



Think Ahead

Audit and Assurance

Sample Questions – March / July 2020

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

Audit and Assurance (AA) Sample Questions - March/June 2020



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. The practice exam is reflective of the constructed response section of the live exam but has some differences:

- The live exam will be timed, however there is no time limit in this exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on **End Exam** on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

Next →

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 **Next**  or **Previous** , 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.

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.

Instruction screens (continued)

Instructions (2 of 4)

Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions.
- 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.

Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting **Highlight**
- You can strikethrough text in the question scenario by selecting **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

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 not be submitted for marking. It 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.

Instruction screens (continued)

Instructions (3 of 4)

Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

Symbol

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

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.

Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting **Close All** on the top toolbar.

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 **Next** →
- This takes you to the Item Review screen.

Instruction screens (continued)

Instructions (4 of 4)

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- 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.

Ending 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 - March/June 2020

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.

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 - March/June 2020

Symbol  Highlight  Strikethrough  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. You are an audit supervisor of Orange & Co planning the audit of a new client, Scarlet Co, for the year ended 31 May 20X5. Scarlet Co manufactures chemicals for use in domestic and commercial cleaning products.

The company's financial accountant was taken ill suddenly in May 20X5 and is unable to undertake the preparation of the year-end draft financial statements. As a result, the company recruited a temporary financial accountant in early June 20X5 who will prepare the draft financial statements. The year-end financial statements need to be finalised quickly as the company is looking to raise finance through a bank loan to replace three machines in the production facility. The bank has asked for a copy of the audited year-end financial statements by the end of September 20X5 before they will agree to the loan and the directors are keen to report strong results in order to obtain this financing.

In the year, the company also purchased a specialised machine to develop a new range of chemicals for a major customer. Only trained staff are allowed to operate this machine and staff members had to undertake two days of training, followed by an assessment at the end of the training period. The training costs of \$15,000 have been capitalised as part of the cost of the asset.

The company sources many of its raw materials to be used in the chemical manufacturing process from an international supplier and goods can be in transit for up to three weeks. The agreement with the international supplier contains a clause which states that Scarlet Co is responsible for the goods as soon as they leave the supplier's warehouse.

You have carried out a preliminary analytical review which indicates that the receivables collection period has increased from 38 days to 52 days. The credit controller has confirmed that some customers are currently taking longer to pay than in previous years as they are awaiting payment from their customers.

Scenario 1 (continued)

On 29 May 20X5, the directors announced that one of its brands was being discontinued due to a fall in demand for the product. This resulted in four staff members being made redundant. The payroll department has calculated the levels of termination costs associated with the redundancy and they will be paid in the July 20X5 payroll run.

The directors each received a significant bonus in the year which has been included in the payroll charge for the year in the statement of profit or loss. Local legislation requires separate disclosure of directors' bonuses in the financial statements.

During the year the company sold a batch of chemicals to a customer for \$120,000. At the beginning of May 20X5, the customer returned these chemicals because the chemical mix was not in line with the customer's specifications. A credit note is yet to be issued to the customer and the chemicals have been written down to their scrap value within inventory.

The company usually pays its suppliers by the end of each month. However, due to the financial accountant's illness, the payment run for May 20X5 was not performed until 1 June 20X5. The finance director has informed you that in order to show consistent results with the prior year, this payment run is shown as an unrepresented item on the year-end bank reconciliation.

Scenario 1: requirements

ISA 210 Agreeing the Terms of Audit Engagements requires auditors to issue an engagement letter.

(a) Explain the **PURPOSE** of an audit engagement letter and list **FOUR** items which should be included in an audit engagement letter.

(4 marks)

Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, superscript, link, and unlink. Below the toolbar is a dropdown menu set to "Paragraph" and a grid icon.

(b) Explain **WHY** the following factors should have been considered by Orange & Co prior to accepting Scarlet Co as a new audit client.

(5 marks)

Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, superscript, link, and unlink. Below the toolbar is a dropdown menu set to "Paragraph" and a grid icon.

Pre-acceptance factors	Explanation
The outgoing auditor's response	
Management integrity	
Pre-conditions for an audit	
Independence and objectivity	
Resources available at the time of the audit	

(c) Describe **EIGHT** audit risks, and explain the auditor's response to each risk, in planning the audit of Scarlet Co.

(16 marks)

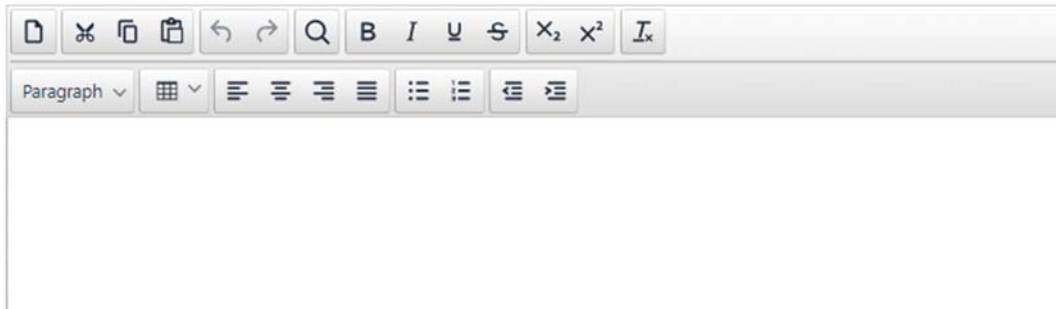
Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, superscript, link, and unlink. Below the toolbar is a dropdown menu set to "Paragraph" and a grid icon.

Audit risk	Auditor's response

(d) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in respect of the redundancy costs.

(5 marks)

(30 marks)



The image shows a rich text editor toolbar with the following icons from left to right: a document icon, a scissors icon, a copy icon, a paste icon, a left arrow, a right arrow, a search icon, a bold icon (B), an italic icon (I), a strikethrough icon (ABC), a link icon, a subscript icon (x₂), a superscript icon (x²), and a link icon (Ix). Below the toolbar is a second row of icons: a paragraph dropdown menu, a table icon, four text alignment icons (left, center, right, justified), two list icons (bulleted and numbered), and two indent/outdent icons. The main text area below the toolbar is empty.

Scenario 2

Audit and Assurance (AA) Sample Questions - March/June 2020

\$ Symbol  ▼ Highlight  Strikethrough  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. You are an audit supervisor with Rocky & Co, reviewing extracts from the internal controls documentation in preparation for the interim audit of Snowdon Co. The company's year end is 30 September 20X5. The company provides training services for individuals looking to become qualified engineers. Snowdon Co's customers are the employers that send their employees for training on a weekly basis. Snowdon Co runs classes in its 45 training centres across the country.

The company has a small internal audit (IA) department, which has experienced significant staff shortages and is currently under-resourced. This has resulted in a reduction in their programme of work for the year in many areas.

Non-current assets

Snowdon Co's training centres are either owned by the company or are held under a long-term lease. The company also has a head office and central warehouse for storage of training materials. Each training centre is set up as a separate department and is given an annual capital expenditure budget but some departments have already significantly exceeded their annual budgets.

When new equipment is acquired the finance department classifies the expenditure between capital and revenue, noting the classification on the purchase order. The classification is made with reference to guidelines established by the finance director, who sample checks that the capital or revenue expenditure allocation has been correctly applied.

Part of the work which Snowdon Co's IA department is required to carry out is a comparison of the assets per the non-current assets register and those physically present in each of the centres. This year's programme of visits, which has been planned and carried out on the same basis as previous years, means that by the year end IA will only have visited the four largest centres and five of the other centres randomly selected.

Scenario 2 (continued)

Payroll

Snowdon Co has a human resources (HR) department, responsible for setting up all new joiners. Pre-printed joiners' forms, which require all necessary data, are completed by HR for new employees and once verified, a copy is sent to the payroll department so that the employee can be set up for payment. The joiner's form includes the staff member's assigned employee number and the system requires the new joiner's employee number to be entered before they can be added to payroll. All members of the payroll department can amend employees' standing data in the payroll system as they have access to the password, which is changed by the payroll director on a quarterly basis.

On a monthly basis the employees are paid by bank transfer. The senior payroll manager reviews the list of bank payments and agrees this to the payroll records. If any discrepancies are noted, the senior payroll manager always makes the adjustment in the payroll records.

Sales and bank

After passing a credit check, new customers are set up in the receivables ledger master file and a credit limit is set by the sales director. The credit limits then remain unchanged in the system unless a review is requested by the customer.

Each new customer is allocated a client services manager from Snowdon Co, who is responsible for managing the customer relationship and maximising sales. Standard credit terms for customers are 30 days and on a monthly basis sales invoices which are over 90 days outstanding are notified to the relevant client services manager to chase payment directly with the customer.

Every month, the cashier reconciles the bank statements to the cash book. The reconciliations are reviewed by the financial controller, who also investigates all reconciling items and evidences his review by way of a signature.

Requirements for Scenario 2

Auditors are required, under ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, to communicate in writing to those charged with governance any significant deficiencies in internal control.

(a) Describe **FOUR** matters the auditor may consider in determining whether a deficiency in internal control is significant.

(4 marks)

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Paragraph 📄 ≡ ≡ ≡ ≡ ⋮ ⋮ ⋮ ⋮

(b) In respect of the internal control system of Snowdon Co:

(i) Identify and explain **THREE KEY CONTROLS** on which the auditor may seek to place reliance; and

(ii) Describe a **TEST OF CONTROL** the auditor should perform to assess if each of these key controls is operating effectively.

Note: The marks will be split equally between each part.

(6 marks)

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Paragraph 📄 ≡ ≡ ≡ ≡ ⋮ ⋮ ⋮ ⋮

Key control	Test of control

(c) Identify and explain FIVE DEFICIENCIES in Snowdon Co's internal control system and provide a recommendation to address each of these deficiencies.

(10 marks)

(20 marks)

	
	
Control deficiency	Control recommendation

Scenario 3

Audit and Assurance (AA) Sample Questions - March/June 2020

\$ Symbol  ▼ Highlight  Strikethrough  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. You are an audit supervisor with Velo & Co and you are working on the final audit of Encore Co for the year ended 30 April 20X5. Encore Co is a waste management company, supplying its services to a variety of governmental and business organisations. Encore Co's draft profit before tax is \$5.3m (20X4: \$4.6m) and total assets are \$40.1m (20X4: \$33.9m). You have been provided with the following information regarding the draft financial statements.

Vehicle additions and disposals

On 1 February 20X5, Encore Co replaced 20 of its recycling vehicles. The old vehicles had a carrying amount of \$1.8m, as recorded in the non-current assets register and were given in part-exchange against new vehicles costing \$4.6m. Cash consideration of \$3.9m was also paid.

Trade receivables

Encore Co's credit controller left the company in January 20X5 and has only recently been replaced. The trade receivables collection period increased from 49 days as at 31 December 20X4 to 66 days as at 30 April 20X5. Year-end trade receivables amounted to \$9.1m (20X4: \$7.1m) and an allowance for irrecoverable receivables of \$182,000 (20X4: \$142,000) has been made.

Potential breach of transport regulations

In March 20X5, a former employee of Encore Co made a complaint to the transport authority, alleging that Encore Co has breached the regulations concerning maximum driving hours and compulsory rest breaks for drivers on a number of occasions. The transport authority has launched an investigation but the directors of Encore Co are not intending to disclose this issue or make any provision as they do not believe that the potential fine, which is \$50,000 per breach, is material.

Requirements for Scenario 3

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Encore Co's vehicle additions and disposals.

(6 marks)

A rich text editor toolbar with the following icons: Undo, Redo, Find, Bold, Italic, Underline, Strikethrough, Superscript, Subscript, and Link. Below the toolbar is a dropdown menu labeled 'Paragraph' and another dropdown menu with a grid icon. To the right of these are icons for text alignment (left, center, right, justified) and bulleted/numbered list creation. The main text area is empty.

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the VALUATION of Encore Co's trade receivables.

(5 marks)

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(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the potential breach of transport regulations by Encore Co.

(4 marks)

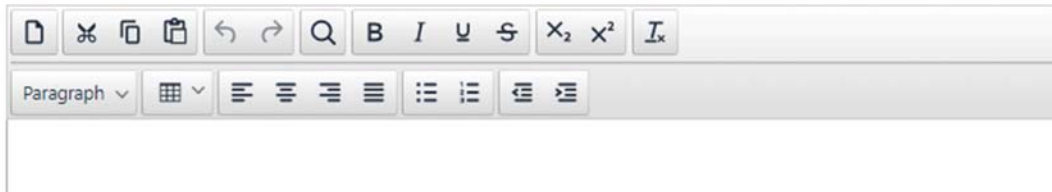
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It is now 26 August 20X5 and the auditor's report for Encore Co is being finalised. On 12 August 20X5, the transport authority announced that it was taking legal action against Encore Co in respect of 17 breaches of the regulations. Encore Co's lawyers have advised that it is probable Encore Co will be found guilty of all of the breaches. Encore Co's directors have informed you that no provision will be made in respect of this matter, as the decision by the authority to take legal action was made after the year end, but they have agreed to disclose the issue in the notes to the financial statements.

(d) Discuss the issue and describe the impact on the auditor's report, if any, should this issue remain unresolved.

(5 marks)

(20 marks)



Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, superscript, and link. Below the toolbar are dropdown menus for Paragraph and a grid icon, followed by alignment and list style icons.

