



AUE202M RAE202P

May/June 2010

INTRODUCTION TO THE PERFORMING OF THE AUDIT PROCESS (AUDITING 202)

Duration 2 Hours

100 Marks

EXAMINERS :
 FIRST
 SECOND

 MRS L GREBE
 MR K JOUBERT

Use of a non-programmable pocket calculator is permissible.

This paper consists of **NINE (9)** pages

This paper consists of the following questions and main topics

QUESTION	MAIN SUBJECT	MARKS
1	Multiple-choice questions	15
2	The audit of bank & cash and investments	20
3	The audit of land & buildings, vehicles and equipment	25
4	The audit of trade creditors and trade receivables	20
5	The internal controls for inventory and expenditure	20
		100
		===

NOTE:

Although the primary purpose of the examination is to test the student's knowledge and application of the subject matter, the student's ability to organise and present such knowledge in written language of an acceptable standard will be taken into consideration by the examiners

[TURN OVER]

QUESTION 1

15 marks

REQUIRED

For every subsection of this question, you have to choose **one** alternative that you consider to be the most appropriate answer. Answer the subsections of this question in numerical order, for example, as follows

1.1 A

1.2 B

(1½ marks per question)

1.1 Which one of the following controls can be implemented to ensure that wage payments are made to the **correct person**?

- A The foreman should be present to identify employees
- B The person responsible for the calculation of wages should not also disburse such wages
- C An authorised person should attend the wage payout to ensure the orderly disbursement of wages
- D Employees should sign as proof of having received their wages

1.2 Which one of the following is **not** an appropriate substantive procedure when auditing the issue of shares?

- A Inspect the Memorandum and Articles of association and any special resolution to establish that the company has the necessary authorised share capital
- B Inspect the minutes of the meeting of the directors for confirmation of the conditional or unconditional authority they granted to themselves to make the issue of shares
- C Confirm that the provisions of Section 222 of the Companies Act were fully complied with
- D Inspect notification from the Registrar to confirm that the issue was lodged with the registrar within one month and that the necessary fee was paid

[TURN OVER]

- 1.3 Which one of the following alternatives is the **most suitable** substantive procedure for the discovery of damaged merchandise in a client's closing inventory?
- A Review of management's letter of representation in respect of damaged inventory
 - B Observation by the auditor during the physical inventory count
 - C Comparison of the physical quantities of slow-moving items with the corresponding quantities of the previous year
 - D Testing the overall fairness of inventory values by comparing them with the company's turnover ratio and with the industry averages
- 1.4 Which one of the following procedures is an example of an **analytical review procedure**?
- A Compare the different monthly totals of credit purchases in the purchases journal with the total credit purchases budgeted for the various months and with the credit purchases for corresponding previous periods
 - B Compare the different monthly totals of credit purchases in the purchases journal with the totals posted to the creditors control account for the various months
 - C Compare the total of the creditors control account with the total of the list of creditors at year-end
 - D Compare the monthly creditors' reconciliation totals with the balances of the creditors' accounts in the creditors' ledger and with the creditors' monthly statements
- 1.5 Select the alternative which **best** describes substantive procedures that you as the current auditor of A&A (Pty) Limited will perform to verify the acquisition of land in the current year
- A Inspect the transfer deed at the Deeds office for the registration of the acquired land
 - B Perform the recalculation of the depreciation amount
 - C Obtain management representation letter regarding the acquisition of the land
 - D Enquire from A&A (Pty) Limited's previous auditors if they know about the acquisition

TURN OVER]

- 1.6 Which one of the following audit procedures is the **most appropriate** procedure to verify debtors' balances at year-end, in the case where certain debtors who were circularised positively, did not return their confirmation letters?
- A Evaluate the internal controls with regard to the recording of payments from debtors
 - B Examine the increased provision for doubtful debts
 - C Trace a number of postings from the individual entries in the sales journal to the relevant debtors' accounts in the debtor's ledger
 - D Compare the amounts debited to the relevant debtors' accounts, with the appropriate order forms, delivery notes and invoices in order to determine whether the amount owed is correctly recorded
- 1.7 Which one of the following general internal control measures is **not** an appropriate internal control measure with regard to the signing of and control over cheques?
- A Cancelled cheques should be sent back to the bank
 - B Cheques should be presented for signature together with supporting documents
 - C A pre-numbered cheque is issued by the organisation
 - D Cheques above a certain amount should require two signatures.
- 1.8 Which one of the following alternatives can be regarded as a **weakness** in the internal control measures for cash sales?
- A A register of daily cash sales is maintained and is reconciled with the cash register reading each day by the accountant.
 - B Each cashier is responsible for his own cash register key which allows him access to the money drawer and to the recorded sales figures.
 - C All cash sales are recorded on cash registers
 - D The person responsible for banking of money from cash sales is also responsible for the capturing of cash sales onto the accounting records

TURN OVER]

- 1.9** Which one of the following internal controls should be implemented by a company to ensure that only **valid** loans granted are accounted for in the accounting records?
- A Segregation of duties between the persons responsible for maintaining the accounting records and those responsible for authorisation of the loan transaction
 - B Checking by a responsible person that the repayment terms of the loan agreement are strictly complied with
 - C Proper authorisation of each loan that is granted, according to the laid down policy of the company
 - D The preparation of monthly reconciliations to reconcile the loan register with the loan account in the general ledger
- 1.10** Select the **best** substantive procedure to audit the long term loan at year-end to ensure that it is properly accounted for in the books of an entity
- A Obtain a confirmation certificate directly from the bank for the amount outstanding in respect of the capital sum and the accrued interest
 - B Enquire of management about the outstanding amount
 - C Recalculate the interest amount and compare to the calculation done by management
 - D Agree the opening balance to the prior year closing balance

QUESTION 2

20 marks

Governments throughout the world have issued statements about possible business rescue plans to companies that have been hit hard by the global financial crisis. As a response to this, the president of the Republic of South Africa issued a statement urging companies to save in order to help the economy to recover. Just-did-it (Pty) Limited heeded the president's call and opened the following investment accounts:

Account	Balance @ 28/02/2010
• 30-day Money Market Account	R10 000
• Fixed Deposit Account	R25 000
• Savings Account	R300 000

Upon inspection of the financial records of Just-did-it (Pty) Limited for the year-end 28/02/2010, the audit manager decided to allocate the audit of the investments to you. As the audit manager regards the balance of the savings account to be significant and material, he wants you pay particular attention to the savings account.

TURN OVER]

REQUIRED

Marks

- 2.1 Describe the substantive procedures you will perform to audit **the savings account** of the company as at year-end (15)
- 2.2 Formulate the **internal controls** that should be implemented by the management of Just-did-it (Pty) Limited in order to ensure good internal controls over investments (5)

QUESTION 3

25 marks

You are part of the audit team performing the audit of LOC Limited for the year ended 31 March 2010. The Financial Director Mr Irvin Jordan presented you with the draft financial statements as at year-end. You were allocated the fixed assets section to audit. The following note regarding property, plant and equipment appears in the draft financial statements:

PROPERTY, PLANT AND EQUIPMENT

Cost	Opening balance R	Additions R	Disposals R	Closing balance R
Furniture, fittings and office equipment	8,424,754	-	-	8,424,754
Motor vehicles	12,071,639	1,710,002	-	13,781,641
	<u>20,496,393</u>	<u>1,710,002</u>	<u>-</u>	<u>22,206,395</u>
Accumulated depreciation	Opening balance R	Current Year R	Disposals R	Closing balance R
Furniture, fittings and office equipment	7,088,239	427,224	-	7,515,463
Motor vehicles	10,833,310	224,666	-	11,057,976
	<u>17,921,549</u>	<u>651,890</u>	<u>-</u>	<u>18,573,439</u>

TURN OVER]

REQUIRED	Marks
3.1 Describe the substantive procedures you will perform to audit the acquisition of the motor vehicles during the year	(13)
3.2 Formulate the substantive procedures you will perform to audit the furniture, fittings and office equipment balance at year-end	(12)

QUESTION 4 **20 marks**

You are a member of the audit team performing the year-end audit of Blatter (Pty) Limited for the year ended 31 December 2009

Blatter (Pty) Limited is the sole supplier of the official 2010 World Cup soccer balls to FIFA. They secured a contract with Khoza Plastic Manufacturers (Pty) Limited to supply them with these soccer balls, which made Khoza Plastic Manufacturers (Pty) Limited one of their biggest suppliers. The official list of suppliers was approved by the board of directors of Blatter (Pty) Limited about 5 years ago.

On review of the current year's draft Financial Statements of Blatter (Pty) Limited it was noted that the creditors' settlement period decreased from 90 days to 30 days compared to the prior year. In order to maintain good relations with their suppliers, Blatter (Pty) Limited had decided to reduce their creditor's settlement period from 90 days to 30 days by paying its major suppliers within 30 days.

REQUIRED	Marks
4.1 Describe the substantive procedures that you will perform to vouch the settlement of trade creditors during the year by Blatter (Pty) Limited	(15)
4.2 Make recommendations to the management of Blatter (Pty) Limited on what computer application controls (programmed controls) could be implemented to reduce or eliminate the risk of making purchases from unapproved suppliers	(5)

[TURN OVER]

QUESTION 5

20 marks

You are a member of the audit team to perform the audit of the Arthur Brown Limited engagement. During the planning phase of the year-end audit of Arthur Brown Limited the following aspects came to the attention of the audit team regarding inventory and internal controls for the expenditure cycle:

Inventory

At the recent board meeting of Arthur Brown Limited the chairperson noted discrepancies in the quarterly results. It was noted that inventory balances for the first quarter decreased by 50% whereas total revenue only increased by 10%. A report from the recent inventory count conducted by the internal auditors of Arthur Brown Limited noted material weaknesses in the internal control of inventory and that there were huge differences between inventory on hand (on the floor) and inventory recorded on the perpetual inventory system. The only valid reason that could be provided was that inventory was stolen from the warehouse.

Internal controls for the expenditure cycle

The following internal controls were noted by the audit team for the expenditure cycle. The engagement partner indicated that reliance is intended on these controls and that tests of controls need to be performed.

	Controls:	Tests of Controls:
1.	Supervisor checks that all orders made by the buyers are made with the suppliers per the approved suppliers list before authorising orders.	
2.	On transfer of the goods to the stores the stores clerk compares the physical goods to the goods received note and acknowledge receipt by signing the goods received note.	
3.	Purchase invoices received from the suppliers are matched against the relevant goods received notes, delivery notes and the purchase orders to ensure that they contain the correct quantity, prices, discounts and correct description of goods. Differences are followed up with the relevant suppliers.	
4.	Monthly creditor's statements are reconciled to supporting documentation, e.g. invoices, payments, etc. The creditor's clerk also performs creditor's reconciliations on a monthly basis for all creditors.	

[TURN OVER]

REQUIRED	Marks
5.1 Describe the internal controls that could be implemented by the entity to reduce or eliminate theft of inventory in the warehouse	(10)
5.2 Describe two (2) tests of controls for each of the internal controls mentioned for the expenditure cycle that the audit team can perform to justify reliance on the controls noted	(10)