

Final Admitting Examination



PAPER 3 FAE ADVANCED AUDIT & ASSURANCE

SUMMER 2016 (Friday 19th August 2016: 10.00 am – 2.30 pm)

APPENDICES TO SIMULATION 1

APPENDIX I: INVENTORY NOTES (RAW MATERIAL EXTRACT)**Interim work**

Inventory consists of raw materials (such as plywood/foil/handles/screws), work in progress and finished goods. The level of finished goods is generally low as furniture is manufactured to order and in line with scheduled deliveries. Raw material values fluctuate depending on the timing of, for example, the receipt of goods in.

Inventory is counted formally twice a year (year end and month 6) with manual inventory sheets used to calculate the inventory value. Counting takes place over the weekend when production has ceased, with staff responsible for an area counting it, since they are most familiar with it. The staff are reminded of their responsibilities via a staff memo which is pinned to the notice board in the canteen one week prior to the count. Counters are asked to include damaged items as well as any parts for non-current ranges; however these should be clearly marked as such.

Once the area has been counted, the loose paper sheets (pre ruled pages with space for insertion of quantity/description only) are expected to be returned to the finance office by the counters without delay.

Ian Watson (the company accountant) obtains the invoice cost for each raw material, marks it on the relevant inventory count sheet and uses a calculator to calculate the value and page total. The page totals are entered onto a spreadsheet and the overall movement from the prior count posted via journal to the nominal ledger.

Due to the manual nature of this process it is deemed more appropriate to substantively test inventory during the year-end audit.

APPENDIX II: REVENUE AND RECEIVABLES

When customers decide to purchase a product from a showroom, a minimum deposit of 10% must be paid with the balance due prior to delivery. Revenue is recognised when products are despatched from the factory triggering the invoice raising process described below. The daily sales sheets are emailed from each of the stores to the group finance function for posting onto the nominal ledger. A control sheet is used by the sales clerk (Brenda Keys) to ensure that a daily sales sheet is received from each of the showrooms for each day. An individual account is opened for each customer within the sales ledger and the following posting is made:

Dr Cash and cash equivalents
Cr Trade receivables

The initial posting of the customer deposits payments creates a credit balance within each account as no sales invoice has yet been created. These are adjusted in total at each month end by Brenda for the management accounts as follows:

Dr Trade receivables
Cr Other payables

This journal is manually reversed at the commencement of the new month.

Once the despatch has taken place the despatch sheets are sent from the factory to group finance and upon receipt Brenda raises a sales invoice thus recognising the income for the goods and clearing the credit balance on the sales ledger. Each store has its own bank account and these are reconciled by the store manager and sent through to the group finance team for formal review. Brenda will escalate any unusual items to Ian Watson. As lodgements are derived from a number of sources (including cash and credit card receipts) there are numerous outstanding items and so weekly reconciliations take place.

Test 1 (results extract only)

Controls' testing has been performed to obtain comfort over the completeness of sales. A sample of 1 delivery from each of a sample of 10 despatch sheets has been selected at random across the months of January to September. The remaining sample testing will be performed during final fieldwork. The results of this are presented below.

	Despatch note ref	Date of dispatch	Dispatch note signed by customer	Customer balance paid prior to delivery	Agreed to sales invoice number	Sales invoice date
1	15 1234	18/09/2015	✓	✓	34013	18/09/2015
2	15 2755	14/10/2015	✓	✓	n/a*	n/a
3	15 3063	05/11/2015	✓	✓	n/a*	n/a
4	15 5297	29/11/2015	✓	✓	37742	29/11/2015
5	16 220	07/01/2016	✓	✓	37990	17/01/2016
6	16 1121	28/02/2016	✓	✓	n/a*	n/a
7	16 2864	12/03/2016	✓	✓	n/a*	n/a
8	16 4016	14/04/2016	✓	✓	n/a*	n/a
9	16 5256	02/05/2016	✓	x	39976	02/06/2016
10	16 6628	13/06/2016	✓	✓	41263	11/07/2016

Key

n/a* No sales invoice has been created. Confirmed that balance per customer account within the aged debtor listing is a credit balance equal to the value of the sale.

Test 2 (results extract only)

The monthly bank reconciliation for week 4 in June has been taken from each store to ensure that they have been completed and reviewed appropriately. This work has been summarised below.

Store	Reconciled balance €/£	Reconciliation received by group finance	Reconciling items tested
Cork	43,492.11	07/07/2016	✓
Dublin	37,788.98	05/07/2016	✓
Galway	14,889.12	05/07/2016	✓
Newry	27,420.21	15/07/2016	✓*
Belfast	15,231.33	06/07/2016	✓

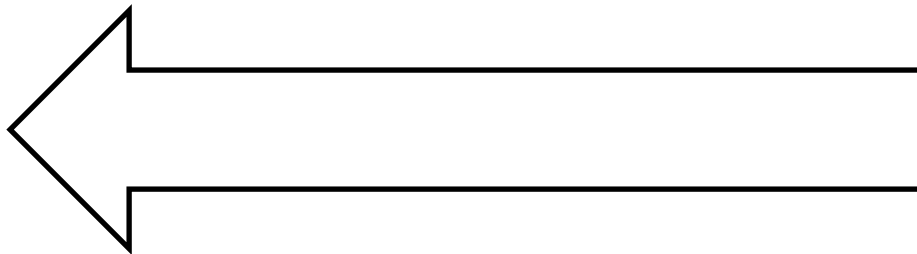
Key

* No issues over outstanding cheques. Outstanding lodgements total €/£ 11,865.67 which is made up as follows:

Date	€/£	Traced to bank
30/06/2016	1,200.56	02/07/2016
30/06/2016	260.00	03/07/2016
29/06/2016	185.11	02/07/2016
28/06/2016	220.00	01/07/2016
12/06/2016	8,500.00	Not cleared
28/05/2016	1,000.00	Not cleared
21/04/2016	500.00	Not cleared

An enquiry was made of Brenda with regards the outstanding lodgements that have not cleared the bank. She explained that she was not aware of any issues with lodgements at the Newry store and expected that they would have cleared by the year end. Further review will be required at this time by the audit team.

END OF APPENDICES FOR SIM 1



SIM 1: FINE FURNITURE LTD
Pages 2 - 4

BLANK PAGE