



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

2ND SEMESTER 2013 EXAMINATION: 2013/2014

DATE : MAY 2014

SUBJECT : AUDIT PROCESS CAC 2203

TIME ALLOWED : THREE HOURS

MARKS : 100

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

Question 1 (25 Marks)

The majority of shares of Dube Limited, a company that has been involved in the manufacturing of biscuits for the past 20 years, are held by family members whilst the balance of the shares are also all held by individuals.. The company's audit report, for the financial year that ended on 31 January 2013, was unmodified. Ncube & Co. has acted as the company's auditors since its incorporation, while Moyo & Co., another firm of auditors, has performed secretarial services on behalf of the company for the last seven years.. At its annual general meeting during the beginning of April 2009, all the shareholders of the company properly voted out Ncube & Co. as the auditors of the company and voted in favour of the appointment of Moyo & Co. as the new auditors of the company, subject to their acceptance of the appointment. All the shareholders also agreed in writing that Moyo & Co. may continue to perform secretarial services to the company. Before the commencement of the audit, John Banda presented the following Statement of Comprehensive Income for the Financial Year ending 31 January 2014

	2014	2013
	\$millions	\$millions
Turnover	196	164
Gross Profit	88	68
Net income before Tax	20	18

Moyo & Co. completed the audit of the company during May 2014 and except for the following audit differences, was satisfied with the results of the audit:

Audit differences identified:

- (a) Borrowing costs which were capitalised to property, plant and equipment, were overstated by \$200 000.
- (b) Plant and machinery were overstated by \$250 000. Certain maintenance and repairs costs were capitalised regardless of the fact that the company's own engineers did the installations.
- (c) Sundry accruals at the year-end have been understated by \$225 000. Sundry accruals to the value of \$100 000 in the previous year were not adjusted for.
- (d) Inventories of raw materials have been valued at the rate of exchange at year-end. The cost of inventory is overstated by \$325 000.
- (e) The provision for bad debts is \$450 000. Moyo & Co. estimated the provision to be \$745 000 within a \$20 000 range of accuracy.
- (f) Failure to pass any entries whatsoever in respect of goods in transit from suppliers at a cost of \$50 000. A similar audit difference of \$100 000 was identified by Ncube & Co. during the 2007 audit, but they did not deem it material enough to request adjustment.

Moyo & Co. discussed the audit differences with the Finance Director. He was however unwilling to adjust the financial statements.

Required:

- a) Calculate the materiality level based on the information given above **(10)**
- b) Discuss how you would treat the audit differences as required by International Auditing Standards on Auditing. **(15)**

Question 2 (25 Marks)

You are a partner in an audit practice with specific client responsibility for Drs Arklife and partners Inc, this company is a radiology practice which operates from rooms and offices throughout Zimbabwe. The shares of the company are owned by 29 registered radiologists who are also directors of the company which employs some 800 staff, X ray and other radiological examinations are carried out on an average of 90 000 patients per month which provides the group with annual of \$235 million.

During the current final year the company has implemented a new system called Medacc, the directors are concerned about the possible risks associated with the new system and have asked you to discuss how it will affect the key control procedures and audit risks associated with accounts receivables.

Accounting procedures

1. After the consultation, an accounts receivable account is opened for the patient which has the same number as the diagnostic medical report. The account is in the name of the patient, but also contains the details of the medical aid fund, if applicable.
2. The original account is mailed to the patient and a copy of the account is forwarded to the medical aid fund on weekly basis
3. For each consultation for which a report is issued, a new account is opened. It is therefore possible for a specific patient to have several accounts with the practice at any point in time.
4. Payment is received by electronic transfer or cheque from the medical aid fund or from the patient. Payments received are allocated to individual accounts on a daily basis
5. The accounts receivable accounts are not aged. At month end any accounts receivable with nil balance is reclassified as paid from and deleted from the active system
6. Provisions for doubtful debts are made for all accounts receivable accounts with balances that are outstanding for a period greater than 180 days
7. The Medray system is unable to list the accounts receivable accounts by medical aid fund
8. The accounts receivable book for the practice averaged \$34 million (inclusive of VAT) during the financial year.

Required

Following your discussions with the directors, set out the following for the benefit of the senior who will be carrying out the audit of accounts receivable

- a) The audit approach and the reasons for adopting this approach to audit accounts receivable. **(10)**
- b) The substantive audit procedures you plan to follow with particular reference to the use of CAATs. **(15)**

Question 3 (25 marks)

When determining whether the financial statements of a company give a 'true and fair view', an auditor should consider various factors which include those listed below: For each of the factors listed below, explain its relevance to the auditor when determining whether the financial statements of a company give a true and fair view

- Audit risk (5)
- Assertion level (5)
- Inspection (5)
- Re-performance (5)
- Aggregation of misstatements (5)

Total marks (25)

Question 4 (25 marks)

International standard on auditing 330 (ISA 330), the auditor's responses to assessed risks, deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA315 in an audit of financial statements.

Required

Discuss the guidelines required by ISA 330 in an audit of financial statements (25)

END OF EXAMINATION PAPER