



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION (ACCOUNTING OPTION) WITH IT
3RD YEAR 2ND SEMESTER 2024/2025 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: BAB 1310

COURSE TITLE: AUDITING II

EXAM VENUE: LAB 12

STREAM: BBA (ACCOUNTING OPTION)

DATE: 17/04/2025

EXAM SESSION: 9.00 – 11.00 AM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

John Mwangi has recently asked your firm advice on whether to purchase Macke Limited, which is a small builder's supply merchant. John Mwangi has been the proprietor of a small do-it-yourself business (which is a similar trade to builder's supply Limited but sells mainly to individuals) and he has recently been left a substantial sum of money on the death of his father.

Mackfe Limited sells:-

1. Paint and decorating material
2. Hand tools and small electricity tools (for instance electric drills)
3. Electrical Fittings and
4. Building materials (bricks, wood, sand and cement)

The current owner of Mackfe Ltd is retiring and is proposing to sell the business to John Mwangi. Mackfe Limited is financed by equity, bank loans and overdrafts. There are no current accounts or loan accounts between the directors and the company.

The audited accounts of Mackfe Limited for the three years ended 30th April are available and John Mwangi has asked you to carry out an investigation into whether the accounts are reliable. The accounts of Mackfe Limited have been prepared by the auditor. From your knowledge of the auditor's reputation and the weakness of the internal control in the Mackfe Limited you believe there may be material errors in the accounts.

In the year ended 30th April 2022, Mackfe Limited had a turnover of Kshs. 34 Million. The company operates from its own freehold premises and it sells mainly to small builders and some individuals. Most of the sales are on credit but its sales to individuals are for cash only. If John Mwangi decides to purchase Mackfe Limited, then he plans to work full time in the business.

Required

- a) Briefly, explain on the investigation you would carry out in checking:
 - i. The Income statement for the Three years ended 30th April 2022 (10 Marks)
 - ii. The Balance Sheet as at 30th April 2022. (10Marks)
- b) Briefly describe the factors you would consider in advising John Mwangi whether:-
 - i. To purchase all the shares in Mackfe Limited or (5 Marks)
 - ii. To Purchase the assets, goodwill and liabilities from the company. Your answer should describe the factors which you would consider in advising John Mwangi which assets liabilities of Mackfe Limited he should purchase. (5 Marks)

QUESTION TWO

There is a growing demand in both the public and private sectors for professional accountants to provide assurance on a variety of subject matters by expressing a conclusion regarding the quality or context of the subject matter.

Required

- i. Identify the five key elements of an assurance engagement (5 Marks)
- ii. Explain the engagement risks that face a professional accountant who accepts an assurance engagement. (5Marks)
- iii. Explain why an absolute level of assurance may not be given and the circumstances in which a reasonable assurance can be given. (5 Marks)
- iv. Explain the potential threats to the independence of an accounting firm involved in assurance engagements. (5 Marks)

QUESTION THREE

You are the partner in charge of the audit of Fefra Limited, a private company which intends to seek a public quotation for its shares.

The company is required to prepare a prospectus which must incorporate a report by the auditors of the company. The directors intended to include a profit in the prospectus. You as the company auditor will therefore be required by the Nairobi Securities Exchange to report on the basis and calculations forecast.

Required

- i. Enumerate the preliminary considerations to be borne in mind before accepting the responsibility for reporting on the profit forecast. (6 Marks)
- ii. In your staff briefing as to the method of approach to be adopted in the profit forecast review, enumerate on any pertinent issues which the staff should consider in their examination of the procedures followed by the company in preparing the forecast. (9 Marks)
- iii. If you do not consider that certain assumptions in the forecast appear to be realist , describe the action you should take. (5 marks)

QUESTION FOUR

- i) Briefly explain any five financial statement assertions, other than completeness, which may be used by auditors in the audit of financial statements. (10 Marks)
- ii) Discuss the term “audit failure” and its probable causes (10 Marks)

QUESTION FIVE

- i) Briefly explain any Six types of audit evidence that can be obtained by an auditor (12Marks)
- ii) Briefly explain any four auditor’s opinions which could be formed from audit of financial statements of organizations (8 Marks)

JUST OBSERVES ZERO TOLERANCE TO EXAM CHEATING