

WOMEN'S UNIVERSITY IN AFRICA



Addressing gender disparity and fostering equity in University Education

FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES

**BSc HONOURS DEGREE IN MANAGEMENT AND ENTREPRENEURIAL
DEVELOPMENT STUDIES SPECIALISING IN BANKING AND FINANCE**

BACHELOR OF ACCOUNTING SCIENCE HONOURS DEGREE

MAIN PAPER

BAS422: AUDITING

BAS 413: AUDITING AND ASSURANCE

INTAKE 23: FOURTH YEAR SECOND SEMESTER

INTAKE 9: FOURTH YEAR FIRST SEMESTER

DATE: TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer **Question 1** and any other two.

Question 1

You are the manager in charge of the audit of Ruddington Furniture for the year ended 31 July and you have been asked to describe the work which should be carried out in planning the audit and in monitoring its progress. Ruddington Furniture buys domestic furniture from manufacturers and sells it to the general public. The company's head office and main warehouse are on the same site, and there are sales branches with associated warehouses in different parts of the country. Your firm has been the auditor of the company for a number of years. All the company's accounting records are maintained on the computer at head office. When a sale takes place at the branch, the salesman checks that the furniture the customer requires is in stock, and if it is, the customer pays for the items by cash, cheque or credit card (or charge card) and collects them from the warehouse. Where the items are not in stock, it is possible to find whether they are available at another local branch, or an order can be placed for the stock. In previous years' audits there have been problems at branches of the actual stock being less than the computer book inventory quantities. Also, problems have been experienced in identifying and valuing damaged inventory and goods returned by customers. The company has a small internal audit department and their work includes periodic visits to branches. The company was subject to a management buy-out in February two years ago which resulted in high gearing. You understand that because of a recession in the furniture trade the company has liquidity problems and that currently it is negotiating with the bank to obtain additional finance.

Required:

- a) Describe the matters one would consider and the work one would carry out in planning the audit. [20]
- b) Explain the benefits of auditing [5]

Question 2

- a) Explain the four threats to audit objectivity [8]
- b) Describe the following legal environment of an auditor giving examples:
 - i). External; and [4]
 - ii). Internal. [4]
- c) Explain the ways of obtaining audit client information (ISA 315). [6]
- d) Describe the term audit engagement. [3]

Question 3

You are a partner of Fadzi Certified Accountancy. You are approached by Ms Tanaka, the managing director of Marcos Limited who asks your firm to become an auditor of his company. In return of giving you this appointment, Ms Tanaka says he will expect your firm to reduce your fees by 50%. The existing auditors have not resigned but Ms Tanaka informs you that they will not be re-appointed in the future.

- a) Describe the ethical and professional issues that you should consider before accepting this appointment. [15]
- b) Explain any safeguards that you should consider. [5]
- c) Come up with a conclusion to the offer. [5]

Question 4

- a) Examine the two measures of materiality. [10]
- b) Describe the reasons for keeping audit documentations. [5]
- c) Describe factors that affect the level of inherent risk. [10]

Question 5

- a) Describe eight control procedures that are established to achieve the entity's specific objectives. [16]
- b) Explain the importance of comparative information according to ISA 710. [3]
- c) Explain three important ratios that can be used on analytical procedures. [6]

Question 6

For each of the following scenarios, outline the qualified audit report, and the basis for each opinion:

- a) Tinashe limited did not provide for a bad debt of \$500 000 despite the fact that the customer went bankrupt after the year end. Profit was \$ 5000 000 and receivables were \$2 000 000. [10]
- b) During the audit of Mhomho ltd it comes to your attention that the company has valued a certain inventory line at its total cost price of \$7 000. These inventory items, have not been sold for a number of years and it is unlikely that they can be sold in the future unless the price is reduced to \$3 000. If the write-down was charged it would have a material effect on the financial statement. [10]
- c) Explain the rights of an auditor. [5]

END