

Ignore value-added tax (VAT).

## 1 Background

The Springbucks Snacks Company Ltd ('SSC') is an unlisted company that was founded in 1994. The company manufactures and markets a variety of beverages and snacks and has grown into a leading South African beverage and convenience food company with a large portfolio of popular brands. The company also exports its products to the rest of Africa.

## 2 Digital strategy

The management of SSC developed a digital strategy to accelerate its growth. The aim is to digitally transform, with effect from the financial year ended 31 December 2024 (FY2024), the company's decision making; marketing and communications; manufacturing processes; and accounting and reporting functions. To this end, the company has collaborated with the School for Human-Centred Artificial Intelligence ('SHAI'). SHAI is an academic institution focused on the development and application of artificial intelligence (AI) technologies. SHAI has proposed the following initiatives:

- Automating the company's data and digital infrastructure to access real-time data as it relates to consumer preferences.
- Using robots ('bots') to scan its biscuits as they go through the baking process to ensure product quality.
- Developing an AI tool that analyses social media to assess how SSC is perceived as well as what is being discussed on social media platforms.
- Developing an AI tool to analyse consumer eating trends by observing online recipes and cooking shows.
- Using robotic process automation (RPA)<sup>1</sup> to initially perform repetitive tasks and then more complex and non-routine tasks, within the company's accounting and compliance functions.

According to SHAI, SSC would be able to decrease its current staff headcount by as much as 50% if it implemented these proposals. The cost saving would justify the investment required. SHAI stated that it has the capacity and competencies to provide and implement the digital solutions for SSC and, given their long-standing relationship, its pricing for these services will be highly competitive.

## 3 Robotic process automation

The management of SSC believed that RPA could be used to make the accounting function more efficient if repetitive but time-consuming tasks are streamlined.

After negotiations, SSC agreed to first test the RPA functionality on less routine and more complex transactions relating to financial reporting and taxation, as the processing of these transactions are generally ring-fenced and performed by a smaller team. If this was successful, it would work with SHAI on the full implementation of its proposals. SSC accordingly acquired

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<sup>1</sup> RPA is a form of business process automation that allows anyone to define a set of instructions that a bot has to perform.

a bot for R1,5 million on 1 January 2024. The bot was automated and integrated into SSC's system at a total cost of R350 000.

#### 4 Tax management

The bot extracted relevant data from SSC's separate company trial balance and fixed asset register, both as at 31 December 2024. It then converted the data to a statement of profit and loss and a tax return workbook that will be used for SSC's ITR 14 income tax return.

While the bot allows for a deep level of automation of processes, a review of the tax calculations and the tax return was necessary to ensure that the bot had processed the data and information in accordance with tax legislation, before being submitted to the South African Revenue Service (SARS). SSC's finance team has started its review and added commentary where necessary. The finance team has confirmed that the profit before tax was correctly calculated in terms of IFRS® Accounting Standards (IFRS), except where the team added supplementary notes.

Tax return workbook / ITR 14 income tax return – 31/12/2024		
	Notes	R'000
<b>Profit before tax</b>		<b>29 310</b>
<b>Amounts not credited to the income statement</b>		
<b>Credit adjustments (increase net profit / decrease net loss)</b>		
Amounts received in advance	4.1	5 750
<b>Control total</b>		<b>35 060</b>
<b>Debit adjustments (decrease net profit / increase net loss)</b>		
<b>Non-taxable amounts credited to the income statement</b>		
Exempt local dividends	4.2	(300)
Exempt foreign dividends	4.2	(960)
<b>Control total</b>		<b>33 800</b>
<b>Credit adjustments (increase net profit / decrease net loss)</b>		
Legal fees capital expenditure and / or losses	4.1	100
Cost of sales	4.3	–
Provisions not deductible for the current year	4.5.1	3 300
Expenses not actually incurred in the production of income, no s11(a)	4.5.2	1 000
Depreciation and amortisation according to financial statements	4.6	13 000
Accounting loss on disposal of fixed and / or other assets	4.6.1	845
<b>Control total</b>		<b>52 045</b>
<b>Debit adjustments (decrease net profit / increase net loss)</b>		
Other donations	4.3.4	(600)
<b>Control total</b>		<b>51 445</b>
<b>Debit adjustments (decrease net profit / increase net loss)</b>		
<b>Special allowances not claimed in the income statement</b>		
Prepaid expenditure not limited	4.4	(900)
Commercial building deduction	4.6.1	(412)
Wear and tear allowance – s11(e)	4.6.1	(200)
Manufacturers deduction – s12C	4.6.1	(770)
<b>Control total (carried forward)</b>		<b>49 163</b>

<b>Control total</b> (brought forward)		<b>49 163</b>
<b>Allowances / deductions granted in previous years of assessment and now reversed</b>		
Recoupment of wear and tear	4.6.1(c)	–
<b>Control total</b>		<b>49 163</b>
<b>Credit adjustments (increase net profit / decrease net loss)</b>		
Taxable capital gains / losses	4.6.1(c)	–
<b>Control total</b>		<b>49 163</b>
<b>Debit adjustments (decrease net profit / increase net loss)</b>		
S18A donations	4.3.3	(5 000)
<b>TAXABLE INCOME</b>		<b>44 163</b>

## Notes

### 4.1 Amounts received in advance

On 1 November 2024, SSC was approached by a South African retailer, Onze (Pty) Ltd ('Onze'), to manufacture a limited-edition private label brand beverage named 'Onze Revived' for exclusive sale in Onze's retail stores in March 2025. SSC charged Onze a total selling price of R5,75 million. Onze paid R3,5 million of the selling price on 31 December 2024 and the balance on the invoice date of 28 February 2025, after the Onze Revived units had been delivered to Onze.

In December 2024, SSC incurred costs of R100 000 in registering the Onze Revived trademark, which is owned by SSC. SSC plans to manufacture the Onze Revived units in February 2025 and expects to incur R2,5 million in production costs to manufacture Onze Revived.

### 4.2 Exempt dividends

SSC holds equity shares and voting rights in a number of companies. The following gross cash distributions made to SSC, correctly converted to rand where applicable, are included in revenue:

<b>Company name</b>	<b>Country of residence</b>	<b>Equity shares and voting rights</b>	<b>Gross dividend</b>
			<b>R'000</b>
Lyon Sweet Manufacturers PLC ('LSM') <sup>#</sup>	United Kingdom	5%	720
Protea Energy Drinks Ltd ('PED')	South Africa	100%	300
Reft Valley PLC ('RV') <sup>#</sup>	Kenya	25% <sup>*</sup>	240

<sup>#</sup> These companies are not controlled foreign companies.

<sup>\*</sup> No other shareholder holds a majority of the equity shares or voting rights in RV.

### 4.3 Cost of sales and inventory

An inventory management bot calculated the cost of sales for FY2024, as included in profit before tax, as follows:

	Notes	R'000
Balance: 1 January 2024		9 900
Capitalised overheads and salaries*		10 500
Raw materials purchased	4.3.1	75 000
Balance: 31 December 2024	4.3.2 – 4.3.4	(13 500)
<b>Cost of sales</b>		<b>81 900</b>

\* These expenses are the conversion costs incurred during the manufacturing process

4.3.1 Raw materials purchased include wheat to be used in the manufacture of various biscuits. The figure includes an amount for materials ordered from an Australian company on 1 December 2024 for AUD250 000<sup>2</sup>. The wheat was purchased free on board, with the departure date from Australia of 5 December 2024. The goods arrived at the Durban Port on 15 December 2024 but were only released by SARS for home consumption on 2 January 2025. The bot only processed the following journal entries for this transaction:

Account description	Dr.	Cr.
	R'000	R'000
Inventory (SoFP)	2 750	
Bank (SoFP)		2 750
<i>Purchase of raw material trading stock on 5 December 2024. Translated at the correct spot rate</i>		
Inventory (SoFP)	30	
Bank (SoFP)		30
<i>Paid directly into the bank accounts of some of the Durban Port customs officials on 31 December 2024 to expedite the release of the raw materials</i>		

4.3.2 The balances as at 1 January 2024 and 31 December 2024 include raw materials, work in progress and finished goods. This was based on inventory counts of goods on hand at the SSC factory only, thus excluding the wheat at the Durban Port. During FY2024, SSC recognised a general inventory obsolescence provision equal to R1,5 million, which was equal to 10% of the closing inventory balances for expected obsolete inventory in 2025.

4.3.3 During FY2024, SSC donated inventory with a total cost of R4 million to the SSC Foundation. The donated inventory had a selling price of R8 million and was manufactured during FY2024. The objective of the SSC Foundation, which is an approved public benefit organisation in terms section 30 of the Income Tax Act, is to improve school nutrition. SSC received a valid section 18A receipt in respect of this donation.

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<sup>2</sup> AUD = Australian dollars.

- 4.3.4 Beverages and snacks with a cost of R300 000 and a selling price of R600 000 were transferred to the SSC sales and marketing team and used in various 'paid partnerships'<sup>3</sup> on social media platforms.

#### 4.4 Insurance

SSC's insurance premium is payable annually on 1 July and covers the period 1 July to 30 June. On 1 July 2024, R1,8 million was paid to an insurance company, while R1,5 million had been paid on 1 July 2023. The SSC trial balance reflects an insurance premium expense of R1,65 million for FY2024 and an insurance premium prepayment balance of R900 000 at 31 December 2024.

#### 4.5 Salaries and wages

The following relate to employee costs in determining the profit before tax amount:

Account description	Notes	Dr.	Cr.
		R'000	R'000
Bonus provision (SoFP)		2 100	
Bank (SoFP)			2 100
<i>Bonus payments made on 31 March 2024 relating to FY2023</i>	4.5.1		
Employee costs (P/L)		3 300	
Bonus provision (SoFP)			3 300
<i>Bonus accrual relating to FY2024</i>	4.5.1		
Employee costs (P/L)		1 000	
Bank (SoFP)			1 000
<i>Restraint of trade payment to Musi Thou on 30 June 2024</i>	4.5.2		

- 4.5.1 Bonuses are determined based on the year-end results and are only payable to employees who are still employed on 31 March, the date of payment, each year.
- 4.5.2 Musi Thou was employed as a senior executive manager at SSC until 30 June 2024. On that date Musi and SSC entered into a four-year restraint of trade agreement to safeguard against the potential disclosure of confidential SSC information.

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<sup>3</sup> A 'paid partnership' is a collaboration where a brand pays an influencer to promote its products or services.

## 4.6 Depreciation and amortisation

- 4.6.1 The following extract of the SSC fixed asset register as at 31 December 2024 is relevant for the tax calculation. It reflected the following assets and related capital allowances. All other assets, except those mentioned below, have been fully written off for tax purposes in the prior tax year:

Type	Notes	Class	Date acquired	Cost	Useful life*	Depreciation	Capital allowances
				R'000		R'000	R'000
Corporate head office	(a)	Buildings	1/9/2012	10 300	25	412	412
Personal computers	(b)	Equipment	1/2/2024	600	3	183	200
Bottling machine	(c)	Machinery	1/7/2024	1 300	10	65	260

\* Determined in accordance with IAS 16 *Property, Plant and Equipment*. The residual value of each asset is nil. Where applicable, these estimates have been confirmed at the reporting date and no changes were required.

- (a) SSC owns three floors in an eight-story sectional title building located in Polokwane. This building was new on the date the floors were acquired.
- (b) As part of its automation processes SSC acquired 100 new personal computers during FY2024.
- (c) On 1 June 2024, SSC sold one of its filler machines to RV for its market value on that date. SSC had purchased the filler machine, new, for R2,55 million on 1 June 2023. SSC used the proceeds on the sale of this filler machine to purchase a new bottling machine on 1 July 2024. Both were used in a process of manufacture, which was accepted as such by SARS.

The bot processed the following journal entries on the sale of the asset:

Account description	Dr.	Cr.
	R'000	R'000
Loss on sale of asset (P/L)	2 550	
Property, plant and equipment (SoFP)		2 550
<i>Derecognition of the filler machine</i>		
Accumulated depreciation (SoFP)	225	
Loss on sale of asset (P/L)		225
<i>Derecognition of the accumulated depreciation on the filler machine</i>		
Bank (SoFP)	1 480	
Loss on sale of asset (P/L)		1 480
<i>Recognition of proceeds on sale</i>		

- 4.6.2 An amortisation expense of R185 000 was recognised during FY2024 relating to the bot acquired on 1 January 2024 (see 'robotic process automation').

## 5 Protea Energy Drinks Ltd ('PED')

### 5.1 Background on PED

PED is an energy drinks company that uses local South African products such as rooibos as flavours in its energy drinks. PED's market share is about 20% of the South African energy drinks market.

On 31 December 2023, PED had the following shareholders:

nVestor Ltd, a private equity firm	60%
Three executive directors of PED, each owning 10%	30%
SSC (see point 5.2)	10%

PED's annual general shareholders meeting is held each year on 30 June. The Memorandum of Incorporation states that each shareholder shall exercise its voting rights and powers relative to its shareholding in PED.

### 5.2 Initial investment in PED

SSC acquired a 10% shareholding in PED on 1 January 2020 for R5,5 million as a strategic long-term investment. It consequently elected to present the changes in the fair value thereof in other comprehensive income.

The fair value of SSC's investment in PED was as follows:

Date	Fair value
	R'000
31 December 2020	6 350
31 December 2021	7 000
31 December 2022	7 640
31 December 2023	8 200
1 February 2024	8 650
1 April 2024	9 000
1 May 2024	9 350
1 June 2024	10 000

### 5.3 Purchase of option to acquire remaining shares in PED

On 1 February 2024, SSC paid R500 000 to acquire the option to purchase nVestor Ltd's 60% controlling interest in PED any time after 1 April 2024 as follows:

- Cash of R50 million, to be settled on the date that SSC exercises its option.
- On the second anniversary of the date on which SSC exercises its option:
  - Cash of R25 million; and
  - Annual interest of R1,2 million, to be settled on this date.
- 250 000 shares in SSC, to be issued within three months of the date on which SSC exercises its option.

This option was neither deeply in the money nor out the money for the period 1 February 2024 to 1 June 2024.

## 5.4 Purchase of 90% of the shares of PED

On 1 May 2024, the board of SSC approved the exercise of its option to acquire 60% of PED. SSC exercised its option on 1 June 2024 subject to the conditions in section 5.3.

On 1 June 2024, SSC also acquired the remaining 30% of the shares of PED from PED's executives for R30 million, which was settled in cash immediately. Each of the three executives would also receive a cash payment of R2 million. This would be conditional on PED's operating profit for the period to 31 May 2025 being at least 10% higher than for the comparative period (i.e., the year to 31 May 2024). The total fair value of these additional payments was R3,2 million on 1 June 2024.

On 31 December 2024, based on how PED had performed after acquisition, the total fair value of these additional payments increased to R4,85 million.

## 5.5 Recording of the transactions relating to purchase of 90% of the shares of PED

The financial reporting team responsible for the SSC group accounts used the bot to record the transactions relating to the purchase of 90% of the shares of PED. The bot proposed the journal entries below to record the purchase in the company accounts of SSC as well as the consolidation entry relating to the acquisition of PED. The group financial accountant of SSC is not convinced that these journal entries are correct and has asked for a review of the work done by the bot.

*Journal entries in separate company accounts of SSC*

Account description	Notes	Dr.	Cr.
		R'000	R'000
Investment in subsidiary (SoFP)		113 200	
Bank (SoFP)			80 000
Liability to nVestor Ltd (SoFP)			25 000
Investment in PED (SoFP)			8 200
<i>Acquisition of PED on 1 June 2024</i>			
Investment in subsidiary (SoFP)		12 500	
Share capital (SoCE)			12 500
<i>Issue of shares to nVestor Ltd at R50 per share on 30 June 2024</i>	5.5.1		
Investment in subsidiary (SoFP)		600	
Bank (SoFP)			600
<i>Capitalisation of acquisition-related costs</i>	5.5.2		
Investment in subsidiary (SoFP)		700	
Liability to nVestor Ltd (SoFP)			700
<i>Capitalisation of interest for seven months</i>			



*Consolidation entry relating to the acquisition of PED*

Account description	Notes	Dr.	Cr.
		R	R
Share capital (SoFP)	5.5.3	17 500 000	
Retained earnings (SoCE)	5.5.3	55 900 000	
Reclassification from mark-to-market reserve (OCI)	5.5.4	2 700 000	
Property, plant and equipment (SoFP)	5.5.5	7 500 000	
Intangible assets: Brand name (SoFP)	5.5.6	20 000 000	
Non-current assets held for sale (SoFP)	5.5.7	500 000	
Right-of-use asset (SoFP)	5.5.8	1 771 590	
Goodwill (balancing figure) (SoFP)		24 978 539	
Contingent liability: Court case (SoFP)	5.5.9		1 660 000
Deferred tax liability (SoFP)	5.5.10		2 190 129
Investment in subsidiary (SoFP)	5.5.11		127 000 000
<i>Acquisition of PED</i>			

**Notes**

5.5.1 The fair value of an SSC share was as follows on the specified dates:

Date	Fair value
1 June 2024	R48,50 per share
30 June 2024	R50,00 per share

5.5.2 Acquisition-related costs:

	R'000
Legal fees to draft the purchase agreement	400
Share issue costs	200

5.5.3 These amounts are the equity balances per the financial statements of PED on the acquisition date. The retained earnings balance includes the year-to-date profit of PED appropriately.

5.5.4 The reclassification adjustment relates to the cumulative gains (to 31 December 2023) relating to SSC's original 10% investment in PED that were reclassified from other comprehensive income as part of the acquisition.

5.5.5 The carrying amounts of PED's property, plant and equipment reflected their respective fair values on the acquisition date except for one of its owner-occupied properties. On the acquisition date, the carrying amount of this property amounted to R12,5 million, of which R5 million was allocated to the land and R7,5 million to the factory situated on it.

The land is used as an industrial site for PED's factory. A similar vacant site in the area had recently been re-developed into a retail site (shopping mall). PED's owner-occupied land had no restrictions preventing it from being re-developed for use as a shopping mall.

On the acquisition date, the following applied:

	<b>Land</b>	<b>Factory</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Fair value of property as an industrial site	15 000	9 000	24 000
Fair value of vacant plot of land re-developed as a retail site	20 000	–	20 000

5.5.6 PED's internally generated brand name had a provisional fair value of R20 million on the acquisition date. A final fair value of R25,4 million was determined on 31 December 2024, on which date the initial accounting of SSC's acquisition of PED was considered complete.

5.5.7 The non-current asset held for sale comprised machinery that PED had previously determined was surplus to its requirements. It met the criteria to be classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* on the acquisition date.

On the acquisition date, the following applied:

	<b>R'000</b>
Fair value	3 000
Original cost to PED	2 500
Carrying amount and tax value in PED's financial statements	2 200
Costs to sell	100

5.5.8 The right-of-use asset arose from a lease arrangement for machinery between PED and an unrelated third party. The adjustment to the right-of-use asset proposed in the consolidation entry above is the difference between the fair value of a similar machine of R10 million owned at the acquisition date and the carrying amount of the right-of-use asset.

On the acquisition date, the following applied:

Carrying amount of the right-of-use asset	R8 228 410
Carrying amount of the lease liability	R9 549 210
Remaining lease term	5 years
Annual lease payment	R2 600 000
Market-related annual lease payment	R2 450 000
Present value of the annual lease payments for the remaining lease term, calculated using the incremental borrowing rate	R9 372 418

5.5.9 An amount of R1,66 million was correctly disclosed as a contingent liability in terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The contingent liability relates to a claim from a customer who is suing PED on the basis that its drinks are harmful as they have an addictive effect. The contingent liability is based on a possible obligation that exists on the acquisition date, as the court case has not yet been heard. The fair value of the contingent liability at the acquisition date was R1,4 million.

5.5.10 The deferred tax liability was calculated by multiplying the adjustments on the acquisition date by the net assets of PED, excluding the brand name, using the company income tax rate of 27%. No deferred tax liability was recognised on the acquisition date relating to PED's internally generated brand name.

5.5.11 This amount is per the entries proposed by the bot in SSC's separate accounts.

5.5.12 A review of the financial statements of PED on the acquisition date revealed the following:

- A gross trade receivables balance of R3,5 million and a related expected credit loss allowance balance of R160 000. The fair value of the trade receivables was R3,9 million.
- A goodwill balance of R4 million relating to a previous acquisition of a business by PED.

<b>Additional information</b>
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- 1 Each company in the group –
  - has a financial year end of 31 December;
  - has a functional currency of rand;
  - prepares financial statements in accordance with IFRS; and
  - has correctly accounted for all transactions in their respective individual accounts unless otherwise evident.
- 2 SSC accounts for subsidiaries and associates at cost in its separate company financial statements.
- 3 All property, plant and equipment and intangible assets are accounted for using the cost model.
- 4 Financial liabilities are measured at amortised cost, unless otherwise stated or evident from the scenario.
- 5 All amounts are correctly calculated, unless otherwise stated or evident from the scenario.
- 6 All amounts are material.
- 7 All cash flows occurred on the contractual due dates, unless otherwise stated.
- 8 Assume a market-related pre-tax annual interest rate of 12% applied during FY2024, unless otherwise evident from the scenario.

## INITIAL ASSESSMENT OF COMPETENCE, JUNE 2025

## PROFESSIONAL PAPER 2

**This paper consists of one scenario and two required parts.  
Answer each required part in a separate answer book.**

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## INITIAL ASSESSMENT OF COMPETENCE, JUNE 2025

### PROFESSIONAL PAPER 2

This paper consists of one scenario and two required parts.  
Answer each required part in a separate answer book.

PAPER 2 PART II – REQUIRED		Marks	
		Sub-total	Total
(c)	<p>Draft a report to the management of SSC, with reference only to the information under ‘digital strategy’ (in part 2 of the scenario), in which you –</p> <ul style="list-style-type: none"> <li>(i) describe nine key business risks that SSC may be exposed to relating to its digital strategy; and</li> <li>(ii) for each risk identified, provide a mitigating measure that could be implemented by SSC.</li> </ul> <ul style="list-style-type: none"> <li>• Ignore ethical considerations.</li> <li>• Exclude controls related to journal entries generated by the bot.</li> </ul> <p><i>X1: Communication skill – layout and presentation</i> <i>Z2: Business external environment</i></p>	<p>9</p> <p>9</p> <p>1</p> <p>1</p>	20
(d)	Describe the controls that should be put in place by SSC over the journal entries recorded by the bot.	6	6
(e)	<p>Briefly explain whether or not you agree with the conclusion of the bot that 1 June 2024 is the acquisition date of PED by SSC (in accordance with IFRS).</p> <ul style="list-style-type: none"> <li>• State what the acquisition date should be, if you do not agree with the bot’s conclusion.</li> <li>• Give reasons for your answer.</li> </ul> <p><i>X1: Communication skill – logical argument</i></p>	<p>6</p> <p>1</p>	7
(f)	<p>Assume for part (f), irrespective of your answer to part (e), that the acquisition date of PED by SSC is 1 June 2024.</p> <p>Calculate the goodwill or gain on bargain purchase that should be recognised on 31 December 2024 by the SSC group relating to the acquisition of PED.</p> <ul style="list-style-type: none"> <li>• Start with the goodwill balance of R24 978 539 as calculated by the bot in the consolidation entry.</li> <li>• While tax is applicable, ignore the tax effect only on the fair value adjustments on the initial investment of 10% in PED.</li> <li>• Provide each adjustment in a separate line.</li> <li>• Do not re-process any journal entries.</li> </ul>	35	35
<b>Total for part II</b>			<b>68</b>
<b>TOTAL FOR THE PAPER</b>			<b>120</b>