

Exhibit 1 – Outstanding points

Most of the audit fieldwork is complete, but there are three outstanding issues that require your attention before you can start to draft your auditor's report.

- (a) Dexy Co sources wood for its furniture from a number of sustainable plantations. Each plantation consists of trees, a sawmill and a storage facility. During the year ended 28 February 20X5, there was a fire at one of its plantations, which had a carrying amount of \$1.6 million in the draft financial statements. The audit senior was told by management that although this was significant, there would be no impact on the company's going concern status. However, to ensure maximum transparency, the management has decided to include a disclosure note about the fire but not to make any other amendments to the financial statements. **(10 marks)**
- (b) Advertising costs have increased significantly over recent years and the annual budget is now \$350,000. The majority of these costs are incurred in December and June, when promotional activities include the publication and distribution of a product catalogue, and the design of co-ordinated magazine and billboard advertisements for products to be sold over the next six months. Dexy Co's management recently reviewed the company's policy to expense all such costs as incurred, and decided that these costs will now be time-apportioned over the six-month periods in which the related products will be sold. \$125,000 has been included in the statement of financial position at 28 February 20X5 within prepaid expenses. This amount includes product catalogue inventory, prepaid advertising costs and other deferred expenditure. **(7 marks)**
- (c) Dexy Co owns a painting by a little known artist, Lennox, which cost \$7,000 when it was purchased over 50 years ago. Following a news report that another painting by Lennox had sold at auction for more than \$1 million, the directors had Dexy Co's painting revalued by an independent appraisal company. The painting is now carried in the statement of financial position at its fair value of \$1.35 million and the excess over cost has been credited to equity. The painting, which had previously been displayed in Dexy Co's reception office, has been moved to the chief executive officer's residence for safekeeping. **(8 marks)**