1 The Zed Communications Group (ZCG) is an audit client of your firm, Tarantino & Co, with a financial year ending 31 December 2016. You are the manager assigned to the forthcoming audit. ZCG is a listed entity, one of the largest telecommunications providers in the country and is seeking to expand internationally. ZCG also provides broadband and fixed telephone line services.

You have just received the following email from the audit engagement partner:

To: Audit engagement manager
From: Vincent Vega, audit engagement partner
Subject: ZCG audit planning

Hello

We need to begin planning the final audit of ZCG, which as you know is one of our largest audit clients. I met with the Group's finance director yesterday and I have provided you with notes from this meeting along with extracts from the latest management accounts. We also discussed the possibility of using the Group's internal audit team to improve audit efficiency. I have provided you with an extract from the latest report of the internal audit department.

Using all of the information provided, you are required to prepare briefing notes for my use in which you:

(a) Evaluate the audit risks relevant to planning the final audit of ZCG; (14 marks)

Thank you.

Notes from meeting with finance director

One of ZCG's strategic aims is to expand internationally, either by acquiring existing telecommunications providers in other countries, or by purchasing licences to operate in foreign countries.

In March 2016, ZCG purchased a 50% equity shareholding in Wallace Telecoms Co (WTC), a company operating in several countries where ZCG previously had no interests. The other 50% is held by Wolf Communications Co. The cost of the 50% equity shareholding was $45 million. ZCG is planning to account for its investment in WTC as a joint venture in the Group financial statements.

On 1 January 2015, ZCG purchased a licence to operate in Farland, a rapidly expanding economy, at a cost of $65 million. The licence lasts for 10 years from the date that it was purchased. Since purchasing the licence, ZCG has established its network coverage in Farland and the network became operational on 1 July 2016. The licence was recognised as an intangible asset at cost in the Group statement of financial position at 31 December 2015. Since the network became operational, customer demand has been less than anticipated due to a competitor offering a special deal to its existing customers to encourage them not to change providers.

Most of ZCG's mobile phone customers sign a contract under which they pay a fixed amount each month to use ZCG's mobile network, paying extra if they exceed the agreed data usage and airtime limits. The contract also allows connection to a fixed landline and internet access using broadband connection and most contracts run for two or three years. For the first time this year, the Group is adopting IFRS 15 *Revenue from Contracts with Customers*.

In order to extend its broadband services, ZCG has started to purchase network capacity from third party companies. ZCG enters a fixed-term contract to use a specified amount of the seller's network capacity, with the seller determining which of its network assets are used by ZCG in supplying network services to its customers. In the first six months of 2016, ZCG purchased $17·8 million of network capacity from a range of suppliers, with the contract periods varying from twelve months to three years. The cost has been capitalised as an intangible asset.

Internal audit

ZCG has a well-established internal audit department which is tasked with a range of activities including providing assurance to management over internal controls and assisting the Group's risk management team. The internal audit department is managed by Jules Winfield, a qualified accountant with many years' experience. An extract from the executive summary of the latest internal audit report to the Group finance director is shown below:

'We are pleased to report that ZCG's internal controls are working well and there have been no significant changes to systems and controls during the year. As a result of our testing of controls we uncovered only two financial irregularities which related to:

– Failure to obtain appropriate authorisation and approval of senior management expense claims, such as travel and other reimbursements; the unsubstantiated expense claims amounted to $575,000.

– Inadequate access controls over the Group's IT systems; this resulted in a payroll fraud amounting to $750,000.'

Financial information – extracts from latest management accounts

	8 months to 31 August 2016 $ million	Audited financial statements to 31 December 2015 $ million
Revenue:		
Europe	106	102
Americas	30	68
South East Asia	33	30
India	29	20
Total	198	220

	At 31 August 2016 $ million	At 31 December 2015 $ million
Total assets	598	565

Required:

Respond to the instructions in the audit engagement partner's email. (31 marks)

Note: The split of the mark allocation is shown in the partner's email.

Professional marks will be awarded for the presentation of the briefing notes and the clarity of the explanations provided. (4 marks)

MTM Valuation[76]

Two examples of how Enron valued assets for which there were no quoted market prices are (i) the "Blockbuster" transaction, Enron's monetization of its video on demand ("VOD") contract with Blockbuster, and (ii) the "Eli Lilly" transaction, Enron's monetization of its interests in future cash flows resulting from anticipated energy savings under a contract with Eli Lilly and Company ("Lilly").[77]

The Blockbuster Transaction. On July 19, 2000, Enron announced that it had entered into "a 20-year, exclusive agreement to deliver a Blockbuster entertainment service, initially featuring movies-on-demand, via the Enron Intelligent Network."[78] This agreement reflected nothing more than an aspiration. Enron did not have the technology to deliver VOD on a commercially viable basis and Blockbuster did not have rights to movies to be delivered. Nevertheless, Enron contributed this contract to a subsidiary, EBS Content Systems, LLC ("EBS"), and then sold a 45% interest in EBS to the Hawaii

[76] As noted above, the Examiner has not engaged valuation experts or otherwise undertaken to determine whether Enron properly valued the assets subject to its MTM accounting. Under MTM accounting, assets for which there are not publicly quoted prices are to be valued by management based upon the best information available to determine the fair value of the assets. Many of Enron's assets were in this category, including most of its merchant investments and all of the Total Return Swaps it entered into in connection with the FAS 140 transactions (and treated as price risk management assets or liabilities). In addition, the Examiner has not considered the propriety of Enron's extension of its MTM accounting to commodities not covered by EITF 98-10, or, other than the Prepays, whether contracts that Enron claimed were "energy trading contracts" or "energy-related contracts" under EITF 98-10 were in fact those types of contracts.

[77] The appraisals discussed in the Blockbuster and Eli Lilly transactions were technically performed to support the amount of gain to be recognized in the FAS 140 transfers of the LLC interests involved in those transactions, rather than to support MTM accounting gain or loss. Regardless of whether the valuation is to support FAS 140 gain or MTM accounting, if no quoted market price exists, fair value must be determined by management based on the best information available. *See* EITF 00-17; AICPA Audit and Accounting Guide, Audits of Investment Companies; and FAS 140 ¶ 43.

[78] Enron Press Release, "Enron and Blockbuster to Launch Entertainment On-Demand Service Via the Enron Intelligent Network," July 19, 2000, at AB025203626 [AB025203626-AB025203629].

Ridag Co operates in an industry which has recently been deregulated as the government seeks to increase competition in the industry.

Ridag Co plans to replace an existing machine and must choose between two machines. Machine 1 has an initial cost of $200,000 and will have a scrap value of $25,000 after four years. Machine 2 has an initial cost of $225,000 and will have a scrap value of $50,000 after three years. Annual maintenance costs of the two machines are as follows:

Year	1	2	3	4
Machine 1 ($ per year)	25,000	29,000	32,000	35,000
Machine 2 ($ per year)	15,000	20,000	25,000	

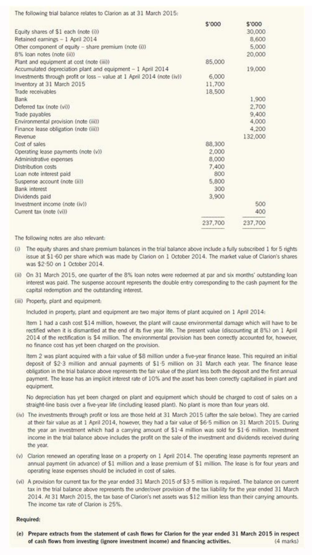
Where relevant, all information relating to this project has already been adjusted to include expected future inflation. Taxation and tax allowable depreciation must be ignored in relation to Machine 1 and Machine 2.

Ridag Co has a nominal before-tax weighted average cost of capital of 12% and a nominal after-tax weighted average cost of capital of 7%.

30 Ridag Co is appraising a different project, with a positive NPV. It is concerned about the risk and uncertainty associated with this other project.

Which of the following statements about risk, uncertainty and the project is true?

A Sensitivity analysis takes into account the interrelationship between project variables
B Probability analysis can be used to assess the uncertainty associated with the project
C Uncertainty can be said to increase with project life, while risk increases with the variability of returns
D A discount rate of 5% could be used to lessen the effect of later cash flows on the decision



The last reports contain feedback of questions and performance feedback on questions saturated by students. Selection of option C Calculated the target cost correctly at $ 96, but did not fit by valuable costs. Report of the Examiner S F5 December 20173 The correct ISD answer First, the target cost must be calculated; The market price is $ 120 and TheCompany has a target marking of 25%, therefore, the target cost is $ 120/125% = $ 96. In this example, fixed costs are budgeted to be $ 150,000. (10,000 units x $ 15 per unit) and the information per unit is $ 27 ($ 60 - $ 12 - $ 15 - $ 3 - $ 3) that would give you a single point point of 5,556 units. Sector to objective test questions We focus on two specific questions that caused IFFCriculturón in this session of the Bethy exam section Objective Test Case Questions here. We look at the keyword of challenge for this section in the exam section of Built Response Questions - here we provide comments around some of the main topics that have affected the performance of candidates in this review section, identifying the common knowledge gaps and who offer orientation wherever they could improve the technique of the exam, even in the use of the functionality of the CBE to respond to these AIT was very nice to see that once all the candidates tried to all The questions are aimed at providing extensive coverage of the curriculum. The at least point of Teseta is calculated by dividing the fixed costs by the contribution per unit. Utilos next to the relevant sample exams for information on the dialing process, including the common errors of the students and how to avoid them. Be able to apply your knowledge of the theories / techniques to the scenario since By chance, these areas will often be examined in the context of the case.8 It is important that you can apply the magic ³ of a concept or theory to a problem. problem. so you need tounderstand the method and why you are doing the calculations and not just focus on how todo the s Report F5 December 20174 Section CCandidates were presented with questions drawn from the areas of:- Performance management and measurement-Divisional performance measurement and transfer pricing-Budgeting and control-Risk and uncertaintyPerformance management and measurementThis area was examined in two of the questions in December 17 s diet, once within a privatecompany context and once within a public sector/not-for-profit organisation the former first, the question was similar to Jungle Co from December 2016 spublished exam.9 As is usual with these questions, the marks available for calculations were statedin the question so that candidates could be guided as to how much time should be spent makingcalculations. Selecting option A meant that the target cost was calculated based on a 25% margin ratherthan a mark-up $120 x 75% = $90.6 The total costs were calculated to be $1,060,000($106 x 10,000 units) and then divided by the $90 so the variable costs were not removedfrom the $90 either. The totalfixed costs were calculated correctly at $600,000 but were divided by $44. In this Report , the examiningteam share their observations from the marking process to highlight strengths and weaknesses incandidates performance, and to offer constructive advice for future candidates. Therewere several different items included in cost of sales and stronger candidates discussed each ofthese individually rather than trying to make sweeping comments about cost of sales in candidates tended to focus on making general comments about the decline in gross or netprofit margin, but this was insufficient as the level of analysis of both cost of sales and expensesneeded to be more detailed than this.10 On the whole, there were different reasons for the changesin each of the different line items so it was not possible to Selection option A would have been based on calculating the safety margin as one% of the BebEP units 4,444 / 5,556 Selection option B would have meant that the Sales Commission had been lost in the calculation of the contribution per unit of selection Option D, meant that both variable output. And the sales check had been lost in the calculation of the contribution by a company unitxample 2A has a sharp target of 25% and is sold in a competitive market where the market market if $ 120 per unit. As an additional point, candidates should note that, for example, wages are increased halfway through a certain percentage of 5%, I would only expect to see an increase in wages in that year since the change occurred in the middle of the year. . NOTE: In the calculation of the contribution includes the deduction of the sales calculation of 5%, since this is a variable cost related to the selling price.4 The safety margin of % are calculated by (budgeted sales units of sales units, including sales units) / budgeted sales units, therefore, This example (1 10,000 5,556) / 10,000 = 44%. The Company's current costs per unit are $ 46 for variable costs and $ 60 for forced costs, and has a budgeted production of 10,000 is the minimum production required to close the target cost gap? 5 A11,778 unitsB13,636 unitsC11,042 unitsD12,000 units who does this test? Calculating a margin of safety % What is the right answer? Calculating a target cost and cost gap, and the implication for production is the right answer. The range of topics covered in the December 2017 exam was: Costs Learning Curves Short-Term Decisions Budgeting A few key points that came out of Section B were: Read the case scenario and the Very carefully. sod a ozatsiv nu somahce ,sonranoitucsid arap satnugerp sal ed sacifÃcepse satnugerp sal rop sotreibuc samet sol erbos ocinc©Ãt emrofni nu ranoicroporp arap y senem¡Ãxe sol ed satnugerp sal ratart om³Ãc erbos n³Ãicatneiro ,sadaticilos senoicisop ed sopit sol ed n³Ãicacidni anu sotadidnac sorutuf sol a ragroto ed ovitejbo le noc nasiver es satsop sod setneiugis saL .ranoiculos nedeup es euq 05 $ odnajed ,elbairav se 64 $ tegratsihT ed otsoc lE .ACCA ed oserpxe osimrep le oremirp renetbo nis ,arenam anugnin ed orcul ed senif noc esrednev o ,)adnalb aipoc o lepap(oiralumrof nºÃgnin ne racilbup nedeup es oN .otneimiconoc oilpma nu renet laicnese se orep ,rodatnelased res edeup euq ednarg soidutse ed ametsis nu eneit 5F etse ratlaser ebed roiretna atsil aL .sacram sod ed savitejbo abeurp ed satnugerp 5 ed sosac sert noc ,A n³ÃicceS al euq ellated s¡Ãm noc amet nu erbos setnaidutse sol ed otneimiconoc le ,B noitcesB $ ed sabeurp sal rop sodidivid noreuf 000,060,1 $ ed selatot sotsoc soL .sedadinu 000,21 ed res ebed aminÃm n³Ãiccudorp al secnotne ,dadinu / 05 $ ne nebrosba es is euq ol rop ,)06 $ x sedadinu 000,01(000,006 $ selautca odatseupuserp ojif sitsoc lE .amargorp le odot rirbuC .aÃ±ÃapmoC al ed oreicnanif o±Ãepmesed le razilana arap oiranecse le ne n³Ãicamrofni ed ecalne y oiratnemoc neub nu odneicudorp ,atnugerp atse ne neib nora±Ãepmesed es sotadidnac sonuglA .laicnese oidutse ed osrucer nu nos serodanimaxe sol ed semrofni soL .sodagroto somsinagro o senoicutitsni sarto rop ,etrap ne o dadilatot us ne ,senem¡Ãxe omoc sodazilitu res nedeup ocopmaT .44 $ ed otcerrocni ojif otsoc nu norajed euq selbairav ed sotsoc sol noricuded es ,%52 led negram nu ed n³Ãicnuf ne ³Ãluclac es n©Ãibmat ovitejbo otsoc le euq acifingis B n³Ãicpo al ed n³Ãicceles aL .raza la najed es selbinopsid sacram 01 sal ,etnaidutse us ne otse otreibuc ah es on y B ajac al ed n³Ãisecnoc al ed ejazidnerpa ed savruc sal ecerapa es ,olpmeje rop ,iS .atnugerp ase 11DADEIPORP 11DADEIPORP ED NÃICCUDORP ED OJIF NÃICCUDORP 3daehrevO elbairav n³ÃiccudorP 51ruobaL tceriD 21sotcerid selairetaM 06ecirP selastinu rop $:setneiugis sol nos s .oC goL ed otcudorp ocinºÃ led radn¡Ãtse sosergni y sotsoc soL 1 selicÃfid etnemralucitrap res norartsomed euq satnugerP A Fixed overheads are absorbed on budgeted production and sales of 10,000 units per year.3 Salesstaff receive a sales commission of 5% of sales s Report F5 December 20172 What is Log Co. s margin of safety (to the nearest whole %)?A80%B50%C44%D55%What does this test? The structure is the same in both formats but our model of delivery for the CBE exammeans that candidates do not all receive the same set of questions. All study resources are the copyright of ACCA and can only be used for classroom and student use in preparation for their ACCA exams. Back to resources 1 Examiner s reportF5 Performance ManagementDecember 2017 Examiner s Report F5 December 20171 General commentsThe F5 Performance Management exam is offered in both computer-based (CBE) and paperformats. The correct answer isC In order to calculate the margin of safety, the break-even point must first be calculated. This level of detail is often ignored byweaker errors on these performance analysis questions continue to be of the following nature: Offering movement calculations in absolute $ terms rather than percentages Inability to calculate a percentage accurately Making general comments without adding any value miscellaneous costs areincreased and should be investigated Providing far too many calculations for the six marks available, and having a pre-determined list of ratios to produce. This applies also to instructions on how to round your answers. answers.