

Part (a) Calculate the staff expense for the performance incentive plan in the accounting records of Inyama for FY 2018		Marks
1. Cash incentive		
Calculation		
(R550-R500) [A] x 10% [A] x 84% [B]x 5/7 [C]		
[A] 10% [1] of the amount by which revenue for FY2018 exceeds the budgeted turnover target of R500 million which is R50 million [1]	10%	1
[B] 13% of employees had left as at 31 December 2018 and a further 1% each month would have left during the three months up until 31 March 2019. Therefore the expected number of employees to be in the employ of Inyama at 31 March 2019 is 84% (100%–13%–3%)	R50 million	1
[C] Two inspections failed and therefore five out of the seven passed the inspection	100% - 13% - 3% = 84%	1 1
Staff expense	5/7 (71.42%)	1
	R3 000 000	
2. Share incentive		
Fair value at grant date	R23	1
Number of options granted at grant date	50 000	1
Expected number of employees at 30 June 2019	81% (84% - 3%)	1P
Vesting period adjustment	12/18	1
Staff expense	R621 000	
Total staff expense (R3 000 000 + R621 000)	R3 621 000	
	Available	9
	Maximum	9
	Total for part (a)	9

Part (b) Discuss, with reference to the performance incentive plan (i) the normal tax implications for Inyama for the 2018 and 2019 years of assessment; and		Marks
1.	No special deduction applies for the granting of the options, the issue of the shares or the payment of the cash bonuses therefore section 11(a) needs to be considered.	1
Cash incentive scheme		
2.	2018 and 2019 YOA Inyama will actually incur expenditure as it has an obligation to pay its employees the cash component of the bonus. This expenditure is in the production of income and it is not of a capital nature. The issue is however when the expenditure will be actually incurred (2018 or 2019 YOA).	1
3.	However, section 23B(3) provides that no deduction shall be allowed under section 11(a) in respect of any expenditure or loss of a type for which a deduction or allowance may be granted under any other provision of this Act, notwithstanding that such deduction or allowance in terms of that other provision may be granted in a different year of assessment.	1
4.	In this regard, the cash part of the performance bonus plan is variable remuneration as defined in terms of section 7B(1) of the Income Tax Act.	1
5.	An amount of variable remuneration only constitutes expenditure incurred during the year of assessment in which the amount is paid by Inyama to the employee (section 7B(2)(b) of the Income Tax Act).	1
6.	2018 YOA Therefore, no deduction of the cash part of the performance bonus plan is allowed during the 2018 year of assessment.	1

7.	2019 YOA The deduction for the cash part of the performance bonus plan is granted during the 2019 year of assessment.	1
Share incentive scheme		
8.	2018 and 2019 YOA Section 11(a) of the Income Tax Act provides for the deduction of expenditure actually incurred in the production of income and which is not of a capital nature. The issue is whether the granting of the options and shares issued will constitute expenditure actually incurred.	1
9.	Based on the Labat case, the payment of the bonus by the issue of shares does not constitute expenditure by Inyama as the issue of shares does not lead to the diminution of assets. Similarly, the granting of the options will also not constitute expenditure as it will also not lead to the diminution of assets.	1
10.	Therefore Inyama does not qualify to deduct the bonus amount paid by the granting of the options or the issue of shares.	1
11.	The granting of the options and the issue of the shares in the company does not constitute a disposal for CGT purposes (par 11(2)(b)(i) and (ii) and there will therefore be no CGT consequences.	1
		Available
		11
		Maximum
		7
		Total for part (b)(i)
		7

Part (b) Discuss, with reference to the performance incentive plan		Marks
(ii) the employees' tax implication for the eligible employees regarding the cash portion of the performance bonus for the 2018 year of assessment.		
1.	Inyama (as an employer) should deduct employees' tax on remuneration it pays to its employees. The definition of remuneration includes a bonus (par.1 of the Fourth Schedule to the Income Tax Act).	1
2.	As the bonus constitutes variable remuneration, it is subject to the provisions of section 7B. In terms of this section, the bonus will be deemed to have accrued to employees on the date on which the amount is paid by the employer to the employees, being 31 March 2019. The employees' tax must also be deducted from remuneration in the month in which the variable remuneration (cash bonus) is actually paid to / received by the employees, which will be during March 2019 (par 2(1B) of the Fourth Schedule).	1
3.	Therefore, no employees' tax should be deducted in the 2018 year of assessment. The employees' tax will be deducted from the remuneration in future years, when such remuneration is paid to employees.	1
		Available
		3
		Maximum
		3
		Total for part (b)(ii)
		3
		Total for part (b)
		10

Part (c) Discuss, with reference to note 2.2, the effect of the free accommodation on the taxable income of Mr Jantjes for the 2018 year of assessment.		Marks
1.	The free accommodation in Ballito is a taxable fringe benefit for Mr Jantjes.	1
2.	The cash equivalent of the value of the taxable fringe benefit is the prevailing rate per day at which the accommodation could normally be let to a person who is not an employee (par. 9(4)(b) of the Seventh Schedule to the Income Tax Act).	1
3.	The cash equivalent of the taxable fringe benefit will amount to R35 000 (R5 000 x 7 days = R35 000).	1
4.	The cash equivalent of the taxable fringe benefit should be included in the gross income of Mr Jantjes in terms of par. (i) of the definition of gross income in section 1(1) of the Income Tax Act.	1
Available		4
Maximum		4
Total for part (c)		4

Part (d) Describe the substantive procedures that the external auditors should perform on the cash incentive scheme in relation to the 2018 annual financial statements of Inyama, assuming you performed the procedures on 4 April 2019.		Marks
<ul style="list-style-type: none"> • Assume you can rely on the figures relating to payroll. • Ignore taxation and deferred taxation. 		
General procedures		
1.	Obtain the cash incentive scheme calculation (schedule) from the client.	1
2.	Recalculate/reperform the client's cash incentive scheme calculation (schedule) received from the client.	1
3.	Obtain a signed management representation letter with regards to the cash incentive bonus scheme which includes all relevant assertions.	1
4.	Agree the amount according to the calculation to the general ledger/trial balance/financial statements.	1
5.	Inspect the notes to the financial statements to verify that all relevant disclosure requirements were met in terms of IFRS2/IAS19/IAS24/IAS37.	1
Substantive tests of detail		
6.	Inspect minutes of Board meetings (and the announcement of the bonus) to: <ul style="list-style-type: none"> • ensure that the bonus was declared; and • verify the terms and conditions (i.e. target sales/R500 million, 10%, health and safety standards, eligible employees etc.) and approval thereof. 	1 1
7.	Inspect the actual audited revenue for FY2018 in your workpapers/financial statements to confirm the R550 million.	1
8.	Inspect the health and safety reports relating to the health and safety audits conducted during FY2018, noting: <ul style="list-style-type: none"> • the total number of such audits that were undertaken during the financial year; and • the content of the audit reports/ correspondence from the Department of Health (i.e. can they be regarded as 'clean' audit reports). 	1 1
9.	Obtain a schedule/list of all employees that received the cash bonus scheme payment during March 2019 from the client; and <ul style="list-style-type: none"> • Select a sample of employees from the schedule/list of employees and follow through to the December 2017/January 2018 payroll/employment contract to verify that the employees were indeed eligible to receive the cash bonus pay out and that they were in the employ of Inyama on 1 January 2018; 	1

	<ul style="list-style-type: none"> Select a sample of employees from the schedule/list of employees and follow through to the December 2018 and March 2019 payrolls to confirm that they appear on the payroll (i.e. not resigned); (<i>occurrence</i>); and Select a sample of employees from the December 2018/March 2019 payroll and follow through to the schedule/list of employees to confirm that all employees are included. (<i>completeness</i>). 	1
		1
10.	Select a sample of employees from the schedule/list of employees and: <ul style="list-style-type: none"> Agree the employee's salary used in the calculation to his/her actual payroll for the year; and Agree the total salary expense used in the calculation to the Statement of Profit or Loss for the period from 1 January 2018 to 31 December 2018; and Recalculate his/her percentage (ratio); and Recalculate the cash portion of the bonus for the employees selected (% (ratio) of individual's salary to total salary expense of the company x bonus amount); and Agree the amount to the actual amount paid according to the bank statements to verify accuracy of the pay-out; and Follow up any discrepancies noted with management and verify with supporting documentation. 	1
		1
		1
		1
		1
		1
	Available	19
	Maximum	9
	<i>Communication skill – appropriate style</i>	1
	Total for part (d)	10

Part (e) Discuss with regard to the email received by Mr Cronje, the actions he must take with reference to his responsibilities as a CA(SA).		Marks
Considerations to determine actions:		
1.	In responding to non-compliance or suspected non-compliance with laws and regulations, Carl Cronjè should ensure that he is in compliance with the fundamental principles of integrity and professional behaviour SAICA Code of Professional Conduct.	1
2.	In doing so, because Carl Cronjè is the financial director of Inyama Ltd and consequently able to exert significant influence over decision making, he is seen as a senior CA(SA) in business and must consider whether the intended concealment of discovery of the Listeria strain is a NOCLAR:	1
3.	It is an act by the CEO (those charged with governance) of Inyama Ltd (the employing organisation) that is in contravention of the prevailing laws or regulations on health and safety, which is fundamental to the operational aspects of Inyama Ltd's business.	1
4.	It does therefore constitute a possible NOCLAR in terms of section 360 of the SAICA Professional Code of Conduct.	1
Actions Carl should take:		
<i>Obtaining an understanding of the matter</i>		
5.	As Carl Cronjè is a senior CA(SA) he must now further investigate the information contained in the email to gain a full understanding of and circumstances surrounding the matter which includes the nature of the act and circumstances in which it has occurred the application of relevant laws and regulations to the circumstances and the potential consequences to Inyama Ltd, its investors, creditors, employees and the wider public.	1
<i>Addressing the matter</i>		
6.	Carl Cronjè must first determine Inyama Ltd have established internal protocols and procedures such as ethics policies, whistle blowing mechanisms etc. and follow these protocols.	1

7.	As Carl Cronjè is the most senior, and two of the three executive management team members appears to be involved in the matter, he must discuss the matter with the next higher level of authority, which in this case is the Board of Directors of Inyama (excluding the CEO) (those charged with governance).	1
8.	Carl Cronjè must urge the directors of Inyama to take steps to respond to the matter and to enable themselves to fulfil their responsibilities as directors to have the NOCLAR rectified, remedied and mitigated.	1
9.	To enable the board of Inyama Ltd to takes these steps, he must inform the directors of Inyama Ltd that they need to report the matter to the local Environmental Health Practitioner (local health inspector who should report it to the Minster of Health) (Regulator), as the matter concerns public health and safety (potential harmful products that may be sold to the public).	1
10.	Carl Cronjè must ensure that steps are taken to reduce the risk of re-occurrence of the NOCLAR.	1
11.	If necessary, Carl Cronjè should consider discussing the matter with Inyama's external auditors.	1
Determine whether further action is needed		
12.	Carl Cronjè should assess the appropriateness of the response of the Board of Directors of Inyama Ltd (those charged with governance) (timeliness of response, remediation actions, disclosure to authorities).	1
13.	If the necessary steps are not taken, further action may be needed by Carl Cronjè depending on the legal and regulatory framework, urgency of the matter, pervasiveness of the matter, integrity of superiors, likelihood of re-occurrence of non-compliance and possible harm to a number of stakeholders:	1
14.	If Board of directors (those charged with governance) did not take the necessary steps: <ul style="list-style-type: none"> • Carl Cronjè must consider whether to disclose the matter to the appropriate authority (taking confidentiality in account), and if permitted to do so; and • Report the matter to the local health inspector as it is a matter of national health and safety. 	1 1
15.	Carl Cronjè can also consider resigning as the Financial Director of Inyama Ltd.	1
16.	If necessary, Carl Cronjè should obtain legal advice on appropriate action to gain an understanding of the options available.	1
Documentation		
17.	Carl Cronjè must document the following: <ul style="list-style-type: none"> • The matter of the listeria outbreak and possible non-reporting by the CEO and Head of Health and Safety (management of Inyama Ltd); • The discussions with the Board of Directors (those charged with governance) and how the reacted; • Any significant judgement and conclusions reached; • Further actions to consider and decisions made by Carl Cronjè; and • Whether and why Carl Cronjè is satisfied that he fulfilled all his responsibilities in terms of par. 360.21 of the SAICA Code of Professional Conduct. 	1 1 1 1 1
Available		23
Maximum		13
<i>Communication skills – clarity of expression</i>		<i>1</i>
Total for part (e)		14
TOTAL FOR THE QUESTION		47