PART A:

Explain to the client what an independent review of the financial statements is as performed in terms of the Independent Review Standard (ISRE 2400)?

[4 marks]

	Marks
An independent review is a **limited assurance engagement** where the practitioner performs primarily **inquiry and analytical procedures** to obtain **sufficient appropriate evidence as the basis for a conclusion** on **the financial statements as a whole**, expressed in accordance with the **requirements of ISRE 2400.**	1 1 2 1
OR	
An independent reviewer is performed on a set of financial statements presented **(prepared independently of the reviewer)** with the **objective of expressing an opinion (negative/limited assurance)** on whether the **financial statements are free of any material misstatement** – financial statements have a financial information risk. The review is performed by **conducting inquiry from staff** and **analytical procedures on the financial statements** in order to obtain **appropriate and sufficient evidence to support the opinion expressed.**	 1 1 1 1 1 1
	Max: 4

PART B:

Assume that an independent review engaged was completed by the professional accountant. Criticise the above report issued by the professional accountant in terms ISRS 2400 – Independent Review Engagement. Limit your critique to any four principle issues.

[16 marks]

		Marks
Title	The title should provide an indication of the **type of engagement report** and to whom it is addressed – Independent review Report **to the shareholders of the company**	1 1
Introduction	The introduction should provide information about: • the **legislation in terms of the engagement** is performed (section of the Companies Act or other legislation) • the **nature of the type of engagement** was conducted including the entity and **period for which the engagement was conducted** • the **basis of the review should be stated**, viz. the financial statements and **its contents** – statement of financial **performance, financial position and the statement of cash flow including the notes to the financial statements**	1 1 1 1 1 2
Responsibilities of management and reviewer	The responsibilities of **management are to prepare the financial statements** in **compliance with the appropriate accounting framework.** The responsibilities of the **reviewer is to independent review the financial statements** to **express an opinion** (limited assurance) whether the financial statements **contain any material misstatements**.	1 1 1 1 1
Legislation governing the procedures to perform review engagement	The independent review engagement is conducted in **compliance with ISRE 2400 – Review Engagement**. The standard requires the reviewer to **plan and perform the review** to obtain **moderate assurance** as to whether the financial statements are **free of any material misstatement** – material misstatement implies that the financial statements **cannot be relied on nor fairly represent the results** of the business. A review is limited primarily to **inquiries of company personnel** and **analytical procedures applied to financial data** and thus provides **less assurance than an audit**.	1 1 1 1 1 1 1 1 1 1

Relationship of engagement to an audit	The review **cannot claim to or give the impression that an audit was conducted** – implicitly specify that **no audit was conducted** and, accordingly, we do **not express an audit opinion.**	**1** **1**
Expressing an opinion	Based on our review, **nothing has come to our attention** that causes us to believe that the accompanying financial statements do **not give a true and fair view** (are not presented fairly, in all material respects) in **accordance with International Accounting Standards**	**1** **1** **1** **1**
Approval and signing of the financial statements	The financial statements are **approved by the shareholders** after which the **reviewer sign them as proof of the opinion expressed.** The designation of Professional Accountant (SA) **cannot be abbreviated** or be represented by an anachronism – **date the financial statements are signed must be given.** **OR** Independent review to the financial statements To: Shareholders of Samesong (pty) Limited We have reviewed the accompanying statement of financial position Samesong (PTY) Limited at 20 February 2018 and the statement of profit and loss , statement of changes in equity and cash flow statement for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review. We conducted our review in accordance with the International Standard on Review Engagements 2400 (or refer to relevant national standards or practices applicable to review engagements). ISRS2400 requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or	**1** **1**

	are not presented fairly, in all material respects) in accordance with International Accounting Standards Mr. Muhammed Saloojee Professional Accountant (SA) 123 Dubai Road, Polokwane , Limpopo, South Africa Date	
		Max: 16

PART C:

Does the extract of the draft financial statements with regards to the recognition and disclosure of the revaluation surplus, refer to additional information note 1, comply with the accounting standard – Property, Plant & Equipment?

[3 marks]

	Marks
When revaluating depreciable assets the business can either use the **Gross Replacement Costs or Net Replacement Cost methods**. When the **historical cost is adjusted then the Gross Replacement Cost** method is applied. Under the Gross Replacement Cost method the adjustment is made to both the **cost of the asset and accumulated depreciation** in order to reflect the **carrying amount of the asset based on the revaluation**. The statement made by the accountant that the revaluation surplus should only represent the **adjustment to the cost of the asset is incorrect.**	**1** **1** **1** **1** **1**
	Max: 3

PART D:

Discuss whether the statement made by the accountant, refer to additional information note 2, relating to de-recognition and depreciation of the existing machine is acceptable in terms of the accounting standards.

[8 marks]

	Marks
When an existing asset is used to construct a new asset, then the **existing asset becomes part of or a component of the newly constructed asset**. If the existing assets is considered to be **a major component part and it has a different useful life**, then it must be **recognised as a separate component** and **depreciated accordingly**. If the existing asset is **not separately identifiable** from the newly constructed asset, then it must be **de-recognised** (**cost and accumulated depreciation)** and the **carrying amount should be capitalised** as part of the cost of the newly constructed asset; and **depreciated based on the useful life of that asset**. The income received (excluding VAT) must be **written off against the carrying amount of the existing asset capitalised**. The statement made by the accountant about continuing to **depreciate the existing asset is incorrect**.	**1** **1** **1** **1** **1** **2** **1** **1** **1** **1**
	Max: 8

PART E:

Record the transactions (adjusting journal entries) to correct the accounting records, refer to additional information note 2, if any, for the acquisition and modification of the 2nd hand machine as well as the use of the existing machine in the modification in compliance with the accounting standards.

[6 marks]

			Marks
	Debit	Credit	
ADJUSTING EXTRIES			
Input VAT Control	50 351		**2**
Machinery – constructed		50 351	**1**
[Adjusting the cost of the asset for the notional VAT]			
Machinery – constructed	102 000		**1**
Accumulated depreciation	98 000		**1**
Machinery - existing asset		200 000	**0.5**
[De-recognition of the existing asset used in the construction]			
Accumulated depreciation	40 000		**1**
Depreciation expense		40 000	**1**
[Reversal of depreciation for the existing asset]			
Depreciation expense	20 400		**1**
Accumulated depreciation		20 400	**1**
[Depreciation of the existing asset capitalised to constructed asset]			
Machinery – constructed	68 000		**1**
Repairs & Maintenance		68 000	**0.5**
[Capitalisation of the modification costs]			
Other income	25 000		**0.5**
Output VAT control		3 070	**1**
Machinery – constructed		21 930	**1**
[Setting of income on sale of parts sold as scrap]			
Depreciation expense	9 214		**1**
Accumulated depreciation		9 214	**1**
[Depreciation on modification cost less sale of parts]			
OR			
CORRECT ENTRIES			
Machinery – constructed	359 649		**1**
Input VAT Control	50 351		**2**
Bank/Accounts payable		410 000	**0.5**
[Acquisition of 2nd hand machinery]			
Machinery – constructed	102 000		**1**
Accumulated depreciation	98 000		**1**
Machinery - existing asset		200 000	**0.5**
[Capitalisation of existing machine used in construction]			
Machinery – constructed	68 000		**1**

Input VAT Control	9 520		**0.5**
Bank/Accounts payable		77 520	**0.5**
[Capitalisation of the modification costs]			
Bank/Accounts receivable	25 000		**0.5**
Output VAT control		3 070	**1**
Machinery – constructed		21 930	**1**
[Setting of income on sale of parts sold as scrap]			
			Max: 6

<u>PART F:</u>

Advise the accountant on whether any input tax can be claimed in respect of the 2nd hand machine acquired, refer to additional information note 2. Your advice must include the conditions under which any input tax may be claimed.

[4 marks]

	Marks
The 2nd hand machine meets the **requirements to be recognised for notional tax**, viz. purchased from a **non-registered vendor** and accompanied by **supporting documents equivalent to an invoice**. The notional tax can only be claimed if the machine will be **used to produce taxable supplies**. The notional tax will be based on the **lower of cost (the price paid) and the open market value** – assume that the cost/price paid is the same as the open market value. The price paid is **inclusive of VAT and thus the fraction should be applied**.	**1** **1** **1** **1** **1** **1**
	Max: 4

PART G:

Discuss whether the recognition of the impairment loss relating to the machinery and equipment, refer to additional information 5, complies with the accounting standards.

[4 marks]

	Marks
An impairment loss is **only recognised when the recoverable amount is less than the carrying amount based on historical cost**. When an asset is revalued then the **decline in the carrying amounts based on revaluation and historical cost represents a devaluation** (reversal of revaluation surplus). The recoverable amount is **higher than the carrying amount based on historical cost but less than the revalued carrying amount** implies that there is **no impairment loss but a devaluation in the carrying amount of the asset.**	**1** **1** **1** **1** **1**
	Max: 4

PART H:

Can the impairment losses recognised for the valuation of the machinery and equipment, refer to additional information note 5, be claimed as a deduction for income tax purposes?

[6 marks]

	Marks
For an amount to be claimed as a deduction, the **deduction must be of a revenue nature and was actually incurred during the year of assessment.** The impairment loss is an **estimate of a potential loss** incurred as a result of the carrying amount exceeding the recoverable amount – **provision recognised for accounting purposes**. The losses can only be recognised for income tax purposes in respect of a **depreciable assets which have been scrapped or disposed of** – actual disposal must have occurred. The impairment loss is an estimate and therefore **cannot be determined accurately** – does not meet one of the criteria for deductions. The loss recognised when the **tax value of the asset exceed the proceeds on disposal** – losses recognised in terms of s 11(o). The impairment loss is **not a realised loss (accounting provision) and therefore cannot be treated as a deduction** for income tax purposes. There is also a **specific prohibition** in terms of s 23(e) whereby provisions are prohibited from being deducted.	**2** **1** **1** **1** **1** **1** **1** **1** **1**
	Max: 6

PART I:

Discuss how the amount paid by the company to the son (Kidrupi) should be taxed in hands of the company and the employee for income tax purposes for the 2018 year of assessments.

[6 marks]

	Marks
Company: The amount paid by the company to Kidrupi represents a **restraint of trade payment** – even though no formal employment contract exists. The restraint of trade payment is of a **capital nature and thus cannot be treated as a general deduction**, but as the payment relates to employment it can be treated as a **special deduction**. The deduction is limited to the **lower of The restraint of trade divided by(the number of years the restraint applies (two years) or one third of the restraint of trade period.** Therefore, **R100 000/3 = R33 333** is deductible Kidrupi The payment received relates to employment and **whether it is of a capital revenue nature** and will therefore be **included in gross income** in the year of assessment the payment is received. **OR** In terms of para (cB) of the **gross income definition** of s1(**special inclusions**), a restraint of trade payment received by natural persons will be included in gross income of that person. Therefore, Kidrupi will **include the R100 000 in his gross income**.	 **1** **1** **1** **1** **1** **1** **1** **1** **1**
	Max: 6

PART J:

Review and comment on the note to the financial statement for the warranty commitment presented by the accountant in terms of its compliance to the appropriate accounting standard. Support your answer with appropriate calculations and reasons. [10 marks]

	Marks
A sales warranty represents a **provision and not a contingent liability**, therefore the warranty is a not a commitment but a provision – **liability which is probable (likelihood of occurrence of more than 50%)** which must be quantified and **measured for recognition in the financial statements**. A provision is defined as a liability of **uncertain timing or amount**. The measurement of the warranty is based on the **professional judgement of management** taken into account the probable occurrence of the warranty obligations.	**1** **1** **1** **1** **1**
The following are information that should be included in the note: • the product subjected to the warranty agreement • the conditions of the warranty obligations • basis of measurement of the warranty	 **1** **1** **1**
The basis of calculation should be based on an **estimate of the cost of fulfilling the warranty obligations and the probable occurrence** of fulfilling the warranty obligations.	**1**
Calculation:	
Repairs [15,000 x 20% x 240] — 360,000	**1**
Replacement [25 x 1,800] — 45,000	**1**
Less: Costs incurred — -83 050	**1**
321,950	**1**
	Max: 10

PART K:

Advise management on the procedures be followed to address the omission of the cash sales for:
(a) VAT [5 marks]
(b) Income Tax purposes. [3 marks]

	Marks
The taxpayer **does not object or appeal the previous submissions**, but **request a withdrawal of the assessment** (s98 of the Tax Administration Act). The Commissioner may allow the withdrawal of the assessment is he is satisfied that:	**1** **1**
• the request was **based on an undisputed factual error** by the taxpayer	**1**
• **impose an unintended tax debt in respect of an amount** that the taxpayer should not have been taxed on	**1**
• the recovery of the tax debt under the assessment would **produce an anomalous/inequitable result**	**1**
• there is **no other remedy available to the taxpayer**	**1**
• it is in the **interest of good management of the tax system**	**1**
A senior official of SARS must **agree in writing with the taxpayer** as to the amount of tax properly charged for the relevant tax period and issues a **revised assessment for the withdrawal to be valid**.	**1** **1**
OR	
VAT implications: The VAT implications for the omission of the cash sales will be treated as follows (after taking the above into account)	**1**
• output tax should be recognised on the **earlier of the cash received or the invoice issue**	**1**
• the sales transaction occurred and the output tax **should be charged at the date the transaction occurs**	**1**
• the business may **incorporate the output tax during the period the VAT 201** is submitted **(penalties and interest may be charged)**	**1**
• the input tax applicable to expenses incurred using the cash received from sales **(provided the supporting documentation are available)** can be **claimed within a period of 5 years** from the date the transaction occurs	**1** **1**
Income tax implications: The income tax implications for the omission of the cash sales will be treated as follows (after taking the above into account)	**1**
• request to **reopen the assessments in the period the omissions occurred or**	
• **incorporate the amendments in the current year of assessment**	**1**
• **liable for interest and penalties**	**1**
• **not able to offset the income and the expenses**	
	Max: 8

PART L:

Advise Ms. Michielopolous whether she can report the previous Professional Accountant (SA) for negligence and misconduct to SAIPA or any other professional accountant organisation. You answer must include reasons for her lodging the complaint based on the following:

(a) assets with zero carrying amount, refer to note 1; and
(b) omission of cash sales for tax purposes, refer to note 2.

[10 marks]

	Marks
The professional accountant comply with the **Code of Professional**	**1**
Conduct and Ethical Behaviour which require the following:	**1**
• objectivity	**0.5**
• due care	**0.5**
• professionalism	**0.5**
Ms. Michielopolous has an **ethical dilemma** whether to **discuss the**	**1**
matter with the previous accountant or report the matter to the	**1**
professional body (SAIPA). Professional accountants should not	
criticise a colleague in public – unprofessional behaviour. The	**1**
decision of the accountant will be **affected by the materiality of the**	**1**
issues discovered and it impact on the financial statements	
(misstatement of the financial statements). The new professional	
account should **contact previous accountant (curtesy practice)** to	**1**
obtain information about the risk associated with the client. The other	
factor to **consider is the client confidentiality** – POPIA. It is	**1**
important that the accountant document all information to support the	
decisions – **maintaining working papers**.	**1**
If the professional accountant **performed their responsibilities**	**1**
negligently, then he/she is **violating the Code of Conduct** which	**1**
requires the professional accountant to act with due care and	
professionalism. The following will be regarded as violation of the	
Code of Conduct:	
• application of the **depreciation policy which is inappropriate**	**1**
(resulting in the asset having a zero carrying amount but still has	
future economic benefits) is **failing to evaluate the relevance of**	**2**
the accounting policies of the business	
• omission of the cash sales is **violation of the standards**	**1**
governing the engagement which require compliance with the	
accounting framework adopted – accrual basis of accountin**g**	**2**
(completeness of the accounting records)	
• the **incorrect valuation of inventory is violation of compliance**	
to the **measurement criteria of the accounting framework**	**2**
	Max: 10

PART M:

Discuss the benefits to the company of embarking on this type of enterprise development and support strategy as a means of improving its BEE rating.

[4 marks]

	Marks
As there is no indication of the turnover of the business, it can be **assumed that it is less than R 50 million** and thus an **affidavit is sufficient** to prove the business meets the requirements and thus will gain the **highest BBBEE rating.**	**2** **1**
The following are the benefits of improving the BBBEE rating:	
• Your clients will know that you are doing whatever it takes to stay ahead in your business – that you mean business and that you are looking to them to support your efforts.	**1**
• By being rated, you will have a good overview of how you are performing with regard to national requirements, how to plan and change in future to increase sustainability.	**1**
• You will have a clear picture of what types of supplier you have. A rating would give you leverage to be able to negotiate better discounts, etc. Supplier analysis will assist with your procurement policy development.	**1**
• Your image will be enhanced by your demonstration of leadership in your industry – be perceived as in step with development initiatives.	**1**
• By focusing on HR development, enterprise development and BEE, you will demonstrate commitment towards the social, educational and economic developments in the community in which you operate.	
• Attempt to increase your develop your employees' skills and potential development as well as your BEE ratings enhance fair and progressive employment practices.	**1**
• Your staff will see what you are doing, which will boost their morale.	**1**
• The sooner your business is rated, the sooner you will understand how to develop a BEE strategy to increase your annual BEE rating. Your BEE strategy should form part of your company's overall strategy plan.	**1**
• BEE can also be a marketing tool. As a client of BEE Empowered, your company's name will be listed on our website's BEE directory and will be available to all those searching for BEE-compliant suppliers.	**1**
	Max: 4

PART N:

Discuss the VAT implication for the sale of the repair and maintenance tool kit to the owners of the start-up businesses.

[3 marks]

	Marks
The following are the VAT implications of the repairs & maintenance kits sold to the start-up businesses:	
• the transaction will treated as an **instalment credits agreement**	**1**
• the repairs and maintenance kits are **regarded as a taxable supply** – goods	**1**
• VAT is charged on the **earlier of the time of delivery of the goods or the time cash is received**	**1**
• VAT will **be charged when the goods are transferred to the start-up businesses even though the cash is paid at a later date**(**VAT charged upfront)**	**1** **1**
• As **no interest is charged, output tax will on the invoice amount**	**1**
OR	
In terms s9(1) of the VAT Act, the general rule of the time of supply is the **earlier of** :	
• **The date of invoice or**	
• **The date the payment is received by the supplier**	
Therefore, **the earlier is the date of invoice and payment as the payments are only received later.**	**1**
Output tax will be applied – **R120 000 x 14% = R16 800**	**1** **1**
	Max: 3

PART O:

Record the journal entries for the initial recognition of the sale transaction in respect of the repair and maintenance kit to the start-up businesses. Support you answers with appropriate reasons and calculations.

[6 marks]

			Marks
Present value of instalment payments			
[60,000 @ 15% for 2 periods]		97 543	**1.5**
Interest income		22 457	**1**
Invoice value		120 000	
	Debit	Credit	
Accounts Receivable	120 000		**0.5**
Revenue		82 806	**1**
Output VAT Control		14 737	**1.5**
Deferred interest income		22 457	**0.5**
[Recognition of instalment sales of maintenance kit]			
			Max: 6

<u>PART P:</u>

Discuss the income tax implications for the company in respect of the training provided to the start-up business owners. The discussion must include the tax implications for the costs incurred and the liability of the trainee who defaulted on the terms and conditions of the training agreement.

[5 marks]

	Marks
The training costs incurred by the company **can be treated as a deduction** in term of the Income tax Act based on the following:	**1**
• the training costs are of a **revenue nature – incurred in the production of income**	**1**
• the training costs **were actually incurred during the year of assessment**	**1**
It may be argued that the training represents a **conditional transaction and can therefore only be deducted when the conditions are fulfilled**.	**1** **1**
When the start-up fail the conditions of the training agreement, then the amount that is received as a penalty should be **recognised as gross income or a recoupment** of the training costs treated as a deduction.	**1**
	Max: 5

PART Q:

Advise management on which machine should be selected for investment purposes using the net present value method. Support your answer with appropriate and relevant calculations and reasons.

[8 marks]

			Marks
	Machine 2	Machine 3	
Cost of machinery & equipment	12 500 000	19 000 000	
Net present value	434 600	518 700	
Estimated useful life	5 years	8 years	
Expected rate of return	17%	20%	
Discount factor	3,1993	3,8372	**2**
Annual equivalent	135 842	135 177	**2**
Net present value method is based on the discounted cash flow and measure the **net cash flow discounted at the desired expected return** – assesses the profitability of the investments. The net present value should be applied in situations where the business: • satisfy the returns to the investors – capital structure affecting the decision • long-term capital expenditure decision – sustainability of the business and the asset acquired • consider the overall impact on the performance of the business – return on business • considering investment option which are dependent on each other – capital rationing The difference in the **annual equivalent is marginal,** thus **other factors should be taken into consideration**. Based on the estimated useful life and the expected return it is **recommended that Machine 3 should be selected.**			**1** **1** **1** **1** **1** **1** **1** **1**
			Max: 5

PART R:

Discuss the non-quantitative and qualitative information that should be considered by management before implementing both the investment decisions.

[4 marks]

	Marks
The following non-quantitative information should be taken into account before implementing an investment decision:	
• the impact the investment decision will have on the overall performance of the business and its operations – return/risk of the investment	**1**
• the impact of the staff – skills required to operate the machinery acquired (training and complexity)	**1**
• the impact on the operations – will the machinery and equipment fit-in with the existing operating structures	**1**
• market stability for the products produced by the machinery/equipment – adaptability of the asset	**1**
• availability of spare parts and repair & maintenance services – after sale services	**1**
	Max: 4

PART S:

Discuss whether Transport Logistics (Pty) Limited will be treated as a SBC for income tax purposes to claim the benefits of the income tax relief.

[6 marks]

	Marks
The following conditions must be complied with in order for the company to be classified as SBC for income tax purposes:	
• **turnover is less than R 20 million per year of assessment**	**1**
• **shareholders** of the business are **all natural persons**	
• **persons are not shareholders in any other business during the year of assessment**	**1**
• **investment income must not exceed 20% of the total income of the business**	**1**
• **income from personal services must not exceed more than 20% of the total income**	**1**
The status of the business is **determined retrospectively** – at the end of each year of assessment.	**1**
If Naseera Omerjee **does not sell her shares in Samesong** before the end of the year of assessment, then the business **cannot be classified as a SBC.**	**1** **1**
	Max: 6

PART T:

Discuss the sources of financing and the possible risk implications for the business that Transport Logistics can use to finance its operating costs.

[6 marks]

	Marks
The sources of finance are as follows: (a) Equity financing: permanent financing of the business by the owners who enjoy the benefits and risks of the business. • Benefits are that the shareholders/owners have an unrestricted right to the profits of the business – maximum dividend payable is equal to the after tax profits of the business • Benefits is that the shareholders/owners have the right to vote and therefore enjoy to affect the decision-making process of the business – value of investment is affected by the growth of the business • Risks of the equity financing is that they bear the ultimate risk of the business – liquidation risk (last to claim from the business) • Risk is also affected by the capital structure of the business – debt-equity mix (b) Debt financing: temporary financing which has a fixed repayment term and conditions of security • Benefit is represented by the interest payable which is affected by the type of security and term of the debt – interest is a fixed right on the utilisation of debt financing • Risk is affected by the solvency and liquidity of the business – ability and capability to meet its obligations	**1** **1** **1** **1** **1** **1** **1**
	Max: 6

PART U:

Discuss the adjustment that should be made to the financial statements for the reporting period ended 28 February 2018 in respect of the depreciation that was based on the capital allowance of 50% in the first year the delivery vehicles were brought into use.

[4 marks]

	Marks
The depreciation policy should be based on the accounting principles and standards which are based on the following:	**1**
• appropriate for the business – requires professional judgement	**1**
• nature of the business and its operations	**1**
• estimated useful life and residual value	**1**
The accelerate capital allowance for SBC's is to provide **relief of the cash flow** of the business through this tax incentive.	**1**
If the business adopts a straight-line based of accounting then the **depreciation expense should be adjusted to that of the accounting policy**.	**1**
The adjustment to the depreciation expense in terms of accounting policy **will result in deferred tax**.	**1**
	Max: 4

PART V:

Discuss whether the statement made by the accountant about providing for deferred tax on all differences between the accounting and tax information complies with the accounting standards.

[3 marks]

	Marks
Deferred tax is only provided for in respect of difference between the carrying amounts of assets and liabilities which **will affect the income tax liabilities in future tax periods**	**1**
Deferred tax is only provided on differences which affects the calculation of **accounting profits and taxable income in different periods** – giving rise to temporary or timing differences	**1**
No deferred tax is provided for differences which results from the amounts **only affect the calculation of accounting profit or taxable income** – giving rise to permanent differences	**1**
Temporary difference arising between the **carrying amounts and tax value of assets and liabilities provides an indication of the deferred tax balance** while the **difference between income and expenses gives an indication of the provision for the current reporting period**	**1** **1**
However, before recognising the deferred tax asset it is important to **evaluate the recoverability of the tax benefit** – there must be a higher level of certainty of occurrence	**1**
	Max: 3

PART W:

Discuss whether the statement made by the accountant that no deferred tax should be recognised for assessed losses complies with the appropriate accounting standards.

[2 marks]

	Marks
Even though the assessed loss is only accounted for tax purposes and has the **characteristics of a permanents difference**. However, the assessed loss affect future tax (carried forward and set off against future taxable income) and is **considered to be a temporary difference**. However, before recognising the deferred tax relating to the assessed loss, it must be determined whether the company will generated **taxable income in future periods against which the assessed loss can be written off**. Before deferred tax (liability or asset) can be recognised, is to determine the **recoverability of future tax** – making taxable income in future years. The statement of the accountant **is incorrect**, deferred tax should be provided for in respect of the difference resulting from the assessed loss.	**1** **1** **1** **1** **0.5**
	Max: 2

PART X:

Calculate the deferred tax provision and deferred tax balance for the reporting period ended 28 February 2018 in compliance with the appropriate accounting standards.

[7 marks]

	Accounting	Taxation	Difference	**Marks**
Assets	82 765 000	69 825 000	12 940 000	
Liabilities	-27 247 000	-25 670 000	-1 577 000	
Assessed loss	-	109 000	-109 000	
Aggregate temporary difference	55 518 000	44 264 000	11 254 000	**2**
Deferred tax balance - 2017			3 151 120	**1**
Change in tax rate			225 080	**1**
Balance at beginning of period			3 376 200	
Assets	105 980 000	87 820 000	18 160 000	
Liabilities	-41 289 000	-38 564 000	-2 725 000	
Assessed loss		-	-	
Aggregate temporary difference	64 691 000	49 256 000	15 435 000	**1**
Deferred tax balance - 2018			4 630 500	**1**
Provision for the period			1 479 380	**1**
				Max: 7

PART Y:

Draft a report to management outlining the differences, if any, between product costing and relevant costing techniques.

[4 marks]

	Marks
Absorption costing is also referred to as total costs and measures the cost of goods manufactured taking into account both **variable and fixed manufacturing costs.** The fixed manufacturing **costs are allocated** to the product cost using an appropriate allocation base (labour hours, machine hours or output) using the budgeted costs. Under/over absorbed fixed manufacturing costs are accounted **by comparing the actual costs incurred to the allocated costs.**	**1** **1** **1**
Marginal costing measures goods produced taking into consideration **only the variable manufacturing costs** while the **fixed manufacturing costs are treated as period expenses** – not included in the cost of the product.	**1** **1**
	Max: 4

PART Z:

Advice management about the benefits and risks of outsourcing the order received by the customer.

[6 marks]

	Marks
The following are the risks associated with outsourcing: • loss of control of the business if key and critical functions are outsourced • possibility of weak management • inexperienced staff • business uncertainty • outdated skills and technology • hidden costs • loss of competitive advantage • lack of organisational learning • loss of innovation capacity	**1** **1** **1** **1** **1** **1** **1** **1** **1**
	Max: 6