PROFESSIONAL EVALUATION
ENGLISH QUESTION PAPER
7 November 2015

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 schedule 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]

The information to follow relates to The Cape Spice Emporium (Pty) Ltd, and applies from question 1 to question 10;

In 1963, 3 brothers incorporated The Cape Town Spice Emporium (Pty) Limited, in terms of the Companies Act, 1926 (as amended). Through the years, the founding shareholders and incorporators have all passed on and their respective shares devolved upon their heirs or heirs of heirs, as the case might be, so that on 28 February 2015 the share register of the Company acknowledges 23 shareholders. Apart from the normal business trading activities, the Company also owns the building it operates from and which it acquired in 1964 in the Cape Town CBD.

You have been approached by a new shareholder who recently acquired 1 share out of the 200 issued shares of 1 cent each, from her late father's estate to provide her with some advice. Consider each of the following questions independently of each other and select the most appropriate option.

Question 1

As a shareholder of 1 ordinary share of 1 cent each, the new shareholder is;

a. Not entitled to a share certificate in her name, because the paper is worth more than the share
b. Not entitled to a share certificate in her name, because the sole Director of the Company claims that the Incorporators of the Company had decreed that no female shall ever become shareholders in the Company
c. Not entitled to a share certificate in her name, as the share certificate in her late father's name is a transferable bearer instrument
d. Entitled to a share certificate in her name in the form and manner prescribed in the Company's Memorandum and Articles of Association

Question 2

Since its inception, the Company never ever declared or paid any dividend, and since 2010 the Company has consistently posted assessed tax losses; therefor the new shareholder will be;

a. Called upon to pay the tax debts of the Company
b. Entitled to dividends that should have been declared in the profit-making years
c. Free from any liability of the Company
d. A shareholder of a bankrupt entity

Question 3

The building from which the Company operates its trading activities was acquired in 1964 for R6,000.00, and it still reflecting at such value in the Annual Financial Statements. The building is wholly owned and not mortgaged, but the Company's Bankers have registered a notarial bond of R1,400,000.00 over it, as security for the overdraft facilities. Similar sized buildings in the surrounding area are being sold for amounts in the region of R4,500,000.00. The International Financial Reporting Standards for Small-, Medium Entities

a. Allows for the building to be revalued
b. Allows for the building to be revalued provided that a Non Distributable Reserve is created
c. Allows for the building to be revalued only to be extent of the registered notarial bond in favour of the Company's Bankers
d. None of the above

Question 4

The building as described in Question 3 above, was built in 1855 and is thus subject to the Heritage bylaws and regulations of the City of Cape Town, and its façade may not be changed or altered. In January 2015, the sole Director of the Company appointed a Painting and Waterproofing Contractor to paint, repair the blistering plaster and waterproof the roof. By year-end date, the cost was R179,000 inclusive of Value Added Tax and a further R221,000 was paid to the Contractor by 15 May 2015, in full and final settlement of the account. The payments made must be;

a. Debited to the Repairs and Maintenance Account, in the Statement of Profit and Loss
b. Capitalized as Improvements to Buildings in Property, Plant and Equipment
c. Recognized as an Extraordinary Expense in the Statement of Equity
d. All of the above is possible at the Director's discretion

Question 5

The new shareholder is of the view that the R500,000 bill paid to the Painting and Waterproofing Contractor is excessive. On investigation, she found that the appointed contractor is the grandson-in-law of the sole director of The Cape Spice Emporium (Pty) Ltd and that the sole director in his personal capacity provided the start-up capital of the Contractor’s business. She may consider the behaviour of the Director in awarding the Contract as;

a. Nepotism
b. An arms-length transaction
c. A potential conflict of interest
d. All of the above

Question 6

In order to determine the level of assurance required by the Companies Act, Act 71 of 2008, on the Annual Financial Statements of The Cape Spice Emporium (Pty) Ltd, the Public Interest (PI) Score was calculated. Which of the following elements do not influence the PI-score?

a. The number of valid share certificates in issue
b. The aggregate number of shareholders for the year
c. The aggregate number of employees, as defined in the Basic Conditions of Employment Act, for the year
d. Turnover

Question 7

As a result of the new shareholder activism in the Company, the Director approached you as a Professional Accountant (SA) to compile and independently review the Annual Financial Statements for the coming year ending 29 February 2016. No amendments to the original 1963 Memorandum and Articles of Association were ever registered with CIPC. You may;

a. Accept such an appointment wholly
b. Accept either the compilation engagement or the review engagement, but not both
c. Not accept the review engagement as an audit is mandatory
d. Not accept either

Question 8

As a result of the new shareholder activism in the Company, the Director approached you as a Professional Tax Practitioner (SA) to prepare and submit via www.sarsefiling.co.za the required income tax, VAT and payroll taxes returns for The Cape Spice Emporium (Pty) Ltd. You may;

a. Only accept such an appointment provided the Company already has a valid Tax Clearance Certificate
b. Accept the appointment
c. Not accept the appointment because the efiling holding tax practitioner refuses to release the efiling profile to you
d. None of the above

Question 9

When The Cape Spice Emporium (Pty) Ltd was incorporated in 1963, every shareholder was a director of the Company. Such a company is regarded as;

a. A closely-held company
b. An owner-managed company
c. Both (a) and (b) is correct
d. Neither (a) nor (b) is correct

Question 10

For the financial statements under review, i.e. 1 March 2014 to 28 February 2015, The Cape Spice Emporium (Pty) Ltd reported Director's Emoluments of R360,000 and all other employee costs amounted R340,000 for the year and therefor The Cape Spice Emporium (Pty) Ltd,

a. Is exempted from paying the Skills Development Levy
b. Should not be deducting any Pay As You Earn (PAYE) from the Director
c. Must be registered with the Unemployment Insurance Commissioner despite the fact that Unemployment Insurance contributions are paid to SARS
d. Is exempt from registering with the Compensation Fund

Question 11

The primary responsibility of an appointed Registered Auditor (SA) in respect of an audit engagement is, to;

(a) Verify all the financial transactions and supporting documentation of the client
(b) Ensure that the client's financial statements are reasonably accurate and free from bias
(c) Report all financial irregularities to the shareholders of the client
(d) Ensure that all the client's financial statements are prepared and submitted to the relevant authorities on time

Question 12

In an independent review engagement, where the client has failed to follow the International Financial Reporting Standards for Small-, Micro Enterprises (IFRS for SME), the Professional Accountant is,

a. Not required to determine the effect of a departure if management has not done so, but that fact must be disclosed in the report.
b. Required to determine the effect of a departure if management has not done so, and that fact must be disclosed in the report.
c. Not required to determine the effect of a departure if management has not done so, and that fact need not be disclosed in the report.
d. Required to determine the effect of a departure if management has not done so, and that fact need not be disclosed in the report.

Question 13

Those charged with governance of any Company has to ensure that the policies of the Company are consistent with the public interest. Hence the Board of Directors of any company should focus exclusively on, and to the exclusion of all others, the;

a. Collective well-being of all stakeholders
b. Wealth generation for the benefit of shareholders
c. Compliance with legal requirements and codes of governance
d. Tax compliance and obligations

Question 14

You have been appointed as Financial Director of a medium sized company. As a Professional Accountant in Business it is your responsibility to ensure that your Company publish information that provides a complete and precise view of the financial affairs of that Company, without concealing any negative elements that may distort the user of the financial statement's perception of its position. This duty is best known as the ethical principle of'

a. Objectivity
b. Independence
c. Honesty
d. Probity

Question 15

Section 29(3)(b)(iii) of the Companies Act, Act 71 of 2008 reads; "stating the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of, the financial statements that it summarises;…". Which of the following is an example of such summarized financial information?

a. Forecasts of revenues and expenses for a particular department
b. Agreed upon targets set with managers during performance appraisals
c. New product development plans for the ensuing financial year
d. The Work Skills Plan

Question 16

You are employed as a Professional Accountant in Public Sector and part of your duties is to assess the financial credibility of tenderers. In pursuance of compiling such a report you must ascertain the liquidity, equity and outside long-term borrowings of the tenderers. Which component of the Annual Financial Statements will provide you the measurement or extent of the liquidity, equity and outside long-term borrowings?

a. Statement of Cash Flows
b. Statement of Changes in Equity
c. Statement of Financial Position
d. None of the above

Question 17

The activity of **confirming** that a Company has developed and implemented appropriate policies for the prevention and detection of fraud; is typically part of the task description of;

a. The Audit and Risk Committee
b. The Social and Ethics Committee
c. The Remuneration Committee
d. The Internal Auditors team

Question 18

An agreed-upon procedures engagement is one in which the Professional Accountant (SA) and management:

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

Question 19

Govan Masemela is the owner-operator of an ID photo booth outside the Department of Home Affairs Refugee Centre in Airport Industria, Cape Town, using the same second-hand caravan that he bought 15 years ago. He needs to decide whether or not he acquires a new caravan which has disposable toilet facilities, which will be exclusively used by his clientele. He is aware that he cannot increase his service fee per unit, as more competitors have entered his market space. In advising him you will explain to him that a **Sunk Cost** is;

a. A relevant cost
b. An avoidable cost
c. A cost resulting from a past business decision which cannot change
d. An opportunity cost wasted by not trading in the existing caravan for a new one

Question 20

In the event that Govan Masemela decides that he acquires the new caravan with a price tag of R 195,000, a local soft drinks company will have the new caravan spray painted in their corporate colours and logo at their cost and furthermore pay Govan Masemale R 500 per month in arrears for 36 months, subject to certain agreed terms and conditions. In deciding which financing options are available to him, Govan Masemela must regard the amount of R 500 additional income as;

a. A tax-free revenue source
b. Irrelevant in deciding on which financing option is best
c. An offset against either lease or instalment sale payments for 3 years
d. None of the above

Question 21

Govan Masemela's 21 year-old son Thabo will be completing his year-long learnership and expects to be awarded the National Certificate in Afro Hairdressing, a NQF 4 qualification. Thabo will use the caravan tent, acquire a barber's chair and provide a hairdressing service. Thabo will pay his Dad R 10, as facility fee, for every client paying the R 30 fee. Thabo expects to attract at least 10 heads per day initially, but hopes to increase his number of heads to at least 20 in 6 months. Which of the following statements is correct?

a. Thabo is an employee of his father and therefor Govan shall be entitled to claim the Employment Incentive Scheme benefits if Govan is registered for payroll taxes
b. Thabo is an independent contractor and will be covered under Govan's Compensation Fund registration
c. Thabo is a start-up entrepreneur and is thus exempt from registering as a provisional taxpayer for the next 3 years
d. Thabo may elect the Turnover Tax regime

The information to follow relates to The Friendly Family Company (Pty) Ltd, and applies from question 22 to question 25;

Since 2008, a family started a manufacturing business The Friendly Family Company (Pty) Limited, in terms of the Companies Act, 1973 (as amended). The company manufactures three principle product lines which are costed using absorption costing methods. The accounting officer was appointed by the members in terms of an Agreed-upon Procedure Engagement to review the costing structure of the company.

The following calculations were extracted from the management accounting records:

	Product Line 1	Product Line 2	Product Line 3
Contribution per unit	76.92	56.80	61.35
Material usage per unit kg/unit	3.75	4.40	3.10
Weights	4	6	5
Budget sales in units	25,000	30,000	25,000

The maximum available material from the supplier for the month 290,000 kg. There are no substitute materials available in the market. The total fixed costs consisted of R 650,000.00 and R 380,000.00 for manufacturing and administrative costs respectively.

Question 22

The assistant to the accounting officer stated that the profitability ranking of the products under conditions of constraints are based on:

a. The contribution per unit
b. The total budgeted profit realised
c. The constraint per unit of constraint
d. The break-even point in units

Question 23

The aggregate break-even point in units for the monthly production plan will amount to:

a. 12,214 units
b. 19,354 units
c. 9,996 units
d. 15,839 units

Question 24

The production manager informed you that the allocated fixed costs (manufacturing and administrative) for Product Line 2 amounted R 450,000.00. The manager budgeted for a profit of R 15.00 per unit. The break-even point in units for the Product Line 2 will be:

a. 7,922 units
b. 10,766 units
c. 6,268 units
d. none of the above

Question 25

The break-even point in units for Product Line 1 was estimated to be 6,238 units. Which of the following statements is correct? The budget profit for the period amounts to:

a. R 1,704,000.00
b. R 1,349.681.60
c. R 387,300.00
d. R 306,767.42

SECTION B CASE STUDY QUESTIONS

Case Study 1 [55 marks]

PART A

Brooklyn Ltd purchases memory cards from its supplier. Brooklyn Ltd installs some of the memory cards in cameras and tablets whilst some of the memory cards are sold to customers as stand-alone memory cards. The accountant at Brooklyn Ltd uses the same cost formulas to value all of its memory card inventory.

You are required to:

Discuss, in terms of International Financial Reporting Standards, whether Brooklyn Ltd will be allowed to value the stand-alone memory cards differently from the memory cards used in the cameras and tablets. Reference must be made to *Section 13, Inventories of IFRS for SMEs.*

[5 marks]

PART B

Brooklyn Ltd has presented you with an extracted from the property, plant and equipment register. As the newly appointed junior accountant, you have been requested to assist in the preparation of the company's financial statements for the year ended 31 December 2014.

The property, plant and equipment information at 1 January 2014 contained in the register is as follows:

Item	Cost	Accumulated Depreciation
Land and buildings	375 000	0
Machinery 1	37 500	?
Machinery 2	157 500	?
Furniture	55 000	20 000
Motor Vehicles	150 000	77 500

Additional information:

1. Machinery, Furniture and Motor vehicles are measured using the cost model.
2. Furniture and motor vehicles are depreciated on a straight-line basis at 10% and 20% per annum respectively.
3. Machinery and capitalized machinery are depreciated at 20% per annum on the diminishing balance method.
4. Land consists of stand 130, Germiston and was purchased in 2010. At 31 December 2014 the financial director estimated the current market value of this property (land and buildings) to be R500 000. This property is used and occupied for business purposes. The financial director recommended that the property be measured using the revaluation method. The estimated value of the buildings at 31 December 2014 was R320 000.
5. During July and August 2014 the entity completed renovations to the building at an aggregate invoiced cost of R68 400. The renovations were performed by a contractor who was not registered for VAT. The cost of renovations net of VAT were recognized as repairs and maintenance in the statement of financial performance.
6. During the current reporting period the furniture was slightly damaged due to renovations that were done in the entity's offices. These items are still in working order and the useful life has not been affected. At 31 December 2014 the financial director has determined that these items of furniture can be sold for R28 000 with selling expenses of R3 500 to be incurred. The value in use was determined to be R26 000.
7. Machinery 1 was purchased on 1 May 2011 whilst Machinery 2 is held in terms of a finance lease agreement and was obtained on 1 April 2014.
8. On 30 June 2014 a motor vehicle that was purchased at a cost of R45 000, included in the fixed asset register was sold for R18 750. This cash amount received on disposal was credited to the motor vehicles account. On 1 January 2014 the accumulated depreciation of the motor vehicle amounted to R27 500.

<u>You are required to:</u>

(a) Discuss how the information in note 4 will incorporated in the financial statements for the reporting period ended 31 December 2014 if the recommended of the financial manager is adopted. **[6 marks]**

(b) Discuss whether the renovation costs incurred as mentioned in note 5 was correctly treated in terms of the accounting standards by the accountant in the financial statements for the reporting period ended 31 December 2014. **[3 marks]**

(c) Record the journal entries to recognize the effects of information outlined in note 6 for the reporting period ended 31 December 2014 in compliance with the requirements of the accounting standards. **[5 marks]**

(d) Record the journal entries to account for the disposal of the motor vehicle outlined in note 7 above for the reporting period ended 31 December 2014. **[5 marks]**

(e) Disclose, in terms of International Financial Reporting Standards, the property, plant and equipment in the statement of financial position including the relevant notes for Brooklyn Ltd for the reporting period ended 31 December 2014. **[23 marks]**

PART C

The following information was extracted from the drafted financial statements of Brooklyn Ltd in respect of machinery leased in terms of a finance lease:

	2014	**2013**
Leased machinery – carrying amount	45 000	36 000
Finance lease creditor	47 250	28 750
Accrued interest	4 850	2 950

Wear and tear allowance for machinery is calculated at 20% on cost. The leased machinery was capitalized at a cost of R60 000. The income tax rate remained unchanged at 28%.

You are required to:

Record the journal entries for deferred tax for the reporting periods ended 31 December 2013 and 2014. **[8 punte]**

Case Study 2 [50 marks]

PART A

Design Limited is a South African resident company and is situated in Pinetown, Kwa-Zulu Natal. Design Limited manufactures shoes and makes 80% of their sales locally and 20% internationally. Design Limited is a registered VAT vendor and a Category B vendor.

The financial accountant of Design Limited has sent you an extract from the VAT 201 for the VAT period ended February 2015. His assistant accountant, Alicia Naidoo, completed the VAT 201 return. It was her first return that she has ever completed. Alicia moved from the USA to South Africa to be close to her boyfriend who lives in South Africa and did not study the VAT laws applicable to South Africa. However, she did a VAT course before she started working at Design Limited. The following is the extract from the VAT 201 return for the VAT period ended February 2015:

Details	Note	VAT Output	VAT Input
		R	**R**
Export Sales	1	84 000	
Receipts from debtors	2	63 000	
Payment received from insurance company	3	27 300	
Imported machine	4		44 688
Purchase of double cab bakkie	5		56 000
Outstanding Creditors	6	3 920	
Petrol	7		1 842

Notes: (All amounts include VAT where applicable unless otherwise stated)

1. The export sales of R684 000 were made to a company in London during February 2015.
2. Cash receipts of R513 00 from debtors during January and February 2015 for credit sales made in December 2014 and January 2015. The cash received in respect of credit sales for January amounted to R278 000.
3. During January 2015 one of the company's motor vehicles (a motor car as defined) was stolen. The insurance company paid R210 900 to Design Limited during February 2015 as an insurance settlement for the motor vehicle. The insurance company also paid R11 400 for trading stock that was in the motor vehicle when it was stolen.

4. Specialised machinery was purchased from China. This machinery will be used to make the shoe moulds in a faster and more cost efficient manner. The amount of R399 000 was the rand equivalent after the foreign currency conversion (assume correctly converted) and the customs duty value of the machine was R450 000. No non-refundable import duties or taxes were incurred. A clearing agent was used for this transaction. The machine entered the country on 6 January 2015 and was cleared by the customs authorities on 15 January 2015.
5. Design Ltd purchased a Toyota double cab bakkie on 10 February 2015 to use for delivery purposes. They paid R456 000 cash for the Toyota double cab bakkie and it was brought into use immediately.
6. Embellishments for the shoes purchased from a local creditor amounting to R31 920 on 1 January 2014 remain unpaid due to a dispute.
7. Petrol expenses amounted to R15 000 for the VAT period.
8. All suppliers are registered VAT vendors, unless otherwise stated and Design Limited was in possession of valid tax invoices where appropriate.

<u>You are required to:</u>

Advise the assistant accountant as to whether she has accounted for the VAT correctly on the transactions in the VAT 201 return for the tax period ended 28 February 2015. Support your advice with the necessary calculations.

NB: Write comments for each item to support or reject, with reasons, in respect of the the amount reflected in the VAT 201 schedule prepared by the assistant accountant.

[30 marks]

PART B

Ashley Smith is an engineer with Genfin Limited. She is 38 years old and is married out of community of property to Jeff Smith, age 42. They are both residents of the Republic and live in Edenvale, Johannesburg. Ashley and Jeff have 2 children. Rebecca, age 20 is completing second year of BLaw at University of Cape Town and Nolen, age 18 is completing matric at Edenvale High School. Ashley's mum, Kate, age 67, also lives with them. Kate is also a resident of the Republic. She moved in with Ashley after she lost her late husband in 2001.

Ashley started her career as an engineer at Genfin Limited 15 years ago. She slowly climbed the corporate ladder and she is now the head process engineer for Genfin Limited's renewable energies division. She was employed by Genfin Limited for the entire 2015 year of assessment. Genfin Limited is a registered VAT vendor that makes 100% taxable supplies and has a yearend that ends on the last day of February. All amounts exclude VAT unless otherwise stated.

The following is Ashley's monthly package from Genfin Limited for the 2015 year of assessment. This package remained constant throughout the 2015 year of assessment.

	Note	**R**
Salary	1	120 000
Employer Contributions towards a provident fund	2	8 400
Employer Contributions towards a medical aid	3	3 700
Right of use of motor vehicles	4	?
Housing Subsidy	5	1 600
Cell phone and internet reimbursement	6	1 800
Bursary	7	80 000

Note

1. Ashley contributes 7% of her monthly salary towards a provident fund. Her employer also contributes 7% towards the provident fund.
2. Her employer contributes R3 700 per month towards a medical aid for her. Jeff, their two children and her mum Kate are dependants on her medical aid. She contributes R3 500 per month towards the medical aid, over and above her employer's contribution.

3. Ashley was provided with exclusive use of a Honda Ballade (a motor car as defined for VAT purposes) with a cost price and market value of R467 400 (including VAT of R57 400) from 1 March 2014. Genfin Limited leased this vehicle under an operating lease as defined in section 23A(1) from an unconnected third party for R10 260 per month (including VAT of R1 260) from 1 March 2014. Genfin Limited also paid the fuel costs of R6 000 per month. She has unlimited use of the Honda Ballade in the evenings and over the weekends. Ashley travelled a total of 29 685 kilometres in this motor vehicle up to 28 February 2015, of which 9 200 kilometres were travelled for business purposes as shown by her log book. Ashley bears no costs in respect of this vehicle.
4. Genfin Limited pays all employees a standard housing allowance of R1 600 per month.
5. Genfin Limited reimburses her to the maximum of R1 800 per month for her cell phone and internet expenses incurred for business purposes. Ashley's cell phone and internet provider is ExCell which is a registered VAT vendor. Ashley's cell phone and internet business expenses exceeded R1 800 per month for the entire 2015 year of assessment. Each month Ashley submits her ExCell statements to Genfin Ltd in support of the reimbursement.
6. Rebecca applied in 2013 to Genfin Limited for a bursary to attend university. Genfin Limited selects 10 students each year to which they award full bursaries for the duration of their studies at a South African university. The bursaries are awarded based on the applicant's academic results in their matric year. Genfin Limited received 100 applications in that particular year and Rebecca was one of the successful students that were awarded a bursary. She obtained 7 distinctions in her matric year. Genfin Limited has paid Rebecca R80 000 on 10 January 2014 and 10 January 2015 for her university tuition fees and text books. Rebecca is studying a NQF level 6 qualification.
7. Qualifying medical and dental expenses of R30 560(including VAT of R3 753) were incurred and paid by Ashley and not recovered from the medical aid scheme. Ashley also incurred additional medical expenses of R63 000(including VAT of R7 737) in the 2015 year of assessment due to Kate's deteriorating health, all of which was not recovered from the medical aid. She experienced cash flow problems and was only able to pay R45 000 of the R63 000 medical expenses expended on Kate's medical condition. She did however make payment arrangements with the medical practitioners concerned. They all agreed to allow her to pay her outstanding debts to them in May 2015 when she receives her annual bonus.

You are required to:

Calculate the normal tax liability of Ashley Smith for the year of assessment ended 28 February 2015. Provide reasons where the amount does not have an impact on taxable income. **[20 marks]**

Case Study 3 [45 marks]

The Friendly Grocer (Pty) Ltd was started in 2010 by sisters Catlin and Kris Genner. Since inception it has always been a family business, with emphasis placed on good old family values such as wholesomeness, trust, honesty and integrity. The sisters' vision was to create a store that would resemble a marketplace of old, where farmers brought their fresh produce from their farms to be sold to the public. This was how their first store in Rosebank, Johannesburg was run, and this is how every Friendly Grocer store that has opened since. The dedication to freshness at an affordable price has always remained one of the cornerstones on which The Friendly Grocer is built.

Today there are more than 5 Friendly Grocer stores throughout Gauteng and mainly distributes produce to large supermarkets .The business is mature and fairly stable year on year and has 100 employees.

The Friendly Grocer prepares an annual fixed budget.

The company's accounts department consists of one part-time professional accountant, Bruce who has been with the company since its inception. The professional accountant has managed the workload however over time, with the increasing number of stores he has been struggling. Additionally the professional accountant is responsible for preparing the budget, preparing payment requisitions, authorising all payments, identifying and presenting variances to the budget to management. Bruce has been working part –time at the Friendly Grocer as he is a single dad with three children who prides himself on sending his children to top-end schools in Gauteng. Colleagues have often commented on the unusually long working hours for a part time employee. Bruce has refused assistance in his role and has refused to be made a full time employee. Bruce has also not taken leave in three years.

Bruce prepares the budget using his own excel spreadsheets and management has often complained about errors and discrepancies when comparing month to month budgets.

The Friendly Grocer pays each of its three sales managers an annual salary plus an individual bonus based on sales targets set at the beginning of the year.

The Friendly Grocer has found that often the managers secure work from several major clients early in the year and reach their targets well before the year has ended. They then make little effort to secure extra fees for the company. This, together with a few other problems that have arisen, has made the company consider whether its current budgeting process could be improved and whether the bonus scheme should also be changed.

The Friendly Grocer is now considering replacing the fixed budget with a monthly rolling budget, which The Friendly Grocer believes will make the budgeting process more relevant and timely and encourage managers to focus on the future rather than the past. It would also prevent the problem of targets being met too early on in the year by the sales managers because the targets would be set for monthly performance rather than annual performance. For example, a manager could be given a target of securing R200 000 fee income in the first month for a reward of 2% of salary. Then, depending on what is happening both within the business and in the economy as a whole, at the end of the first month, a different target fee income could be set for the second month.

Included below is an extract of the Financial Statements of The Friendly Grocer.

Statement of financial Position	**2015**	**2014**
ASSETS	**R**	**R**
Non -current Assets	**1 160 000**	**1 147 500**
Land and Buildings	700 000	650 000
Equipment	245 500	289 500
Machine	214 500	208 000
Current assets	**494 900**	**433 500**
Inventory	180 000	160 000
Accounts receivables	210 500	175 800
Cash and cash equivalent	58 000	55 400
Rent paid in advance	13 400	12 300
Taxation	33 000	30 000
Total Assets	**1 654 900**	**1 581 000**
EQUITY AND LIABILITY		
Equity	**939 900**	**903 200**
Capital	501 000	501 000
Retained Income	438 900	402 200
Liabilities		
Non-current		
Long term loan	**223 000**	**187 000**
Current liabilities	**492 000**	**490 800**
Trade payables	234 500	260 000
Short term loan	200 000	150 000
Insurance payable	2 500	3 800
Dividends payable	55 000	77 000
	1 654 900	**1 581 000**

The Friendly Grocer (Pty) Ltd		
Statement of comprehensive income	**2015**	**2014**
Sales	1 500 000	900 000
Cost of sales	-860 000	-540 000
gross profit	640 000	360 000
Other expenses	-132 500	-112 300
Interest expense	-18 000	-24 000
Profit before tax	489 500	223 700
Tax	-146 850	-67 110
Profit after tax	342 650	156 590

Additional information.

65% of sales are on credit.

Inventory had a balance of R160 000 in 2014 and R130 000 in 2013 respectively.

All purchases are on credit.

Assume that there are 365 days in a year.

You are required to:

(a) Discuss the internal control/governance issues relating to the professional accountant and bonus scheme. **[8 marks]**

(b) Provide the audit steps to be followed to ensure the accuracy, cut-off and occurrence of sales and sales returns. **[9 marks]**

(c) Present the cash generated from operating activities in the statement of cash flow for the reporting period ended 28 February 2015 using the direct method.

[8 marks]

(d) Calculate and briefly comment on the following ratios for 2013 and 2014 for The Friendly Grocer.

-Average inventory holding period **[4 marks]**

-Average settlement period from receivables **[4 marks]**

-Average settlement period for payable **[4 marks]**

-Acid test ratio **[4 marks]**

-Debt: Equity ratio **[4 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 2015

Taxable Income		Rates of Tax
Exceeds R	But does not exceed R	R
0	174 550	0 + 18% of each R1
174 550	272 700	31 419 + 25% of the amount above 174 550
272 700	377 450	55 957 + 30% of the amount above 272 700
377 450	528 000	87 382 + 35% of the amount above 377 450
528 000	673 100	140 074 + 38% of the amount above 528 000
673 100		195 212 + 40% of the amount above 673 100

TABLE 2

TURNOVER TAX DUE BY MICRO BUSINESSES IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2015

Turnover		Rates of Tax
Exceeds R	But does not exceed 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 2015

Type of company	**Rate of tax**
Small business corporations	
Taxable income:	
R0 – R70 700	0%
R70 701 – R365 000	7% of the amount over R70 700
R365 001 – R550 000	R20 601 + 21% of the amount over R365 000
Exceeding R550 000	R59 451 + 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	12 726
Secondary (65 years of age or older)	7 110
Tertiary (75 years of age or older)	2 367

TABLE 5

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

Under 65 years	**2014** **R**
Taxpayer only	257 per month
Taxpayer plus one dependent	514 per month
Additional dependants	172 per month

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

TABLE 6

SCALE OF VALUES - TRAVEL ALLOWANCE

Value of the vehicle	Fixed cost	Fuel cost	Maintenance cost
R	R per annum	c per km	c per km
0 – 80 000	25 946	92.3	27.6
80 001 – 160 000	46 203	103.1	34.6
160 001 – 240 000	66 530	112.0	38.1
240 001 – 320 000	84 351	120.5	41.6
320 001 – 400 000	102 233	128.9	48.8
400 001 – 480 000	120 997	147.9	57.3
480 001 – 560 000	139 760	152.9	71.3
Exceeding 560 000	139 760	152.9	71.3

TABLE 7

Rental value of use of residential accommodation: $(A - B) \times \frac{C}{100} \times \frac{D}{12}$
S10A: Capital portion of a purchased annuity: $Y = \frac{A}{B} \times C$
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 2015

Taxable amount	**Rate of tax**
not exceeding R25 000	0% of taxable income
Exceeds R25 000 but not R660 000	R0 + 18% of taxable amount above R25 000
Exceeds R660 000 but not R990 000	R114 300 + 27% of taxable amount above R660 000
Exceeds R990 000	R203 400 + 36% of taxable amount above R990 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%
From 17/07/2014	6.75%