



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 401: AUDIT PRACTICE AND INVESTIGATIONS

DATE: 12/8/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Accounts receivables form a big portion of current assets of a reporting entity. Stating the objective in each case, explain clearly five 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. (8 marks)
- c) Many organizations have embraced environmental auditing as management tool. Describe four benefits of environmental auditing to a reporting entity (6 marks)
- d) Audit committees have the responsibility to oversight statutory audit and the financial reporting process despite many corporate failures and scandals. Describe clearly four main responsibilities of the committees that ensure their effectiveness. (6 marks)

QUESTION TWO (20 MARKS)

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

- a) Bank liabilities (8 marks)
- b) Insurance premiums received by an insurance company (7 marks)
- c) Fees received by an educational institution (5 marks)

QUESTION THREE (20 MARKS)

- a) Your client sales goods in cash and on credit basis. Describe the audit procedures you would use to examine the entity's sales. (12 marks)
- b) Describe the audit procedures applied on bad and doubtful debts. (8 marks)

QUESTION FOUR (20 MARKS)

- a) You client firm is updating it's accounting system from manual to computerized system. Describe the types of internal controls you would recommend to be installed, stating the importance of each. (14 marks)
- b) Describe clearly how you would use computer audit programs (software) to verify salaries and wages of your client. (6 marks)

QUESTION FIVE (20 MARKS)

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

- a) Ksh. 7 million, six year loan that has been repaid for two years. (4 marks)
- b) Ksh. 8 Million, Motor vehicles. The balance includes one vehicle purchased and another one sold in the current financial year. (8 marks)
- c) Ksh. 28 million, Freehold land and buildings (8 marks)