

QUESTION ONE

- a) Explain in numbered paragraphs, the distinction between accounting and auditing and clearly indicate the purpose of each. (10 marks)
- b) Briefly explain why an audit is necessary for a limited liability company. (5 marks)

(Total: 15 Marks)

Write brief explanatory notes on the following expressions and state the context in which they may be used:

- a) Quality of audit evidence: (6 marks)
- b) Audit trail: (5 marks)
- c) Not material. (4marks)

(Total: 15 Marks)

SECTION B

QUESTION TWO

- a) Under what circumstances is a person ineligible for appointment as an auditor of a selected company? (4 marks)
- b) List the key provisions of the Companies Act regarding: (8 Marks)
- i) the statutory duties imposed on auditors. (8 marks)
- ii) the removal of auditors (8 marks)

(Total: 20 marks)

QUESTION THREE

a) You have been approached by Mr. Matata the managing director of Kenya wide Services Ltd., a company which you are the auditor. It declares in no uncertain terms “There is no need for you to carry our interim audit of the accounts for the year ending 30 June 2000. Interim audits are only a way for you to increase your fee income. They are of no use to me and you have to do all the work again at the final audit.”

Required:

i) State and explain why an interim audit is desirable and how it can be of benefit to the client (10 marks)

ii) What work normally carried out the final audit could be carried out at the interim stage? (5 marks)

b) What is a continuous audit? Briefly explain its advantages and disadvantages. (5 marks)

(Total: 20 marks)

QUESTIONS Four

The draft account of your client Tourists Travel Ltd show the following amounts of creditors as at 31st December 1999.

Sh.

Trade creditors	7,500,000
Sundry creditors and accruals	1,875,000
	9,375,000

Required:

a) List and describe the audit test you would perform to verify the value of trade creditors to be included in the balance sheet as at 31st December 1999. (13 marks)

b) Describe the audit work you would carry out to verify sundry creditors and accruals as at balance sheet date. (7 marks)

(Total: 20 marks)

Motor vehicles 25% per annum on cost.

Required:

a) State four audit objectives relating to the audit of tangible fixed assets. (Marks)

b) Describe how you would verify the ownership of:

i) Freehold land and buildings: (5 marks)

ii) Computer and motor vehicles. (4 marks)

c)

(i) Describe the investigations you would carry out to determine whether the depreciation rate of the computers is adequate. (4 marks)

ii) Describe the investigations you would consider when deciding whether to modify your audit report on the understatement of the depreciation of the computers. (3 marks)

