

Audit and assurance

December 2020 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.

Introduction screen

AA September/December 2020 exam (20/21 Syllabus)

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.

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Instruction screens

AA September/December 2020 exam (20/21 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.

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Instruction screens (continued)

AA September/December 2020 exam (20/21 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/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.

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Instruction screens (continued)

AA September/December 2020 exam (20/21 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.

← Previous **Next** →

Instruction screens (continued)

AA September/December 2020 exam (20/21 Syllabus)

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.

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Exam summary screen

AA September/December 2020 exam (20/21 Syllabus)

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.

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Sample exam questions

Scenario 1

AA September/December 2020 exam (20/21 Syllabus)

Symbol Highlight Strikethrough Calculator Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. You are an audit supervisor with Morph & Co responsible for planning the final audit of a new client, Hart Co, for the year ending 30 September 20X5. Hart Co specialises in the design and construction of customised playgrounds. The audit manager recently met with Hart Co's finance director and has provided you with the following notes:

Planning meeting notes

Hart Co has a forecast profit before tax of \$12.2m (20X4: \$9.8m) and total assets are expected to be \$28.5m (20X4: \$24.3m). The finance director has indicated that the directors are very pleased with the forecast performance for the year as the directors are paid a bonus based on a percentage of profit before tax.

Hart Co is undertaking the construction of playgrounds at 16 sites in various locations across the country. All playgrounds are constructed to specific customer specifications. Customers pay a 25% deposit on signing the contract, with the balance payable when control of the playground is transferred to the customer.

The balance of work in progress (WIP) at 30 June 20X5 is \$7.6m in respect of the playgrounds under construction. A WIP count and valuation will be carried out at all sites on 30 September 20X5. Arrangements have been made for the audit team to attend only five of the WIP counts. Hart Co offers its customers a warranty at no extra cost, which guarantees that the playgrounds will function as expected for a period of three years. The warranty provision for the current year has been calculated as 2% of revenue. In the previous year the warranty was based on 6% of revenue. The finance director has made this change despite no significant difference in construction techniques or the level of claims in the year.

Hart Co has incurred expenditure of \$1.8m relating to the research and development of a new type of environmentally-friendly building material. \$0.6m of the expenditure to date has been written off to the statement of profit or loss. The remaining \$1.2m has been capitalised as an intangible asset. No amortisation has been recognised to date as the material has not yet been brought into use.

In June 20X5, the company contracted to purchase new machinery costing \$2.4m. It paid \$1m on signing the contract to secure the machinery, which was due to be delivered in July 20X5. Due to a supplier problem, the delivery is delayed and is now scheduled to be delivered in October 20X5. In order to finance the research and development costs and the machinery purchase, Hart Co made a rights issue to existing shareholders at a price of \$0.75 for each \$0.50 share.

Hart Co's payroll function is outsourced to an external service organisation, Chaz Co, which is responsible for all elements of payroll processing and maintenance of payroll records.

Hart Co's directors correctly disclosed their remuneration details in the forecast financial statements in line with IFRS Standards, however, local legislation in the country in which Hart Co is based, requires more extensive disclosure. The directors have stated that they consider this onerous and so do not intend to provide the additional information.

Scenario 1: requirements

ISA 300 Planning an Audit of Financial Statements provides guidance to assist auditors in planning an audit.

(a) Explain the benefits of audit planning.

(4 marks)

Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a paragraph of text.

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

(16 marks)

Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a paragraph of text.

Audit risk	Auditor's response

(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Hart Co's directors' bonuses.

(5 marks)

Rich text editor toolbar with icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. Below the toolbar is a paragraph of text.

At the end of the planning meeting, the finance director of Hart Co mentioned to the audit manager that one of the key reasons Morph & Co was appointed as auditor was because of its knowledge of the industry. There were some concerns however, as to how Morph & Co would keep information obtained during the audit confidential as it audits three other construction companies specialising in environmentally-friendly building materials, including Hart Co's main competitor.

(d) Explain the safeguards which Morph & Co should implement to ensure that this conflict of interest is appropriately managed.

(5 marks)

(30 marks)

Paragraph ▾

Table icon

Left align, Center align, Right align, Justify align icons

List icons (bulleted, numbered)

Indent icons (left, right)

Scenario 2

AA September/December 2020 exam (20/21 Syllabus)

Symbol  Highlight  Strikethrough  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. Swift Co prints books which it sells online and supplies to retailers across the country. The company's year end is 30 September 20X5. You are an audit supervisor with Toucan & Co, preparing the draft audit programmes and reviewing the internal controls documentation in preparation for the interim audit.

Payroll

Swift Co employs factory staff who are required to work a standard shift of eight hours per day. No staff members are required to work overtime. All staff members are paid monthly by bank transfer. The company has a human resources (HR) department which is responsible for setting up all new joiners and a payroll department which processes wages and salaries.

When a new employee joins the company, HR completes a joiners' form which includes a unique employee number for each new employee. The joiners' form is then sent to the payroll department so that the new employee can be set up for payment. The unique employee number must be entered into the payroll system before the employee can be added to payroll. On a monthly basis, an exception report relating to changes to the payroll standing data is produced and reviewed by the payroll manager who evidences this review.

Employee hours worked and their hourly wage rates are preset into the system, which automatically calculates the gross and net pay along with relevant deductions and generates employee payslips. The payroll supervisor selects a sample of the payslips, re-performs the gross to net pay calculations and investigates any discrepancies. The sampled payslips are then signed as evidence of this review.

Purchases

The company has a purchasing department based at its head office. When raw materials are required, the production supervisors submit a requisition form to the purchasing department. A multi-part purchase order is generated and the purchasing manager authorises all orders up to \$5,000. Orders over \$5,000 are authorised by the purchasing director.

The warehouse team processes goods received from suppliers. They agree the goods received to the purchase order and check the quantity and the quality of the goods. On completion of those checks a goods received note (GRN) is produced. One copy of the GRN is then signed and filed in the warehouse. Another copy of the GRN is sent to the finance department.

A payables ledger clerk logs the purchase invoices in batches of 20 into the purchase day book utilising control totals. A batch control sheet is completed for each set of 20 invoices and the clerk signs to evidence the checks undertaken.

Supplier statement reconciliations are performed on a monthly basis. All differences are fully investigated, and the financial controller reviews these reconciliations. Invoices are paid in accordance with the supplier's credit terms. The finance director authorises the bank transfer payment list for suppliers having first agreed the amounts to be paid to supporting documentation and having reviewed the list for duplicate payments.

Requirements for Scenario 2

Auditors are required to document a company's accounting and internal control systems as part of their audit process. Three methods available for documenting internal control systems are narrative notes, flowcharts and questionnaires.

(a) For each of the THREE methods identified in the table:

(i) Describe the method for documenting internal control systems; and

(ii) Explain an ADVANTAGE of using this method.

(6 marks)

	Description	Advantage
Narrative notes		
Flowcharts		
Questionnaires		

(b) In respect of the internal control system of Swift Co:

(i) Identify and explain SEVEN KEY CONTROLS 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.

(14 marks)

(20 marks)

Key control	Test of control

Scenario 3

AA September/December 2020 exam (20/21 Syllabus)

Symbol  Highlight  Strikethrough  Calculator  Scratch Pad

This scenario relates to four requirements.

It is 1 July 20X5. You are an audit manager of Sagittarii & Co and you are in charge of two final audits which are due to commence shortly. Vega Vista Co and Canopus Co are both existing clients with a financial year ended 31 March 20X5. Vega Vista Co is a not-for-profit charitable organisation which raises funds for disadvantaged families and the draft financial statements show revenue of \$0.8m. Canopus Co manufactures paint products in seven factories across the country and the draft financial statements show total equity and liabilities of \$11.6m.

The following matters have been brought to your attention for each company:

Vega Vista Co

Income

Vega Vista Co generates income in a number of ways. The main source of income is via an annual food and music festival held in September every year. Tickets, which cost \$35, are sold in the nine-month period prior to the event and can be purchased in advance online or on the day of the event for cash. Approximately 15,000 people attended the September 20X4 event and more are anticipated for 20X5. At the event there are a number of stalls selling food and the charity receives a fixed percentage of these sundry sales. Also, during the festival, volunteers of the charity sign up individuals to make monthly donations, and these are paid by bank transfer to the charity. During the audit planning, the completeness and cut-off of income was flagged as a key audit risk.

Canopus Co

Restructuring provision

Canopus Co recently announced plans to fundamentally restructure its production processes due to a change in the focus of the company's operations. It has included a \$2.1m restructuring provision in the draft financial statements. The restructure involves a refurbishment of the factories, the purchase of new plant and equipment and retraining of existing staff. These plans were finally agreed at a board meeting in March 20X5 and announced to shareholders and employees just before the year end.

Bank loans

In readiness for the operational changes, the directors of Canopus Co decided to restructure the company's bank loans. As a result, several long-term loans were repaid early and a new ten-year bank loan of \$4.8m was taken out on 1 January 20X5. Repayments of \$150,000 are due quarterly in arrears which includes interest.

Requirements for Scenario 3

(a) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Vega Vista Co's income.

Note: You should assume that the charity adopts International Financial Reporting Standards.

(5 marks)

A rich text editor toolbar with two rows of icons. The first row includes icons for undo, redo, search, bold, italic, underline, strikethrough, subscript, and superscript. The second row includes a paragraph dropdown, a table icon, and alignment options (left, center, right, justified, bulleted list, numbered list, indent, and outdent).

(b) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Canopus Co's restructuring provision.

(5 marks)

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(c) Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to Canopus Co's bank loans.

(5 marks)

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During the audit of Canopus Co's restructuring provision, the audit team discovered that \$270,000 of costs included did not meet the criteria for inclusion as per IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The finance director has suggested that no adjustment is made in the 20X5 financial statements as the provision is a matter of judgement and the provision has been deemed reasonable by the board.

(d) Discuss the issue and describe the impact on the auditor's report, if any, should this issue remain unresolved.

(5 marks)

(20 marks)



The image shows a rich text editor toolbar with the following icons from left to right: a document icon, a link icon, a list icon, a search icon, undo and redo arrows, a magnifying glass, bold (B), italic (I), underline (U), strikethrough (ABC), subscript (x₂) and superscript (x²), and a link icon with an 'x' (I_x). Below the toolbar is a dropdown menu labeled 'Paragraph' and another dropdown menu with a grid icon. The main text area is currently empty.

Example view of full CBE constructed response workspace

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Symbol Highlight Strikethrough Calculator Scratch Pad Close All Flag for Review

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ISA 300 Planning an Audit of Financial Statements provides guidance to assist auditors in planning an audit.

(a) Explain the benefits of audit planning. (4 marks)

Rich text editor toolbar: Paragraph, Bold, Italic, Underline, Strikethrough, Bulleted List, Numbered List, Indent, Outdent, Undo, Redo, Search, Copy, Paste, Link, Unlink, Text Color, Background Color.

Help Navigator Next