CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EAB31103
COURSE NAME	:	AUDIT 2
PROGRAMME NAME	:	BACHELOR IN ACCOUNTING (HONS)
DATE	:	26 JUNE 2026
TIME	:	3PM – 6PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

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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

(a) Inventory is often considered a high-risk area due to its susceptibility to misstatement in both quantity and valuation.

Required:

i. Differentiate between Freight on Board (FOB) shipping point and FOB destination.
(4 marks)

ii. Explain **SIX (6)** control procedures that should be applied during a physical inventory count at year-end.
(6 marks)

(b) Farid, an audit senior at Zainal & Partners, identified weaknesses in the cash management system of Lestari Sdn Bhd during the audit for the year ended 31 December 2025. He intends to perform additional procedures on the bank reconciliation.

Required:

i. Explain the objective of auditing the bank reconciliation.
(2 marks)

ii. State **FOUR (4)** audit procedures used in testing bank reconciliation.
(4 marks)

iii. List **FOUR (4)** types of misstatements that are unlikely to be detected through bank reconciliation testing.
(4 marks)

[20 marks]

Question 2

(a) In the capital acquisition and repayment cycle, auditors perform various procedures to verify the completeness, accuracy, and validity of liabilities such as borrowings and interest obligations. This includes reviewing loan agreements, recalculating interest and evaluating trends in financing costs.

Required:

Describe **ONE (1)** audit test for each of the following audit procedures: the analytical procedure in the audit of notes payable, the test of control, the substantive test of transactions and the test of details of balance.

(4 marks)

(b) Internal audit functions have evolved significantly due to increased regulatory requirements and organisational complexity. Their role often complements that of external auditors in enhancing governance and risk management.

Required:

i. Explain **THREE (3)** similarities between internal auditors and external auditors in conducting financial statement audits.

(3 marks)

ii. With reference to ISA 610 *Using the Work of Internal Auditors*, explain **THREE (3)** situations where external auditors should not rely on internal audit work.

(3 marks)

iii. In operational auditing, explain the meaning of "effectiveness" and "efficiency".

(4 marks)

(c) Auditing shareholders' equity in large listed companies presents greater challenges compared to small private entities due to frequent transactions and dispersed ownership.

Required:

Explain **THREE (3)** internal control procedures relevant to the audit of shareholders' equity.

(6 marks)

[20 marks]

Question 3

(a) Aiman, an auditor at Rafiq Associates, designed the following audit procedures for the payroll cycle of Nabila Sdn Bhd:

1. Inspect payroll records for evidence of authorised deductions.
2. Compare total payroll cost as a percentage of revenue with prior year figures.
3. Recalculate payroll totals and trace postings to the general ledger and the payroll master file.
4. Enquire whether any outstanding payroll liabilities from prior periods remain unpaid.
5. Review the chart of accounts for indication of internal verification.
6. Compare payroll payment dates with supporting time records and bank transfers.

Required:

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

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

(9 marks)

(b) Eco Industrial Park is home to the medium-sized company Rizqi Manufacturing Sdn Bhd. For its production section, the company has 50 factory workers. The company uses the following payroll procedures:

Every shortlisted applicant who is qualified for an interview will have their background checked by the Human Resources (HR) officer when a position becomes available. After interviewing candidates, En. Shahrizal, the HR manager, and the manager of the requesting department will determine whether to hire or reject them. The payroll clerk prepares the employment paperwork and sends it to En. Shahrizal upon hiring. He returns the paperwork to the payroll clerk as proof that the applicants have been hired after approving the hourly rates of pay for new hires. The authorised wage rate will then be updated into the computerised employee database system by the HR clerk who is in charge of keeping the employee records. If the salary rate changes in the future, the HR clerk will fill out the appropriate paperwork and ask En. Shahrizal for approval.

The corporation uses a biometric system placed close to the manufacturing entrance to record the workers' attendance. The payroll clerk creates a record of the manufacturing workers' earnings based on information from the attendance report and sends it to the payroll supervisor for confirmation. In order to prepare the paycheques, the payroll supervisor provides the accounts clerk with the employees' earnings and attendance reports. The paycheques are then given to the payroll supervisor to be distributed to each employee once Miss Farah, the accountant, signs them. When collecting cheques, factory workers must show up at the payroll office with their staff card and identity card. The employee in question must pick up any undistributed payroll cheques from the account officer after they are returned for safekeeping.

The total amount of employee earnings, less the amount of any undistributed paycheques, is updated in the cash payment log by the account clerk. The account clerk will compile a payroll disbursement report at the end of each month. Every month, the account officer will balance the transactions in the imprest payroll bank account. If there is a problem, Miss Farah, the accountant, will be consulted. She will check the payroll disbursement report and the bank reconciliation. The payroll supervisor will be informed of any difference or unreconciled amount.

Required:

i. Identify **FOUR (4)** internal control strengths in the payroll and personnel cycle at Rizqi Manufacturing Sdn Bhd.

(4 marks)

ii. Discuss **FOUR (4)** potential misstatements that might occur if each of the controls stated in (i.) above were absent.

(8 marks)

[21 marks]

Question 4

(a) To satisfy the distinctive demands of financial statement consumers, auditors offer a wide range of additional assurance services pertaining to past financial statements. The types of report, degree of assurance, and amount of evidence vary depending on the sort of service provided.

Required:

Briefly explain the following types of services;

i. Review service (ISRE 2400 *Engagements to Review Historical Financial Statements*).

(2 marks)

ii. Compilation service (ISRS 4410 *Compilation Engagements*).

(2 marks)

iii. Agreed-upon procedures engagement (ISRS 4400 *Agreed-Upon Procedures Engagement*).

(2 marks)

(b) In accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*, explain how contingent liabilities should be recognised and disclosed in financial statements.

(3 marks)

(c) As of 31 December 2025, you are the senior auditor for Nova Berhad. The audit's fieldwork was finished on 12 April 2026. The signed audit report dated 22 April 2026, and the audited financial statements were presented to the Securities Commission. The following events are independent of each other:

1. A customer named James filed a complaint alleging a breach of contract in June 2022, and the court ruled in favour of Nova Berhad on 13 March 2026. The entire possible liability for the claim had been covered by the client. James will not challenge the court's ruling.

2. The client signed a conditional sale and purchase agreement on 2 February 2026, to purchase a 20% stake in Techno Sdn Bhd. The client promised to pay RM20 million.

3. An explosion at the company's Elmina Industrial Park production site on 31 December 2025, resulted in an uninsured loss of inventory.

4. As of 31 December 2025, an extensive account receivable from a client, Mega Sdn Bhd, was considered fully recoverable. On 1 April 2026, the auditor was informed of the customer's bankruptcy. On 25 January 2026, the client filed for bankruptcy.

Required:

Determine the appropriate course of action for each of the above scenarios using the following sections and provide justification for your responses:

i. Adjust the 31 December 2025 financial statements.
ii. Disclose the information in notes to the accounts in the 31 December 2025 financial statements.
iii. Request the client to revise and reissue the 31 December 2025 financial statements. The revision should involve an adjustment to the 31 December 2025 financial statements.
iv. No action is required.

(10 marks)

[19 marks]

Question 5

Since 2023, Zenith Electronics Sdn Bhd (ZESB) has hired Zul Fikar & Co as its external auditor. The client purchases parts from various vendors throughout Malaysia to construct electrical equipment. One month before the end of the fiscal year, you went to the client's location in Elmina Industrial Park to test the acquisition and payment system. The following situations have been identified.

Inventory custody falls within the purview of the warehouse manager. The warehouse is divided into three areas: receiving, shipping, and storekeeping. When the quantity of a certain component falls below the reorder threshold, a senior warehouse clerk is tasked with filling out the purchase requisition form. The buying department receives the purchase requisition for additional processing. After reviewing the purchase request, the purchasing clerk assigned the transaction to a supplier who was authorised. The selected supplier receives the purchase order through Electronic Data Interchange (EDI). A copy of the purchase order was entered into the purchasing database by the computer system using the vendor code. The purchase order is delivered in two copies: one to the accounts payable database and one to the warehouse database.

Upon delivery, the receiving personnel confirm that the items match the purchase order and delivery note to ensure that ZESB placed the order. To verify that the products have been received, a receiving report is created. If there is a shortfall or excess, he will verbally notify the purchasing department over the phone. After verification, the inventory is transported to the warehouse. The storekeeper updates the perpetual inventory system to reflect inventory receipts.

The vendor sent an EDI invoice to the purchasing department, which then forwarded it to the accounting department. By verifying the purchase order and the invoice data, the accounts payable clerk confirmed the order. The supplier's master file and purchase ledger are automatically updated when the invoice is entered into the accounts payable database.

Unpaid vendor invoices are filed by the deadline. A disbursement clerk will prepare a cheque for the vendor when the invoice is nearly past due. A purchase order and vendor invoice are included in the payment instruction that is created for every disbursement. After that, the accountant will be informed to sign the cheque and the payment instruction. Any cheque exceeding RM50,000 must be signed by the financial controller.

At the conclusion of each month, the account officer is tasked with preparing the bank reconciliation. Additionally, she is responsible for the monthly reconciliation of the purchase ledger control account.

Required:

(a) Identify and explain **FIVE (5)** weaknesses in the acquisition and payment cycle that may lead to inefficiencies or misstatements.

(10 marks)

(b) Provide **FIVE (5)** recommendations to address the weaknesses identified in (a).

(10 marks)

[20 marks]

END OF EXAMINATION PAPER