



**National University of Science and
Technology**

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION: AUGUST 2010

FINANCIAL REPORTING: CAC 4101

TIME ALLOWED: 3 HOURS

MARKS: 100

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INSTRUCTIONS TO CANDIDATES

1. Attempt all 4 questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books used.

QUESTION 1 (25 MARKS)

Required:

Explain what you understand by the following terms and their significance to the auditor.

- a) Compliance tests (5 marks)
- b) Substantive tests (5 marks)
- c) Segregation of duties (5 marks)
- d) Audit risk (5 marks)
- e) Cut-off (5 marks)

QUESTION 2 (25 MARKS)

- a) What is meant by the term 'Management letter'? (2 marks)
Why are such letters important to the auditor? (5 marks)
- b) Explain briefly the five major objectives of a system of Internal Control. (18 marks)

QUESTION 3 (25 MARKS)

Zulu & Zulu have been the auditors of GB Metals (Pvt) Ltd for the past three years. They are familiar with the company background and its business activities – mainly metal fabrication. You have been assigned to carry out an audit of trade payables (creditors) section by the senior-in-charge and also in a position to liaise with auditors doing the other sections. The company imports some of its steel from South Africa. You note that foreign invoices are received earlier than goods. And also all necessary schedules can be provided by the client staff.

REQUIRED

List audit procedures you would carry out on trade payables (creditors) shown in the balance sheet at 31 March 2005.

Your answer should be in point form. (25 marks)

QUESTION 4 (25 MARKS)

Simba Ltd operates six food warehouses throughout Zimbabwe. The company makes bulk purchases from manufacturers and suppliers based within Zimbabwe and abroad. It distributes these goods to supermarkets and cash and carry wholesalers. Each warehouse maintains its own stock records from goods inwards and dispatch notes. Head office maintains a financial control over the stocks based on the daily value of sales and a value on daily purchases (based on selling price).

The company's year end is 31 December which, in this particular year, falls on a Saturday. The Financial Director has arranged for stock take to be held on the preceding Wednesday and the warehouses will be closed on that day. The stock sheets are to be priced at selling price.

You are required to:

- a) Describe the audit procedures you would undertake in respect of the physical stock take. (15 marks)
- b) Discuss briefly the matters to which you would give attention to ensure that the correct quantities and values of stock items are included in the financial statements. (10 marks)