

# Implementing Audit Procedures (International Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 13 JUNE 2005

**QUESTION PAPER**

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Time allowed **3 hours**

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ALL FOUR questions are compulsory and **MUST** be answered

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**Do not open this paper until instructed by the supervisor**

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

The Association of Chartered Certified Accountants

Paper T8(INT)



**ALL FOUR questions are compulsory and MUST be attempted**

- 1** Recruitment Co is a limited liability company which operates as a prestigious, executive recruitment agency. Its most recent financial statements are those for the year ended 31 March 2005. The directors of the company have developed a strong control environment in the company and have introduced effective internal controls. These include the review of monthly management accounts at formal monthly board meetings and the use of a non-current assets register.

The company has 36 employees, most of whom are provided with an executive type of company car. It is company policy to purchase only new cars and to replace them when they are two years old. Employees are allowed to purchase replaced cars, and they do so by forwarding sealed bids to the company as and when replaced cars become available. To protect the company from receiving only low bids from employees, sealed bids are also received from independent motor car dealers.

During the year ended 31 March 2005 the company purchased large quantities of office furniture, as part of an ongoing expansion programme. This included \$30,000 of furniture which was ordered on 18 February 2005 but in respect of which the company had not been invoiced by 31 March 2005. The company's accounting records show that the furniture was delivered on 31 March 2005 and that the associated supplier invoice was received on 31 May 2005, some two weeks after the company's financial statements were presented for audit.

**Required:**

- (a) **State FOUR objectives of the internal controls that should be exercised over non-current assets.** (4 marks)
- (b) **Explain how Recruitment Co's non-current assets register, if properly maintained, may be used by the company to facilitate control over non-current assets.** (4 marks)
- (c) (i) **Explain why it is particularly important that there should be strong internal controls over the disposal of cars by Recruitment Co;** (3 marks)
- (ii) **Suggest FIVE internal controls that Recruitment Co should employ over the disposal of cars.** (10 marks)
- (d) **With regard to the delivery of office furniture to Recruitment Co on 31 March 2005:**
- (i) **State how Recruitment Co should have reflected the transaction in its accounting records;** (2 marks)
- (ii) **Briefly describe TWO procedures the company's auditors should carry out to verify that the delivery occurred on that date.** (2 marks)
- (25 marks)**

**2** Sweet Scents Co is a wholesale supplier of cosmetic, beauty and perfumery products.

The company's inventories are stored in a central warehouse and a computerised system, updated from goods received notes and goods despatched notes, identifies quantities of inventories held by product number and description. Inventories are counted only at the company's year end date.

In discussions with the auditors about their forthcoming audit of the company's financial statements for the year ending 30 June 2005, Sweet Scents Co's financial director made the following statements:

- (1) 'Our employees will carry out a thorough count and valuation of all inventories as at 30 June 2005. However, because employees of your firm will be in attendance at the count and will check inventory values, your firm will be responsible for the accuracy of the reported inventories figure.'
- (2) 'Most of the company's inventories are stored in sealed cardboard boxes, as delivered to the company, which are labelled with product descriptions, quantities and use by dates. This will make inventories easy to identify and easy to count.'
- (3) 'On 31 May 2005 a flood at the warehouse caused varying degrees of damage to some of the inventories. The damaged inventories were not covered by insurance but as we will be valuing them at cost they will not be separately identified at the inventory count on 30 June 2005.'
- (4) 'Approximately five per cent of the value of our inventories is represented by Fleurs Bleu perfumery products. These were purchased in July 2004 in anticipation of a high demand, but due to a public health scare we haven't sold any. We are resigned to the fact that these products are worthless but we'll wait until the next financial year before we throw them out and write them off.'

**Required:**

**(a) Comment on the validity of statement (1) of the financial director as to the audit firm's responsibility for the accuracy of the inventories figure at 30 June 2005.** (5 marks)

**(b) With reference to each of the statements (2), (3) and (4) made by the financial director to the auditors of Sweet Scents Co:**

- (i) Identify and explain the concerns the auditors should have with regard to the accuracy of the inventories figure to be reported in the company's financial statements for the year ending 30 June 2005; and**
- (ii) State the action the company should take both at the inventory count and in the valuation process to overcome these concerns.**

(Note: parts (i) and (ii) above carry equal marks.) (15 marks)

**(c) Describe the procedures the auditors of Sweet Scents Co should carry out on goods despatched notes and sales invoices to test sales cut-off at the year end date.** (5 marks)

**(25 marks)**

**3** Jip Co, a limited liability manufacturing company is an established audit client of your firm.

In March 2005 an audit team from your firm visited Jip Co to review the company's internal control system in preparation for the final audit of the company's financial statements for the year ending 31 July 2005.

As part of the final audit team you, together with other team members, have been instructed to attend a briefing meeting as part of the planning of the final audit of Jip Co's year end financial statements.

**Required:**

**(a) Detail the work that the audit team should have carried out in March 2005, in preparation for the final audit of Jip Co's financial statements for the year ending 31 July 2005. (8 marks)**

**(b) State FIVE matters that should be discussed at the audit briefing meeting as part of the planning process of the final audit of Jip Co's financial statements for the year ending 31 July 2005. (5 marks)**

**(c) For each of the sources of audit evidence identified below, provide FOUR practical examples of how members of your audit team may use such evidence to support their audit conclusions in respect of the final audit of Jip Co's financial statements for the year ending 31 July 2005.**

**(i) Events after the balance sheet date;**

**(ii) Satisfactory internal control procedures;**

**(iii) Written confirmation from third parties.**

**(12 marks)**

**(25 marks)**

**4** Your firm has selected you to attend a discussion workshop as part of your audit training programme. Attendees at the workshop will discuss the auditor's responsibilities in the audit of financial statements regarding the appropriateness of the going concern assumption as a basis for the preparation of the financial statements.

**Required:**

**(a) Explain the underlying assumption applying to an entity when its financial statements are prepared on a going concern basis. (4 marks)**

**(b) State EIGHT financial indicators and FOUR operating or other indicators of risk that the continuance of an entity as a going concern may be questionable. (12 marks)**

**(c) State SIX audit procedures to obtain evidence that the going concern assumption is appropriate for an entity. (9 marks)**

**(25 marks)**

**End of Question Paper**