



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Auditing and Internal Control 3A
MODULE CODE	AIC33A3 & AIC3AA3
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Summative Assessment Opportunity May 2019

ASSESSMENT DATE	25 May 2019	SESSION	08:30 – 11:30
ASSESSOR(S)	Dr. LJ Mamaile, Mr AS Peer & Ms R Khoza		
MODERATOR(S)	Ms B Schutte (internal) Dr. KN Motubatse (external)		
DURATION	3 hours (180 min)	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	7
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- There are 7 questions. Answer all questions.
- Show all calculations and workings clearly.
- Start each question on a new page in the answer book specified.
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.

Questions	Topics	Marks	Time
1	Multiple choice	10	18 minutes
2	Acquisitions and Payments cycle	10	18 minutes
3	Revenue and Receipts cycle	20	36 minutes
4	Inventory and Production cycle	15	27 minutes
5	Finance cycle	15	27 minutes
6	Investment cycle	10	18 minutes
7	Acquisitions and Payments cycle	20	36 minutes
		100	180
			minutes

QUESTION 1

MULTIPLE CHOICE

[10 MARKS]

1.1 Which of the following documents are not used in the revenue and receipts cycle?

- A. Invoice
- B. Customer order
- C. Purchase order
- D. Remittance advice

1.2 Which of the following control procedures could help that orders are acted upon timely?

- A. Pre-numbered internal sales orders' (ISO) which is matched to delivery notes
- B. Sign all documents as proof of performing the control activity
- C. The internal sales order slip must be authorised by the credit department
- D. None of the above could meet the objective of timeliness

1.3 Which one of the following documents is made out by the receiving clerk when we receive goods ordered from suppliers?

- A. Customer order
- B. Goods received note (GRN)
- C. Invoice
- D. Delivery note

1.4 Which one of the following is a key objective of the inventory and production cycle?

- A. Increase loss of goods through theft
- B. Purchase the goods from your uncles' company
- C. Allow costs to be recorded once in while
- D. Protect the inventory from damage, loss and theft, regardless of whether it is manufactured inventory or inventory purchased for resale

1.5 Which is the correct complete journal entry when the organisation is selling finished goods to the customer on credit (assume a perpetual inventory system)?

- A. Debit cost of sales, debit debtors, credit stock, and credit sales
- B. Debit purchases, credit creditors and credit stock
- C. Debit cost of sales and credit stock
- D. Debit debtors and credit sales

1.6 Which of the following is the correct order of functions within the acquisitions and payment cycle?

- A. Ordering, receiving, recording, despatching and actual payment
- B. Ordering, receiving, recording, payment preparation and actual payment
- C. Ordering, receiving, recording, warehousing and payment preparation
- D. None of the above

1.7 Which of the following is NOT an item to be audited in the finance cycle?

- A. Provision, contingent liabilities and contingent assets
- B. Long term loans, debentures and finance lease liabilities
- C. Salary expense
- D. Share capital

1.8 Which of the following risks is NOT a risk when it is audited as part of the investment cycle?

- A. Acquisition documentation may be lost or otherwise not communicated to proper personnel
- B. Inadequate physical security over fixed assets
- C. Incorrect depreciation lives or methods may be used
- D. Return forms might be incorrectly completed

1.9 Which of the following risks is NOT a risk in the acquisitions and payment cycle?

- A. No goods received notes are being issued
- B. Invalid payment may be made
- C. Failure to control the transfer of finished goods to the finished goods store
- D. Payment of fictitious creditors

1.10 Which of the following financial statement assertions is NOT an assertion of the acquisitions and payment cycle?

- A. All creditors have been reflected at the appropriate amount (at the correct carrying value) - valuation
- B. All payments (to creditors) that should have been recorded have been recorded - completeness
- C. All purchases have been recorded in the proper accounts - classification
- D. The company holds or controls the rights to all inventory reflected in the financial statements (any encumbrances must be disclosed) – rights

REQUIRED:

Marks

Choose the correct option from the above multiple choice questions.

[10]

Answer the sub-sections of this question in numerical sequence, for example

- 1.1 A
- 1.2 B

QUESTION 2

ACQUISITIONS AND PAYMENTS CYCLE

[10 MARKS]

Brackets (Pty) Ltd is a large manufacturing company. Its acquisitions and payments cycle is broken down into the following functions:

- 1. Ordering
- 2. Receiving
- 3. Recording of acquisitions (purchases)

4. Payment preparations
5. Payment and recording

The following control procedures take place within the cycle:

- 2.1 On arrival of goods from a supplier, a clerk signs the supplier delivery note after counting the goods.
- 2.2 The senior financial officer and the creditors' accountant scrutinize the schedule of "payments to creditors" prior to "releasing" the file of EFT payments to creditors.
- 2.3 The senior buying officer confirms that the details on the order to be sent to the supplier, agree with the purchase requisition submitted by the stores' manager.
- 2.4 Purchase orders are cross-referenced to goods received notes on a regular basis to identify unfilled orders.
- 2.5 On transfer of goods from the receiving bay to the warehouse, the stores clerk signs the goods received note to acknowledge acceptance of the goods.
- 2.6 All casts, extensions, discount and VAT on suppliers' invoices are carefully checked.
- 2.7 Creditors statements and the creditors' ledger are reconciled on monthly basis.
- 2.8 To release an EFT creditor's payment file, the senior financial officer must enter an additional "password" provided by a random number generator registered to him.
- 2.9 Purchase invoice received from suppliers are matched to the goods received note, supplier delivery note and purchase order.
- 2.10 Goods short delivered (i.e. 10 ordered only 5 received) are clearly marked on the supplier delivery note.

REQUIRED:**Marks**

Indicate within which function each of the control procedures listed above (2.1 – 2.10) would take place. **[10]**

QUESTION 3**REVENUE AND RECEIPTS CYCLE****[20 MARKS]**

Xaba (Pty) Ltd recognises that in addition to selling goods and services to individual consumers and employing many individuals as employees, the business sells large volumes of stock to its customers on an annual basis.

Many customers find Xaba (Pty) Ltd accessible and selling best available quality goods to them.

REQUIRED:**Marks**

Describe control activities that can be performed for each of the functions listed below in the revenue and receipts cycle of a business. You can assume that the business operates in a manual environment.

- | | | |
|-----|-----------------------------|-------------|
| 3.1 | Receiving customers' orders | [7] |
| 3.2 | Despatch | [7] |
| 3.3 | Warehousing | [6] |
| | | [20] |
-

QUESTION 4 **INVENTORY AND PRODUCTION CYCLE** **[15 MARKS]**

Control activities are the actions, supported by policies and procedures, which are carried out to manage or reduce the risks that the objectives of the organisation will not be met. Management must implement control activities to contribute to financial information which is representative of transactions which have occurred, is timely, accurate and complete.

The inventory and production cycle deals with the custody and safekeeping of inventory and the accurate and complete recording of costs where a production/manufacturing process occurs. It is therefore important that management implement efficient and effective controls to ensure that the broad objectives of this cycle will be achieved.

REQUIRED: **Marks**

- 4.1 List the **control activities** that can be implemented for a **job costing** system. **[10]**
- 4.2 List **controls** which management can implement over the **movement of goods**. **[5]**
[15]
-

QUESTION 5 **FINANCE CYCLE** **[15 MARKS]**

Leasing is another very common form of “acquiring” an asset. Many leases are simple operating leases for which the lease rentals paid are written off in the statement of financial position. However, finance leases are treated very differently and require that the company raise an asset and a corresponding liability. The audit of a finance lease therefore requires that both the asset raised and the corresponding liability be audited. During the audit of finance leases the auditor will execute audit procedures against each of the relevant assertions.

REQUIRED: **Marks**

- 5.1 List **five (5)** factors which indicate that a lease is a finance lease. **[5]**
- 5.2 List **five (5) audit procedures** the auditor will execute to obtain evidence against the **occurrence** assertion of a lease. **[5]**
- 5.3 List **five (5) audit procedures** the auditor will execute to obtain evidence against the **completeness** assertion of a lease. **[5]**
[15]
-

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

You have recently been appointed as the new external audit partner of the client Two Direction (Pty) Ltd. When you signed the contract with the chief financial officer, he mentioned that he is worried about the long term loans made by the company to third parties as well as the Property, plant and equipment of the company.

The following extract from the notes to the annual financial statements of Two Direction (Pty) Ltd was supplied to the audit team:

Computer Equipment	R
Opening balance 1 March 2018 (Carrying amount)	2 500 000
Additions	300 000
Disposals	500 000
Depreciation for the year	???
Closing balance as at 28 February 2019	???

- Computer equipment is depreciated at 10% per annum on the straight-line method.
- All disposals occurred on 1 March 2018. Their net book value is R500 000 at date of disposal.
- All additions were on the 1st of September 2018.

REQUIRED:**Marks**

- 6.1 List the audit procedures the audit team need to perform to ensure the *Valuation of the cost* of property plant and equipment is accurate. **[4]**
- 6.2 List the audit procedures the audit team need to perform to ensure the *Completeness* of property plant and equipment balance in the financial statements of the client. **[4]**
- 6.3 According to *IAS 16 Property, Plant and Equipment* there are two (2) models for valuing Property, plant and equipment. Name these two methods. **[2]**
- [10]**

QUESTION 7**ACQUISITION AND PAYMENTS CYCLE****[20 MARKS]**

Hlogwane (Pty) Ltd is situated in Freedom Park Soweto. The company manufactures play equipment for children. Somewhat concerned about the internal controls at the company, the newly appointed financial manager, Timothy Khoza, has requested you to evaluate the internal controls in the acquisitions and payments cycle. By enquiry of employees in the cycle, inspection of relevant documents and observation of the activities, you have established the following:

The company manufactures its products according to production schedules which are compiled by the factory manager. At least 15 days prior to production run being scheduled to commence, the factory manager gives a copy of the production schedule and a list of raw materials and parts to Lukas and Ronnie, the administration clerks in the cycle. These documents are not numbered.

Using the list of raw materials and parts, the administration clerks write out two part sequentially numbered purchase orders for the items required. Having decided on the supplier with whom they wish to place the order (the decision is based on personal preference), they mail the original copy to the supplier and retain the second copy in a pending file.

The order is cross-referenced to production schedule, which is returned to factory manager after the order has been placed.

In addition to purchasing raw materials and parts as per the production schedules, the administration clerks regularly purchase parts and raw materials when suppliers offer special/promotional deals.

Hlongwane (Pty) Ltd has a large physically warehouse in which raw materials and parts and finished goods are separately stored. Clayton the warehouse supervisor and his team of three warehouse clerks, are responsible for the custody of all inventory. Hlongwane (Pty) Ltd has a secure receiving bay adjoining the warehouse.

Lukas and Ronnie are located in an office next to the receiving bay so that they can receive the goods that have been ordered. When a supplier's truck arrives to make a delivery, either of the two will extract the second copy of the purchase order from the pending file. As the goods are offloaded by the supplier into the receiving area, whoever is receiving the goods will tick off each item on the purchase order and sign the supplier delivery note. At a later stage either Lukas or Ronnie compare the purchase order to the suppliers' delivery note to identify any items which have not been correctly delivered (e.g. over or under deliveries). The details of under-delivered items are entered onto a new purchase order, which is sent to the supplier in the normal manner.

The original order is placed on Clinton's (the warehouse supervisor) desk so that he can enter the details of the goods received into the inventory records which he maintains. At the end of the day the warehouse clerks move the goods from the receiving bay into the warehouse.

REQUIRED:**Marks**

Identify with explanation the weaknesses in the Acquisition & Payments cycle of Hlongwane (Pty) Ltd based on the information given above. **[20]**

Hint: Present your answer as follows:

Identification of the weakness	Explanation of the weakness
7.1	7.1

TOTAL: [100]