

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION QUESTION PAPER**

**DEGREE/YEAR OF STUDY** : **B COM IV**

**TITLE OF PAPER** : **AUDITING**

**COURSE CODE** : **AC 404**

**TIME ALLOWED** : **THREE (3) HOURS**

**INSTRUCTIONS**

- 1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)**
- 2. ANSWER ALL QUESTIONS**
- 3. WHERE APPLICABLE ALL WORKINGS SHOULD BE SHOWN**
- 4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.**

**NOTE:** **YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.**

**SPECIAL REQUIREMENT:** **NONE**

**THIS PAPER IS NOT TO BE OPENED UNTILL PERMISSION HAS BEEN GRANTED BY THE INVIGILATER.**

**Question 1**

In connection with your examination of the financial statements of Lucy Products, a limited company, for the year ended 31 March 2012, you are reviewing the plans for a physical inventory count at the company's warehouse on 31 March 2012. The company assembles domestic appliances, and inventory of finished appliances. Unassembled parts and sundry inventory are stored in the warehouse which is adjacent to the company's assembly plant. The plant will continue to produce goods during the inventory count until 5pm on 31 March 2012. On 30 March 2012, the warehouse staff will deliver the estimated quantities of unassembled parts and sundry inventory which will be required for production for 31 March 2012. However, emergency requisitions by the factory will be filled on 31 March. During the inventory count, the warehouse staff will continue to receive parts and sundry inventory, and to dispatch finished appliances. Appliances which are completed on 31 March 2012 will remain in the assembly plant until after the count has been completed. When arranging the inventory for the count, damaged and unusable items were removed from the warehouse.

**Required**

- (a) List the principal procedures which the auditors should carry out when planning attendance at a company's physical inventory count for a company that uses a perpetual inventory system and one that counts stock at year end  
[12 Marks]
- (b) Describe the procedures which Lucy Products should establish in order to ensure that all inventory items are counted and that no item is counted twice.  
[8 Marks]
- (c) Describe the procedures which the auditor should perform to ensure completeness and accuracy of stock obsolescence provision.  
[5 Marks]

**Question 2**

Candy Co is a small company which maintains its sales, purchase and nominal ledgers on a small PC, using a standard computerised accounting package. The company buys products from large manufacturers and sells them to shops which either sell or hire them to the general public. The products include drain clearing machines, portable generators, garden cultivators and wallpaper strippers.

You have been asked to carry out an audit of the nominal ledger system to verify that items are accurately recorded in the year. At the end of the year, the nominal ledger produces a trial balance, which is used to prepare the annual financial statements. The company employs a bookkeeper, who is responsible for posting the sales and purchase ledgers, and maintaining the nominal ledger.

Data is posted to the nominal ledger as follows.

- a) At the start of the financial year, all the balances in the nominal ledger accounts are set to zero (using the standard year-end procedure of the computer package).
- b) The following procedures relate to purchase transactions.
  - i. When invoices are posted to the purchase ledger, the purchase analysis code (for the nominal ledger), the purchases value and the sales tax value are entered. The total invoice value is posted to the purchase ledger.
  - ii. At the end of the month, the computer posts the following items to the nominal ledger:
    - (1) The total of each category of invoice expense and sales tax for purchase invoices and credit notes posted in the month (at the same time the computer prints details of the individual invoices making up the total of each invoice expense and sales tax for the month).
    - (2) The total of purchase ledger cash payments, discount received and adjustments posted to the purchase ledger in the month (the computer prints details of the individual items comprising the total cash discount and adjustments for the month).
    - (3) Where there is no account in the nominal ledger relating to the items being posted, the computer posts the items to a payables suspense account. Also, all adjustments are posted to the suspense account.
- (c) Sales ledger *data* is posted to the nominal ledger in a similar way to purchase ledger *data*.

- (d) Journals *are* posted manually to the nominal ledger for:
- (i) The opening balances at the start of the year
  - (ii) Other cash book items (other than sales and purchase ledger cash)
  - (iii) Petty cash payments
  - (iv) Wages analysis (details *are* obtained from the computerised payroll system)
  - (v) Adjustments, which include:
    - (1) Correction of errors
    - (2) Dealing with items in the sale and purchase ledger suspense accounts (adjustments posted to the ledger, and items where there is no account in the nominal ledger)

All these journals *are* written manually in an accounts journal book, and they must be authorised by the managing director before posting. The opening balances *are* posted to the nominal ledger when the previous year's accounts have been approved by the auditors. Although the employee wages *are* calculated using another computer package, the total wages expense is posted to the nominal ledger manually. The wages expense is calculated from the payroll's monthly summary, using a spreadsheet package, and the wages expense is analysed into directors, sales, warehouse and office wages (or salaries).

### **Required**

**List and describe the work you would perform on the computerised nominal ledger system, and in particular:**

- a) **The audit procedures you would perform to verify the accuracy of purchases transactions which are posted to the nominal ledger. [8 Marks]**
- b) **The audit procedures you would perform to verify the validity and accuracy of journals posted to the nominal ledger. Also, you should briefly describe any other test you would perform to verify the accuracy of the year- end balances in the nominal ledger. [17 Marks]**

***Note: Assume that sales transactions are accurately recorded and posted to the nominal ledger.***

**Question 3**

- a) **Explain the concept of objectivity, with reference to**  
 (i) **External auditors**  
 (ii) **Internal auditors**  
**outlining any general threats to objectivity that exist.**

**[8 Marks]**

b)

*Scenario 1*

Bakers Co is an audit client of Dlamini, a firm of Chartered Certified Accountants. The firm has had the audit of Bakers for 17 years and the fee represents 7% of firm income. Bakers is considering a major new project and has asked the firm if it would be happy to undertake some one-off consultancy work for the firm. It is possible that the fee income for this contract would represent 10% of that year's income for Dlamini. The new business services partner, who heads up a new division of the firm, is keen to take on the work, as this would represent his best contract yet.

*Scenario 2*

Peter works in the purchasing department of Murphy Manufacturing Co. He has been instrumental in setting up control systems in the purchasing department as part of a recent risk management exercise. He has a poor relationship with his immediate supervisor, the Purchasing Director. Murphy Manufacturing has just advertised the post of trainee internal auditor. Peter is interested in the internal audit work, having liaised substantially with the department during the recent controls exercise. No formal accountancy qualifications are required for the post, because the successful candidate will be put through accountancy training. Peter has had a chat with the head of internal audit concerning the post and is seriously considering making an application.

***Required***

- i) **Discuss the threats and the safeguards to objectivity that could be implemented in the two situations given above.** **[12 marks]**
- ii) **Discuss the five principles of professional ethics.** **[5 Marks]**

**Question 4**

It has been suggested that the most important matter affecting the credibility of the auditor is that of 'independence' .

**Required**

- (a) **Discuss, giving examples, matters other than independence, which might be relevant in relation to the credibility of the auditor and steps that the accounting profession has taken or might take in relation to them. [7 marks]**
- (b) **Discuss the following situations in the context of the independence of the auditor, showing clearly the principles involved, the threats and the safeguards that may be implemented:**
- (i) The audit manager in charge of the audit assignment of Andrew Co holds 1,000 E1 ordinary shares in the company (total shares in issue - 100,000). The audit partner holds no shares.
  - (ii) The audit fee receivable from Janet Co, a private company is E100,000. The total annual fee income of the audit firm is E700,000.
  - (iii) The audit senior in charge of the audit of Margot Bank Co has a personal loan from the bank of E2 000 on which she is currently paying with 13% interest.
  - (iv) The audit partner is responsible for two audit assignments, Harry Co and Jean Co. Harry Co has recently tendered for a contract with Jean Co for the supply of material quantities of goods over a number of years. Jean Co has asked the audit partner to advise on the matter.
- [12 marks]**
- (c) **Advise ABC's Auditors on the procedures to perform regarding the following scenario; ABC Auditors want to rely on controls tested by the ABC's Internal Audit department and also on the valuation done by Alexander Forbes who are ABC's Actuaries.**

**[6 Marks]**