

THE PROFESSIONALS' ACADEMY OF COMMERCE
AUDITING
 Topics: Verification, ISA-500, ISA-505



Module: D
 Referral 5

Address: Groups / CASTUDY

33 marks – 1 hour
 Date: 03/01/2013

Question no 1

Name: CASTUDENTS

WW Company's accounts receivable are typically quite low (below materiality level) at year end on December 31. The company manufactures and sells marine equipment of various types and the main selling period begins in April. WW's customers tend to be small boat supplies stores located in towns near lakes and other waterways. Some of the customers close their businesses for the winter months of November to March, resulting in many confirmations not being returned. Your firm has audited WW Company for 3 years and this year, as in the past, control risk is low regarding the receivables, as is inherent risk. This year, the auditor has decided not to use confirmations for the receivables.

Required:

- (a) State 3 reasons that would support the auditor's decision not to use confirmations in this case. (3 marks)
- (b) If the auditor does use confirmations, state whether he would use positive or negative confirmations. Briefly explain your answer. (3 marks)

Question no 2

- a) Describe substantive procedures you should perform to obtain sufficient appropriate evidence in relation to:
1. Fixed assets (4 marks)
 2. Sales (4 marks)
- b) Bank confirmations are a source of highly reliable information which can be used to gain valuable information from an independent third party.

Required:

State what information is required from the bank about 'Bank Accounts'.

(5 marks)

Question no 3

- a) Discuss the factors that influence the auditor's judgment as to what constitutes sufficient appropriate audit evidence. (6 marks)
- b) Prepare 6 questions to ascertain controls over payroll. (3 marks)

Question no 4

You are the audit senior on the audit of Luck Traders, a medium-sized entity, which trades in sea-shells and reef stores. You have been assigned two audit trainees who are currently assigned to test the controls on the purchases system of Luck Traders. As this is the trainees first time, Mr. Khan, your audit partner, has asked you to brief them on techniques to test the controls and how to acquire audit evidence on purchases.

Required:

State and briefly explain the tests of controls you would suggest to the trainees.

(Marks 5)