

## FINAL ASSESSMENT SCRIPT SUBMISSION FORM

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# ACCA – Paper F8 Audit and Assurance June 2015 Final Assessment

### Instructions

- Please complete your personal details above.
- All scripts should ideally be submitted to your Kaplan centre for marking via email to help speed up the marking process.  
Please scan this form and your answer script in a single PDF and email it to your Kaplan centre.
- Alternatively you may post your script to us. If so, please use the correct Royal Mail tariff (large letter).
- Classroom students may submit scripts to their local centre in person.  
You will be provided with the dated receipt below which you should retain as proof of submission.

Note: If you are a sponsored student, your result will form part of the report to your employer.

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## Marking Report

### Notice to Markers

- 1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

<ul style="list-style-type: none"><li>• Time management</li></ul>	<ul style="list-style-type: none"><li>• Handwriting</li></ul>	<ul style="list-style-type: none"><li>• Presentation and layout</li></ul>	<ul style="list-style-type: none"><li>• Use of English</li></ul>
<ul style="list-style-type: none"><li>• Points clearly and concisely made</li></ul>	<ul style="list-style-type: none"><li>• Relevance of answers to question</li></ul>	<ul style="list-style-type: none"><li>• Coverage and depth of answer</li></ul>	<ul style="list-style-type: none"><li>• Accuracy of calculations</li></ul>
<ul style="list-style-type: none"><li>• Calculations cross-referenced to workings</li></ul>	<ul style="list-style-type: none"><li>• All parts of the requirement attempted</li></ul>	<ul style="list-style-type: none"><li>• Length of answers equates to marks available</li></ul>	<ul style="list-style-type: none"><li>• Read the question carefully</li></ul>

- 2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

**ACCA FINAL ASSESSMENT**

# **Audit and Assurance**

**June 2015**

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL TWELVE questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

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**Paper F8**

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**Section A – ALL TWELVE questions are compulsory and MUST be attempted**

- 1 ISA's are laws which must be followed by auditors in all audits. True or false?**
- A True  
B False (1 mark)
- 2 Which of the following is a function of an audit committee?**
- A Running the company on a day to day basis.  
B Monitoring and reviewing the internal audit function.  
C Setting the remuneration of the executive directors. (1 mark)
- 3 Which of the following is NOT consistent with corporate governance best practice?**
- A Remuneration of directors should be linked with their performance.  
B There should be an equal balance of executive and non-executive directors on the board.  
C There should be a risk committee comprising of non-executive directors who ensure the company has effective risk management processes in place.  
D The chairman and the chief executive roles should be held by the same person. (2 marks)
- 4 At the end of the audit, the auditor has identified uncorrected misstatements of \$20k, \$30k and \$40k. Materiality has been reassessed at this stage to be \$65k. Which of the following is NOT an appropriate course of action.**
- A Ignore the misstatements as they are all less than \$65k and therefore not material.  
B Obtain written representation from management and those charged with governance that they believe the misstatements to be immaterial.  
C Modify the audit report.  
D Discuss the misstatements with those charged with governance. (2 marks)
- 5 Which of the following statements are correct?**
- 1 The auditor must adjust for material misstatements identified.  
2 The auditor must ask management to adjust for all misstatements identified.  
3 The auditor must ask management to adjust for any material misstatements identified.  
4 The audit report will be modified if any misstatements remain uncorrected.
- A 1, 2 and 3  
B 1 only  
C 2 only  
D 2, 3 and 4 (2 marks)

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- 6 Which of the following is included in the audit strategy?**
- A Engagement characteristics.
  - B Written representations from management.
  - C Specific audit procedures for each area of the financial statements. **(1 mark)**
- 7 Which of the following are examples of tests of controls?**
- 1 Inspect a purchase order for evidence of authorisation signature.
  - 2 Inspect a purchase invoice to agree the cost has been recorded accurately.
  - 3 Inspect a purchase invoice to see if it has been matched with the corresponding goods received note and purchase order.
  - 4 Inspect the supplier statement reconciliations to ensure they have been performed by the client and discrepancies are followed up with the supplier.
- A 1, 2 and 3 only
  - B 2 and 3 only
  - C 1, 3 and 4
  - D 1 and 3 only **(2 marks)**
- 8 Which of the following is a control objective relevant to the revenue cycle?**
- A Receipts are recorded accurately and allocated to the correct customer.
  - B Goods are only ordered for a valid business use.
  - C Payments made are recorded promptly, accurately and in the correct accounts.
  - D Invoices are paid on time and only paid once.
- 9 Which of the following procedures provides the most reliable form of evidence?**
- A Enquire with management whether the controls have worked effectively during the year.
  - B Enquire with the company's internal audit department whether the controls have worked effectively during the year.
  - C Inspect prior year audit files to identify if there were any control issues in the prior year.
  - D Inspect documents for evidence of authorisation and reconciliations for evidence they have been performed. **(2 marks)**
- 10 Planning does not need to be performed for audits of companies which have relatively few transactions. True or false?**
- A True
  - B False **(1 mark)**

**11 Which of the following describe risks of material misstatement?**

- 1 The company is experiencing cash flow difficulties.
  - 2 The company have not valued inventory at the lower of cost and net realisable value.
  - 3 Provisions for legal costs have not been recognised.
  - 4 Customers are struggling to pay their debts.
- A 1 and 2 only  
B 1, 2, 3 and 4  
C 2 and 3 only  
D 1, 2 and 3 only **(2 marks)**

**12 Which of the following statements are true in respect of audit reports.**

- 1 An audit report may be modified even though the opinion may be unmodified.
  - 2 If the opinion is modified the report must also be modified.
  - 3 The audit report will only be modified if there are material misstatements in the financial statements.
  - 4 An emphasis of matter paragraph can be used to draw attention to misstatements in the financial statements as an alternative to modifying the opinion.
- A 1, 2 and 3  
B 2, 3 and 4  
C 2 and 4 only  
D 1 and 2 only **(2 marks)**

## Section B – ALL SIX questions are compulsory and MUST be attempted

### 1 BASH ENTERPRISES

Bash Enterprises' main activity is the extraction and supply of building materials including sand, gravel, cement and similar aggregates. The company's year end is 31 March. Within non-current assets on the statement of financial position is a balance of \$1mn relating to railway trucks that have been acquired during the year. The depreciation policy in respect of these assets is 20% straight line.

**Required:**

- (a) List and briefly explain the financial statement assertions relevant to non-current assets. (4 marks)
- (b) Describe the substantive procedures you would perform to obtain evidence over the railway trucks included within non-current assets. (6 marks)

(Total: 10 marks)

### 2 EXTERNAL AUDITS

- (a) State the purpose and objective of an external audit. (2 marks)
- (b) Explain the benefits offered by an audit, which may mean a company that is exempt from the requirement may choose to have an audit. (5 marks)
- (c) Explain why it is not possible for the auditor to provide absolute assurance over the financial statements. (3 marks)

(Total: 10 marks)

### 3 QUEENSMILL

Assume that the date is 1 June 2015.

The assurance firm you work for, Minogue & Co, is currently completing the audit of Queensmill, a company that produces and supplies a range of breads to retailers across Europe.

The company's year end was 31 March. The audited financial statements currently show a profit of \$980,200 and total assets of \$1,557,400. The audit report is due to be signed on 10 June and the following information has just been brought to your attention:

The production process utilises many different pieces of equipment, several of which are metallic, and as such on average one in every 50,000 products contains a trace of metal. Once packaged, all of the breads are passed through an automated metal detector. The metal detector rejects products that contain any trace of metal and these are disposed of.

On 2 April 2015, the metal detectors started to reject a significant number of breads. An internal investigation was carried out and it was identified that when mesh was cut to fit to the commercial flour sieves the trimmings were not properly cleaned away.



The investigation found that more than 95,000 products across two lines of bread could have been affected. None of the products were sold before the issue was identified and all of the potentially affected products were disposed of. All of these products were manufactured during March. The total value of the products was \$133,000. Closing inventory has not been adjusted by management on the basis that the bread was not destroyed until after the year end.

**Required:**

- (a) Explain whether the outstanding issue is an adjusting or non-adjusting event, in accordance with IAS 10 *Events after the Reporting Period*. (2 marks)
- (b) Describe appropriate audit procedures in order to reach a conclusion on the outstanding issue. (4 marks)
- (c) Explain the likely impact on the audit report if the directors refuse to make any necessary amendments to the financial statements. (4 marks)

(Total: 10 marks)

#### 4 HARGREAVES AND ROGERS

Your firm, Hargreaves and Rogers Co, is the auditor of Greedy Inc. Greedy Inc is a savings and investment company specialising in corporate pensions in Happy Kingdom. Greedy Inc is regulated by an independent non-governmental body, responsible for regulating the financial services industry in Happy Kingdom.

Adam Hargreaves has been the engagement partner on the audit of Greedy Inc for three years. Adam regularly plays golf with the Finance Director at Greedy Inc, Mr Tickle. During a recent golf match, Mr Tickle asked Adam Hargreaves if the legal arm of Hargreaves and Rogers would be willing to represent Greedy Inc in court, in respect of a tax dispute. If the taxation authority is successful, the amount owed would be material to the financial statements of Greedy Inc.

Mr Tickle's daughter has recently joined Hargreaves and Rogers as an audit trainee and has asked Hargreaves and Rogers Co if she could join the audit team for Greedy Inc, as she wants to help her father in his business.

The total fees from recurring work, which includes audit, taxation and some consultancy services, for Greedy Inc will represent 14% of Hargreaves and Rogers' total fees for the year.

**Required:**

**Explain the ethical threats which may affect the independence of Hargreaves & Rogers Co in respect of the audit of Greedy Inc, and for each threat explain how it may be reduced.**

(Total: 10 marks)

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**5 CUPCAKE CO**

Cupcake Co manufactures and sells handmade cakes in Bakeryland. The company's year end is 31 March.

You are the audit senior and you have started planning the audit. Your manager has asked you to have a meeting with the client and to identify any relevant audit risks so that the audit plan can be completed. From your meeting you ascertain the following:

Cupcake sells its cakes through its own small chain of five stores, one of which opened during the year. The purchase of the new store, fixtures and fittings were financed by a three-year loan from the company's bank.

Customers can order boxes of cakes in-store for home delivery, or purchase smaller quantities of cakes with cash.

Cakes are a non-taxable item. Two of Cupcake's stores have a limited seating facility for customers to use while they eat their cakes. These stores also sell a small range of drinks. Drinks and eat-in food are taxable, i.e. they must have sales tax added to the price.

In addition, Cupcake has a five-year contract to supply cakes to a major retailer, Stayrose Co (Stayrose). The contract with Stayrose requires Cupcake to use only organic ingredients in the cakes it sells to Stayrose. Nearly one quarter of Cupcake's revenue comes from the contract with Stayrose, and Cupcake achieves around 20% gross profit on sales to Stayrose. The contract is due for renewal six months after the year end. Stayrose has written to Cupcake stating that it has received notification from a whistleblower that Cupcake has been using flour from non-organic suppliers in order to cut costs.

Cupcake manufactures all of its own cakes at its central production plant. Inventory records are updated on a daily basis to reflect the delivery and use of ingredients, and the production and despatch of finished cakes. A full inventory count will be carried at the year end, during which production and despatch of finished cakes will continue. The Managing Director of Cupcake, Nigella Smith, owns 40% of the ordinary shares in Cupcake.

The Finance Director, Jamie Lawson, owns 15% of the shares. The remaining shares are held by other investors who are not involved in the management of Cupcake. On 1 March 2015, Nigella and Jamie were approached by Yummy Inc (Yummy) to discuss the potential purchase of all of their shares in Cupcake by Yummy. Yummy has asked to see the audited financial statements for the year ending 31 March 2015 before making a formal offer for the shares.

There is currently a recession in Bakeryland. Cupcake made a small profit for the year.

**Required:**

- (a) Using the information provided, describe SIX audit risks and explain the auditor's response to each risk in planning the audit of Cupcake Co. (12 marks)**
- (b) Explain FOUR benefits of performing risk assessment at the planning stage of the audit. (4 marks)**
- (c) Explain the difference between statistical and non-statistical sampling and explain THREE types of statistical sampling methods available to the auditor. (4 marks)**

**(Total: 20 marks)**

## 6 CLOUD CARE HOMES

Cloud Care Homes (CCH) manages twenty-three care homes offering residential, respite and nursing care. The company's year-end is 31 March.

Each care home has a number of wings, each of which has a wing manager. The care home managers have responsibility for the wing managers. The wing managers are each responsible for a team of care staff.

The care staff work shifts on a rota basis, and are paid according to hours worked. Staff rotas for each wing are prepared each week. The rotas are stored on a shared computer within each wing. Care staff are provided with access to the rota to enable them to obtain details of the shifts they have been allocated to.

The care staff complete timesheets each week which are sent to the care home manager for authorisation. The care home managers authorise the timesheets by comparing the hours recorded on the timesheet to the hours detailed on the rota. Care home managers authorise timesheets on a Monday morning and send them to head office in order to be processed the next day.

One of the care home managers, Sunny, has recently changed his hours to work part-time. Sunny now works Tuesday to Friday. In order to ensure staff obtain their weekly pay on time, Sunny now authorises timesheets on a Friday, and hands them back to the care staff to allow them to complete the timesheets with any extra hours worked over the weekend.

Some of the care staff are student nurses. Student nurses are required to be supervised until they have been signed off by a wing manager as competent. In order to be signed off as competent, they must work a minimum of 1,000 hours. One of the care homes is managed by Ray. Ray's daughter is working in one of the wings in his care home, and Ray has told the wing manager not to bother supervising her as they are short of staff and he is confident in her ability.

An ex-member of care staff in care home manager Gail's care home has been paid after leaving the employment of CCH. For twelve months, the ex-employee had submitted timesheets claiming 40 hours' work a week. These timesheets were authorised by forged signatures and so the timesheets were processed.

Two years ago, Gail returned from maternity leave. During her maternity leave, a wing manager was covering her duties. The wing manager was paid an additional responsibility allowance during this time. It was recently identified that the wing manager was still receiving the additional responsibility allowance. Overpayment occurred because a payroll clerk had misunderstood the instructions on a multi-purpose change in circumstances form, and thought that the wing manager was receiving a permanent pay-rise, not a temporary additional responsibility allowance. The wing manager concerned says that he called the payroll department to bring the overpayment to their attention, but was told that their pay was correct. Payroll staff were not able to recall having spoken to the member of staff concerned. They do not keep records of conversations with CCH employees.

**ACCA F8: AUDIT AND ASSURANCE**

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**Required:**

- (a) In respect of the payroll system above:
- (i) Identify and explain FIVE deficiencies in that system.
  - (ii) Explain the possible implication of each deficiency.
  - (iii) Provide a recommendation to address each deficiency.
- (15 marks)**
- (b) Describe the substantive procedures the auditor should perform to confirm the payroll expense at CCH.
- (5 marks)**
- (Total: 20 marks)**