

Part (g) Describe the additional substantive procedures that the audit team should perform to gather sufficient and appropriate audit evidence about each of the following journal entries (i) Journal entry 9033	Marks
1. Inspect the bank statement / bank reconciliation on the date of receipt of the proceeds to verify the amount received, and that the depositor (name) is indeed the insurance company.	1
2. Obtain and inspect the correspondence and insurance policy from the insurance company / details of the individual assets on the claim submitted to verify – - a total amount of R1,8 million is payable by the insurance company (i.e. completeness of recording of proceeds/validity); and - the details of the items of office equipment that are covered by the insurance claim to verify that those are the same items included in the schedule of office equipment scrapped by selecting a sample and tracing them to the schedule based on their asset numbers (completeness of asset derecognition).	1 1
3. Recalculate the output VAT on the amount received and raise as an error in the schedule of overs and unders, and consider materiality of the error. VAT amount calculate as $R1.8 \text{ million} \times 15/115 = R234,783 (1,565217)$.	1 1
4. Compare the details / descriptions (e.g. the cost and accumulated depreciation) reflected on the schedule of items of office equipment derecognised (supporting the journal entry) to – - the details contained in the fixed asset register; and - the details of the items subject to the insurance claim (i.e. that the schedule is complete). to confirm that the all assets has been derecognised according to the insurance schedule and the correct (valid) assets has been derecognised	1 1
5. Inspect the fixed asset register / prior year audit work papers / RP's accounting policy to ascertain the useful lives, residual values, and other depreciation details pertaining to the office equipment that has been written off. In order to verify accuracy of derecognition (useful lives, residual values, and other depreciation).	1
6. Recalculate the depreciation for the financial year up to 3 December 2019 and ensure it is included in the accumulated depreciation figure that has been derecognised of R515 000. Recalculate of the "loss on scrapping of office equipment" to ensure accuracy of the allowance.	1 1
7. Request correction to narrations and descriptions to ensure insurance proceeds are disclosed as other income correctly in AFS. Inspect the fixed asset register to identify any office furniture still recorded and verify by inspection that this still exists and does not require to be written off.	1 1
8. Request that Lucas Messi record a journal to correct the incorrect recording of the proceeds from the insurance policy (e.g. to account correctly for the credit to the correct general ledger account, as well as for the VAT output – which has not been dealt with correctly).	1
9. If corrected inspect the correction or include in the schedule of unadjusted differences.	1
Available	14
Maximum	7
Total for part (g)(i)	7

Part (g) Describe the additional substantive procedures that the audit team should perform to gather sufficient and appropriate audit evidence about each of the following journal entries (ii) Journal entry 9037	Marks
1. Inspect the minutes of the relevant Board meeting for details of the budget that was approved for FY2020, and from this, identify the budgeted revenue amount for FY2020.	1
2. Compare the actual revenue as per the final approved / audited financial statements (taking into account any unadjusted audit differences identified) achieved for the year ended 30 April 2020 to the budgeted revenue amount, as approved by the Board.	1
3. For each / a sample of employee/s listed on the schedule making up the bonus accrual amount – - inspect their employment contracts to confirm that they are entitled to a bonus and for the details of how this is computed / minutes of Board meeting where the decision has been taken; - inspect the company's payroll to ascertain their 'cost to company' figure; - re-calculate the bonus figure that is due to each of them by taking the cost to company x 5%.	1 1 1
4. Inspect the remuneration policy/ minutes of Board meeting to confirm that the approved bonus rate is 5%.	1
5. Inspect the cash book / bank statements for May and June 2020 to ascertain whether this amount has been paid to the key management.	1
6. If not, enquire from Lucas / inspect the Board minutes for any reversal of the decision to make these payments in view of the financial difficulties that RP is experiencing.	1
7. To verify the completeness of the accrual, inspect the payrolls for May and June 2020, or inspect minutes of meetings for discussions relating to the annual bonus or review employment contracts of management which may refer to an additional bonus; to determine if any other bonus payments have been made that have not been included on the schedule.	1
8. To the extent that these managers constitute 'key management personnel' in terms of IAS24, inspect the notes to the annual financial statements to ensure that these amounts have been disclosed correctly as part of the their remuneration.	1
Available	10
Maximum	6
Total for part (g)(ii)	6

Part (g) Describe the additional substantive procedures that the audit team should perform to gather sufficient and appropriate audit evidence about each of the following journal entries (iii) Journal entries 9038 and 8761	Marks
Journal 9038	
1. As soon as possible after year end, conduct a count of the cash float on hand by taking possession of cash on hand on RP's premises. - This count should be conducted in the presence of RP's staff (so as to ensure that the audit team is not accused of stealing cash). - Agree, by inspection, the amount of cash counted by the audit team to the amount reflected as cash on hand on the day of the count in the cash float reconciliation.	1 1 1
2. Inspect the cash float reconciliation at 30 April 2020, as well as on the date of the cash count, to ensure that there are no unusual items pointing to a cash shortage.	1
3. Inspect the appropriate source document (e.g. receipt issued by RP's cashier) evidencing the return of this amount.	1
4. Obtain directors confirmation from Lucas Messi that he had loaned an amount of R 18,750. The confirmation should detail all related transactions.	1
Journal 8761	
1. Inspect the minutes of the Board meeting where the decision to grant the advance to Lucas was approved, noting whether the Board – - applied the solvency and liquidity test and was satisfied that these requirements would be met; and - considered whether the terms on which the loan is to be granted are fair and reasonable to the company.	1 1 1
2. When inspecting the board meeting minutes, also inspect these for evidence that – - Lucas recused himself prior the vote taking place, and did not participate in the voting; but - he was taken into account in determining if a quorum was present at the meeting; and - the advance was approved by the majority of directors present, excluding Lucas.	1 1 1
3. Inspect the company's trial balance / management accounts shortly after making the loan to ascertain whether the company was in fact solvent and liquid.	1
4. Inspect the company's Memorandum of Incorporation to ascertain whether there are any other conditions or restrictions regarding the granting of the loan, and if so, inspect the Board minutes for evidence that these were complied with.	1 1
5. Inspect the minutes of the shareholders' meeting for a special resolution passed within the previous two years where the granting of loans to the director was approved. Inspect the minutes to ensure that at least 75% of the voting rights (or the company specific requirement) exercised on the resolution voted in favour of the resolution at a duly constituted shareholders meeting.	1 1
6. Inspect a copy of the written notice of the resolution sent to all shareholders and the trade unions to ascertain compliance with the requirements of s45(5) of the Companies Act (10 business days or 30 business days).	1
7. Inspect the advance note / document used to support the cash advance – noting the amount and the signature of Lucas indicating that he acknowledged receipt of the amount.	1
8. As no interest has been charged on the advance, inspect the payroll records to ensure that the fringe benefit has been appropriately accounted for, and included in the Financial Director's remuneration for FY2020.	1

9.	Inspect the notes to the 2020 financial statements to ensure that the advance to Lucas has been appropriately disclosed in a separate note in terms of IAS24 and s30(4) of the Companies Act (if the company are required to have its AFS audited).	1
Available		21
Maximum		12
Total for part (g)(iii)		12
<i>Communication skills – clarity of expression</i>		<i>1</i>
Total for part (g)		26

Part (h) Calculate and discuss whether RP should enter into the sale and leaseback agreement of the Bacca Stadium to Group Q or rather enter into the loan agreement with ANB Bank.												Marks
- Use the internal rate of return method. - Ignore all tax consequences.												
Sale and leaseback												
	Aug 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Lease payment	-7,2	-7,2	-7,2	-7,2	-7,2	-7,2	-7,2	-7,2	-7,2	-7,2		1
Foregone lease income ¹		-2,0	-2,0	-2,0	-2,0	-2,24	-2,24	-2,24	-2,24	-2,24	-2,24	1 1
Sale proceeds	102											1
Residual value ²											-150,98	1C
Total	94,8	-9,2	-9,2	-9,2	-9,2	-	-	-	-	-	-153,22	
	CF0	CF1	CF2	CF3	CF4	CF5	CF6	CF7	CF8	CF9	CF10	
Notes												
1 2 000 000 x 1,12 = 2 240 000												
2 N = 10 PMT = 0, PV = 102 000 000, I/yr = 4% P/yr = 1, FV = ? Or, more simply: R102 000 000 x 1,04 ¹⁰												1
Implied IRR = 12,67%												1C
Asset specific finance												
PV = 102 000 000 PMT = -15 500 000 FV = 0 N = 10 Interest Rate (i) = ? Solve for i = 8,43%												1 1C
Key factors to consider in evaluating both options:												
1. The annual lease payments on the sale and leaseback are lower than on the loan, providing cash flow relief.												1
2. However, all lease payments are upfront, whereas loan payments are in arrears – the latter provides some relief in terms of cash flow.												1
3. Entering into the sale and leaseback leads to a loss of a key asset and any potential future capital appreciation that may have occurred.												1
4. It is not clear who will be responsible for maintenance under the sale and leaseback.												1
5. The repayment of the loan is smoother and over a longer period, therefore more pressure per annum, but not a large liability at the end.												1
6. However, the sale and leaseback has a large repurchase payment at the end of 10 years – will RP be able to afford the payment at the end?												1
7. There is a need to evaluate each option's effect on key ratios due to accounting for a loan, or capitalisation in terms of IFRS 16 (e.g. debt / equity ratio, solvency and liquidity ratios).												1
Both options will have a liability aspect which will affect the ratios, but the different repayment terms will impact differently												1
There is a bigger impact in the sale and leaseback												1

8.	From a security perspective on the loan in the current COVID environment, the market value will be less due to stadiums not being able to function properly, with no end in sight in the near term.	1
9.	Does the company have existing covenants relating to their existing debt and loans which may be breached by either agreement?	1
10.	What other covenants would either option require? (This could reduce RP's ability to raise more loans or restrict others.)	1
11.	The bank loan has a lower IRR than the sale and leaseback option, effectively being a quantitatively cheaper form of finance.	1
12.	Consideration of tax implications, capital gains tax, deductibility of interest or lease liability.	1B
13.	The crux of a sale and leaseback would be provision of the loan finance. For the lessor to receive the capital growth on the asset would seem unreasonable, if not unrealistic.	1
14.	It would make sense for the company to sell and lease back the whole 100% of the venue, not 80%. Only leasing back 80% would be unrealistic. In addition, the cost per percentage is less, and the rental of R2m would bring profit into the company. The deal is giving away this profit.	1 1
15.	The transaction costs and other cost implications in a sale and leaseback would be considerably more, transfer costs etc.	1
16.	Due to the unfavourable terms of the sale and leaseback, and the fact that the owner appears to have resources to make substantial donations, the club should consider a sale and leaseback with the owner, or another party for that matter. The Group Q is too aggressive.	1
Conclusion: There is a net disadvantage to the sale and leaseback as opposed to using asset specific finance, therefore the sale and leaseback option should not be chosen.		1
Available		29
Maximum		14
<i>Communication skills – presentation</i>		<i>1</i>
Total for part (h)		15

Part (i) Discuss any operational changes that RP could implement to improve its liquidity. • Exclude material changes to the capital structure.	Marks
RP started having cash flow problems at the end of FY2020 when the Covid-19 outbreak entered the South African borders, resulting in financial strain on its current short-term reserves.	
1. RP should focus efforts on increasing revenue by increasing capacity utilisation (e.g. by advertising more, have special packages for 'ride & watch' groups to encourage out-of-towners to attend, have win-a-car competitions (or something smaller) to encourage attendance, use players' social media accounts to advertise games, etc.).	1 1
2. Find uses for the stadium during COVID (e.g. use it as a field hospital, vaccination hub, or testing center) or during quiet times consider renting it out to schools that do not have proper soccer exercise areas, organise a 'park run' through the stadium, allow dog walkers to use the grounds, allow athletes to train on the grounds, have concerts, colour runs, outdoor cinema shows, etc.	1 1
3. Reduce the quantity of merchandise kept on hand to save on stock-holding costs (and capital tied up in inventory).	1
4. Reduce sponsorship rates to make sponsorships more accessible to companies wanting to advertise their brands at the stadium. Alternatively change focus to digital, broadcasting to the community, and instead advertising on your channel, youtube revenue streams etc. Subscriber base building.	1 1
5. Renegotiate the contract terms of players to lower their fixed salaries and include a 'performance bonus', so that the cash flow of their payment aligns to performance-related income (such as the national league and sponsorship payments). Consider selling of any surplus assets/ Defer the purchase of any new players until cash flow improves, or sell players to other clubs to release capital. Also consider loaning out players to clubs that are happy to cover part of the players wage bill.	1 1
6. Follow up on all outstanding national league fees and sponsorship payments and encourage payment.	1
7. Consider reducing the discount given on merchandise during December and other sales periods. Alt: Consider price sensitivity of merchandise, reducing prices and driving volume, more discounts to get the interest.	1
8. Focus on working capital management, reducing amount of cash tied up in different elements of working capital to provide liquidity. Make arrangements with the bank regarding the overdraft to extend the facility, and consider negotiations with suppliers on payment terms.	1 1
9. Consider making any other sale and leaseback opportunities on a smaller scale. Delay any non-essential capital expenditure or maintenance.	1
10. Introducing specials on season tickets where revenue can be generated upfront in advance, or preselling game tickets for later in the year, specials in this regard.	1
11. Negotiating temporary salary cuts or pay for work models to staff as an alternative to retrenching staff to assist with weathering the economic storm.	1

12.	Investigate whether there are any sport grants or other support offered by government that can be applied for.	1
13.	Reduce costs such as overheads and salaries by reducing levels of staff where stadium services are not being utilised.	1
Available		18
Maximum		8
Total for part (i)		8