PROFESSIONAL EVALUATION
ENGLISH QUESTION PAPER
04 May 2013

TIME: **4 HOURS**
MARKS: **200**

SECTION A	**MULTIPLE CHOICE**	**MARKS**
	TOTAL SECTION A	**50**
SECTION B		
	CASE STUDY 1	60
	CASE STUDY 2	49
	CASE STUDY 3	41
	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) A SAIPA learnership is a triparty agreement between a trainee accountant, his/her employer and his/her training provider, registered with FASSET. The main reason for this measured completion of relevant work experience is

a) For the trainee accountant to be financially self-supporting whilst acquiring the necessary required skills
b) To allow the trainee accountant exposure to make judgement calls within a real life situation
c) Providing access to better and more career opportunities after qualifying
d) To reduce unemployment of graduates, as the government has directed

2) Being a Professional Accountant (SA), implies that the person is able to perform duties requiring a high level of skill. In whom of the followings interests should the Professional Accountant (SA) show commitment to serve?

a) The Client, that is the entity contracting the Professional Accountant's services
b) The State, especially SARS
c) The Shareholders or Members or Persons with an ownership interest
d) The Stakeholders, including employees, lenders, ownership holders

3) In terms of section 17(2) of the Non-Profit Organizations Act, Act 71 of 1997, an Accounting Officer must report whether or not, the Non-Profit Organization have complied, with regards to financial matters of

a) Its founding statements or constitution only
b) The Non-Profit Organizations Act only
c) Both its constitution and the Non-Profit Organizations Act
d) The Income Tax Act and the Non-Profit Organizations Act

4) Which of the following statements, regarding Donations Tax, is false?

a) Donations between South African resident group companies attract a flat rate donations tax of 20%
b) In the case of a taxpayer who is not a natural person, the exempt donations are limited to casual gifts not exceeding R10,000 per annum in total
c) Only donations made to certain Public Benefit Organizations are exempt from Donations Tax
d) All of the above

5) The Turnover Tax regime is available to Micro Businesses. Which of the following entities are not regarded as Micro Businesses as defined in the income Tax Act?

a) Dr. Robert Sobukwe is a dentist employed full-time by the Eastern Cape Department of Health. He also practices for 12 hours a week for his own account at the Private Dental Clinic and generated a turnover of R520,000 for the year ended 28 February 2013.
b) Dr. Robert Sobukwe is a dentist employed full-time by the Eastern Cape Department of Health. He also sells dental care products on the Broadwalk flea market every weekend for his own account and generated a turnover of R520,000 for the year ended 28 February 2013.
c) Dr. Robert Sobukwe Dental Care CC generated a turnover for the year ended 28 February 2013 of R1,420,000 of which R280,000 was for the provision of dental services and R1,140,000 for selling dental care products
d) None of the above

6) As at 31 October 2012, which of the following statements with regard to Annual Returns to be lodged at the Companies and Intellectual Property Commission (CIPC) is true?

a) Annual Returns may be filed manually with CIPC
b) The Annual Duty for a company with an annual turnover of R14million is R2,000
c) Non Profit Companies are exempted from filing Annual returns and paying Annual Duty
d) The Annual Duty for a close corporation with an annual turnover of R14million is R250, excluding the penalties, if any

Use the information below to answer questions 7 – 9:

The following information was extracted from the financial records of an entity for the period ended 28 February 2012:

	Budget	Actual
Production level [in units]	22,000	25,000
Direct material usage per unit [metres]	15.50	15.30
Direct material cost per metres [R]	8.50	8.90
Direct labour usage per unit [min]	20.00	18.00
Direct labour cost per hour [R]	32.00	35.00

7) The planning variance is defined as the difference between the:

a) Standard budget and the actual results
b) Flexible budget and the actual results
c) Inflation adjusted standard budget and the actual results
d) Standard budget and the flexible budget

8) The total direct materials price variance amounts to:

a) R37,400 - favourable
b) R42,500 - favourable
c) R44,500 - favourable
d) R0.20 - favourable

9) If the idle time during the production process was 10% then the direct labour efficiency variance, excluding idle time, amounts to:

a) R14,667 – favourable
b) R13,333 – unfavourable
c) R28,000 – unfavourable
d) R13,333 - favourable

10) The prime costs of Kouga Plastics Manufacturing CC amount to R3,000,000. Manufacturing overhead is R1,500,000 and direct labour is R750,000. What is the amount of direct materials?

a) R750,000
b) R1,500,000
c) R2,250,000
d) Cannot be determined from the information provided

11) Solar Systems CC manufactures solar heating systems patented by its inventor, Dr. J. Hyde. The agreement between the manufacturer and the inventor is that Solar Systems CC pays Dr. J. Hyde R10.00 for every complete unit manufactured on the production line. This cost should be classified as;

a) Fixed Cost
b) Mixed Cost
c) Semi-Variable Cost
d) Variable Cost

12) 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

13) 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

14) **Management is often unwilling to implement an ideal system of internal controls because**

a) Control failures are infrequent
b) Such a system is too expensive
c) Sufficient technology does not exist to afford an ideal system
d) Risks are often overstated

15) **Internal controls can never be considered as absolutely effective because**

a) Their effectiveness is limited by the competency and dependability of the entity's personnel
b) Controls always have inherent weaknesses that can be exploited
c) Controls are designed to prevent and detect only material misstatements
d) None of the above

16) **A major control available in a small company, which might not be feasible in a large company, is**

a) A wider segregation of duties
b) A voucher system
c) Fewer transactions to process
d) The owner-manager's personal interest and close relationship with personnel

Use the information below to answer the questions 17 and 18:

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.

17) **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

18) 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

19) The accounting records for the reporting period ended 28 February 2013 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 and 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 2013 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

20) The accounting officer discovered that the provision for warranties [one year warranty agreement] for the reporting period ended 29 February 2012 was estimated incorrectly. However, during the current reporting period ended, 28 February 2013, additional information became available which enabled management to measure the costs of fulfilling its warranty obligations more accurate. The provision for warranties for the period ending 28 February 2011 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 2011
b) No adjustment as the warranties expired before the period ended 28 February 2012
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

Use the information below to answer questions 21 to 23:

Comprehensive Transport Services CC (CTS) offers a wide range of transportation solutions to corporate entities. CTS is registered as a VAT Vendors with the South African Revenue Services. Usertrans (Pty) Ltd, also a VAT Vendor, engaged the following services from CTS for the month of January 2013.

CTS

We drive

Date: 31 January 2013
Invoice # 6817

USERTRANS PTY (LTD)
(1989/001928/07)
87 UPPER-LEEUWEN STREET
Bo-Kaap
Cape Town
8001
Vat Reg : 4123090123

COMPREHENSIVE TRANSPORT SERVICES CC
T/A CTS
(2000/198765/23)
246 Imam Haron Road
Claremont
7708
Vat Reg: 4567987093

CODE	DESCRIPTION	UNIT PRICE	QTY	TOTAL
CHA	Chauffer Driven Merc 320 – Airport to City	1,650.00	3	4,950.00
SHU	Staff Shuttle Bus – Overtime Workers	2,000.00	22	44,000.00
COU	Courier Services – As per waybill	9,000.00	1	9,000.00
TRU	Truck Hire without staff	11,000.00	2	22,000.00
CAR	Delivery of Goods – As per waybills	15,050.00	1	15,050.00
GRAND TOTAL				**95,000,00**

Banking Details
FNB Cape Town
Acc no: 65010109567
Branch Code : 20392

Term: 15 Days
Settlement Discount : 1% if paid within 5 days of invoice

21) The VAT amount deemed to be included in the presented tax invoice is;

a) R13,300.00
b) R11,666.67
c) R6,447.00
d) R5,655.26

22) Which of the following statements is correct with regards to the presented invoice and the Value Added Tax Act, 1991 (as amended)?

a) The presented invoice is an Abridged Tax Invoice
b) The presented invoice is fully compliant to the VAT Act
c) The Supplier is allowed to substitute the word Tax Invoice with VAT Invoice
d) None of the above are correct

23) On 5 February 2013, Usertrans approves and remits the presented invoice by electronic funds transfer from their bank to CTS's bank, who recognizes the receipt 48 hours later. The amount that Usertrans paid should be

a) R95,000.00
b) R94,050.00
c) R93,917.00
d) Some other amount

24) Amina Cachalia recently qualified as a Professional Accountant (SA). She registers an entity styled A Cachalia & Co Inc. with herself as the sole director. Which of the following statements are correct?

a) Despite the incorporation of A Cachalia & Co Inc at CIPC, Amina Cachalia may only accept the office of Accounting Officer of any Close Corporation in her personal capacity
b) A Cachalia & Co Inc shall be entitled to a practice number from SAIPA
c) Both (a) and (b) is correct
d) Neither (a) nor (b) is correct

25) In terms of Section 43 (3) of the South African Schools Act, Act 84 of 1996, a person with a financial interest in a school may not accept office to audit or examine the financial statements of a school governing body. This provision of the Act ensures that the person appointed shall promote his/her;

a) Objectivity
b) Independence
c) Professionalism
d) Confidentiality

Total [50 Marks]

SECTION B

CASE STUDY QUESTIONS

CASE STUDY 1 Total [60 marks]

Gerrard Ltd imports and sells sports clothing to all schools in Southern Africa. ***Gerrard Ltd*** has a 30 June financial year end.

The following information relates to ***Gerrard Ltd***:

1. **Share capital**

Authorised Share Capital:

- 2 000 000 ordinary shares

*Issued Share Capital**:***

- 1 000 000 ordinary shares issued on incorporation at R.50 per share
- 250 000 shares issued on 1 May 2010 at R1 per share

On 4 July 2010, there was a capitalization issue of one share for every ten shares held.

2. **Property, plant and equipment**

The following is the fixed asset register of ***Gerrard Ltd*** at 30 June 2010:

Category of asset	**Cost (R)**	**Carrying Value (R) (30 June 2010)**	**Gross Replacement Value (R) (5 July 2010)**	**Method of depreciation**
Machinery	780,000	468,000	900,000	Straight line over 10 years
Equipment	920,000	575,000	990,000	Straight line over 8 years
Land and Buildings	3,000,000	3,000,000	N/A	Not depreciated.
Delivery Vehicles	1,300,000	840,000	N/A	Reducing balance over 5 years (residual value – R100,000)

- At the beginning of the 2011 financial year, ***Gerrard Ltd*** decided on an accounting policy to revalue the machinery and equipment every four years. The revaluation surplus is to be transferred to retained earnings over the remaining useful life of the assets.

  On 3 July 2010, W. Roonee, an independent appraiser, valued the machinery and equipment at its gross replacement value and indicated that the machinery was likely to have an estimated remaining useful life of 2 years.

- Due to recent technological advancements the financial director decided during April 2011 that the equipment should be replaced early in the next financial year. It is estimated that the equipment could be sold for R380,000 with the value in use being immaterial.
- The company had ordered a new fleet of delivery vehicles which is to be delivered and paid for during the first week in July 2012. During the last week of June 2011, all the existing motor vehicles were sold for R310,000 cash.
- The tax allowance granted by SARS on machinery and equipment is 20% per annum and on delivery vehicles is 25% per annum. This is not apportioned for time.

Additional relevant information:

- During the current financial year ***Gerrard Ltd*** spent R105,000 on the development of a customer list. It was expected that the benefits obtained from the customer list would accrue over a period of 25 years. The tax allowance granted by SARS is 25% per annum on all costs for the development of a customer list. This allowance is not on a pro rata basis.
- On 7 February 2011, the company received the final tax assessment for the 2010 financial year reflecting taxable income of R2,010,100. The financial director had estimated the 2010 taxable income to be R2,666,300 on the IRP6 lodged.
- The taxable temporary differences calculated at 30 June 2010 was R709,000.
- The tax rate remained constant at 28% throughout the periods under review.
- Retained earnings at 1 July 2010 is R 3,456,100.
- The profit before tax for the year ended 30 June 2011 has been correctly calculated at R3,846,700. This included interest and penalties of R54,250 incurred on late payment of provisional taxes and legal fees of R31,612.

You are required to:

1.1) Prepare the **Statement of Changes** in Equity of ***Gerrard Ltd*** for the year ended 30 June 2011. **(10 marks)**

1.2) Prepare the following **Notes to the financial statements** for the year ended 30 June 2011 in accordance with International Financial Reporting Standards:

1.2.1) Profit before tax **(12 marks)**

1.2.2) Change in estimate **(3 marks)**

1.2.3) Taxation **(35 marks)**

VERY IMPORTANT: ALL CALCULATIONS MUST BE SET OUT IN A FORMAT THAT COULD BE MARKED.

*Accounting policies and comparative amounts are **not** required!*

Please show all your workings and cross reference adequately

Presentation marks will be awarded

Total [60 marks]

CASE STUDY 2 Total [49 marks]

Part A

You are the tax partner in the firm of accountants Cole & Armstrong. You recently received the following VAT queries from two separate clients.

Query 1

Office Africa (Pty) Ltd, a South African company and a registered VAT vendor (Category B vendor), bought a used commercial building on 23 May 2012, in central Pretoria from Sasha Robbie a South African resident, who is not a registered VAT vendor. The purchase price was R4,500,000 and the open market value was R4,400,000. Office Africa (Pty) Ltd makes 60% taxable supplies and 40% non-taxable supplies. Transfer duty of R277,000 was paid on 28 July 2012. The property was registered in Office Africa (Pty) Ltd's name on the 3 August 2012 and the full purchase price of R4,500,000 was paid on 10 August 2012. Sasha Robbie is not a connected person to Office Africa (Pty) Ltd.

YOU ARE REQUIRED TO:

(2.1) Discuss the VAT consequences for Office Africa (Pty) Ltd of the above transaction. (12 marks)

(2.2) If Office Africa (Pty) Ltd only paid R1,000,000 on the 10 August 2012, discuss how your answer above would change. (5 marks)

Query 2

Fountain (Pty) Ltd is a registered VAT vendor (Category A vendor) selling high quality paper to the public. Fountain (Pty) Ltd pays R800 per month to insure a Toyota Tazz (a motor vehicle as defined) which is used by the delivery person for trips between the office of Fountain (Pty) Ltd and the various outlets. The Toyota Tazz was involved in an accident on 2 February 2012 when it collided with a Kia Sportage. The accident was caused by the negligence of the driver of the Kia Sportage, who skipped a red robot.

The Toyota Tazz was written off but miraculously the driver escaped without any serious injuries. The driver of the Kia Sportage was not insured, which resulted in Fountain (Pty) Ltd submitting a claim to its own insurer, Onesure Insurers, for the loss of the vehicle.

A pay-out of R120,000 was received from Onesure Insurers for the loss of the Toyota Tazz on 19 February 2012. Fountain (Pty) Ltd makes a 100% taxable supplies.

YOU ARE REQUIRED TO:

(2.3) Discuss the VAT consequences of the Onesure Insurers payout of R120,000 from the perspective of Fountain (Pty) Ltd. (7 marks)

(2.4) Discuss the VAT consequences from the perspective of Fountain (Pty) Ltd if the Toyota Tazz was not written off and Onesure Insurers paid out R7,000 to Fountain (Pty) Ltd for the replacement of the bumper. (5 marks)

Part B

Mr Anele Thabethe was employed on 1 March 2011 as a sales consultant for Fin Solutions (Pty) Ltd, a Johannesburg based company. He was recently given the option of a travel allowance or the right of use of a motor vehicle from Fin Solutions (Pty) Ltd. He is unsure of which is the better option for tax purposes.

OPTION 1 – Travel Allowance:

If he chooses the travel allowance option, he will receive a monthly travel allowance of R13,000.

Assume that Anele maintains accurate records of his business and private kilometres travelled. He expects to travel 29 000 kilometres for each year of assessment of which 12 000 kilometres relates to business travel.

Anele owns a 323i BMW, 2011 model, which he bought for cash on 1 January 2011 for R525,000 (including VAT of R64,474), from Tswane BMW. He also expects to maintain accurate records of his actual expenditure on his motor vehicle. The following are his estimated annual expenditure amounts relating to the motor vehicle:

- R38,600 for total business and private petrol.
- R1,600 (including VAT of R196) per month for short term insurance on the motor vehicle.
- R210 (including VAT of R26) per month for the motor vehicle's tracking system.
- R1,540 for licensing of the motor vehicle.

Fin Solutions (Pty) Ltd is satisfied that less than 80% of Anele's annual use of his motor vehicle will be for business purposes. Anele bears all costs relating to the motor vehicle.

OPTION 2 – Right of Use of a Motor Vehicle:

If Anele chooses the use of a company-owned motor vehicle, Fin Solutions (Pty) Ltd will give him the use of a C180 Mercedes Benz 2011 model (a motor car as defined for VAT purposes) for R510,000 (including VAT of R62,632) which they had purchased on 1 February 2011. The motor vehicle was purchased including a full maintenance plan (as defined). Anele will use the motor vehicle for business and private purposes. The annual total cost of petrol is expected to be R38,600 (R25,000 relating to private petrol costs), assuming that Anele is expected to travel the same business and private kilometres as he would travel in his own motor vehicle and that he maintains an accurate log book. Anele is expected to pay the private and business petrol costs and the licensing costs of R1,320 himself. All other costs will be paid by Fin Solutions (Pty) Ltd.

Fin Solutions (Pty) Ltd is satisfied that less than 80% of the annual use of the motor vehicle will be for business purposes.

YOU ARE REQUIRED TO:

(2.5) Advise Anele Thabethe which of the two options i.e. the travel allowance or the use of the motor vehicle, will be more tax beneficial for him, assuming that the normal tax legislation for the year of assessment ended 29 February 2012 will apply. You must also include a comparison of the amounts to be included in the monthly employees' tax calculation of the two options. You must assume that the taxpayer will make use of all possible tax benefits and will therefore elect any option available to him that will minimize his normal tax liability. (20 marks)

Total [49 marks]

CASE STUDY 3 Total [41 marks]

Plats (Pty) Ltd is a private company involved in the mining of platinum. The entity, which ordinarily achieves a low profit margin, has recently faced labour unrest, as reported by The Times Live on 18 September 2012 "*Wildcat strikes in South Africa's platinum belt have entered a sixth week with no resolution in sight" ,* has exacerbated the profitability issues faced by Plats (Pty) Ltd.

The following financial statement data is available regarding Plats (Pty) Ltd:

Solvency Ratio: 0.43
Current Ratio: 0.67
Quick Ratio: 0.31

Additionally the largest supplier to Plats (Pty) Ltd has issued a letter to Plats (Pty) Ltd, demanding payment of the outstanding balance of R 550,000 within the next 60 days as Plats (Pty) Ltd has exceeded its credit terms, or Plats (Pty) Ltd has been requested to initiate business rescue proceedings.

The decreased profitability has been added to the quarterly agenda of the meeting of the Board of Directors with the following extract presented:

Date: 19/09/2012

Plats (Pty) Limited is considering tendering for a mining project recently advertised. The project if undertaken would make use of existing mining rights which have a cost of R 1,000,000 and is currently being leased to a foreign-owned mining company. The lease agreement stipulates that the lease charge for the next financial year is R 100,000 with an annual escalation clause of 4% p.a.

Additionally the proposal envisages an investment in Plant and Machinery of R 1,200,000 for which tax allowances can be claimed over a straight-lining period of 5 years. However the expected project term is 4 years with the piece of plant and machinery being resold at the end of the expected project life for R400,000.

The project requires an initial investment of R 350,000 in working capital after which the investment in working capital is expected to be 10% of sales p.a. Bad debts of R 10,000 are expected p.a. which are deductible for tax purposes.

Revenue Estimates:

Expected revenue from the project is R 4.2 million thereafter revenue is expected to increase by 5% p.a. General mining costs are expected to be 80% of forecast revenue with administration costs averaging R300,000 p.a.

The company will be required to place signage at the new site which is expected to cost R 50,000 and is expected to be paid at the inception of the project for the duration of the project.

The weighted average cost of capital has been determined to be 12 %.

The Income Tax rate is currently 30% as well as in the foreseeable future according to the Ministry of Finance medium term budget

Please note that PART A and PART B are separate questions and should be answered independently

PART A

In presenting your proposal to the Board, calculate (showing the basis and components of your calculations adequately) the following

3.1) The expected net cash outflows at the start of the proposed project **(4 marks)**

3.2) What is the expected net cash revenue from Sales for the 5-year period? **(3 marks)**

3.3) What is the working capital required to be invested after 4 years? **(4 marks)**

3.4) A Board Member has no idea what Weighted Average Cost of Capital (WACC) means. Explain to him what WACC is and why is it useful to him.

(4 marks)

3.5) The company is considering tendering for another project with a calculated NPV of R 118 500, with a cost of R 1 000, 000. Advise the board on which project to accept, showing all necessary calculations.

(8 marks)

PART B

Assume for the remainder of the question that you have been appointed as the auditors of Plats (Pty) Ltd.

3.6)1. From the scenario presented above, describe the risks of material misstatement arising at a Financial Statement level.

(6 marks)

3.7) Describe the audit procedures you would perform in response to the identified and assessed risks at the financial statement level.

(12 marks)

Total [41 marks]

END OF EXAM