



FACULTY : College of Business and Economics

DEPARTMENT : Commercial Accounting

CAMPUS : SWC

MODULE : AIC22B2
Auditing and Internal Controls 2B

SEMESTER : Second

EXAM : November 2019

DATE : 16 November 2019 **SESSION** : 12:30-15:30

ASSESSOR(S) : Miss Kuzwayo

Mrs Mia

Mrs Nevhutanda

MODERATOR : Mrs B Schutte

DURATION : 3 HOURS **MARKS** : 100

NUMBER OF PAGES: 9 PAGES (including the cover page)

INSTRUCTIONS:

1. You are allowed to use a calculator.
 2. An answer sheet/book will be supplied to you, in which you must write your answers in. If you need another book/sheet, please ask the invigilator for another.
 3. By writing this test and affixing your name and student number to the answer sheet/book, you confirm that you are conversant with the test regulations of the University.
 4. Use only a blue or a black pen to answer your questions. Answers given in pencil will not be marked.
 5. Make sure your handwriting is neat and easy to read. Set out your answer in a clear logical manner.
 6. Use the same numbers for your answers as those used for the questions in the test/examination paper.
 7. Hand your answer book to the invigilator at the end of the test/examination.
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QUESTION 1 [BLUE BOOK]**[20]****Part A**

Despite the best intentions of the directors of a company to implement “fool proof” internal controls it is virtually impossible to do. From the board’s perspective, internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity’s financial reporting objectives.

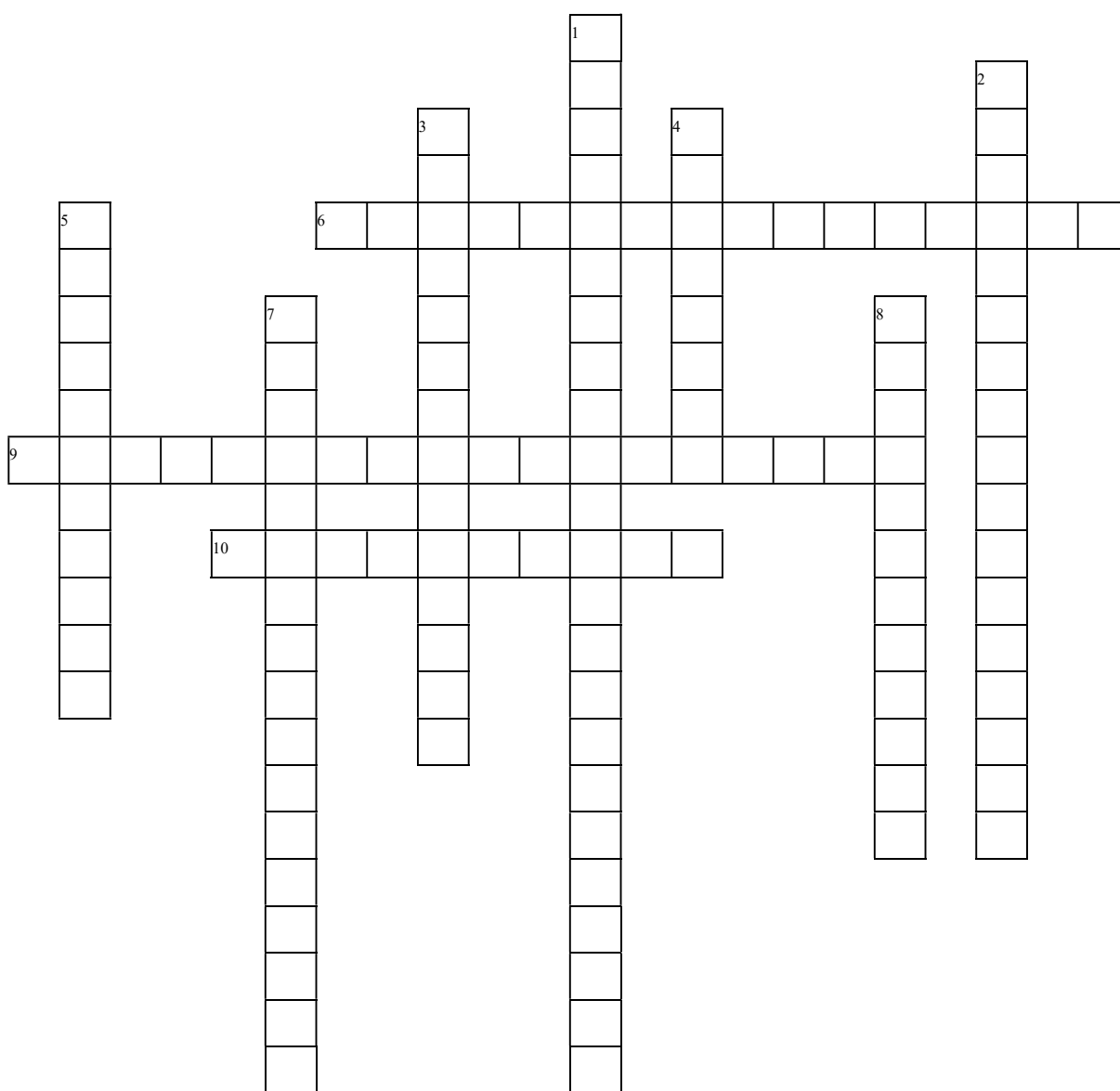
REQUIRED:

- 1.1. Discuss the factors that prevent internal controls from operating the way they should. (6)
- 1.2. During the semester you were taught that “comparison and reconciliation” is one of the control activities. Furthermore, you were taught about the inventory and production cycle and that one of the ways in which inventory can be recorded is on a perpetual basis. Explain “comparison and reconciliation” in relation to an entity’s inventory. You are required to assume that the entity uses a perpetual inventory system. (4)

[PLEASE TURN THE PAGE FOR PART B]

QUESTION 1 [CONTINUED]**Part B****(10)****PLEASE TEAR OUT THIS PAGE AND INSERT IN YOUR ANSWER BOOK****The questions for this crossword are on the next page.**

**Note: If an answer comprises of more than one word, do not leave spaces
between the words**

Initial and surname:**Student number:****Index number:**

QUESTION 1 [CONTINUED]**Part B – Crossword questions****Across**

- 6** This individual is responsible to ensure that the company complies with all laws and regulations
- 9** The head of this function is responsible for making sure that buildings of the company are well maintained, we have security guards, cleaners, etc.
- 10** A business where everyone knows what to do and how to do it, the control environment will be significantly improved

Down

- 1** A clear ... should exist indicating key areas / departments and how functions should be executed
- 2** This individual is the head of the accounting function in a business
- 3** ... threatens an entity from achieving its objective to abide with laws and regulations
- 4** Internal controls provide reasonable assurance and not... assurance
- 5** This individual needs to make sure that all essential items are thoroughly discussed in board meetings.
- 7** Actions supported by policies and procedures which need to be carried out to reduce risks in an organisation's
- 8** This changes balances in the general ledger and may be used to manipulate financial statements

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QUESTION 2 [GREEN BOOK]**[20]**

Mr. B. Allen is a skilled photographer who manages large photography business. The business offers photography services and sells custom-made albums to clients. They specialize in sports events and special occasions.

The business has been doing well and there is enough money available to purchase Nikon Z7 cameras for 2 of the new photographers employed by the company.

The company's financial year runs from 1 May to 30 April each year.

Part A

The following steps were taken by employees at The Flash Photography in purchasing the new cameras:

- A purchase requisition was filled in by Mr. Allen and sent to the procurement department.
- Quotations were obtained from approved suppliers and Queen Industries offered the best deal.
- Ms. Iris West, the chief buyer signed the purchase requisition and this document was sent to Queen Industries to place the order for the 2 cameras.
- Mr. Cisco Ramon received the two cameras and paid for these cameras using cash on delivery.
- Mr. Ramon then proceeded to record the purchase in the financial records of The Flash Photography.

REQUIRED:

- 2.1. What does the acquisition and payment cycle deal with? (2)
- 2.2. List two activities that were correctly performed by the staff at The Flash Photography and explain why these activities are necessary (4)
- 2.3. List the weaknesses present in the acquisition cycle of The Flash Photography and explain the reason why these are weaknesses (8)

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QUESTION 2 [CONTINUED]**Part B**

Mr. Ramon made the following errors when he recorded the payment of the cameras in the books of The Flash Photography:

- A. He recorded the payment on 26 April 2019 instead of 3 May 2019 when the receipt was actually received
- B. He credited Bank and debited Trade Receivables for the payment amount
- C. He only recorded payment for 1 camera and not both

REQUIRED:

- 2.4. For each of the errors made above, list the **assertion relating to the payment transaction** and explain how the errors relate to the identified assertion. (6)

QUESTION 3 [ORANGE BOOK]**[20]**

The Inventory Cycle is fundamental to a company's operations and is not applicable to entities that render services. Inventory is usually the major component in the calculation of cost of sales, gross profit and net profit.

REQUIRED

- 3.1. What type of inventory does a manufacturing company hold? (1)
- 3.2. Describe the objectives of the inventory and production cycle. (3)
- 3.3. List and describe documents used in the inventory and production cycle. (8)
- 3.4. Describe the procedures a company should follow in an inventory count that is conducted by the company and not the auditor. (8)

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QUESTION 4 [YELLOW BOOK]**[20]****Part A**

The revenue and receipts cycle is better described as the “Sales and Collection Cycle”; deals with the processes of selling goods / services to customers and collecting payment (cash / credit) from the customers.

REQUIRED:

- 4.1. Describe the advantages and disadvantages for cash sales. (4)
- 4.2. Describe one advantage and one disadvantage for credit sales. (2)
- 4.3. Provide a definition for the documents listed below:
 - 4.3.1. Remittance advice (1)
 - 4.3.2. Back order note (1)
 - 4.3.3. Debtors statement (1)
 - 4.3.4. Internal sales order form (1)

Part B

You are a student pursuing a Diploma in Accounting at the University of Johannesburg. You are the only person amongst your group of friends who is studying an accounting related qualification that includes Auditing. They would like to get your opinion on the following scenario:

Your friend, Ngithanda Imali, has been saving up his monthly allowance to buy shares. He bought all the shares in Faka Imali Uzobona (Pty) Ltd a business that stationery. This entity has a policy where they do accept cash payments from customers for items bought. Therefore customers pay only by EFT or cash.

The previous owners of the business, who were also the directors, spent most of their time focusing on other personal activities rather than focusing on managing the operations and finances of Faka Imali Uzobona (Pty) Ltd. The previous owners left these tasks to be run by the managers and other employees in the business. The stationery sold by the business was popular. The business was able to survive despite the neglect from the shareholders. Your friend, Ngithanda Imali, saw this as an opportunity to grow the business.

With your accounting and auditing knowledge, your friend asked you to look at the accounting system that is currently in place at the business and the internal controls. After your assessment, you found that, even though the design and documentation in place are implemented, implementation with respect to the control awareness and proper operation of control activities by employees were lacking. The revenue and receipts cycle is split between the required functions that you learnt about in Auditing and each function has sufficient staff members.

With this feedback, Ngithanda Imali asked for your advice because he too, as the only director in the business, won't be involved in the day to day operations of the business.

REQUIRED:

- 4.4. Identify the risks in the scenario above with respect to the revenue and receipts cycle. You can assume that the staff members are honest however they are careless and not completely aware about controls.

TIP: You need to discuss each of the affected functions in your response but no marks will be awarded for just listing the applicable functions. (10)

QUESTION 5 [PURPLE BOOK]

[20]

Drillers Ltd is a mining company, and has a large workforce of around 5 000 workers, many of whom are migrant workers from rural regions and neighbouring countries. The company has a formal risk assessment process, which includes a risk committee that meets twice a year to identify and assess risks faced by the company, and consider whether the risks are being appropriately responded to. The risks relating to human resources are always an item for discussion on the agenda.

REQUIRED:

- 5.1. Describe briefly 5 (five) risks that a company such as Drillers Ltd might face relating to its workforce. (6)
- 5.2. Explain the control objectives of completeness, accuracy and validity in the context of wages paid on the basis of hours worked. (3)
- 5.3. List and explain 4 (four) functions, that one can find in the payroll cycle. (8)
- 5.4. List 3 (three) documents used in the payroll cycle. (3)

THE END