 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

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

Audit and Assurance (AA) Sample Questions - September/December 2015

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)

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

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. Only Formulae Sheet or Only 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.

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 the 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)

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

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 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 Exit 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.

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

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 tyre, 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:

<table>
<thead>
<tr>
<th>Financial statement extracts for year ending 30 September</th>
<th>Forecast</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X5</td>
<td>20X4</td>
</tr>
<tr>
<td>Revenue</td>
<td>$900</td>
<td>$900</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>23,200</td>
<td>21,900</td>
</tr>
<tr>
<td>Gross profit</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>Finance costs</td>
<td>280</td>
<td>250</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>450</td>
<td>850</td>
</tr>
<tr>
<td>Intangible asset</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Inventory</td>
<td>2,100</td>
<td>1,600</td>
</tr>
<tr>
<td>Long and short-term borrowings</td>
<td>13,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Total equity</td>
<td>10,000</td>
<td>9,500</td>
</tr>
</tbody>
</table>

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)

(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)

Note: See page 15 for example view of full CBE constructed response workspace
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.

(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.
Scenario 2

Note: See page 15 for example view of full CBE constructed response workspace
**Requirements for Scenario 2**

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

(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.

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**Appendix**

<table>
<thead>
<tr>
<th>Control deficiency</th>
<th>Control recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Scenario 3

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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:

<table>
<thead>
<tr>
<th>Balance per Triggerfish</th>
<th>Response from customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albacore Co</td>
<td>$36,558</td>
</tr>
<tr>
<td>Flounder Co</td>
<td>$24,115</td>
</tr>
<tr>
<td>Menhaden Co</td>
<td>-$5,360 (Credit)</td>
</tr>
</tbody>
</table>

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.

(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.

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

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

Note: See page 15 for example view of full CBE constructed response workspace
Example view of full CBE constructed response workspace