travelling.

02. Lease rent paid to a van purchased under four year lease, monthly lease rent payable is Rs.24000.

03. All other assets at the opening balance have been purchased at the beginning of the business.

04. No provision has been made to Turnover Tax payable to the Eastern Provincial Revenue Department at 1% on the total sale of Rs.15720000.

05. Donation was made as follows:

	Rs.
Approved Charity by goods	42400
Donation made to a sports club at Eravur	5000
Government Cancer hospital	25000
	72400

06. Bad debt and Provision was made as follows:

	Rs.
General Provision	20000
Bad Debt written off	25700
	45700

07. Part of the stock has been burnt by electrical short connection; he could recover only Rs.100000 as the insurance cover.
08. The life insurance premium paid rs.45000 for Mr.Shanger's life insurance policy is included in the insurance.
09. The building repairing expenditure includes Rs.55000 incurred for his own house.
10. The interest shown is the total of Rs.30000 and Rs.35000 paid to People's Bank in respect of business loan and housing loan obtained to construct the house.
11. Legal expenses were the payment to a lawyer for appeal case on a late payment of Income Tax.

Required:

Compute the Income Tax payable for the Y/A 2008/2009

(50 Marks)

02. Mr. Prem is a Government Doctor. He is engaged in private practice as well. The incomes of Dr.Prem for the period from 01.04.2008 to 31.03.2009 are as follows:

Income for the Y/A 2008/2009:

	Rs.
Government Official Emoluments	350000
Net Income (Adjusted for Tax Purposes) from private practice	600000
Interest Income (WHT at 10% has been deducted)	45000
	995000

Expenses:

	Rs.
Interest Paid on the Car loan	15000
Interest Paid on Housing Loan	20000

Required:

Compute the Tax payable by Mr.Prem for the Y/A 2008/2009

(30 Marks)

03. Write Short Notes on the following:

(a) The Importance of Taxation in Sri Lanka

(b) Direct Taxes and Indirect Taxes

(20 Marks)