

# Audit and Assurance

## Sample Questions – September/December 2021 (21/22 syllabus)

### 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

AA September/December 2021 exam (21/22 syllabus)

**ACCA** Think Ahead

## 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

AA September/December 2021 exam (21/22 syllabus)




## 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)

AA September/December 2021 exam (21/22 syllabus)

### 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](#), [Help](#), [Help/Formulae Sheet](#) or [Help/Tax 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)

AA September/December 2021 exam (21/22 syllabus)

### 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)

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### 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

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### 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.

## Sample exam questions

### Scenario 1

AA September/December 2021 exam (21/22 syllabus)

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**This scenario relates to five requirements.**

It is 1 July 20X5. You are an audit supervisor with Apricot & Co and have been assigned to the audit of Peach Co, a soft drinks manufacturer which sells to wholesale customers. You are currently planning the year-end audit for the year ending 31 August 20X5 and have received the following notes from the audit engagement partner. Materiality for the draft financial statements has been calculated as \$153,000, which is 5% of profit before tax.

#### **Planning meeting notes**

A new accounting system was introduced via direct changeover in March 20X5. It had been successfully tested prior to its implementation and management had such confidence in the new system that they did not consider it necessary to undertake further testing after implementation.

Peach Co has been developing a new production process which will help to reduce sugar in its drinks by 50%. Development commenced on 1 November 20X4 and the total amount capitalised was \$0.8m. On 1 May 20X5, the food safety authority approved the process and production of the new reduced-sugar soft drinks commenced.

Peach Co has inventories of high-sugar drinks costing \$227,000 which it can no longer sell in its home market due to a lack of demand. The directors believe Peach Co can sell the remaining inventories to an international customer at a price that marginally exceeds cost but Peach Co will be responsible for all costs relating to the delivery and shipping of the drinks.

Peach Co replaced two items of machinery in its production line to accommodate a change in the type of bottles used. There were significant staff costs involved in preparing the site for the new machinery and in testing that the new machinery was operating correctly. These costs have been included within the wages and salaries expense for the period. Despite the old machinery being sold at a significant loss, during the year the directors of Peach Co decided to extend the useful lives of plant and machinery by an average of five years.



## Scenario 1 (continued)

A member of the finance team was dismissed by Peach Co in May 20X5 after it was discovered that they had been fraudulently purchasing non-current assets for personal use. Peach Co started to investigate the fraud at the beginning of June 20X5 by reconciling all physical assets to the non-current asset register but will not have completed the reconciliation by the year-end date.

Peach Co entered into a contract on 1 May 20X5 with a new supplier of bottles. Peach Co has committed to a minimum order quantity of 150,000 bottles per month for a period of 12 months commencing 1 May 20X5. No costs have been accounted for to date as no amounts are payable for the first six months. Three equal instalments are then payable across the remainder of the contract term. Peach Co's previous supplier has launched a legal claim against Peach Co for breach of contract, stating that Peach Co did not have the right to exit the agreement early. Peach Co's lawyers have indicated that it is likely to lose the case and have estimated the amount payable to be in the region of \$0.3m.

In order to fund the development of the new production process and the purchase of new machinery, Peach Co obtained an interest-bearing bank loan of \$1.2m on 1 March 20X5 repayable over the next three years in arrears. In order to secure the bank loan, Peach Co agreed to maintain a minimum net profit margin and meet specific sales targets.

## Scenario 1: requirements

1 of 10

Close All Flag for Review

(a) Describe EIGHT audit risks, and explain the auditor's response to each risk, in planning the audit of Peach Co. (16 marks)

Rich text editor toolbar: Copy, Paste, Undo, Redo, Search, Bold, Italic, Underline, Strikethrough, Superscript, Subscript, Link.

Paragraph style dropdown, Table grid icon, Text alignment icons (Left, Center, Right, Justify), Bulleted list, Numbered list, Decrease indent, Increase indent, Print icon.

Audit risk	Auditor's response

Navigator Next →


## Scenario 1: requirements (continued)


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(b) Describe Apricot & Co's responsibilities in relation to the prevention and detection of fraud and error. (4 marks)

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## Scenario 1: requirements (continued)

3 of 10

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Peach Co has been an audit client of Apricot & Co for the last 15 years. The audit staff of Apricot & Co and the client staff of Peach Co have always enjoyed a meal together at the start of the final audit. Alan Edward, the managing director of Peach Co has this year suggested that instead of a meal, all the audit staff and client staff go away for the weekend to a luxury hotel at Peach Co's expense.

Alan Edward has also suggested that the current year audit fee is renegotiated to be based on a percentage of Peach Co's net profit for the year.

This year, for the first time, Apricot & Co has been approached by Peach Co to help identify potential acquisition targets. Discussions are currently at an early stage and no work has been undertaken at present. The total fees in relation to the audit and other work would fall within acceptable levels in line with ACCA's Code of Ethics and Conduct.

**(c)(i) Identify and explain TWO ethical threats which may affect the independence of Apricot & Co's audit of Peach Co; and**

**(ii) For each threat, recommend an appropriate safeguard to reduce the threat to an acceptable level.** (4 marks)

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Ethical threat	Appropriate safeguard

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## Scenario 2

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**This scenario relates to two requirements.**

It is 1 July 20X5. Pomeranian Co is a manufacturer of fizzy drinks and operates across the country. The company's year end is 30 September 20X5. You are an audit supervisor with Poodle & Co and you are reviewing extracts from the internal controls documentation in preparation for the forthcoming audit.

### **Sales**

All new customers of Pomeranian Co are required to pass suitable credit checks. Upon passing the credit check, customers are set up in the receivables ledger master file and a credit limit is set by the sales director. The credit limits are only then changed when a customer requests an increase.

Customer orders are processed by Pomeranian Co's sales ordering department and goods are dispatched from one of the company's warehouses. Sequentially numbered multi-part goods dispatched notes (GDNs) are completed and a copy is filed in the warehouse when the goods are dispatched. Copies of the GDNs are sent to the sales ordering department and the finance department on a weekly basis.

Pomeranian Co's credit controller is currently on maternity leave for six months and no one has taken over her duties. As part of the month-end procedures, a clerk reconciles the receivables ledger control account to the receivables ledger and the reconciliations are only reviewed by the financial controller if there are any unreconciled differences.

### **Non-current assets**

An annual capital expenditure budget is set for each department within Pomeranian Co and is referred to as part of the approval process. Board approval is required for any capital items costing more than \$0.5m. Capital expenditure below this level can be authorised by the relevant head of department.

Pomeranian Co has a head office and five factories, each of which includes a warehouse. The company has an internal audit (IA) department which is required, over a three-year cycle, to carry out a comparison between all

## Scenario 2 (continued)

the assets recorded on the non-current assets register to those physically present in each of the company's 11 sites. The programme of visits for the current year means that by the year end, IA will only have completed this comparison at one factory and one warehouse.

### **Purchases and inventory**

Pomeranian Co maintains a perpetual inventory system in which finished goods and raw materials, stored in the warehouses, are counted monthly throughout the year rather than just being counted at the year end. Each of the five warehouse managers are responsible for supervising the inventory counts at their sites and ensuring that the counting teams are following the issued instructions.

The company calculates the cost of its inventory using standard costs, both for internal management reporting and for inclusion in the year-end financial statements. The basis of the standard costs was reviewed by the production department approximately two years ago.

The company has a central purchasing department which is based at its head office. All members of this department have full access to the supplier master file data and a monthly exception report of any changes to master file data is automatically generated and then filed by a purchasing clerk.

Sequentially numbered goods received notes (GRNs) are produced by the warehouse department when goods are received, a copy of which is promptly sent to the purchasing and finance departments. On receipt of the purchase invoices, the finance clerk matches the invoices to the relevant purchase order and then passes the documents to the finance director for authorisation prior to input.









## Scenario 3

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**This scenario relates to five requirements.**

It is 1 July 20X5. Danube Co is listed on a stock exchange and sells consumer goods to wholesale customers. The company has a large head office and 18 warehouses. You are an audit supervisor of Mississippi & Co and the final audit for the year ended 31 March 20X5 is due to commence shortly. The draft financial statements show total assets of \$198.5m and profit before tax of \$56.1m. The following three matters have been brought to your attention:

### Land and buildings

Danube Co historically recorded all property, plant and equipment (PPE) at cost less accumulated depreciation. However during the year, management decided to change the accounting policy for land and buildings from the cost model to the revaluation model. The finance director hired an external independent valuer to undertake the valuation of all land and buildings, and this took place in July 20X4. Depreciation is calculated monthly on a pro rata basis. Danube Co's year-end balance for PPE includes land and buildings of \$79.2m (20X4: \$64m).

### Trade receivables circularisation

Danube Co's year-end trade receivables balance of \$9.3m (20X4: \$7.7m) has significantly increased compared to the prior year. Danube Co's receivables ledger is made up of a large number of customers with balances ranging from \$15,000 to \$150,000. A positive trade receivables circularisation has been undertaken by the audit team based on the year-end balances. The majority of responses from customers agreed to the balances as per Danube Co's receivables ledger at 31 March 20X5, however the following exceptions were noted:

Customer	Balance per Danube Co	Response from customer
Nile Co	\$141,102	No response
Congo Co	\$136,321	\$122,189

## Scenario 3 (continued)

### 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 claim is likely to be successful. No hoverboards remain in Danube Co's inventory at the year end.

Danube Co purchased the hoverboards from a supplier, Thames Co. In February 20X5 Danube Co contacted Thames Co and requested that they reimburse Danube Co for damages which may become payable as a result of the sale of defective hoverboards. Danube Co is requesting a sum of \$3.9m from Thames Co. The draft financial statements contain a provision of \$3.9m in respect of the customer's claim and a receivable of \$3.9m in respect of Danube Co's counter-claim against its supplier.

## Scenario 3: Requirements

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(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Danube Co's land and buildings.

(6 marks)

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## Scenario 3: Requirements (continued)

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(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the PROVISION and the RECEIVABLE arising from the sale of defective goods.

(5 marks)

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## Scenario 3: Requirements (continued)

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The audit engagement partner has determined that the issue relating to the provision and receivable arising from the sale of defective goods should be communicated as a key audit matter (KAM), in accordance with ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report.

**(d)(i) Describe the factors which the audit engagement partner would have considered in determining that this issue is a KAM; and**

**(ii) Describe the content of the KAM section of the auditor's report for Danube Co.**

(5 marks)

(20 marks)

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