



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2024 SEMESTER**

COURSE CODE : EAB31103
COURSE NAME : AUDIT 2
PROGRAMME NAME : BACHELOR IN ACCOUNTING (HONS)
DATE : 3 FEBRUARY 2025
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 TEN (10) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

- (a) Operational audits are a comprehensive examination of an organization's operations to evaluate efficiency, effectiveness, and compliance with policies and procedures. These audits focus on identifying areas for improvement in internal processes, risk management, and overall operational performance.

Required:

- i. Briefly explain **THREE (3)** broad categories of operational audits and provide an example for each category.

(6 marks)

- ii. Differentiate between efficiency and effectiveness by providing **ONE (1)** example from manufacturing company's perspective.

(5 marks)

- (b) Assurance engagements are essential in building trust and confidence among stakeholders by providing independent, objective evaluations of financial and non-financial information, which helps enhance decision-making and transparency.

Required:

- i. Discuss the difference between the positive form of opinion and negative form of opinion.

(5 marks)

- ii. Briefly explain ISRS 4410 *Compilation Engagements*.

(4 marks)

[20 marks]

Question 2

- (a) An audit of the payroll cycle involves evaluating an organisation's payroll processes, systems and controls to ensure accuracy, compliance, and efficiency in handling employee compensation. The objective is to verify that payroll transactions are properly recorded, calculated, and disbursed in accordance with applicable laws, regulations, and internal policies.

Required:

- i. List **FOUR (4)** types of authorisation used in the payroll and personnel cycle.
(2 marks)
- ii. For each of the authorisation you have listed above, explain the kind of misrepresentation that might happen when an authorisation is not obtained.
(4 marks)

- (b) An audit of long-term loans involves examining an organization's long-term debt obligations to ensure they are accurately recorded, properly classified, and disclosed in the financial statements. This audit focuses on assessing the completeness, valuation, existence, and presentation of long-term loans, as well as compliance with loan covenants and repayment terms.

Required:

Explain **FOUR (4)** audit procedures that commonly performed to verify the long-term loan, the interest expenses as well as the interest payable.

(4 marks)

- (c) The following audit procedures were planned by senior auditor, Miss Zulia in the audit of the acquisition and payment cycle for Aiqal Sdn Bhd for the year ended 31 December 2024:

1. Examine 20 samples of purchase requisition for indication of approval.
2. Send letters to 15 vendors, of which 10 have a zero balance and asking all of them to respond to the letter.
3. Compare inventory turnover ratio with the year 2023.
4. Select a sample of 20 entries in the cash disbursement journal and trace each to the purchase order and vendor invoice.
5. Recalculate the clerical accuracy of vendor invoice including discount and freight charges.
6. Examine a sequence of purchase requisition and purchase order

Required:

For each procedure (1) to (6) above, provide the following:

- i. Identify the type of audit procedure, specifying whether it is test of control, an analytical procedure, a substantive test of transactions or test of details of balances.
- ii. State the audit objective(s) being addressed.
- iii. Specify the type of evidence being used.

(9 marks)

[19 marks]

Question 3

- (a) An audit of the year-end cash balance provides assurance that the cash and cash equivalents reported in the financial statements are accurate, complete, and free from material misstatement. A major consideration in the audit of the general cash balance is the possibility of fraud. When there are insufficient internal controls, the auditor needs to extend the procedures in the year-end cash audit in order to assess the potential for material fraud.

Required:

- i. State **FOUR (4)** audit procedures involved in verifying bank reconciliation.
(4 marks)
 - ii. Explain any **TWO (2)** fraud-oriented procedures to detect manipulation of year-end cash balances.
(4 marks)
- (b) Raiza Furniture Sdn Bhd is a manufacturer of high-quality, custom-designed furniture, specialising in creating innovative and stylish pieces for both residential and commercial markets. Established in 2001, the company has built a strong reputation for its craftsmanship, sustainability, and customer-centric approach. With a diverse range of products that includes sofas, dining tables, beds, office furniture, and outdoor collections, Raiza Furniture Sdn Bhd blends traditional craftsmanship with modern technology to deliver durable and aesthetically pleasing furniture that meets the needs of a dynamic market. Your team have been assigned to observe the year-end inventory count at the client's warehouse located at Subang Industrial Park. The following situation were found during the observation:
1. Ethan Hunt, the administration manager is responsible for coordinating the inventory count.
 2. Ten staff members from various departments; administration, information technology, payroll, treasury, sales, and finance are appointed to assist him with the inventory count.
 3. Two weeks before the count begins, Ethan holds a meeting with all the staff involved. Employees are clearly informed about the upcoming count, along with their roles and responsibilities.

4. Inventory movements are temporarily paused to avoid discrepancies between physical counts and system records.
5. All necessary equipment, including barcode scanners, pre-numbered inventory count sheets, clipboards, pens and tags, is procured well in advance.
6. Five teams, each consisting of two members, are assigned to different sections of the warehouse or retail floor to carry out the physical count. The staff is not given the flexibility to choose their partners.
7. Ethan oversees the counting procedure with support from internal auditors tasked with keeping a close eye on every team.
8. Tag must be used to indicate area that has been counted.
9. Both the counter and recorder must sign the completed inventory count sheets for easy reference.
10. If any obsolete items are identified during the count, the team must separate them into a designated area and note their description and quantity in the pre-numbered write off sheets.
11. The internal auditors are responsible for performing re-count at their designated area on sample basis after the staff has completed the count.
12. The completed inventory count sheets are submitted to Ethan for reconciliation. Any discrepancies between the physical counts and system records are promptly investigated.

Required:

- i. Identify **FOUR (4)** internal control strengths in the year-end inventory count at Raiza Furniture Sdn Bhd.
(4 marks)
- ii. Discuss **FOUR (4)** potential misstatements and inefficiencies that might occur if each of the controls stated in (i) were absent.
(8 marks)

20 marks

Question 4

- (a) An audit of expenses helps ensure that an organisation's expense transactions are valid, accurately recorded and properly classified. The audit of income and expenses account is directly related to the balance sheet and is not a separate part of the audit process. A misstatement of an income statement account almost always equally affects a balance sheet account.

Required:

Explain how the auditing process for depreciation expense differs from that for repair and maintenance expense.

(4 marks)

- (b) Completing the audit refers to the final phase of the audit process, where the auditor performs a series of concluding procedures to ensure that all audit work is complete, documented, and aligned with auditing standards before issuing the audit report. Among the key steps in completing the audit are review of subsequent event and going concerns assessment.

Required:

- i. Briefly explain subsequent events as per MFRS110 *Events after the Reporting Period*.

(2 marks)

- ii. Discuss **TWO (2)** types of subsequent event and the appropriate accounting treatment based on MFRS110. Provide **ONE (1)** example for each type.

(5 marks)

(c) 3 March 2025 marks the conclusion of Parker & Pearce Berhad's (PPB) audit fieldwork for the financial year that ended on 31 December 2025. The financial statements and the auditor's report were signed, issued and submitted to the Securities Commission on 17 March 2025. The information below about subsequent events is unrelated to one another:

1. On 30 January 2025, during a routine internal audit, the company discovers that a significant amount of inventory was stolen from its warehouse in December 2024. The theft was carried out by an employee who manipulated the inventory records to conceal the loss. The inventory count conducted on 31 December 2024, did not detect the missing items due to the falsified records.
2. A major fire breaks out at one of the company's key production facilities on 21 February 2025. The fire causes significant damage to the building, equipment, and inventory stored on-site, leading to a temporary shutdown of operations at that facility. The company has insurance coverage for such losses, but it will take time to assess the full extent of the damage, file claims, and receive compensation.
3. On 28 February 2025, a lawsuit is filed against PPB by a major competitor, Toretto Berhad alleging that PPB's new product, launched in November 2024, infringes on the competitor's registered trademark. The competitor claims that PPB's logo and brand name used on the new product are confusingly similar to their own and are seeking damages for trademark infringement, as well as an injunction to stop the sale of the infringing products.
4. One of major customer, Cipher Sdn Bhd filed for bankruptcy on 15 May 2025. The customer's financial condition had been deteriorating over recent years. The recent credit sales took place on 12 December 2024.

Required:

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

- i. Adjustment of 31 December 2024, financial statements.
- ii. Disclosure of the information in notes to the accounts in the 31 December 2024, financial statements.
- iii. Requesting the client to revise and reissue the 31 December 2024, financial statements. The revision should involve an adjustment to the 31 December 2024, financial statements.
- iv. No action is required.

(10 marks)

[21 marks]

Question 5

Faqi Retail Sdn Bhd (FRSB) is a dynamic and innovative player in the retail industry, specialising in delivering good-quality products that cater to a diverse range of customer needs. The company provides a broad selection of merchandise, from apparel and accessories to home goods and electronics, both through its brick-and-mortar stores and a user-friendly online platform. Driven by a commitment to customer satisfaction and competitive pricing, the company has established itself as a trusted brand in the market. FRSB has appointed your firm to review the acquisition and payment system for better improvement. During the agreed upon procedure engagement, your team has found the following:

To manage its purchasing activities, FRSB uses a centralised purchase system to streamline procurement, maintain supplier relationships, and ensure the timely delivery of materials. The purchase system is not integrated with the inventory management system. The warehouse staff is responsible for issuing a pre-numbered purchase requisition (PR) to purchasing department after he get notification of the shortage of inventory level. Upon receiving the PR from the system, the purchasing staff proceed with supplier selection from the supplier's database and a pre-numbered purchase order (PO) is issued. The PO is then forwarded to purchasing manager for approval. Copy of PO is sent to warehouse department and accounting department for reference.

The receiving section of warehouse department plays a crucial role in ensuring that the acceptance of goods runs smoothly. As the frontline team responsible for receiving goods from suppliers, they are the first to inspect and verify every delivery that arrives at the company's bustling warehouse. The staff inspects the goods to ensure they match the details in the PO, including quantity, quality, and specifications. After inspection is being made, the inventory is sent to the warehouse and the perpetual inventory system is updated by the store keeper to reflect the receipt of inventory. The receiving staff issued receiving report and numbered with a designated supplier code. A copy of receiving report is sent to purchasing department and a copy to accounting department.

Purchasing department received an invoice from the supplier via email, and the invoices are forwarded to the accounting department. The accounts payable clerk performs a three-way match to verify the accuracy of the purchase transaction. This involves comparing the PO, receiving report and invoice. If all three documents match in terms of item descriptions, quantities, prices, and terms, the invoice is approved for payment. If there are discrepancies, such as damaged goods or incorrect quantities, these must be resolved with the vendor before proceeding. Once the three-way match is completed, the purchase is recorded in the accounting system.

After the purchase has been recorded and approved by the accountant, the invoice is scheduled for payment based on the supplier's payment terms. Payments can be processed using cheque and electronic funds transfer. Account payable officer processes the payment and the list of payments are reviewed and approved by finance controller to ensure proper controls and prevent unauthorised disbursements. After the payment is processed, the accounts payable ledger is updated to reflect the payment. The outstanding balance for each vendor is adjusted accordingly.

The accounts payable executive reconciles the vendor statements with the company's purchase records, payment records, and accounts payable ledger. Discrepancies between supplier's statements and company records such as missing invoices and duplicate payments are identified. Discrepancies found during reconciliation are investigated, which involve contacting vendors, reviewing documentation, and correcting any errors in the accounting records. The staff is also assigned to prepare bank reconciliation and reconciling the purchase ledger control account on a monthly basis.

Required:

- (a) Briefly explain **FIVE (5)** weaknesses in the acquisition and payment cycle at Faqi Retail Sdn Bhd, which could lead to misstatement in the financial statements and inefficiency in the system.

(10 marks)

- (b) Give **FIVE (5)** recommendations for future years on how to improve the acquisition and payment system for each of the weaknesses identified in (a).

(10 marks)

[20 marks]

END OF EXAMINATION PAPER