



**PENINSULA**  
**COLLEGE**  
GEORGETOWN DK266-03(P)



**UNIVERSITY OF**  
**PLYMOUTH**

## FINAL EXAMINATION

Semester	:	<b>JANUARY 2025 SEMESTER</b>
Programme Name	:	<b>BA (HONOURS) ACCOUNTING &amp; FINANCE 3+0 IN COLLABORATION WITH UNIVERSITY OF PLYMOUTH</b>
Course Code & Name	:	<b>MAL3009 AUDITING</b>
Duration	:	<b>3 HOURS</b>

### INSTRUCTIONS TO CANDIDATES:

1. Please read the instructions given in the question paper **CAREFULLY**.
2. The question paper consists of **FIVE (5)** questions.
3. Answer **ALL** questions in the question paper.
4. Answers to the questions are to be written into the examination booklet.
5. Electronic dictionaries, lecture notes, files or any unauthorised materials except writing equipment are strictly prohibited.

This question paper must be submitted along with all used and/or unused rough papers and/ or graph papers (if any). Candidates are **NOT ALLOWED** to take any examination paper(s) used or unused out of the examination hall.

### WARNING:

The Examination Board of Peninsula College Georgetown regards cheating as a very 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 Peninsula College Georgetown.

*(This booklet contains 4 printed pages including this page)*

**DO NOT OPEN THIS BOOKLET UNTIL YOU ARE ALLOWED TO DO SO**

Answer **ALL** questions on the separate sheet provided.

**[100 marks]**

1. The Annual Report of Top Glove Corporation Bhd group shows the below statistics.

	Year of Assessment 2024	Year of Assessment 2023
	RM'000	RM'000
Revenue	2,514	2,257
Profit/ (Loss) before tax	(31,341)	(900,415)
Profit/ (Loss) after tax	(21,412)	(885,549)
Finished Goods Inventories	215,328	177,307

The external auditor of the company mentioned the key audit matter for review of the costing of finished goods inventories:

As at 31 August 2024, the Group held RM215 million of finished goods inventories. This represented 3% of the total assets of the Group. The total cost of inventories relating to the finished goods charged to the consolidated income statement for the year ended 31 August 2024 amounted to RM2,249 million, accounting for 83% of total expenditure (comprised of cost of sales, distribution and selling costs and administrative and general expenses) of the Group.

The finished goods inventories are carried at a lower cost and net realisable value. The costs of production comprise the cost of purchases of raw materials, labour costs, plus conversion costs such as variable and fixed overhead costs. Significant estimates are involved in determining the basis of allocating the costs of production to the products by the Group. The group relies heavily on the information technology system (IT system) to ensure that the costs of raw materials, labour costs and overhead costs are correctly allocated to the respective products. Due to the significant estimation involved in the valuation of finished goods inventories, we considered this a key area of audit focus.

Our audit procedures include, amongst others, the following:

- a) Obtained an understanding of the Group's current inventories costing policy, production processes and the types of costs included in the valuation of finished goods inventories.
- b) Evaluated the general and logical access controls surrounding the IT system by involving our IT audit professionals.
- c) Agreed, on a sampling basis, the costs of purchase of raw materials to suppliers' invoices and tested other components of costs of production to the underlying supporting documentation.
- d) Assessed the appropriateness of the basis used by management in allocating the costs of production to the products produced by the Group and tested the relevant application controls surrounding the allocation.

You are required to:

- a) Explain the Going Concern issue in the financial report of Top Glove Corporation Bhd. (5 marks)
  - c) Discuss the **FIVE (5)** possible circumstances under which the existence of material uncertainties may cast doubt on an entity's ability to continue as a going concern and for each, explain the impact on the opinion issued in the auditor's report. (15 marks)
- Total: [20 marks]

2. ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment requires auditors to understand the entity's internal control. An entity's internal control is made up of several components. One of the internal control components is control activities that help ensure that management directives are carried out.

You are required to explain **FIVE (5)** components of the internal control system with provide a key factor and an example of the component. (20 marks)

Total: [20 marks]

3. You are an audit senior at Kee & Co and have a team of five audit juniors. You have been assigned to audit the financial statements of CH Choco Sdn Bhd (CHC). You have given a quick briefing to the audit juniors on the importance of audit planning.

You have been assigned to audit CHC which is now for the third time in a row. CHC's business activity is the manufacturing and trading of chocolate products. CHC has built a reputation for its chocolate excellence and innovation worldwide. CHC has incorporated the best technologies and practices in its operation and the company has always delivered consistent quality for its chocolate products.

You have attended a meeting with the shareholders of CHC last month. Based on the financial statements presented by the shareholders during the meeting, the company's total assets were RM24.5 million and profit before tax was RM12 million.

CHC is owned and managed by two brothers. The two brothers had hired a part-time accounts clerk to prepare the company's financial statements and make payments to suppliers. Internal auditors were also appointed to perform internal audits quarterly. The financial year end for CHC is 30 November 2024 and the shareholders are expecting to receive the auditors's report by 31 January 2025. You have confirmed with CHC to commence the interim audit on 30 October 2024 and will also attend the year-end inventory count on 30 November 2024.

You are required to:

- a) Distinguish the differences between interim audit and final audit. (4 marks)
- b) Discuss **TWO (2)** reasons why proper planning for an audit is important. (4 marks)
- c) Discuss **ANY SIX (6)** methods that can be used to collect audit evidence for CHC. (12 marks)

Total: [20 marks]

4. An auditor's report is an official document issued by an independent auditor after they have conducted an audit of a company's financial statements. The purpose of the audit is to provide an opinion on whether the financial statements present a true and fair view of the company's financial position and performance. Auditors are typically certified public accountants or audit firms hired to review the company's books, records, and financial transactions.

- a) Discuss with reasons, the suitable type of audit opinion to be given for each of the situations below:

- i) The auditor discovered that Happy Sdn Bhd's inventories carried in the statement of financial position as at the financial year end were not stated at the lower of cost and net realisable value, which does not comply with the applicable financial reporting standards. Apart from that, the auditor is of the opinion that the financial statements as a whole show a true and fair view. (4 marks)
- ii) The auditor of Family Sdn Bhd was appointed after the financial year end and thus was not able to observe the counting of the physical inventories as at the financial year-end. The auditor was unable to verify the quantities of the inventories held as at year end by any auditing procedures. This has affected the truth and fairness of the financial statements as a whole. (4 marks)
- iii) The auditor found a material amount of inventories had been excluded from the financial statements of Honey Sdn Bhd. This was due to unintentional oversight. The directors of the company agreed to amend the financial statements with regard to this issue. (4 marks)
- b) Discuss **ANY FOUR (4)** situations other than inventories that will lead to the issuance of qualified audit report. (8 marks)
- Total: [20 marks]

5. You are an audit supervisor of Cheah & Co (C&C). You have been assigned to audit Mahal Berhad (Mahal) for the year ended 31 Jan 2025. The company manufactures stationery and has been a client of your firm for several years. As part of the audit planning, you will undertake preliminary analytical procedures using the following financial statement extracts.

	31 Jan 2025	31 Jan 2024
	RM'000	RM'000
Revenue	50,500	17,850
Cost of Sales	(13,310)	(10,500)
Gross Profit	37,190	7,350
Inventories	2,250	1,610
Trade Receivables	8,400	2,013
Bank	(780)	680
Trade Payables	4,210	1,220

	31 Jan 2025	31 Jan 2024
Gross Profit Margin	73.6%	41.2%
Inventory Holding Period	62 days	60 days
Inventory Turnover	5.91 Times	6.52 Times
Receivables Collection Period	65 days	41 days
Payables Payment Period	115 days	42 days
Current Ratio	1.2	3.5
Quick Ratio	0.8	2.2

You are required to:

- a) Identify the **ANY FIVE (5)** unusual result findings for Mahal. (10 marks)
- b) Discuss **ANY FIVE (5)** audit risks based on the above preliminary ratio analysis. (10 marks)
- Total: [20 marks]

**- END OF QUESTIONS -**