



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 THREE 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)