



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2025 SEMESTER**

COURSE CODE	: EAB31103
COURSE NAME	: AUDIT 2
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 30 JANUARY 2026
TIME	: 09:00AM – 12:00PM
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 EIGHT (8) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

(Total: 100 marks)

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided

Question 1

Azman Rahman is the audit senior assigned to the audit of Permata Trading Sdn. Bhd., a medium-sized retail company in Malaysia. During the planning phase, Azman is reviewing the payroll system of the company to identify potential internal control weaknesses.

Permata Trading employs approximately 150 staff members across three branches. The company uses a manual time sheet system where employees record their attendance by signing in and out on paper time sheets kept at each branch. The time sheets are not pre-numbered and employees have free access to them throughout the day. At the end of each week, the branch managers collect the time sheets and send them to the head office via courier service.

Upon receiving the time sheets, the payroll clerk, Siti Aminah, calculates the total hours worked by each employee manually. She then inputs the data into the payroll software system which automatically calculates the gross salary, statutory deductions (EPF, SOCSO and PCB), and net salary. Siti Aminah is also responsible for preparing the payment vouchers and has the authority to add new employees to the payroll system when notified by the branch managers through email or phone calls.

After processing, Siti Aminah prints the payroll summary report and prepares the payment instructions. The Finance Manager, who is Siti Aminah's brother-in-law, reviews and approves the payment instructions before submitting them to Maybank Berhad for electronic fund transfer. The salary payments are made directly to employees' bank accounts two days before the end of each month.

The payslips are generated by the payroll system and sent to employees via email. However, some employees who do not have email access collect their payslips from Siti Aminah's desk when they visit the head office. The Human Resource Department maintains the personnel files, but there is no regular verification of the payroll records against the personnel files. Additionally, the company does not require employees to acknowledge receipt of their salary payments.

Required:

Reminder: You need to answer the following questions in this table format:

(a) Weaknesses	(b) Risk	(c) Recommendation
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- (a) Identify and explain **FIVE (5)** internal control weaknesses in the payroll system of Permata Trading Sdn. Bhd. as described above.

(10 marks)

- (b) For each weakness identified in part (a), explain the potential risk or impact to the company.

(5 marks)

- (c) Recommend appropriate internal control measures to address each of the weaknesses identified in part (a).

(5 marks)

[20 marks]

Question 2

Delima Trading Bhd prepares bank reconciliation statement as at year end 30 September 2024 for the external auditor.

	RM	RM
Balance as per the Bank Statement		15,642
Add: Deposits in Transit		
Premier Industries Sdn Bhd	2,850	
Global Services Enterprise	3,245	
Total Deposits in Transit		<u>6,095</u>
		21,737
Less: Outstanding Cheques		
Cheque No. 245891	2,180	
Cheque No. 245894	5,520	
Cheque No. 245903	4,125	
Total Outstanding cheque		<u>(11,825)</u>
Balance as per the Cash Book		<u>9,912</u>

An audit junior was assigned to verify the cash balances and had performed the following audit procedures:

1. Agree balance as per the bank statement and cash book as at the year end to the bank statement and cash book respectively.
2. Agree balance as per bank statement as at the year end to the bank confirmation.
3. Test the clerical accuracy of bank reconciliation statement.

The audit senior was surprised when review the work, since the audit junior did not consider all the necessary audit procedures in order to provide sufficient appropriate evidence for the audit assertions on cash balances. Therefore, he advised you to continue with the audit procedures for the petty cash.

Required:

- (a) Explain **THREE (3)** importance of obtaining independent confirmation from banks. (3 marks)
- (b) Comment on the senior review on the procedures done by the audit junior on cash and bank balances was incomplete. (6 marks)
- (c) Justify **THREE (3)** audit procedures to fulfill the assertions on completeness, valuation and allocation for cash at bank balances. (6 marks)
- (d) Describe **TWO (2)** audit procedures for the petty cash. (5 marks)
- [20 marks]**

Question 3

- (a) Arens et al (2015) highlight that inventory is susceptible to various risks due to its physical nature and mobility. Inventory can be subject to obsolescence, damage, and deterioration, which may not be promptly identified or recorded. Furthermore, the complexity of inventory valuation methods and the involvement of estimates and judgments create opportunities for misstatement. The Chartered Institute of Internal Auditors (CIIA) 2023 report also indicates that inadequate inventory controls contributed to 28% of asset misappropriation cases in manufacturing and retail sectors.

Required:

Explain **ONE (1)** assertion and **ONE (1)** substantive procedure for each of the following possible misstatement:

- i. Obsolete inventory not written off.
- ii. Inventory held on consignment incorrectly recorded as owned.

(4 marks)

- (b) TechMatrix Industries Bhd, a rapidly growing electronics manufacturing company, operates from its headquarters in Kuching, Sarawak. The company produces circuit boards, LED displays, and power supply units for multinational clients across Southeast Asia. The company's purchasing division, managed by Rebecca, faced mounting pressure to meet the escalating requirements for electronic components and raw materials. To speed up operations, Rebecca occasionally authorised purchase requisitions through instant messaging apps or phone calls, circumventing the established approval procedures.

Fatima, a procurement coordinator, encountered difficulties when assigned to evaluate and select vendors for upcoming contracts. She found it challenging to make well-informed choices, depending on a supplier database that hadn't been reviewed or verified in eighteen months. Given her overwhelming workload, Fatima seldom conducted supplier performance evaluations, which meant that vendors with poor track records of quality issues and late deliveries remained on the approved supplier list.

Additionally, Lisa, a procurement assistant, handled most data entry tasks manually. She was in charge of recording purchase requisition details, goods received notes, and supplier invoices. The monotonous nature of her duties caused management to

develop excessive confidence in Lisa's accuracy without implementing verification controls.

Samuel, a senior procurement coordinator working alongside Fatima, had a family member who operated a mid-sized component trading business. Samuel never disclosed this relationship and routinely persuaded Fatima to award contracts to his relative's company, despite their quotations being consistently higher than market rates. Furthermore, Samuel approved significant procurement transactions without adequate authorisation levels. Similarly, Rebecca, as the purchasing manager, sanctioned large-value purchases without obtaining approval from the finance director or senior management.

Upon arrival at TechMatrix's storage facility, the warehouse personnel carefully matched the purchase orders against the delivery documents supplied by the vendors. Following this verification process, the warehouse team transferred the materials to the production floor and issued goods received notes to the purchasing division, acknowledging receipt of the items and triggering the payment process.

Fatima, already overwhelmed with vendor selection responsibilities, was tasked with initiating payments after receiving goods received notes from the warehouse. She prepared payment requests based exclusively on the documentation from the goods received notes. To finalise payments, Fatima then obtained the necessary approvals and signatures for payment vouchers and cheques from Rebecca. Due to Rebecca's regular overseas business trips and demanding schedule, the cheques prepared by Fatima often remained unsigned for weeks. This regularly caused payment delays, sometimes breaching the contractual payment terms with suppliers by 30-60 days.

Required:

- i. Identify **FIVE (5)** weaknesses that may exist in the above purchase and payment cycle and **FIVE (5)** possible impacts for each weakness.

(10 marks)

Answer in this format:

Weaknesses	Impacts
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- ii. Based on the above purchase and payment cycle, recommend **THREE (3)** improvements to strengthen the system.

(6 marks)

[20 marks]

Question 4

Hi-Fi Sound Co. is a manufacturer of specialised, high-end audio components and speakers. Inventory (Raw Materials, Work-in-Process, and Finished Goods) is the largest asset on its balance sheet. The audio components they manufacture are subject to rapid technological change, meaning new models can quickly render older stock obsolete.

You are the audit senior responsible for substantive testing of inventory at year-end. An initial review and performance of analytical procedures (APs) revealed the following concerning ratio analysis and other information:

1. Days to Sell Inventory: This ratio has significantly increased from 60 days in the prior year to 115 days in the current year.
2. Gross Margin Percentage: The overall Gross Margin Percentage has remained stable, but internal analysis confirms that one specific, older line of speakers (Line X) is now being sold slightly below its standard cost to generate immediate cash flow. Management has not yet recorded an inventory writedown related to Line X.

Furthermore, an intern from UniKL Luqman mentioned that during the stocktake physical count, he observe that large quantities of "Line X" speakers are sitting in unusual, dusty, or inaccessible parts of the warehouse, supporting the suspicion that this inventory is slow-moving or obsolete.

3. Inventory Composition: The Finished Goods (FG) inventory balance has increased by 45%, while Raw Materials (RM) and Work-in-Process (WIP) balances have decreased slightly.

The client uses a perpetual inventory system and the audit firm is required to observe because inventory is material.

Required:

- (a) Explain the significance increase in 'Days to Sell Inventory' ratio.
(3 marks)
- (b) Analyse and highlight **TWO (2)** concern that you might have regarding the 'Inventory Composition' notes in the question.
(5 marks)
- (c) Describe the primary purpose of the auditor's observation of the client's physical inventory count (stocktake) and explain how this procedure addresses the existence assertion for inventory.
(2 marks)
- (d) Detail **THREE (3)** distinct actions the auditor must perform during stocktake procedure.
(6 marks)
- (e) Regarding observation of inventory 'Line X', suggest actions the auditor must perform during the observation. (*Hint: Include appropriate assertion and applicable MFRS*)
(4 marks)
- [20 marks]**

Question 5

Supreme Holdings Berhad is a diversified corporation engaged in various business operations including property development, construction, and retail trading across Malaysia. The company has engaged Azman & Partners as auditors for the financial year ended 31 December 2024. Azman, the engagement partner, oversees the audit. As the senior auditor, you have identified the following matters requiring partner attention:

1. A major debtor owing RM 3.5 million was placed under receivership in February 2025. Legal advice indicates the company will likely recover only 40% of the outstanding amount. The draft financial statements show only the standard allowance for doubtful debts.
2. Following assessment by a structural engineer, the board determined that one of the company's shopping complexes requires extensive structural repairs due to foundation issues. The building has been closed since September 2024 and generated no rental

income during the last quarter. Repair costs are estimated at RM 8 million, exceeding the building's recoverable amount. The financial statements include normal depreciation charges only.

3. Supreme Holdings Berhad received a Letter of Award dated 15 July 2024 from a government agency for a construction project worth RM 50 million. Construction is scheduled to begin in the second quarter of 2026 for a period of four (4) years. The formal contract was executed on 5 March 2025.
4. The board's minutes reveal plans to diversify into the hospitality sector as part of a long-term strategic vision. Discussions remain preliminary among directors with no feasibility studies, cost estimates, or commitment to investments undertaken.

Required:

- (a) For each event above, discuss whether adjustments or disclosures are required in the financial statements.

(10 marks)

- (b) Explain any **FOUR (4)** types of audit evidence Azman would gather when reviewing subsequent events related to these matters.

(10 marks)

[20 marks]

END OF EXAMINATION PAPER