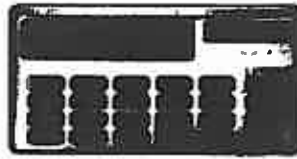


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA | 
UNIVERSITY
of south africa

**AUD2M2W
RAD2M2L**

May/June 2009

AUDITING II (MODULE 2)

Duration 2 Hours

100 Marks

EXAMINERS :
FIRST
SECOND .

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MRS SCC GREGORY

Use of a non-programmable pocket calculator is permissible.

THIS PAPER CONSISTS OF SEVEN (7) PAGES

This paper consists of the following questions and main topics

QUESTION	MAIN TOPIC	MARKS
1	Multiple-choice questions	10
2	Revenue cycle	20
3	Internal control and reports	25
4	Expenditure cycle and internal control	30
5	Internal audit and code of ethics	15
		—
		<u>100</u>

This paper is in English only

NOTE:

The main objective of the examination is to test a candidate's knowledge and ability to apply the study material, although the examiners will also take into account the candidate's ability to organise and present that knowledge in writing and according to an acceptable standard.

[TURN OVER]

QUESTION 1

10 marks

REQUIRED

For each subsection of this question, select the ONE alternative you consider to be appropriate and correct. Answer this question in numerical sequence, for example:

- 1.1 A
- 1.2 B

Each question counts one mark

1.1 Methods of internal control include the following:

- A Operational controls, controls for personnel management, review controls, facilities and equipment.
- B Organisational controls, operational controls, controls for personnel management, review controls, facilities and equipment
- C Organisational controls, controls for personnel management, review controls, facilities and equipment
- D Organisational controls, operational controls, review controls, facilities and equipment.

1.2 The revenue cycle is .

- A a recurring set of business activities associated with the purchase of and payment for goods and services. It focuses on the acquisition of raw materials, finished goods, supplies and services
- B a recurring set of business activities associated with the manufacture of products.
- C a process that assesses the quality of internal control performance over time.
- D a recurring set of business activities and related information associated with providing goods and services to customers and collecting cash in payment for those sales. It includes credit sales, sales returns, payments received from debtors and cash sales

[TURN OVER]

1.3 The expenditure cycle is ..

- A a recurring set of business activities associated with the purchase of and payment for goods and services. It focuses on the acquisition of raw materials, finished goods, supplies and services.**
- B a recurring set of business activities and related information associated with providing goods and services to customers and collecting cash in payment for those sales. It includes credit sales, sales returns, payments received from debtors and cash sales.**
- C a recurring set of business activities associated with the manufacture of products.**
- D a process that assesses the quality of internal control performance over time.**

1.4 The production cycle is

- A a recurring set of business activities and related information associated with providing goods and services to customers and collecting cash in payment for those sales. It includes credit sales, sales returns, payments received from debtors and cash sales.**
- B a recurring set of business activities associated with the manufacture of products.**
- C a recurring set of business activities associated with the purchase of and payment for goods and services. It focuses on the acquisition of raw materials, finished goods, supplies and services.**
- D a process that assesses the quality of internal control performance over time.**

1.5 Indicate the alternative that correctly completes the following sentence: For good internal control, credit notes should be approved by the .

- A credit manager.**
- B sales manager.**
- C billing manager.**
- D chief accountant.**

[TURN OVER]

- 1.6 Indicate the alternative that correctly completes the following sentence: For good internal control over customer remittances, the clerk in the mailroom should separate the cheques from the remittance advices and send the cheques to .
- A billing
 - B accounts receivable
 - C the cashier
 - D the chief accountant
- 1.7 The best control procedure to prevent paying the same invoice twice is .
- A segregation of cheque preparation and cheque signing functions
 - B preparing cheques only for invoices that have been matched to receiving reports and purchase orders
 - C requiring two signatures on all cheques above a certain limit.
 - D cancelling all supporting documents when the cheque is signed.
- 1.8 Corporate management has a role in the maintenance of internal control. In fact, management sometimes is a control. Which one of the following best illustrates a managerial function as a control device?
- A Supervision of employees.
 - B Use of a corporate policy manual
 - C Maintenance of a quality control department.
 - D Internal auditing.

[TURN OVER]

- 1.9** Which of the following best describes an internal auditor's purpose in reviewing the adequacy of the system of internal control?
- A To determine the nature, timing and extent of tests necessary to achieve audit objectives
 - B To ensure that material weaknesses in the internal control system are corrected
 - C To determine whether the internal control system provides reasonable assurance that the organisation's objectives and goals are met efficiently and economically
 - D To determine whether the internal control system ensures that the accounting records are correct and that financial statements are fairly stated.
- 1.10** Unclaimed pay cheques should be returned to .
- A the human management (HRM) department
 - B the cashier
 - C the payroll department
 - D the absent employee's supervisor

QUESTION 2

20 marks

The revenue and receipts cycle commences when an order is placed by a customer and ends when payment is received. The cycle is less complicated when a sale is made for cash because there is, for example, no need to raise a debtor, send out statements or collect any outstanding money. To effectively control sales made on credit, the cycle should be made up of a number of distinct functions around which controls should be built.

[TURN OVER]

REQUIRED

Marks

- 2.1 Briefly describe each function in the revenue and receipts cycle (10)
- 2.2 Explain the objective(s) of each function (10)

Present your answers as follows

2 1 Function	2 2 Objectives
1 Receive customer orders ▪ Recording and initiating the "sale"	1 To record all incoming orders accurately and timeously so as not to lose a potential sale
2	2
3	3

QUESTION 3

25 marks

- 3 1 Bank and cash usually consist of cash in the bank, petty cash and cash advances or loans

REQUIRED

Marks

Describe the basic controls over bank and cash (15)

- 3.2 The primary purpose of internal audit reports is to give management an opinion on the adequacy of the internal control system and inform them of significant audit findings, conclusions and recommendations

REQUIRED

Marks

Outline the format of the internal audit report (10)

QUESTION 4

30 marks

4 1 REQUIRED

Marks

List the risks associated with the expenditure cycle (6)

[TURN OVER]

4.2 A good system of internal control is required for an organisation to achieve its goals and objectives in the best possible way. Examples of elements of a good system of internal control are checklists and forecasts

REQUIRED	Marks
4.2.1 Define the term "control".	(3)
4.2.2 Describe the six limitations of internal control	(6)
4.2.3 State the objectives of internal control.	(5)
4.2.4 List and describe five main types of internal controls.	(10)

QUESTION 5

15 marks

The development of internal auditing was fostered by the increasing size, decentralisation and complexity of organisations, as well as by the technological sophistication of their operations.

REQUIRED	Marks
5.1 Define the term "internal auditing"	(5)
5.2 Indicate the rules of conduct that an internal auditor is expected to apply pertaining to the following principles	
• integrity	(6)
• objectivity	(4)