



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

2ND SEMESTER SUPPLEMENTARY EXAMINATION: 2013/2014

DATE : JULY 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)

Background information

Sun Park is a theme park based on a popular series of children's books. Customers pay a fixed fee to enter the park, where they can participate in a variety of activities such as riding roller-coasters, playing on slides and purchasing themed souvenirs from gift shops. The park is open all year and has been in operation for the last seven years. It is located in a country which has very little rainfall - the park is open-air so poor weather such as rain results in a significant fall in the number of customers for that day (normally by 50%). During the last seven years there have been on average 30 days each year with rain.

Sun Park is now very successful; customer numbers are increasing at approximately 15% each year.

Ticket sales

Customers purchase tickets to enter the theme park from ticket offices located outside the park. Tickets are only valid on the day of purchase. Adults and children are charged the same price for admission to the park. Tickets are pre-printed and stored in each ticket office. Tickets are purchased using either cash or credit cards. Each ticket has a number comprising of two elements - two digits relating to the ticket office followed by six digits to identify the ticket. The last six digits are in ascending sequential order.

Cash sales

1. All ticket sales are recorded on a computer showing the amount of each sale and the number of tickets issued. This information is transferred electronically to the accounts office.
2. Cash is collected regularly from each ticket office by two security guards. The cash is then counted by two accounts clerks and banked on a daily basis.
3. The total cash from each ticket office is agreed to the sales information that has been transferred from each office.
4. Total cash received is then recorded in the cash book, and then the general ledger.

Credit card sales

1. Payments by credit cards are authorised online as the customers purchase their tickets.
2. Computers in each ticket office record the sales information which is transferred electronically to the accounts office.

3. Credit card sales are recorded for each credit card company in a receivables ledger.
4. When payment is received from the credit card companies, the accounts clerks agree the total sales values to the amounts received from the credit card companies, less the commission payable to those companies. The receivables ledger is updated with the payments received.

You are now commencing the planning of the annual audit of Sun Park. The date is 3 June 2014 and Sun Park's yearend is 30 June 2014.

Required:

- a) For the cash sales system of Sun Park, identify the significant risks that could affect the assertions at account balance and transaction level **(10)**
- b) Discuss the extent to which tests of controls and substantive procedures could be used to confirm the assertion of completeness of income in Sun Park. **(10)**
- c) List the audit procedures you should perform on the credit card receivables balance. **(5)**

Question 2 (25 Marks)

There are many reasons for maintaining internal control systems. These include the need to ensure that:

- transactions are properly authorised
- transactions are promptly and accurately recorded
- access to assets and records is properly authorised
- recorded assets represent actual assets

In the absence of internal controls, errors, omissions and misappropriation of assets are likely, and external and internal auditors pay particular attention to both the design and operation of internal control systems. Receivables are an area in which most organisations expect internal controls to be operating effectively.

Required:

- a) In the context of receivables describe the types of error, omission and misappropriation of assets that can occur in practice where internal controls are weak or non-existent. **(10)**

b) Explain why even a good system of internal control will not necessarily prevent or detect errors, omissions and the misappropriation of assets in a receivables system, and explain why a good system of internal control is important to auditors.

(5)

c) List the main internal controls that you would expect to be in operation in the receivables system at a small manufacturing company with a computerised accounting system.

(10)

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

- Inherent risk **(5)**
- Computer assisted audit techniques (CAATS) **(5)**
- Inspection **(5)**
- Audit approach **(5)**
- Tests of controls **(5)**

Total marks (25)

Question 4 (25 marks)

International standard on auditing 450 (ISA 450), evaluation of misstatements identified during the audit, deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. ISA 700 deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.

Required

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

(25)

END OF EXAMINATION PAPER