



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



**UNIVERSITY OF**  
**PLYMOUTH**

## FINAL EXAMINATION

Semester	:	<b>SEPTEMBER 2025 SEMESTER</b>
Programme Name	:	<b>BA (HONOURS) ACCOUNTING &amp; FINANCE 3+0 IN COLLABORATION WITH UNIVERSITY OF PLYMOUTH</b>
Course Code & Name	:	<b>MAL3041 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 **FOUR (4)** 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 5 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. EcoBuild Berhad is a publicly listed construction company specializing in sustainable housing developments. For the year ended 30 June 2025, the company reported RM180 million in revenue and RM8 million in profit. It uses the percentage-of-completion method to recognize revenue from long-term projects. Several projects are delayed due to unresolved environmental permit issues, which have caused cost overruns and client disputes.

The company capitalized RM25 million in development costs, including design fees and site preparation expenses. It also applied fair value adjustments to land holdings, increasing asset values by RM20 million. The CFO changed the depreciation method from straight-line to reducing balance, stating that it better reflects asset usage patterns.

EcoBuild's liquidity ratios have declined, and it has RM12 million in outstanding payables to subcontractors. Management has not disclosed any contingent liabilities related to ongoing legal disputes with land authorities. Internal audit noted that some project budgets were revised without proper approval, and cost estimates were inconsistent across departments.

The audit team must assess whether revenue recognition is appropriate given the delays, whether capitalized costs meet recognition criteria, and whether the fair value adjustments are supported by market evidence. The team must also evaluate going concern risks and determine whether any contingent liabilities require disclosure.

- a) Identify **TWO (2)** key audit risks related to EcoBuild's financial reporting. For each risk, suggest **TWO (2)** audit procedures the auditor should perform to obtain sufficient and appropriate evidence. (6 marks)
- b) EcoBuild Berhad capitalized RM25 million in development costs related to ongoing housing projects. State **FOUR (4)** audit procedures the auditor should perform to assess whether these costs meet the criteria for capitalization. Explain **TWO (2)** impact on the financial statements if the costs are incorrectly capitalized. (6 marks)
- c) EcoBuild's liquidity ratios have declined, and it has significant outstanding payables. Explain **THREE (3)** audit procedures to assess the company's ability to continue as a going concern. (6 marks)
- d) EcoBuild has not disclosed contingent liabilities related to land disputes. State **THREE (3)** auditor's responsibilities and list **FOUR (4)** potential impact on the audit opinion. (7 marks)

Total: [25 marks]

2. SolarBright Ltd manufactures and distributes solar panels and related components. The company's financial year ended on 31 December 2024, and it reported RM28 million in revenue and RM2.1 million in profit. The draft financial statements include RM9 million in inventory, comprising raw materials, work-in-progress, and finished goods.

During the audit, the following matters were identified:

- The company implemented a new ERP system in July 2024. The transition resulted in data migration errors, including duplicate inventory entries and manual adjustments. Internal controls over inventory were temporarily suspended, and stock reconciliations were performed outside the system.
- A review of inventory aging reports revealed that RM1.2 million of raw materials had not moved for over 18 months. Management stated that these items would be used in future production but did not provide supporting documentation or forecasts.
- The year-end inventory count was conducted by warehouse staff without auditor attendance. Count sheets were incomplete, and several discrepancies were resolved verbally without formal documentation.
- The finance manager confirmed that inventory is valued at cost, using the weighted average method, and no write-downs have been recorded. There is no evidence that net realisable value (NRV) assessments were performed.

- a) Evaluate the sufficiency and appropriateness of the audit evidence provided to support the valuation of inventory. (8 marks)
- b) State **NINE (9)** audit procedures that should be performed to obtain sufficient appropriate evidence regarding inventory valuation. (9 marks)
- c) Explain **FOUR (4)** implications for the audit report if sufficient appropriate evidence cannot be obtained or if inventory is materially misstated. (8 marks)

Total: [25 marks]

3. MedicaPharm Bhd is a publicly listed pharmaceutical company based in Malaysia. For the year ended 30 June 2025, it reported RM110 million in revenue and RM4.2 million in profit. The company launched a new drug, NeuroCure, in quarter 4, which contributed 30% of total revenue. However, full regulatory approval is still pending in several key markets, including Singapore and Indonesia. Management recognized revenue based on distributor contracts, arguing that delivery had occurred and risks had transferred.

The company also capitalized RM22 million in research and development (R&D) costs related to NeuroCure. These include clinical trial expenses, licensing fees, and laboratory overheads. No impairment review has been performed, and management asserts that the product will generate future economic benefits.

In addition, the CFO changed the useful life of production equipment from 10 years to 15 years, reducing depreciation expense by RM800,000. The rationale was that newer equipment models are more durable, but no technical assessment or board approval was provided.

Internal audit raised concerns about the CFO's influence over financial reporting. The CFO is a former audit partner of the current audit firm and maintains a close relationship with the engagement partner. The audit manager has expressed reluctance to challenge

the CFO's assumptions, especially regarding revenue recognition and capitalization policies.

- a) Explain **FOUR (4)** audit procedures to verify the appropriateness of revenue recognition for NeuroCure. (8 marks)
  
  - b) Evaluate whether the capitalized R&D costs meet recognition criteria. State **TWO (2)** impacts on the financial statements if they are incorrectly capitalised. (6 marks)
  
  - c) Assess the materiality and audit implications of the change in useful life of equipment. State whether any adjustments or disclosures are required. (5 marks)
  
  - d) Identify **THREE (3)** ethical threats in this engagement and suggest appropriate safeguards. (6 marks)
- Total: [25 marks]

4. AquaPure Bhd is a Malaysian manufacturer of water filtration systems, supplying residential and commercial clients across Southeast Asia. For the year ended 30 June 2025, the company reported RM120 million in revenue and RM6 million in profit. The company offers extended credit terms to distributors, and its trade receivables balance at year-end was RM28 million, representing nearly 25% of total assets.

Internal audit flagged concerns about aging receivables, noting that RM6 million had been outstanding for more than 180 days. Some accounts showed no recent payment activity, and follow-up procedures were inconsistent across regions. Despite this, the CFO reduced the provision for doubtful debts from RM4 million to RM2.2 million, stating that collection efforts had improved. No updated aging analysis or historical recovery data was provided to support the reversal.

In addition, AquaPure is facing a pending lawsuit from a distributor in Vietnam, alleging breach of contract and seeking damages of RM5 million. Management has not disclosed this contingent liability, stating that the claim is unlikely to succeed. The legal team has not issued a formal opinion, and no written representation has been provided.

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- a) Evaluate the sufficiency and appropriateness of audit evidence supporting the RM2.2 million provision for doubtful debts. Recommend **FOUR (4)** audit procedures to verify the adequacy of the provision. (8 marks)

- b) Explain **THREE (3)** factors the auditor should consider when evaluating the reliability of receivables confirmations (6 marks)
  
  - c) Discuss **THREE (3)** ways the auditor should apply professional skepticism when evaluating management's assertions about receivables and provisions. (6 marks)
  
  - d) Identify **TWO (2)** types of audit documentation the auditor should prepare in relation to the receivables and provision for doubtful debts. Explain why each is important. (5 marks)
- Total: [25 marks]

***-END OF QUESTIONS-***