

Minty Cola Co (Minty) manufactures fizzy drinks such as cola and lemonade as well as other soft drinks and its year end is 31 December 2013. You are the audit manager of Parsley & Co and are currently planning the audit of Minty.

You attended the planning meeting with the engagement partner and finance director last week and recorded the minutes from the meeting shown below. You are reviewing these as part of the process of preparing the audit strategy.

### **Minutes of planning meeting for Minty**

Minty's trading results have been strong this year and the company is forecasting revenue of \$85 million, which is an increase from the previous year. The company has invested significantly in the cola and fizzy drinks production process at the factory. This resulted in expenditure of \$5 million on updating, repairing and replacing a significant amount of the machinery used in the production process.

As the level of production has increased, the company has expanded the number of warehouses it uses to store inventory. It now utilises 15 warehouses; some are owned by Minty and some are rented from third parties. There will be inventory counts taking place at all 15 of these sites at the year end.

A new accounting general ledger has been introduced at the beginning of the year, with the old and new systems being run in parallel for a period of two months.

As a result of the increase in revenue, Minty has recently recruited a new credit controller to chase outstanding receivables. The finance director thinks it is not necessary to continue to maintain an allowance for receivables and so has released the opening allowance of \$1.5 million.

In addition, Minty has incurred expenditure of \$4.5 million on developing a new brand of fizzy soft drinks. The company started this process in January 2013 and is close to launching their new product into the market place.

The finance director stated that there was a problem in November in the mixing of raw materials within the production process which resulted in a large batch of cola products tasting different. A number of these products were sold; however, due to complaints by customers about the flavour, no further sales of these goods have been made. No adjustment has been made to the valuation of the damaged inventory, which will still be held at cost of \$1 million at the year end.

As in previous years, the management of Minty is due to be paid a significant annual bonus based on the value of year-end total assets.

**Required:**

Identify the main areas, other than audit risks, that should be included within the audit strategy document for Minty Cola Co; and for each area provide an example relevant to the audit. (4 marks)

**Examiners Report**

Part (c) for 4 marks required an identification of the main areas to be included within Minty's audit strategy document and an example for each area.

This question, where attempted, was poorly answered by most candidates. Most candidates did not answer both parts of the requirement; failing to identify the areas of an audit strategy. This is a knowledge area and demonstrated a gap in candidates' technical knowledge. Where candidates did score marks this was for providing examples, the most common answers given were around materiality, timetable and staff resources.

Those candidates who did not score well tended to repeat points made in part 1b on audit risks, despite the question requirement clearly stating "other than audit risks" or they listed out lots of audit tests.