



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

<b>ASSESSMENT DATE</b>	July 2019	<b>SESSION</b>	
<b>ASSESSOR(S)</b>	Dr. LJ Mamaile, Mr AS Peer & Ms R Khoza		
<b>MODERATOR(S)</b>	Ms B Schutte (Internal) & Dr. KN Motubatse (External)		
<b>DURATION</b>	3 hours (180 min)	<b>TOTAL MARKS</b>	100

<b>NUMBER OF PAGES OF QUESTION PAPER (Including cover page)</b>	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	Finance and Investment cycle	10	18 minutes
3	Acquisitions and Payments cycle	20	36 minutes
4	Inventory and Production cycle	15	27 minutes
5	Investment cycle	10	18 minutes
6	Finance and Investment cycle	15	27 minutes
7	Revenue and Receipts cycle	20	36 minutes
		<b>100</b>	<b>180 minutes</b>

**QUESTION 1**

**MULTIPLE CHOICE**

**[10 MARKS]**

- 1.1 In a typical acquisition and payment cycle which one of the following documents will be generated by the supplier?
- A. Requisition
  - B. Delivery note
  - C. Remittance advice
  - D. Goods received note
- 1.2 Which of the following functions does not relate to the acquisition and payments cycle?
- A. Credit management
  - B. Receiving of goods
  - C. Ordering of goods
  - D. All of the above relate to the cycle
- 1.3 The record of the sequence activities for a purchase transaction to be tracked from start to finish is referred to as ...
- A. sequence testing.
  - B. document flow.
  - C. audit trail.
  - D. Matching.
- 1.4 The initiation of a purchase order and the approval of the order are carried out by different people at Batho (Pty) Ltd. To which component of internal control does this relate?
- A. The information system
  - B. Monitoring of controls
  - C. Control environment
  - D. Control activities
- 1.5 The assertions applicable to the trade and other creditors balance are ...
- A. rights, completeness, existence and valuation.
  - B. completeness, occurrence, cut-off and valuation.
  - C. obligation, existence, completeness and valuation.
  - D. occurrence, accuracy, completeness and valuation.
- 1.6 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 uncle's 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.
- 1.7 Which of the following risks is **NOT** a risk in the inventory and production cycle?

- A. Company assets are being misappropriated.
- B. No record is created of goods or components physically moved.
- C. Failure to budget costs properly resulting in selling prices which are too low and subsequent losses.
- D. Inventory shortages are concealed

1.8 The intentional understatement of the trade creditors balance in the financial statements is an example of ...

- A. management override.
- B. collusion.
- C. fraudulent financial reporting.
- D. misappropriation of assets.

1.9 On the audit of Snapshot (Pty) Ltd the auditor inspected the agreements for two new loans which the company had raised, to determine *inter alia*, whether the agreements contained any loan covenants relating to the working capital ratios. This procedure would be regarded as ...

- A. an analytical procedure.
- B. a substantive procedure.
- C. a risk assessment procedure.
- D. a test of controls.

1.10 When conducting audit procedures on the trade creditors account balance, the extent of the testing will be determined by ...

- A. the allocation in the budget for the audit.
- B. the audit strategy.
- C. the assessed risk of material misstatement.
- D. the assessed risk of material misstatement and the results of the tests of controls.

**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
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**QUESTION 2** **FINANCE AND INVESTMENT CYCLE** **[10 MARKS]**

- 2.1 When the auditor confirms that a company had the necessary authorization, about unissued shares to make a fresh issue of shares during the year under audit, he is gathering evidence to support the classification assertion applicable to the transaction.
- 2.2 Every issue of shares to a director must be supported by a special resolution of the shareholders.
- 2.3 Where a company has issued debentures at a premium, the debenture must be reflected in the financial statements at amortised cost.
- 2.4 Where a company enters into a long-term lease for an expensive piece of machinery it can recognize the lease by recognizing a "right of use" asset and a lease liability, or it can simply treat the lease payment as an expense.
- 2.5 The classification assertion does not apply to property, plant and equipment.
- 2.6 A company may choose the cost model or revaluation model for its property, plant and equipment.
- 2.7 The carrying amount of plant and equipment using the cost model will always be reflected as cost less accumulated depreciation.
- 2.8 When the definition and recognition criteria for an asset e.g. a large machine, are met for significant parts of the machine, the cost of each significant part should be recognized in a separate asset account.
- 2.9 If a company adopts the revaluation model for its property, plant and equipment and the assets carrying amount increases as a result of a revaluation, the increase is always recognized in profit and loss as revaluation income.
- 2.10 The directors of a company are required to review the residual value and useful life of property, plant and equipment at the end of every financial year.

**REQUIRED:** **Marks**

Indicate whether each of the statement listed above is True or False. **[10]**

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**QUESTION 3** **ACQUISITION AND PAYMENTS CYCLE** **[20 MARKS]**

The business-to-business or B2B concept recognises that in addition to selling goods and services to individual consumers and employing many individuals as employees, business do large volumes of business with each other.

Almost all business enterprises acquire goods and services from and make payments to other businesses.

**REQUIRED:****Marks**

Describe control activities that can be performed under the functions listed below in the acquisitions and payments cycle of a business:

3.1 Ordering of goods and services [10]

3.2 Actual payments and recording [10]

[20]

**NB:** You can assume that the business operates in a manual environment.

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

Inventory presents the directors of a company with an effective opportunity for acting fraudulently, by manipulating the inventory balance. The inventory balance at year-end is used in the calculation of profit and is used in the statement of financial position and therefore its manipulation can have pervasive effects on profits, important ratios and earnings per share.

It is important for the auditor to identify and assess the risk of misstatement at assertion level. As part of the auditor's efforts to collect evidence on the fair representation of inventory, is the attendance of year-end inventory counts.

**REQUIRED:****Marks**

4.1 Describe the procedures the auditor will perform **before** the year-end inventory count. [5]

4.2 Describe the procedures the auditor will perform **during** the year-end inventory. [5]

4.3 Describe the procedures the auditor will perform **after** the year-end inventory count. [5]  
[15]

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**QUESTION 5****INVESTMENT CYCLE****[10 MARKS]**

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:****Marks**

5.1 List procedures the auditor can execute to obtain evidence on the valuation assertion as it relates to impairment of assets. [10]

[10]

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**QUESTION 6****FINANCE AND INVESTMENT CYCLE****[15 MARKS]**

You are the senior on the audit of Rebone (Pty) Ltd. You are working on the audit of the finance and investment cycle for the financial year end 31 March 2019 and have asked your trainee to explain the assertions relating to the following account headings:

Interest received                      R 2 143 021  
Non-current liabilities              R13 400 000

Your trainee responded as follows:

**Interest received**

Rights	Rebone (Pty) Ltd has the right to receive interest because it made the loan.
Accrual	Interest which is owed to Rebone (Pty) Ltd at 31 March 2019 but has not yet been received, has been included in the balance of R2 143 021.
Obligation	Entities which paid the interest are obliged to do so because they entered into a contract.
Valuation	The amount of R2 143 021 is the correct amount of interest which has or should be paid to Rebone (Pty) Ltd in respect to loans they have made.

**Non-current liabilities**

Occurrence	The loans have already been received by Rebone (Pty) Ltd i.e. they have occurred.
Validity	The loans are not illegal and have not been obtained from illegal sources such as loan sharks.
Accuracy	All details pertaining to the loan have been accurately disclosed in the financial statements.
Transparency	Rebone (Pty) Ltd has declared all loans in its financial statements i.e. they are not hiding any amounts the company owes.

**REQUIRED:****Marks**

Indicate whether your trainee has an adequate understanding of the assertions. Justify your answer.

**Hint:** Your answer must convey that you understand the assertions applicable to interest received and non-current liabilities.

**[15]**

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**QUESTION 7****REVENUE AND RECEIPTS CYCLE****[20 MARKS]**

A friend of yours, Matome Morena, recently purchased all the shares in Crazytimes (Pty) Ltd, a wholesaling company which sells all kinds of goods for outdoor pursuits e.g. skateboarding, BMX, kayaking etc. The company sells only on credit and does not sell to the general public. Debtors pay very occasionally by cheque but usually by EFT. The previous owners also the directors, spent more time engaged in outdoor pursuits than in looking after the business,

choosing to leave the running of the business in the hands of various managers and other employees. The goods which the company sells are popular so the business has survived this ownership neglect, and your friend (entrepreneur) sees potential in the company. He asked you to have a look at the accounting system and internal controls which you did, only to find that, despite the design and the documentation of the system being basically sound, the control awareness and proper operation of the control activities by employees was poor. The cycle has been broken down into the usual functions for a revenue and receipts cycle and all the functions are adequately staffed. On reporting to Matome Morena, his response was "OK, as I am the sole director and will be involved much in the business I want you to explain two things to me. Firstly, if we assume that the staff are honest but careless or as you say, not very control aware, what could go wrong in the revenue and receipts cycle, and secondly, if some of the staff are dishonest, including the managers, how could they steal or defraud the company?".

**REQUIRED:****Marks**

- |     |   |             |
|-----|---|-------------|
| 7.1 | Explain what could go wrong in the revenue and receipts cycle, assuming that the staff are honest but careless and not control aware. | <b>[15]</b> |
| 7.2 | Explain to Matome Morena, how dishonest employees (including managers) could be stealing from/defrauding the company in this cycle.   | <b>[5]</b>  |
|     |   | <b>[20]</b> |

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**TOTAL: [100]**