**MAKERERE UNIVERSITY BUSINESS SCHOOL**

**FINAL EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING OF MAKERERE UNIVERSITY ACADEMIC YEAR 2024/2025**

**COURSE NAME:** Audit and Assurance **YEAR OF STUDY:** Three

**COURSE CODE:** BSA 3110 **DATE:** 3 December 2024

**SEMESTER** **:** One **TIME:** 9:00 – 12.00 Noon

**INSTRUCTIONS**

1. Answer the compulsory question in Section A carrying 25 marks.
2. Answer any **THREE** questions in Section B. Each question carries 25 marks.
3. If you answer **MORE THAN THREE** questions in Section B, cross the answers not to be marked as the first three questions shall be marked.
4. Follow the other University examination regulations.

**Compulsory Section A**

**Question 1**

It is 1 December 2024. You are an audit supervisor with Divine & Co and you are responsible for the final audit of Happy World Co to commence in February 2025. The draft financial statements for the year ending 31 December 2024 show revenue of Shs 400 million (Shs 300 million in 2023), profit before tax of Shs 54 million (42 million in 2023) and total assets of Shs 420 million (Shs 340 million in 2023). The following matters have been brought to your attention.

Land and buildings

Happy World Co has a policy of revaluing land and buildings; this is undertaken on a rolling basis over a five-year period. During the year Happy World Co requested an external independent valuer to revalue a number of properties. Depreciation is charged on a pro rata basis.

Trade receivables

Happy World Co has a large number of small customers; the normal credit terms offered to them is 30 days. However, the finance director has informed you that the average trade receivables collection period has increased quite significantly this year from 34 days to 55 days. This is partly due to difficult trading conditions and also because for six months of the year the role of credit controller was vacant. The company has historically maintained on average an allowance for trade receivables of 1.5% of gross trade receivables.

Bank reconciliation for Happy World Co at 31 December 2024

Shs 000 Shs 000

Balance per bank in the general ledger at 31/12/2024 435,000

Add: Outstanding cheques

2411 102,500

2721 23,000

2722 50,000

2723 13,450

2724 19,000

2726 22,000

2728 10,050

2729 15,760

2730 12,550 268,310

703,310

Less: Outstanding deposits

30 December (ref 1122) 102,220

31 December (ref 1123) 250,000 352,220

Balance per bank statement at 31/12/2024 351,090

Required:

Describe the substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to:

1. The revaluation of land and buildings and the recently purchased warehouse. **(8 marks)**
2. Trade receivables **(8 marks)**
3. Bank reconciliation **(9 marks)**

**(Total: 25 marks)**

**Answer any THREE questions from Section B**

**Question 2**

Freedom Co manufactures plastic house hold items sold in East Africa and its year end is 31 December 2024. It is 1 October 2024 and you are an audit supervisor with Trust & Co, preparing the draft audit programmes and reviewing extracts from the internal controls documentation in preparation for the interim audit.

Payroll

The company has a human resources (HR) department, responsible for recruitment of new workers. Pre-printed forms are completed by HR for all new employees and, once verified, a copy is sent to the payroll department for the employee to be added to the payroll for payment. This form includes the staff member’s employee number and payroll cannot amended without this information.

Factory employees are paid cash weekly based on the number of hours worked. Each staff has a unique clock card used to enter and exit the factory at the beginning and end of the working shift. Clocking in and out is supervised by security staff. The clock card system is linked to the payroll system. The payroll system automatically calculates gross and net pay and generates employee pay slips. The payroll accountant selects a sample of the pay slips, reperforms gross to net pay calculations and investigates any discrepancies. The sampled pay slips are the signed as evidence of this review. On a quarterly basis, exception reports of changes to payroll standing data are produced and reviewed by the payroll manager.

Two members of the payroll department produce the pay envelops, one is responsible for counting the money by reference to the pay slips generated by the system. The second member recounts the money in the envelops and confirms that it agrees to the pay slips. Both members are required to sign the weekly payroll listing on completion of this task.

Purchases and inventory

Whenever production materials are required, the relevant department sends a requisition form to the ordering department. A purchasing officer raises a purchase order and contacts a number of suppliers to see which can dispatch the goods first. This supplier is then chosen. The purchasing officer sends out the purchase order. This is not sequentially numbered and only orders above Shs 50 million require authorisation.

Receipts of raw materials and goods from suppliers are processed by the warehouse team at the factory warehouse, who agree the delivery to the purchase order, check the quantity and quality of goods and complete a sequentially numbered goods received note (GRN). The GRNs are sent to the finance department daily. On receipt of the purchase invoice from the supplier, Okot, the purchase ledger accountant, matches it to the GRN and order and the three documents are sent for authorisation by the appropriate individual. Once authorised, the purchase invoices are logged into the purchase ledger by Okello, who utilises document count controls to ensure the correct number of invoices has been input. The company values its inventory using standard costs, both for internal management reporting and for inclusion in the year-end financial statements. The basis of the standard

costs was reviewed approximately 18 months ago.

Required:

a) In respect of the payroll system of Freedom Co:

1. Identify and explain FIVE DIRECT CONTROLS which the auditor may seek to palace reliance on, and
2. Describe a TEST OF CONTROL the auditor should perform to assess if each of these key controls is operating effectively. Prepare your answer using two columns headed Key control and Test of control respectively. **(10 marks)**

b) Identify and explain FOUR DEFICIENCIES in Freedom Co's purchases and inventory system and provide a recommendation to address each of these deficiencies. Prepare your answer using two columns headed Control deficiency and control recommendation respectively. **(8 marks)**

c) Describe SEVEN substantive procedures the auditor would perform to obtain sufficient appropriate evidence in relation to payroll expenses in the financial statements of Freedom Co during final audit. **(7 marks)**

**(Total: 25 marks)**

**Question 3**

Just Co manufactures boda boda components and its year end was 31 December 2024. You are an audit supervisor of Prime & Co and the final audit is due to commence shortly. Total assets are Shs 432m and profit before tax is Shs 72m. The following matters have been brought to your attention:

1. Just Co purchased new equipment. All costs incurred in the purchase and installations have been recognized as equipment. The amount of Shs 32 million for equipment cost includes the purchase price of Shs 25 million, delivery and installation costs of Shs 1 million, refundable VAT of Shs 5.4 million and Shs 600,000 in training staff on how to operate the new plant and machinery. Describe SIX substantive procedures in relation to additions to equipment. **(6 marks)**
2. The audit associate has obtained the following extract of the aged inventory report. What is the impact on the value of inventory if no adjustments are made to the carrying amounts above? **(6 marks)**

*Inventory code Days in inventory Original cost Selling price Costs to sell Carrying amount*

Shs Shs Shs Shs

C 800 98 120,000 200,000 20,000 120,000

C 600 127 145,000 160,000 25,000 145,000

C 500 109 180,000 260,000 30,000 230,000

495,000

1. During the inventory count, the count supervisor noted that clothes with a value of Shs 7.2 million were damaged. The finance manager believes the clothes can be sold at a discounted sum of Shs 4 million in Owino market. Describe SEVEN audit procedures you would perform during the audit to obtain sufficient appropriate audit evidence in relation to the valuation of the damaged soap. **(7 marks)**
2. Below are the results from the external confirmation carried out at 31 December 2024. Describe the substantive procedures you would perform on each of the responses. **(6 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
| Customer | Balance per ledger Shs m | Balance per response Shs m | Reason for the difference |
| Mugabe | 17 | 8 | Goods not received at year end (GDN 127058) |
| Musoke | 118 | 115 | Disputed invoice (Invoice No 126425) |

**(Total: 25 marks)**

**Question 4**

1. ISA 210 *Agreeing the terms of audit engagement* requires auditors to accept a new audit engagement after assessing whether the following preconditions for an audit are present. Describe the preconditions for an audit that should be present before an audit engagement is accepted. **(4 marks)**
2. Explain FIVE procedures that should be performed by an auditor when carrying out external confirmation of trade receivables of a client during the final audit as required by ISA 505 *External confirmations*. **(5 marks)**
3. You are an audit supervisor of Amin & Co and are currently planning the audit of Victoria Co (Victoria) which assembles Care motor cycles in Uganda. Its year-end is 31 December 2024 and the forecast profit before tax is Shs 1,520 million.

The company undertakes continuous assembly in its factory, therefore at the yearend it is anticipated that work in progress will be approximately Shs 95 million. In order to improve the assembly process, Victoria placed an order in August for Shs Shs 72 million of new machinery; one third of this order was received in September with the remainder expected to be delivered by the supplier in late December or early January 2025.

At the beginning of the year, Victoria purchased a patent for Shs 130 million which gives them the exclusive right to assemble Care motor cycles for five years. In order to finance this purchase, Victoria borrowed Shs 120 million from DFCU Bank which is repayable over five years.

The company has a policy of revaluing land and buildings and the finance director has proposed that all land and buildings will be revalued at the year-end. During a review of the management accounts for the month of September 2024, you have noticed that receivables have increased significantly on the previous year-end and against September 2023.

The finance director has informed you that the company is planning to make approximately 80 employees redundant after the year-end. No decision has been made as to when this will be announced, but it is likely to be prior to the year-end.

Required:

Using the minutes provided, identify and describe FOUR audit risks and explain the auditor's response to each risk, in planning the audit of Victoria Co. Note. Prepare your answer using two columns headed Audit risk and Auditor's response respectively. **(16 marks)**

**(Total: 25 marks)**

**Question 5**

You have been assigned by your finance director to make a presentation to the new Audit Committee of your company on the following topics.

1. Explain the FIVE general principles of an audit of financial statements. **(5 marks)**
2. Explain FIVE functions of an audit committee in an entity. **(5 marks)**
3. Explain FIVE fundamental principles of the codes of ethics for accountants issued by ICPAU and IFAC and give an example of each principle. **(5 marks)**
4. Describe FIVE substantive procedures used to verify rights and obligations regarding property in the statement of financial position. **(5 marks)**
5. Describe FIVE audit procedures duringattendance at the inventory count in final audit.  **(5 marks)**

**(Total: 25 marks)**

**Question 6**

1. ISA 560 *Subsequent events* provides guidance on subsequent events.
2. Distinguish between adjusting and non-adjusting events and explain their treatment in financial statements. **(5 marks)**
3. Describe FIVE audit procedures that should be carried out by the auditor to collect evidence on subsequent events occurring between the year-end date and the date the auditor’s report is signed. **(5 marks)**
4. ISA 705 (Revised) *Modifications to the opinion in the independent auditor's report* shows types of modified opinion. Using examples, explain when a modified opinion, an adverse opinion and a disclaimer of opinion are issued in the audit reports. **(6 marks)**

1. It is April 2024 and your firm, Trust & Co has audited Prince Company for a number of years. You are about to commence the final audit of the company for the year ended 31 December 2023 whose draft financial statements show profit before tax of Shs 230 million and total assets of Shs 990 million. Smart Company is one of Prince Company’s major customers and there reports in newspapers that its revenue and profits have been falling and has announced closure of most of its branches in Kampala in 2024. As at 31 December 2023, Prince Company’s trade receivables included Shs 20 million outstanding from Smart Company and the allowance for this balance is to be included in the financial statements for the year ended 31 December 2024.
2. Describe FOUR substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the receivables balance due from Smart Company. **(4 marks)**
3. Based on the information provided, explain whether the financial statements require amendment and the impact on the auditor’s report should the issue remain unresolved. **(5 marks)**

**(Total: 25 marks)**

*E****nd of examination paper***