



FINAL EXAMINATION
BACHELOR OF ACCOUNTANCY (HONOURS)

COURSE	: AUDITING
COURSE CODE	: AUD2063
DURATION	: 3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **FIVE (5)** questions.
2. Answer **ALL** questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper
 - ii. An Answer Booklet
4. Do not bring any material into the examination hall.
5. Please write your answer using permanent ink.

MYKAD/ PASSPORT NO. : _____

ID. NO. : _____

LECTURER : _____

SECTION : _____

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

This question paper consists of 8 printed pages including the front page.

QUESTION 1

Audit risk arises when material misstatements in the financial statements are not identified or appropriately addressed by the auditor. The auditor must assess inherent and control risks and design audit procedures to reduce detection risk to an acceptably low level. Audit documentation is essential in evidencing the auditor's understanding of the entity, the risk assessment performed, and the professional judgments applied in determining the nature, timing, and extent of audit procedures.

Required:

- a. Describe **TWO (2)** factors that cause control risk. (4 marks)
- b. Evaluate **TWO (2)** risks of material misstatement in the financial statements of BrightWave Electronics Sdn. Bhd., given below:

BrightWave Electronics Sdn. Bhd. designs and sells consumer electronics and recently launched a new product line, leading to a surge in pre-orders. Sales include long-term contracts, promotional discounts, and bundled offers, with limited data for estimating returns. Inventory includes imported components subject to obsolescence, and discrepancies exist between Enterprise Resource Planning (ERP) records and physical counts. Research and development costs and capital equipment capitalization are uncertain, and some machinery is damaged but not impaired. Internal controls are under strain due to rapid growth and a new ERP system, causing delays in recording transactions, reconciliations, and journal entries.

(6 marks)

- c. Evaluate **TWO (2)** impacts of improper audit documentation in an audit engagement. (5 marks)

(Total: 15 marks)

QUESTION 2

Audit evidence forms the backbone of a quality audit. The auditor must apply professional judgment, knowledge, and expertise to obtain sufficient and appropriate evidence, ensuring that conclusions are reliable. This involves evaluating the entity's environment, assessing risks of material misstatement, and considering the effectiveness of internal controls. Proper audit evidence supports the auditor's opinion, demonstrates compliance with auditing standards, and provides assurance to stakeholders that the financial statements present a true and fair view.

Required:

- a. Identify **TWO (2)** factors that affect the persuasiveness of audit evidence. (2 marks)
- b. Discuss **TWO (2)** audit procedures used to obtain audit evidence. (4 marks)
- c. Evaluate the types of audit evidence and audit assertion for each of the following audit procedures:
 - i. Auditor examines supplier invoices and matches them to the purchases ledger to ensure all purchases are recorded, amounts are correct, and transactions are recorded in the correct period.
 - ii. Auditor physically observes inventory counting to verify that recorded inventory exists and that all inventory is included in the count.
 - iii. Auditor independently recalculates depreciation based on cost, useful life, and residual value to ensure depreciation expense and accumulated depreciation are correctly recorded.

(9 marks)

(Total: 15 marks)

QUESTION 3

Rembulan Logistics Sdn Bhd (Rembulan) provides logistics, storage, and cold supply chain solutions to its clients. Most clients visit the business premises in person, while others contact the company online. Below are the processes to explain how Rembulan handles credit facilities, shipments, billing, and collection.

Credit Facility Approval

Some customers pay cash, while others are given credit facilities. Customers must complete an application form containing their name, financial information, and expected shipment value. They also submit identification or company registration documents. A clerk reviews the application and approves it within one day. No independent review or further verification is performed.

Shipment and Billing

The logistics department processes shipments and prepares job orders based on shipping documents. The job orders are sent to the billing department, which issues sales invoices. Invoice information is automatically updated in the system. Standard credit terms are 30 days, while some customers receive 15-day credit terms.

Credit Collection

The head of the credit collection department reviews a monthly debtors' ageing report and follows up on overdue accounts. Accounts considered uncollectible are classified as bad debts. However, there is no formal procedure for writing off bad debts, and collection efforts mainly rely on phone calls without formal demand letters. Management is concerned that weak credit approval procedures, poor debt collection practices, and inadequate documentation may lead to uncollectible receivables and errors in revenue and accounts receivable records.

Required:

- a. Identify **FIVE (5)** documents in the above sales cycle. (5 marks)
- b. Discuss the following audit objectives for sales cycle:
 - i. Occurrence.
 - ii. Accuracy. (4 marks)
- c. Evaluate **FIVE (5)** deficiencies in control procedures and their possible implications. Recommend **FIVE (5)** actions for each deficiency. (15 marks)

- d. Justify **THREE (3)** reasons why segregation of duties is important to an internal control system.

(6 marks)

(Total: 30 marks)

QUESTION 4

You are the external auditor of Aurora Retail Sdn. Bhd., which operates several retail outlets across Malaysia.

Each outlet collects cash from daily sales and deposits it into the bank. The finance department prepares monthly bank reconciliations to compare the company's cash records with bank statements. However, the reconciliations are not always reviewed by senior management, and some differences between bank statements and cash records are not properly followed up. Supporting documents such as deposit slips and receipts are sometimes incomplete or delayed. Management is concerned about errors in cash records, incomplete bank reconciliations, and possible misstatements in cash balances.

Required:

- a. Identify **FOUR (4)** types of cash account. (4 marks)
 - b. Explain **TWO (2)** possible misstatements in the cash cycle. (4 marks)
 - c. Assess **FOUR (4)** audit procedures commonly performed to verify the accuracy of the client's bank reconciliation. (12 marks)
- (Total: 20 marks)

QUESTION 5

Phoenix & Partners is the appointed auditor for Orchid Sdn. Bhd., Maple Sdn. Bhd., Coral Sdn. Bhd., and Ironclad Sdn. Bhd. for the financial year ended 31 December 2025. After completing the audit, the following matters were identified for each company respectively.

Orchid Sdn. Bhd.

The financial statements were prepared in accordance with approved accounting standards. However, management refused to change the depreciation method of its machinery from straight-line to reducing balance as required by the latest accounting standard. The effect of the misstatement is material but not pervasive, and it is unlikely to significantly influence users' economic decisions.

Maple Sdn. Bhd.

Maple Sdn Bhd is undergoing an audit, but the management has restricted the auditor's access to fifty percent of their financial records, claiming they are confidential. The auditor is unable to obtain sufficient evidence to support the financial statements.

Coral Sdn. Bhd.

Coral Sdn. Bhd has been experiencing significant financial difficulties, including a decline in sales and increasing liabilities. Despite this, management believes that they will be able to continue operations for the next year. The auditor has doubts about the company's ability to continue as a going concern. Adequate disclosures regarding the financial difficulties and the uncertainties surrounding the company's ability to continue as a going concern have been included in the notes to the financial statements.

Ironclad Sdn. Bhd.

Management capitalized routine repair and maintenance expenses amounting to RM1.8 million as property, plant, and equipment. This treatment significantly overstated assets and profits. Management refused to correct the error despite the auditor's recommendation. The misstatement is highly material and pervasive.

Required:

- a. Explain the following key elements in an independent auditor's report.
 - i. Auditor's responsibility.
 - ii. Basis for opinion section.

(4 marks)
- b. Differentiate between a material misstatement and a limitation of scope of an audit report.

(4 marks)

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- c. Evaluate the types of audit reports and the audit opinion that should be issued in Phoenix & Partners with appropriate justification.

(12 marks)

(Total: 20 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER