



UNIVERSITY
OF
JOHANNESBURG

COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF ACCOUNTING

Department of Commercial Accounting

AUDITING AND INTERNAL CONTROL
AIC22B2

REPLACEMENT ASSESSMENT OPPORTUNITY

January 2018

Time: 3 hours

Marks: 100

Assessors: B KUZWAYO & K MODISAGAE

Moderator: J MAMAILE (Internal)

INSTRUCTIONS:

- Please hand in the question paper with the answer sheet.
- This paper consists of **6** pages (including the cover page).
- Answer all questions.
- Start each question on a new page.
- Silent, non-programmable calculators may be used.

QUESTION 1 [GREEN BOOK] **THEORY QUESTION A**
[30 MARKS – 54 MINUTES]

Internal Control is necessary for organisations to reach its goals and objectives and to be able to address the various risks that arise.

REQUIRED:

- 1.1 Name five (5) limitations of internal control and provide an example for each limitation. (10)
 - 1.2.1 List five (5) ways in which fraud can be performed in the Revenue and Receipts Cycle. (5)
 - 1.2.2 List five (5) assertions that are relevant to auditing the sales figure in the Revenue and Receipts Cycle. (5)
 - 1.3 Describe the roles of the following directors:
 - a) Human Resource Director,
 - b) Sales and Marketing Director, and
 - c) Operations Director. (4)
 - 1.4 List six (6) risks in the Payment Preparation and Actual Payment functions in the Acquisitions and Payments Cycle. (6)
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QUESTION 2 [ORANGE BOOK] **THEORY QUESTION B**
[20 MARKS – 36 MINUTES]

The Payroll and Inventory Cycles are central to an organisation because employees are an invaluable asset to any organisation, and inventory is at the heart of the organisation.

REQUIRED:

- 2.1.1 List five (5) risks in the Personnel and Timekeeping functions in the Payroll Cycle. (5)
 - 2.1.2 List five (5) risks in the Payroll Preparation and Payment Preparation and Payout functions in the Payroll Cycle. (5)
 - 2.2.1 Discuss six (6) characteristics of the Inventory Cycle. (6)
 - 2.2.2 Describe the Warehouse and Production functions in the Inventory Cycle. (4)
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QUESTION 3 [YELLOW BOOK] **INTEGRATION QUESTION**
[10 MARKS – 18 MINUTES]

Integrated thinking requires that the financial accounting and the management accounting aspects of the events that occur in the various cycles must always be taken into account. This ensures that the accountant considers each matter and each even holistically and considers appropriate action for each scenario.

REQUIRED:

Provide the accounting journal entries (including narrations) for the events below:

QUESTION 3 (Continued)

- 3.1 A company sells goods for R200 000 cash to a customer. The goods costs R140 000 to manufacture. Ignore Vat. (2)
- 3.2 A customer returns goods worth R20 000 (due to incorrect size delivered). The goods were purchased on credit. The goods costs R14 000 to manufacture. Ignore Vat. (2)
- 3.3 A company pays a year-end bonus of R210 000 (in total) to all its employees. (1)

Define the following concepts:

- 3.4 Period costs. (1)
- 3.5 Product costs. (1)
- 3.6 Lead time. (1)
- 3.7 Sunk costs. (1)
- 3.8 Cost object. (1)

QUESTION 4 [YELLOW BOOK] APPLICATION QUESTION
[10 MARKS – 18 MINUTES]

Major League DJs (Pty) Ltd is a private company that specialises in hosting entertainment events mainly in Gauteng. This year's spring event is the traditional Major League Gardens music concert that will take place in September at the Soccer City FNB Stadium. The event has an exciting line-up of artists that will be performing. The main artist for this year is Dafita, a leading artist from Nigeria. Many supporters are eager to hear him perform his hit song "Paparazzi Follow You". The company has two executive directors and a team that handles various tasks for the events. The team has 7 employees and 1 admin person.

Revenue for the concerts is generated from three streams: Sponsorship donations, ticket sales and revenue from "right-to-sell" charges. Sponsors normally make cash contributions in exchange of brand promotion. Normally around 5 sponsors are secured for each concert and sponsorship contracts are signed with each. The sponsors are normally media agencies and newspapers, music shows (like Channel OO for example) or alcohol brands (like Heinaken for example). Category 2 sponsors will make donations of less than R200 000 each and the main sponsor will donate more than R200 000. Category 2 sponsors will have their brands displayed in the form of banners in the venue as well as small logos on the concert ticket. The main sponsor will have its brand displayed through banners, displayed in large digital screens behind performers on stage and their logo displayed in large on the event ticket.

Tickets are sold to concert goers according to categories: VVIP tickets are R2 500 per ticket. VIP tickets are R1 000 per ticket and general tickets are R250 each. 20 000 tickets are made available for sale: 60 VVIP, 140 VIP and 19 800 general tickets. Tickets are sold by 2 ticket sales agents, Computicket and Ticketweb.com and they are each allocated 50% of total tickets across all categories. The sales agents retain 8% of the ticket revenues as commission.

QUESTION 4 (Continued)

[10 MARKS – 18 MINUTES]

Right-to-sell charges refer to amounts charged to sellers wanting to sell food and drinks at the concert. Three food suppliers and 3 drinks suppliers are allowed at a concert on a 1st-come-first-served basis. Each supplier has to pay R5 000 to be allowed to sell at the concert.

The following events generally take place when preparing for a concert and likewise took place in preparation for this year's Major League Gardens music concert:

-Twenty suppliers applied to sell food and drinks at the concert. A team member pulled 3 random emails from food suppliers and another random 3 from drinks suppliers and responded to them that they have been selected as suppliers at the concert. All 6 suppliers paid the correct amount of R5 000 on time.

-Security guards at the event are instructed to pass by the food and alcohol stands every hour just to check if everything is ok and there is no chaos. Food and alcohol suppliers are always asked to provide food and drinks as soon as possible to keep people happy.

-All tickets across all categories were sold out. Admin person noticed that the company received deposits of R6.2m and R5.8m from Computicket and Ticketweb.com respectively and sent sincere emails thanking the companies for their excellent service.

-Deposits of R100 000, R160 000 and R190 000 were received from 3 category 2 sponsors. A deposit of R380 000 was received from Heinaken, the main sponsor. Admin person sent sincere emails thanking the companies for their sponsorship.

-The tickets for the various categories have 3 different colours to tell them apart. Security guards are stationed at entrances of VIP and VVIP sections to check ticket colours. The security guards leave the section entrances once all 60 and 140 ticket holders have entered the VVIP and VIP sections. General tickets are not regarded as being problematic.

REQUIRED:

You are required to identify ten (10) internal control weaknesses in the events above. Also explain why the identified items are weaknesses.

(10)

QUESTION 5**CYCLE DOCUMENTS**

[30 MARKS – 54 MINUTES]

Cycle documents are important because they are an effective way of communicating information from one person to the next and to ensuring that there is always a paper trail of events that took place.

REQUIRED:

- 5.1 For each of the listed documents below you are required to indicate the cycle to which the document belongs, indicate what information is communicated in the document and from which function / party / person does the document flow and to which function / party / person does it flow to. **Very important: Please complete the table below, tear it out and insert into your answer book.**

Student Details			
Surname & Initials			
Student Number			
Document Name	Cycle (10 marks)	Information (10 marks)	From ----> To (10 marks)
<u>Example:</u> Invoice	Revenue and Receipts	States how much the customer owes for the goods received	From selling company (supplier) to the customer
a) Picking slip			
b) Back order note			
c) Credit application form			
d) Cheque requisition			
e) Receipt			

Student Details			
Surname & Initials			
Student Number			
Document Name	Cycle (10 marks)	Information (10 marks)	From ----> To (10 marks)
f) Payslip			
g) Wage / salary reconciliation			
h) List of employees			
i) Goods received note			
j) Materials issue note			

