



Question 1

Using your recent work experience, describe how you identified two different business or professional issues.

EXAMPLE ANSWER

IDENTIFICATION OF CAUSE OF INCREASING CASH BALANCE AND MISSING BANK TRANSACTIONS IN BOOKKEEPING SOFTWARE

Whilst I was reviewing accounts for a limited company micro pub, I was concerned that the cash balance reported in the accounting software Xero was continually increasing throughout the year, and was reported in the accounts at £16k. The client had been a victim of cash theft by an employee in the past, and I was worried that it could be happening again.

I discussed this with the client and he confirmed that there was never that amount of cash held in the till. We agreed it was unlikely to be theft, as the employee had been dismissed and reported to the police. Since the theft had taken place, the Director had also reduced the number of employees that had access to the till and had begun depositing into the bank more regularly, to avoid keeping high levels of cash on the premises. I thought that this was more likely to be an accounting issue and began taking the following steps to identify the cause.

As cash sales made up a significant proportion of the client's revenue, I began reconciling the cash sales by comparing the detailed transaction reports from the POS till system with the cash receipts in Xero. I wanted to make sure that all cash sales were accurately accounted for on Xero, by checking that there were no duplicate transactions or any errors causing cash sales to be overstated. I found that all of the cash sales posted to Xero reconciled with the till reports. I was therefore satisfied that cash sales were not overstated.

Once I was confident that cash sales were correct, I began analysing any purchases recorded on Xero that were paid for with cash. I then compared these with the client's records such as receipts and invoices to ensure that all cash payments had been entered correctly onto Xero. I found that there were multiple cash expenses that had been omitted from Xero. There had been many occasions where staff had used cash from the till to purchase stock from a local supermarket, with the cash payments not posted to Xero. There were also several regular payments for window cleaners etc. that had not been accounted for, along with a few occasions where staff had been paid their wages in cash. Although the missing cash expenses helped to identify a proportion of the cash discrepancy, the cash balance was still significantly overstated compared to the cash balance reported by the Director.

I knew that the client relied on using Xero's bank feed feature to import the company's bank transactions into the software. Although using a bank feed is a great way to automate data entry, save time and eliminate human errors, like with any technology there is a chance it can encounter

issues. I had a few experiences with other client's Xero accounts where the bank feed had temporarily stopped capturing and pulling through bank transactions. I therefore reviewed and compared the bank transactions recorded in Xero against the transactions on the bank statements. In particular, I focused on reconciling cash deposits recorded in Xero with the actual deposits reflected in the bank statements. I found that there were a few weeks in December; the client's busiest period, where the bank feed had stopped pulling through transactions, resulting in thousands of pounds worth of cash deposited in the bank not being recorded on Xero, and also highlighting yet another issue, that the bank account had not been reconciled. Once the missing transactions had been manually entered onto Xero and the bank reconciled, the cash balance was significantly lower and agreed to the balance recorded by the client.

Going forward I recommended the client implemented tighter controls over the cash handling procedures, a more robust cash expense tracking system, requiring proper documentation for all cash payments, and regularly reconciling both the bank current account and cash account. It was agreed that we would take over preparing the bookkeeping for the client on a monthly basis to avoid the issues reoccurring.

EXAMPLE ANSWER

IDENTIFICATION OF UNREPORTED OUTPUT VAT ISSUE

I was reviewing a set of accounts prepared by a member of our Accounts Team for a UK company that produced and sold personalised items to UK buyers on Etsy, an online marketplace. This was a new client, with a previous accountant that had prepared all of the VAT returns during their first year of trading. The client felt they had received some poor advice from their previous accountant and had therefore requested my firm to prepare the year end accounts and corporation tax return.

Whilst reviewing the VAT control I noticed that all of the VAT returns were calculated as repayments rather than liabilities, despite the company being profitable and making standard-rated supplies. This immediately raised some concerns and I began work to identify the cause of the issue.

I examined all of the VAT returns prepared by the previous accountant. I noticed that there were no entries in Box 1 (output VAT) except for reverse charge Etsy fees. This suggested that the company had not declared any output VAT on sales throughout the accounting year. It was my understanding that there would be no reason for the sales to be omitted from the VAT returns as the products sold were standard rated supplies, and as per the place of supply rules for goods, they were liable to UK VAT.

I reviewed the sales postings within the client's bookkeeping software. Here I discovered that sales entries imported directly from the Etsy reports were categorised as outside the scope of VAT. This again contradicted my understanding that all sales would be subject to standard (20%) VAT.

I arranged a meeting with the client to query the sales not being declared on the VAT returns. During the conversation, the client revealed that they had been advised by the previous accountant that their sales should be treated as outside the scope of VAT. The client had also contacted Etsy to check if this was correct, as they were under the impression that Etsy would account for and remit VAT to HMRC on their behalf for all sales made through the platform. The person the client spoke to from Etsy had wrongly confirmed that this was the case, therefore the client thought the VAT treatment of the sales was correct.

I checked through the monthly statements provided by Etsy and found no mention of VAT calculated on any of the sales to customers, suggesting that Etsy had not accounted for the VAT as they had stated.

I read through the help section on the Etsy website to understand their policies regarding the VAT treatment for transactions within the UK. I found Etsy's statement that they would not apply VAT to transactions between UK sellers and buyers if the goods were located in the UK. It also stated that it was the responsibility of the seller to seek the advice of a tax adviser regarding UK VAT or contact HMRC directly. This contradicted the client's belief that VAT was being accounted for by Etsy, highlighting a misunderstanding of whose obligation it was to collect, report and pay the VAT to HMRC.

Finally, in an effort to have my concerns regarding the VAT treatment validated and rule out any lesser known legislation that may support the advice given by the previous accountant and Etsy, I

consulted a tax adviser who specialised in VAT. They confirmed that the VAT treatment of the sales was incorrect and the client should have been charging and paying 20% VAT on all sales over to HMRC.

Once I was confident that I had uncovered an issue with the VAT treatment of the sales, I calculated the total amount of output VAT that should have been declared and paid to HMRC. I determined that the total output VAT omitted from the VAT returns in the first year amounted to £19,000.

EXAMPLE ANSWER

IDENTIFICATION OF IMPROPER USE OF FUNCTIONAL CURRENCY UNDER SFRS 21

In September 2019, my firm was appointed as the new auditor for ABC Pte Ltd (the “Company”), a Singapore-based company engaged in trading yarns and textile accessories. During the initial audit planning meeting with the Company’s director, I enquired about the Company’s major customers, suppliers, and the factors influencing pricing and currency use. The Company’s key supplier was based in Country A, while the majority of its sales were conducted in United States Dollars (USD) to customers in Country B and Country C. I noticed that the Company’s transactions were predominantly conducted in USD, despite its functional currency being reported as Singapore Dollars (SGD).

Having worked on similar cases, I immediately identified a potential issue with the functional currency reported in the financial statements. According to Singapore Financial Reporting Standards 21 (SFRS 21) – The Effects of Changes in Foreign Exchange Rates, the functional currency must reflect the primary economic environment in which the entity operates. Based on the director’s explanations and my understanding of the business, I suspected that USD might be the appropriate functional currency, not SGD.

To investigate further, I reviewed the Company’s latest audited financial statements and accounting records, including the general ledger, customer & supplier invoices, and bank statements for the year ending 31 December 2018. I compared the revenue and cost of goods sold in these records and noticed that the majority of transactions were denominated in USD, which supported my initial concern. Additionally, I observed significant foreign exchange losses of SGD 232,430, further suggesting that currency misalignment was materially impacting financial results.

To validate my concerns, I re-examined shipping documents and supplier invoices, confirming that most transactions were conducted in USD. Based on my analysis, I concluded that the functional currency should be USD, as the Company primarily generated and spent cash in USD. I also noticed that this misalignment had led to significant foreign exchange fluctuations, affecting the financial statements.

I discussed these findings with the Company’s director and enquired whether the previous auditors had raised this issue. The director confirmed that it had not been addressed, and he believed that SGD was appropriate due to local incorporation and operational expenses. I explained that under SFRS 21, the functional currency should reflect the primary economic environment, which in this case was driven by USD.

I then performed a preliminary remeasurement of the financial statements using the temporal method, with USD as the functional currency. Under this method, monetary items such as cash at bank, receivables and payables were remeasured using the closing exchange rate, while non-monetary items such as inventories were remeasured at historical rates. The remeasurement resulted in a loss of USD 41,304, further highlighting the impact of the currency misalignment. This confirmed the need to adjust the functional currency to USD to ensure compliance with SFRS 21.

After discussing the results of the remeasurement with the director, the management agreed with my assessment and adopted USD as the functional currency for future financial reporting.

EXAMPLE ANSWER

IDENTIFICATION OF INCORRECT INCOME RECOGNITION POLICY UNDER SFRS 115

In late 2020, my firm was engaged as the new auditor for DEF (the “Council”), a business council established in 2017 to promote trade and investment between Europe and ASEAN. The Council generates income primarily from membership fees and networking events. This was our first year handling their audit for the fiscal year ending 31 December 2020, as part of the Council’s policy to rotate auditors every three years.

During the initial audit planning meeting, I enquired about the Council’s primary income sources and how they were recognised. The Council generated revenue through membership fees, which were invoiced and recognised upon approval of both new member registrations and existing member renewal. I noticed that the Council’s revenue recognition approach could lead to premature recognition. I immediately identified that this might not align with Singapore Financial Reporting Standards 115 (SFRS 115) – Revenue from Contracts with Customers, potentially leading to a material overstatement of income.

Recognising this risk of premature revenue recognition, I decided to delve deeper into the Council’s financial records. I reviewed the audited financial statements for the fiscal year ending 31 December 2019 and analysed all membership application forms (both new member applications and renewals) during the period between February 2019 and December 2019. I focused on whether the invoicing dates aligned with the 12-month membership period, which begins on the member’s joined date and continues for a full year.

Upon reviewing the membership applications, invoices and supporting documentation, I noticed that the Council had been recognising the full membership fee upfront upon invoicing, without properly considering the progressive nature of the services provided over the 12-month period. This practice led to a material overstatement of revenue, particularly for members who joined late in the fiscal year.

To validate this issue, I compared the timing of revenue recognition with the requirements of SFRS 115. According to the standard, revenue should be recognised as performance obligations are satisfied, typically over time rather than at a single point in time. I carefully examined the Council’s contracts and applied the five-step model from SFRS 115 to confirm that the current revenue recognition method did not align with the standard. Specifically, paragraph 35 and B49 of SFRS 115 emphasize that revenue should be recognised progressively over the period in which services are rendered.

After analysing the Council’s financial records and comparing the invoicing dates with the actual service periods based on the members’ joined dates, I estimated that Council had overstated its 2019 revenue by SGD 106,000, mainly due to recognising both new and renewal membership fees upfront. This misstatement was material and would continue to affect the 2020 financial statements if not corrected.

I discussed the findings with the Council’s treasurer, who was surprised that the previous auditors had not raised this concern. I explained how the current practice of recognising revenue upfront was inconsistent with SFRS 115 and could result in further misstatements. I walked the treasurer

through the relevant provisions of SFRS 115, explaining the importance of aligning revenue recognition with the actual 12-month membership period.

Recognising the severity of the issue, the treasurer agreed to take immediate action to adjust the revenue recognition approach.