

**AUE303R**

JANUARY/FEBRUARY 2012

**ADVANCED THEORY OF AUDITING AND THE PERFORMING
OF THE AUDIT PROCESS (AUDITING 303)**

Duration 2 Hours

100 Marks

EXAMINERSFIRST
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 Use of a non-programmable pocket calculator is permissible

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THIS PAPER CONSISTS OF **FOUR (4)** PAGES

This paper consists of ONE question on the following main topics

PART	MAIN TOPIC	MARKS
1.	Creditor's reconciliation	25
2.	Monmix (Pty) Ltd	75
	• Sampling	10
	• Plant equipment	30
	• Impairment of plant and equipment	10
	• Subsequent events	10
	• Going concern	15
		100

NOTE:

Although the primary purpose of the examination is to test a candidate's knowledge and application of the subject matter, the examiner will consider the ability to organise and present such knowledge in acceptable written language

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QUESTION 1

25 marks

You are the audit manager engaged on the audit of Shopforever Ltd, a grocery company. Koos Moale is the financial manager and has presented you with a creditor's file, which includes creditors' reconciliations, statements, invoices, supplier delivery notes, goods received notes and order forms.

One of the creditors selected from the file for detailed audit is Feedem Foods (Pty) Ltd, a company that supplies processed food products. The reconciliation of the balance on the creditor's statement to the creditors ledger is as follows:

Creditor's reconciliation of Feedem Foods (Pty) Ltd at 31 December 2011

Balance per creditor's statement at 23 December 2011	10 566	07
Invoice incorrectly posted to the creditors statement #148 [Note 1]	(5 552)	57
Goods returned for which credit note was not received #267 [Note 2]	(778)	00
Payment made not reflected on statement Cheque 556 15/12/2011	(4 527)	23
Settlement discount not on statement 5% settlement discount on invoice #162 [Note 3]	(238)	27
Correction of error [Note 4]	530	00
Balance per the creditors ledger 31 December 2011	0	00

Note 1

Feedem Foods (Pty) Ltd alleges that on 15 November 2011 it made a delivery of breakfast cereals. Koos Moale told you that Shopforever (Pty) Ltd never ordered nor received the breakfast cereals.

Note 2

On 10 December 2011, 450 boxes of soya products were received (invoice #5589) with a value of R7 002. As only 400 were ordered (@ R15,56 per box), the excess boxes were returned with the supplier's driver after endorsing both copies of the supplier's delivery note with details of the oversupply and issuing a goods returned note #267.

Note 3

This discount was for the settlement of invoice #162 for R4 765,50. Feedem Foods (Pty) Ltd offers a settlement discount of 5% for all invoices paid within 30 days of the date of delivery of goods.

Note 4

Undercharge on invoice #160. This amount has been corrected in the creditors ledger but not on the supplier's statement. The undercharge arose when Shopforever (Pty) Ltd received 2 000 loaves of bread and was charged for only 1 500 at a unit price of R1,06.

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REQUIRED

Marks

Describe the substantive procedures to audit the above creditor's reconciliation **(25)**

QUESTION 2

75 marks

Moomix (Pty) Ltd is a newly established manufacturer of balanced cattle feed blocks. This is the company's first financial year, which ended 31 December 2011. You are the audit manager in charge of the audit team.

During the financial year, the company made a net loss of R3 421 001. You are briefing the audit trainees who are to select a sample of invoices for substantive tests, set out in the audit programme for revenue.

Once the trainees are settled, you plan to audit plant and equipment. You have established that on 2 January 2011, a finance lease agreement was entered into between ABC Bank Ltd and Moomix (Pty) Ltd to acquire a mixer. The asset, an *ENITO Enviromix* cost R1 200 000, including VAT of R147 368. The machine came into operation on 1 February 2011, once installation had been completed. The installation costs amounted to R58 000, including VAT of R7 123. At year end, R37 000 of these installation costs were reflected as accounts payable.

The mixer is to be depreciated at 10% per annum on the straight line method, with no residual value. The company selected the cost method to account for plant and equipment.

An independent valuation of the machine was required for insurance purposes. The specialist valued the machine at R800 000 on 2 December 2011. The sudden drop in value was attributed to the fact that the manufacturer of the machinery went bankrupt as a result of the international credit crunch.

On the third day of each month, management reports are presented to the board. The reports include budgets and cash flow projections.

According to your schedule the audit partner will be able to sign off the financials on 15 February 2012.

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REQUIRED	Marks
2.1 List ten (10) consecutive steps in the sampling process to be followed by the trainees when auditing revenue	(10)
2.2 Formulate the substantive procedures to audit the purchases of plant and equipment during the year and the balance at year end	(30)
2.3 Discuss your thoughts on whether or not an impairment adjustment on the mixer may be required by you	(10)
2.4 Formulate the audit procedures to identify possible significant subsequent events	(10)
2.5 Formulate the audit procedures to enable you to determine the appropriateness of the going concern assumption for Moomix (Pty) Ltd	(15)