



SAICA

**DIFFERENCE
MAKERS™**

ASSESSMENT OF PROFESSIONAL

COMPETENCE

DECEMBER 2025

**EXAMPLES OF VARIOUS
LEVELS OF COMPETENCE
FOR EACH OF THE TASKS**

HOW TO USE THE EXAMPLES

This report has been compiled from a selection of scripts that demonstrated the level of competence for each task, and which the examiners felt fairly represents the expectation for that level of competence. Before referring to the specimen examples below, it is important that candidates and prospective candidates refer to the examiners' comments on the APC for 2025, as this will assist with gaining an understanding of the different tasks.

The examples have been taken directly from candidate scripts, and therefore no changes were made to any aspect, including to the spelling, grammar and errors.

Task (a)

Respond to Ayola Hlekani's email requesting assistance with Rechauffer's accounting treatment for the potential strategic partnership with a national food retail supermarket chain.

Highly competent

TASK A

Start Task A Here:

From: Financial Analyst

Sent: Wednesday 3 December 2025 10:00 am

To: Ayola Hlekani

CC: Zeria January

Subject: Rechauffer strategic partnership

Attachment: Review of accounting considerations

Good day Ayola

I trust this email things you well and thank you for all the information and warm welcome provided upon my joining of the company.

As requested, I have provided a review of the accounting options and provided my feedback as attached below.

Kind regards
Financial Analyst

Attachment: **Review of accounting considerations**

Accounting option 1

- Joint control is the contractually agreed sharing of control about decisions that affect the relevant activities.
- Rechauffer decided on the prices of inventory and when promotions run, these are the relevant activities relating to the inventory. The partner store does not have the ability to decide on these relevant activities thus Rechauffer has power.
- Furthermore, rechauffer is exposed to variable returns which are the revenue and sales, this is based on the number of inventory items, rechauffer can impact these returns by running promotions through the use of its power.
- The relevant activities do not require unanimous consent of both Rechauffer and the partner store but only that of Rechauffer.
- This is notwithstanding the collective control of the two parties in relation to other activities such as stock control, customer satisfaction, etc.
- Therefore, there is no joint control exists and Rechauffer should not account for this arrangement as a joint operation as this would not comply with IFRS.
- This accounting treatment is incorrect.

Accounting option 2

- The products will be displayed in specific areas of the store (identified asset) in branded freezers. The specific areas are not clearly stated, furthermore the layout of stores usually changes thus the store can easily substitute.
- The branded freezers can only be an identified asset if owned by the retail supermarket stores and rented out to Rechauffer.
- Rechauffer bears the risk of inventory as they are responsible for disposing of good that have exceeded expiry, they are responsible for goods while on consignment as ownership is not transferred and the risk of refunds provided to customers.
- Furthermore, Rechauffer decided on the prices of the inventory and when promotions will be run. Therefore, they direct the use of the inventory.
- Furthermore, inventory items cannot be classified as a lease as leases relate to property, plant and equipment, whereas inventory will be consumed; therefore, it cannot be leased.
- There is a potential identified asset in store space but that is substitutable, therefore, this cannot constitute a lease.
- This accounting option is not appropriate.
- Moreover, no right of use asset and lease liability could be recognised as the lease payments are not linked to a market index or rate, but rather to sales.

Accounting option 3

- It is correct that Rechauffer should consider IFRS 15 as it receives revenue from the products sold through the partners stores.
- In terms of IFRS 15 this is a consignment arrangement because
- The goods of Rechauffer are controlled until a specified event occurs:
- The goods are placed in the care of the supermarket store on consignment, the store does not purchase these goods therefore ownership does not transfer to the supermarket and the product is controlled by Rechauffer until sale to the customer.
- The supermarket does not have an obligation to pay for the products provided by Rechauffer, rather they get a percentage of revenue.
- As the supermarket does not get ownership of the inventory upon delivery to the store nor pay for these, control is not passed at that point. revenue is not recognised then but rather upon the sale to the customer. Therefore, it is incorrect to conclude that control passes to the partner store and that revenue is recognised at that point.
- To account for consignment agreements in terms of IFRS 15 Rechauffer needs to recognize the revenue upon the sale to the customer, this will be upon the receipt of the report in terms of the total sales.
- We then need to determine whether Rechauffer is acting as a principle or agent in this contract in terms of IFRS 15 guidance. Rechauffer is acting as the principle because:
- Rechauffer is primarily responsible for fulfilling the promise of delivering the frozen goods to the customer. This is because if a customer returns items, Rechauffer bears the risk through not receiving cash payments from the retail store
- Rechauffer holds the inventory risk. The inventory (frozen meals), if unsold by the end of the 6 month shelf life, will be returned to Rechauffer showing that Rechauffer holds the inventory risk
- Rechauffer holds the discretion of establishing prices of the frozen meals sold in the retail stores as mentioned in your email.

Therefore, Rechauffer will be acting as a principal in this arrangement and the retail store acting as agent.

- Rechauffer as a principal will recognise gross revenue (100%) as they have ownership and control of the inventory and maintain the inventory on balance sheet and derecognise these upon sale, instead of the 70% net.
- The commission (30%) obtained by the partner store should be expensed in the books of Rechauffer as cost of the sale.
- This is the most appropriate option.

We should also make the following clear to Rechauffer:

- Rechauffer needs to raise a provision for expected returns of the frozen goods from customers, a refund liability must be recognised and an asset for right of return of consignment stock. However, the nature of the underlying inventory, frozen food should be considered. The inventory may not be saleable upon return.

In conclusion, I believe that option 3 is most appropriate for the reasons discussed.

Let me know if you have any questions.

Kind regards

Financial Analyst

Examiners' comments

The candidate addressed all three options (coverage). In each option, the candidate dealt with the relevant principles and demonstrated their application to the task.

Option 1

The key issue, being the joint control definition, was discussed and applied to the facts of the scenario. Both the aspects of the joint control, namely collective and unanimous consent, are discussed, and applied to the relevant activities outlined in the case study. Appropriate conclusions were reached on the criteria and overall definition.

The candidate further applied both elements of joint control to activities relevant to the case study. The candidate noted clearly that for a joint control to exist, both the elements/criteria had to be met. Therefore, despite collective control being met, because unanimous consent is not required for some activities, the candidate concluded appropriately that joint control does not exist.

Option 2

The candidate clearly identified the key issue for the lease recognition in this case study as identification of the asset. In addition, the candidate identified two potential assets that would be leased from the case study, namely the floor space and the freezers. Inherent in the freezer assumption is that the freezers are then owned by the retail stores. However, the candidate continued to explore not only whether it would be possible to substitute the

identified asset but also applied it to the facts of the case study.

Lastly, the candidate addressed the aspect of variable lease payments that are linked to sales rather than an index or market rate, and therefore, the non-feasibility of recognising the lease liability and right of use asset as such.

Option 3

The candidate accurately addressed the concept of consignment and therefore control of the inventory, and when control passes and therefore when revenue should be recognised.

The candidate then applied the facts of the case study correctly to all three criteria for principal versus agent. In this instance, the candidate dealt fully with the complex consignment transaction with an agent, from the perspective of Rechauffer.

The candidate further engaged critically with the proposed accounting treatment of measuring the revenue at net of commission, providing correct measurement of the gross for the principal and recognition of the commission expense.

Lastly, the candidate addressed the right to return option and dealt with its accounting implications – recognition of the refund liability and asset with a right to return asset. The candidate also gave due consideration to the underlying nature of inventory, being frozen meals, that a possible immediate write-off.

There was good coverage of pertinent issues in the task and the candidate demonstrated a good grasp and understanding with the necessary depth. This was an excellent response that addressed all aspects of the task.

Competent

TASK A

Start Task A Here:

To: Ayola Hlekani

From: Financial Analyst

CC: Zeria January

Subject: Rechauffer Strategic Partnership

Hi Ayola,

Thanks for the opportunity to help with this. Below I have reviewed and provided feedback on the accounting implications of each option and the appropriateness of proposed Rechauffer options.

Option 1:

Based on the information provided, this deal should not be accounted for as a joint arrangement for the following reasons:

- In order for a joint arrangement to exist both Rechauffer and the retail store would have to have joint control of the operations. Joint control does not exist because decisions about the relevant activities are controlled by Rechauffer and not the supermarket and do not require unanimous consent of the parties. For example, decisions about pricing of the frozen products in retail store and promotion pricing are controlled by Rechauffer without the need of consent of the retail store.

Clearly, Rechauffer holds the power because it has rights to control price, stock levels etc. which give it the ability to direct the relevant activities of this operation.

Therefore there is no joint control exists and Rechauffer should not account for this arrangement as a joint operation as this would not comply with IFRS.

Option 2:

I disagree with this accounting option because I do not think that this contract is a lease in terms of IFRS 16 for the following reasons.

I do not think that there is an identifiable asset in this arrangement which is required in order for the contract to be accounted for as a lease in terms of IFRS 16. This is because the 'asset' that Rechauffer has (the receivables from the retail store) is not physically distinct (the value is based on cash receipts from the supermarket) and therefore it is not an identifiable asset.

Therefore this contract does not contain a lease and so if Rechauffer accounts for this contract under IFRS 16, it would be incorrect. We should account for this under IFRS 15 revenue - see option 15 revenue.

Option 3:

I agree that we should be looking to IFRS 15 for guidance on how to account for this contract. However, I disagree that the performance obligation for Rechauffer being the delivery of the frozen meals to the partner store for the following reasons:

-We first need to determine the specified good in this contract. This is the frozen meals.

-We should assess the indicators of a consignment arrangement as per IFRS 15 to determine if a consignment arrangement exists here to see if Rechauffer controls stock until the point at

which it is sold to end customer:

- 1) The frozen meals are controlled by Rechauffer until the retail store makes the sale to the end customer. I note in your email you mention that there will be joint control of inventory responsibility, however, the ultimate responsibility of loss on Rechauffer primarily because if goods are not sold at the end of the 6 month shelf life - they are returned to Rechauffer
- 2) The retail store has no obligation to pay for the frozen meals. No cash changes hands when frozen meals delivered to the retail store, and the retail store is only obligated to pay Rechauffer when sales have been made

Therefore, a consignment arrangement exists and so Rechauffer still controls the stock until it is sold by the retail store to the end customer. Therefore the performance obligation is for Rechauffer to deliver the frozen meals to the end customer and not on delivery to the supermarket.

In terms of the correct accounting going forward:

-We first need to determine the specified good in this contract. This is the frozen meals.

-We then need to determine whether Rechauffer is acting as a principle or agent in this contract in terms of IFRS 15 guidance. Rechauffer is acting as the principle because:

- 1) Rechauffer is primarily responsible for fulfilling the promise of delivering the frozen goods to the customer. This is because if a customer returns items, Rechauffer bears the risk through not receiving cash payments from the retail store
- 2) Rechauffer holds the inventory risk. The inventory (frozen meals), if unsold by the end of the 6 month shelf life, will be returned to Rechauffer showing that Rechauffer holds the inventory risk
- 3) Rechauffer holds the discretion of establishing prices of the frozen meals sold in the retail stores as mentioned in your email.

Therefore Rechauffer will be acting as a principle in this arrangement and the retail store acting as agent.

Therefore Rechauffer will recognise revenue when it satisfies its performance obligation of transferring the frozen goods to the end consumer. Revenue will be at the gross amount of sales (principle) and the commission expense will be shown separately. This is the most appropriate option.

If we incorrectly account for option 3 in the way that it is currently presented, Rechauffer will recognise revenue too early on delivery of frozen goods rather than on sale to the end customer.

We should also make the following clear to Rechauffer:

- Rechauffer needs to raise a provision for expected returns of the frozen goods from customers and an asset for right of return of consignment stock. PPE (branded freezers) are still controlled by Rechauffer, they are just now located at the retail shop, and so should still be accounted for as PPE going forward. Rechauffer should also expense advertising costs when incurred.

In conclusion I believe that option 3 (with my comments accounted for) is most appropriate for the reasons discussed.

Let me know if you have any questions.

Kind regards
Financial Analyst

Examiners' comments

Option 1

The candidate adequately addressed joint control, disproving joint control by linking it to the fact that the decision-making does not require unanimous consent. The candidate further applied this criterion to the facts and circumstances evident in the case study. However, the candidate did not address collective control, which was evident from the case study, as some decisions were made collectively by the parties to the arrangement. Lastly, the candidate appropriately concluded on this option.

Option 2

The application and the identified asset in question were incorrect. The candidate did not appropriately address option 2.

Option 3

A robust discussion with adequate application was provided on consignment stock and the principal- agent relationship between the retailers and Rechauffer. The candidate correctly concluded on the revenue being accounted for on the gross basis with a related commission expense recognised. However, the discussion on a provision being raised was not appropriate as this would be a liability or a refund liability as opposed to a provision.

This candidate's response was considered to be sufficient to be deemed competent.

Limited competent

To: Ayola Hlekani
From: Financial Analyst
RE: Rechauffer strategic partnership

Good day Ayola,

I hope you are well.

Thank you for the additional information regarding the Rechauffer expansion strategy, After the previous email I hope to give you comfort on the strategy and give some additional input on what we should consider.

Please read through the attached and we can discuss more developments when you are available.

Warm regards
Financial Analyst

Attachment (Headings and Conclusion)

Accounting option 1

Appropriateness of Accounting:

This is not an appropriate accounting treatment as Rechauffer has control of the products and the designated freezers. This looks more like a principal agent agreement as Rechauffer is looking to give 30% of all sales to the stores.

Review and feedback

I don't agree with this being a joint arrangement as the control and risk is all on Villa which supported by the following.

- provides inventory which will be retained as consignment stock
- Unsold stock after shelf life will be returned to Rechauffer
- The retail price is determined by Rechauffer - also determines any promotional changes
- Bears the risk of customer returns

What the stores do is:

- collect all sales and retains 30% of these.
- assist on monitoring of inventory levels and sales
- assist with the advertising of the availability of items

Rechauffer will need to then ensure that our accounting policy and disclosure states that we are the principal in this arrangement, ensuring that our inventory balance includes the consigned stock too.

Accounting option 2

Appropriateness of Accounting:

This is an appropriate accounting treatment for the branded freezers assuming the supermarket owns the freezers and controls the floor space and Villa will be paying for the right to use them.

Review and feedback

You are correct that this arrangement will include a possible leasing arrangement, however the details thereof depend entirely on what the arrangement entails.

We need to establish first if Villa Flawty wants to either

- buy the freezers and own them and rent out a space within the store for the freezers; or
- if Villa intends to rent both the freezers and the space they occupy.

Based on your given considerations I will look into the rental only intention (if the buying option is also considered (bearing in mind the financial injections that come with it) we can have that

discussion) seeing as we tend to go on the asset-light approach on most investments.

The accounting for leasing the freezers:

We need to establish if this is a low value or normal lease contract.

Low value loans have a different accounting treatment which will be expensing the value at a straight line as compared to the already highlighted option where we are to recognise a right of use (ROU) asset and lease liability.

An alternative we can also look into is a service-fee arrangement, where we don't have control of the freezers or the floor space.

- Rechauffer would recognise the placement fees as they occur and there is no ROU asset or lease liability

Accounting option 3

Appropriateness of Accounting:

This is an appropriate accounting treatment for the recognition of the performance obligation, however control will only pass to the customer once the assets are sold as with what was discussed Rechauffer bears the risk or write-offs and returns - the store can't be the end user here and revenue can only be recognised when there is an actual sale is made overtime (specifically on a monthly basis)

Review and feedback

You are correct that there are IFRS 15 implications within this arrangement as a consignment arrangement Villa Flawty is required to follow the requirements of this standard.

This is a consignment arrangement where Villa is the principal as:

- Stock in the freezers is retained as consignment stock
- Unsold stock after shelf life will be returned to Rechauffer and The retail price is determined by Rechauffer.

Examiners' comments

This response is evidence of limited competence. The response did address all three accounting options (although incorrect), while incorrectly referring to Villa Flawty and not Rechauffer.

Option 1

The candidate did consider that Rechauffer is the only one setting the retail and promotion prices. However, the candidate discussed the IFRS 15 revenue requirements (as evidenced by the principle versus agent discussion), as opposed to the IFRS 11 joint arrangements requirements. Therefore, the candidate failed to consider whether collective control existed and whether there was unanimous consent in terms of IFRS 11.

Option 2

The candidate failed to consider whether the arrangement contains a lease in terms of IFRS 16. The response did not address whether there was an identified asset and whether substantive substitution rights existed for this asset.

Option 3

The candidate did conclude that a consignment arrangement exists. However, the argument did not consider the control requirements for consignment stock. The candidate incorrectly concluded that revenue is recognised over time as opposed to a point in time when the goods are sold to the customer.

As the response insufficiently addressed valid considerations for the joint arrangement, lease and revenue recognition, the response was assessed as demonstrating limited competence.

Task (b)

Respond to Zeria January's email regarding Bradger's draft journal entries for the two alternatives to the existing incentive scheme and the income tax implications of the two alternative schemes for Clairmont and the co-CEOs of the company.

Highly competent

From: Financial Analyst
To: Zeria January
Subject: RE: Incentive scheme
CC: Ayola Hlekani

Dear Zeria,

I trust that you are well.

Thank you for your email. I have reviewed the draft journal entries prepared by Bradger, and I have also considered the income tax consequences for each alternative. Please see my commentary below.

1. Review of draft journal entries:

Impact of alternative 1.

This journal is incorrect as no journal entry should be processed in this regard.

This is because alternative 1 is a modification that is unfavourable for the employees (Ayola and yourself) in that the exercise price has been increased from R0 to R0.25.

Although the vesting condition has been increased from 15% to 18% - this condition is still likely to be met as the current CAGR is 26.1%.

IFRS 2 requires that you ignore the change and continue to account for the share-based-payment as of the modification had not occurred. Ensuring that the minimum expense recognised does not fall below the original grant date fair value.

Impact of alternative 2.

The modification is from equity-settled to cash-settled.

This journal is incorrect in that the valuation is incorrect.

From the date of the modification (31 October 2025) the cash-settled share based payment needs to be measured by reference to the modification date fair value of R 1.60 instead of the R1.85 used in the calculation which is the fair value of share appreciation right.

There is no reversal of the equity account (Share based payment reserve) by R3 800 000. A journal needs to be made to the equity account, share based payment reserve in order to nil the account out as the payment will no longer be through issue of shares, but rather, through settlement in cash. The reserve should therefore be addressed in a journal of R3 800 000 which is the current balance of the account.

Debiting the expense account is accurate, however, the amount debited should not have been the full amount but only the difference between the carrying amount of the liability and the equity amount at modification date as this should be processed in profit or loss.

Crediting a liability account is the accurate treatment as this incentive will be settled in cash rather than shares. The amount is however incorrect. The fair value of R1.85 is correct, however, the vesting period of $\frac{1}{2}$ should be $\frac{2}{3}$.

Dr Share-based payment equity reserve	3 800 000
Dr Modification expense	2 366 667
Cr Share-based payment liability	6 166 667

2. Income tax considerations

Alternative 1:

Considerations for Clairmont Capital

The shares issued by the company are capital in nature and will therefore not be deductible for Clairmont. The receipt of the 25cents will be a receipt of capital nature and will not be included in Clairmont's gross income.

Considerations for Beneficiaries

On vesting of these shares to Ayola and yourself, section 8C of the income tax act will be relevant. Section 8C taxes employees on gains they receive from shares or rights acquired through employment. Therefore, Ayola and yourself will be taxed at the Market Value of the shares at vesting (which in this case would be 31 October 2026) LESS the price paid for the shares (25 cents per share) which is the gain on these shares.

This is taxed as normal income at the marginal rate and can also be subject to PAYE.

Alternative 2:

Considerations for Clairmont Capital

Clairmont will be entitled to a section 11(a) deduction in respect of the cash-settled share appreciation rights once the amounts have been paid out to Ayola and yourself as this is when the expense is considered to have been actually incurred. This amount is deductible as the expenditure arises in the production of income as it is considered employee remuneration and not of capital nature.

Considerations for Beneficiaries

Similarly, to alternative 1, Ayola and yourself would include a gain in your taxable income under section 8C, provided that the share price appreciated. The gain will be equal to the amount by which the share price has increased over the vesting period.

This is taxed as normal income at the marginal rate and can also be subject to PAYE.

In assessing the most beneficial alternative, the cash flow implications, tax benefit from allowable tax deductions, and dividend implications, including dividend withholding tax – all those will need to be considered.

In assessing the most beneficial alternative, the cash flow implications, tax benefit from allowable tax deductions, and dividend implications, including dividend withholding tax – all those will need to be considered.

I trust that the above will be of value to you and useful in the decision-making process.

Many thanks,
Financial Analyst

Examiners' comments

The candidate addressed all aspects of the task (coverage), namely both alternatives for accounting and both taxpayers, beneficiaries as well as the company for both alternatives.

Alternative 1

The candidate identified and proved with applied reasoning that the modification would be unfavourable to the co-CEOs and concluded appropriately that the proposed accounting treatment therefore is incorrect, since nothing should have been done if modification is non-beneficial.

The candidate addressed both taxpayers and continued to demonstrate excellent application of the facts from the case study, including the PAYE considerations. In addition, the candidate clearly explained not only the timing of when the beneficiaries will be taxed but also how much. The response was neither generic nor vague, and further provided clear date references.

Alternative 2

The candidate clearly demonstrated their thought processes. The transaction remained a modification and the type of modification, being equity to cash settled, was clearly spelled out. This was followed by a critical analysis. There was no derecognition of equity. This aspect, which was fundamental to this modification, was clearly and succinctly highlighted. Moreover, the candidate noted that a liability has been recognised, but that its measurement is incorrect, and provided a correct and accurate measurement. The candidate consistently demonstrated application, supported by a journal entry. To this end, the candidate correctly noted that there would be a difference between the equity derecognised and liability recognised, and correctly advised on where the difference should go. In this regard, the accounting implications were fully, succinctly and clearly addressed, and with demonstrated and consistent application. For ease of understanding, as an add-on, journal entries summarising the discussion were provided.

Similar to alternative 1, tax implications were appropriately addressed for both taxpayers, with reasons and application to the facts of the case study.

Finally, the candidate noted relevant factors that would need to be considered to decide on the most beneficial alternative, adding to a complete and helpful response to Zeriah.

Competent

To: Zeria January
From: Financial Analyst
CC: Ayola Hlekani
Subject: Incentive Scheme

Hi Zeria,

Thanks for the opportunity to assist with this. I have provided a review of the draft journal entries for each option below and have outlined brief comments on the income tax implications of each on both Clairmont and the beneficiaries of the scheme:

Alternative 1

Journal entry review:

- Alternative one modifies the target CAGR from 15% to 18% and requires the CEOs to pay an exercise price of 25c per share for the acquisition of shares. This modification is not favourable to the CEOs because now their target NAV/A ordinary share is higher - and so it is now more difficult for them to achieve their share based bonus. Additionally, the CEOs are required to pay 25c per share when/if the shares vest ($25c \times 2.5m = R625k$ each) while before these were issued for no consideration.
- Therefore it is clear that this is a non-beneficial modification to the employees and so, in accordance with IFRS 2, Clairmont should continue to account for the share based payments as if the modification had not occurred.
- I therefore disagree with the journals passed by Bradger and partners for the reasons discussed above. No adjusting modification journal entry should be passed as this is a non-beneficial modification.

Income tax consequences for Clairmont:

There are no additional income tax consequences of the scheme for Clairmont.

When/if shares are issued to the CEOs, no tax deduction can be claimed by Clairmont because there has not been any 'expenditure' incurred by Clairmont (Labat case law). Note that share issue costs might be deductible by Clairmont on issue as this represents actual expenditure and so we should consider this when/if the shares vest. The receipt of the 25c per share from the directors will be capital in nature and not included in Clairmont's gross income.

This is because these receipts will be used as capital to fund further expansion into existing and new investees in order to generate taxable returns (tree vs fruit case law).

Income tax consequences for the beneficiaries: The new alternative has no impact to the beneficiaries' income tax apart from the impact on the vesting date on 31/10/2026.

On vesting date, assuming the shares vest, the CEOs would need to include a s8C gain into their taxable income based on the market value of the shares on vesting date less any consideration paid and multiply this by the shares vested (2.5m each). The market value of the shares and number of shares vested on vesting date would not differ between the old scheme and the new scheme on the vesting date. However, the new scheme would require the co CEOs to subtract the consideration paid for the shares (R625k each) from the market

value of shares on vesting date. Note, although this appears to offer a tax benefit to the CEOs, the CEOs will still be required to make this cash outlay as consideration for the shares.

Alternative 2:

Journal entry review:

This alternative also present a modification - but from equity settled to cash settled.

The journal entry posted is incorrect for the following reasons:

- There should be no accrual recognised for FY25 because the obligation to settle the share based payment scheme in cash only exists on the modification date (31 October 2025)
- There is still the a share based payment reserve sitting in equity amounting to R 3.8m on Clairmont's balance sheet which needs to be derecognised as this equity settled share based payment option no longer exists. This has not been done in Bradger journals provided.

Instead Clairmont should:

- Raise a share based cash settled liability at the fair value of the shares at the settlement date to recognise this obligation. This amounts to $R1.85 \times 5\text{m shares} \times 2/3$ (ie.2 out of 3 years have passed) = R6,166,667
- Derecognise the share based payment reserve in equity (R3.8m)
- The difference between the liability raised and equity derecognised will be recorded as an expense immediately in the profit and loss and therefore will be expense in FY25 for Clairmont.

Therefore I would propose the following journals be made on 31 October 2025 instead, to correctly account for this modification:

Dr Share based payment reserve (E).	R3.8m
Dr Share based payment expense (p/l)	R2,366,667
Cr Share based payment (L)	R6,166,667

Income tax consequences for Clairmont:

Clairmont will likely be able to claim a s11(a) deduction when the cash payments is made to the co CEOs. This is because the payment is in the production of income (employee remuneration) and payment is not capital in nature because I do not believe there is no enduring benefit created by Clairmont at the point of the payout.

Income tax consequences for the beneficiaries

S8C will no longer apply to the beneficiaries because this section of the income tax act only provides for equity settled share based payments.

There will be no income tax effects for the beneficiaries on modification date because the share appreciation rights have not yet accrued to the beneficiaries (ie. the receipt or accrual of the share appreciation rights is dependent on the shares vesting in 2026 based on whether the CAGR NAV/A ordinary share growth meets the 15% target.

Upon vesting of the share appreciation rights in 2026, the amount received by the beneficiaries will be included in their gross income as services rendered at an amount of 2.5m shares * value of shares on the vesting date. If the shares don't vest, there will be no income tax consequences to the beneficiaries.

Please let me know if you have further questions.

Kind regards
Financial analyst

Examiners' comments

Alternative 1

The candidate adequately addressed the fact that the modification is non-beneficial and applied the facts provided on the day (such as the higher non-market performance target). The candidate thus appropriately disagreed with the journal entries provided.

The tax treatment under this option is appropriate from Clairmont's perspective, and the candidate explained why the issue of shares is not tax deductible and why the receipt of 25c per share is not included in gross income.

Discussion of the tax implications for the beneficiaries was also appropriate as the candidate identified how much would be included in gross income and then also discussed the timing of such inclusion.

Alternative 2

The candidate adequately identified and explained the fact that the equity was not derecognised when the liability was raised. The correct measurement of the liability (2/3 vs 1/2) was identified. Furthermore, the candidate identified that there was an excess that will be recognised in SoPL.

The tax implications for Clairmont were again correctly identified. The discussion of the tax implications for the beneficiaries was also appropriate, as the candidate not only identified how much would be included in gross income but also the timing of such inclusion.

Limited competent

To: Zeria January
From: Financial Analyst
RE: Incentive Scheme
Good day Zeria,

I hope you are well.

Thank you for the update regarding the Incentive scheme.

Kindly find attached my assessment of the potential modifications and their implications.

Looking forward to hearing from you soon.

Warm regards
Financial Analyst

Attachment (Headings and Conclusion)

Alternative 1

Review -agree/disagree

I do not agree with the journal entries as in accordance with IFRS2.27 we are not to reduce the cumulative expense below the amount that would have been recognised for services already received under the original grant.

We need to recalculate the remaining expense to allocate over the remaining period using the new terms of the agreement- namely determine what the fair value of the agreement would be over the full three year period and reduce it with the currently already recognised R3800 000 to determine what the share based expense will be for the next two years.

Income Tax Implications

The scheme still remains as a restricted instruments as per Income tax, tax implication will become effective for both Clairmont and the beneficiaries only when the shares vest where: gross income of the fair value of the shares will be included in gross income for the beneficiaries and has an exemption applies (giving is a Base Cost for CGT purposes when they do dispose of the shares in the future then it can be used to determine the tax on that disposal)

For Clairmont the issue of shares will be a non-deductible expense with no exemptions for the entity.

Alternative 2

Review -agree/disagree

I agree that now the new obligation has to take into account the current position of the shares which is the fair value of the share appreciation right at 31 October 2025, however we do not have a journal that depicts the modification for last year's value.

-As it currently stands our books will be reflecting both a equity-based and a cash-based

scheme.

- we have accurately accounted for the current year if the modification is accepted but we need to look at the prior year journal and adjust the equity reserve and remuneration expense accordingly. Income Tax Implications The cash settled incentive is treated as normal gross income for the beneficiaries as it acts as a income and as a general expense for Clairmont as this would have been incurred in the production of income.

Examiners' comments

This response showed limited competence. The candidate's response did not address all aspects of the task – alternatives 1 and 2, as well as the tax implications for Clairmont and the co-CEOs.

Alternative 1

The candidate failed to identify that no modification is required, as the conditions (increased CAGR, consideration paid for the shares or fair value of the shares are lower) would not be beneficial for the co-CEOs.

The candidate correctly identified that there is no tax deduction for Clairmont. However, when considering the co-CEOs, the candidate did not consider that it is the gain (market value at date of vesting less consideration paid) that was included in gross income. The amount included in gross income was incorrectly exempted at the vesting date.

Alternative 2

The candidate stated that the equity reserve needed to be adjusted, without concluding that the equity reserve had to be derecognised. The candidate neither addressed the measurement of the equity derecognised nor the liability recognised.

The cash bonus was correctly included in gross income for the co-CEOs. However, there was no indication of the value at which it should be included or when the amount had to be included in gross income. The candidate concluded correctly that the bonus was deductible by the employer, but did not address when the bonus would be deductible by the employer.

The response insufficiently addressed valid considerations for both alternative 1 and 2, and further omitted key tax principles for both the shares and cash bonus. The conclusion was therefore that the candidate displayed a limited level of competence in this task.

Task (c)

Respond to Zeria January's email regarding Villa Flawty's plan to target the Gauteng government departments.

Highly competent

TASK C

Start Task C Here:

From: Financial Analyst
To: Zeria January
CC: Ayola Hlekani
Subject: Villa Flawty growth initiative
Attachment: Project plan Review

Good day Zeria

I trust this email things you well and thank you for all the information provided.

As requested, I have provided a review of project plan, and points to make at the board meeting before this is voted on.

Kind regards Financial Analyst

Attachment: **Project plan Review**

Review of draft project plan:

- The regular check-in provides a view of upcoming opportunities and requirements, this gives Villa Flawty an advantage as they are aware of opportunities before everyone else. This is unethical as it does not give everyone a fair chance and goes against the pillar of open and effective communication in terms of procurement guidelines, this would be giving favouritism to Villa Flawty and not notifying all interested parties of the opportunities on the tender bulletin as required.
- In terms of the procurement guidelines pillar of ethics and fair dealing, SCM officials should avoid gifts and hospitality that compromise integrity. The events compromise integrity as SCM officials will have a bias towards Villa Flawty, and may push for Villa Flawty to get contracts.
- Villa Flawty obtaining competitors offering, pricing models and client profiles from SCM officials is unethical and is unfair dealing. Information of client profiles may contain confidential sensitive information about company directors ID numbers, thus obtaining using and sharing of such information is does not comply with Protection of personal information act (POPIA) and could lead to fines and penalties for Villa faulty. The sharing of competitors information by SCM officials constitutes misuse of public property and is against the pillar of ethics and fair dealing in terms of the procurement guidelines.
- The appointment of a retired politician to act as an ambassador constitutes a conflict of interest as the ambassador was previously involved in the government space and currently in Villa Flawty, they will use the connections built in the public space to push interests in favour of Villa Flawty which could be perceived as villa

Flawty obtaining contracts due to connections and not merit.

- The ambassador receiving remuneration based on the contracts secured is unethical as it compromises integrity, as they will use connections to gain more contracts in order to earn more revenue. This can also be seen as a bribe and goes against the ethical and fair dealing pillar.
- Villa Flawty does not need anyone to lobby for approval to be registered on the departments supplier database, this is incorrect, Villa Flawty can simply register on the central supplier database and provide on the required documents such as company registration certificates, this data base can be used to submit quotations for tenders.
- Assisting in securing quotations is unethical as Villa Flawty bids in these processes thus cannot also be involved in the process of obtaining quotations due to not being independent, this is also them performing the work of the government.
- Submission of a more acceptable quotation based on other quotations not being market related is also unethical as it give Villa Flawty an advantage, it is the sharing of confidential information and Villa Flawty will adjust the prices in order to meet contracts but these may not be an accurate reflection of the costs to fulfil the contract, thus leading to poor quality materials being used, this will affect the reputation of Villa Flawty and goes against the luxury offering goal.
- The submission of an acceptable quotation by the is also unethical, directors of Villa Flawty, in adopting this action will be seen to be pushing the financials interest of the business above all other interests and concerns, this goes against the companies act requirement (s76) for directors to act in the best interest of the company. In addition, King IV recommends ethical and effective leadership, adopting this plan in its current form breaches these principles as instances of bribe, lack of integrity and frequent conflicts of interests arises.
- The national treasure instructions states that transaction may not be split in order to avoid the procurement process, Villa Flawty planning to split larger contracts in against this instruction and leads to non-compliance.
- SCM officials receiving complimentary accommodation to 5% of the revenue generated from contracts is unethical as it compromises their integrity, this will push them to give contracts to Villa Flawty in order to obtain contracts which goes against the procurement guidelines which state that gifts and hospitality to compromise integrity should be avoided.

Conclusion

- The current project plan contains non-complains with laws and regulations, many unethical matters and concerns. This plan should not be accepted at all.

Board meeting points:

- Plans to manage cash flow risks as government entities usually face delays in making payments due to all the processes that need to be adhered to and sometimes budget cuts.
- Consideration to the appointment of a government accounts lead for monitoring of opportunities on the bulletin and submission of bids and quotations.
- How they plan to manage capacity, as the entity is currently at a capacity of 70%, thus supplying to government will lead to capacity constraints (only 32 rooms).
- Any investment needs and capital costs that will need to be incurred to upgrade

technology or conference facilities, and whether current facilities are appropriate to meet government needs.

- Strategic alignment, Villa Flawty aims to be a luxury positioning thus targeting government departments may not align with this strategy as there is a focus on cost, meaning lower quality materials may need to be used in services.

Kind regards
Financial Analyst

Examiners' comments

The candidate demonstrated a good understanding of the task, as evidenced by detailed insights into each of the seven action plans.

- Raised caution about the perceived lack of integrity due to regular check-ins, special treatment and inappropriate influence of the SCM officials during networking events.
- Identification and a clear explanation of the impact of using of confidential information from SCM officials, linking it to a possible breach of the POPIA.
- Identified that the national treasury instructions regulate the tender and RFQ thresholds and that if Villa Flawty breaks up of contracts into smaller chunks it would be a circumvention of SCM/ procurement processes.
- Raised concerns regarding affiliation with a retired politician as appointing such a politician could result in them using their connections built in the public space to promote interests in favour of Villa Flawty. This could be perceived as Villa Flawty obtaining contracts due to connections and not merit.
- Linked the remuneration structure of the ambassador to possible bribe and kickback based on the contracts that the politician will obtain for Villa Flawty.
- Raised concerns that incentives amounting to 5% of revenue paid to SCM officials is tantamount to a bribe and thus corruption.
- Identified that registration on the CSD is straightforward and does not need any lobbying, Villa Flawty only needs to be in position of valid and required documents, such as company registration certificates.
- Identified that overall, the project plan appears to prioritise Villa Flawty making profits rather than setting an ethical tone in how business should be conducted to demonstrate good and responsible corporate citizenship.

The candidate provided Zeriaah with a conclusion that clearly stated that the project plan should not be supported in its current form.

In addition, the candidate explained some of the adverse consequences to Villa Flawty should it go ahead with implementing the project plan. In particular, the following points noted in the response demonstrate a deep insight into and understanding of the task:

- Alerting the board to consider having plans to manage cash flow risks as government entities usually face delays in making payments.
- Highlighting to the board that it needs to have a plan to manage capacity. The entity is currently at a capacity of 70%, thus supplying to government could lead to capacity constraints.

Overall, there was good coverage and detailed explanations of ethical concerns on the proposed action plan. In addition, the candidate provided excellent insights that demonstrated

a deep understanding of the subject matter and also of the business model of Villa Flawty.

Competent

TASK C

Start Task C Here:

From: Financial Analyst To: Zeria January

Subject: RE: Villa Flawty growth initiative CC: Ayola Hlekani

Dear Zeria,

I trust that you are well.

I have reviewed the project plan targeting Gauteng government departments and to answer your question briefly, I do not think it is advisable to support the plan in its current form. Kindly see below points detailing why this plan should not be supported in its current form:

- The current plan makes provisions for strategic engagement through influential representation
 - Having a well-connected, retired politician to act as Villa Flawty's ambassador opens up Villa Flawty to reputational damage.
 - Political interference is unethical in that Villa Flawty would be promoted outside of the standard procurement processes.
 - Having close association with key government officials, heads of departments and political leaders will result in Villa Flawty winning over these contracts due to connections rather than merit. This is unethical and goes against the general procurement guidelines of " Ethics and fair dealings" in that the deals that could be potentially made would be for personal gain by this ambassador as they will be earning a remuneration based on a percentage of the revenue earned by Villa Flawty.
- The current plan makes provisions for building strong relationships with supply chain management officials
 - This goes against the general procurement guidelines as the bidding process is no longer operating in an open and effective completion. This also opens the risk of public scrutiny and reputational damage as these associations can be seen as unfair to competitors if it becomes public.

This plan is not an ethical dealing and over and above the government guidelines, the board is meant to lead with integrity and lead ethically per the companies Act. This would be influencing these management officials through being overly familiar with them since the purpose is to establish links with these officials.

- Customer service orientation
 - Villa Flawty's staff assisting in securing quotations from other hotels and using these

quotations to undercut their quote is unethical and against the general procurement guidelines. It is going against what is meant to be an ethical culture from the top and over and above that. It is also unfair competition as we will reduce our prices to be the most favourable supplier.

- Larger contracts being broken down into smaller components to reduce the value and need for complying with the regulations set for higher bids is also an unethical practice. This is could also be seen as non-compliance with rules and regulations as the total value of these contracts would ultimately be material.
- Incentive programme to encourage long-term partnership
 - This incentive program can be seen as a bribe or compensation for selecting Villa Flawty as a preferred supplier. Providing government officials with brides is not only unethical but illegal.
- Overall
 - This plan highlights unethical methods in acquiring government contracts. Considering the current attention being brought forward in current affairs for government spending and entities being unfairly awarded government contracts, it brings about major reputational risks for the entity as these slight-of-hands and back-room dealings have the potential to be public especially during this current economic climate.
 - From an overall point of view, I do not support the project in its current form as it seeks to gain a competitive advantage in obtaining government contracts through bribes, influence from political figures and financial incentive plans that pay SCM officials 5% of revenue that Villa Flawty generates from their department.
 - It goes against good social and corporate governance that you as director's should be striving towards and in addition sets a culture of unethical behaviour. It also takes away from the entities core operations.
 - I would suggest that the plan be centered around marketing Villa Flawty in accordance with the requirements set by the procurement act and these contracts should only be rewarded in merit. When considering the financial impact as well, payments to SCM officials as well as the influential representative, it would be financially beneficial to avoid these costs to improve the performance of Villa Flawty as the risks associated with this plan outweigh the rewards.
 - The current occupancy percentiles are healthy and above industry norms at 68% and 70% in 2024 & 2025 respectively. By venturing into government contracts, this means that the current customer base will be affected in that there are space constraints (only 32 rooms available). This means that the previous customer base of business-people and tourists who would have potentially generated higher revenue will be lost out.

Examiners' comments

The candidate demonstrated a good understanding of the task as evidenced by the overall comments on the project plan. This candidate was clear in stating that the project plan could not be supported in its current form and provided numerous reasons to support this from an overall point of view. The candidate's holistic view was clearly linked to an overall theme of the project, which would have unfairly placed Villa Flawty in a position to obtain a competitive advantage in obtaining government contracts through bribes, influence from political figures and financial incentive plans for paying SCM officials 5% of revenue that Villa Flawty generates. .

The candidate listed possible implications of adopting some of the actions such as the following:

- Reputation damage due to political interference and close association with key government officials.
- The proposed events could be seen as an attempt by Villa Flawty to influence these management officials through being overly familiar.
- The suggested plan under customer service orientation was tantamount to unfair competition as Villa Flawty would use competitor information to reduce its prices to ensure it was the most favourable supplier.
- Identification of, with reasons, the fact that larger contracts being broken down into smaller components to reduce the value and need for complying with the regulations set for higher bids was unethical practice. The candidate further stated that this could also be seen as non-compliance with rules and regulations.
- Identification, with an explanation, that the 5% incentive programme can be seen as a bribe or compensation for selecting Villa Flawty as a preferred supplier.

The candidate highlighted to Zeria how the proposed plan could further result in capacity constraints for Villa Flawty.

These discussions and explanations were assessed as placing the candidate in the competence category as it was considered to show sufficient evidence for competence in this task.

Limited competent

TASK C

From: Financial Analyst

To: Zeria January

CC: Ayola Hlekani

Date: 3 December 2025

Subject: Villa Flawty growth incentive

Dear Zeria,

I have reviewed the project plan and please see my comments below.

Although the sales and marketing manager is not a CA or on the board, and therefore does not need to follow the CPC or KING IV, there are still visible ethical concerns.

The project plan is not ethical and therefore should not be approved, because of the following reasons:

- Villa Flawty is trying to gain an unfair advantage in all of these points which is not fair nor reasonable to the other companies also submitting a proposal to the government. Therefore the manager has only done something good for themselves and not for other companies also trying to submit a proposal, by doing something that only benefits yourself it is unethical.

Government Requirements

The points noted under this heading relate to points that are not in line with the Government Procurement and Threshold Values document which I have up skilled myself on. I have broken these points up into each action point discussed in the email attachment.

- Villa Flawty cannot gain information from the SCM officials by sourcing information submitted by competitors for previous tenders, as this will not withhold any ethical standards, as this could be seen as trying to gain an unfair advantage. Villa Flawty must rather source their information from places that the public have access to such as government and hotel websites.
- When developing marketing materials, Villa Flawty must ensure to only include factors that they can provide, and no differentiating factors must be used that are not true and can't be delivered.
- No approval is needed to be on the departments' supplier database, Villa Flawty can fully register on the Central Supplier Database. When registering the CSD, Villa Flawty must ensure that the services are clearly categorised so that it appears in relevant searches by government officials.
- Along with registering on the CSD, Villa Flawty must also ensure that they have a BEE certificate that is current and reflects the highest possible rating, as government officials prioritise companies with a higher BEE status. Although I am unsure if Villa Flawty has its own BEE certificate, Clairmont's BEE status should translate into a strong BEE rating for Villa Flawty.
- Larger contracts cannot be split into smaller components in order to reduce the value of the contract so that the contract falls into a different procurement bracket that has less procedures to comply with.

- Villa Flawty cannot offer any hospitality or gifts to the SCM officials, as this does not comply with the ethical standards and could be seen as trying to gain an unfair advantage.
- When monitoring and evaluation the value of business secured, Villa Flawty will also need to maintain accurate records of all transactions and communications related to the proposed government contracts.

I would not accept the project plan in its current form due to the major ethical concerns that need to be addressed. The points mentioned also need to be amended so that they are in line with the Governments procurement requirements before the project plan is voted on.

Kind regards
Financial Analyst

Examiners' comments

This response is evidence of limited competence. The response starts off by focusing on the incorrect context to the task. The candidate discussed in depth implications of the sales and marketing manager in their individual capacities, while the task required candidates to discuss the contents of the proposed action plan for adoption in Villa Flawty's strategic plans to expand their service offering, particularly to government departments.

Overall, the candidate's discussion of the action plan showed limited evidence of valid issues and concerns. The candidate only validly discussed concerns relating to the use of confidential information and the perceived offering of gifts through the 5% incentive in point 6 of the action plan. The candidate correctly advised Villa Flawty to register on the CSD. Apart from this discussion points in the candidate's response, no other valid concerns were raised from all other possible issues in this task, thus resulting to limited coverage. The candidate also often made statements without sufficiently providing explanations or reasons, for example merely stating that 'larger contracts cannot be split into smaller components', without supporting it with a reason.

The candidate's overall response showed a limited engagement with core issues within the proposed project plan and lacked sufficient explanations.

Task (d)

Respond to Zeria January's email regarding the two proposals received by Villa Flawty from Silver Spoons.

Highly competent

From: Financial Analyst
Sent: 3 December 2025
To: Zeria January
Subject: Silver Spoons opportunity

Good day Zeria,

Please see below as requested

1. Analysis on which option is most financially attractive

Option 1

	Amount
share of the JV operating profit	1 998 000
Current Chef retrenchment (once off)	(250 000)
Hotel accommodation for new chef (2950*60%*365)	646 050
Water and electricity (to be paid by silver spoon)	0
Rental income (JV will not be charged rent)	0
Finance division salary (677000/2)	(338 500)
Advertising expense (cost will be incurred by JV)	0
Other operating expenses (incurred by the JV)	0
EBITDA	2 055 500
EBITA excluding once off	2 305 500

Option 2

	Amount
Monthly rental(150 000*12)	1 800 000
Current chef retrenchment (once off cost)	(250 000)
Accommodation new chef (2950*80%*365)	861 400
Rates and taxes (728 000/2)	(364 000)
Finance division salary	0
Acquisition of the kitchen equipment (once off)	500 000
EBITDA	2 547 400
EBITDA excluding once off	2 297 400

Both option's EBITDA exceed the current EBITDA of the Food and Beverage operations, but Option number 1 has the highest EBITDA.

The first option even though it has the highest EBITDA, VF must consider that, they will no longer have control of the kitchen.

2. Further key information that the CEO of Villa Flawty (VF) should request to assist in the evaluation of which option to pursue.

- Request for more information to understand why the JV must pay a facilitation fee to JZAH investment, of revenue per month generated by the JV, considering the JZAH is a majority shareholder for Clairmont.
- What bases was used to determine the discount rate for the accommodation of the New chef? more information is required as VF might have a policy around discounts this need to be reviewed to ensure the discount is within the policy
- We should obtain clarity on the marketing costs, the terms state that the JV will be responsible for them however the costs are not included in the forecast provided by Silver Spoons.
- forecast cash flows for another 3-4 years to assess the expected profitability over a longer period, as making an assessment over 1 year may not be sufficient for purposes of making a decision
- What would the costs be of the restaurant and would guests staying at Villa Flawty have a discount at the restaurant as a means to attract more business while boosting occupancy.
- What are the terms of the lease agreement, what are the exit clauses if any ?, what are the annual rental escalation amounts ?
- Who would be responsible for the Health and safety costs (e.g. clients are injured on premises or clients obtain food poisoning?)

Examiners' comments

The candidate successfully addressed all aspects of the task, demonstrating a clear and comprehensive understanding of each component. They compared both options against the current EBITDA and raised the following further key information that the CEO should request, backed up with explanations:

- For the first option the candidate was able to identify the majority of the relevant/incremental revenues and costs. The candidate further demonstrated an understanding that they are entitled to half of the JV profits and that some costs, such as retrenchments costs and the revenue from the hotel at the discounted rate, would be post the profit share.
- The candidate was further able to identify that there were potentially more incremental costs under both options that were mentioned in the scenario, but where no values were provided.
- The candidate demonstrated an understanding that some of the costs were once-off and would not be repeated into the future and further provided a calculation to net off these costs to show a recurring profit for both options.

For the second option the candidate identified all the incremental revenues and costs and further estimated an amount for the incremental expenses where no value was provided in the solution to reflect that these costs needed to be considered.

- The candidate then concluded by comparing both options with the current EBITDA to make a decision that would benefit the company in the long run.
- The candidate identified further concerns regarding the aspects of control around the kitchen before providing a response on the key information to be requested.

The candidate continued to provide well-explained and insightful key information for the CEO across both options.

The candidate overall demonstrated high competence in all aspects of the task, with clear calculations and sufficient valid key information for the CEO.

Competent

From: Financial Analyst
Sent: Wednesday 3 December 2025 10:00 am
To: Zeria January
Subject: Silver spoons opportunity
Attachment: **Silver spoons proposal review**

Good day Zeria

I trust this email finds you well and thank you for all the information provided. As requested I have provided a review of proposals provided by silver spoons and attached my commentary below.

Furthermore, in order to review the opportunity with Silver spoons it is important to consider whether this is in the best interests of both Villa Flawty and Clairmont as obligated by the companies act and not only consider whether this helps to achieve the performance target. Considering whether this helps to achieve the performance target can lead to a

potential self-interest threat to objectivity as professional judgement may not be correctly exercised due to only considering own financial interests. This can also mean that the long-term sustainability of the arrangement is overlooked. Thus please keep this in mind when considering the proposals.

Kind regards
Financial Analyst

Attachment: **Silver spoons proposal review**

1. Which option is most financially attractive

- Option 2 is the most financially attractive option of the two. **(Refer to excel)**
- This option results in a positive incremental increase in EBITDA of R968 800 whereas option 1 results in a decrease in the current EBITDA by R 440 900.

2. Further key information that should be requested

- Information regarding what will be done in terms of the liquor license and the wine cellar needs to be provided in order to assess both options.

Option 1

- Information regarding Exit clauses and termination agreements should be provided in order to assess this option.
- Information regarding who retain ownership of the intellectual property of the joint venture should be provided.
- Since Silver Spoons will have rights to cater for food and beverages for all conferences that take place at Villa Flawty, will a discounted price be provided to these guests and the conferences to allow Villa Flawty to remain a cost-effective option?
- The joint venture would need to purchase the furniture, equipment, plates and cutlery from Villa Flawty that it intends to take over. This will affect the EBITDA.

Option 2:

- The tenor of the lease needs to be provided in order to evaluate the lease over its period .
- Furthermore, information about the termination clauses, options at the end of the lease need to be provided.
- Escalation of payments year on year needs to be provided or whether these will remain constant throughout the term.
- What is the anticipated amount for water and electricity that Silver Spoons thinks it may use as this will affect the EBITDA calculation.

Excel document

Option 1

EBITDA of Villa Flawty Hotel	
Loss in Divisional EBITDA	- 1,327,500
Share of profits from joint venture	1,998,000
Retrenchment costs	- 250,000
Loss in accommodation revenue(provided to chef)	- 1,076,750
Loss due to discount to chef	- 4 30,700

Accommodation revenue from chef	646,050
Movement in EBITDA of Villa flawty(Loss)	- 440,900
Option2	
Loss in Divisional EBITDA	- 1,327,500
Rental income	1,800,000
Retrenchment costs	- 250,000
Loss in accommodation revenue(provided to chef)	- 1,076,750
Loss due to discount to chef	- 215,350
Accommodation revenue from chef	861,400
Cost saving finance division	677,000
Consideration from sale of equipment	500,000
Impact on EBITDA	968,800

Examiners' comments

The candidate successfully addressed all aspects of the task, demonstrating a clear and comprehensive understanding of each component. They compared both options with the current EBITDA and raised further key information for the CEO to request, such as the following, with sufficient explanation on why it was required:

- For the first option the candidate was able to identify the relevant/incremental revenues and costs. Although some errors were made, these were not so significant that it detracted from the overall validity of the response.
- The candidate was further able demonstrate an understanding that they were entitled to half of the JV profits and that some costs, such as retrenchments costs and the revenue from the hotel at the discounted rate, would be post the profit share.
- For the second option the candidate identified most of the relevant revenues and made minimal errors in the response.
- The candidate then concluded by comparing both options with the current EBITDA, with a calculation showing that the starting value was the current EBITA (adjusted), in order to make a decision as to which option would be most viable.
- The candidate identified further concerns regarding the aspects of control around the kitchen before providing a response on the key information to be requested.
- The candidate to provided well-explained and insightful key information for the CEO across both options.

The candidate overall demonstrated competence across all aspects of the task, with clear calculations and sufficient valid key information for the CEO to be assessed as competent.

Limited competent

To: Zeria January
 Sent: Wednesday 3 December 2025 12:11 PM
 From: Financial Analyst
 Subject: Silver Spoon Opportunity
 Attachment: Evaluation of opportunities

Hi Zeria.

Trust you are well.

Deciding between two investment opportunity requires careful consideration and all relevant costs should be taken into account in order to achieve better results.
I have attached the calculations that i have done for the evaluations.

Cheers
Financial analyst
investments.

Attachment: Evaluation of opportunities

Joint venture

Revenue	10,320
Less: Variable costs	
Cost of sales	-3,096
Transaction fees	-258
Contribution	6,966
Each partner's share	3,483

Lease

Rent income (150,000*12)	1,800
less Variable costs	-
Contribution	1,800

Based on the calculations above, none of the options are beneficial to Villa Flawty because the company has a contribution to Net profit of R5,012,000 and the joint venture will provide a contribution of 3,483,000 and also the lease agreement has a contribution of 1,800,000.

Information to request further

- A detailed calculation and supporting documents of the metrics used to calculate revenue and cost of sales.
- If there are any contracts that are guarantees the projected revenue, a copy of signed contract should be provided.
- The rights and obligations of each part to the joint venture should be stipulated
- Is the JV going to pay for taking over kitchen equipment from Villa Flawty at no consideration or that will be regarded as the capital contribution made by Villa Flawty.

Examiners' comments

Even though the candidate addresses both parts of the task, the response omitted calculations of most of the relevant/incremental revenues and costs. There were also indications that the candidate struggled to identify key information that needed to be requested by the CEO.

The candidate evaluated the two options against each other but omitted the last step of comparing the options to the current EBITDA. Instead, the candidate used the net profit, which could include/omit revenues and costs that are incremental.

The candidates made no adjustments for the revenues and costs (e.g., retrenchment costs, accommodation expenses/income) across both options, thus ignoring significant cash flows that had an impact on the decision to be made.

The candidate did identify some, but limited, key information to be requested by the CEO. However, most were not valid and did not address the required. The candidate also failed to provide well-explained reasons as to why the information was being requested and why it would be useful to Villa Flawty.

Task (e)

Respond to Ayola Hlekani's email regarding the high-level valuation of Bruum Finance and the income tax considerations

Highly competent

From: Financial Analyst Sent: 3
December 2025 To: Ayola Hlekani
CC: Zeria January
Re: Subject: Bruum Finance
Hi Ayola

Please see my feedback below as requested.

Errors in the valuations

- Why was the prime overdraft lending rate used as a risk-free rate in calculating the cost of equity of Bruum Finance? A long-term government bond yield should be used as a risk-free rate.
- I want to ensure that the adjustments made for other capex in the cash flows is only for the movement as it seems to be the same amount year on year?
- I also would have expected adjustments for trade debtors seeing that Bruum has bad debt which they are taking a tax deduction for? The bad debts forecast should have been added back in the DCF model as these represent non-cash flow items.
- Interest income should be excluded from the DCF model, as the investment(s) to which this income relates are added separately as dissimilar assets.
- I would have also expected to see adjustments for maintaining and expanding the business especially seeing that the CFO said that their growth has not yet levelled off.
- I agree that based on the fact that Bruum has no interest-bearing debt, discounting should take place at the cost of equity. It however seems like you have excluded a beta from your calculation. I would as a starting point look at unlevered betas from comparable listed companies like Zeda Ltd and SA Taxi.

Assumptions requiring further enquiry or clarification

- The EBITDA multiple and equity market premium are based on ChatGPT.

I like to fact check (and in this case recompute) any outputs from ChatGPT seeing that artificial intelligence can hallucinate.

In relation to the equity market premium, PwC does a comprehensive South Africa Valuation Methodology Survey and in their one release this year based on the respondents, PwC is the most widely used source for estimating the market risk premium. The average market risk premium used in South Africa based on this survey is between 5.3% and 6.5%.

- I see the growth in perpetuity is based on own estimate. Kindly explain how you derived this estimate? I usually use the following formula: $N = [(1+R)(1+i)-1]$ where R is the CAGR expected in the industry. On this, I saw Nedbank forecasted in November the vehicle asset finance industry to grow with 7.7%. i would be CPI which I am aware is 3.6% as at October.

Valuation issues raised in the telephonic conversation:

- I agree that one should always consider more than one valuation method but one should caution against doing this just to "check the box" and rather do it as a reasonableness test.

In my opinion, a DCF model as a valuation method should be applied to high-growth companies seeing that this growth (as discussed above) can be captured in the valuation method in comparison to an EBITDA multiple as a valuation method that will not take growth into account and assumes cash flows are more or less consistent.

- Non-recurring items should not be taken into account into the growth perpetuity but should still be taken into account in the forecasted cash flows.

I am curious as to why the CFO of Bruum does not regard the loss on disposal of motorcycles to be recurring items perhaps we can ask him/her this seeing that based on my understanding of their business model I would have treated this as recurring?

Income tax treatments adopted

A Section 11(i) deduction should only be claimed if the amount was previously included (either in the current or previous years of assessment) in Bruum's income. Section 11(i) is however a contentious issue and Bruum would need to be able to prove to SARS that they have exhausted all means to recover the debt; only then would they be allowed to claim a section 11(i) deduction as the receivables would be considered "bad" for income tax purposes.

It is however important to note that the IFRS 9 does not have to be applied in order to create a doubtful debt allowance and hence a section 11(j) deduction can still be claimed. It would however be calculated in relation to days outstanding instead of IFRS 9 requirements. This would result in Bruum being able to claim 25% of the value of the receivables outstanding for 60-119 days and 40% of the value of the receivables outstanding for more than 120 days.

Seeing that the cash deposits are not ring-fenced in a separate bank account and form part of general working capital, these deposits cannot be argued to not be of the benefit of Bruum and hence it would need to be included in Bruum's income when received, and taxed accordingly.

The losses claimed on disposal should be calculated with reference to the allowances claimed whilst the motorcycles were owned by Bruum. Bruum would need to elect to claim s11(o), which it would do should the proceeds on disposal be less than the tax value at that point.

Other income tax considerations

To simplify my calculation and ensure I get the tax right I would have rather ensured I use a discount rate pre-tax and then include my cash flows pre-taxation. Once I have my value, I would then apply the required tax rate to it.

Due to the possible change in shareholding of the Income Tax Act may apply. If it is submitted that section 103(2) may apply if it is proved that the sales agreement is solely for the purpose of using the assessed loss, the tax effect will be that the tax loss in the valuation will not only be ring-fenced but not applicable at all. Thus, no value will then be placed on the assessed loss.

Please let me know if you have any questions.

Kind regards
Financial
Analyst.

Examiners' comments

Comments on the valuation response:

- The candidate correctly indicated that Bruum does not make use of debt funding, and that therefore using a cost of equity as a discount rate was indeed correct.
- The candidate correctly questioned the use of the prime lending rate as a risk-free rate, and correctly suggested that the yield on a long-term government bond should be used as the risk-free rate.
- The candidate displayed a high level of competence with the pre-research around Zeda Ltd and SA Taxi and used their unlevered betas as a starting point for deriving a beta for Bruum – very impressive!
- The candidate correctly indicated that bad debts should be added back in the DCF model and that interest income should be excluded, as the dissimilar assets are valued separately.
- The candidate correctly identified that using ChatGPT to source an EBITDA-multiple and equity market premium was not advisable given that ChatGPT is not considered to be a reliable source.
- Again, the candidate's pre-research is impressive. Referencing the PWC Valuation Survey's equity market risk premium underscores the candidate's competence. Superb!
- The candidate's reference to Nedbank's forecast growth rate for the industry was also impressive. The candidate could have concluded that using this to forecast a terminal growth might not be appropriate. Credit was however given for the pre-research.
- The candidate correctly indicated that calculating more than one fair value allowed for the testing of the reasonableness of the fair value computed.
- The candidate correctly discredited the use of an EBITDA-multiple valuation method

when valuing enterprises in high-growth phases.

- The candidate provided an impressive response around the treatment of non-recurring items in the implicit period versus terminal value calculations and further provided a solid answer in relation to the loss on the disposal of motorcycles.

Comments on the tax response:

- There was good coverage of the tax issues raised on sections 11(i) and 11(j), gross income and section 11(o).
- In addition, the candidate linked the tax loss in the valuation to a possible application of section 103. Section 103 may possibly apply as the company contemplated the purchase of shares and this anti-avoidance provision may hinder the application of any tax losses.

Overall, the candidate provided a response in relation to the valuation-related issues, being sufficient in terms of the breadth and depth of the response, but also demonstrated an application of pre-research information that elevated the valuation-related response to that of a highly competent response.

Competent

To: Ayola Hlekani

From: Financial

Analyst

Date: 3 December 2025

14:00PM Subject: Bruum

Finance

Good afternoon,

I hope you are well and having a productive day!

I have looked into the conversation with the CEO as well as the valuation and drafted a few comments and considerations in the word document attached. Please let me know if you have any questions after reviewing this document.

Kind
regards,
Financial
Analyst

Bruum Finance

1. Valuations

Earnings-based valuation

- The forecasted amounts for 2026 and 2027 were used in assessing if a trend exists. This is incorrect, the historic figures for the EBITDA from 2025 should be used to identify if a trend exists. This determines which EBITDA you will use in the valuation. The past 3 years (2025, 2024, 2023) figures should be used instead.

- No adjustment has been made for the depreciation on the motorcycles which I assume would form part of the operating expenses. EBITDA is before depreciation and therefore if this forms part of operating expenses, an adjustment should be made.
- Even though it was incorrect to use the forecasted 3 years, there was still an error made as the average EBITDA was used but an upward trend was identified and therefore the latest period's EBITDA should have been used (2027 EBITDA).
- The EBITDA multiple of a comparable company was not used, this multiple was just obtained from ChatGPT which is not a reliable source. The EBITDA multiple of a comparable listed company should have been obtained from a reliable source such as a stock exchange.
- No adjustments were made to the EBITDA multiple for differences in the risk and growth prospects of the comparable company and Bruum (for example: listed status, size adjustments or country adjustments). It is not known which company this multiple relates to but adjustments would need to be made regardless.
- It is not specified whether the cash and cash equivalents relate to a permanent cash surplus. Only a permanent cash surplus should be added as a dissimilar asset.
- The tax loss was not calculated correctly as a forecast needed to be done for the expected utilisation of the tax loss in the forecasted periods based on the taxable income. This amount should be adjusted to its present value using the WaCC of Bruum and only then this amount should be added to the value. When doing this, there must be a limitation of utilisation applied as you are only allowed to use the smaller of R1 million or 80% of taxable income to reduce taxable income in terms of SARS regulations.
- a 100% stake was valued but it is not clear whether we would be acquiring all the shares in Bruum. As Bruum has existing shareholders and we are acquiring shares through a subscription for new shares, it is unlikely we would obtain all of the shares.

Discounted Cash Flow

- The cost of equity was not correctly calculated as they just took the equity market premium from chatGPT and added the risk-free rate from the SA Reserve Bank. The cost of equity should be calculated using the CAPM model and a Beta (unleveraged) of a comparable listed company. The formula: $Ke = Rf (11\%) + \text{Beta} (6\%)$ should be used to calculate Ke .
- The growth is not substantiated by any additional information (such as growth of a comparable company, historic growth) and is simply their own estimate. It is almost double inflation (currently 3.5%) and therefore reasons must be obtained to assess the reasonability.
- It is not clear whether interest income is a cash flow and therefore should only be included if it is actually a cash inflow. However, it is unlikely this is an operational cash flow and therefore it should be excluded.
- Bad debts must be added back to the EBITDA as these are non-cash amounts and therefore it is incorrect to not make an adjustment for them.
- The upfront deposits are refundable and therefore should not be included in the projected cash flows. Alternatively, an adjustment must be made for the amount of upfront deposits refunded to the clients.
- The assessed loss was not included as a dissimilar asset or adjusted as part of the cash flows and no tax adjustments were made for non-cash items such the loss on sale of motorcycles and the tax effects such as section 11o deduction.
- There is no description for what "other capex" relates to. As the acquisition of the motorcycles is included in the cash flows, I assume this relates to non-operating assets which should be excluded from the cash flow calculation.

- The same issue arises with cash and cash equivalents as mentioned in the EBITDA valuation.
 - A 100% stake was also valued for this method which as discussed earlier, is unlikely to be the case.
 - No downward adjustment was made for the unlisted status of Bruum which limits the marketability of the shares.
2. Assumptions requiring further clarification
- The EBITDA multiple needs further clarification on which comparable company was used and which adjustments were made to the multiple for risk and growth factors specific to Bruum.
 - The equity market premium from ChatGPT must be substantiated as ChatGPT is not a reliable source. Therefore, the CEO must provide evidence to support that this is a reliable source.
 - The CEO needs to provide substantiation for the growth rate selected and reasons for the estimate as mentioned above.
 - The CEO needs to provide clarity on how they determined that from 2028 there would be constant growth as this is what they used in the calculation of the terminal value in the DCF valuation.
 - The CEO needs to clarify what shareholding percentage we will be obtaining in Bruum.
3. In relation to the comments made by the CEO, I have included some considerations:
- 2 valuation methods are done because valuations are highly subjective. Therefore, this limits the risk of bias in one method and helps the valuer come to a more accurate valuation. This is the real reason why 2 valuations are done.
 - The DCF method is the most appropriate method when there is high growth as and EBITDA multiple assumes constant growth and therefore any abnormal or high growth will not be captured by this method. Based on the nature of Bruum, I would expect that new motorcycles would be purchased ongoing but not as many as initially purchased. Any once-off or abnormal amounts should be excluded from valuations and therefore I would recommend that a figure is obtained for the expected replacement amount every year for motorcycles. However, as a rent-to-buy business model is adopted, I would expect that most of the motorcycles would need to be replaced every 2 years and therefore I do not agree with the CFOs comment. However, in the DCF an estimate for the amount spent every year to replace the motorcycles should be done.
 - The Net Asset Value is an internally calculated amount based on the assets and liabilities which may not be at the appropriate fair value. Therefore, just because the DCF valuation is higher it does not mean it is not appropriate as it captures future growth which is not captured by the historic, internally calculated NAV.
 - I would include loss on the disposals of the motorcycles in the forecasted EBITDA as I do not think these are non-recurring items. As mentioned above, the business model is rent-to-buy, and the whole objective is to allow drivers the opportunity to eventually buy a motorcycle as they do not have the cash to buy it upfront. Therefore, the loss on disposal is a recurring item which should be included in the EBITDA based on the expected value per year.
 - The earnings-based valuation is based on EBITDA (which excludes any taxes) and therefore the tax loss should not be taken into account when calculating the earnings-based valuation. However, the tax loss will be treated as a dissimilar asset and accounted for when applying the net asset value approach after the enterprise value is obtained. This would be done for both the DCF and EBITDA approach.

Income tax treatments

Current tax concerns

1. The tax treatment adopted for the write off of debts overdue by more than 60 days is incorrect. The section used currently, section 11(i) relates to debts that have become bad during the current period and included in their income in a previous tax period. The bad debts the CEO refers to relate to an allowance for bad debts which is made according to their rules and therefore falls within the scope of section 11(j). As they do not apply IFRS 9, they raise the provision if the debt is more than 60 days overdue, section 11(j)(ii)(bb) will apply and they will be entitled to deduct 40% of the allowance. Therefore, the application of section 11(i) was incorrectly done and section 11(j) should have been applied in the previous 4 years, each year the allowance in the prior period should have been added back to income. An adjustment should be made for the section 11(i) deductions which have been claimed in the previous periods and the section 11(j) deduction that should have been claimed in the previous periods.
2. As the deposits received from the lessees are not ring-fenced and form part of the general working capital of Bruum, it will be difficult to prove these amounts are capital in nature. Additionally, deposits are used to pay for any damages or repairs not covered by the drivers and therefore will form part of maintaining the income-producing structure of the entity. These amounts will therefore be revenue in nature but any amounts spent on repairs and maintenance can be claimed under section 11(d) as Bruum owns the motorcycles.
3. This is correct provided that the motorcycles are sold to the drivers. The motorcycles have a useful life of 4 years and the rental agreements are 2 years. At the end of the lease, the drivers can obtain the motorcycles for much less than their fair value (10% of the fair value at inception which is the acquisition costs), the cash proceeds will be less than the tax value which will be the acquisition cost.

Therefore, a section 11(o) allowance will be allowed and it is unlikely that there will be any capital gains as the proceeds (10% of the acquisition cost) will be less than the base cost (acquisition cost).

Additional tax

1. In terms of the Income Tax Act there is a limitation on the amount of assessed loss you are allowed to use to reduce your taxable income. The amount of assessed loss utilised is limited to the lower of:
 - R1 million; or
 - 80% of the taxable income

Any assessed loss exceeding this amount will be carried over into the next financial period and can be used to reduce that taxable income, subject to the same limitations as above.

2. As Bruum is the owner of the motorcycles, they will be entitled to a section 11(e) deduction for the wear and tear which must be adjusted for in the tax calculation. This will be based on the useful life of 4 years as per the BGR 7 and apportioned for any

part of the year where the asset is not used for the full period.

Examiners' comments

Comments relating to the EBITDA-multiple used:

- While the candidate failed to identify that, from a multiple perspective, the average being determined used a mix of actual and forecast EBITDA amounts, this does not detract from the competence displayed in the rest of the response. It should be noted that the APC Examco and mark team do not equate competence with a perfect response!
- The candidate identified their concern regarding the use of ChatGPT multiples given that ChatGPT is not a reliable source and suggested that an alternative approach should be followed.
- The candidate argued that non-operating cash (i.e., the permanent cash surplus) only should be added in order to arrive at the enterprise value.
- The candidate reasoned that the tax loss could be added as additional value, but the utilisation thereof would need to be determined and discounted to a present value.
- The candidate also correctly suggested that the limitations in terms of section 20 would need to be applied in determining the portion of the tax loss that may be utilised in future tax years.

Comments relating to the discounted cash flow (DCF) valuation:

- The candidate failed to identify that the prime lending rate does not represent a risk-free rate and that a long-term government bond yield should rather be used.
- The candidate correctly identified that ChatGPT is not a reliable source for obtaining a market risk premium for CAPM purposes.
- The candidate correctly suggested that an appropriate unlevered beta factor would also need to be used (Bruum does not use debt funding) and adjusted in calculating the cost of equity of Bruum.
- The candidate correctly indicated that the terminal growth rate was overstated.
- The candidate identified the two errors in the cash flow forecasts: first, that bad debts needed to be added back and second, that the interest income should not be included, with the explanation that it is not an operating cash flow. While this statement is correct, the candidate could have linked the interest income to the cash and cash equivalents being added as separate additional value.
- The candidate did not assume that the 'upfront deposit' line item would reflect the movement in the upfront deposits.
- The candidate did not recognise that the assessed loss was being used in arriving at the 'R0' tax cash flows in the DCF.
- The candidate was correct in questioning why no marketability discount was applied in calculating the fair value of Bruum's equity.
- The candidate appropriately questioned (and well done for this), whether the growth rate would be constant beyond 2028 already, allowed for the terminal value to be determined at that point in time.

Comment regarding the issues related to the telephonic conversation:

- The candidate's response to the issues raised in the telephonic conversation reflects a 'solid' competent response.

Comments relating to the candidate's tax response:

- The candidate correctly pointed out that section 11(i) can only be claimed if the amounts owing actually become bad during the year of assessment, and the amount was previously included in income.
- The candidate correctly pointed out that a section 11(j) allowance can be claimed by Bruum for its doubtful receivables: it should be based on 25% of amounts owing for 60 days (up to 119 days) and 40% for receivables being in arrears for 120 days or more.
- While the candidate argued that the deposits were not capital in nature, they failed to cite that the reason for that was that the deposits were not ring-fenced in a separate bank account.
- The candidate indicated correctly that Bruum could elect to claim a section 11(o) deduction, thus having no effect on CGT.

The response was considered to be assessed as a solid competent on the following grounds:

- Sufficient breadth and depth displayed on the valuation-related issues.
- Minimal technical errors in the response.
- Sufficient correct coverage of the tax issues triggered.

Limited competent

Attachment: LC response

From: Financial Analyst
Sent: 3 December 2025
To: Ayola Hlekani
CC: Zeria
January
Subject: Bruum Finance

Good day Ayola,

Please see below as requested

Valuations

The highlight of the errors on the valuations

Earnings-based valuation

The EBITDA calculation is based on 2025 numbers, this is incorrect, the 2025 numbers should be adjusted to reflect the sustainable/maintainable EBITDA that Bruum is

expecting in the future.

It is incorrect to decrease the Enterprise value by the tax loss.

DCF valuation

The loss on sale of motorcycle is a non-cash item and it should not be included in the determination of the cash flow.

Interest income is amount that is accrued to the business, only include the income that relates to the cash inflow, the amount that was received for the repayment, the interest income amount must be adjusted to only include the cash component, including the full amount is incorrect.

It is incorrect to include the full amount of tax payables in the calculation of cash flow, this is not a cash flow.

What should just be included is the increase or decrease of the working capital.

It is incorrect to deduct the full amount of the acquisition of the motorcycle each year and other capex, only deduct the cost to expand the business and it must not be the full amount of the year, but the incremental part of it, that will be the difference between the 2025 cost and the 2026 cost to be included, for each year, the incremental cost to expand the business should be increased by the real growth, using the real rate and then increased by the inflation.

There is a omission of the cost to expand the business, this cost estimates an amount that the feel fairly represents the average cost over the long run that will be spent to keep the business running at its current activity. The depreciation of the motorcycles can be used as the cost to expand the business as it reflects what could be the maintenance

Assumptions that require further enquiry or clarification

Earnings based valuation assumptions

For EBITDA multiple of 6, what comparable companies (that are listed) were used to determine the mutiple, was the comparable company's multiple adjusted? if Yes, which factors were considered when adjusting the multiple, more information is required

DCF valuation assumptions

We need more information on what the basis were when determining the valuation explicit period of three years, the information will help us understand if it will take 3 years for Bruum to reach a steady state

Calculating the terminal value assumes that Bruum has an indefinite life, we need more information to be able to access it the terminal value should be used to calculate the value of Bruum considering the losses, its business model, being a capital intense, using large sum of cash to acquire the motorcycles

We need more information on how the terminal growth rate was calculated, to ensure that the inflation, industry maturity etc was considered correctly.

The EBITDA amount throughout the years is increasing, we want more information on what the inflation rate was used when forecasting the amounts and also, for the rental income, what real rate was used and what was the assumptions used to determine the rate.

Valuation issues CFO raised

Using multiple valuation methods assist with reasonability check on the value that was calculated, this is evident from the NAV calculation done that gave a value that was marginally different from the value from the DCF valuation, this is a brief explanation to why we use at least two different valuation methods when valuing a company

Income taxes

Assessment of whether the Income tax treatment currently adopted is correct or not

Section 11 (i) does not indicate the overdue days in which the receivable will be considered overdue, this is company policy there is no need to worry about this area. Deducting the bad debts is correct as Bruum was unconditionally entitled to the lease payments, the amount was previously included in the gross income, meeting the requirements of section 11(i) for bad debts to be deducted

Considering that Bruum does not apply IFRS 9, there should be a deduction, the section allows deduction

Upfront deposits are not deposited in a separate bank account, and they are used as part of the working capital, because of this reason, they meet the definition of Gross income, and they should be included in the Gross income.

It is correct to deduct section 11(o) losses from the sale of motor vehicle; the taxpayer is the one that elect to use the standard and motor vehicles are qualifying depreciable assets.

Section 11(e) deduction is omitted, there should be a deduction of the wear and tear on the motorvehicle for 4 years, as the BGR 7

Income tax consideration for the tax loss used in the valuation

There is a limitation on the assessed loss which may be utilised against taxable income, limitation to the higher of R1m and 80% of taxable income in the year of current therefore assessed loss are limited to the R1m as 80% of taxable income generated in 2025 will be lower.

Examiners' comments

Comments regarding the earnings-based valuation:

- The candidate failed to identify that the average EBITDA used was incorrect.
- The candidate incorrectly indicated that the tax loss has been deducted – it was added, and is the inclusion correct?
- The candidate failed to question the source of the EBITDA-multiple used.

Comments regarding the DCF valuation:

- The candidate incorrectly stated that the loss on motorcycles should not be added back – it needed to be added back given that this line item is not a cash flow.
- The interest income included is the interest earned on the cash and cash equivalents – as the latter is separately valued and added, the interest income should not have been included in the DCF.
- No tax cash flows were included initially as a tax loss exists. It is assumed that the FY2028 amount reflects a cash outflow.
- The candidate did not realise that instead of including a single line item for working capital, the respective working capital components should have been included separately.
- The CAPEX relating to the motorcycles had in fact been treated correctly in the draft DCF. The growth in the motorcycle acquisitions is reflected in the CAPEX.
- The candidate failed to question the three-year implicit period in the context of Clairmont's policy of forecasting cash flows over a five-year period when performing a valuation on a DCF basis.
- Regarding the terminal value: based on the fact that Bruum is in its growth phase, there is no indication that the company will not remain a going concern going forward. As such, a terminal value can be calculated. The candidate however did not probe the 6% per annum terminal growth and conclude that the rate was overstated.
- The candidate failed to address the five valuation-related issues raised in the telephonic conversation with Bruum's CFO.

Comments regarding the tax-related issues:

- The candidate did not indicate that the debt needed to have become bad during the year of assessment in terms of section 11(i) and failed to address the fact that Bruum can claim a section 11(j) allowance in respect of its doubtful debts, applying a rate of 25% to the debts outstanding for 60–119 days and 40% to the debts outstanding for 120 days or longer.
- The candidate did correctly identify that the upfront deposits should be included in taxable income in the year of assessment in which they are received.
- The candidate correctly noted the election of section 11(o).
- The candidate addressed section 20 in terms of utilising the tax loss.

The above comments indicated that although the candidate responded competently to the tax-related issue, the response in relation to the valuation-related issues lacked breadth (too few issues were addressed) as well as depth (reasoning on/explanations for the issues). The candidate also made a number of technical errors in the response. The valuation was the focus of the tax, and as such the candidate's response on the tax issues was not sufficient to redeem the assessment of limited competence.

Task (f)

Respond to Ayola Hlekani's email regarding the table of contents compiled by Bradger & Partners in preparation for the upcoming audit of Clairmont's investments at fair value through P&L.

Highly competent

From: Financial Analyst
Sent: Wednesday 3 December 2025 10:00 am
To: Ayola Hlekani
CC: Zeria January
Subject: Upcoming audit of Clairmont
Attachment: Review of table of contents

Good day Ayola

I trust this email finds you well and thank you for all the information provided.

As requested I have provided a review of table of contents to the audit file, please find attached my commentary.

The accounting function is outsourced to Bradger and Partners, thus creation of the audit file is a conflict of interest as they may not maintain independence due to these amounts being created by them. Furthermore, the Clairmont should already have access to the accounting work performed by Bradgers and the necessary calculations and explanations as oversight is required despite the accounting function being outsourced. Provision of this service seems like an service that should already be provided by Bradgers, as they need to provide the necessary explanations of account balances and movements and this needs to be reviewed and questioned by management.

Furthermore, Bradgers provides the normal services at a fee of R 20000 per month, which is very low in comparison to the services that they provide which are extensive. This impairs the ability to perform services in relation to technical standards, which may be the reason why Bradgers does not provide a view of the account calculations and reasons.

Kind regards
Financial Analyst
Attachment: **Review of table of contents**

Concerns about the table of contents:

- A share purchase agreement does not necessarily confirm the number of shares Clairmont owns in the investee, as subsequent shares could have been obtained; thus, multiple share purchase agreements would need to be obtained. The investee's share register should be used as this confirms its current investees and the number of shares that they own at a specific date.
- The appropriate purpose of the share purchase agreement would be to assess the restrictions, terms of ownership and any rights associated with the shares as these terms determine the rights and obligations and can be used to determine whether

these are correctly classified as share investments and not debt or other contracts.

- Clairmonts investments are measured at fair value through profit or loss, thus a verification of the purchase price would not be appropriate unless the shares were obtained in the current year, of which Coursier was not purchased in the current year. This would not be relevant to the auditors.
- An analysis of WACC over 5 years is not sufficient to determine the reasonableness of the WACC, rather the WACC calculation should be attached with the relevant market data, risk profile and risk premiums and debt and equity data used to determine the wacc, this can be used to assess the accuracy and reasonableness of the WACC.
- Furthermore, an analysis of the annual growth rate is not appropriate to determine the reasonableness of the terminal rate. This is because Coursier is still in a high growth stage thus the prior year growth rate will not be an accurate representation of its terminal growth rate. Market data regarding the ODD industry should be provided in support tot he terminal growth rate to assess its reasonability.
- The management accounts and general ledgers, budgets and forecasts of Coursier should be provided and not the trail balance as this does not provide the necessary detail to determine how the valuation was calculated.
- Board Meeting Minutes for FY2025 - would Clairmont have access to the minutes of meetings, provided that it is only a minority shareholder?

Documents that should be added:

- The document relating to the rationale used to determine which valuation method should be used to value Courier should be attached to enable auditors to assess the appropriateness of the valuation method used.
- The general ledger accounts of the investee balance and total investment balance should be provided to enable the auditors to trace the balances on the financial statements tot he general ledgers.
- The journal entries relating tot the fair value adjustments should be provided to enable the auditors to trace the difference in fair value recalculated to the fair value adjustments.
- The policy (to not revalue investees after 1 year post investment) should be included as it will also come under scrutiny as IFRS 13 requires that the investments are revalued each year unless the cost approximates the fair value of the investment. Disclosure checklists in terms of IFRS 13 will also be required. (i.e., description of valuation techniques -i.e., DCF or EBITDA multiples.)

Given the nature of the valuation complexity, auditors might indicate that they require the use of a valuation expert (assessing the reasonability of the WACC, growth rates), and considering the increased risk of valuation bias as the performance incentive scheme of the directors is based on the value of the investments. We need to consider whether Clairmont should not make use of a valuation expert and include such valuation documents into the audit file

Examiners' comments

The candidate demonstrated a strong understanding of the task and addressed both required aspects, namely identifying concerns with the documents listed in the table of contents and recommending additional supporting documentation. The response reflected sound audit knowledge and an ability to critically assess whether the information provided would be appropriate and sufficient for the upcoming audit of investments measured at fair value through profit or loss.

The candidate appropriately challenged the relevance and sufficiency of several documents included in the table of contents. For example, the response recognised that a share purchase agreement alone would not confirm the current shareholding and that a share register would provide more appropriate audit evidence. The candidate also demonstrated an understanding of the purpose of such agreements in assessing rights, restrictions, and the nature of the investment.

In addition, the candidate demonstrated strong technical awareness of valuation evidence by questioning the usefulness of certain analytical documents and highlighting the need for more detailed supporting inputs to the valuation model. This included the underlying components used to calculate the weighted average cost of capital and appropriate support for growth assumptions.

The response further strengthened the audit file by recommending additional relevant documentation. This included financial statement disclosures, supporting accounting records, and documentation supporting the valuation methodology. The candidate also demonstrated professional scepticism by recognising the potential for valuation bias where management incentives are linked to the fair value of investments.

Overall, the candidate provided sufficient and well-reasoned coverage of the issues arising from the table of contents and demonstrated the ability to critically evaluate the evidence required to support the audit of investments at fair value.

Competent

From: Financial Analyst
Sent: Wednesday 3 December 2025
To: Ayola Hlekani
Subject: Upcoming audit of Clairmont Capital
Attachment: Review of Table of contents audit file

Dear Ayola,

I trust that this email finds you well. Thank you for the opportunity to review the work performed by Bradger & Partners. Please see attached my review comments on the concerns that I have about what was included in the table of contents and my suggestions on further documents and records that should have been added to the table of contents.

Kind Regards, Financial Analyst

Attachment:

Concerns about the table of contents:

- Inv - C1 - Share Purchase Agreement
The purpose does not refer to the need to include share certificates and the share register as external documents to verify the equity stakes currently held in the investee (the initial % invested based on the share purchase agreement, not adding value).
- Inv - C2 - Bank Statements for the day(s) when the shares were paid
The purchase price of the shares when they were acquired is irrelevant for valuation purposes and does not determine the current fair value of the investees. The investments are not carried at cost but at fair value through profit or loss and must be fair valued.
- Inv - C3 - Excel Valuations
As the valuations of all the investees of Clairmont involve level 3 (i.e., unobservable inputs), it is important to also provide the auditors not only with the excel valuations but also the assumptions used to calculate fair values.
- Inv - C4 - Trial balance of investee at 31 October 2025.
The trial balance used for the valuation of Coursier will not necessarily give rise to the correct value of these investees, as they are in their growth phase and are valued using the Discounted Cash Flow (DCF) model to capture the growth in these investees and the synergies from thereon. The AFS of the audited investors is available and should be included in the file, as it provides better evidence to the auditors than the trial balance alone (even considering management accounts).
- Inv - C5 Analysis of the WACC (2020-2025) and Inv - C6 Analysis of the growth rate (2020-2025)
The analysis is unclear, as it may only include a recalculation and does not explain the inputs used, such as WACC and growth rates. In particular, the growth rate appears unusually high compared with current SA GDP growth of approximately 1–2%

Documents and records Bradger & Partners should have added:

- Share Certificate – the documents would be inspected to confirm that Clairmont currently holds 25% in Coursier.
- Valuation Assumptions - The valuation of the Clairmonts investees involve unobservable level 3 inputs per IFRS 13, as such the auditors will request the valuation assumption and scrutinise these assumptions especially given that the growth in the compound annually growth rate Net Asset value per A-Ordinary share is the driver of the share performance incentive scheme, the auditors will extensively scrutinise the valuation assumptions used to determine the value of the investees.
- Detail breakdown of the WACC and growth rate used, with supporting evidence, such as market reports, industry analyses etc.
- Sensitivity Analysis - Auditors will require a sensitivity analysis where the impact of an increase in WACC (i.e., a downward adjustment) and a decrease in growth rate is modelled into the DCF valuations

Examiners' comments

The response demonstrated sufficient competence in addressing the task. The candidate engaged meaningfully with the information provided in the table of contents and identified several relevant concerns regarding the appropriateness and sufficiency of the documents. In particular, the candidate demonstrated an understanding that the documentation should support the fair value measurement of the investments and appropriately questioned the relevance of certain items whose stated purpose does not align with the audit objective.

The candidate further demonstrated sound audit reasoning by highlighting that additional supporting documentation would be required for the audit of investments measured at fair value through profit or loss, particularly where valuations rely on unobservable inputs. The response reflected an awareness that auditors would require sufficient evidence to assess the reasonableness of valuation assumptions and inputs used in the models.

In addition to identifying concerns with the existing documentation, the candidate recommended several documents that would strengthen the audit file and support the audit procedures to be performed. Importantly, these documents were not merely listed but were supported by appropriate explanations of why they would be relevant to the auditors.

Overall, the response provided adequate coverage of the concerns arising from the table of contents and demonstrated an appropriate level of professional judgement in identifying documentation that would enhance the completeness and usefulness of the audit file

Limited competent

From: Financial Analyst

Sent: Wednesday 3 December 2025, 15:30 To: Ayola Hlekani

CC: Zeria January

Subject: Upcoming audit of Clairmont Capital Good day

Thank you for trusting me with the assessment of Bradger & Partners' competence regarding the services they offer to us.

Please see below my assessment and various reasons for these:

The consideration we currently pay Bradger & Partners is concerning and a bit low considering that the company is responsible for significant functions in Clairmont's operations. They are responsible for our accounting, human resources and taxation functions.

These require qualified, experienced and competent staff to fulfil.

The R20 000 in fees indicates a shortage of skilled staff at Bradger & Partners who can assist with all our Group needs.

Complexities and errors made

Clairmont has a complex investment structure because our investees do not operate in the same industries therefore, there is a need for knowledgeable people in these different fields to know the appropriate standard to apply for our investments, the valuations and our own accounting results.

Clairmont's investments are held at fair value through profit or loss, and this is a significant risk area in the financial statements. The IFRS accounting standards require in depth estimates of fair values, adjustments to these fair values and disclosures that are specific for the users of our financial statements because we are a private equity and investment holding company.

We established in the previous emails that I sent regarding the performance-based incentive that the journal entries recognised for the initial share-based payment amounting to a cumulative expense of R3.8 million were erroneously calculated, and reversals were required to be made.

The cost allocation basis calculated for Villa Flawty's overheads was unclear and did not seem appropriate, which puts Clairmost at the risk of making incorrect divisional reporting.

The loan to Rechauffer was erroneously accounted and measured at amortised cost, which means the provisions of IFRS 9 for this financial instrument were not appropriately applied. The loan was supposed to be measured at fair value through profit or loss because it is an equity contribution to an investment portfolio that is measured using fair value through profit or loss accounting policy.

As per the above, we may have to reconsider the use of Bradger & Partners for the additional service to prepare for the audit of Clairmont especially because of the marginal fee increase of R10 000, which is considerably low as well.

Documents and Records to be added

1. Share certificated, the share register, the board meeting minutes and board resolutions which will provide the details of the approval process of the decision to obtain shares in Coursier and the investment percentage to verify the number of shares purchased.
2. The 12 months bank statements will be required to verify the dates when the purchase price was made and the dates when Coursier made payments to Clairmont for holding shares in the company.
3. Valuation, WACC calculations and terminal growth rate
 - Board meeting minutes
 - Valuation expert's workings
 - valuations expert's workings on the WACC calculations
 - board resolution

These documents will be required by the auditors to verify the approval of the valuation of the investment in Coursier.. The documents will provide details of the comments the Board has made regarding the changes in Coursier and how Clairmont's investment is affected, reviews of the inputs used by the valuation expert and approval of the fair value to be applied in the valuation. The board is required to approve capital budgeting and the calculation of WACC rates, therefore the calculations from an expert are required to be reviewed and approved so that the auditor can verify the appropriateness and reasonableness of the inputs and assumptions used.

4. Board resolutions

These resolutions accompany the board minutes because they are evidence of the ordinary and special resolutions passed by the Coursier board of any major changes and evidence of the governing body being satisfied with the valuations placed on Coursier.

Board resolutions passed are Companies Act requirements. The auditor will use them to assess the validity of the valuations made in Coursier, the validity of the decisions made that cause major changes in the operations of the investee, which will ultimately affect Clairmont's investment.

Kind regards,
Financial Analyst

Examiners' comments

This response is indicative of limited competence.

The candidate extensively discussed the errors made by the consultants (Bradger & Partners) across all aspects of Clairmont's AFS. This is an example of a candidate who struggled to understand the context of the task. In addition, the candidate provided only limited coverage of the issues apparent from the table of contents. The candidate did not validly discuss any areas of concern from the table of contents. The only valid discussion in the response concerned additional documents suggested and related to the share register and valuation workings. However, the explanations on workings did not add value to the response.

Overall, the response shows limited engagement with the core issues in the proposed project plan and provided insufficient explanations.

Task (g)

Respond to Zeria January's email regarding the KPIs (operational and/or financial) to monitor Coursier's performance

Highly competent

From: Financial Analyst

Sent: Wednesday 3 December 2025 10:00 am

To: Zeria January

CC: Ayola Hlekani

Subject: Coursier

Attachment: Coursier KPI's

Good day Zeria

I trust this email things you well and thank you for all the information provided.

As requested I have provided a response to the Key Performance indicators provided by ChatGPT and a view of any other KPI's. Please see my response in the attachment below.

Kind regards

Financial Analyst

Attachment: **Coursier KPI's**

ChatGPT Response

- The debt-to EBITDA ratio is not a relevant KPI for this entity as it currently does not have any debt on its balance sheet.
- The driver utilisation rate is not a correct measure of how effectively the drivers are operating, this is due to the drivers having no control over the number of order placed on the app and thus the number of hours driven. A more appropriate measure would be the average orders per driver, this will be able to tell whether there are sufficient drivers to meet the demand or if drivers are strained.

Five most important recommended KPI'S

1. The number of orders placed by customers on the platform is a key performance indicator as main revenue driver is the number of orders that are place. Coursier does not earn large revenue per order thus the main driver to revenue growth is the number of orders, this also determines whether the platform is meeting its purpose (to provide convenience to customers).

2. The second KPI is the average delivery time per order, Coursier prides itself in providing efficient orders and on-time delivery, this KPI enables coursier to determine whether coursier is meeting its goal and whether it is differentiating itself from competitors, long delivery times defeat the purpose of being an on-demand delivery provider and trying to provide convenience to customers, this also may set the company back in terms of

competition as there are a lot of delivery companies that promise to deliver on time.

3. Delivery success rate- The number of successful orders delivered versus those that have quality or delivery issues should be monitored as this is also a key value driver for the company, if order constantly have issues it may impact the number of customers that make use of the platform and may deteriorate the achievement of efficient order goal.

4. Customer retention rates - This needs to be monitored as it determines whether the platform meets its purpose, providing convenience and ease to customers. If the platform or deliveries constantly have issues it will lead to orders declining and customers leaving the app, which leads to a reduction in revenue.

5. Driver network and merchant size- This is also a value driver for the entity, if the platform does not have the merchants that customers are interested in ordering from then this will lead to a loss of customers and revenue. Furthermore the driver network size is important as it ensures that there is enough drivers to meet the demand of order and to cover all locations in which merchants and customers are located.

Examiners' comments

The candidate addressed both aspects of the task and demonstrated a comprehensive and well-integrated understanding of performance measurement based on Coursier's business model.

In evaluating the ChatGPT-generated KPIs, the candidate provided clear, well-reasoned critique and appropriately identified that debt-related ratios were not relevant given Coursier's capital structure. The discussion reflected sound judgement rather than mechanical acceptance or rejection of the suggestions that had been generated by ChatGPT.

In proposing additional KPIs, the candidate identified valid and well-reasoned measures aligned to the economic drivers of a fee-based on-demand delivery platform. Importantly, the candidate recognised the significance of other key ecosystem participants, such as merchants and drivers, in driving Coursier's performance and long-term sustainability.

The response demonstrated an understanding that platform success depends not only on financial ratios but also on the strength and growth of the merchant base, the efficiency and retention of drivers, and customer behaviour.

The candidate's analysis moved beyond generic performance indicators and a showed clear integration of Coursier's business model into the selection and justification of KPIs.

Competent

From: Financial Analyst
 Sent : 03 December 2025, 16:20pm
 To : Zeria January
 CC: Ayola Hlekani
 Subject : Coursier KPIs

Good Afternoon Zeria

Good I have looked at your email regarding the KPIs for on demand delivery services and i

must admit chat GPT is also on point with some of the KPIs. I have compiled a response to your Query's.

1. Thoughts on ChatGPT responses

- **The Gross profit margin** - As the company is meant to make profit this performance indicator is the number one important i agree with chatGPT as the number one aim of the company is to make profit and survive for the future operations
- **The average delivery time per the order** - as we are an on demand delivery services the public will judge us based on how efficient our delivery or our services take therefore this is another important KPI that is mostly evaluated by our customers and the public e.g if we take more time for the delivery of some goods (Pizza) a customer can return the goods or not pay for the goods as stipulated therefore this is another important KPI
- **Driver Utilisation** - This is not an important KPI as the drivers are paid per the delivery so the utilisation is not part of the important KPI **Irrelevant KPI**
- **Customer retention rate** - This is also an important KPI as the higher the number of customers the higher the revenue for our company therefore every business need customers in order to survive.
- **Debt to EBITDA ratio** - this is not an important KPI AS IT does not benefit the company or the public also the investors therefore this is just irrelevant KPI

2. The Five most Important KPIs : THAT I WOULD RECOMMEND WE USE:

- **Revenue Growth Rate** - This is similar to the Gross Profit margin rate - it measures Coursers Revenue growth rate in between the years in order to determine that Coursier is actually growing as a company in terms of revenue or not as revenue is the driver for all the things there can never be profit without revenue and there can never be business growth if the company is not making enough revenue to satisfy their needs
- **Profitability Margins** - After revenue we should monitor if we are actually making the profit - There are a lot of costs involved in our business and the standard fee to the drivers for deliveries that are less than 12km is R32 so we have to monitor if Coursier is able to make profit regardless of the costs that are involved
The profitability Margins Include the Profit After tax in relation to the revenue for the year
The Profit after tax in relation to the Investment
The gross profit margin in relation to revenue to see how much our cost of sales are in relation to the sales that we make.
- **Driver management and Retention rates** -Without the drivers the company will not be able to deliver the goods to customers therefore this will provide that the business will fail or will go down as a results of not being able to deliver to the customers. These drivers are actually our assets even though we are not in control of the assets that they own. If the drivers do not stay with the company for longer period of time this will mean the company fails to manage the drivers and so it does not have a good relationship or the management skills to take on the drivers .
- **Average delivery Time** - This KPI is important as it shows how effective and efficient our drivers and our services are this provides that if we have a low delivery time we are more efficient and we actually effective in delivering the goods and services to the customers.
- **New Customer rates** - As part of getting or increasing revenue we require that new customers must sign in the app this KPI is important as it informs us on whether we

are actually getting new customers which will increase revenue or we are just keeping the old customers on rotation.

For Further clarity on the KPIs do not hesitate to contact my office

Kind regards
Financial Analyst

Examiners' comments

The candidate addressed both aspects of the task. The response included commentary on KPIs generated by ChatGPT as well as the identification of additional KPIs considered appropriate for monitoring Coursier's performance.

In evaluating the ChatGPT responses, the candidate provided a sufficient and valid discussion. The candidate also engaged with the usefulness of other suggested KPIs, although the analysis was not consistently developed in depth. Although the candidate questioned the relevance of the debt : EBITDA ratio, the reasoning provided did not link to the fact that Coursier operates without debt.

In proposing five additional KPIs, the candidate sufficiently identified valid and reasoned measures. These included revenue growth, delivery efficiency, customer-related metrics and driver-related considerations. The KPIs were generally relevant to an on-demand delivery service and reflected an appropriate understanding of performance monitoring.

However, the distinguishing factor between this script and a highly competent response was the depth of integration and business insight. While valid KPIs were identified, the reasoning was at times generic and not consistently linked to the broader platform ecosystem or the strategic importance of merchants and drivers in sustaining long-term performance.

Overall, the candidate met the requirements of the task and demonstrated sufficient valid identification and discussion of KPIs and ChatGPT responses to support a competent assessment.

Limited competent

From: Financial Analyst
Sent: Wednesday, 3 December 2025, 17:00 PM
To: Zeria January
CC: Ayola Hlekani
Subject: RE: Coursier

Good afternoon Zeria,

I'm first going to discuss ChatGPT's response in order it was given and whether I agree or not:

1. Gross profit margin -> I agree that the financial health of a business is critically important however I would suggest supplementing this gross profit margin with a KPI that tracks deliveries successfully completed over a period of time as this will allow management to gauge whether the business is in demand by consumers.
2. Average delivery time per order -> Although it is important to know how long a delivery takes in order to improve customer satisfaction (as slower drivers could be removed from the system as delivery men), this measurement is subject to a lot of variables. Delivery time per order may be affected by factors outside of drivers' control such as bad weather, traffic jams, power outages, accidents or inaccurate stock records of stores selling on the app resulting in items being ordered that are in stock on the app or store system but physically out of stock.
3. Driver utilisation -> Point 2 goes hand in hand with this one.
4. Customer retention rate -> This would be a good KPI to use but is also subject to seasonal fluctuations of consumers, as the quarter that ends with or involves December, will be increased as people are buying gifts and in a spending mood as opposed to January where people are tight for money and not eager to spend. This could distort this KPI.
5. Debt to EBITDA ratio -> This could be useful however Coursier does not rely heavily on debt as it does not need debt to finance any capital expenditure and thus this ratio could perhaps be irrelevant.

My suggestion of the five most important KPIs to monitor operational and financial performance:

1. Current ratio (current assets/current liabilities -> This KPI measures short term liquidity which is crucial for Coursier as it is not an asset heavy company - its assets are mostly cash and debtors and its liabilities are the suppliers as creditors. The customers must immediately pay Coursier and Coursier must immediately pay the suppliers. Thus the current ratio should be above 1 at all times. If it ever drops below 1, Coursier will quickly realise that either the debtors are actually paying or the suppliers aren't being paid and would allow them to correct this.
2. Average revenue per order (Total revenue / number of orders) -> This would allow Coursier to accurately establish its profit margins as the only revenue that should be recorded is the portion allocated to Coursier (net of total consideration - driver payment - payment to supplier).
3. Fraud / chargeback exposure (refunds due to fraud / total revenue *100) -> Orders placed fraudulently or paid with credit cards that end up bouncing or customers having the transaction reversed despite keeping the product, could result in major losses for Coursier as it will still need to pay the fee over to the supplier without receiving the

- money from the customer.
- Discount to revenue ration (total discounts / total revenue) -> This allows Coursier to see how much of its profit is being lost due to supplier promotions or discounts. Drivers are paid a fixed R32 per delivery, so discounts could severely eat into profit margins. This would allow Coursier to establish whether its delivery fee is too high compared to its commission charged on sales.
 - Number of customer location queries (number of queries / number of orders * 100) -> This will measure how often delivery drivers do not meet the required deadline that could hamper the customer satisfaction and result in a loss of customers. By addressing this, the driver's efficiency could be improved.

As a final point, in your previous email you asked whether I use AI tools. I just wanted to address that and answer your question. Yes, I definitely use AI whenever I need it, it has made our lives so much easier and it is difficult to imagine a time without it. It is an amazing tool to have and the whole world is moving more and more in that direction so we have to jump on the train or be left behind.

However, I advocate strongly for the use of AI responsibly as using AI without first trying to apply your own mind results in a lot of people losing their ability to critically think which is impacting a lot of professions as people are becoming lazy and incompetent. So, I always just caution people against that is that they must never allow themselves to lose their critical thinking abilities.

A last thing to be careful of is that financial information of a company should be kept confidential

and by uploading this financial information into ChatGPT, that requirement is being broken. I understand that you are not a CA(SA) and need not conform to SAICA's Code of professional Conduct but it is a useful guideline to follow on what is the correct and ethical way to act when operating a business or delivering a service.

Kind regards
Financial Analyst
Clairmont Capital (Pty) Ltd

Examiners' comments

Even though the candidate addressed both aspects of the task, the points raised were mostly not valid and were evidence of a limited understanding of the business model of Coursier. Points 2 and 4 of the suggested KPIs illustrated that the candidate had not grasped Coursier's business model.

While the candidate identified that debt-related ratios may not be appropriate, several of the alternative KPIs proposed were generic and not sufficiently aligned to the economics of an asset-light, fee-based on-demand delivery platform. The response did not adequately reflect an understanding that Coursier collects delivery fees from customers upfront, generates positive cash flows and settles with drivers and merchants within a short period.

Certain suggested measures focused on traditional balance sheet or liquidity metrics without demonstrating why such measures would be critical to Coursier's performance. The links between the proposed KPIs and Coursier's key value drivers, namely order volumes, delivery efficiency, customer retention and ecosystem sustainability, were not sufficiently developed or explored.

Overall, while some valid observations were made, the script reflects limited integration of the business model with performance analysis. The response therefore demonstrated limited competence relative to the expectations for the task.

This candidate's comments about AI usage was problematic. It was beyond the scope of the task. Furthermore, the comments about responsible AI usage seemed a little naïve.