



Initial Assessment of Competence

Professional Paper 3

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1 Introduction

Dino Biko and Siphiwe Keita, who have known each other since completing their interior design studies at a leading tertiary institution, have always had a dream of giving back to the community. They decided that a not-for-profit organisation (NPO), in the form of a trust, would be the best vehicle for their venture. They set up Beita Projects Trust ('Beita Projects') towards the end of 2021 and registered it with the South African Revenue Service (SARS) as a public benefit organisation (PBO), as that would grant it tax-exempt status. However, with its focus on community development, a condition of an NPO is that Beita Projects' assets and resources should be used only to achieve the objectives for which it was created. Furthermore, while the activities of Beita Projects do not need to have a profit motive, any profits it generates should be used to further the organisation's objectives.

Beita Projects operated as an NPO for three years. It focused on the upskilling and development of the community through the manufacture of furniture with a South African theme using cheap wood. Following the success of Beita Projects, its operations were subsequently transferred to Beita Furniture (Pty) Ltd ('Beita Furniture') on 1 January 2025. This private company was incorporated on the transfer date. Like Beita Projects, Beita Furniture is a local manufacturer, and it continued to produce furniture with distinct South African designs.

Beita Projects, and subsequently Beita Furniture, are both located in Coega, an economic development zone (EDZ) in the Eastern Cape and are members of the Coega Development Corporation (CDC). Economic development zones assist in the expansion of commercial and industrial businesses and long-term employment. The CDC supports businesses and organisations that operate from the EDZ through incentives offered by the national government and the local municipality. These include training, research and development and promotion of export incentives. Customs duty relief and employment tax incentives are also part of the possible incentives offered by the CDC to entities that meet strict development criteria.

2 Background on Beita Projects

Dino and Siphiwe raised R1 million through donations to fund the start-up of Beita Projects. Kunomoya Enterprises, one of the main participants in the production incentive programme at Coega, offered Beita Projects 200 m² of unused factory space in its warehouse at a total rental cost of R500 per month. A market-related rate for rent of similar premises is R150 per m².

Beita Projects purchased good quality second-hand carpentry equipment at a liquidation auction for only R250 000. Other operating costs were funded with donations received from various companies.

Fulani Bhule and Joseph Nnadi are qualified carpenters who joined the Beita Projects team at inception. Fulani has 20 years carpentry experience. Joseph was a supervisor at the company he worked for previously, where he was involved in product pricing and customer relations. Fulani and Joseph were employed to coordinate Beita Projects' work with trainee carpenters. Beita Projects arranged to pay Joseph and Fulani fixed salaries of R15 000 per month each, until the sale of furniture could cover the operational costs of the NPO. Thereafter, they would be paid market-related monthly salaries of R25 000 and R27 000, respectively.

Starting from November 2021, Beita Projects, through its community upskilling programme, used the making of furniture to help unemployed persons learn new skills as trainee carpenters. The proceeds made from the sale of the furniture were used to compensate the trainee carpenters. The trainee carpenters qualify as entry-level carpenters at the end of their training, which enables them to pursue opportunities in the carpentry industry. By the end of 2024, 14 individuals had completed the programme and moved on to other opportunities.

3 Growth of Beita Projects

3.1 Second-hand carpentry equipment

The equipment bought at the liquidation auction is of good quality and expected to have a remaining useful life of six years at the date of purchase, with no residual value. The equipment is used for training purposes for about 20% of its operating time.

The equipment has to be maintained on a continuous basis. Over a six-month period in 2024, the repairs and maintenance expenses were as follows:

Month	Amount
	R
May 2024	3 060
June 2024	2 315
July 2024	2 845
August 2024	2 560
September 2024	2 740
October 2024	5 990

In October 2024, R3 790 was incurred to replace a compressor on a saw that overheated due to overuse. Steps have been taken to ensure that this issue does not recur in the future.

3.2 Pallets

When it opened in November 2021, Beita Projects had a launch day at which the local community could drop off any unwanted wood and wooden items at its premises. For six months thereafter, Fulani and Joseph used this wood to teach the employees basic carpentry skills and how to use the various items of equipment. The wood was used to make small household items. During this initial period, Beita Projects used R250 000 of the start-up donations.

The donated wood was either not sufficient or unsuitable for furniture production, and hence Joseph researched cost-effective alternatives. The most viable option was second-hand pallets, which are readily available and could be used to make outdoor furniture after being treated. Competitors manufacture high-quality tables and benches from plastic materials or railway sleeper wood that can withstand the environment better than wooden pallets.

Joseph approached nearby businesses to share Beita Projects' vision and asked whether he could buy second-hand pallets at R10 per pallet, which was considerably lower than the average market-related price of R80. Many of the businesses had used pallets that they were willing to sell at Joseph's proposed price, on condition that Beita Projects collect the pallets. Joseph borrowed a truck at no cost from Kunomoya Enterprises to pick up the pallets weekly.

Joseph managed to collect 850 pallets at R10 per pallet in the first week, with regular collections of pallets thereafter. Joseph and Fulani started with the production of two standard items, being tables and benches. The 850 pallets would theoretically be sufficient to make 150 three-seater outdoor benches and 120 outdoor tables, assuming a standard usage of 4,5 pallets per table (of which half a pallet was lost as waste) and two pallets per bench (10% wastage on the two pallets used). All pallets are of a standard size and consist of 20 planks per pallet. All planks are utilised in the production process, subject to the normal wastage. To limit wastage, pallets with broken planks are used for training purposes only.

3.3 Trainee carpenters

From May 2023 onwards, Joseph and Fulani trained ten employees at a time. For the first half of each day employees were trained to make household items. Joseph and Fulani spent the second half of the day supervising them while they made components for tables and benches. There is no fixed period for trainees to complete their training. As the skills of the ten employees improved, the quality of their work and volumes produced also improved.

From May 2024 the programme operated at expected capacity and the employees consisted, at any given stage, of ten staff who had completed their training, plus five individuals who were still in training.

The trainees are paid R3 200 per month (R20 per hour) and are expected to work eight hours per day and on average 20 days per month. Once they are operating at expected capacity and have completed their training, their monthly pay increases to R4 000 per month (R25 per hour).

3.4 Treatment of wood

Dino and Sipiwe are not involved in the day-to-day operations of the furniture production. When they visited the production warehouse during October 2024, they asked Joseph to prepare management accounts. Joseph's analysis for the three months ending 31 October 2024 is set out in appendix 1.

After inspecting Joseph's analysis and consulting with a furniture expert in the hotel industry, Dino and Sipiwe predicted that these tables and/or benches could easily be sold to hotel groups and wine estates.

However, this would require that someone with more experience in treating and properly finishing the furniture be employed. Joseph recommended someone who could perform this function for R12 000 per month. This person would spend 75% of their time operating the machines, treating planks and finishing the furniture, and the balance on the training programme teaching the trainees the necessary skills.

Beita Projects also needed to acquire a specialised machine that could be used only for treating the planks. Three of these machines were leased on 1 November 2024 for a period of one year at a total fixed rental of R72 000 per annum, payable in equal monthly instalments, plus a charge of R15 per machine hour used. The machines would not be used for training purposes, and each has a capacity of 200 hours per month.

Planks that are extensively exposed to sunlight require 15 minutes of treatment and finishing, while the planks that are not subject to extensive exposure only require five minutes of treatment.

Of the planks used for the manufacture of a table, 20% is considered to be extensively exposed to sunlight compared to 60% of the planks used for benches.

4 Incorporation as a private company, NPO status and the expansion of Beita Furniture

Dino started negotiating with two boutique hotels on supplying tables and benches to them. These hotels are part of the Swallows Group, which also owns a wine farm in the Cape winelands. In view of the interest of the Swallows Group and other wine estates, Dino and Sipiwe decided to incorporate a private company to continue with the business. That meant, however, that the operation of Beita Projects as an NPO would need to be discontinued, as an NPO cannot merely be converted to a private company.

Consequently, they incorporated a new private company, Beita Furniture (Pty) Ltd, on 1 January 2025. The directors decided to retain the Beita name by calling the new company Beita Furniture to ensure the donors remained aware of the Beita concept and its aims and objectives.

Beita Furniture's first financial year end was 31 December 2025 (FY2025). It was incorporated with 150 000 authorised shares. Dino and Sipiwe were each issued 37 500 shares at incorporation. According to the company's memorandum of incorporation (Mol), Dino and Sipiwe are the only two directors of Beita Furniture. Dino acts as chief executive officer and Sipiwe fulfils the role of chief operations officer.

Dino and Sipiwe transferred all assets and liabilities to the new company at book value and the net asset value was credited to the initial share capital of the company. It was resolved that any future funding requirements would be in the form of bank loans. Dino and Sipiwe kept and approved minutes of all their meetings. Fortunately, despite its change in status, many of Beita Projects' supporters continued making donations towards Beita Furniture's operating expenses.

At a meeting held on 3 July 2025, Dino and Sipiwe decided to issue 12 500 shares each to Joseph and Fulani at a nominal consideration of R0,01 per share, as they were seen to be key employees and critical to the success of the company. The shares were issued on 31 July 2025.

The directors decided that 50% of the profits of the company would be shared amongst staff members who had been employed by Beita Furniture for more than six months. The profit share for a quarter would be paid in cash in the month following the end of the quarter. Staff would not share in any losses.

On 4 December 2025, Dino and Sipiwe discussed the possibility of paying out a small dividend to the four shareholders. They drew up a schedule of dividends, performed a solvency test, and concluded that a dividend of R0,20 per share was feasible. They approved the dividend payouts accordingly and kept minutes of this approval for future reference. The dividends were paid on 30 December 2025.

5 Beita Furniture's financial statement audit and internal control matters

5.1 Beita Furniture's FY2025 financial statement audit

To qualify for a bank loan (for additional financing), Dino approached Plank & Partners ('PP'), a medium-sized accounting and audit firm located in Gqeberha, to audit Beita Furniture's financial statements for FY2025. This was in line with the Mol, which also requires that the company be audited. The financial statements should also comply with the requirements of the IFRS® Accounting Standards. PP specialises in the financial services sector, and it was excited about expanding its portfolio of clients to include Beita Furniture, a manufacturing company. Fezile Keita CA(SA) RA, an audit partner at PP, was assigned to the audit of Beita Furniture.

Because Fezile is Siphwe's brother, the two were comfortable about sharing information with one another and felt that this would lead to a seamless audit process. There would be one other team member on the audit, namely Meagan Brooks, a second-year trainee accountant, who would take ultimate responsibility for the audit as she would be performing all audit procedures. Fezile would provide her with strategic direction in performing the audit and ultimately sign the audit report.

5.2 Internal controls and the finance function of Beita Furniture

On 1 April 2025, Zolani Ndungane was appointed to perform the bookkeeping and costing functions, implement internal controls and perform day-to-day financial functions at Beita Furniture. Zolani has recently completed her BCom degree. Because she does not have any work experience, Dino and Siphwe were able to appoint her at a very low salary for a candidate with her qualifications.

Beita Furniture outsourced the preparation of tax returns and the compilation of the financial statements for FY2025 to PP.

6 Other information

6.1 Alternative pallet supplier

Dino's boyfriend introduced her to a local businessman who said he could deliver at least 500 new pallets at a cost of R40 per pallet, plus a R20 commission per pallet payable to her boyfriend. Dino accepted the proposal and the first sample batch of ten pallets was delivered to Beita Furniture's premises. Dino noted that the name of a big transport company was painted on the pallets. Her boyfriend told her that the pallets were 'excess to requirements' and the businessman was getting them as a special deal.

6.2 Human resources

As Beita Furniture does not have a human resources department, Zolani made it her priority to ensure that the necessary appointment documents were in place for all employees. Zolani could not find an employment contract for one of the trainee carpenters, Abulele Makwetu. Zolani sent him a WhatsApp message to confirm whether he had a contract or not.

The following is a record of the WhatsApp conversation on Zolani's cell phone. Zolani immediately forwarded the message to Siphwe.

**Abulele Makwetu – Beita Furniture trainee**

Mon, 22 Apr

Hi Abulele. I hope you are well. I just want to find out whether you've signed a contract with Beita for the work you are currently doing?

Hi Zolani. Yes, I do have a contract. I will take a picture of it and send it to you for your records if you need a copy? I have been wanting to ask you something though. If I am not mistaken, the minimum wage increased to R28,79 per hour from 1 March. Do you know whether our wages will be increased? I know Beita can afford it. Please help us out. 😊

Thank you very much, I would appreciate a copy of the contract. With regard to the rate, Dino made it very clear that the rates will not change in the foreseeable future. The company will apply for exemption from paying the minimum wages if someone asks. But let me look into that for you.

Appendix 1				
Financial information provided by Joseph for the three-month period ended 31 October 2024				
Line item	Notes	Aug. 2024	Sept. 2024	Oct. 2024
Tables produced	Number of tables produced	8	9	10
Benches produced	Number of benches produced	22	25	37
Tables sold	The standard price is R3 950 per table	R27 650	R35 550	R51 350
Benches sold	The standard price is R1 895 per bench	R37 900	R41 690	R56 850
		R	R	R
Total expenses		(110 135)	(112 520)	(121 755)
Salaries	Fulani and Joseph	(30 000)	(30 000)	(30 000)
Employee training wages	- 10 trained employees working 8 hours per day, 20 days a month at R25 per hour - 5 trainees working on furniture for 4 hours per day, 20 days per month at R20 per hour – the remaining 4 hours are used for training. - A trained employee can process 2 pallets per hour while a trainee can process 1 pallet per hour	(40 000)	(40 000)	(40 000)
Indirect materials	Varnish, screws, nails, glue. The cost varies only due to the change in usage of planks of wood for the final product	(16 000)	(16 000)	(16 000)
Repairs	The saws break regularly in normal production from wear and tear. R3 790 in month 3 was for replacing a compressor on a saw that overheated due to overuse	(16 160)	(18 281)	(24 038)
Lubricants and cleaning	Oiling and cleaning of the woodworking machinery during the pallet processing are done prior to the start of operations each day and are partly determined by the number of hours the machines are operational. The machines are operated during the same shifts when staff works and has the capacity to process 1 000 pallets per month	(2 560)	(2 740)	(5 990)
Rent		(4 915)	(4 999)	(5 227)
		(500)	(500)	(500)

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PROFESSIONAL PAPER 3

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

PAPER 3 PART 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Write a report to Dino and Siphwe in which you identify the financial and operational risks of Beita Furniture. <i>X1: Communication skill – clarity of expression</i> <i>Y1: Critical thinking skills</i>	31 1 1	 33
(b)	Calculate, based on the financial information in appendix 1 and adjusted to reflect the market-related amounts described below, the breakeven sales in units per month for Beita Furniture, if - - Beita Furniture pays Fulani and Joseph a market-related salary, pays market-related rent and buys used pallets at market-related prices, and - Beita Furniture produces the product(s) that will provide the most profitable result. <i>Y3: Problem-solving skills</i> <i>Y1: Critical thinking skills</i>	 41 1 1	 43
Total for part I			76

INITIAL ASSESSMENT OF COMPETENCE, JUNE 2026

PROFESSIONAL PAPER 3

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

PAPER 3 PART II – REQUIRED		Marks	
		Sub-total	Total
(c)	Discuss any ethical concerns you may have arising from the way in which Beita Furniture is managed.	10	10
(d)	Discuss the matters Fezile, as auditor, should consider in reaction to the WhatsApp conversation between Zolani and Abulele, taking all other relevant information into consideration.	9	
	Do not discuss any detailed steps Fezile should take in reaction to the concerns.		
	<i>Y2: Integrative thinking</i>	1	10
(e)	Describe the substantive procedures the auditor would perform on the issue of shares and the dividend payment made by Beita Furniture during FY2025.	23	
	- Do not discuss audit procedures related to the following: - Management representations; - Analytical procedures; - Notices of and quorums at any meeting; and - Presentation and disclosure requirements.		
	<i>X1: Communication skill – clarity of expression</i>	1	24
Total for part II			44
TOTAL FOR THE PAPER			120