PROFESSIONAL EVALUATION
ENGLISH QUESTION PAPER
17 March 2012

TIME: **4 HOURS (including reading time)**
MARKS: **180**

SECTION A	MULTIPLE CHOICE	2 MARKS EACH
	TOTAL SECTION A	**90**
SECTION B	CASE STUDY 1	40
	CASE STUDY 2	25
	CASE STUDY 3	15
	CASE STUDY 4	10
	TOTAL SECTION B	**90**
TOTAL		**180**

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 [90 MARKS]

1) **With reference to section 62(3) "Duties of accounting officers" of the Close Corporation Act, Act 69 of 1984, if an accounting officer of a corporation during the performance of his duties finds that, *the annual financial statements indicate that as at the end of the financial year concerned the corporation's liabilities exceed its assets; or as per section 45(iii) that the annual financial statements incorrectly indicate that as at the end of the financial year concerned the assets of the corporation exceed its liabilities, or has reason to believe that such an incorrect indication is given,* he shall inform the registrar by registered post of this fact. The consequences of which is that:**

   a) The Close Corporation is debarred from trading
   b) The fact that the Close Corporation's liabilities exceed its assets means that the Close Corporation is insolvent
   c) The Close Corporation is not necessarily commercially insolvent
   d) All of the above

2) **On 30 April 2011, Safety Gear CC has a stockholding of R100 000. The Current Ratio is 1.2 and the Quick Ratio is 1.1. What is Safety Gear CC's Net Working Capital at that date?**

   a) R0
   b) R100 000
   c) R200 000
   d) R1 000 000

3) **Which of the following ratios is considered the most appropriate to measure an entity's profitability?**

   a) Return on Assets
   b) Debtor Days
   c) Debt Equity Ratio
   d) Stock Turnover Rate

Use the information below answer questions 4, 5 and 6. Choose the answer that best describes Fresh Farm Chickens CC situation.

4) Fresh Farm Chickens CC, an importer of frozen chicken for the lower income group market, reported the following ratios based on their financial statements for 2012.

Ratio	**2012**	**2011**	**2010**	**2012 Industry Average**
Stock Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Debtors Days	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Asset Turnover	0.54	0.65	0.70	0.40

a) Fresh Farm Chickens CC sell their merchandise faster than the Industry average
b) The imported chicken was sold on an average of 5.9 days in 2012
c) As the stock turnover ratio increased year-on-year, it is a good thing as Fresh Farm Chickens CC operate in a perishable goods market
d) All of the above

5) With regards to its Debtors:

a) Customers took longer to pay for the chickens sold to them during 2012 than in prior years
b) Fresh Farm Chickens CC customers are slower payers than reported in the Industry
c) It is evident that Management is applying stricter credit control measures in the last year
d) All of the above

6) The Asset Turnover Ratio:

a) Improved over the last few years
b) Highlights a potential problem in Fresh Farm Chicken's long term investments
c) Is worse off than the Industry average
d) None of the above

7) Relevant costs from a management accounting perspective is defined as:

(a) all the costs relating to the particular options being compared
(b) only the costs which are common to the options being compared
(c) includes all sunk costs relating to the options being compared
(d) only the costs which management considered to be relevant

Use the information below to answer questions 8 and 9

8) You are preparing the VAT201 for the 2-month period ending 30 November 2011 of Fresh Farm Chickens CC. On 1 November 2011, Fresh Farm Chickens acquired a new double cab 4x4 with a cash price of R510 000 (inclusive of VAT), financed through an instalment sale agreement with Eastbank, for the exclusive use by its managing member. The vehicle comes with a 3-year 100,000 km maintenance plan included.

The output VAT to be included in the return for period 11 2011 as VAT on the fringe benefit of the Managing Member's new 4x4 double cab is;

a) R0
b) R178.55
c) R203.55
d) R219.21

9) The input VAT to be claimed on the acquisition of the new 4x4 double cab is;

a) R0
b) R62 631.58
c) R71 400.00
d) None of the above

10) On 22 November 2011 Sewende Laan CC bought a second-hand packaging machine from a non-VAT vendor for R80 000. The market value of the machine was R75 000. Sewende Laan CC paid R20 000 on purchase date and the remainder of the purchase price is payable in 3 equal instalments on the last day of the next three months. The input VAT claimable for period 11 2011 is;

a) R9 824.56
b) R9 210.53
c) R2 302.63
d) R0

11) On 9 November 2011, the Managing Member drove 438 kms to George to deliver an urgent consignment and also to see some clients. On his return on 11 November 2011, he submitted a claim for re-imbursement of R1 500 for two nights from George B&B, private dinner with a buddy at Food-Inn Restaurant for R705 (excluding tips) and out of pocket expenses of R102.35. All tax invoices were issued by VAT Vendors. With regards to the VAT:

a) None of the input VAT on the submitted invoices are claimable
b) Only the VAT reflected on George B&B's tax invoice is claimable
c) The VAT charged on Food-Inn Restaurant is private entertainment and is therefore not claimable
d) All of the input VAT on the submitted invoices are claimable

12) Which of the following will disqualify Ms. Azrina Mohamed trading as uShaka Curio from entering into the Turnover Tax regime for the year ended 29 February 2012?

a) Revenue from sales for the year under review was R869 423 before VAT
b) uShaka Curio is a registered VAT Vendor
c) Ms. Azrina Mohamed holds empowerment shares in SA Oil Ltd, listed on the JSE
d) Ms. Azrina Mohamed is a 25% member of a dormant entity, namely Marine Trade 123 CC, which owns a unit trust portfolio valued at R4 000

13) On review of the cash payments journal of MH Trading Stores CC the trainee accountant discovered that fixed monthly payments were made to its members. On enquiry, the members confirmed that the monthly payments were regarded as salaries but treated as drawings from the business. The trainee accountant was concerned about the tax implications for the business entity and its members, and was of the opinion that such payments made to the members had the following tax effects:

e) The members need to make provisional tax payments in respect of the withdrawals
b) The entity should deduct PAYE on the monthly withdrawals
c) The entity will pay the taxes on behalf of the members when completing its business tax return
d) The withdrawals should be treated as loans which bears no tax implications at all

14) On 31 August 2011, an entity made a first provisional payment of R28 000 for the reporting period ended 28 February 2012. At 29 February 2012, the entity revised its estimated taxable income for the period ended February 2012 to R300 000. The tax rate for the period was 28%. The provisional tax payment due at 29 February 2012 amount to:

(a) R56 000
(b) R28 000
(c) R35 000
(d) R84 000

15) An entity can only state that its financial statements are prepared in accordance with IFRS for SME's if the financial statements:

(a) Comply with all the sections of the IFRS for SME's
(b) Comply with most of IFRS for SME's and some with "Full IFRS"
(c) Explicitly state that the financial statements comply with IFRS for SME's
(d) (a) and (c)

16) An entity provides two periods of comparative information. The date of transition to IFRS for SME's is regarded as the beginning of:

(a) The period the entity first adopts IFRS for SME's
(b) The previous reporting date or immediate comparative year
(c) The earliest period for which the entity provides comparative information
(d) The period in which the entity presents any information which complies Accounting Standards

Use the information below to answer questions 17 and 18

On 01 May 2011 an entity concluded a three year operating lease for office premises. The lease agreement provides for lease rental payments of R90 000 payable half-yearly in advance with a final payment of R45 000. This was as a result of the lease agreement offering the lessee the first three months free – no rental payments for the first three months. SARS allows rental expenses as deductions based on the cash payments method. The tax rate remained unchanged at 28%.

17) The following transaction will be recognised in respect of operating lease expenses for the reporting period ended 29 February 2012:

(a) Rental expenses of R180 000
(b) Rental expenses of R137 500 and prepaid expenses of R42 500
(c) Rental expenses of R150 000 and prepaid expenses of R30 000
(d) Rental expenses of R105 000 and prepaid expenses of R75 000

18) The deferred tax presented in the statements of financial position at 29 February 2012 amounts to:

(a) Deferred tax liability of R11 900
(b) Deferred tax liability of R8 400
(c) Deferred tax asset of R8 400
(d) Deferred tax liability of R21 000

19) While preparing the working papers for the reporting period ended 29 February 2012 the trainee accountant discovered that the residual value of the machinery was ignored when calculating the depreciation for the reporting period ended 28 February 2011. The depreciation recognised in the 2011 financial statements was R187 000 but should have been R146 000 taking into account the residual value. The discovery by the trainee accountant should be recognised in the financial statements for the period ended 29 February 2012 as:

(a) Depreciation expense of R187 000
(b) Depreciation expense of R228 000
(c) Depreciation expense of R146 000 for both 2011 and 2012
(d) Depreciation expense of R146 000

20) An entity leased machinery in terms of a five year finance lease agreement. The entity depreciates its machinery to the residual value over the estimated useful life using the straight-line method. The fair value and present value of minimum lease payments at the lease commencement date were R820 000 and R880 000 respectively. Management estimated the residual value to be R80 000 and the useful life of the leased machinery at 8 years. The annual depreciation for the leased machinery amounts to:

(a) R148 000
(b) R92 800
(c) R160 000
(d) R100 000

21) The accounting officer discovered that the provision for warranties (one year warranty agreement) for the reporting period ended 28 February 2010 was estimated incorrectly. However, during the current reporting period ended 28 February 2011, additional information became available which enabled management to measure the costs of fulfilling its warranty obligations more accurately. The provision for warranties for the period 28 February 2010 was understated by R120 000. The amount by which the provision was understated should be recognised in the financial statements as:

(a) A correction of a prior period error by restating the results of 2010
(b) No adjustment as the warranties expired before the period ended 28 February 2011
(c) A change in estimate by adjusting the profit for 2011 by R120 000
(d) A note to the financial statements without any adjustments to the results

22) An entity made the following sale offer to its customers "Money back guarantee if the item can be purchased at any other store at a lower price". The offer only lasts for one month from the date of sale and provided the lower price is not a discounted sale price. This type of sale transaction should be recognised as:

(a) A normal sale at the transaction date
(b) A deferred sale until the offer expires
(c) A sale together with a provision for the refund at the transaction date
(d) A sale at the transaction date and the refund as an expense at the date it occurs

23) On 01 July 2010, an entity acquired a factory plant. The local municipality required that the entity commit itself to restore the surrounding environment before it will be granted an operating license. Management estimated that the cost of rehabilitating the environment at the end of the useful life of the factory plant to be R670 000. The cost of rehabilitating the environment shall be presented in the financial statements at 28 February 2011 as:

(a) A long-term liability
(b) A contingent liability
(c) A provision
(d) An additional note to the financial statements

Use the information below to answer questions 24 and 25

On 01 March 2009, an entity raised a loan with a face value of R500 000 bearing interest at a rate of 10% per annum. The loan is repayable in full on 28 February 2014. Interest is payable annually on 28 February. The market rate of loans with similar terms and conditions is 13% per annum.

24) The interest expense for the reporting period ended 28 February 2011 amounts to:

(a) R59 200
(b) R50 000
(c) R65 000
(d) R53 400

25) The loan liability in the statement of financial position at 28 February 2011 amounts to:

(a) R500 000
(b) R605 000
(c) R464 583
(d) R487 531

26) The accounting records for the reporting period ended 28 February 2011 reflected an acquisition of property, plant and equipment with a cost of R3 750 000 and carrying amount of R3 200 000 at the end of the reporting period. On further investigation it was discovered that the acquisition was partially financed by an issue of debentures with a face value of R1 000 000 to the supplier. The information to be included in the statement of cash flow in respect of the acquisition of the property, plant and equipment for the reporting period ended 28 February 2011 is:

(a) Cash outflow of R3 750 000 for investing activities
(b) Cash outflow of R3 750 000 for investing activities and cash inflow of R1 000 000 from financing activities
(c) Cash outflow R3 200 000 for investing activities and cash inflow of R1 000 000 from financing activities
(d) Cash outflow of R2 750 000 for investing activities

27) A duty is prescribed for the Accounting Officer of a Close Corporation if the Close Corporation's liabilities fairly valued, exceeds its assets fairly valued. An analysis of which of the following accounts would best aid in verifying that all fixed assets have been capitalised?

(a) Petty Cash
(b) Depreciation Expense
(c) Rates and Taxes
(d) Repairs and Maintenance

28) Any internal control system will have to a lesser or greater extent inherent limitations. Which of the following is the best example of an inherent limitation in internal controls?

(a) Incompatible duties
(b) Lack of segregation of duties and functions
(c) Faulty human judgements
(d) Absence of an audit committee

29) The new Companies Act, 2008 distinguish between Independent Review engagements and Compilation engagements. Which of the following describes how the objective of a review of financial statements differs from the objective of a compilation engagement?

(a) The primary objective of a review engagement is to test the completeness of the financial statements prepared, but a compilation tests for reasonableness.
(b) The primary objective of a review engagement is to provide positive assurance that the financial statements are fairly presented, but a compilation provides no such assurance.
(c) In a review engagement, negative assurance is given, but a compilation expresses no assurance.
(d) In a review engagement, accountants provide reasonable or positive assurance that the financial statements are fairly presented, but a compilation provides limited assurance.

30) Which of the following activities is regarded as an analytical procedure in Auditing?

(a) Reading the minutes of the board of directors' meetings for the year under audit.
(b) Obtaining a letter concerning potential liabilities from the client's attorney.
(c) Comparing the current year's financial statements with those of the prior year.
(d) Ensuring that a representation letter signed by management is in the file.

31) The annual financial statements of most close corporations reflect loans to/from members. Banks and long-term creditors often view this as a risk to the business entity and therefore expect the accounting officer to verify the loans to members. The purpose of performing audit procedures to verify the loan accounts of the members is:

(a) to assess the entities ability to meet its obligations to creditors
(b) to verify the members' interest in the business
(c) to ensure the accuracy and reliability of the values of the loans to/from members
(d) to protect the members against each other

32) In order to eliminate stock losses through pilferage, management introduced a "hi-tech" computerized system in the warehouse. However, after the system was implemented for eight months management discovered that inventory with a value of R150 000 was missing. The reason for the inventory loss can be attributed to:

(a) the inherent weaknesses of the system implemented
(b) staff not being properly trained to use the system
(c) staff collude to hide the inventory losses
(d) all of the above

33) Select the correct option to complete the statement. Annual duty, as prescribed in the Companies Act, Act 71 of 2008, is

(a) Determined on the Gross Profit reported by the Company in any particular year
(b) Payable 2 months after the anniversary date of the Company for that year
(c) To be accompanied by an Annual Return, which can only be filed electronically
(d) Payable to the South African Revenue Services

34) Choose the correct option. With the effective implementation of the new Companies Act, Act 71 of 2008, on 1 May 2011, Close Corporations incorporated under the Close Corporations Act, Act of 1984 (as amended)

(a) Existing Close Corporations may continue as previously
(b) Changes in membership of prior existing Close Corporations are not possible
(c) Conversions from Close Corporations to Companies are not allowed
(d) Conversions from Companies to Close Corporations are not allowed

35) On considering the content of his/her Accounting Officer's Report to the School Governing Body, as required by the South African Schools Act, Act 84 of 1996 the Accounting Officer has a duty to report the fact that;

(a) The school budget was not approved or material deviations from the budget exist
(b) The educators absentee rate is extremely high
(c) The learners are not buying from the School Tuck Shop
(d) The toilets are not maintained or cleaned

36) You have accepted the office of Accounting Officer of Masiphumelele Feeding Scheme, an unincorporated free association of persons not for gain, pursuant to section 17 of the Non-Profit Organisations Act, Act 71 of 1997. Thus you have a duty

(a) To issue a written report confirming that the financial statements are consistent with the accounting records; the accounting policies are appropriate and applied, and that the organisation has complied with the financial reporting requirements of the Act
(b) To compile the Narrative Report as required by s. 18 of the NPO Act
(c) To submit the required documents to the Director: Non-Profit Organisations, within 9 months after the financial year-end
(d) All of the above

37) The Regulations to the Companies Act, Act 71 of 2008, highlights the concept of "Public Interest Score". Which of the following is not a component of such calculated Public Interest Score?

(a) Average number of employees employed by the company during the financial year
(b) Number of individuals who the company knows to have a "beneficial interest" in any of the company's issued securities, directly or indirectly, as at the financial year end
(c) Value of the company's assets as at the financial year end
(d) Value of the company's liability to third parties as at the financial year end

38) Fresh Farm Chickens (Pty) Ltd's financial year ended on 31 December 2011. At that date, the company's turnover for the year was R41 325 000. The Balance Sheet reflects Non-Current Assets at cost of R14 777 000, Current Liabilities of R9 544 000 and Long Term Liabilities of R2 987 000 inclusive of Shareholders Loans of R455 000. Mr. Farmer is the sole shareholder and director of the company and he employed an aggregate of 37 persons throughout the year. The Public Interest Score of Fresh Farm Chickens (Pty) Ltd is;

(a) 51
(b) 93
(c) 94
(d) 108

39) **As a Professional Accountant (SA) you may accept appointment as Accounting Officer to a Body Corporate in terms of the Sectional Titles Act, Act 95 of 1986, where**

(a) the Body Corporate has more than 9 distinct units
(b) the Body Corporate has more than 9 distinct units but less than 10 unit owners
(c) all unit owners by unanimous resolution resolve that the Management Rules be changed to void the audit requirement
(d) never

40) **Which of the following persons may be appointed as an Independent Reviewer?**

(a) A registered auditor in terms of the Auditing Profession Act
(b) A person that is a member of a professional body that has obtained accreditation with the IRBA for auditing purposes
(c) A person that is a member of a professional body that has obtained accreditation with the Companies Commission and is qualified to be appointed as an accounting officer of a close corporation in terms of the Close Corporations Act, 1984 (Act No. 69 of 1984)
(d) All of the above

41) **Sisipho Gunguluza was successful in her Professional Evaluation examination and was admitted as a Professional Accountant (SA). On 1 April 2011, she opens her own accounting and tax practice and starts to trade for her own account. She has no employees. On that date, she is obliged to register with:**

(a) SAIPA as an Approved Training Centre
(b) Fasset as a non-levy paying member
(c) SARS as a Tax Practitioner
(d) COIDA as an employer

42) **A written instrument whereby the accountant and his/her client details the terms and conditions, responsibilities and duties, fees and terms of payment for tasks to be performed signed by both parties is:**

(a) A Management Representation Letter
(b) A Letter of Professional Courtesy
(c) An Engagement Letter
(d) All of the above

43) Both Roelof Botha and Andrew Manuel recently got admitted as members of the SAIPA and decided to form a company styled Botha Manuel Accounting Professionals (Pty) Ltd, of which they are the only shareholders. Botha Manuel Accounting Professionals (Pty) Ltd.

(a) May never accept appointment as Accounting Officers to Close Corporations
(b) Must apply to SAIPA for a unique practice number, different to that of its shareholders
(c) Need not reflect the recognised professions to which the shareholders individually belong to in their Letter of consent to act as Accounting Officer
(d) None of the above

44) Learnerships were started through the Skills Development Act, Act 97 of 1998 (as amended). Which of the following is not a characteristic of a learnership?

(a) It includes a structured learning component (theory)
(b) It includes practical work experience
(c) It leads to a qualification
(d) It does not relate to an occupation

45) People need to have confidence in the quality of the complex services provided by professionals. Because of these high expectations, professions have adopted codes of ethics, also known as codes of professional conduct. For members of SAIPA this means, that members;

(a) May only accept assignments for which they are professionally competent
(b) Need not be conscious of confidentiality as client-professional privilege is exclusive to lawyers
(c) Have zero responsibilities towards the public, except for those who pay them in engaging their services
(d) None of the above

SECTION B CASE STUDY QUESTIONS

CASE STUDY 1 **Total [40marks]**

The following is an extract from the Trial Balance of SME (Pty) Ltd.

SME (Pty) LIMITED **Extract of the Trial Balance at 29 February 2012**	**Debit**	**Credit**
	R	R
Land and buildings	16 280 000	
Equipment	1 000 000	
Accumulated depreciation – equipment		400 000
Plant and Machinery at cost	6 250 000	
Accumulated Depreciation- Plant & Machinery		1 875 000
Long term borrowings		2 200 000
Accounts receivable	524 000	
Inventory	516 000	
Bank	262 000	
Accounts payable		282 000
Sales		21 000 000
Cost of sales	15 000 000	
Distribution expenses	1 040 000	
Administration expenses	960 000	
Other expenses	1 200 000	
Finance costs	280 000	

Additional Information

1. The land and buildings are used for the supply of goods and for administration purposes. The land and buildings were revalued on 29 February 2012 to a fair value of R16 280 000. This represented an increase of R480 000 over the previous valuation.
2. Flooding during the heavy summer rains have damaged the equipment. Management considered it necessary to estimate the recoverable amount of the equipment at 29 February 2012. The fair value less costs to sell are estimated at R500 000 and the value in use is estimated at R540 000. This has not been taken into account in preparing the above trial balance. The amount is considered to be material.
3. The plant and machinery is depreciated using the straight-line method over the total estimated life of 10 years. The Receiver of Revenue allows 20% p.a. in terms of section 12C of the Income Tax Act.

4. SME (Pty) Limited's board of directors decided to revalue their plant and machinery every two years commencing from the current year, due to the changing prices in their industry. The company's intention is to reflect plant and machinery at net replacement value in the statement of financial position. On 1 March 2011, M. Moola, an independent engineer, estimated the remaining useful life of the plant and machinery to be unchanged and established the gross replacement cost of the plant as R10 500 000. It is the company's policy to gross up any accumulated depreciation on revaluation of assets. This has not been taken into account in the trial balance presented above.
5. Inventory with a cost of R124 000 was estimated to have a net realisable value of R100 000 at year end. This has not been taken into account in preparing the above trial balance. The amount is considered to be material.
6. Distribution costs include depreciation on buildings of R225 000, depreciation on equipment of R120 000 and salaries of sales staff of R540 000.
7. Administration costs include depreciation on buildings of R170 000, depreciation on equipment of R80 000 and salaries of office staff of R684 000.
8. Other costs include the fee for the audit of R40 000 and audit expenses of R6 000.

REQUIRED:

A) Prepare the statement of comprehensive income of SME (Pty) Limited for the year ended 29 February 2012 conforming to International Financial Reporting Standards **(15 marks)**

B) Prepare the following notes together with their respective accounting policies to the financial statements for the year ended 29 February 2012 in conformity with International Financial Reporting Standards and the Companies Act 71 of 2008:

B1. Profit before tax **(6 marks)**
B2. Property, Plant and Equipment - With regard to Plant and Machinery **(12 marks)**
B3. Change in Accounting Policy with respect to the Plant **(3 marks)**
B4. Inventory **(4 marks)**

You may ignore all tax implications

Marks are awarded for Presentation and Lay-out

<u>CASE STUDY 2</u> **Total [25 marks]**

Mrs. Arnoldus, aged 45, works as a salaried manager at a retailing and distribution business entity (National Distributors CC). In addition to her employment at the distribution plant, Mrs. Arnoldus also earns income from various investments and rents various properties. The details of her employment package, rental trade and investment income for the year of assessment ended 28 February 2011 are supplied below.

1. <u>Employment package</u>

Mrs. Arnoldus has an employment package, comprising the following for the year of assessment ended 28 February 2011:

Employment package	Factors taken into account in calculating PAYE
(a) Annual cash salary of R375 000	
(b) Monthly travel allowance of R6 000	Mrs. Arnoldus kept a travel logbook. She travelled a total of 30 000 kilometres for the year, of which only R8 000 related to business travel. Mrs. Arnoldus did not record any of her expenses. Her motor car cost R420 000 (including VAT) in June 2008.
(c) Employer paid medical contributions of R3 300 per month	National Distributors CC pays all of the medical contributions of its employees in full
(d) Bursary for Mrs. Arnoldus's son of R20 000 per year	When Mrs. Arnoldus's son began studying at university, she asked National Distributors CC to give her son a bursary to cover some of the tuition fees. The bursary was granted in terms of a bursary scheme available to all children of managers at National Distributors CC.
(e) Subsistence amounts	Mrs. Arnoldus has to occasionally visit other distribution and warehousing plants in South Africa. For the days that she is away, she is paid a subsistence allowance of R350 per day for meals and incidental costs. The accommodation is charged directly to National Distributors CC. She does not need to account to her employer as to how she spent the allowance and does not keep any records of the amounts spent. In August 2010, Mrs. Arnoldus received an advance subsistence payment of R2 800 for an eight-day business trip in September 2010.

	The trip was ultimately cancelled, but National Distributors CC did not require Mrs. Arnoldus to repay the amount. All her other trips took place and (apart from the amount in August 2010) she received a further R10 500 (being for 30 days) in subsistence allowances.
(f) Contribution to pension fund by Mrs. Arnoldus – 10% of cash salary	
(g) Mrs. Arnoldus also contributes R5,000 per month to a Retirement Annuity Fund (RAF)	

2. <u>Investment income</u>

Mrs. Arnoldus had received a large inheritance from her late uncle in 2000. She invested most of the money into shares, interest-bearing investments and collective investment schemes.

Income from the investments for the year ended 28 February 2011 comprises the following:

Income type	**Amount**
South African dividends	R68 900
South African interest	R95 600

Mrs. Arnoldus also sold some of her shares for R748 000. The base cost amounted to R265 000.

3. <u>Rental trade</u>

(a) Some of the inheritance Mrs. Arnoldus received was used to purchase a property (Durban property) on 1 October 2003 for rental purposes. Mrs. Arnoldus rents this property out as holiday accommodation. Some years generate profits and other years losses depending on the demand for holiday accommodation.

(b) Mrs. Arnoldus also purchased a flat (Cape Town property) on 1 March 2005 near the university her son, Bongi, attends. Bongi and two of his friends live in the flat. They each pay a nominal rental, currently R900 per month, to Mrs. Arnoldus. This rental does not cover the expenses related to this flat.

(c) Mrs. Arnoldus achieved a trading profit of R75 000 for the Durban property and a trading loss of R39 000 for the Cape Town property for the year ended 28 February 2011.

The Commissioner ring-fenced the losses on the Cape Town property since the year of assessment ended 28 February 2008. For each of the preceding years of assessment (i.e. before 1 March 2010), Mrs. Arnoldus was taxed at the maximum marginal rate. There is an assessed loss brought forward for the Cape Town property of R45 000.

NOTE: Mrs. Arnoldus made no provisional tax payments during the year.

<u>REQUIRED:</u>

A) Calculate the employees tax that ought to have been withheld by Mrs. Arnoldus's employer (National Distributors CC) for the year of assessment ended 28 February 2011.

(14 marks)

B) Calculate Capital Gains inclusion in Mrs. Arnoldus's gross taxable income for the year of assessment ended 28 February 2011.

(3 marks)

C) How much of the travel allowance paid to Mrs. Arnoldus is taxable on assessment as at 28 February 2011? Show all your workings. (**5 marks)**

D) Explain to the taxpayer how the rental income is treated for the tax year and the effects of ring-fencing losses, as well as the extent thereof, in future years.

(3 marks)

<u>CASE STUDY 3</u> **Total [15 marks]**

THE PRINTING SHOP, a printing business entity uses traditional absorption costing to determine and report its performance and profits.

Management approved a strategy of expanding its customer base by increasing its business activities by winning and securing work from new customers. It now has the opportunity to prepare a quotation for a large organisation that currently requires new brochures and catalogues of its services.

The design department completed a technical report on the resource requirements for the brochures and catalogues at a cost of R8 000. The details of the report are summarised below:

1. Production and processing period

It is expected that the total time required to print and dispatch the brochures and catalogues will be three weeks.

2. Material A

20,000 Sheets of special printing paper will be required for the job. This paper that is in regular use by THE PRINTING SHOP and the company has 7 500 sheets available in inventory. These sheets had an original cost R3.20 per sheet but the current market price is R3.95 per sheet. The resale price of the sheets held in inventory is R2.80 per sheet.

3. Material B

This is a special printing mixture and ink that THE PRINTING SHOP will need to purchase at a cost of R15.00 per litre. 400 Litres will be required to print the brochures and catalogue but the supplier has a minimum order size at 500 litres. THE PRINTING SHOP does not foresee any other use for this ink, but will hold the surplus in inventory.

THE PRINTING SHOP's inventory policy is to review slow moving items regularly. The cost of any inventory item that has not been used for more than 3 months is accounted for as an expense of the period in which the review occurs.

4. Direct labour

Sufficient people are already employed by THE PRINTING SHOP to print the brochures and catalogue, but some of the printing will require overtime working due to the availability of a particular machine that is used on other work. The employees are normally paid R15.00 per hour, the order will require 600 hours of work and 150 of these hours will be in excess of the employees' normal working week. A rate of time and half is paid for these overtime hours.

5. Supervision

The supervisor will take responsibility for the printing of the brochures and catalogue in addition to his existing duties. He is not currently fully employed and receives a salary of R2 500 per week.

6. Machinery

Two different types of machines will be required.

Machine A will print the brochures and catalogues. This is expected to take 250 hours of machine time. The running costs of machine A is R27.50 per hour. There is currently 300 hours in-used time on machine A per three week that is being sold to other printers for R35.00 per hour.

Machine B will be used to cut and bind the brochures and catalogues. This machine is being used to full capacity in the normal working week and this is why there is a need to work overtime. The catalogue will require 300 machine hours and these have a running cost of R9.00 per hour.

7. Despatch

There will be a dispatch cost of R2 000 to transport the brochures and catalogues to the customer.

8. Fixed overhead costs

THE PRINTING SHOP uses a traditional absorption costing system to attribute fixed overhead costs to its work. The absorption rate that it uses is R30.00 per direct labour hour.

9. Profit mark-up

THE PRINTING SHOP applies a 40% mark-up to its costs to determine its selling price.

REQUIRED:

(a) Identify 2 sunk costs and motivate why you consider it as sunk **(4 Marks)**
(b) Quantify the relevant cost with regards to Materials to be used in production and explain why it is the case **(6 Marks)**
(c) Calculate the relevant direct labour costs for the job **(2 Marks)**

(d) Is the despatch cost of R2 000 a relevant cost or not? **(1 Marks)**

(e) Management is of the view that the anticipated profit be included in the relevant cost schedule. Do you agree with this view or not? Give reasons . **(2 Marks)**

Income Tax Tables	
1 March 2010 - 28 February 2011	
Taxable Income	**Tax Rate**
R 0 - R 140 000	18%
R 140 001 - R 221 000	R 25 200 + (25% of amount above R 140 000)
R 221 001 - R 305 000	R 45 450 + (30% of amount above R 221 000)
R 305 001 - R 431 000	R 70 650 + (35% of amount above R 305 000)
R 431 001 - R 552 000	R 114 750 + (38% of amount above R 431 000)
R 552 001 and above	R 160 730 + (40% of amount above R 552 000)
Primary Rebate	R 10 260
Additional Rebate (Persons 65 and older)	R 5 675

Car Allowance Fixed Cost			
Value of Vehicle	**Fixed Cost**	**Fuel Cost**	**Maintenance Cost**
0 - 40 000	14 672	58.6	21.7
40 001 - 80 000	29 106	58.6	21.7
80 001 - 120 000	39 928	62.5	24.2
120 001 - 160 000	50 749	68.6	28
160 001 - 200 000	63 424	68.8	41.1
200 001 - 240 000	76 041	81.5	46.4
240 001 - 280 000	86 211	81.5	46.4
280 001 - 320 000	96 260	85.7	49.4
320 001 - 360 000	106 367	94.6	56.2
360 001 - 400 000	116 012	110.3	75.2
exceeding 400 000	116 012	110.3	75.2

CASE STUDY 4 **Total [10 marks]**

BRIGHT-ON LIGHT CC has a number of existing customers to whom it provides services and sells goods on credit. The entity has therefore got a substantial amount and value of debtors. Identify the audit steps required to carry out a positive debtors circularization in order to substantively test the existence, and to a lesser extent, the valuation assertions relating to accounts receivable.

(10 marks)

END OF EXAM

PROFESSIONAL EVALUATION
FINAL EXAM SOLUTIONS
17 March 2012

MULTIPLE CHOICE QUESTIONS

1	c	24	a
2	c	25	c
3	a	26	b
4	d	27	d
5	a	28	c
6	b	29	c
7	b	30	c
8	c	31	c
9	a	32	d
10	c	33	c
11	d	34	d
12	b	35	a
13	b	36	a
14	a	37	c
15	d	38	b
16	c	39	c
17	b	40	d
18	a	41	c
19	c	42	c
20	b	43	a
21	b	44	d
22	c	45	a
23	c		

CASE STUDY 1:

A)

				MARKS
SME PTY LIMITED				½
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2012				½
		Note	**R**	
Revenue from sales			R 21 000 000	1
Cost of goods sold	(15000000 + 24000)		-R 15 024 000	1 ½
Gross profit			R 5 976 000	1
Distribution costs			-R 1 040 000	1
Administration expenses			-R 960 000	1
Other expenses	(600 000 + 30 000)		-R 1 260 000	1 ½
Depreciation on Plant and machinery			-R 1 050 000	1
Finance cost			-R 280 000	1
Profit before tax			R 1 386 000	1
Income tax expense				1
Profit for the period	(480 000+2975000		R 1 386 000	1 ½
Other comprehensive income			R 3 455 000	1
Total comprehensive income			R 4 841 000	1
			Max	15

B)

	MARKS
SME PTY LIMITED	
NOTES TO THE FINANCIAL STATEMENTS	1/2
FOR THE YEAR ENDED 29 FEBRUARY 2012	
1. ACCOUNTING POLICIES	1/2
Plant and Machinery	
Land and buildings held for use in the supply of goods and for administration purposes, are stated on the balance sheet at their revalued amount, being the fair value at date of revaluation less subsequent accumulated depreciation and subsequent impairment losses.	1 1/2
Plant and equipment is stated at cost less accumulated depreciation and impairment losses.	1
Depreciation is charged so as to write off the cost or fair value of assets, over their estimated useful lives, using the straight line method.	1

Plant and Machinery are revalued every two years to net replacement cost determined on gross replacement cost. This is not consistent with the accounting policy used in previous years. Depreciation is written off net replacement cost on the straight-line basis at rates calculated to depreciate the asset over its estimated useful life. 1 1/2

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is calculated using the FIFO method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs of selling. 2

Changes in Policy

To the extent practical, these are applied retrospectively with adjustments made to comparatives. 1

Profit before tax		2012	MARKS
The profit before tax has been computed after taking into account the following:		**R**	
Fee for audit		40 000	1/2
Other services		6 000	1/2
Depreciation on buildings	(225 000 + 170 000)	395 000	1
Depreciation on equipment	(120 000 + 80 000)	200 000	1
Depreciation on Plant		1 050 000	1/2
Employee benefits expense	(540 000 + 684 000)	1 224 000	1
Write down of inventory to net realisable value	(124 000 – 100 000)	24 000	
			1
Impairment of equipment	(600 000 - 540 000)	60 000	1
		Max	6

PPE			
		Plant and Machinery	
Balance as at 01 March 2011		**4 375 000**	1/2
Gross replacement cost		6 250 000	1/2
Accumulated Depreciation		1 875 000	1/2
Net replacement cost		4 375 000	1/2
Revaluation		2 975 000	1/2
Depreciation		1 050 000	1/2
Impairment	-		1/2
Balance as at 28 February 2012		**6 300 000**	1/2

Gross Replacement cost	10 500 000	1/2
Accumulated Depreciation	4 200 000	1/2
Net Replacement Cost	6 300 000	1/2

- The remaining useful life of plant and machinery at year-end is 6 years. 1/2
- The carrying value under the cost model would have been 3 750 000 1/2
- M. MOOLA, an independent engineer, revalued plant on 1 March 2011. 1/2

Max 7

Change in Accounting Policy

Plant which was valued at historic cost in previous years is now valued at net replacement cost. The effect on the income of the previous year cannot be computed, as values on which depreciation would have been based are not known. The effect on current year's income is a decrease of R 425 000. 2

Inventory

During the year inventory has been impaired to the lower of cost and net realisable value. 1

This resulted in an impairment of R 24 000. 1

CASE STUDY 2:

A)

		Marks
Annual cash salary	375,000	½
Monthly travel allowance R6 000 x 80% x 12	57,600	**1**
Employer contributions to medical aid (all taxable) R3 300 x 12 [p12A – 7th Schedule]	39,600	**1**
Bursary for son – fully taxable as Mrs. Arnoldus earns remuneration ofmore than R100,000	20,000	**1**
Subsistence amounts:		
- August allowance (no travel and not repaid)	2,800	**1**
- Remaining allowances	10,500	**1**
- No record of actual expenditure – use Government regulation rate R276 x 30	(8,280)	**1**
Sub-total	497,220	
Contribution to pension fund:		
Actual – R375,000 x 10% = R37 500 limited to greater of: ½ R1,750 or 7·5% x R375 000 (being retirement funding employment income) = R28 125	(28,125)	**1 1/2**
Sub-total	469,095	
Contribution to retirement annuity fund:		
Actual – R5 000 x 12 = R60 000 limited to greater of: ½ R1,750; or R3,500 – R28 125 (negative therefore not applicable) 15% x (R469 095 – R375 000 + R28 125) (being 15% of non-retirement funding income) = R18 333	(18,333)	**1 1/2**
Taxable income from employment	450,762	**1**

Tax per the tables – R114750 + 38% x (450 762 – 431,000)	122,259.56	**2**
Less rebate (primary only as less than 65 years of age)	(10,260.00)	**1**
Total employees tax [PAYE]	111,999.56	½

[14 marks]

B)

Proceeds	748,000		
Less: Base cost	(265,000)		
Capital gain	483,000		**1**
Less annual exclusion (as no other capital gains or capital losses for the current year ending 28 February 2011)	(17,500)		**1**
Aggregate net gain	465,500		
Inclusion at 25%		116,375	**1**

[3 marks]

C)

Travel allowance R6,000 x 12	72,000		**½**
Less business travel			
Fixed cost per kilometre (in cents) R116012/30 000 kms x 100	386.7		**½**
Fuel (in cents per km)	110.3		**½**
Maintenance (in cents per km)	75.2		**½**
Cost per km	572.2		**½**
Reduction: Business kms (5,000) x cost per km (R5,722)	(45,776)	26,224	**2 ½**

[5 marks]

D)

Profit from Durban property		75,000	**1**
Loss from Cape Town property ring-fenced and may not be used here if taxable income finally determined remains over the threshold at which tax is levied at the maximum marginal rate		0	**1**

An assessed loss for Cape Town property will be carried forward amounting to (R45 000 + R39 000)		84,000	**1**

[3 marks]

<u>CASE STUDY 3:</u>

A) Any 2 of the following; **(4)**
Technical report cost - The technical report has been completed and the costs have been incurred, not a future cost affecting the decision – sunk cost
Material A in inventory - The cost of the 7 500 sheets in inventory at a cost of R3.20 per sheet is a historical cost – sunk cost
Supervisor's Salary - The supervisor's costs is a fixed cost in will be paid whether the catalogues are printed or not – sunk cost
Fixed costs - Fixed costs are allocated costs in term of the absorption costing system – sunk cost

B)

Material A	79,000	The cost of the 7 500 sheets in inventory at a cost of R3.20 per sheet is a historical cost – sunk cost. The material is used continuously in the printing process and needs to be replaced at the market price of R3.95 per sheet [20 000 sheet at R3.95] – relevant cost. The resale price of the material in inventory will not be sold at R2.80 per sheet as it will be used in the printing process – irrelevant cost.	**(3**)
Material B	7,500	There are no materials in inventory. The entity must purchase it specifically for the printing of the catalogues at the market price of R15.00 per litre. Even though the cost of the materials used for the catalogues is R6 000 [400 litres at R15.00 per litre] the minimum order is 500litres, the additional 100litres cannot be used by the entity and has no salvage value. The relevant cost for the catalogues is based on the total of 500litres purchased.	**(3)**

C)

Direct labour	**3,375**	**The employees are fully utilized and additional capacity is required. The additional capacity will be obtained through working overtime [150 hours at R22.50 per hour] – relevant cost.**	**(2)**

D) Yes it is **(1)**

E) Disagree, as profits of any kind, viz. Anticipated, forecasted, budgeted, actual, foregone are not costs **(2)**

[Max: 15 marks]

<u>CASE STUDY 4</u>:

Audit Procedures for Debtors Circularisation

The auditor should take control of all debtors statements at period end and:

- Test from the statement to the debtors ledger (or age analysis) and vice versa, to ensure that a statement exists for each debtor and that a debtor exists for each statement; and **(1)**
- Select a sample of statements for circularization. **(1)**

For the sample selected, the auditor encloses in an envelope with the statement:

- A letter requesting that the debtor confirm directly with the auditor; and **(1)**
- A self-addressed envelope. **(1)**

The auditor then supervises the mailing of all debtors statements and:
(1)

- Stamps all envelopes to direct "addressee unknown" statements to the auditor's address; and **(1)**
- Test all debtors whose addresses are P.O. Boxes to confirm that they are not fictitious, eg. by looking them up in the telephone/business directories and confirming the address with them telephonically. **(1)**

The auditor thereafter monitors all replies to the circularisation, following up all disagreements and "addressee unknowns" and "no replies" so as to collect evidence relating to the existence and to a lesser extent valuation: (1)

- Disagreements should be followed up by reference to relevant source documentation, enquiry of the debtors concerned, and if necessary, enquiry of the client's attorneys; and **(1)**
- "No replies" and "addressee unknowns" should be followed up by re-circularising the debtors concerned (after correcting the address if necessary), telephone/fax enquiries, and reference to receipts after year-end for evidence of subsequent payment of balances which have not been confirmed. **(1)**

Errors identified through the circularization should then be projected over the entire population of debtors to establish the extent of possible misstatement of the overall debtors balance. **(1)**

[Available 11 marks]
[Awarded 10 marks]