



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
TAXATION
ATA301E

FINAL ASSESSMENT OPPORTUNITY
November 2019

ASSESSORS: Ms Asanda Ngcofe
Mrs Gail Young

MODERATOR : Mr Daylan Staude (Internal)
Mr Brendon Smith (External)

TIME: 3 hours (plus 30 minutes reading time)

MARKS: 120

PAGES: 12 pages (including front page, excluding the required)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.
7. The following texts are allowed for use during the examination (provided they contain NO annotations other than underlining, side-lining and/or highlighting):
 - SAICA Handbook

QUESTION	MARKS	MINUTES
1	40	60
2	40	60
3	28	42
4	12	18
	120	180

QUESTION 1**40 MARKS (60 MINUTES)**

Lonwabo Ntwala and Bulie Moya are qualified chartered accountants and studied together at University. On completion of their articles, the two friends started Air-Schooling (Pty) Ltd (Air-Schooling). The company was incorporated in South Africa in 2010 and started trading immediately. Air-Schooling has a 31 December year of assessment, is VAT registered and is not considered to be a small business corporation. All transactions are concluded with registered VAT vendors and all amounts exclude VAT, unless otherwise indicated.

Air-Schooling was incorporated to assist 3rd year and PGDA students with their understanding of the prescribed syllabus using online software that is available to android and iPhone users.

Information relating to the year of assessment ending 31 December 2018:

DETAILS	NOTES	DR R	CR R
Revenue	1		
App sales: local			?
App sales: international			?
Additional content sales (local)			1 375 000
Interest received			110 000
Sundry income (and related expense)	2	?	1 050 000
Residential rental	3	?	?
Commercial rental	4	?	?
Foreign dividends received	5	?	?
Loan written off	6	1 400 000	
Cost of sales	7	?	
Employee remuneration	9	60 000	

Notes:

1. REVENUE:

The company generated its revenue as follows:

- Students purchased the app for a once-off fee. The once-off purchase of the app however only provides students with limited content
- Students can purchase additional content for a once-off fee per subject. The additional content purchased is for a period of two years (3rd year and PGDA). The system automatically releases the PGDA content to the student after completion of a 12 month period.

You may assume that the revenue which Air-Schooling generates is not an exempt supply (i.e. it is not non-profit education) and no s24C adjustment is required.

Sales (incl. VAT) of the app:

	R
Local sales	977 500
Sales in South Africa to foreign students	46 000

Additional content sales:

	2017 (incl. VAT) R	2018 (incl. VAT) R	2018 (IFRS 15) R
Total app sales for the year	1 633 000	1 782 500	
Accounting revenue recognition in terms of IFRS:			
- IFRS 15			1 375 000
- Interest			110 000

2. SUNDRY INCOME

Air-Schooling utilised the services of International Software Services PLC (ISS), a company incorporated and managed in the United Kingdom. ISS provides additional internet based video training through Air-Schooling's app. The services offered by ISS are considered to be electronic services in terms of the Value-Added Tax Act.

Air-Schooling sold learning videos for an amount of R1 050 000 to the local market.

The videos were purchased from ISS in bulk purchases as follows and paid for immediately:

1 January 2018: Bulk purchase 1:	£ 11 000
30 June 2018: Bulk purchase 2:	£ 9 000

3. RESIDENTIAL RENTAL

Air-Schooling purchased 5 new one bedroom units on 1 July 2018 from Builder (Pty) Ltd, a property developer. Each unit cost Builder (Pty) Ltd R160 000 to build and had a market value of R200 000 (excl. VAT).

Air-Schooling paid R1 000 000 cash on the date of sale and immediately let these units out to various tenants at a monthly rental of R1 500 per unit.

4. COMMERCIAL RENTAL

Air-Schooling had purchased a residential property on 1 April 2017 from an unrelated seller for R 1 500 000 (incl. VAT) and immediately rented the house out to a family (not related to Air-Schooling). On transfer, Air-Schooling paid R32 000 in transfer fees.

The family moved out of the property on 31 December 2017 and Air-Schooling managed to secure a commercial tenant that moved in on 1 February 2018. The market value of the property had not changed since the date of purchase. Air-Schooling incurred the following costs in respect of the property before the commercial tenant moved in on 1 February 2018:

- Removed all the carpets in the house as they had become stained and damaged and replaced these with tiles. The tiles cost R12 000 and if Air-Schooling had replaced with carpets, it would have cost R11 000 but the carpets were not in stock at the time.
- Installed a walk-in safe (used to store guns and expensive valuables) in one of the bedrooms at a cost of R9 000. Lock Smith (Pty) Ltd who were the service providers welded it to the bedroom wall.

The commercial tenant paid monthly rental of R20 000. On 30 December 2018, the tenant approached Air-Schooling and offered them an “all inclusive” cash offer of R2 500 000 (incl. VAT) for the purchase of the property. Air-Schooling immediately accepted the offer as the directors believed that this cash offer was above the market value of the property which they estimated to be approximately R2 350 000. The property was sold immediately. The commercial tenant was not a registered VAT vendor.

5. FOREIGN DIVIDENDS

Air-Schooling received net foreign dividends on 1 September 2018, amounting to £6 000 after being subject to 29% foreign taxes. The dividends are not exempt in terms of s10B(2).

6. LOAN WRITTEN OFF

Air-Schooling entered into a loan agreement with Tutor SA (Pty) Ltd (a South African company) on 1 January 2013. Air-Schooling and Tutor SA (Pty) Ltd do not form part of the same group of companies. In terms of the loan agreement, Air-Schooling would lend Tutor SA (Pty) Ltd an amount of R1 000 000 repayable in 5 years' time at a market related interest rate of 8% p.a. for the a loan.

On 1 January 2018, Air-Schooling decided to release Tutor SA (Pty) Ltd from the obligation to repay the loan as they could no longer meet their repayment commitments.

The loan balance written off comprised the following:

Initial loan	R1 000 000
Interest 2012 – 2016	<u>R400 000</u> (<i>correctly calculated</i>)
	<u>R1 400 000</u>

7. COST OF SALES / TRADING STOCK

Air-Schooling kept a small number of electronic tablets in stock for sale to students who did not have a device with which to connect to the internet.

The company imports all electronic tablets. Air-Schooling had one electronic device in stock at the beginning of the year of assessment that was purchased at a rand equivalent value of R850. On 1 March 2018, Bulie Moya, who is responsible for the company's marketing, took the electronic device to use as a demonstration device for the app when visiting universities. The market value of the electronic tablet was R2 850 when it was removed from trading stock.

The company placed an order for 25 electronic tables from their United Kingdom supplier on 1 August 2018 (transaction date) for a purchase price of £52 each. The tablets were delivered on 15 August 2018, but the company was only required to settle the outstanding creditor on 5 January 2019. In order to hedge itself against any foreign exchange fluctuations, the company entered into an option contract with NBF Bank. In terms of the option contract, Air-Schooling could purchase £1 300 on 5 January 2019 at £1 = R16.84.

Air-Schooling paid R4 500 for the option contract. Import duties of R3 200 were incurred. At year-end, all electronic tables were still on hand.

8. EMPLOYEE REMUNERATION

The company has always employed one software development apprentice. For the current year, the software apprentice's annual remuneration amounted to R50 000. This excluded accumulated leave pay of R10 000 that was raised as a provision at year-end.

The software apprentice was not disabled. She started with the company straight out of high School (NQF level 6 and lower) on 1 December 2017 and completed the 12 month approved and registered apprenticeship program on 30 November 2018. The new apprentice was only due to start his apprenticeship program on 1 January 2019.

The following exchange rates may be relevant:

1 January 2018: £1 = R16.80

30 June 2018: £1 = R17.50

1 August 2018: £1 = R16.00

1 September 2018: £1 = R17.32

31 December 2018: £1 = R15.90

Average exchange rate for the year: £1 = R16.20

QUESTION 2

40 MARKS (60 MINUTES)

Joe Mamfene (Joe) aged 67 years old, is a resident of the Republic. Joe worked as the marketing director at Total Sparty (Pty) Ltd (Total Sparty) since its inception in 2001 until he retired on 31 January 2019. Total Sparty's financial year ends on 28 February.

1. The following related to Joe's employment during the period he was employed by Total Sparty:
 - 1.1. Monthly cash salary of R62 320.
 - 1.2. On 28 February 2018, Joe qualified for an annual bonus of R50 000 but was paid on 31 March 2018.
 - 1.3. Joe was given the right of use of a 2018 Mercedes Benz C-Class that he used when visiting Total Sparty's branches. This vehicle is leased by Total Sparty from Ronny's Car Dealer under a 2 year operating lease at a monthly rental of R6 200 (incl. of VAT). Total Sparty does not have the option to purchase this vehicle at the end of the lease term. Joe travelled for 45 456 km during the 2019 year of assessment. According to his log book that he maintained, of the total kilometers travelled, 38 183 km were for business purposes. Total Sparty paid for all the fuel costs which amounted to R811 per month.
 - 1.4. He was also required to travel to Coffee Bay in Eastern Cape where Total Sparty was going to open a new branch. Due to unfavorable road conditions, Joe decided to take his bakkie (his personal vehicle) and was allowed to claim a reimbursive allowance of R4.50 per km. He travelled a total of 576 km for this trip.
2. Joe paid the following expenses during the 2019 year of assessment:
 - 2.1. Contribution of R6 232 per month to his employer's pension fund.
 - 2.2. Total Sparty deducted R50 per month from each employee to purchase animal food that they donate to SPCA on behalf of the employees. A section 18A certificate was received for this donation.

3. On retirement, Joe received the following lump sums:

- 3.1. On 1 February 2019 Joe received R70 500 in lieu of accumulated leave that he had been unable to take.
- 3.2. On 10 February 2019 he received a pension lump sum of R2 850 000 from Total Sparty's pension fund for the 18 years he worked for Total Sparty (of which 3 years he spent managing a branch in Mozambique). He decided to transfer R1 900 000 to a retirement annuity fund where he would receive R2 550 per month starting from 31 March 2019.
- 3.3. On 19 February 2019 Joe withdrew R432 000 from his retirement fund. Joe had accumulated non-deductible contributions of R78 435 accumulated from previous years of assessment.

4. Other transactions after his retirement:

- 4.1. To show appreciation to his daughter, Joe gave his daughter, Petronella, a commercial building in Beacon Bay as a 30th birthday gift. The property was transferred to Petronella's name on 1 May 2019. This property had a market value of R432 550 on this date. Petronella who is unemployed now receives rental income amounting to R5 000 from this property every month which is her only source of income. This property is now administered by Joe's daughter and she uses the rentals received for her own living expenses. Joe initially purchased this property when it was newly built on 7 June 2010 at a cost of R297 800.

QUESTION 3**28 MARKS (42 MINUTES)**

Typing.com (Pty) Ltd (Typing.com), is a local East London business that is currently considering expanding their operations. Typing.com manufactures office supplies. The directors of the company are considering whether to purchase their own manufacturing building or to rent premises in a local warehouse. Typing.com is currently not registered as a VAT vendor as their taxable supplies do not exceed R1 000 000 and majority of their purchases are from non-vendors. The company has a 31 December year-end. The details of the properties are listed below:

Rental option

Typing.com approached a rental agent (Rental EL CC) who identified a property suitable to their needs in Vincent, East London. The property is owned by Mega Properties (Pty) Ltd. The details of the lease agreement are:

1. The owners will charge R9 870 (excl. VAT) per month as rental. The owners of the property are VAT vendors. The lease will commence on 1 February 2019.
2. Typing.com would have to pay a rental deposit of one month's rental. The deposit will be refunded at the end of the lease provided the building is in a good condition.
3. To secure the lease, a lease premium will have to be paid of R25 000 (incl. VAT) up front.
4. The premises would have to be modified to suit their manufacturing needs and Typing.com would have to modify to the premises at a cost of R90 000 (incl. VAT). The lease agreement states that the property has to be returned in the condition which it was found. According to the Interpretation note 47 the modification has a write off period of 15 years.
5. The lessor requires that Typing.com signs a 7 year lease with an option to renew for another 5 years.

Purchase option

Typing.com has identified a property in Cambridge, East London to purchase:

1. The property has a purchase price of R2 450 000. The current owner, Mr Ndlovu the seller, utilises the property as his primary residence. The date of sale will be 1 January 2019.
2. The property would have to undergo extensive renovations to the structure to make it suitable for their manufacturing operations. These renovations have an estimated cost of R345 000 (incl. VAT).

QUESTION 4**12 MARKS (18 MINUTES)**

Mia Smith is a resident in the United State of America. She has never been a resident of South Africa, but she does travel to South Africa occasionally for business purposes. Mia is 33 years old and an actress (entertainer as defined in the South African Income Tax Act). Her accountant has made the following summary of the transactions that relate to her 2019 year of assessment:

1. House in Port Alfred

Mia owns a house in Port Alfred in the Eastern Cape that she inherited when her father died. The market value was R675 000 on the date of her father's death. She rented out the property (fully furnished) to a tenant that moved into this house on 1 March 2017 and was paying rent of R8 100 on a 1 year lease that is renewable every year. As part of the lease agreement they agreed that rent will increase by 10% per annum (effective from 1 March every year).

Mia decided to sell the house and offered the tenant the option to purchase the house for R1 750 000. The house was transferred to the new owner's name on 28 February 2019. Mia has not sold any fixed property before.

2. Employment income

While visiting her cousin, Mia auditioned for a guest presenter role in SA Idols. The role of a guest presenter is a specified activity as defined in section 47A(b) of the Income Tax Act. Mia will guest judge the Mthatha auditions. She will receive remuneration of R300 000 for her services rendered. She arrived in South African on the 15 June 2018 and returned to America after the auditions on the 13 October 2018.

3. Expenses incurred

Due to the late hours she was required to work at the SA Idols auditions, she was forced to find accommodation closer to the studio where the auditions were performed and paid a total of R18 000 for the 3 months she spent in Mthatha