



# The Southern African Institute of Government Auditors

## Qualifying Examination for Registered Government Auditors

### Paper 1: Accounting

**RECOGNITION OF PRIOR LEARNING CANDIDATES**

September 2006

#### **INSTRUCTIONS TO CANDIDATES**

- 1 Maximum marks: **160**.
- 2 Total time available **four hours**.
- 3 The marks allocated are an indication of the expected length and required depth of the answer.
- 4 Ensure proper planning and avoid exceeding the time available for each question as indicated by the number of marks allocated to the question.
- 5 Present your arguments clearly, well structured and use clear precise language and where appropriate, professional terms.
- 6 No books or notes are allowed in the examination room.
- 7 All working papers must be handed in together with all paper provided for the examination (including unused answer sheets).
- 8 Answers written in pencil will not be marked.
- 9 You are reminded that this examination will be held under the rules as set out in the document "RGA-QE Examination Matters & Examination Policy 2006".
- 10 You are required to observe all Examination Instructions handed to you on a separate sheet of paper.

**QUESTION 1****(75 marks)**

The National Department of Alien Affairs protects the interests of South Africa. It ensures that illegal immigrant interests are heard, understood and promoted and also promotes the interests of Africa on the global agenda.

The department has appointed a new Chief Financial Officer. One of his first duties is to compile the annual financial statements for the department for the year ending 31 March 2006. Coming from the private sector, he is unsure about the format of the annual financial statements and the disclosure requirements in the notes to the statements. He has approached you to assist him in compiling the annual financial statements in line with the requirements of National Treasury for the 2005/6 financial year.

The following information was made available to you:

1. A breakdown of the statutory appropriation expense:

	<b>2005/06 R'000</b>	<b>2004/05 R'000</b>
Minister and Deputy Minister's salary	3 500	3 000
Sector education and training authorities	1 000	700
National Skills Fund	500	300

2. Donor funding was received from the US African Development Scheme for the building of mission stations in neighbouring countries to the amount of R55 000 000 for the 2005/06 financial year (2004/05: R45 000 000). The rest of the donor funding was received from a South African firm, to be used for fees charged by unofficial informants on information regarding immigration activities. All international donor funding was spent. Any unused funds may be rolled over to the next financial year.
3. The amount outstanding in the clearing accounts under "payables" for March 2006 is R964 000 (2004/05: R800 000).

4. Debtors consist only of staff owing the department for the following:

	<b>2005/06 R'000</b>	<b>2004/05 R'000</b>
Parking fees	2 000	2 000
Study bursaries	1 200	

An amount of R1 500 000 (2004/05: R1 200 000) included above may not be recoverable, but has not been written off in the Statement of Financial Performance.

5. Expenses with regard to entertainment spending not authorized (2003/04), were deemed to be unauthorised expenditure. The case is still under investigation.

**Trial Balance for the Department of Alien Affairs on 31 March 2006:**

<b>Account description</b>	<b>2005/06 R'000</b>	<b>2004/05 R'000</b>
Recoverable revenue	-1,200	-
Annual Appropriation	-180,000	-156,000
Local and Foreign Aid Assistance received	-67,000	-50,000
Sale of fixed property	-22,070	-18,756
Debtors accounts	3,200	2,000
Employee housing allowance	3,625	4,000
Subsistence and travel advance	4,200	3,500
Machinery and Equipment under R5000	5,014	4,791
Local Travel and Subsistence	5,340	5,210
Land and subsoil assets	7,000	-
Exchequer grant account	-2,552	-
Salary deductions to be transferred	-1,695	-1,470
Receipt pending control	-1,300	-1,700
Electronic bank transfer payments	-970	-845
Alien Assist - Transfer (non-profit)	700	-
Community bursaries	560	480
Courier and delivery services	268	250
Deposits	300	278
Discount variance account	-65	-70
Domestic consumables	410	378
Employee bursaries	375	370
Parking fees received	-150	-110
Petty cash	500	500
Stationary and printing	230	197
Unauthorised expenditure	600	600
Sale of capital equipment	-18,634	-19,546
Cheque payable account	-6,200	-5,700
Statutory appropriation	-5,000	-4,000
Employee transport allowance	1,700	1,200
Employee uniform allowance	900	750
Entertainment	965	873
NEPAD Transfer	2,000	-
Performance Audit	1,990	1,940
Regularity Audit	2,549	2,365
South African Customs Union (public corp) Transfer	1,500	1,200
Employee performance bonuses	2,000	1,800
Employee resettlement cost	1,200	4,700
Computer services	7,450	6,680
Local and Foreign Aid Assistance paid	60,000	50,000
Employer pension fund contribution	13,875	12,000
Bank account	15,588	2,907
Revenue transferred i.r.o current year	40,000	38,412
Basic Salary	89,500	80,000
Foreign Travel and Subsistence	8,346	6,669
Employer medical aid contribution	9,250	8,000
Machinery and Equipment over R5000	12,701	12,147
African Union Transfer	3,000	4,000

**REQUIRED:**

- 1.1 Compile a Statement of Financial Performance for the National Department of Alien Affairs for the year ending 31 March 2006 including the notes on local and foreign aid assistance, compensation for employees, goods and services and unauthorised expenditure. **(25)**
- 1.2 Compile a Statement of Financial Position for the National Department of Alien Affairs for the year ending 31 March 2006 including notes on voted funds to be surrendered to the revenue fund and departmental revenue. **(25)**
- 1.3 Compile a Cash Flow Statement for the National Department of Alien Affairs for the year ending 31 March 2006 and the note on net cash flow available from operation activities. **(25)**

**QUESTION 2****(30 marks)**

The Accounting Officer of the Department of New Beginnings was notified of the under mentioned occurrences during the financial year ending 31 March 2006:

- The Information Technology (IT) manager purchased a new asset management support software package for R134 000. The software was tested for a month by a task team, consisting of the supply chain manager, the IT manager, the software developer and the asset clerk.

During the implementation phase of the software they noted that the new software was not compatible with the current accounting software and will therefore not be used.

The salaries for the task team members were as follows:

IT manager	R21 400 per month
Software developer	R15 800 per month
Supply chain manager	R17 900 per month
Asset clerk	R6 600 per month

The amounts were not recoverable and a decision was taken to write off the expenditure.

- The financial manager compiled the following summary of the two programmes in the Department as at 31 March 2006.

<b>Programme A</b>	<b>Budget</b>	<b>Actual Expenditure</b>	<b>Variation</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Compensation of employees	5 500 000	6 500 000	(1 000 000)
Transfer payments	3 200 000	2 800 000	400 000
Capital expenditure	6 700 000	6 700 000	0
<b>Sub total</b>	<b>15 400 000</b>	<b>16 000 000</b>	<b>(600 000)</b>

<b>Programme B</b>	<b>Budget</b>	<b>Actual Expenditure</b>	<b>Variation</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Compensation of employees	4 000 000	3 700 000	300 000
Transfer payments	3 000 000	2 500 000	500 000
Miscellaneous	5 000 000	4 800 000	200 000
<b>Sub total</b>	<b>12 000 000</b>	<b>11 000 000</b>	<b>1 000 000</b>
<b>Total</b>	<b>27 400 000</b>	<b>27 000 000</b>	<b>400 000</b>

**REQUIRED:**

- 2.1 Describe the actions the Accounting Officer is required to take concerning the above occurrences. **(10)**
  
- 2.2 Compile the accounting entries where applicable (journals) and disclosures in the annual financial statements as required by the Public Finance Management Act, the Treasury Regulations (2005) and Guidelines from National Treasury (2006). **(20)**

### QUESTION 3

(35 marks)

The Department of Creative Visions entered into a lease agreement on 1 April 2005. In terms of the agreement 150 identical photocopiers will be leased for a period of three years.

The monthly instalment per photocopier is R1 000 with an annual escalation of 10%.

The Department does not have an option to purchase the photocopiers nor will ownership be transferred at the end of the contract. The photocopiers are not of a specialised nature and can be easily replaced by another machine.

The market value of a photocopier at 31 March 2006 is R45 750 and the annual interest rate is 12%. The useful life of a photocopier as per SARS *Practice Note 19* is five years.

#### REQUIRED:

- 3.1 Discuss the difference between a *finance* and *operating* lease in terms of National Treasury's Guide for the preparation of annual reports. (3)
- 3.2 Discuss the classification of the lease agreement entered into to establish whether the lease is a finance or operating lease. (22)
- 3.3 Disclose the effects of the lease agreement in the Statement of Financial Performance and Position, as well as the relevant disclosure note as at 31 March 2006. (10)

**QUESTION 4****(20 marks)**

One of the functions of a financial manager is to perform monthly bank reconciliations. The following information was obtained from ABC, a Schedule 3B Public Entity, for the financial year ended 31 March 2006.

**1. Bank reconciliation at 28 February 2006**

	<b>R</b>
Bank overdraft as per bank statement	7 443.57
	<b>R</b>
Plus: Outstanding cheques	
- 4930	272.50
- 4932	48.50
- 4898	489.93
Less: Outstanding deposit	<u>(500.00)</u>
Credit balance as per general ledger	7 754.50

**2. Bank statement for March 2006**

<b>Date</b>	<b>Details</b>	<b>Debit R</b>	<b>Credit R</b>	<b>Balance R</b>
1	Overdraft balance			7 443.57
	Cheque 4898	489.93		7 933.50
	Deposit		500	7 433.50
	Cheque 4932	48.50		7 482.00
3	Cheque 5103	128.93		7 610.93
4	Cheque 5104	87.01		7 697.94
	Deposit		2 391.82	5 306.12
5	Cheque 5105	589.23		5 895.35
8	Cheque 5106	429.22		6 324.57
11	Returned Cheque (Mr Jones)	238.71		6 563.28
	Deposit		1 922.21	4 641.07
12	Cheque 5108	948.41		5 589.48
15	Cheque 5110	398.76		5 988.24
	Interest	181.27		6 169.51
16	Cheque 5111	732.19		6 901.70
19	Cheque 16983	150 000		156 902.00
	Deposit		763.81	156 138.00
23	Cheque 5113	87.63		156 226.00
	Deposit		500	155 726.00
28	Cheque 5115	1 832.48		157 558.00
	Deposit		893.72	156 664.00
29	Interest	341.82		157 006.00
	Correction of error		150 000	7 006.10
30	Bank charges	129.81		7 135.91

### 3. Extracts from the general ledger for March 2006

#### Receipts

Date	Details	R
03	Deposit	2 391.82
11	Deposit	1 922.21
19	Deposit	763.81
23	Deposit	500.00
28	Deposit	893.72
30	Deposit	492.73
	<b>Total</b>	<b>6 964.29</b>

#### Payments

Date	Details	R
1	Cheque 5103	128.93
3	Cheque 5104	87.01
	Cheque 5105	589.23
5	Cheque 5106	429.22
6	Cheque 5107	52.23
8	Cheque 5108	948.41
10	Cheque 5109	322.19
12	Cheque 5110	398.76
13	Cheque 5111	732.19
15	Cheque 5112	200.00
16	Cheque 5113	87.63
20	Cheque 5114	122.21
22	Cheque 5115	1 832.48
28	Cheque 5116	99.00
	<b>Total</b>	<b>6 029.49</b>

#### REQUIRED:

Compile the bank reconciliation as at 31 March 2006.

(20)