

**JARAMOGI OGINGA ONDINGA UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS 2013

**EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT**

ABA 305:AUDITING (BUC)

STREAM: Y3S1
2 HOURS

TIME:

DAY:

DATE:

INSTRUCTIONS

- **Answer QUESTION ONE and any other TWO questions**
- **Write clearly and neatly.**
- **Do not write anything on the question paper**
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QUESTION ONE (30MARKS)- COMPULSORY

- a) SKYPARK Ltd is a construction company which builds houses and factories for its clients in western Kenya Region. During the year ended 31 December 2011, the company's own staff constructed an extension to its building on a piece of land immediately beside their existing offices. The new building was required because of expansion which had taken place during the last two years. The costs incurred were:

	Kshs
New machines purchased	7,000,000
Land purchased from neighbor	11,000,000
Materials ,bricks and cement	6,000,000
Wages paid to employees engaged on	14,000,000

project

Depreciation on company machinery 2,000,000

Total Expenditure 40,000,000

As the audit senior in charge of the audit, explain how you will audit each of the above items of expenditure. **(15 marks)**

- b) Outline five advantages of conducting an external audit to an organization **(5marks)**
- c) **Section 531 of the Accountants Act 1977** outlines necessary conditions for one to be appointed an auditor. Discuss these conditions . **(10marks)**

QUESTION TWO

- a) The management has a duty to institute an effective internal control system.
List five essentials of an effective ICS. **(5marks)**
- b) State the classes of persons who can make successful legal action against auditor's negligence. **(5marks)**
- c) Discuss five rights of an auditor. **(10marks)**

QUESTION THREE

- a). Differentiate between Accounting and auditing **(5marks)**
- b). Outline various arguments advanced in favor of auditing practice in modern businesses **(5marks)**
- c). Explain five limitation of an ICS in a manufacturing setting. **(10marks)**

QUESTION FOUR

A large company which manufactures pharmaceutical products has recently opened a chain of chemists' shops across the country. This was to enable the company to sell its own brands of medicines to the public and also to diversify into the retailing industry. Other manufacturers' products are also sold through the shops. The board of the company is concerned that gross margins are not as good as had been budgeted. All purchasing is done centrally and the cost of goods is roughly in line with expectations. It has been suggested that fraud by staff is having an effect on recorded income, particularly as the shops have been designed to deter shoplifters

Required:

- a). State why it may be difficult to prevent fraud by staff in a major retail organization **(5marks)**
- b). Explain in detail some of the controls which could be put in place within the shops to minimize or prevent fraud by staff. **(10 marks)**
- c). Identify five major Management functions of a Management letter. **(5marks)**

QUESTION FIVE

- a) State five principles auditors use in carrying out verification of assets and liabilities.(5marks)
- b) Outline circumstances under which an auditor may be appointed. **(5marks)**
- c) Explain five essential characteristics required of an auditor in line with Accountant Act **Section 28.** **(10marks)**