

**AUDIT AND ASSURANCE PRACTICE & REVISION KIT (FOR EXAMS IN SEPTEMBER 2022, DECEMBER 2022, MARCH 2023 AND JUNE 2023)**

**Q163 Spadefish**

**Q163 Spadefish (Sep/Dec 19) (p94) - added to sheet in Sept 22**

Information relating to Marlin Co is missing from the bottom of the scenario (as indicated by the red arrow):

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:

	<i>Balance per Triggerfish</i>	<i>Response from customer</i>
Albacore Co	\$36,558	Nil response
Floundrer 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.



**Required**

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

The following information should be included:

**Marlin Co - Going concern**

During the year under audit Marlin Co has consistently paid a number of its suppliers significantly later than usual and only after several reminders. As a result some of its suppliers have withdrawn credit terms meaning the company must pay cash on delivery. The company has also just received notification that its main supplier who provides the company with over 60% of its specialist electrical equipment has ceased to trade.

The overdraft has increased significantly over the year and the directors have informed you that the overdraft facility is due for renewal next month, and they are confident it will be renewed. The directors have decided that in order to conserve cash, no final dividend will be paid in 20X5.

Note that the solution is correct and is unaffected by the errata in the question.

### Q149 Lancaster

#### Q149 Lancaster (Mar/Jun 21) (p268) - added to sheet in Nov 22

The answer to question 149 (shown below) contains an error:

- 149 Which **TWO** of the following audit procedures would test for **OVERSTATEMENT** of Lancaster Co's non-current assets?
- Agree disposals recorded in the non-current asset register to cash book and sales invoice
  - Physically inspect a sample of assets selected from the non-current asset register
  - Inspect a sample of assets found at a location and agree to the non-current asset register
  - Inspect the condition of assets held to determine the need for any impairment

The wording in the answer on page 268 that has been highlighted is incorrect.

- 149 The correct answers are: Physically inspect a sample of assets selected from the non-current asset register; **inspect a sample of assets found at a location and agree to the non-current asset register.**

This question tests candidates' understanding of the purpose of specific audit procedures relating to non-current assets with the focus being overstatement. When testing for overstatement it is essential to work from the financial statements to source documents or assets. (Working from source documents or assets to the financial statements would test for understatement.) Candidates should also note the number of responses required. In this case two correct answers from four options are required. Selecting assets from the non-current asset register and inspecting them tests the existence assertion which provides evidence regarding potential overstatement – the balance will be overstated if assets included do not exist.

Assessing the need for impairment is a valuation test. If an asset is impaired but the impairment has not been recognised the balance will be overstated. Option 1 provides evidence that disposals which are recorded have actually taken place. This tests for understatement and is therefore not an appropriate response. Option 3 also tests for understatement by confirming that assets physically inspected are recorded in the non-current asset register.

The highlighted wording should be replaced with 'Inspect the condition of assets held to determine the need for any impairment'.

The full amended answer is:

The correct answers are: Physically inspect a sample of assets selected from the non-current asset register; Inspect the condition of assets held to determine the need for any impairment.

This question tests candidates' understanding of the purpose of specific audit procedures relating to non-current assets with the focus being overstatement. When testing for overstatement it is essential to work from the financial statements to source documents or assets. (Working from source documents or assets to

the financial statements would test for understatement.) Candidates should also note the number of responses required. In this case two correct answers from four options are required.

Selecting assets from the non-current asset register and inspecting them tests the existence assertion which provides evidence regarding potential overstatement – the balance will be overstated if assets included do not exist.

Assessing the need for impairment is a valuation test. If an asset is impaired but the impairment has not been recognised the balance will be overstated.

Option 1 provides evidence that disposals which are recorded have actually taken place. This tests for understatement and is therefore not an appropriate response. Option 3 also tests for understatement by confirming that assets physically inspected are recorded in the non-current asset register

### **Q189-193 Czech & Dawson (Scenario)**

#### **Q189-193 Czech & Dawson (p105 Scenario) - added to sheet in Dec 22**

The second paragraph under the Heading 'Czech Co (Czech)' is incorrect.  
It currently reads:

Czech has incurred \$2.1m and development expenditure of \$3.2m during the year, all of which has been capitalised as an intangible asset. Profit before tax is \$26.3m.

It should read:

Czech has incurred research expenditure of \$2.1m and development expenditure of \$3.2m during the year, all of which has been capitalised as an intangible asset. Profit before tax is \$26.3m.

### **Q123 Expert (Answer)**

#### **Q123 Expert (Answer)(p263) - added to sheet in Dec 22**

The order in the answer is incorrect. The answer currently reads.

The correct answer is:

- (1) Bank confirmation report from Truse Co's bank
- (2) Cash count carried out by the audit junior himself
- (3) Bank reconciliation carried out by the cashier
- (4) Verbal confirmation from the directors that the overdraft limit is to be increased

Third-party evidence is the most reliable, followed by auditor-generated evidence. Client-generated evidence is deemed to be less reliable – more so when the evidence is verbal.

The answer should read as follows:

The correct answer is:

- (1) Cash count carried out by the audit junior himself
- (2) Bank confirmation report from Truse Co's bank
- (3) Bank reconciliation carried out by the cashier
- (4) Verbal confirmation from the directors that the overdraft limit is to be increased

Auditor generated evidence is more reliable than evidence from other parties. Third-party evidence is more reliable than client-generated evidence. Documentary evidence is more reliable than verbal.

Mock Exam 3 Q10 Elm & Co

Mock Exam 3 Q10 Elm & Co (pg 401 Q) (pg 412 A)- added to sheet in Nov 23

This question and answer are incorrectly displayed. The question and answer should be displayed as follows:

- 10 The audit engagement partner has concluded that the disclosure included in the financial statements in relation to the loan negotiations is adequate. Additionally, the audit partner has commented that this disclosure is fundamental to the users' understanding of the financial statements.

Complete the following sentence, identifying what form of auditor's report should be issued.

An auditor's report with (1) opinion and (2) paragraph should be issued.

**Pull down list 1**

- A modified
- An unmodified

**Pull down list 2**

- A material uncertainty relating to going concern
- An other matter

(2 marks)

- 10 An auditor's report with an unmodified opinion and a material uncertainty relating to going concern paragraph should be issued.

As per ISA 570 (Revised) *Going Concern*, where there is a matter of fundamental importance to the users' understanding regarding an uncertainty over going concern, as long as this is adequately disclosed the auditor should include a material uncertainty paragraph related to going concern. The audit opinion is unmodified in this regard.

## Mock Exam 4 Q18 Danube

### Mock Exam 4 Q18 Danube pg 440 (Scenario)

The last sentence in the section that follows should be replaced with:

*The court case is due to take place in August 20X5 and management believes that Kalama Kids Co's claim is likely to be successful. No hoverboards remain in Danube Co's inventory at the year end.*

#### **Provision and receivable arising from the sale of defective goods**

In December 20X4 Danube Co sold a number of hoverboards to a customer, Kalama Kids Co. It is alleged by Kalama Kids Co that these hoverboards are faulty, as there have been a few instances of the hoverboards overheating and catching fire. As a result, Kalama Kids Co is suing Danube Co for \$3.9m. The court case is due to take place in August 20X5 and management believes that Kalama Kids Co's inventory at the year end.