MCQ Questions

1	B			
2	B	C	D	
3	B			
4	C			
5	D			
6	B			
7	B			
8	A	B	C	D
9	A	D		
10	C			
11	C	D		
12	D			
13	B			
14	A			
15	B			
16	B			
17	C			
18	B			
19	D			
20	C			
21	A			
22	D			
23	C			
24	B			
25	B			

Question A:

Record the journal entry during the current reporting period in order to recognised the expenses incurred before the registration and incorporation of the business in compliance with the accounting standards. Ignore the deferred tax implications for this question.

[3 marks]

			Marks
Key issue: recognition of pre-incorporation expenses			
B.O.K: recognised as business expense immediately after incorporation : recognised as correction of error (adjust retrospectively)			
Retained income/Pre-incorporated Asset (Expenses)	***12 000***		***2***
Shareholder's loan: Nukesamy		***12 000***	***1***
[Recognised of expensed which were previously ignored]			
			Max: 3

NB: Marks should be allocated for the account descriptions rather than the amounts. It is acceptable to record it as a Shareholders/Directors loan and not as an Investment.

Question B:

Discuss whether "IFRS for SME's compliance financial statements" should have identify and highlighted the cash and bankruptcy risks the business faced after the financial statements were finalised and signed off?

[4 marks]

	Marks
Key issue: objective of financial statements ***B.O.K: object and qualitative characteristics of financial statements*** - ***the objective of financial reporting is:***	
o ***"to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range***	***1***
of users in making economic decisions.	***1***
o ***to track, analyze and report your business' income. The purpose of these***	***1***
reports is to examine resource usage, cash flow, business performance and the financial health of the business.	***1***
- ***financial statements have both a historical as well as a predictive characteristic which should provide indicators of future risks***	***1***
- ***financial statements are prepared on a going concern basis, this implies that risks of sustainability are implicit in the information presented in the financial statements***	***1***
- ***financial statements based on the going concern basis implies that the is no significant risk of liquidity or bankruptcy – if there was any such risks it should have been included in the financial statements***	***1***
- ***conclusion: based on the above information, the financial statements should have provided indications of the potential future bankruptcy and going concern risk of the business***	***1***
	Max: 4

NB: allocate marks if it is stated that the basis of drafting the financial statements, e.g. going concern implies that liquidity and solvency tests were conducted.

Question C:

Advise Canbah Nukesamy is she can sue Mr. Mohlaba for signing off the financial statements when the business faces bankruptcy a few months later.

[4 marks]

	Marks
Key issue: responsibility of the independent reviewer ***B.O.K: termination of responsibility and accountability after the signing off of financial statements***	
- ***the responsibility of the engagement (ISRS 2400) is the complete the review of the financial statements of the previous reporting period to determine the reliance that can be placed on the opening balance – responsibility is completed on signing off of the report***	***1***
- ***the reviewer can only be held liable if he negligently performed the functions of the engagement:***	***1***
o ***did not perform procedures to test and validate the going concern or solvency and liquidity test of the business as reported in the financial statements***	***1***
o ***did not perform analytical procedures to identify risks of misstatement of the financial statements – not comply with the requirements of ISS 2400***	***1***
o ***did not conduct the solvency and liquidity test as required in terms of the Companies Act***	***1***
- ***based on the above the reviewer can or cannot be sued***	***1***
	Max: 4

NB: allocate marks if the candidates stated that the reviewer must have supporting working papers to the opinion expressed.

Question D:

Discuss the important for management to request risk management reports and cash flow statements at the quarterly meetings to better enhance the decision.

[5 Marks]

	Marks
Key issue: risk management and cash flow reports **B.O.K: managing risk and cash flow is critical to the operating sustainability** - **Cash Flow Statement** o **cash flow statement shows how funds flow in and out of your company was managed over time**	**1**
o **the information is vital to managers, who must figure out how to pay for day-to-day expenditures and how to plan longer term budget items such as loan repayments**	**1**
o **cash flow statement can help you anticipate shortfalls and proactively plan to cover short term shortfalls**	**1**
o **cash flow statement also shows you when you're likely to have a surplus, so you can plan capital improvements to coincide with these opportunities.**	**1**
- **Risk management:** o **risk management is important in an organisation because without it, a firm cannot possibly define its objectives for the future**	**1**
o **a company defines objectives without taking the risks into consideration, chances are that they will lose direction once any of these risks hit home.**	**1**
- **Directors/Management responsibility** o **in terms Companies Act 71 of 2008 the <u>risk assessments forms part of the fiduciary duties of the directors</u>**	**1**
o **in terms of corporate governance, it is the directors duties to ensure that efficient and effective management of the business**	**1**
	Max: 5

Question E:

Outline the procedures that should be followed by Mr. Mohlaba when performing the independent review of the financial statements for the reporting period ended 28 February 2018 in compliance with ISRE 2400 – Review Engagement.

[7 marks]

	Marks
Key issue: procedures for carrying out the independent review	
B.O.K: conduct analytical review to determine the level and risk and conduct substantive tests to evaluate the risks identified	
- ***Risk tolerance and materiality***	
o ***the reviewer must determine the changes to the nature of the business and its impact on the financial results***	***1***
o ***the reviewer must determine the financial information risk tolerance level that is acceptable for the engagement***	***1***
o ***the reviewer must determine the materiality at transactions and collective levels***	***1***
- ***Analytical procedures***	
o ***the reviewer must conduct analytical procedures to determine the level of possible risks of the misstatement of financial statements***	***1***
o ***perform ratio analysis to determine the level of risks presented in the ratios over a period of time – trend analysis***	***1***
o ***perform horizontal analysis between related transactions to determine possible risks in the financial statement information***	***1***
o ***perform variance analysis to identify risks between the planned and actual results***	***1***
o ***discuss with management about changes in strategies that may impact the reliability of the financial information***	***1***
o ***performance activity analysis to determine the risks between the activities and the outputs***	***1***
o ***review the risk register to determine the financial information risks and the mitigating strategies***	***1***
- ***Substantive and/or verification tests***	
o ***based on the type and nature of financial statements risks identified the reviewer must conduct further tests to evaluate the misstatements of the financial statements***	***1***
o ***conduct substantive tests to validate the record risks that affects the risks identified during the analytical procedures phase – assess the materiality***	***1***
o ***conduct verification tests to validate the risks identified in respect of the assets and liabilities presented in the financial statements***	***1***
o ***examples of the type of substantive and verification procedures***	***2***
	Max: 7

Question F:

Record the journal entry for the cash forwarded by Canbah Nukesamy in compliance with the accounting standard for the reporting period ended 28 February 2018, if the effect date of the loan as a financial instrument was 01 December 2017.

[6 marks]

Key issue: recognition and measuring financial instrument			
B.O.K: measured at amortised cost at the effective interest rate			
Bank	*7 500 000*		*0.5*
Deferred interest paid (P&L) – 1st Day Gain		*3 148 020*	*1*
Financial liability - Loan: Nukesamy *Calculation: [7,500,000 @ 11,5% after 5 years]*		*4 351 980*	*1* *2*
[Recognition of financial liability (loan) from shareholder]			
Interest paid	*125 119*		*1*
Financial Liability – Loan: Nukesamy		*125 119*	*0.5*
[Unwinding of the financial liability]			*Max: 6*

NB: if candidate did not present value the transactions then no principle marks should be allocated – accept transactions for R 5,000,000 and R 2,500,000. Allocate 0.5 each for interest rate and period and principle mark for the amount. Also allocate marks if the interest expense is based on the value of the loan.

Question G:

Discuss how the land should have been classified and recognised in the accounting records when it was purchased during 2014 in compliance with the accounting standards.

[3 marks]

	Marks
Key issue: classification of vacant land *B.O.K: vacant land should be classified based in the intention with which is purchased*	
- *general vacant land should be classified as Investment Property it is purchased as a bargain price*	*1*
- *as the intention was to construct a restaurant and playground to be used by the business, the land should be classified as Property, Plant & Equipment*	*2*
- *owner occupied – classified as Property, Plant & Equipment*	*1*
	Max: 3

Question H:

Discuss how the land should be classified in the financial statements for the reporting period ended 28 February 2018 in compliance with the accounting standards.

[5 marks]

	Marks
Key issue: classification of vacant land after receiving the notification of expropriation	
B.O.K: adjusting even after the reporting date	
- transaction represents an event after the reporting date	***1***
- notification of the expropriation was received before the reporting date of an even which will occur after the reporting date – represents an even after the reporting date	***1***
- the expropriation is known before the reporting date and its probable occurrence is certain (more than likely) – it therefore represents an adjusting event in the financial statements	***2***
- the vacant land must be reclassified from Property, Plant & Equipment to Non-current asset available for sale - statement of financial position or by way of a note	***1***
- the details of the expropriation must be disclosed as a note to the financial statements – the disposal of the vacant land cannot be recognised before the reporting date	***1***
	Max: 5

NB: allocate a marks for stating that an adjusting entry must be recorded rather than a note for reporting purposes only

Question I:

Discuss, supported by calculations, the income tax implications for the expropriation of the land for the year of assessment ended 28 February 2019.

[6 Marks]

	Marks
- *a <u>disposal for capital gains purposes includes expropriation</u>, therefore there is a disposal for capital gains purposes*	*1*
- *<u>no capital allowances is allowed for income tax purposes on land</u> – <u>base cost will R 500,000</u>*	*2*
- *<u>proceeds is R 300,000</u> – as there is no recoupment on*	*1*
- *<u>capital loss of R200 000 will be set off against other capital gains or added to other capital losses</u>*	*2*
- *<u>the capital loss is not ring-fenced</u>*	*1*
	Max: 6

NB: if candidates only provide a calculation then one mark should be allocated for the application of the principle.

Question J:

Calculate the profit margin for the most popular dish using the absorption costing method.
[5 marks]

		Marks
Key issue: product cost using absorption costing		
B.O.K: total cost (variable plus fixed) - using the overhead absorption rate		
Selling price	*165,00*	*0.5*
Variable costs:		
- Ingredients	*45,00*	*0.5*
- Operating costs	*9,80*	*0.5*
- Overhead absorption rate [76,000/3,200]	*23,75*	*2*
Profit	*86,45*	*1*
Profit margin	*52%*	*0.5*
		Max: 5

NB: allocate principle marks for identifying only the variable production costs and the basis for calculating the overhead absorption rate.

Question K:

Calculate the break-even point for the month if the incentive scheme is implemented by the company.

[5 marks]

		Marks
Key issue: calculating break-even point		
B.O.K: total fixed costs/contribution per unit		
Selling Price	*165,00*	*0.5*
Variable production costs	*54,80*	*0.5*
Variable selling costs	*2,00*	*1*
Contribution per unit	*108,20*	*0.5*
Total fixed costs		
- Operating	*76 000*	*0.5*
- Salaries	*165 000*	*1*
- Administration	*265 000*	*0.5*
	506 000	
Break-even point	*4 677*	*1*
		Max: 5

NB: allocate principle mark for including variable selling expenses in calculation of the contribution per unit as well as for the calculation of the salaries for the month.

Question L:

Discuss whether the statement made by the accountant relating to the recognition of the incentive scheme to customers complies with the accounting standards. Provide reasons for your answer, if any, recommend the appropriate recognition treatment.

[6 marks]

	Marks
Key issue: recognition and measurement of loyalty programs	
B.O.K: separation of sale of goods and loyalty value – initially a deferred sale but when exercised it represents and actual sale	
- ***the incentive scheme is equivalent to a loyalty programme for the purposes of revenue recognition***	*1*
- ***sales transactions represent tow revenue transactions, viz. sale of goods which is recognised on delivery and loyalty program which is recognised when exercised***	*2*
- ***loyalty program is measured and recognised based on the probable occurrence of it being exercised – management's judgement and probable occurrence***	*2*
- ***initial recognition the sale should be separated between sale of goods and loyalty value which is recognised as a deferred revenue transaction (revenue in advance)***	*1*
- ***subsequent recognition, when the loyalty points are exercised then it forms part of the revenue transaction at that date (cancellation of the deferred revenue transaction)***	*1*
- ***subsequent recognition, when the rights expire the deferred revenue transaction must be cancelled***	*1*
- ***subsequent recognition, at each reporting date the a valuation of the rights outstanding should be determined and an adjustment to the balance should be recorded***	*1*
- ***conclusion: based on the above the statement of the accountant is incorrect***	*1*
	Max: 8

Question M:

Discuss how the incentive scheme offered to customers should be recognised for income tax and VAT purposes in complies with the legislation requirements.

[5 marks]

	Marks
Key issue: VAT and income tax implications for loyalty programme	
B.O.K: based on actual transaction – loyalty points is not an actual transaction	
- the incentive scheme represents a loyalty program plan and cannot be recognised as an actual transaction for income tax and VAT purposes	*1*
- the primary transaction is represented by the sale transaction and the consideration should be measured based on the monetary value transferred when the sale is concluded	*1*
- initial sales transaction with be recognised as part of gross income based on the cash received or accrual basis; and for VAT purposes it should be recognised on the earlier of the cash received or invoice issued	*2*
- subsequent sales transaction should be measured at the amount after deducting the value of the stamps exercised – treated as a discount	*1*
	Max: 5

Question N:

Advise Canbah Nukesamy, using relevant costing together with supporting calculations, what option should be used to execute the investment in the acquisition of the cutlery and crockery in terms of its policy in implement its new image.

[7 Marks]

		Marks
Key issue: selecting the most cost effective method *B.O.K: relevant costing method – minimise cash outflow*		
If purchased from India		
Payment of purchase price including duties (R 109,000 + R 23,200)	*132 200*	*1*
Payment of VAT on the importation (section 7(1)(b)), calculated as follows:		
Customs duty value	*109 000*	
*Plus 10% of the customs duty value (R109 000*10%)*	*10 900*	*1*
Plus all non-refundable duties and surcharges	*23 200*	*1*
	143 100	
VAT of 14%	*20 034*	*1*
Total Payment – R132 200 + R20 034	*152 234*	
Input tax claim to the extent of using the crockery and cutlery for making taxable supplies (100%)	*(20 034)*	*1*
Net cash outflow	*132 200*	
If purchased from a local supplier		
Payment of purchase price	*135 200*	
Input tax claim to the extent of using the crockery and cutlery for making taxable supplies (R 135,200 x 14/114 x 100%)	*(16 604)*	*1*
Net cash outflow	*118 596*	*1*
It would be cheaper to buy from a local supplier – business would save R 13,604 (R 132,200 – R 118,596).	*13 604*	*1*
Qualitative factors: - *after sales services* - *risk of damages during transportation*		*2*
Conclusion: the business will save by purchasing the goods from the local supplier		*1*
		Max: 7

Question O:

Record the journal entries including the effect of deferred tax implementing the decision to implement the change in the depreciation policy relating to kitchen machinery and equipment for the reporting period ended 28 February 2018 in compliance with the accounting standards.

[7 marks]

			Marks
Key issue: implementing a change in depreciation policy **B.O.K: implement with effect from the beginning of the reporting period over the remaining useful life**			
	Accounting	**Tax**	
Cost	**1 198 100**	**1 198 100**	
Carrying amount	**732 500**	**732 500**	
Residual value	**120 000**		
Depreciable amount	**612 500**		**1**
Depreciation (over 5 years)	**122 500**	**239 620**	**1**
Carrying amount	**610 000**	**492 880**	**1**
Temporary difference	**117 120**		**0.5**
Deferred tax – liability	**32 794**		**1**
Depreciation expense	**122 500**		**0.5**
Accumulated depreciation		**122 500**	**0.5**
[Depreciation for the period]			
Deferred tax expense (P&L)	**32 794**		**1**
Deferred tax liability (SoFP)		**32 794**	**0.5**
[Deferred tax on temporary difference]			
			Max: 7

ALTERNATE SOLUTION:

				Marks
Key issue: implementing the correction of the depreciation policy				
B.O.K: implement with effect retrospectively				
	Correction	**Accounting**	**Tax**	
Cost	**1 198 100**	**1 198 100**	**1 198 100**	
Accumulated depreciation [(1,198,100 - 120,000)/(5 + 2)]	**308 029**	**465 600**		2
Carrying amount [(732,500/1,198,100) x 5] 3 years	**890 071**	**732 500**	**732 500**	1
Adjusting Accumulated depreciation	**157 571**			1
Temporary difference	**157 571**			
Deferred tax - liability	**44 120**			**1**
Depreciation expense	**154 014**		**239 620**	**1**
Carrying amount	**736 057**		**492 880**	**1**
Temporary difference	**243 177**			0.5
Deferred tax - liability	**68 090**			1
Accumulated depreciation		**157 571**		0.5
Retained earnings			**157 571**	1
[Correction of error in calculating depreciation]				
Retained earnings		**44 120**		1
Deferred tax liability (SoFP)			**44 120**	0.5
[Deferred tax on temporary difference results from correction of error]				
Depreciation expense		**154 014**		0.5
Accumulated depreciation			**154 014**	0.5
[Depreciation expense for the period]				
Deferred tax expense (P&L)		**23 970**		1
Deferred tax liability (SoFP)			**23 970**	0.5
[Deferred tax on temporary difference for the period]				
				Max: 7

Question P:

Record the journal entries including deferred tax (using the normal tax rate) relating to the impairment loss, if any, for the reporting period ended 28 February 2018 in compliance with the accounting standards.

[12 marks]

			Marks
Key issue: implementing the impairment test for revalued assets *B.O.K: separation of impairment loss between devaluation and loss*			
	Cost	*Revalue*	
Cost	*18 000 000*	*25 000 000*	*1*
Accumulated depreciation - 2018	*7 200 000*	*10 000 000*	*1.5*
Carrying amount	*10 800 000*	*15 000 000*	*1*
Recoverable amount	*9 500 000*	*9 500 000*	
Total decline in value		*5 500 000*	*0.5*
Impairment loss	*1 300 000*		*2*
Temporary difference	*-1 300 000*		
Deferred tax asset	*-364 000*		
Reversal of revaluation surplus (OCI)	*4 200 000*		*1.5*
Revaluation surplus (SoFP)		*4 200 000*	*1*
[Decrease value to carrying amount historical cost]			
Impairment loss (P&L)	*1 300 000*		*1*
Accumulated impairment loss (SoFP)		*1 300 000*	*1*
[Impairment loss for the reporting period]			
Deferred tax asset (SoFP)	*1 540 000*		*2*
Deferred tax expense (P&L)		*364 000*	*1*
Deferred tax expense (OCI)		*1 176 000*	*1*
[Deferred tax provision for the reporting period]			
			Max: 12

NB: allocate marks on the principles rather than the calculations – focus on the historical cost comparison of carrying amount and recoverable amount; as well as the allocation of the deferred tax between P&L and OCI.

Question Q:

Advise management which financing option should be selected to finance the acquisition of the vehicles which is most beneficial to the business.

[6 marks]

		Marks
Key issue: selecting a financing option		
B.O.K: financing decision should be based on minimum cost to the business		
Leasing:		
PV: R 105,575 @ 6% for 8 periods [105,575 x 6,2098]	***655 600***	***3***
Loan:		
PV: R 240,000 @ 14% for 5 years [240,000 x 3,4331]	***823 944***	***2***
/Advise: finance the acquisition using leasing as the best option		***1***
Consideration of tax implications		***1***
Qualitative factors: ***- income tax consideration***		***1***
		Max: 6

Question R:

Record the journal entries for the acquisition of the vehicles, if finance leasing was used as a basis of financing, in compliance with the accounting standards.

[4 marks]

			Marks
Key issue: recognition of finance leased assets ***B.O.K: capitalised at the present value of future lease payments***			
Motor vehicle - delivery vehicle	***380 000***		***1***
Motor vehicle – commercial	***218 500***		***2***
Financial lease creditor		***598 500***	***1***
[Capitalisation of finance leased assets]			
			Max: 4

NB: no mark should be allocated for VAT as this is a finance lease agreement which is capitalised for accounting purposes.

Question S:

Disclose the note for the financial lease creditor in the financial statements for the reporting period ended 28 February 2018 in compliance with the accounting standards.

[10 marks]

				Marks
Key issue: disclosure of finance lease liability B.O.K: reflecting the liability at present value and reflect the future cash outflows				
Period 1	655 500	39 330	105 575	
Period 2	589 255	35 355	105 575	
Period 3	519 035	31 142	105 575	
	444 602	66 497	211 150	
Notes to the financial statements - 28 February 2018				
Financial lease creditor is measured at the present value of the minimum lease payments discounted at the effective interest rate. The finance lease creditor is repaid half-yearly by an amount of R 105,575 payable in arrears for a period of three and a half years.			589 255	3
Less: Current liability			144 653	2
Non-current liability			444 602	0.5
	Following year	Thereafter	Total	
Rental payment	211 150	527 875	739 025	1.5
Finance cost	66 497	83 273	149 770	2
Capital repayments	144 653	444 602	589 255	1.5
				Max: 10

NB: allocate marks for the amortisation table.

Question T:

Calculate the normal tax deductions that Curry Den (Pty) Ltd will be able to claim with regards to the employment of Anele Khosi and Anand Naidoo for the year of assessment ended 28 February 2018.

[9 Marks]

		Marks
Cost of learnerships - salaries - s11(a) – No VAT	*200 000*	*1*
Cost of learnerships - training - s11(a) [R 80,400 x 100/114]	*70 526*	*1*
Learnerships – s12H – Additional Deduction		
Anele Khosi		
- *Annual Allowance – [R 40,000 x 4/12]*	*13 333*	*2*
Anand Naidoo		
- *Annual Allowance – (R 20,000 + R 30,000) x (4/12)]*	*16 667*	*3*
Completion Allowance – [R 20,000 + R 30,000]	*50 000*	*2*
		Max: 9

Question U:

Draft a report to Canbah Nukesamy analysing the financial performance and financial position under the following headings:

(a) liquidity	*[4 marks]*
(b) profitability and operating risk	*[5 marks]*
(c) solvency and financial risk	*[4 marks]*

	Marks
Key issue: using ratio analysis to assess the performance of the business	
B.O.K: using ratio analysis as a comparative and longitudinal study	
- Liquidity:	
○ liquidity ratio assesses the ability of the business to meet its short-term obligation timeously	***1***
○ liquidity ratios are equal to a greater than the industry average – business is performing marginal better than the average business in the industry	***1***
○ the liquidity ratios increased during 2017 but significantly declined during 2018 indicating a slide towards a liquidity challenges	
○ decline during 2018 for a business whose primary revenue is generated from cash transactions indicate a cash flow risk for the business	***1***
○ the major concern is the significant decline in the cash ratio which indicate the risk that the business is facing to meet its operating obligations	***1***
	1
- profitability and operating risk:	
○ profitability measure the operating return on the business activities and return on investment while the operating risks measures that fixed cost composition of the total operating expenses	***2***
○ the gross profit margin is higher than the industry average indicating that business has a reasonable stable pricing structure	***1***
○ during 2018 there was a significant decline in the gross profit margin indicates that the business is encountering increased competition in the market	***1***
○ the net profit margin increased steady over the three years indicating that the business improved its operating efficiency	***1***
○ operating risk ratio has increased constantly over the three years indicating that the operating processes has changed – above that of the industry average but it resulted in increased efficiency and productivity	***2***
- solvency and financial risk:	
○ the solvency ratio measures the security provided by the business to debt providers while the financial risk measures the ability of the business to meet its financial obligations	***1***
○ the gearing ratio has increased gradually over the past three years indicating that the business is placing greater dependency debt financing which increases both business and financial risk to the business	***2*** ***1***

○ ***the asset cover declined significantly during 2018 indicating that the financial risk and security to debt providers have deteriorated*** ○ ***interest cover declined significantly declined during 2018 which indicated that the business increased the risk to meet its debt serving costs from operating profits*** - ***in general, although the business has improved its overall profit performance through efficiency and productivity, the financial risk has increased as a result of increasing its debt financing activities***	***1*** ***1***
	Max: 13

Question V:

Discuss the income tax implications, supported by calculations, of the above dividend transactions for Canbah Nukesamy for the year of assessment ended 28 February 2018.

[7 marks]

	Marks
- *the discussion is the dividend tax implications of the shareholder*	*1*
- *Canbah Nukesamy is a South African resident therefore she is taxed on her worldwide income.*	*1*
- *In terms of par(k) of special inclusion of s1 of gross income, foreign dividends are included in Canbah Nukesamy's gross income.*	*1*
- *Alltech Investments Plc*	
o *The gross foreign dividend of R35 830 will be included her gross income for the 2018 year of assessment.*	*1*
o *The full exemption of the foreign dividend in terms of s10B(2)(a) does not apply, as Canbah owns less than 10% (6%) of the equity and voting rights in Alltech Investment Plc or s10B(2)(d) does not apply, as Alltech Investments Plc is not listed on the JSE.*	*2*
o *Foreign dividend exemption in terms of s10B(3) is R 19,906 [R35 830 x 25/45]*	*1*
- *Starplus International*	
o *The gross foreign dividend of R20 000 will be included her gross income for the 2018 year of assessment.*	*1*
o *The full exemption of the foreign dividend in terms of s10B(2)(d) is applicable as Starplus International (the company declaring the dividend) is listed on JSE.*	*1*
o *Therefore the entire R20 000 is exempt.*	*1*
- *The foreign taxes of R2 000 paid on foreign dividend received from Starplus International is not taken into account in the foreign tax rebate calculation as the foreign dividend was fully exempt in terms of s 10B(2)(d)*	*1*
- *s23(q) OR expenses incurred (such as the management fees) to earn foreign dividends is not deductible as it is specifically prohibited OR expenses incurred to earn foreign dividends is not considered a trade being carried on.*	*2*
- *The provisions of the Double Tax Agreements (DTA) between the countries should be taken into consideration*	*1*
	Max: 7

Question W:

Record the journal entries for the above purchase transaction from initial recognition to the settlement of the supplies account in compliance the accounting standards.

[8 marks]

			Marks
Key issue: accounting from settlement discount for credit transactions			
B.O.K: settlement discount must be recognised at the transaction date and assessed subsequent to recognition			
Inventory/Purchases – net of discount	***199 992***		***1.5***
Input VAT Control – exclude discount	***27 998***		***0.5***
Provision for settlement discount	***13 903***		***2***
Provision for Input VAT control	***1 946***		***0.5***
Accounts payable		***243 840***	***1***
[Recognition of settlement discount for purchase transaction]			
Inventory/Purchases	***13 903***		***0.5***
Input VAT Control	***1 946***		***0.5***
Provision for settlement discount		***13 903***	***1***
Provision for Input VAT control		***1 946***	***0.5***
[Cancellation of the provision of settlement discount]			
Accounts payable	***243 840***		***0.5***
Bank		***243 840***	***0.5***
[Settlement of amount due]			
			Max: 8