



KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
MAIN EXAM - EVENING
THIRD YEAR FIRST SEMESTER

FOR THE DEGREE OF BACHELOR OF EDUCATION/COMMERCE

COURSE CODE: BBM320/BCA322

COURSE NAME: PRINCIPLES OF AUDITING-EVENING CLASS

DATE: 19TH MAY, 2022

TIME: 2.00PM – 4.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

KIBABII UNIVERSITY Observes ZERO tolerance to examination cheating

QUESTION ONE

a) In order to conduct an audit effectively and efficiently, an auditor should properly plan for the assignment

i) Explain four matters that an auditor should take into account at the planning stage of an audit exercise

(4 marks)

ii) Outline four ways in which an auditor acquires knowledge about the client's business and industry

(4 marks)

b) The final stage of an audit includes an overall review of the financial statements.

Explain the procedures that the auditor should adopt for the final review. (4 marks)

c) Highlight four qualities required of the final accounts prepared by a client company. (4 marks)

d) The auditor must exercise due care and skill before he certifies that the financial statements show a true and fair view. Explain two ways in which an auditor can minimize his potential liability for professional negligence. (4 marks)

e) Highlight five possible defenses available to an auditor in a court of law who has been sued for failure to detect fraud in client's company. (5 marks)

f) In the context of the Companies Act, state five the duties of an auditor. (5 marks)

(Total: 30 marks)

QUESTION TWO

a) Briefly explain how the auditor can use each of the following methods of sample selection when carrying out his audit assignment;

i) Stratified sampling (2 marks)

ii) Cluster sampling (2 marks)

iii) Haphazard sampling (2 marks)

iv) Block sampling (2 marks)

b) Explain two reasons why an auditor is not required to carry out a complete check of all the transactions and balances of a business (4 marks)

c) Identify four cases where an auditor is required to conduct a complete check of all the transactions and balances of a business. (4 marks)

d) Explain two reasons why an auditor should consider materiality when selecting a sample size. (4 marks)

(Total: 20 marks)

QUESTION THREE

a) Explain four purpose of an internal control questionnaire to an auditor. (4 marks)

b) Explain three factors an auditor should consider when determining the adequacy of a client's internal control system. (6 marks)

c) Kenya Cans Ltd. Manufactures cans which are stamped from sheets of metal molded and supplied to Selmont Ltd for packing fruits. After stamping the sheets of metal, scrap metal is produced as residue. During the year 2004, revenue from scrap metal amounted to Sh.500, 000.

The company has established the following system to monitor the sale of scrap metal;

i) Scrap metal is placed by employees in a large bin outside the workshop

ii) At the of the week a local scrap dealer collects the scrap metal leaving the bin empty

iii) The scrap dealer takes the scrap metal to the gatekeeper who measures and records the weight in a register before it exits the factory.

iv) The scrap dealer sends a cheques the following week with a statement showing the weight collected. price and cheques amount. The company's cashier on receiving the cheques, compares it with the statement to ensure that they both agree with the gatekeeper's registers.

Required;

i) Explain four weaknesses of the above system. (4 marks)

ii) Suggest six recommendations to improve on the above system. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Your audit senior has assigned you the responsibility of auditing the stock of your client, XYZ Supermarket Ltd. for the year ending 31 December 2020.

The company's stock take is carried out once a year in the month of November simultaneously for all the retail outlets.

Required:

- a) State four audit assurances you would seek to obtain in the audit of stock. (4 marks)
- b) Describe six audit procedures that you would perform in order to be satisfied as to the validity of the amount attributed to stock in the balance sheet of XYZ Supermarket Ltd. (12 marks)
- c) Define the word —bar coding and explain its importance to XYZ Supermarket Ltd. (4 marks)

(Total: 20 marks)

QUESTION FIVE

a) Your audit firm, Kimani and Associates has been contracted by the government to audit the procurement system followed by the government.

Required:

- i) Identify five likely risk areas that your firm may encounter in the audit. (5 marks)
 - ii) Suggest five possible measures the government can implement to strengthen the internal control system on procurements. (5 marks)
- b) Outline five audit procedures an audit firm should follow in the verification of a manufacturing company's liabilities. (10 marks)

(Total: 20 marks)