NAME: ………………………………………………………………

SURNAME: ………………………………………………………………

SAIPA NUMBER: ……………………………………………………………..

PROFESSIONAL EVALUATION
QUESTION PAPER
02 NOVEMBER 2019

TIME: 4h30min

MINUTES: 270 min

	MULTIPLE CHOICE QUESTIONS	**20**
	CASE STUDY QUESTIONS	**20**
TOTAL	**COMBINED**	**40**

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 for any part of your work not to be marked, draw a clear line through it.
10. The question paper may **NOT** be taken with you at the end of the examination.

CASE STUDY

Background

With one of the top performance histories in the local industry, Tech-Fan Computers (Pty) Limited (hereafter referred to as Tech-Fan) is a technology development and computer manufacturing company with a focus of integrating into the 4IR environment. Tech-Fan was founded by Mr. I. Fan (director and shareholder) and Judd Woznext (the COO) in 2005 and since then it has revolutionized the South African technology industry due to its innovation and creative business strategy. This strategy has helped in designing the specifications, physical characteristics and adaptability of its products. The company offers various products for different target markets and describes its business strategy in terms of product differentiation and strategic alliances. There is economic value in product differentiation, especially in the case of monopolistic competition and from reducing environmental threats. Furthermore, the high cost of product differentiation acts as a barrier to entry and reduces the threat of new entrants. The management is considering investing in the production of software and hardware products which will facilitate the use of Artificial Intelligence (AI) and Data Analytics in all spheres of life. The principle objective of developing these products is to target the education market, in order to encourage children to take a keen interest in technology science from an early age.

Product Differentiation

Tech-Fan prides itself on its innovative and creative strategy and this attitude has fast-tracked the company's success trajectory. The company completed its "product matrix", a simplified product mix strategy formulated by Ms. Anti-Jobs. This move allowed the company to expand its footprint in desktop and a portable technology equipment as well as mobile application market, both in the professional and general consumer market segments. In 2013, Tech-Fan reached another important milestone by launching interactive music software product. The objective of this move was to enter the "digital lifestyle" market. Ms. Re-koza, the managing Director of Worldwide Digi-Marketing, the market strategic partner of Tech-Fan, stated: "this technology is going to change the way people listen to and engage with music." Tech-Fan continued its digital lifestyle strategy by launching Tech-MTunes, an online music store in co-operation with "The Big 7" Music companies, such as BMG, EMI, Sony Entertainment, Universal, Warner, Africa-sounds.

CONSTRUCTION OF THE MANUFACTURING PLANT **[45 MINUTES]**

During 2019, Tech-Fan embarked on a new venture which revolutionised the education sector by introducing the Learn-Us visual gaming classroom technology. This product combined education and entertainment in a learning environment. This form of "edutainment" is to encourage learning and is intended to be both educational and enjoyable. The new product that they introduced is the "Learn-Us" visual gaming program. The blueprint for the venture indicated that it will flip the classroom into an inter-active learning environment, which will focus on developing the learning skills of students.

The following is a summary of the budget prepared by the financial manager Mr. Daan Trompie after consultation with key stakeholders in the company:

Activities	Costs
Research costs – research costs incurred in the conceptual design, software and hardware prototype development.	R 4,000,000
Testing costs – costs incurred in testing the product designed and market feasibility. This information was used by management, in order to determine whether or not the development of this new project should continue..	R 250,000
Development costs – development of the software products, including samples given to staff to test the effectiveness of the product (estimate cost of the products was R 100,000). Management is of the opinion that the design and programme configuration will have an estimated useful life of twenty years with minor modifications carried out during its useful life.	R 9,000,000
Marketing and promotional costs – costs of demonstrating the products to different educational authorities.	R 120,000
The patent for the new product was registered by the company's attorneys at a cost of R 250,000. The attorneys' fees of R 120,000 were paid for registering the patent. The amount paid for the registration is a general patent which allows for the modification and updates to the products. The licence is awarded for a period of ten years after which it should be renewed.	R 370,000
Construction of the manufacturing plant – the manufacturing plant will be constructed in a Business Development Zone and consists of a training centre which will be hired to service providers for training purposes. Management estimated the cost of the training centre section to be R 1,750,000.	R18,000,000

Government provided compensation for the construction of the manufacturing plant, thereby, creating opportunities for training and employment of unemployed youth from the area. R 500,000 of the total amount was earmarked for employment of the youth.	R 3,500,000
The land used to construct the manufacturing plant was acquired at a bargain price four years prior to the decision to construct the manufacturing plant. The land was recognised as Investment Property – management was of the opinion at the time it was acquired that the company will be able to realise a significant profit due to its capital appreciation. The market values at the respective dates: • R 2,500,000 - decision to construct the manufacturing plant • R 2,700,000 - the construction commenced • R 3,000,000 - the reporting period	R 1,200,000

QUESTION 1:

Ms. Njabolo stated that the costs incurred for registering the patent for the product should be recognised as an intangible asset at:
(a) R 250,000
(b) R 370,000
(c) R 13,500,000
(d) none of the above

QUESTION 2:

The company's tax advisor (Mr. Radmak) stated that the cost of the products given to the employees for testing purposes should be treated as:
(a) a deduction for income tax purposes
(b) fringe benefit given to the employees
(c) capitalised as part of the cost of the intangible asset (product)
(d) a donation granted to the employees

<u>QUESTION A:</u>

The COO (Judd Woznext) stated that all the costs incurred by the company to get the product ready for the production should be capitalised and treated as an item of Property, Plant & Equipment, in terms of the accounting standards – all the costs incurred in research, testing and development of the Learn-Us technology products should be capitalised.

You are required to:

Advise the company on how the research and development costs incurred in respect of the product should be recognised in the financial statements in compliance with the accounting standards.

[10 minutes]

<u>QUESTION B:</u>

Mr. A. Count (a Professional Accountant), a close friend of Mr. I. Fan, recommended that the amount received from the government in respect of the construction of the manufacturing plant should be recognised as a government grant which should be included as income during the reporting period in which it was received.

You are required to:

Discuss whether the recommendation of Mr. A. Count complies with the accounting standards. If not, make recommendations as to how the amount received should be recognised in the financial statements in compliance with the accounting standards.

[10 minutes]

QUESTION C:

The financial accountant, Mr. Do-No-Thing, advised management that the training centre rented to various service providers should be recognised as Investment Property and measured based on the estimated cost of management. He further stated that the training centre should be depreciated based on the policy adopted for the manufacturing building.

You are required to:

Discuss whether the above statement made by Mr. Do-No-Thing, about the recognition of the training centre as Investment Property, complies with the requirements of the accounting standards.

[8 minutes]

QUESTION D:

Mr. A. Count advises the company that the land should be based on its initial recognition, viz. recognised as Investment Property even if the building (manufacturing plant) constructed on the land is recognised as Property, Plant & Equipment. Furthermore, he stated that the land recognised as Investment Property should be measured at the fair value subsequent to its initial recognition.

You are required to:

Record the journal entries, including the related deferred tax implications (narrations are required), for the recognition of the land for the reporting period ended 31 December 2018 in compliance with the accounting standards. Provide reasons and calculations to support the journal entries.

[12 minutes]

PRODUCTION OF THE "LEARN-US" CLASSROOM TECHNOLOGY [55 MINUTES]
NEW TECHNOLOGY DEVELOPMENT

The "Learn-Us" technology will be developed into three models with different pricing structures, in order to cater for the various target market segments. Management recommended that Ms. Re-koza (MD of Worldwide Digi-Marketing) should take full responsibility for the marketing promotion and roll-out of the new technology. After initial discussions with strategic stakeholders Ms. Re-koza stated that it is important to get decision-makers into key positions, especially those in the public education sector. This needs to be done for the marketing campaign to be successful. Ms. Re-koza stated that she should have funds available, approximately R 1,500,000 in order to "wine and dine" with those decision-makers. She stated that money needed to be used to influence the decision-makers to authorise the implementation of the technology in education infrastructures and systems. She further indicated that she may have to provide some of these decision-makers with incentives in order to get the right people to approve the project. The payment was made to Ms. Re-koza and the accountant recognised the amount as marketing expenses. Ms. Re-koza stated the marketing campaign with only commence with effect from 24 January 2019.

QUESTION 3:

The amount paid by the company to Ms. Re-koza and her company should be treated by Tech-Fan as a tax return for the year of assessment ended 31 December 2018 as:
(a) deduction of R 1,500,000
(b) prepaid expense as services were only rendered during the next year of assessment
(c) exemption for tax purposes as it represents an expense of a capital nature
(d) prohibited deduction for tax purposes

QUESTION E:

Mr. Taxifern (tax practitioner) advised Ms. Re-koza that the amount received from Tech-Fan (R 1,500,000 used for the marketing campaign) has no tax effects for Worldwide Digi-Marketing, as the company used the money to pay for expenses incurred on behalf of its client (Tech-Fan).

You are required to:

Discuss the tax and VAT implications, if any, for Worldwide Digi-Marketing in respect of the amount received by from Tech-Fan.

[12 minutes]

QUESTION F:

Discuss whether Mr. Taxifern's (tax practitioner) advice satisfies the professional and ethical conduct, in terms of the Tax Administration Act and the Code of Conduct of a Professional Accounting Organisation (PAO) such as SAIPA.

[5 minutes]

MULTIPLE PRODUCTS

The production manager, Ms. Fem-Tuff, provided the management meeting with the following information:

	Optimus	Advocus	Maximus
Description	Standard product with limited learning support and updates to new developments	Advanced products with inter-active learning support resources and annual updates at a reduced licence fee	Full suite with all support facilities and resources (including a license fee of R 750 per annum) with a 5-year warranty and update services
Selling price	R3,000	R 4,800	R 9,000
Contribution per unit	R 900	R 1,500	R 2,750
Resource hours used per unit	75 minutes	90 minutes	105 minutes
Projected sales (units)	80,000	65,000	100,000

The production manager forwarded the following memorandum to management relating to the production of the Learn-Us product:

TO: Management Team FROM: Joshua Abuya Production Manager RE: The production of the "Learn-Us" product DATE: 24 October 2019 The production of the "Learn-Us" product is very important and so quality assurance is focal in the entire production process. This needs to be done in order to maintain the innovative and market competitive advantage we have over our competitors. Due to this ultimate objective, all resources should be made available to maintain the standards and quality of the products our company produces. The skill sets required for the manufacturing of these products demand a high level of human concentration, thus as the production manager I recommend that we do not exhaust the human resources as it may result in the risk of not maintaining the high standards of production excellence. The planned maximum resource hours available amount to 350,000. Thank you for your understanding and I look forward to a productive journey. Joshua Abuya

QUESTION 4:

The financial manager allocates fixed costs based on an activity-based costing (ABC) model. The fixed costs allocated to the Optimus model of the product amounted to R 25,600,000. If management intends to realise a profit of R 400 per unit, the break-even point including the target profit amounts to:

(a) 28,445 units
(b) 64,000 units
(c) 51,200 units
(d) 80,000 units

QUESTION 5:

The management accountant stated that the contribution per unit is more relevant for operating decisions rather than the profit per unit. The contribution per unit is calculated as follows:

(a) selling price less production variable costs per unit
(b) selling price less production and non-production variable costs per unit
(c) selling price less absorption cost per unit
(d) profit per unit plus the administrative cost per unit

QUESTION G:

Mr. A. Count stated that it is important to distinguish between revenue generated from the sale of goods and the rendering of services, in order to enhance the quality of the financial statements and its usefulness to users.

You are required to:

Discuss criteria and date the revenue earned from the sale of the Maximus model that should be recognised with specific reference to:

(a) product and licencing
(b) warranty agreement

[15 minutes]

QUESTION H:

Mr. Radmak (tax expert) stated the revenue generated from the sale of the Maximus model should be recognised as gross income based on the earlier of the cash received or invoice issued.

You are required to:

Discuss whether the above statement made by Mr. Radmak, relating to the inclusion of revenue earned from the sale of the Maximus model in the gross income comply with the Income Tax Act.

[10 minutes]

TRANSACTIONS WITH DIRECTORS AND MANAGEMENT [45 MINUTES]

The financial manager, Mr. Daan Trompie, presented the following business transactions during the reporting period:

Judd Woznext	Judd Woznext intends to buy a car for his wife (Funki Jude), who is not an employee of the company. He decided to purchase a C 180 Mercedes Benz, 2018 model that cost R 575 000 (including VAT), which is the same as its retail market value. The motor vehicle was purchased with a maintenance plan. Judd Woznext contemplated taking R 575 000 as an interest free loan from the company but realised it would not be beneficial for tax purposes. After Judd Woznext chatted to an accountant, he decided that instead of taking a loan from the company to buy the car in his personal name, he recommended that the car be purchased through the company. It was recommended that the car, should be treated as a pool car. The company purchased the motor car as defined for cash on 01 September 2018 and Funki Jude had the right of use of the motor car from this date.
Mr. I. Fan	Mr. I. Fan decide that he would take one of the existing motor vehicles of the business with a zero-book value for his private use. The accounting records reflect the cost of the motor vehicle at R 300,000. He should transfer the motor car in his own personal name. His friend (Mr. A. Count) is certain that there are no dividend tax implications on this type of transaction.
Mrs. Etaze	Mrs. Etaze has been employed by the company since its inception and has been its main “business driver” for innovation in technology. She retired during the current reporting period and management decided to give her a gratuity of R 150,000 and shares in the company (5% holding) at a function arranged in her honour. This was the first time that the company gave any of its employees any form of gratuity on their retirement from the company. The newly appointed accountant, Mr. Mooney, who recently completed his Post Graduate Qualification in Taxation, informed management that the gratuity (cash and shares) should be recognised as a donation.

QUESTION 6:

If the advice of Judd Woznext's friend was implemented by the company and the motor vehicle was treated as a pool car, the use of the motor vehicle by Funki Jude should be treated for tax purposes as:
(a) benefit to Judd Woznext
(b) benefit to Funki Jude
(c) an asset of the business on which a capital allowance can be claimed
(d) dividend to Judd Woznext

QUESTION I:

Mr. Daan Trompie, the financial manager is concerned about the motor vehicle purchase for the use of Funki Jude (not an employee) which was classified as a pool car. This disturbed him and did not go down well with his moral values. After discussing the matter with Mr. I. Fan, it was recommended that he discuss the matter with Mr. Taxifern.

You are required to:

Discuss how Mr. Daan Trompie can resolve the personal ethical dilemma he has in respect of the purchase of the motor vehicle.

[8 minutes]

QUESTION J:

Discuss the income tax implications if Judd Woznext decided to purchase the car utilising a loan received from the company.

[10 minutes]

QUESTION 7:

Mr. Daan Trompie, the financial manager stated that if the motor vehicle is transferred to Mr. I. Fan, then it should be treated as a dividend distribution even if the carrying amount is zero. He further stated that for the distribution of the motor vehicle to be classified as a dividend:

(a) similar items or equivalent in value must be distributed to all shareholders
(b) all shareholders must agree to the distribution of the dividend to Mr. I. Fan
(c) the vehicle must be registered in the shareholders name
(d) the company must have profits or retained earnings

QUESTION K:

The open market value of the motor vehicle at the date it was transferred to Mr. I. Fan as a dividend was R 100,000. Record the journal entries, in respect of the motor vehicle distributed, as a dividend to MR. I. Fan.

[12 minutes]

QUESTION 8:

The gratuity given to Mrs. Etaze by the company should be recognised in the accounting records as:

(a) dividend distributed
(b) salaries
(c) donation
(d) entertainment expenses

QUESTION L:

Discuss how the gratuity received by Mrs. Etaze should be included in her personal income tax return for the 2019 year of assessment. If it is included in her tax return, state the amounts at which it should be included.

[8 minutes]

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS [45 MINUTES]

The following information was extracted from the financial statements for the past three reporting periods:

(**amounts in R'000**)	**2018**	**2017**	**2016**	**Industry average**
Cash generated from operating activities				
Cash received from customers	23,567	18,789	17,256	
Cash paid to suppliers and employees	16,650	18,320	15,720	
Cash generated from operations	6,917	469	1,536	
Interest paid	769	487	321	
Taxation paid	1,712	480	638	
Cash generated from operating activities	4,436	(498)	577	
Ratios				
Current ratio	1.8 : 1	1.9 : 1	2.3 : 1	1.6 : 1
Quick ratio	1.0 : 1	1.3: 1	1.7 : 1	1.1 : 1
Cash Ratio	0.7 : 1	0.7 : 1	0.9 : 1	0.4 : 1
Gross profit margin	45%	52%	55%	40%
Net profit margin	12%	11%	8%	9%
Interest cover	3.4	2.3	5.6	2.7
Operation fixed cost ratio	65%	70%	70%	50%
Gearing ratio (debt-equity ratio)	56%	42%	30%	60%
Asset cover ratio	31%	45%	40%	25%

QUESTION M:

Analyse the above extract from the statement of cash flow and comment on the operating cash position of the company over the past three years.

[20 minutes]

QUESTION N:

Review the ratios above and comment on the following areas:
(a) liquidity of the business
(b) leverage and financial risk of the business

[25 minutes]

RESOURCE MANAGEMENT OF THE BUSINESS [45 MINUTES]

Sources of finance

Management decided to acquire equipment with an invoice value of R 2,300,000 (inclusive of VAT) from a registered VAT vendor. Management evaluated whether the equipment should be financed using the following strategies:

Source of Finance	Payment terms and conditions
Loan	The equipment can be acquired by raising a secured loan from a financing institution. The loan bears interest at a rate of 13% per annum and is repayable in three equal annual instalments. The fair market interest rate for loans with similar terms & conditions is 15%.
Finance lease	The equipment can be acquired through a finance lease agreement for a period of three years. The lease payments of R 461,000 are payable half-yearly in advance. The effective interest rate is estimated at 16.07%

The following amortisation was presented by the leasing company:

	Balance	Interest	Payment	Balance
1-May-18	2,300,000	-	461,000	1,839,000
1-Nov-18	1,839,000	147,764	461,000	1,525,764
1-May-19	1,525,764	122,595	461,000	1,187,359
1-Nov-19	1,187,359	95,404	461,000	821,763
1-May-20	821,763	66,029	461,000	426,792
1-Nov-20	426,792	34,293	461,000	85

QUESTION 9:

The equipment acquired through a lease agreement should be capitalised and recognised as part of Property, Plant & Equipment, in terms of the accounting standards through the application of:
(a) definition of assets
(b) accounting standards that demand capitalisation of leased assets
(c) principle of substance over form
(d) minimise the risk of off-balance sheet report

QUESTION 10:

Assets which are capitalised as items of Property, Plant & Equipment, in terms of the accounting standards must be depreciated based on:
(a) the effective interest
(b) period of the lease period
(c) estimated useful life of the asset
(d) greater of the lease period or estimated useful life

QUESTION O:

Advise management on whether the acquisition of the equipment should be financed using the loan or leasing. Support your answer with calculations and reasons.

[20 minutes]

QUESTION P:

Disclose the information in respect of the lease liability, including taxation, relating to the acquisition of the equipment for the reporting period ended 31 December 2019 in compliance with the accounting standards.

[15 minutes]

INVESTMENT AND FINANCING DECISIONS

Mrs. Demass, a business and financial consultant stated that WACC (weighted average cost of capital) is used to determine the minimum return that the business should generate, in order, to satisfy the range of finance providers used to fund the business and its activities. She also stated that the cost of capital for debt financing is higher than that for equity investors, because of the risk return trade, especially the liquidity and solvency position of the business. The following schedule calculating WACC was presented by Ms. J-Pee, the junior management accountant:

	Capital	Cost of capital	Tax effect	After tax cost
Equity	5,600,000	25.0%	5.0%	20.0%
Debt	8,000,000	15.0%	4.2%	10.8%
Total				30.8%
WACC				15.4%
The tax effects were calculated based on the dividend tax rate for equity and the company tax rate for debt.				

QUESTION 11:

Mr. Daan Trompie, the financial manager, stated that the weighted average cost of capital (WACC) is an important consideration when determining how investment decisions should be financed. WACC represents the following to the company:
(a) cost to raise financing
(b) average financial risk to the business
(c) the overall average cost of raising financing by the business
(d) expected rate of return for the business

QUESTION 12:

The calculation of WACC takes into accounting the following:
(a) capital structure of the company
(b) effect of tax on all cost of capital for financing options
(c) effect of tax only on the cost of debt
(d) (a) and (c)

QUESTION Q:

Review the schedule for the calculation of WACC prepared by Ms. J-Pee and comment on its accuracy in terms of the application of financial management principles.

[10 minutes]

The following schedule was prepared by the financial accountant for inclusion in the working paper files supporting the drafting of the financial statements:

		Cost basis	Tax basis	Impairment basis
	Cost	3,000,000	3,000,000	
	Accumulated depreciation	937,500	1,500,000	
31-Dec-16	Carrying amount	2,062,500	1,500,000	
	Recoverable amount	1,800,000		1,800,000
	Impairment loss	262,500		
	Depreciation	375,000	600,000	327,273
31-Dec-17	Carrying amount	1,687,500	900,000	1,472,727
	Depreciation	375,000	600,000	327,273
31-Dec-18	Carrying amount	1,312,500	300,000	1,145,455
	Recoverable amount			1,400,000
	Reversal of impairment loss			254,545

QUESTION 13:

The impairment loss recognised by the company during the reporting period 31 December 2016 should be treated for tax purposes as:

(a) deduction during the year of assessment
(b) capital loss in terms of the provisions of capital gains tax (CGT)
(c) deduction prohibited in terms of the tax provisions (s23)
(d) excluded as a deduction in terms of the general deduction formula

QUESTION R:

Record the transactions, including deferred tax, in respect of the item of Property, Plant & Equipment for the reporting period ended 31 December 2018, in compliance with the accounting standards.

[15 minutes]

GENERAL SITUATIONS **[36 MINUTES]**

Mr. I. Fan, a director and shareholder of Tech-Fan, owns three flats that he rents out to tenants. He bought these flats during May 2014 and has been able to secure a tenant for each flat since they were purchased. Mr. I. Fan made an assessed loss on the letting of each of the flat since they were occupied by tenants. He submitted his personal tax return for the 2018 year of assessment on 10 October 2018. After this he received a tax audit from the South African Revenue Service (SARS) on the assessed losses for the letting of the three flats.

This resulted in Mr. I. Fan going into a state of panic as he has never experienced a tax audit before. He decided to approach Mr. Radmak (tax advisor and practitioner) to assist him with the tax audit. Mr. I. Fan is taxed at the maximum marginal tax rate for the 2018 year of assessment.

QUESTION 14:

Mr. Radmak advised Mr. I. Fan that SARS may audit the assessed loss carried forward, because it is not normal for a taxpayer to rent properties to tenants at a loss because it does not make business sense. He further stated that the assessed losses resulting from renting the flats can be used to reduce the taxable income earned from salaries received from the company.

The possible reasons why SARS would audit the assessed losses realised from the letting of the three flats may be:

(a) rental charged is market related
(b) expenses incurred as deductions are restricted to generating the rental income
(c) ring-fence the assessed loss
(d) all the above

QUESTION 15:

As SARS has called for a verification of information, also called a SARS audit, Mr Radmak may only accept the assignment to professionally assist and support Mr I Fan, if he (Mr Radmak) is;

(a) a registered tax practitioner as envisaged in the Tax Administration Act
(b) a registered auditor with the Independent Regulatory Board for Auditors (IRBA)
(c) an accounting officer, as defined in the Close Corporations Act
(d) an independent accounting professional, as envisaged in the Regulations to the Companies Act

NDU & CHARLES INC. operates an accounting practice registered as a SAIPA ATC (Approved Training Centre), which renders accounting and advisory, except audit assurances. The practice was appointed by Tech-Fan to perform a financial statement review engagement for the reporting period ended 31 December 2018.

The senior manager (Ms. Brag-Tusin) in charge of the engagement, was concerned that most of the clerks allocated to perform the work had little or no experience in the technology industry. However, the principal partner stated that all review engagements are the same, therefore the staff allocated should be able to perform the engagement function.

QUESTION 16:

The opinion expressed by the professional accountant (Ms. Brag-Tusin) responsible for conducting the financial statement review engagement, express an opinion on which of the following matters?

(a) the financial statements comply with the accounting standards
(b) the financial statements can be relied on in all aspects
(c) the material misstatement of the financial statements
(d) all the above

QUESTION S:

Discuss whether the acceptance of Tech-Fan as a client as well as the allocation of the staff will satisfy the quality assurance standards (ISQM 1) for the profession.

[15 minutes]

After completing the analytical review Ms. Brag-Tusin compared the results to the materiality threshold and found that there were indications that the financial statements contained misstatements in certain areas, especially revenue, inventory and debtors. The following is a summary of the results extracted from the analytical review:

Areas	Materiality threshold	Results
Revenue	4% of revenue for the period	7% of the value of the sample of the revenue transactions tested
Inventory	6% of inventory value at the reporting date	4% of the sample of the inventory records tested
Debtors	5% of debtors' value at the reporting date	2% of the sample individual debtors' balances tested

QUESTION 17:

The difference between the professional accountant performing ratio analysis and analytical procedure when conducting the financial statement review are:

(a) no difference
(b) same purpose but analytical procedures are more in depth
(c) analytical procedures identify if financial statements contain material misstatement
(d) ratio analysis is conducted from a period of more than two years

QUESTION 18:

If there are differences between the results of the analytical procedures and the materiality benchmarks, then the reviewer should:

(a) express a qualified opinion
(b) inform management to rectify the errors/risks identified
(c) conduct tests to verify and validate the risks identified
(d) report the risk to the appropriate authorities

QUESTION 19:

Which of the following is/are an attribute of Professional Judgement?

(a) expressing a view whether accounting policies applied in the preparation of financial statements are appropriate or not
(b) questioning inconsistencies in collated evidences
(c) determining the sufficiency and appropriateness of evidences
(d) all of the above

QUESTION 20:

The PI-score is a scorecard used for

(a) B-BBEE purposes
(b) determine the applicable prescribed engagement type as per the Regulations to the Companies Act
(c) private investors who invested in the company
(d) None of the above

THE END

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 2019

Taxable Income		**Rates of Tax**
From **R**	**But does not exceed** **R**	**R**
0	195 850	0 + 18% of each R1
195 851	305 850	35 253 + 26% of the amount above 195 850
305 851	423 300	63 853 + 31% of the amount above 305 850
423 301	555 600	100 263 + 36% of the amount above 423 300
555 601	708 310	147 891 + 39% of the amount above 555 600
708 311	1 500 000	207 448 + 41% of the amount above 708 310
1 500 001	+	532 041 + 45% of the amount above 1 500 000

TABLE 2

TURNOVER TAX DUE BY MICRO BUSINESSES IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2019

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 2019

Type of company	Rate of tax
Small business corporations	
Taxable income:	
R0 – R78 150	0%
R78 151 – R365 000	7% of the amount over R78 150
R365 001 – R550 000	R20 080 + 21% of the amount over R365 000
Exceeding R550 000	R58 930 + 28% of the amount over R550 000
Personal service provider companies	28%
Companies	28%

TABLE 4

REBATES: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

	2019 **R**
Primary	14 067
Secondary (65 years of age or older)	7 713
Tertiary (75 years of age or older)	2 574

TABLE 5

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

Under 65 years	**2019** **R**
Taxpayer only	310 per month
Taxpayer plus one dependent	620 per month
Additional dependants	209 per month

TABLE 6

SCALE OF VALUES - TRAVEL ALLOWANCE - 2019

Value of the vehicle	Fixed cost	Fuel cost	Maintenance cost
R	**R per annum**	**c per km**	**c per km**
0 – 85 000	28 352	95.7	34.4
85 001 – 170 000	50 631	106.8	43.1
170 001 – 255 000	72 983	116.0	47.5
255 001 – 340 000	92 683	124.8	51.9
340 001 – 425 000	112 443	133.5	60.9
425 001 – 510 000	133 147	153.2	71.6
510 001 – 595 000	153 850	158.4	88.9
Exceeding 595 000	153 850	158.4	88.9

TABLE 7

SUBSISTENCE ALLOWANCE: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

	2019 **R**
Incidental costs only	128
Meals and incidental costs	416

TABLE 8

INTEREST EXEMPTION: YEARS OF ASSESSMENT ENDED LAST DAY OF FEBRUARY

	2019 **R**
Under 65 years	23 800
65 years and older	34 500

TABLE 9

Rental value of use of residential accommodation: $(A - B) \times \frac{C}{100} \times \frac{D}{12}$

B = 78 150

S10A: Capital portion of a purchased annuity: $Y = \frac{A}{B} \times C$

S10A: Capital portion on termination or commutation: X = A – D

TABLE 10

TABLE OF TAX LIABILITY ON RETIREMENT FUND LUMP-SUM BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2019

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 11

TABLE OF TAX LIABILITY ON RETIREMENT LUMP-SUM WITHDRAWAL BENEFITS IN RESPECT OF YEARS OF ASSESSMENT ENDING 28 FEBRUARY 2019

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 12

PRESCRIBED INTEREST RATES FOR FRINGE BENEFITS (per annum)

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%
From 1/08/2017	7.75%
From 1/04/2018	7.50%
From 1/12/2018	7.75%

TABLE 13

Effective from 1 April 2018, the VAT rate increases to 15%.

Therefore, the tax fraction (as defined in section 1(1) of the VAT Act) becomes 15/115.

TABLE 14

Employment Tax Incentive

Monthly remuneration	Per month during the first 12 months of employment	Per month during the next 12 months of employment
Less than R2 000	50% of monthly remuneration	25% of monthly remuneration
R2 000 or more but less than R4 000	R1 000	R500
R4 000 or more but less than R6 000	Formula R1 000 – (0.5 × (Monthly remuneration – R4 000)	Formula R500 – (0.25 × (Monthly remuneration – R4 000)
R6 000 or more	Nil	Nil