

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA (HONS) ACCOUNTANCY

SEMESTER TWO EXAMINATIONS 2023/2024

AUDITING AND ASSURANCE

MODULE NO: ACC5004

Date: Tuesday 14th May 2024

Time: 2.00pm – 4.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions on this paper.

Answer **ALL** questions on this paper.

PAST EXAMINATION

University of Bolton
Greater Manchester Business School
BA (Hons) Accountancy
Semester Two Examination 2023/2024
Auditing and Assurance
Module No. ACC5004

QUESTION 1

It is 1 July 20X4. You are an audit supervisor of Amethyst & Co and are currently planning the audit of your client, Aquamarine Co which manufactures elevators. Its year end is 31 July 20X4 and the forecast profit before tax is \$15.2 million.

The company undertakes continuous production in its factory, therefore at the year end it is anticipated that work in progress will be approximately \$950,000. In order to improve the manufacturing process, Aquamarine Co placed an order in April for \$720,000 of new plant and machinery; one third of this order was received in May with the remainder expected to be delivered by the supplier in late July or early August.

Included within intangible assets is a patent recognised at a cost of \$1.3 million which was purchased at the beginning of the year. The patent gives Aquamarine Co the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, Aquamarine Co borrowed \$1.2 million from the bank which is repayable over five years.

In January 20X4 Aquamarine Co outsourced its payroll processing to an external service organisation, Coral Payrolls Co (Coral). Coral handles all elements of the payroll cycle and sends monthly reports to Aquamarine Co detailing the payroll costs. Aquamarine Co ran its own payroll until 31 December 20X4, at which point the records were transferred over to Coral.

The company has a policy of revaluing land and buildings and the finance director has announced that all land and buildings will be revalued at the year end.

During a review of the management accounts for the month of May 20X4, you have noticed that receivables have increased significantly on the previous year end and against May 20X3.

The finance director has informed you that the company is planning to make approximately 65 employees redundant after the year end. No decision has been made as to when this will be announced, but it is likely to be prior to the year end.

Question 1 continues over the page

Please turn the page

University of Bolton
Greater Manchester Business School
BA (Hons) Accountancy
Semester Two Examination 2023/2024
Auditing and Assurance
Module No. ACC5004

Question 1 continued

Required:

(a) Define audit risk and the components of audit risk. (5 Marks)

(b) Describe SIX audit risks, and explain the auditor's response to each risk, in planning the audit of Aquamarine.

(Prepare your answer using two columns headed Audit risk and Auditor's response) (12 Marks)

(c) Explain the additional factors Amethyst & Co should consider during the audit in relation to Aquamarine Co's use of the payroll service organisation. (8 Marks)

Total (25 Marks)

University of Bolton
Greater Manchester Business School
BA (Hons) Accountancy
Semester Two Examination 2023/2024
Auditing and Assurance
Module No. ACC5004

QUESTION 2

Caterpillar Co is a clothing retailer which operates 45 stores throughout the country. The company's year-end was 30 June 20X4. Caterpillar Co has an internal audit department which has undertaken several internal control reviews specifically focusing on cash controls at stores during the year. The reviews have taken place in the largest 20 stores as this is where most issues arise. It is 1 July 20X4. You are an audit supervisor of Woodlouse & Co and are reviewing the internal controls documentation in relation to the cash receipts system in preparation for the interim audit which will involve visiting a number of stores and the head office.

Each of Caterpillar Co's stores has on average three or four cash tills to take customer payments. All employees based at the store can use each till and individuals do not have their own log on codes, although employees tend to use the same till each day. Customers can pay using either cash or a credit card and for any transaction either the credit card payment slips, or cash are placed in the till by the cashier. Where employees' friends or family members purchase clothes in store, the employee is able to serve them at the till point.

At the end of each day, the tills are closed with daily readings of sales taken from each till. These are reconciled to the total of the cash in the tills and the credit card payment slips and any discrepancies are noted. Once this reconciliation has taken place, the cash is stored in the shop's safe until it is transferred to the bank via collection by a security company the same day. If the store is low on change for cash payments, a junior salesclerk is sent by a till operator to the bank with money from the till and asked to change it into smaller denominations.

The daily sales readings from the tills along with the cash data and credit card payment data are transferred daily to head office through an interface with the sales and cash receipts records. A clerk oversees that this transfer has occurred for all stores. On a daily basis, he also agrees the cash transferred by the security company has been banked in full by agreeing the cash deposit slips to the bank statements, and that the credit card receipts have been received from the credit card company. On a monthly basis, the same clerk reconciles the bank statements to the bank ledger account. The reconciliations are reviewed by the financial controller if there are any unreconciled amounts.

Question 2 continues over the page

Please turn the page

University of Bolton
 Greater Manchester Business School
 BA (Hons) Accountancy
 Semester Two Examination 2023/2024
 Auditing and Assurance
 Module No. ACC5004

Question 2 Continued

Required:

(a) State FIVE control objectives of Caterpillar Co's cash receipts system. (5 marks)

(b) Identify and explain FOUR DIRECT CONTROLS in Caterpillar Co's cash receipts system which the auditor may seek to place reliance on and describe a TEST OF CONTROL the auditor should perform to assess if each of these controls is operating effectively.

Note: The marks will be split equally between each part. (8 marks)

Direct Control	Test of control

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

Note: The marks will be split equally between each part. (12 marks)

Control deficiency	Control recommendation

(Total: 25 marks)

University of Bolton
Greater Manchester Business School
BA (Hons) Accountancy
Semester Two Examination 2023/2024
Auditing and Assurance
Module No. ACC5004

QUESTION 3

It is 1 July 20X4. 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 20X4. 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 (20X3: \$4.6m) and total assets are \$40.1m (20X3: \$33.9m). You have been provided with the following information regarding the draft financial statements.

Vehicle additions and disposals

On 1 February 20X4, Encore Co replaced 20 of its recycling vehicles. The old vehicles had a carrying amount of \$1.8m, as recorded in the non-current asset 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 20X4 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 20X4. Year-end trade receivables amounted to \$9.1m (20X3: \$7.1m) and an allowance for credit losses/receivables of \$182,000 (20X3: \$142,000) has been made.

Potential breach of transport regulations

In March 20X4, 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.

Required:

- (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. (10 marks)
- (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. (8 marks)
- (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. (7 marks)

(Total: 25 marks)

Please turn the page

University of Bolton
Greater Manchester Business School
BA (Hons) Accountancy
Semester Two Examination 2023/2024
Auditing and Assurance
Module No. ACC5004

QUESTION 4

It is 1 July 20X4. You have recently been assigned as audit senior for the audit of Rock Co for the year ending 31 August 20X4. Your firm has audited this company for a number of years but this is the first year you will have worked on this audit. Rock Co is a company listed on a stock exchange. Rock Co is engaged in the wholesale import, manufacture and distribution of basic cosmetics and toiletries for sale to a wide range of stores, under a variety of different brand names.

Required:

(a) Describe the procedures you will perform in order to obtain an understanding of Rock Co. (10 marks)

You are now nearing the completion of the audit of Rock Co. You have been asked to perform a review of the audit file before it is passed to the audit manager and the audit engagement partner for their review. You have been asked to concentrate on the proper completion of the audit working papers. Some of the audit working papers have been produced electronically but all of them have been printed out for you.

Required:

(b) Describe the types of audit working papers you should expect to see in the audit file and the features of those working papers that show that they have been properly completed. (15 marks)

(Total: 25 marks)

**END OF QUESTIONS
END OF EXAM PAPER**