NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION: APRIL 2009

AUDIT SKILLS, THEORY AND PRACTICE CAC 4103

TIME ALLOWED: 3 HOURS

Instructions to candidates:

ANSWER ALL FOUR QUESTIONS

QUESTION:	TOPIC	MARKS
1.	AUDIT SAMPLING	25
2.	CAAT'S (COMPUTER ASSISTED AUDIT TECHNIQUES)	25
3.	PROCEDURES FOR REGULATING THE PROFESSION AND SETTING STANDARDS	25
4	THE ROLE OF PROFESSIONAL AUDITOR	25

QUESTION 1

1. Advise a new Trainee Auditor on the reasons for Audit Sampling and their advantages and disadvantages. *(25 Marks)*

QUESTION 2

2. You have been told by the Managing Director of Mambo Ltd that the cost of audit for his company is very high . He has suggested you use CAATS to audit his company next year.
   You are required to give him the factors to be considered before use of CAATS and their advantages. *(25 Marks)*

QUESTION 3

3. Describe the types of mechanisms that are in place to ensure that the auditing profession meets its accountability obligations. *(25 Marks)*

QUESTION 4s)

4. Discuss the statutory duties and powers of professional auditors and explain their application in practical situations. *(25 Marks)*

b) A factory engaged in manufacturing plastic buckets is working at 40% capacity and produces 10 000 buckets per annum.

The present cost break-up for one bucket is as under:

Material	$10
Labour	3
Overheads	5 (60% fixed)

The selling price is $20 per bucket.

If it is decided to work the factory at 50% capacity, the selling price falls by 3%. At 90% capacity the costing price falls by 5% accompanied by *** fall in the price of material.

Required:
Calculate profit at 50% and 90% capacities and also calculate break-even points for the same capacity productions. (19 marks)

QUESTION 3 (30 marks)
RV Industries manufactures and sells recreation vehicles. The company has eight divisions strategically located near major markets. Each division has a sales force and two to four manufacturing plants. These divisions operate as autonomous profit centers responsible for purchasing, operations and sales.

Dale Collins, the corporate controller, described the divisional performance measurement systems as follows:
"We allow the divisions to control the entire operation from the purchase of raw materials to the sale of the product. We at corporate headquarters, only get involved ion strategic decisions such as developing new product lines. Each division is responsible for meeting its market needs by providing the right products at a low cost on a timely basis. Frankly, the divisions need to focus on cost control, delivery and services to customers in order to become more profitable.

"While we give the division's considerable autonomy, we watch their monthly income statements very closely. Each *** actual performance is compared with the budget in considerable detail. If the actual sales or contribution margin is more than 4 or 5% below budget we jump on the division immediately. I might add that we don't have much trouble getting their attention. All of the management people at the plant and division level can add *** to their annual salaries with bonuses if their actual profit is considerably greater than budget."

The budgeting process begins in August when division sales managers after consulting with their sales personnel, estimate sales for the next calendar year. These estimates are sent to plant managers who use the sales forecasts to prepare production estimates. At the plants, production statistics, including raw material ***, labour hours production schedules and *** quantities are developed by operating personnel. Using the statistics prepared by the operating personnel the plant accounting staff determines costs and prepares the plants budgeted variable cost of goods sold and other plant expenses for each month of the coming calendar year.

In October each division's accounting staff combines plant budgets with sales estimates and adds additional division expenses. "After the divisional management is satisfied with the budget," said Collins. "I visit each division to go over their budget and make sure it is inline with corporate strategy and projections. I really emphasis the sales forecasts because of the volatility in the demand for our product. For many years, we lost sales to our competitors *** we didn't project high enough production and sales, and we couldn't meet the market demand.

More recently, we were caught with large excess inventory when the bottom dropped out of the market for recreational vehicles."

"I generally visit all eight divisions during the first two weeks in November. After that the division budgets are combined and reconciled by my staff and they are ready for approval by the board of directors in early December.

"One complaint we have had from plant and division management is that they are penalized for circumstances beyond their control. For example they failed to predict the recent sales decline. As a result, they did not make their budget and, of course, they received no bonuses. However, I point out that they are *** rewarded when they exceed their budget. Further more, they provide most of their information fro the budget so it's their own fault if the budget is too optimistic."

Required:

Discuss the following:

i. Biases which corporate management should expect in the communications of budget estimates prepared by its division and plant personnel. (7 marks)
ii. Sources of information which corporate management can use to monitor the budget estimates prepared by its divisions and plants (8 marks)
iii. Services which corporate management could offer the divisions to aid them in their budget development without appearing to interfere with division budget decisions. (7 marks)
iv. Factors which corporate management should consider in deciding whether or not it should become more involved in the budget process. (8 marks)

THE END