ACCA

Paper F8

Audit and Assurance

December 2017

Revision Mock B – Answers

To gain maximum benefit, do not refer to these answers until you have completed the revision mock questions and submitted them for marking.

SECTION A – ANSWERS TO OBJECTIVE TEST QUESTIONS

1 A

Preparing financial statements and auditing them creates a self-review threat. Attendance at the evening reception for banks and major shareholders creates an advocacy threat as the firm may be seen to be promoting the client to help them obtain finance. Owning shares, outstanding fees and being a high profile client create self-interest threats.

2 A

Partners and audit team members should not own shares in any audit client. The shares must be sold immediately.

3 D

Significant outstanding fees from an audit client create a self-interest threat, irrespective of whether they are for audit work or non-audit services. Separate teams performing the audit and tax work would be required as a safeguard for a self-review threat but is not a relevant safeguard for the self-interest threat arising as a result of outstanding fees.

4 A

Engagement quality control review must be performed for a listed client due to the increased level of audit risk. Partner rotation must occur every seven years now NorthCee is listed. Partner rotation is only compulsory for the audits of listed entities.

5 D

Accounts preparation services should not be provided to listed audit clients.

6 A

Test data is used to test the programmed controls within a system to assess the effectiveness of the system.

7 B

Option (2) is an example which would use audit software. To test the effectiveness of the system test data would be used.

8 B

As the system is due to be upgraded it would be recommended to wait and develop CAATs to be used on the new system as they can be expensive to set up. Audit software may have already been developed for standard systems whereas the audit firm would need to develop specific software for use on a bespoke system which will increase the cost. The external auditor should not be involved in the selection or design of the new system as this will create a self-review threat. The audit is likely to be more expensive in the year of upgrade as there will be more work involved in documenting the new system and developing CAATs to be used. The audit is likely to become more cost effective after the first year.

9 C

Analytical procedures involve evaluation of plausible relationships such as comparisons, ratios and trends. Any unusual fluctuations should be investigated as these may indicate misstatement. An analytical procedure may detect general misstatement of a figure in the financial statements. A business such as Porthos may have some seasonal trade as tennis racquets may be sold in higher quantities in summer months rather than the winter. A significant increase or decrease in the gross profit margin may indicate overstatement or understatement of revenue which would need to be investigated further. Agreeing the total on the sales day book to the financial statements is a test of detail to ensure accuracy of the figure reported in the financial statements. Testing sales around the year-end involves looking at the detail of the sales transaction to ensure it has been recorded in the correct accounting period. A test of detail would identify the causes of the misstatement such as incorrect cut-off, inaccurate recording, etc.

10 C

Completeness is affected as all sales that should have been recorded have not been recorded. The sale has occurred if the client has fulfilled its obligation in respect of the order i.e. delivered the goods to the customer. If the sale has not been recorded in the system it cannot have been recorded inaccurately. Existence is not relevant to the statement of profit or loss.

11 D

As the claim is only possible to succeed it should be disclosed in the financial statements. The claim is 14.3% of profit before tax (1m/7m × 100) which is material as it exceeds 5% of PBT. If the claim was probable to succeed, a provision should be recognised. If the claim was considered remote, no recognition or disclosure would be required.

12 C

A qualified 'except for' opinion would be appropriate. If the client fails to disclose the contingent liability the financial statements will be materially misstated. It would not be considered pervasive as it is does not represent a substantial proportion of the financial statements.

13 C

The potentially irrecoverable debt should be written off or an allowance made if there is uncertainty as to whether payment will be received, otherwise receivables will be overstated in the financial statements. The client should account for the debt correctly irrespective of whether or not it is material. The auditor would not contact the customer in the manner suggested. The customer may be reluctant to discuss their cash flow issues with a third party. They may also not be able to confirm whether the debt can be repaid as this will depend on whether the cash flow situation improves which will only be known as time passes.

14 D

As the potentially irrecoverable debt is not material being only 0.7% of profit (50,000/7,000,000 × 100). Failure by the client to write it off or make allowance for it will not impact the audit opinion. The financial statements give a true and fair view as they are free from material misstatement, therefore the opinion will be unmodified.

15 A

An emphasis of matter paragraph is only used where the auditor needs to draw the attention of the user to a disclosure made by the client. It is not used as a substitute for a modified opinion. An EOM is not appropriate in respect of the claim as the client has not made the correct disclosure of the contingent liability and the opinion therefore needs to be modified. The irrecoverable debt is not material and as such is not something that would need to be brought to the attention of the user. Only material issues will be highlighted to the user.

SECTION B – ANSWERS

16 GOODISON CO

Key answer tips

Part (a) is a straightforward knowledge question requiring contents of a working paper. Read the verb in the requirement carefully to ensure you put sufficient detail into your answer. This requirement asks for an explanation of the contents i.e. the reason why they must they be included in every working paper.

Part (b) covers audit risk which is a core topic for this exam. Answers must relate to the issues presented in the scenario. Each sufficiently explained audit risk will be awarded 1 mark and each appropriate response a further mark. Take care to describe audit risks and not business risks or interpretations of the ratios. Audit risk is the risk of giving an inappropriate opinion which comprises the risk of material misstatement and detection risk. Link the ratios you calculate in part (bi) to the information given about the entity described when explaining the audit risk. The auditor's response should be directly linked to the audit risks explained and therefore a columnar approach is appropriate.

Part (c) requires audit procedures which should be performed at the final audit in relation to inventory. The final audit is performed after the year-end once the inventory count sheets have been entered into the system and the final inventory listing has been produced, therefore procedures performed during the inventory count will not be relevant.

The final part of the question looks at the area of perpetual inventory systems. This demonstrates the importance of revising the full syllabus rather than just focusing on topics which are examined every sitting.

(a) Working paper contents [½ mark for identification and ½ mark for explanation]

Content	**Explanation**
Name of preparer	To identify who prepared the working paper in case of queries.
Date prepared	To know what information was available at the time the working paper was prepared in case further information becomes available at a later date.
Name of reviewer	To identify who reviewed the working paper and demonstrate that it has been reviewed.
Date reviewed	To know what information was available at the time the working paper was reviewed in case further information becomes available at a later date.
Conclusion	To identify any issues in this area which will need to be followed up by the audit manager.
Name of client	To identify which client is being audited. If the working paper was misplaced it can easily be seen which client it relates to.

Year-end	To identify the specific year-end the working paper relates to. Essential if the client has been audited by the firm for a number of years.
Reference	Working papers should be referenced to the audit plan to show which section of the audit it relates to.
Objective	Every working paper should clearly state an objective for the reviewer to assess whether the objective has been achieved.
Results	The working paper should document the results that support the conclusion drawn from the test.

(b) (i) Ratios to assist the audit supervisor in planning the audit. [½ mark per ratio calculated]

	20X7	*20X6*
Gross margin	**52.2%**	**38.5%**
	(9/17.25 × 100)	(5/13 × 100)
Operating margin	**20.3%**	**15.4%**
	(3.5/17.25 × 100)	(2/13 × 100)
Inventory days	**66 days**	**63 days**
	(1.5/8.25 × 365)	(1.2/7 × 365)
Receivable days	**74 days**	**56 days**
	(3.5/17.25 × 365)	(2/13 × 365)
Payable days	**53 days**	**42 days**
	(1.2/8.25 × 365)	(0.8/7 × 365)
Current ratio	**2.9**	**6.1**
	(5/1.7)	(4.9/0.8)
Quick ratio	**2.1**	**4.6**
	(3.5 /1.7)	(3.7/0.8)

Tutor's top tips

The requirement in part (bi) asks for ratio calculations. Be sure to calculate ratios and not trends in order to score well. Simple % increases will not be awarded marks. Trends may be included in the answer to part (ii) to help explain the audit risks.

The auditor will use analytical procedures at the planning stage. You should expect to be examined on the practical application of skills required during the audit process.

(ii) Audit risks and responses

Audit risk	**Response to risk**
Goodison Co is a new audit client. **[½ mark]** Detection risk is increased as there is a lack of cumulative audit knowledge and experience. **[½ mark]**	More time and resource will need to be allocated to obtaining an understanding of Goodison Co and document the internal control systems. To address the increased risk, an engagement quality control review will need to be planned, the audit should be performed with increased professional scepticism and a more experienced team may need to be assigned. **[1 mark]**
Revenue is recognised on receipt of an order. 5% of orders are not processed on the same day. **[½ mark]** There is a risk of overstatement of revenue if all orders have not been processed at the year-end date. **[½ mark]**	Inspection of unfilled orders at the year-end to determine if revenue has been recognised too early. **[1 mark]**
Receivable days have increased from 56 to 74 days and management have reduced the allowance for receivables. **[½ mark]** Irrecoverable debts may not have been allowed for or written off. There is a risk that receivables are overstated. **[½ mark]**	Extended post year-end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation. **[1 mark]**
Only inventory which is over 180 days old is written down. The allowance is then only 20%. In addition inventory days have increased from 63 to 66 days. **[½ mark]** There is a risk that inventory is overvalued if NRV is less than cost for the older items. **[½ mark]**	Detailed cost and net realisable value testing to be performed. Enquire with management if inventory as old as 180 days is sold or scrapped to assess the reasonableness of the allowance. **[1 mark]**

Audit risk	Response to risk
A profit related bonus scheme has been introduced in the year. **[½ mark]** There is a risk of sales cut-off errors, unrecorded expenses or general window dressing as directors aim to maximise their bonus. **[½ mark]**	The audit team should perform the audit with increased professional scepticism. Increased cut-off testing will be performed over sales and expenses. A review of post year-end sales returns may also indicate cut-off errors. **[1 mark]**
The profit related bonus will only be known, and therefore paid, after the year-end when the financial statements are finalised. **[½ mark]** There is a risk that the bonus has not been accrued for at the year-end or may be accrued at an inaccurate amount if the bonus has been based on a draft profit figure and not the final figure. **[½ mark]**	Inspect the list of accruals to ensure the bonus is included along with the applicable payroll taxes. A note should be put on file to check this accrual calculation once all audit adjustments have been cleared, prior to the directors signing the financial statements and the auditor's report being issued. **[1 mark]**
Gross profit margin has increased from 38.5% to 52.2% in the year. **[½ mark]** The financial statements may have been manipulated due to the introduction of the profit related bonus. There is a risk that revenue is overstated or cost of sales understated. **[½ mark]**	Discussions with management should be held to identify if sales prices have been increased or if there has been a change to a cheaper supplier. This should be corroborated by inspection of sales and purchase invoices. **[1 mark]**
The current and quick ratios have significantly decreased from 7.4 to 2.9 and 4.6 to 2.1 respectively. Cash balances have decreased significantly over the year and payables days have increased significantly. **[½ mark]** There is a risk of inadequate disclosure of going concern uncertainties. **[½ mark]** **Tutorial note:** Although all ratios are above the minimum levels, this is still a significant decrease and along with the increase of sales could be evidence of overtrading which could result in going concern difficulties.	Detailed going concern testing to be performed such as review of cash flow forecasts and discussions with management to ensure that the going concern basis is reasonable. **[1 mark]**

Tutorial note

Credit will be given for explanation of the audit risk associated with opening balances. Whilst opening balances are not examinable at this level, you should not be penalised for knowing relevant information in the context of the scenario that is outside of the scope of the syllabus.

(c) Substantive procedures: Inventory [1 mark per procedure]

- Inspect GRNs and GDNs immediately before and after year-end to test cut-off.
- Inspect purchase invoices to verify cost of the items.
- Inspect sales invoices after the year-end to verify NRV of the items.
- Calculate inventory days ratio and compare with prior year to identify slow moving inventory which requires write down.
- Calculate the gross profit margin and compare with prior year to assess whether inventory valuation may be inappropriate at the year-end.
- Review the aged inventory list and compare the amount of slow-moving inventory with the allowance. Discuss with management the need for any increase in the allowance.
- Follow up on any items identified at the inventory count as being damaged or in need of write-down.

(d) Procedures: Perpetual inventory system [1 mark per procedure]

- Document the new inventory counting system in detail and confirm their understanding of the documented system is correct by undertaking a walkthrough test.
- Discuss with the directors the controls and procedures implemented during the inventory counts and enquire whether any issues arose. For any errors identified, ensure that appropriate adjustments were made to the perpetual inventory system.
- Obtain and review a copy of the written instructions issued to counters to determine if instructions are appropriate.
- Attend at least one inventory count to test the effectiveness of the controls implemented during the count and ensure the counts are carried out in accordance with the company's inventory count instructions.
- Undertake test counts of inventory from records to floor and from floor to records in order to confirm the existence and completeness of inventory.
- Review the perpetual inventory count records for the year to ensure that all lines are counted at least once a year.
- Review the adjustments made as a result of each count to ensure adjustments are not excessive which would indicate the system is not accurate.
- If significant differences consistently arise, this could indicate that the inventory records are not adequately maintained. Discuss with management of Goodison Co how they will ensure that year-end inventory will not be under or overstated.

ACCA marking scheme

		Marks
(a)	**Working paper contents**	
	½ mark per content and ½ mark per explanation	
	• Name of preparer	
	• Date prepared	
	• Name of reviewer	
	• Date reviewed	
	• Conclusion	
	• Name of client	
	• Year-end	
	• Reference	
	• Objectives	
	• Results	
	Maximum	**3**
(b)	**Ratios**	
	(i) ½ mark per ratio calculation per year.	
	• Gross margin	
	• Operating margin	
	• Inventory days	
	• Receivable days	
	• Payable days	
	• Current ratio	
	• Quick ratio	
	Maximum	**5**
	Audit risks and responses	
	(ii) Up to 1 mark per well explained audit risk and up to 1 mark per audit response	
	• New audit client – detection risk / opening balances	
	• Revenue recognition	
	• Receivables valuation	
	• Inventory valuation	
	• Management manipulation of results	
	• Bonus not accrued	
	• Revenue growth	
	• Going concern	
	Maximum	**12**
(c)	**Substantive procedures: Inventory**	
	1 mark per procedure	
	• Cut-off testing	
	• Verify cost	
	• Verify NRV	
	• Calculate inventory days ratio	
	• Calculate GPM	
	• Review aged inventory list and allowance	
	• Follow up any issues identified during the inventory count	
	Maximum	**5**

(d)	**Procedures: Perpetual inventory system** 1 mark per procedure • Document the new system and perform walkthrough test • Discuss controls with directors • Obtain and review inventory count instructions • Attend at least one count • Two-way testing for existence and completeness • All lines counted at least one per year • Review adjustments • Discuss with management how they will ensure reliability of year-end inventory balance if significant discrepancies consistently arise	
	Maximum	**5**
Total		**30**

17 TRAFFORD CO

Key answer tips

This is a typical controls question seen in every exam. Controls questions may ask you to identify deficiencies, explain the consequences of those deficiencies and make recommendations for improvement. You may also be required to design tests of control, as is the case here. Use the table form shown to structure your answer. Tests of control require the auditor to look for evidence that the client has performed a control. The auditor cannot assume that because something is correct a control caused it to be correct. They need to confirm that with a test of control. The test of control must relate to the control suggested in part (ii).

(a) Internal control system

Deficiency	**Control**	**Test of control**
System failures have occurred between Trafford and their customers. **[½ mark]** This has led to orders not being processed in accordance with contractual terms and resulted in penalties being incurred. **[½ mark]**	Trafford should have dedicated IT staff monitoring systems reliability and investigating any 'drop-outs' immediately. Systems should be regularly tested and updated to ensure reliability of service. If systems are down, customers can then be contacted to notify them to send orders via email or telephone until the issues are resolved. **[1 mark]**	Discuss with the IT department how they identify systems issues and what they do to rectify them. Inspect monitoring reports to confirm that ongoing monitoring is undertaken. Review the level of penalties paid to ensure this has decreased since the controls have been implemented to confirm the control is working effectively. **[1 mark]**

Deficiency	**Control**	**Test of control**
No check is performed on the amounts paid by customers. **[½ mark]** Customers may be paying incorrect amounts which could result in Trafford receiving less cash than they are entitled to. **[½ mark]**	A reconciliation should be performed between the amounts received and the invoiced amount less penalty payment to ensure customers are paying the correct amount. **[1 mark]**	Inspect the reconciliations performed each month to ensure checks are being performed. **[1 mark]**
Maintenance checks are only performed once a year rather than every three months. **[½ mark]** Machinery may be more prone to break down given the intensity of its use (24 hour production). Given the short time frame with which to process orders, further penalties could be incurred. **[½ mark]**	Maintenance checks should go back to being performed every three months to ensure production is not delayed and penalties incurred as a result. **[1 mark]**	Inspect maintenance logs to ensure maintenance checks are carried out with greater frequency. Inspect maintenance agreements with external providers (if used) to identify the frequency with which they are expected to take place. **[1 mark]**
Overtime is not authorised**. [½ mark]** Employees could claim for hours not actually worked resulting in additional cost for the company. **[½ mark]**	Timesheets should be passed to supervisors to review and authorise before being sent to the payroll department. **[1 mark]**	Inspect a sample of timesheets for evidence of the supervisor's signature authorising the overtime.**[1 mark]**
The payroll manager is currently processing all payroll payments. **[½ mark]** Errors could be made or fraudulent payments could be processed as a result of the lack of segregation of duties. **[½ mark]**	In the absence of any payroll assistants, the payroll should be checked and authorised by the finance director to ensure errors have not been made and fraudulent payments are not being made to the payroll manager. Temporary staff could be brought in to help process payroll until staff return to work. **[1 mark]**	Inspect the payroll report for evidence of the finance director's signature authorising the payroll report. Enquire of the finance director whether the company has any plans to employ temporary staff to cover the staff absence. **[1 mark]**

(b) Limitations of internal controls

Collusion [½ mark]

The control of segregation of duties may be overcome by the people involved working together to circumvent the control. **[½ mark]**

Management override [½ mark]

Management may abuse their power and override a control that is in place rendering it ineffective. **[½ mark]**

Human error [½ mark]

Mistakes can occur in any task and controls may not work properly as a result. **[½ mark]**

Outdated systems [½ mark]

Outdated systems may not be able to cope with the demands of the organisation. **[½ mark]**

(c) Procedures [1 mark per procedure. Must have action, source and objective]

Penalty payments

- Obtain a breakdown of the penalty payments for the year. Cast to ensure arithmetical accuracy. Agree the total to the financial statements.
- Inspect the customer contracts to determine how the penalties should be calculated.
- Inspect delivery records to identify late deliveries for which a penalty was required and trace through to the breakdown.
- Recalculate the amount of penalty and agree to the amounts deducted by customers to ensure accuracy.
- Compare the level of penalties this year against last year and discuss any significant difference with management.

Overtime payments

- Inspect timesheets to identify overtime hours for a sample of employees and recalculate the amount of overtime payment to confirm accuracy.
- Recalculate the statutory deductions relating to the overtime to confirm accuracy.
- Agree the overtime amount to payslips issued to employees.
- Agree the payment on the payslip to the bank transfer listing and through to the bank statements to ensure the correct amount was paid.
- Compare overtime hours and amounts this year with last year and discuss any significant difference with management.

Tutorial note

Do not start a procedure with the word 'check'. By definition, every audit procedure checks something whether it is checking that a control is in place or checking the accuracy of a figure. Procedures should state HOW you will check these things.

Do not start a procedure with the word 'Ensure…'. To ensure something is an objective. Whilst this needs to be included in the procedure description you need to also make sure you state HOW you will ensure this objective.

Marking scheme

		Marks
(a)	**Internal control system**	
	1 mark per implication, recommendation and test of control properly explained	
	• Order system failures	
	• No reconciliation of cash receipts to amounts due	
	• Maintenance checks	
	• Overtime not authorised	
	• Lack of segregation of duties in payroll department	
	Maximum	**12**
(b)	**Limitations of controls**	
	1 mark per explained limitation	
	• Collusion	
	• Management override	
	• Human error	
	• Outdated systems	
	Maximum	**2**
(c)	**Procedures**	
	1 mark per procedure.	
	Penalty payments	
	• Obtain breakdown and cast	
	• Inspect customer contracts	
	• Inspect delivery records	
	• Recalculate penalty	
	• Compare CY with PY penalties	
	Overtime payments	
	• Inspect timesheets and recalculate	
	• Recalculate statutory deductions	
	• Inspect payslips	
	• Inspect bank statements	
	• Compare CY with PY overtime	
	Maximum	**6**
Total		**20**

18 STRYPES CO

Key answer tips

Part (a) requires knowledge of audit terminology – deviations and misstatements. Make sure you revise audit terms such as these.

Part (b) asks for substantive procedures over two issues affecting the financial statements. Procedures are examined in every exam paper and substantial marks can be gained (or lost) on these. Practise writing audit procedures and make sure you provide a clear description of how the auditor should perform the procedure. Every audit procedure should have an action applied to a source to achieve an objective.

Part (c) asks for the impact on the auditor's report. Whilst this requirement is only for a few marks it is one which appears on almost every exam paper. Therefore you should take some time to practise this type of question so you can make sure you can earn these marks in your exam.

(a) Deviations and misstatements

A deviation occurs when a control is found not to have worked effectively in every instance tested by the auditor. **[1 mark]**

Deviations are identified when performing tests of controls **[½ mark]**

[Max 1 mark for deviation]

Misstatement occurs when the financial statements show a different figure to what should be shown if the financial statements were prepared in accordance with the relevant financial reporting framework. **[1 mark]**

Misstatements are identified when performing substantive procedures. **[½ mark]**

[Max 1 mark for misstatement]

(b) Financial statement assertions relevant to transactions and events

Occurrence [½ mark]

Transactions that have been recorded have occurred and pertain to the entity. **[½ mark]**

Cut-off [½ mark]

Transactions have been recorded in the correct accounting period. **[½ mark]**

Completeness [½ mark]

All transactions and events that should have been recorded have been recorded. **[½ mark]**

Accuracy [½ mark]

Transactions and events have been recorded appropriately. **[½ mark]**

Presentation [½ mark]

Transactions and events are appropriately aggregated and clearly described, and related disclosures are relevant and understandable. **[½ mark]**

Classification [½ mark]

Transactions have been recorded in the proper accounts. **[½ mark]**

[Max 3 assertions to be marked]

(c) Substantive procedures [1 mark per procedure]

(i) **New accounting system**

- Agree the closing balances on the old system to the opening balances on the new system to ensure accuracy and completeness.
- Inspect evidence of controls implemented over the transfer process by management of Strypes Co e.g. their own check of opening and closing balances on the two systems.
- Review internal audit reports detailing the testing they performed during the transfer of data to identify whether any problems were encountered.
- Review results of the parallel run to ensure they are consistent and the new system is working properly.
- Review systems documentation for the new system to understand how it should work and perform a walkthrough to confirm understanding.
- Document the new accounting system using an appropriate method such as flow charts, narrative notes and internal control questionnaires.
- Test the effectiveness of the new system using test data to trace transactions through the system to ensure controls work at each stage.
- Enquire of management/internal audit whether there have been any problems with the new system since implementation and what action has been taken to resolve them.

(ii) **Deferred income**

- Obtain a breakdown of deferred income, recalculate and agree to the financial statements.
- Inspect contracts with customers to verify the terms of the sale and confirm that the income should be deferred i.e. the payments on account are refundable until a performance obligation has been met.
- Agree a sample of deposit payments into the cash book and bank statements.
- If deferred income is calculated as a proportion of the payment on account, recalculate the deferred amount for a sample of contracts to ensure accuracy.
- For a sample of contracts in progress, agree the appropriate amount of deferred income into the breakdown to confirm completeness.
- For a sample of journal postings from deferred income into revenue just before and just after the year-end, confirm that the revenue can be recognised to ensure appropriate cut-off of deferred income and revenue.

(d) Auditor's report

Deferred income

The overstatement of deferred income represents 14.7% of profit and 1.4% of assets. **[½ mark]**

This is material. **[½ mark]**

The financial statements are materially misstated and should be adjusted. **[½ mark]**

The misstatement is material but not pervasive. **[½ mark]**

If management refuse to amend this misstatement, the auditor's report and opinion will need to be modified. **[½ mark]**

The opinion paragraph will be qualified. **[½ mark]**

The 'except for' wording will be used. **[½ mark]**

The basis for qualified opinion paragraph will explain and quantify the material misstatement. **[½ mark]**

New accounting system

The new accounting system has no impact on the auditor's opinion. **[½ mark]**

As Strypes Co is a listed company a Key Audit Matters section should be included in the auditor's report. **[½ mark]**

The new accounting system is a Key Audit Matter. **[½ mark]**

This is because the new system was discussed at length with those charged with governance and required additional time and resource to test. **[½ mark]**

Marking scheme

			Marks
(a)	**Deviations and misstatements**		
	1 mark per term		
	• Deviations		
	• Misstatements		
		Maximum	**2**
(b)	Financial statement assertions		
	½ mark to identify. ½ mark for explanation		
	• Occurrence		
	• Cut-off		
	• Completeness		
	• Accuracy		
	• Presentation		
	• Classification		
		Maximum	**3**
(c)	**Procedures**		
	1 mark per procedure		
	(i) New accounting system		
		Maximum	**6**
	(ii) Deferred income		
		Maximum	**5**

(d)	**Auditor's report** ½ mark per point **Deferred income** • Materiality calculation • Material • Financial statements should be adjusted • Material but not pervasive • Modify report and opinion • Qualified opinion • 'Except for' wording • Basis for qualified opinion **New accounting system** • No impact on the auditor's opinion • Key audit matters required as listed • Key audit matter – new accounting system • Explanation of why new system is a KAM	
	Maximum	**4**
Total		**20**