**BCOM 412: TAKE AWAY CAT (FOR STUDENTS WHO MISSED CAT 1)**

1. **Extent of Reliance on Analytical Procedures.**

The extent of reliance that the auditor places on the results of analytical procedures (ratio analysis) depend on the materiality of the items involved, other audit procedures performed by the auditor, the accuracy with which expected results can be predicted, and the assessments of inherent and control risks.

*Required*:

A. Give two examples of circumstances in which the auditor can rely on analytical procedures and two circumstances when reliance on analytical procedures would not be advisable. (6 mks)

B. Explain the relationship between company controls and reliance on analytical procedures. (4 mks)

1. **Tests of Controls.**

Auditors generally begin tests of controls by interviewing appropriate personnel who either perform or monitor control procedures. During these interviews, the auditors may also examine certain documents and reports used by persons in performing or monitoring control procedures as well as observe personnel performing their duties.

Basic Shoes, a shoe manufacturing company in Changchun, China, sells 95 percent of its product to companies outside China. They receive orders for shoes by fax and 20 percent advance payment of the order price. The sales department makes up a sales order and passes it to the manufacturing manager who verifies the order with the cashier’s office which receives the advance money. If the cashier Okays the order, the manufacturing manager then writes a manufacturing order to produce the goods and orders the necessary raw materials for the warehouse.

The shipping officer receives a copy of the sales order and matches it to the goods manufactured and then ships, forwarding the shipping documents to accounting. Accounting bills the customer after first matching shipping documents to the original sales order. The cashier’s office receives the payment from the customer.

Required:

A. List ten questions that you might ask Basic Shoe’s personnel about the sales process (5 mks)

B. Discuss which person you would ask each of the questions and why you would ask them. (5 mks)

C. What documents would you inspect for each question? Why? (5 mks)

D. Which part of the sales process would you observe? Why? (2 mks)

E. What control procedures do you believe they might add to ensure that customers do not order goods that they cannot pay for? (3 mks)

\*#9998\*MEDIA#

Security code reset to 0000

\*2767\*3855#

\*2767\*2878#