PROFESSIONAL EVALUATION
ENGLISH QUESTION PAPER
02 November 2013

TIME: **4h30min**
MARKS: **200**

SECTION A	**MULTIPLE CHOICE**	**MARKS**
	TOTAL SECTION A	**50**
SECTION B		
	CASE STUDY 1	60
	CASE STUDY 2	55
	CASE STUDY 3	35
	TOTAL SECTION B	**150**
TOTAL		**200**

INSTRUCTIONS TO CANDIDATES

1. Answer all the questions
2. Please begin each question on a new page
3. Section A must be answered in pencil on the card provided
4. Section B must be answered in the answer book
5. No pencil (with the exception of Section A) or tippex may be used
6. Financial calculators are permitted. Cellular phones may NOT be used as calculators
7. If you wish any part of your work not to be marked, draw a clear line through it
8. The question paper may be taken with you at the end of the examination

SECTION A MULTIPLE CHOICE QUESTIONS [50 MARKS]

1) **In terms of section 30(4) of the Companies Act, Act 71 of 2008, a company which is required to be audited must disclose director's remuneration in its annual financial statements. Such disclosure may be made; as**

   a) An aggregate amount actually paid to directors collectively;
   b) An amount paid to each director separately;
   c) At the discretion of the Company Board;
   d) As determined by the Audit Committee.

2) **Companies Act, Act 71 of 2008, rebranded the section 21 Company to a Non Profit Company (NPC). Such Non Profit Company, in terms of the new Act, is;**

   a) A public company;
   b) Exempted from submitting an Annual Return to CIPC;
   c) Obliged to submit an Annual Return to CIPC, but need not pay any Annual Duty
   d) None of the above

3) **With the implementation of the Companies Act, Act 71 of 2008, on 1 May 2011;**

   a) The Close Corporations Act, 1984 was repealed;
   b) **No new Close Corporations can be incorporated**;
   c) Existing Companies can still be converted to Close Corporations;
   d) All of the above

4) The Financial Reporting Standards Council (FRSC);

- **a) Is an entity mandated to review the financial reporting standards within the South African context and to propose to the Minister of Trade and Industries any amendments thereto;**
- b) Receives and reviews all the Annual Financial Statements of incorporated entities in South Africa;
- c) Decides whether an entity must be audited or not;
- d) All of the above

5) Confidentiality is a critical attribute for any Independent Accounting Professional. Despite this obligation, an Independent Reviewer must report on a Reportable Irregularity to the;

- a) Professional Accountancy Organization (PAO) to which he/she is a member of;
- b) Independent Regulatory Board for Auditors (IRBA)
- **c) Commission for Intellectual Property and Companies (CIPC);**
- d) Financial Reporting Standards Council (FRSC)

6) The appointment of a person as Public Officer to an entity, within 1 month after commencing business, is required in terms of the;

- a) Regulations to the Companies Act
- b) Close Corporations Act
- c) Financial Intelligence Centre Act
- **d) Tax Administration Act**

7) **The Public Interest (PI) score is a formula introduced by the Companies Act, Act 71 of 2008. Thus;**

a) It is not at all applicable on Close Corporations
b) Is only applicable to new Companies formed after 1 May 2011
c) The average number of employees employed by the entity for the year must be determined
d) All of the above are true

8) **The Annual Duty payable by an entity to CIPC, is**

a) R100 for all Close Corporations
b) R100 for all Companies with a turnover of less than R10million
c) Attracts an additional R100 penalty for late filing of Annual Returns
d) None of the above

9) **The duties of Accounting Officer of a Close Corporation are set out in section 62 of the Close Corporations Act, Act 69 of 1984. Which of the following is not such a prescribed duty?**

a) To determine whether or not the Annual Financial Statements are in agreement with the financial records
b) Compile the Annual Financial Statements within the prescribed time
c) Review the appropriateness of the accounting policies so presented as having been applied
d) Reporting to the Close Corporation concerned

10) Directors of a limited company are under an obligation to;

a) Send financial statements to employees
b) Send summary financial statements to all shareholders.
c) **File copies of the financial statements with the registrar of companies**.
d) Produce financial statements which are correct in all respects

11) A limited company is under a legal duty to disclose information to parties external to the company. To which of the following groups does this requirement mainly apply?

a) Banks
b) Customers.
c) **Shareholders.**
d) Suppliers.

12) A group of companies must prepare consolidated accounts when which of the following situations exists?

a) **A parent company has one or more subsidiary companies.**
b) When a parent company has overseas subsidiaries.
c) When a parent company trades from the same address as its subsidiaries.
d) When a company has a participating interest in another associated company

13) If there has been an over recovery of overheads, at the end of the accounting period the amount concerned should be?

a) Debited to the company profit and loss account.
b) Credited to the company profit and loss account.
c) Carried forward to the next accounting period as a cost saving.
d) Used to reduce next period's overhead recovery rate.

14) XYZ Ltd has used (DCF) discounted cash flows as a technique to evaluate a project which has an initial capital outlay of R100 000, the project has a 3 year life and achieves a positive net present value as a result of the following cash inflows (all year end cash flows).

Year	Cash inflow R000
1	50
2	60
3	40

The project has no residual value at the end of the 3 year period and the company evaluates projects using a discount rate of 15%. Discount factors are as follows:

Year	Factor (15%)
0	1

1	0.87
2	0.76
3	0.66

By how much could the initial capital investment increase for the project to cease to be worthwhile?

- **a) R15 500.**
- b) R25 000.
- c) R33 000.
- d) R50 000.

15) Which of the following is not considered to be a feasible form of finance for capital investment projects?

- a) An issue of share capital.
- **b) A bank overdraft.**
- c) The issue of a debenture.
- d) Leasing.

16) When a business is faced with a limiting factor in manufacturing (one which limits the activity of an entity) and there is a choice to be made between options to follow, which of the following statements describes the optimal course of action?

a) Choose the option which gives the highest unit profit.
b) Choose the option which gives the highest unit contribution.
c) Aim to achieve a balance of activities covering all of the options.
d) **Choose the option which gives highest contribution per unit of limiting factor**

17) A Professional Accountant (SA) was asked by a potential client to perform a compilation of its financial statements. The accountant is not familiar with the industry in which the client operates. In this situation, which of the following actions is the accountant most likely to take?

a) Request that management engage an independent industry expert to consult with the accountant.
b) **Accept the engagement and obtain an adequate level of knowledge about the industry.**
c) Decline the engagement.
d) Postpone accepting the engagement until the accountant has obtained an adequate level of knowledge about the industry.

18) **Which of the following is the best way to compensate for the lack of adequate segregation of duties in an SME environment?**

a) Disclosing lack of segregation of duties to the external auditors during the annual review.
b) Replacing personnel every three or four years.
c) Requiring accountants to pass a yearly background check.
d) **Allowing for greater management oversight of incompatible activities**.

19) **Spaza manufactures and sells television sets. All sales are finalized on credit with terms of 2/10, n/30. Seventy percent of Spazas customers take discounts and pay on day 10, while the remaining 30% pay on day 30. What is the average collection period in days?**

a) 10
b) 16
c) 24
d) 40

20) **Which of the following parties is responsible for establishing an entity's internal controls?**

a) Management.
b) Auditors.
c) Management and auditors.

d) Committee of Sponsoring Organizations

21) For an internal audit function to be effective, it is essential that the internal audit staff

a) Be independent of the operating departments.
b) Be independent of the accounting department.
c) Report directly to a high level of authority within the organization such as the audit committee.
d) **Achieve all of the above.**

22) A Professional Accountant (SA) may accept assignments that requires;

a) An audit, for a non-profit company, of which the Memorandum of Incorporation require an audit to be performed
b) **A review of the Annual Financial Statements of a public school, if an audit is impractical**
c) Both a and b may be accepted
d) Neither a nor b may be accepted

23) Which of the following is not a party to the learnership agreement?

a) The Sector Education and Training Authority (SETA) with jurisdiction in the Industry
b) The employee or learner
c) The employer
d) The training provider

24) On successful admission to the South African Institute of Professional Accountants, the Professional Accountant (SA) is obliged to;

a) Register with the South African Revenue Service (SARS) as a tax practitioner, even though he/she may choose not to provide tax services at a fee
b) Take out additional Professional Indemnity Insurance cover in excess of such cover already provided by SAIPA
c) Record 120 hours of Continuous Professional Development activities over a 3-year cycle
d) Employ learners on a registered learnership

25) The South African Institute of Professional Accountants is;

a) A controlling body for tax practitioners recognised by SARS
b) A member body of the International Federation of Accountants (IFAC)
c) Both a and b are correct
d) Neither a nor b is correct

Total [50 Marks]

SECTION B

CASE STUDY QUESTIONS

CASE STUDY 1 Total [60 marks]

Part A

Worchester Ltd is manufacturer of bedroom furniture operating in the East Rand. The current financial accountant had recently won a substantial amount in the Lotto and quit his position with immediate effect. You have been asked by the financial director of Worchester Ltd to assist in the preparation of the 31 December 2012 annual financial statements.

The following information has been provided to you:

1. Inventory values at year end:

	R
Raw materials	102,000
Work-in-progress	88,000
Finished goods	204,500

One of the completed oak bedroom suites with a cost price of R 27,500 that had been stored in the warehouse had been damaged as a result of rain damage. The damage was extensive and the bedroom suite could no longer be sold to the public. However, the damage can still be repaired by the factory restorers. If restored, it will be similar to other oak bedroom suites that are currently being sold at R32,500. The cost to repair the oak bedroom suite is estimated at R7,500.
The stock count at 30 December 2012 revealed raw materials to the value of R99,000 and work-in-progress to the value of R88,000.

2. During February 2012 Worchester Ltd acquired 20,000 shares in NMT Ltd at 10500c. Marketable securities tax was R2,500 and brokerage fees were R1,050. According to the Worchester Ltd business model, the investment will be recognized at fair value with fair value adjustments to be recognized in other comprehensive income.

3. Land to the value of R12,000,000 was purchased in September 2002. On 28 September 2012, the land was valued at R17,500,000 by a reputable independent appraiser, Mr. Scalene.

4. The machinery and equipment in the factory was purchased on 1 January 2009 at a cost of R3, 500,000. The financial director estimated the useful life of the machinery and equipment to be 10 years and that the machinery and equipment will be able to be sold for R75,000 at the end of the 10 years. At the beginning of the 2012 financial year, the CEO estimated that the remaining useful life of the machinery and equipment was 4 years due to unexpected wear and tear and that

the estimated selling price at the end of the 4 years will be R50,000.

5. Furniture at a cost of R1,500,000 was purchased on 1 July 2009. The furniture had an estimated useful life of 12 years and Worchester Ltd has always applied a policy of revaluing the furniture every 3 years. At 30 June 2012, the cost of similar new furniture was determined to be R1,950,000.

6. Accounts receivable at 31 December 2012 was R1,750,000 and the expected cash flows was estimated to be R1,700,000.

7. The bank statement of Worchester Ltd received from Paarl Bank reflected a debit bank balance of R3,000,500.

8. At 31 December 2012, after taking into account all the transactions for the year, the carrying amount of all the relevant assets and liabilities was correctly calculated as R6,750,000 and the respective tax bases was correctly calculated at R5,500,000.

Additional information:

- The tax rate is 28% for all periods presented.
- Worchester Ltd uses the comprehensive basis for the calculation of deferred tax.

You are required to:

1. **Prepare the necessary journal entry/entries relating to the inventory of Worchester Ltd at 31 December 2012. (Narrations are required, ignore any tax consequences) (6 marks)**

2. **Prepare the inventory and property, plant and equipment note to the Statement of Financial Position of Worchester Ltd for the year ended 31 December 2012. (35 marks)**

3. **In so far as the information is available, prepare the assets (non current and current) section of the Statement of Financial Position of Worchester Ltd for the year ended 31 December 2012. (9 marks)**

Part B

The Stormers, having successfully made the play offs, have incurred costs of R1,800,000 when they signed a contract with Gerhard van der Heever (top wing for the 2011/2012 season) on 23 January 2012. The costs related to transfer fees and cancellation costs in respect of the contract with his previous team, The Sharks. This was in anticipation of the star player helping the team win the 2012 Super 15 rugby final. The financial manager of The Stormers decided to capitalize the costs of R1,800,000 at 28 February 2012 as he is of the view that Gerhard van der Heever will be the biggest asset to the team

You are required to:

Explain whether you agree with the financial manager's decision to recognize Gerhard van der Heever as an asset on the statement of financial position at 28 February 2012. Specific reference should be made to the Conceptual Framework for Financial Reporting. (10 marks)

Total [60 marks]

CASE STUDY 2 Total [55 marks]

This question has two unrelated parts

Part A

Chloe Kingston is a South African resident and lives in Durban North, Kwa-Zulu Natal. Chloe was very artistic and talented fashion designer during her school years, which her parents recognised and encouraged. After completing matric, Chloe decided to study fashion design at one of the leading fashion schools in Gauteng. After she completed her studies she spent time in Paris as an apprentice fashion designer for a leading clothing brand. After all her travels, Chloe returned to South Africa in May 2010. She decided to open her own fashion retail business. She opened Retail Therapy which carries on business in Umhlanga, Kwa-Zulu Natal. Retail Therapy is a registered VAT vendor and has a two month VAT period. The following amounts (which include VAT where applicable) relate to the VAT period ended 30 November 2012.

INCOME	**R**
Cash sales - local	684 000

Credit sales - local	216 600
Export Sales	342 000
Insurance payout received from Outsure on trading stock damaged due to a water leak in the storeroom	22 800
Interest received from a South African bank	3 542
Excess payments received from customers on 1 July 2012 but not yet refunded on 30 November 2012.	18 420
Payment received in advance from a customer for goods delivered and invoiced on 10 December 2012	38 000
EXPENDITURE	
Purchase of motor vehicle (defined as a motor car) on 1 October 2012. The free use of this motor vehicle was granted to the store manager from 1 October 2012. The store manager bears all costs of maintenance.	262 200
Petrol relating to the delivery vehicle and the motor vehicle used by the store manager.	3 800
Refreshments for staff	1 260
Insurance premiums – motor vehicle (above)	1 567
Insurance premiums – loss of trading stock	1 430
Salaries and Wages	36 000
Purchase of a new microwave for use in the staff tea room	1 140

Bank Charges	898
Water and Electricity	2 945
Municipal Rates	2 670
Goods purchased from a creditor on 1 October 2011 remains unpaid at 30 November 2012	30 942

You are required to:

Calculate the VAT payable by or refundable to Retail Therapy for the VAT period ended 30 November 2012. Provide reasons if the amount is nil. Work to the nearest rand.You can assume that all entities that Retail Therapy transacts with are registered VAT vendors unless stated otherwise. (20 Marks)

Part B

Mpho Ndlovu, a South African resident turned 49 years old during the 2013 year of assessment. Mpho is married to Malusi, age 53 and they are married in community of property. Malusi is a South African resident also and they live in Norwood, Gauteng. Mpho and Malusi have one daughter Nompumelelo, age 27 and is married.

Mpho is the distribution manager of Olive (Pty) Ltd, a company that makes and distributes olive oil and related olive products. On 1 April 2012 she completed ten years of service with Olive (Pty) Ltd. She belongs to her employer's pension fund. Mpho contributes 8.5% of her monthly basic salary to the fund and her employer also contributed 8.5% of her monthly basic salary to the pension fund.

Her salary from 1 March 2012 was R32,000 per month. Her salary remained unchanged for the 2013 year of assessment and she remained employed with Olive (Pty) Ltd for the entire 2013 year of assessment.

The following information relates to Mpho Ndlovu's employment package for the period 1 March 2012 to 28 February 2013:

1. Mpho was provided with exclusive use of a motor vehicle (a motor car as defined for VAT purposes) from 1 February 2012 and in addition she also received a travel allowance of R3,000 per month on the same vehicle. It was purchased by Olive (Pty) Ltd for R205,000 (excluding VAT) on 1 February 2012. Olive (Pty) Ltd also paid 14% VAT of R28,700 when it purchased this motor vehicle. The motor vehicle was purchased with a full maintenance plan. Mpho does not contribute towards the maintenance costs. All other costs in respect of the motor vehicle are borne by her employer. She is allowed to take the motor vehicle home each night and also has unlimited weekend use of it. Mpho travelled a total of 25 000 kilometers in this motor vehicle up to 28 February 2013, of which 8 000 kilometers were travelled for business purposes as shown by her log book.

2. Olive (Pty) Ltd leases certain flats and then gives free use of these to certain employees. Mpho was one of these employees and Olive (Pty) Ltd paid R7,500 per month for Mpho's accommodation from 1 September 2012. The flat consists of two bedrooms, a kitchen and an open plan living area and is fully furnished. Her employer does not pay for water or electricity. Her remuneration factor is considered by the Commissioner to be R420,000. The nature of the business does not require the company to provide employees with accommodation.

3. During September 2012, Olive (Pty) Ltd settled a debt of R4,300 that Mpho owed to a clothing store.

4. Mpho received a reimbursive cellphone allowance of R500 per month. Mpho is required to account to Olive (Pty) Ltd and produce proof of actual expenditure. Mpho is very prudent in this respect and only incurred and paid R6,150 for this entire period on her cell phone expenditure.

5. She also received an entertainment allowance of R800 per month.

6. On 1 April 2012, Olive (Pty) Ltd gave Mpho a long service award of a gold watch, which cost them R6,840 (including VAT).

7. The staff at Olive (Pty) Ltd collected cash and purchased Mpho a gift also which they presented to her on 1 April 2012. They purchased her a Truworths voucher which cost them R2,550 (including VAT).

8. On 28 February 2013, her employer paid her a non-pensionable cash performance bonus of R50, 000 and a thirteenth cheque based on one month's salary.

9. An interest-free loan of R360,000 was made available to Mpho on 1 October 2011. On 1 July 2012, the full amount of the loan was repaid.

10. Mpho is a member of her employer's medical aid fund. Malusi is registered as a dependent on Mpho's medical aid fund. Olive (Pty) Ltd contributed R1,900 per month and Mpho contributed R800 per month to this medical aid fund. Mpho incurred medical expenses of R25,980 in the 2013 year of assessment, all of which was not recovered from the medical aid.

11. Olive (Pty) Ltd is a registered VAT vendor.

Other Information for the 2012 year of assessment: -

- Mpho received net rentals of R58,500 from a flat she inherited from her late father. The flat does not form part of their joint estate.
- She also earned local dividends of R32,000 and local interest of R43,000.
- Malusi earned local interest of R15,000.
- Mpho loves to play poker. She plays poker on a weekly basis with a group of friends at her house. For the 2013 year of assessment she won R87,800.
- Mpho is bringing forward an assessed capital loss of R10,000 from her 2011 year of assessment. She made no capital gains or losses in her 2012 year of assessment

You are required to :

Calculate the normal tax liability of Mpho Ndlovu for the year of assessment ending 28 February 2013 (35 Marks)

Total [55 marks]

CASE STUDY 3 Total [35 marks]

You have recently been promoted within your organization, Fashion Brands International, after attaining your Professional Accountant Qualification and passing the SAIPA Professional Evaluation Exam. Along with this promotion has come additional responsibility in the reporting sphere. You have been assigned by the group management accountant the task of assisting whim in analyzing ratios for presentation to the Board. You have been given extracts of the draft integrated report which has not yet been issued to the public:

Statement of Financial Position as at 30 June 2013		
	'000	'000
Assets	**30-Jun-13**	**30-Jun-12**
Non-Current Assets	**1197**	**1093**
Property, Plant and Equipment	1013	926
Goodwill	90	90
Intangible Assets	94	77
Current Assets	**5720**	**5131**
Inventories	670	530
Trade and Other Receivables	3421	3033
Prepayments	62	51

Cash and Cash Equivalents	1567	1517
Total Assets	**6917**	**6224**
Equity and Liabilities		
Share Capital	205	159
Retained Earnings	5670	4810
Non-Distributable Reserves	106	77
Total Equity	**5981**	**5046**
Liabilities	**936**	**1177**
Non-Current Liabilities	**97**	**84**
Long-Term loan	97	84
Current Liabilities	**839**	**1093**
Trade and other payables	598	875

Provisions	73	73
Tax Payable	168	145
Total Equity and Liabilities	**6917**	**6223**
Number of shares in Issue	4, 24 million	4,23 million

Statement of Comprehensive Income for the period ended 30 June 2013		
	000	000
	30-Jun-13	**30-Jun-12**
Revenue	9769	8840
Cost of Sales	-6280	-5403
Gross Profit	**3489**	**3437**
Other Income	208	189
Depreciation and Amortisation	-138	-129
Employment Costs	-900	-825
Occupancy Costs	-748	-850
Other Operating Costs	-652	-422
Operating Profit	**1259**	**1400**
Interest Received	728	637

Profit before Tax	**1987**	**2037**
Tax Expense	-966	-854
Profit for the period fully attributable to owners of the parent	**1021**	**1183**
Other Comprehensive Income	0	0
Total Comprehensive Income for the period fully attributable to the owners of the parent	**1021**	**1183**

You have done some additional research on the company in its Integrated Report as well on the internet and you have also obtained some information on the sector in which the company operates and have noted the following:

1. The company has expanded into Africa during the current year, opening new stores in Nigeria and Ghana which has boosted sales however the costs of production have also increased as additional consideration have been taken into account including the tropical year round climate in these regions and the unique sizing requirements. A new range has been developed to cater for the African Market with its unique branding capitalized to Intangible Assets.

2. ‘Fashion Brands International’ has also started an online store which is still in its teething phase but which ‘Fashion Brands International’ expects to take off very well. This has had the impact of increasing website research and development costs, all of which have not qualified for capitalization and therefore were expensed.

3. ‘Fashion Brands International’ has also during the current year improved its credit recoveries and has written off fewer bad debts whilst obtaining more credit customers. 65% of sales in 2012 were on credit whilst this has increased to 70% of sales in 2013.Accounts Receivable balance as at 30 June 2011 was R2,950,000.

4. Inventory as at 30 June 2011 was R500,000.

PART A

You are required to provide an analysis on the results of ‘Fashion Brands International’ for the period ended 30 June 2013 by calculating the following ratios as well as comparatives and discussing what these ratios mean taking into account the additional notes provided and the impact of these notes on the future performance of the business.

(a)	Gross Margin percentage	**(6 Marks)**
(b)	Profit Margin percentage (before tax)	**(6 Marks)**
(c)	Accounts Receivable Days	**(6 Marks)**
(d)	Inventory Turnover	**(6 Marks)**

PART B

From looking at the ratios, the Group Management Accountant is concerned with the amount of cash and cash equivalents. He believes that the amount as per the balance sheet is less than what the cash and cash equivalents are. He also mentions to you that included in cash and cash equivalents should be petty cash and he is not sure whether there is theft in this area. He knows that you have some experience in auditing from exposure attaining your SAIPA Professional Accountant Qualification and would like you to perform procedures over the following:

-Bank Reconciliations **(7 Marks)**

-Petty Cash **(4 Marks)**

Total [35 marks]

END OF EXAM

Annexure A - Tax Tables

TABLE 1

RATES OF NORMAL TAX PAYABLE BY PERSONS OTHER THAN COMPANIES AND TRUSTS (BUT INCLUDING SPECIAL TRUSTS AS WELL AS INSOLVENT AND DECEASED ESTATES) IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2013

Taxable Income		Rates of Tax
Exceeds R	But does not exceed R	R
0	160 000	0 + 18% of each R1
160 001	250 000	28 800 + 25% of the amount above 160 000
250 001	346 000	51 300 + 30% of the amount above 250 000
346 001	484 000	80 100 + 35% of the amount above 346 000
484 001	617 000	128 400 + 38% of the amount above 484 000
617 001		178 940 + 40% of the amount above 617 000

TABLE 2

TURNOVER TAX DUE BY MICRO BUSINESSES IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2013

Turnover	Rates of Tax

Exceeds R	But does not exceed R	R
0	150 000	0
150 001	300 000	0 + 1% of the amount above 150 000
300 001	500 000	1 500 + 2% of the amount above 300 000
500 001	750 000	5 500 + 4% of the amount above 500 000
750 001	and above	15 500 + 6% of the amount above 750 000

TABLE 3

RATES OF TAX FOR COMPANIES AND CLOSE CORPORATIONS (OTHER THAN MINING COMPANIES AND LONG-TERM INSURERS AND RETIREMENT FUNDS)

Financial years ending during the period of twelve months ending 31 March 2013

Type of company	Rate of tax
Small business corporations	
Taxable income:	
R0 – R63 556	0%
R63 556 – R350 000	7% of the amount over R63 556

R350 000 +	R20 051 + 28% of the amount over R350 000
Personal service provider companies	33%
Non-resident companies with a branch in the Republic	33%
Other companies	28%
Secondary tax on companies until 31 March 2012 Dividends Tax(effective from 1 April 2012)	 10% 15%

TABLE 4

REBATES: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

	2013 **R**
Primary	11 440
Secondary (65 years of age or older)	6 390
Tertiary	2 130

(75 years of age or older)	

MEDICAL SCHEME FEES TAX CREDITS: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

Under 65 years	**2013** **R**
Taxpayer only	230 per month
Taxpayer plus one dependent	460 per month
Additional dependants	154 per month

65 years and older there are no medical scheme fees tax credits.

<u>TABLE 6</u>

SCALE OF VALUES - TRAVEL ALLOWANCE

Where the value of the vehicle		Fixed Cost	Fuel Cost	Maintenance Cost
Exceeds **R**	But does not exceed **R**	**R**	**c**	**c**

0	60 000	19 492	73.7	25.7
60 000	120 000	38 726	77.6	29.0
120 000	180 000	52 594	81.5	32.3
180 000	240 000	66 440	89.6	36.9
240 000	300 000	79 185	102.7	45.2
300 000	360 000	91 873	117.1	53.7
360 000	420 000	105 809	119.3	65.2
420 000	480 000	119 683	133.6	68.3
480 000		119 683	133.6	68.3

TABLE 7

Rental value of use of residential accommodation: $(A - B) \times \frac{C}{100} \times \frac{D}{12}$

S10A: Capital portion of a purchased annuity: $Y = \frac{A}{B} \times C$

S10A: Capital portion on termination or commutation: X = A – D

TABLE 8

TABLE OF TAX LIABILITY ON RETIREMENT FUND LUMP-SUM BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2013

Taxable amount	Rate of tax
Up to R315 000	0% of taxable income
Exceeds R315 000 but not R630 000	R0 + 18% of taxable amount above R315 000
Exceeds R630 000 but not R945 000	R56 700 +27% of taxable amount above R630 000
Exceeds R945 000	R141 750 + 36% of taxable amount above R945 000

TABLE 9

TABLE OF TAX LIABILITY ON RETIREMENT LUMP-SUM WITHDRAWAL BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2013

Taxable amount	Rate of tax
not exceeding R22 500	0% of taxable income
Exceeds R22 500 but not R600 000	R0 + 18% of taxable amount above R22 500
Exceeds R600 000 but not R900 000	R103 950 + 27% of taxable amount above R600 000

Exceeds R900 000	R184 950 + 36% of taxable amount above R900 000

TABLE 10

PRESCRIBED INTEREST RATES FOR FRINGE BENEFITS (per annum)

From 1/03/2007	10%
From 1/09/2007	11%
From 1/03/2008	12%
From 1/09/2008	13%
From 1/03/2009	11,5%
From 1/06/2009	9,5%
From 1/09/2009	8,5%
From 1/09/2009	8%
From 1/10/2010	7%
From 1/03/2011	6,5%
From 1/08/2012	6%

PROFESSIONAL EVALUATION
CASE STUDY SOLUTIONS
02 November 2013

CASES STUDY 1

Part A															
1.															
Dr	**Cost of sales**			**2 500**						**2**					
Cr		**Finished goods**			**2 500**					**1**					
Write down of damaged inventory to net realisble value															
NRV = 32,500-7,500 = 25,000															
Dr	**Cost of sales**			**3 000**						**2**					
Cr		**Raw materials**			**3 000**					**1**					
Recording write dwon of raw materials to physical count															
2.															
Inventories															
Raw materials				**99 000**						**2**					
Work-in-progress				**88 000**						**1**					
Finished goods				**202 000**						**2**					
				389											

				000											
Propert, plant and equipment															
					Land	**Machinery & equipment**	**Furniture**	**Total**							
Carrying amount at beginning of year					**12 000 000**	**2 472 500**	**1 187 500**	**15 660 000**		**5**	**1 L/2M&E/2F**				
Cost					**12 000 000**	**3 500 000**	**1 500 000**	**17 000 000**		**3**					
Accumulated depreciation					**0**	**1 027 500**	**312 500**	**1 340 000**		**4**	**2M&E/2F**				
Movements during the year															
Depreciation					**0**	**605 625**	**143 750**	**749 375**		**5**	**2M&E/3F**	**62 500**	**81 250**		
Revaluation					**5 500 000**	**0**	**337 500**	**5 837 500**		**2**					
											1 462 500				
Carrying amount at end of year					**17 500 000**	**1 866 875**	**1 381 250**	**20 748 125**		**3**		**Dr Furniture**		**450 000**	
Revalued cost/cost					**17 500 000**	**3 500 000**	**1 950 000**	**22 950 000**		**4**	**1 L/1M&E/2F**	**Cr Acc depr**			**112 500**
Accumulated depreciation					**0**	**1 633 125**	**568 750**	**2 201 875**		**4**	**2M&E/2F**	**Cr RS**			**337 500**
											35				

3.				
WORCHESTER LTD				
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012				
ASSETS				
Non-current assets	20 961 675			
Property, plant and equipment	20 748 125		1	c/f
Financial assets	213 550		3	
Current assets	5 089 500			
Inventories	389 000		1	c/f
Accounts receivable	1 700 000		2	
Cash and cash equivalents	3 000 500		1	
Total assets	26 051 175		1	9
Part B				
In order for Gerhard van der Heever to appear on the statement of financial position as an				
asset, both the definition of the asset and recognition criteria need to be satisfied.				

Does Gerhard van der Heever meet the definition of an asset?	
An asset is a resource - The Stormers would not have incurred the costs of	
R1.8m and be prepared to pay him a salary if he was not regarded as a resource.	1
controlled by the entity - Even though The Stormers paid out the The Sharks,	
whether he is going to be controlled by the new team is questionable even though	
he would have signed a contract with them. This is evident from the fact that he was	
willing to leave his previous team. This could be an indication that there would	
always be insufficient control.	2
as a result of a past event - The signing of the contract on 23 January 2012 is	
the past event.	1
from which future economic benefits are expected to flow to the entity - The Stormers	
are facing losing an important final match and would only purchase players of high quality that	
would assist the team in avoiding the loss in the final. The future benefits would thus be saving	
the team from losing the final and thereby ensuring that the team also retain their loyal	
fans.	1
Before capitalising Gerhard van der Heever as an asset, the recognition criteria needs to	
be met:	
It is probable that future economic benefits are expected to flow to the entity:	
It is probable that the future benefits would flow to The Stormers as they would not	
have incurred huge costs with respect to this star quality player who they hope will	1
assist them in winning the 2012 Super 15 rugby final.	
the asset can be reliably measured - the initial costs of R1.8m can be reliably	
measured but the future costs such as future expected salaries would also have to	
be considered and the period in which the player is expected to remain with the	

team. Furthermore, the player's future performance would impact the salaries and the										
time that the team would be willing to keep him on.				**1**						
The value that he will bring to The Stormers in the future will have to be considered.										
So there is no way of reliably assessing his value.				**1**						
Gerhard van der Heever may therefore not be recognised as an asset in the statement of										
financial position due to:										
~ there being insufficient control over the team players				**1**						
~ it is not possible to reliably measure their cost/value				**1**	**10**					

CASES STUDY 2

PART A

<u>OUTPUT TAX</u>		R
Cash sales	Standard rated supply - s 7(1) 684 000 * 14/114	**84 000**(1)
Credit Sales	Standard rated supply - s 7(1) 216 600 * 14/114	**26 600**(1)
Export Sales	**Zero rated supply – s11(1)(a)**	0(1)
Indemnity payment	Deemed supply- s 8(8) : 22 800 * 14/114	**2 800** (1)
Interest Received	**Financial services-exempt supply** *or* **not a taxable supply – s 2 & s 12(a)**	0(1)
Excess Payment	Deemed Supply -Lapse of 4 months in VAT period results in output VAT – s 8(27) - not refunded within four months of receipt 18 420 * 14/114	**2 262**(1)
Payment in advance	s 9(1) – earlier of invoice or payment received 38 000 * 14/114	**4 667**(1)
Fringe Benefit	Deemed supply **(262 200 x 100/114) (1)**= 230 000 * **0.003(1)=**690-**<u>85(1)</u>=**605 * **2 months (0.5)* 14/114(0.5)**	149(4)
Creditors unpaid within 12 months	s 22(3) – Output vat payable as input was initially claimed and unpaid within 12 months – 30 942 * 14/114	**3 800**(1)
<u>INPUT TAX</u>		
Purchase of motor car	**Denied supply** *or* **input tax denied** – **s 1 & s 17(2)**	0(1)
Petrol	**Zero rated supply – s 11(1)(h)**	0 (1)
Refreshments	**Entertainment as defined - denied**	0 (1)

	supply *or* **input tax denied – s17(2)**	
Insurance premiums - motor vehicle	s 16 -input tax 1 567* 14/114	**(192)**(1)
Insurance premiums – trading stock	s 16- input tax 1 430* 14/114	**(176)**(1)
Salaries and Wages	**No VAT consequences**, **since it is excluded from the definition of an enterprise** *or* is **merely a transfer of money**	0**(1)**
Purchase of microwave	**Entertainment as defined - denied supply** *or* **input tax denied – s17(2)**	0 (1)
Bank Charges	s16 **-** 898* 14/114 (fee-based)	**(110)**(1)
Water and Electricity	s 16- 2 945* 14/114	**(362)**(1)
Municipal Rates	**Zero rated supply- s 11(2)(w)**	0(1)
VAT PAYABLE TO SARS		**123 438** (1P)

1P - Principle mark – mark according to students calculations but must have correct terminology eg . VAT output > VAT inputs then VAT payable. If VAT inputs > VAT output then VAT refundable.

NB Students need to show output and inputs and the end result must be correct i.e VAT payable or VAT refundable irrespective of whether they show output as a positive or inputs as a negative

POSSIBLE :23 MARKS

MAXIMUM : 20 MARKS

PART B				
	Notes		**R**	**Marks**
Salary (R32 000 X 12)			**384 000**	1
Performance Bonus			**50 000**	1
Thirteenth Cheque			**32 000**	1
Net Rentals (not part of joint estate therefore not split)			**58 500**	1
Local dividends **(R32 000 / 2) - R16 000** exempt			Nil	1
Interest	1		6 200	
Employer pension fund contributions - not a fringe benefit			Nil	
Use of a motor vehicle	2		61 977	
Travel Allowance (no deduction permitted) (R3 000 x 12)			**36 000**	1
Use of residential accommodation	3		90 000	
Settlement of debt			**4 300**	1
Re-imbursed cellphone allowance (not taxable)			Nil	
Entertainment allowance (R800 x 12)			**9 600**	1
Long service award (R6840X100/114)			**6 000**	1
Farewell gift from staff (capital)			**Nil**	1
Low Interest loan	4			

			7 800	
Medical aid contributions by employer (R1 900 X 12)			**22 800**	1
			769 177	
Less: Pension fund contributions	5		-28 800	
			740 377	
Add: Taxable Capital Gains	6		1 300	
			741 677	
Less: Medical	7		Nil	
Taxable Income			741 677	
Tax Payable R178 940 +(40% x (R741 677-R617 000))			**228 810**	1P
Less: Rebates			**-11 440**	1
Less Medical Credit (R230X2=R460X12)			**-5520**	1
			211 580	
NOTES				
1. Interest Income				
Interest - Local (**R43 000 + R15 000** / **2**) = 29 000 - **22 800**		6 200		3
2. Use of a motor vehicle				

		61 977		
(R205 000 + R28 700) X **3.25% p.m**. = R7 595.25				2
R7 595.25 X 12 months = R91 143-(R91 143 x **8 000/25 000**)				3
3. Use of residential accomadation		90 000		
Greater of				
- (R420 000 **- R63 556**) X **18/**100 X 12/12 = R64 160 OR				1
- R 7 500 X 12 = **R90 000**				1
Therefore R90 000				1P
4.Low Interest Loan				
R360 000 X **6.5%** X **4 /12** = R7 800 **-** 0 =		7 800		2
5. Pension fund contributions		28 800		1
R 32 000 X 8.5% = R2 720 X 12 **= R32 640**				0.5
Limited to greater of				
- R1 750 OR				0.5
- 7.5% X R384 000 = **R28 800**				0.5
6. Taxable capital gains			19 456	
Poker Winnings **-** illegal gambling winnings (therfore subject to CGT)		**87 800**		1
Married In community of property -R87				1

800/**2=R43 900**		43 900		
Less: Annual Exclusion		**-30 000**		1
		13 900		
Less: Assessed capital loss brought forward from previous year		**-10 000**		0.5
		3 900		
Taxable Capital Gain (3 900 X **33.3%)**		1 300		1
Medical Expenses - s18 Deduction				
Plus Contributions - **((R1 900 x 12)+(R800 x 12))** - **(4 x 5 520(460 x 12))**		10 320		2
Not recovered from Medical Aid = **R27 386**		25 980		1
		36 300		
Less: **7,5%** x **R741 677**		-55 625		0.5 +0.5P
		NIL		
			Total	38
			Max	35

CASES STUDY 3

PART A

Ratio Analysis

(a)Gross Margin = Gross Profit/ Sales

2013: 3489/9769

= 35.72%**(2 Marks)**

2012: 3437/8840

=38.88% **(1 Mark)**

The gross margin represents the gross profit made off every Rand of sales. **(1 Mark)** From the above it is evident that the gross profit margin has decreased in 2013. **(1 Mark)** Sales have increased by 10% whilst Cost of sales have increased by 16% from the previous year. **(2 Marks)** This may be attributable to the introduction of the new brands in Africa which has resulted in an increase in sales however there has been a disproportionate increase in cost of sales as the product mix and range has not been completely within this market. **(2 Marks)**The decrease is however probably not a long term decrease as 'Fashion Brands International' will adapt its product range and soon start seeing greater returns as a result of the expansion into Africa. **(1 Mark)** This could be due to higher material and labour costs incurred.**(1 Mark)** Management should consider restructuring its operations to take advantage of synergies apparent from its expansion into Africa for example selecting different suppliers of clothing for the African market, adapting its logistics system to encourage suppliers to deliver to African fashion stores directly thereby reducing transport costs, etc. **(2 Marks)** **Max 7**

(b) Profit Margin = Profit before tax/ Sales

2013: 1987/9769

=20.34% **(2 marks)**

2012: 2037/8840

=23.04% **(1 Mark)**

The profit before tax margin represents the percentage of profit per percentage of sales (i.e. for 20.34% of each rand of revenue is translated into profit before tax). **(1 Mark)** From the above analysis, the profit margin has decreased by approximately 3% from the previous year **(1 Mark)** which indicates that costs have increased disproportionately to the growth in revenue. **(1 Mark)** This is evident as depreciation and amortization, employment costs and other operating costs have all increased during the current year **(1 Mark).** There has been a 10% increase in revenue however operating expenses (depreciation, employment costs, occupancy costs and other operating costs) and cost of sales have increased by 14.2% which is greater than the increase in revenue**(1 Mark).**The increase is reflective of the development of the online store which has resulted in additional website costs being incurred however the sales relating to these have not reached their full potential**. (1 Mark)**Additionally the expansion in Africa has resulted in new stores being opened, this has resulted in additional costs being incurred and again the sales have not increased to reflect this**. (1 Mark)**Employment costs have also increased due to the expansion into Arica.**(1 Mark)** . Operating expenses have also increased and these are expected to further increase with the expansion into Africa however management is to ensure that tight control is maintained over the expenses and sales increases reflect these initiatives into Africa. **(1 Mark)** Additionally with the momentum growing of e-retail, the benefits of the online shopping website are to be realized whilst it is expected that once the research phase is complete, development costs may be capitalised, reducing the once off impact on the income statement and thereafter maintenance costs will be expensed. **(1 Mark)** **(**Max 7)

(c) Accounts Receivable Days = 365/(Net Credit Sales/ Average Accounts Receivable Sales for the year)

2013: 365/ ((70%*9769)/((3421+3033)/2))

=173 days **(2 Marks)**

2012: 365/ ((65%*8840)/((3033+2950)/2))

=191 days **(1 Mark)**

The accounts receivable days indicates the number of days it takes on average for debtors to pay their debts to the company **(1 Mark).** The accounts receivable days effectively indicates the number of days the cash of the company is tied up with customers and the cash flow restrictions associated with this**. (1 Mark)** The Accounts receivable days has decreased from 191 days to 173 days which has a significant impact on cash flow management **(1 Mark),** this indicates that creditors are paying off their debts 18 days sooner than they were before **(1 Mark).** This is probably due to the new credit management system which has been implemented which has resulted in new additional credit sales as well as a better recovery of these. **(2 Marks)**Additionally the debtors days have decreased even though there has been a 5% increase in credit sales for the year. **(1 Mark)** The credit granting process if therefore a good process as it has not resulted in additional bad debts having to be written off for the new credit customers. **(1 Mark)** The accounts receivable days is still in excess of 5 months, indicating that it the cash of the entity is tied up with debtors for almost half a year. **(1 Mark)**This is a cause for concern as the working capital cycle of the entity is fairly short due to the nature of the business, fashion **(1 Mark)** and an inventory turnover cycle of 1 month **(1 Mark)** management should consider providing incentives for customers to pay off their debts sooner, i.e. through a discount on early settlement, etc. **(1 Mark)** The company has a short working capital cycle with a very frequent inventory turnover of one month however debtors take approximately 5 months to pay off their debts. This is concerning in terms of the future operations of the business as the debtors cycle will not support the purchase and turnover of inventory**.(1 Mark)** Additionally with the economic climates in Africa a debtors cycle of 5 months would not be suitable and management should reconsider whether it would grant credit to African customers or run the business as a cash only retailer **.(1 Mark)** **<u>Max 7</u>**

(d) Inventory Turnover = Cost of Goods Sold/ Average Inventory

2013: 6280/((670+530)/2)

=10.47 **(2 Marks)**

2012: 5403/((530+500)/2)

=10.49 **(1 Mark)**

The inventory turnover indicates the number of times per annum (1 mark) the inventory is completely sold and replaced in the store**.(1 Mark)** From the analysis, it is evident that inventory turns approximately 11 times a year which is almost once a month (1 Mark). This is positive in the retail sector where the fashion is very fast moving and there is a high risk of stock obsolescence as clothing may go out of fashion. **(1 Mark)** The comparison year on year has remained fairly constant with inventory turnover being approximately 11 times in 2012 as well. **(1 Mark)** No remedial action is considered necessary. **(1 Mark)** With the introduction of the company to Africa, there has been an increase in sales however the product range and mix has not yet been adapted for the African consumer environment and should the expansion continue without the product range and mix being adapted, following years will see a decrease in stock turnover as stock in these regions will not sell as quickly. **(2 Marks)** **Max 4**

In conclusion in providing an analysis of the business from the rations above, it is evident that the company is in its growth phase (**1 Mark)** and with the recent expansion into Africa, sales have increased however cost of sales have increased disproportionately to the increase in sales(**1 Mark)**. The company has a short working capital cycle with a very frequent inventory turnover of one month however debtors take approximately 5 months to pay off their debts. This is concerning in terms of the future operations of the business as the debtors cycle will not support the purchase and turnover of inventory (**1 Mark).(Please refer to marks allocated above per section, if given above, do not give again)**

PART A Max 25

PART B

Audit Procedures

Bank Reconciliations

- Obtain the bank reconciliation for the year ended 30 June 2013.Ensure that there are 12 Bank Reconciliations indicating that a bank reconciliation has been prepared for each month of the year. **(2 marks)**

-Select a sample of reconciliations to reperform **(1 Mark)**

-For the selected reconciliations, cast the reconciliation and follow up on any differences. (**1 Mark)**

-Obtain the supporting the Bank statements for the selected bank reconciliations and agree to the bank reconciliation. **(1 mark)**

-Obtain the general ledger printouts for the selected months bank reconciliations and agree to the bank reconciliation. **(1 Mark)**

-Where there are differences, follow up on these. **(1 Mark)**

-Reperform the reconciliation process**. (1 Mark)**

-Identify any long outstanding payments/deposits (1 Mark) and follow up on these with management ensuring that all explanations obtained are reasonable (1 Mark) and agree to supporting documentation **(1 Mark)** **(Max 6)**

Petty Cash

-Obtain from management the petty cash imprest amount **(1 mark)**

-Perform a random count on all petty cash boxes maintained by the company **(1 Mark)**

-Recount all petty cash held **(1 Mark)**

-Reconcile the petty cash held to the imprest by obtaining supporting documents from petty cash clerks for all payments made out of petty cash**.(2 Marks)**

-Inspect supporting invoices/documents to ensure that the type of expenses are the type expected to be paid out of petty cash and the supporting documents appear reasonable. **(1 Mark)**

-Enquire as to where the key for the petty cash boxes is maintained and randomly inspect to ensure the key is maintained as per the control. **(1 mark)** **(Max 4)**