






# Assessment of Professional Competence December 2022 Information on the day Fodjan (Pty) Ltd

December 2022						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31


## Inbox Financial Manager

 Mail  Calendar  Contacts  Tasks	 INBOX				
	<i>Doc</i>	<i>From</i>	<i>Subject</i>	<i>Attachment</i>	<i>Received</i>
	A	Elijah Molabe	Accounting for the Big Ranch acquisition	Big Ranch acquisition – pro forma journal entries	14/12/2022
	B	Elijah Molabe	Customer loyalty programme	Notes on the accounting and tax implications	14/12/2022
	C	Elijah Molabe	Incomplete reporting of sales by franchisees	Information system to track and record franchised restaurants' sales	14/12/2022
	D	Hajra Moodley	Big Ranch		14/12/2022
	E	Ralph Jantjies	Marketing fund bank account	Marketing fund cash book for November 2022	14/12/2022
	F	Hajra Moodley	Roasters Coffee		14/12/2022
G	Elijah Molabe	Supplier proposal		14/12/2022	

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## DOCUMENT A

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

**From:** Elijah Molabe  
**Sent:** Wednesday 14 December 2022, 6:59 AM  
**To:** Financial Manager  
**Subject:** Accounting for the Big Ranch acquisition  
**Attachment:**  Big Ranch acquisition - pro forma journal entries.docx  
18 KB

Hi again

As per my email last week, Fodjan has not yet prepared the pro forma journal entries with regard to our acquisition of 100% of the equity of Big Ranch for the purpose of preparing the Fodjan group's consolidated FY2022 AFS.

Our senior accountant, Ralph Jantjies, prepared the attached transaction summary and draft pro forma journal entries. Ralph has a BCom Accounting degree but admitted to having limited experience with accounting for business combinations. I would appreciate it if you could review the journal entries and provide comments to Ralph before he sends the document for review by our auditors. Be sure to also address matters he may have missed (i.e. please do a completeness check of the journal entries).

You can send your comments to me via a reply email and I will forward to Ralph. Thanks so much.

Kind regards  
Elijah

**CFO:** Fodjan (Pty) Ltd

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## ATTACHMENT TO EMAIL

### BIG RANCH ACQUISITION – PRO FORMA JOURNAL ENTRIES

#### Transaction summary

Fodjan acquired 100% of the equity of Big Ranch on 1 July 2022. The purchase price is to be settled as follows:

- An immediate cash payment of R14,1 million on 1 July 2022;
- A further cash payment of R4,5 million, payable on 31 March 2024, should the audited FY2023 profit of Big Ranch exceed the audited FY2022 profit by at least 25%.

Fodjan paid its legal advisors R400 000 to draw up the purchase agreement, which was capitalised to the cost of the investment.

On 1 July 2022 Big Ranch's statement of financial position, prepared in accordance with IFRS, reflected the following amounts:

	<b>R'000</b>
Furniture and equipment	13 514
Right-of-use assets	803
Deferred tax	34
Inventories	1 298
Accounts receivable	799
Prepayments	600
Cash and cash equivalents	3 758
<b>Total assets</b>	<b>20 806</b>
Stated capital	2 500
Retained earnings	5 449
Lease liabilities	923
Loan: New Africa Finance Corporation	8 931
Accounts payable	3 003
<b>Total equity and liabilities</b>	<b>20 806</b>

#### *Additional information to be taken into consideration*


1. Big Ranch generated a net profit after tax of R420 000 from 1 November 2021 to 30 June 2022 and R210 000 for the remainder of the financial year ended 31 October 2022.
2. As a result of the acquisition, Fodjan plans to restructure the operations of Big Ranch at an expected cost of R650 000. The cost relates to changing the layout and updating the décor of the restaurants and is expected to be incurred early in FY2023.
3. Big Ranch has existing relationships with its regular customers, which were factored into the negotiated purchase price of the business. The Fodjan board has placed a value of R4 million on these customer relationships.
4. No employees of Big Ranch will be dismissed. The existing collection of employees will permit Fodjan to continue with all operations of Big Ranch as from 1 July 2022. The Fodjan board has placed a value of R1,5 million on this workforce.
5. Big Ranch has disclosed (but has not recognised) a contingent liability for a claim against the company amounting to R595 000. Big Ranch is being sued by an external party.

Pro forma journal entries

	<b>Dr</b>	<b>Cr</b>
	<b>R</b>	<b>R</b>
<b>J1</b>		
Retained earnings (at acquisition)	650 000	
Provision for restructuring (SoFP)		650 000
<i>Recognise a provision to restructure operations of Big Ranch</i>		
<b>J2</b>		
Intangible assets (SoFP)	4 000 000	
Retained earnings (at acquisition)		4 000 000
<i>Recognise the value of customer relationships</i>		
<b>J3</b>		
Intangible assets (SoFP)	1 500 000	
Retained earnings (at acquisition)		1 500 000
<i>Recognise the value of the workforce</i>		
<b>J4</b>		
Retained earnings (at acquisition)	–	
Provision for legal claim (SoFP)		–
<i>Contingent liabilities are not recognised, but disclosed</i>		
<b>J5</b>		
Stated capital	2 500 000	
Retained earnings (at acquisition) [5 449 – 650 + 4 000 + 1 500]	10 299 000	
Goodwill (SoFP) [balancing]	1 701 000	
Investment in Big Ranch		14 500 000
<i>Main consolidation journal at acquisition date</i>		

## DOCUMENT B

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

**From:** Elijah Molabe  
**Sent:** Wednesday 14 December 2022, 7:21 AM  
**To:** Financial Manager  
**Subject:** Customer loyalty programme  
**Attachment:**  Notes on the accounting and tax implications.docx  
18 KB

Hi there

I thought I'd pick your brain while it is still early in the day. This is about the accounting and tax implications of the proposed customer loyalty programme mentioned previously.

In a nutshell, we are proposing the following loyalty programme:

- Restaurants will issue loyalty cards to customers free of charge. Customers can obtain a card at a Fodders restaurant after completing a short form with their details.
- When settling their meal bill, customers swipe their loyalty card and the amount spent is recorded on the particular restaurant's POS system.
- Customers will receive a R50 discount voucher for every accumulated R1 000 they have spent at the restaurant (excluding VAT). This discount can be redeemed against the cost of future meals at the same restaurant.
- Discount vouchers expire 12 months from issue date and customers will have no cash-back option.

The programme will therefore be operated by each of our individual franchisees and the cost of discounts granted to customers will be borne by the individual franchisees. Franchisees (and indirectly Fodjan) will benefit from the general increase in sales that the loyalty programme will bring over the long term.

We are still at the proposal stage and it would be useful to know what the accounting (IFRS) and tax implications will be from the perspective of the franchisees/restaurants. This will assist us in answering questions from franchisees when we engage with them about the proposed programme.

I've prepared some notes in this regard (see attachment). Kindly review these and comment on the following:

- Any disagreements you may have from an accounting perspective, as well as any important considerations I may have missed. Please include explanations to support your response.

In addition to your accounting explanations, please include illustrative journal entries for a single customer at a single restaurant on the assumption that the customer spends R1 000 (exclusive of VAT) in one visit and then R400 (exclusive of VAT) in a subsequent visit to that restaurant and redeems the R50 voucher. Also assume that customers will redeem 80% of all vouchers issued. Your journal entries should not include any tax implications.

- Any disagreements you may have from a taxation perspective, as well as any important considerations I may have missed. Please include explanations to support your response.

To me it seems that the accounting and tax implications are straight forward. Can it really be this easy?

Thanks in advance for your input, much appreciated.

Regards  
Elijah

**CFO: Fodjan (Pty) Ltd**

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## ATTACHMENT TO EMAIL

### NOTES ON THE ACCOUNTING AND TAX IMPLICATIONS

#### Timing of recognition

The cost of the loyalty programme is recognised as and when customers use their discount vouchers and the discounts are given by franchisees.

#### Amount

The amount to be recognised for accounting purposes is simply the actual amount of discounts granted, i.e. the aggregate of the R50 discounts when vouchers are redeemed by customers.

#### Financial statement impact

The cost of discounts granted is expensed through profit or loss. Since the discount reduces the cash amount paid by the customer, it is processed against the cash account. The journal entry (ignoring VAT) is therefore:

	<b>Dr</b>	<b>Cr</b>
Cost of sales	xxx xxx	
Cash		xxx xxx

#### VAT impact


As this is a cost incurred to generate revenue, the restaurants can claim input tax from SARS at 15% of the discounted amount.

#### Income tax implications

The cost is incurred to generate income and is therefore tax deductible in the period when the discount vouchers are redeemed by customers. However, an allowance for future expenditure can be claimed when the discount vouchers are issued.

## DOCUMENT C

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

**From:** Elijah Molabe  
**Sent:** Wednesday 14 December 2022, 7:33 AM  
**To:** Financial Manager  
**Subject:** Incomplete reporting of sales by franchisees  
**Attachment:**  Information system to track and record franchised restaurants' sales.docx 16 KB

My email of 8:45 AM on 9 December 2022 has reference.

I previously pointed out that there has been a sizeable increase in franchise fees and marketing fund contributions from the prior financial year. However, upon further reflection, I am more concerned that we are in fact under-invoicing these amounts based on understated franchisee restaurant sales figures. This concern stems from the fact that franchisees benefit financially from understating the sales made by their restaurants.

I doubt whether any understatement of sales is due to the incorrect pricing of menu items. The pricing of orders placed by customers at Fodders restaurants is done by the POS software using the prices contained in the product masterfile. Whenever Fodjan changes its menus, a representative of Fodjan visits each restaurant and uploads the new product masterfile (only the Fodjan representative has the access rights for this function).

Accordingly, I would appreciate your advice on –

- the various ways in which franchisees may be able to understate the sales figures of their restaurants; and
- how we can analyse the franchised restaurants' sales data, as well as any other relevant data that can reasonably be derived from our information system, to identify restaurants whose sales figures appear to be understated. This will allow us to initiate closer monitoring of these restaurants.

If necessary, and due to the risks involved, I am willing to contract a software developer to develop software to generate the reports that are currently not available (so don't let the current software functionality limit your thinking!).

I would like to avoid imposing an audit requirement for all revenue figures for franchised restaurants, as reported monthly, due to the costs involved and the fact that it will be difficult to implement in terms of our existing agreements with franchisees.

Attached please find my summary of the system we have in place to track franchised restaurants' sales. These are used for invoicing the franchise fees and marketing fund contributions.

Kind regards  
Elijah

**CFO: Fodjan (Pty) Ltd**

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## ATTACHMENT TO EMAIL

### INFORMATION SYSTEM TO TRACK AND RECORD FRANCHISED RESTAURANTS' SALES

- The POS software system is used not only to manage customers' food orders in restaurants and the processing of the accompanying payments, but also to keep a detailed record of all sales transactions for reporting and data analysis purposes.
- Sales transaction records are stored on the POS software system at the restaurant and automatically uploaded onto the cloud-based storage service on a daily basis. This is done not only to serve as a backup of the data for the franchisee, but (in accordance with the franchise agreement) to allow Fodjan 'read access' to this data and, if necessary, to verify the sales data reported by the franchisee (see below).
- At the end of every month, all Fodjan franchisees have to complete a monthly trading report for each of their Fodders restaurants. These reports contain information about key metrics for each restaurant such as –
  - net sales (gross less adjustments and VAT)
  - purchases
  - inventory (opening and closing)
  - salaries.
- Upon receipt of these trading reports (which are due no later than three days after month end), Fodjan's invoicing clerk captures the net sales figure as reported for each franchised restaurant onto the company's invoicing application. The app then generates the invoice (also using data from the franchisee masterfile) which is then forwarded, together with the monthly trading report, to the CEO for review and approval.
- If the CEO has queries regarding the sales figures used for invoicing purposes, the CEO is able to use an app to look up the total monthly sales for the restaurant. (This app has been developed to download the daily sales data files for each of the franchised restaurants from the cloud-based storage service at the end of every month and to consolidate these files for each franchised restaurant.)
- Once the invoice is approved by the CEO, it is emailed to the franchisee and posted to Fodjan's financial records.

## DOCUMENT D

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL MANAGER

<b>From:</b>	Hajra Moodley
<b>Sent:</b>	Wednesday 14 December 2022, 7:51 AM
<b>To:</b>	Financial Manager
<b>Subject:</b>	Big Ranch

Hi there

Discussions with one particular potential buyer of Big Ranch, namely Ms Grace Kahn, have progressed well and she is considering making an offer to acquire the business. Ms Kahn has made various requests for further information. I wonder if you could assist with her queries. Ms Kahn would like to know what the estimated break-even revenue (on a sustainable basis) of Big Ranch was in FY2022.

Refer to my email of 9 December 2022 8:31 AM in which I shared extracts of Big Ranch's management accounts. For the purposes of your break-even calculations, assume that –

- 60% of the other operating expenses of R7,514 million in FY2022 were variable in nature; and
- the employee costs of R9,716 million in FY2022 relate to the monthly cost to company of salaries paid to restaurant staff and head office employees before any bonuses, of which none were awarded or paid in FY2022.

Ms Kahn also wanted to know what revenue Big Ranch would need to have achieved in FY2022 in order to record a cash operating profit of R7,5 million. Ms Kahn said her definition of 'cash operating profit' is sustainable operating profit before non-cash items (such as depreciation), and excludes interest and taxation expenses.

Please estimate what the break-even revenue would have been in FY2022 on a sustainable basis and the revenue amount needed to achieve a cash operating profit of R7,5 million in FY2022.

Email these to me, together with your workings and key assumptions. Much appreciate your help.

Kind regards

Hajra


**CEO: Fodjan (Pty) Ltd**

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## DOCUMENT E

### EMAIL FROM SENIOR ACCOUNTANT TO FINANCIAL MANAGER

**From:** Ralph Jantjies  
**Sent:** Wednesday 14 December 2022, 8:15 AM  
**To:** Financial Manager  
**Subject:** Re: Marketing fund bank account  
**Attachment:**  Marketing fund cash book for November 2022.docx 17 KB

Dear Financial Manager

Mr Molabe's email below has reference. I have now prepared the cash book for November 2022 from the entries on the marketing fund's bank statement, and using the information provided on the payment advices signed by the marketing manager. It is attached for your further review.

Please feel free to contact me should you have any queries regarding this matter.

Ralph Jantjies

**Senior Accountant:** Fodjan (Pty) Ltd

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**From:** Elijah Molabe  
**Sent:** Wednesday 14 December 2022, 8:05 AM  
**To:** Financial Manager  
**CC:** Ralph Jantjies  
**Subject:** Marketing fund bank account

My request of earlier this week has reference.

The marketing administrator who normally maintains the financial records for the marketing fund was involved in a serious motor vehicle accident on 28 November 2022 and has been booked off for most of December 2022. I have therefore asked Ralph to prepare the cash book for this fund for November 2022 and to email it to you as soon as he is done.

I would appreciate it if you could apply your knowledge and skills to the entries in this cash book to identify anything of concern. For each concern identified, describe the documentation (documents and records) that you would like to inspect to enable you to conclude whether any further action is required. Please do not forget to address taxation.

I would like to see both the concerns that you have identified and a detailed description of the documentation required so that my staff will be able to obtain what you need. I will then share the latter with my staff and ask them to provide this to you as soon as possible.

Looking forward to your findings!  
Elijah

**CFO:** Fodjan (Pty) Ltd

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**ATTACHMENT TO EMAIL**

**MARKETING FUND CASH BOOK FOR NOVEMBER 2022**

MARKETING FUND CASH BOOK							
Date	Description	Payee	Total	Marketing fund receipts control a/c	Marketing expenses	VAT	Sundry investments
			R	R	R	R	R
1/11/2022	<b>Opening balance</b>		<b>4 157 101</b>				
2/11/2022	Fees payable for setting up bots to comment negatively on competitors and to rate Fodders restaurants highly on Twitter feed	Silver Lining Media Consultants	(287 500)		(250 000)	(37 500)	
3/11/2022	Online marketing costs for October 2022	Google Ads LLC	(151 800)		(132 000)	(19 800)	
5/11/2022	Purchase of 1 million put options on the share price of Famous Brands Ltd - to mitigate the risk of a downturn in the economy adversely affecting the funding available for marketing	Excel Stockbrokers	(122 000)				(122 000)
5/11/2022	Professional fee payable for put option investment	Hiernon Bosch	(10 000)				(10 000)
14/11/2022	Reimbursement of marketing expenses incurred	Hambre Family Trust	(200 000)		(200 000)		
25/11/2022	To cover monthly expenses to be incurred by marketing officer Southern Region in December 2022	Chris Blewitt	(15 000)		(15 000)		
25/11/2022	To cover monthly expenses to be incurred by marketing officer Northern Region in December 2022	James Green	(15 000)		(15 000)		
25/11/2022	To cover monthly expenses to be incurred by marketing manager in December 2022	Barbara Abrahams	(35 000)		(35 000)		
30/11/2022	Sponsorship of national team - monthly contribution	SA Hockey Federation	(575 000)		(500 000)	(75 000)	
30/11/2022	Transfer of marketing fund contributions from Fodjan's main bank account	Not applicable	2 714 304	2 714 304			
30/11/2022	<b>Closing balance/totals</b>		<b>5 460 105</b>	<b>2 714 304</b>	<b>(1 147 000)</b>	<b>(132 300)</b>	<b>(132 000)</b>

## DOCUMENT F

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL MANAGER

<b>From:</b>	Hajra Moodley
<b>Sent:</b>	Wednesday 14 December 2022, 8:20 AM
<b>To:</b>	Financial Manager
<b>CC:</b>	Elijah Molabe
<b>Subject:</b>	Roasters Coffee

Hi there

I mentioned last week that Fodjan was looking at various strategic options for expanding our franchise operations. We have just received notice from Roasters Coffee, a leading global coffee shop operation, that they intend entering into negotiations with Fodjan about us becoming their exclusive franchise partner in South Africa. Roasters Coffee is a premier roaster and retailer of specialty coffees sourced from selected countries in Africa and Latin America.

A typical Roasters Coffee shop will offer both sit-down and takeaway options of selected premier coffees and related beverages. Roasters also offers pre-prepared meals and snacks such as sandwiches, muffins, wraps and biscuits. Roasters offers 60 minutes of free Wi-Fi per customer per day. The Roasters Coffee target market is middle- to upper-income consumers.

The Roasters Coffee head office has indicated that the group would be interested in entering into a 25-year master franchise agreement with Fodjan. Fodjan would be responsible for all franchise operations in South Africa, as it is for its existing Fodders brand. Roasters Coffee will require Fodjan to pay an upfront amount, to be negotiated, for the rights to operate the Roasters Coffee brand in South Africa for 25 years. Roasters Coffee generally charges its country master franchise holders a quarterly royalty of 3% of total store revenues. They have suggested that Fodjan should in turn charge its South African Roasters Coffee franchisees a franchise fee of 5% of their store revenue.

I am very excited about this new venture; it could deliver both diversification and earnings growth for Fodjan. Please prepare a list of key issues Fodjan needs to investigate in evaluating the opportunity and prior to entering into detailed negotiations with the Roasters Coffee head office people. Respond by preparing a memorandum listing these key issues together with explanations. Also include key matters that need to be clarified with Roasters Coffee, for example, how much will the master franchise rights cost Fodjan? Don't concern yourself with the taxation and accounting implications of entering into the master franchise agreement, we can cover those issues later.

Your memorandum should not be longer than two typed pages – anything longer offers an opportunity to waffle. Jeff Bezos, the Amazon founder, used to ban PowerPoint presentations and required executives to prepare well-structured and concise memorandums ahead of meetings.

Kind regards  
Hajra

**CEO: Fodjan (Pty) Ltd**

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## DOCUMENT G

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL MANAGER

**From:** Elijah Molabe  
**Sent:** Wednesday 14 December 2022, 8:23 AM  
**To:** Financial Manager  
**Subject:** FW: RE: Supplier proposal

Hi

Please see follow-up email from Katleho.

I've had some time to consider this deal and a couple of things have popped up for me as red flags – primarily, that this is too good to be true. However, there are a couple of other things that aren't sitting too well with me. I want to make sure I address any issues with Katleho before we go into the board meeting. I want to be sure that I've got everything covered. She's a great chairperson and has always been willing to listen and consider different views, so I am confident that I can address any issues with her. Just as a sense-check for myself to make sure I've covered everything, I would like some input from you on the deal as a new person to the company who has no pre-conceived notions of anything or anyone.

My simple question to you is: what potential issues (for Fodjan) do you see with the proposals below that Katleho made?

Thanks  
Elijah

**CFO: Fodjan (Pty) Ltd**

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**From:** Katleho Mokoena  
**Sent:** Tuesday 13 December 2022, 4:17 PM  
**To:** Elijah Molabe  
**Subject:** RE: Supplier proposal

Hi Elijah

Picking up from my previous email, I've discussed favourable terms with Flavourful that I think should meet the satisfaction of our board as well. This was also made easier by the fact that the RAC has finally signed a deal with Flavourful to acquire a significant equity stake therein (wanted to tell you last week but couldn't due to confidentiality clauses). It's really important that the deal between Fodjan and Flavourful goes through: It will greatly increase Flavourful's chances of obtaining other supply contracts because of having a customer as well known as Fodjan – and, from an RAC perspective, it is important for me to ensure that all RAC's investments do well.

From my discussions with Michelle, we've agreed that these special prices would only be for Fodjan and would not be disclosed to the rest of the market, including our franchisees to whom we on-sell these items. I see this proposal as a big win for Fodjan as we would make a big saving

on purchasing these items from Flavourful while still selling them to the Fodders franchisees at our usual prices, thereby significantly increasing our margins. I think we shouldn't bother with the usual procurement process as this supplier contract, in my view, is a clear win, so we can just go straight to the board and pitch the arrangement.

Please include this deal as an item on the agenda for the next board meeting and be prepared to take the rest of the board through it. I'll get the CEO of Flavourful to draft a proposal and send it directly to you so that it's not seen as coming through me. I wouldn't want anyone to think this is not a legitimate arm's-length deal. I'll obviously vote in favour, but it is important that we get this over the line with the rest of the board as well.

See you at the board meeting.

Kind regards  
Katleho Mokoena

**Executive Head: Investments**  
**RAC Empowerment Fund**

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