

Test of Professional Skills

Assurance and Data: Retake Mock Exam

2022

TIME: 4 HOURS

Students must attempt all requirements in this paper.

Total marks: 100

Notes to Candidates

This paper contains four compulsory questions and relevant appendices.

You MAY NOT submit this question paper as part of your answer.



ASSURANCE AND DATA

RETAKES MOCK EXAM

DURATION: 4 HOURS

TOTAL MARKS: 100

Number of questions: this paper contains four compulsory questions worth 40, 15, 20 and 25 marks respectively.

For the purposes of this Mock examination the impact of the Covid-19 pandemic has been ignored and this should not be considered as part of your solution.

QUESTION 1 (40 marks)

It is April 2022 and you are the audit manager responsible for the external audit of the group consolidated financial statements of Pamper Hotels and Golf Resorts Group Limited (Pamper Group) for the year ended 31 December 2021. Pamper Group has been an audit client of your firm, Masterson Smith LLP (Masterson), a firm of Chartered Accountants, for several years. You have recently taken over as the audit manager.

Pamper Group operates a range of luxury hotel and golf resorts based in well-known and developing golf locations across the world. The group comprises a number of wholly owned trading subsidiaries. A summary of background information and the group structure obtained from the permanent audit file are included in Appendix 1.

The year-end fieldwork, which included work performed by several overseas offices of Masterson, has been completed. You are reviewing extracts of the component auditors' highlights memoranda (Appendix 2) which detail the results of their audit procedures and any significant matters arising from their audits, in line with the group audit instructions.

Your audit partner, David Durcan, has asked you to prepare an audit workpaper identifying the issues arising from the highlights memoranda which are significant to the audit of the group and evaluating the impact of each of these issues on the group consolidated financial statements. David has also asked you to design and consider, where appropriate, further substantive audit procedures that either your audit team, as group auditors, or the relevant component auditors will need to perform to obtain additional audit evidence to address these issues. Furthermore, he has asked you to analyse, for each issue, the impact on the group audit report and audit opinion in the event that the further substantive procedures at group or component level do not resolve the issue satisfactorily.

David has also provided you with notes of a meeting with Carol Jones (Appendix 3), the chief executive officer (CEO) of Pamper Group, in which the audit for next year was discussed. He has asked you to prepare information suitable for inclusion in a briefing note to evaluate the audit engagement continuance risks at Pamper Group. David has asked

you to also consider the information in the component auditors' highlights memoranda when assessing the audit engagement continuance risks.

Required:

1. Prepare an audit workpaper in which you:
 - a) Identify and evaluate the issues arising from the highlights memoranda impacting the component financial statements including the effect, if any, on the group consolidated financial statements.

(9 marks)
 - b) Consider and design, where appropriate, further substantive audit procedures from a group perspective that your audit team or the relevant component auditor will need to perform to obtain additional audit evidence to address these issues.

(11 marks)
 - c) Analyse, for each issue, the impact on the group audit report and opinion, if any, in the event that the further substantive procedures at group or component level do not resolve the issue satisfactorily.

(10 marks)
2. Prepare information suitable for inclusion in a briefing note in which you evaluate the audit engagement continuance risks at Pamper Group.

(10 marks)

(40 marks)

APPENDIX 1 (Question 1) – Group structure of Pamper Hotels and Golf Resorts Group Limited (Pamper Group)

Pamper Holdings is the parent company and has been owned exclusively by the Ross family since 1995. The parent company holds investments in the trading subsidiaries and does not trade. An overview of the five trading subsidiaries is included in the below table:

Trading subsidiary	Location	Auditor
Pamper Hotels UK Limited (Pamper UK)	Scotland, UK	Masterson, Edinburgh, UK
Pamper Spain SL (Pamper Spain)	Marbella, Spain	Masterson, Malaga, Spain
Pamper South Africa Pty (Pamper South Africa)	Cape Town, South Africa	Masterson, Cape Town, South Africa
Pamper Mexico SA (Pamper Mexico)	Mexico City, Mexico	Masterson, Mexico City, Mexico
Pamper Greece E.P.E (Pamper Greece)	Athens, Greece	Masterson, Athens, Greece

Pamper UK is the largest of the trading subsidiaries and operates three luxury hotel and golf resorts in Pembrokeshire (Wales), Maidstone (England) and Aberdeen (Scotland). Its finance team is located in St Andrews and comprises of the group finance director and ten other finance staff. The finance team is also responsible for the preparation of the group consolidated financial statements.

The underlying accounting transactions in each location in the UK and overseas are maintained on different off-the-shelf packages and are prepared using Pamper Group's accounting policies and IFRS. The transactions are maintained in local currency but reported to the group in pounds sterling based on monthly exchange rates provided by the group finance director.

Pamper Spain, whose year end is 30 November due to local requirements, was set up in 1999. Pamper Spain operates a luxury resort close to Marbella.

Pamper South Africa was acquired in August 2019 and comprises of several five-star golf resorts in the popular Sun City and Garden Route regions in South Africa. During audit planning it was identified as a significant component due to the value of fixed assets of £1.8m which account for 10% of the group's property, plant and equipment.

Pamper Mexico was set up in 2007 and has experienced significant growth over the last 18 months. There is a four-person local finance team, including a finance manager who reports directly to the group finance director.

Pamper Greece was set up in 2018. While it has been identified by management as a key area for growth in the next year for the group and was therefore included in the component audit scope, it was not identified as a significant component as part of the current year audit planning.

APPENDIX 2 (Question 1) – Extracts from the component auditors' highlights memoranda

Note: Group materiality has been set at £400,000 and the trivial threshold at £20,000. The net assets of the group are £7.9m with consolidated group profit before tax of £5.7m.

Pamper UK

In October 2021, Pamper UK received notification from HMRC of an investigation into allegations that it was not paying the correct National Minimum Wage to a significant number of reception, restaurant and golf shop staff at its UK resorts. The investigation is complete, however, HMRC has not yet issued its report. The group finance director has met with HMRC and, based on those discussions, understands that HMRC is likely to assert that staff have been underpaid, in which case Pamper UK will be liable for a payment of £410,000 in unpaid wages, employer taxes and penalties.

Masterson's UK employment and taxes specialists have reviewed the information available and agree with HMRC's understanding of the case and the estimate of the potential exposure. Management have refused to accept the HMRC presentation of the case or the estimate and have not accounted for any related cost in the financial statements.

Pamper UK offers members of the golf club a 10% discount on their subscriptions if they pay for a full year in advance at the start of the membership year in June. A total of 440 members took advantage of the offer and each paid £2,250 to Pamper UK on 1 June 2021. The full amount received was recognised as income in Pamper UK's financial statements during the year.

Pamper UK has successfully applied for grant funding to provide a range of holiday camps for school-age children during the school holidays in the next financial year. The Pamper UK finance manager has asked Masterson to provide a fee proposal for carrying out a separate review of their revenue recognition policy in respect of grant funding. The work will be carried out once the audit for this year has been completed.

Pamper UK has a three-year contract with the world's largest specialist golf holiday travel company which accounts for 40% of company revenue. This is disclosed in the financial statements. However, the contract is due for renewal on 1 November 2022 and negotiations are still ongoing. The expected renewal date is after the date of signing the financial statements.

Pamper Spain

At 30 November 2021, Pamper Spain accounted for a revaluation of its resort's land and buildings with an uplift of £2,820,000, increasing the net book value to £9,090,000. Management provided an external surveyor's report dated 1 April 2021 which detailed a current market value of £5,900,000. Management believe that the addition of a second restaurant at the resort, capitalised at the cost incurred of £370,000, and a general improvement in the tourist trade which is driving up values in the local property market, justifies the increase compared to the surveyor's report.

APPENDIX 2 (Question 1) (continued)

No issues were identified with the revaluation exercises undertaken at the other components of the group.

On 5 November 2021, there was a large fire in the storeroom of the golf merchandise shop at the resort. This led to a loss of stock of £19,000. Management has not yet written off the value of the stock as they are awaiting the outcome of an insurance claim related to the fire.

Review of post year-end financial information by the component audit team did not identify any significant transactions in December 2020 or December 2021.

Pamper South Africa

No matters arose during fieldwork that required highlighting to group auditors.

Pamper Mexico

In November 2021, the board of directors of Pamper Mexico (the board) approved a loan of £175,000 to Owen Ross, who is the son of the Pamper Group founder and Chairman. During our review of the board minutes, we noted that the board had determined that the amount was not material and have therefore not disclosed the loan in the notes to the financial statements.

In December 2021, the finance manager left Pamper Mexico to work for another local golf and hotel resort. He has recruited two other members of the Pamper Mexico finance team to join him at the resort which is a direct competitor. They joined him in March 2022. The audit team encountered delays in obtaining relevant audit evidence during fieldwork.

There is a bank account balance of £600,000 included within the financial statements which is not included in the list of bank accounts set out in the bank confirmation letter that was received from Pamper Mexico's bank as part of the audit fieldwork.

Pamper Greece

No matters arose during fieldwork that required highlighting to group auditors.

APPENDIX 3 (Question 1) – Notes from the meeting with Carol Jones, CEO of Pamper Group, including follow-up notes prepared by David Durcan

Carol noted that Pamper Group plans to continue its expansion in the coming year by focusing on the growth of the current resorts and considering opportunities to expand into new geographical locations. Pamper Group is actively pursuing an opportunity to acquire a 50% shareholding in a joint venture based in Dubai, United Arab Emirates. The remaining 50% shareholding in the joint venture would be owned by a British expatriate, Mike Tanning, who now resides in Saudi Arabia. In addition to the joint venture, Mike would become a director and non-controlling shareholder of the Pamper Group.

To finance the acquisition, Pamper Group is seeking a £10m long term loan from Pamper UK's bank. Negotiations for the funding are almost complete, but the bank has indicated that they will need to see the audited consolidated financial statements for the year ended 31 December 2021 and the final funding position will be dependent on there being an acceptable level of group net assets.

Carol has proposed that, if the acquisition is successful, Masterson will be the auditor of the joint venture. However, whilst she was pleased with the quality of the audit work in previous years, she feels that the audit fees overall are too high and would like these to be reduced. She has also requested that the audit of next year's consolidated financial statements is completed by 31 January. The audit report would normally be finalised in early March due to limited staff availability in January and February. Carol stated that she is willing to negotiate a lower audit fee with an additional bonus if Masterson meets the 31 January completion deadline.

Follow-up notes prepared by David Durcan

Following the meeting, I performed some research into Mike Tanning's background and found that he has been involved in a variety of business ventures in different sectors. Several news articles indicate that a number of these ventures have been unsuccessful. Additionally, in 2018, HMRC launched an investigation into a retail business of which Mike was a director and majority shareholder on suspicion of corporate tax avoidance.

I am aware that Pamper UK's bank may be looking to place reliance on the audited group financial statements, but I will consider this further and this matter does not need to be included, at the moment, as part of our continuance risk assessment.

QUESTION 2 (15 marks)

It is June 2022. You are an audit manager planning the audit of the group financial statements of Chips and Dips Group (C&D) for the year ending 30 September 2022. C&D is an established audit client of your firm. The group is composed of a non-trading holding company, Chips and Dips Limited (CDL), that owns 100% of the share capital of two trading companies: Luxury Chips Ltd (Chips) and Delicious Dips Ltd (Dips). All companies are based in the UK. You are in the process of finalising the group audit strategy memorandum.

CDL is based in Leeds and owns plant, property and equipment and charges management fees to its subsidiary companies. Chips' manufacturing plant is based in Leeds producing luxury crisps and Dips manufactures a variety of dips to accompany crisps and other savoury snacks.

Sian Dalhousie, C&D's group accountant, has emailed you extracts from the most recent consolidated profit and loss account for the 8 months to 31 May 2022 and an extract from the group's balance sheet at 31 May 2022 (Appendix 1).

Your audit partner, Alana Millar, would like you to recommend an appropriate materiality level for the group audit, including the group trivial threshold. Alana has reminded you that the audit strategy memorandum has identified several significant audit risks, including the risk of management override, stock obsolescence and the impairment of both property, plant and equipment and intangibles.

Sian has also emailed you the consolidation process notes that have been prepared by Lesley Bashir, C&D's chief financial officer (Appendix 2). Alana has asked you, as part of your planning work, to design tests of controls to confirm the operating effectiveness of the consolidation process used for preparing C&D's consolidated financial statements.

Required:

1. Prepare information suitable for inclusion in the group audit strategy memorandum in which you calculate and explain an appropriate materiality level for the group and the group trivial threshold.

(5 marks)

2. Design tests of controls that your firm will perform to confirm the operating effectiveness of controls over the group's consolidation process.

(10 marks)**(15 marks)**

APPENDIX 1 (Question 2) – Management accounts extracts and other matters prepared by Sian Dalhousie

Consolidated profit and loss account	Notes	8 months to 31 May '22 Actual £000	Year ended 30 Sept '22 Budget £000	Year ended 30 Sept '21 Actual £000
Revenue	1	22,095	33,708	31,632
Gross profit		5,521	8,350	7,829
Profit before taxation		4,247	6,401	5,948
Subsidiary results				
<i>Chips</i>				
Revenue		10,969	18,841	18,094
Gross profit		2,739	4,522	4,344
Profit before taxation		1,765	3,699	3,209
<i>Dips</i>				
Revenue		11,535	15,851	14,568
Gross profit		3,082	4,239	3,740
Profit before taxation		2,568	2,789	2,854
Extract of C&D consolidated balance sheet				
		Period ended 31 May '22 £000	Year ended 30 Sept '22 £000	Year ended 30 Sept '21 £000
Total Assets		12,373	18,879	17,659
Net Assets		7,844	11,966	11,258

Notes to management accounts

1. The consolidated figures for the group are stated after the elimination of intercompany transactions and balances.

APPENDIX 2 (Question 2) – Consolidation process notes prepared by Lesley Bashir

The consolidation process is overseen by Lesley Bashir with the consolidation being performed by Sian Dalhousie.

Prior to the year end, Sian updates the group consolidation instructions and reporting pack for any changes to presentation or content of the group financial statements including disclosures. In order to facilitate this, Sian attends an annual training course on the relevant financial reporting standards for C&D, hosted by her accounting institute. Sian emails a copy of the group consolidation instructions, prior to the year end, to each subsidiary finance manager. These instructions include: the timetable for reporting; group accounting policies; procedures for agreement of intra-group balances; any stocktaking instructions; identification procedures for related parties; and details of when the exchange rates will be advised for US dollar transactions.

A standard consolidation reporting pack is emailed by Sian to each subsidiary finance manager for completion. This details all the information/ figures required for the group financial statements and disclosures.

The consolidation reporting packs are completed by the subsidiary finance managers and are initialed by them as evidence of completion. The managing director also signs as evidence of their review and approval of the reporting pack prior to submission. The consolidation reporting pack must be returned to C&D by email, 21 working days following the financial year end.

Sian completes the C&D holding company consolidation reporting pack and Lesley reviews this, signing it as evidence of his review, prior to input into the consolidation spreadsheet.

On receipt of the consolidation packs from the subsidiary companies, Sian transcribes the figures from the packs into the consolidation spreadsheet. The spreadsheet is password protected with the password known only to Sian and Lesley. There is a control total on the input tab of the consolidation spreadsheet to ensure that any transposition errors are identified.

Sian then prepares the consolidation adjustments, using automated pro-forma templates, including:

- Eliminating C&D's investments in Chips and Dips;
- Eliminating all intra-group trading and balances; and
- Eliminating any unrealised profit on intra-group transfers.

Sian completes a consolidation adjustment checklist, which contains a list of all the required consolidation adjustments, with the date and time each adjustment is completed. These adjustments are entered into the consolidation spreadsheet and the final consolidated figures are calculated. Lesley reviews the consolidated financial statements once they are complete and initials this as evidence of his review.

Following Lesley's sign off, Sian completes a disclosure checklist.

QUESTION 3 (20 marks)

You are an audit manager working in a large audit firm. Last year you undertook a secondment to the firm's audit data analytics department. Given your experience with this team, your audit partner has tasked you with running audit data analytic (ADA) exercises over trade receivables as part of the audit of Anna's Holidays and Airlines Ltd (Airlines). These routines are intended to aid the team with performance of substantive analytical review testing for the audit of the financial statements, year ended 31 May 2022.

Airlines is an established travel agency and licensed bureau de change which sells package holidays online and from high street stores throughout the UK. Some of the holiday packages are sold on behalf of other operators, while others are put together by Airlines contracting with hotels and airlines. Its main revenue stream consists of commissions received from large holiday tour operators. Some of these tour operators are based in Italy and Spain and Airlines invoices these operators in Euros to mitigate any foreign exchange risk. Commissions are invoiced in arrears at the end of each month.

Airlines has provided you with a download of the trade receivables ledger from its accounting system and your audit manager has requested that you use the firm's audit data analytic tool to perform a substantive analytical review over this data. As part of the audit team's interim work in early May 2022, procedures were performed to confirm the integrity of the data from a download of the trade receivables ledger for the period 1 June 2021 to 30 April 2022.

The balances brought forward at 1 May 2022 per the final download have been reconciled to the interim audit work with no errors and therefore you are only required to perform procedures to confirm the integrity of the data recorded for May 2022 and the final trade receivable balances as at 31 May 2022.

The total trade receivables balance as at 31 May 2022 is £1,091,000 per the data extraction tool and the tool shows 1,968 transactions, including invoices and receipts, recorded within trade receivables during the financial year.

In order to assist you with this exercise your audit senior, Jamie, has completed the cleansing of the data extraction provided and selected a sample of five trade receivable balances as at 31 May 2022 for you to consider. This includes two priority customers who Airlines makes a significant number of sales to each month. Based on the volume of transactions in May 2022 and individual customer balances as at 31 May 2022, this sample is determined sufficient in order to form an opinion on the integrity of transactions in this period and the year end balances per the client's trade receivables ledger.

Jamie has provided you with a number of documents sourced from Airlines' financial controller, Cam Boerrigter, relating to the selected sample including various screenshots from Airlines' accounting system, extracts from Airlines' bank statements for May 2022 and, where available, sales invoices and credit notes. She has also provided you with details regarding independent exchange rates that are being used for the purpose of the external audit.

Required:

- (a) Perform the procedures that the audit team should undertake to confirm the accuracy, completeness and validity of the information provided for the planned substantive analytical review of trade receivables.
- (b) Document and evaluate the results of your procedures including any issues identified with the data and conclude on whether the data is appropriate for use by the audit team.

(20 marks)

APPENDIX (Question 3) – Documentation provided by Cam Boerrigter, financial controller of Anna's Holidays and Airlines Limited

Section A – Screenshots from Airlines' accounting system

Date selected	01.06.2022
Nominal ledger balance	152 Trade receivables
Balance	£1,250,000
Transactions period	01.06.2021 – 31.05.2022
Number of transactions recorded	1,995

Section B – Sample customer accounts

Customer account: Casa Club holidays

Summary of transactions from 1 May 2022 to 30 June 2022

Date	Transaction	Ref	DR	CR
01.05.2022	b/f		£89,000	
25.05.2022	Bank receipt	REC640		£89,000
31.05.2022	May commissions	INV821	£191,000	
22.06.2022	Bank receipt	REC644		£119,000

Customer account: Xcite outdoor activities (Priority)

Summary of transactions from 1 May 2022 to 30 June 2022

Date	Transaction	Ref	DR	CR
01.05.2022	b/f		£422,000	
25.05.2022	Bank receipt	JOURN981		£422,000
26.05.2022	Rent and rates	COUNCIL7331	£25,124	
31.05.2022	May commissions	INV823	£462,000	
22.06.2022	Bank receipt	JOURN1012		£462,000

Customer account: Vacanza

Summary of transactions from 1 May 2022 to 30 June 2022

Date	Transaction	Ref	DR	CR
01.05.2022	b/f		£89,040	
24.05.2022	INV821		£191,000	
26.05.2022	Bank receipt	REC641		£88,892
26.05.2022	Loss on exchange			£148
31.05.2022	May commissions	INV824	£90,777	

APPENDIX (Question 3) (Continued)

Customer account: Specialist platinum packages **Summary of transactions from 1 May 2022 to 30 June 2022**

Date	Transaction	Ref	DR	CR
01.05.2022	b/f		£89,041	
27.05.2022	Bank receipt	REC642		£190,321
31.05.2022	May commissions	INV827	£72,072	
24.06.2022	Bank receipt	REC657		£68,282

Customer account: Wonderful weather packages (Priority) **Summary of transactions from 1 May 2022 to 30 June 2022**

Date	Transaction	Ref	DR	CR
01.05.2022	b/f		£382,734	
27.05.2022	Bank receipt	REC643		£382,734
24.06.2022	Bank receipt	REC658		£376,333

Section C – Extracts of bank statement from Central Scotland Banking Services Ltd

Customer sort code 80-XX-XX
Account number 7652XXXX
Anna's Holiday and Airlines Ltd

Date	Ref	DR	CR	Balance
25.05.2022	REC 639		£121,323	£1,510,225
	REC 640		£89,000	£1,599,225
26.05.2022	COUNCIL 7331	£25,124		£1,574,101
	REC641		£88,892	£1,662,993
27.05.2022	REC642		£190,321	£1,853,314
	REC643		£382,734	£2,236,048

22.06.2022	REC644		£191,000	£1,721,000
24.06.2022	REC657		£68,282	£1,789,282
	REC658		£376,333	£2,165,615

APPENDIX (Question 3) (Continued)

Section D – Extracts from commission invoices issued in May 2022

Invoice 821 Customer: Casa Club Date: 31 May 2022 Commissions: May Invoice Value: £191,000	Invoice 824 Customer: Vacanza Date: 31 May 2022 Commissions: May Invoice Value: 85,734 Euros	Invoice 827 Customer: Specialist Date: 31 May 2022 Commissions: May Invoice Value: £72,072
Credit note 827 Customer: Specialist Date: 31 May 2022 Commissions: May Invoice Value: (£3,790)		

Section E – Foreign currency exchange rates as at 31 May 2022

The following verified third-party exchange rates are to be used by the audit team for the purposes of audit testing.

Pound sterling to Euro

As at 31 May 2022 1.111

QUESTION 4 (25 marks)

You are a consultant working for Simpson Computer Games Ltd (Simpson), a company that designs, develops and sells computer games.

Simpson distributes its games to independent gaming retail stores (retail stores) for sale to the public. In addition, an online store is operated for direct download sales to customers and 12-month subscriptions allowing access to web-based online games. The company does not operate any retail stores itself and has no plans to do so.

You are aware that, at the start of the current financial year, Simpson launched a new sales process and integrated system for the recording of both retail stores and online revenues, including subscriptions. As a result of the introduction of the new sales process, you have been asked to perform a full review of the system. Julia Murdoch, Simpson's finance director, has provided you with sales system notes (Appendix).

Julia has asked you to review the sales system notes, and to prepare a letter to the board of Simpson (the board) identifying weaknesses, explaining the implications of each weakness and recommending improvements in the sales system.

Required:

Prepare paragraphs for inclusion in a letter to the board identifying the weaknesses in the sales system as described in the systems notes, explaining the implications of each weakness and recommending improvements.

(25 marks)

APPENDIX (Question 4) – Sales system notes provided by Julia Murdoch

Simpson uses an integrated ERP system which manages its sales transactions from customer order initiation through to financial statement reporting. Simpson has three revenue streams:

- sales to retail stores;
- online store sales; and
- online 12-month gaming subscriptions.

Simpson's processes for recognising and recording sales are as follows:

A. MANAGING AND PROCESSING ORDERS

Sales to retail stores

The sales team handles enquiries from customers and issues price quotations when required. Purchase orders are received from customers which detail the required quantity of specified games. On receipt of the customer's purchase order, the sales assistant confirms the price to the customer and issues a sales order which details the customer purchase order reference, the quantity and value of the sale. The sales order is approved by the sales administrator or the sales manager in line with approval limits set within the system. Once approved, the order is transmitted online to the warehouse.

A warehouse clerk packs and seals the games ordered and creates a two-part packing delivery note from the warehousing system, entering the quantity despatched against each line of the order. The order is then moved to the goods for despatch bay in the warehouse with one part of the delivery note and the other part is filed. Once the order quantity has been reached, the system automatically marks the order as complete.

At the end of each working day goods are despatched, accompanied by the first part of the delivery note. Simpson uses a national courier company to deliver orders but retains the risks and rewards of ownership for the goods right up to the point that the customer has accepted and acknowledged receipt. The courier company drivers obtain a signature on a hand-held device as proof of delivery for each order and these are forwarded daily in an electronic report to the warehouse and filed, not reviewed, on receipt. In the event an order is lost or damaged during transit, customers will claim a refund directly from Simpson, but no compensation is payable by the courier company. In the last few months several customers have lodged complaints that goods had not been delivered resulting in the company issuing refunds and resulting in financial loss.

Online store sales

Customers select a game from the online catalogue and then click "confirm order". On confirmation, the customer is redirected to the payment page where they enter their details including name, address, email and card payment details. Secure payment is facilitated by a third-party provider and, once complete, an email order confirmation is automatically sent to

APPENDIX (Question 4) (continued)

the online customer and the warehouse team for packing and despatch in the same way as sales to retail stores.

12-month online subscriptions

Customers identify and select a game within the online catalogue for which they want to purchase a 12-month subscription. On confirmation of their selection and order, they are required to set up an online account with an alpha-numeric password. Details required include their name, address, email and card payment details. As with online store sales, payment is facilitated by a third party provider and, once complete, a confirmation email is sent to the customer with an authorisation code to access online streaming of the game.

B. INVOICING, SALES RETURNS AND ADJUSTMENTS

Sales to retail stores

Once a despatch note is generated, an invoice is automatically raised and populated with information from the sales order and the despatch note in the ERP system. The system then automatically records a debit to the customer account and a credit to the sales account. At the end of the month, a statement is sent to the customer for review and settlement of invoices due.

Certain customers are entitled to sales discounts. These are set at the discretion of the marketing manager and documented on a 'sales discounts' form. Where a sales discount has been awarded to the customer, the sales clerk manually inputs the agreed sales discount into the system and this is confirmed by the marketing manager. A significant proportion of the marketing managers remuneration is based on meeting sales targets.

Credit limits for new retail store customers are set based on the expected volume of future sales. The credit limit is set once the customer has been accepted, and when this has been reached, the system does not allow the processing of any further invoices without approval from the credit controller. The default sales invoice payment terms are 30 days. The sales administrator can override this where specific credit terms have been agreed with the customer.

Online store sales and 12-month online subscriptions

On confirmation of payment, a sales invoice is raised. Revenue is automatically recorded in the profit and loss account based on the sales order information (quantity, price) and a receivable is recorded in the general ledger. The system automatically clears the receivable when receipts are received from the card companies. On a monthly basis a journal entry is entered to defer any relevant proportions of subscriptions for financial reporting purposes and this is reviewed by the financial controller.

APPENDIX (Question 4) (continued)

C. PROCESSING CASH RECEIPTS

Sales to retail stores

Receipts into the company's bank account are allocated to outstanding invoices by the finance clerk based on customer remittances. Where the customer has not submitted remittance details with the payment, receipts are allocated to the oldest invoices first based on the ageing of outstanding invoices. Unidentified receipts from customers are retained in a suspense account pending receipt of information from the bank or follow up from customers and reviewed quarterly by the finance manager.

Online store sales and 12-month online subscriptions

Payments are automatically processed from customer debit/credit cards on completion of sales. When receipts are received from the card companies these are allocated and matched to the corresponding entries in the general ledger.

D. MAINTAINING CUSTOMER MASTER FILES

Selling prices

Selling prices for games are retained in the product masterfile. Amendments to prices are set by the sales manager and are subject to secondary review by the finance manager before going live.

Sales to retail stores

Customer master data is input by the sales clerk when customers first apply for an account. This data includes customer bank account, address, key contacts, order limit, credit limit and VAT registration number. Customers may request changes over the phone or by email and these are processed by either the sales clerk, sales manager or finance manager.

Online store sales and 12-month online subscription

All customer card details (name, address, payment card number, expiry date and CVS security code) are stored in the customer masterfile and automatically populated for repeat customers. Changes can only be made by customers by logging into their accounts. Any changes made are confirmed to the customer via email and Simpson uses multifactor authentication to mitigate against the risk of unauthorised changes.

———— End of Paper ————