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 FINAL EXAMINATION - JANUARY 2011
AUDIT PRACTICE AND INVESTIGATION II [CFS 4202]]
TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDITATES

1. **Answer ALL FIVE 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 four (4) questions.

All whole questions carry equal marks [20 marks] and part marks are indicated in brackets at the end of each part question.

<u>Question 1</u>

a) **Define the term "arm's length principle"** **(5 marks)**

b) **Discuss the factors that affect comparability when applying the arm's length principle.**

(15 marks)

<u>Question 2</u>

a) Define money laundering. **(3 marks)**

b) Name the three stages in money laundering and briefly explain each stage. **(9 marks)**

c) Explain at least 4 methods of integrating illegal earnings back into the mainstream economy.

(8 marks)

<u>Question 3</u>

Briefly describe the layering technique in money laundering and describe at least five methods which may be used as layering tools. **(20 marks)**

<u>Question 4</u>

Discuss the five (5) principles or rules of origin in the **COMESA** region. **(20 marks)**

<u>Question 5</u>

A manufactures soles and uppers of shoes. It sells them to a related company **B** which puts them together 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 20% 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	30 000	50 000	100 000
Gross Profit	20 000	50 000	200 000
Operating costs	17 000	45 000	100 000
Net Profit	3 000	5 000	100 000

a) Calculate the transfer price volume from B to C using the resale price method (i.e. the excess gross profit that C has made due to its relationship to B). **(5 marks)**

b) After adjusting B's profits using your result in a) above, 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)**