MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 303: PRINCIPLES OF AUDITING

DATE: 26/7/2019 **TIME: 8.30-10.30 AM**

INSTRUCTIONS:

i. Answer question one and any other two questions.
ii. Marks allocated for each question are shown at the end of the question.

QUESTION ONE (COMPULSORY) (30 MARKS)

a) State and explain THREE types of audits (6 marks)

b) Explain THREE differences between internal audit and external audit. (6 marks)

c) Highlight TWO duties of an external auditor. (4 marks)

d) Explain THRE rights of an external auditor (6 marks)

e) Highlight FOUR contents that must be included in a letter of engagement. (8 marks)

QUESTION TWO (20 MARKS)

a) Explain FIVE roles of an internal Control System in an organization. (10 marks)

b) Explain FIVE circumstances that may impair an auditor's independence. (10 marks)

QUESTION THREE (20 MARKS)

a) Explain FIVE ways in which an auditor's independence can be enhanced. (10 marks)

b) Briefly discuss FIVE reasons why a company may change an external auditor. (10 marks)

QUESTION FOUR (20 MARKS)

a) Audit evidence refers to any information used by the auditor to enable him arrive at a reasonable conclusion necessary for his audit opinion. In line with this statement, explain FIVE factors that would influence the auditor's judgment on the sufficiency of audit evidence. (10 marks)

b) Inventories are measured at the lower of cost and net realizable value.

Required:

i. Explain why the audit of inventory is important to auditors. (2 marks)

ii. Define "cost" and "net realizable value" (4 marks)

iii. Describe the audit evidence that you would obtain for the "cost" and "net realizable value" of finished inventory in a company that manufactures household furniture (4 marks)

QUESTION FIVE (20 MARKS)

a) Briefly discuss FIVE financial statement assertions used by auditors in the audit of financial statements. (10 marks)

b) Discuss FIVE advantages of good audit planning. (10 marks)