			Marks
Part (a)	**Prepare the prior period error note in the separate financial statements of i-Seva for FY2019.** **Assume all amounts are material.**		
i-Seva (Pty) Ltd **Notes for the year ended 31 December 2019**			
Prior period error			
On 1 January 2018 the company purchased a mainframe computer for a total cost of R14 million, which included installation costs of R1 million. The **installation costs** on the computer equipment purchased were **incorrectly expensed**. A **tax deduction was also claimed incorrectly** for the cost and the installation costs of this computer equipment in the 2018 current tax calculation.			1
The **financial statements** for the year ended 31 December 2018 have been **restated** to correct these errors. The effect of the restatement on those financial statements is summarised below. There is no effect in FY2019.			1
		2018	
Effect on the statement of profit or loss		**R**	
Decrease in other expenses (calc C1)		800 000	½
(Increase) in income tax expense [R3 920 000 (calc C2) + R224 000 (calc C3)]		(4 144 000)	½
(Decrease) in profit for the year		(3 344 000)	½P
Effect on the statement of financial position			
Increase in property, plant and equipment (calc C4)		800 000	½
(Decrease) in deferred tax asset / (Increase) in deferred tax liability (calc C5)		(224 000)	½
(Increase) in current tax payable (calc C6)		(3 920 000)	½
(Decrease) in retained earnings		(3 344 000)	½P
Calculations			
C1	R1 000 000 installation costs **(1)** – (R1 000 000 / 5) depreciation **(1)** = R800 000		2
C2	R14 000 000 x 28% = R3 920 000		1
C3	R800 000 x 28% = R224 000 **(1C)** ***or*** R13 000 000/5 x 4 = (R10 400 000 **(½)** – R11 200 000) x 28% **(½)**		1C
C4	R1 000 000 – R200 000 = R800 000		½C
C5	R800 000 x 28% = R224 000 ***or*** R13 000 000/5 x 4 = (R10 400 000 – R11 200 000) x 28%		½C
C6	R14 000 000 x 28% = R3 920 000		½C
		Available	**11**
		Maximum	**10**
		Communication skills – presentation	*1*
		Total for part (a)	**11**

Part b(i)	**Prepare the pro forma equity accounting journal entries to account for i-Seva in the group financial statements of the ABM group for FY2019**			**Marks**
		Dr.	**Cr.**	
		R	**R**	
1.	Investment in associate (SFP)	2 189 600		½P
	Retained earnings (Equity) (calc C1)		1 262 100	½P
	Profit from associate (P/L) (calc C2)		927 500	1P
	Equity accounting earnings from associate until 31 December 2019			
2.	Retained earnings (Equity)	705 600		1P
	Deferred taxation (SFP)	274 400		½P
	Investment in associate (SFP)		980 000	½P
	Accounting for unrealised profit in opening balances (calc C3)			
3.	Investment in associate (SFP)	245 000		½P
	Cost of sales (P/L)	735 000		½P
	Revenue (P/L)		980 000	
	Accounting for unrealised profit realising in current year (calc C4)			
	Income tax expense (P/L)	68 600		½P
	Deferred taxation (SFP)		68 600	½P
	Accounting for tax effect of unrealised profit realising in current year (calc C4)			
	Notes: ***1. Journal entries could also be combined, in which case all the relevant marks for journal entries were still awarded accordingly.*** ***2. Note regarding Journal 3 - IAS 28.28 indicates that gains and losses resulting from 'upstream' and 'downstream' transactions between an entity and its associates are only recognised to the extent of unrelated investors interests. IAS 28 does not provide specific guidance in respect of the line items that should be utilised to give effect to this requirement. Accordingly, alternatives were accepted in this regard. The SAICA Examinations committee believes the specified journal to be more technically correct given that the scenario involved a downstream transaction between the entity and the associate.***			
Calculations				
C1	Gain on bargain purchase (no gain since consideration equals fair value of NAV share) ***(Mark can also be awarded if gain of R500 included)***		-	1
	Retained earnings beginning of the year [(R23 450 000 – R16 500 000) **(1)** x 35% **(1)**]		2 432 500	2
	Correction of prior period errors (part (a)) [R3 344 000 **(1C)** x 35% **(1)**]		(1 170 400)	2
	Total opening retained earnings		**1 262 100**	
C2	Profit for the year [(R3 880 000 – R1 086 000) **(1)** x 35% **(1)**]		977 900	2
	Correction of current year depreciation [(R200 000 x 35%) **(1C)** x 72% **(1)**]		(50 400)	2
	Total profit from associate		**927 500**	

C3	Unrealised profit [R14 000 000 **(1)** x 25% **(1)** x 35% **(1)**]	1 225 000	3
	Realised 2018 (R1 225 000 / 5)	(245 000)	1C
	Investment in associate	980 000	
	Deferred tax @ 28%	(274 400)	1C
	Retained earnings (opening balance)	**705 600**	
C4	Sales (R245 000 / 25%)	980 000	½
	Cost of sales (R980 000 x 75%)	(735 000)	½
	Unrealised profit realising 2019 (R1 225 000 / 5)	245 000	
	Income tax expense @ 28%	(68 600)	1C
	Unrealised profit realising 2019 (after tax)	**176 400**	
		Available	**22**
		Maximum	**22**
		Total for part (b)(i)	**22**

Part (b)(ii) Present the balance of the investment in the associate in the group statement of financial position of the ABM group for FY2019. Ignore comparatives.		**Marks**
ABM Ltd Group Extract from consolidated statement of financial position as at 31 December 2019		
	2019	
Assets	**R**	
Non-current		
Investment in associate	19 804 600	1P
Calculation		
Investment at cost	18 350 000	1
Post-acquisition retained earnings (part b(i) journal 1)	2 189 600	1P
Intragroup transactions (R980 000 part b(i) journal 2 – R245 000 part b(i) journal 3)	(735 000)	1P
	19 804 600	
	Available	**4**
	Maximum	**3**
	Total for part (b)(ii)	**3**
	Communication skills – presentation	*1*
	Total for part (b)	**26**

Part (c)	**Discuss the control deficiencies in the period-end financial reporting process described in the scenario.**	**Marks**
1	**System period-end close**	
1.1	Period-end closing is not performed for PAS which means that transactions could still be processed within the 15 day period and included in the exported trial balance, which could result in cut-off errors, resulting in a material misstatement in the financial statements.	1
1.2	PAS does not prevent Mr Dale from exporting trial balances even if all transactions for the year have not yet been recorded, which could result in the exported trial balances being incomplete, resulting in a material misstatement in the financial statements.	1
1.3	There is no period-end close procedure checklist which is reviewed / no overall review of the period-end close process, which could result in the exported trial balances being incomplete / inaccurate, resulting in a material misstatement in the financial statements.	1
1.4	An excel spreadsheet is used to export trial balances from PAS, which could result in version control / integration errors, resulting in a material misstatement in the financial statements.	1
2	**Transfer to the service provider**	
2.1	The exported trial balances are not reconciled from the PAS system, which could result in the exported trial balances sent to AfsPack being inaccurate / incomplete, resulting in a material misstatement in the financial statements.	1
2.2	The exported trial balances are not read-only password protected, which could result in AfsPack being able to edit the trial balances before uploading into the RS system, resulting in a material misstatement in the financial statements.	1
2.3	There is no back up of the exported trial balances by Mr Dale before it is sent to AfsPack, which could result in a loss of data.	1
2.4	The exported trial balances are not encrypted / sent using e-mail / not sent over a secure line to AfsPack, which could result in the trial balances being susceptible to unauthorised access and changes, resulting in a material misstatement in the financial statements.	1
2.5	There is no reconciliation from the PAS system to the RS system / no data integrity checks are performed after the upload was performed by AfsPack, which could result in incomplete / inaccurate trial balances in the RS system, resulting in a material misstatement in the financial statements.	1
2.6	There is no review of the classification of trial balance accounts provided to AfsPack by Mr Dale, which could result in the incorrect classification of an account, resulting in incorrect presentation in the financial statements.	1
2.7	There is no review of the schedule of intercompany accounts prepared by Mr Dale and provided to AfsPack, which could result in the schedule being incomplete / incorrect, resulting in a material misstatement in the financial statements.	1
2.8	There is no review of the intercompany eliminations performed by AfsPack, which could result in the incomplete / incorrect elimination of intercompany accounts, resulting in a material misstatement of the financial statements.	1
2.9	There are inadequate controls in place regarding the editing of trial balances as AfsPack is able to edit the second trial balance, which could result in unauthorised changes to the second trial balance, resulting in a material misstatement in the financial statements.	1
3	**Consolidation**	
3.1	There is a lack of segregation of duties. Mr Dale has too many responsibilities and can change the financial reports without review, which could result in fraudulent financial reporting.	1

3.2	Mr Dale processes manual consolidation journal entries, which could result in the consolidation journal entries being incomplete / inaccurate, resulting in a material misstatement in the financial statements.	1
3.3	There is no review of the consolidation worksheet / consolidation journal entries prepared by Mr Dale, which could result in the consolidation adjustments being incomplete / inaccurate / invalid, resulting in a material misstatement in the financial statements.	1
3.4	There is no comparison between the information in the consolidation worksheet and source documents, which could result in Mr Dale processing invalid consolidation journal entries, resulting in a material misstatement in the financial statements.	1
3.5	There is no review of the accuracy, validity and completeness of intercompany adjustments, which means that intercompany adjustments may be incomplete and inaccurate.	1
3.6	The consolidation trial balance is accessed by Mr Dale online, with no indication of usernames and passwords being in place, which could result in unauthorised access and changes to the consolidation trial balance, resulting in a material misstatement in the financial statements.	1
3.7	There is no reconciliation of the original trial balance and the final trial balance after processing of adjustments, which could result in the final trial balance being incomplete / inaccurate, resulting in a material misstatement in the financial statements.	1
4	**Equity accounting (manually prepared equity accounting Excel spreadsheet)**	
4.1	The trial balance from i-Seva is not agreed to the equity accounting spreadsheet, which could result in the incorrect trial balance being used, resulting in a material misstatement in the financial statements.	1
4.2	There is no review of the manual equity accounting spreadsheet / equity accounting journals prepared by Mr Dale, which could result in the equity accounting being incomplete / inaccurate / invalid, resulting in a material misstatement in the financial statements.	1
5	**Annual financial statements**	
5.1	The consolidated annual financial statements are prepared using a standard template, which may not accommodate unique transactions and events, resulting in a material misstatement in the financial statements.	1
5.2	The associate note is generated automatically, which could result in inaccurate disclosure / boilerplate disclosure / disclosure that is not useful to the users of the financial statements.	1
5.3	There is no review of the financial statements, including adequacy of disclosures, which could result in the annual financial statements not being fairly presented.	1
5.4	There is no formal process for the identification of subsequent events, which could result in the annual financial statements being incomplete.	1
	Available	**26**
	Maximum	**15**
	Communication skills – appropriate style	*1*
	Total for part (c)	**16**
TOTAL FOR QUESTION 1		**53**