

Part (a) Calculate the consolidated profit of the Soda-XP Group from continuing operations for FY2023 after consolidating LightOn.			Marks
<ul style="list-style-type: none"> <li>Ignore taxation.</li> <li>Show any fair value adjustment or remeasurement separately in your calculations.</li> <li>Ignore all adjustments relating to Glass-It.</li> </ul>			
	Amount	Amount	
	R	R	
Soda-XP and other subsidiaries (stated)		50 000 000	
Add: LightOn profit until 30 September 2023		850 000	1
<u>Reversal of parent's entries in its separate financial statements:</u>			
Profit on the sale of shares (stated)		(4 250 000)	1
Remeasurement gain on measuring the retained investment to fair value #	<b>850 000</b>	(850 000)	
Fair value (10 000 shares x R90)	900 000		1
Portion of cost (10 000/60 000 x R300 000)	(50 000)		1
<u>Group gain on the loss of control (IFRS 10.B98):</u>			
Profit on the sale of the subsidiary	<b>583 333</b>	583 333	
Proceeds at fair value (50 000 shares x R90) (para. (b)(i))	4 500 000		1
Pro rata carrying amount of parent's interest in subsidiary sold (50/60 x R4 700 000)	(3 916 667)		1
Remeasurement gain on measuring the retained interest to fair value # (disclosable under IFRS 12.19(a))	<b>116 667</b>	116 667	
Fair value (10 000 shares x R90) (para. (b)(iii))	900 000		1
Pro rata carrying amount of parent's interest in subsidiary sold (10/60 x R4 700 000)	(783 333)		1
<b>Alternative calculation</b>			
Total gain or loss on the sale of the subsidiary	<b>700 000</b>		
Proceeds at fair value (50 000 shares x R90)	4 500 000		1
Fair value of retained investment (10 000 shares x R90)	900 000		1
Carrying amount of investment (given)	(4 700 000)		½
Gain on disposal of shares	<b>583 333</b>	583 333	
Proceeds at fair value	4 500 000		
Carrying amount of investment disposed of (50/60 x R4 700 000)	(3 916 667)		1
Remeasurement gain on measuring the retained investment to fair value # (R700 000 – R583 333)		116 667	½C
<b>Alternative calculation</b>			
Total gain or loss on the sale of the subsidiary	<b>583 333</b>	583 333	
Gain on disposal of shares in separate financial statements (given)	4 250 000		1
Share of post-acquisition reserve sold [50/60 x (R4 700 000 – R300 000)]	(3 666 667)		1
Remeasurement gain on measuring the retained investment to fair value #	<b>116 667</b>	116 667	
Fair value of retained investment (10 000 shares x R90)	900 000		1

Carrying amount of retained investment (10/60 x R4 700 000)	(783 333)		1
# The question required candidates to indicate any fair value remeasurement separately			
<b>Consolidated profit from continuing operations</b>		<b>46 450 000</b>	
		<b>Available</b>	<b>8</b>
		<b>Maximum</b>	<b>8</b>
		<b>Total for part (a)</b>	<b>8</b>

<p><b>Part (b) Discuss five concerns that you may have about the calculation of the value in use for Glass-It and for each concern, provide the appropriate treatment.</b></p> <ul style="list-style-type: none"> <li><b>Limit your discussion to issues for which there is evidence of inaccuracies, inconsistencies, errors in application and/or non-compliance with IFRS in the scenario.</b></li> </ul>	<b>Marks</b>
<b>1 Disposal of the assets at the end of the useful life</b>	
1.1 The composition of the expected future cash flow is incorrect as the net cash flows to be received from the <b>disposal of the manufacturing plant</b> at the end of its useful life were <b>incorrectly omitted</b> (IAS 36.39(c)). <i>(This is evident from the fact that cash flows for the last year have merely increased by the expected percentage increase due to growth.)</i>	1
1.2 The estimate of net cash flows to be received from the disposal of the manufacturing plant at the end of its useful life of <b>R16 million</b> should be included in the value in use calculation (IAS 36.52).	1
<b>2 Replacement cost of glass-cutting machine</b>	
2.1 Furthermore, the composition of the expected future cash flow is incorrect as the cash flows <b>incorrectly exclude any capital expenditure</b> (for replacing the glass-cutting machine) <i>(the scenario states that the expected cash flows exclude any capital expenditures)</i> .	1
2.2 The estimated useful life of the glass-cutting machine is shorter <i>(stated as two years)</i> than the rest of the manufacturing plant <i>(stated as five years)</i> . The replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit, and the <b>replacement cost of R7 million should be included</b> in the value in use calculation (IAS 36.49).	1
<b>3 Adjustments for inflation</b>	
3.1 The treatment of inflation in the expected cash flows and the discount rate is inconsistent. The discount rate <i>(as stated in the scenario)</i> includes the effect of price increases attributable to general inflation. In contrast, the cash flows are expressed in <b>real terms</b> (i.e., without adjusting for inflation).	1
3.2 Estimates of future cash flows and the discount rate should reflect consistent assumptions about price increases attributable to general inflation. Therefore, as the discount rate includes the effect of general inflation <i>(as stated in the scenario)</i> , <b>future cash flows should be estimated in nominal terms</b> / as the cash flows are expressed in real terms, the <b>discount rate should be adjusted</b> to not include the the effect of price increases attributable to general inflation (IAS 36.40).	1
<b>4 Adjustments for risks</b>	

4.1	The risk of increased load shedding in future has been incorrectly <b>double-counted, in both</b> the discount rate and by adjusting the expected future cash flows.	1
4.2	However, the discount rate used to measure the CGU's value in use shall <b>not reflect the risk</b> for increased load shedding, for which the future cash flow estimates have <b>also been adjusted</b> (IAS 36.56). (Accordingly, either the discount rate or the expected cash flow should exclude such risk adjustment.)	1
<b>5 Treatment of cash outflow of termination benefits</b>		
5.1	The expected cash flows <b>incorrectly include the payment of R3 million</b> as termination benefits to employees, because a separate liability has already been recognised ( <i>as stated in the scenario</i> ) (double-counted). The <b>carrying amount of the CGU and the recoverable amount were not determined on a consistent basis</b> (IAS 36.76(b)), as the carrying amount of the CGU excludes the recognised termination benefit liability. In contrast, it was included (as a deduction) in the value in use calculation.	1
5.2	The carrying amount of the CGU does not include the recognised liability. Accordingly, the payment of <b>R3 million for the retrenchment should not</b> be deducted from the expected cash flows in determining the value in use.	1
<b>Available</b>		<b>11</b>
<b>Maximum</b>		<b>10</b>
<i>Communication skills – logical argument</i>		<b>1</b>
<b>Total for part (b)</b>		<b>11</b>

<p><b>Part (c) Prepare, on the assumption that Soda-XP decided to adopt option 2 in section 4, the analysis of the single amount in respect of the discontinued operation in profit or loss in terms of IFRS 5.33b for inclusion in the notes to the consolidated financial statements of the Soda-XP Group for FY2023.</b></p> <ul style="list-style-type: none"> <li>Indicate the allocation of the impairment loss to the respective assets in your calculations.</li> <li>Round and present all amounts in R'000.</li> <li>Do not split any income tax expense between current tax and deferred tax.</li> <li>Do not provide a disclosure of information relating to any allocation to the owners of the parent or the non-controlling interests</li> <li>Do not provide comparative amounts.</li> </ul>		<b>Marks</b>
<p><b>SODA-XP GROUP</b> <b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FY2023</b></p> <p><b>Discontinued operations: The analysis of the single amount in profit or loss (IFRS 5.33(b))</b></p>		
	<b>Amount</b>	
<i>(Narrative information not required)</i>	<b>R'000</b>	
Revenue	93 000	½
Expenses [(75 000 + 10 000) (1) + 3 000 <sup>termination</sup> (1) + 14 380 <sup>impairment loss</sup> (6 marks calc 1 below)]	(102 380)	2
Profit before tax	(9 380)	
Tax expense [(-9 380 + 3 000 <sup>termination</sup> (1) + 2 880 <sup>goodwill</sup> (1C)) x 27% (½P)]	945	2½
Profit after tax	<b>(8 435)</b>	

Loss recognised on the measurement of the disposal group to fair value less costs of disposal		-	
Tax (expense)/income		-	
Remeasurement loss after tax		-	
<b>Total amount recognised in profit or loss from discontinued operations</b>		<b>(8 435)</b>	
<b>Calculation 1: Impairment loss and allocation of impairment loss</b>			
	<b>Recognised in profit or loss</b>	<b>Total</b>	
	<b>R'000</b>	<b>R'000</b>	
Carrying amount of CGU / disposal group (stated as correct)		105 840	
Fair value less costs of disposal		90 000	
<b>Total impairment loss</b> (105 840 – 90 000)		<b>(15 840)</b>	1
Allocated first to goodwill		(3 840)	1P
Loss limited to the amount of recognised goodwill (IAS 36.App C) (3 840 x 75%)	(2 880)		1
Remaining loss allocated to other assets on a pro rata basis		(12 000)	
Loss on land recognised in OCI (not P/L <b>(1P)</b> ) (13 000 - 12 500) <b>(1)</b> limited to its individual fair value less costs of disposal (IAS 36.105) (also see the alternative calculations below)	0	(500)	2
Loss on manufacturing plant recognised in P/L	(11 500)	(11 500)	1C
<b>Total impairment loss recognised in profit or loss</b> (to be included in the analysis of the single amount disclosed for the discontinued operation)	<b>14 380</b>		
<i>Total marks to the analysis in the note above</i>			<b>6</b>
		<b>Available</b>	<b>11</b>
		<b>Maximum</b>	<b>11</b>
		<b>Total for part (c)</b>	<b>11</b>

<b>Alternative calculation of impairment loss</b>							
	<b>Carrying amount</b>	<b>Loss allocated pro rata</b>	<b>Revised carrying amount</b>	<b>Limit</b>	<b>Re-allocation</b>	<b>New carrying amount</b>	<b>Total loss recognised</b>
Land	13 000	(1 529)	11 471	12 500	1 029	12 500	(500)
Manu- facturing plant	89 000	(10 471)	78 529	N/A	(1 029)	77 500	(11 500)
Total	102 000	(12 000)	90 000	12 500	0	90 000	(12 000)

Part (d) Using the information provided on the performance for FY2023 and information in section 5, and on the assumption that the Soda-XP Group adopted option 1 –	Marks
(i) calculate the amount by which the current gross profit should increase to reach target gross profit of Glass-It in FY2024;	
(ii) calculate the sales value required for Glass-It to achieve the target gross profit for both the South African and Botswana operation in 2024; and	
(iii) calculate and conclude, taking into account the answer to part (a)(ii) above, the impact that the move to Botswana will have on Glass-It's profitability.	
<b>Part (d)(i)</b>	
R'000	
Gross profit margin $25/125 * 120\ 000 = 24\ 000$	1
Increase in profit $(24\ 000\ (C) - (93\ 000 - 75\ 000)) = 6\ 000$	1
<b>Part (d)(ii)</b>	
<b>Variable cost per unit</b>	
Variable $(50\ 000 - 25\ 000) / (3000 - 1000) = R12.50$	1
<b>Total fixed costs (R'000) at highest level of activity</b>	
$50\ 000 - (12.5 * 3\ 000)(C) = 12\ 500$	1
<i>Alternative (candidate can also use lowest level of activity)</i>	
$25\ 000 - (12.5 * 1\ 000)(C) = 12\ 500$	1
<b>Break-even sales value for the South African operation with target gross profit (R'000)</b>	
$(12\ 500 + 24\ 000\ (C)) / 50\% = R73\ 000$	1
<b>Break-even sales value for the Botswana operation with target gross profit (R'000)</b>	
$((12\ 500 * 75\%)(C) + 24\ 000)(C) / 50\% = R66\ 750$	1
<b>Part (d)(iii)</b>	
The move to Botswana results in a lower sales value required to reach the target gross profit percentage.	1
This will increase gross profit (R'000) $(by\ R73\ 000 - R66\ 750) * 25/125 = R1\ 250$	1(P)
<i>Alternative</i>	
<i>This will increase gross profit (R'000) <math>(by\ (R12\ 500 * 25\%)/50\% * 25/125 = R1\ 250</math></i>	1
Additionally, profit will increase as there are less fixed costs to recover. This benefit will be realised as long as the production and sales volume stays within the relevant range of activity.	1
<i>Maximum for part (d)(iii) 2</i>	
<b>Available</b>	<b>8</b>
<b>Maximum</b>	<b>8</b>
<b>Total for part (d)</b>	<b>8</b>

Part (e) Determine, assuming that Soda-XP Group adopted option 1, based on the information provided in sections 4 to 6, the strategies that could be used to ensure that Glass-It remained solvent and liquid following the move to Botswana.		Marks
<b>1</b>	<b>Cash flow management</b>	
1.1	The company should perform a detailed expenditure review to identify expenditures that are excessive or that represent a duplication of functions. Such expenses and functions should be eliminated or minimised without compromising operations and the quality of products.	1
1.2	As a related matter, reduce any discretionary spend such as expansionary capex given that demand is depressed.	1
1.3	A cost benefit analysis should be performed across the board for all activities for which the company has an option to either lease or buy or provide service internally or outsource. This could result in a significant reduction in expenses and liabilities from the outright purchase of assets.	1
1.4	Continue to identify and sell non-performing / non-core assets / poorly performing divisions	1
1.5	Evaluate the impact of the Group's dividend policy on liquidity and solvency of Glas-It. (This is a Companies Act requirement.)	1
1.6	Focus on increasing operating profitability to create a cash-generating ability and flexibility in responding to competition and strategic positioning by – <ul style="list-style-type: none"> <li>• identifying cheaper sources of raw materials;</li> <li>• researching the input mix and determining if a change in the mix can reduce the cost of inputs and normal losses; and</li> <li>• investigating the drivers of normal losses and implement strategies to reduce them.</li> </ul>	1 1 1
1.7	Currently the cash generated by operations appears low in relation to pre-tax profits, indicating that the profit is not backed by cash. This could be alleviated by reducing overreliance on operating effectiveness (which places emphasis on being faster, better or using fewer resources and defects than the competition).	1
1.8	The glass manufacturing operation needs to improve its ability to create an enduring competitive advantage, to enable it to earn higher margins by – <ul style="list-style-type: none"> <li>• identifying specialised glass and niche markets;</li> <li>• differentiating the glass products and their quality;</li> <li>• reducing the number of glass products which could lead to simplification of production and procurement processes;</li> <li>• identifying the most profitable market segments and implement strategies to deepen penetration into these market segments; and</li> <li>• divesting from unprofitable segments.</li> </ul>	1 1 1 1 1
1.9	Given the high exposure to USD fluctuations on ordering, the glass manufacturing operation needs to implement strategies to mitigate foreign currency risks so that costs and profitability are more predictable and easier to plan around.	1
<b>2</b>	<b>Supplier management</b>	
2.1	Given that neither Botswana nor Zambia appears to have the long-term capacity to supply power reliably, the glass manufacturing operation needs to – <ul style="list-style-type: none"> <li>• enter into energy supply agreements with energy suppliers to secure energy requirements;</li> <li>• identify alternative sources of energy, such as investing in generators, solar power and batteries to reduce production interruptions; and</li> </ul>	1 1

	<ul style="list-style-type: none"> <li>incorporating more quantitative and qualitative factors over and above the opportunity to save on electricity when evaluating the decision to relocate to Botswana.</li> </ul>	1
2.2	As a strategy for addressing obsolete stock and related liquidity challenges, the glass manufacturing operation needs to develop a better understanding of customer needs and align production to client orders and forecasts.	1
2.3	<p>Stockout costs might be prevented by holding larger levels of inventory, given the large lead times of supply from China and India. This should be balanced against the cost of holding large volumes of inventory. In this regard, the operation needs to identify additional sources of working capital financing.</p> <p>Or, instead of increasing inventory, consider reducing inventory by applying mathematical techniques like Economic Order Quantity (EOQ) to ensure that the optimal order quantity is included in each order.</p>	1
2.4	Alternative suppliers of both machines and raw materials should be sourced; which should preferably be local suppliers to reduce lead times.	1
2.5	Customers of customised glass products could be encouraged to place their orders in advance to enable planning for both ordering and production.	1
<b>3</b>	<b><i>Debtors management</i></b>	
3.1	<p>Significant efforts need to be directed at reducing the receivable turnover days (which is 20 days higher than the sector median) to increase liquidity. This could be achieved by –</p> <ul style="list-style-type: none"> <li>implementing stronger credit policies to grant credit to credit-worthy clients and manage the size of credit extended to them. Consider features which encourage advance payments from clients and early payments; and</li> <li>obtaining credit insurance on the debtors book to mitigate the cost of default. Long overdue accounts should be identified and stronger processes to recover these balances should be implemented.</li> </ul>	1
3.2	Similarly, long-term forecasts of demand could be made, and orders placed well in advance of use.	1
<b>4</b>	<b><i>Finance arrangements</i></b>	
4.1	At 85%, the debt levels are currently high compared to sector comparables. The glass manufacturing operation should reduce overreliance on debt by requesting shareholders to inject more funds into the business and using some of the proceeds to reduce debt.	1
4.2	Alternatively, this could be achieved by renegotiation of debt (i.e. converting amortising debt into bullets, increasing the term of debt), sale and leaseback arrangements, leasing instead of outright purchase of machines).	1
4.3	Additionally, the glass manufacturing operation should include reducing debt and working capital levels as part of management's performance targets and incentives.	1
	<b>Additional points</b>	
	<ul style="list-style-type: none"> <li>Identify export markets to increase volumes.</li> </ul>	1
	<ul style="list-style-type: none"> <li>Revise the incentive structures of senior management to ensure that there is alignment with the long-term sustainability of the business.</li> </ul>	1
	<ul style="list-style-type: none"> <li>Review the effectiveness of marketing strategies and the sales team; provide more training to the sales team where required.</li> </ul>	1
	<ul style="list-style-type: none"> <li>Implement regular performance reviews to monitor progress with production, profitability, liquidity and debt levels.</li> </ul>	1
	<ul style="list-style-type: none"> <li>Explore government incentives, grants and other support for glass manufacturers in Botswana.</li> </ul>	1
	<b>Available</b>	<b>34</b>

	<b>Maximum</b>	<b>11</b>
	<i>Communication skills – appropriate style</i>	<i>1</i>
	<b>Total for part (e)</b>	<b>12</b>