

**3102AFE AUDITING
TRIMESTER 3 2018
GROUP ASSIGNMENT
Client Analysis Case Study**

Assignment Due Date:	Monday 14th January 2019 at 9.00am
<i>Weighting:</i>	20%
<i>Marked out of:</i>	30

Instructions to students

1. This is a group assignment with **4 members** in each group. Students form their own groups. Students **register** their group **via the link on L@G** in the 'A2 Group Assignment: Client Analysis Case Study' folder under the Assessment folder.
2. Students that submit an assignment with fewer than 4 members in the group without prior approval of the course convenor will be penalised 10% of the total possible marks.
3. The submission must be typed.
4. Word Length: **1500 words maximum.**
5. All **ratios** are to be rounded **to 2 decimal places**. Ratios are not included in the word count.
6. Students can submit up to two drafts of the assignment in the "A2 – Client Analysis DRAFT Submission Point (Group)" – Please NOTE the draft will NOT be read nor marked). The purpose of this draft submission point is so that groups can check for text matching to ensure academic integrity is not breached.
7. Final Submission of the assignment – the assignment is to be submitted **THROUGH SAFE ASSIGN** at Learning@Griffith under the ASSESSMENT/Group Assignment folders where it says: 'A2 – Client Analysis FINAL Assignment Submission Point (Group)'. Each member of the group must complete the A2 – Cover Sheet.

The audit engagement

You are the audit senior of Top Fashion Warehouse Limited (TFW), a company involved in the manufacture and sale of designer women's clothing. TFW's premises are located in Melbourne.

You are in the process of planning the audit for the year ended 30 June 2018 and have been provided with the following information for 2016 to 2018:-

**Top Fashion Warehouse Ltd
Income Statement**

	2016	2017	2018
	\$	\$	\$ Unaudited
Revenue from operations	\$ 65,147,000	\$ 71,295,000	\$ 77,341,000
Cost of sales	\$ 50,333,000	\$ 53,248,000	\$ 56,674,000
Gross profit	\$ 14,814,000	\$ 18,047,000	\$ 20,667,000
Less: Expenses			
Advertising	\$ 223,143	\$ 247,134	\$ 313,446
Audit fees	\$ 255,000	\$ 284,500	\$ 290,250
Bad debts	\$ 345,000	\$ 405,695	\$ 572,655
Commission paid	\$ 6,514,700	\$ 7,129,500	\$ 7,734,100
Depreciation	\$ 456,720	\$ 489,431	\$ 525,644
Legal fees	\$ 157,700	\$ 208,500	\$ 290,260
Salaries	\$ 3,890,000	\$ 6,020,000	\$ 6,320,000
Other expenses	\$ 1,217,600	\$ 1,412,900	\$ 1,623,600
Total expenses	\$ 13,059,863	\$ 16,197,660	\$ 17,669,955
Net income before interest and tax	\$ 1,754,137	\$ 1,849,340	\$ 2,997,045
Interest expense	\$ 116,993	\$ 228,296	\$ 295,664
Profit before tax	\$ 1,637,144	\$ 1,621,044	\$ 2,701,381
Income tax	\$ 491,143	\$ 486,313	\$ 810,414
Profit after tax	\$ 1,146,001	\$ 1,134,731	\$ 1,890,967

Top Fashion Warehouse Ltd Balance Sheet

	2016	2017	2018
	\$	\$	\$ Unaudited
Current assets			
Cash	\$ 1,239,670	\$ 648,832	\$ 424,350
Accounts receivable	\$ 4,783,000	\$ 5,024,000	\$ 6,137,000
Allowance for doubtful debts	\$ (190,000)	\$ (280,000)	\$ (320,000)
Inventories	\$ 5,782,231	\$ 6,235,649	\$ 8,934,222
	\$ 11,614,901	\$ 11,628,481	\$ 15,175,572
Non-current assets			
Net property, plant & equipment	\$ 11,347,869	\$ 11,954,431	\$ 17,589,254
Intangible assets	-	\$ 1,300,345	\$ 2,783,642
	\$ 11,347,869	\$ 13,254,776	\$ 20,372,896
Total assets	\$ 22,962,770	\$ 24,883,257	\$ 35,548,468
Current liabilities			
Accounts payable	\$ 5,279,000	\$ 5,734,756	\$ 6,758,000
Deferred revenue	\$ -	\$ -	\$ 1,193,000
Interest-bearing liabilities	\$ 1,564,000	\$ 1,438,000	\$ 1,235,000
Provisions	\$ 1,034,000	\$ 1,450,000	\$ 1,837,000
Accruals	\$ 134,000	\$ 174,000	\$ 188,000
	\$ 8,011,000	\$ 8,796,756	\$ 11,211,000
Non-current liabilities			
Interest-bearing liabilities	\$ -	\$ -	\$ 6,360,000
Total liabilities	\$ 8,011,000	\$ 8,796,756	\$ 17,571,000
NET ASSETS	\$ 14,951,770	\$ 16,086,501	\$ 17,977,468
Equity			
Shareholders' funds	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Retained profits	\$ 12,751,770	\$ 13,886,501	\$ 15,777,468
TOTAL EQUITY	\$ 14,951,770	\$ 16,086,501	\$ 17,977,468

Additional Information

- Clothes manufactured by TFW are sold by a number of sales representatives who visit major department stores throughout Australia and boutiques located in Brisbane, Melbourne and Sydney.
- The sale representatives earn 10% commission on all sales.

- Although garments can be made to order by individual customers, most of the clothes are produced each season from designs created by fashion designers hired by TFW. Special orders can take 4 to 6 weeks to complete.
- Customers are invoiced after the goods are delivered. Boutiques have 30-day credit terms whereas department stores have 60-day credit terms. The sales mix between boutiques and department stores is approximately 50/50.

REQUIRED:

In relation to the audit for the year ended 30 June 2018, you are required to prepare a report for the audit partner addressing the key audit risk areas for TFW.

- (1) Based on the Income Statement and Balance Sheet provided, perform **eight (8)** analytical procedures for both the years 2017 and 2018 to help identify the potential audit risks relevant to TFW. You will need to calculate ratios which must be a combination of short-term liquidity, activity ratios, profitability ratios and solvency ratios (that is, 2 ratios from each category). Workings are required to be shown.
(12 marks)
- (2) Identify **two (2) KEY** inherent risk factors that arise from the nature of TFW's business operations and explain why they are risks specific to TFW.
(4 marks)
- (3) Using the additional information and the analytical procedures performed in (1), identify **four (4) key accounts** at risk and explain why they represent a significant audit risk.
(8 marks)
- (4) For each of the accounts at risk in (3) above, identify the **key assertion** at risk.
(4 marks)

Note: As the report is being written for the audit partner, you are required to show:-

- Proper sentence structure
- Clarity of expression
- Correct grammar and spelling
- Professional presentation **(2 marks)**