



The Southern African Institute of Government Auditors

Qualifying Examination for Registered Government Auditors

Paper 1: Accounting

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:

	2005/06 R'000	2004/05 R'000
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:

	2005/06 R'000	2004/05 R'000
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:

Account description	2005/06 R'000	2004/05 R'000
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.

Programme A	Budget	Actual Expenditure	Variation
	R	R	R
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
Sub total	15 400 000	16 000 000	(600 000)

Programme B	Budget	Actual Expenditure	Variation
	R	R	R
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
Sub total	12 000 000	11 000 000	1 000 000
Total	27 400 000	27 000 000	400 000

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)**

ABC is a Schedule 3B Public Entity in the manufacturing business. The following information is applicable to its property, plant and equipment:

On 1 April 2003 ABC acquired land, situated at stand 100 in Mafikeng, at a cost of R5 000 000 and erected offices on the site amounting to R50 000 000. The estimated useful life of the building was estimated at 20 years on 1 April 2003 and the residual value of this building was Rnil. The building was available for use as intended by management on this date.

On 1 April 2005 ABC acquired the land next to stand 100 to the amount of R7 000 000 with the purpose of erecting a new industrial building for their own use.

On 1 July 2005 construction activities commenced on the site. The project was financed by way of a duly approved loan facility of R60 000 000. The loan bears interest at 8% per annum and is repayable in quarterly instalments.

It is the accounting policy of ABC to capitalise borrowing costs on all qualifying assets.

Construction costs on the project were paid as follows from the loan facility:

	R
30 September 2005	18 000 000
31 December 2005	18 000 000
31 March 2006	22 000 000

Surplus funds on the loan are not invested in an interest bearing investment account.

On 31 March 2006 the building was completed and available for use as intended by management but was only occupied on 1 May 2006. The estimated useful life of the building is 25 years with a residual value of Rnil.

On 1 January 2004 ABC acquired and brought a machine into use at a cost of R15 000 000 in their Rustenburg plant. The machine has an estimated useful life of 15 years and a residual value of Rnil.

The accounting policy of ABC to account for property, plant and equipment in terms of IAS 16, (*Property, Plant and Equipment*), is as follows:

Office buildings:	Depreciate in accordance with the straight line method over the useful life.
Industrial buildings:	Depreciate in accordance with the straight-line method over the useful life.
Machinery:	Depreciate in accordance with the straight-line method over the useful life.
Land:	Is not depreciated.

On 31 March 2006 the production manager reported that the machine is not functioning as expected due to damaged components. An impairment loss has therefore occurred due to the reduced economic performance of the machine. The remaining useful life of machine is now estimated at seven years with the residual value still Rnil.

The following information was also provided by the production manager on 31 March 2006 regarding the financial year ended 31 March 2006:

- The machine would probably generate R2 500 000 net cash flows per annum during its remaining useful life. Assume a pre-tax discount rate of 11% per annum as appropriate and that all cash flows occur at year-end.
- At 31 March 2006 the machine could be sold on the open market for R12 000 000. Sales commission to the amount of 7% will be incurred on the gross selling price.

REQUIRED:

Prepare the property, plant and equipment note in the financial statements of ABC for the financial year ended 31 March 2006 in accordance with Statements of Generally Accepted Accounting Practice.

Note:

- Comparative figures and a total column for the property, plant and equipment are not required.
- Round final calculated amounts to the nearest R1.