

Exam technique

YOU HAVE A VESTED INTEREST IN GOOD ANSWERS

I have regularly lectured on ACCA Paper F8. Obviously there is considerable technical content, but I never seek to be amazed by the poor answers that many students submit to even reasonably straightforward questions.

I believe that there is much scope for the general improvement of answers if students attend properly to basic exam technique. Many of the points made here could be found in the examiner's reports – but unfortunately I'm not sure how much attention students pay to these and the very good advice they contain.

The approach you should adopt

This advice uses the 30 mark question from December 07 (DinZee Co) as an illustration. The question is reproduced below, but no answer is printed as this is available from ACCA website.

To maximize the marks that can be obtained by good technique, I suggest you use the mnemonic **VeSTeD**, where the consonants stand for:

1. **Verbs**
2. **Scenario**
3. **Time**
4. **Detail**

1 Verbs

The **verbs** in the requirements must be noted, especially where there are several. In DinZee:

- (a) List..... explain
- (b) List
- (c) List....explain...state
- (d) State...state

Marks are lost if the verb requirements are not addressed in the answer. I suggest that you underline the verbs to ensure that none is overlooked. I also suggest that you try changing the requirement slightly, as follows, by the use of 'I will...'. So that requirement (a) would become:

"I will list SIX....I will explain the reason..."

This can be effective in getting you to concentrate on the verbs and it expresses your determination to address the requirements positively and properly.

Typical verbs used in the requirements are: list, explain, describe, state, discuss. These are also chosen carefully by the examiner. Broadly, what they imply is:

- List: very basic. Simply write items in the form of a list with no need for detail or explanation.
- State: not much more than list. No need to explain.
- Outline: just the main features to be covered.

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- Describe: you need to give detail to 'paint the full picture'
- Distinguish: compare two or more things; point out what makes them different.
- Explain: this is more than a description. Write one sentence that describes, then write at least one other to explain why the first sentence is so, or the consequences of the first sentence. Use examples to help your explanations.
- Identify: selective description. You pick up on key points.
- Compare and contrast: how are things similar and how they are different?
- Discuss: there needs to be a dialogue between two or more points of view. Ideally a discussion should end with a conclusion. Think about: advantages/disadvantages/conclusion, or reasons why/reasons why not/conclusion. It is also possible to 'discuss' one viewpoint. For example you may be asked to 'discuss the advantages of...'. Does this mean you have to do the disadvantages as well? No - simply go through the advantages, saying whether they apply in this situation, or whether they are each a major advantage or a relatively minor one.
- Evaluate: you have to judge the worth, importance or value of something. Think of this as a higher level discuss.
- Suggest/recommend: telling our audience what to do. This is usually the last requirement in a question because you first need to identify, explain and evaluate before you can recommend or suggest a way forward.

2 Scenario

The **scenario** is very important in this question and in the 20 mark questions. The careful editorial process that ACCA uses to produce questions means that you should assume that *no* word gets into a question accidentally. Therefore, students should be suspicious – very suspicious – of every detail and description

For example, in this question the following details (amongst many others) must be considered potentially relevant to the answer:

Detail

"assembles fridges, microwaves....."

"large number of suppliers"

"an authorized supplier"

EDI

Potential implication

Probably the inventory is not very prone to theft/misordering

Many supplier accounts to keep right; probably many ordering events

How do they become authorized? Are there several per inventory item?

Obviously not an accidental reference – this is a very specific, rather invisible, way of placing orders. How can we check that it works?

Similarly in the preamble to (c). Why do count sheets show inventory ledger balances (might encourage false counts)? Counts were recorded in pencil for easy amendment (why would you want to amend invisibly?)

When a scenario is provided you will have to use the detail there. This allows the examiner to test your ability to apply auditing knowledge to specific settings. Thus in the part (a) requirements:

"(a) List SIX audit procedures that an auditor would normally carry out on the purchases system at DinZee Co, explaining the reason for each procedure. (12 marks)"

You are not being asked about general audit procedures: you have to think which ones are relevant to DinZee and explain why you would carry out that procedure in that client.

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3 Time

The **time** for each part is indicated by the marks. 1 mark gives 1.8 minutes, therefore about 20 minutes needs to be spent writing the answer to (a). Time also indicates the detail expected. You must fully use the time available and keep adding detail and explanation as necessary. Time implies the length of the answer. For 20 minutes writing you should expect *at least* one page of answer; two pages would be better. It is extraordinary how many answers to 10 mark questions consist of less than ½ a page of writing. You could barely award 10 marks if you gave one mark per word!

The time should show consistency with the verb(s) used in the question.

You can make more efficient use of time by considering the answer format and very often a tabular approach is useful, especially in multi-verb requirements. In part (a) two columns, one for the 'list' part of the requirement, the second for the 'explaining' part is a natural approach. Tabular approaches are used in practice too. For example, the typical management letter contains columns for weakness, effect of weakness, suggested remedy.

4 Detail

Finally **detail**. This is implied by the verb and the time, but is too often superficial and not precise. Two suggestions to try to get down to the detail required:

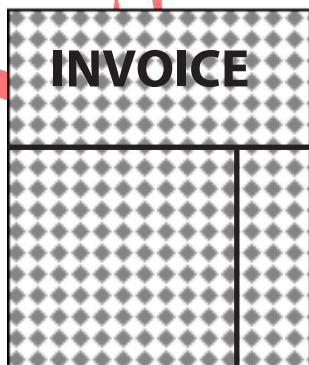
- (1) Pretend you are there, doing the job. Write down *exactly* what you would do whether in terms of audit tests, what you would do when attending inventory counts, addressing financial statement assertions.
- (2) Pretend you are explaining in sufficient detail that a 16 year-old trainee, with no audit experience, could follow your instructions, understand your concerns or understand your explanations.

One of the great recurring grumbles from the examiner is the use of the word 'check', as in 'check supplier invoices', 'check trial balance', 'check receivable balance'. Obviously, if you told a naïve 16 year old to 'check invoices' that assistant would not know what you meant. Which of the following do you really mean?

- Ensure they are cancelled after payment
- Look for evidence that the invoices were accepted only for goods actually received
- Re-perform the calculations
- Trace the invoice to the appropriate payables ledger account

If you don't make the effort to say exactly what you mean, you can't expect many marks.

For example, is this a "checked invoice"?



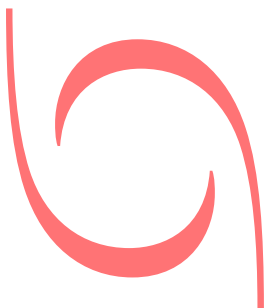
So, try to make it a rule never to use the verb 'check'. There are so many more precise words (agree, reconcile, recalculate, trace, inspect, observe, confirm, verify, test, ensure, examine and so on), and use of those inevitably forces you to add detail.

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What verbs words, other than 'check' could describe the audit procedure you would carrying out in the following parts of an audit?

1. Receivables balances and the control account agree.
2. Paid invoices should be cancelled.
3. Goods should be counted when received.
4. Only ordered goods should be accepted.
5. Cut-off for sales must be correct.
6. Have management included all contingent liabilities?
7. Do fixed assets exist?
8. Have the depreciation calculations been correctly performed?
9. Is the level of receivables reasonable?
10. Was the inventory count satisfactory?

Suggested answers are at the end of the article.



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DinZee Co assembles fridges, microwaves, washing machines and other similar domestic appliances from parts procured from a large number of suppliers. As part of the interim audit work two weeks prior to the company year-end, you are testing the procurement and purchases systems and attending the inventory count.

Procurement and purchases system

Parts inventory is monitored by the stores manager. When the quantity of a particular part falls below re-order level, an e-mail is sent to the procurement department detailing the part required and the quantity to order. A copy of the e-mail is filed on the store manager's computer.

Staff in the procurement department check the e-mail, allocate the order to an authorised supplier and send the order to that supplier using Electronic Data Interchange (EDI). A copy of the EDI order is filed in the order database by the computer system. The order is identified by a unique order number.

When goods are received at DinZee, the stores clerk confirms that the inventory agrees to the delivery note and checks the order database to ensure that the inventory were in fact ordered by DinZee. (Delivery is refused where goods do not have a delivery note.)

The order in the order database is updated to confirm receipt of goods, and the perpetual inventory system updated to show the receipt of inventory. The physical goods are added to the parts store and the paper delivery note is stamped with the order number and is filed in the goods inwards department.

The supplier sends a purchase invoice to DinZee using EDI; invoices are automatically routed to the accounts department. On receipt of the invoice, the accounts clerk checks the order database, matches the invoice details with the database and updates the database to confirm receipt of invoice. The invoice is added to the purchases database, where the purchase day book (PDB) and suppliers individual account in the payables ledger are automatically updated.

Required:

- (a) **List SIX audit procedures that an auditor would normally carry out on the purchases system at DinZee Co, explaining the reason for each procedure.** (12 marks)
- (b) **List FOUR audit procedures that an auditor will normally perform prior to attending the client's premises on the day of the inventory count.** (2 marks)
- (c) On the day of the inventory count, you attended depot nine at DinZee. You observed the following activities:
1. Prenumbered count sheets were being issued to client's staff carrying out the count. The count sheets showed the inventory ledger balances for checking against physical inventory.
 2. All count staff were drawn from the inventory warehouse and were counting in teams of two.
 3. Three counting teams were allocated to each area of the stores to count, although the teams were allowed to decide which pair of staff counted which inventory within each area. Staff were warned that they had to remember which inventory had been counted.
 4. Information was recorded on the count sheets in pencil so amendments could be made easily as required.
 5. Any inventory not located on the pre-numbered inventory sheets was recorded on separate inventory sheets – which were numbered by staff as they were used.
 6. At the end of the count, all count sheets were collected and the numeric sequence of the sheets checked; the sheets were not signed.

Required:

- (i) **List the weaknesses in the control system for counting inventory at depot nine.** (3 marks)
- (ii) **For each weakness, explain why it is a weakness and state how that weakness can be overcome.** (9 marks)
- (d) (i) **State the aim of a test of control and the aim of a substantive procedure.**
- (ii) **In respect of your attendance at DinZee Co's inventory count, state one test of control and one substantive procedure that you should perform.** (4 marks)
- (30 marks)**

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Suggested answers to auditing verbs

1. Receivables balances and the control account agree. **(Reconcile/reperform)**
2. Paid invoices should be cancelled. **(Inspect to ensure...)**
3. Goods should be counted when received. **(Observe)**
4. Only ordered goods should be accepted. **(Agree/trace goods received notes to orders)**
5. Cut-off for sales must be correct. **(Reperform/trace/ensure)**
6. Have management included all contingent liabilities. **(Enquire of management, scrutinize board minutes)**
7. Do fixed assets exist? **(Inspect)**
8. Have the depreciation calculations been correctly performed? **(Recalculate/reperform)**
9. Is the level of receivables reasonable? **(Review/compare...)**
10. Was the inventory count satisfactory? **(Attend/observe/review instructions/test counts/reperform/recalculate)**

