ADVANCED LEVEL EXAMINATION

Daisy

CORPORATE REPORTING

ADVANCE INFORMATION

Question 1 (Elephant Ltd)

Assume the date is 15 December 2018.

This Advance Information relates only to Question 1 of the Corporate Reporting Mock Exam Daisy.

The Advance Information comprises:

(1) This document which includes the scenario, background information (**Exhibit A**) and a matter discussed with the client (**Exhibit B**); and

(2) The nominal ledger data for Elephant Ltd (Elephant) for the 11 months ended 30 November 2018, contained within the Data Analytics Software**.** Click here to access the 11 months data.

Exam – 12 months

During the Corporate Reporting Mock exam, you will be provided with access to the nominal ledger data for Elephant for the full 12 months ended 31 December 2018 contained within the Data Analytics Software. You will need to address the new data for the month of December 2018 and to consider the data, patterns and trends for the year ended 31 December 2018 as a whole.

The data for the 11 months to 30 November 2018 remains valid for the exam and will be unchanged. However, in the exam, you will not be able to access the Data Analytics Software data for the 11 months to 30 November 2018 or any notes you have made in the Data Analytics Software for the 11 months to 30 November 2018.

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ADVANCE INFORMATION: QUESTION 1

Scenario

You are an audit senior working for Lister LLP, a firm of ICAEW Chartered Accountants. You have just been assigned to the audit of Elephant Ltd for the year ending 31 December 2018.

Elephant prepares its financial statements in accordance with IFRS. Recently, an audit plan was prepared by an audit manager, Helen Holden, who has now left the firm. You have just been assigned as the audit senior on the audit of Elephant and receive the following email from the newly appointed audit engagement manager, Jake Moore.

From: Jake Moore
Date: December 2018
To: Audit Senior

The client requires an early sign-off of the audit report as Elephant will be seeking finance from their bank. We carried out an audit planning visit in early December. During the visit, the client provided Lister with data for the 11 months ended 30 November 2018 from Elephant's nominal ledger. This has been imported into the Data Analytics Software used by Lister.

The final audit visit is now scheduled for January 2019 and I would like you to act as audit senior.

Helen Holden had a meeting with Frank Wright, the Elephant finance director and prepared some background information (**Exhibit A)** and a matter which she discussed with Tanya Potts, an accounts assistant at Elephant (**Exhibit B**).

Before the final audit commences in January 2019, I would like you to familiarise yourself with Elephant by reviewing:

(1) The background information (Exhibit A) and the matter discussed with the client prepared by Helen (Exhibit B); and

(2) The nominal ledger data for Elephant for the 11 months ended 30 November 2018, contained within the Data Analytics Software.

ADVANCE INFORMATION: QUESTION 1

Exhibit A: Background information – prepared by Helen Holden, September 2018

Werbe plc, a company listed on the London Stock Exchange, owns 100% of the shares in Elephant.

Elephant provides marketing services, mainly to businesses based in the UK (domestic) and the rest of Europe (overseas). Customers sign a contract with Elephant for the provision of a specific marketing project. Each project is short term, up to two months.

Elephant contracts with customers to deliver short-term marketing projects. Customers are invoiced and revenue is recognised when the customer signs to confirm their acceptance of a completed project. International customers are sometimes invoiced in their local currency.

A typical marketing contract will comprise a contract price for design artwork and concept and brand development. In addition, the contract will specify the selling price for promotional products such as banners, posters and marketing gifts (eg, pens, key rings etc). The price is calculated based on the quantity ordered by the customer.

Costs are incurred by Elephant for each contract, including payroll and cost of sales for promotional products. Also, a large element of cost of sales is in respect of travel, accommodation, motor vehicle costs and consumables. Travel and accommodation mainly relate to expense claims from Elephant staff arising from visiting clients.

Elephant uses invoice financing for short-term finance, but this is expensive. The company intends to obtain a bank loan in 2019 to reduce the need to use invoice financing in future. The bank will rely, in part, on the financial statements for the year ending 31 December 2018 in making its loan decision.

The Elephant board comprises of:

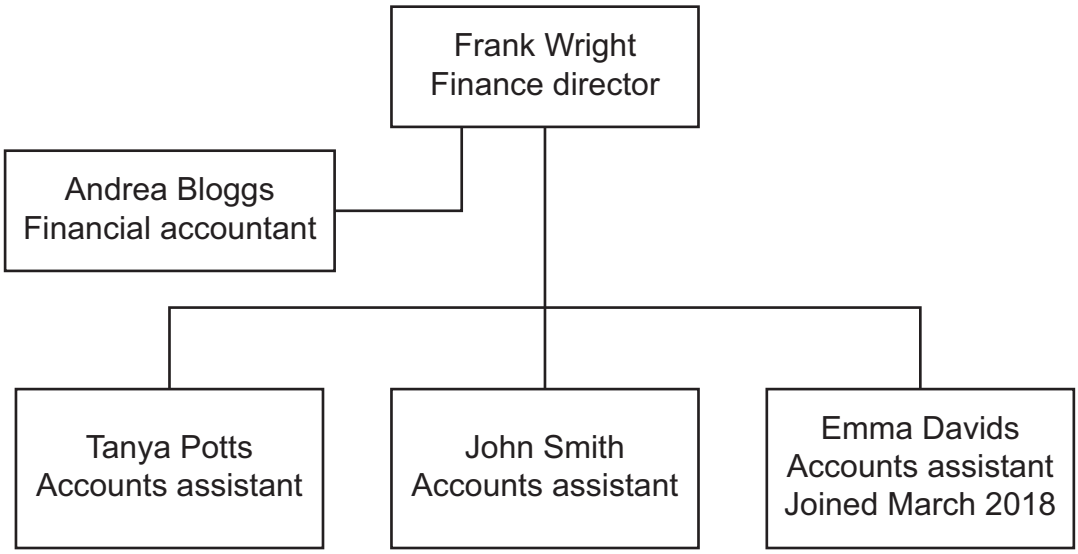
Name	**Role**
Amy Quincey	CEO
Gerry Morris	Creative director
Jo Holme	Sales director
Frank Wright	Finance director

I had a brief meeting with Frank Wright. He told me that the board expects the profit for the year ending 31 December 2018 will show a significant improvement on the profit for the year ended 31 December 2017.

ADVANCE INFORMATION: QUESTION 1

Organisation chart and systems notes for invoice financing

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



Steve Thompson, an accounts assistant left in January 2018 and was replaced by Emma Davids.

Frank Wright – Accounting department manager and finance director

Frank is an experienced accountant and has worked at Elephant since 2016. As Elephant is a small company, he is closely involved with recording all types of transactions on a day-to-day basis. Frank prepares budgets for Elephant and negotiates loans and contracts on behalf of the Elephant board.

If a member of the accounting department is unsure about how to record a transaction, it is normally recorded in Account code 00990 Suspense account. Frank later corrects the entries by raising a journal and clearing the suspense account.

Andrea Bloggs – Financial accountant

Andrea has worked for Elephant for two years. She previously worked in the purchase ledger department for a large manufacturing company. She is very competent at posting invoices for purchases and cash entries. She has less experience in posting entries for sales invoices and credit notes but does sometimes assist in recording these types of transactions. She reconciles the bank statement monthly.

Tanya Potts – Accounts assistant

Tanya prepares the payroll together with John Smith. She also helps with sales ledger and purchase ledger transactions.

John Smith – Accounts assistant

John prepares the payroll together with Tanya Potts. He also helps with sales ledger and purchase ledger transactions.

ADVANCE INFORMATION: QUESTION 1

System notes for invoice financing

The carrying amount of the trade receivables includes receivables which are subject to an invoice financing arrangement. Elephant uses an invoice finance company, Close Real Debt Ltd (CRD).

Under this arrangement, Elephant Ltd transfers the relevant receivables to the invoice finance company in exchange for cash. Elephant Ltd transfers late payment risk and credit risk to CRD. CRD is responsible for collecting the amount owing from the receivable. This agreement is a non-recourse agreement and CRD has no right to return the receivable to Elephant. Therefore, the risk of non-payment by the receivable is with CRD. Trade receivables are shown net of invoice financing loans in the statement of financial position.

Under the terms of the agreement with CRD, Elephant identifies customer invoices for finance from CRD. Although Elephant performs credit checks on all its customers, CRD also carries out credit checks and confirms to Elephant which invoices it is accepting for finance.

When the invoice is accepted by CRD, Elephant transfers the invoice from trade receivables (Account code 21010) to the invoice finance account (Account code 20021) by means of a sales receipt (SRC – sales receipt).

Elephant can draw cash down from CRD up to the amount of invoices accepted by CRD. CRD charges interest on these advances. The advances from CRD are transferred from the bank account (Account code 20010) to the invoice finance account by means of a nominal journal (Nom - nominal journal).

If an invoice is not transferred and Elephant receives cash directly from the receivable it is recorded in the normal way by a debit (SRC – sales receipt) in the bank account (Account code 20010) and credited to trade receivables control account (Account code 21010).

Finance charges from CRD are itemised on the monthly statement with CRD and are processed normally by Frank Wright each month by a nominal journal.

I have summarised the journals which describe how the invoice financing arrangement is recorded in the data analytics software.

DEBIT Account code 20021 – Invoice finance account
CREDIT Account code 21010 – Receivables
Being journal to derecognise the trade receivable – using a SRC – sales receipt.

On receipt of cash from CRD, the following is processed as a nominal journal:

DEBIT Account code 20010 – Bank Account
CREDIT Account code 20021 – Invoice finance account
Being cash received from the finance company.

Finance charges are posted monthly by Nominal journal as follows:

DEBIT Account code 76010 – Bank charges and interest
CREDIT Account code 20021 – Invoice finance account
Being CRD's charges.

ADVANCE INFORMATION: QUESTION 1

Exhibit B: Matter discussed with client – prepared by Helen Holden, 6 December 2018

I have raised the following matter with Tanya Potts.

I have prepared a lead schedule for trade receivables. As at 30 November 2018, I noticed that the invoice finance account has decreased by 514%.

Account Code	Account Description	31 December 2017 £	30 November 2018 £	Difference £	Increase /decrease %
21010	Receivables Control Account	364,641	553,032	188,391	↑52%
20021	Invoice Finance account	54,578	(225,714)	(280,292)	↓514%
Trade receivables net of invoice finance		419,219	327,318	(91,901)	↓21.9%

Overall, the figure for trade receivables in the draft statement of financial position as at 30 November 2018 of £327,318 has fallen by 21.9% (net of invoice finance) compared with the balance as at 31 December 2017. This appears to be consistent with the fall in revenue for the year ended 30 November 2018 compared with the year ended 31 December 2017.

Tanya said that there is sometimes a delay between when the cash is received from CRD and posted to the credit of the invoice finance account and when Elephant's accounts staff post the journal to transfer the invoice from the receivable account to the debit of the invoice finance account. She assured me that the statement from CRD will be reconciled to Elephant's accounting records as at 31 December 2018.

I used the stacked bar chart for the Invoice Finance Account (Account code 20021) with the primary variable 'effective period' and secondary variable 'document type' to identify that the amount received from CRD in the Invoice Finance account has increased in October 2018.

Tanya told me that Elephant is relying more on invoice finance as a means of short-term finance.

I also identified a large transaction of cash received from CRD in the Invoice Finance Account which is recorded as a SRC – sales receipt in September 2018. I asked Tanya for an explanation as I expected this to be recorded as a nominal journal, but she said that Frank Wright had posted this transaction.

I said we would follow up this matter at our final audit visit in January.

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