PROFESSIONAL EVALUATION
IPD - COMPETENCY-BASED ASSESSMENT
ENGLISH QUESTION PAPER
05 MAY 2018

TIME: **4h30min**
MARKS: **200**

CASE STUDY		MARKS
	MULTIPLE CHOICE QUESTIONS	50
	CASE STUDY QUESTIONS	150
TOTAL		200

INSTRUCTIONS TO CANDIDATES

1. **PLEASE NOTE THAT THE CASE STUDY QUESTIONS AND MCQ'S ARE INTEGRATED.**
2. Answer all the questions.
3. **BEGIN EACH CASE STUDY QUESTION ON A NEW PAGE.**
4. The multiple choice questions must be answered in pencil on the schedule provided. (MCQ answer sheet)
5. The case study questions must be answered in the answer book.
6. No pencil (with the exception of MCQ's) or tippex may be used.
7. Financial calculators are permitted.
8. Cellular phones may **NOT** be used as calculators.
9. If you wish any part of your work not to be marked, draw a clear line through it.
10. The question paper may be taken with you at the end of the examination.

CASE STUDY

Read the following case study and answer all questions

1. COMPANY PROFILE:

Samesong Electronics (Pty) Ltd is a family business operating within the electronic and information technology sectors. The company was established in 2010 as a family owned and managed business. This was a family run business and the driving force were the senior members of the family, Mr and Mrs Omarjee, who obtained PhD qualifications in systems and software engineering from a prestigious Bengali university. This university is world renowned for its IT, software engineering, research and product development.

The electronics industry in recent times has become hyper competitive and in order for organizations in this sector to survive, they have had to develop competitive strategies. These strategies focus on customer requirements, competitor reaction and cost management. An important feature of this industry is the need for continuous innovation and improvement. So as the company attempted to establish a local footprint within South Africa it took on the role of supplier, manufacturer and software engineering as well as other related services. Within a few years it has developed its reputation as a “go-to” IT store in the Gauteng region. Due to the rapid growth experienced by the company, the senior management team extended its activities for the general public market by producing game sets, TV-screens, microwaves and a range of other electronic devices. The ambition of the board of the company is to dominate the smartphones market and also aspire to be South Africa’s largest producer of mobile phones. The following was extracted from the strategic plan and business model of the company:
“At Samesong, we follow a simple business philosophy: to devote our talent and technology to creating superior products and services that contribute to a better global society.” (www.Samesong.com, Values & Philosophy).

The following is the composition of the management and shareholding

Positon within company	Shareholder and employee	Holding
Chief Executive Office	Mrs Nafeesa Omarjee	20 %
Financial Director	Mr. Irfaan Ahmed Omarjee	10%
Operations Director	Ms. Fatima Zahra Omarjee	10%
Sales and Production Director	Ms Ayesha Omarjee	10%
Secretary and Administrative assistant	Mr Muhammed Yusuf Omarjee	10%
Sales staff	Mr Ahmed Omarjee	10%
Sales Staff	Mr Shiraj Omarjee	10%
Human Resources	Dr. Sumelan Omarjee	10%
Delivery and dispatch	Mrs Naseera Omarjee	10%

2. DIVIDEND PAYMENT STRATEGY:

Since the establishment of the company the owners decided that no dividends were to be paid by the company, but rather that all profits were re-invested into the business. This was done in order to stabilise and refine the operations to a satisfactory competitive level.

As the company established itself in the IT and smartphone market as an innovator, the financial director (Irfaan Ahmed Omarjee) recommended that a dividend be declared. This was for the financial sacrifices the shareholders endured during the formative years of the business. He further recommended that the following dividends be paid:

(a) cash distribution of R 80,000;
(b) household equipment with a cost of R 240,000 and market value of R 380,000; and
(c) additional shares with an estimated value of R 100,000.

The shareholders were appreciative with this dividend distribution announcement as it would allow them to award some of the shares to their off-spring.

You are required to answer MCQ questions 1 – 5 below using the information above.

<u>MCQ 1:</u>

The dividend tax payable becomes the liability of:
(a) the shareholders
(b) the company
(c) the shareholders or the company
(d) neither the shareholders or company as dividends is exempt

<u>MCQ 2:</u>

The total dividend declared by the company amounts to:
(a) R 420,000
(b) R 560,000
(c) R 80,000
(d) R 460,000

MQC 3:

Before any dividends are declared by the company, the board has the responsibility to conduct the following test:
(a) liquidity test
(b) profitability test
(c) going concern test
(d) shareholders satisfactory test

MCQ 4:

Which of the following elements will influence the Public Interest Score of the Company, as per the Regulations to the Companies Act, Act 71 of 2008;
(a) the number of duly appointed directors of the Company
(b) the number of shareholders in the Company
(c) Neither directors nor shareholders of the Company
(d) Both the directors plus the shareholders of the Company

MCQ 5:

As Samesong Electronics (Pty) Ltd is a family business,
(a) It is exempted from paying Annual Duty to CIPC
(b) It must electronically file an Annual Return with CIPC but not pay Annual Duty
(c) It must electronically file an Annual Return with CIPC and pay Annual Duty
(d) None of the above

3. INVENTORY MANAGEMENT:

Ayesha Omarjee, the production director, decided to use the services of Muhammed Saloojee, a Professional Accountant (SA). She reviewed the professional accountant's report that listed the financial benefits of implementing a combined JIT/TQM (just-in-time and total quality management) system in 2016. The professional accountant had been planning the implementation of the JIT system for nearly a year now and feels some of the expectations of the proposed JIT/TQM system are not correct. For example, she cannot understand why the cost of materials should increase as the company is using the same suppliers, so there is no logical reason for the increase. Similarly, she cannot understand why there should be an increase in the prevention and appraisal costs.

Aysha Omarjee complained to Muhammed Saloojee that part of the assignment on inventory management was to facilitate the efficiency of cost management and production decision-making, namely, the application of cost-volume-profit analysis. Overall she was disappointed with his performance and rated him quite low on his performance evaluation. This was a disappointment as he came highly recommended for his expertise in assisting business in developing a competitive advantage in the industry.

You are required to answer MCQ questions 6 – 8 below using the information above.

MCQ 6:

The benefits of a JIT inventory management system are:
(a) to minimise and control inventory costs
(b) to be cost efficient over inventory holding
(c) waste reduction and obsolescence of inventory
(d) all of the above

MCQ 7:

The assignment performed by Muhammed Saloojee – Professional Accountant is governed by the following engagement standards:
(a) ISRS 4400
(b) ISRS 4410
(c) ISRE 2400
(d) none of the above

MCQ 8:

The contribution per unit was R 22.50 with fixed monthly manufacturing and administration costs of R 760,000 and R 1,390,000. If the company produces and sells 110,000 units, the profit earned for the month amounts to:
(a) R1,715,000
(b) R 325,000
(c) R 2,475,000
(d) R 2,150,000

4. INDEPENDENT REVIEW:

Below is an extract of the Independent Reviewers report that Muhammed Saloojee [previous Professional Accountant (SA)] also requires your assistance on. His trainee, Adam Nkonki, who was given this task has subsequently resigned due to disagreements between them.

> Unqualified Review Report
>
> REVIEW REPORT
>
> We have reviewed the information of Samesong (PTY) Company. The information presented is the responsibility of the Company.
>
> We conducted our review in accordance within an ethical material framework. This implies requires that we plan and perform the review to obtain an opinion as to whether the financial statements achieve a fair presentation. A review limited primarily to financials of and no inquiries of company personnel and procedures applied and thus provides an assurance similar to an audit. Our opinion is such limited in this context
>
> Based on our review, we approve the financial statements as they fairly present the affairs of the company
>
> Mr. Muhammed Saloojee
> PA(SA)
>
> 123 Dubai Road, Polokwane , Limpopo, South Africa

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

<u>PART A:</u>

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]

MCQ 9:

In accepting an independent review engagement, the professional accountant may:
(a) Accept an agreed upon procedure from the client
(b) Have independently compiled the financial statements
(c) Have considered that the financial statements were compiled internally
(d) None of the above

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.
[13 marks]

MCQ 10:

In review engagements the independent reviewer may:
(a) adopt analytical review procedures
(b) not rely on the compilation of other accountants
(c) decide not to prepare working papers
(d) do all of the above

MCQ 11:

When performing analytical procedures the objective of the independent reviewer may include:
(a) providing evidence of existence of assets
(b) focussing on areas of high risk and materiality
(c) providing evidence of the validity of the transactions
(d) providing evidence as to the accuracy of the financial statements

5. PROPERTY, PLANT & EQUIMENT

The following note for Property, Plant & Equipment was extracted from the draft financial statements for the reporting period ended 28 February 2018:

	Machinery & Equipment		
	2018	**2017**	Note
Carrying amount at the beginning of the period	1 577 000	1 355 000	
Cost	4 010 000	3 120 000	
Accumulated depreciation	-2 433 000	-1 765 000	
Revaluation surplus	-	890 000	1
Acquisitions	410 000	-	2
Depreciation	-736 667	-668 000	
Depreciation adjustment	235 000	-	3
Carrying amount of disposal	-87 000	-	4
Impairment loss	-240 000	-	5
Carrying amount at the beginning of the period	1 158 333	1 577 000	
Cost	4 333 000	4 010 000	
Accumulated depreciation	-2 934 667	-2 433 000	
Accumulated impairment loss	-240 000	-	

Additional information:

1. The revaluation surplus represents the adjustment to the cost of the machinery and equipment from its historical cost to the gross replacement cost. The accountant stated that no adjustment was made to the accumulated depreciation because the revaluation only affected the cost of the respective assets.

2. The acquisitions represented the cash amount paid for a 2nd hand machine to a non-registered vendor. An existing machinery with a carrying amount of R 102,000 (original cost of R 200,000) was used to modify the 2nd hand machine in order to satisfy the new product specifications. The costs incurred to modify the machine amounted to R 68,000 (excluding VAT) were expensed and included in the repairs and maintenance expenses. Parts of the existing machine not used during the modification of the 2nd hand machine was sold as scrap for an amount of R 25,000 which was included as other income in the draft financial statements. The accountant stated that the existing machine need not be de-recognised from the accounting records and that it should be depreciated in full for the current reporting period. The 2nd hand and existing machinery are depreciated on a straight-line basis over an estimated useful life of 5 years.

3. The depreciation adjustment represents an adjustment to the accumulated depreciation of prior periods, resulting from a change in the residual value and estimated useful life of certain items of machinery and equipment.

4. The carrying amount of the machinery and equipment disposed of consisted of an initial cost of R 230,000 and accumulated depreciation of R 143,000. The carrying amount was set off against the aggregate cost at the end of the period.

5. The impairment loss results from the machinery and equipment that were revalued. The recoverable amount was greater than the carrying amount based on the historical cost.

You are required to:

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]

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]

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]

PART F:

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]

MCQ 12:

When changing the depreciation policy, refer to additional information note 3, the accountant should recognise the change in terms of the accounting standards as:
(a) an event after the reporting period
(b) correction of a fundamental error
(c) change in an accounting policy
(d) change in an accounting estimate

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]

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]

6. COURT PROCEEDINGS

The Repair & Maintenance Department, was run by Kidrupi, the major shareholder's son. The staff members of this department were focused on improving products and were constantly engaged in experimentation. The experimentation was done when they were not busy with scheduled work. One of their experiments resulted in a new product being developed which management decided to register with ICASA at a total cost of R 12,000. All the costs relating to the development and registration of the new product were expensed as incurred during the previous reporting period.

Kidrupi decided to sue the company for his new invention after an altercation occurred between him and his father. The company incurred R 56,000 in legal costs, when they appointed attorneys to defend the law suit, which was awarded in favour of the company. There was no formal employment contract with the son, but the father recommended that the company pays the son R 100,000 to leave. This amount also restricted the son from establishing a similar business in order, to market the new product for the next two years.

The company commenced producing the new product and sold it including a warranty agreement. The terms and conditions of the warranty agreement were as follows:
(a) one-year manufacturer's warranty;
(b) repair the damages with at an average cost of R 240.00; and
(c) replacement of the unit at an average production cost of R 1,850.00.

During the current reporting period (ended 28 February 2018) the following information was extracted from the accounting records relating to new product:
(a) sold 15,000 units at a price of R 3,000 per unit;
(b) repaired 230 units at a total repair costs of R 63,250, and
(c) replacement of 11 units at a cost of R 1,800 per unit.

The accountant included the following note to the financial statements for the reporting period ended 28 February 2018 in respect of the warranty agreement:

23. Warranty Commitment The company has a one-year warranty commitment for one of its products with an estimated average cost of R 240.00 per unit in respect of repairs and R 1,850.00 per unit in respect of replacements.

Management was of the opinion that 10% of the units sold will be returned for repairs while a maximum of 25 units will exchanged for replacements.

You are required to:

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]

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]

7. ACCEPTANCE OF A CLIENT:

After reviewing the financial statements of the previous reporting period the Professional Accountant (SA), Ms. Michielopolous [newly appointed], identified the following:

1. The accounting policies for equipment was based on the capital allowances as per Income Tax Act which resulted in many of the items of equipment having a zero carrying amount but continued to be used in operations. Management were of the opinion that most of these items would most likely be used for the next three years. After discussions with management and the accountant, the accountant recommended that the accumulated depreciation should be adjusted in order to raise the carrying amount equivalent to three years of depreciation. The accountant estimated the carrying amount to be R 270,000.

2. Cash sales for the last two reporting periods were understated and not recorded in the accounting records by amounts of R 200,000 and R 440,000 respectively. After discussion with management it was raised that most of the cash were used to pay for casual labour and repairs to delivery vehicles and the building. Management estimated that 65% of the cash was used for repairs to vehicles and buildings. The accountant recommended that these omissions should be recorded during the current reporting period as the effect on the results would be zero.

3. Inventory for the previous reporting date (28 February 2017) was recorded using marginal costing techniques. The inventory units on hand were 87,500 while the overhead absorption rate was R 6.80 per unit. The accountant stated that the net effect for income tax purposes over the two years of assessment (2017 and 2018) would cancel each other, thus there is no need to make any adjustments to the accounting records – "opening inventory is equal to closing inventory of the previous period".

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

<u>PART K:</u>

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]

MCQ 13:

When correcting the transactions of the cash sales, the following should be recorded by the accountant for the reporting period ended 28 February 2018:
(a) debit bank credit Output VAT Control
(b) debit cash, credit revenue and credit Output VAT Control
(c) debit cash, credit retained income and credit Output VAT Control
(d) no transaction should be recorded

MCQ 14:

Ms Michielopolous Professional Accountant (SA) is considering accepting the duties of a tax practitioner, as defined in the Tax Administration Act, Act 28 of 2011. Which of the following statements is untrue (false)?
(a) Ms Michielopolous automatically becomes the Representative Taxpayer as defined by the relevant tax statutes
(b) As tax practitioners are regulated by Recognised Controlling Bodies, Ms Michielopolous may opt not to have an Engagement Letter for the tax services
(c) In the capacity as tax practitioner, Ms Michielopolous is the Public Officer of Samesong Electronics (Pty) Ltd
(d) All of the above

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]

8. CORPORATE SOCIAL INVESTMENT:

Management decided that they would improve their BBBEE rating by engaging in enterprise development activities. The activities including providing entrepreneurial development and support to start-up business in low-income socio-economic areas.

The following information was extracted from its support and development strategies:

(a) Provide the start-ups with repair and maintenance kits (tools and equipment) with a total selling price of R 120,000 which will be settled in two equal annual instalments, the first commencing twelve months after the sale to the start-up owners. No interest was charged even though the effective market interest rate for customers with similar risks is estimated to 15% per annum.

(b) The company provides training with an estimated cost of R 9,000. The training agreement stated that if the start-up owners do not operate for a minimum period of two years, then the trainees will be liable to pay the full amount of the training cost with three months after he/she ceases operating. Management estimated that four out of the five people trained would default on the conditions of the programme.

(c) The company provides start-up owners with goods and spare parts with an estimated value of R 10,000. The accountant only recognised these transactions as revenue based on the subsequent purchases of goods and parts by the start-up owners. The goods and parts provided to these start-up businesses are not concluded in terms of an agency agreement but was merely implemented to facilitate the cash flows of the business.

The start-up businesses are not registered for VAT purposes, but the company ensures that both the owners and their businesses are tax compliant.

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

<u>PART M:</u>

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

[4 marks]

<u>PART N:</u>

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

[3 marks]

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]

PART P:

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]

9. FINANCING & INVESTMENT DECISIONS:

Management decided to expand its operation through the acquisition of an additional machine. This was done in order to improve production efficiency and the quality of the output. The financial manager presented the following information relating to the investments in the machinery and equipment:

	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%

Naseera Omarjee and Patrick Moses started a logistics company, Transport Logistics (Pty) Limited (Transport Logistics), to satisfy the logistics and distribution needs of Samesong through an outsourcing agreement. The agreement stipulated that Samesong has the right of first refusal on the services of the business. Samesong agreed to provide the initial funding to establish the logistics business if Naseera Omarjee sells her shares in the Samesong to Ahmed Omarjee.

To resolve the cash flow position of the company Naseera agreed to sell her shares two months before the 2018 year of assessment of the business in order to obtain the financing from Samesong. Furthermore, Patrick stated that the company can improve it short-term financing through managing the company's tax position more effectively, such registering as a Small Business Corporations (SBC) for tax purposes as well as its payment scheme of the tax obligations. Naseera agreed with the proposal made by Patrick as the accelerated capital allowances granted for assets will significantly reduce its income tax liability. The major assets of Transport Logistics consists of delivery vehicles which would be depreciated using the accelerated capital allowance of 50% in the first year it was brought into use. The directors estimated the useful life of the delivery vehicles to be five years. Patrick also stated that the penalties and interest paid in respect of the late submission of statutory tax return can be classified as a financing costs – the cash payable was used to finance business operating expenses.

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

<u>PART Q:</u>

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

[8 marks]

<u>PART R:</u>

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

[4 marks]

<u>PART S:</u>

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]

MCQ 15:

If the business was treated as a SBC for tax purposes in the previous year of assessment an does not qualify as a SBC for the current year of assessment, the capital allowances for assets acquired in previous years of assessments will be calculated as:
(a) reverse the previous capital allowances and apply the rate for companies
(b) balance of the tax value is deducted at the new rate over the remaining period
(c) continue the deduct the capital allowance in terms of the SBC rate
(d) deduct the balance of the tax value when there is a change in the tax status of the business

MCQ 16:

Which of the following reasons will disqualify Samesong Electronics (Pty) Ltd from being considered a Small Business Corporation
(a) Nafeesa Omarjee, the CEO, is a member of a Close Corporation which owns the family home
(b) all the shareholders of Samesong Electronics (Pty) Ltd are natural persons
(c) the annual turnover of Samesong Electronics (Pty) Ltd for the tax year ending 28 February 2018 is less than R20m
(d) none of the above

PART T:

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

[6 marks]

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]

MCQ 17:

The classification of the penalties and interest charged for late submission of the tax returns as financing costs may be:
(a) treated as a deduction for income tax purposes
(b) exempted for income tax purposes
(c) a financing cost deduction
(d) excluded as a deduction as it is not incurred in the production of income

10. DEFERRED TAXATION:

The following information was presented by the chief accountant, Mr. Dudushosha:

	2017	2018
As per the financial statements (carrying amounts):		
Assets	82 765 000	105 980 000
Liabilities	27 247 000	41 289 000
As per the income tax return (IT 14 – tax values)		
Assets	69 825 000	87 820 000
Liabilities	25 670 000	38 564 000
Assessed loss	109 000	-

The chief accountant stated that deferred taxation should be provided on all differences that exist between the information presented in the financial statements (statement of financial performance and statement of financial position) at the rate that is applicable for the reporting period – no deferred tax provision should be recognised for the assessed loss as it is only a calculation for tax purposes.

The company generated sufficient taxable income for the 2018 year of assessment to utilise the assessed loss carried forward. The current tax rate was constant at 28% for the past ten years, but the enacted rate at 28 February 2018 was 30% and would only be implemented with effect for years of assessment ending on or after 5 May 2018.

You are required to:

PART V:

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

[3 marks]

PART W:

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

[2 marks]

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]

11. OUTSOURCING:

The company received a request from a new client to supply 40,000 units of the new product developed per month for a period of two years at a price of R 80.00 per unit which is 20% less than the normal selling price. The order will result in the company exceeding its production capacity. Management discussed the following options:

(a) working overtime to meet the increased production output – additional costs will be R 7.00 labour costs per unit (overtime is charged at time plus a half – the labour cost per hour amounts to R 28.00)and other fixed costs of R 15,000 per month;
(b) acquire additional machinery to increase its production capacity – cost of the machinery is R 470,000 which will be depreciated on a straight-line basis over a useful life of five years;
(c) outsource the entire order at a cost of R 60.00 per unit; or
(d) reject the order.

The production manager also stated the order can be integrated into the current production process for the first four months by reducing the supply of goods to the other customers; and making the investment decision thereafter. The financial manager stated that the current contribution per unit is R 35.00 and a contribution of R5.00 per labour hour.

You are required to:

PART Y:

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

[4 marks]

MQC 18:

The contribution per unit for the order if management decides to work overtime to complete the order will amount to:
(a) R 35.00
(b) R 28.00
(c) R 7.00
(d) R 20.00

MCQ 19:

If management decide to approve the recommendation of the production manager to reduce the supply to its other customers, the relevant labour cost per hour for the order with amount to:
(a) R 28.00
(b) R 14.00
(c) R 21.00
(d) R 19.00

MCQ 20:

If the current sales exceed the break-even point, and the company decides to work overtime, the profit realised for the order to 40,000 units per month would amount to:
(e) R 1,400,000
(f) R 1,120,000
(g) R 1,085,000
(h) R 3,200,000

PART Z:

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

[6 marks]

MCQ 21:

The family business, Samesong Electronics (Pty) Ltd was incorporated in 2008, whilst the Companies Act, Act 71 of 2008 only became operational and into effect in 2011. For which of the following reasons the entity may possibly have been incorporated as a Closed Corporation instead?

(a) forecasted turnover of the entity to be incorporated were estimated to be in excess of R 100 million
(b) the entity has 9 shareholder-managers
(c) no duly qualified Accounting Officer's letter of consent was accepted by the CIPC in 2008
(d) chances were that the entity will employ more than 100 staff members

MCQ 22:

You have recently qualified as a Professional Accountant (SA) and have started to trade for your own account. You have decided to accept a compilation engagement, small business tax compliance and business advisory engagements, you;

(a) are exempted from compiling a Quality Control Manual in terms of the International Standard on Quality Control – ISQC 1
(b) need not prepare engagement letters for your clients
(c) are encouraged to write Letters of Professional Courtesy to the previous Independent Accounting Professionals of prospective clients
(d) may accept monetary retainers from prospective clients

MCQ 23:

The fundamental principles as contained by the International Ethics Standards Board for Accountants (IESBA) are;

(a) integrity, Subjectivity, Due Diligence, Confidentiality and Professional Behaviour
(b) professionalism, Integrity, Excellence, Objectivity and Confidentiality.
(c) Iitegrity, Objectivity, Professional competence and due care, Confidentiality and Professional behaviour
(d) professional competence and due care, Integrity, due diligence, confidentiality and Excellence.

MCQ 24:

You have accepted the office of Accounting Officer to an existing Closed Corporation. Which of the following is not an automatic duty by virtue of you filling such position?

(a) compiling the Annual Financial Statements of the Closed Corporation
(b) issuing a written report to the Closed Corporation as prescribed in the Closed Corporations Act, Act 81 of 1984
(c) advising the CIPC when the Closed Corporation has ceased trading activities
(d) advising the CIPC in writing when the liabilities of the Closed Corporation exceeds its assets fairly valued

MCQ 25:

Remaining updated and relevant as a Professional Accountant (SA) means that the Professional Accountant (SA) embarks on a road of life-long learning. Which of the following statements are true?

(a) all structured and formal learning stops with the successful completion of this professional evaluation
(b) no formal requirements for Continuous Professional Development exists
(c) continuous Professional Development is intended for Tax Practitioners only
(d) none of the above

ANNEXURE

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 2017

Taxable Income		**Rates of Tax**
From **R**	**But does not exceed** **R**	**R**
0	188 000	0 + 18% of each R1
188 001	293 600	33 840 + 26% of the amount above 188 000
293 601	406 400	61 296 + 31% of the amount above 293 600
406 401	550 100	96 264 + 36% of the amount above 406 400
550 101	701 300	147 996 + 39% of the amount above 550 100
701 301		206 964 + 41% of the amount above 701 300

TABLE 2

TURNOVER TAX DUE BY MICRO BUSINESSES IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2017

Turnover		Rates of Tax
From R	But does not exceed R	R
0	335 000	0
335 001	500 000	0 + 1% of the amount above 335 000
500 001	750 000	1 650 + 2% of the amount above 500 000
750 001	1 000 000	6 650 + 3% 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 2017

Type of company	Rate of tax
Small business corporations Taxable income:	
R0 – R75 000	0%
R75 001 – R365 000	7% of the amount over R75 000
R365 001 – R550 000	R20 300 + 21% of the amount over R365 000
Exceeding R550 000	R59 150 + 28% of the amount over R550 000

Personal service provider companies	28%
Companies	28%
Dividends Tax (effective from 1 April 2012)	15%
Dividends Tax (effective from 22 February 2017)	20%

TABLE 4

REBATES: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

	2017 R
Primary	13 500
Secondary (65 years of age or older)	7 407
Tertiary (75 years of age or older)	2 466

TABLE 5

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

Under 65 years	2017 R
Taxpayer only	286 per month
Taxpayer plus one dependent	572 per month
Additional dependants	192 per month

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	26 675	82.4	30.8
80 001 – 160 000	47 644	92.0	38.6
160 001 – 240 000	68 684	100.0	42.5
240 001 – 320 000	87 223	107.5	46.4
320 001 – 400 000	105 822	115.0	54.5
400 001 – 480 000	125 303	132.0	64.0
480 001 – 560 000	144 784	136.5	79.5
Exceeding 560 000	144 784	136.5	79.5

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 2017

Taxable amount	**Rate of tax**
Up to R500 000	0% of taxable income
Exceeds R500 000 but not R700 000	R0 + 18% of taxable amount above R500 000
Exceeds R700 000 but not R1 050 000	R36 000 + 27% of taxable amount above R700 000
Exceeds R1 050 000	R130 500 + 36% of taxable amount above R1 050 000

TABLE 9

TABLE OF TAX LIABILITY ON RETIREMENT LUMP-SUM WITHDRAWAL BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2017

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 1/03/2011	6.5%
From 1/08/2012	6%
From 1/02/2014	6.5%
From 1/08/2014	6.75%
From 1/08/2015	7%
From 1/12/2015	7.25%
From 1/02/2016	7.75%
From 1/04/2016	8%