

Part (a) Prepare the pro forma consolidation journal entries to account for all intragroup transactions in the consolidated financial statements of the FutureWyze Group for FY2024.			Marks	
		Dr	Cr	
		R	R	
1.	Retained earnings (SCE)	238 606		1
	Income tax expense (P/L) (C1)	88 252		½
	Cost of sales (P/L) (C2)		326 858	½
	<i>Unrealised profit in opening inventories and its tax effect</i>			
2.	Sales (P/L)	132 000 000		1
	Cost of sales (P/L)		132 000 000	
	<i>Intragroup sales for the year</i>			
3.	Cost of sales (P/L) (C3)	502 858		1
	Inventories (SFP)		502 858	
	<i>Unrealised profit in closing inventories</i>			
4.	Deferred tax (SFP) (C4)	135 772		½
	Income tax expense (P/L)		135 772	
	<i>Tax effect of unrealised profit in closing inventories</i>			
5.	Non-controlling interest (SFP) (C5)	25 696		1
	Non-controlling interest (P/L)		25 696	
	<i>Recognising non-controlling interests' share of unrealised profits</i>			
6.	Transport income / revenue (P/L)	11 200 000		1
	Transport costs / cost of sales (P/L)		11 200 000	
	<i>Intragroup transport costs for the year</i>			
Workings:				
C1	R326 858 x 27%			½
C2	R6 864 000 / 87,5% = R7 844 571			½
	R7 844 571 x 20/120 = R1 307 429			½
	R1 307 429 – (R7 844 571 x 12,5%) = R326 858			½
	Alternative C2:			
	Discount to group company: 12,5% x 120 = 15			½
	Selling price within group: 120 – 15 = 105			½
	Unrealised profit: R6 864 000 x 5/105 = R326 857			½
C3	R10 560 000 / 87,5% = R12 068 571			1P
	R12 068 571 x 20/120 = R2 011 429			
	R2 011 429 – (R12 068 571 x 12,5%) = R502 858			
	Alternative C3:			
	Unrealised profit: R10 560 000 x 5/105 = R502 857			
C4	R502 858 x 27% = R135 772			½P
C5	R326 858 (J1) – R88 252 (J1) – R502 858 (J3) + R135 772 (J4)			1C
	= (R128 480)			
	x 20% = R25 696			½
Available				11½
Maximum				9
<i>Communication skills – presentation</i>				1
Total for part (a)				10

Part (b) Discuss whether you agree with Louisa's decision to buy the shipping containers from TCC, with reference to the good for self and good for others approach and the utilitarian ethical theory.		Marks
Good/bad for self (FutureWyze)		
1	By buying the Shipping containers at this reduced price, it will drastically reduce inventory costs and will increase profits. As a result, it will have a positive impact on the business.	1
2	By helping Vuka Mzansi with a lower price for its order, FutureWyze's reputation will be positively affected as it will add to its social footprint and add to it being a good corporate citizen.	1
3	However, this transaction is highly likely to be regarded as the purchase of stolen goods because the following makes this suspicious: <ul style="list-style-type: none"> The price is 60% lower than what it would normally be and even Louisa noted that this seemed too good to be true. Although TCC claims it is because it is being liquidated, there is no evidence of a notice of liquidation. There is no indication of past trading activities with a clear registered address. TCC would further not give the address where the shipping containers are kept in advance. TCC asked specifically for payment in cash and also asked that the shipping containers be removed immediately. 	1 ½ ½ ½ ½
4	This would therefore be regarded as an unlawful transaction (the purchase of stolen goods) with a risk of Louisa and/or everyone involved being arrested.	1
5	By buying these products at a reduced cost, it will result in increased profits for the company and improve Louisa's performance resulting in bonuses, promotion, etc.	1
6.	It may also lead to significant fines and penalties and/or losses due to confiscation if the police/law enforcement agency identifies that Louisa had suspected the trade was unlawful and did not do anything.	1
7	This will negatively affect the reputation of the company, especially considering that it was aware of the issue and were suspicious.	1
8	FutureWyze is known for its ethical conduct and social impact thus this type of incident would have a much greater impact for their stakeholders such as customers, employees, etc.	1
9	This may result in retrenchments (if FutureWyze has to pay fines and penalties, loss of business due to reputational damage, etc.) as well as difficulty in paying creditors.	1
10	It will also have a negative impact on FutureWyze's donations to social programmes if it comes to light that they may be struggling financially and thus have to scale down on donations. This will have a negative impact on the general society. The integrity and genuineness of its donations may also be questionable as this could be perceived as cover for illegal activities.	1
Good/bad for others		
1	This will reduce the price that Vuka Mzansi has to pay, which will benefit the social activities that Vuka Mzansi can undertake as it could use the funds saved on other activities which will benefit the youth significantly.	1
2	However, if the shipping containers are in fact stolen and this comes to light, this will have a significant negative impact on the whole value chain. The	

	shipping containers would likely be seized and ownership of the containers would be in question. Both FutureWyze and Vuka Mzansi are likely to lose in trying to establish ownership. This could lead to court costs (to recover money paid) and would further delay its initiatives if the containers are seized and it has to restart the project. This could have a negative impact on the youth as well.	1
3.	The companies from which the shipping containers were probably stolen would be negatively affected as they legally purchased the containers and can no longer rent them out or sell them. The article that Louisa read stated that millions have been lost by these companies. This in turn negatively affects all their stakeholders (shareholders, staff, insurance companies etc.).	1
4	The company from which the shipping containers are bought is unlikely to declare the revenue to SARS (if it stole the goods and could disappear and not want to be traced), which causes SARS to lose taxes, which further impacts the SA economy negatively (fraudulent transaction) and the welfare of the general public.	1
5	This can affect the donations that Vuka Mzansi's NPO receives if the NPOs reputation is tainted, which could affect the long-term sustainability and continued operations of the NPO / this can also affect the reputation of Vuka Mzansi if the containers are stolen and seized, as the social activities undertaken could then be tainted with stolen goods.	1
Utilitarian ethics		
1	This theory conforms to the opinion that some good and some bad will necessarily result from the actions and that the best action will be that which provides the most good or does the least harm. A decision or action will therefore be just if it promotes or advocates happiness (or pleasure) for the greatest number of individuals in society (or in a group, entity, or country, if it promotes overall societal welfare). In summary, the theory can conclude that Utilitarianism is more concerned with the outcomes and not the actions/the action can be justified as ethical if outcome is to the benefit of the greater good.	1
2	In this instance, the primary beneficiaries of the transaction are FutureWyze, Vuka Mzansi, the seller and the youth who will use the innovation stations. However broader stakeholder constituents may suffer including –	1
	<ul style="list-style-type: none"> the existing approved suppliers whose businesses have lost potential revenue; the general public, who bears the general burden of crime and moral decay in society; and the US funder, who risks reputational damage if it transpires that the shipping containers were obtained under suspicious circumstances. 	1
3	Part-taking in the purchase of containers that may have potentially be gotten through theft would worsen the matter, downgrade the country's economic outlook, and in turn negatively impact economic growth	1
4	On this basis, it is unlikely that the majority would benefit from this transaction. If this transaction comes to light. More people are likely to be hurt than benefit. Louisa did not consider all the possible effects that this might have, focusing only on the short-term reduction in costs with no consideration of the long-term effects. She was therefore incorrect in stating that there will be little negative consequences.	1
Conclusion: I therefore do not agree with Louisa's decision to enter into the transaction with TCC as this transaction would not be regarded as ethical.		1

Available	25.5
Maximum	13
<i>Communication skills – logical argument</i>	1
Total for part (b)	14

Part (c) Calculate the revenue that FutureWyze should recognise in accordance with IFRS 15 Revenue from Contracts with Customers, from the contract with Vuka Mzansi for FY2024.	Marks	
Transaction price (TP) (given)	R 25 000 000	½
Standalone-alone selling prices (SASPs) Innovation stations (110 000 x 250)	27 500 000	1
Service-type warranty (36 000 x 250)	9 000 000	1
Custodial services = 320 000 (given)	<u>320 000</u>	½
Total SASPs	36 820 000	
Allocation of TP to POs resulting in revenue using SASPs Innovation stations [(27 500 000 / 36 820 000) x 25 000 000]	18 671 918	1 P
Custodial services [(320 000 / 36 820 000) x 25 000 000]	217 273	1 P
<i>Note: No revenue recognised for service-type warranty, i.e., no allocation performed (irrelevant to FY2024 recognised revenue).</i>		
Total revenue for FY2024: 18 671 918	18 780 555	1C
+ (217 273 x 1/2)		1P
Available		7
Maximum		7
Total for part (c)		7

<p>Part (d) Briefly discuss matters that should be considered during the brainstorming session that Sisa asked Tumelo to organise regarding –</p> <ul style="list-style-type: none"> • the fact that Vuka Mzansi can obtain financing or generate income from the solar-powered innovation stations in the Eastern Cape; • the significant challenges that Vuka Mzansi will face while operating innovation stations in the Eastern Cape; and • the environmental impact of the innovation stations, particularly in rural areas. 	<p>Marks</p>
<p>Financing / income generation Apply for grant funding / other source of funding.</p>	<p>0.5</p>
<p>Mr Ntlabo should research government funding opportunities to determine if there are any initiatives by the government aimed at supporting technological innovation.</p> <ul style="list-style-type: none"> • Consider approaching other companies both multinational and local who may be able to provide donated funding for the social projects. • Consider approaching the lotto for funding grants for social projects. • If the company is able to generate revenues from the innovation stations, they could approach banks for debt funding to be covered by the earnings. The innovation stations could be used as security for funding applications. 	<p>1 1 1 1</p>
<p>New products/revenue streams Explore other revenue streams.</p>	<p>0.5</p>
<p>Vuka Mzansi could introduce a membership fee structure that allows each package type a certain amount of access to equipment / services provided by the solar-powered innovation stations (SPIS).</p>	<p>1</p>
<p>If consumers in SA generate more solar-powered electricity than they use, they will be able to ‘sell’ the excess back into the electrical grid through transacting with Eskom.</p> <p>The company could encourage entrepreneurs to use the stations for new businesses to create new products which it could partner with in selling, either through an equity share in the entrepreneur business, or a joint venture where they could share costs and revenues.</p> <p>Sell opportunities, for example, companies can sponsor a container that will be branded with the company’s logo or hire these out to businesses for example, schools.</p>	<p>1 1 1</p>
<p>Vuka Mzansi could include in its terms of use that it should earn a percentage of any innovations (intellectual property rights) which were created in their SPISs that became financially viable and sold on a commercial scale.</p>	<p>1</p>
<p>Significant challenges</p>	
<p>1. The industry is mostly occupied by social entrepreneurs aiming to make a difference in local and rural communities. This is a niche type of investment and requires a not-for-profit strategy and approach.</p>	<p>1</p>
<p>2. Stakeholders include non-profit organisations and other government entities, the latter of which are notoriously inefficient in South Africa. This may cause disruptions in operations or lost opportunities.</p>	<p>1</p>

3. The SPISs are located in geographical areas which are not easily accessible and may not have access to basic services (water, sanitation, etc.), which could lead to additional investment capital needed to make them functional.	1
4. The containers need to be wi-fi enabled. Given the limited infrastructure in the Eastern cape, there may be challenges accessing reliable fibre providers and ISPs close to Vuka Mzansi.	1
5. The Eastern Cape, specifically, is one of the 'poorest' provinces, with high levels of unemployment and poor basic municipal service delivery. The geographical location of Vuka Mzansi may lead to the SPISs being looted / vandalised if the physical access to them is not adequately managed and protected (secured). It may also disrupt farming and tourism.	1
6. The equipment is high value and would potentially be at risk of theft.	1
7. The skills to operate the advanced equipment, and the skills to support entrepreneurs are scarce and can also be expensive if charged for. They would need to consider those support services and how they are going to provide them.	1
8. The 3D printers require materials in order to print which can be expensive and will need to be funded. Increased insurance costs also needs to be considered. It is not clear whether there is ongoing funding for these ongoing costs.	1
9. Are there sufficient people interested and able to use the innovation stations in remote rural areas? Are there minimum requirements and capabilities needed to access successfully?	1
Environmental considerations	
Pollution (noise/other) generated by the SPISs might need to be managed carefully.	1
Maintenance of the SPISs might be difficult due to their geographical location. Furthermore, the trucks / heavy vehicles involved in maintenance might erode the gravel roads to and from the sites where they are located.	1
Safely disposing of byproducts (batteries included in solar innovation stations) and dismantling of plant in rural areas could be difficult as recycling facilities may not regularly be available and batteries may end up being dumped in the rural areas therefore damaging the environment with hazardous chemical waste.	1
The weather might negatively affect the operation of solar systems.	1
Available	23
Maximum	9
<i>Communication skills – clarity of expression</i>	1
Total for part (d)	10

Part (e) Prepare the pro forma consolidation journal entries to account for the effects of the civil unrest in the consolidated financial statements of the FutureWyze group for FY2024.			Marks
<ul style="list-style-type: none"> Ignore taxation. Pro forma journal entries to account for non-controlling interest are not required. 			
	Debit	Credit	
	R	R	
Impairment loss (P/L)	25 000 000		½
Accumulated depreciation and impairment losses: Manufacturing plant (SFP)		8 481 928	½
Accumulated depreciation and impairment losses: Delivery trucks and motor vehicles (SFP)		7 518 072	½
Goodwill (SFP)		9 000 000	½
Workings:			
Goodwill:		R	
320 000 000 x 80% = 256 000 000			1
– 265 000 000 = 9 000 000			½
/ 80%		11 250 000	1
Net asset value (given)		366 000 000	½
Carrying amount of CGU		377 250 000	
Recoverable amount (given)		350 000 000	½
Impairment loss		27 250 000	
Allocated to goodwill:		(11 250 000)	1 P
Recognised: 11 250 000 x 80% = 9 000 000			1 P
Allocate remaining impairment loss to other assets:		16 000 000	
Manufacturing plant 110 / 207.5 (110 + 97.5) x 16 000 000)		(8 481 928)	½
			½ P
Delivery trucks and motor vehicles 97.5 / 207.5 x R16 000 000) or (16 000 000 –8 481 928)		(7 518 072)	½ P
		Available	9
		Maximum	9
		Total for part (e)	9
		Total for the question	50