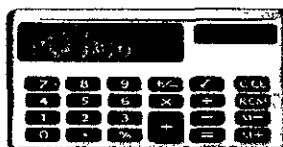


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA  university
of south africa

AUE2602

May/June 2015

CORPORATE GOVERNANCE IN ACCOUNTANCY

Duration 2 Hours

100 Marks

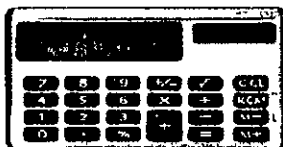
EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination.

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[TURN OVER]

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THIS PAPER CONSISTS OF **SEVEN (7)** PAGES.

This paper consists of the following questions and main topics:

QUESTION	MAIN TOPIC	MARKS
1	Corporate governance	24
2	Production and inventory, and sales and revenue	26
3	Payroll and personnel, and acquisition and payment	50
		100
		===

NOTE:

Although the primary purpose of the examination is to test your knowledge and application of the subject matter, your ability to organise and present such knowledge in written language of an acceptable standard will be taken into consideration by the examiners

[TURN OVER]

QUESTION 1

24 marks

Goals Galore (Pty) Ltd (hereafter referred to as “Goals Galore”) is a manufacturer of football equipment and clothing which are sold in various retail stores across South Africa. Goals Galore was incorporated in 2005 and started out as a small owner managed business but has since grown into a large player in the sport equipment industry.

Due to the rapid expansion and excellent performance of the company, the board of directors is considering listing the equity of the company on the Johannesburg Securities Exchange (JSE). The directors are aware that the company will need to comply with sound corporate governance as recommended in the King III Report.

The **board of directors** consists of

Mr Sebastian Schwein	-	Chief executive officer (CEO)
Mr Leon Messi	-	Non-executive chairperson *1
Mr Efese Ambrose	-	Non-executive director *2
Mr Arno Robben CA(SA)	-	Financial director (an executive director)
Ms Xabina Alonso	-	Risk director (an executive director)
Mr Christiaan Ronaldo	-	Human resources director (an executive director)
Ms Louise Suarez	-	Independent non-executive director
Ms Jamie Rodriguez	-	Non-executive director *3

*** Note 1**

Mr Leon Messi currently holds 12% of the shareholding in Goals Galore

*** Note 2**

Mr Efese Ambrose is free from any business or other relationship which could be seen to interfere materially with his capacity to act independently. Mr Ambrose is a qualified lawyer.

*** Note 3**

Ms Jamie Rodriguez used to be a professional advisor to Goals Galore due to her experience in the design of footballs. She still receives remuneration in the form of a royalty fee contingent on the sales of the Dijarah brand football by Goals Galore.

The board of directors meets every four months to accommodate Ms Louise Suarez who travels abroad regularly due to her advisory commitments and is not available for more regular meetings.

Mr Christiaan Ronaldo currently performs secretarial duties where applicable and no company secretary is appointed.

Ms Stacy Gerrard is Mr Arno Robben's right hand. She is the financial manager of Goals Galore and has been with the company since 2008. She knows the business very well and is currently assisting Ms Xabina Alonso with a review of Goals Galore's internal controls.

[TURN OVER]

Board committees

The board of directors wants to establish an audit committee and a risk committee. Mr Sebastian Schwein suggested the following candidates for the respective committees and does not see the need for any other board committees at this stage.

Audit committee

Mr Leon Messi (chairperson)
Ms Jamie Rodriguez
Mr Efese Ambrose
Mr Arno Robben CA(SA)
Ms Stacy Gerrard

Risk committee

Ms Louise Suarez (chairperson)
Ms Xabina Alonso

REQUIRED

Marks

- 1.1** **Comment** on the information provided in relation to the **requirements of sound corporate governance** in terms of the King III Report.

Present your answer under the following headings:

- a) Board of directors: composition and appointments (three comments)
- b) Audit committee: composition and appointments (three comments)
- c) Risk committee: composition and appointments (two comments)
- d) General remarks (four comments)

- Both **compliance** and **non-compliance** should be discussed in your answer **(18)**
- One mark will be awarded for the correct presentation of your answer. **(1)**

- 1.2** Explain the **main function of a remuneration committee** per the King III Report AND indicate which of the directors on the board of directors would be the **most suitable** candidate to be appointed as the **chairperson** of the **remuneration committee** to comply with the requirements of the King III Report. **(3)**

- 1.3** The King III Report states that one of the functions of the audit committee is to ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities

Explain the main objective of the term **“combined assurance model”** **(2)**

[TURN OVER]

QUESTION 2

26 marks

Bulls (Pty) Ltd manufactures and sells children's toys to the general public

Revenue and receipts

The sales terms are cash on delivery only. The company has implemented good internal controls over the years and its revenue and receipts cycle is divided into clearly defined functions, namely **receiving of customer orders, warehousing/despatch, invoicing, recording of sales and receipt of cash.**

The following is a selection of control procedures which take place at Bulls (Pty) Ltd during the day-to-day running of the company

1. Lindy Gouws, the sales order manager checks the details on all internal sales orders prepared by the three order clerks.
2. Mandla Khumalo, one of the warehouse clerks, makes out a back order note for an item which is ordered, but is "out of stock".
3. Internal sales orders sent to the accounting department are filed in numerical sequence
4. Kobus van der Merwe, one of the despatch controllers, compares the toys to be delivered to the picking slip and delivery note as the toys are packed into boxes for delivery
5. Nelson Horn, the accountant, compares the prices on the invoice to the official price list and re-performs the value-added-tax (VAT) calculation.

Inventory valuation

The inventory is a material account balance in the financial statements of Bulls (Pty) Ltd. Management therefore wants to ensure that this balance is correctly reflected in the accounting records, and has asked you for advice

REQUIRED

Marks

- | | | |
|-----|---|------|
| 2.1 | Indicate the function of the revenue and receipts cycle under which each of the control procedures (1-5) is most likely to occur at Bulls (Pty) Ltd | (7½) |
| 2.2 | Explain what the inventory valuation term " net realisable value " means | (3) |
| 2.3 | Indicate at what inventory valuation value inventory should be presented in the financial statements of a company | (1½) |
| 2.4 | Name any TWO of the three cost formulas to value inventory as permitted by International Accounting Standard (IAS) 2. Inventory | (3) |
| 2.5 | List what the cost price of inventory should consist of | (4½) |

[TURN OVER]

REQUIRED (continued)

Marks

- 2.6** Indicate whether the following costs should be **included or excluded** when valuing inventory:
- a) Wages paid to production staff
 - b) Administrative costs
 - c) Production material lost during a fire in the production plant
 - d) Commission paid on goods sold
- (6)**
- A half mark will be awarded for the correct presentation of your answer. **(½)**

QUESTION 3

50 marks

Modern-Shoes Ltd (hereafter referred to as "Modern-Shoes") is a shoe manufacturing company and has been in business since 2001

Employee masterfile

Modern Shoes has a large workforce of 2 000 employees and the payroll cycle was fully computerised a few years ago. The company was in the news recently when fraud perpetrated by the payroll manager was discovered. He made unauthorised payments to fictitious or "ghost" employees on a monthly basis

The risk committee of Modern-Shoes requested management to design appropriate **internal controls** to ensure that only **valid** new employees are added to the **masterfile** and only **valid** changes are made to the employee masterfile.

Inventory

The inventory of Modern-Shoes consists mostly of the finished shoes manufactured and is one of the company's most material assets. Comprehensive internal controls are in place to ensure the inventory is safeguarded against theft and misappropriation.

The following controls were implemented in the inventory cycle

1. Entry to and exit from the warehouse are monitored 24 hours a day by surveillance cameras
2. The company has a receiving supervisor, a despatch supervisor, and a stores controller who is responsible for the custody of inventory.
3. The financial controller, receiving supervisor, despatch supervisor and stores controller all have the necessary skills and qualifications applicable to their job descriptions.
4. The company has a full inventory count every two months which is attended by the financial controller and external auditors.
5. One of the warehousing section's objectives is to keep theft of inventory below 1% of the total cost of inventory on hand. This is monitored monthly.
6. Pickers sign the picking slip after they have selected the goods from the store.
7. Any warehouse personnel, who are caught stealing inventory, are dismissed immediately.

[TURN OVER]

Payment of suppliers

Modern-Shoes obtains raw materials for the manufacturing of their shoes from various local suppliers. Due to the recent fraud incident, management is anxious to identify any other areas of weakness in the company's internal controls. As a result the financial director, Mike Shoe, asked you to review their **manual payment of suppliers function**

The following is a complete description of the controls in place for the payment preparation and actual payment of suppliers

- a. When the monthly suppliers' statements are received, the creditors' controller, Joe Modern, prepares a cheque requisition from the sequenced, pre-numbered hardcopy requisition book.
- b. The completed cheque requisition is then sent to the financial director, Mike, for authorisation of the payment to be made.
- c. After the cheque requisition is authorised, Joe prepares the cheque and then hands it over to Mike to sign. In order to limit opportunity for fraud, Mike is the only authorised signatory of cheques
- d. Mike personally returns the signed cheque to Joe, who then mails the cheque by registered mail to the supplier
- e. Returned paid cheques are filed alphabetically according to the payee and are reviewed by Joe to ensure no suspicious endorsements, payees or amounts are present
- f. Joe prepares a reconciliation of the cash payments journal to the bank statements every three months

REQUIRED

Marks

- 3.1 Describe **eight (8) internal controls** that management should design and implement to comply with the risk committee's request to ensure that only valid new employees are added to the masterfile and only valid changes are made to the **employee masterfile**. (12)

- 3.2 List **four (4) input controls** with an **example of each**, which can be implemented to ensure that the details of the **new employees** are entered **accurately**.

Example. Sequence checks will detect gaps or duplications in a sequence of numbers as they are entered, for example, if employee numbers are manually allocated, it would prevent duplicate numbers being assigned

(6)

- 3.3 Two of the components of internal control in terms of ISA 315 are **control environment** and **control activities**. There are five different categories of control activities

For each of the **inventory controls** provided in the question (1-7), indicate whether it relates to the control environment or control activities. Where your answer is control activities, indicate into which category of control activity it falls

[TURN OVER]

REQUIRED (continued)

Marks

Present your answer in the following table format:

No.	Control environment/ control activity	Control activity if applicable
1	Control activity	Access controls
2		
3.		
4		
5		
6		
7		

- Number 1 is included above as an example and no marks will be awarded for this.
- One mark will be awarded for the correct presentation of your answer

(15)

(1)

3.4 For **each** of the internal controls provided in the scenario for the **payment preparation and the payment of suppliers** (a – f), identify and explain **ONE weakness**.

Present your answer in the following format:

Nr.	Weakness	Explanation
a	Before the creditor's controller (Joe) prepares the cheque requisition, he does not reconcile the creditor's statement with the suppliers' documentation such as invoices, payments etc.	This could lead to payments of fictitious creditors, or payments of incorrect amounts
b		
c.		
d		
e		
f		

- Number (a) is included above as an example and no marks will be awarded for this
- One mark will be awarded for the correct presentation of your answer.

(15)

(1)