

# Audit and Assurance

## Sample Questions – September/December 2019

### Get to know your exam

*These graphical representations are intended to give an indication of past exam requirements and associated question content.*

*Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.*

*We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.*

## Introduction screen



### Introduction

These sample questions show the likely style and range of **constructed response questions** that could be asked in the live exam.

You should use these questions to become familiar with the question types and the features and functionality contained within the live exam.

This exam is reflective of the constructed response section of the live exam in terms of how it will be structured and assessed, but has some differences:

- There is no timer in this exam however the live exam will have a time limit.
- In the live exam your answers to the constructed response questions will be expert-marked. In this exam you should use the relevant solution material, available from the Past Exam section of the ACCA website, to assess your performance.
- In the live exam you will be able to highlight and strikethrough text in the question scenario (this feature is not currently available in this exam).

## Instruction screens




### Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.

#### General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.


#### Answering and Navigating

- Please read each question carefully.
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting  or , or by clicking on a question number from the Navigator or Item Review screens.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.




## Instruction screens (continued)

### Instructions (2 of 4)


#### Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**
- Click the button again if you no longer wish to revisit/review the question later in the exam.


#### Help

- Click the **Help** button provided to access:
  - A copy of these exam instructions.
  - Help and guidance on constructed response questions (in the constructed response section of the exam only).
  - Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e.  **Help**,  **HelpFormulae Sheet** or  **HelpTax Tables**

#### Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

#### Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will be collected at the end of the exam and must not be removed from the exam room.

#### Important:

- The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
- If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.


#### Insert Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting  **Insert Symbol** on the top toolbar.

## Instruction screens (continued)

### Instructions (3 of 4)

#### Navigator Screen

- The Navigator screen can be accessed at any time during the exam by selecting  Navigator
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

#### Reviewing the Exam

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
  - Navigate to the **last question** in the exam.
  - Click the Next button.
- This takes you to the Item Review screen.

#### Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- In the live exam this screen will indicate whether the question is complete or incomplete. In this exam, it will show the following:
  - **Unseen** – you have not yet viewed the question.
  - **Blank** – you have viewed the question.

There will be no indication on whether these questions have been answered or whether the answers are correct or incorrect. You should refer to the relevant solution material, available from the Past Exam section of the ACCA website, for guidance to assess your own performance.

## Instruction screens (continued)

### Instructions (4 of 4)

#### Revisiting Questions

- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next**, **Previous** or **Review Screen**
- When reviewing questions you can change your answer and click **Review Screen** to view any updated status on the Item Review screen.
- You can review your answers against the relevant solution material provided in the Past Exam section of the ACCA website.

#### Exiting the Exam

- Once you have completed your item review and wish to finally end the exam click **End Exam**
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

## Exam summary screen

Audit and Assurance (AA) Sample Questions - September/December 2019

### Exam Summary

**Time allowed:** This sample exam is not timed.

- You will be presented with **three constructed response questions**, each containing a scenario which relates to one or more requirement(s). The requirements may be split over multiple question screens.
- Each constructed response question is worth **20 or 30 marks** in total.
- **70 marks** in total.
- All questions are compulsory.

Please show all workings within your answer in the live exam, where applicable, otherwise they will not be marked. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

**Important:** In your live exam you must:

- (1) Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
- (2) Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to start your exam.

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# Sample exam questions

## Scenario 1

Audit and Assurance (AA) Sample Questions - September/December 2019

Symbol Calculator Scratch Pad

This scenario relates to five requirements.

It is 1 July 20X5. You are an audit supervisor of Brooklyn & Co and are planning the audit of Harlem Co for the year ending 30 September 20X5. The company has been a client of your firm for several years and manufactures car tyres, selling its products to wholesalers and retailers. The audit manager attended a planning meeting with the finance director and has provided you with the following notes of the meeting and financial statement extracts:

### Planning meeting notes

Harlem Co sells approximately 40% of its tyres to wholesale customers. These customers purchase goods on a sale or return basis. Under the terms of the agreement, wholesale customers have 60 days during which any returns can be made without penalty. The finance director has historically assumed a return rate of 10%, however, he now feels that this is excessive and intends to change this to 5%.

The company purchased a patent on 30 September 20X4 for \$800,000, which was capitalised in the prior year as an intangible asset. This patent gives Harlem Co the exclusive right to manufacture specialised wet weather tyres for four years. In preparation for the manufacture of the wet weather tyres, this year the company conducted a review of its plant and machinery. As part of this review, surplus items of plant and machinery were sold, resulting in a loss on disposal of \$160,000.

In May 20X5, the financial controller of Harlem Co was dismissed after it was alleged that she had carried out a number of fraudulent transactions against the company. She has threatened to sue the company for unfair dismissal as she disputes the allegations. The company has only recently started to investigate the extent of the fraud in order to quantify the required adjustment.

A problem occurred in June 20X5, during production of a significant batch of tyres, which affected their quality. The issue was identified prior to any goods being dispatched and management is investigating whether the issues can be rectified and the tyres can subsequently be sold.

Harlem Co's finance director has informed you that in March 20X5 a significant customer was granted a payment break of six months, as it has been experiencing financial difficulties. Harlem Co maintains an allowance for trade receivables and it is anticipated that this will remain at the same level as the prior year.

The report to management issued by Brooklyn & Co following last year's audit highlighted significant deficiencies relating to Harlem Co's purchases cycle.

The finance director has informed you that the company intends to restructure its debt finance after the year end and will be looking to consolidate its loans to reduce the overall cost of borrowing. As a result of the planned restructuring of debt, Harlem Co has not paid its shareholders a dividend this year, choosing instead to undertake a bonus issue of its \$0.50 equity shares.

You have been asked by the audit manager to complete the preliminary analytical review and she has provided you with the following information:

### Financial statement extracts for year ending 30 September

	Forecast 20X5 \$'000	Actual 20X4 \$'000
Revenue	23,200	21,900
Cost of sales	(18,700)	(17,300)
<b>Gross profit</b>	<b>4,500</b>	<b>4,600</b>
Finance costs	290	250
<b>Profit before tax</b>	<b>450</b>	<b>850</b>
Intangible asset	800	800
Inventory	2,100	1,600
Long and short-term borrowings	13,000	11,000
Total equity	10,000	9,500

The audit assistant has already calculated some key ratios for Harlem Co which you have confirmed as accurate. She has ascertained that the trade receivables collection period has increased from 38 to 51 days.



## Scenario 1: requirements

(a) Describe the auditor's responsibilities in relation to the prevention and detection of fraud and error.

(4 marks)

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, strikethrough, subscript, superscript, link, unlink, bulleted list, numbered list, indent, and outdent. Below the toolbar is a large empty text area for the response.

(b) Calculate the **FOUR** ratios listed in the table below, for **BOTH** years, to assist you in planning the audit of Harlem Co.

Note: Formulas are NOT required to be shown.

(4 marks)

(c) Using the information provided and the ratios calculated, describe **EIGHT** audit risks and explain the auditor's response to each risk in planning the audit of Harlem Co.

(16 marks)

Rich text editor toolbar with icons for undo, redo, bold, italic, underline, strikethrough, subscript, superscript, link, unlink, bulleted list, numbered list, indent, and outdent. Below the toolbar is a large empty text area for the response.

(b)

Ratio	20X5	20X4
Gross profit margin		
Inventory holding period		
Gearing		
Interest cover		

(c)

Audit risk	Auditor's response

## Scenario 1: requirements continued

(d) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the VALUATION of trade receivables in the current year.

(3 marks)

A rich text editor toolbar with the following icons: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, and Link. Below the toolbar is a dropdown menu labeled 'Paragraph' and a grid icon. The main text area is empty.

(e) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the DISPOSAL of plant and machinery in the current year.

(3 marks)

(30 marks)

A rich text editor toolbar with the following icons: Undo, Redo, Bold, Italic, Underline, Strikethrough, Subscript, Superscript, and Link. Below the toolbar is a dropdown menu labeled 'Paragraph' and a grid icon. The main text area is empty.

## Scenario 2

### Audit and Assurance (AA) Sample Questions - September/December 2019

 Symbol  Calculator  Scratch Pad

**This scenario relates to two requirements.**

Amberjack Co manufactures and distributes car tyres to a wide customer base both in its country and across the rest of the continent. Its year end was 30 April 20X5. It is 1 July 20X5. You are an audit manager of Pinfish & Co and you are reviewing extracts of the documentation describing Amberjack Co's sales and dispatch system following completion of the interim audit.

Amberjack Co has grown in size over the previous 18 months. All new customers undergo credit checks prior to being accepted and credit limits are subsequently set by the receivables ledger clerks who record the new customer details, assign a unique customer number and set credit limits in the master data file. The company's credit controller is currently on secondment to the internal audit department for six months and no replacement has been appointed.

Customers wishing to order goods, telephone the company's sales order department and provide their unique account details. Sequentially numbered four-part sales orders are generated for all orders, after checking available inventory levels. One copy is retained by the sales ordering team to enable them to monitor progress of the sales orders, one copy is sent to the customer, one copy is sent to one of the company's warehouses for dispatch and the final copy is sent to the finance department. Upon dispatch, a three-part goods dispatch note (GDN) is completed which is assigned the same sequential number as the order number; one copy is sent with the goods, one remains with the warehouse and one is sent to the finance department.

Due to the recent growth of the company, and as there are a large number of sales invoices, additional temporary staff members have been appointed to help the sales clerks to produce the sales invoices. The sales invoices are prepared using quantities from the GDNs and prices from the authorised sales prices list, which is updated every six months. This year, in line with its main competitors, the company offered a 10% discount on all orders placed during one weekend in late November. Where a discount has been given, this has to be manually entered by the sales clerks onto the sequentially numbered invoice.

Customer statements are no longer being generated and sent out. The company only reconciles the receivables ledger control account at the end of April in order to verify the year-end balance.

## Requirements for Scenario 2

(a) List **FOUR** control objectives of Amberjack Co's sales and dispatch system.

(4 marks)

Paragraph

(b) As the external auditor of Amberjack Co, write a report to management in respect of the sales and dispatch system described which:

(i) Identifies and explains **SEVEN** deficiencies in the sales and dispatch system and recommends a control to address each of these deficiencies; and

(ii) Includes a covering letter

Note: Two marks will be awarded within this requirement for the covering letter.

(16 marks)

(20 marks)

Paragraph

[Insert covering letter here]

Appendix

Control deficiency	Control recommendation

## Scenario 3

### Audit and Assurance (AA) Sample Questions - September/December 2019

Æ Symbol  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5 and you are an audit manager of Spadefish & Co and you are currently responsible for the audits of two existing clients:

Triggerfish Co manufactures hair products and its year ended on 31 May 20X5. You are finalising the audit programmes for the forthcoming year-end audit.

Marlin Co is a distributor of electronic goods and its year ended on 30 April 20X5. The audit is almost complete and the auditor's report is due to be signed shortly.

The following matters have been brought to your attention for each company.

#### Triggerfish Co - Receivables

Triggerfish Co's draft year-end trade receivables are \$3.85m (20X4: \$2.45m) and revenue for the year is slightly increased on 20X4. Triggerfish Co has a large number of customers with balances ranging from \$5,000 to \$45,000. A positive receivables circularisation has been undertaken based on the year-end balances. The majority of responses from customers agreed to the balances as per Triggerfish Co's receivables ledger, however, the following exceptions were noted:

	Balance per Triggerfish	Response from customer
Albacore Co	\$36,558	Nil response
Flounder Co	\$24,115	\$18,265
Menhaden Co	-\$5,360 (Credit)	\$3,450

Due to the increase in receivables, Triggerfish Co has recently recruited an additional credit controller to chase outstanding receivables. As a result of the additional focus on chasing outstanding receivables the finance director thinks it is not necessary to continue to maintain a significant allowance for receivables and has reduced the closing allowance from \$125,000 to \$5,000.

## Requirements for Scenario 3

(a) Describe the procedures the auditor should perform to resolve the exceptions noted for each customer during the positive receivables circularisation for Triggerfish Co.

(8 marks)

Customer name	Procedures
Albacore Co	
Flounder Co	
Menhaden Co	

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the allowance for receivables in the current year.

(4 marks)

(c) Identify and explain **THREE** potential indicators that Marlin Co is **NOT** a going concern.

(3 marks)

(d) Describe the audit procedures the auditor should perform in assessing whether or not Marlin Co is a going concern.

(5 marks)

(20 marks)

## Example view of full CBE constructed response workspace

Audit and Assurance (AA) Sample Questions - September/December 2019 2 of 9

Symbol Calculator Scratch Pad Flag for Review

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**Planning meeting notes**  
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In May 20X5, the financial controller of Harlem Co was dismissed after it was alleged that she had carried out a number of fraudulent transactions against the company. She has threatened to sue the company for unfair dismissal as she disputes the allegations. The company has only recently started to investigate the extent of the fraud in order to quantify the required adjustment.

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Harlem Co's finance director has informed you that in March 20X5 a significant customer was granted a payment break of six months, as it has been experiencing financial difficulties.

**(b) Calculate the FOUR ratios listed in the table below, for BOTH years, to assist you in planning the audit of Harlem Co.**  
Note: Formulas are NOT required to be shown. (4 marks)

**(c) Using the information provided and the ratios calculated, describe EIGHT audit risks and explain the auditor's response to each risk in planning the audit of Harlem Co.** (16 marks)

(b)

Ratio	20X5	20X4
Gross profit margin		
Inventory holding period		
Gearing		
Interest cover		

(c)

Audit risk	Auditor's response

Help Previous Navigator Next