

**AUE2602**

October/November 2014

**CORPORATE GOVERNANCE IN ACCOUNTANCY**

Duration 2 Hours

100 Marks

**EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT.**

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

**THIS PAPER CONSISTS OF FIVE (5) PAGES, INCLUDING THIS PAGE**

This paper consists of three case studies and includes the following main topics

<b>PART</b>	<b>MAIN TOPIC</b>	<b>MARKS</b>
1.	Corporate governance	25
2.	Internal controls in the inventory and production cycle, and in the finance and investment cycle	40
3.	Internal controls in the acquisitions and payments cycle, and in the revenue and receipts cycle	<u>35</u>
		<b><u>100</u></b>

**NOTE:**

The main objective of the examination is to test a candidate's knowledge and ability to apply the study material, although the examiners will also take into account the candidate's ability to organise and present that knowledge in writing and according to an acceptable standard

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## QUESTION 1

25 marks

Sweets-R-Us Limited (hereafter referred to as Sweets-R-Us) is a producer of candies and chocolates that are sold in various retail stores across South Africa. Sweets-R-Us was founded by Mr Willy Wonka 30 years ago. The company was listed on the Johannesburg Stock Exchange (JSE) 12 years ago. Thereafter, Mr Wonka retained only 2% of the shares in Sweets-R-Us. Recently, while inspecting the annual report of Sweets-R-Us, you noticed that the board of directors and the board committees are composed as detailed below.

The **Board of Directors** consists of

Mr Willy Wonka	-	Executive Chairperson *1
Mr Charlie Bucket	-	Chief Executive Officer (CEO)
Ms Veruca Salt	-	Financial Director (an executive director)
Mr August Gloop	-	Operations Director (an executive director)
Ms Violet Bafedi	-	Human Resources Director (an executive director)
Ms Sen Slug (CA(SA))	-	Independent Non-Executive Director (CA(SA)) *2
Mr Oompa Loompa	-	Non-Executive Director *3
Mr Mike Tebogo	-	Marketing Director (an executive director) *4

### \* Note 1

Mr Willy Wonka retired a year ago as the CEO, after 30 years of service. He immediately assumed the newly created role of Executive Chairperson.

### \* Note 2

Ms Sen Slug was the Financial Director of Sweets-R-Us for a number of years. She retired two years ago. She rejoined the board at Mr Wonka's request when he became the chairperson. Mr Wonka has always taken responsibility of appointing directors to the board.

### \* Note 3

Mr Oompa Loompa is the CEO of World of Wonders Incorporated, a large company that provides safari services. Neither Mr Loompa nor World of Wonders Inc has any financial interest in or business relationship with Sweets-R-Us.

### \* Note 4

The position of the company secretary has been vacant for six months. Ms Violet Bafedi will make an appointment during the course of the upcoming financial year. Mr Mike Tebogo is being considered for this position.

### Board committees

The company has two board committees, namely an **audit committee** and a **remuneration committee**. Each of these committees consists of three members. Mr Willy Wonka chairs both the audit committee and the remuneration committee. Mr August Gloop and Mr Mike Tebogo serve on both of these committees. The committees meet once a year, usually shortly after completion of the external audit. The audit committee's only function is to discuss the findings of the annual statutory audit. The remuneration committee is responsible for approving the remuneration policies of company personnel for the next financial year.

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**REQUIRED**

**Marks**

- 1.1**     **Comment** on the board of directors and the board committees in relation to the **requirements of sound corporate governance** in terms of the King III Report.

**Please note**

Present your answer under the following sub-headings

- a)    Mr Willy Wonka – Executive Chairperson (two comments)
- b)    Ms Sen Slug – Non-executive Director (one comment)
- c)    Mr Oompa Loompa – Non-executive Director (one comment)
- d)    The company secretary (three comments)
- e)    The audit committee (five comments)
- f)    The remuneration committee (three comments)
- g)    Any other general issues regarding the board of directors and the board committees (one comment)

**(24)**

- Both **compliance** and **non-compliance** should be addressed in your answer.
- Communication, logic, structure and presentation

**(1)**

**QUESTION 2**

**40 marks**

Lipstick Mania (Pty) Ltd (hereafter referred to as Lipstick Mania) is a cosmetics manufacturing company that provides a variety of products for sale at various retail stores across South Africa. Lipstick Mania takes great pride in the fact that none of its products is tested on animals. Mr Luto, the production manager, has received instructions to start preparing for the annual inventory count. As this is Mr Luto's first year at the company, he requested your help with the preparation of the stock count in order to ensure a successful inventory count.

Upon joining Lipstick Mania, Mr Luto was informed about the occurrence of theft of the manufacturing equipment in the past. New equipment was recently bought to replace the equipment that was stolen. Mr Luto wants to propose internal controls to management, which can be implemented in the store to reduce the risk of theft.

**REQUIRED**

**Marks**

- 2.1**     Describe to Mr Luto the **preparation** process for the **inventory count**.

Present your answer under the following headings

- a)    Planning and preparation (10½ marks)
- b)    Design of stationery (6 marks)
- c)    Written instructions (7½ marks)

**(24)**

**Please note**

Communication, logic, structure and presentation

**(1)**

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**REQUIRED (continued)**

**Marks**

- 2.2 Advise Mr Luto on the **internal controls** that can be implemented in a manual system for the safeguarding of equipment acquired in the manufacturing plant, to ensure that the **theft** incidents that occurred in the past will not be repeated (15)

**QUESTION 3**

**35 marks**

Carmen's Cravat (Pty) Ltd (hereafter referred to as CC) is a retail shop that specialises in the sale of handmade formal men's clothing. CC purchases the clothes and then sells it to the public. CC's inventory includes items such as suits, cravats, ties, bowties, handkerchiefs and cufflinks.

Ms Carmen Tibideaux is the chief executive officer (CEO) of CC. Her assistant, Ms Rachel Berry, implemented sound internal controls in the **receiving of goods department**. Ms Tibideaux does not understand the necessity of these sound internal controls.

Although Ms Berry feels that the internal controls are adequate, she has nevertheless informed Ms Tibideaux that the internal controls do not provide absolute assurance that the company will be able to respond adequately to risks. Ms Berry is particularly concerned about sales and listed the following weaknesses:

- a) Management may decide that sophisticated bar-code scanning equipment may not be worth the cost, despite the fact that sales will be rung up more accurately.
- b) The retail shop supplies men's clothing on credit to a very limited number of customers. There are few internal controls over sales and receipts from debtors, since these transactions do not take place often and as such, the debtor's accounts may be neglected.
- c) A teller may transpose an amount rung up (for example, R9 60 rung up as R6 90) and the customer may not notice the error.
- d) The cashier and the till supervisor (who together agree the day's takings) may decide to manipulate the reconciliation of cash/till slips and divide the money stolen between them.
- e) The manager of the retail shop may allow a friend to remove goods through the till area without paying for them. The cashier will be powerless to prevent this from happening, as the manager is in an authoritative position.
- f) The existing system may be unable to "control" a newly introduced staff discount arrangement whereby shop staff can purchase up to a certain amount of goods at a discount. As a result, staff may be abusing the system by purchasing goods in excess of their limit.

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**REQUIRED**

**Marks**

- 3.1** List any **five (5) risks** associated with the **receiving of goods department** in a manual **acquisitions and payments cycle** (7½)
- 3.2** Provide Ms Tibideaux with any **eight (8) internal controls** that should be in place in the **receiving of goods department** in a manual **acquisitions and payments cycle** (12)
- 3.3** List the **internal control limitations** and give a brief **explanation** of each of the limitations listed in a) to f) in the scenario. Please refer to the example below and present your answer using the table given

Example	Internal control limitation	Explanation
<b>Example</b> a) Management may decide that sophisticated bar-code scanning equipment may not be worth the cost, despite the fact that sales will be rung up more accurately	Internal controls might not be cost effective	Certain errors or irregularities may go undetected because management have decided that the appropriate control is too costly to implement.
b)		
c)		
d)		
e)		
f)		

(15)

**Please note**

Communication, logic, structure and presentation

(½)