



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3413 AUDITING**
Semester & Year : JANUARY – APRIL 2023
Lecturer/Examiner : JAMES LIOW
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of:
PART A (100 marks) : Answer FOUR (4) compulsory questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 5 (Including the cover page)

PART A : COMPULSORY QUESTIONS (100 MARKS)

INSTRUCTION (S) : There are **FOUR (4)** compulsory questions in this section. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

- a) List **EIGHT (8)** basic elements of an unmodified auditor's report of a Malaysia listed company. (8 marks)
- b) Besides the unqualified audit report, discuss the **THREE (3)** other types of audit report. (6 marks)
- c) Indicate the reason and the type of audit report you would issue for each of the following independent situations:
- (i) For the financial year ended 2021, the auditors were not able to observe the counting of the physical inventories or satisfy themselves concerning those inventory quantities as at the beginning of the previous financial year by alternative means. Since opening inventories affect the determination of the results of operations, the auditors were unable to determine whether adjustments to the results of the operations and opening retained earnings might be necessary for 2021. The auditors believe that the audit evidence obtained is sufficient and appropriate.
 - (ii) The auditor also said it was unable to obtain sufficient appropriate audit evidence pertaining to the accuracy of trade payables balances amounting to RM469,549; other payables and accruals amounting to RM300,967 and RM15,704 respectively; as well as the lack of confirmation on the group's bank balances.
 - (iii) The auditors had disagreed with the decision made by the company's board to treat its subsidiary as a pure investment as opposed to a subsidiary to be consolidated, which is in accordance with the law and financial reporting standards. (6 marks)
- d) Identify the type of audit procedure for each of the following scenarios:
- (i) At the financial year end, the auditors are invited to attend the physical counting of the inventory.
 - (ii) The auditors send a letter to the client's accounts payable in order to determine the actual amount owing.
 - (iii) The auditors calculate the depreciation charges on the property, plant and equipment register.
 - (iv) The auditors calculate the current year's financial ratios and compare with the previous year's ratios.
 - (v) The auditors perform the bank reconciliation and compare the balance to the client's records. (5 marks)

[Total 25 marks]

QUESTION 2

Audit working paper is a record gathered by the auditor to document all audit work details in the audit process, time taken, name of the auditor who carried out work, findings, and conclusion on test result by the auditor.

Required

- a) Explain **THREE (3)** purposes of audit documentation. (9 marks)
- b) Explain the **TWO (2)** types of audit working papers. (12 marks)
- c) Provide **TWO (2)** types of information usually included in the files. (4 marks)

[Total 25 marks]

QUESTION 3

- a) Explain **FOUR (4)** factors which influence the reliability of audit evidence. (8 marks)
- b) Explain **FOUR (4)** financial statement assertions relevant to account balances at the period end. (8 marks)

Blue Mountain Hospital (BMH) is located in Damansara where healthcare is free, as the taxpayers fund the hospitals which are owned by the government. Two years ago, management reviewed all aspects of hospital operations and instigated a number of measures aimed at improving overall 'value for money' for the local community.

The hospital has invested heavily in new surgical equipment, which although very expensive, has meant that more operations could be performed and patient recovery rates are faster. However, currently there is a shortage of appropriately trained medical staff. A capital expenditure committee has been established, made up of senior managers, and they plan and authorise any significant capital expenditure items.

Required

- c) Describe **TWO (2)** substantive procedures the external auditor of BMH should adopt to verify each of the following assertions in relation to the hospital's property, plant and equipment:
 - (i) Valuation
 - (ii) Completeness
 - (iii) Rights and obligations

(9 marks)

[Total 25 marks]

QUESTION 4

Micro Bright Bhd (MBB) manufactures fizzy drinks such as cola and lemonade as well as other soft drinks and its year end is 30 September 2022. You are an audit manager of Coopers & Brothers and is currently planning the audit of MBB.

You attended the planning meeting with the audit engagement partner and finance director last week and the minutes from the meeting are shown below. You are reviewing these as part of the process of preparing the audit strategy document.

Minutes of planning meeting for MBB:

MBB's trading results have been strong this year and the company is forecasting revenue of RM85 million, which is an increase from the previous year.

The company has invested significantly in the cola and fizzy drinks production process at the factory. This resulted in expenditure of RM5.0 million on updating, repairing and replacing a significant amount of the machinery used in the production process.

As the level of production has increased, the company has expanded the number of warehouses it uses to store inventory.

It now utilises 15 warehouses; some are owned by MBB and some are rented from third parties. There will be inventory counts taking place at all 15 of these sites at the year end.

A new accounting general ledger has been introduced at the beginning of the year, with the old and new systems being run in parallel for a period of two months.

In addition, MBB has incurred expenditure of RM4.5 million on developing a new brand of fizzy soft drinks. The company started this process in July 2021 and is close to launching their new product into the market place.

As a result of the increase in revenue, MBB has recently recruited a new credit controller to chase outstanding receivables.

The finance director thinks it is not necessary to continue to maintain an allowance for receivables and so has released the opening allowance of RM1.5 million.

The finance director stated that there was a problem in April 2022 in the mixing of raw materials within the production process which resulted in a large batch of cola products tasting different.

A number of these products were sold; however, due to complaints by customers about the flavour, no further sales of these goods have been made.

No adjustment has been made to the valuation of the damaged inventory, which will still be held at cost of RM1.0 million at the year end.

As in previous years, the management of MBB is due to be paid a significant annual bonus based on the value of year-end total assets

Required

- a) Explain audit risk and the components of audit risk. (4 marks)

- b) Using the minutes provided, identify and describe **SEVEN (7)** audit risks, and explain the auditor's response or action to each risk, in planning the audit of MBB. (21 marks)

Present your answers in the following format:

Audit risk	Auditors' response/action

[Total 25 marks]

END OF QUESTION PAPER