








Assessment of Professional Competence December 2020 Information on the day Botala Khauta (Pty) Ltd

December 2020						
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	B	Charles Lancome	Sales agreement with Supreme Brands	Notes on the accounting implications of the proposed sales agreement with Supreme Brands	17/12/2020
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DOCUMENT A

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 7:00 AM
To: Financial Analyst
Subject: Capex on bearer plants and their produce
Attachment:



Abridged general ledger 'bearer plants' and 'bearer plants produce'.docx
12 KB

Good morning,

Hope you had a good night's rest as it seems as if today is going to be a long day.

You will recall that I mentioned last week that our new auditors will be looking closely at our expenditures on our bearer plants and bearer plant produce.

I obtained the copies of the abridged general ledger 'bearer plants' and 'bearer plants produce' balance sheet accounts from our accounting system – they are attached. Please review these accounts and alert me to any potential accounting errors we may have made, or any aspects that we should check again. Also include brief explanatory reasons for your suggestions.

I would rather that we fix our own mistakes than have Geoff pointing them out to us!

Kind regards
Charles

CFO: Botala Khauta (Pty) Ltd

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ATTACHMENT TO EMAIL


Abridged general ledger 'bearer plants' and 'bearer plants produce' balance sheet accounts

ACCOUNT A011: BEARER PLANTS CARRYING AMOUNT	
Period: 01/10/2019 – 30/09/2020	
Description	R Dr/(Cr)
Opening balance: 01/10/2019	81 078 150
<i>Establishment of new orchards</i>	
Land preparation costs	464 399
Pegging and fencing (materials and labour)	308 900
Equipment rental	148 226
New borehole and water pump	185 444
Electricity costs	111 876
Low-flow irrigation development costs	995 249
Cash purchases of new trees	919 298
Cash discounts received	45 965
Tree purchases on long-term credit	438 912
Lime and phosphate (soil preparation)	233 805
Fertiliser	89 320
Import duties	33 222
Cost contingency (5%)	176 850
Interest on debt funding	277 531
<i>Growth phase costs</i>	
Orchard management (salaries and wages)	888 743
Weed control	234 800
Fertilisation	384 233
Irrigation (normal allocation)	412 865
Irrigation (abnormal water wastage)	128 992
Tree pruning (salaries and wages)	343 268
Composting	292 888
Employee training costs	42 055
Depreciation: plant and equipment	(226 050)
Head office costs	192 007
Wages paid during three-week labour strike	74 230
Depreciation of bearer plants	(1 998 277)
Closing balance: 30/09/2020	86 276 901

ACCOUNT A020: BEARER PLANT PRODUCE	
Period: 01/10/2019 – 30/09/2020	
Description	R Dr/(Cr)
Opening balance: 01/10/2019	8 018 999
<i>Production costs</i>	
Orchard management (salaries and wages)	699 902
Weed control	193 710
Professional fees	75 000
Fertilisation	445 810
Irrigation	478 684
Tree pruning (salaries and wages)	354 471
Cost accountant salary	216 000
Composting	131 800
Further orchard development	516 815
Depreciation: plant and equipment	(186 491)
Depreciation: delivery vehicles	177 318
Head office costs	172 806
Wages paid during three-week labour strike	89 076
Interest on debt funding	183 333
Road transportation (outsourced logistics)	238 967
Depreciation expense	(175 888)
Harvested products transferred to trading stock	(3 076 991)
Closing balance: 30/09/2020	8 553 321

DOCUMENT B

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 7:23 AM
To: Financial Analyst
Subject: Sales agreement with Supreme Brands
Attachment:  Notes on the accounting implications of the proposed sales agreement with Supreme Brands.docx 12 KB

Hi again,

That forward purchase agreement that I mentioned in my e-mail last week is coming back to haunt us sooner than I thought! We had a Zoom meeting with Antoine Delacroix, the CEO of Supreme Brands, yesterday evening. They again offered to enter into a forward purchase agreement with BK for the 2021 season. The board needs to make an urgent decision in this regard and we have therefore scheduled a board meeting for Friday to discuss the matter.

Katleho requested that I prepare a brief presentation for the board to explain how the agreement could potentially affect our accounting revenues. I made some high-level notes last night of what I think the revenue recognition for this agreement will look like, which I've attached to this e-mail.

Could you please work through my notes and see if you agree? If there are certain aspects with which you disagree, or other accounting aspects that you think I should consider, please note them with some brief explanations. It is not important to come up with the exact, detailed technical answer for now, but I need to know if I'm on the right track. We can always involve an expert at a later stage if necessary. It is also not important to consider any tax implications for now.

I'm really looking forward to read what you come up with, as the proposed agreement is making us scratch our heads. It's a good thing you excelled in your SAICA board exams 😊

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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Notes on the accounting implications of the proposed sales agreement with Supreme Brands

Salient features of the proposed sales agreement with Supreme Brands

- The proposed purchase volumes and pricing for the various months are as follows:

Month in 2021	Number of 4kg cartons	Committed price per carton	Total purchase commitment
May	48 700	€8,65	€421 255
June	51 720	€10,55	€545 646
July	55 950	€12,35	€690 983
August	49 750	€13,59	€676 103
September	20 100	€13,11	€263 511
October	9 380	€15,77	€147 923
Total	235 600		€2 745 421

- Supreme Brands will pay 50% of the total purchase commitment on 1 March 2021, and the balance on 15 November 2021. The advance payment is considered to be a prepayment of the total purchase commitment and is not refundable.
- The goods will be shipped CIF.

Considerations around revenue recognition

- In terms of IFRS 15, revenue recognition is based on a five-step model. Therefore, to determine the amount and timing of revenue to be recognised from the proposed sales agreement with Supreme Brands, each of the five steps will have to be considered.

Step 1: Identify the contract with a customer

- BK's lawyers will be involved in drawing up a formal contract with Supreme Brands. Therefore, there will in all probability be a 'contract with a customer' as required by IFRS 15, and the contract will have commercial substance.

Step 2: Identify the performance obligations in the contract

- In the proposed agreement with Supreme Brands, there will be a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer. Therefore, there will only be one performance obligation in the contract with Supreme Brands.

Step 3: Determine the transaction price

- The consideration in the contract with Supreme Brands will be variable since it is denominated in a foreign currency, i.e. euro. The amount of revenue to be recognised will therefore depend on the future foreign exchange rate between the rand and the

euro. Since the transaction price is variable, we will have to estimate the amount of variable consideration to determine the transaction price.

- Furthermore, since Supreme Brands will be paying 50% of the consideration in advance while the remaining 50% will only be paid at the end of the contract period, there will be a significant financing component in the contract. The consideration will accordingly have to be discounted to take the time value of money into account.

Step 4: Allocate the transaction price to the performance obligations

- Only one performance obligation has been identified in the contract with Supreme Brands, therefore this step is not relevant.

Step 5: Recognise revenue


- The promised goods (i.e. 4kg cartons of avocados) will be transferred to Supreme Brands over several months, therefore the performance obligation will be satisfied over time and revenue needs to be recognised over time.
- Supreme Brands will obtain control over a specific shipment of avocados once it is delivered at the specified European port and revenue will be recognised as each shipment of avocados reaches the destination port.
- To determine the amount of revenue to be recognised for each shipment, we will use an output method (i.e. the number of 4kg cartons delivered in relation to the total number of 4kg cartons to be delivered, multiplied by the transaction price).
- On 1 March 2021, the advance payment received will be recognised as a contract liability in the statement of financial position, translated at the spot exchange rate on that date.
- The first 50% of the revenue to be recognised in terms of the contract will be recognised by debiting the contract liability in the statement of financial position, and crediting revenue in the statement of profit or loss. However, since IAS 21 requires the revenue to be recognised at the spot rate on the transaction date, the contract liability will have to be re-measured to spot rate on each date revenue is recognised, with a resultant foreign exchange gain or loss recognised in profit or loss.
- The remaining 50% of revenue will be recognised by debiting a trade debtor in the statement of financial position and crediting revenue in the statement of profit or loss.
- The trade debtor will be derecognised once the final payment is received.

Other accounting considerations

- ???

DOCUMENT C

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 7:52 AM
To: Financial Analyst
Subject: General journal entries
Attachment:  Selected general journal entries for FY2020.docx
12 KB

Hi

I mentioned to you earlier that our new external auditors will be looking at the general (non-routine) journal entries that were processed during FY2020. I received a dump of all such entries from our system and reviewed these in detail. I'm satisfied that everything is in order, but have identified a few entries that I want you to look at (please see the attachment) just to ensure these are above board.

Specifically, I want your input on the following:

- Do you have any concerns about the attached journal entries? If so, please document your concerns – we can then make a date to discuss them.
- List the specific source documents, records and reports that you believe we should have available for the external auditors to account for what we have journalised in these entries. I will then ask my staff to get this ready in time for the audit.

Thanks so much!

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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Selected general journal entries for FY2020

Entry	Transaction date	Posted date	Description	R	R
				Dr	Cr
GJ027	13/03/2020	13/03/2020	A023 Avocado inventory	711 543	
	Fri	Fri	L032 Accounts payable		711 543
			<i>Capitalisation of avocado storage and ripening costs</i>		
GJ059	02/08/2020	02/08/2020	E002 Cost of sales	20 000	
	Sun	Sun	A003 Current bank account		20 000
			<i>Recognise abnormal wastage of labour as an expense</i>		
GJ074	03/12/2019	14/10/2020	L999 Suspense account	99 411	
	Tue	Wed	E003 Distribution costs		99 411
			<i>Reverse suspense account and reduce expenses: allocation of previously unallocated transport refund received from logistics company</i>		
GJ078	30/09/2020	26/10/2020	E002 Cost of sales	1 323 914	
	Wed	Mon	A023 Avocado inventory		1 323 914
			<i>Write-down of inventory to net realisable value</i>		

DOCUMENT D

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 8:10 AM
To: Financial Analyst
Subject: Trade union concerns

Attachment:



Systems description for salaries and wages - full-time employees.docx
17 KB

My email of last Friday, sent at 10:29 AM, refers. The CEO and I have since met with Mr Joseph to come to an understanding of the AAWU's concerns and to demonstrate that we are proactive in dealing with labour-related matters.

While the AAWU has now backed down on their allegations that we employ illegal immigrants as casual labourers (and have accepted that this is not the case), the trade union has raised a new allegation regarding a number of its members (who are full-time employees of Botala Khauta): namely that they had worked overtime but this was not reflected on their payslips. I further received confirmation from Mr Joseph that this overtime had been approved by the relevant line manager.

Mr Joseph further clarified that the trade union's allegation regarding 'incorrect deductions' relate to amounts being deducted from employees' remuneration for third-party debts –

- without valid 'garnishee orders' (more correctly referred to as 'emoluments attachment orders' (EAOs)) having been served on BK; or
- which do not correspond to the instalments payable in terms of the EAOs.

I have asked Sandy Oliphant to provide me with a systems description for salaries and wages for full-time employees specifically in relation to those areas where the AAWU have made allegations. I have done a brief review and I must say that I am disappointed with the submission – which means that I am going to ask you to gather much more information.

I suggest that you compile an internal control questionnaire containing a list of 'best practice' procedures that would prevent, or detect and correct, the situations alleged by the AAWU. From the findings obtained from the administration of this questionnaire, it should be easy for us to determine appropriate remedial action (i.e. those 'best practice' procedures that are not in place, can then be implemented as a matter of urgency). If this works, we could then undertake a similar exercise for the rest of the salaries and wages system – therefore please keep the questionnaire focused only on the union's allegations for now, in the interests of time.

Thank you in anticipation for your assistance with this request!

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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ATTACHMENT TO EMAIL

Systems description for salaries and wages – full-time employees

Prepared by Sandy Oliphant

- 1 An off-the-shelf payroll software package, PAYROLL-IT, is used to record all transactions relating to salaries and wages. This software was acquired more than ten years ago, and has served the needs of the company well, even though it is not integrated in any way with the other software packages that BK uses.
- 2 Full details of all full-time employees are maintained in an employee masterfile which is used by PAYROLL-IT for processing purposes. These include details of EAOs granted by the court in respect of amounts to be deducted from an employee's remuneration to settle a third-party debt. No deduction for third-party debt is made from an employee's remuneration without such an order having been served on us.
- 3 The following staff are responsible for tasks relating to salaries and wages:
 - 3.1 HR manager and two HR consultants: They deal with day-to-day staff-related matters (including employee relations), recruiting new staff, capturing employee-related data onto the masterfile, and ensuring compliance with labour legislation;
 - 3.2 The line managers: They monitor the work performance of staff working in their areas of responsibility;
 - 3.3 The payroll administrator: She captures the relevant weekly / monthly payroll-related data onto PAYROLL-IT, and checks the weekly / monthly payroll generated by PAYROLL-IT;
 - 3.4 The chief accountant: He captures the payroll amounts to be paid via BK's internet banking system; and
 - 3.5 The operations manager, CFO and CEO: They review and approve the payments.
- 4 All employees are required to clock in and out every day at designated points on the farm using their unique employee magnetic cards. The magnetic card readers used for this purpose provide the time data which are read into the PAYROLL-IT software (i.e. it does not have to be recaptured by the payroll administrator).
- 5 PAYROLL-IT automatically calculates the gross remuneration, deductions and net pay of each employee and generates the weekly / monthly payroll, as well as a payslip for each employee.
- 6 The weekly / monthly payroll is then presented to the operations manager for review and approval.

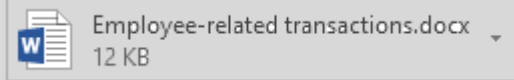
- 7 Once the payroll has been approved, the chief accountant loads the details of the payments due to employees onto the company's internet banking system, as follows:
 - 7.1 The banking details for new employees and changes to existing employees' banking details are first captured by the chief accountant onto the banking system; and
 - 7.2 Once he is satisfied that all the banking details are correctly loaded, he selects the correct employee beneficiary and captures the net pay that is due to the employee onto the payment screen.
- 8 The payments to all employees are reviewed and approved by the CFO and the CEO before being uploaded to the banking system.

DOCUMENT E

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 8:19 AM
To: Financial Analyst
Subject: PAYE concerns

Attachment:



Hi.

As promised last week, I attach a short document outlining my queries / concerns regarding the PAYE on some employee-related transactions.

Please provide me with your view on whether we are correctly treating the PAYE on these transactions. Feel free to comment on other tax implications related to these transactions (should there be any).

Thanks again for this, it will really put my mind at ease.

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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Employee-related transactions

1. Loans to CEO and CFO

In the past BK has extended loans to myself and Katleho. These loans have always been interest bearing. From what I understand from Sandy, from a tax perspective, nothing is done with regard to these loans as they are interest bearing.

2. Arrangement with financial institution

To avoid falling within the provisions of the National Credit Act, BK has an arrangement with Fintap (Pty) Ltd, a financial institution, to provide low-interest loans to BK employees. The arrangement with Fintap is that they provide personal loans of up to R60 000 each to our employees at an interest rate of 3,75% per annum and BK is required to pay Fintap the interest rate shortfall of 3%. As the interest rate paid by BK to Fintap and the interest paid by the employee is often less than the official interest rate, no PAYE is withheld on this benefit.

3. Tax consulting services

As tax can be daunting, we have hired tax consultants to provide tax consultation services to all employees at management level for a blanket fee of R120 000. These services are rendered at BK offices and it is a requirement that qualifying employees use the service. The tax consultants are directly contracted by BK and assist the employees with tax matters such as submission of tax returns. The reason for providing these services to employees is to ensure that BK employees pay their taxes due to SARS, given that SARS has recently had a campaign of publicly shaming individuals who fail to file outstanding tax returns. I would hate to see this happen to any of our senior employees as it could also bring unnecessary negative attention to BK. We have not withheld any employees' tax on these services as they are provided at our offices and it is a requirement that employees must make use of the service. Furthermore, technically the employees receive no financial benefit from these services as BK is the one benefitting – the provision of these services ensures that the company is not reflected in a negative light.

4. Directors emoluments

All four of our non-executive directors receive a fee for preparation for board meetings and also for each board meeting attended. Sandy has told me that there are no PAYE implications on these fees as non-executive directors are not employees – is this correct? I was also wondering whether we have to account for any other taxes related to these fees?

5. Solidarity Fund contributions

In view of Pres. Cyril Ramaphosa's call for contributions to the Solidarity Fund, myself and Katleho decided to pledge 33% of our salaries to the Fund for three months, starting at the end of April 2020, on an after-tax basis (i.e. after employees' tax was deducted). I saw a newspaper article stating that these contributions will be tax deductible but I'm not 100% sure how this should be taken into account in the PAYE calculations.

DOCUMENT F

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 8:30 AM
To: Financial Analyst
Subject: New sales agreement with Supreme Brands

Hi again,

I meant to ask you earlier – what are your thoughts about entering into the sales agreement with Supreme Brands? Is this an appropriate strategy? What are the positives and what are the downsides of entering into the arrangement? Also, please send me your thoughts on –

- whether we should hedge our euro currency exposure, for example by entering into forward exchange contracts; and
- what other relevant factors we should consider before entering into this commitment to sell a significant portion of our annual crop to Supreme Brands.

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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DOCUMENT G

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 8:45 AM
To: Financial Analyst
Subject: Guacamole

Hi

I have been in contact with the owners of a guacamole processing plant who have expressed an interest in acquiring our waste avocados to be used in the production of their guacamole. I have calculated the NPV of this contract as well as all other alternatives and summarise this below:

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Number of waste avocados (kg)		440 000	460 000	480 000	500 000	520 000
Selling price per kg		R10,00	R10,45	R10,92	R11,41	R11,93
		R'000	R'000	R'000	R'000	R'000
Sales proceeds		4 400,0	4 807,0	5 241,6	5 705,0	6 203,6
Taxation payable		(1 232,0)	(1 346,0)	(1 467,6)	(1 597,4)	(1 737,0)
Net cash flow		3 168,0	3 461,0	3 774,0	4 107,6	4 466,6
Discount rate (%)	10,0					
NPV (R'000)	12 867,4					

In addition to the above, I have also undertaken an NPV analysis on establishing an in-house guacamole manufacturing plant. In the calculation below I have not attributed any scrap value to the plant and have assumed it will be fully depreciated over a period of five years. The results of the NPV calculation are as follows:

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
	R'000	R'000	R'000	R'000	R'000	R'000
Cost of machinery	(25 000)					
Cost of warehouse	(2 000)					
Sales value		31 920	33 356	34 857	36 426	38 065
Processing costs		(23 940)	(25 017)	(26 143)	(27 320)	(28 549)
Taxation		(806)	(907)	(1 012)	(1 122)	(1 237)
Taxable income		2 880	3 239	3 614	4 007	4 416
Operating profit		7 980	8 339	8 714	9 107	9 516
S11(e) allowance		(5 000)	(5 000)	(5 000)	(5 000)	(5 000)
S13 warehouse		(100)	(100)	(100)	(100)	(100)
Net cash flow	(27 000)	10 054	10 671	11 317	11 991	12 696
Discount rate (%)	10,0					
NPV (R'000)	15 535					

The Steering Committee has asked us to critically assess the various factors that should be considered in relation to the two options shared with you last week.

Therefore, in preparation for our response to the Committee, please provide some high-level thoughts on the NPV calculations reflected above as well as the additional qualitative factors that should be considered by BK in its assessment of each alternative. It has been a number of years since I last brushed up on my Excel skills, so please ensure you thoroughly interrogate the calculations presented above and note any corrections in your response to me.

I look forward to receiving your views on these matters.

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

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DOCUMENT H

EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

From: Charles Lancome
Sent: Thursday 17 December 2020, 9:55 AM
To: Financial Analyst
Subject: FW: Some questions

Hi

I have managed to get Katleho to postpone the Zoom meeting with the board until tomorrow. That will give you some breathing space today. Sorry, but it seems that the goal posts have shifted somewhat.

My day looks sooo busy! According to my calendar I have meetings right up to supertime! Please provide me with your thoughts on the three issues Katleho (see her email below) wants us as a board of directors to discuss – please help me impress the rest with some fresh and deep insights! I would be grateful if you could forward by the close of business today. I will review them tonight and hopefully make a big impression tomorrow!

Regards
Charles

CFO: Botala Khauta (Pty) Ltd

<< forwarded email >>

From: *Katleho Mokoena*
Sent: *Thursday 17 December 2020, 7:46 AM*
To: *Charles Lancome, Bokang Makwetla, Andile Bitana, Pieter-Steph Etsebeth, Simon Ruiters*
Subject: *FW: Some questions*

Lumelang!

Just a quick follow-up on the mail I sent you last Friday. I have asked Portia to move the Zoom meeting scheduled for today, to tomorrow. I have just finished a call to Charles. I asked him to kick-start the discussions tomorrow by providing some thoughts around three issues – see below. It will focus and direct our discussions and hopefully bear fruit – pardon the pun 😊.

As a board of directors, it is time for us to be very honest with ourselves and ask some pressing questions:

1. What are the things that BK may be getting right as a responsible corporate citizen? Let's restrict this to say three items.
2. What are three potential areas or things that could seriously dent our reputation as a responsible corporate citizen? Please let's hone in on 'real' issues.

3. If we as a board of directors had to select three of the 17 commonly identified United Nations Sustainable Development Goals (SDGs) to focus on, which three should we select and why? Please don't select SDGs where we cannot really make an impact, for example 'quality education' since we are not an educational institution. We should select those three SDGs where we can really make a difference to sustainability.

One last thing: Pinky in the despatching division came to see me. She shared that she was really impressed by Fanie Mboweni, one of our farm managers. An order destined for Albert Heijn in the Netherlands last month (remember that they are a key customer of ours), would have been delayed had it not been for Fanie's innovative response, according to Pinky. Fanie ordered two tonnes of avocados from Trichardt Farms, one of our neighbouring competitors, as we would otherwise have had to despatch an incomplete order. The order was despatched on time, with the right quantity and proudly bearing the BK labelling. Pinky asked that we make Fanie employee of the month for his initiative!

Looking forward to seeing you tomorrow!

Regards
Katleho

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