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**KOLEJ YAYASAN PELAJARAN JOHOR  
FINAL EXAMINATION**

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**COURSE NAME : AUDIT**  
**COURSE CODE : DAC2103**  
**EXAMINATION : JUNE 2024**  
**DURATION : 3 HOURS**

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**INSTRUCTION TO CANDIDATES**

1. This question paper consists of **THREE (3)** parts :  
PART A (15 Marks)  
PART B (35 Marks)  
PART C (50 Marks)
2. Candidates are not allowed to bring any material to examination room except with the permission from the invigilator.
3. Please check to make sure that this examination pack consist of:
  - i. The Question Paper
  - ii. An Answering Booklet
  - iii. True/False Answer Sheet
  - iv. An Objective Answer Sheet

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**DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO**

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*This examination paper consists of **17** printed pages including front page*



**PART A**

This part consists of **FIFTEEN (15)** questions.

Answer ALL questions in the True/False Answer Sheet.

1. The audit program specifies what the client must do to perform the audit in accordance with generally accepted accounting procedures.
2. Audit planning workpapers are prepared to support the foundation of the audit and are prepared for the client to assist in their understanding of the specific audit procedures that will be performed.
3. Material misstatements refer only to intentional misstatements that exist in a transaction or financial statement account balance.
4. Performance materiality is set less than overall materiality and helps the auditor determine the extent of audit evidence needed.
5. Detection risk is the susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material before consideration of related controls.
6. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
7. Inherent risks at the financial statement level include factors that could threaten the fundamental financial viability of the organization.
8. Inherent risk at the financial statement level is not affected by the competence and integrity of management or their potential incentives to misstate the financial statements.
9. Some level of control risk is always present in an organization because of the inherent limitations of internal control.

10. When conducting trend analysis, it is important that the auditor not develop expectations and establish decision rules in advance; doing so would make it more difficult for the auditor to identify unexpected results for additional investigation.
11. When performing preliminary analytical procedures and evaluating the results of those procedures, it is important that the auditor discusses the results with management before identifying hypothesis to explain the results; by discussing with management the auditor will be better able to identify alternative explanations.
12. A high level of detection risk means that the audit firm is willing to take a low risk of not detecting a material misstatement.
13. The interpretation of audit risk is set at a low level (1%) is that the auditor is willing to take only a 1% chance of expressing an audit opinion that the financial statements are fairly presented when they are materially misstated.
14. The nature of risk response refers to the sufficiency and appropriateness of evidence that is necessary given the client's assessed risks, materiality, and the level of audit risk that is deemed acceptable.
15. Confirming a bank account establishes existence but not rights to the cash balance.

**[15 MARKS]**

**PART B**

This part consist of **THIRTY-FIVE (35)** questions.

Answer ALL questions in the Objective Answer Sheet.

1. The control Procedure "credit sales approved by credit department" is directed toward which assertion?
  - A Cut-off.
  - B Completeness.
  - C Valuation/Accuracy.
  - D Existence/Occurrence.
  
2. When are revenues normally considered to have been earned?
  - A The cash is collected.
  - B Goods have been shipped.
  - C All possibility of return has expired
  - D The company has substantially accomplished what it must to be entitled to the benefits.
  
3. When auditing the revenue and collection cycle, which balances auditors normally select confirm from?
  - A Sales journal.
  - B General ledger.
  - C Cash receipts listing.
  - D Accounts receivable listing.
  
4. Which of the following accounts is NOT normally part of the revenue and collection cycle?
  - A Cash.
  - B Sales.
  - C Accounts Receivable.
  - D Purchases Returns and Allowances.

5. Which of the following would be best protection for a company that wishes to prevent the "lapping" of trade accounts receivable?
- A Have customers send payments directly to the company's depository bank.
  - B Separate duties so that the bookkeeper in charge of the general ledger has no access to incoming mail.
  - C Request that customer's payment checks be made payable to the company and addressed to the treasurer.
  - D Separate duties so that no employee has access to both checks from customers and currency from daily cash receipts.
6. Which of the following internal control activities will most likely prevent the concealment of a cash shortage by improperly writing off a trade account receivable?
- A Write-offs must be authorized by company field sales employees who are in a position to determine customers' financial standing.
  - B Write-offs must be approved by the cashier who is in a position to know whether the receivables have, in fact, been collected.
  - C Write-offs must be approved by a responsible officer after review of credit department recommendations and supporting evidence.
  - D Write-offs must be supported by an aging schedule showing that only receivables overdue several months have been written off.
7. Auditors sometimes use comparisons of ratios as audit evidence. An unexplained decrease in the ratio of gross profit to sales may suggest which of the following possibilities?
- A Fictitious sales.
  - B Unrecorded Sales.
  - C Unrecorded purchases.
  - D Merchandise purchases being charged to selling and general expense.

8. An audit team is auditing sales transactions. One step is to vouch a sample of debit entries from the accounts receivable subsidiary ledger back to the supporting sales invoices. What is the purpose of this audit procedure?
- A To establish internally generated evidence.
  - B To establish all types of evidence are equally persuasive.
  - C To establish externally generated evidence held by the client.
  - D To establish externally generated evidence sent directly to the auditor.
9. An auditor noted that client sales increased 10% for the year. At the same time, COGS as a percentage of sales had decreases from 45% to 40% and year-end accounts receivable had increased by 8%. Based on this information, the auditor interviewed the sales manager, who stated that the increase in sales without a corresponding increase in COGS was due to a price increase enacted by the company during the year. How would the auditor test the sales manager's representation?
- A Perform additional inquiries with sales personnel.
  - B Vouch vender invoices to payments made after year-end.
  - C Send confirmations asking customers about unit prices paid for product.
  - D Obtain copies of all price lists in use during the year and vouch the prices to sales invoices.
10. To conceal a theft involving receivables, a dishonest bookkeeper might charge which of the following accounts?
- A Petty cash.
  - B Sales returns.
  - C Miscellaneous income.
  - D Miscellaneous expense.

11. Audit documentation often includes a client-prepared, aged trial balance of accounts receivable as of the balance sheet date. Why the audit team uses this aging?
- A Estimate credit losses.
  - B Evaluate internal control over credit sales.
  - C Test the accuracy of recorded charge sales.
  - D Verify the existence of the recorded receivables.
12. Which of the following might be detected by auditors' cut-off review and examination of sales journal entries for several days prior to the balance sheet date?
- A Kiting bank balances.
  - B Inflating sales for the year.
  - C Misappropriating merchandise.
  - D Lapping year-end accounts receivable.
13. Confirmation of individual accounts receivable balances directly with debtors will, of itself, normally provide the strongest evidence concerning the
- A existence of the balances confirmed.
  - B ownership of the balances confirmed.
  - C collectability of the balances confirmed.
  - D internal control over balances confirmed.
14. Which of the following is the best reason for prenumbering in numerical sequence documents such as sales orders, shipping documents, and sales invoices?
- A Enables personnel to determine the validity of recorded transactions.
  - B Enables company personnel to determine the accuracy of each document.
  - C Enables personnel to determine the proper period recording of sales revenue and receivables.
  - D Enables personnel to check the numerical sequence for missing documents and unrecorded transactions.



15. When a sample of customer accounts receivable is selected for vouching debits, auditors will vouch them to
- A credit files and reports.
  - B records of accounts receivable write-offs.
  - C cash remittance lists and bank deposit slips.
  - D sales invoices with shipping documents and customer sales invoices.
16. In the audit of accounts receivable, what is the most important emphasis should be on?
- A Existence assertion.
  - B Completeness assertion.
  - C Rights and obligations assertion.
  - D Presentation and disclosure assertion.
17. When accounts receivable is confirmed at an interim date, auditors need not be concerned with
- A sending negative confirmations to all customers as of the year-end date.
  - B obtaining a summary of receivables transactions from the interim date to the year-end date.
  - C considering the necessity for some additional confirmations as of the balance sheet date if balances have increased materially.
  - D obtaining a year-end trial balance of receivables, comparing it to the interim trial balance, and obtaining evidence and explanations for large variations.
18. When an audit team traces a sample of shipping documents to the related sales invoice copies, which relevant evidence are they trying to find?
- A Invoiced sales were shipped
  - B Recorded sales were shipped.
  - C Shipments to customers were invoiced.
  - D Shipments to customers were recorded as sales.

19. Who approves write-offs of doubtful accounts?

- A The cashier.
- B The treasurer.
- C The salesperson.
- D The credit manager.

20. Which of the following internal control procedures most likely would justify a reduced assessed level of control risk concerning property, plant, and equipment acquisitions?

- A The review of prenumbered purchase orders to detect unrecorded trade-ins.
- B Periodic physical inspection of property, plant, and equipment by the internal audit staff.
- C Approval of periodic depreciation entries by a supervisor independent of the accounting department.
- D Comparison of current-year property, plant, and equipment account balances with prior-year actual balances.

21. After obtaining an understanding of the entity and its environment and assessing the risk of material misstatement, an auditor decided to perform tests of controls. The auditor most likely decided that:

- A additional evidence to support a further reduction in control risk is not available.
- B an increase in the assessed level of control risk is justified for certain financial statement assertions.
- C it would be efficient to perform tests of controls that would result in a reduction in planned substantive tests.
- D there were many internal control weaknesses that could allow errors to enter the accounting system.

22. Which of the following relatively small misstatements most likely could have a material effect on an entity's financial statements?
- A A piece of obsolete office equipment that was not retired.
  - B An uncollectible account receivable that was not written off.
  - C An illegal payment to a foreign official that was not recorded.
  - D A petty cash fund disbursement that was not properly authorized.
23. Which of the following is required documentation in an audit in accordance with generally accepted auditing standards?
- A An audit plan setting forth in detail the procedures necessary to accomplish the engagement's objectives.
  - B An internal control questionnaire identifying policies and procedures that assure specific objectives will be achieved.
  - C A planning memorandum establishing the timing of the audit procedures and coordinating the assistance of entity personnel.
  - D A flowchart or narrative of the accounting system describing the recording and classification of transactions for financial reporting.
24. In assessing the competence and objectivity of an entity's internal auditor, an independent auditor least likely would consider information obtained from:
- A the results of analytical procedures.
  - B discussions with management personnel.
  - C previous experience with the internal auditor.
  - D external quality reviews of the internal auditor's activities.
25. An auditor intends to use the work of an actuary who has a relationship with the client. Under these circumstances, the auditor:
- A should assess the risk that the actuary's objectivity might be impaired.
  - B is required to disclose the contractual relationship in the auditor's report.
  - C is not permitted to rely on the actuary because of a lack of independence.
  - D should communicate this matter to the audit committee as a significant deficiency.

26. An auditor is required to confirm accounts receivable if the accounts receivable balances are
- A smaller than expected.
  - B older than the prior year.
  - C subject to valuation estimates.
  - D material to the financial statements.
27. Prior to commencing fieldwork, an auditor usually discusses the general audit strategy with the client's management. Which of the following details do management and the auditor usually agree upon at this time?
- A The schedules and analyses that the client's staff should prepare.
  - B The effects that inadequate controls may have over the safeguarding of assets.
  - C The specific matters to be included in the communication with the audit committee.
  - D The minimum number of misstatements that may be considered to be significant deficiencies.
28. During the confirmation of accounts receivable, an auditor receives a confirmation via the client's fax machine. Which of the following actions should the auditor take?
- A Not accept the confirmation and treat it as an exception.
  - B Accept the confirmation and file it in the working papers.
  - C Not accept the confirmation and select another customer's balance to confirm.
  - D Accept the confirmation but verify the source and content through a telephone call to the respondent.
29. When will the auditor consider whether it is appropriate to assume that the client will remain as a going concern?
- A If there are mitigating circumstances.
  - B Only if the client is listed on a stock exchange.
  - C Going concern means the client is facing bankruptcy.
  - D This question affects the appropriate basis for valuing assets.

30. Which is not included in the objectives of internal controls?
- A Correct amounts are assigned to transactions.
  - B Transactions are recorded in the correct accounting period.
  - C Fictitious transactions are not included in the organisation's records.
  - D Listed companies are able to be more effective and efficient than private companies.
31. In assessing the objectivity of internal auditors, an independent auditor should:
- A evaluate the quality control program in effect for the internal auditors.
  - B determine the organizational level to which the internal auditors report.
  - C examine documentary evidence of the work performed by the internal auditors.
  - D test a sample of the transactions and balances that the internal auditors examined.
32. Which is not the advantages of audit program?
- A Reduces time of audit work.
  - B Ensures duplication of audit work.
  - C Ensure completeness of audit work.
  - D Review of work by seniors/partners can be easily done.
33. Which of the following factors should an external auditor obtain updated information about when assessing an internal auditor's competence?
- A The reporting status of the internal auditor within the organization.
  - B The educational level and professional experiences of the internal auditor.
  - C Whether policies prohibit the internal auditor from auditing areas where relatives are employed.
  - D Whether the board of directors, audit committee, or owner-manager oversees employment decisions related to the internal auditor.

34. In designing a written audit plan, an auditor should establish specific audit objectives that relate primarily to the:
- A selected audit techniques.
  - B timing of audit procedures.
  - C financial statement assertions.
  - D cost-benefit of gathering evidence.
35. Which of the following statements is correct concerning an auditor's use of the work of a specialist?
- A The auditor need not obtain an understanding of the methods and assumptions used by the specialist.
  - B The reasonableness of the specialist's assumptions and their applications is strictly the auditor's responsibility.
  - C The auditor may not use the work of a specialist in matters material to the fair presentation of the financial statements.
  - D The work of a specialist who has a contractual relationship with the client may be acceptable under certain circumstances.

**[35 MARKS]**

**PART C**

This part consists of **TWO (2)** questions.

Answer ALL questions in Answering Booklet.

**QUESTION 1**

An auditor's report expresses an opinion on the financial statements of a company's validity and reliability. An auditor's report aim is to provide fair assurance that a company's financial statements are free from material misstatement.

**Required:**

Explain with justifications the type of auditor's report that may be issued in each of the following independent situations of five different audit clients of Afwa & Associates:

- i. The auditors were satisfied with the financial statements prepared for Excellent Berhad. In their opinion, the financial statements were prepared in accordance with the applicable accounting standards. However, the auditors are concerned about the recurring operating loss suffered by Excellent Berhad.
- ii. The auditors and the management of Manis Harum Berhad have a disagreement about the amount of an item in the financial statements. The amount was significant and material to the company's financial performance. The management of the company refused to make the amendment as requested by the auditors.
- iii. Fly High Berhad has reshuffled the management team recently. During the audit, the auditors were unable to accumulate enough evidence to conclude whether the financial statements of Fly High Berhad were prepared in accordance with the applicable rules and regulations. Apparently, the personnel refused to give information relating to the tasks they have done while holding their previous posts.

- iv. The auditors received satisfactory information and explanations required for the purpose of the preparation of the financial statements of Forever Green Berhad. In their opinion, the financial statements were prepared in accordance with the applicable accounting standards.
- v. Upon the audit of Gilang Gemilang Berhad's financial statements, the auditors noticed an item involving a status of a contract with an external party which cannot be determined. The arrangement only worth RM100,000 which stands at 1% from the company's total long-term contract.

(25 marks)

## QUESTION 2

D'Perantau Supermarket Sdn Bhd is a medium-size business with more than 100 employees including 30 cashiers. The recruitment of the cashiers and the payroll processing procedures are described below:

Recruitment of cashiers are usually conducted through a walk-in interview. The job applicants are required to fill in an application form and a job interview would be conducted by the operations manager. The terms of the employment such as the company rules and regulations, working hours, salary, allowances, and other benefits would be briefed by the operations manager during the interview. The operations manager may offer a different amount of starting salary to an applicant with adequate prior working experience. If the applicant agreed with the terms of the employment, he is required to undergo a medical check-up at a nearby panel clinic.

Upon receipt of a satisfactory medical report, the operations manager would set a suitable date for the applicant to start working. The operations manager would also inform the human resource manager through an e-mail regarding the detailed particulars of the employment so that the employee database system could be updated accordingly. The probationary period for every employee is one year and during the period, the employer or the employee may terminate the employment by giving a 24-hour written notice to the other party. An official employment letter stating



the detailed terms of the employment is issued by the Human Resource Department only to the employee who has undergone the probationary period successfully.

The company uses a special computer software application for recording the attendance of all employees. In the morning, every employee is required to use his/her personal smartphone to log in to a system for recording the attendance to work. Alternatively, the employee may also use the company's personal computer to log in to the system. At the end of every month, the attendance record of every employee is printed and checked by the human resource clerk. If there is any error or ambiguity in the record such as non-recording of attendance or late clock-in, the human resource clerk would inquire the respective employee and update the status in the computerised attendance system.

For the processing of monthly salary, a payroll clerk is responsible to extract the data and records from the attendance system and prepare a payroll master schedule, showing the detailed calculation of salary including any allowances and deductions, as well as the net amount of salary for a particular month. Next, the payroll master schedule is handed over to the accounts clerk for preparation of a credit transfer form. The credit transfer form gives instruction for the bank to deduct the company's current account and to credit the individual bank accounts of every employee with the amount of his/her net monthly salary. The form requires joint authorisation by the company's Accountant and the Finance Director before it is sent to the bank.

Although payslips are not issued to all employees, any employee may request for his/her payslip from the payroll clerk. As a detective control measure, a bank reconciliation statement is prepared by the accounts clerk on a quarterly basis.

**Required:**

- a. Identify any **five (5)** major weaknesses in the above internal control system.  
(5 marks)
- b. Determine the possible effects for each of the weaknesses discussed in above.  
(10 marks)
- c. Suggest recommendations to rectify each of the weaknesses discussed in above.

Present your answers using the following format:

a. Weaknesses	b. Possible effects	c. Reccommendations

(10 marks)

**[50 MARKS]**

**END OF QUESTION PAPER**



