MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 401: AUDIT PRACTICE AND INVESTIGATIONS

DATE: 31/7/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Internal Controls in a computerized environment ensure proper input and processing of accounting data. Identify the four types of application controls and state two examples of each. (6 marks)

b) Explain the difference between the following terms as used in auditing:

i) Audit risk and sampling risk (2 marks)

ii) audit objective and audit procedure (2 marks)

iii) vouching and verification (2 marks)

c) Auditors prefer statistical methods of selecting samples for their audit. Identify and justify any four factors that should be considered before choosing a statistical method. (6 marks)

d) When planning and conducting an audit the auditor considers the risk of misstatement in financial statement due to errors or fraud. Using an example in each case, describe possible errors when accounting for sales. (6 marks)

e) Describe audit procedures applied on bad and doubtful debts. (6 marks)

QUESTION TWO (20 MARKS)

a) General controls in a computerized information system ensure proper development and implementation of the applications. Identify and describe the nature of the four necessary development controls. (10 marks)

b) Using an appropriate example in each case, explain five circumstances that would force the auditor to subject all the population items to test. (10 marks)

QUESTION THREE (20 MARKS)

a) In modern businesses, it's not necessary to audit all transactions and balances of a firm. Auditors select a representative sample to apply the audit procedures. Describe the procedure of selecting a sample and evaluating the sample items stating the importance of each procedure. (12 marks)

b) Any errors or fraud discovered during an audit is an evidence that the accounting system was not a reliable base for preparing such financial statements. Identify any four internal controls and explain how management can use such controls to prevent and detect fraud. (8 marks)

QUESTION FOUR (20 MARKS)

a) You client firm is updating its accounting system from manual to computerized system. Describe any four major factors you would consider when planning for the first audit citing the challenges expected there off. (8 marks)

b) Identify the audit objectives and describe the audit procedures applied by the auditor on the following items:
   i) deposits received by the bank (6 marks)
   ii) income received by insurance companies (6 marks)

QUESTION FIVE (20 MARKS)

a) You are the external auditor for Jumbo mix manufacturing company that has been in business for five years. Describe the audit procedures you would apply to the following items:
   i) unpaid debtors amount and a bad debt shown in the financial statements. (5 marks)
   ii) A vehicle purchased three years ago. (5 marks)
   iii) five year loan with interest charged on reducing balance (5 marks)

b) Identify five circumstances under which the auditor would require some advice from an expert sso as to form conclusive evidence. (5 marks)