

## **COVER PAGE FOR AN ONLINE PROCTORED EXAM**

Course : national examen Auditing – Part 1  
Course code : 370982-p-0 exam\_01  
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Duration : 195 minutes (9:15 – 12:30 hours)  
Coordinator: Mw. S.A.M. Dijckmans : ANR 545819  
Phone number EPMA : +31 (0)13 466 4252 or +31 (0)6 502 027 86  
Phone number Digital Exams Support : +31 (0)13 466 4663

If you have any problems during the examination, please immediately contact me or Digital Exams Support via +31 (0)13-466 4663 or [itsupport@tilburguniversity.edu](mailto:itsupport@tilburguniversity.edu).

**Students are expected to conduct themselves properly during examinations and to obey any instructions given to them by examiners and supervisors.**

You're about to take an online exam. Please read the following information carefully. These regulations apply to all online proctored exams. By taking this exam, you agree to the following Code of Honor:

**I will take this exam to the best of my ability, without seeking or accepting the assistance of any source or accept assistance from any source not expressly permitted within the terms of the examination.**

**I have not given or received support, nor tolerated the use of unauthorized support by others.**

**Not complying with the statement invalidates the exam for summative use, that is, a grade will not be assigned to your completed exam.**

**Firm action will be taken in the event academic fraud is discovered.**

**Morning and afternoon part in total: 100 points**

**Points for the morning session: 50 points.**

- Question 1: 10 points.
- Question 2: 20 points.
- Question 3: 10 points.
- Question 4: 10 points.

**Points for the afternoon session: 50 points.**

- Question 5: 15 points.
- Question 6: 15 points.
- Question 7: 10 points.
- Question 8: 10 points.

This set comprises 8 numbered pages.

This is an online exam in TestVision.

### **Rules for an online exam**

Candidates are allowed to:

- connect a printer to the device on which the exam is made, the printer can only be used to print the exam assignment;
- connect a second monitor to the device on which the exam is made, for the sole purpose of displaying the exam assignment;
- Candidates are allowed to make use of the following laws and regulations related to Financial Reporting and Auditing:
  - Dutch Accounting Standards (English translation of 'Richtlijnen voor de jaarverslaggeving' [RJ]): link <https://www.navigator.nl/>
  - IFRS Bundle 2019 or a more recent version (Dutch or English) - paper version
  - HRA bundle Dutch Version paper version or PDF file (digitally provided in the exam environment)

For Non-Dutch students you can use the following documents instead of the HRA Bundle, all digitally provided in the exam environment:

- IAASB volume 2020 (volume 1-3)
- Wta and bta
- NBA-Verordeningen ("Regulations"), particularly:
  - Verordening gedrags- en beroepsregels accountants (VGBA) and the explanatory notes,
  - Verordening inzake de onafhankelijkheid van accountants bij Assurance-opdrachten (VIO), and the explanatory notes
  - Verordening accountantsorganisaties AA's/RA's (VAO) and the explanatory notes
- EU verordening inzake OOB's.
- use writing utensils, including pens, pencils, and markers;
- eat and drink during the exam, if at hand.
- have a one-off short break from the camera, for example, for a toilet visit. To avoid unnecessary correspondence with the supervisor, it is advisable to announce this to the supervisor via the chat function in Zoom.

Candidates are NOT allowed to:

- have any form of communication during the exam with anyone other than employees of the exam organization;
- to search for information via an internet search engine during the exam;
- use their phone or any other communication device other than the device on which the exam is made, except for announcing technical problems with the exam to the EPMA or Digital Exams Support after approval of the invigilator;
- talk during the exam unless permission has been given by the invigilator.

### **Requirements for the room in which you take a proctored exam (proctoring setup)**

- The lighting in the room must be bright enough to be considered "daylight" quality. Overhead lighting is preferred. If overhead lighting is not available, the source of light must not be behind the student.
- The candidate must sit at a desk or table on which no objects are present, unless explicitly stated otherwise elsewhere on this cover page.
- The candidate must be alone in the room.
- The room must be as quiet as possible. Sounds such as music or television are not permitted.

## **Important**

- Ensure a stable and sufficiently fast internet connection.
- Make sure that the webcam and microphone function properly.
- The candidate is advised to save the exam results regularly.
- The instructions of the supervisors must be followed.
- The use of headphones, earplugs or any other type of listening equipment is not permitted unless permission has been given.
- Single-use soundproof earplugs are only allowed if they are shown via the webcam before the exam.
- The Team sessions are recorded for supervision of the exam and its assessment only.
- You may be asked to share your screen.

## **Instruction for uploading answers**

- Answers are given in a Word document. Give the file the following name:  
AUDpartX\_370982\_SNR\_name  
Fill in your own SNR (instead of 'SNR' for example '1234567').
- Upload the exam in TestVision. Please make sure you upload the last saved version of your work.
- Afterwards you are allowed to print your solution.

## **Fraud**

- 1) In the event of a reported (suspicion of) fraud, the Education and Examination Regulations(EER) of the European Post-Master Accountancy program apply.
- 2) Fraud (or an attempt to fraud) on the part of the student is always considered to have been perpetrated in the following cases:
  - Using someone else's proof of identity;
  - Having someone else complete or participate in the exam;
  - Having someone help in completing the exam;
  - Using or attempting to use unpermitted (digital) sources, resources, or devices for communication during the exam;
  - The student is no longer in sight of the webcam and/or has switched off the microphone and other necessary devices needed for online proctoring, while taking the exam, insofar this takes place outside the authorized breaks;
  - (Attempted) technical modifications that undermine the proctor system.

*You can start the exam now, good luck!*

## Your Department Store

Your Department Store B.V. (YDS) is a large Dutch webshop. Three student friends set up YDS in 2005, selling a range of smartphones from a garage. The range expanded rapidly to include other electronic items and YDS now offers a range of over 12 million items on its website, yds.com. The garage has been exchanged for a head office in Rotterdam. In addition to the head office, there are now six logistics hubs holding inventory in the Netherlands. Partly as a result of the spectacular growth, a Supervisory Board was appointed in 2015. In mid-2020, YDS had over 1,400 employees and annual revenue approaching €1.5 billion. The financial statements are prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code and audited by Quid Registeraccountants. This case is about the audit of the 2020 financial statements.

### Loyal customers, complex algorithms and sustainability

YDS's strength is its 'Ydsie' web app which was developed in-house. Complex algorithms allow YDS to target its offer of items very precisely. Ydsie creates detailed profiles from the profile that the customer completes, cookies, purchase history and social media. This is one reason why YDS is the Netherlands' favourite webshop. All sales transactions are processed through the webshop. Invoices are generated by Ydsie. An interface that was developed in-house transfers invoice details from Ydsie to SAP. YDS uses SAP for debtor management, purchasing, inventory management, financial records and processing receipts and payments.

YDS positions itself as a socially aware organization in part by using sustainable energy and limiting the use of packaging materials. YDS reports on this on its website. This has a positive effect on YDS's image and results in loyal customers.

With this combination of a high level of recognition and social involvement, YDS has succeeded in attracting debt capital through crowdfunding. Small, private investors in particular have been attracted by this campaign. YDS invests the funds obtained in sustainability initiatives such as reducing consumption of packaging and making its locations more sustainable.

### Marketplace

In 2018 YDS decided to operate 'Marketplace' in addition to its direct sales via yds.com. External sellers can offer their own goods for sale on Marketplace. The benefits for external sellers are that they do not have to invest in their own webshop, invoicing, payment processes and debtor management and that yds.com has extremely good findability in search engines such as Google. The external sellers pay a commission for these services. They are responsible for inventories and delivery and make the deliveries using information received from Ydsie. Customers can pay directly via iDEAL or after the order has been received. Marketplace was eventually launched in February 2020.

### Registration of external sellers

External sellers who want to offer their products on yds.com have to submit an online application with personal and commercial details and information on the products they are offering. YDS has automated acceptance of the applications and uses criteria to review the data that has been provided against various external sources (including BKR, Dun & Bradstreet, chambers of commerce). This review, for example, establishes creditworthiness and the risk of money laundering. On registering, external sellers have to comply with YDS's sustainability objectives.

All the above information is stored in a digital contract register. After approval, the new external seller receives a seller's ID and an initial password to access the online sellers' environment where products can be stored. The name, item number, price, manufacturer (if available) and category is held for each product.

### Commission for selling via Marketplace

Offering products via yds.com is initially free of charge. External sellers pay YDS a commission when a customer places an order for their products. The commission for each product comprises of:

- a fixed commission; and
- a variable commission (a percentage of the sales value).

The fixed commission is:

- For a product from €0 to €10: €0.20 commission.
- For a product from €10 to €20: €0.40 commission.
- For a product over €20, a fixed commission depending on the category.

In addition to the fixed commission, external sellers have to pay a variable commission in the form of a percentage of the total actual sales value. The percentage depends on the product category. There are about 200 product categories in total and a percentage is set for each category.

Amounts payable (revenue collected) and receivable (applicable commission) are recorded in the current account between YDS and the external seller. Once a month, YDS pays the balance on the current account to the external sellers. The debtor risk remains with the external seller.

### Returns

About 25% of sales are returned. The customer must report the return on Ydsie and then print a return address sticker and send the items to the external seller. The external seller notifies Ydsie when the returns have been received.

In the event of a return, any sums paid by the customer are refunded by yds.com and settled with the external partner. The external seller has to pay 50% of the original commission when goods have been returned instead of 100% in the case of completed sales transactions. This is settled through the current account.

### Accounting for the commission

The commission received on external sellers' transactions is recognized immediately as revenue when a customer places an order on Marketplace. However, since returns (on which the external partner owes 50% of the commission) are common, Ydsie uses a self-learning algorithm to make a month-end estimate of the amount of returns and adjusts the recorded commission income accordingly. When developing the algorithm, YDS used information on returns on its own sales for the period between 2010 and 2020. The adjustment is recognized as 'Reserve for repayment liability on returns' in the balance sheet.

The journal entries for these steps are shown in the annex for information.

## Changes to Ydsie

The development and launch of Marketplace in 2020 had various consequences for Ydsie. YDS's own IT department made the following changes to Ydsie:

- Product categories and the category-dependent fixed and variable commission for external sellers' sales were added to the table of product categories that YDS was using for its own sales.
- A new table of external sellers was added.
- An external seller field was added to the order lines table.
- The journal entries (see annex) were amended for external orders and new general ledger accounts were created for External sellers receivables, External sales commission, External sellers current account and Reserve for repayment liability on returns.
- The new general ledger accounts were linked to items in the financial statements for the creation of reports.

### Question 1 (10 points)

**Describe the risks of a material misstatement in the financial statements in relation to sales on Marketplace.**

### Question 2 (20 points)

**Describe the procedures that the auditor will perform on commission income, including the 'Reserve for repayment liability on returns'. Specifically address the points which have been underlined in the changes made in 2020 described in 'Changes to Ydsie' above.**

The auditor uses revenue as the benchmark for determining materiality. Marketplace is very successful but grew less quickly during 2020 than management had expected when drawing up the annual budget. 2020 revenue is much lower than had been assumed by the auditor in the planning phase and during the interim work. Consequently, the auditor is wondering whether for the year-end work sufficient audit procedures have been carried out to establish the effectiveness of the internal controls.

### Question 3 (10 points)

**What is the impact of lower materiality on the nature and scope of the audit procedures you stated in question 2 for testing the effectiveness of the internal controls, assuming that you have chosen for a systems based audit approach?**

A member of the audit team has some experience in data analysis and has suggested using data analysis to inspect one-off and/or unusual journal entries or adjustments. This team member has drawn up the following audit programme:

1. Prepare a list of the imported journal entries showing which amounts from which subledgers were recorded in which general ledger accounts.
2. Recover the subledger entries for general ledger accounts for which a subledger entry is unusual.
3. Discuss the background of these entries.
4. Perform substantive procedures on the journal entries for amounts higher than €100,000.

**Question 4 (10 points)**

***Explain with reasons the recommendations you have to improve this audit programme for one-off and/or unusual journal entries.***

## ***Annex: Journal entries***

### **Journal entries for transactions**

The journal entries are as follows (ignoring VAT entries):

#### *Entries for sales transactions:*

Debit Bank (direct payment)  
Debit External sellers receivables (later payment)  
    Credit External sales commission  
    Credit External sellers current account

*Entries for returns of products:* These entries are reversed for returns.

Commission (50%) is then re-entered for returns:

Debit External sellers current account  
    Credit External sales commission

#### *Entries for receipt of customer's payment:*

Debit Bank  
    Credit External sellers receivables

#### *Entries for settlement with external sellers:*

Debit External sellers current account  
    Credit Bank

#### *Entries for adjusting the commission recognized as revenue based on expected returns:*

Debit External sales commission  
    Credit Reserve for repayment liability on returns