



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3413 AUDITING**
 Semester & Year : SEPTEMBER-DECEMBER 2020
 Lecturer/Examiner : Nur Afiah
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of:
 PART A (100 marks) : FOUR (4) compulsory questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorised 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)** questions in this section. Write your answers in the Answer Booklet(s) provided.

QUESTION 1

- a. Explain the differences between qualified audit report and adverse audit report. (4 marks)
- b. Discuss the components of an unqualified audit report. (15 marks)
- c. Between the auditor Au & Co (Azu) and its client Bold Bhd (Bold), indicate what reporting options and factors should consider in deciding which type of opinion to report.
 - i. Situation 1-Because of late appointment to the audit engagement, Azu is unable to observe Bold's physical stock, however Bold maintains a proper perpetual stock's record and Azu has been able to perform substantive tests and satisfied with stock's ending balances. (3 marks)
 - ii. Situation 2-Because of a direct request by Bold, Azu did not observe Bold's stock. Bold's accounting records are not complete and Azu is unable to perform other substantive test which lead to dissatisfaction of the stock's ending balances. (3 marks)

[TOTAL: 25 MARKS]

QUESTION 2

Faizal is an auditor evaluating Z Bhd's internal control over cash receipt. In planning the engagement, he identified the requirement that all invoices are to be authenticated with approval of the manager for control purposes. Faizal is planning to do the audit sampling since there are numerous transactions involving cash receipts.

- a. Explain to Faizal the process of sampling. (10 marks)
- b. Explain the **FOUR (4)** methods of audit sampling. (10 marks)
- c. Discuss the differences between audit sampling risk and non-sampling risk. (5 marks)

[TOTAL: 25 MARKS]

QUESTION 3

Platinum Co is a manufacturer of sports equipment. The business is expanding well in year of 2019. Sales employees are responsible for evaluating the customers' credit limit. They are also responsible to suggest a new credit for specific customers based on the specific characteristics which is then approved by the head of sales department. The employees have monthly sales targets and can use their discretion in granting sales discounts up to 15%. They are required to record the discounts to the master data file of the customers.

For the order form, the employee will deal personally with the customers and requested the customer to complete the order form which using pre-printed order form. One copy will be retained by the customer and the other copy is retained by the employee of the sales department. On top of the form is the sales order which is based on the ID staff number.

Platinum will ship the goods within 4 working days. Once the employee received the order, then he will email to the finance department and to the warehouse with the customer ID and the sales order details and from this a pick list is generated. Sequentially numbered goods despatched notes are completed and filed in the warehouse.

Consecutively numbered invoices are generated using the pick lists for quantities and the customer master data file for prices. Standard credit terms for customers are 30 days and monthly sales invoices which are over 90 days outstanding are notified to the relevant employees of the sales department to ask the customer to pay directly to the employees.

Payroll fraud

The finance director, Zack, has informed you that a major fraud took place during the year in the payroll department. Several nonexistence employees were set up on the payroll and salaries were paid into one bank account holder. This bank account belonged to two supervisors who are siblings and were employed by Platinum.

The job scope of one of the supervisors is setting up new joiners in the payroll system and the other administered and approved bank transfer requests for salaries and non-current assets payments. These employees no longer work for the company and the management has asked the audit firm for recommendations on how to improve controls in this area to prevent this type of fraud occurring again.

You are an audit supervisor of Cheong & Co and are currently preparing for the final audit for the year ended 2019.

Required:

- a. Identify and explain **SIX (6)** weaknesses in the sales cycle and provide a recommendation to address each of these weaknesses. (18 marks)
- b. Advise the company how to improve the payroll's internal control weaknesses in respect of the hiring process and payroll transactions. (7 marks)

[TOTAL: 25 MARKS]

QUESTION 4

You are an audit manager of Fia & Co and you are currently liable for the audit Gold Bhd, a firm which producing health products mainly on vitamins and collagen. The earning before tax of the company is RM 2.8 million and the total of assets are RM 20 million for the year ended 31 December 2019.

There are several areas need to be take into considerations:

Research and development

The company developing 5 new products which are at different phases of development. Once the cost met the criteria of an intangible asset, the company includes the costs incurred within an intangible asset. Once production begins, the intangible assets are amortised on a straight line with four years of useful life. The company believes that this policy is a reasonable estimate of the assets' useful lives, as in this industry there is endless demand of health products.

Depreciation

The company has a huge group of property, plant and equipment (PPE). In April 2019, the company carried out a full evaluation of all PPE on the methods and useful life. The Head of Finance felt the modifications were necessary to better reflect the assets. This caused a major impact towards the value of the depreciation and net book value.

Bonus

The company's board is comprised of five directors. They are each entitled to a bonus based on the draft of net book value, not including intangible assets. Details of the bonus entitlement are included in the directors' service contracts. The bonus, which related to the 31 December 2019-year end, was paid to each director in January 2020 and the costs were accrued and recognised within wages and salaries for the year ended 31 December 2019. The Companies Commission of Malaysia requested the separate disclosure on the bonus.

- a. Explain the substantive test need to be performed to obtained audit evidence in relation to research and development, depreciation, and bonus. (15 marks)
- b. Discuss the concept of permanent audit file and current audit file. (5 marks)
- c. Identify **FIVE (5)** contents of each of the above file. (5 marks)

(TOTAL: 25 MARKS)

END OF QUESTION PAPER