ADVANCED LEVEL EXAMINATION

Orchid

CORPORATE REPORTING

ADVANCE INFORMATION: ELEPHANT LTD

Assume the current date is 15 December 2018.

This Advance Information relates only to Question 2 of the Corporate Reporting mock exam Orchid.

The Advance Information comprises:

1. This document which includes the scenario, background information (**Exhibit A**) and an audit 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 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: ELEPHANT LTD

Scenario

You are an audit senior working for Davis, Armstrong and Baker LLP (DAB), 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, Jane Markham, who has now left the firm. You receive the following email from the newly appointed audit engagement manager, Bilal Sayed.

From: Bilal Sayed, Elephant audit engagement manager
Date: December 2018
To: Audit Senior, DAB

We carried out an audit planning visit in early December 2018. During the visit, the client provided DAB 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 DAB.

The final audit visit is scheduled for late February 2019.

Jane Markham, the previous audit manager, had a meeting with Frank Wright, the Elephant finance director and prepared some background information (**Exhibit A**) and notes about a matter which she discussed with Tanya Potts, an accounts assistant at Elephant (**Exhibit B**).

Before the final audit commences in February 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 Jane (**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: ELEPHANT LTD

Exhibit A: Background information – prepared by Jane Markham, December 2018

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 usually short term, up to two months, but occasionally Elephant may enter longer term contracts which typically have a higher transaction value.

In relation to short term contracts, customers are invoiced, and revenue is recognised, when the customer signs to confirm their acceptance of a completed project. Longer term contracts may specify a number of deliverables or contract stages and may include terms for invoicing once each stage of the contract has been completed and accepted by the customer.

A typical marketing contract will comprise a contract price for design artwork and concept and brand development. In addition, the contract may 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 also has a pension loan and a loan from NEL Bank Ltd.

The Elephant board comprises of:

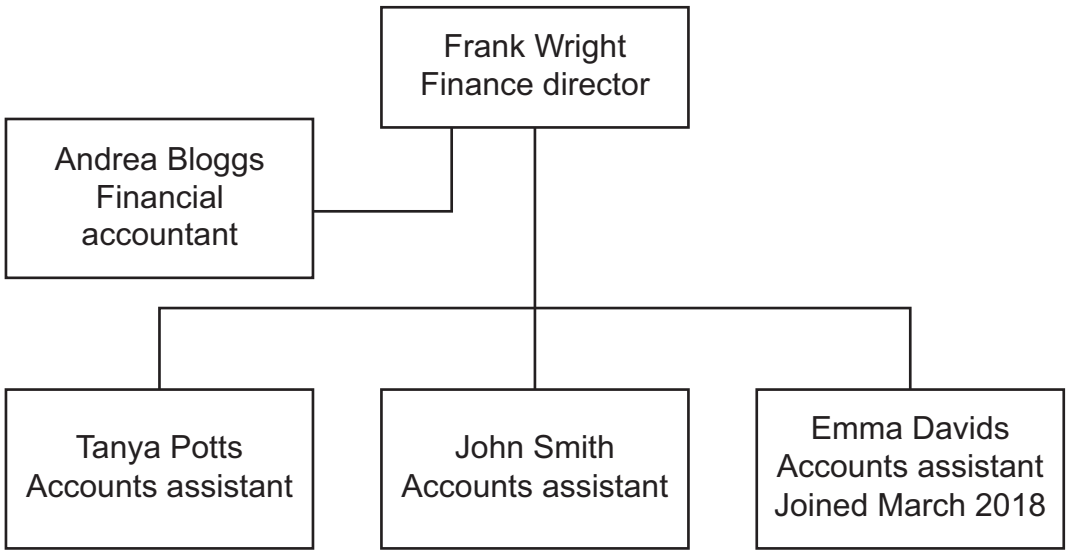
Name	Role
Amy Quincey	CEO
Gerry Morris	Creative director
Jo Holme	Sales director
Frank Wright	Finance director

I had a brief meeting with Frank Wright. He told me that the board expects that 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: ELEPHANT LTD

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.

Exhibit B: Matters discussed with Tanya Potts – prepared by Jane Markham, 6 December 2018

Pension Loan

At 1 January 2018, Elephant had an outstanding loan from its own small self-administered pension scheme that was initially advanced to Elephant in 2016. The directors of Elephant are the sole beneficiaries and trustees of this pension scheme.

On 27 January 2018, this pension loan recorded in Account code 35041 – Pension Loan 2 – was increased and extended such that the amount outstanding under this loan was increased to £365,000 and the term extended to 5 years at an annual interest rate of 9.5%. The revised amount is recognised by Elephant in a new Account 35043 – Pension Loan 3.

Loan from NEL Bank Ltd (NEL)

NEL is a small bank lender from which Elephant raised a 3-year loan of £350,000 on 1 May 2017. This loan is recorded in Account code 35042 – Loan Payable. NEL charges a variable interest rate linked to 3-month UK benchmark interest rates. I queried whether the interest had been recorded correctly as it appeared that round sum amounts had been posted to this account code. Tanya said she would follow this up and find out more information for our final audit visit.

High value sales contract with Ayer AG

On 3 October 2018, Elephant entered into a contract with Ayer AG (Ayer). Under the contract, Elephant would carry out a survey of Ayer's customer base and then use the information derived from this to design and implement a digital marketing campaign. This contract, known as contract A10D37, is both larger and longer term than those Elephant typically enters into.

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