MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 204: AUDITING II

DATE: 30/5/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) i Briefly explain the meaning of the term "audit" (2 marks)

ii What are the objectives of an audit according to the Companies Act? (3 marks)

b) List four advantages to a company of having its accounts audited (5 marks)

c) Identify and list the responsibilities of company directors in relation to the company's accounting system. (10 marks)

d) List five limitations of an audit (10 marks)

QUESTION TWO (20 MARKS)

a) What are the main objectives of an internal control system? (5 marks)

b) What are the disadvantages of rigidly adhering to a system of internal control? (5 marks)

c) Explain the matters that have to be considered in respect of a system of internal control for cash sales in a service station that sells petrol and repairs motor vehicles. (10 marks)

QUESTION THREE (20 MARKS)

a) What is the purpose of an audit report? (2 marks)

b) List six contents of an unqualified audit report (6 marks)

c) Identify and briefly explain four situations under which an auditor would consider qualification of his audit report. (8 marks)

d) Explain the meaning of the following terms in relation to audit reports.

   i Limitation in the scope of the audit. (2 marks)

   ii Emphasis of matter (2 marks)

QUESTION FOUR (20 MARKS)

a) The auditor must exercise due care and skill before he certifies that the financial statements show a true and fair view.

   Explain the ways in which an auditor can minimize his potential liability for professional negligence. (10 marks)

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

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

QUESTION FIVE (20 MARKS)

The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit.

Required:

a) State four benefits that an auditor would obtain from working papers that satisfy the above requirement. (4 marks)

b) List five items of information you would expect to be contained in a permanent audit file and explain why each of these items of information should be readily available.

   (10 marks)

c) In the audit or purchases, list four examples of the type of information that would be contained in the detailed audit working papers. (4 marks)

d) Give any two reasons why an auditor should examine the directors' minute book.

   (2 marks)