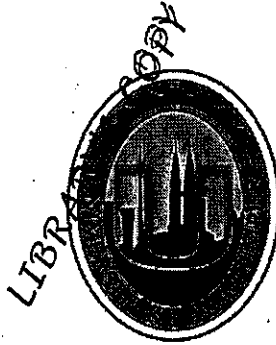


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**UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL**

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**FINAL EXAMINATION**

**JANUARY 2016 SEMESTER**

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<b>SUBJECT CODE</b>	<b>:</b>	<b>EAB31103</b>
<b>SUBJECT TITLE</b>	<b>:</b>	<b>AUDIT 2</b>
<b>LEVEL</b>	<b>:</b>	<b>BACHELOR</b>
<b>TIME / DURATION</b>	<b>:</b>	<b>2.00 PM - 5.00 PM / 3 HOURS</b>
<b>DATE</b>	<b>:</b>	<b>19th MAY 2016</b>

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**INSTRUCTIONS TO CANDIDATES**

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

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**THERE ARE EIGHT (8) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.**

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**(Total: 100 marks)**

**INSTRUCTION: Answer ALL questions**

**Please use the answer booklet provided**

**Question 1**

A. Many non-public companies have their financial statements reviewed or compiled by an auditor instead of having them audited.

**Required:**

(a) Briefly explain 'review service'. How does it differ in comparison to a compilation service with regards to assurance level provided?

(4 marks)

(b) Discuss **TWO (2)** types of compilation reports and the circumstances in which each should be used.

(5 marks)

B. Operational auditing activities are related to the reviewing of an organization for efficiency and effectiveness and it differs from financial auditing activities.

**Required:**

(a) Identify and discuss **TWO (2)** major differences between operational and financial auditing.

(5 marks)

(b) Operational audit involves **THREE (3)** phases; planning, evidence accumulation and reporting and follow-up. Briefly explain each of the phases.

(6 marks)

**20 marks**

**Question 2**

A. Your client, WBA Sdn. Bhd., prepared the following schedule of land, buildings and equipment for the audit of financial statements for the year ended 31 December 2015:

Account Description	Beginning Balance as at 1/1/2015 RM	Additions RM	Disposals RM	Ending Balance as at 31/12/2015 RM
Land	7,500,000	-	-	7,500,000
Building Office	27,000,000	250,000	-	27,250,000
Production Equipment	2,345,000	178,223	34,779	2,488,444
Office Equipment	1,765,881	72,517	55,339	1,783,059
IT Hardware	216,542	-	19,098	197,444
<b>Total</b>	<b>38,827,423</b>	<b>500,740</b>	<b>109,216</b>	<b>39,218,947</b>

**Required:**

- (a) Define property, plant and equipment. (2 marks)
- (b) List **TWO (2)** types of evidence to examine the beginning balances in the accounts. (2 marks)
- (c) List **TWO (2)** types of evidence to examine the additions to each account. (2 marks)
- (d) Explain what type of evidence would you examine to support equipment disposals. State **TWO (2)** important details in the record that auditors should consider. (2 marks)

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- (e) List **TWO (2)** procedures to be performed to examine the ending balances in the accounts.

(2 marks)

B. A company must correctly record current year additions because these will have long term effects on the financial statements. The failure to capitalize fixed assets or recording an acquisition at the incorrect amount affects the balance sheet until the company disposes of the assets.

**Required:**

- (a) Please explain balance-related audit objectives of **Detail Tie-in, Existence** and **Accuracy** for the additions of the fixed asset.

(3 marks)

- (b) Give **ONE (1)** example of common audit test for each audit objective stated above.

(3 marks)

C. The following documents are used in recording acquisition of goods and services. Explain the function of each document.

- (a) Voucher

(2 marks)

- (b) Accounts payable master files

(2 marks)

**20 marks**

**Question 3**

A. The following audit procedures were planned by senior auditor, Raihan in the audit of the inventory cycle for Salwa Berhad during physical count of inventory and inventory pricing and compilation:

1. Account for sequence of inventory tags used during physical count.
2. Examine whether the inventory schedule agrees with the physical counts and perpetual inventory master files; and the total is correctly added and agrees with the general ledger.
3. Observe physical count process whether they are being followed by responsible staffs.
4. Compare inventory turnover with previous year.
5. Compare the unit price on the final inventory summary with vendors' invoices to ensure correct figure is used.
6. Examine raw material requisition forms for proper authorization.

**Required:**

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

- (a) The types of **audit procedure**, whether it is test of control, an analytical procedure, a substantive test of transactions or test of details balances.
- (b) The **audit objective** or objectives being satisfied.
- (c) The type of **evidence** being used.

(9 marks)

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B. Kamal is one of the audit seniors in Fairuz & Co., auditor to Yasin Constructions Sdn Bhd. While performing audit testing on cash balances accounts of Yasin for the year-end 31 December 2015, Kamal realized that there are material internal control weaknesses in the company.

Kamal believes that he might need to perform a few tests in order to verify whether all transactions included in the journals for the last month of the year were correctly included in or excluded from the bank reconciliations.

**Required:**

(a) Explain the purpose of testing client's bank reconciliation. (4 marks)

(b) State **ONE (1)** audit procedure involved in testing bank reconciliation. (2 marks)

List **THREE (3)** types of misstatements unlikely to discover during the audit of bank reconciliation. (3 marks)

(d) State **TWO (2)** reconciliations tasks can be taken by Kamal on proof of cash. (4 marks)

**20 marks**

**Question 4**

- A. The accounts in a company's capital acquisition and repayment cycle depend on the type of business the company operates and how it is financed.

**Required:**

- (a) List **THREE (3)** characteristics of capital acquisition and repayment cycle. (3 marks)
- (b) Explain **THREE (3)** duties of a share registrar. (3 marks)

Briefly explain what is meant by the phrase subsequent events?

(2 marks)

- C. Nadea, Farith & Co. has completed the audit of Cemerlang Traders Berhad (CTB) on 31 March 2016. The audited financial statements for the year ended 31 December 2015 and auditor's report were issued and submitted to Securities Commissions on 7 April 2016. The following items of subsequent events are unrelated to each other:

1. Large account receivable balance from one of CTB's major customers, Chew Sdn. Bhd. was considered fully collectible as at 31 December 2015. However, on 5 May 2016, you discovered that the customer was declared bankrupt on 11 March 2016.
2. On 14 March 2016, CTB has won a court case that had originated in April 2015. CTB had provided for the full amount of the potential liability in relation to the claim made by the other party.
3. The auditor has discovered an uninsured lawsuit against CTB on 15 March 2016. The lawsuit had originated in 12 November 2015. In the opinion of legal counsel there is a possibility of significant loss but the amount is unknown.
4. On 29 February 2016, CTB has acquired 40% equity interest in Haiza Sdn. Bhd. at a consideration of RM3 million, which has been paid on 2 April 2016.

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**Required:**

In each of the situations (1) to (4) above identify from the following the appropriate action.

- (a) No action required;
- (b) Adjust the 31 December 2015 financial statements;
- (c) Disclose the information in notes to the accounts in 31 December 2015 financial statements;
- (d) Request the clients to recall the 31 December 2015 financial statements for revision.

Justify your answers.

(12 marks)

**20 marks**

**Question 5**

Azuwin Apparel Sdn. Bhd. A medium sized company employs 50 factory workers for its production department based in Shah Alam Industrial Park. The company has the following payroll procedures:

The factory manager, En. Hidayat interviews applicants and on the basis of the interview either hires or rejects them. When applicant is hired, the payroll clerk prepares the employment form and forwards it to En. Hidayat. He approves the hourly rates of pay for the new employees on the form and returns the form to the payroll clerk as evidence that the applicants have been employed. The payroll clerk who is responsible for maintaining the employee records would then update the approved wage rate into the computerised employee database system. En. Hidayat verbally advises the payroll clerk of any subsequent amendments in the pay rate.

In recording attendance, blank time cards are kept in a box near the factory entrance. At the beginning of the month, every production worker is required to take a blank time card and fills in his/her name. Each of them needs to use the punch card machine to record the time he/she reports for work and the time he/she leaves the factory. At the end of the month, the worker would drop his/her time card in a box near the exit of the factory. The employees have been advised that their wages would not be processed if they fail to return the completed time cards as required.



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On the first day of the following month, the completed time cards are taken from the box by the payroll clerk. Based on particulars on the time cards, the payroll clerk prepares a record of the employees' earnings and forwards it to the accounts clerk for preparation of the pay cheques. After the pay cheques have been signed by accountant, Cik Hazwani, the cheques are handed over to En. Hidayat for distribution to each employee. Undistributed payroll cheques would be returned to the accounts clerk for safekeeping and the employee concerned is required to collect it from the accounts clerk.

The account clerk updates the cash payment journal with the total amount of employee earnings less the amount of any undistributed pay cheques. The transactions in the bank account are reconciled by the payroll clerk on a monthly basis and any discrepancy would be referred to Cik Hazwani for advice.

**Required:**

- A. Identify **FIVE (5)** weaknesses in internal control procedures relating to payroll system of Azuwin Apparel Sdn. Bhd. (5 marks)
- B. State the possible implication for each of the weaknesses identified in (A). (5 marks)
- C. Give recommendations on how to improve internal control procedures for each of the weaknesses identified in (A). (10 marks)

**20 marks**

**END OF QUESTION PAPER**

