



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 2022
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

The audit report is the final step in the entire audit process.

Required

- a) Besides the unqualified audit report, discuss the **THREE (3)** other types of audit report. (6 marks)
 - b) List any **EIGHT (8)** basic elements of a standard audit report on financial statements. (4 marks)
 - c) Indicate the reason and the type of audit report you would issue for each of the following independent situations:
 - (i) Your client, Asia Pacific Bhd disagreed with the decisions to treat its subsidiary to be consolidated which is in accordance with the financial reporting standard. As such, you are unable to obtain access to the subsidiary's accounting and other records in order to verify the accuracy of the financial information.
 - (ii) During your audit of ABB Technology Bhd, the company accounting record and related documents were destroyed in a fire at the IT department. As such, the financial statements consequently include significant amount based on estimates. You are unable to obtain sufficient and appropriate audit evidence.
 - (iii) Hong Lam Bhd, a public listed company has incurred substantial losses in recent years and is unable to repay the various outstanding bank loans. Its total liabilities exceeded its total assets by RM442 million. The company's inability to continue as a going concern is in doubt.
- (6 marks)

An auditor needs to design and perform audit procedures to obtain sufficient and appropriate audit evidence in order to obtain reasonable assurance about the financial statements.

Required

- d) Evaluate the term sufficient and appropriate evidence and provide an example each. (6 marks)
- e) Identify the type of audit procedure for each of the following scenarios:
 - (i) Comparing duplicate sales invoice with sales journal for customer's name and amount.
 - (ii) Obtaining a letter from the client's lawyers addressed to the auditors stating that the lawyers are not aware of any existing lawsuits.
 - (iii) Calculating the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding year.

(3 marks)

[Total 25 marks]

QUESTION 2

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and establish criteria and communicating results to interested parties.

Required

- a) Discuss **THREE** (3) differences between accounting and auditing. (9 marks)
- b) Identify any **FOUR** (4) components of the financial statements that are required to be audited and examined by the auditor. (4 marks)

When planning a financial statement audit, the auditor should consider audit risk and materiality and perform the audit in accordance with approved auditing standards. Additionally, materiality and audit risk should also be considered in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.

Required

- c) State the audit risk model and explain its components. (6 marks)
- d) For each of the following situations, explain how inherent risk should be assessed and the effect of risk assessment on detection risk. Identify the actions that the auditor should take to reduce audit risk to an acceptably low level.
 - (i) KP Petroleum Bhd is a fast-growing petrol chemical company with several branches throughout Malaysia. The industry is very competitive, complex and required estimation and judgement in the transactions. (3 marks)
 - (ii) Ranger Sdn Bhd is your new client effective from the last financial year. The previous auditor has been issued an unqualified report. The accounts department's staff are well qualified and always keep the record properly. (3 marks)

[Total 25 marks]

QUESTION 3

Loong Hup Poultry Sdn Bhd (LHP) is a manufacturer and supplier of chicken to the hotel and supermarkets in Klang Valley. The company's financial year is on 31 December.

As the audit senior, you recently had a discussion with the accountant regarding the sales and collection cycle. During the discussion, the accountant highlighted the following matters:

- 1) LHP has about 200 accounts receivables. Since the accounting system is fully computerised, each account receivable is assigned with a unique four numeric characters as the account code.
- 2) LHP accepts order through telephone, post and e-mail. When an order is received, the data of the customer's order is immediately keyed into the system and the details are printed out. The printed customer's order is then serially numbered and designed for multiple uses.

- 3) The customer's order is first used as a basis for releasing goods from store to the shipping department and acts as a shipping document. Once the price is informed by the sales department, the customer's order becomes an invoice. The accounting department will ensure that all the details and authorisations are in order before updating the sales transaction file and accounts receivable master file.
- 4) LHP only accepts payment by cheque. The treasury department is responsible for depositing the cheques into the company's bank. Recording is done by the accounting department and the particulars for the receipt are obtained from the remittance advice that accompanied the cheque. The accounts executive compares the remittance advice with the list of cheques that was prepared by the mailing department. Once the details are entered into the system, the cash receipt transaction file and accounts receivable master file are updated.
- 5) Summary totals are produced monthly by the accounting department for updating the accounts in the general ledger such as sales, cash and accounts receivable. An aged analysis is prepared monthly and balances exceeding the credit terms are followed-up.

Required

- a) State the **THREE** (3) key issues in auditing the sales and collection cycle. (3 marks)
- b) Identify **SIX** (6) strengths of the control procedures of LHP. (6 marks)
- c) Identify **SIX** (6) possible misstatements that could occur if the above internal controls in (b) are not established. (9 marks)
- d) Discuss any **TWO** (2) assertions that relate to internal control for sales and collection cycle. (7 marks)

[Total 25 marks]

QUESTION 4

Sri Raya Bhd (SRB) operates 25 restaurants and provides catering services throughout Malaysia. The company's year-end is 31 December. The audit manager and partner recently attended a planning meeting with the finance director and have been provided with the information below:

- 1) SRB. has spent RM1.6 million in refurbishing all of its restaurants. As part of this refurbishment programme, the main warehouse has been extended and the smaller warehouse has been disposed of at a profit. In order to finance this refurbishment, a sum of RM1.5 million was borrowed from the bank. The instalment is to be repaid over five years.
- 2) The company will be performing a year-end inventory count at the main warehouse as well as at all 25 restaurants on 31 December 2021. Inventory is valued at selling price less an average profit margin as the finance director believes that this is a close approximation to cost.
- 3) Prior to 2021, each of the restaurants maintained their own financial records and submitted returns monthly to the main office. During 2021, all accounting records have been centralised within the

main office. Therefore, at the beginning of the year, each restaurant's opening balances were transferred into the head office's accounting records.

- 4) The increased workload at the main office has led to some changes in the finance department and in November 2021 the financial controller left. His replacement will start in late December.

As the audit senior of EW & Associates PLT, the audit manager has asked you to identify relevant audit risks from the information given and also consider how the team should respond to these risks.

Required

- a) List **FIVE** (5) sources of information that would be of use in gaining an understanding of SRB. (5 marks)
- b) Based on the information that you have discovered, describe **FIVE** (5) audit risks and explain your response to each risk in planning the audit. (10 marks)

Rahman Resort Bhd (RRB) operates a resort providing accommodation, leisure facilities and restaurants. The year-end of RRB is 31 December. You are the audit senior of Coopers & Brothers PLT and are currently preparing the audit programmes for the year-end audit of RRB. You are reviewing the minutes of meeting between the audit manager and finance director where the following two material issues were discussed:

Property, plant and equipment

RRB incurred significant capital expenditure to upgrade the leisure facilities for the resort. The finance director has proposed that the new leisure equipment should be depreciated over ten years using the straight-line method.

Car damaged

RRB's directors received correspondence in November 2021 from a group of customers who attended a wedding at the resort. They parked their vehicles at the open space parking provided by the resort. As there was a heavy rain, a big tree fell on several cars and they have alleged that the cars were substantially damaged. As a result, the customers filed a compensation claim from the resort. RRB's lawyers have received the claim and believe that the lawsuit against the company is unlikely to be successful.

Required

- c) Describe **FIVE** (5) substantive procedures to obtain sufficient and appropriate audit evidence for each of the above issues. (10 marks)

[Total 25 marks]

END OF QUESTION PAPER