SCHOOL OF ACCOUNTING SCIENCES

HONS BCOMPT / CTA

TUTORIAL LETTER 304/2010
(TREKALS)

TEST 2 AND THE SUGGESTED SOLUTIONS
WRITTEN ON 8 MAY 2010

Dear Student

This tutorial letter comprises of the second test that was written on 8 May 2010, as well as the suggested solutions and comments made by the markers.

Your marks are available on the internet **(www.unisa.ac.za)** under **"myUnisa"**. (Refer to section 8.2.2. [Demarcation of tests] in tutorial letter 301/2010.)

It is in your own interest to work through the material carefully as the system of self-evaluating assignments and tests requires more responsibility from you as an advanced student.

Best wishes

YOUR LECTURERS

Paper 1: TOE407V and ZAC407G

APPLIED FINANCIAL ACCOUNTING

(40 Marks)

Duration: 1 Hour (Time: 08:15 – 09:15). Students must be seated by 08:00. The test begins at 08:15.

FIRST EXAMINERS:	Prof. Z.R. Koppeschaar Ms. A. de Wet Mr. P.C. Malemone Ms. J. Sturdy Mr. G. Elliot	Mr. S.J. Boshoff Mr. C.J. Els Mr. J.M.L. Roux Ms. C. Wright
SECOND EXAMINER:	Prof. HC. Wingard	

Please ensure that you have completed the cover of the answer book for this question in full i.e. name, address, student number, code of paper and test number.

This TOE407V / ZAC407G (Applied Financial Accounting) paper consists of 4 pages and is out of 40 marks.

THE USE OF A NON-PROGRAMMABLE POCKET CALCULATOR IS PERMISSIBLE.

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NB:

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PAPER 1: TOE407V / ZAC407G (APPLIED FINANCIAL ACCOUNTING) **(40 marks)**

You are the audit manager in charge of the audit of Jackets Ltd, which manufactures leather jackets, for the year ended 28 February 2009. The manufacturing is carried on in two divisions: the treatment of leather and the manufacturing of jackets.

The policy of the company is that plant and machinery is revalued annually by using the gross replacement value at the beginning of the year. On the date of the revaluation the accumulated depreciation is eliminated against the cost price of the asset. The company realises revaluation surpluses only when the underlying assets are sold or withdrawn from use.

Details of the company's property, plant and equipment are as follows:

1. Plant and machinery – treatment of leather

- Plant and machinery of the division is written off on the straight-line basis over 10 years for accounting purposes with no residual value. The plant and machinery is written off in terms of Section 12C at 20% per annum for tax purposes.

- The gross replacement value on 1 March 2008 amounted to R9 000 000 and on 1 March 2007 R8 000 000.

- The plant and machinery was brought into use on 1 March 2004. The original cost was R6 000 000.

- The revaluations done on 1 March 2005 and 1 March 2006 were the same as the carrying amounts on those dates.

2. Plant and machinery – manufacturing of jackets

- As a result of technical obsolescence, new plant and machinery was brought into use on 1 March 2008. The plant and machinery was erected at a cost of R10 000 000. That is also the gross replacement value on 1 March 2008.

- The gross replacement value of the old plant and machinery on 1 March 2007 was R8 000 000. The plant and machinery was revalued for the year ended 28 February 2008 and there was no impairment. Management approved a plan to sell the old plant and machinery. The old plant and machinery was withdrawn from operations on 1 March 2008 and available for immediate sale. Jackets Ltd started actively to market the old plant and machinery. A suitable buyer was found in December 2008 and the old plant and machinery was sold for R2 300 000. The fair value less costs to sell of the old plant and machinery was R2 100 000 on 1 March 2008.

- The old plant and machinery was originally erected at a cost of R2 200 000 and brought into use on 1 March 2001. The plant and machinery was written off over 10 years for accounting purposes and in terms of Section 12C at 20% per annum for tax purposes.

- Assume that the revaluations done on the old plant and machinery from 1 March 2001 to 1 March 2006 were the same as the carrying amounts of the assets.

- The new plant and machinery is written off over 10 years for accounting purposes and at a rate of 33⅓% for tax purposes.

PAPER 1: TOE407V / ZAC407G (Applied Financial Accounting) continued

3. Factory building

The factory building in which the plant and machinery is situated are leased. Jackets Ltd signed a new eight year operating lease agreement on 1 March 2008 with Rent Ltd. Rent Ltd paid the relocation costs of R260 000 to move the plant and equipment from the previous premises. The monthly rent is payable in advance and amounts to R100 000 per month. The annual rental is adjusted with 10% in order to make provision for inflation.

- The future lease instalments are as follows:

Financial year	R
2010	1 320 000
2011	1 452 000
2012	1 597 200
2013	1 756 920
2014	1 932 612
2015	2 125 873
2016	2 338 460
	12 523 065

4. Office equipment (sale and leaseback)

On 28 February 2009 the company sold office equipment with a carrying amount of R300 000 (cost price R500 000) in terms of a sale and leaseback agreement for R400 000 which was the market value at that date. The tax value of these assets was R260 000 on that date. The lease is classified as a finance lease for accounting purposes. Depreciation relating to office equipment for the year was R100 000.

5. Delivery vehicles

- The delivery vehicles consisted of the following on 28 February 2008:

	R
Delivery vehicles at cost	2 200 000
Less: Accumulated depreciation	(900 000)
Carrying amount	1 300 000

- The delivery vehicles are written off at 15% per annum on the diminishing balance method for accounting and taxation purposes. The delivery vehicles represent a cash-generating unit. On 28 February 2009 an impairment test was carried out in respect of these vehicles because new models were available on the market. The fair value less cost to sell of the cash generating unit amounts to R1 100 000 and the value in use to R1 090 000. Twenty percent of goodwill is attributable to this cash generating unit (refer note 6).

PAPER 1: TOE407V / ZAC407G (Applied Financial Accounting) continued

6. Goodwill

Jackets Ltd purchased an 80% interest in Leather (Pty) Ltd during 2006. The total goodwill at acquisition date amounted to R1 120 000.

Details of other matters relating to the company:

7. Exhibition at Easter Show

Jackets Ltd has an annual exhibition at the Easter Show. Sales at the exhibition for the year ended 28 February 2009 was R410 000. The directors decided that they will again have an exhibition at the show in April 2009. The stand is however bigger and therefore the rental will be considerably higher. The board of directors is of the opinion that a provision should be made for an operating loss in respect of show activities which is expected to be incurred in April 2009. A provision of R120 000 has been made.

8. Taxation

Assume a current tax rate of 28% for all periods.

REQUIRED

Marks

(a) Prepare the journal entries to recognise the sale and leaseback transaction of office equipment on 28 February 2009 (refer note 4). **3**

Note:
- Journal narrations are not required.
- Ignore taxation.

(b) Prepare the journal entries Jackets Ltd will process on 1 March 2008 to account for the withdrawal of the old plant and machinery (refer note 2). **10**

Note:
- Journal narrations are not required.
- Include deferred taxation journals.

(c) Calculate the closing balance of the revaluation surplus in respect of plant and machinery of Jackets Ltd for the year ended 28 February 2009. **11**

Note:
- Start your solution with the opening balance of the revaluation surplus on 1 March 2008 and **show all movements** during the year.

(d) Prepare the following note to the financial statements of Jackets Ltd Group for the year ended 28 February 2009 based on the information in the question and your answers to (a), (b) and (c):

(1) Profit before tax **11**

Note:
- Comparative figures are not required.
- Your answer should comply with International Financial Reporting Standards.

<u>PAPER 1: TOE407V / ZAC407G (Applied Financial Accounting)</u> continued

(e) Discuss the acceptability of the board of directors' decision to create a provision of R120 000 (refer note 7) Your discussion should refer to the requirements of *IAS 37: Provisions, Contingent Liabilities and Contingent Assets.* **5**

Paper 2: TOE408W and ZAC408H

APPLIED MANAGEMENT ACCOUNTING

(40 Marks)

Duration: 1 Hour (Time: 09:30 – 10:30). Students must be seated by 09:15. The test begins at 09:30.

FIRST EXAMINERS:	Mr. FJC. Benade Mrs. A. Combrink Ms. J. Foot Mrs. A. Ravat Mrs. F. Venter	Mr. L. Crafford Mr. A. De Graaf Mr. S. Ndlovu Mrs. F. Tayob
SECOND EXAMINER:	Prof. B. Van Heerden	

Please ensure that you have completed the cover of the answer book for this question in full i.e. name, address, student number, code of paper and test number.

This TOE408W / ZAC408H (Applied Management Accounting) paper consists of 4 pages and is out of 40 marks.

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PAPER 2: TOE408W / ZAC408 (APPLIED MANAGEMENT ACCOUNTING) **(40 marks)**

Mr Knowledge Chinamaso is the management accountant of Zimpopo Ltd, a company manufacturing consumer products. Mr Chinamaso is preparing his management meeting packs and has prioritised the following items:

A. POLOKWANE DIVISION

The divisional accountant has reported a profit of R55 600 for April 2010, made up as follows:

	R	
Budgeted profit	42 000	
Sales volume variance	8 400	A
Standard profit on actual sales	33 600	
Selling price variance	2 400	A
	31 200	
Manufacturing variances	24 400	F
Material price	10 000	F
Material usage	1 500	A
Labour rate	2 000	A
Labour efficiency	1 500	A
Variable overhead expenditure	2 000	A
Variable overhead efficiency	3 500	F
Fixed overhead expenditure	12 650	F
Fixed overhead (volume) efficiency	5 250	F
Manufacturing profit	55 600	

The budget for April 2010 contains the following data:

Sales volume	15 000	Units
Production volume	15 000	Units
Materials purchased	7 500	Kg
Materials used	7 500	Kg
Labour hours	11 250	Hours

	R
Sales revenue	210 000
Material costs	45 000
Labour costs	45 000
Variable overhead costs	24 000
Fixed overhead costs	54 000

PAPER 2: TOE408W / ZAC408 (Applied Management Accounting) continued

Additional information:

- There were 1 000 completed product units in inventory on 1 April, but no materials or work-in-process.
- Inventory of raw materials and completed product units are valued at standard cost.
- During April 15 500 product units were produced.
- The actual sales revenue for April was R165 600.
- 10 000 kg of materials were purchased in April.

REQUIRED			**Marks**
(a)	To evaluate Polokwane's performance, Mr Chinamaso requires the following information:		
	(i)	the actual sales volume	(3)
	(ii)	the actual quantity of materials used for production in April	(3)
	(iii)	the actual cost of materials in April	(2)
	(iv)	the actual labour hours worked in April	(3)
	(v)	the value of inventory on 30 April 2010	(4)

B. **MUSINA DIVISION**

The Musina Division manufactures three products. At the end of April 2010 the divisional accountant forwarded the following information for its profitability review:

Product	**L**	**I**	**M**
Production capacity (units)	100 000	120 000	100 000
Sales (units)	100 000	120 000	80 000
	R'000	**R'000**	**R'000**
Sales revenue	1 500	1 440	880
Costs	1 550	1 400	760
Materials	500	480	240
Labour	400	320	160
Overheads	650	600	360
Profit/(Loss)	(50)	40	120

Additional information:

- All production is sold, except for product line M where the production volume is limited to the sales volume.
- 40% of the labour cost for each product is fixed in nature.
- Fixed administration overheads of R1 200 000 in total have been apportioned to each product on the basis of units sold and are included in the overhead costs above. All other overhead costs are variable in nature.
- The Musina division used assets of R675 000 in their division and applies Zimpopo Ltd's cost of capital of 15% for evaluations.
- The divisional accountant has recommended that production of product L be ceased and that the spare capacity be utilised to manufacture an additional 100 000 units of product M.

Mr Knowledge Chinamaso has investigated further and found that:

- Ceasing production of product L would eliminate the fixed labour cost of this product as well as 20% of the fixed administration overhead apportioned to it.
- Increasing production of product M by 100 000 units would cause the fixed labour cost of product M to double, the variable labour cost to rise by 20% and unit sales price to decrease by R1,50 per unit in order to move the additional units.

REQUIRED		**Marks**
(b)	Assess whether production of product L should be ceased by considering: (i) Contribution (ii) Residual income (RI)	 (8) (10)
(c)	The Gweru division has put in an offer to buy 40 000 units of product M at R7, 00 per unit should production of product L be changed to product M. Calculate the effect of this transfer price on the Musina division.	 (4)
(d)	List the five primary types of transfer prices that companies can use.	(3)

Paper 3: TOE409X
APPLIED TAXATION
(40 Marks)

Duration: 1 Hour (Time: 10:45 – 11:45). Students must be seated by 10:30. The test begins at 10:45.

FIRST EXAMINER:	Ms. A.I. Becker Prof. J.M.P. Venter	Ms. O. Swart
SECOND EXAMINER:	Prof. M. J. Nieuwoudt	

Please ensure that you have completed the cover of the answer book for this question in full i.e. name, address, student number, code of paper and test number.

This TOE409X (Applied Taxation) paper consists of 3 pages and is out of 40 marks.

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PAPER 3: TOE409X (APPLIED TAXATION) **(40 Marks)**

Abe Rabinowitch (a widower and South African resident) died on 26 March 2009 at the mature age of 91. Abe has been a healthy person and resided in his rambling old house in Houghton, Johannesburg, for 43 years until the date of death. He never used any portion thereof for the purpose of carrying on a trade.

Abe bought this residence on 15 September 1966 for the amount of R280 000. In 1989 he added a pool and entertainment area to the value of R100 000. His only son, Benjamin (a divorced accountant), insisted that a sworn appraiser valued Abe's residence at the end of September 2001. Abe duly paid the appraiser's fee of R2 380, 00 (including VAT) for the valuation on 30 October 2001.

In his last valid will and testament Abe left all his assets (except for his Krugerrand collection), to his son Benjamin Rabinowitch. Abe bequeathed the Krugerrands to his granddaughter Lindsay (Benjamin's only daughter, a full-time student and 21 years old).

At the date of Abe Rabinowitch death, he had the following assets:

DESCRIPTION	PURCHASE PRICE	MARKET VALUE ON 1/10/2001	MARKET VALUE ON 26/03/2009
ASSETS	**R**	**R**	**R**
Primary residence in Houghton, Johannesburg	280 000	1 200 000	2 500 000
Toyota Corolla 1994	89 000	-	34 000
Furniture and personal belongings – executor's valuation	-	-	68 000
Listed share portfolio – held since 2006 as an investment in the top 40 South African companies listed on the JSE	380 000	-	320 000
100 Krugerrands – held as an investment, bought on 1 December 2001, as published	234 000	-	868 000
Money-market account (in South Africa)	-	-	880 250

The only income that Abe received for the 2010 year of assessment was his monthly pension of R10 000, interest of R5 134 on the money-market account and dividends of R16 340 on his listed share portfolio.

Benjamin instructed the executor to sell the house as soon as possible. On 10 July 2009 Bridget Bourgonje, a non-resident, made an offer of R1,98 million. With the permission of Benjamin, the executor accepted the offer. The executor duly paid the transfer cost of R9 800 as well as 5% commission (on the gross amount) to the estate agent. The executor paid the other estate liabilities and administration costs of the estate from the cash available in the money-market account. The deceased estate was finally wound up on 12 August 2009 after the executor transferred the residue of the estate assets, as well as the net proceeds of the residence, to the beneficiaries.

Lindsay Rabinowitch completed her drama-studies in November 2009. After she won a green card in the "US GREEN CARD LOTTERY", which authorises her to live and work in the United States of America, she decided that Hollywood needs her skills as an actress. Her father, Benjamin, refused any financial support, because he did not want her to emigrate. To pay for her expenses, she sold half of her inherited Krugerrands (50 coins) for the gross amount of R400 000 to RSA Goldcoin CC. She had to pay a commission of 10% on this transaction and on 15 December 2009, RSA Goldcoin CC paid an amount of R360 000 into her bank account.

PAPER 3: TOE409X (Applied Taxation) continued

Lindsay emigrated on 15 January 2010. On 15 January 2010 the market value of a Krugerrand was R8 960 per coin. She had no other assets except for her old yellow MG (motor vehicle) that she received as a 21st birthday-gift from her father. She gave her car (it had a market value of R58 500) to her best friend, Sally, the week before she emigrated.

REQUIRED		**Marks**
(a)	Calculate the taxable income of the late Abe Rabinowitch for the 2010 year of assessment. If any item should not be taken into account for income tax purposes, appropriate reasons should be stated.	16
(b)	Explain briefly the capital gain or loss pertaining to the selling of the residence on 10 July 2009 in terms of the Eighth Schedule to the Income Tax Act.	3
(c)	Explain to Lindsay Rabinowitch whether she would have to include the amount received from selling the Krugerrands in her gross income for the 2010 year of assessment. You must refer to relevant case law.	7
(d)	Discuss **all** Lindsay Rabinowitch's tax implications relating to the disposal of her Krugerrands and emigration. Ignore any VAT implications.	14

Paper 4: TOE412S and ZAC412D

APPLIED AUDITING

(40 Marks)

Duration: 1 Hour (Time: 12:00 – 13:00). Students must be seated by 11:45. The test begins at 12:00.

FIRST EXAMINER:	Ms. C. Boswel Mr. V.M. Motholo Ms. E.A.J. Terblanche Ms. R. Van Beek	Ms. S. Hassim Mr. M.M. Mudau Ms. N.V. Thoothe
SECOND EXAMINER:	Mrs. L. Du Plessis	

Please ensure that you have completed the cover of the answer book for this question in full i.e. name, address, student number, code of paper and test number.

This TOE412S (Applied Auditing) paper consists of 2 pages and is out of 40 marks.

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PAPER 4: TOE412S / ZAC412D (APPLIED AUDITING) **(40 Marks)**

You are the external auditor of Zimbatu Lodge (Pty) Ltd (Zimbatu), a very popular game reserve situated in the Limpopo Province. The reserve has 150 units that are rented out to holiday makers. The tariffs per unit vary according to the season, namely peak season, mid-season or off-peak season. These tariffs are updated annually. The marketing director determines the dates of the different seasons at the beginning of each year. These dates and the corresponding tariffs are captured on the master file.

Zimbatu uses an internal on-line reservation system. Potential holiday makers can make a reservation request via e-mail or make a telephonic booking by phoning a toll-free number. One of the operators, who man the terminals seven days a week from 08:00 to 19:00, will look up the availability of a unit for the specific dates online on the system and key in the booking online if the unit is available. The online capturing involves the completion of a reservation form containing the date of reservation, the dates of arrival and departure, the client's particulars and the unit number. Reservation forms are pre-numbered sequentially. The computer automatically fills in the tariff for the unit number according to the dates captured on the master file. The computer also calculates the total amount owing as well as the deposit payable by the holiday maker.

A deposit of 50% must be made directly into Zimbatu's bank account one week from the date of making the reservation. A bank statement is printed daily by the accounting department by means of an internet link. Accounting staff capture deposits received into the reservation system. If a deposit is not captured within the week, the system automatically cancels the booking. Deposits received after one week, for which the system has already cancelled the booking, are refunded to clients by means of internet banking services (e.g. electronic fund transfers). Zimbatu has been using internet banking services for the last two months.

The financial director of Zimbatu is, however, rather concerned about the number of articles that have appeared in the newspapers in the past few weeks on hackers who use false internet protocols to obtain access to bank accounts (the hacker represents himself as the bank on the internet). The financial director has discussed his concerns with you and asked you to compile guidelines for the personnel of Zimbatu involved in internet banking services, in order to prevent abuse of the system.

REQUIRED

		Marks
(a)	List the controls that the staff of Zimbatu, involved in internet banking services, should implement to prevent the use of a web page with a false internet protocol. Matters regarding the security aspects of the web page should also be listed.	8
(b)	List the controls that management of Zimbatu should implement to ensure: (i) the ***accuracy*** of deposit refunds when bookings are cancelled; and (ii) the ***validity*** at the execution of payments via EFT [electronic fund transfers].	 5 7
(c)	Formulate the tests of controls you would perform to evaluate the company's controls regarding the ***completeness*** and ***accuracy*** of the online capturing of reservations, as well as the ***validity*** of information in the master file.	20

SUGGESTED SOLUTIONS AND MARKERS COMMENTS ON TEST 2

SUGGESTED SOLUTIONS TO PAPER 1: TOE407V / ZAC407G

APPLIED FINANCIAL ACCOUNTING

		Dr R	Cr R	
(a)	PPE (SFP) (400 000 – 300 000)	100 000		(½)
	Bank (SFP)	400 000		(½)
	Lease liability (SFP)		400 000	(1)
	Deferred profit (SFP)		100 000	(1)
	Recognition of sale and leaseback transaction			
				3
	OR			
	Bank	400 000		(½)
	PPE (SFP)		500 000	
	Accumulated depreciation	200 000		(½)
	Deferred profit (SFP)		100 000	(1)
	Lease liability (SFP)		400 000	(½)
	PPE (SFP)	400 000		(½)
	Recognition of sale and leaseback transaction			
				3
(b)	Non-current asset held for sale (SFP) [C1]	2 400 000		(1)
	Plant and equipment: NRV (SFP) [C1]		3 200 000	(1½)
	Accumulated depreciation: Plant and equipment (SFP) [C1]	800 000		(1½)
	Deferred tax (SFP) [C1]	28 000		(2)
	Revaluation surplus (OCI)		28 000	(½)
	Impairment loss (2 400 000 [C1] – 2 100 000) (P/L)	300 000		(1½)
	Non-current assets held for sale (SFP)		300 000	(½)
	Deferred taxation (SFP)	56 000		(½)
	Deferred taxation (P/L)		56 000	(1)
	(200 000 x 14% + 100 000 x 28%)			
				10

		R	
©	Opening balance:	2 678 400	
	Plant and machinery – manufacturing [C2]	1 670 400	(2½)
	Plant and machinery – treatment [C2]	1 008 000	(3)
	Revaluation – 1 March 2008	432 000	
	Revaluation surplus [C2]	600 000	(3)
	Deferred tax (600 000 x 28%)	(168 000)	(½)
	Deferred tax rate adjustment (Held for sale – refer (b))	28 000	(1)
	Plant and machinery – manufacturing sold/withdrawn recognize (1 670 400 + 28 000)	(1 698 400)	(1)
	Closing balance	1 440 000	
			11

SUGGESTED SOLUTIONS TO PAPER 1: TOE407V / ZAC407G continued

(d) (1) Profit before tax

Profit before tax was stated after taking the following into account:

	R	
Income		
Profit on sale of plant and machinery (2 300 000 – 2 100 000(b))	200 000	(1½)
Expenses		
Relocation costs	260 000	(½)
Depreciation on property, plant and equipment (100 000 (given)[½] + 900 000 [1] [C2] + 195 000 [1] [C3] + 1 000 000 [½] [C2])	2 195 000	(3)
	529 000	(4)
Impairment losses (included in other expenses)		
- Goodwill [C3]	224 000	
- Delivery vehicles [C3]	5 000	
- Non-current asset held for sale[½] (b)	300 000	
The fleet of delivery vehicles is classified as a *cash generating unit*. The amount of *goodwill attributable* to this CGU is R224 000. The *recoverable amount* of the CGU is the fair value less costs to sell, based on an arm's length transaction. The impairment loss *resulted from* new models available on the market.		(2)
Operating lease – Factory building	1 682 883	
- Minimum lease payment	1 200 000	(½)
- Rental accrual (1 715 383[1½] [C4] – 1 200 000[½])	515 383	(2)
- Relocation incentive [C4]	(32 500)	(1)
		14½
	Maximum	11

1 **Provision**

It must be determined whether a provision can be recognized in respect of the future operating losses resulting from the rental of a larger stand at the Rand Show in April 2009. The definition and recognition criteria for a provision must therefore be satisfied. (1)

A provision can only be recognized if:

- there is a present obligation as a result of a past event;
- that is probable to lead to the outflow benefits; and
- can be measured reliably.

As the show will only occur after the reporting period, at reporting date there is no present obligation or past event. (1)

The current obligation will only arise when the lease agreement has been entered into (contractual obligation). (1)

Due to the fact that the company exhibits annually, at the Rand show, and that the directors have already investigated the availability and pricing of larger stands, it is more likely than not that there will be an outflow of economic benefits. (1)

SUGGESTED SOLUTIONS TO PAPER 1: TOE407V / ZAC407G continued

Based on the information given, a reliable estimate has been made by the directors. (1)

However, as all of the requirements have not been met, no provision can be recognized. (1)

The provision must therefore be reversed, and no additional disclosure is required. (1)
IAS 37 par 63 stipulates that provisions cannot be recognized for future operating losses. (1)

	8
Maximum	5

CALCULATIONS

C1. Plant and machinery – Held for sale

Remaining period 1 March 2008	=	3/10
Cost price	=	R2 200 000
Gross replacement value 1 March 2007	=	R8 000 000
Remaining period 1 March 2007	=	4/10

Gross replacement value 1 March 2007	8 000 000	(100%)	
Accumulated depreciation (8 000/10 x 6)	(4 800 000)	(60%)	
Depreciated/Net replacement value 1 March 2007	3 200 000	(40%)	(1)
Depreciation (1 March 2007 – 28 February 2008) 3 200 000/4 years	(800 000)		(1)
Carrying amount 1 March 2008	2 400 000		

Deferred taxation

Manner of recovery changed to sale = (2 400 000 – 2 200 000) x 14% = 28 000 (1½)

Detail discussion on deferred taxation (held for sale) for additional information:

28 February 2008 **Manner of recovery – use**			**1 March 2008** **Manner of recovery – sale**	
Revalued amount	2 400 000		2 400 000	Sale = CGT (2 400 000 – 2 200 000) = 200 000 x 14% = 28 000
Original cost	2 200 000	Depreciable = use = (2 400 000 – 0) x 28% = R672 000 liability	2 200 000	Recoupment (2 200 000 – 0) x 28% = 616 000
Tax allowance Remaining	0		0	
Deferred tax balance 28 February 2008 = 672 000 liability Therefore: 672 000 – 644 000 = 28 000 adjustment			Deferred tax balance 1 March 2008 = 616 000 + 28 000 = 644 000 liability	

SUGGESTED SOLUTIONS TO PAPER 1: TOE407V / ZAC407G continued

C2. Plant and machinery – Treatment of leather

Original cost	=	R6 000 000	
Brought into use	=	1 March 2004	
Remaining period (1 March 2007)	=	7/10	
Carrying amount 1 March 2007 (6 000 000/10 x 7)	=	R4 200 000	(1)
Gross replacement value 1 March 2007	=	R8 000 000	
Net replacement value 1 March 2007 (8 000 000/10 x 7)	=	R5 600 000	(1)
Revaluation surplus (5 600 000 – 4 200 000)	=	R1 400 000	(½)
After tax (1 400 000 x 72%)	=	R1 008 000	(½)
			3
Carrying amount 1 March 2008 (R5 600 000 – R800 000)	=	R4 800 000	(1)
(R5 600 000/7 years = R800 000)			
Gross replacement value 1 March 2008	=	R9 000 000	
Net replacement value 1 March 2009 (9 000 000/10 x 6)	=	R5 400 000	(1)
Revaluation surplus (5 400 000 – 4 800 000)	=	R 600 000	(1)
			3
Depreciation 5 400 000/6 years	=	R 900 000	(1)

Plant and machinery – Manufacturing of jackets

Original cost	=	R2 200 000	
Brought into use	=	1 March 2001	
Remaining period (1 March 2007)	=	4/10	
Carrying amount 1 March 2007 (2 200 000/10 x 4)	=	R 880 000	(1)
Net replacement value 1 March 2007 [W1]	=	R3 200 000	(½)
Revaluation surplus	=	R2 320 000	(½)
After tax (2 320 000 x 72%)	=	R1 670 400	(½)
			2½
Depreciation new plant (10 000 000/10)	=	R1 000 000	(½)

C3. Delivery Vehicles

	R	
Depreciation: 1 300 000 x 15% =	195 000	(1)
Carrying amount of CGU:		
Delivery vehicles (1 300 000 – 195 000)	1 105 000	(½)
Attributable goodwill (1 120 000 x 20%)	224 000	(1)
	1 329 000	
Recoverable amount:		
Higher of:		
Fair value less cost to sell	1 100 000	
Value in use	1 090 000	
∴ Use R1 100 000		(1)
Impairment loss (1 329 000 – 1 100 000)	229 000	
Allocated to: Goodwill	224 000	(½)
Delivery vehicles	5 000	(½)
		3½

SUGGESTED SOLUTIONS TO PAPER 1: TOE407V / ZAC407G continued

C4. Factory building

Total lease payments (1 200 000 + 12 523 065)	13 723 065	(½)
Lease period 8 years (13 723 065/8)	1 715 383	(1)
		(1½)
Relocation incentive (260 000/8)	(32 500)	(1)
Rental expense p.a. (1 715 384 – 32 500)	1 682 884	

MARKERS COMMENTS ON PAPER 1: TOE407V / ZAC407G

General

- Writing in pencil will not be marked.
- If the question requires that a note to the financial statements should be prepared and only calculations are done, no marks will be given. Always ensure you answer what was required.
- It is very important to know that if calculations were done, but it was not referenced, no marks will be awarded.
- There are still students who write the DIPAC15 paper and not the TOE407V paper. Please ensure you are writing the TOE407V paper before you start. No marks will be given if you wrote the wrong paper.

Part A

- When journals are required, it is important to show what account must be debited or credited and if it is part of profit and loss, other comprehensive income or statement of financial position.

Part B

- Students only did calculations and not the journals which were the required part of the question. No marks will be awarded if only the calculations were done.

- Students don't know how to calculate the net replacement value. The net replacement value is the gross replacement value less the accumulated depreciation on the gross replacement value.

  Example:
  Useful life of an asset is 10 years.
  The gross replacement value at the end of year 6 is R8 000.
  Calculate the net replacement value.

  Net replacement value = gross replacement value less accumulated depreciation on gross replacement value
  = [R8 000 – (R8 000/10x6)]
  = R3 200

MARKERS COMMENTS ON PAPER 1: TOE407V / ZAC407G continued

Part C and D

- Again students only did calculations and not the required part of the question. No marks will be awarded if only the calculations were done.

Part E

- Students only copied the theory from the standard and did not apply the theory to the question.

SUGGESTED SOLUTIONS TO PAPER 2 TOE408W and ZAC408H

APPLIED MANAGEMENT ACCOUNTING

A. (a)

> The fixed overhead (volume) efficiency variance indicates an absorption costing system and consequently unit profit.

(i)	Budgeted profit per unit	= 42 000 / 15 000	
		= R2,80	(1)
	Volume variance	= R8 400	
	∴ Variance (units)	= R8 400 ÷ R2,80	
		= 3 000 units (A)	(1)
	∴ Sales	= 15 000 (budget – 3 000 (var))	
		= 12 000 units	(1)
(ii)	Budgeted (std) price	= R45 000 ÷ 7 500 kgs	
		= R6 / kg	(½)
	Budgeted (std) quantity	= 7 500 kg / 15 000 units	
		= 0,5 kg / unit	(½)
	For output (std)	= 15 500 x 0,5	
		= 7 750 kg	(½)
	Variance	= 1 500 ÷ 6	
		= 250 kg (adv)	(½)
	∴ Usage	= 7 750 + 250	
		= 8 000 kg	(1)

> As the variance was unfavourable, it follows that the usage must be higher than the standard allowed.

(iii)	Budgeted cost	= 10 000 kg x R6	
		= R60 000	(1)
	Variance	= R10 000 F	
	∴ Paid (actual cost)	= R50 000	(1)
	Or R50 000 ÷ 10 000 kg	= R5 / kg	
(iv)	Budgeted (std) rate	= R45 000 ÷ 11 250 hours	
		= R4 / hour	(½)
	Budgeted (std) time	= 11 250 hours / 15 000 units	
		= 0,75 hours / unit	(½)
	For output allowed	= 15 500 x 0,75	
		= 11 625 hours	(½)
	Variance	= 1 500 ÷ 4	
		= 375	(½)
	∴ Actual hours	= 12 000 hours	(1)

> The costs for materials and labour are the same and the relationship is 1,5 (labour) to 1 (materials); refer standard usage (11 250 : 7 500) and rates. One could therefore simply take 8 000 x 1,5 = 12 000.

SUGGESTED SOLUTIONS TO PAPER 2 TOE408W and ZAC408H continued

(v)	Raw materials	= (0 + 10 000 – 8 000) x 6	
		= R12 000	(1)

1 Materials valued at standard, no opening inventory.

Standard sales price	= R210 000 ÷ 15 000	
	= R14 per unit	(½)
Budget (std) profit	= R42 000 ÷ 15 000	
	= R2,80 per unit	(½)
∴ Standard cost	= R11,20 per unit	(½)
Quantity = 1 000 + 15 500 – 12 000	= 4 500	
∴ Value	= R11,20 x 4 500	
	= R50 400	(½)
∴ Total value	= R12 000 + 50 400	
	= R62 400	(1)

(b)(i) **Contribution approach:**

Current:

Product	**L R'000**	**I R'000**	**M R'000**	
Sales	1 500	1 440	880	(½)
Materials	(500)	(480)	(240)	(½)
Labour [C1]	(240)	(192)	(96)	(1½)
VOH [C2]	(250)	(120)	(40)	(1½)
Contribution	510	648	504	

Alternative: Per unit

	R	**R**	**R**
Sales price	15,00	12,00	11,00
Materials	(5,00)	(4,00)	(3,00)
Labour	(2,40)	(1,60)	(1,20)
VOH	(2,50)	(1,00)	(0,50)
Contribution	5,10	5,40	6,30

<u>SUGGESTED SOLUTIONS TO PAPER 2 TOE408W and ZAC408H</u> continued

After:				
Total (R'000)				
Sales [C7]		1 440	1 710	(1)
Materials		(480)	(540)	(1)
Labour [C6]		(192)	(259,2)	(1)
VOH		(120)	(90)	(1)
Contribution	-	648	820,8	
Per unit		12,00	9,50	
Sales price (R) [C7]		(4,00)	(3,00)	
Materials		(1,60)	(1,44)	
Labour [C6]		(1,00)	(0,50)	
VOH	-	5,40	4,56	
Contribution				

(d) Residual Income approach

Current	**R'000**	
Total contribution	1 662	(1)
Less: Fixed costs		
Labour (400 + 320 + 160 – 240 – 192 – 96)	(352)	(1)
Fixed overhead	(1 200)	(1)
Profit	110	

∴ RI = 110 – (675 000 x 15%) (1)
= 110 – 101,25
= 8,75 (1)

After

Total contribution	1 468,80	(1)
Less: Fixed costs		
Labour (320 – 192 + 128 [C5])	(256,00)	(1)
Fixed overhead (320 [C4] + 480 + 320 [C8])	(1 120,00)	(1)
Profit	(92,80)	
		(1)

∴ Production of product L should not be ceased as both the contribution and the RI will decline due to the lost contribution (R510 000) of product L. (1)

18

SUGGESTED SOLUTIONS TO PAPER 2 TOE408W and ZAC408H continued

(e) **Transfer price**

	R	
Offered price	7,00	
Less: Variable cost (3,00 + 1,44 + 0,50)	(4,94)	
Per unit contribution	2,06	(1)
∴ Effect on Musina division is an additional profit of R82 400 (R2,06 x 40 000 units)	R82 400	(1)
Less: Opportunity cost (R4,56 x 20 000)	91 200	(1)
	(8 800)	(1)
∴ Offer is not acceptable due to overall loss		
		4

(d)
- Marginal cost (½)
- Full cost (½)
- Cost plus a mark-up (½)
- Negotiated price (½)
- Market based price (½)
- Plus only if **all** given (½)

3

CALCULATIONS (C):

1. Variable labour = 60% x 400 000
   = R240 000
   Per unit = 240 000 ÷ 100 000
   = R2,40

2. Variable overhead = 650 000 – (100 000 ÷ 300 000 x 1 200 000)
   = 650 000 – 400 000
   = R250 000

   Per unit = 250 000 ÷ 100 000
   = R2,50

3. Fixed labour (L) = 400 000 x 40%
   = 160 000

4. Fixed OH (L) = 400 000 x 20%
   = R80 000
   ∴ Left = R320 000

5. Fixed labour (M) = 160 000 x 40%
   = R64 000

   New cost = 64 000 x 2
   = R128 000

SUGGESTED SOLUTIONS TO PAPER 2 TOE408W and ZAC408H continued

6. Variable labour (M) = 1,20 x 1,2
   = R1,44

   Total = 1,44 x 180 000
   = R259 200

7. Sales price (M) = 11,00 – 1,50
   = R9,50

   Total = 9,50 x 180 000
   = R1 710 000

8. Fixed admin overhead

$$L = \frac{100}{300} \times 1\,200\,000 = 400\,000$$

$$I = \frac{120}{300} \times 1\,200\,000 = 480\,000$$

$$M = \frac{80}{300} \times 1\,200\,000 = 320\,000$$

MARKERS COMMENTS ON PAPER 2: TOE408W /ZAC408H

SECTION A (i) – (v) required students to use the given variances to calculate actual quantities for the month. The majority of students did not use the **budgeted** profit, unit profit, and cost to assist in this. This caused incorrect numbers to be used in the step process: e.g. the standard allowed for the actual output was taken as the actual output.
Quantities (e.g. kilograms) and values I were also often mixed up. This 'reverse' question required a systematic and logical approach which students dismally failed in.

SECTION B (i) and (ii) covered the (possible) ceasement of a product. Students made the following common mistakes:

- Only product L and not the divisions' performance were determined for both the "contribution" and "RI" approaches required.
- Profit used instead of contribution – this indicates lack of knowledge.
- Poor reading of given information leading to incorrect calculations regarding the 'after' process.
- Ignoring the changed scenario altogether.

SECTION C: The majority of students do not know the basic application of a transfer price: i.e. sales price less relevant variable costs. All sorts of adjustments on costs, including opportunity costs, were encountered. The higher production level of product M was however not specifically linked to definite higher sales.

MARKERS COMMENTS ON PAPER 2: TOE408W /ZAC408H continued

A vast number of students ignored the 'easy' marks of the theory section, possibly due to lack of time, indicating poor technique.

Although the average marks indicate some progress from test 1, students must understand that only consistent work, focusing on the application of theory/examples in full-blooded questions, will ensure a positive outcome for this year.

SUGGESTED SOLUTIONS TO PAPER 3 TOE409X

APPLIED TAXATION

Part A – Abe Rabinowitch

Gross income:	**R**	**R**	
Pension		10 000	(1)
Interest		5 134	
Exempt :(s 10(1)(i)(xv) < R30 000)		(5 134)	(1)
Dividends from RSA		16 340	
Exempt s 10(1)(k)(i)		(16 340)	(1)
Capital gains tax:			
Primary residence:			
Proceeds	2 500 000	(1)	
Less: Base cost:			
The most beneficial valuation date value: TABC + par 20			(1)
= R1 894 286 + R2 380	(1 896 666)		(1)
i) Market value of R1 200 000; or	603 334		
ii) 20% of (R2 500 000 less R2 380) = R499 524; or			(1)
iii) Time-apportionment base cost of the asset: par 30(1)			(1)
B = R280 000 + R100 000 = R380 000			
$Y = B + \frac{(P - B) \times N}{T + N}$			
= R380 000 + [R$\frac{(2\,500\,000 - 380\,000) \times 20❶}{20 + 8}$]			(3)
= R1 894 286			
Limited to 20 years (par 30(1)(d)), expenditure in more than one year			
Less: Exclusion (par 45(1)) of R1.5 million limited to	(603 334)		(1)
Toyota Corolla and furniture –par 53 personal use assets	-		(1)
Listed share portfolio			
Proceeds	320 000		
Less: Base cost	(380 000)		
Capital loss	(60 000)		(1)
Krugerrands			
Proceeds	868 000		
Less: Base cost	(234 000)		
Capital gain	634 000		(1)
Money-market account – it is currency and "money" is excluded from the definition of an asset in terms of the Eighth Schedule	Nil		(1)
Capital gain (R634 000 – R60 000)	574 000		
Less: Annual exclusion (par 5)	**(120 000)**		(1)
Net capital gain	454 000		
Taxable capital gain (R454 000 x **25%**)		113 500	(1)
Taxable income for 2010		123 500	
		Total	18
		Max	**16**

SUGGESTED SOLUTIONS TO PAPER 3 TOE409X continued

Part B

In terms of par 40(3), the **disposal of an asset by the deceased estate** of a natural person shall be treated in the same manner as if that asset had been **disposed of by that natural person**. (1)

The proceeds in respect of the disposal of the primary residence are **less than R2 million**, thus any capital **gain or loss will be disregarded** (paragraph 45(1) (b)). (1)

Paragraph 45(1) (b) will be applicable because **Abe Rabinowitch resided there for the full period** that he owned the house (from 1/10/2001 until date of disposal) (1)

He also did **not** use the residence (or a portion thereof) for the **purposes of carrying on a trade**. (1)

The estate is deemed to have acquired an asset from the deceased at its market value on the date of his death (paragraph 40(2)(*a*)), which will be the base cost of the asset in the deceased estate. (1)

5

MAX 3

Part C – Gross income inclusions for Lindsay Rabinowitch

Disposal of Krugerrands

The golden rule used by courts to establish whether the proceeds on the disposal of an asset are of a **capital or revenue nature is the test of intention** (***CIR v Stott & Natal Estates Ltd v SIR***). (2)

The taxpayer's **intention** must be investigated at the time of acquiring the asset and also during the whole holding period. The **intention at the time of disposal** is also important **(*Natal Estates Ltd v SIR*).** (2)

Lindsay Rabinowitch decided to sell her Krugerrands to enable her to pay her emigration expenses. It was an unexpected expense – she had no other available means of paying her overseas trip, thus due to some **unusual, unexpected, or special circumstances** that supervened (1)

Her intention (purpose) in selling the Krugerrands was not to make a profit but to **realise a capital asset** so as to meet her cash needs (***CIR v Nel* – see TL 102/2010**). (2)

The Krugerrands in question **were inherited as an investment** from her grandfather. The **mere** decision to sell an asset originally held as an investment, is **not necessarily** regarded as a transformation of the profits from a **capital nature into a revenue nature (*John Bell &Co (Pty) Ltd*)**.(2)

There is no indication that Lindsay was dealing in Krugerrands. The R400 000 she received on its disposal, is thus of a capital nature and is therefore excluded from her gross income. (1)

However, in terms of section 82 the burden of proof rests upon the taxpayer to show that an amount is of a capital nature. (1)

11

Max 7

SUGGESTED SOLUTIONS TO PAPER 3 TOE409X continued

Part D – Taxable income inclusions for Lindsay Rabinowitch

Capital gains tax consequences:

Lindsay is deemed to have acquired the Krugerrands from her grandfather's estate at a cost equal to the base cost of the deceased estate (R868 000) (paragraph 40(2)(*b*)). (1)

The disposal is not disregarded as a personal-use asset in terms of paragraph 53(3)(*a*). (1)
Krugerrands are **identical assets** in terms of paragraph 32. (1)
She can elect the specific identification method, FIFO or weighted average to calculate the base cost.(1)
(As all the Krugerrands were inherited on the same date, all the methods will produce the same answer)

The capital gain or loss will thus be:

	R	R	
Proceeds		400 000	
Less: Base cost par 32 read with par 40: 50/100 x R868 000	434 000		(1)
Cost in terms of par 20 (Commission paid)	40 000	(474 000)	(1)
		(74 000)	

She has made a capital loss of R74 000 on the disposal, which can be played off against other gains and losses (not disregarded in terms of par 15) (1)

Tax consequences of emigration:

A natural person, who immigrates from the Republic to another country, will cease to be a resident as from the date that he or she emigrates (Interpretation Note 3 of the Act). (1)

In terms of paragraph 12(2) (a) of the Eighth Schedule there is a deemed disposal when a person ceases to be a resident and all assets will be treated as a disposal at market value. (1)

Krugerrands
Consequently the rest of her Krugerrands will be deemed to be disposed of

			R	
CGT:	Proceeds	50 x R8 960	= 448 000	(1)
	Base cost par 40 (above)		= (434 000)	(1)
	Gain		14 000	

which will be played off against the capital loss of R74 000 (calculated above.

Donations tax on motor-vehicle:

The donation of her motor vehicle is a **gratuitous disposal** of an asset by **a resident**. (2)
Donation tax will be payable on the **market value** of the asset **(R58 500**) (1)

As there is no indication that she has used her **basic exemption** (s 56(2) (b)), the amount will be played off against **the R100 000** available and no donations tax will be payable. (1)

For CGT purposes the disposal of her motor vehicle to her friend will be a personal-use asset (par 53) and will be excluded. (1)

15
MAX 14

SUGGESTED SOLUTIONS TO PAPER 3 TOE409X continued

ASSESSMENT CRITERIA APPLIED (refer to TL 101 paragraphs 5.3, 5.4 and 8)

The following broad assessment criteria were applied, namely:

- You had to demonstrate that you are competent in the interpretation and application of the "Gross Income" and "resident" definitions in terms of section 1 of the Income Tax Act, the application of relevant case law and the Eighth Schedule of the Income Tax Act to the facts of real life situations (case studies).

- You had to demonstrate that you are competent to determine and discuss the gross income implications of transactions as well as that you are competent to calculate the inclusion or exclusion of an amount into taxable income (including Capital Gains Tax consequences in terms of the Eighth Schedule) as well as the tax implications of disposals of assets with the emigration of a resident.

The test focused on your technical and communication skills and the following summary will assist you in evaluating your learning strategies as well as where you can improve your technical skills. The question consisted of four queries.

	Topic	**Reference to legislation**	**Reference to examples or questions in TL or in SILKE**
Part A:	Income Tax Act: Gross income, exemptions and capital gains tax of a deceased person	Section 1, definitions of • Gross income • Exemptions: section 10(1): interest, dividend • Capital Gains Tax: paragraphs 1, 40, 25, 26, 30(1), 45, 53 and 5	Basic principle in TL103: deemed disposal of assets in terms of par 40 on date of death. Section B (Integrated example) Section C (TL104): Questions 7: Sale of primary residence Section C (TL104): Question 8: Death and inheritance from an deceased estate
Part B:	Sale of a primary residence by the executor	Paragraphs 45(1)(b), 48(d) and 40 of the Eighth Schedule to the Income Tax Act	TL 103/2010 p 61 and 62 SILKE: p 818, 888 and 889
Part C:	Section 1: "Gross income" and relevant case law: Sale of Krugerrand	Relevant case law to change of intention and sale of Krugerrands	Section C(TL104): Questions 9 and 11
Part D:	Disposal of an asset and Par 12(2)(a): Deemed disposal on date of emigration Donation of an asset	Paragraphs 40(2) (b), 32, 15, 53 and 12(2)(a) of the Eighth Schedule to the Income Tax Act. Basic principles of donation tax: section 56	Section C: Questions 9, 10 and 11 Revision of TL103

It is important to note that if you had followed the suggested working method in TL 104 and worked through the examples and questions in TL 104 you would have easily obtained a very high mark. Please remember that we test the application of knowledge and that you must make time to work through the questions and examples in both the TL and the textbook.

MARKERS COMMENTS ON PAPER 3 TOE409X

Basic principles not applied:

Part A:

Part was in general well answered. Some students erroneously still first use the inclusion rate of 25% and then deduct the annual exclusion.

Part B:

Students did not update their knowledge in regards to law amendments to par 45(1) (b) (a disposal of a primary residence at less than R2 million) of the Eighth Schedule.

Note if the required part stipulates “Explain briefly” we expect a brief discussion and **not** a calculation.

Part C:

The question was not read properly and students produced a capital gains calculation instead of a brief discussion. Court cases were not mentioned.

Part D:

Again students lost most of their marks by not providing a discussion of the reasons for calculating a capital gain or loss.

Recommendations to improve your knowledge and skills:

Questions should be properly read. You should work on your interpretation skills and application of knowledge.

Read the provided court cases in TL102/2010 again and update your knowledge on changes in the legislation.

SUGGESTED SOLUTIONS TO PAPER 4 TOE412S and ZAC412D

APPLIED AUDITING

(a) Controls over internet banking

1. The full web address of the bank should be typed in each time Internet banking services are used, although it is safer to save the accurate address as a bookmark. (1)

2. Only use links from trusted sources. (1)

3. Inspect that the web address that appears on the address list is the official address of the bank, say, absa.co.za. (1)

4. Make sure that the web address is preceded by the letters "https". (1)

5. Do a cursory check of the webpage for proof of the bank's logo and trademarks. (1)

6. Do not supply/type in any details if you are uncertain about the validity of the webpage. (1)

7. Never allow your password/PIN to be remembered by the computer. (1)

8. Verify the validity of the web certificate on the bank's webpage by checking the date, when it was issued and the web address. (1)

9. Examine the web page for proof that it is "SSL secured". (1)

10. If there is any uncertainty about the validity of the protocol, contact the bank. (1)

11. Read the security tips on the bank's web page regularly and adapt the controls accordingly. (1)

12. Never provide any account details via e-mail, or respond to unknown e-mails requesting banking information. (1)

13. Use one-time password received from bank via sms. (1)

14. Use specific terminal (for example do not use internet café). (1)

14

Maximum 8

(b) (i) Accuracy

1. The computer must produce a print-out of deposits repayable for cancelled bookings and an independent person must compare the cancellation list with the deposit repayable list prior to payment to ensure that the booking have indeed been cancelled on the system. (2)

2. A reconciliation between deposits captured and bank statements should be performed by the accounting department. (1)

SUGGESTED SOLUTIONS TO PAPER 4 TOE412S and ZAC412D continued

3. The following programmed edit test must be performed when for example the amount of the deposit is entered:

4.

- deposit amounts can only be numerical characters; and (1)
- deposit amounts must be agreed to the original deposit amount received from holiday makers. (1)

Similar edit tests must be performed on the date, bank (for example ABSA), account number, branch number and name of account holder. (1)

5. Conduct a screen test on the information captured on the web page and compare the total amount of payment on the screen with the total of the deposit repayment before making the payment. (1)

6. Reconcile the amount paid, according to the bank statement, with the deposits payable list after payments have been transferred. (1)

7. Compare control totals of total deposits repayable captured, deposits repayable list and deposits paid (programmed or user control). (1)

8. The programme/computer should check that the deposit to be refunded is 50% of the reservation fee. (1)

10

Maximum 5

(b) (ii) Validity

1. The terminal from which the EFT payments are made must be restricted to one.(1)
2. Multi-level passwords must be in place, i.e. two or more authorised persons must authorise the transfer. (1)
3. The bank must identify the terminal as an authorised terminal. (1)
4. The terminal should switch off after 3 unsuccessful attempts to affect the transfer. (1)
5. Password controls (examples). (1)
6. One-time passwords should be used. (1)
7. Only the financial manager should be able to access these refunds (segregation of duties). (1)

8. EFT refunds should be limited to a certain day and time. (1)

9. The bank should acknowledge the EFT refund transfer before refunding the monies to the holiday makers. (1)

10. The system should provide an audit trail of all refunds made which must be reviewed and reconciled by the financial director. (1)

11. There must be control over the telephone lines used for data transmitted. (1)

12. Any security breaches must be logged and followed up by management. (1)

13. An error message should be displayed on the screen where the amount refunded is more than what the client paid. (1)

13

Maximum 7

(c) Online capturing

Completeness

1. Capture a reservation form yourself but leave out one of the compulsory fields (e.g. unit number) and check that the computer does not accept the form but gives an error message that all the compulsory fields have not been keyed in. (2)

2. Observe that the computer does in fact number the reservation forms sequentially. (1)

3. Inspect the exception reports of errors regarding missing reservation forms supplied by the computer and make sure that these are followed up and corrected. (1)

4. Examine the layout of the reservation form on the screen to evaluate whether it is user friendly and properly designed to promote completeness of input. (1)

5. Inspect exception reports of differences between total number of reservation forms captured for the day and total number of reservation forms posted on the master file (matching), and make sure that this is followed up and corrected. (1)

6. Inquire about user control of information on the screen. (1)

7. Any other valid test of control. (1)

ACCURACY

1. Observe that the computer itself does in fact generate the correct price of the unit on the reservation form according to the unit number and date and inspect that the tariff according to the date, season and unit are charged. (1)

SUGGESTED SOLUTIONS TO PAPER 4 TOE412S and ZAC412D continued

2. Capture a reservation form yourself, but key in
   - alpha characters as date and unit number; and (1)
   - negative amounts as unit number; and (1)
   - see whether the computer rejects the transaction and gives an error message. (1)
   - any other valid example. (Maximum 3)

3. Capture a reservation form yourself and key in the unit number as 4 characters and observe whether the computer gives an error message on the basis of the field size. (1)

4. Recalculate the total due and deposit payable fields calculated by the computer for accuracy. (1)

5. Reprocess a number of reservation forms and follow the tariff that automatically appears through to the tariff list according to the master file. (1)

6. Inquire about user control information on the screen. (1)

7. Inspect that all exception reports regarding possible errors are followed up and corrected. (1)

8. Inspect that the financial director reviews that the above procedures are performed. (1)

9. Select a number of emails and compare information to the reservation on system (reconciliation). (1)

Master file

Validity

1. Try to make a change on the master file/access the master file yourself and observe that changes are restricted by passwords. (1)

2. Examine the amendment reports of the master file for evidence of approval by the accountant (or other authorised senior person). (1)

3. Obtain the levels of access and authorisation to the master file and check that the staff involved in the capturing of transactions did not have access. (2)

4. Obtain the tariff list and season dates from the master file and compare it with the approved list of the managing director. (1)

5. Follow amendments through to approve amendment forms. (1)

6. Inspect the exception report where all unauthorised attempts to change master file data are logged and confirm that management have followed it up. <u>(1)</u>

<u>26</u>

Maximum <u>20</u>

MARKERS COMMENTS ON PAPER 4: TOE412S / ZAC412D

Overall

- Time management is a major concern. It is crucial that you answer all the sub-sections of the question, otherwise your are setting yourself up for failure. Please train yourself to stay within the allocated time and to attempt all parts of the question. This can be achieved by answering questions in simulated exam conditions.
- Please work through Tutorial Letter 104 thoroughly to prepare for Test 3. We are confident that your marks will improve in the upcoming tests!

Part (a)

- This part of the question was very practical and easy marks could have been earned by logical thinking.
- Many students however, did not read the question properly, and did not note that the question required measures that the users of the banking site should apply, in order to ensure that the site they are using is the actual banking website.

Part (b)

- Students did quite well in this section, but many students seem to struggle with any computer related question.
- Students should analyse their answers and compare it to the suggested solution, in order to identify the controls that they are not yet comfortable with.
- Students struggled to differentiate between the controls relating to 'accuracy' and those controls relating to 'validity'.
- Students tend to write down a vast amount of password controls, even though this is not what was required.
- Many of the same points were repeated in this part of the question.
- The scenario contains a lot of information. Students should apply this information in their answer.

Part (c)

- The majority of students could not properly formulate tests of controls. The key lies in using the correct verb to start your sentence with. (Please refer to ISA 330 and ISA 500 in this regard, for explanations of tests of controls and techniques on gathering audit evidence).
- Many students listed controls that should be put in place, instead of formulating tests of controls.
- Many of the tests of controls formulated by students, did not address any of the required assertions. This shows a lack of knowledge regarding the difference between the assertions.
- Students have demonstrated a very limited understanding of application controls.