



CORPORATE REPORTING

JULY 2022

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 Bibliu Link in the exam software.

Question 1 – Advance Information Gazelle Ltd

The Advance Information relates only to Question 1 of the Corporate Reporting examination.

The Advance Information comprises:

- This document, which includes the scenario, notes of a meeting with Paula Elliott, Gazelle Ltd's finance director, ([Exhibit A](#)) and a working paper prepared by an audit assistant working for MFE ([Exhibit B](#)); and
- The nominal ledger data for Gazelle for the 11 months ended 30 November 2021 contained within the data analytics software.
<https://icaew22-staging.inflosoftware.com/redirect/Exam?code=ALCRJUL22AI>

Examination

In the Corporate Reporting examination, you will be provided with the nominal ledger data for Gazelle for the full 12 months ended 31 December 2021 contained within the data analytics software. You will need to address the new data for the month of December 2021 and to consider the data, patterns and trends for the year ended 31 December 2021 as a whole.

The data for the 11 months to 30 November 2021 remains valid for the exam 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 2021 made available in the Advance Information nor any notes you have made in the data analytics software for the 11 months to 30 November 2021.

Scenario

Assume the date is 20 June 2022

You are an audit senior working for MFE LLP, a firm of ICAEW Chartered Accountants.

You have been assigned to the audit of Gazelle for the year ended 31 December 2021. Gazelle prepares its financial statements in accordance with IFRS. You receive the following email from the audit engagement manager, Sam Kota:

From: Sam Kota
Date: 20 June 2022
To: Audit Senior

In April 2021, MFE was appointed as Gazelle's auditor. Shortly after, I had an introductory meeting with Paula Elliott, Gazelle's finance director. I have summarised for you my notes from this meeting, which include background information about Gazelle and its business (**Exhibit A**).

Gazelle has been slow to provide nominal ledger data. Therefore, the audit for the year ended 31 December 2021 is scheduled for July 2022.

In May 2022, MFE started planning the Gazelle audit for the year ended 31 December 2021. An MFE audit assistant prepared a working paper using some information from the year ended 31 December 2020. He also included information about the current members of the Gazelle finance team and their roles (**Exhibit B**).

Gazelle's management has now provided MFE with the nominal ledger data for the 11 months ended 30 November 2021. This has been imported into the data analytics software that MFE uses to carry out its audit procedures.

The nominal ledger data for the full year ended 31 December 2021 will be available for the final audit visit in July 2022.

Before the final audit visit, I would like you to review:

- (1) The notes of my introductory meeting with Paula Elliott prepared in April 2021 (Exhibit A) and the working paper prepared by the MFE audit assistant in May 2022 (Exhibit B); and
- (2) The nominal ledger data for Gazelle for the 11 months ended 30 November 2021, contained within the data analytics software.

Audit materiality has been set at £105,000.

Exhibit A: Notes of introductory meeting with Paula Elliott – prepared by Sam Kota, April 2021

Business and operations

Gazelle is a recruitment agency for clients in the science, clinical and engineering sectors.

The services Gazelle offers are:

- Permanent job recruitment services in the UK
- Supply of temporary contractors (temps) in the UK and in the rest of Europe.

Permanent job recruitment services (UK only)

Clients approach Gazelle when they need a permanent employee. Gazelle advertises the job and identifies and shortlists applicants according to the client's job specification.

Gazelle charges each client a fee based on a percentage of the successful applicant's starting salary. A sales invoice is prepared for each fee. These sales invoices are recorded in the following Account codes, based on the client sector:

Account code	Account description
4001	Perms – Science
4006	Perms – Clinical
4013	Perms – Engineers

Revenue is recognised when the applicant commences employment with the client. As part of the terms of business, Gazelle offers a full refund if, within three months of appointment, the applicant leaves the client's employment. This happens rarely as Gazelle is very experienced in recruitment.

In early April 2021, Gazelle appointed Geri Kyle as a new director and head of permanent recruitment. Paula told me that the board expects Geri to introduce some changes to the contracts with clients for permanent job recruitment services. As a result, revenue may increase in the year ending 31 December 2021.

Supply of temporary contractors (temps) in the UK and the rest of Europe

Clients approach Gazelle when they need staff on a short-term basis. Gazelle has responsibility for providing a suitable temp to the job specification approved by Gazelle's client. Gazelle provides temps to clients under the following methods:

- Method 1: Temps employed by Gazelle (UK only)
- Method 2: Company temps (UK and the rest of Europe)

Method 1: Temps employed by Gazelle (UK only)

- The temp is employed by Gazelle for the duration of their work for Gazelle's client. Gazelle provides all payroll and human resources (HR) functions relating to the temp.
- The employed temp submits a weekly/monthly online timesheet to Gazelle, which sets out the hours worked for Gazelle's client. The timesheet is authorised by Gazelle's client before submission to Gazelle.
- Gazelle pays the employed temp an agreed wage, net of all relevant taxes and other deductions. The gross wage cost is recorded in Account code 6002 Temps costs – UK.
- Gazelle's accounting system generates a sales invoice when the employed temp submits their online timesheet. The accounting system uses agreed fees per hour for the services provided to the client by the employed temp. The sales invoice is recorded in Account code 4000 Temps – UK.

Method 2: Company temps (UK and the rest of Europe)

- A company temp is an individual that provides their services to Gazelle through their own limited company. The company temp's limited company has responsibility for paying all relevant taxes to the tax authorities and undertakes any necessary HR functions.
- The company temp's limited company submits a weekly/monthly invoice to Gazelle for the services that the company temp has provided to Gazelle's client. Gazelle records the purchase invoice in Account code 6002 Temps costs – UK or Account code 6007 Temps costs – Europe.
- Gazelle prepares a sales invoice to its client for the services provided to its client by the company temp, at an agreed fee per hour/day.
- The sales invoice is sent to Gazelle's client for approval.
- The sales invoice is recorded in Gazelle's accounting records when it has been approved by Gazelle's client. Sales invoices are recorded in Account code 4000 Temps – UK or Account code 4007 Temps – Europe.
- Occasionally Gazelle's clients are slow to approve sale invoices for payment in respect of services provided to them by company temps. If clients are slow to approve the invoice, Paula Elliott prepares a manual journal each month to accrue for unapproved sales invoices as follows:

Debit	Account code 2109	Accrued income
Credit	Account code 4000	Temps – UK

When the sales invoice is raised and processed, Paula enters a reversing journal entry to remove the accrued income.

Exhibit B: Working paper prepared by MFE audit assistant in May 2022

Gazelle – Average number of employees for the year ended 31 December

In addition to employing temps for its clients, Gazelle has its own core staff (including directors) for recruitment, finance and administration. The total number of employees is as follows:

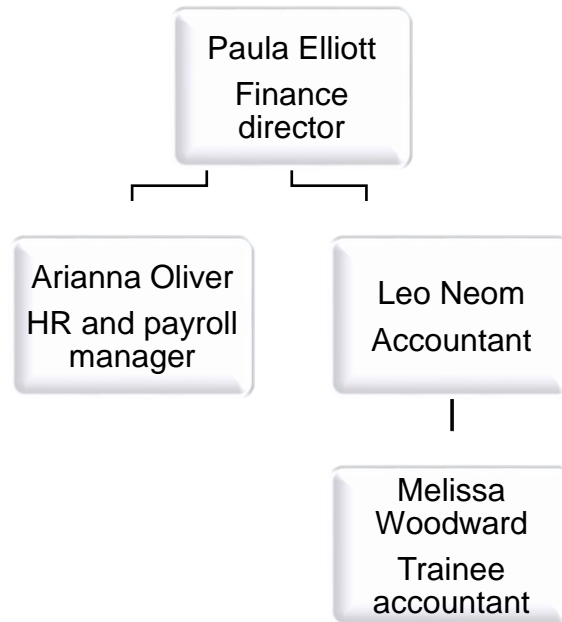
	2021	2020
Gazelle core staff members (including directors):		
• Recruiters for permanent jobs	9	10
• Recruiters for temps	20	18
• Finance and administration	14	14
	<hr/> 43	<hr/> 42
Employed temps	207	198
	<hr/> 250	<hr/> 240

Calculation of gross profit for UK temps

I have prepared the following analysis using information from the data analytics software for the year ended 31 December 2020. The analysis shows how the revenue and costs for UK temps are recorded in Account codes 4000 and 6002 respectively and identifies gross profit for the supply of employed temps and company temps.

Account code	Employed temps £000	Company temps £000	Total £000
<u>Account code 4000 Temps – UK</u>			
Sales invoices and credit notes	8,116	-	8,116
Sales invoices and credit notes	-	7,655	7,655
	<hr/> 8,116	<hr/> 7,655	<hr/> 15,771
<u>Account code 6002 Temps costs – UK</u>			
Total payroll cost for employed temps and Gazelle core staff	(7,933)	-	(7,933)
Company temp purchase invoices, purchase credit notes and manual journals for accrued income	-	(7,546)	(7,546)
Less:			
Manual journal transfers to Account code 7003 Core staff salaries	2,033	-	2,033
	<hr/> (5,900)	<hr/> (7,546)	<hr/> (13,446)
Gross profit	<hr/> 2,216	<hr/> 109	<hr/> 2,325

Members of the Gazelle finance team



Paula Elliott – Finance director

Paula is an ICAEW Chartered Accountant and has worked at Gazelle since 2010. She is head of the finance function. Paula is responsible for the production of the financial statements and quarterly management accounts. She processes all types of accounting entries but mainly manual journals for accrued income to the receivable account - Account code 2109 Accrued income. She also posts manual journals for accruals and prepayments for expenses.

She sometimes helps Leo Neom to post company temp sales invoices and credit notes in Account codes:

4000 Temps – UK
4007 Temps – Europe

Melissa also posts invoices for permanent job recruitment services in Account code 4001 Perms – Science.

Arianna Oliver – HR and payroll manager

Arianna has worked for Gazelle for many years. She is experienced in payroll preparation and all aspects of HR. Arianna processes the payroll for both employed temps and Gazelle's core staff.

Arianna records the wages journals and posts the gross pay for employed temps and for Gazelle's core staff in total to Account code 6002 Temps costs – UK.

Arianna does not process any sales invoices.

Leo Neom – Accountant

Leo joined Gazelle in December 2019.

Leo generates and posts sales invoices for permanent job recruitment services and is responsible for credit control for receivables.

Leo is responsible for processing and paying purchase invoices received from company temps. These invoices are recorded in Account code 6002 Temps costs – UK or Account code 6007 Temps costs – Europe.

Leo also processes sales invoices to Gazelle's clients for services provided by company temps. Sales invoices for company temps are recorded in Account code 4000 Temps – UK or Account code 4007 Temps – Europe.

Gazelle recognises that there is an internal control weakness as Leo is responsible both for the recording of company temp purchase invoices and for generating and processing sales invoices to Gazelle's clients. Paula Elliott has oversight of this process and in a small company such as Gazelle, it is not always possible to achieve segregation of duties.

On a monthly basis, Leo Neom transfers an amount representing the cost of Gazelle's core staff from Account code 6002 Temps cost – UK to Account code 7003 Core staff salaries.

Melissa Woodward – Trainee accountant

Melissa's primary role is to process sales invoices for services provided to Gazelle's clients by employed temps to Account code 4000 Temps – UK. This provides segregation of duties as Arianna processes payroll costs for employed temps.

From July 2021, Melissa helped Leo to post company temp purchase invoices to Account code 6002 Temps cost – UK.