**Objective:**

Execute the substantive procedures over existence and valuation of prepayments as of year-end.

**Time:**

* Part I: 20 minutes to complete the work
* Part II: 15 minutes to complete the work
* Part III: 10 minutes to complete the work

**Instructions:**

You will complete all three parts of this exercise working on your own. However, you may discuss any questions you have with the senior assigned to your table.

**Your overall task:**

Perform audit procedures to address the existence and valuation of the prepayments balance on the financial statements as of 31 December 20X6. Assume that interim audit procedures have not been performed for prepayments.

For this activity, assume the following:

1. Summit’s accounting policy is to start recognizing amortization expense on the month of acquisition, regardless of the acquisition date, and
2. Information Produced by the Entity (IPE) has been tested and the risks have been addressed.

Follow the instructions in this document. It references evidence and documentation you will need in this activity, all of which will be included in your Canvas engagement for you to access as necessary. After you have completed your tasks, you should save your workpapers and support to your hard drive. Then upload your support to the Canvas task, sign off on the task and hand it off to your senior.

If you have questions throughout this activity, ask the facilitator.

# *Part I: Selecting items to test*

* You have 20 minutes to complete Part I

### Steps:

1. Navigate to tasks in EY Canvas and read through the procedures allocated to you by the senior.

***(Note: for this activity, assume that there are no items that meet a qualitative criteria and no additional sampling is necessary)***

1. Set up the lead sheet as your workpaper for the assigned substantive procedures for prepayments. Index it as G1.
2. Agree and cross-reference the balances between the lead sheet and trial balance.
3. Obtain the prepayments monitoring spreadsheet as at 31 December 20X6 from the client representative. Index it as G2
4. Test the mathematical accuracy of the spreadsheet and agree the current year balance to the lead sheet.
5. Select items to test in the current year based on the testing threshold set by your senior. Document your basis for the sample selection.

# *Part II: Verification of existence*

* You have 15 minutes to complete Part II

1. Access the supporting insurance policies within EY Canvas for the key items selected for testing. Index these as G3.
2. Agree the amount in the insurance policy summary with the amount paid in the spreadsheet.
3. Compare the date and description in the insurance policy summary with the information in the spreadsheet.
4. Determine if the amount paid benefits future periods and should be recorded as a prepaid asset in the books.
5. Access the related accounts payable voucher from the client representative and observe the JE recorded in the system that was obtained by your senior. Compare the amount, date and description to determine whether the transaction was appropriately recorded in the books.

Document the procedures performed directly on the prepayments monitoring spreadsheet.

# *Part III: Testing amortization expense*

* You have 10 minutes to complete Part III.

1. Review the formulas in the spreadsheet and determine whether amortization expense was properly computed.
2. Determine whether amortization expense was charged in the appropriate months (i.e., a 12 month prepayment purchased on Feb 20X5 should be amortized until Jan 20X6).
3. Document your findings directly in the prepayments monitoring spreadsheet.