

**PROFESSIONAL EVALUATION  
ENGLISH QUESTION PAPER  
12 March 2011**

**TIME:** 4 HOURS (1 HOUR READING and 3 HOURS WRITING)  
**MARKS:** 180

<b>SECTION A</b>	MULTIPLE CHOICE	2 MARKS EACH
	<b>TOTAL SECTION A</b>	<b>90</b>
<b>SECTION B</b>	QUESTION 1	25
	QUESTION 2	30
	QUESTION 3	15
	QUESTION 4	20
	<b>TOTAL SECTION B</b>	<b>90</b>
<b>TOTAL</b>		<b>180</b>

**INSTRUCTIONS TO CANDIDATES**

1. You may make notes on your question paper during the reading time but may not start answering questions in the answer book.
2. Answer all the questions.
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. Pocket 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. Start each question on a new page.
9. The question paper may be taken with you at the end of the examination.

1. **Lithuli Fashions CC, a clothing retailer, had trade debtors of R1 245 300 at 28 February 2010. Lithuli Fashions CC is a registered VAT vendor. The provision for doubtful debts at 28 February 2009 amounted to R80 000. Rising unemployment rates caused the members to increase the provision for doubtful debts from 5% to 10%. The effect of the provision for doubtful debts will result in an increase in bad debts on the statement of comprehensive income for the year ended 28 February 2010 of:**
  - (a) R124 300,00
  - (b) R44 530,00
  - (c) R109 236,84
  - (d) R39 061,40
  
2. **The supply of commercial accommodation in a dwelling by way of an agreement of letting and hiring, is a supply which is:**
  - (a) Zero-rated for VAT
  - (b) Exempt of VAT
  - (c) Vatable at the standard rate
  - (d) Not addressed in the Value Added Tax Act
  
3. **Fill in the missing amount in the following statement; “If the VAT invoice is for ..... or more, the trading name and address of the recipient, as well as its VAT registration number must be included on the invoice.”**
  - (a) R30,000
  - (b) R3,000
  - (c) R2,000
  - (d) R200
  
4. **Choose the most appropriate phrases to complete the following statement: “Short term insurance is \_\_\_\_\_, whereas long term life insurance is \_\_\_\_\_”**
  - (a) a standard rate vatable service / exempt from VAT
  - (b) exempt from VAT / a standard rate vatable service
  - (c) a vatable service / a zero-rated supply
  - (d) a zero-rated supply / a vatable service
  
5. **A sole trader and registered VAT vendor bought a factory building for manufacturing purposes from a South African resident who is not registered for VAT for R2, 280,000. The purchaser will house his household cleaning detergents plant in this building. In terms of the Agreement of Sale and Purchase, the purchaser paid the transfer duty of R127, 400. What is the amount of input VAT claimable by the purchaser?**
  - (a) R0
  - (b) R17,836
  - (c) R127,400
  - (d) R280,000

**NB: Use the following information to answer questions 6, 7, 8 and 9.**

Jooste and Associates CC, an entity rendering professional secretarial, tax and legal services, concluded the following operating lease agreement with Rygate Mall (Pty) Ltd. The offices are in the centre of the business district. The following is a summary of the terms and conditions of the lease agreement:

Lease period: 6 years  
Lease commencement date: 01 July 2008  
Lease rental: R65, 000 [excluding VAT] payable half-yearly in advance  
Lease increment: 10% per annum

The entity provides for deferred tax using the liability method. The tax rate for the period ended 28 February 2010 was 28% (2009 – 28%).

**6. The average annual rental expense over the term of the lease of Jooste and Associates CC is;**

- (a) R111,448
- (b) R130,000
- (c) R148,200
- (d) R167,172

**7. What is the amount of rental pre-paid (rounded to the nearest Rand) on 28 February 2009 that ought to be recorded in the books of account?**

- (a) R18,552
- (b) R43,333
- (c) R49,340
- (d) None of the above

**8. In order to recognize the tax effect of the lease in the annual financial statements on 28 February 2010, the following general journal entry must be made with the calculated deferred tax amount in the books of Jooste and Associates CC.**

- (a) Debit Prepaid Rentals (Statement of Financial Position) and Credit Tax Expense (Statement of Comprehensive income)
- (b) Debit Deferred Tax (Statement of Financial Position) and Credit Tax Expense (Statement of Comprehensive Income)
- (c) Debit Deferred Tax (Statement of Financial Position) and Credit Rentals Paid (Statement of Comprehensive Income)
- (d) Debit Deferred Tax (Statement of Financial Position) and Credit Prepaid Rentals (Statement of Financial Position)

**9. In terms of IFRS (International Financial Reporting Standards), Jooste and Associates CC, should:**

- (a) Disclose their accounting policy on leased assets
- (b) Disclose the Lease Charges
- (c) Disclose the future years lease commitments
- (d) All of the above

**NB: Use the following information to answer questions 10 and 11.**

Malibongwe Fruit Carriers CC, a transporter of agricultural produce, exchanged one of its loading vehicles with a carrying amount of R310, 000 (original cost of R600, 000) for a trailer vehicle with an estimated market value of R450, 000. The market value of the loading vehicle at the date of the exchange was R400, 000.

**10. The trailer vehicle acquired should be brought into the accounting records at a cost of:**

- (a) R450,000
- (b) R400,000
- (c) R310,000
- (d) None of the above

**11. The disposal of the loading vehicle will result in a**

- (a) A loss on disposal of R 290,000
- (b) A profit on disposal of R140,000
- (c) A profit on disposal of R90,000
- (d) A loss on disposal of R50,000

**12. Each of the members of See Jozi CC provided an interest-free loan of R180, 000 to the entity with incorporation on 21 July 2005. There are no fixed repayment terms for the loans, but on 21 July 2009 the members informed the accounting officer that their loans are now repayable on demand. The business has been operating successfully since it was established and has accumulated post-tax profits of R680 000 at 28 February 2010. The trainee accountant should disclose the interest free loans in the statement of financial position as:**

- (a) part of the non-current liabilities to ensure consistency with previous periods;
- (b) part of the members' contribution and equity;
- (c) part of current liabilities as the entity has sufficient cash to repay the loans; or
- (d) part of current liabilities as it is probable that the members will request that the loan be repaid during the following financial period

**NB: Use the following information to answer questions 13, 14, 15 and 16.**

The trainee accountant re-classified an office building as investment property in the statement of financial position. The trainee stated that this building was incorrectly classified as part of property, plant and equipment in previous financial statements. The building is rented out to tenants.

**13. The re-classification of the office building should be treated as:**

- (a) change in the accounting policy of the entity
- (b) correction of a fundamental error
- (c) correction due to misinterpretation of the Accounting Standards
- (d) re-classification of a Statement of Financial Position item

**14. The office building can only be classified as an investment property if:**

- (a) it is not used in the ordinary revenue generating activities
- (b) it is used for administrative purposes only
- (c) it is used by the entity to save rental expenses
- (d) the major part of the building is used to generate rental income

**15. The entity incurred an amount of R101, 222 to paint the building to support the new colour scheme of its business image. The trainee accountant should:**

- (a) capitalize and amortise the amount over the remaining period of the lease agreement
- (b) capitalize the amount as an intangible asset
- (c) write off the amount as repairs and maintenance
- (d) classify the amount as part of the rental expenses

**16. At the financial year ended 28 February 2010 the accounting officer discovered that the entity owed R81, 400 to a maintenance company for the servicing and repair of its machinery. At the same time the maintenance company was liable to pay the entity an amount of R27 000 for damages to the factory floors. The accounting officer should recognise the above transactions**

- (a) as the net amount as part of the accounts payable figure
- (b) disclose the amounts separately under receivables and payables respectively
- (c) write off the claim from the maintenance company against the expense
- (d) defer recording the transactions until the matter is settled

**NB: Use the following information to answer questions 17 and 18.**

Julius Yengeni, a South African resident, is busy filing his Income Tax Return for 2010 and believes that the following events resulted in capital losses that ought to reduce his taxable income on 28 February 2010.

- He lost R18, 912 on the disposal of an engagement ring, given back by his fiancée after breaking off their engagement. He sold the ring for R18, 912 less than what he had paid for it.
- He suffered a loss of R10, 234 on the disposal of an original painting. He is a collector of original paintings. He disposed of this particular painting because he needed funds to purchase an even more valuable painting.
- A gain of R4, 567 on the disposal of a Kruger Rand. He originally purchased it for his niece as a present on her 18th birthday. He changed his mind about giving it to her and sold it.

**17. The capital gain/(loss) to be included in Taxable Income is;**

- (a) R29,146 capital loss
- (b) R24,579 capital loss
- (c) R4,567 capital gain
- (d) R0

**18. Which statement is true?**

- (a) At the time that Julius Yengeni gave the engagement ring costing R75,000 to his ex-fiancée, it triggered a “deemed” disposal for Capital Gains Tax purposes
- (b) As Julius Yengeni never wore the engagement ring, it is not regarded as a “personal use asset” for Capital Gains Tax purposes
- (c) When his fiancée broke their engagement and returned the engagement ring to Julius Yengeni, a “deemed” the acquisition of a capital asset with a value of R56,088 is assumed
- (d) None of the above

**19. Indicate which statement regarding assessed losses is false:**

- (a) During any year of assessment a taxpayer may deduct from trade income either the balance of an assessed loss brought forward from a previous year or an assessed loss incurred during that same year from another trade carried on by the taxpayer, unless the provisions of section 20A apply
- (b) An assessed loss may not be carried forward by a taxpayer whose estate has been sequestrated unless the order of sequestration has been set aside
- (c) Where a company does not carry on trade in any one year, it does not lose the right to carry forward the balance of an assessed loss of a previous year
- (d) The balance of an assessed loss must be reduced by the amount of any benefit resulting from a compromise with any creditor

- 20. Indicate which of the following statements regarding the general deduction formula is false:**
- (a) If it cannot be shown that income has in fact been earned by the taxpayer, he will fail to meet the “in the production of income” requirement
  - (b) As long as expenditure or a loss can be attributed to the fact that it is an inevitable concomitant of a taxpayer’s operations, it will meet the “in the production of income” requirement
  - (c) Where an expense is incurred after the income has been earned, it will be more difficult to show that the expense was instrumental in producing the income if the taxpayer was not bound to incur the expense before the income was earned
  - (d) A payment for the use of an asset (for example rental of a building or interest on a loan, etc.) is of a revenue nature
- 21. Which of the following will not appear in a cash budget?**
- (a) repairs and maintenance
  - (b) depreciation of machinery.
  - (c) wages.
  - (d) machinery bought on hire purchase
- 22. Flexible budgeting is a reporting system wherein the:**
- (a) Planned level of activity is adjusted to the actual level of an activity before the budget comparison report is prepared.
  - (b) Budget standards may be adjusted at will.
  - (c) Reporting dates may vary according to the level of activity reported upon.
  - (d) None of the above
- 23. If actual units produced are lower than the budgeted level of production, which of the following actual costs would you expect to be lower than the budget?**
- (a) total fixed costs.
  - (b) total variable costs.
  - (c) fixed costs per unit.
  - (d) none of the above
- 24. Which of the following activities would not be considered an overhead support activity in a clothing factory?**
- (a) maintaining the machines
  - (b) cutting the material according to patterns
  - (c) ordering material
  - (d) training machine operators

**NB: Use the following information to answer questions 25, 26 and 27.**

The following information was extracted from the monthly budgeted production records of Protea Gear CC, a manufacturer of standardized rugby and cricket tops and shirts:

Selling price per unit	R250.00
Variable material cost per unit of material	R80.00/metre
Material usage per unit of tops	1.2 metres
Variable labour cost per hour	R22.50/hour
Labour usage per unit of tops	45 minutes
Variable production overheads	R13.50
Variable selling costs per unit	R2.20
Total Fixed costs	R1, 446, 700
Production capacity	260 000 units

**25. The minimum production level that should be achieved to break-even is:**

- (a) 10 551 units
- (b) 11 914 units
- (c) 11 702 units
- (d) 4 666 units

**26. The break-even point in units for the month, if the members expect a target profit of R750, 000 per month is:**

- (a) 6 177 units
- (b) 18 091 units
- (c) 10 843 units
- (d) 17 769 units

**27. The break-even point in units for the month if the members expect a target profit of R55.00 per unit is:**

- (a) 21 780 units
- (b) 33 071 units
- (c) 106 180 units
- (d) 9 500 units



- 28. Many accounting officers are of the opinion that the financial statements of close corporations should be subjected to some form of audit. The need for auditing the financial statements of close corporations can be attributed to:**
- (a) the need to increase the fees charged to clients,
  - (b) the demands placed by banks for audited financial statements
  - (c) the fact that clients presented drafted financial statements to accounting officers for finalization
  - (d) the changes in the accounting profession through the Accountancy Act and IRBA
- 29. The technique used to conduct audits of Statement of Comprehensive Income items, is vouching. The audit concept of vouching means:**
- (a) checking the arithmetical accuracy of the account
  - (b) checking the documentation that support the transactions
  - (c) tracing the transactions through the entire accounting system
  - (d) tracing the transaction from the source document through to the Statement of Comprehensive Income
- 30. To ensure the reliability of the financial statements where inventory represents the major item of current assets, it is important to perform physical stock counts as a means of conducting audits on the financial statements. The physical inventory count is conducted to:**
- (a) determine the accuracy of the valuation of inventory
  - (b) determine the quantity of units on hand
  - (c) determine the quantity and condition of the inventory on hand
  - (d) detect if theft occurred
- 31. An important aspect of auditing and the drafting of financial statements is the concept of cut-off. What does the concept “cut-off” mean:**
- (a) presenting the financial statements for approval at the agreed date
  - (b) excluding the members from drafting the financial statements to ensure a degree of independence
  - (c) ensuring all transactions for the financial period are incorporated into the financial statements
  - (d) ensuring all tax returns are submitted on or before the due dates to avoid paying penalties
- 32. The purpose of performing audit procedure to verify the loan accounts of the members is:**
- (a) to protect the members against fraud
  - (b) to value the members' interest the business
  - (c) to assess the solvency of the business
  - (d) to ensure existence, measurement and valuation of the loan account

- 33. On 16 July 2010, CIPRO deregistered a huge number of Close Corporations for their failure to submit Annual Returns to CIPRO. In order to effect the Restoration of such a technically deregistered Close Corporation, one has to:**
- (a) Phone the DTI Call Centre and complain bitterly
  - (b) Find a registered CIPRO agent who will lodge a CK3 and pay the CIPRO fee of R150.00
  - (c) Lodge a CK3 online together with its applicable CIPRO fee, and submit all outstanding Annual Returns with payment of Annual Duties and Penalties
  - (d) Apply at the nearest Magistrates Court for a Court Order
- 34. Free-Range Chickens CC was incorporated on 15 April 2001. CIPRO gave notice to the CC of its intention to deregister Free-Range Chickens CC on 19 October 2010, as it has failed to electronically lodge any Annual Return. Calculate the total outstanding Annual Duties and Penalties to be deducted from the CIPRO Agent's account on 16 November 2010, when all outstanding Annual Returns will be submitted. Free-range Chickens CC reported a turnover of R56, 650,000 for the year ended 28 February 2010 and R46, 250,000 for the prior year.**
- (a) R4,400
  - (b) R4,250
  - (c) R500
  - (d) R350
- 35. Which statement is correct? On the implementation date of the new Companies Act, Act 71 of 2008;**
- (a) Close Corporations may convert to Companies but Companies may not convert to Close Corporations
  - (b) New Close Corporations will be continued to be formed and incorporated under the Close Corporations Act. This Act will not be wholly repealed
  - (c) Close Corporations will automatically become Companies
  - (d) The audit requirement of existing Companies will be revoked
- 36. Amongst the duties of the Accounting Officer as envisaged by section 62 of the Close Corporations Act, Act 69 of 1984 is to;**
- (a) Write up the records of account for the Close Corporation
  - (b) Ensure that the Close Corporation files and pays all its statutory tax obligations to the South African Revenue Service
  - (c) Report to the Close Corporation only in the event where Annual Financial Statements presented to him/her are not in agreement with the Close Corporation's accounting records
  - (d) Report to the Registrar of Close Corporations when he/she is of the opinion that the liabilities of the Close Corporation exceed its assets fairly valued.

37. **One of the distinct differences of the new Companies Act with the 1973-Companies Act and the Close Corporations Act is the so-called “preparers” of financial statements. Which of the following statements are correct?**
- (a) It is an offence for a company with an intention to deceive or mislead, to fail to keep accurate or complete accounting records.
  - (b) Any financial statement should include a notice on the first page indicating the name and professional designation, if any, of the individual who prepared or supervised the preparation of the financial statements;
  - (c) Section 29(6) makes it an offence to prepare or be party to the preparation of any financial statement knowing that those statements are not consistent with international reporting standards
  - (d) All of the statements are correct
38. **Which statement is false? Section 30 of the Companies Act, Act 71 of 2008, makes provisions that the Annual Financial Statements of a company**
- (a) must be consistent with International Financial Reporting Standards and fairly present the state of affairs of the business
  - (b) need not indicate whether or not it was audited or independently reviewed
  - (c) must include a Director’s Report and any matter which is material for shareholders to appreciate the company’s affairs
  - (d) must show the date produced, the accounting period under review and explain its transactions and financial position
39. **Section 43(2) of the South African Schools Act, Act 84 of 1996 makes provision for the appointment of an Accounting Officer, qualified in terms of section 60 of the Close Corporations Act, Act 69 of 1984, in the event where the appointment of an Auditor is not “reasonably practicable”. Which of the following is not a reason as contemplated**
- (a) The economic significance of the School Governing Body’s budget
  - (b) The nature of the school and the community in which it operates
  - (c) The salaries paid to governing body posts are low and therefore need not be tax compliant
  - (d) The high cost of a registered auditor’s report as well as availability of registered auditors
40. **You are considering whether or not to accept the appointment as Accounting Officer of Feed-da-Orphans, an unincorporated free association of persons not for gain with its own constitution, which stipulated that, “the books of account shall be audited annually” and registered with the Director of Non-profit Organizations, in terms of the Non-profit Organizations (NPO) Act, Act 71 of 1997. Which statement is correct?**
- (a) Despite the Constitution of Feed-da-Orphans’ requirement for an audit, you may accept appointment as Accounting Officer, as the NPO Act empowers you to accept such office
  - (b) You may sign an Engagement Letter for writing up the books of account and prepare the Annual Financial Statements of Feed-da-Orphans

- (c) The Narrative Report as defined by the NPO Act forms part of the Annual Financial Statements
- (d) As the NPO Act is an Act of Parliament, it overrides the Constitution of Feed-da-Orphans, and therefore the appointed Auditors and Accounting Officers may ignore the Organization's Constitution

**41. Where an organization takes into account the effect its strategic decisions have on society, this is known as**

- (a) Corporate Social Responsibility
- (b) Business Ethics
- (c) Business Policy
- (d) Corporate Governance

**42. Corporate Governance is an issue of power and \_\_\_\_\_. (Choose the best option)**

- (a) Rights
- (b) Accountability
- (c) Profit maximization
- (d) Appropriability

**43. The risk of fraud is prevalent in all types of business entities. In your Accounting Practice fraud can be prevented by:**

- (a) Employing religious trainee accountants
- (b) Offering rewards to staff for "whistle blowing"
- (c) Implementing proper systems of internal control
- (d) Not ever allowing staff to take work home

**44. As a member of the South African Institute of Professional Accountants (SAIPA), you are obliged to**

- (a) Ensure that you continue to be a Member in Good Standing, by paying all your dues to SAIPA and recording 120 hours Continuous Professional Education in a 3-year cycle
- (b) Not accept any appointment for executing a scope of work, which you do not have adequate knowledge of
- (c) Conform to the SAIPA Member's Handbook in totality
- (d) All of the above

**45. On successful completion of this Professional Evaluation, you shall be entitled to register as a member of SAIPA with the professional designation of Professional Accountant (SA). On your professional letterhead you may**

- (a) Use the SAIPA logo in any such way that you like
- (b) Add your professional designation, Professional Accountant (SA), next to your name, and if you are in a partnership, every partner must do so
- (c) Insert your name in the middle of the SAIPA-logo
- (d) Not use the registered trademarks of SAIPA

## SECTION B

## CASE STUDY QUESTIONS

### QUESTION 1: TAX CASE STUDY

[25 Marks]

The trainee accountant drafted the following statement of comprehensive income (income statement) of AMLA CRICKET GEAR CC, an entity engaged in the distribution of sport attire and equipment, for the reporting period ending 28 February 2010:

	R
Revenue	4,587,636
Cost of sales	2,924,128
Gross profit	1,663,508
Other income	93,093
Gross income	1,756,601
Expenses	1,489,254
Operating profit	267,347
Finance costs	7,854
Profit before tax	259,493

#### Additional information:

1. Other income consists of:

Investment income – Dividends received which are exempt from company tax	43,093
Sector Education and Training Authority (SETA Grants)	50,000
<b>Total other income</b>	<b>93,093</b>

2. Included in Expenses are

Members' Gross Salary	195,000
Gross Learner Allowances Paid	42,000
Gross Salaries & Wages (4 employees @ R100k p.a)	400,000
<b>Total Remuneration Paid</b>	<b>637,000</b>

3. Unemployment Insurance Fund maximum Earnings Ceiling is R12, 478 per month.
4. All the learners were previously unemployed and elected not to contribute to the UIF.
5. The employer contributions paid and accrued are debits in the Salary Control Account.

**REQUIRED:**

- (a) Calculate the Unemployment Insurance Fund Contributions to be transferred from the Salary Control to the Salary Expenses Account. **(3 marks)**
- (b) Calculate the Skills Development Levy Contributions to be transferred from the Salary Control to the Salary Expenses Account. **(2 marks)**
- (c) Explain to the members of the CC why the UIF and SDL contributions are different and not in direct correlation to the payroll as a whole. **(2 marks)**
- (d) Mkhayi Ntini, a black female, ended her learnership contract of 18 months on 30 November 2009, Miss Ntini was paid a monthly salary of R3, 000 for the term of the full learnership. Pursuant to section 12(H) of the Income Tax Act, calculate the learnership allowance to be deducted from the Taxable Income on 28 February 2010 of Amla Cricket Gear CC, in the case of Miss Mkhayi Ntini. **(3 marks)**
- (e) Explain to the members of the CC, the pre-conditions which must exist for Amla Cricket Gear CC to be considered a Small Business Corporation for Income Tax purposes, and thus entitling it to be taxed at a favorable tax rate. **(4 marks)**
- (f) Assume that Amla Cricket Gear CC is a Small Business Corporation for Income Tax purposes, and taking into account the aforesaid adjustments that need to be made to the Taxable Income, calculate the Normal Income Tax payable for the year ended 28 February 2010. Assume that the total sec.12(H) learnership allowance deductions amounts to R102,000. **(6 marks)**
- (g) Mr. H. Amla, a member of the CC, is desirous of purchasing a new 2011-model Toyota Yaris at a displayed price of R140, 000, paying a deposit of R14, 000 and a monthly installment of R2, 677 for 60 months. Advise Mr. Amla of the tax consequences to both him and the CC when buying the new vehicle in the name of the CC. His wife will have primary use of the vehicle as she has to do the shopping and cart the kids. The car will have Amla Cricket Gear CC details all over it. **(5 marks)**

## QUESTION 2: FINANCIAL ACCOUNTING

The following were the abridged financial statements of KHOISANI TRADING CC for the years ended:

### STATEMENT OF COMPREHENSIVE INCOME FOR THE REPORTING PERIODS

<b>Statement of Comprehensive Income</b>	<b>28 February 2010</b>	<b>28 February 2009</b>
Revenue	4, 765, 000	3, 987, 000
Cost of Sales	2, 736, 000	2, 412, 000
Gross Profit	2, 029, 000	1, 575, 000
Expenses	1, 265, 000	1, 067, 000
Operating Profit	764, 000	508, 000
Interest paid	134, 000	92, 000
Profit before taxation	630, 000	416, 000
Taxation expenses	176, 000	116, 000
Profit after taxation	454, 000	300, 000

### Statement of Change in Equity

Accumulated profit at the beginning of the year	2, 055, 000	1,755, 000
Profit after taxation	454, 000	300, 000
Accumulated profit at the end of the year	2, 509 000	2, 055, 000

**Statement of Financial Position as  
at 28 February**

**NON CURRENT ASSETS**

Properties (Valuation)	963, 000	429, 000
Machinery and Equipment (Cost)	3, 913, 000	3, 298, 000
Accumulated depreciation	(1, 683, 000)	(1, 053, 000)

**CURRENT ASSETS**

Inventory	605, 000	421, 000
Accounts receivable	1, 287, 000	893, 000
Bank and Cash	34, 000	271, 000
<b>TOTAL ASSETS</b>	<b>5, 119, 000</b>	<b>4, 259, 000</b>

**EQUITY**

Members interest	1, 320, 000	1, 320, 000
Non- distributable reserve(revaluation)	150, 000	80, 000
Accumulated profit	2, 509, 000	2, 055, 000

**NON CURRENT LIABILITIES**

Interest bearing debt	450, 000	290, 000
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**CURRENT LIABILITIES**

Taxation due	98, 000	76, 000
Accounts payable	592, 000	438, 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5, 119, 000</b>	<b>4, 259, 000</b>

**Additional Information**

1. Operating Expenses include the following:

	2010	2009
Profit on disposal of property	110, 000	0
Profit on disposal of machinery	53, 000	39, 000
Auditors remuneration	101, 000	86, 000
Doubtful Debts provided for	34, 000	41, 000
Depreciation	732, 000	598, 000
Inventory loss(loss on valuation)	32, 000	10, 000

2. Taxation consist of:

S. A normal tax: current year	176, 000	116, 000
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3. Accounts payable include the following:

Short-term interest bearing debt	120, 000	70, 000
Accrued interest	21, 000	16, 000

4. During the current financial year the company purchased a factory building costing R330, 000 for expansion purposes. The funds received from the expropriation of property costing R110, 000 was used to fund the acquisition of the property.

5. Machinery with a cost of R290, 000 was disposed of during the year and was replaced by machinery costing R460, 000.

### **REQUIRED**

Draft the cash flow statement together with notes for the year ended 28 February 2010 using the direct method in compliance with the Accounting Standards (IFRS). Show all workings to support your answer

### **QUESTION 3: AUDITING CASE STUDY**

**[15 Marks]**

You are the Accounting Officer, duly appointed in terms of section 43(2) of the South African Schools Act, Act 84 of 1996, of Good Hope Girls High School. On review of the Annual Financial Statements for the year ended 31 December 2009, you realize that the Accounts Receivable, which includes extra-mural activity fees, school fees and the hiring charges for the school hall is unusually high.

The collectable amounts are R1.42 million (R512, 000 at 31 December 2008). Good Hope Girls has a roll of 1027 learners who are required to pay school fees of R6, 000 per annum. The average non-payment of school fees rate over the last 5 years was about 5% of budgeted fees receivable. Historically the school collects about 30% of its receivables in cash.

The bursar did not report for duty after the mid-term vacation and the principal considered her to be AWOL.

### **REQUIRED:**

- (a) Advice the School Governing Body of the internal control procedures it must introduce to ensure that all cash receipts are banked. **(8 marks)**
- (b) Prepare an audit procedure to determine whether the 5% Provision for Doubtful Debts is adequate for the year ended 31 December 2009. **(7 marks)**

**QUESTION 4: MANAGEMENT ACCOUNTING CASE STUDY****[20 Marks]**

You are the Financial Manager of Rand Gate Centre Letting (Pty) Ltd, who administers the hiring out of trading space and shops at Rand Gate Mall, a major shopping complex in the Western Cape. Lithuli Fashions CC is desirous of renting a shop at Rand Gate Mall at a monthly rent of R6, 000 plus VAT. It is Rand Gate's policy to collect a 2-month rental deposit, first month's rent and the costs for the lease agreement, inclusive of applicable stamp duty, to the amount of R2, 000.

The tenant will be responsible for the shop fittings costing R18, 500 (inclusive of VAT). Lithuli's books are in disarray but there are evidence that:

Turnover achieved (before VAT)	R1, 500, 000
Current Liabilities	R468, 750
Days Sales Outstanding	40
Inventory (Stock) Turnover Ratio	4.8
Current Ratio	1.2
Cash at Bank	R14, 689

Lithuli's current assets consist of cash on hand, cash at bank, stock on hand and trade debtors only.

**REQUIRED:**

(a) Determine the Cash on Hand expected to be in Luthuli Fashions CC's possession.

**(10 marks)**

(b) In addition to collecting the initial deposits, rentals and costs, it is Rand Gate's policy that prospective tenants must have at least 3 months' rent available after the tenants' leasehold improvements. Advise Lithuli Fashion CC whether or not Rand Gate Mall will let the shop to them, apply the relevant policies. Please motivate your decision. **(4 marks)**

(c) Rand Gate Center Letting (Pty) Ltd is considering an automated security system of R6,500,000 (inclusive of VAT) which it will acquire through a finance lease agreement, payable monthly in arrears attracting an interest charge of 10% per annum, over a 4-year period. Each of the 100 tenants will be levied with an equal contribution. What is the monthly levy payable by Lithuli Fashion CC for the automated security system? **(6 marks)**

**SHOW ALL THE CALCULATIONS****END OF EXAM**

