

1 Book



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting

# AUDITING AND INTERNAL CONTROL

AIC33A3

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Final Summative Assessment Opportunity

June 2014

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Time: 3 hours

Marks: 100

  
**Assessor:** Mr A.S. Peer; Mr C Ackermann; Mr J. Mamaile

**Moderator:** Mr M. Pete 

## INSTRUCTIONS:

- This paper consists of five pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly (if applicable).
- Start each question on a new page.
- Silent, non-programmable calculators may be used.

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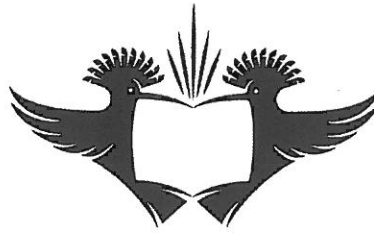
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**QUESTION 1****FINANCE CYCLE****[10]**

- 1.1) What does impairment of an asset mean? (2)
- 1.2) What conditions must be met if the cost of an item of property, plant and equipment is to be recognised as an asset? (2)
- 1.3) In terms of IAS 16 - Property, Plant and Equipment, a company can choose to value its assets using the cost model for some assets and the revaluation method for other assets. True or False? (2)
- 1.4) When an auditor conducts procedures to identify any unrecorded disposals of plant and equipment, for which assertions relating to plant and equipment, is he gathering evidence? (1)
- 1.5) An asset leased by the company on an operating lease can be included as part of the company's plant and equipment in the statement of financial position. True Or False? (1)
- 1.6) What are the assertions which relate to transactions which take place in the finance and investment cycle? (2)
- 

**QUESTION 2****SAMPLING****[15]**

The following terminology can be found in ISA 500 – Audit Evidence as it relates to sampling:

- 2.1) Audit Sampling (1)
- 2.2) Anomaly (1)
- 2.3) Population (1)
- 2.4) Sampling risk (5)
- 2.5) Sampling unit (2)
- 2.6) Statistical sampling (2)
- 2.7) Stratification (2)
- 2.8) Tolerable misstatement (1)

**REQUIRED:**

Define each of the above terms.

**QUESTION 3****SALES AND RECEIPTS CYCLE****[15]**

Thabo (a first year audit trainee) has been assigned to audit the sales cycle. One of the important assertions which he is responsible for is **existence** of the **accounts receivable balance**. Thabo remembers that broadly two main major procedures exist to test for existence, namely the debtors circularisation and subsequent receipts testing. Thabo cannot remember the detail procedures which must be conducted under a debtors circularisation.

**REQUIRED:**

You are the audit senior and you need to have a debrief with Thabo on what detailed procedures can be conducted for debtors circularisations.

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**QUESTION 4****ACQUISITIONS AND PAYMENTS CYCLE****[15]**

According to ISA 500, audit evidence is obtained by performing risk assessment procedures and further audit procedures which comprises of test of controls and substantive tests. These tests are performed because the Auditor needs to obtain sufficient appropriate and relevant evidence so that he/she can express an opinion on the Financial Position and Statements of the client company.

The Auditor will obtain evidence related to specific assertions, such as, occurrence, accuracy, cut-off, classification and completeness.

You are assigned to completing the audit of the purchases and payments for the year ended.

**REQUIRED:**

- 4.1) List procedures the auditor can conduct in the Acquisition and Payments cycle for Accuracy of the purchases. (5)
- 4.2) List procedures the auditor can conduct in the Acquisition and Payments cycle for Occurrence of the purchases for the year. (5)

- 4.3) List procedures the auditor can conduct in the Acquisition and Payments cycle for Occurrence of payments for the year. (5)
- 

**QUESTION 5****INVENTORY CYCLE****[20]**

Many of the tests which are carried out as tests of controls will be dual purpose tests and will supply some evidence relating to the accuracy of the inventory records. The performance of year-end procedures is usually broken down into two distinct phases namely attendance at the year-end inventory count and subsequent (post) inventory audit procedures.

**REQUIRED:**

List the test of controls and substantive procedures the auditor can execute at the **attendance of the year-end inventory count** (before, during and after the count).

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**QUESTION 6****INVESTMENT CYCLE****[10]**

In terms of IAS 36 – Impairment of assets, a company must assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset so that any impairment loss can be calculated. The auditor will be largely dependent on the directors to identify and quantify the impairment and there may well be a fair amount of subjectivity involved. The impairment affects the valuation assertion and is therefore an area of concern for the auditor.

**REQUIRED:**

List procedures the auditor can execute to obtain evidence on the valuation assertion as it relates to impairment of assets.

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**QUESTION 7****[10]**

ChickenMcMacca Ltd recently opened as a Fast Moving Consumer Goods (FMCG) chicken outlet. Although management of ChickenMcMacca are clued up with operational controls surrounding the business, they are not too confident in the financial controls which can be implemented to ensure chicken sales are accurate, complete and valid.

**REQUIRED:**

- 7.1) Explain to management of ChickenMcMacca some of the control activities which can be implemented over receiving customer orders. (5)
- 7.2) Explain to management of ChickenMcMacca some of the control activities which can be implemented over the recording of sales. (5)

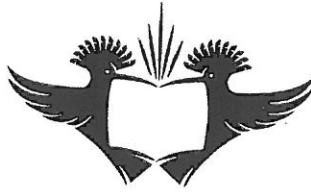
**QUESTION 8****INVESTMENT CYCLE****[5]**

A company can at the date of revaluations apply two models for the revaluations of Property, Plant and Equipment. The asset can be carried at its cost less any accumulated depreciation and accumulated impairment losses or at fair value if it can be measured reliably.

**REQUIRED:**

- 8.1) What are the two revaluation models which can be used to revalue Property, Plant and Equipment? (2)
- 8.2) The auditor of XYZ Ltd detected, through substantive testing, that the accounting entry for the revaluation of land and buildings was done incorrectly. Give the basic journal entry to the client for revaluation of land and buildings. (3)

**TOTAL****[100]**



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SOWETO CAMPUS

DEPARTMENT OF COMMERCIAL ACCOUNTING

CREDIT MANAGEMENT

11 JUNE 2014

LAST ASSESSMENT OPPORTUNITY

TIME: 120 Minutes

MARKS: 100

ASSESSOR: H. J. MARX

MODERATOR: F. HEMMINGS

**INSTRUCTIONS TO CANDIDATES**

1. This question paper consists of 12 Questions and 4 pages.
2. You are reminded that answers may **NOT** be written in pencil
3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of the answer.
4. Answer the questions by use of –
  - o Effective structure and presentation;
  - o Clear explanations;
  - o Logical arguments; and
  - o Clear and concise language.

*Done* 15/4/2014 *[Signature]*