**Case Study Assignment:**

The assignment should meet the following requirements:

1. Assignment is submitted on A4 size paper and is neatly collated.
2. About details are fully completed and legible
3. Pages have been firmly stapled
4. A copy has been retained by each student.
5. Turn-it-in report attached

# INSTRUCTIONS

***A maximum word limit for the assignment in total is 1000 words. Please note point form responses are acceptable. Excessive responses will not be assessed. All answers must be typed and submitted by the due date with the completed cover sheet.***

**Part A (25 Marks Total)**

Jalan Mahmood Pty. Ltd is a newly incorporated company that has approached your firm to be the auditors of the company. While you were discussing the terms of the engagement with the prospective client, the managing director commented,

*“Why is that your audit report states that you only obtain reasonable assurance for your audit work. Aren’t you supposed to absolutely sure that the financial statements are true and fair?”*

**Required:**

1. The managing director’s view that the audit should provide absolute assurance on the financial statements is an example of the ‘expectation gap’ between audit objectives and users' expectations. Do you believe this is a reasonable expectation? Give reasons for your answer.

(15 marks)

1. Apart from the above example related to absolute assurance, what are other examples or areas of the ‘expectation gap’?

(10 marks)

**Part B (15 marks total)**

1. Karim Pin is nearing the completion of an audit of the financial statements of RMS Ltd. He is concerned with ascertaining the occurrence of subsequent events that may require disclosure or adjustments to the financial statements.

You are required to:

1. Briefly explain what is meant by the phrase subsequent events?

(1 marks)

1. Describe how do those that require adjustments differ from those that require disclosure?

(4 marks)

1. RMS Ltd.'s financial year-end is 31 December 2022, and the audit report is to be dated 28 February 2023. For each of the transactions or events below, indicate the audit procedures that should have brought the item to the auditor's attention and the form and reasons for each of the disclosure or adjustment in the financial statements.
2. On 3 January 2023, the company received a shipment of raw materials from Japan. The materials had been ordered in October 2022 and shipped FOB shipping point in November 2022.
3. Jewel has initiated a lawsuit against the supplier of defective car wax. Your client's lawyer believes it is highly probable that the company will win the suit and recover the AUD 255, 000 lost due to the customer's lawsuit and the recalling of the product.
4. On 5 February 2023, a customer with an extensive balance past due at year-end declared bankruptcy.
5. On 20 January 2023, a serious explosion injuring dozens of workers at one of the company's plants was reported in the local newspapers.

(10 marks)