Name________________________

Question 3 (12 marks)

Pet Shop Ltd. is a large retail outlet with ten full time employees in addition to the owner. You dropped by on your way home one day to organize the audit planning process for the coming year, and noticed brand new terminals at the cashier's desk. One of the employees was having fun zapping inventory items. The owner teased him about the new laser scanning devices and told him to get to work to see which items needed to be ordered. It turns out that Pet Shop Ltd. has implemented a new point of sale computer system that is integrated with inventory. The last time you were there to buy dog food (about three months ago) there were old computer terminals that were totalled and recorded manually in the sales journal.

9 1/2

Required:

List the four phases of the audit. For each phase, explain how these new computer systems might affect the audit process.

1) Risk assessement and audit planning: The audit risk. will dec
⇒ the auditor also need to change planning (procedure of audit will

2) Perform test of controls: the new computer can increase the internal controls of the retail. because it can avoid of recording. perce manually ⇒ reduce the employee fraud ⇒ auditor can reduce the co test because of higher contr

3) Perform analytical procedures and perform the test of details
⇒ because higher level of control ⇒ lesser of details need to be perform
⇒ The auditor should perform the analytical procedure to compare the data in current period to prior period that the new system have buy ⇒ Inventory is easier to trace and order ⇒ the detail is more ef
⇒ the favorable light is

4) Complete audit and do the audit report
· If the changes is disclosed in the FS ⇒ Unqualified report
· If the changes is not disclosed in the FS ⇒ qualified report
auditor will be more assurance.

1/2

Name_______________________

Question 6 (6 marks)

Logictech is a supplier for one of the "big three" North American car companies. During the current year, Logitech has been negatively affected by the severe downturn in the automotive industry. At the end of the third quarter (October 31, 2008) the company's management informed the Board of Directors that the year-end results were likely to be poor, and well below the initial expectations for the year. You, CA, are the auditor of Logitech.

Part A (2 marks)
In regards to management's preparation of the financial statements, what would you expect their bias, or objective, to be? Why?

For more bonus, they would overstate the net income, so they would overstate A/R and understate the A/P, which would be seemed as good condition to users of FS. The manager have differ interest with the users of FS.

0

Big Bath risk that A/P b/f
min A/R & revenue
max A/P & exp.

Part B (2 marks)
How would your expectations, as described in part A, affect your approach to cut-off testing of Accounts Payable?

Check whether there are any A/P is deferred to the next accounting period to understate the A/P.

2

okay..

risk A/P recognized before year end when it belong to next P

Part C (2 marks)
How would your expectations, as described in part A, affect how you use the Accounts Receivable subledger and Cash Receipts journal to test Accounts Receivable?

I would trace the A/R subledger to the Cash Receipts to find out that is there any cash receipts haven't been write off.

2

okay..

risk than A/R in 2008 will be recognized in 2009.

Name

Name

Question 5 (6 marks)

Part A (2 marks)
Discuss the purpose of an audit engagement letter.

The purpose is to identify clearly all the terms of the engagement, which include the ① scope and limitation ② the responsibility of manager and auditor. ③ the coordinate information.

⇒ when auditor is involve in the law sue case. it can be used as a evidence. (clearly state the responsibility)

Part B (4 marks)
Discuss the matters that should be specified in an engagement letter.

① The scope and limitation and objective.

② The manager's responsibility 1

③ The auditor's. responsibility

④ The coordination information?

⑤ The audit fees

3

Name________________________

Question 4 (15 marks)

An auditor is conducting the audit of the financial statements of a retail department store. The auditor is awar that he must obtain sufficient appropriate evidence with respect to various audit assertions associated with management assertions and thus with material financial statement amounts. The following is a list of specific audit procedures the accountant plans to perform. For each of the five audit procedures listed, describe only t primary audit assertion being tested, and the quality of evidence (high, medium, low) obtained, explaining wh the evidence is the quality level you specify.

Audit Procedure	Audit Assertion	Evidence Quality	Explanation of Evidence Quality
Send negative confirmation requests to a large sample of the store's customers with balances due on account at year end.	~~Existence~~. accuracy Occurrence cutoff	High.	Confirmation is high (with independent party) evidence.
Perform test counts of goods on hand during the company's normal physical inventory taking, one month prior to the year end.	Existence. Valuation	High/medium	physically examination is a highly evidence. ? why? "perso
Examine receiving reports dated prior to the year end which have not been matched to vendor's invoices.	Completeness.	High. low	Documentation ~~Reperformance~~. is high quality evidence. why . client de
Review paid invoices and supporting documents for amounts classified as repair and maintenance expense for large or unusual items.	classification Accuracy	Medium.	The document is kept by client ⇒ it is less qualified (Documentation) 2 3rd pa
Examine audited financial statements of several foreign companies in which the client owns shares, and which are being held as temporary investments.	Valuation Ownership.	High	The external documentation is highly qualified evidence. (audited) 3rd party