

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE**

**BCOM 411: AUDITING I**

**STREAMS: BCOM Y4S1**

**TIME: 2 HOURS**

**DAY/DATE: THURSDAY 23/09/2021**

**8.30 A.M – 10.30 A.M.**

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**INSTRUCTIONS:**

- **Answer question ONE and any other TWO questions.**
- **Show all your workings.**
- **Do not write on the question paper.**

**QUESTION ONE**

You are a manager in a medium-sized firm and you have been informed by one of the partners that you are responsible for the audit of ABC limited company, a newly acquired client. ABC limited has just incorporated as a limited company after trading for many years as unincorporated business. It is expected that ABC limited will have a turnover of about \$10 million in the first year as a limited company and as such will be one of your largest client. The Managing Director has written to you asking about current year audit and in particular about the audit process.

**Required:**

Prepare a draft letter to the Managing Director of ABC limited explaining each of the following:

- (a) The reasons why an audit is necessary. (2 marks)
- (b) The effects that the audit requirement will have on his company. (5 marks)
- (c) The different stages of the audit process. (12 marks)
- (d) Rights of an audit of a public limited company. (6 marks)

**QUESTION TWO**

- (a) Grow fast plc was formed in 1<sup>st</sup> August 1990 in order to manufacture minicomputers. The directors are unsure as to their responsibilities and nature of their relationship with external auditors. The audit partner has asked you to visit the client and to explain to the directors the more fundamental aspects of the accountability of the company and their relationship with the auditor.

**Required:**

Explain to the directors of Grow fast Plc,

- (i) How the auditor of a public company may be appointed under the Companies Act 1985. (6 marks)
- (ii) The responsibilities of the directors in relation to the accounting function of the company. (4 marks)
- (b) Auditors should be guided by certain fundamental principles in all professional, business and personal financial relationships. Using appropriate practical examples, discuss the rules of conduct in the following key principles.
- (i) Integrity (2 marks)
  - (ii) Objectivity (2 marks)
  - (iii) Confidentiality (2 marks)
  - (iv) Competency (2 marks)
  - (v) Independence (2 marks)

**QUESTION THREE**

- (a) In conducting the audit of a mail-order company, your internal control questionnaires show that the stated systems of control on incoming orders with remittances are ineffective. What actions would you now take? (10 marks)
- (b) Indicate the main points to which you would give attention regarding a circularization of debtors to obtain confirmation of year and debtors. (10 marks)

**QUESTION FOUR**

Stock and work in progress may take different forms, depending on the nature of the business. Many companies undertake contracts for which will last more than one accounting period. The audit objectives concerning these long-term contracts do not differ greatly from those concerning normal stock and work in progress, except in for as long-term contracts require the estimation of future revenues and costs in order to identify the profit to be recognized in the profit and loss account.

**Required:**

- (a) Explain why the audits of stock and work in progress is often the most complex and time consuming part of the audit. (6 marks)
  - (b) Describe the factors which are likely to affect the auditor's assessment of the inherent risk attached to long-term contract work in progress. (6 marks)
  - (c) Describe the audit work which would be performed in order to verify the value of long-term contract work in progress. (8 marks)
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