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ACCA – Paper F8 Audit and Assurance June 2015 Revision Mock

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

- 2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA REVISION MOCK

Audit and Assurance

June 2015

Time allowed

Reading and planning: **15 minutes**

Writing: **3 hours**

All questions are compulsory and MUST be attempted in both sections.

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

PAPER F8: AUDIT AND ASSURANCE

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SECTION A – ALL TWELVE QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

- 1 Financial statements must be prepared on the going concern basis unless it is inappropriate to do so. Who is responsible for assessing whether the company is a going concern in the first instance?**
- A Management
 - B Auditors
 - C Shareholders
- (1 mark)**
- 2 Which of the following is a limitation of an audit?**
- A Management representations have to be relied on as audit evidence.
 - B The audit report will state whether the financial statements give a true and fair view.
 - C Analytical procedures may not be suitable as a form of evidence.
- (1 mark)**
- 3 Which of the following is NOT correct in terms of audit reports?**
- A An audit report may be modified without modifying the opinion.
 - B A qualified opinion means there is a material but not pervasive issue.
 - C An emphasis of matter paragraph can be used to draw attention to a matter already disclosed in the financial statements which is fundamental to the users understanding of the financial statements.
 - D An opinion can be modified without modifying the audit report.
- (2 marks)**
- 4 Which TWO of the following activities would NOT be performed at the planning stage of an audit?**
- (1) Assessment of going concern risk
 - (2) Understanding the entity and its internal control systems
 - (3) Subsequent events review
 - (4) Agreement of the terms of engagement of a new client
- A (1) and (2)
 - B (2) and (3)
 - C (3) and (4)
 - D (1) and (4)
- (2 marks)**

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5 Which of the following statements are correct?

- (1) Completeness is an assertion relevant only to transactions and events.
- (2) Rights and obligations means the transaction pertains to the entity.
- (3) Cut-off relates to transactions being recorded in the correct accounting period.
- (4) Assets and liabilities must be tested for accuracy.

- A (1), (3) and (4)
- B (1) and (2) only
- C (3) only
- D (4) only

(2 marks)

6 Before relying on the work of others, the auditor must assess objectivity and competence of the other party?

- A True
- B False

(1 mark)

7 Which of the following are examples of self-interest threats?

- (1) Gifts and hospitality
- (2) Fee dependency
- (3) Close personal relationships
- (4) Providing advice to the client

- A (1), (2) and (3)
- B (2) and (3) only
- C (1), (2) and (4)
- D (3) and (4)

(2 marks)

8 Which of the following is NOT a control objective relevant to the payroll cycle?

- A Only valid employees are paid
- B Employees are paid at the correct amount
- C Employees are appropriately qualified for the job
- D Payroll amounts are completely recorded in the ledgers

(2 marks)

- 9 Which of the following procedures is an example of an analytical procedure?**
- A Recalculate the receivables listing.
 - B Calculate receivables days ratio and compare with prior year.
 - C Inspect payments received from customers made after the year end.
 - D Trace a sample of unpaid invoices in the receivables listing to the sales invoices to confirm the amount. **(2 marks)**
- 10 Audit risk is the risk the auditor fails to detect the material misstatements in the financial statements. True or false?**
- A True
 - B False **(1 mark)**
- 11 Which of the following audit procedures can be used to audit accounting estimates?**
- (1) Assess management's process for making the estimate
 - (2) Review events after the reporting period
 - (3) Recalculate the estimate using management's formula
 - (4) Obtain external confirmation from an independent expert
- A (1) and (2) only
 - B (1), (2) and (3) only
 - C (2), (3) and (4)
 - D (1), (2), (3) and (4) **(2 marks)**
- 12 Which TWO of the following statements are true in respect of computer controls.**
- (1) An application control is one which applies to the computer environment
 - (2) Passwords may be both application and general controls
 - (3) Application controls are more important than general controls
 - (4) Batch controls are a type of application control
- A (2) and (3)
 - B (1) and (4)
 - C (2) and (4)
 - D (3) and (4) **(2 marks)**

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SECTION B – ALL SIX QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

- 1 (a) Computer-Assisted Audit Techniques (CAATs) are used to assist an auditor in the collection of audit evidence from computerised systems.

Required:

Briefly explain the advantages and disadvantages of CAATs. (5 marks)

- (b) Porthos, is a reseller of sports equipment, specialising in racquet sports such as tennis, squash and badminton. The company purchases equipment from a variety of different suppliers and then resells this using the Internet as the only selling media. The company has over 150 different types of racquets available in inventory, each identified via a unique product code.

Customers place their orders directly on the internet site. Most orders are for one or two racquets only. The ordering/sales software automatically verifies the order details, customer address and credit card information prior to orders being verified and goods being despatched.

You are the audit manager working for the external auditors of Porthos, and you have just started planning the audit of the sales system of the company. You have decided to use test data to test the input of details into the sales system. This will involve entering dummy orders into the Porthos system from an online terminal.

Required:

Describe the test data you will use in your audit of the financial statements of Porthos to confirm the completeness and accuracy of input into the sales system.

(5 marks)

(Total: 10 marks)

- 2 You are the audit manager in the audit firm of Dark & Co. One of your audit clients is NorthCee Co, a company specialising in the manufacture and supply of sporting equipment. NorthCee have been an audit client for seven years during which time the audit partner has remained unchanged.

Following an initial meeting with the directors of NorthCee, you have obtained the following information.

- (i) NorthCee is attempting to obtain a listing on a recognised stock exchange.
- (ii) You have been asked to continue to prepare the company's financial statements as in previous years.
- (iii) As the company's auditors, NorthCee would like you and the audit partner to attend an evening reception in a hotel, where NorthCee will present their listing arrangements to banks and existing major shareholders.
- (iv) NorthCee has indicated that the fee for taxation services rendered in the previous year will be paid as soon as the taxation authorities have agreed the company's taxation liability. You have been advising NorthCee regarding the legality of certain items as allowable for taxation purposes and the taxation authority is disputing these items.

Finally, you have just inherited about 5% of NorthCee's share capital as an inheritance on the death of a distant relative.

Required:

Explain FIVE threats to independence which may affect the audit of NorthCee Co and for each threat explain how it might be reduced to an acceptable level. (10 marks)

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- 3 (a) Explain TWO purposes of performing analytical procedures at the end of the audit. (2 marks)**

You are the audit manager in Marigold & Co. The following issues have arisen during the course of the audit of Primrose Co. Profit before tax is \$15m.

Claim

Primrose received a claim from a customer of \$1m relating to a defective product purchased before the year end. The outcome of the case is uncertain at the moment and Primrose have not made any disclosure in the financial statements regarding the claim. Audit evidence has been obtained directly from the solicitor of Primrose which indicates the case has merit and as such it is possible Primrose will have to pay compensation to the customer. (5 marks)

Receivable

A customer owing a balance of \$50,000 is experiencing significant cash flow difficulties. Primrose believes the debt will be paid as the customer has been trading with them for a number of years. As a result the debt has not been written off in the financial statements. (3 marks)

Required:

- (b) Discuss each of the issues and describe the impact on the audit report if the above issues remain unresolved.**

Note: The mark allocation is shown against each of the issues above. Audit report extracts are NOT required. (8 marks)

(Total: 10 marks)

- 4** You are an audit manager in Cairns & Co. One of your audit clients, Daintree Co, is a specialist supplier of crime fiction with over 120,000 customers. The company owns one large warehouse, which contains 1 million books of up to 80,000 different titles at any one time. Due to the high inventory turnover, Daintree maintains a perpetual inventory system using standard 'off the shelf' software. Cairns & Co has audited the system for the last three years and has found no errors within the software. Continuous inventory checking is carried out by Daintree's internal audit department.

Required:

- (a) Explain the advantages of using a perpetual inventory system. (3 marks)**
- (b) List the audit procedures you should perform to confirm the accuracy of the continuous inventory system at Daintree Co. (4 marks)**
- (c) Describe additional procedures that should be performed to confirm the inventory balance in the financial statements at the year end. (3 marks)**

(Total: 10 marks)

5 (a) Describe the main contents of the overall audit strategy. (3 marks)

(b) Your firm Poppy, Patch & Co has recently accepted appointment as auditor of Pumpkin Café, a company which owns a chain of six restaurants. Total revenue for the year was \$1.2m.

Most items produced have a shelf-life of 48 hours. The finance director has informed you that no finished goods are included in inventory as he considers the value to be immaterial at the year-end. Inventory is comprised of raw materials which are stored in nearby warehouses in which Pumpkin Café rents a small amount of chilled storage space.

Pumpkin Café refurbished most of its kitchens during the year. For the first time this year, Pumpkin Café has set up a takeaway business, which allows customers to order food via a new website that they then collect from the café. The website is directly linked to the finance system, recording sales automatically. Website customers pay on ordering. The website development costs have been capitalised.

Shortly before the year end a customer filed a claim against Pumpkin Café for food poisoning. The claim is on-going and Pumpkin are consulting with their lawyers regarding the claim.

The finance director has requested that the audit is to be completed within 2 months of the year end.

Required:

From a review of the above information, explain SEVEN audit risks to be considered when planning the audit of Pumpkin Café and for each risk, describe an appropriate response. (14 marks)

(c) Describe substantive procedures to obtain sufficient appropriate evidence in relation to the capitalised website development costs. (3 marks)

(Total: 20 marks)

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- 6** Fabric & Frills Co is a retailer of fabrics for dressmaking and home furnishings. Sales are made online via a website as well as through a small retail shop attached to its warehouse. Fabric & Frills Co buys end-of-line material at a significant discount from a number of wholesalers.

Customers who purchase material online are required to pay by credit or debit card. Customers who visit the shop normally pay by cash. The cash is banked once a fortnight by the receptionist, Maggie. The cash is stored in a locked cupboard at the back of the shop until it is banked.

The wholesalers are paid by cheque on delivery. The cheque books are stored in a small locked cash box in reception where they can be accessed easily to pay suppliers. Only one signatory is needed and there are a large number of cheque signatories in order to ensure that someone is available to sign the cheques at all times.

Other bills are paid by bank transfer. The password for bank transfers is only used by the company accountant, Daryl. The password is the company name and is written at the back of the cash book. Daryl has authority to set up new users to the online banking system. New users are set up by Daryl to cover him when he is on vacation to enable payments to be made in his absence. The users are not removed when he returns. Several members of staff still have access to the online banking system as a result.

Required:

- (a) In respect of the cash system of Fabric & Frills Co:**
- (i) Explain FIVE deficiencies in the system;**
 - (ii) Recommend a control to address each deficiency; and**
 - (iii) Suggest a test of control the auditor could perform to assess if the recommended controls are operating effectively. (15 marks)**

Total marks will be split equally between each part

- (b) Explain FIVE controls that should be in place in Fabric & Frills Co in respect of the purchasing system. (5 marks)**

(Total: 20 marks)

