



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE

**BAC 4302: AUDITING**

END OF SEMESTER EXAMINATIONS

**SERIES: APRIL 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Three printed pages***

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**QUESTION 1 (Compulsory)**

You are a Senior in charge of the audit of Fayaz Bakers Co. Ltd for the year ending 31<sup>st</sup> December 2014, and are currently planning the year end Audit. Fayaz Bakers specializes in the production of high quality bread of various kinds.

During the interim audit you noted that in the present economic burn-turn the company has suffered as its costs are increasing and its prices have been higher than its competition because of lower production runs. One indicator of the problems facing the company is that it has consistently used a bank overdraft facility to finance its activities.

At the time of interim audit, you had discussed with the management what actions were fairly taken to improve the liquidity of the company. The company plans to expand its facilities for producing white bread as this had maintained its market share. The company has asked its bank for a loan to finance the expansion and also maintain working capital. To support the requests the company has prepared a cashflow forecast for the two years. However the bank need a report from external audit to confirm

accuracy of forecast following this request the company has asked you to examine the cashflow forecast and report to the bank.

**Required:**

- a) Explain the differences between interim audit and final audit. **(5 marks)**
- b) Explain whether you would be able to rely on the work of the internal auditors. **(6 marks)**
- c) Describe **THREE** procedures you would adopt in your examination of cashflow forecast. **(6 marks)**
- d) Explain the kind of assurance you would give in the context of the request by the bank. **(5 marks)**
- e) Explain the social objective of an audit. **(8 marks)**

**QUESTION 2**

- a) i) Identify and explain **FOUR** financial statement assertions relevant to account balances at the year end.  
ii) For each identified assertion, describe substantiate procedure relevant to audit of the year-end inventory. **(12 marks)**
- b) List and explain the purpose of **FOUR** items that should be included on even working papers prepared by the audit team. **(8 marks)**

**QUESTION 3**

- a) ISA 300 planning an audit of financial statement provide guidance to assist auditors in planning an audit.

**Required:**

- Explain the benefit of audit planning. **(8 marks)**
- b) Explain the auditor's responsibilities in relation to the prevention and detect of fraud and error. **(8 marks)**
- c) Explain the benefits of establishing an audit committee. **(4 marks)**

#### QUESTION 4

ISA 700 forming an opinion and reporting on financial statement requires auditors to produce audit report. This report should concern a number of consistent elements so that users are able to understand what the audit report means.

- a) Differentiate between a qualified audit report and unqualified audit report. **(10 marks)**
- b) In many small companies the system of internal control is dependent upon close involvement of the directors who may or may not be major shareholders often; when reporting upon such business the auditor has to qualify his report.

You are required to describe circumstance in which an auditor can report without qualification on a small company. **(10 marks)**

#### QUESTION 5

You have been the auditor of BJ Manufacturing Company Ltd for many years. The company is a small business with a turnover of sh. 400 million and fifth employees. The company is intending to purchase a personal computer and an accounting software package. The Manager has asked you to advice in terms of computerization of all records.

**Required:**

- a) Discuss the major effects the computerization of BJ Manufacturing Company accounting system will have on the planning of the audit in the coming year. **(10 marks)**
- b) Describe how developments in information technology are currently affecting auditing and their possible impact. **(10 marks)**