

## **PM1.0**

### **ABC Wholesale & Retail - Background**

ABC Wholesale and Retail began operations in January 1999 and is owner operated by Bill Franks. The company's mainly sells in demand groceries in its neighbourhood. The business was funded by the proceeds of Bill's redundancy package and a small business loan from EFG Cooperative Bank. You have been engaged to perform this audit since December 31, 1999 and are in the third year of being the auditors. The past three years have been challenging for Bill given the difficult economic times facing his customers. Bill purchases products from an importer however the exchange rate depreciation has resulted in an increase in products which has reduced the profit margin over the last year. Bill has been involved in the day- to-day operations of the company and employed 2 staff members. He withdraws approximately \$600,000 each year for his annual salary.

In your client meeting for the planning of the December 31, 20X1 audit, Bill informs you that there was a small fire at the back of his shop and there was minor damage to the building and a few inventory items. He has not assessed the damage as yet and will let you know when you return to conduct the audit. Otherwise, business has been mainly on a cash basis. Credit is only extended to reputable community members but has increased over the prior year. A new grocery store was opened in the latter part of the year across the road which has increased competition in the area. Bill believes his customers are loyal and will continue to purchase from him. There were no new suppliers during the year.

You and your assistant returned to the office and will prepare for the audit of ABC Wholesale and Retail.

In your table groups, discuss what procedures will you perform during this planning phase of the audit and outline what documents you will obtain from the client and what documentation will you and your audit staff complete?



**ABC Wholesale & Retail - Exercise 2 – PM 2.0**

**Inventory**

<b>Risks</b>	<b>Assertions</b>	<b>Substantive procedures</b>	<b>Documentation</b>

## PM 2.1 - TRIAL BALANCE

<b>ABC WHOLESALE &amp; RETAIL</b>			
<b>31 December 20X1</b>			
		Debit	Credit
1000	Leasehold improvement	550,000	
1001	Furniture and fittings	250,000	
1002	Motor vehicles	300,000	
1003	Equipment	1,670,000	
1010	Leasehold improvement - provision for depreciation		(165,000)
1011	Furniture and fittings - provision for depreciation		(75,000)
1012	Motor vehicles - provision for depreciation		(90,000)
1013	Equipment - provision for depreciation		(501,000)
2000	Inventory - consumables	300,000	
2001	Inventory - bulk	1,205,000	
2002	Inventory - perishables	2,330,000	
2003	Inventory - provision for obsolescence		-
3000	Trade debtors	1,530,000	
3001	Provision for bad debt		
3050	Prepaid insurance	10,000	
4000	Bank account 1 - JMD	275,000	
4001	Bank account 2 - USD	560,000	
4002	Petty cash	10,000	
5000	Trade creditors		(2,458,750)
5001	Statutory payables		(53,000)
5002	GCT payable		(33,000)
5003	Income tax payable		(20,000)
5004	Other payables		(25,000)
6000	Bank loan - current		-
6001	Bank loan - Long term		(3,000,000)
7000	Share capital		(1,100,000)
7001	Retained earnings		(850,000)
8000	Sales		(11,900,000)
8001	Other income		(705,750)
9000	Purchases	9,205,000	
9001	Salaries and director's fees	1,002,000	
9002	Loss on inventory	235,000	
9003	Electricity	650,000	
9004	Repairs	15,000	
9005	Fx loss	125,000	
9006	Phone	40,000	
9007	Advertising	100,000	
9008	Professional fees	2,500	
9009	Bank interest	320,000	
9010	Depreciation	277,000	
9011	Tax expense	15,000	
		20,976,500	(20,976,500)



# PM 2.3

Inventory compilation report				
ABC WHOLESALE AND RETAIL				
STOCK VALUATION REPORT				
12/31/20X1				
Item Number	Description	COST	TOTAL STOCK ON HAND	TOTAL VALUE
F10000	Canned good 1	50.00	9.00	450.00
F10001	Canned good 2	150.00	100.00	15,000.00
F10002	Canned good 3	200.00	178.00	35,600.00
F10003	Canned good 4	75.00	112.00	8,400.00
F10004	Canned good 5	12.00	654.00	7,848.00
F10005	Canned good 6	220.00	235.00	51,700.00
F10006	Canned good 7	575.00	10.00	5,750.00
F10007	Canned good 8	110.00	432.00	47,520.00
F10015	Snack 5	22.50		-
F10016	Snack 6	66.00	80.00	5,280.00
F10017	Snack 7	11.00	2.00	22.00
F10018	Bread 1	175.00	5.00	875.00
F10019	Bread 2	250.00	6.00	1,500.00
F10020	Tolietries 1	121.00	14.56	1,761.76
F10021	Tolietries 2	213.00	35.55	7,572.15
F10022	Tolietries 3	59.00	75.00	4,425.00
F10023	Tolietries 4	126.00	400.00	50,400.00
F10024	Tolietries 5	765.00	4.00	3,060.00
F10025	Soda 1	10.00	10.00	100.00
F10026	Soda 2	12.00	10.00	120.00
F10027	Soda 3	15.00	10.00	150.00
F10028	Soda 4	22.00	2.00	44.00
F10029	Soda 5	18.00	3.00	54.00
F10030	Soda 6	12.00	5.00	60.00
F10031	Candy 1	3.00	565.00	1,695.00
F10032	Candy 2	5.00	212.00	1,060.00
F10033	Candy 3	4.00	300.00	1,200.00
F10034	Candy 4	7.00	200.00	1,400.00
<b>CONSUMABLES</b>			<b>3,669.11</b>	<b>253,046.91</b>
B10000	Flour	122.00	800.00	97,600.00
B10001	Sugar	123.00	1,320.00	162,360.00
B10002	Rice	145.00	2,234.00	323,930.00
B10003	Cornmeal	100.00	4,270.00	427,000.00
B10004	Bulgar	76.00	2,554.25	194,123.00
<b>BULK GOODS TOTAL</b>			<b>11,178.25</b>	<b>1,205,013.00</b>

## PM2.3 - continued

ABC WHOLESALE AND RETAIL				
STOCK VALUATION REPORT				
12/31/20X1				
			TOTAL	TOTAL
<u>Item Number</u>	<u>Description</u>	<u>COST</u>	<u>STOCK ON HAND</u>	<u>VALUE</u>
P10001	Chicken - parts	250.59	1,905.00	477,373.95
P10002	Beef	200.00	476.00	95,200.00
P10003	Pork	300.00	405.00	121,500.00
P10004	Oxtail (5 lb)	700.00	450.00	315,000.00
P10005	Chicken foot	95.00	458.79	43,585.05
P10006	Chicken - whole	298.00	1,750.00	521,500.00
D30057	Goat - local	600.00	1,000.00	600,000.00
D30058	Vegetable 1	120.00	8.00	960.00
D30054	Vegetable 2	140.00	12.23	1,712.20
D30061	Refrigerated good 1	100.00	1,045.00	104,500.00
D30069	Refrigerated good 2	85.00	551.39	46,867.90
D30063	Refrigerated good 3	65.00	45.00	2,925.00
	<b>PERISHABLES &gt;&gt;</b>		<b>8,106.41</b>	<b>2,331,124.10</b>
	<b>TOTAL</b>			<b>3,789,184.01</b>





## PM 2.5 Extract of inventory movement report

<b>B1002</b>	<b>Rice</b>	Units	Price
1-1-20X1	Opening units	2,120	145
4- 1-20X1	Purchased	500	147
	Sold	(1,250)	
6-1-20X1	Purchased	950	148
	Sold	(1,586)	
	Purchased	1,500	143
	Ending inventory	<b>2,234.00</b>	

<b>P10001</b>	<b>Chicken - parts</b>	Units	Price
1-1-20X1	Opening units	1,250	200
3-1-20X1	Purchased	500	210
	Sold	(1,350)	
6-1-20X1	Purchased	1,030	275
	Sold	(1,025)	
	Purchased	1,500	244
	Ending inventory	<b>1,905.00</b>	



## PM 3.1 - Inventory - Extract from ISA 501

### *Attendance at Physical Inventory Counting (Ref: Para. 4(a))*

- Management ordinarily establishes procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.
- Attendance at physical inventory counting involves:
  - Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts;
  - Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and
  - Obtaining audit evidence as to the reliability of management's count procedures.

### Considerations relevant to planning attendance at the physical inventory count

- Risk of material misstatement
- Internal controls
- Adequate procedures established and proper instructions issued
- Timing of count
- Maintenance of perpetual records
- Location of inventory
- Expert required

### Evaluate Management's Instructions and Procedures

- Control activities in place – control of used and unused inventory records, count, recount procedures
- Identification of slow moving, obsolete or damaged items and inventory owned by third parties
- Procedures used to estimate quantities
- Control over movement of inventory

### Perform Test Counts

- Performing test counts, for example by tracing items selected from management's count records to the physical inventory and tracing items selected from the physical inventory to management's count records, provides audit evidence about the completeness and the accuracy of those records.
- In addition to recording the auditor's test counts, obtaining copies of management's completed physical inventory count records assists the auditor in performing subsequent audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results.

### *Physical Inventory Counting Conducted Other than At the Date of the Financial Statements*

#### *Attendance at Physical Inventory Counting Is Impracticable (Ref: Para. 7)*

#### *Inventory under the Custody and Control of a Third Party*

## PM 3.2 Extract of results of Inventory observation

ABC Wholesale & Retail  
Year ended 31 December 20X1

To : Audit File  
From : Audit Staff  
CC : Audit Partner

I attended the inventory observation for ABC Wholesale & Retail and observed the following:

- Instructions were given to staff for the procedures to be carried out
- Counts sheets were provided
- Stocks were nearly organised and easily counted
- Damaged items from the fire were separated. List of items is attached.

The sample selected for counting is attached below.

I observed a delivery in progress for canned good 3 during the inventory count. An additional 202 cases were received. The goods receipt note is attached.

*Extract...*

<u>Item Number</u>	<u>Description</u>	<u>Total counted</u>	<u>Per client</u>	<u>Difference</u>
F10002	Canned good 3	380	178	202
F10005	Canned good 6	235	235	-

**PM 4.0 - ABC Wholesale & Retail – Exercise 4**

**Revenue**

<b>Risks</b>	<b>Assertions</b>	<b>Substantive procedures</b>	<b>Documentation</b>

# PM 5.0

## ISA 700 example audit report

### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### **Report on the Financial Statements<sup>26</sup>**

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's<sup>27</sup> Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,<sup>28</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>29</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>30</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.**

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]