



**UNIVERSITI KUALA LUMPUR  
BUSINESS SCHOOL**

**FINAL EXAMINATION  
MARCH 2024 SEMESTER**

**COURSE CODE** : EAB31103  
**COURSE NAME** : AUDIT 2  
**PROGRAMME NAME** : BACHELOR IN ACCOUNTING (HONS)  
**DATE** : 29 JUNE 2024  
**TIME** : 9.00 AM – 12.00 PM  
**DURATION** : 3 HOURS

**INSTRUCTIONS TO CANDIDATES**

1. Please **CAREFULLY** read the instructions given in the question paper.
2. This question paper has information printed on both sides of the paper.
3. This question paper consists of **FIVE (5)** questions.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

**THERE ARE NINE (9) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.**

(Total: 100 marks)

**INSTRUCTION: Answer ALL questions.**

**Please use the answer booklet provided.**

### Question 1

- (a) An assurance engagement is define as an independent professional service in which practitioner expresses a conclusion designed to enhance the degree of confidence of the financial statement users.

**Required:**

Briefly explain the following:

- i. The difference between reasonable assurance and limited assurance.  
(6 marks)
  - ii. Review service (ISRE 2400 *Engagements to Review Historical Financial Statements*).  
(2 marks)
- (b) The roles of internal auditors have expanded dramatically primarily because of the increase size and complexity of many businesses. Internal auditors spend all of their time within one company, they have much greater knowledge about the company's operations and internal control than external auditors.

**Required:**

- i. Briefly explain the difference between the independence of internal auditors and external auditors in the audit of historical financial statements.  
(3 marks)
- ii. Discuss how an internal auditor can best achieve independence.  
(3 marks)

- (c) Discuss **THREE (3)** major differences between operational auditing and financial statements auditing.

(6 marks)

**[20 marks]**

## Question 2

- (a) The following audit procedures were planned by senior auditor, Miss Hanis in the audit of the payroll cycle for Faunur Manufacturing Sdn Bhd for the year ended 31 December 2023:

1. Examine rate authorisation form for indication of approval.
2. Select a sample of 20 entries in the payroll journal and trace each to the time cards.
3. Examine for sequence of payroll cheques, both voided and cancelled.
4. Examine evidence that payroll hours and wage rates are verified by an independent person.
5. Compare commission expenses as a percentage of sales with previous years.
6. Recalculate hours worked from time cards.

### Required:

For each procedure (1) to (6) above, state:

- i. The type of audit procedure, whether it is test of control, an analytical procedure, a substantive test of transactions or test of details of balances.
- ii. The audit objective or objectives being satisfied.
- iii. The type or types of evidence being used.

(9 marks)

- (b) Jazeim Industries Sdn Bhd manufactures engineering parts. It has one operating site in Port Klang and a customer base spread across Malaysia. The company's financial year-end is on 31 December. You have visited the client premise at Port Klang Business Centre one month before the financial year ends to test the effectiveness of the acquisition and disbursement system. Below is a description of the systems.

Whenever production materials reach the ordering level, the warehouse staff, Horatio prepares a pre-numbered material requisition form. After getting approval from warehouse manager, he sends the form to the purchasing department. Emily, an ordering clerk, made a number of calls to various approved suppliers listed in approved supplier list to see which company can offer good price and deliver the goods fastest. This supplier is then chosen and she prepares a pre-numbered purchase order. Any orders above RM20,000 require authorisation from both the purchasing manager and warehouse manager.

The receiving department receives a blank purchase order. When equipment is received, the receiving clerk, Frank checks the items to identify any defects or damages. After count the items, he stamps the purchase order with the date received and a pre-numbered receiving report is issued. Frank forwards the stamped purchase order and receiving report to the purchasing department and account department.

Supplier invoices are input daily by the purchase ledger clerk, Walter onto the accounting software. The purchase day book automatically updates the supplier master file and the purchase journal. The transaction is then posted to the purchase ledger. A general ledger officer, Natalia will prepare reconciliation report on weekly basis which will be reviewed by accountant, Rosma.

Jazeim Industries has a policy of one-month payments to all suppliers and they are paid by a bank transfer. Disbursement clerk, Eric will prepare a payment voucher when the supplier invoice is reaching its due date. He will compile the payment voucher with all supporting documents for the acquisition of goods. The finance director, Ezzattee is given the payment voucher for authorisation. The approved payment list is forwarded to the treasury department to proceed with the disbursement to the respective suppliers. The company maintains a current account at Maybank Berhad. The current account is reconciled on a weekly basis by account officer, Alexx and reviewed by Rosma.

**Required:**

- i. Identify **FOUR (4)** internal control strengths in acquisition and payment system at Jazeim Industries Sdn Bhd.
- ii. Discuss **FOUR (4)** potential misstatements and inefficiencies that might occur if each of the controls stated in (a) were absent.

(4 marks)

(8 marks)

**[21 marks]****Question 3**

- (a) You are assigned to audit general cash account for Imran Sdn Bhd for the year ended 31 December 2023. The client has prepared the December bank reconciliation as follows:

| Imran Sdn Bhd<br>Bank Reconciliation 31 December 2023 |            |                 |
|-------------------------------------------------------|------------|-----------------|
|                                                       | RM         | RM              |
| Balance per bank                                      |            | 1,522.00        |
| Add:                                                  |            |                 |
| Deposits in transit                                   | 2,000.00   |                 |
| Cheque erroneously charged to Imran Sdn Bhd           | 646.00     | 2,646.00        |
|                                                       |            | 4,168.00        |
| Less: outstanding cheque                              |            | (2,218.00)      |
| Adjusted bank balance                                 |            | <u>1,950.00</u> |
| Balance per books before adjustments                  |            | 10,103.00       |
| Adjustments to books:                                 |            |                 |
| Bank service charge                                   | (107.00)   |                 |
| Loan instalment payment                               | (6,400.00) |                 |
| Non-sufficient fund cheque                            | (516.00)   |                 |
| Unrecorded cheque                                     | (1,130.00) | (8,153.00)      |
| Balance per books after adjustments                   |            | <u>1,950.00</u> |

**Required:**

Explain how would you test the above bank reconciliation to verify any **FIVE (5)** of the following item:

1. Balance per bank statement
2. Balance per cash book
3. Outstanding cheque
4. Deposit in transit
5. Cheque error
6. Non-sufficient fund cheque
7. Unrecorded cheque
8. Bank service charge
9. Loan instalment payment

(5 marks)

- (b) The general cash account is the focal point of cash for most organisations because all cash receipts and disbursement flow through this account. Auditor commonly requests a bank reconciliation, cut-off bank statement and bank confirmation in verifying year end bank balance.

**Required:**

- i. Explain what is meant by a cut-off bank statement.

(3 marks)

- ii. Discuss the purpose of the cut-off bank statement in the audit of cash balance.

(2 marks)

- (c) For public listed companies, the verification of owners' equity is more complex because of the larger numbers of shareholders and frequent changes in the individual holding the shares. Most of large corporation employs a services of shares registrar to maintain the shareholder records.

**Required:**

- i. Briefly explain **FOUR (4)** major segregation of duties that should be maintained when the client does not use a share registrar.
- ii. Discuss **THREE (3)** internal controls related to owners' equity that are of concern to the auditor.

(4 marks)

(6 marks)

**[20 marks]**

**Question 4**

- (a) Payroll and personnel cycle involves the employment and payment of all employees. Payroll is one of the area in which company resources can be wasted because of inefficiency or stolen through fraud.

**Required:**

Briefly explain **SIX (6)** control activities to avoid manipulation of payroll transaction and to ensure efficiency in business activities involving payroll related matters.

(6 marks)

- (b) Discuss **THREE (3)** purposes of the management representation letter.

(3 marks)

- (c) The audit fieldwork of Dan-tae Berhad for the financial year ended 31 December 2023, has been ended on 25 April 2024. The financial statements and auditor's report were signed, issued and submitted to Securities Commission on 30 April 2024. The following items of subsequent events are unrelated to each other:
- i. One of major customer, Kyu-jin Sdn Bhd filed for bankruptcy on 15 April 2024. The customer's financial condition had been deteriorating over recent years. The recent sales took place on 2 January 2024.
  - ii. On 21 January 2024, you discovered that a major customer of Dan-tae Berhad went bankrupt on 18 December 2023, due to gradual declining financial health. The customer has a significant outstanding balance in account receivables as at 31 December 2023.
  - iii. In the year 2023, Seo-jin Berhad sued Dan-tae Berhad for damages due to a breach of contract. According to the legal counsel, the client could suffer a significant loss. The estimated compensation is RM1,800,000.
  - iv. On 5 June 2024, you discovered that one of Dan-tae's production factories in the Port Klang Industrial area was damaged by fire on 3 May 2024.

**Required:**

Indicate whether each of the subsequent events listed above should lead to:

- i. Adjustment of 31 December 2023, financial statements.
- ii. Disclosure of the information in notes to the accounts in the 31 December 2023, financial statements.
- iii. Requesting the client to revise and reissue the 31 December 2023, financial statements. The revision should involve an adjustment to the 31 December 2023, financial statements.
- iv. No action is required.

(10 marks)

**19 marks**

**Question 5**

Megatronics Sdn Bhd (MSB) is a medium-sized retail company specialising in electronics and home appliances. As the end of accounting year approaches, the company undertakes its annual year-end inventory count. Your team have been assigned to observe the year-end inventory count at MSB's warehouse located at Banting Industrial Park. The following situation were found during the observation.

Jason Bourne, the warehouse manager is responsible for coordinating the inventory count. Ten staff are appointed to assist him in the inventory count. They are from various departments; administration, payroll, treasury, sales and finance department. Two weeks before the count begin, Jason conducts a meeting with all staff involved. Clear communication is given to notify employees about the upcoming count, their roles, and responsibilities.

Inventory transactions are temporarily halted to prevent discrepancies between physical counts and system records. Procurement of necessary equipment such as barcode scanners, pre-numbered blank inventory count sheets, clipboards, pen and permanent marker is ensured well in advance. Five teams of two are assigned to different sections of the warehouse or retail floor to conduct the physical count. The staff are allowed to choose their partner. Jason oversees the overall counting process to address any discrepancies or issues that may arise. During the counting process, if the team found obsolete items, they need to segregate the item in a separate area and put the description and quantity of items in a remark column in the pre-numbered inventory count sheets.

The completed inventory count sheets are return to Jason for reconciliation. Discrepancies between physical counts and system records are investigated promptly to identify the root causes, such as shrinkage, errors in recording, or theft. Comprehensive reports detailing the inventory count results, discrepancies, and corrective actions are prepared for management review.

**Required:**

- (a) Briefly explain **FIVE (5)** weaknesses in the year-end inventory count at Megatronics Sdn Bhd, which could lead to misstatement in the financial statements and inefficiency in inventory count system.

(10 marks)

- (b) Give recommendations for future years on how to improve the inventory count system for each of the weaknesses identified in (a).

(10 marks)

**[20 marks]**

**END OF EXAMINATION PAPER**