

Examination No. \_\_\_\_\_

**THE PUBLIC ACCOUNTANTS EXAMINATION**  
**COUNCIL OF MALAWI**

**2009 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC 7: AUDITING**

**TUESDAY 1 DECEMBER 2009**

**TIME ALLOWED : 3 HOURS**  
**2.00 PM - 5.00 PM**

**INSTRUCTIONS**

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 7.
3. **FIVE** questions **ONLY** to be answered.
4. Each question carries 20 marks.
5. Begin each answer on a fresh page.
6. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 5 pages

This question paper must **not** be removed from the examination hall.

1. The Directors of CALEN Enterprises, a firm that is engaged in wholesale business have expressed concern over some aspects of the company's internal control including those relating to sales and trade debtors. The firm continues employing 50 members of staff and has separate sales and accounts departments.

The Sales Director is a well experienced person and has been largely responsible for the growth of the firm and for the implementation of the control activities exercised over the firm's sales and trade debtors system. The following policies and procedures form part of the control activities exercised over the system put in place by the Sales Director:

1. A networked integrated sales and general ledger accounts system. The Finance Manager and the Senior Accounts Supervisor together with the Sales Director and the sales department clerks (sales clerks) have full access to all sales ledger files including the master file.
2. The Sales Director is responsible for processing the opening of new customer credit accounts that involves checking credit worthiness of potential customers and eventual decision of whether to grant credit facilities or not. When credit facilities are granted, a sales clerk updates the sales ledger master file with new customer details. No credit limits are applied as this is regarded as a deterrent in increase in sales volumes. Debt chasing is performed by the Sales Director.
3. Customer orders received in writing or by phone are channeled to a sales clerk. After establishing that a sales ledger account exists, the clerk uses a sales invoicing programme to generate a pre-numbered sales invoice and accompanying goods dispatch note addressed to customers for products as ordered. The sales Director and his staff have full access to the price file and no one else.
4. All invoices are mailed by the sales clerks to customers and the goods dispatch notes are forwarded to the stores department to accompany goods as and when dispatched. A copy of each invoice is forwarded to the Senior Accounts Supervisor who is responsible for dealing with customers' invoice queries etc and the posting of credit notes to the sales ledger.

**Required:**

- (a) Define the term 'Internal controls'. **2 Marks**
- (b) State **six** objectives of the internal controls of sales and trade debtors system of CALEN Enterprises it aims to achieve. **6 Marks**
- (c) Identify **four** weaknesses in the system of control employed by CALEN Enterprises and briefly explain the implication of each weakness identified and recommend improvements to address the weaknesses identified. **12 Marks**  
**(TOTAL: 20 MARKS)**

**Continued/.....**

2. Your audit manager has instructed you together with your members of the audit team to attend a briefing meeting as part of the planning of the final audit of a manufacturing firm whose year end is 30 November 2009, because you were involved in the interim audit that was conducted in July 2009.

**Required:**

- (a) Briefly describe the work that the audit team should have carried out in July in preparation for the final audit of the firm's financial statements. **4 Marks**
- (b) State **four** matters that should be discussed at the audit briefing meeting as part of the planning process of the final audit of the financial statements for the year ending 30 November 2009. **4 Marks**
- (c) Briefly provide **four** practical examples of how your fellow members of the audit team may use evidence to support their audit conclusions in respect of the final audit of the financial statements based on each of the sources of audit evidence listed below:
- (i) Events after the balance sheet date. **4 Marks**
- (ii) Satisfactory internal control procedures. **4 Marks**
- (iii) Written confirmation from third parties. **4 Marks**

**(TOTAL: 20 MARKS)**

3. Randal Ltd runs a supermarket store that has 80 employees on its payroll. Some of its members of staff are paid on hourly basis. The firm has unacceptable size of administration and accounts department with appropriate segregation of duties, supervisory controls and authorization levels throughout the various accounting functions.

Your firm is auditing the financial statements for year ending 30 June 2009 and together with an inexperienced audit clerk, you have been assigned to audit wages. Randal Ltd pays all employees on a weekly basis and uses a computerized payroll system to process wages prior to making payments direct into the employees' bank accounts.

You are about to commence tests of control on the wages system and as such you have been entrusted with the responsibility of explaining to the inexperienced audit clerk who does not understand that there are several recognized methods that an auditor may adopt when selecting a sample of items to be tested from a population.

**Required:**

- (a) Explain the following terms as applied to audit sampling methods:
- (i) Random selection; **2 Marks**
- (ii) Haphazard selection; **3 Marks**
- (iii) Systematic selection. **3 Marks**

**Continued/.....**

- (b) Identify **six** tests of control that you should carry out in connection with the audit of the reported wages costs in the financial statements of Randal Limited for the year ended 30 June 2009.

**12 Marks**

**(TOTAL : 20 MARKS)**

4. Your audit supervisor has asked you to carry out a positive debtors' circularization on your client's debtors using one of the recommended sampling methods.

**Required:**

- (a) State **four** circumstances during the course of an audit when it would be in appropriate to adopt a sampling approach to testing.

**4 Marks**

- (b) Explain the difference between a 'positive' and 'negative' debtors' circularization and briefly describe the circumstances in which the latter should be used.

**5 Marks**

- (c) Why is it not allowed that client's employees should have any influence on the selection of debtors to be circularized?

**3 Marks**

- (d) Describe the types of accounts that would require special attention and would need to be represented in the sample of trade debtor balances to be circularized.

**6 Marks**

- (e) Briefly explain the importance of including nil balances in the sample.

**2 Marks**

**(TOTAL: 20 MARKS)**

5. (a) State **five** fundamental principles of an auditor's Code of Ethics and Conduct.

**5 Marks**

- (b) The going concern concept provides guidance to auditors in respect of ensuring that an entity can continue as a going concern.

**Required:**

- (i) What actions should an auditor do to ascertain whether an entity is a going concern?

**6 Marks**

- (ii) Describe the factors that could indicate that the going concern concept may be brought into question.

**9 Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

6. A manufacturing company has a computer system with an integrated system comprising sales ledger, purchases ledger and nominal ledger. Access to the system is through terminals for retrieval of information such as supplier balances on the purchase ledger which is available on a real time basis. Transactions posted to the system and edit checks are performed on real time basis as well. Standing data and transactions files are updated overnight on an on-line basis.

You are carrying out the audit of the purchases system. In this system all transaction data (e.g. authorized purchase invoices, adjustments etc) is input in batches and the edit program checks the manual control totals (e.g. number of items and total value) with the totals of items accepted by the computer. If the manual control total does not agree with that calculated by the computer a warning is given on the print-out summarizing details of items in the batch. For purchase invoices the edit program also checks that the total of the expense items of each invoice is equal to the total invoice value. Overnight, the edited batches of transaction data are posted to the purchase ledger, and each invoice expense (including VAT) is posted to the nominal ledger at the same time.

Because of the large number of suppliers the computer automatically produces a cheque at the date due for payment. This date is included as part of the input data for each purchase invoice when it is posted to the purchase ledger. The authorized signatures required by the bank are always displayed whenever the computer produces each cheque.

**Required:**

- (a) Describe what you understand by the term:
- (i) Real-time computer systems. **2 Marks**
  - (ii) On-line computer systems. **2 Marks**
  - (iii) Integrated computer based accounting system. Also explain the major practical problems often encountered with an integrated computer based accounting system. **4 Marks**
- (b) Describe the controls you would expect to see over access to the purchases system from terminals in relation to retrieval of information (e.g. purchases ledger balances), updating of the transaction file and updating the standing data file containing supplier names and addresses. **6 Marks**
- (c) Describe the controls you would expect to see in operation to ensure that there are no unauthorized payments made by the computerized purchase ledger system. **6 Marks**

**(TOTAL : 20 MARKS)**

**Continued/.....**

7. Daren Limited is a company engaged in cotton ginning operations and has large warehouses for storing cotton bales that are purchased from local farmers in the region. The company carries out a full stock take exercise every year at its year end which is 30 September.

Your firm of auditors was appointed external auditors for Daren Limited a couple of years ago. You have been asked by your audit manager to lead a team of audit assistants whom together with you will be involved in the stock taking exercise for the company for year ending 30 September 2009.

The audit manager has explained to you and your team that observation of physical stock-taking is an extremely important aspect of an auditor's examination of the financial statements.

**Required:**

- (a) What items should the auditor include in his plan for the coverage of a stock take for Daren Limited? **6 Marks**
- (b) Briefly describe the matters that an auditor should consider when reviewing the stocktaking instructions for Daren Limited. **6 Marks**
- (c) What tasks should an auditor carry out during the physical stocktaking exercise? **6 Marks**
- (d) State **two** issues that the auditor will normally perform after the stocktaking. **2 Marks**

**(TOTAL: 20 MARKS)**

**E N D**