UNAM
UNIVERSITY OF NAMIBIA

FACULTY:	FACULTY OF COMMERCE, MANAGEMENT AND LAW
SCHOOL:	SCHOOL OF ACCOUNTING
SUBJECT:	AUDITING 2
SUBJECT CODE:	AUA 3871
DATE:	MAY/JUNE EXAMS
MARKS:	100
TIME ALLOWED:	180 MINUTES

1ST OPPORTUNITY EXAMINATIONS

EXAMINER:	**MRS. B DHLAMINI**
MODERATOR:	**MRS E. MACHAYA**

INSTRUCTION TO STUDENTS:

1. **ANSWER *ALL* THE QUESTIONS**
2. **THIS EXAM CONSISTS OF SIX (6) QUESTIONS**
3. **THIS QUESTION PAPER CONSISTS OF EIGHT (8) PAGES INCLUDING THE FRONT COVER**

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EXAMINATIONS

Question 1 (15 marks)

YOU ARE REQUIRED TO:

State whether each of the following statements is true or false and provide reasons for your answers. Consider each statement separately.

a. When the auditor confirms that a company had the necessary authorized, but unissued, share to make a new issue of shares during the year under audit, he gathers evidence to support the classification assertion applicable to the transaction. **(1)**

b. Every issue of shares to a director must be supported by a special resolution of the shareholders. **(1)**

c. Where a company has issued debentures at a premium, the debenture must be reflected in the financial statements at amortized cost. **(1)**

d. Where a company enters a long-term lease for an expensive piece of machinery, it can recognize the lease by recognizing a 'right of use' asset and a lease liability, or it can simply treat the lease payments as an expense. **(1)**

e. The classification assertion does not apply to property, plant and equipment. **(1)**

f. A company may choose the cost model or the revaluation model for its property, plant and equipment. **(1)**

g. The carrying amount of plant and equipment using the cost model will always be reflected as cost less accumulated depreciation. **(1)**

h. When the definition and recognition criteria for an asset, for example, a large machine, are met for significant parts of the machine, the cost of each significant part should be recognized in a separate asset account. **(1)**

i. If a company adopts the revaluation model for its property, plant and equipment and the assets carrying amount increases because of a revaluation, the increase is always recognized in profit and loss as revaluation income. **(1)**

j. The directors of a company are required to review the residual value and useful life of property, plant and equipment at the end of every financial year. **(1)**

k. A liability is a possible (it will only be confirmed by the occurrence or non-occurrence of a future event) obligation that arises from the past event, whereas a contingent liability is a present obligation arising from past event. **(1)**

l. Depreciation is required to be provided on land unless the company has evidence that the land will appreciate in value. **(1)**

m. When a company enters a long-term loan agreement, the full loan amount must be classified as a noncurrent liability in the financial statements, regardless of repayment terms. **(1)**

n. The occurrence assertion is primarily relevant when auditing the balance of a long-term loan on the balance sheet **(1)**

o. The cutoff assertion is critical when auditing property, plant and equipment on the balance sheet. **(1)**

Question 2 (15 marks)

The trial balance of Crawford (Pty) Ltd for the current financial year end 31 March 2026 reflects the following:

Occurrence:	Crawford (Pty) Ltd is obliged to suppliers for the goods purchased.
Completeness:	All orders for goods placed by year end had been filled by suppliers.
Measurement:	I don't what this means, but I know it's an assertion.
Materiality:	The trade accounts payable on 31 March 2026 balance is material.
Existence:	Crawford (Pty) Ltd has not understated its trade accounts payable.
Fair presentation:	the trade accounts payable balance is fair presented.

YOU ARE REQUIRED TO:

Comment on your junior trainee's understanding of the financial statements assertions. Your answer must convey that you understand the assertions applicable to trade accounts payable.

Question 3 (15 marks)

ViriesTech (Pty) Ltd is a fast-growing Namibian technology company that develops smart home devices and sells them through an online platform. The company has a 31 December 2025 year end. You are the senior auditor completing the final stage of the audit.

During the completion procedures, you note the following matters:

a. ViriesTech's financial statements disclose a new item – *"AI Development Costs"* – amounting to N$12 million, capitalized as an intangible asset. Management believes this meets the criteria of IAS 38. The audit team is still awaiting the results of an external valuation expert's report, which was not finalized before the audit report date.
b. A cyber-attack occurred in January 2026 (after year end) that exposed some customer information. Management has disclosed the event in the directors' report but has not adjusted the financial statements, stating that it occurred after the reporting date and did not affect 2025 performance.
c. The engagement partner proposes including a Key Audit Matter (KAM) relating to the valuation of AI development costs, as it involved significant auditor judgement and use of an expert.
d. The directors have approved and signed the financial statements on 15 March 2026, but management requests that the auditor date the report 10 March 2026, when fieldwork was substantially complete, to *"speed up the release"*.

YOU ARE REQUIRED TO:

i. For each of the four matters above, state how it would impact the auditor's report, if at all, and justify your conclusion. **(10)**

ii. Explain what a Key Audit Matter is and why the valuation of AI development costs qualifies as one. **(5)**

Question 4 (25 marks)

You are a member of the team on the audit of Tapp Tapp (Pty) Ltd, a company that supplies plumbing requisites (baths, basins, pipes, joints etc.) to plumbing contractors. You have been assigned to the audit of the revenue and receipts cycle and are in the process of evaluating the accounting system and related internal controls in the cycle. Information pertaining to certain aspects of the cycle appears below (a-f).

a. The company sells only on credit. This reduces the risks arising from having cash on the premises.

b. All sales made are from Tapp Tapp (Pty) Ltd's premises, which consist of a showroom, warehouse and administrative offices under one roof.

c. Plumbing contractors must visit the company's premises to make purchases, as Tapp Tapp (Pty) Ltd does not deliver. This suits the contractors as it means they can make their purchases early in the day (the company's business hours are 7 am to 5 pm) and collect the goods at the same time.

d. Customers (contractors) are served by any one of six technically trained salespeople who sit behind a long counter in the sales area. Each salesperson has his/her own computer terminal.

- When a contractor arrives at the counter, one of the salespeople will enquire as to the contractor's name and, having accessed the 'create sales invoice' module, will enter the given name, for example Watertite Plumbers CC, into the computer. This brings up the customer details on screen formatted as a sales invoice. The salesperson confirms the details, for example account number, address etc. with the customer by reading the details off the screen to the customer.

e. The contractor's order is taken as follows:

- To determine inventory availability and price, the salesperson accesses the inventory master file.
- If the item is available (which is usual) and the customer is satisfied with the price, the salesperson proceeds with taking the order.
- To complete the invoice, the salesperson enters the inventory item code and quantity of each item required in the relevant fields. This automatically completes the other

fields on the invoice, for example description of goods, selling price, VAT and total selling price. The computer software automatically sequences the invoice.

- The computer prints a four-part invoice. The top copy remains in the sales department and filed. The second copy goes to the accounting department where it is filed. The remaining two copies are handed to the customer who takes them to the 'despatch department' which is a secure area attached to the warehouse. Both copies of the invoice are handed to *any one of five despatch clerks* who picks the items required from the warehouse. Once the items are picked, the despatch clerk, using an ink stamp, stamps both copies of the invoice *'FILLED'* and hands one copy of the invoice to the customer with the goods. The customer then loads the goods onto his/her vehicle and leaves Tapp Tapp (Pty) Ltd premises. The remaining copy of the invoice is filed in the despatch department.

f. If a contractor does not have an account, the salesperson will select the 'open new account module of the accounts receivable software and, following the screen prompts, will enter the contractor's name, trading name, registration number (if applicable), address and bankers. The salesman will request the contractor's identity document and enter the identity number into the computer. Once this has been completed, the contractor is automatically allocated an account number and added to the debtor's master file. He/she can then make whatever purchases he/she requires.

YOU ARE REQUIRED TO:

i. Explain the internal control objectives of *validity, accuracy and completeness* in the context of sales in the revenue and receipts cycle. **(3)**

ii. Explain the following assertions pertaining to the accounts receivable balance in the year-end financial statements of Tapp Tapp (Pty) Ltd: *existence, accuracy, valuation and allocation, completeness and classification.* **(5)**

iii. Identify the two assertions pertaining to the audit of accounts receivable that, under normal circumstances, are likely to attract a greater risk of material misstatement. *Provide brief reasons.* **(4)**

iv. Identify and explain the weaknesses in internal control in the aspects of Tapp Tapp (Pty) Ltd revenue and receipts cycle described in points *1 to 6* above. *Do not concern yourself with backorders.* **(13)**

Question 5 (20 marks)

You are the auditor of Households (Pty) Ltd, a retailer of home appliances, for example fridges, stoves and televisions. The company's financial year end is 28 February, and you are currently planning attendance at the inventory count, scheduled for 28 February, as well as the subsequent inventory procedures you will conduct.

Households (PE) Ltd operates out of a large warehouse/outlet in Port Elizabeth and holds inventory at outlets in Grahamstown and Port Alfred. Most of the appliances sold by the company is manufactured in South Africa, but certain more expensive lines are imported from Austria and the United States. In addition to their regular products, the company also sells an expensive range of technological advanced audio equipment, which is also imported. All imported goods are shipped to the Port Elizabeth warehouse in containers. At year-end, there are likely to be several containers that have been delivered to the warehouse but not unpacked.

Households (Pty) Ltd is well managed with sound systems of internal control and is profitable. In addition to its inventory of new appliances, Households (Pty) Ltd also has a large inventory of second-hand appliances for sale at its Port Elizabeth warehouse. These appliances are taken as 'trade-ins' on new appliances and repaired/repainted in Households (Pty) Ltd's workshop. Each of these 'trade-ins' is given a job number, and repair costs are recorded on a job card. A computerized inventory ledger of second-hand goods is maintained, each item having a unique record of its details including item serial numbers, date of trade-in and sales-agreement numbers, trade-in value and repair costs.

YOU ARE REQUIRED TO:

(a) Assess the risk of material misstatement of the inventory account balance in the financial statements on 28 February 2022. Consider each of the assertions relating to inventory. *Do not concern yourself with the assertions relating to presentation and disclosure.* **(8)**

(b) Describe the procedures you will carry out to verify the valuation of secondhand appliances on hand at year-end having satisfied yourself with the existence of second-hand appliances by attending the annual inventory count. **(12)**

Question 6 (10 marks)

The following documents/records are found in most businesses. Some are applicable to the payroll cycle and some are not

* cash receipt
* income tax tables
* clock card
* union fee deduction return
* employment contract
* goods received note
* masterfile amendment form
* eft register
* internal order
* batch control sheet
* purchase journal
* credit note

YOU ARE REQUIRED TO:

a) indicate which of the above documents/records will be used in the payroll cycle, and for each document/record identified, provide a brief description of what it is used for. **(6)**

b) state the order in which the documents/records will be used in the cycle and indicate which function(s) will use them. **(4)**