



## AUE303R

May/June 2013

### ADVANCED THEORY OF AUDITING AND THE PERFORMING OF THE AUDIT PROCESS

Duration : 2 Hours

100 Marks

**EXAMINERS :**

FIRST :

MS L FERREIRA

SECOND :

MR K JOUBERT

EXTERNAL :

MRS C STEYN

PROF JM VAN STADEN

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 **FOUR (4)** PAGES.

This paper consists of one case study and includes the following main topics:

<b>PART</b>	<b>MAIN TOPIC</b>	<b>MARKS</b>
1.	Substantive procedures to audit work in progress	30
2.	Relying on management's expert	15
3.	Audit a journal entry	18
4.	Types of subsequent events	6
5.	Audit procedures to identify subsequent events	18
6.	Audit report schedule	<u>13</u>
		<b><u>100</u></b>

**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

100 Marks

You are the audit manager for the 2013 audit of Tiger Trailers (Pty) Limited, a manufacturer of standard light duty trailers. Their financial year end is 28 February and they have been your client for four years. The manufacturing process of trailers is not a complex process and can be easily understood by observing the production process. The audit plan indicated no unusual risk of misstating inventory at the assertion level.

You attended the client's annual inventory count and are satisfied with the counting procedures. You have a copy of the final *stock count sheets* and you are satisfied that the descriptions and quantities provide a true reflection of the inventory count at year end. The *stock count sheets* are computerised and reflect the following information: product code with a description, quantity, cost price and selling price. The cost accountant provided you with the costing records. Every trailer model has a blueprint with the exact specifications (diagrams), product codes of raw materials used in the manufacturing process and costing. From this blueprint the cost price of a trailer is determined and used on the inventory sheets.

Tiger Trailers (Pty) Limited employs a registered production engineer, Mike Evans, on a contractual basis. Evans has been a contract worker for five years and is responsible for ensuring the accuracy of the blueprints and he also certifies the stage of the work in progress. The cost accountant is responsible for costing the items.

Cost is determined on the first-in-first out (FIFO) basis. Direct costs of manufacturing and a proportion of manufacturing overheads, based on normal operating capacity, are included in the cost of manufactured goods

### Inventories at cost on 28 February 2013

	2013	2012
	R'000	R'000
Finished goods	4 280	3 845
Work-in-progress (70% complete)	1 190	1 084
Raw materials	995	799

### Journal entry: Credit Note Policy

Tiger Trailers (Pty) Limited accepts returns of goods sold and has a policy that makes provision relating to sales before year-end. It is company policy to provide for 2% of the February sales.

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The journal entry for this provision is:

28/2/13	Sales (Dr) Provision for credit notes (Cr) February sales credit note provision per policy document R2 975 012 x 2%	R59 500.24	R59 500.24
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### Subsequent events

On reviewing the previous year's audit programme for subsequent events you noticed that the audit procedures were either poorly formulated or incomplete. You plan to reformulate them so that the audit trainee is able to understand exactly what he has to do when executing them. In preparing the audit trainee to perform the subsequent events procedures you explained the accounting principles of subsequent events to him.

### Audit reporting issues

On completion of the audit the audit partner gave you the following schedule of issues that could affect the audit report. He requested you to complete the following schedule:

Issue	Conclusion in audit file	Nature of the matter that gave rise to the modification (if applicable)	Effect of misstatement on financial statements	Effect on report/ Type of audit opinion
E.g.	No cash records	Insufficient appropriate evidence – scope limitation	Fundamental	Disclaimer
1	The provision in respect of the credit note policy was understated by a material amount.	6.1	6.2	6.3
2	The ability of Tiger Trailers to continue as a going concern in the foreseeable future depends on negotiations which will be finalised after the annual financial statements (AFSs) are issued. Disclosure of this fact has been made in the AFSs.	6.4	6.5	6.6

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Issue	Conclusion in audit file	Nature of the matter that gave rise to the modification (if applicable)	Effect of misstatement on financial statements	Effect on report/ Type of audit opinion
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3	Various transactions took place during the year between the audit client and a related party. These transactions took place well below the market price. No disclosures of the related party transactions have been made in the AFSs. This has a major affect on the AFSs and as a result causes the AFSs to be misleading as a whole.	6.7	6.8	6.9

**REQUIRED**

**Marks**

1. Describe the substantive procedures that you will perform to ensure that **finished goods** are correctly **valued** at year end. **(30)**
2. Describe the aspects that you will consider before relying on the work of the engineer, Mike Evans. **(15)**
3. Describe the audit procedures that you will perform to audit the journal entry providing for credit notes. **(18)**
4. Explain the two types of subsequent events identified by ISA 560 *Subsequent events* and the respective accounting treatment thereof. **(6)**
5. List the audit procedures to identify subsequent events. **(18)**
6. Complete the audit reporting schedule of issues that could affect the audit report. Number your answer in accordance with the schedule – 6.1, 6.2, etc. **(13)**