



CORPORATE REPORTING

JULY 2021

ADVANCE INFORMATION

You may print off a copy of this information and bring this into the examination. This information will also be available on your Bibilo Link in the exam software.

The Advance Information relates to Question 1 only of the Corporate Reporting Examination for July 2021.

Panther Metals Ltd

The Advance Information comprises:

- (1) This document which includes the scenario, background information (**Exhibit A**) and some interim audit matters (**Exhibit B**); and
- (2) The nominal ledger data for Panther Metals Ltd (Panther) for the 11 months ended 30 November 2020, contained within the data analytics software.

<http://icaew21.inflosoftware.com/redirect/Exam?code=ALCRJUL21AI>

Examination

During your examination on 19 July 2021, you will be provided with the nominal ledger data for the full 12 months ended 31 December 2020 for Panther contained within the data analytics software. You will need to address the new data for the month of December 2020 and to consider the data, patterns and trends for the year ended 31 December 2020 as a whole.

The data for the 11 months to 30 November 2020 will remain valid and will be unchanged. However, in the exam, you will not be able to access the data analytics software for the 11 months to 30 November 2020 made available in the Advance Information or any notes you have made in the data analytics software for the 11 months to 30 November 2020.

Scenario

You are an audit senior working for Marr LLP, a firm of ICAEW Chartered Accountants. Marr is the statutory auditor of Panther for the year ended 31 December 2020.

Panther prepares its financial statements in accordance with IFRS. You have just been assigned to the audit of Panther and you receive the following email from the audit engagement manager, Albert Ramsay:

Panther Audit

From: Albert Ramsay
Date: 21 June 2021
To: Audit Senior

An interim audit of Panther was carried out during December 2020.

During the interim audit, Panther's management provided Marr with data for the 11 months ended 30 November 2020 from its nominal ledger. This was imported into the data analytics software which is used by Marr to carry out its audit procedures.

The audit senior for the Panther interim audit, Ben Brown, no longer works for Marr. However, he prepared some background information (**Exhibit A**) and also identified some interim audit matters (**Exhibit B**).

Since the completion of the interim audit of Panther, there have been a number of problems with staff illness at Panther. These have delayed the production of Panther's nominal ledger data for the full year ended 31 December 2020. As a result, the final audit visit is now scheduled for July 2021 and I would like you to act as audit senior.

I will give you more details immediately prior to the final audit visit, but meanwhile I would like you to review:

- (1) The background information (Exhibit A) and interim audit matters (Exhibit B) prepared during the interim audit by Ben Brown; and
- (2) The nominal ledger data for Panther for the 11 months ended 30 November 2020, contained within the data analytics software.

Exhibit A: Background information – prepared by Ben Brown, 15 December 2020

Business model

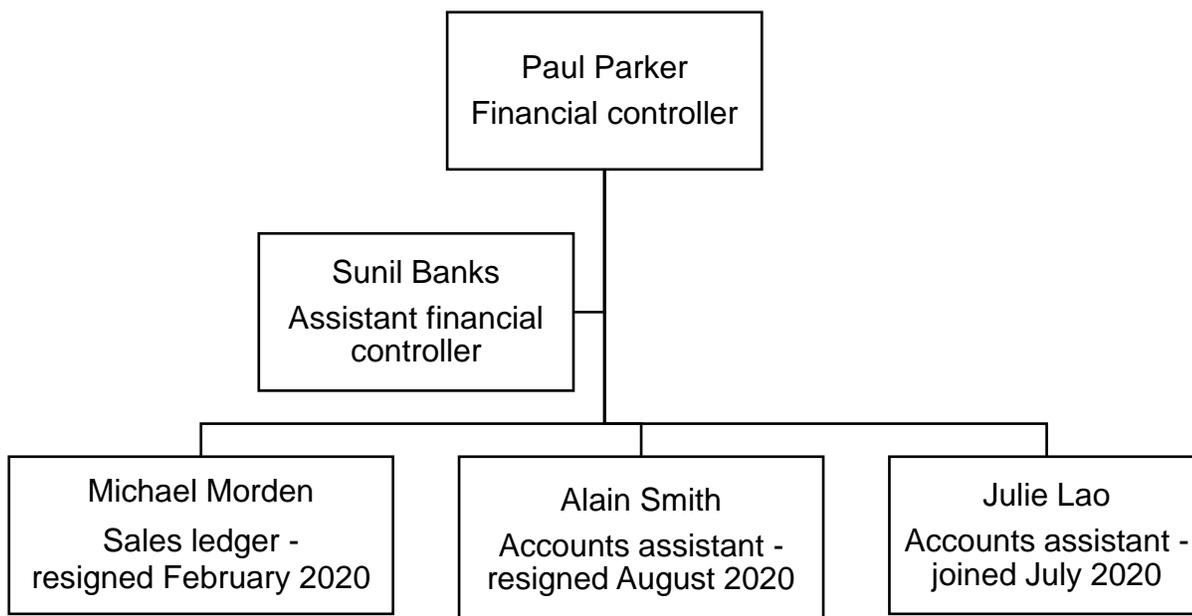
Panther purchases metals and recycled waste metals which it then processes into high-purity metals and alloys, for example nickel, cobalt, tungsten and chromium. Alloys are made by combining two or more metals.

It sells the high-purity metals and alloys to its customers which operate in a range of industries such as aerospace, power generation, petrochemical and medical instruments.

Panther purchases from and sells to a range of countries. The prices that it pays for metal purchases and the prices it is able to achieve on metal sales are strongly influenced by the prices on commodity markets which are volatile.

Set out below are the members of the accounts department at Panther and their roles.

Organisation roles for key people



- Paul Parker - Panther financial controller

Paul is an ICAEW Chartered Accountant and has worked at Panther for many years. Paul is the head of the finance function and is responsible for the production of the financial statements and quarterly management accounts. He processes manual journals and sometimes corrects and assists the processing of sales and purchase invoices and credits.

- Sunil Banks - Assistant financial controller

Sunil has worked for Panther for 3 years. He is an ICAEW Chartered Accountant and is responsible for the purchase ledger and posts purchase invoices and credit notes, purchase payments and payments on account. He also processes bank payments and bank receipts. After Michael Morden (see below) resigned in February 2020, Sunil has also managed the sales ledger function. He has been assisted by Alain Smith (see below) and from July 2020, by Julie Lao (see below).

- Michael Morden – sales ledger manager

Michael was responsible for the sales ledger until he resigned in February 2020 and left the company.

- Alain Smith – accounts assistant

Alain assisted Michael with the sales ledger. After Michael left the company in February 2020, Alain processed sales invoices and sales credits, supervised by Sunil. In August 2020 Alain resigned and left the company.

- Julie Lao – Accounts assistant

Julie joined Panther in July 2020. She is a student member of ICAEW. Julie works mostly on processing bank payments and receipts. She also works on the sales ledger supervised by Sunil. She acts as an assistant to both Sunil and Paul.

Revenue recognition

Two types of sale arrangements used by Panther, with differing commercial terms, are:

- Pro forma invoice arrangements

Some sales are made using a pro forma invoice arrangement. A pro forma invoice is a confirmed sales order, where Panther and the customer agree on the terms of sale, and the details and prices of the metals and alloys to be sold and shipped to the customer. Panther raises a pro forma invoice when it is ready to dispatch these goods.

Shipping to the customer may take several months. According to the commercial terms of sale, control of the goods only passes to the customer when they are received by the customer. At this point, a final invoice is raised, the transaction is recorded in the accounting records and the revenue is recognised.

- Bill-and-hold arrangements

Some sales are made under bill-and-hold arrangements. These arise when a customer is invoiced for goods that are ready for delivery, but Panther retains possession of the goods in its warehouse on the customer's behalf and does not ship the goods to the customer until a later date.

Panther uses the following criteria to determine whether a particular transaction qualifies as a bill-and-hold arrangement:

- a) the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement for commercial reasons);
- b) products can be physically identified separately as belonging to the customer;
- c) products must be ready for physical transfer to the customer; and
- d) products cannot be used or directed to another customer.

When bill-and-hold arrangements apply, Panther recognises revenue despite the fact that the goods are still in Panther's possession.

Commodity prices and futures markets

Metals are a commodity and metal futures contracts are available to buy and sell in markets such as the London Metal Exchange (LME). Futures prices reflect the prices of the underlying metals bought and sold in trading of the physical product.

Impact of changes in metal prices on Panther – nickel and cobalt

I have set out below an extract from Panther's draft strategic report for the year ended 31 December 2020.

The purchase price of nickel, which is used in many alloys, increased during the six months ended 30 June 2020 because of supply concerns. However, the price of nickel fell during the second half of the year.

Another significant metal, cobalt, experienced volatility of prices during the year ended 31 December 2020. Sales of cobalt-based alloys provided strong growth for Panther but, at some points in the year, it was difficult to obtain sufficient supplies of cobalt-based alloys to match customer demand.

Exhibit B: Interim audit matters – prepared by Ben Brown, 16 December 2020

I have raised the following issues for Paul Parker, the financial controller.

Interim audit matter 1: Debit transactions on Account 4000 – Nickel based alloy sales

Nickel based alloy sales have increased significantly compared with last year. I have reviewed account 4000 for unusual transactions. I identified the following debit transactions processed by Alain Smith, who resigned in August 2020.

In March 2020:

Transaction Id	Description	Debit	Credit	Account code	Effective dates	User IDs
131735	Cancel proforma invoices	324,000	0	4000	01/03/2020	Alain

In June 2020:

Transaction Id	Description	Debit	Credit	Account code	Effective dates	User IDs
134203	Cancel proforma invoices	145,551	0	4000	01/06/2020	Alain

I cannot find any information about these adjustments because Alain resigned in August 2020 and no longer works at Panther. Paul has told me that he believes that Alain sometimes posted pro forma invoices to revenue by mistake. The final sales invoices were posted when the goods were received by the customer. Alain then corrected his mistake by cancelling the pro forma invoices with sales credit notes, debiting the relevant sales account. Paul cannot be certain that all the pro forma invoices posted by Alain in error before he left have been corrected.

Interim audit matter 2: Revenue recognition

Alain was replaced by Julie Lao who joined Panther in July 2020. I discussed the accounting policy for revenue recognition with Julie. She told me that Panther had recently considered a potential contract with a customer on a bill-and-hold basis. However, she seemed uncertain about how to account for this type of contract and about other matters relating to revenue recognition. This is a key area of audit risk which should be followed up at the year-end audit visit.