



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2021/2022 ACADEMIC YEAR

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR, BACHELOR OF  
COMMERCE**

**BCA 201– PRINCIPLES OF AUDITING**

**DURATION: 2 HOURS**

### **Instructions to candidates:**

1. Answer question One and Any Other Two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

**SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION**

**QUESTION ONE (30 MARKS)**

- a) Audit is independent opinion of and expression of opinion on the financial statements of an entity  
Required:

Discuss five ways in which the independence of an auditor may be compromised (5marks)

- b) As a sole proprietor of a small bakery Lydia attended a workshop organised by Murang'a county entrepreneurs club on auditing of financial statements, having some book keeping experience herself, has personally prepared the financial statements of the bakery, She does not understand why such statements should be examined by a practicing independent auditor.

Required

- i. Explain to Lydia five ways in which an independent auditor may be beneficial to her (5marks)
- ii. Discuss five audit procedures that such an auditor would use in verification of non-currents assets (5marks)
- c) Distinguish an error from a fraud highlighting the effects of each on the financial statements of an entity (4marks)
- d) Enumerate three advantages and three disadvantages of using standardized audit program (6marks)
- e) Discuss five characteristics of an effective computer audit software (5marks)

**SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION**

**QUESTION TWO (20 MARKS)**

- a) Highlight five limitations of an internal control system (5marks)
- b) Enumerate five elements of auditors report (5marks)
- c) Using the Hedley Bkyne Case, discuss five essential elements required in order to prove negligence on the part of an auditor (10marks)

**QUESTION THREE (20 MARKS)**

- a) Verification of accounts receivable is essential as they form a large proportion of assets of most entities. Explain five audits procedures that would be used in verification of accounts receivable (10marks)
- b) Enumerate three types of computer programmes commonly used as part of audit procedures to process data (6marks)
- c) Explain two reasons why in audit an absolute level of assurance may not be given (4marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss five types of audits (10marks)
- b) The planning memorandum sets a set out the audit approach, how, whom and when each item in financial statements will be audited, timing requirements of the audit and staff usage with time budget for each set of audit work.

Required

Highlight five contents of audit planning memorandum (5marks)

- c) Enumerate five contents of permanent audit files. (5marks)