

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

**COURSE: ADVANCED THEORY AND PRACTICE OF AUDITING I**

**COURSE CODE: CAC404**

**DURATION: 3 HOURS**

**11 JUNE 2018**

**INSTRUCTIONS TO CANDIDATES**

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.

### Question One

You are the audit manager in the firm of Nyakudirwa & Co, an audit firm with ten national offices. One of your clients, Rocks Forever, purchases diamond jewelry from three manufacturers. The jewelry is then sold from Rocks Forever's four shops. This is the only client your firm has in the diamond industry. You are planning to attend the physical inventory count for Rocks Forever. Inventory is the largest account on the balance sheet with each of the four shops holding material amounts. Due to the high value of the inventory, all shops will be visited and test counts performed. With the permission of the directors of Rocks Forever, you have employed UJ, a firm of specialist diamond valuers who will also be in attendance. UJ will verify that the jewelry is, in fact, made from diamonds and that the jewelry is saleable with respect to current trends in fashion. UJ will also suggest, on a sample basis, the value of specific items of jewelry. Shop staff in teams of two using pre-numbered count sheets will carry out the counting.

- a. List and explain the reason for the audit procedures used in obtaining evidence in relation to the inventory count of inventory held in the shops. (9 marks)
- b. Explain the factors you should consider when placing reliance on the work of UJ. (9 marks)
- c. Describe the audit procedures you should perform to ensure that jewelry inventory is valued correctly. (7 marks)

[Total: 25 marks]

### Question Two

- a. 'The purpose of an external audit and its role are not well understood. You have been asked to write some material for inclusion in your firm's training materials dealing with these issues in the audit of large companies.'

Required

Draft an explanation dealing with the purpose of an external audit and its role in the audit of large companies, <sup>[1]</sup><sub>SEP</sub> for inclusion in your firm's training materials. <sup>[1]</sup><sub>SEP</sub> (10 marks)

- b. The external audit process for the audit of large entities generally involves two or more recognizable stages. One stage involves understanding the business and risk assessment, determining the response to assessed risk, testing of controls and a limited amount of substantive procedures. This stage is sometimes known as the interim audit. Another stage involves further tests of controls and substantive procedures and audit finalization procedures. This stage is sometimes known as the final audit. <sup>[1]</sup><sub>SEP</sub>

**Required:**

Describe and explain the main audit procedures and processes that take place during the interim and final. (15 marks)

[Total: 25 marks]

**Question Three**

'IAS 10, *Events After the Reporting Period* stipulates the accounting and disclosure requirements concerning transactions and events that occur between the reporting date and the (expected) date of approval of the financial statements. Among other things, IAS 10 determines when an event that occurs after the reporting date will result in the financial statements being adjusted, or where such events merely require disclosure within the financial statements.'

**Required:**

- a. Define the terms subsequent events, adjusting events and non-adjusting events. (10 marks)
- b. What is the auditor's responsibility pertaining to such events? (5 marks)
- c. Trade payables and purchase accruals. (10marks)

[Total: 25 marks]

**Question Four**

‘International Standard on Auditing 300 *Planning an Audit of Financial Statements*, states that an auditor must plan the audit.’

**Required**

- a. Explain why it is important to plan an audit. **(10 marks)**
- b. Clearly outline the audit program you would prepare for credit sales. **(15 marks)**

**[Total: 25 marks]**

**End of Paper**