

 SOUTHERN AFRICAN INSTITUTE FOR BUSINESS ACCOUNTANTS	AUDITING II	
	MOCK EXAM:	100 marks
	DURATION:	3 hours
	EXAMINER:	Mr. B. Stoop



TOPICS COVERED: (refer to module outcomes)

Question:	Topic:	Marks:
1	Public interest and assurance engagement (1 &2)	14
2	Parties involved in the auditing framework (1)	7
3	Inducements including gifts and hospitality (2)	7
4	Audit evidence (3)	6
5	Components of internal control (5)	10
6	Basic functions for the revenue and receipts cycle (7)	8
7	Functions for the acquisition and payment cycle (8)	13
8	Documents used in the inventory and production cycle (9)	15
9	Functions and risks of the payroll cycle (10)	20
TOTAL:		100

QUESTION 1: PUBLIC INTEREST

[14]

The Companies Act 2008 and its accompanying Regulations 2011 require that every company and close corporation calculates what is termed its “public interest score”.

You are required to:

- 1.1. Explain the term public interest score and how it is calculated. (8)
- 1.2. Explain **fully**, the link between the public interest score of a **private** company and the type of assurance engagement (if any) to which the company must subject its annual financial statements. (6)

QUESTION 2: PARTIES INVOLVED IN THE AUDITING FRAMEWORK

[7]

- 2.1** Appearing below is a list of different types of auditors and other individuals associated with the financial world. Also listed is a broad description of some of the activities carried out by the individuals.

Individuals

1. Forensic auditor
2. A registered auditor
3. Internal auditor
4. Independent accounting professional
5. A financial director
6. Government auditor
7. Special purpose auditor
8. Management accountant

Activities

- A. Takes responsibility at board level for the adoption and implementation of the accounting policies adopted by a company
- B. Investigates and gather evidence where there has been alleged financial mismanagement/fraud
- C. Analyses cost and variance reports
- D. Expresses an independent opinion on whether the financial statements of a company is fairly presented

- E. Expresses an opinion on whether the financial information presented by the Eastern Cape provincial health department to the government is fairly presented in the terms of the government's reporting guidelines
- F. Performs, on behalf of the board, an independent evaluation of whether a company is appropriately addressing the risks faced by a company
- G. Conducts procedures to determine whether a mining company is complying with environmental regulations
- H. Independently compiles the annual financial statements of a private company

You are required to:

1. Match each **activity** to the **individual** most likely to carry out the activity. (7)

Example:

Individual	Activity
1. Forensic auditor	B

QUESTION 3: INDUCEMENTS INCLUDING GIFTS AND HOSPITALITY [7] (section 250)

- 3.1 Suzie Wantoo is a registered accountant working as a financial manager at Desperate Ltd. Suzie received an invite to the final for the British and Irish Lions vs the Springbucks by one of Desperate Ltd.'s suppliers. The specific suppliers' contract is up for renewal at the end of the year.

You are required to:

1. Discuss how Suzie Wantoo should act in this situation so as to comply with the fundamental principles. (7)

QUESTION 4: AUDIT EVIDENCE [6]

The following questions are based on ISA 500

- 4.1 What is audit evidence (1)
- 4.2 Will accounting records which are accurate, complete and properly maintained, provide sufficient audit evidence for the auditor to fulfil his function? (2)
- 4.3 Upon what do the relevance and reliability of evidence depend? (3)

QUESTION 5: COMPONENTS OF INTERNAL CONTROL**[10]**

The following questions are based on ISA 315 (Revised)

5.1 In terms of ISA 315 (Revised) – Identifying and assessing the risk of material misstatement, the components of internal control are as follows: (5x2)

- i. Control environment
- ii. Risk assessment process
- iii. Information systems
- iv. Control activities
- v. Monitoring of controls

You are required to:

1. Briefly describe each of the components of internal control as identified by ISA 315 (Revised)

QUESTION 6: FUNCTIONS FOR THE REVENUE AND RECEIPTS CYCLE**[8]**

6.1 Basic (PTY) Ltd is a large consumer goods manufacturing company with all the normal accounting systems such as a company requires, for example revenue and receipts, payroll, acquisition and expenditure, etc. The accountant maintains a list of all the documents used within the various cycles, some of which are listed below:

1. Credit application	2. Purchase invoice	3. Delivery note
4. Inventory requisition	5. Clock card	6. Internal sale order
7. Customer's credit note	8. Back order note	9. Costing schedule
10. Sales invoice	11. Cheque requisition	12. Customer order
13. Receipt	14. Purchase order	15. Picking slip
16. Goods received note	17. Job card	18. Salary advice

You are required to:

1. Identify the functions you would expect to find in the revenue and receipts cycle at Basic (PTY) Ltd, placing them in the order the activity takes place. Do not concern yourself with the function which deals with goods returned by customers. (8)

QUESTION 7: FUNCTIONS FOR THE ACQUISITION AND PAYMENT CYCLE [13]

The following lists identify a number of the departments and documents at Cycle (PTY) Ltd, a large supplier of cycling products.

7.1 The departments at Cycle (PTY) Ltd includes:

- a) Receiving (Warehouse)
- b) Despatch (Warehouse)
- c) Marketing
- d) Administration (Warehouse)
- e) Buying / Ordering
- f) Accounting
- g) Human Resources
- h) Wages
- i) Inventory requisition

You are required to:

- Identify, in order, the departments which would be involved in the acquisition of and payment for credit purchases in this company. (4)

7.2 The documents at the various departments of Cycle (PTY) Ltd includes:

- Purchase invoice
- Internal sales invoice
- Purchase order
- Payroll
- Delivery Note (company)
- Delivery Note (supplier)
- Goods received note
- Cheque requisition

You are required to:

- For each department identified in 7.1, indicate which document, if any, would be used and or generated. (10x½) (5)

7.3 Using the documentation of 7.2, indicate, with a brief explanation, the sequence in which the documents would be used. (4)

QUESTION 8: DOCUMENTS - INVENTORY AND PRODUCTION CYCLE [15]

8.1 The following documents may play a role in the inventory and production cycle:

1. *Goods received note*
2. Production schedules
3. Materials issue note
4. Inventory sheets
5. Inventory adjustment form
6. Job cards
7. Inventory tag
8. Transfer to finished goods note

You are required to:

- Briefly describe the use to which each of the above documents is put.

(8x2)
(Max
15)

QUESTION 9: FUNCTIONS AND RISKS OF THE PAYROLL CYCLE [20]

Wohnen (PTY) Ltd currently operates a manual wage system. The functions within the cycle at Wohnen (PTY) Ltd are divided as follows:

1. Personnel (human resources)
2. Timekeeping
3. Payroll preparation
4. Payment preparation and pay-out
5. Deductions: payments and recording

9.1 Describe, briefly, each function in the payroll cycle (10)

9.2 Describe, briefly, the risks faced by each function (10)

TOTAL: 100