



# MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS, HOSPITALITY AND TOURISM MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 401: AUDIT PRACTICE AND INVESTIGATIONS

DATE:26/8/2022

TIME: 11.00-1.00 PM

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## INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO questions**

## QUESTION ONE (COMPULSORY)

- a) Sales contributes to the largest source of revenue for the business. Stating the objective in each case, clearly explain audit procedures you would use to verify the account balance. (10 marks)
- b) ISA 530 states “the auditor shall determine a sample size sufficient to reduce the sampling risk to an acceptable level”. Identify and describe four factors that determine the choice of a representative sample, stating clearly how the risk is reduced in each case. (6 marks)
- c) The current trends in climate change and the dynamic business environment have forced many organizations to embrace environmental auditing as a management tool. Describe four benefits of environmental auditing that accrue to a reporting entity. (6 marks)
- d) You are an employee of Tena manufacturers. Your firm is planning to acquire Nina textiles that produces your raw materials. You have been requested to do an investigation on Nina textiles together with other two accountants. Describe clearly the nature and contents of the report you would submit to management upon completion of the activity. (8 marks)

### **QUESTION TWO (20 MARKS)**

Identify and describe the audit procedures applied by the statutory auditor on the following items:

- a) Clubs subscriptions (7 marks)
- b) Insurance claims from insurance company (8 marks)
- c) Fees received by a public university (5 marks)

### **QUESTION THREE (20 MARKS)**

- a) Your client buys goods on credit basis. Describe clearly the audit procedures you would use to examine the entity's purchases. (12 marks)
- b) Describe the audit procedures applied on the following balances:
  - i. Bad debts written off. (8 marks)
  - ii. Interest payable. (4 marks)

### **QUESTION FOUR (20 MARKS)**

- a) You client is a manufacturing concern. The firm is updating its accounting system from manual to computerized system. Describe the types of application controls you would recommend to be installed, stating the importance of each. (10 marks)
- b) Describe clearly how you would use computer audit programs (software) to verify :
  - i. Salaries and wages of your client. (6 marks)
  - ii. Director's remuneration. (4 marks)

### **QUESTION FIVE (20 MARKS)**

You are the external auditor for Kana limited company that has been in business for seven years. Describe the audit procedures you would apply to the following items:

- a) Ksh.100 million Production plant and equipment that includes a new sh. 12 million processor that was purchased during the year through an exchange with an obsolete one. (10 marks)
- b) Ksh. 300 million Ordinary share capital which includes sh. 20, one million shares issued in the current year at sh.22 per share. (7 marks)
- c) Allowance for bad and doubtful debts that has been increased by 2%. (3 marks)

