

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT

DIAC 0227: PRINCIPLES OF AUDITING

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 13/12/2018

11.30 A.M – 1.30 P.M

INSSTRUCTIONS:

- There are four questions in this paper. Answer question ONE and any of the two
- Be clear, neat and orderly
- Clarity and orderliness will receive extra marks

1. (a) Briefly define the term “auditing” according to American Accounting Association (AAA). [2 marks]
(b) Briefly discuss the relationship between auditing and accounting. [6 marks]
(c) With specific example, briefly explain FOUR circumstances which may warrant interim audits. [4 marks]
(d) Write short notes on the following terms as used in auditing.
(i) Vouching [2 marks]
(ii) Verification [2 marks]
(iii) Audit evidence [2 marks]
(iv) Audit trail [2 marks]
(v) Internal control [2 marks]
(e) With the use of examples, briefly discuss the following types of audit reports.
(i) Qualified audit report [4 marks]
(ii) Unqualified audit report [4 marks]
2. (a) Differentiate between the following types of audits.
(i) Statutory audits and internal audits [4 marks]
(ii) Forensic audits and fraud audits [4 marks]

- (iii) Annual audits and interim audits. [4 marks]
- (b) Write short notes on the following types of audit tests.
- (i) Compliance [4 marks]
- (ii) Substantive tests [4 marks]
3. (a) Define the term audit sampling.
- (b) Why does the auditor need to adopt a sampling approach in the conduct of audit? [6 marks]
- (c) Explain the merits and demerits of auditing. [12 marks]
4. (a) Differentiate between the terms “error” and “fraud”. [2 marks]
- (b) List and explain the various sources of audit evidence. [8 marks]
- (c) List and explain the principles of gathering audit evidence. [10 marks]
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