

Certified Accounting Technician Examination
Advanced Level

Implementing Audit Procedures (Singapore)

Monday 8 June 2009

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 10 questions are compulsory and **MUST**
be attempted

Section B – ALL FOUR questions are compulsory and **MUST**
be attempted

Do NOT open this paper until instructed by the supervisor.

**During reading and planning time only the question paper may
be annotated. You must NOT write in your answer booklet until
instructed by the supervisor.**

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

The Association of Chartered Certified Accountants

Certified Accounting Technicians (Singapore) Ltd

Paper T8 (SGP)

ACCA

CATS

Section A – ALL TEN questions are compulsory and MUST be attempted

Please use the Candidate Registration Sheet provided to indicate your chosen answer to each multiple choice question. Each question in this section is worth 2 marks.

1 With regard to which of the following financial statement assertions may an auditor encounter particular difficulties in obtaining sufficient evidence where internal controls are weak?

- A Ownership
- B Existence
- C Valuation
- D Completeness

2 The auditors of Three Co recently completed their interim audit for the year ending 31 July 2009. They confined their work only to tests of control on accounting records to 31 March 2009 and concluded that controls were totally unreliable.

What will be the nature of the work carried out when conducting the final audit of the company's financial statements for the year ending 31 July 2009?

- A Tests of control on the system and substantive procedures on transactions for the period from 1 April 2009 to 31 July 2009, plus a review of the financial statements.
- B Tests of control on the system for the period from 1 April 2009 to 31 July 2009, substantive procedures on the statement of financial position as at 31 July 2009, plus a review of the financial statements.
- C Substantive procedures on transactions for the whole accounting period and on the statement of financial position as at 31 July 2009, plus a review of the financial statements.
- D Substantive procedures on the statement of financial position as at 31 July 2009, plus a review of the financial statements.

3 What is the *principal* purpose of the engagement letter in respect of a limited liability company audit assignment?

- A To set out the proposed timetable for the audit.
- B To define the extent of the auditors' responsibilities.
- C To define the extent of the directors' responsibilities.
- D To set the audit fee for the current year.

4 Which of the following correctly describes the stages of an audit during which the auditor must make use of analytical review procedures?

- A At the planning stage and at the overall review stage of the audit.
- B At all stages of an audit other than the planning stage.
- C In the closing stages of the audit only, when conducting the overall review of the financial statements.
- D At the planning stage and the substantive procedures stage of the audit.

5 Which of the following would normally be retained on the current file maintained for a limited liability company audit client?

- A Narrative notes describing the company's accounting systems.
- B A copy of the company's constitution.
- C A management representation letter.
- D A description of the company's business and its operations.

6 Which of the following questions would you expect to find on an Internal Control Evaluation Questionnaire (ICEQ) for the payroll system of a limited liability company?

- (1) Can the payroll supervisor authorise the payment of wages?
- (2) Can employees be paid for work not done?
- (3) Can bonuses be wrongly paid?
- (4) Can statutory deductions be incorrectly recorded?

- A** 1, 2 and 3
- B** 1, 2 and 4
- C** 1, 3 and 4
- D** 2, 3 and 4

7 Which of the following describes the auditor's role when attending a client's inventory count?

- A** To count all of the inventory.
- B** To observe the conduct of the inventory count.
- C** To identify damaged and obsolete inventory.
- D** To supervise the inventory counting teams.

8 The auditor of Four Co, a manufacturing company, has noted an increase in total sales value but a decrease in the company's gross profit percentage for 2009 as compared to the previous year.

Which of the following is consistent with, and adequately explains, the decrease?

- A** Sales commission payable to the company's sales force increased in relation to sales values as compared to 2008.
- B** Sales volumes have decreased as compared to 2008.
- C** During 2009, due to a scarcity of supply the company had to pay higher prices when purchasing components.
- D** During 2009 a major component supplier withdrew the settlement discounts previously granted.

9 Which of the following should be included in an auditors' report, when there has been a limitation on the auditors' work in connection with a matter they consider material but not pervasive to the financial statements of a company?

- A** An 'except for' opinion.
- B** A 'disclaimer' of opinion.
- C** An adverse opinion.
- D** None of the above.

10 Which of the following would provide the most persuasive evidence of a company's ownership of a freehold office building?

- A** Inspection of the purchase documentation.
- B** Inspection of recent expense invoices for extensive repairs to the building, paid for by the company.
- C** Inspection of the title deeds to the building.
- D** Inspection of a directors' board minute confirming ownership of the building.

(20 marks)

Section B – ALL FOUR questions are compulsory and MUST be attempted

- 1 The recent trading results of Ace Co, an established distributor of photocopiers, facsimile and scanning machines, have been disappointing; showing a steady decline in sales and profits and an increase in bad debts incurred. Whilst the company's directors are sure that new product range innovations will increase sales figures, they are not confident that the current internal controls exercised over the sales and trade receivables system actually meet the system's objectives. They have therefore asked your firm to conduct a review of the system and to recommend improvements as appropriate.

From examination of the existing sales and trade receivables system you have ascertained the following:

- (1) The company sales team comprises a sales manager and ten sales representatives. Each sales representative is engaged in the generation of sales leads and the management of customer accounts, including the actioning of all aspects of credit control.
- (2) Sales bonuses paid to each sales representative are based on invoiced gross sales achieved, with each representative having authority to discount prices at up to 40% against standard prices as set by the company's board of directors. At the end of each month the sales manager reviews the representatives' sales figures based on invoices raised and then forwards authorised summaries of these to one of the company's wages clerks for immediate entry onto the company's payroll and subsequent payment of bonuses.
- (3) Most sales leads are generated from telephone contact or appointments attended by the sales representatives. They are each responsible for assessing the credit worthiness, and the granting of credit facilities to customers before accepting sales orders. To facilitate effectiveness in this regard, all have received training from the company in credit control procedures.
- (4) It is a requirement of Ace Co that all customer orders for the purchase of machines are confirmed by a simple e-mail message sent to the appropriate sales representative.
- (5) On receipt of an e-mailed order sales representatives:
 - (i) E-mail an electronic copy of the order to the company's warehouse staff adding any appropriate clarifying message as required. This e-mail activates the picking of the order from the warehouse inventory of approximately 1,000 machines, packing and then delivery to customers along with a pre-numbered goods delivery note. A copy of each delivery note is retained in the warehouse and subsequently matched and filed by warehouse staff with the customer signed copy as returned by Ace Co's delivery drivers, and a downloaded hard copy of the e-mailed order.
 - (ii) Prepare and forward a sales invoice to the customer using pre-numbered stationery generated in the sales office. Detailed on each invoice is the invoice date, sales reference, customer order reference and name and address including delivery address, quantity and detail of the machine(s) supplied, price information and confirmation of Ace Co's standard payment terms. A copy of each invoice raised is retained in the sales office.
 - (iii) E-mail electronic copies of the customer order and sales invoice to Ace Co's accounts department. On receipt, the accounts department staff download hard copies of the order and invoice, immediately open a new customer account in the trade receivables ledger as required and post the sales invoice to the company's accounting records. Posted invoice copies are then filed in sequential number order attached to the e-mailed copy orders.

Required:

- (a) State FIVE objectives of internal controls that should be exercised over a sales and trade receivables system. (5 marks)
- (b) With regard to the controls exercised over sales and trade receivables and also the payment of bonuses by Ace Co, review the procedures employed in the system from the receipt of customer orders to the posting of sales invoices into the company's accounting records and:
- (1) Identify FOUR weaknesses in the system. (4 marks)
 - (2) Describe the implications of each weakness identified. (6 marks)
 - (3) Recommend improvements to address the weaknesses. (6 marks)
- You should assume that there are a sufficient number of employees in the company to operate effective controls.
- (c) State with reasons whether Ace Co should have implemented a continuous (perpetual) system of counting, or a year end count as a means of controlling its inventory of machines. (4 marks)
- (25 marks)**

- 2 (a) Audit risk is a major consideration in the planning of an audit.

Required:

- (i) Define each of the following terms from an audit perspective:
- (1) audit risk;
 - (2) inherent risk;
 - (3) control risk;
 - (4) detection risk. (6 marks)
- (ii) Using the area of Purchases in the financial statements of a company, illustrate how auditors use the audit risk model to determine sample sizes and the required level of resources for substantive testing in order to ensure that audit risk is reduced to an acceptable level. (10 marks)
- (b) Deuce Car Hire Co has a large fleet of cars for hire and operates from twelve separate depots providing a national car hire service around the country. It offers car hire services to corporate customers on credit payment terms, and to members of the public on advance payment terms, including payment by cash. In addition to the car hire revenue, the company categorises income from the sale of excess damage waiver insurance premiums and the hire of child seats and satellite navigation systems as Car Hire Income.

Required:

- Identify and explain THREE factors that would contribute to the assessment of a high inherent risk applying to Car Hire Income as reported in the financial statements of Deuce Car Hire Co. (9 marks)
- (25 marks)**

3 Auditors may use confirmation from third parties and also from work performed in reviewing subsequent events as audit evidence.

Required:

(a) Explain the meaning of the term 'audit evidence' and state why it is necessary. (2 marks)

(b) List and describe FOUR different examples of third party confirmations that an auditor may choose to rely on as evidence when auditing the financial statements of a large manufacturing company. (8 marks)

(c) (i) State the period of time covered by an auditor's review of 'subsequent events' in relation to a company's year end financial statements; (2 marks)

(ii) State TWO examples of subsequent events that may provide confirming evidence when auditing the financial statements of a large manufacturing company. (3 marks)

(15 marks)

4 (a) Your firm is engaged in the audit of the financial statements of QKJ Co for the year ended 30 April 2009. The audit team are aware that the company has encountered difficulties in recent months and the audit manager has expressed doubts as to whether the company will remain as a going concern in the short term.

Required:

State NINE indicators of risk that the continuance of QKJ Co as a going concern may be questionable as at 30 April 2009. (9 marks)

(b) A junior colleague, working at your firm, is uncertain as to why, on every audit, all of the work carried out by the audit team is regularly reviewed by the audit manager.

Required:

Explain the purpose of the review carried out by the audit manager. (6 marks)

(15 marks)

End of Question Paper