

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING AND FINANCE
EXAMINATION PAPER MAY 2017 ACADEMIC YEAR 2016/2017

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	Year III (Full Time)/IDE
TITLE OF THE PAPER	Principles of Auditing
COURSE CODE	AC 316
TIME ALLOWED	Three (3) Hours

INSTRUCTIONS

1. There are **Four (4)** questions, ANSWER ALL.
2. Begin the solution to each question on a new page.
3. The marks awarded for a question are indicated at the end of each question.
4. Show your necessary workings.

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of the language and the general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR / SUPERVISOR.

QUESTION ONE

- a) Identify and briefly explain the four major services that CPAs normally provide

(13 marks)

- b) What different categories of procedures (substantive procedures) does the auditor perform in obtaining sufficient appropriate audit evidence in each of the following cases.

12 Marks

- i. The auditor sends out debtors letters of confirmation
- ii. The auditor calculates the provisional tax payable by the enterprise and compares this with the figure calculated by the client
- iii. The auditor calculates the monthly gross profit percentage of the enterprise and enquires into any deviations
- iv. The auditor attends the annual stock count
- v. The auditor checks a calculation of a rebate on an invoice received from a creditor
- vi. The auditor asks the financial manager of an enterprise whether there were any strikes during the year

(Total Marks 25)

QUESTION TWO

Mancwane limited is a building development company operating in the commercial development sector in Swaziland. Operations have recently expanded due to the steady economic growth in the country. As a result, management of Mancwane have invested in more building equipment to keep up with the expanding operations

The most substantial investment made during the financial year ended 31 December 2016, was the acquisition of a crane to the value of E4.5million. This acquisition was funded by a long term loan from Nedbank for E4.5million that was deposited into Mancwane ltd's bank account.

As the total investment in building equipment now represents the largest part of non-current assets in the statement of financial position as at 31 December 2016, management has decided to place more emphasis on internal controls over building equipment

You are a member of the audit team responsible for the 31 December 2016 year end audit of Mancwane ltd.

Required

- a. Name **five details** on the purchase contract that you will inspect during your audit of the acquisition of a new crane **10 marks**
- b. Name **four other source documents** that you will inspect during your audit of the acquisition of a new crane **8 Marks**
- c. An example of a physical control the client can use to protect each of the following assets or records is:
- Petty cash should.....
 - Cash received by retail clerks should.....
 - Accounts receivable records should
 - Adequate backup copies of computerized records should.....
 - Raw material inventory should
 - Fragile tools should.....
 - Manufacturing equipment should
 - Marketable securities should

7 Marks

(Total Marks 25)

QUESTION THREE

Name and describe the categories of assertions in the financial statements **(25 Marks)**

QUESTION FOUR

Smart Parking Ltd is a profitable owner-managed business. It provides long term parking management services to office buildings and suburban shopping centres, and short term parking management services for events such as conferences and trade shows in and around Johannesburg. The company has offices in Johannesburg.

Simon Mathebula formed Smart Parking in 2005. The company is run by Simon, who is the managing director. His wife, Rebecca, the financial director, handles the accounting and financial matters of the business. Together, they own 30% of the shares. The remaining 70% of the shares are owned by Park Investments Ltd, an investment holding company formed in 2004. Rebecca also holds shares in Park Investments.

Rebecca completed her training contract at BST Inc. Registered Accountants and Auditors, a medium sized practice, and qualified as a CA(SA) in 2010.

BST Inc. Registered Accountants and Auditors was appointed auditors of both Smart Parking and Park Investments on the formation of these companies. You are the senior responsible for both of these audits for the financial year ended 31 August 2016. The partner responsible for these engagements, Bennie Sekese, is a personal friend of Simon and Rebecca and handles both their personal and company tax matters. Rebecca insists that both audit and advisory services for Smart Parking are to be provided by BST Inc, Registered Accountants and Auditors.

Bennie Sekese is also currently advising the company in a PAYE dispute with SARS.

Although Simon and Bennie are very busy, they hold monthly meetings to review management accounts and budget deviations. Bennie Sekese often attends these meetings as financial advisor for Smart Parking.

Required

Discuss, with reasons, what threats to its independence your firm may face by continuing to perform the audit of Smart Parking, and what specific safeguards should be implemented to ensure such threats are reduced to an acceptable level.

(Threats 16 Marks, Safeguards 9 Marks)

Total 25 Marks)

=====END of PAPER=====