

Suggested time: 45 minutes
Maximum score: 120 points

ESSAY A

The trial balance of Golden Limited as at 1 January 2007 is shown below:

Account No	Account	Debit \$	Credit \$
1101	Cash	48,000	
1102	Bond Investments	50,000	
1103	Accounts Receivable	30,000	
1104	Allowance for Doubtful Debts		900
1105	Interest Receivable		
1106	Inventory *	24,000	
1107	Building**	245,000	
1108	Accumulated Depreciation - Building		24,500
1109	Delivery Truck***	18,000	
1110	Accumulated Depreciation - Delivery Truck		10,000
2200	Accounts Payable		8,000
2201	Notes Payable		31,000
2202	Wages Payable		
2203	Income Taxes Payable		15,000
3300	Ordinary Shares (Par Value: \$1)		285,000
3301	Retained Earnings		40,600
4400	Sales		
4401	Interest Revenue		
5500	Operating Expenditure		
5501	Wages Expenditure		
5502	Depreciation - Building		
5503	Depreciation - Delivery Truck		
5504	Bad Debt Expenditure		
5505	Purchases		
5506	Income Tax Expenditure		
		\$415,000	\$415,000

*Assume periodic inventory system

** 20 year life, no salvage value

*** 3 year life, \$3,000 salvage value

Ending Inventory (December 31, 2007) \$26,000

The following transactions took place during 2007:

1. Collections: Accounts Receivable \$21,000; Interest on Bonds \$6,000; Cash Sales \$95,000
2. Payments: Accounts Payable \$15,000; Notes Payable \$27,000; Income Taxes Payable \$8,000; Operating Expenses \$42,000
3. Credit sales \$104,000
4. Inventory purchased \$36,000
 \$22,000 purchased on credit (assume periodic inventory)
5. On June 30, 2007, purchased a second delivery truck for \$15,000, paying cash. The truck has a useful life of 3 years and a salvage value of \$3,000.
6. Further adjustments and information:
 - i. Bad debt expense is estimated at 1% of credit sales
 - ii. Record straight-line depreciation on the building and trucks
 - iii. Accrued interest on investment in bonds is \$1,500
 - iv. Income tax expense for 2007 is \$17,065. Tax is not due until 2008

Required

- a) Prepare journals for each of the transactions above of Golden Limited
- b) Prepare a trial balance after posting the journal entries
- c) Prepare income statement and balance sheet
- d) Prepare closing journal entries

Begin writing your answer to Essay A on page 13 of the answer booklet.

Suggested time: 50 minutes
Maximum score: 120 points

ESSAY B

Certain recorded errors have occurred in Dodge Limited's accounts. For the errors described, use the tables provided to indicate whether an overstatement or understatement has occurred.

Please use the following in the table:

- (a) Write "+" for an overstatement
- (b) Write "-" for an understatement
- (c) If neither has occurred, write "OK"

Part A

- (1) Failed to accrue wages at the end of 2006; recorded them in 2007
- (2) Recorded a purchase in 2006 that belonged to 2007; the ending inventory of 2006 was correct
- (3) Failed to record interest on a notes receivable in 2006; recorded it in 2007
- (4) Credited rent revenue in 2006 to Sales
- (5) Bought a building with a 5-year life in 2006; debited Land
- (6) Purchased a 2-year insurance policy at the beginning of 2006; debited Insurance Expense
- (7) Received a prepayment of rent for 2007 at the end of 2006; credited Rent Revenue
- (8) Expensed the purchase of a machine in 2006; the machine has a 5-year life

Please copy the following format **IN YOUR ANSWER BOOKLET** and fill in the table assuming that all errors were discovered **before** closing the 2007 books at 31 December:

Table for PART A

	2006				2007			
	Net Income	Assets	Liabilities	Retained Earnings	Net Income	Assets	Liabilities	Retained Earnings
(1)								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								

Part B

Please copy the following format **IN YOUR ANSWER BOOKLET** and fill in the table assuming that the above errors were discovered **after** closing the 2007 books.

Table for PART B

	2006				2007			
	Net Income	Assets	Liabilities	Retained Earnings	Net Income	Assets	Liabilities	Retained Earnings
(1)								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								

Begin writing your answer to Essay B on page 19 of the answer booklet.

Suggested time: 50 minutes
Maximum score: 120 points

ESSAY C

The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinions. The reliability of audit evidence is influenced by its source and by its nature and depends on the individual circumstances under which it is obtained.

Briefly describe five audit procedures to obtain audit evidence; give examples and the degree of reliance on evidence gathered.

Begin writing your answer to Essay C on page 25 of the answer booklet.

QUESTIONS

Suggested time: 10 minutes
Maximum score: 30 points

1. Financial statements issued by entities, in both the private and public sectors, are used by various parties to evaluate, amongst other things, the entity's financial performance and position. These reports are the main means by which the management communicates information about the entity to the users of these reports.

There are, however, limitations of the reporting process that affect the usefulness of the financial statements. Please provide five limitations of the financial statements presentation.

Begin writing your answer to question 1 on page 31 of the answer booklet.

Suggested time: 10 minutes
Maximum score: 30 points

2. For each of the scenarios described below, indicate the accounting principle or reporting characteristic (if any) that has not been followed:

- (a) Depreciation expense has not been recorded because it would result in a loss for the reporting period
- (b) Land has been reported at its estimated selling price which is considerably higher than its cost. The increase in value was included in the income statement.
- (c) The following elements of construction costs have been capitalized as a fixed asset:
 - 1) Costs of material, installation and assembly,
 - 2) Costs of employee benefits,
 - 3) Initial delivery and handling costs,
 - 4) Professional fees
 - 5) Administration costs
- (d) A government grant of \$35,000 has been received by a medical research company to fund one of its current projects. The company has recorded this grant as an addition to capital

Begin writing your answer to question 2 on page 35 of the answer booklet.
NOTHING WRITTEN ON THE PRESENT BOOKLET WILL BE TAKEN INTO CONSIDERATION

Suggested time: 10 minutes
Maximum score: 30 points

3. The following information applies to the cash account of Concord Limited as at 30 November:

	Dollars
Bank Balance as per company accounts	4,116.86
Bank service fee for November	30.00
Note collected by the bank for the company	800.00
August outstanding cheques	2,539.92
NSF* cheque returned with November bank statement	420.60
Balance per November bank statement	6,432.18
Interest on the note collection by bank	36.00
Receipts recorded on 30 November and sent to the bank that day	610.00

- (a) Prepare a bank reconciliation for Concord Limited at 30 November that shows the correct cash balance as at that date
- (b) Prepare any necessary journal entries

Begin writing your answer to question 3 on page 39 of the answer booklet.

Suggested time: 10 minutes
Maximum score: 30 points

4. Sunflower Company began operations on 1 January 2004. On 31 December 2004, Sunflower provided for uncollectible accounts based on 1% of annual credit sales. On 1 January 2005, the company changed its method of determining its allowance for uncollectible accounts by applying percentages to the accounts receivable aging as follows:

Days past invoice date	Percentage deemed to be uncollectible
0 - 30	1
31 - 90	5
91 - 180	20
Over 180	80

Sunflower also wrote off all accounts receivable that were over one year old. The following additional information relates to the years ended 31 December 2004 and 2005:

	2004	2005
Credit Sales	\$2,800,000	\$3,000,000
Collections	\$2,400,000	\$2,915,000
Accounts written off	None	27,000
Recovery of accounts previously written off	None	7,000

Days past invoice date at 31 December			
0 - 30	250,000	300,000	
31 - 90	90,000	80,000	
91 - 180	45,000	60,000	
Over 180	15,000	25,000	

- (a) Prepare a schedule showing the calculation of the allowance for uncollectible accounts at 31 December 2005
- (b) Prepare a schedule showing the computation of the provision for uncollectible accounts for the year ended 31 December 2005 beginning with the opening balance for the provision

Begin writing your answer to question 4 on page 43 of the answer booklet.

Suggested time: 10 minutes
Maximum score: 30 points

5. Presented below are the income statement and comparative balance sheets of New York Enterprises. You are required to present the "cash flows from operating activities portion" of the cash flow statement and the reconciliation of net cash used in operating activities with profit (indirect method).

Suggested time: 10 minutes
Maximum score: 30 points

NEW YORK ENTERPRISES			
Income Statement			
For the year ended 31 December 2007			
INCOME			
Revenue:			
Sales Revenue			\$480,000
Interest revenue on investments			\$1,000
			\$481,000
EXPENSES			
Cost of sales	\$336,000		
Wages and salaries	\$65,000		
Insurance	\$8,000		
Loss on sale of equipment	\$2,000		
Depreciation – plant and equipment	\$20,000		
Other expenses	\$11,000		\$442,000
Profit			\$39,000

NEW YORK ENTERPRISES		
Comparative Balance Sheets		
	31 December 2006	31 December 2007
Cash at bank	\$25,000	\$21,050
Accounts receivable	\$43,000	\$52,000
Inventory	\$52,000	\$50,000
Prepaid insurance	\$5,000	\$3,000
Interest receivable	\$150	\$100
Investments	\$10,000	\$20,000
Plant and equipment	\$180,000	\$200,000
Accumulated depreciation – plant & equipment	(\$45,000)	(\$50,000)
	\$270,150	\$296,150
Accounts payable	\$32,000	\$38,000
Wages and salaries payable	\$4,000	\$6,000
Other expenses payable	\$3,000	\$2,000
N. York, Capital	\$23,150	\$250,150
	\$270,150	\$296,150

Begin writing your answer to question 5 on page 47 of the answer booklet.

6. On 1 January 2006, Honey Company leased equipment from Bee Incorporated. Lease payments are \$100,000, payable annually every 31 December for twenty years. Title to the equipment passes to Honey at the end of the lease term. The lease is non-cancelable.

Additional Information

- The equipment has a \$750,000 carrying amount on Bee’s books. Its estimated economic life was 25 years on 1 January 2006.
- The rate implicit in the lease, which is known to Honey, is 10%. Honey’s incremental borrowing rate is 12%.
- Honey uses the straight-line depreciation method.

The rounded present value factors of an ordinary annuity for 20 years are as follows:

12%	7.5
10%	8.5

Prepare the necessary journal entries to be recorded by Honey for:

1. entering into the lease on 1 January 2006.
2. making the lease payment on 31 December 2006
3. expenses related to the lease for the year ended 31 December 2006.

Begin writing your answer to question 6 on page 51 of the answer booklet.

Suggested time: 10 minutes
Maximum score: 30 points

7. Items 1 through 10 represent a series of unrelated statements, questions, excerpts, and comments taken from various parts of an auditor's working paper file. Above the items is a list (A to E) of the likely sources of the statements, questions, excerpts, and comments. Select, as the best answer for each item, the most likely source. **Select only one source for each item. A source may be selected once, more than once or not at all.**

- A. Audit program.
- B. Communication with predecessor auditor
- C. Auditor's engagement letter/ Audit Notification.
- D. Report on Reportable Conditions/ Management Letter
- E. Auditor's communication with the audit committee.

1. Review documentation on the Mandate and Delegation of Authority for the Mission.

2. For investments in nonpublic entities, compare carrying value to information in the most recently available audited financial statements.

3. Management did not correct certain misstatements because it considered them immaterial to the financial statements.

4. Fees for our services are based on our regular per diem rates, plus travel and other out-of-pocket expenses.

5. The scope of the audit was financial and operational in nature and covered the period from 1999 through 2004.

6. We would be grateful if your offices could communicate the above information to the appropriate officials at the field locations and request their assistance and cooperation with regard to the audit team's related requirements, including access to relevant records, facilities and personnel, office accommodation, security and local transport services. The Auditor-in-Charge will confirm the arrival dates of the team shortly.

7. Are you aware of any facts or circumstances that may indicate a lack of integrity by any member of senior management?

8. We recommend that you include in your billing program a routine to identify any missing bills of lading numbers and print out a daily exception report to be investigated by someone in the accounting department to ensure that all shipments get billed and recorded.

9. At the conclusion of our audit, we will request certain written representations from you about the financial statements and related matters.

10. There were unreasonable delays by management in permitting the commencement of the audit and in providing needed information.

Begin writing your answer to question 7 on page 55 of the answer booklet.
NOTHING WRITTEN ON THE PRESENT BOOKLET WILL BE TAKEN INTO CONSIDERATION

Suggested time: 10 minutes
Maximum score: 30 points

8. There are three main stages of a typical audit engagement:

a. Name the three stages in chronological order

B. Describe three critical procedures that must be performed during the first stage and the sources of information for those procedures.

C. What are the key responsibilities of the assisting auditor during the second stage?

Begin writing your answer to question 8 on page 59 of the answer booklet.