

**PROFESSIONAL EVALUATION
ENGLISH QUESTION PAPER
10 May 2014**

TIME: 4h30min
MARKS: 200

| SECTION A | MULTIPLE CHOICE | MARKS |
|------------------|------------------------|--------------|
| | TOTAL SECTION A | 50 |
| SECTION B | | |
| | CASE STUDY 1 | 55 |
| | CASE STUDY 2 | 50 |
| | CASE STUDY 3 | 45 |
| | 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) The authority and scope of the International Standard for Quality Control 1 (ISQC 1) is applicable:

- (a) Exclusively to Registered Auditors
- (b) To all members of member bodies of the International Federation of Accountants (IFAC)
- (c) To audit and assurance engagements, but not compilation nor agreed-upon procedure engagements
- (d) To Professional Accountants in Public Sector only

2) Negative assurance is not permissible in:

- (a) Reports based upon an independent review engagement
- (b) Letters of Confirmation of a Member of a Close Corporation's Earnings
- (c) Reports based on an audit of interim financial statements of an owner-managed business entity
- (d) Reports relating to the results of agreed-upon procedures to one or more specified elements, accounts, or items of financial statement

3) An agreed-upon procedures engagement is one in which:

- (a) The Professional Accountant (SA) and management agree that procedures will be applied to all accounts and circumstances.
- (b) The Professional Accountant (SA) and management agree that procedures will not be applied to all accounts and circumstances.
- (c) The Professional Accountant (SA) and management or a third party agree that the engagement will be limited to certain specific procedures.
- (d) The Professional Accountant (SA) and management or a third party agree that the Professional Accountant (SA) will apply his or her judgment to determine procedures to be performed.

4) For which of the following types of reports is its distribution limited?

- (a) Agreed-upon procedures
- (b) Audit
- (c) Examination
- (d) Independent Review

5) Which principle below imposes an obligation of all professional accountants to be straightforward and honest in all their professional and business relationships?

- (a) Integrity
- (b) Objectivity
- (c) Due professional care
- (d) Confidentiality

6) On 1 July 2013 Reddy Olson Consulting Engineers CC, a VAT vendor, entered into a short-term insurance contract with Assetsure Underwriters Limited, also a VAT vendor, in terms of which the motor vehicles, office equipment and computer equipment is comprehensively covered for the monthly premium of R3,108.96 payable by debit order from the Reddy Olson's banking account on the 5th of each month in advance. In the instance of an insured event occurring, the insured shall pay an excess amount payable of R1,500.00 per claim. The bi-monthly VAT return of Reddy Olsen Consulting Engineers CC due on 25 October 2013 shall include an input amount, in lieu of the insurance premium paid of:

- (a) R0, as short-term insurance attracts VAT at 0%
- (b) R381.80
- (c) R763.60
- (d) Some other amount as the motor vehicle component of the insurance contract is VAT exempt

7) One of motor vehicles covered is a 2002-Hyundai Atos, a motor vehicle as defined by the VAT Act originally costing R70,000.00 inclusive of 14% VAT and branded with Reddy Olson Consulting Engineers CC decals and used by the Messenger to run errands as required. The motor car is parked overnight in a lock-up garage on the premises of Reddy Olsen Consulting Engineers CC. Eva Reddy, a member of the CC, is the authorized representative for the vehicle at the Midrand Traffic Authority. On 6 October 2013, this vehicle was involved in an accident, and was in the panel shop, Vorna Panelbeaters CC for 5 days. The CC hired a replacement vehicle from Waterfall Car Hiring (Pty) Limited. Assume that all entities are registered VAT vendors with SARS:

In terms of the insurance excess paid by Reddy Olsen Consulting Engineers CC on 16 October 2013, the VAT ought to be adjusted by:

- (a) R0, as the tax invoice issued by Vorna Panelbeaters CC is made out to Assetsure Underwriters Limited
- (b) An input tax of R184.21 as Reddy Olsen Consulting Engineers CC paid the first amount payable and thus a tax invoice is not needed
- (c) An output tax of R184.21 as payment in respect of damage only to assets on which input VAT deduction was not permitted, output tax must be declared and paid over to SARS
- (d) None of the above are valid arguments

8) Reddy Olsen Consulting Engineers CC received a valid tax invoice, dated 16 October 2013, from Waterfall Car Hiring (Pty) Ltd, in the final amount of R2,500.00 of which R1,700 was for Vehicle Hiring, R450 was for Fuel and R350 was for Insurance of the hired vehicle. The Input VAT claimable is:

- (a) R307.02
- (b) R249.91
- (c) R42.98
- (d) R0

9) As the branded Hyundai Atos is in fact a motor car, fringe benefits accrues and hence fringe benefit tax at the prescribed rate is payable by:

- (a) Eva Reddy
- (b) Both members of Reddy Olsen Consulting Engineers CC
- (c) The Messenger
- (d) None of the above

10) You have been appointed Accounting Officer by the School Governing Body of Erkhuleni High School, a public school under the Gauteng Education Department. For which of the following taxes must the school be registered with SARS?

- (a) Value Added Tax, as the school receives school fees from parents in excess of R1million per annum
- (b) Skills Development Levy, as the total payroll for school governing body posts is in excess of R500,000
- (c) Income Tax, as the school hires out the school hall for community events and generates about R50,000 per annum for the last three years from this activity
- (d) Pay as you earn, as the school employs 3 fulltime teachers, each earning more than R120,000 per annum

11) Which of the following is not an example of an intangible asset?

- (a) Customer Lists
- (b) Computer Software
- (c) Leased Assets
- (d) Goodwill

12) IAS 17 Leases defines two types of leases, a finance lease and an operating lease. Which of the following characteristics would imply that the associated lease is an operating lease as per the provisions of IAS 17?

- (a) The lessee has the option to purchase the asset at a price which is lower than the expected fair value of the asset at the date the purchase option is exercisable
- (b) The leased asset is specialised in nature and can be used by other businesses but only after modifications have been made
- (c) The lease term is for the major part of the useful economic life of the asset
- (d) The present value of the minimum lease payments is less than 90% of the fair value of the leased asset

13) Which of the following must be corrected retrospectively under the provisions of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors?

- (a) Changes in accounting policies and all prior period errors
- (b) Changes in accounting policies and material prior period errors
- (c) Prior period errors and changes in accounting estimates
- (d) Changes in accounting policies, changes in accounting estimates and material prior period errors.

14) West Coast Hake Fishers CC was incorporated in 1999, with 10 unrelated persons as members, and was eventually awarded a 10-year longline hake fisherman's quota from the Department of Marine Fisheries in 2008. A member, Benji Tamba, passed away on 21 September 2013 and in terms of his last Will and Testament his estate shall be divided equally between his surviving spouse and their four children. No Association Agreement was entered into by the members of West Coast Hake Fishers CC. Which of the following is the most appropriate action in terms of section 35 of the Close Corporation Act, 1984 (as amended)?

- (a) The Executor of Benji Tamba's estate shall be the member of the West Coast Hake Fishers CC in perpetuity
- (b) Benji Tamba's surviving spouse and their 4 children will become members of West Coast Hake Fishers CC, together with the other 9 members of the CC
- (c) The remaining 9 members of West Coast Hake Fishers CC may refuse to admit any other person as member to the Close Corporation
- (d) The member's interest of Benji Tamba may not ever be sold to the Close Corporation itself

15) Which of the following would be considered a cash-flow item from an "operating" activity?

- (a) Cash outflow to SARS for Income Tax
- (b) Cash outflow to shareholders as dividends
- (c) Cash inflow to the entity from disposal of fixed assets at book value
- (d) Cash outflow to purchase shares issued by another company

16) The Public Interest Score model as detailed in the Regulations to the Companies Act, Act 71 of 2008:

- (a) Is also applicable to Close Corporations
- (b) Is used exclusively to determine whether or not an entity should be audited
- (c) Both (a) and (b) is correct
- (d) Neither (a) nor (b) is correct

17) Annual duties payable to CIPC, is

- (a) Exempt for Non Profit Companies (NPC)
- (b) Determined by the Gross Profit reported by the Company or Close Corporation
- (c) Must be accompanied by an electronically filed Annual Return
- (d) Due within 30 business days from the financial year-end of the Company of Close Corporation

18) The Companies Act, Act 71 of 2008, prescribes liquidity and solvency tests from time to time. Liquidity is:

- (a) The ability of an entity to convert an asset to cash
- (b) Paying creditors as and when their debt falls due
- (c) Affected by obsolete and slow-moving stock
- (d) All of the above

19) Which of the following are examples of fair presentation of annual financial statements?

- (a) Accounting policies are provided for items which are immaterial
- (b) No accounting policy is provided for transactions with shareholders, despite a significant gain on a shareholder's loan recognised in equity is reported
- (c) Significant judgement was applied in concluding that a material acquisition was an asset purchase and not a business acquisition, hence the judgement so applied is disclosed
- (d) Significant judgement was applied in concluding that a material acquisition was an asset purchase and not a business acquisition. Application of this judgement is not disclosed because users of Financial statements need not know this

20) You are the Accounting Officer to Thami Superette CC, a convenience store in Diepsloot. The members of the CC are Julius and Winnifred Thami, a couple married in community of property and each spouse holding 50% of the member's interest in the CC. The couple is experiencing marital problems and Mrs Thami has commenced divorce proceedings. Mrs Thami is refusing to sign the approval of the Annual Financial Statements for the year ended 28 February 2013. As Accounting Officer, you may:

- (a) Issue your Accounting Officer's Report, in the ordinary course of business, as Mr Thami has approved and signed the annual financial statements for the year then ended
- (b) Issue your Accounting Officer's Report, but highlight therein that the presented Annual Financial Statements is not approved
- (c) Not issue your Accounting Officer's Report and therefore not invoice the Close Corporation for the work that you have done
- (d) Not issue your Accounting Officer's Report and continue to issue an invoice for the services you have rendered

21) The Accounting Officer of a Close Corporation has a duty to:

- (a) Issue his/her Accounting Officer's Report to such Close Corporation within 3 months after the completion of the Annual Financial Statements
- (b) Report in his/her Accounting Officer's Report whether or not such Close Corporation has any future contingent liabilities
- (c) Issue a qualified opinion in his/her Accounting Officer's Report when he/she deem it necessary
- (d) All of the above

22) Which of the following actions is the least likely to increase shareholder wealth?

- (a) The average cost of capital is decreased by a recent financing decision
- (b) The financial rewards of directors are linked to increasing earnings per share
- (c) The board of directors decides to invest in a project with a positive net present value
- (d) The annual report declares full compliance with the corporate governance code

23) Which of the following statements best describe the ambit of financial management?

- (a) It is concerned with investment decisions, financing decisions and dividend decisions
- (b) It is concerned with financial planning and financial control
- (c) It considers the management of risk
- (d) All of the above

24) To provide the greatest degree of independence in performing internal auditing functions, an internal auditor should probably report to the:

- (a) Chief Executive Officer or Managing Director, as the case might be
- (b) Audit and Risk Committee
- (c) Financial Director or Chief Financial Officer, as the case might be
- (d) Shareholders

25) The Tax Administration Act, 2011 allows persons to provide a variety of tax services to the public for reward, provided that such tax practitioners:

- (a) Are members of a controlling body recognized by SARS
- (b) May not charge their clients fees for services rendered in excess of R2,000 per hour, inclusive of VAT
- (c) Shall use only <http://www.sarsefiling.co.za> to submit the Clients tax returns to SARS
- (d) All of the above

Total [50 marks]

SECTION B

CASE STUDY QUESTIONS

CASE STUDY 1

Total [55 marks]

Part A

Casio Ltd is a wholesaler and retailer of stationery and other related products. The company supplies stationery stores and public schools throughout Gauteng and Mpumalanga. With the recent issues in the Limpopo province, the board of directors has decided to expand the operations and supply all the schools in that province. The financial director, Mr. Pentel, has been advised by the bank that a complete set of financial statements are required with the application for a long term loan.

Mr. Pentel is required to attend urgent business in Cape Town and has enlisted your assistance in preparing some of the financial information while he is away. He has provided the following information for the financial year ended 30 June 2013:

Income

- ❖ The revenue for the year comprised of sales of R23 720 420. The mark up on cost of goods is constant at 20%.
- ❖ Other income comprises of the following items:

| | R |
|--|---------|
| Interest on debentures (Casio Ltd holds 3 500 R120 15% debentures) | 37 500 |
| Royalties received during 2013 (The royalty agreement states that R22 000 is due every month) | 220 000 |
| Royalties received in advance – 1 July 2012 | 66 000 |

- ❖ Casio Ltd has a 20% share in Sharpie Limited which is listed on the Johannesburg Stock Exchange. Sharpie Limited paid an interim dividend of R120 000 on 29 December 2012 to the shareholders and declared a final dividend of R300 000 on 27 June 2013.

- ❖ The sales agent in Mpumalanga sold 20 000 school stationery packs at R132 each by 30 June 2013. The agreement with Casio Ltd was that the sales agent will receive a commission of 15% for each of the stationery packs sold. This information was only received on 4 July 2013 and had not yet been accounted for in the financial records.

Expenses

- ❖ The operating expenses for the year were R1 114 000 and included the following:

| | R |
|--|---------|
| Finance costs | 286 000 |
| Insurance expenses paid for July and August 2013 | 72 000 |
| Insurance expenses paid in advance – 1 July 2012 | 32 000 |
| Donations (R40 000 is not tax deductible) | 130 000 |

Furniture and equipment

- ❖ Furniture and equipment was originally purchased on 1 July 2010 at a cost of R1 680 000. Depreciation is provided at 10% p.a. This furniture and equipment was destroyed by fire in the factory during the last week of April 2013 and was not insured. The depreciation and loss as a result of the fire has been correctly accounted for in the operating expenses for the year. Despite the damage caused by the fire, Casio Ltd could still continue business in its existing premises.
- ❖ On 1 June 2013 the company purchased new furniture and equipment. This new furniture and equipment cost R2 100 000 and management considers it to have a useful life of 5 years and no residual value.
- ❖ The tax authorities have granted an annual allowance of 20% (this allowance is *not* apportioned for time).

Intangible asset

- ❖ Casio Ltd obtained the help of a website consultant to design a new website for the company in order to boost on-line sales during the 2012 financial year. The consultant charged R400 000 for the website development and the financial director agreed to pay R200 000 when development commenced. This was capitalized when paid.

However, as many difficulties arose due to additional firewalls required, by the end of the 2012 financial year end management was uncertain whether this website would be feasible and wrote of the R200 000 as an expense.

- ❖ During the 2013 financial year, new software programs became available which aided in the security features required for the website. Management incurred an additional R118 000 for this new software program and paid the consultant the balance of his fee. By 30 April 2013, management could prove feasibility of the new website and the availability of a market and subsequently planned to launch the product from 1 May 2013. The financial director, Mr. Pentel, concluded that the website met the requirements of IAS 38 and capitalized the costs incurred in the current financial year. The website is to be amortised over a useful life of 5 years from the date of launch. This cost has not yet been included in the 2013 operating expenses.

Additional information

- The deferred tax account had a credit balance of R84 560 at the beginning of the year arising from furniture and equipment; royalties received in advance and prepaid insurance.
- The assessment received from the tax authorities for the 2012 year reflected that the amount of the assessed tax on taxable profit was R18 000 more than the amount provided for current normal tax in the 2012 year.
- The normal tax rate is 28% for all periods presented and the inclusion rate for purposes of capital gains is 66.67%.

You are required to:

- a) Prepare the statement of profit or loss and other comprehensive income of Casio Ltd for the year ended 30 June 2013

(18 marks)

- b) Prepare the taxation (including the tax reconciliation note) and deferred taxation note for the financial statements of Casio Ltd for the year ended 30 June 2013.

(24 marks)

Part B

Mumu (Pty) Ltd is a company that manufactures a variety of dairy products for sale in supermarkets and coffee shops around South Africa. The company has a factory in Thembisa and commercial property in Commissioner Street.

The following is an extract from the Mumu (Pty) Ltd's Statement of Financial Position as at 30 June 2013 before the valuation done by Mr. Clover. An independent valuator, Mr. Clover, was hired by Mumu (Pty) Ltd to value both the factory and the commercial property.

Extract of Financial Statements as at 30 June 2013

| | R | R |
|--|--------------|--------------|
| | 2013 | 2012 |
| Property, plant and equipment: | | |
| COST: | | |
| • Commercial property- Fair Value | ? | 7 308 000 |
| • Plant / factory (including land upon which this has been built) | 58 912 000 | 58 912 000 |
| ACCUMULATED DEPRECIATION: | | |
| • Commercial Property | ? | (974 400) |
| • Plant/factory (including land upon which this has been built) | (17 673 600) | (11 782 400) |

Commercial Property - Commissioner Street:

The commercial property is currently held by Mumu (Pty) Ltd for future expansion. The property was acquired on 1 July 2008 and at that date the financial manager estimated the useful life of the property to be 30 years. Due to the current economic conditions it was decided that the expansion should be halted and the property to be rented out. The property is being rented out to Danonee Ltd as of 1 January 2013.

Due to the growing demand for office property in the Johannesburg central business district as well as the increase in the value of property noted as a direct result of the restoration project in the city centre, the commercial property was valued at the market selling price. This price was determined by way of a comparison of comparative properties and the selling prices that they realised, adjusted for changes in the market, area, inflation, etc. Based on the independent appraisers evaluation of the market it estimated that the property (including land and buildings) could be sold for R10 500 000 at 1 January 2013 and R15 000 000 as at 30 June 2013.

All owner occupied property is accounted for on the revaluation model in terms of IAS16.

Revaluation of property is as per the net replacement value method.

The company accounts for investment property based on the fair value model in terms of IAS 40.

You are required to:

Prepare the necessary journal entries to account for the valuation with respect to the commercial property in Commissioner Street.

Narrations are required.

Ignore all the related tax and deferred tax entries.

(13 marks)

Total [55 marks]

CASE STUDY 2

Total [50 marks]

Anju, Kiara and Simmi, are partners in a manufacturing business, trading as Crafty Toys. They share profits and losses in the ratio 50%, 20% and 30% respectively. Anju, Kiara and Simmi are 50, 49 and 58 years old respectively. Crafty Toys is a manufacturer of toys and is situated in Durban, Kwa-Zulu Natal. All three partners are residents of South Africa.

Partnership's information

The following information is provided in respect of the partnership's year ended 28 February 2014 (**All amounts exclude VAT unless otherwise stated**):

| | | R |
|----|---|--------------------|
| 1. | Sales - cash | 3 100 000 |
| | - credit | 5 000 000 |
| 2. | Purchases | 3 000 000 |
| 3. | Local interest received by the partnership from an investment with a South African bank | 18 000 |
| 4. | Local dividends received by the partnership from a South African listed company | 12 000 |
| 5. | Trading stock on hand at cost was: <ul style="list-style-type: none">• 28 February 2013• 28 February 2014 <p>Anju inherited toys in the 2014 year of assessment from his great aunt Tara and decided to use them in the partnership. The market value of the toys is R100 000 (cost price is R80 000). These toys were not included in the closing stock figure of R350 000 at 28 February 2014.</p> | 380 000 350 000 |
| 6. | Bad debts recovered | 60 150 |
| 7. | Bad debts written off <p>Included in the R65 000 is an amount of R20 000 that was due from a debtor for sales made to him in the 2011 year of assessment when Anju and Kiara were equal partners. Simmi joined the partnership on 1 March 2011.</p> | 65 000 |
| | | |

| | | R |
|-----|---|---------|
| 8. | <p>The accounting provision for doubtful debts at 28 February 2013 amounted to R420 000 and at 28 February 2014 amounted to R360 000.</p> <p>The Commissioner allows 25% of the doubtful debt amount as a deduction for tax purposes.</p> | |
| 9. | <p>Damages</p> <p>Damages were paid to a rival manufacturer of toys who sued Crafty Toys because it believed that an advertisement aired on television by Crafty Toys was very similar to one of its own advertisements. This advertisement had been produced by Crafty Toys in the 2013 year of assessment and was intended to be aired for an extended period. Due to the legal dispute arising from the screening of the advertisement, the advertisement in question was discontinued in the 2013 year of assessment.</p> | 80 000 |
| 10. | <p>Advertising expenses</p> <p>R170 000 of this was spent on magazine and newspaper advertisements. The balance is in respect of two billboards that were erected close to Sandton and Killarney shopping malls to attract customers. The billboards were erected on 1 September 2013.</p> | 200 000 |
| 11. | <p>Legal expenses</p> <p>The legal expenses relate to the cost of defending the damages claim (see note 9 above).</p> | 15 800 |
| 12. | <p>Employer contributions to pension fund</p> <p>Crafty Toys has contributed to a pension fund on behalf of its employees (excluding partners) at a rate of 12% of their remuneration.</p> | 210 000 |
| 13. | <p>Current retirement annuity fund contributions</p> <p>Current retirement annuity fund contributions were made by the partnership to a retirement annuity fund during the 2014 year of assessment for Anju's, Kiara's and Simmi's annual membership which amounted to R10 000, R12 000 and R15 000 respectively.</p> | 37 000 |

| | | R |
|-----|---|-----------|
| 14. | The following annuities were paid: | |
| | 1. To Mr Zhongo, a retired employee | 10 800 |
| | 2. An amount of R300 per month each to Mrs Mondi and her daughter. Mrs Mondi's husband was killed in the previous year of assessment in an accident. Her husband was employed by Crafty Toys up to the date of his death. | 7 200 |
| 15. | New machinery | 855 000 |
| | On 1 July 2013, the partnership bought a new machine at a cost of R855 000(including VAT) which was immediately brought into use in the process of manufacture. | |
| | On 1 January 2014, a fire broke out in the factory and the new machine was damaged beyond repair. The insurance company immediately paid out R798 000(including VAT) in compensation. Kiara was able to sell the parts of the machine as scrap metal for R22 800(including VAT). The partners decided not to replace the machine. | |
| | All other assets have a tax value of R1. | |
| 16. | Other fully tax deductible expenses | 235 000 |
| 17. | Salaries to staff (excluding partners) | 1 750 000 |
| 18. | Salaries of partners: | |
| | - Anju | 300 000 |
| | - Kiara | 300 000 |
| | - Simmi | 300 000 |
| 19. | Interest paid to partners on capital accounts: | |
| | - Anju | 9 600 |
| | - Kiara | 10 200 |
| | - Simmi | 9 800 |

| | | R |
|-----|--|----------------------|
| 20. | Insurance premiums paid: <ul style="list-style-type: none"> • For the joint survivorship policy taken out on the lives of the three partners • For loss of profits. The partnership signed the agreement with the insurance company for a period of one year on 1 January 2014 and decided to pay all the premiums in terms of the contract on the same day. | 18 000 24 000 |
| 21. | Rentals paid The partnership signed a three year lease agreement on 1 February 2014 to rent new factory premises (at R7 000 per month) from 1 February 2014 since the old factory was partially damaged due to the fire. They paid R84 000 on 1 February 2014 for the first twelve months of the lease. | 84 00 |

Other information:

Simmi is also employed as an accountant with Accent (Pty) Ltd . The following relates to Simmi's employment with Accent for the year of assessment ending 28 February 2014:

- A salary of R25 000 per month (up to the date of retirement). Due to the pressure of having to also manage her business interests in Crafty Toys, she retired from Accent on 31 August 2013. Upon her retirement, she became entitled to a monthly pension. Her monthly pension of R10 500 was paid to her for the first time on 30 September 2013 and will be paid on the last day of each month from then onwards.
- Pension fund contributions of 8% per month based on her salary only.
- The company's pension fund paid her a lump sum of R1 030 000 on 15 September 2013. Simmi did not previously receive any lump sum amounts from a retirement fund.
- R76 960 of Simmi's contributions to the pension fund, made during her 20 years of employment at Accent, had not been allowed as a deduction for tax purposes as at 28 February 2013.

Additional Information relating to Simmi for the year of assessment ending 28 February 2014:

- Simmi is married to Rakesh and they have three children who are married and living abroad. Simmi and Rakesh are married in community of property.

- Anju, Kiara and Simmi received interest from South African bank accounts of R10 500, R5 800 and R18 900 respectively.
- Rakesh received R4 200 in local interest from South African bank accounts and R3 200 in local dividends from a South African listed company.
- Rakesh also received net rentals of R80 000 from an apartment he lets out in Durban.
- Simmi personally contributed R1 000 per month to her retirement annuity fund. The disallowed portion of her retirement annuity fund contributions in terms of s 11(n) for the 2013 year of assessment amounted to R3 800.

YOU ARE REQUIRED TO:

- a) Calculate the taxable income or assessed loss of the partnership for the year of assessment ended 28 February 2014.

Your answer must clearly indicate every item which is of a capital nature or taxed in the hands of the individual partners.

Also provide detailed notes on the partnership's contribution to the pension fund, as well as the sec 8 (4) (a) recoupment allowance

(40 marks)

- a) Calculate, with brief explanations, the following components of Simmi's individual normal tax liability for the year of assessment ended 28 February 2014.

- | | | |
|-------|--|-----|
| (i) | The taxable lump sum from pension fund | (3) |
| (ii) | The taxable interest income | (4) |
| (iii) | The taxable dividend income | (3) |

(10 marks)

Total [50 marks]

CASE STUDY 3

Total [45 marks]

You are Professional Accountant (SA) for Zuma & Zille registered accountants. A client of yours in the SME sector is speculating shares on listed company on the JSE. The detail and name of the listed company is confidential at this stage and this is the information that you have been provided with .

1. The company was founded some years ago and operates as a chain of specialist stores selling stationery, clothing and crockery and home ware on credit.
2. From January 2008 to present date, the shares have doubled in price and the market in general appears to be most impressed with the performance of the economy.
3. The growth in the share price has been accompanied by growth in the number of stores that have been opened or acquired through the take over of SMEs operating in the same market.
4. Extracts from the annual financial statements of the are as follows:

Statement of Financial Position at 31 December

| | 2012 | 2011 |
|--|---------------|---------------|
| | R'000 | R'000 |
| EQUITY AND LIABILITIES | | |
| Issued share capital | 147834 | 147834 |
| Retained Income | 100192 | 82275 |
| Equity attributable to ordinary shares | <u>248026</u> | <u>230109</u> |
| Non-Current Liabilities | | |
| Long Term Loans | 237652 | 108297 |

Current Liabilities 148141 56390

Creditors 130732 44784

Shareholders for dividends 17409 11606

Bank Overdraft 0 0

TOTAL EQUITY AND LIABILITIES **633819 394796**

ASSETS

Non-Current Assets

Property, Plant and Equipment 16069 14696

Current Assets 617750 380100

Inventory 192085 149002

Trade and other receivables 425665 229633

Cash and bank balances 0 1465

TOTAL ASSETS **633819 394796**

Statement of Profit and Loss and Other Comprehensive Income for the years ended 31 December

| | 2012 | 2011 |
|--|--------------------|--------------------|
| | R'000 | R'000 |
| Turnover | 1287052 | 934052 |
| Operating Profit | 137342 | 81768 |
| Net Finance Cost | <u>39264</u> | <u>20862</u> |
| Operating Profit before taxation | 98078 | 60906 |
| Income tax expense | <u>7027</u> | <u>3048</u> |
| Profit for the Year | <u>91051</u> | <u>57858</u> |
| | <u><u>3502</u></u> | <u><u>2237</u></u> |
| Operating profit includes Depreciation and loss on sale of fixed asset | | |

Required:

- a) **Prepare the cash flows from operating activities for the company for 2012 using the available information (10 Marks)**
- b) **Perform a financial review of the company based on calculating the following financial ratios and explain how it may be interpreted.**

Debt equity ratio
 Times interest earned
 Current ratio
 Debtors average collection period
 Inventory turnover

Your answer should include an overall assessment of the company (25 Marks)

- c) **List the audit steps to verify the existence of inventory (10 Marks)**

Total [45 marks]

END OF EXAM

Annexure A - Tax Tables

TABLE 1

RATES OF NORMAL TAX PAYABLE BY PERSONS OTHER THAN COMPANIES AND TRUSTS (BUT INCLUDING SPECIAL TRUSTS AS WELL AS INSOLVENT AND DECEASED ESTATES) IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2014

| Taxable Income | | Rates of Tax | |
|----------------|---------------------|-----------------------------------|---------|
| Exceeds | But does not exceed | R | |
| R | R | | |
| 0 | 165 600 | 0 + 18% of each R1 | |
| 165 600 | 258 750 | 29 808 + 25% of the amount above | 165 600 |
| 258 750 | 358 110 | 53 096 + 30% of the amount above | 258 750 |
| 358 110 | 500 940 | 82 904 + 35% of the amount above | 358 110 |
| 500 940 | 638 600 | 132 894 + 38% of the amount above | 500 940 |
| 638 600 | | 185 205 + 40% of the amount above | 638 600 |

TABLE 2

TURNOVER TAX DUE BY MICRO BUSINESSES IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2014

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

TABLE 3**RATES OF TAX FOR COMPANIES AND CLOSE CORPORATIONS (OTHER THAN MINING COMPANIES AND LONG-TERM INSURERS AND RETIREMENT FUNDS)**

Financial years ending during the period of twelve months ending 31 March 2014

Type of company**Rate of tax****Small business corporations**

Taxable income:

| | |
|---------------------|---|
| R0 – R67 111 | 0% |
| R67 111 – R365 000 | 7% of the amount over R67 111 |
| R365 000 – R550 000 | R20 852 + 21% of the amount over R365 000 |
| Exceeding R550 000 | R59 702 + 28% of the amount over R550 000 |

Personal service provider companies 28%**Companies** 28%**Secondary tax on companies**

until 31 March 2012 10%

Dividends Tax (effective from 1 April 2012) 15%

TABLE 4**REBATES: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY**

| | 2014 |
|---|-------------|
| | R |
| Primary | 12 080 |
| Secondary (65 years of age or older) | 6 750 |
| Tertiary (75 years of age or older) | 2 250 |

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

| | |
|-----------------------------|---------------|
| Under 65 years | 2014 |
| | R |
| Taxpayer only | 242 per month |
| Taxpayer plus one dependent | 484 per month |
| Additional dependants | 162 per month |

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

TABLE 6

SCALE OF VALUES - TRAVEL ALLOWANCE

| Where the value of the vehicle | | Fixed Cost | Fuel Cost | Maintenance Cost |
|--------------------------------|---------------------|------------|-----------|------------------|
| Exceeds | But does not exceed | | | |
| R | R | R | c | c |
| 0 | 60 000 | 19 310 | 81.4 | 26.2 |
| 60 000 | 120 000 | 38 333 | 86.1 | 29.5 |
| 120 000 | 180 000 | 52 033 | 90.8 | 32.8 |
| 180 000 | 240 000 | 65 667 | 98.7 | 39.4 |
| 240 000 | 300 000 | 78 192 | 113.6 | 46.3 |
| 300 000 | 360 000 | 90 668 | 130.3 | 54.4 |
| 360 000 | 420 000 | 104 374 | 134.7 | 67.7 |
| 420 000 | 480 000 | 118 078 | 147.7 | 70.5 |
| 480 000 | | 118 078 | 147.7 | 70.5 |

TABLE 7

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

100 12

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

B

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

TABLE 8

TABLE OF TAX LIABILITY ON RETIREMENT FUND LUMP-SUM BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2014

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

TABLE 9

TABLE OF TAX LIABILITY ON RETIREMENT LUMP-SUM WITHDRAWAL BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2014

| Taxable amount | Rate of tax |
|-----------------------------------|---|
| not exceeding R22 500 | 0% of taxable income |
| Exceeds R22 500 but not R600 000 | R0 + 18% of taxable amount above R22 500 |
| Exceeds R600 000 but not R900 000 | R103 950 + 27% of taxable amount above R600 000 |
| Exceeds R900 000 | R184 950 + 36% of taxable amount above R900 000 |

TABLE 10

PRESCRIBED INTEREST RATES FOR FRINGE BENEFITS (per annum)

| | |
|----------------|-------|
| From 1/03/2007 | 10% |
| From 1/09/2007 | 11% |
| From 1/03/2008 | 12% |
| From 1/09/2008 | 13% |
| From 1/03/2009 | 11.5% |
| From 1/06/2009 | 9.5% |
| From 1/09/2009 | 8.5% |
| From 1/09/2009 | 8% |
| From 1/10/2010 | 7% |
| From 1/03/2011 | 6.5% |
| From 1/08/2012 | 6% |
| From 1/02/2014 | 6.5% |

TABLE 11

Interpretation Note No 47 (previously Practice Notes No 15, 19 and 39)

| Asset | Proposed write-off period (in years) | Asset | Proposed write-off period (in years) |
|--|---|---|---|
| Adding machines | 6 | Incubators | 6 |
| <i>Air conditioners:</i> | | Ironing and pressing equipment | 6 |
| Window type | 6 | Kitchen equipment | 6 |
| Mobile | 5 | Knitting machines | 6 |
| Room unit | 10 | Laboratory research equipment | 5 |
| <i>Air conditioning assets (excluding pipes, ducting and vents):</i> | | Lathes | 6 |
| Air handling units | 20 | Laundromat equipment | 5 |
| Cooling towers | 15 | Law reports: Sets (Legal practitioners) | 5 |
| Condensing sets | 15 | Lift installations (goods/passengers) | 12 |
| <i>Chillers:</i> | | Medical theatre | 6 |

| | | | |
|---|----|-----------------------------------|----|
| | | equipment | |
| Absorption type | 25 | Milling machines | 6 |
| Centrifugal | 20 | Mobile caravans | 5 |
| Aircraft: Light passenger or commercial helicopters | 4 | Mobile cranes | 4 |
| Arc welding equipment | 6 | Mobile refrigeration units | 4 |
| Artefacts | 25 | Motors | 4 |
| Balers | 6 | Motorcycles | 4 |
| Battery chargers | 5 | Motorised chainsaws | 4 |
| Bicycles | 4 | Motorised concrete mixers | 3 |
| Boilers | 4 | Motor mowers | 5 |
| Bulldozers | 3 | Musical instruments | 5 |
| Bumping flaking | 4 | Navigation systems | 10 |
| Carports | 5 | Neon signs and advertising boards | 10 |
| Cash registers | 5 | Office equipment – electronic | 3 |
| Cell phone antennae | 6 | Office equipment – mechanical | 5 |
| Cell phone masts | 10 | Oxygen concentrators | 3 |
| Cellular telephones | 2 | Ovens and heating devices | 6 |
| Cheque writing machines | 6 | Ovens for heating food | 6 |
| Cinema equipment | 5 | Packaging and related equipment | 4 |
| Cold drink dispensers | 6 | Paintings (valuable) | 25 |
| Communication systems | 5 | Pallets | 4 |
| Compressors | 4 | Passenger cars | 5 |
| <i>Computers</i> | | Patterns, tooling and dies | 3 |
| Main frame / servers | 5 | Pellet mills | 4 |
| Personal | 3 | Perforating equipment | 6 |
| <i>Computer software (main frames)</i> | | Photocopying equipment | 5 |
| Purchased | 3 | Photographic equipment | 6 |
| Self-developed | 1 | Planers | 6 |
| Computer software (personal computers) | 2 | Pleasure craft etc. | 12 |
| Concrete mixers (portable) | 4 | Ploughs | 6 |
| Concrete transit mixers | 3 | Portable safes | 25 |

| | | | |
|---|----|--|----|
| Containers (large metal type used for transporting freight) | 10 | Power tools (hand-operated) | 5 |
| Crop sprayers | 6 | Power supply | 5 |
| Curtains | 5 | Public address systems | 5 |
| Debarking equipment | 4 | Pumps | 4 |
| Delivery vehicles | 4 | Race horses | 4 |
| Demountable partitions | 6 | Radar systems | 5 |
| Dental and doctors equipment | 5 | Radio communication equipment | 5 |
| Dictaphones | 3 | Refrigerated milk-tankers | 4 |
| Drilling equipment (water) | 5 | Refrigeration equipment | 6 |
| Drills | 6 | Refrigerators | 6 |
| Electric saws | 6 | Runway lights | 5 |
| Electrostatic copiers | 6 | Sanders | 6 |
| Engraving equipment | 5 | Scales | 5 |
| Escalators | 20 | Security systems (removable) | 5 |
| Excavators | 4 | Seed separators | 6 |
| Fax machines | 3 | Sewing machines | 6 |
| Fertiliser spreaders | 6 | Shakers | 4 |
| Firearms | 6 | Shop fittings | 6 |
| Fire extinguishers (loose units) | 5 | Solar energy units | 5 |
| Fire detection systems | 3 | Special patterns and tooling | 2 |
| Fishing vessels | 12 | Spin dryers | 6 |
| Fitted carpets | 6 | Spot welding equipment | 6 |
| Food bins | 4 | Staff training equipment | 5 |
| Food-conveying systems | 4 | Surge bins | 4 |
| Fork-lift trucks | 4 | <i>Surveyors:</i> | |
| Front-end loaders | 4 | Instruments | 10 |
| Furniture and fittings | 6 | Field equipment | 5 |
| Gantry cranes | 6 | Tape-recorders | 5 |
| Garden irrigation equipment (movable) | 5 | Telephone equipment | 5 |
| Gas cutting equipment | 6 | Television and advertising films | 4 |
| Gas heaters and cookers | 6 | Television sets, video machines and decoders | 6 |
| Gearboxes | 4 | Textbooks | 3 |
| Gear shapers | 6 | Tractors | 4 |
| Generators | 5 | Trailers | 5 |

| | | | |
|--------------------------------|----|--|----|
| (portable) | | | |
| Generators (standby) | 15 | Traxcavators | 4 |
| Graders | 4 | Trolleys | 3 |
| Grinding machines | 6 | Trucks (heavy duty) | 3 |
| Guillotines | 6 | Trucks (other) | 4 |
| <i>Gymnasium equipment:</i> | | Truck-mounted cranes | 4 |
| Cardiovascular equipment | 2 | Typewriters | 6 |
| Health testing equipment | 5 | Vending machines (including video game machines) | 6 |
| Weights and strength equipment | 4 | Video cassettes | 2 |
| Spinning equipment | 1 | Warehouse racking | 10 |
| Other | 10 | Washing machines | 5 |
| Hairdressers' equipment | 5 | Water distillation and purification plant | 12 |
| Harvesters | 6 | Water tankers | 4 |
| Heat dryers | 6 | Water tanks | 6 |
| Heating equipment | 6 | Weighbridges (movable parts) | 10 |
| Hot water systems | 5 | Wire line rods | 1 |
| | | Workshop equipment | 5 |
| | | X-ray equipment | 5 |