

Audit and assurance

March/June 2021 exam (20/21 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. Further instructions on how to use the platform will be provided before you attempt the exam.

Introduction screen

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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.

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

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This scenario relates to five requirements.

It is 1 July 20X5. You are an audit supervisor of Apple & Co and are in the process of reviewing extracts of the systems documentation which has been completed on the payroll cycle of Castle Courier Co, as well as preparing the audit programmes for the forthcoming final audit for the year ending 30 September 20X5. Castle Courier Co is a package delivery company which operates from a large distribution centre.

Payroll

The company employs 200 staff of whom 120 of these staff are delivery drivers. All staff work a standard eight-hour shift each day and are paid monthly. All staff members are required to clock-in and out using a sequentially numbered key card which contains their unique employee number and name. Sequence checks on the key cards and the data recorded in the clocking-in system are carried out by the human resources (HR) supervisor on a regular basis. The clocking-in process is monitored by a camera on entry to the distribution centre and weekly checks are carried out by the HR department who review the video footage to ensure that no staff member clocks-in for someone else. Recordings are kept in date order in the HR department and logged on a spreadsheet together with the name of the person who has reviewed the footage.

The clocking-in system is directly linked to the payroll system and information regarding the hours worked by the staff is automatically transferred into the payroll system. The payroll system then automatically calculates gross pay, deductions and net pay. The payroll clerk confirms that the transfer of hours and calculations has been done correctly by recalculating a sample of employees' gross to net pay. A payroll supervisor then reviews this check which is evidenced by the supervisor's signature.

All staff are entitled to 22 days holiday a year. Employees are paid for any holiday which has not been taken at the end of the year. Department managers are required to approve all holiday requests by authorising employees' holiday forms, however this does not always occur.

The payroll system is password-protected, and the password is changed on a monthly basis by the payroll manager using a random password generator.

Scenario 1: (continued)

Once the payroll has been agreed by the payroll supervisor, the payroll clerk provides details of the net pay due to each employee to the financial controller who then prepares and authorises the bank transfer to be paid to the employees' bank accounts.

Each month, as part of the month-end procedures, the finance director undertakes a payroll control account reconciliation and investigates any differences to ensure that the payroll figures have been posted into the accounting records correctly.

The company's HR department is responsible for processing starters and leavers using a joiner/leaver form to notify the payroll department of the change. On receipt of the joiner/leaver form a payroll clerk updates the payroll system. An edit report is generated which records the changes made but this report is not reviewed. Two staff members from the HR department have been absent for some time due to illness. As a result, the operations manager has processed six newly recruited temporary delivery drivers and instructed the payroll department to set up the new employees.

Delivery drivers are sometimes required to work overtime, particularly in busy periods. Where overtime is necessary, the operations manager has to authorise overtime in excess of five hours per week.

Some temporary delivery drivers receive their wages in cash. The delivery driver collects their pay packet from the finance department when it is ready. The member of staff in the finance department will ask for the delivery driver's name to check that there is a pay packet prepared and, if there is, they provide the delivery driver with their pay packet.

The company has to pay employment taxes to the tax authority by the end of each month. Each month the payroll supervisor calculates the total liability due to the tax authority and this is then passed to the financial controller who checks the calculations prior to the payment being made.

To encourage delivery drivers to make deliveries on time, the company pays a discretionary bonus to delivery drivers on a quarterly basis. The operations manager decides on the bonus to be paid and notifies the payroll clerk in writing every quarter as to who will receive a bonus and how much it will be.

As delivery drivers spend the majority of their day driving the company vehicles, they are required by law to take a 15-minute paid break in the morning and afternoon, as well as a one-hour lunch break. The company has no way of monitoring the length of these breaks as the delivery drivers are out on deliveries.

Scenario 1: requirements

(a) Describe the following methods for documenting internal control systems and for each explain a DISADVANTAGE of using this method.

(4 marks)

Method	Explanation	Disadvantage
Narrative notes		
Internal control questionnaires		

(b)(i) Identify and explain FOUR KEY CONTROLS in Castle Courier Co's payroll system which the auditor may seek to place reliance on; 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.

(8 marks)

Key Control	Test of Control

Scenario 1 requirements (continued)

(c) Identify and explain SIX DEFICIENCIES in Castle Courier Co's payroll system and provide a control recommendation to address each of these deficiencies.

(12 marks)

	
	
Control deficiency	Control recommendation

(d) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Castle Courier Co's payroll expense.

(6 marks)

(30 marks)

	
	

Scenario 2

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This scenario relates to three requirements.

It is 1 July 20X5. You are an audit supervisor with Woodward & Co and you are in the process of planning the audit of Corley Appliances Co, a company which sells domestic electrical appliances such as fridge freezers, TVs and washing machines. The company's year end is 31 August 20X5 and forecast revenue for the year is \$12.2m, total assets are \$6.8m and profit before tax is \$2.8m. The audit manager held a meeting with the finance director and the notes from that meeting are provided below:

Notes from meeting with finance director

The company operates nationwide with 20 branches located across the country and sells goods to members of the public and to retailers. The company has a returns policy which allows a customer to return goods within 28 days of purchase if they are not satisfied with the product. Historically, 5% of customers return goods within the return period. The company also provides a six-month warranty on its products which requires Corley Appliances Co to repair any defects, at its own cost, which arise within the warranty period. It is anticipated that the warranty provision in the draft financial statements will be lower than the prior year as the directors are confident the products sold by the company are built to a very high standard.

The company is based in Europe and its main supplier of appliances is based in Asia. Goods are shipped to the company's central warehouse by sea and are usually in transit for up to one month. Corley Appliances Co has responsibility for goods in transit from the point of dispatch by the supplier. The central warehouse and all 20 branches will be carrying out a full year-end inventory count on 31 August 20X5 and it is expected that the value of inventory in Corley Appliances Co's financial statements will be \$0.95m.

Over the last six months, the finance director has noticed that the company's receivables collection period is now an average of 55 days, whereas the company's target is 42 days. The credit controller has informed the finance director that she is confident that all receivables will eventually pay as increases in receivables collection periods are starting to become common in the industry. The finance director believes it is unlikely that any increase in the allowance for receivables will be necessary at the year end as compared to the prior year.

Scenario 2 (continued)

In June 20X5, a fraud was uncovered in the finance department. A payables ledger supervisor had diverted funds from the company's bank account using a fictitious supplier on the payables ledger. The employee was immediately dismissed, and the value of the fraud will be recognised as an expense in the statement of profit or loss. Since the dismissal of the supervisor, purchase invoices have not been recorded in the payables ledger and it is unlikely that this backlog of invoices will be cleared by the year end.

During the year, the company purchased and installed a new automated dispatch system for its central warehouse. The cost of the dispatch system was \$0.9m and has been recognised as an addition to property, plant and equipment. These capitalised costs include the purchase price of \$0.6m, installation costs of \$0.2m and staff training costs of \$0.1m.

Due to the costs incurred in purchasing the new dispatch system and the increase in the receivables collection period, the company's overdraft facility has increased significantly and at one point went over the agreed limit of \$0.7m in early June 20X5. The bank has expressed concern about the way that the company is operating its bank overdraft and a decision will be made in November 20X5 as to whether the bank will continue to provide this overdraft facility, which the company is dependent on. The auditor's report is due to be signed in October 20X5.

Scenario 2 requirements (continued)

ISA 210 Agreeing the Terms of Audit Engagements states that auditors should only accept, or continue an existing audit engagement, if the preconditions for an audit are present.

(a) Describe the PRECONDITIONS required for an audit.

(3 marks)



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(b) Describe SEVEN audit risks and explain the auditor's response to each risk in planning the audit of Corley Appliances Co.

(14 marks)



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Audit risk	Auditor's response

(c) Define the term 'professional scepticism' and explain TWO examples from the audit of Corley Appliances Co where the auditor should apply professional scepticism.

(3 marks)

(20 marks)



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Scenario 3

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This scenario relates to four requirements.

It is 1 July 20X5. Purrfect Co manufactures and sells a variety of food for dogs and cats. Your firm, Kirano & Co, has audited the company for a number of years. You are about to commence the final audit for the year ended 31 March 20X5 and the draft financial statements show profit before tax of \$23.1m and total assets of \$99.2m.

Vego Dog - inventory valuation

Purrfect Co launched a new brand of vegan dog food, Vego Dog, in December 20X4 but sales have been lower than expected and the directors are considering a discounted sales price. Vego Dog products are valued using a standard costing method and the standard cost comprises raw materials, labour costs and production overheads. As at 31 March 20X5, Vego Dog products with a standard cost of \$2.4m were included as finished goods in inventory.

Receivable - Ellah Co

One of Purrfect Co's major customers, Ellah Co, operates a chain of pet stores with 23 stores across the country. There have been reports in the press for several months that Ellah Co's sales and profits have been falling and, in March 20X5, Ellah Co announced that 11 of its stores were to close in May 20X5. As at 31 March 20X5, Purrfect Co's trade receivables included \$2.6m outstanding from Ellah Co and no allowance has been included for this balance at the year end.

Contamination - legal claims

On 25 February 20X5, it was discovered that a batch of canned cat food had been contaminated with insecticide, which could be harmful to cats. This batch had been dispatched in November 20X4 to 247 retail stores. By 31 March 20X5, Purrfect Co had received legal claims totalling \$1.9m from consumers whose cats had eaten the contaminated food.

Scenario 3 requirements

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the matters identified regarding the inventory valuation of Vego Dog products.

(6 marks)

A screenshot of a rich text editor interface. It features a toolbar with various icons for file operations (such as save, open, print, and search), text styling (bold, italic, underline, superscript), and alignment (left, center, right, justify). Below the toolbar is a paragraph style dropdown and a list style dropdown. 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 receivable balance due from Ellah Co.

(4 marks)

A screenshot of a rich text editor interface, identical to the one in scenario (a), showing an empty text area for responses.

(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to the legal claims following the contamination.

(5 marks)

A screenshot of a rich text editor interface, identical to the ones in scenarios (a) and (b), showing an empty text area for responses.

Scenario 3 requirements (continued)

The final audit is now nearing completion. The audit team is satisfied that legal claims received to date have been appropriately reflected in the financial statements.

However, Purrfect Co's lawyer has advised you that it is possible that significant additional legal claims may be made by customers in future in respect of the contamination. The audit engagement partner has confirmed that this is a contingent liability that requires disclosure. The finance director has agreed to disclose some detail of the potential claims in the financial statements but the audit team is yet to confirm the adequacy of these disclosures.

(d) Discuss the issue and describe the impact on the auditor's report of Purrfect Co of both adequate AND inadequate disclosure of the contingent liability.

(5 marks)

(20 marks)

Example view of full CBE constructed response workspace