

PART A										
RAM SLAM LTD										
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME										
FOR THE YEAR ENDED 28 FEBRUARY 2014										
Depreciation					-69 000					1
Interest on leased asset					-25 920					2
Taxation					26 578					
	Current				16 800					1
	Deferred				9 778					2
RAM SLAM LTD										
STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2014										
NON-CURRENT ASSETS										
Capitalised machinery					207 000					1
Deferred taxation					9 778					1 c
CURRENT ASSETS										
SARS					16 800					1 c
EQUITY AND LIABILITIES										
NON-CURRENT LIABILITY										
Lease liability (241,920-73,920)					168 000					2
CURRENT LIABILITY										
Lease liability					73 920					1

NOTES TO THE FINANCIAL STATEMENTS										
Accounting policies										
<i>Leased Assets</i>										
Ram Slam Ltd conducts part of its operations with leased machinery.										
1										
Assets leased in terms of lease agreements that are considered to be finance lease agreements are capitalised.										
1										
Leased assets are depreciated over the estimated useful life on the straight line basis.										
1										
Lease costs are amortised over the duration of the lease agreement using the effective interest rate.										
1										
<i>Deferred Tax</i>										
Deferred tax is provided on all temporary differences at current tax rates using the comprehensive basis under the statement of financial position method. Deferred tax assets are recognised to the extent that it is probable that there will be future profit against which to realise the asset.										
1										
<i>Capitalised Leased Assets</i>										
				Cost		Acc Depr		CA		
Machinery				276 000		69 000		207 000		2
<i>Liabilities under Finance Lease Agreements</i>										
				Min		Unearned		Present		
				Lease		finance		value		
				payments		charges				

Not later than one year			73 920		0		73 920		2		
Not later than five years			199 902		31 901		168 001				
	1 March 2015		90 318		9 677		80 641		3		n-
	1 March 2016		109 584		22 224		87 360		3		n-
Later than five years			0		0		0				
Total			273 822		31 901		241 921				
The effective interest rate on the lease agreement is 12% per annum.									1		
<i>Deferred Tax</i>											
The deferred tax asset comprises:											
Leased machinery					57 960				2		
Lease liability					67 738				2	34	

PART B

Selling price		25 200
Deposit		2 520
PV	22 680	
n	12	
i	0.83	(10%/12)
Comp		
PMT	1 994	
	1 994	

Amortisation table

	Total	Capital	Interest
01-Mar-13	22 680.00	22 680.00	
31-Mar-13	189.00		189.00
	-1 993.93	-1 804.93	-189.00
	<u>20 875.07</u>	<u>20 875.07</u>	<u>0.00</u>
30-Apr-13	173.96		173.96
	<u>21 049.03</u>	<u>20 875.07</u>	<u>173.96</u>

DATE	DETAILS	DEBIT	CREDIT	
01-Mar-13	Accounts Receivable/ Walmart Inc.	26 447.19		3 c based on int calc
	Instalment Sales		25 200.00	1
	Unearned finance charges		1 247.19	3

	Cost of instalment sales	21 000.00			1	
	Inventory		21 000.00		1	
	Bank	2 520.00			1	
	Accounts Receivable/ Walmart Inc.		2 520.00		1	
31-Mar-13	Bank	1 993.93			1	
	Accounts Receivable/ Walmart Inc.		1 993.93		1	
	Unearned finance charges	189.00			1	
	Interest on instalment sales		189.00		1	
30-Apr-13	Unearned finance charges	173.96			1	
	Interest on instalment sales		173.96		1	
	Second hand inventory	17 395.89		(20,875.07*100/120)	2	
	Bad debts	3 653.14		(20,875.07*20/120)+173.96	3	
	Unearned finance charges	884.23		(1,247.19-189.00-173.96)	2	
	Accounts Receivable/ Walmart Inc.		21 933.26	(26,447.19-2,520-1,993.93)	2	26

Taxation

Part A : Solution

Query 1

Dr. Car hire	252		
Cr. VAT input account		252	(2)
<i>Being the reversal of the input tax incorrectly claimed on the hiring of the motor car.</i>			

Input tax can be claimed on the airfares, since it constitutes taxable supplies and **local travel by air is standard rated**. (2)

The **accommodation and meal expense** would **normally constitute entertainment** as defined, but since the director is **away from home and work for at least one night for business purposes**, the exception relating to entertainment expenses applies, and the **input tax may be claimed** (section 17(2)(a)(ii)). (3)

The **hiring of the motor car constitutes the supply of a 'motor car' as defined, which is a denied supply** and **no input tax may be claimed**. (2)

POSSIBLE: 9 MARKS

MAXIMUM: 8 MARKS

Query 2

1. Dr. Bad Debts	R 10 000		
Dr. Vat Input account	R 1 400		
Cr. Debtor B		R11 400	(2)
<u>Being the amount owing by Debtor B (a local customer) written off as a bad debt.</u>			(1)

2. Dr Bad Debts	R20 520		
Cr. Debtor X		R20 520	(2)
<u>Being the amount owing by Debtor X (foreign customer) written off as a bad debt. As it is a foreign customer, the sale is regarded as export sales and the sale would have been zero rated. Therefore no input VAT can be claimed now that the foreign debt has been written off.</u>			(2)

3. Dr. Machinery (R80 000 –(R70 000 x 14/114))	R71 404		
Dr. Input VAT (R70 000 x 14/114)	R 8 596		
Cr. Bank		R80 000	(2)

Being the purchase of second hand machinery from a non vendor. A notional or deemed input tax deduction is available on the lesser of cost or open market value ie. R70 000. (2)

POSSIBLE: 11 MARKS

MAXIMUM: 10 MARKS

PART B			
A). First Provisional tax payment for 2014 year of assessment to be made on or before 31 August 2013			1
Based on basic amount As 2013 tax assessment not yet received, based on 2012 taxable income			
Basic Amount - 2012 taxable income		750 000	1
Normal Tax Payable R185 205 + R44 560 ((750 000 - 638 600) x 40%)		229 765	2+1P
Less: Rebates		-12 080	1
Normal Tax Liability		217 685	
Half the year(217 685/2)		108 843	1P
Less : Employees' Tax		-15 567	1
First provisional tax payment		93 276	1
		Total	9
		Max	9

B).Second Provisional tax payment for 2014 year of assessment to be made on or before			
28 February 2014			1
Taxable Income - 2014			
Taxable income from Top Model		425 000	1
Net fees from pilates classes		114 000	1
Salary - (R20 000 x 5)		100 000	1
Lump sum from provident fund Inclusion	Note 1	216 000	
Less- Lump sum specifically excluded from provisional tax payments		-216 000	1+1P
Employer Provident fund contributions - not a fringe benefit		nil	1
Provident Fund contributions - no deduction		nil	1
Taxable income		639 000	
Notes			
1. Provident contributions not allowed as an income tax deduction			
up to 28 February 2013		76 000	1
up to 31 July 2013 (20 000 X 8% X 5)		8 000	1
		84 000	
Therefore taxable portion of lumpsum R300 000 - R84 000 = R216 000			1

Since bella has taxable income of less than or equal to R1 million (R639 000)			1
In order to avoid additional tax , she should base his second provisional payment on the			
lesser of :			
a) 90% of actual taxable income(excluding any lump sum)(90% x R639 000 = R575 100)			1
b) Basic amount (R960 000 (2013 taxable income) - R90 000)= R870 000			2
Thus base second provisional payment on R575 100			
Normal Tax Payable R132 894 +R28 181 ((R575 100 - R500 940) x 38%)		161 075	1P
Less: Rebates		-12 080	1
Normal Tax Liability		148 995	
Less : Employees' Tax		-15 567	1
: First Provisional payment		-93 276	1P
Second provisional tax payment		40 152	1
		Total	20
		Max	20

Part C : Solution

The 'gross income' definition -

- In the case of any resident
 - the total amount , in cash or otherwise
 - received by or accrued to or in favour of such resident
 - during such year of assessment
 - excluding receipts and accruals of a capital nature

(2)

All of the requirements of the gross income definition must be satisfied before an amount constitutes gross income. If one of the requirements is not satisfied, the amount cannot be gross income and therefore cannot be subject to normal tax.

(1)

The question is whether or not an amount has been received by or accrued to Joe Greedy during the year of assessment ended 28 February 2014.

(1)

These two points are mutually exclusive and it is on the earlier of the two that an inclusion is triggered. (Delfos v CIR)
(2)

The other requirements of the gross income definition have been met.

'Received by'

In order to constitute a 'receipt' for normal tax purposes, the taxpayer must have received the amount on his own behalf and for his own benefit. (Geldenhuis v CIR, CIR v Cape Consumers (Pty) Ltd). (2)

The legality or otherwise of the business which produced the income was irrelevant to the question of the liability of that income for tax. (Delgoa Bay Cigarette Company v CIR, MP Finance v CIR.) (2)

The taxpayer receives an amount on his own behalf and for his own benefit irrespective of the fact that the person is engaged in illegal activities therefore the receipts from an illegal business will therefore be included in gross income .The entire R 500 000 received will therefore be included in gross income. (2)

'Accrued to'

For an amount to have 'accrued' in terms of the gross income definition means that the taxpayer has become 'entitled to' an amount. (Lategan v CIR; CIR v People's Stores (Walvis Bay) (Pty) Ltd) (2)

In the CIR v People's Stores (Walvis Bay) (Pty) Ltd case it was confirmed that 'accrued' does not mean 'due and payable'.
(2)

Therefore the Joe Greedy is entitled to the R100 000 and the entire R100 000 should be included in his gross income. None of the R600 000 is capital in nature as it is all derived from trading operations carried on by Joe Greedy. (1)

CONCLUSION

Therefore the entire amount of R600 000 must be included in gross income for the year of assessment ended 28 February 2014.
(1)

POSSIBLE: 18 MARKS

MAXIMUM: 8 MARKS

SOLUTION: Case Study 3

Nqobani Traders

Cash Budget for the period	October	November	December	
Receipts				
Cash Sales (10% increase)	302 500	332 750	366 025	1.5
Cash from debtors (w1)	520 800	572 880	593 868	9
Sale of equipment	100 000			0.5
Total receipts	923 300	905 630	959 893	

Payments

Loan payment		60 000		0.5
Purchases	404 250	444 675	489 143	1.5
Wages and salaries	40 500	40 500	41 000	1.5
Operating expenses	80 000	75 000	85 000	1.5

Purchase of machine			80 000	0.5
Total payments	524 750	620 175	695 143	
Cash surplus/(deficit)	398 550	285 455	264 750	1.5
Bank -opening balance	134 000	532 550	818 005	1.5
Bank - closing balance	532 550	818 005	1 082 755	

Marks 20

Working 1

	Sales	October	November	December
August	480 000	72 000		
September	528 000	158 400	79 200	
October	580 800	290 400	174 240	87 120
November	638 880		319 440	191 664
December	630 168			315 084

Total	520 800	572 880	593 868
marks			9

Increase in sales	1.1
First month	0.5
Second month	0.3
Third month	0.15
Bad debts	0.05

Total Marks 25

Description of Procedure

1 Select a sample of sales transactions recorded in the sales journal:

(a) vouch sales to copy invoices, despatch notes and sales orders;

((b) see that the sales orders are properly approved, including credit approval.

2 Check the computation of the invoice amounts.

3 Agree invoice amounts with the sales journal.

4 Agree customer details with the sales specified journal

5 Select a sample odespatch notes and :

(a) verify the numerical continuity;

(b) trace the despatch notes to invoices, to the entry in the sales journal, and to the sales ledger.

6 Select a sample of debit postings to the sales ledger and vouch the entries to sales invoices or other documentary evidence.

7 Test additions and cross additions of the sales journal

8 Trace postings from the sales journal to the nominal ledger.

9 From the sales ledger control account in the nominal ledger, vouch debit posting to the sales journal.

10 Obtain (or extract) a list of sales ledger balances:

(a) test balances to and from the sales ledger;

(b) test additions in the sales ledger in arriving at the balances checked;

(c) add the listing of the balances and agree the total to the balance on the sales ledger control account in the nominal ledger;

(d) add the sales ledger control account in the nominal ledger and agree the closing balance.

11 Vouch entries in the sales journal in the week before balance sheet date to despatch notes dated prior to balance sheet date.

12 Vouch entries in the sales journal in the week after balance sheet date to despatch notes dated after balance sheet date.

10 marks