



**National University of
Science and Technology**
Think in Other Terms



**FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FISCAL STUDIES
PART IV – 2nd SEMESTER SUPPLEMENTARY EXAMINATION JULY 2014
AUDIT PRACTICE AND INVESTIGATION 2 [CFS 4204]
TIME ALLOWED: 3 HOURS**

INSTRUCTIONS TO CANDIDATES

1. Answer ALL Questions.
2. Start the answer to each full question on a fresh page of the answer sheet.
3. Questions may be written in any order, but must be legibly numbered.
4. Write legibly.
5. Show workings

INFORMATION FOR CANDIDATES

The paper contains five (5) questions.

Question Paper

Question 1

Give a brief description of the steps you would take to conduct a pre-audit survey in a Post Clearance Audit review. [20 marks]

Question 2

Discuss the two types of audits found in a Post Clearance Audit environment. [20 Marks]

Question 3

Discuss the techniques used in the placement phase of money laundering. [20 Marks]

Question 4

Explain the criterion for a commodity to qualify for preferential treatment under the SADC Protocol. [20 Marks]

Question 5

A manufactures radio transistors. It sells them to a related company B which manufactures radios and sells to distributor company C which is a subsidiary of B. C sells directly to independent parties. Both A and B are expected to make at least a net margin of 5% on manufacturing costs per the industry norms. The resale price margin for independent businesses in C's industry is 50%. For the year ended 31 December 2010 the following financial statements for the three companies were prepared:

Company	A	B	C
Sales	50 000	100 000	300 000
Cost of manufacturing/sales	<u>30 000</u>	<u>50 000</u>	<u>100 000</u>
Gross Profit	20 000	50 000	200 000
Operating costs	<u>17 000</u>	<u>45 000</u>	<u>98 000</u>
Net Profit	<u>3 000</u>	<u>5 000</u>	<u>112 000</u>

- a) Is B's selling price to C at arm's length? Give reasons for your answer. [5 marks]
- b) Use the profit split method to determine the profits attributable to A and B. You are to use the cost of manufacturing as your basis for the residual profit split. [15 marks]