BACHELOR OF COMMERCE

END OF SEMESTER EXAMINATION

CAC 401: AUDITING II

APRIL 2021

ONLINE CLASS

Instructions

i) **This exam paper contains SIX questions containing 10 marks each.**

ii) **Answer Question 1 (COMPULSORY) and any other THREE questions**

iii) **Read each question carefully before attempting.**

===

QUESTION ONE

As an auditor of Maziwa ltd. Mr Oketch applied the concept of materiality for the financial statements as a whole. On the basis of obtaining additional information of significant contractual arrangements that drew attention to a particular aspect of the company's business, he wants to re-evaluate the materiality concept.

Required:

(a) Giving an example explain the materiality concept. (4 marks)

(b) Discuss THREE actions Mr.Oketch should take in the above situation. (6 marks)

QUESTION TWO

In an initial audit engagement, the auditor will have to satisfy about the sufficiency and appropriateness of "opening balances" to ensure that they are free from misstatements, which may materially affect the current financial statements.

(a) Outline the audit procedure, the auditor will follow, when financial statements are audited for the first time. (6 marks)

(b) Discuss the approach the auditor will take in drafting his audit report if he is not satisfied about the correctness of the "opening balances". (4 marks)

QUESTION THREE

You are auditor of Nairobi billboards ltd for the last five years you have observed that the new venture of online shopping has been added by the company during the current year.
As the auditor.

Required:

Discuss the factors you would consider in formulating the audit strategy for the company.
(10 marks)

QUESTION FOUR

Mzalendo ltd is classifying its liabilities in the important process of preparation of financial statements.

Required:

Discuss the general instructions to be followed under the companies act 2013 in respect to;

(a) Current assets. (5 marks)

(b) Current liabilities. (5 marks)

QUESTION FIVE

Upendo ltd holds the ownership of 10% of voting power and control over the composition of the Board of directors of Amani ltd. While planning the statutory audit of Upendo ltd;

Required:

Explain the factors you would consider for the audit of the financial statements

(a) In Upendo Ltd. (7 marks)

(b) In Amani Ltd. (3 marks)

QUESTION SIX

As an auditor, during your interim visit at Mwewe ltd. You observed that internal controls were not in use throughout the period covered under audit.

Required:

(a) Discuss the control objectives you would like to consider to achieve your plans. (6 marks)

(b) Explain the importance of internal controls in accounting. (4 marks)