



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

P.O. Box 972-60200 Meru - Kenya. Tel: 020-2092048, 020 2069349
Fax: 020-8027449

University Examinations 2011/2012

THIRD YEAR, SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC 2215: AUDITING II

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- a. Outline three disadvantages of the application of international standards on auditing (ISA'S) of companies in Kenya. (6 Marks)
- b. Outline the significance of the concept of materiality in auditing (6 Marks)
- c. In reference to international standards on auditing 530, outline three reasons for use of audit sampling in gathering audit evidence (6 Marks)
- d. Post balance sheet events may be classified as either adjusting or non-adjusting events. Outline three examples of adjusting events (6 Marks)
- e. Highlight three factors that an auditor should consider when determining whether to use Computer Assisted Audit Techniques (CAAT'S) (6 Marks)

QUESTION TWO (20 MARKS)

- a. Explain five factors that an auditor should consider before relying on the work of an expert (10 Marks)
- b. Outline five indicators of risk of continuance of an entity as a going concern (10 Marks)

QUESTION THREE (20 MARKS)

- a. Explain the term audit risk. Outline the three components of audit risk (10 Marks)
- b. Substantive tests are carried out by auditors to confirm the assertions of the management in regard to
 - i. Existence
 - ii. Rights and obligations
 - iii. Occurrence

- iv. Completeness
- v. Valuation
- vi. Measurement and
- vii. Presentations and disclosure

Explain five relevant financial statement assertions that may be used to verify the plant and machinery balance appearing in the statement of financial position of a limited company.

(10 Marks)

QUESTION FOUR (20 MARKS)

- a. In reference to international accounting standard I (IAS I) “presentation of financial statements”, briefly explain the disclosure requirements of any five components of financial statements. (10 Marks)
- b. (i) explain the purpose and composition of an audit committee (4 Marks)
(ii) Outline three objectives of audit committees (6 Marks)

QUESTION FIVE (20 MARKS)

- a. Jomak Ltd intends to install a computerized information system. the management has been advised to include in its internal controls both the general controls and application controls. Explain to the management five types of application controls that require to be designed (10 Marks)
- b. The auditor may seek management representation while concluding an audit. Explain the term “management representation”. State three circumstances under which the auditor may seek for management representation. (10 Marks)