

WARNING

This material has been reproduced and communicated to you by or on behalf of *Charles Darwin University* in accordance with section 113P of the *Copyright Act 1968 (Act)*.

The material in this communication may be subject to copyright under the Act.
Any further reproduction or communication of this material by you may be the subject of copyright protection under the Act.

Do not remove this notice

Family Name	
Given Names	
Student Number	
Teaching Period	Semester 1, 2017

FINAL EXAMINATION	DURATION				
ACT303 – Principles of Auditing	<table border="1"> <tr> <td>Reading Time:</td> <td>10 minutes</td> </tr> <tr> <td>Writing Time:</td> <td>180 minutes</td> </tr> </table>	Reading Time:	10 minutes	Writing Time:	180 minutes
Reading Time:	10 minutes				
Writing Time:	180 minutes				

INSTRUCTIONS TO CANDIDATES

1.1 The examination has 3 sections.

Section A:	Multiple Choice Questions: Answer ALL questions, 20 marks, 45 minutes.
Section B:	Short Answer Questions: Answer ALL questions, 40 marks, 90 minutes
Section C:	Case Study Questions: Answer ALL questions, 20 marks, 45 minutes

Section A must be answered on the **Multiple Choice Answer sheet** provided in this examination paper and must be handed in with your answer booklet. Please ensure that your name and student number are clearly indicated on your Answer Sheet and at the top of this examination paper.

Section B and Section C are to be answered in the **Answer booklet** provided.

1.2 Note that questions **ARE NOT** of equal value.

1.3 Read **ALL** questions carefully.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Hard copy, unannotated English translation dictionary only

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
Relevant Legislation (Unannotated)	1 x 16 Page Book 1 x 4-Multiple Choice Answer Sheet

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

**THIS PAGE HAS BEEN INTENTIONALLY LEFT
BLANK.**

Section B
Short Answer Questions

Total No of Marks for this section: 40

This section should be answered in the Answer Booklet provided.

Marks for each question are indicated. Suggested Time allocation for Section B: 90 mins

Question 1: (10 marks)

You are a newly qualified accountant who works for the audit firm David Goliath & Co. You have been approached by a potential new client, Slingshot Electronics Pty Ltd (“Slingshot”), who is looking for an audit firm to carry out an audit on its annual financial report prepared in accordance with the *Corporations Act 2001*. The managing director of Slingshot, Michelle, is not sure exactly what an audit involves and what are the responsibilities of the auditor.

REQUIRED:

Prepare notes for a meeting with the managing director, Michelle, which identifies the responsibilities of the auditor and the responsibilities of management.

(10 marks)

Question 2: (10 marks)

Listed below are ten substantive procedures:

1. Select a sample of non-current assets and sight them.
2. Review the income statement for unusual differences in the balances recorded for this year and last year.
3. Select a sample of invoices and ensure that they have been properly recorded in the sales ledger.
4. Trace the last inventory received before the year-end to the inventory listing.
5. Review the adequacy of the company’s allowance for doubtful debts.
6. Ensure that interest paid on the bank loan is correct by multiplying the interest rate by the outstanding principal for each month of the year.
7. Send a letter to the bank to confirm a loan taken out by the company during the year.
8. Attend the year-end stocktake and perform test counts on a sample of stock items.
9. Review all invoices received for one month after the year-end to ensure that they do not relate to the current year.
10. Calculate the accounts receivable turnover and compare with previous year’s turnover.

REQUIRED:

(a) For each test, indicate what type of substantive procedure to which it relates (analytical review, tests of details of balances or tests of details of transactions).

(5 marks)

(b) Give one assertion to which each test relates.

(5 marks)

Question 3: (10 marks)

Specific auditing procedures for obtaining audit evidence are listed below.

1. Send debtor's confirmation letters to a number of the client's customers.
2. Recalculate depreciation charges.
3. Calculate gross profit rates for the current year and preceding year.
4. Discuss the potential obsolescence of inventory with the management.
5. Examine registration certificates for motor vehicles purchased during the year.
6. Use the computer to scan a file to determine that all documents in a numbered series have been accounted for.
7. Learn about a possible lawsuit in conversation with the financial controller.
8. Obtain a valuation of land held by the company interstate.
9. Observe the year-end inventory count.
10. Select a sample of repairs and maintenance expenses and check whether any should have been capitalised.

REQUIRED:

Indicate:

(a) the type of evidence obtained by each procedure

(5 marks)

(b) the assertion or assertions to which it relates.

(5 marks)

Question 4: (10 marks)

Your client is Hobartcorp Ltd, a diversified business operating throughout Australia. Year-end was 30 June 2016, the auditor's report was signed on 31 July 2016 and the financial statements were mailed to shareholders on 14 August 2016.

During your subsequent events review, you noted the following independent and *material* items:

1. Hobartcorp has been involved in a legal dispute with a competitor for a number of years. The dispute relates to alleged breaches of copyright by Hobartcorp. On 27 July, you discovered that Hobartcorp had settled the legal action out of court on terms more favourable than expected.
2. As for (1) above, except that the legal action was settled on 5 August.
3. On 10 July, one of Hobartcorp's major product lines developed a fault that rendered the product unusable. Hobartcorp became aware of the fault on 30 July. Although the fault posed no safety risks to consumers, Hobartcorp decided to launch a full product recall on the following day.
4. On 30 July 2016, the Bureau of Meteorology issued a cyclone warning for parts of Far North Queensland. Hobartcorp has a large sugar cane plantation in this area. On 2 August, the cyclone hit, wiping out about 90% of the crop.
5. In early June, one of Hobartcorp's largest debtors informed Hobartcorp that it was experiencing serious financial difficulties. On 5 July, Hobartcorp was informed that the debtor had gone into receivership. Preliminary reports suggest Hobartcorp will recover only 10 cents in the dollar of the outstanding debt.

REQUIRED:

- (a) **Outline the key additional procedures you should have performed in relation to each of the above events.**

(5 marks)

- (b) **What actions should you have recommended to management in relation to each of the above events?**

(5 marks)

Section C Case Study Questions

Total Number of Marks for this section: 20

This section should be answered in the Answer Booklet provided.

Marks for the question is as indicated. Suggested Time allocation for Section C: 45 mins

Background information

You are currently planning the 30 June 2016 audit of Super Grain Ltd (SGL), an Australian-owned company that produces and exports genetically modified grains to China.

The production of genetically modified food products has angered environmental groups. Protests have been held at several of SGL's farms, which has slowed production. As a result, several grain shipments have been delayed, angering the Chinese customers who are threatening to deduct 25% from amounts owing as compensation for their lost production time. A recent slowdown in the Chinese economy is also affecting forward orders, which have fallen by 20%.

A protester was injured recently when she was hit by farm machinery while trying to block the harvesting process. The protester is now suing SGL for damages, claiming the machinery operator was negligent and was acting on SGL's instructions. SGL is vigorously defending the case and appears to have a reasonable chance of winning; however, the adverse publicity being generated is making the government nervous about extending SGL's licence for producing genetically modified products.

One of SGL's Chinese customers, Super Flour, is claiming that the latest shipment of grain that it received was contaminated with a microbe due to the genetic modification that significantly reduced its quality and causing it to recall the flour that it was used to manufacture. Super Flour is refusing to pay its account, which is already three months overdue. SGL has launched an investigation into the allegations, but as yet has not been able to substantiate them.

At the start of the year, SGL upgraded its accounts payable system to a fully integrated package that automatically updates the general ledger when creditor entries are made. SGL has experienced some problems with the creditors ledger, which is split into \$US and \$AUD amounts, as SGL purchases its genetically modified seeds from the United States. In some instances, \$US amounts have been recorded as \$AUD, resulting in inaccurate creditor balances. There have also been problems with month-end rollovers with creditor balances being

incorrectly re-set to zero at the first of every month. This has required each creditor's history to be re-entered manually each month, a time-consuming process that is taking accounting staff away from their normal duties.

Section C – Part 1 Required:

(a) For each of the following account items in SGL's financial statements, identify two (2) factors in the information provided that increase audit risk:

1. Accounts Receivable
2. Inventory
3. Accounts payable
4. Contingencies

(8 marks)

(b) Describe one (1) adjustment to be made to your audit plan in response to the audit risk associated with each of the factors identified in part (a).

(8 marks)

You may wish to present your answer in a table format, as follows:

<i>Item</i>	<i>(a) Two factors that increase audit risk</i>	<i>(b) Adjustment to be made to your audit plan for each factor</i>
<i>1. Accounts Receivable</i>	1. 2.	1. 2.
<i>etc.</i>		

Section C – Part 2

Relevant to background information in Section C above, shortly after the audit plan was approved for the current year, a severe flood caused extensive damage to several of SGL's farms. Stock was damaged and buildings and equipment destroyed. Repair costs will be significant. Important documents and accounting records were also lost at several locations. The loss of profits for SGL will be several million dollars.

SGL has lodged claims with its insurer and the claims are currently being assessed. SGL is unsure whether the insurance policy will cover all the losses, as flood claims are always complex. While the CEO, Billy Hansen, has indicated that he is confident that SGL will be able to rebuild its operations, he has indicated that it will be very difficult if the insurance claims are rejected, as SGL would then need to raise additional capital or obtain additional loan funds.

Section C – Part 2 Required:

Outline four (4) reasons why the audit plan will need to be revised.

(4 marks)

***** End of Exam*****