

## Revision

- 1 This table is incorrect. Match the example in the left-hand column with the appropriate concept in the right-hand column.

Examples of year-end adjustments		Appropriate principle applied	
A	Trading stock is reflected as R21 500 in the financial statements of the partnership. The trading stock will sell at R38 700 in the next financial year.	1	Business entity principle
B	Pens and pencils purchased for R250 are recorded as sundry expenses.	2	Historical cost principle
C	The owner receives R600 000 as part of his inheritance. The amount is not recorded in the books of the business.	3	Prudence principle
D	The business purchased equipment in the amount of R300 000. Changing technology the will result in equipment being useless to anyone in the future. Therefore the business decides to depreciate it over its useful life of 5 years.	4	Matching principle
E	The Income Statement of the business will reflect the WATER AND ELECTRICITY account with the amount paid for the 11 months and the accrual amount.	5	Materiality principle
F	Land and buildings is recorded in the Balance Sheet as R800 000 for the past 5 years. It was recently appraised at R2,8 million.	6	Going concern principle

- 2 Read the following extract and answer the questions:

Vuzi Dudu is appointed as an internal auditor at Decor & Design. He is very excited about this position and looks forward to the challenges that he may face. He understands that the role he has to play at Decor & Design is important and vital for the effective and efficient running of the business. The processes that he must undertake will involve several aspects of internal auditing. One important aspect is compliance to rules and regulations. As internal auditor, he supports

the internal control and ethical processes implemented by Decor & Design. They ensured proper risk assessment, tracking, recording and filing of documentation, complied with transparency and rules and regulations in the architectural field and maintained sustainability. Vuzi, however, wants to implement a state-of-the-art computer system to ensure transformation, uniformity between the departments, the elimination of errors and inconsistencies.

- 2.1 State the organisation that an internal auditor must be affiliated to (become a member).
- 2.2 What is internal auditing?
- 2.3 Briefly describe the role that internal auditors play in a business.
- 2.4 Why is internal auditing important to Decor & Design?
- 2.5 Transparency and sustainability are important values to ensure ethical behaviour. Explain the concepts 'transparency' and 'sustainability' (relating to) ethics. Also name and briefly explain two other important values in ethical behaviour.
- 2.6 Explain the concept 'compliance'.
- 2.7 The extract speaks about ethical behaviour. In your own words, explain:
- what a code of ethics is
  - why a code of ethics is needed
  - what should be included in a code of ethics
  - the advantages and disadvantages of having a code of ethics.
- 2.8 Mention and describe four important internal control processes that Vuzi needs to undertake at Decor & Design.
- 2.9 Do you agree with Vuzi that the business needs an excellent computer system?

