SCHOOL OF ACCOUNTING SCIENCES

POSTGRADUATE DIPLOMA IN ACCOUNTING SCIENCES

TUTORIAL LETTER 304/2010
(DIPACA8)

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 will be available on the internet **(www.unisa.ac.za)** under **"myUnisa"**. (Refer to section 8.2.2. [Demarcation of tests] in the 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: DIPAC15

ADVANCED 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:	Mr. H.T. Meyer Ms. A. de Jongh Ms. N. Fotsios	Mrs. M.C. de Klerk Mr. B.J. Mothuloe
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 DIPAC15 (Advanced Financial Accounting) paper consists of 3 pages and is out of 40 marks.

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TURN OVER

PAPER 1: DIPAC15 (ADVANCED FINANCIAL ACCOUNTING) **(40 Marks)**

Rhodes Ltd is a listed company with a 30 June 2009 year-end.

An extract from the trial balance for the year ended 30 June 2009, presents the following information that relates to only the assets mentioned below:

	Dr R	Cr R
Land (part of Fixed property A) at cost	200 000	
Land (part of Fixed property B) at cost	300 000	
Building (part of Fixed property A) at cost	1 200 000	
Accumulated depreciation on Building A as at 1 July 2008		83 333
Building (part of Fixed property B) at cost	1 300 000	
Accumulated depreciation on Building B as at 1 July 2008		90 000

Additional information

1. The fixed properties were acquired at the following dates:

   - Fixed property A on 1 November 2006
   - Fixed property B on 1 January 2007

2. On 1 July 2008, the financial director of Rhodes Ltd decided to revalue all property held by the company, to fair value immediately, since it was established that the property values in the vacinity where the fixed properties are situated, had increased dramatically and he wants to portray a fairer picture of the actual value of the equity of the company. From now on the company will revalue all properties to fair value at the beginning of every second year. The company has a policy to realise revaluation surpluses as the assets are used. All assets were previously carried at historical cost less accumulated depreciation (where applicable). It was established that the reliable fair values on 1 July 2008 of the fixed properties as a whole, were the following:

   - Fixed property A: R2 000 000
   - Fixed property B: R3 000 000

   The separation of the fair values of land and buildings in terms of IAS 16.58 is now done on a basis of 40% for land and 60% for buildings.

3. The depreciation policy of the company is as follows:

   - Land is not depreciable.
   - Buildings are depreciated on a straight-line basis over 20 years.

4. The residual values of the buildings are as follows:

   - Building A: R200 000
   - Building B: R100 000

   It may be assumed that the residual values and expected useful lives of the existing buildings will not change.

PAPER 1: DIPAC15 (ADVANCED FINANCIAL ACCOUNTING) continued

5. On 1 January 2009 a fire broke out on the second floor of Building A and caused severe damage to the building. In fact, the second floor of the building had to be evacuated and the repairs at a cost of R200 000 took two months to complete, resulting in the second floor of Building A being occupied once again only on 1 March 2009. The insurance company paid out R195 000 for the damages incurred after applying the averaging clause to the claim. Repairs and maintenance of Rhodes Ltd normally amounts to R75 000 per annum.

6. On 30 April 2009, the board of directors of Rhodes Ltd suddenly sold Fixed property A for R1 820 000. On 30 June 2009 a new property was acquired for R2 300 000 (land: R750 000; building: R1 550 000).

7. Building A is an office block, while Building B is a manufacturing building. Note that Rhodes Ltd has several other properties that would enable the company to continue with business as usual even if they dispose of both Fixed property A and B. However, the information in the question only relates to the properties mentioned in the question.

8. Assume that both the taxable income and profit before tax, before taking any of the above information into account, amounted to R800 000 for the year ended 30 June 2009. All other matters were therefore taken into account when calculating the amounts for taxable income and profit before tax.

9. The company provides for deferred taxation on the statement of financial position approach. Assume a normal tax rate of 28%. Assume further that the SA Revenue Service only grants a building allowance on Building B. This allowance is calculated at 5% per annum on a straight-line basis with no time apportionment.

REQUIRED

		Marks
(a)	Calculate profit before tax of Rhodes Ltd for the year ended 30 June 2009, using the above-mentioned information.	7
(b)	Provide the following notes to the financial statements for the year ended 30 June 2009: 1. Profit before tax; 2. Property, plant and equipment.	16
(c)	Show the revaluation surplus column as it would be disclosed as part of the statement of changes in equity for the year ended 30 June 2009.	10
(d)	Assume **for only this part of the question**, that Fixed property B changed from an owner-occupied property to an investment property carried at fair value on 30 June 2009. The fair value of Fixed property B amounted to R3 200 000 at 30 June 2009. Discuss in detail the effect of this change in asset classification on the accounting treatment of Fixed property B in current and future years. Do not mention any amounts in your answer, but you should deal with deferred tax in your discussion.	7
		40

PLEASE NOTE
- Comparative amounts are not required in your answer.
- Assume all amounts to be material.
- Your answer should comply with International Financial Reporting Standards (IFRS).

PAPER 2: DIPAC26

ADVANCED 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	Mr. L. Crafford
	Mrs. A. Combrink	Mr. A. De Graaf
	Ms. J. Foot	Mr. S. Ndlovu
	Mrs. A. Ravat	Mrs. F. Tayob
	Mrs. F. Venter	
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 DIPAC26 (Advanced Management Accounting) paper consists of 4 pages and is out of 40 marks.

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PAPER 2: DIPAC26 (APPLIED MANAGEMENT ACCOUNTING) **(40 Marks)**

PART A **(32 marks)**

Kisuzu Ltd prepared the following budget for the production and sales of 100 000 branded shirts, showing the following unit information:

	R
Sales price (per shirt)	120
Manufacturing cost:	
Materials – $2m^2$ @ R18/ m^2	36
Labour – 1 hour @ R14 / hour	14
Variable production overhead – 0,25 machine hours @ R16 / hour	4
Fixed production overhead – 0,5 machine hours @ R24 / hour	12
Variable selling costs (per shirt)	6
Fixed administrative costs (per shirt)	18

Actual results for the year ended 30 April 2010 showed the following:

1.
   - Opening inventory — Nil
   - Shirts produced — 110 000
   - Shirts sold — 84 000

   60 000 shirts were sold at the budgeted price and the remainder at R115 per shirt. The sales persons earned the budgeted rate (percentage) on the sales.

2. Costs incurred for the year were:

   - Materials: 230 000 m^2 costing R4 255 000. There were no materials in inventory on 30 April 2010.

   - Labour: 105 000 hours were worked at a total labour cost of R1 550 000. This include long-serving bonuses of R80 000 paid to qualifying factory workers. Factory labour is considered a variable cost.

   - Variable production overhead of R410 000.

   - Fixed production overhead of R1 191 500.

   - Fixed administrative costs of R1 901 000.

3. On 29 April 2010 Kisuzu Ltd received an enquiry from Balls Ltd as to whether Kisuzu Ltd would be prepared to sell 15 000 shirts to Balls Ltd at a special price of R90 per shirt. These shirts (now in inventory) will require additional embroidering and new packaging at a cost of R16 per shirt. No sales commission will be payable on this 'order'. Balls Ltd will pay for the shirts on delivery thereof. The request was not processed as a firm order for the 30 April 2010 year end.

4. Kisuzu Ltd's effective weighted average cost of capital (WACC) was 16%. An average R15 million of assets was employed in the business.

PAPER 2: DIPAC26 (APPLIED MANAGEMENT ACCOUNTING) continued

REQUIRED		**Marks**
(a)	Calculate the following for the year ended 30 April 2010:	
	(i) Material price variance (ii) Material usage variance (iii) Labour rate variance (iv) Labour efficiency variance (v) Variable production overhead expenditure variance (vi) Fixed production overhead absorbed, indicating the amount over or under absorbed. (vii) Actual commission paid on sales	(1) (1) (2) (1) (1) (2) (3)
(b)	Indicate, with the necessary supporting calculations and motivation whether or not Kisuzu Ltd should accept Balls Ltd's enquiry as a special order. [Calculations 5 marks and motivation 4 marks]	(9)
(c)	Calculate the impact of Balls Ltd's order on Kisuzu Ltd's **actual** residual income for the year ended 30 April 2010. (You may assume that the request turned into an accepted order and was processed for the year ending 30 April 2010). [You may round your calculations to 1 decimal iro R'000]	(12)

PART B **(8 marks)**

Four types of material will be needed for a special project being considered by BW Limited:

Material	**Quantity (units) needed for contract**	**Quantity already in inventory**	**Purchase price of units already in inventory (R per unit)**	**Current purchase price (R per unit)**	**Current resale price (R per unit)**
A	200	400	40,00	44,00	38,00
B	1 400	600	35,00	33,00	25,00
C	400	800	20,00	21,00	10,00
D	300	400	25,00	0,00	10,00

PAPER 2: DIPAC26 (APPLIED MANAGEMENT ACCOUNTING) continued

Material A is in regular use. Neither materials B nor C is currently used. B has no foreseeable use in the business, but C could be used on other jobs in place of material currently costing R16 per unit. D is not available on the market any more.

REQUIRED		**Marks**
(d)	Calculate the (relevant) material cost for the special project and briefly give your supporting motivation.	(8)

PAPER 3: DIPAC38
ADVANCED 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: Prof. A.C. Engelbrecht

SECOND EXAMINERS: Mrs. M. Ungerer Mrs. M.M. Pretorius

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 DIPAC38 (Advanced Taxation) paper consists of 4 pages and is out of 40 marks.

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TURN OVER

PAPER 3: DIPAC38 (ADVANCED TAXATION) **(40 Marks)**

You have to answer the following six independent case studies relating to South African residents, separately (ignore value-added tax):

Case 1 **4 Marks**

Ajax Supermarket had the following sales for 16 November:

	R
Cash	72 000
Cheques	24 000
Credit card	25 000
On account	17 000

However, as the accounting clerk was on his way to the bank on 17 November, he was robbed. All cheques (R24 000) and R70 000 in cash were stolen - the balance of cash (R2 000) had been used to reimburse petty cash.

REQUIRED	**Marks**
Discuss what amount (if any) should be included in **gross income** in respect of sales of 16 November for Ajax Supermarket. Also refer to relevant case law.	4

Case 2 **3 Marks**

Mr Wheel and Deal is a sole trader (retailer) in tyres (catering for all kinds of vehicles) and he acquired trading stock at a cost of R50 000 on 12 February 2010. These items, while not having been disposed of before year end, can in future be disposed of at a mark-up of 30% on cost. At year end (28 February 2010), the market value of these items amounted to R65 000. Mr Wheel and Deal is not sure as to whether he will be taxable on the growth in the value of these items when he is assessed in respect of the 2010 year of assessment.

REQUIRED	**Marks**
Explain to Mr Wheel and Deal whether any portion of such an increase in the value of his trading stock can give rise to gross income in his hands for the 2010 year of assessment. Motivate your answer.	3

PAPER 3: DIPAC38 (ADVANCED TAXATION) continued

Case 3 **10 Marks**

Mr Solute Kerzner acquired equity shares in a company listed on the Johannesburg Securities Exchange (JSE) on 10 April 2008. At the time of acquisition, he intended to hold these shares as an investment. However, during October 2008, he changed his intention to that of speculating with listed shares, thereby effectively commencing to carry out a scheme of profit-making by trading with such shares. On 5 October 2009, these shares' price reached an all-time high and he decided to dispose of the shares at a considerable profit. Details of these shares are as follows:

	R
Cost price	10 000
Value at the time of changing his intention	40 000
Proceeds on disposal	100 000

REQUIRED	**Marks**
(a) Briefly discuss whether the proceeds on the disposal of the listed shares will constitute gross income in his hands. Refer to relevant case law.	4
(b) Explain the normal tax (including capital gains tax) implications (if any) that will flow from the change of intention by Mr Kerzner.	3
(c) Indicate whether your answer to (a) will be different if the acquisition date was 10 April 2005 (and not 10 April 2008) and, if so, indicate in what way.	3

Case 4 **7 Marks**

Mr Rocca Fella is 66 years of age and married out of community of property. He is a wealthy, retired business man who, inter alia, has earned the following income during the 2010 year of assessment:

	R
Local interest	60 000
Foreign dividends (not exempt per section 10(1)(k)(ii)) – the equivalent of	40 000
Local dividends from listed companies	80 000
Royalty income from a patent which is used in the United Kingdom (the equivalent of)	30 000

REQUIRED	**Marks**
(a) Indicate whether Mr Fella will have to include any or all of the abovementioned amounts in his South African gross income for the 2010 year of assessment. Motivate your answer.	3
(b) Indicate the amount(s), if any, that will qualify for exemption in terms of section 10 of the Income Tax Act.	4

Case 5 **3 Marks**

Mr Nerd is twenty-three years old and, during the current year of assessment, he was awarded a *bona fide* bursary amounting to R24 000 by his employer in an effort to encourage him to further his studies at the University of South Africa. His gross remuneration for the 2010 (current) year of assessment amounted to R96 000. Should Mr Nerd be unsuccessful in his studies, he will in terms of the agreement between the parties, be required to refund the full amount of the bursary to his employer.

REQUIRED	**Marks**
Indicate whether Mr Nerd will be required to include any portion of the amount of R24 000 in his income (as defined) for the 2010 year of assessment. Motivate your answer.	3

Case 6 **13 Marks**

Mr Chris Capastanio is married out of community of property and disposed of the following non-business capital assets (all post-valuation date assets) during the 2010 year of assessment (amounts have been converted correctly to Rands, where applicable):

	Note	**Cost R**	**Proceeds R**
Immovable property in Spain	1	230 000	950 000
Flat in Camps Bay, donated to wife	2	380 000	-
Aircraft exceeding 450kg	3	800 000	920 000
Listed shares	4	120 000	100 000
Gold coins		80 000	97 500

Notes

1. The immovable property in Spain had been used over the years of ownership by the Capastanio family as a holiday home, but with the rising costs in its up-keep as well as travelling costs for overseas excursions, it was decided to dispose of it to a non-connected person. The cost in advertising the property as being “for sale”, amounted to the equivalent of R20 000.

2. The flat in Camps Bay is rented out to non-connected persons on a continuous basis and Mr Capastanio would like the rental income in future to accrue to his wife, who has no other taxable income. At the time of the donation, the market value of this flat was established to be R1 350 000.

3. Mr Capastanio is quite passionate about flying and over weekends had spent hours up in the sky. His deteriorating health as well as a series of recent aircraft disasters and/or accidents have lead to the decision to sell his aircraft to a non-connected person.

4. He has disposed of some listed shares to his son (a major) for an amount equal to its market value (R100 000). However, due to his son’s inability to fund the transaction, it was agreed that the outstanding balance would be financed by way of an interest-free loan by Mr Capastanio.

PAPER 3: DIPAC38 (ADVANCED TAXATION) continued

5. Mr Capastanio has a balance of an assessed capital loss of R20 000 which was carried forward from the 2009 year of assessment.

REQUIRED	**Marks**
Calculate the taxable capital gain to be included in the taxable income of Mr Capastanio for the 2010 year of assessment. Motivate your answer, where necessary.	13

PAPER 4: DIPAC49
ADVANCED 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 EXAMINERS:	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 DIPAC49 (Advanced Auditing) paper consists of 3 pages and is out of 40 marks.

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PAPER 4: DIPAC49 (ADVANCED AUDITING) **(40 Marks)**

You are the newly appointed manager in charge of the audit of Lethule Private Game Reserve (Pty) Ltd (Lethule).

This stunning, new 3500 hectare private game reserve offers game drives and bush walks which enable its visitors to view a variety of animals (including zebra, impala, njala, kudu, lion and rhino). It is situated in the North West Province and was founded by the current owner, Lance Leopard, in July 2009. The audit (to be conducted by your team) for the year ending 30 June 2010, will be the first audit of Lethule.

The financial manager, George Giraffe, sent you the following e-mail:

To: *The manager in charge of the audit* ***From:*** *George Giraffe (financial manager)*

Date: *2 March 2010* ***Re:*** *Proposed tagging and inventory count procedures*

As the audit is approaching us soon, I thought that I would bring the following information regarding the inventory count to your attention:

1. *The animals will first be tagged. Tagging entails a physical attachment to the animal of an electronic device that is able to send a signal to the CountIT system (see below for details on the system).*

2. *Thereafter we will perform the count.*

3. *Proposed tagging process:*
   - *We have decided to conduct the tagging process of the animals just before the year-end inventory count. There are approximately just over 10 000 animals on the reserve.*
   - *We need to complete the tagging process in two days as we will have to hire very expensive tagging equipment. The tagging equipment is quite sophisticated and complex, but I feel it is a waste of money to train the employees in the use of the equipment as they are all fast learners.*
   - *Due to the tight deadline, we have decided to tag on a sample basis. We will only tag the animals on every 100th hectare. A manual extrapolation will then be done to estimate the number of animals across the entire reserve.*

4. *Proposed inventory count procedures:*
   - *The year-end inventory count will take place on 31 May 2010. This is due to the fact that our inventory manager, Eddie Elephant, the only person with sufficient knowledge about the reserve, will not be available on 30 June 2010. He is of the opinion that there will be minimal movement in the animal numbers from 31 May 2010 to 30 June 2010 as this is not normally a period where the animals give birth.*
   - *We will be making use of an in-house developed system called the TraceTags system for the inventory count.*
   - *I hope that this will meet all of your requirements and that no errors will occur. No-one from the IT department will be available to assist Eddie Elephant with the system on the day of the inventory count. He will, however, receive training on the TraceTags computer system one day before the inventory count.*
   - *On the day of the year-end inventory count, 31 May 2010, the Lethule helicopter will fly over the reserve. The inventory manager, Eddie Elephant, and the pilot will be the only employees of Lethule on board. Due to limited space in the helicopter, your audit team will not be able to accompany them to observe the inventory count from the air.*

<u>PAPER 4: DIPAC49 (ADVANCED AUDITING)</u> continued

- *Eddie Elephant will use a laptop with the TraceTags computer system loaded onto it that will automatically trace all the tagged animals as they fly over entire reserve. Eddie is a senior gentleman and often forgets his passwords. We will therefore rather not put a password on the laptop or the TraceTags computer system.*
- *Once the count is complete, Eddie Elephant will connect the laptop to a printer and print a final inventory listing from the TraceTags system. (There is a function available on the system that will enable a user to print exception reports, but I think this is a waste of paper.) Eddie will then hand the final inventory listing over to the inventory capturing clerk.*
- *The individual price per animal is obtained from the invoice of the latest purchase of that specific type of animal. Most of the animals were purchased during July 2009.*
- *We are experiencing problems with the electric fencing surrounding the Lethule reserve, which cannot be fixed in time for the inventory count. Unfortunately this means that some animals might escape from the reserve or animals from other surrounding areas might come into the reserve.*

Hope you find the above in order. Please let me know if you need more information.

Regards
George

After discussing the inventory master file update procedures with the capturing clerk, the senior on the audit compiled the following notes.

Inventory master file update:

- The inventory capturing clerk will manually capture the numbers from the final inventory listing (obtained from Eddie Elephant) directly onto the Lethule inventory master file via the laptop. This will update the inventory master file with the new inventory numbers.

- The inventory clerk will also manually capture the price per animal species from the latest purchase invoices to update the master file with the value per animal.

- The manager of the capturing department will be responsible for supervising the capturing clerk.

- After the capturing of the information, a printout will be obtained from the master file with all the updated master file information.

REQUIRED

		Marks
(a)	Identify and explain the risks in: 1. the proposed tagging process 2. the proposed inventory count procedures	 8 17
(b)	Briefly discuss the **controls** that should be in place to ensure that updates made to the Lethule inventory master file are **valid**. **Remember to discuss the controls for input, processing and output.**	15

SUGGESTED SOLUTIONS AND COMMENTARY ON TEST 2

SUGGESTED SOLUTIONS TO PAPER 1: DIPAC15 ADVANCED FINANCIAL ACCOUNTING

(a) Calculation of profit before tax

	R	
Profit before tax (given)	800 000	
Adjustments:		
Depreciation for 2009	(137 347)	
- Building A [C2] (1 200 000 – 200 000)/(240 – 20) x 10	(45 455)	(2)
- Building B [C4] (1 800 000 – 100 000)/18,50	(91 892)	(2)
Loss on sale of fixed property [C2A]		
(800 000 + 1 154 545) – 1 820 000	(134 545)	(2)
Insurance policy payout	195 000	(½)
Repairs to Building A	(200 000)	(½)
Revised profit before tax	523 108	
		7

(b) RHODES LTD

NOTES FOR THE YEAR ENDED 30 JUNE 2009

1. Profit before tax

	R	
Expenses		
Depreciation (45 455[C2] + 91 892[C4])	137 347	(1)
Loss on sale of fixed property	134 545	(½)
Separately disclosable item:		
Repairs related to fire damage	200 000	(½)
Income		
Insurance proceeds	195 000	(½)

SUGGESTED SOLUTIONS TO PAPER 1: DIPAC15 continued

2. Property, plant and equipment

	Land R		Buildings R	
Carrying amount at beginning of year	500 000		2 326 667	
Cost (200 000[C1] + 300 000[C3]); (1 200 000[C2] + 1 300 000[C4])	500 000	(1)	2 500 000	(1)
Accumulated depreciation 83 333[C2] + 90 000[C4]	-		(173 333)	(1)
Revaluation on 1 July 2008 (600 000[C1] + 900 000[C3]) (83 333[C2] + 590 000[C4])	1 500 000	(2)	673 333	(2)
Depreciation for the year (Part a)	-		(137 347)	(1)
Disposal of fixed property [C1; C2]	(800 000)	(1)	(1 154 545)	(1)
Additions	750 000	(1)	1 550 000	(1)
Carrying amount at year-end	1 950 000		3 258 108	
Revaluation/Cost (1 200 000 + 750 000); (1 800 000 + 1 550 000)	1 950 000	(1)	3 350 000	(1)
Accumulated depreciation [C4]	-		(91 892)	(1)
				17½
			Maximum	16

OR

Alternative solution to part b (2)

2. Property, plant and equipment

	Property A		Property B		Property C	
	Land	**Buildings**	**Land**	**Buildings**	**Land**	**Buildings**
Carrying amount (1/7/2008)	200 000	1 116 667	300 000	1 210 000	-	-
Cost	200 000	1 200 000	300 000	1 300 000	-	-
Accumulated depreciation	-	(83 333)	-	(90 000)	-	-
Revaluation: (1/7/2008)	600 000	83 333	900 000	590 000	-	-
Depreciation	-	(45 455)	-	(91 892)	-	-
Disposals	(800 000)	(1 154 545)	-	-	-	-
Additions	-	-	-	-	750 000	1 550 000
Carrying amount (30/6/2009)	-	-	1 200 000	1 708 108	750 000	1 550 000
Cost	-	-	1 200 000	1 800 000	750 000	1 550 000
Accumulated depreciation	-	-	-	(91 892)	-	-

SUGGESTED SOLUTIONS TO PAPER 1: DIPAC15 continued

(c) STATEMENT OF CHANGES IN EQUITY

Revaluation surplus	**R**	
Opening balance	Nil	
Other comprehensive income (600 000 + 83 333 + 900 000 + 590 000)[C1-C4] – (84 000 + 23 333 +126 000 + 165 200)[C1-C4]	1 774 800	(6)
Realisation of property A (transfer to retained earnings)	*(576 000)	(2)
Reverse deferred tax (84 000 + 23 333)	107 333	
Realisation of revaluation surplus (600 000 + 83 333)	(683 333)	
Transfer to retained earnings (31 892[C4] x 72%)	(22 962)	(2)
Closing balance	1 175 838	
		10

* (600 000 + 83 333) – (84 000 + 23 333)

(d) Discussion of transfer from PPE to Investment property

IAS 40.57(c) allows the reclassification of an asset from owner-occupied to investment property. (1)

In terms of IAS 40.61, a change in classification, where an owner occupied property becomes an investment property that will be carried at fair value, the entity shall treat any difference at that date between the carrying amount of the property and its fair value as a revaluation in accordance with IAS 16. (2)

The new revaluation surplus arising from the change in classification on Land B will be (1) subject to deferred tax at a rate of 14%, while the revaluation surplus on Building B, will be subject to deferred tax of 28%. (1)

Once the revaluation has been done, the asset will be transferred from Property, plant and equipment to Investment property. (1)

No further depreciation will be written off on Building B and an annual fair value adjustment to the value of both Land B and Building B will be taken to the statement of comprehensive income. (Student can also cover tax effect for a bonus mark). (2)

Following the reclassification of the asset as investment property carried at fair value, the fixed property need no longer be split into its component parts of land and buildings. (1)

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Maximum 7

SUGGESTED SOLUTIONS TO PAPER 1: DIPAC15 continued

CALCULATIONS

C1. LAND A

Date	Description	Total	Revaluation surplus	Cost	Tax base	Temporary difference	Deferred tax @ 14%
1/11/2006	Cost	200 000	-	200 000	200 000	-	-
Till 30/6/2008	No change						
1/7/2008	Revaluation (1)	600 000	600 000	-	-	600 000	84 000
30/4/2009	Carrying amount	800 000	600 000	200 000	200 000	600 000	84 000

(1) Revaluation surplus = (2 000 000 x 40%) - 200 000 = 600 000

C2. BUILDING A (Office building)

Date	Description	Total	Revaluation surplus	Cost	Tax base	Temporary difference	Deferred tax @ 28%
1/11/2006	Cost (2)	1 200 000	-	1 200 000	-	1 200 000	Exempt
30/6/2007	Depreciation (3)	(33 333)	-	(33 333)	-	(33 333)	Exempt
		1 166 667	-	1 166 667	-	1 166 667	Exempt
30/6/2008	Depreciation (4)	(50 000)	-	(50 000)	-	(50 000)	Exempt
30/6/2008	Carrying amount	1 116 667	-	1 116 667	-	1 116 667	Exempt
1/7/2008	Revaluation (5)	83 333	83 333	-	-	83 333	23 333
	Carrying amount	1 200 000	83 333	1 116 667	-	1 200 000	23 333
30/4/2009	Depreciation (6)	(45 455)	(3 788)	(41 667)	-	(45 455)	(1 061)
30/4/2009	Carrying amount	1 154 545	79 545	1 075 000	-	1 154 545	22 272

(2) Tax base = Nil as nothing is deductible for tax purposes
(3) Depreciation = (1 200 000 – 200 000)/20 x 8/12 = 33 333
(4) Depreciation = (1 200 000 – 200 000)/20 x 12/12 = 50 000
(5) Revaluation surplus = (2 000 000 x 60%) – 1 116 667 = 83 333
(6) Depreciation = (1 200 000 – 200 000)/(240 – 20) x 10mnths = 45 455

C2A. Loss on sale of property A

Carrying amount – Land	800 000
Carrying amount – Building	1 154 545
Selling price	(1 820 000)
Loss	134 545

SUGGESTED SOLUTIONS TO PAPER 1: DIPAC15 continued

C3. LAND B

Date	Description	Total	Revaluation surplus	Cost	Tax base	Temporary difference	Deferred tax @ 14%
1/1/2007	Cost	300 000	-	300 000	300 000	-	-
Till 30/6/2008	No change						
1/7/2008	Revaluation (7)	900 000	900 000	-	-	900 000	126 000
30/6/2009	Carrying amount	1 200 000	900 000	300 000	300 000	900 000	126 000

(7) Revaluation surplus = (3 000 000 x 40%) - 300 000 = 900 000

C4. BUILDING B (Manufacturing building)

Date	Description	Total	Revaluation surplus	Cost	Tax base	Temporary difference	Deferred tax @ 28%
1/1/2007	Cost	1 300 000	-	1 300 000	1 300 000	-	-
30/6/2007	Depreciation (8)	(30 000)	-	(30 000)	(65 000)	35 000	9 800
	Carrying amount	1 270 000	-	1 270 000	1 235 000	35 000	9 800
30/6/2008	Depreciation (9)	(60 000)	-	(60 000)	(65 000)	5 000	1 400
	Carrying amount	1 210 000	-	1 210 000	1 170 000	40 000	11 200
1/7/2008	Revaluation (10)	590 000	590 000	-	-	590 000	165 200
		1 800 000	590 000	1 210 000	1 170 000	630 000	176 400
30/6/2009	Depreciation (11)	(91 892)	(31 892)	(60 000)	(65 000)	(26 892)	(7 530)
30/6/2009	Carrying amount	1 708 108	558 108	1 150 000	1 105 000	603 108	168 870

(8) Depreciation = (1 300 000 – 100 000)/20 x 6/12 = 30 000
Building allowance = 5% x 1 300 000 = 65 000
(9) Depreciation = (1 300 000 – 100 000)/20 = 60 000
(10) Revaluation = (3 000 000 x 60%) – 1 210 000 = 590 000
(11) Depreciation = (1 800 000 - 100 000)/18,5 = 91 892

Please note:

Deferred tax not required, provided for explanation purposes **only**.

MARKERS COMMENTARY ON PAPER 1: DIPAC15

PART A:

- Taxable profit or loss (e.g.: including wear & tear allowances etc) was calculated instead of profit before tax.
- Revaluation surplus and proceeds on sale were incorrectly included in the calculation of profit before tax.
- There was a lack of understanding as to how the residual value affects depreciation.

PART B:

- Land and buildings were not split per the disclosure requirements of IAS 16.
- The carrying amounts of land and buildings at the end of the year were not disclosed.
- Disposals and additions were easy marks that were left out of the PPE note disclosure.

PART C:

- The transfer to retained earnings is net of deferred tax.
- Incorrect deferred tax rates were used. Deferred tax on land must be calculated at CGT rates since it will be recovered through sale, while deferred tax on buildings must be calculated at normal rates since they will be recovered through use.

GENERAL COMMENTS:

- Calculations with no disclosure as per the required will not be marked
- Calculations not shown
- Calculations not cross-referenced
- Most students did not attempt parts c and d, which is a reflection of poor time management.

SUGGESTED SOLUTIONS TO PAPER 2: DIPAC26 ADVANCED MANAGEMENT ACCOUNTING

(a) (i) **Material price variance**

4 255 000 – 230 000 x 18
= 4 255 000 – 4 140 000 = 115 000 U (1)

> It is not necessary to calculate a cost per kilogram, as the variance should have a total Rand format. You are reminded that variances should be clearly indicated as favourable or unfavourable.

(ii) **Material usage variance**

18 x (230 000 – 110 000 x 2)
= 18 x (230 000 – 220 000) = 180 000 U (1)

> The quantity used is equal to that purchased as there was no raw material inventory on 30/4. This quantity should be compared to the standard for the **output**, ie 110 000 shirts. More used, thus an unfavourable variance.

(iii) **Labour rate variance**

(1 550 000 – 80 000) – 105 000 x 14 (1)
= 1 470 000 – 1 470 000 = 0 (1)

> The payment in respect of the long-serving bonuses should be excluded from the labour cost as this does not relate to 'normal' work. The 0 amount indicates that workers were paid the budgeted rate.

(iv) **Labour efficiency variance**

14 x (105 000 – 110 000 x 1)
= 14 x 5 000 = 70 000 F (1)

(v) **VPOH expenditure variance**

410 000 – (110 000 x ,25 x 16)
= 410 000 – 440 000 = 30 000 F (1)

(vi) **FPOH absorbed**

110 000 x 12	= 1 320 000	(½)
Standard (budget)		
= 100 000 x 12	= 1 200 000	(½)
Over	120 000	(1)

> Produced more than budget, thus over. 'Absorbed' means each product (shirt) is allocated this cost.

SUGGESTED SOLUTIONS TO PAPER 2: DIPAC26 continued

(vii) **Sales commission**

Budgeted %	= 6/120	
	= 5%	(1)
Actual sales	= 60 000 x 120 + 24 000 x 115	
	= 9 960 000	(1)
∴ Commission paid	= 9 960 000 x 5%	
	= 498 000	(1)

(b) **Special order request**

Sales price	90,00	(½)
Materials	(36,00)	(½)
Labour	(14,00)	(½)
VPOH	(4,00)	(½)
Embroidery and packaging	(16,00)	(½)
Commission	-	(½)
Fixed costs, not relevant	-	(½)
Contribution per shirt	20,00	(½)
∴ Additional contribution (x 15 000)	R300 000	(1)
		5

Motivation

- Sales are well below budget, sitting with huge inventory. (1)
- Sale will contribute towards fixed costs. (1)
- Balls Ltd will pay immediately, low risk of bad debt and improved cash flow. (2)
- May compromise future sales at normal prices. (1)
- Will impact performance return (ROI/RI). (1)

Max 4

(c) **Residual income**

	Current R'000		**Additional R'000**	
Sales	9 960,0		1 350,0	(2)
Manufacturing cost – COS				
(4 255 + 1 550 + 410 + 1 191,5)				
÷ 110 000 x 84 000		(÷ 110 x 15)		
= 7 406 ÷ 110 x 84	(5 655,9)		(1 009,9)	(4)
Embroidery			(240,0)	(1)
Selling costs	(498,0)		-	(½)
Fixed admin	(1 901,0)		-	(½)
Profit	1 905,1		100,1	
WACC charge				
16% x R15m	(2 400)		-	(1)
	(494,9)		100,1	(1)

SUGGESTED SOLUTIONS TO PAPER 2: DIPAC26 continued

∴ Kisuzu Ltd has not reached their RI target, but the additional sale will contribute towards it (making the RI loss smaller) (2)

12

🄸 The WACC charge is the return expected of management, in this case 16%. Although Kisuzu Ltd is profitable, it does not reach this return.

PART B

(d)

		R		
A	200 x 44	8 800	Regular use	(2)
B	600 x 25	15 000	No use – sale	(2)
	800 x 33	26 400	Replacement	(2)
C	400 x 16	6 400	Alternative use better than sale	(2)
D	300 x 10	3 000	No use, sell	(2)
		59 600		
			Max	8

🄸 1 mark per calculation and 1 mark for correct motivation.

COMMENTARY ON PAPER 2: DIPAC26

PART A (a) (i) – (vi)

Most students calculated the value of the price rate variances correctly. The quantity or efficiency variances on the other hand were mostly incorrect as students did not apply the flexed budget principle of linking the standard quantity allowed and rate for the actual output, in this case the production of 110 000 shirts. Furthermore, where the type of variance is shown incorrectly, e.g., favourable where it is unfavourable, no mark can be awarded as the incorrect type indicates that the student does not understand the underlying principles. Variances should also not be calculated in unit (1kg or metre) terms, as this will not indicate clearly value lost or won. The long term bonus payment of R80 000 included in the labour period cost does not relate to the production of the period and should be excluded from the evaluation process. Students should note that the term 'absorbed' (vi) refers to the difference between the original budget and the actual production: - 100 000 vs. 110 000.

Very few students understood the concept of commission in section (vii). The % - commission (commission paid on sales) is required before a forecast can be made.

In section (b) students often used the existing sales price of R120 per unit rather than the offered R90. The motivation required referred to the additional sales from the special order and not the cost components.

Students had a reasonable idea of what was required for section (c), the layout was however problematic. Students are therefore referred to the suggested solution to review the process and layout.

<u>COMMENTARY ON PAPER 2: DIPAC26</u> continued

PART B

Relevant costs were done quite well by those students that attempted this section. Students should note that all test/examination questions would contain some sections that are more doable than others. It is good practice to find those (or the ones which suit you best) and do them first.

Good luck with Test 3!

SUGGESTED SOLUTIONS TO PAPER 3: DIPAC38 ADVANCED TAXATION

Case 1

An amount forms part of gross income **on the earlier of receipt or accrual**. As sales on account (credit) would have **accrued to the taxpayer (unconditionally entitled to** – *Mooi*'s case), these amounts constitute gross income. But has the cash sales (cash and cheques) been received (as required by the definition) by the taxpayer, seeing that R94 000 had been lost in the robbery? The answer to this is affirmative. Once an amount has been received (**received on behalf of and for the benefit of such taxpayer** (*Geldenhuys*' case)), the full amount will have to be included in gross income. What happens subsequent to such receipt (or accrual) is of no concern other than to consider whether the stolen R94 000 may possibly qualify as a deduction from "income", but this aspect was not part of the question. **The full amount received by or that accrued to the taxpayer will have to be included in gross income** (**R138 000**). (Up to 2 bonus marks can be given for relevant case law.) (4)

Case 2

Before any amount can form part of the general definition of gross income, all of the elements (requirements) of that definition must be met. One of these requirements is that there must either be a receipt or an accrual before an amount can be included in gross income. As it is clear that **no amount has been received** and an accrual is also lacking (stock not sold yet), there can be no suggestion that gross income has arisen. An accrual would require the taxpayer to have become unconditionally entitled (*Mooi v SIR*) to an amount. Mr Wheel and Deal is **not entitled to any amount**. **No portion** of such increase in the value of trading stock will be included in gross income. (3)

Case 3

(a) The proceeds on the sale of the shares will only constitute gross income if it is revenue in nature. The **intention of the taxpayer** with regard to the shares **will determine the capital or revenue nature** of the proceeds. **Initially**, when the shares were bought, the taxpayer's **intention was to hold the shares as an investment** (and earn dividend income), thus as a capital asset (tree v fruit – *Visser*'s case). However, the taxpayer's **intention changed** in the course of 2009 from holding the shares as an investment to that of dealing in shares. The taxpayer has "crossed the Rubicon" (*Natal Estates* case) with no distinction between an investment and a speculative portfolio. Accordingly, the proceeds on the sale of the shares are **revenue in nature and constitute gross income**. (Up to 2 bonus marks can be given for relevant case law.) (4)

(b) In terms of paragraph 12(2)(c) of the Eighth Schedule, Mr Kerzner will be **treated as having disposed of his capital asset (the listed shares) for proceeds equal to its market value** at the time of such change of intention (R40 000) while, in terms of section 22(3)(a)(ii), he will also be **deemed to have acquired trading stock at a cost equal to that same market value** (R40 000). The deemed disposal of the capital asset will result in a **capital gain of R40 000 (deemed proceeds) less R10 000 (base cost) = R30 000** for Mr Kerzner. In turn, Mr Kerzner will hold such shares (from the time of changing his intention) as part of his trading stock. (3)

(c) **Yes**, it would differ. The shares constitute "qualifying shares" in terms of section 9C of the Income Tax Act and **section 9C will apply to deem the proceeds** on disposal of the shares **to be capital in nature as it was held for more than three years** (notwithstanding the fact that it was held with a speculative intention). The proceeds will thus **not constitute gross income, but it will be subject to capital gains tax**. (3)

<u>SUGGESTED SOLUTIONS TO PAPER 3: DIPAC38</u> continued

Case 4

(a) **All of the relevant amounts will have to be included in Mr Fella's gross income** as it will either be covered by the general definition or specific inclusions (par (k) – dividends) to the definition of gross income. As Mr Fella is a resident, he will in terms of the general definition have to **include his world-wide amounts received or accrued** where these amounts are non-capital in nature. Based upon the "tree v fruit" principle (CIR v Visser), all of the amounts will be seen to be **"fruit" stemming from the underlying asset and, thus, constitute amounts of a revenue nature**. (3)

(b)

	R	
Foreign dividends – first R3 500 (sec 10(1)(i)(xv))	3 500	(1)
Local interest (R30 000 – R3 500) (sec 10(1)(i)(xv))	26 500	(1)
Local dividends – fully exempt (sec 10(1)(k)(i))	80 000	(1)
Royalty income – no exemption	-	(1)
	110 000	
		4

Case 5

Mr Nerd has been awarded a **bona fide bursary with a stipulation that he will be required to refund the full amount to his employer should he not be successful** in his studies. In terms of section 10(1)(q)(i), **such bursary will qualify for exemption** and **no portion thereof will therefore constitute income** (gross income less exempt income) for the purposes of the Income Tax Act. (3)

Case 6

	R	
Immovable property in Spain (**world-wide assets** of resident are subject to CGT): R950 000 – R230 000 – R20 000)	700 000	(2)
Flat in Camps Bay: **Roll-over relief** as disposed of to spouse: Treated as disposed of at base cost: R380 000 – R380 000	-	(2)
Aircraft exceeding 450kg: **Excluded from personal-use asset** While capital loss disregarded under par 15, capital gain not excluded: R920 000 – R800 000	120 000	(2)
Listed shares: Disposal to a connected person: Treated as a disposal at market value (= actual proceeds; no adjustment) Clogged loss of R20 000 carried forward – par 39	-	(2)
Gold coins: **Excluded from personal-use assets** (no exclusion) R97 500 – R80 000	17 500	(2)
	837 500	
Less: Annual exclusion	17 500	(1)
Aggregate capital gain	820 000	
Less: Assessed capital loss brought forward	(20 000)	(1)
Net capital gain	800 000	
Taxable capital gain: Inclusion rate of 25% x R800 000	200 000	(1)
		13
		40

COMMENTARY ON PAPER 3: DIPAC38

Students, in general, struggled with the answering of the parts of the question which required a discussion of the elements of the general definition of gross income. This was due to a lack of skill/technique and/or knowledge in answering such questions where it is vital that you can

- Identify the problem; and
- Motivate your answer

You were only tested on certain aspects of the general definition of gross income – these elements or requirements had to be tested against the principles laid down in our case law, which supports the legislation. If you failed to identify the problem, it would be rather difficult to answer the question. Similarly, if you did not motivate your answer, marks would have been lost in the process. Also note that the general definition is in certain circumstances extended by the application of special inclusions in gross income – you would thus have to be aware of these special inclusions as well.

The part relating to the calculation of the taxable capital gain saw students score more freely, as you would expect from accounting students, but motivations for some assets once more lacked. It is also clear that some students lack the required knowledge regarding aspects such as exclusions (for example, personal-use assets), items which can be included as part of the base cost of an asset (for example, advertising cost), roll-over provisions (transactions between spouses in this case) as well as the correct order in which to deduct the annual exclusion and the application of the inclusion rate. Naturally, this would have impacted negatively on your final marks attained for the test as a whole.

Even knowledge re exempt income (already dealt with at undergraduate level) seems to be lacking. Students should also read the “required” part of the question thouroughly – case 4 required students to indicate which amounts would form part of gross income (with a motivation) and to indicate which amounts would qualify for exemption from normal tax. Some students only answered one of these aspects which meant that some easy marks were forfeited in the process.
Please use the suggested solutions to ensure that you can identify where you went wrong in answering the test – use this as an opportunity to learn from your mistakes to ensure that they are not repeated in the future.

Good luck with Test 3!

SUGGESTED SOLUTIONS TO PAPER 4: DIPAC49 ADVANCED AUDITING

(a) 1. *Risks in the proposed tagging process*

Nr	Risks in the proposed tagging process	Marks
1.	The tagging process will be conducted just before the actual inventory count. The tagging process will have to be completed within two day as Lethule will have to hire the expensive tagging equipment. It might not be possible to tag the animals within two days. Therefore, any untagged animals will not form part of the inventory count, which will lead to an understated inventory figure. Due to the tight deadline, human error might lead to some animals or areas on the reserve being tagged more than once or not tagged at all. This will lead to incorrect inventory count numbers and possible material misstatement of the inventory figure as at 30 June 2010.	(2) (1) (1)
2.	The tagging equipment is quite sophisticated and complex and employees will not receive any training in the use of the equipment. It is irrelevant that the employees are fast learners as they have no experience in the use of the equipment and might make mistakes during the tagging process as a result of a lack in training and experience. The tagging equipment has also never been used before and might not be functioning as intended on the day when tagging is performed. Possible mistakes/errors made by the equipment might not be identified due to a lack in training and experience by the employees. This might also lead to incorrect inventory count numbers and possible material misstatement of the inventory figure as at 30 June 2010.	(2) (1) (2)
3.	As the tagging process will be done on a sample basis, only the animals on every 100^{th} hectare will be tagged. Not all the animals in the reserve will be tagged and will therefore not be included in the inventory count. This might lead to material misstatements in the inventory count numbers as well as the final inventory figure as at 30 June 2010. Apart from the fact that extrapolation is not ideal for an inventory count, it will be done manually. Therefore, human error might lead to material misstatements in the extrapolated numbers, which will affect the inventory numbers. (Or any other sampling problems.)	(2) (2)

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Maximum 8

SUGGESTED SOLUTIONS TO PAPER 4: DIPAC49 continued

2. Risks in the proposed inventory count procedures (20)

Nr	Risks in the proposed inventory count procedures	Marks
1.	The year-end inventory count will take place on 31 May 2010. This is not the actual year-end date of 30 June 2010. Therefore, the inventory figure as at 30 June 2010 might be materially misstated due to movements in the inventory numbers during this month. Although the inventory manager says that this is not the period when animals give birth, there is no assurance that this is not the case. We cannot merely take his word for this. • Animals born during this period will not be included in the inventory figure as at 30 June 2010 and the inventory figure will be understated. • Animals which die during this period or which are poached, will be included in the inventory figure as at 30 June 2010, as this figure will not be updated for animal deaths during this month. The inventory figure will then be overstated. Maximum	(2) (2)
2.	There is currently a problem with the electric fencing surrounding the Lethule reserve which will not be fixed in time for the inventory count. This makes it almost impossible for Lethule to keep track of which animals belong to them as they have no control over animals escaping from the reserve, or animals coming into the reserve from surrounding areas. The rights assertion will be at risk and Lethule might not hold or control the rights to all the animals (inventory) as will be reflected in the inventory figure as at 30 June 2010. Not all animals included in the inventory count might belong to Lethule.	(2) (1)
3.	The inventory manager, Eddie Elephant, will be the only employee of Lethule on board the helicopter (apart from the pilot). There will be no supervision over Eddie Elephant to ensure that the figures are not manually adjusted or to ensure that the inventory count procedures are performed correctly. There is no segregation of duties during the count process. No-one from the audit team will be able to observe the count.	(1) (1) (1) (1)
4.	The Lethule helicopter will fly over the reserve to perform the inventory count. There are no controls in place to ensure that every hectare of the reserve was covered as part of the inventory count. Only tagged animals will be automatically traced by the TraceTags computer system. As only the animals in every 100th hectare were tagged, all the other untagged animals will not be traced by the system and will not be included in the final inventory numbers.	(1) (1)
5.	The laptop and the TraceTags computer system will not be password protected to protect sensitive information; therefore data may be manipulated and unauthorised users may access the system.	(1)

<u>SUGGESTED SOLUTIONS TO PAPER 4: DIPAC49</u> continued

6.	The TraceTags system will be running from a laptop in the helicopter. The laptop might not have the necessary capacity to process the data, or insufficient power supply may result in errors or incomplete capturing of data.	(2)
7.	The TraceTags system is an in-house developed system which has not been tested and will not be tested prior to the inventory count. Therefore, there is no way to determine whether all user requirements are met. This might mean that important information which is required is not available or is difficult to find.	(2)
	It will also not be possible to determine whether the TraceTags system contains errors or bugs without testing it prior to the inventory count. Errors or bugs in the system might lead to invalid, inaccurate and incomplete information being obtained from it.	(1)
8.	There will be no one from the IT department to assist Eddie Elephant with the system on the day of the inventory count.	(1)
	Also, the training that Eddie Elephant will receive on the TraceTags system one day prior to the inventory count, might not be sufficient for him to operate the system accurately and correctly.	(1)
	Should a problem occur, Eddie might not be able to deal with it. This might lead to errors in the count or deadlines not being met.	(1)
9.	The final inventory listing printed from the TraceTags system might not be complete, accurate or valid. As the system has not been tested, there is no way to ensure that the final inventory listing is indeed correct.	(1)
	The inventory manager, Eddie Elephant, is the only person that has sufficient knowledge of the reserve and he will not be available on year-end to answer final audit queries.	(1)
	No reconciliation is performed between the final inventories on the TraceTags system after the count and the final inventory listing printed from it. Any discrepancies will therefore not be identified or followed up.	(2)
	No exception reports will be obtained from the system as the financial manager thinks this is a waste of paper. Exceptions will therefore not be identified and investigated.	(1)
10.	The individual price per animal is obtained from the invoice of the latest purchase of that specific type of animal. This information may be outdated as most purchases were in July 2009. The current market value will most probably be higher and therefore the prices may be understated.	(2)

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Maximum 17

SUGGESTED SOLUTIONS TO PAPER 4: DIPAC49 continued

(b) Controls that should be in place to ensure that updates made to the masterfile are valid (15)

- Masterfile amendment forms must be completed and authorised. (1)
- The manager of the capturing department should sign the final inventory listing (source document) as proof of authorisation. (1)
- The manager of the capturing department should also authorise the master file update (either by signing the printout obtained from the master file or electronically authorising the update). (1)
- Access to the input module of the Lethule inventory master file application should be restricted to authorised personnel only (i.e. the inventory capturing clerk). (1)
- Access to the inventory master file should be restricted to only certain PCs. (1)
- Physical access to the PC used by the capturing clerk (with access to the inventory master file) should be restricted. (1)
- The PC should preferably be in a secure office to which only the capturing clerk has keys. (1)
- This office should be kept locked when the capturing clerk is not in the office. (1)
- User ID's and passwords should be used to restrict access in terms of user profiles/ access tables. (1)
- Access to the PC and the inventory master file should be restricted via user IDs and passwords. (1)
- Access to specific program functions on the inventory master file may also be restricted to particular users on the "least privilege" basis, e.g. the capturing clerk only has access to capture data on the master file, but does not have access to authorise these changes. (1)
- The PC should have an automatic time-out facility and/or should automatically shut down after a certain period of inactivity or access violation. (1)
- A log should be kept on the PC with access attempts, user ID, time and duration of activity as well as the nature of the activity. (1)
- The manager of the capturing department should check the work performed by the capturing clerk. (1)
- The manager of the capturing department should also inspect audit trails, override logs and any exception reports after the capturing is complete. (1)
- Certain programme checks should be in place on the inventory master file (e.g. range checks, limit checks, verification checks and data approval checks). (1)

SUGGESTED SOLUTIONS TO PAPER 4: DIPAC49 continued

- The following logs and reports should be printed and reviewed: (1)
  - audit trails – with a listing of all the transactions and information captured on the inventory master file (1)
  - override reports – with a record of computer controls which have been overridden and by whom (1)
  - exception reports – with a summary of any activities, conditions or transactions which fall outside certain set parameters (e.g. inventory numbers and prices cannot be negative and should show up as an exception) (1)
  - activity reports – with names of users, usage times and duration of usage (1)

- These logs and reports should not only be printed, but any exceptions/discrepancies identified should be investigated and followed up on. (1)

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Maximum 15

COMMENTARY ON PAPER 4: DIPAC49

Part (a) (1)

- Generally students performed well in this part of the question and were able to identify and explain the risks. This question clearly illustrates how information in a scenario should be applied in the answer.

Part (a) (2)

- Most students answered this part quite well. There were some students who struggled to explain the risks, as a result most of them only wrote down the risk indicators as given in the question.

Part (b)

- Many candidates did not read the required for Part (b) properly and their answers were irrelevant. For instance they wrote general suggestions on how to improve the system, instead of controls that should be in place.

- Most students have demonstrated a very limited understanding of the assertions and the related controls to address these assertions, as some controls given were not addressing the validity assertion as required.

- Many students didn't attempt this part of the question, which indicates poor time management. Remember to allocate your time between all the sections when planning your answer. It is crucial that you do all sub-sections of the question, otherwise you are setting yourself up for failure. It happens a lot that the last part of the question contains easy marks, which will help you pass.

Remember to work hard for Test 3 and to keep doing enough practice questions.