

Part (a) Discuss whether Beautha has control over Hiro for FY2021 in terms of International Financial Reporting Standards (IFRS).		Marks
<b>1 Introduction</b>		
1.1	A common indicator of control is an investors shareholding being more than 50% of the issued shares. <b>Beautha holds 40% of the shares in Hiro.</b> As such <b>Beautha does not have outright control of Hiro</b> and other indicators of control need to be considered.	1
<b>2 Understand purpose and design of the entity, and the relevant activities</b>		
2.1	Hiro is a sole manufacturer. <b>It is therefore concerned with the acquisition of raw materials to manufacture soles to then on-sell to the market.</b>	1
2.2	The relevant activities of Hiro are the day-to-day operating decisions about the following: <ul style="list-style-type: none"> <li>• <b>The acquisition of raw materials.</b></li> <li>• <b>The manufacturing process</b>, including its configuration, training of staff and quality control.</li> <li>• <b>Determination of the selling price</b> as these activities will significantly affect the profits/returns of Hiro.</li> <li>• <b>Sales and growth strategy.</b></li> <li>• <b>Financing arrangements.</b></li> </ul>	5
<b>3 How are decisions over relevant activities made</b>		
3.1	For the period <b>1 April 2021 to 31 March 2026</b> , there is a <b>shareholder's agreement</b> in place between Beautha and Hiro that states that Beautha has sole right to make <b>decisions over Hiro's relevant activities.</b>	1
3.2	Any <b>changes to the usual business of Hiro, to the MOI or significant structural changes to Hiro</b> (as contained in clause 10.1) require unanimous approval.	1
<b>4 Power</b>		
4.1	Beautha has <b>substantive voting</b> rights through its shareholding in Hiro that can be <b>exercised without any barriers.</b> However, due to Beautha shareholding being less than 50%, <b>the shareholders' agreement</b> must be considered in the assessment of power.	1 1
4.2	<b>Beautha has a more than a passive interest in Hiro</b> because Hiro depends on Beautha for manufacturing process used to manufacture soles as Beautha owns the intellectual property over this manufacturing process	1
4.3	Furthermore, the <b>shareholder's agreement</b> specifies that Beautha has a <b>right to make final decisions on</b> matters regarding the <b>manufacturing process and selling prices</b> for a period of five years.	1
4.4	The combination of <b>voting rights</b> , the rights specified in the <b>shareholders agreement</b> together with Beautha's active involvement in Hiro indicate that <b>Beautha has the current ability to direct the relevant activities (as per 2.2. above)</b> of the Hiro which significantly affect its returns.	1
4.5	The unanimous approval required for decisions related to the changes in the business of Hiro, to MOI or significant structural changes are <b>protective in nature</b> and <b>do not give power nor do they prevent Beautha from having power over Hiro.</b>	1
4.6	Beautha therefore <b>has power over the relevant activities of Hiro for a period of five years from 1 April 2021 to 31 March 2026.</b>	1
<b>5 Returns</b>		
5.1	Beautha holds a 40% equity interest in Hiro. This will entitle Beautha to – <ul style="list-style-type: none"> <li>• <b>dividends</b></li> <li>• <b>other distributions and changes in the value of Hiro</b> based on the performance of Hiro, <b>such as net distribution on liquidation.</b></li> </ul>	1 1

	In addition, Beautha receives a <b>return on the loan</b> it provided to Hiro in the form of interest.	1
5.2	Beautha therefore has <b>exposure to variable returns</b> from its investment in Hiro while it holds the 40% interest in Hiro.	1
<b>6</b>	<b>Link between power and returns</b>	
6.1	Through the shareholders agreement and active involvement in Hiro, Beautha has <b>power over the relevant activities of Hiro for a period of five years from 1 April 2021. Beautha’s ability to set the market price for the soles manufactured / configure and operate the specialised equipment / purchase and storage of raw material / determine the sales and growth strategy Hiro directly affects the returns/profit of Hiro and can therefore affect the returns</b> (dividends and value growth) to which Beautha is exposed.	1
<b>7</b>	<b>Conclusion</b>	
7.1	Beautha has exposure to variable returns while it holds its 40% interest in Hiro. It has the power over the relevant activities and the ability to affect its returns for the period 1 April 2021 to 31 March 2026.	
	Beautha therefore <b>controls Hiro for the financial year ended 30 September 2021 (FY2021)</b>	1
	<b>Available</b>	<b>23</b>
	<b>Maximum</b>	<b>20</b>
	<i>Communication skills – appropriate style</i>	<i>1</i>
	<b>Total for part (a)</b>	<b>21</b>

Part (b)	Assuming that Hiro should be consolidated as a subsidiary of Beautha, prepare the consolidated statement of changes in equity of the Beautha group for FY2021.	Marks	
	<ul style="list-style-type: none"> <li>Do not provide the total, share capital and non-controlling interest columns of the statement of changes in equity.</li> <li>Do not provide comparative amounts and notes.</li> <li>Round all amounts to the nearest ZAR.</li> <li>Assume all amounts are material.</li> <li>Your answer should comply with IFRS.</li> </ul>		
<b>Beautha Shoes (Pty) Ltd Group</b> Extract from the consolidated statement of changes in equity for the year ended 30 September 2021			
	<b>Attributable to owners of the parent</b>		
	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	
Balance at 30 September 2020	3 042 000	-	1
Total comprehensive income for the year			
Profit for the year [C1]	3 983 151	-	29 ½
Other comprehensive income [C2]	-	(391 730)	14 ½
Dividends declared	(90 000)	-	1
Balance at 30 September 2021	6 935 151	(391 730)	
<b>Available</b>			<b>46</b>
<b>Maximum</b>			<b>40</b>
<i>Communication skills – presentation; layout and structuring</i>			<i>2</i>
<b>Total for part (b)</b>			<b>42</b>

CALCULATIONS:			Marks
<b>C1</b>	<b>BEAUTA</b>		
	Profit for the year of Beautha – given	R1 017 000	1
	Transport cost for shoes sent to France, cannot recharge to joint venture	(R168 100)	1
	Dividend from Hiro (¥391 500 x 0.128 x 40%)	(R20 045)	1
	<b>BASKETS</b>		
	Bargain purchase for joint venture (Baskets)	R3 362 000	
	Cash received	R8 405 000	½
	Adverts	R13 448 000	½
	Brand	R11 767 000	½
	Baskets NAV on 1 June 2021	R33 620 000	
	Share in NAV of JV (R33 620 000 x 35%)	R11 767 000	1
	Cost in investment in JV	(R8 405 000)	½
	Share of loss from joint venture (R347 061 x 35%)	(R121 471)	1
	Sales (EUR209 300 x 16.90)	R3 537 170	1
	Cost of sales	(R1 082 264)	1
	Adverts: Amortisation (R13 448 000 / 3 x 4/12)	(R1 494 222)	1P
	Brand: Amortisation (R11 767 000 / 3 x 4/12)	(R1 307 444)	1P
		(R347 061)	
	<b>HIRO</b>		
	Profit for the period (¥50 481 x 0.130)	(R6 562)	1
	Profit for the 12 month period	¥4 010 000	1
	Depreciation in the equipment (R9 000 000 / 0.133 (1) = ¥67 669 173 / 9 x 6/12 (1))	¥3 759 399	2
	Interco Inventory (R100 000 / 0.128 (1) = ¥781 250 x 45% (1) )	(¥351 563)	2
	Evenly incurred profit	¥7 417 836	
	Profit after 1 April 2021 (¥7 417 836 / 2 OR x 6/12)	¥3 708 918	1P
	Depreciation in equipment	(¥3 759 399)	1P
		¥50 481	
	Interest on loan 1 (1 amrt INT OR R3 044 700 x 3%)	(R91 341)	1P
	FV =	R3 500 000	½
	N (R5 x 2) =	10	1
	I (6% / 2) =	3%	1
	PMT (R3 500 000 x 2.95% / 2) =	R51 625	1
	Comp PV =	R3 044 700	
	Forex on loan (¥905 216 x 0.130)	(R117 678)	1P
	Opening balance (R3 044 700 / 0.133)	¥22 892 481	1P
	Interest (R91 341 / 0.130)	¥702 623	1P
	Payment (R51 625 / 0.128)	(¥403 320)	1P
	Closing balance (1 Amrt balance = R3 084 416 / 0.128)	(¥24 097 000)	1P
		(¥905 216)	
		(R215 582)	
	Share in profit of HIRO (R215 582 x 40%)	(R86 233)	1P
		R3 983 151	
	Transfer to statement of changes in equity		29 ½

C2	Foreign currency translation reserve		
	Share capital	¥26 320 000	1
	Additional share capital issued	¥78 611 278	
	For cash (R1 000 000 / 0.133)	¥7 518 797	½
	Equipment (R9 000 000 / 0.133)	¥67 669 173	½
	Equity portion of loan (R455 300 (0.5) / 0.133 (1))	¥3 423 308	1 ½
	Retained earnings	¥83 431 500	1
	Profit until 1 April 2022 (¥7 769 398 / 2)	¥3 708 918	1
		¥192 071 696	
	At acquisition equity of HIRO (¥192 427 477 x 0.133)	R25 545 536	1C
	Beautha's share in at acquisition equity (R25 568 915 x 40%)	R10 218 214	1P
	Consideration paid (¥78 661 278 x 0.133)	R10 455 300	1P
	Goodwill	R237 086	
	Dividend from Hiro (¥391 500 x 0.128)	(R50 112)	1
	FCTR on Goodwill (R237 086 / 0.133 (1) = R1 782 600 x (0.133 - 0.128) (1))	(R8 913)	2P
	FCTR on NAV (excluding goodwill) (¥190 021 877 (see analysis below) @ 0.128(1)) - (NAV at various rates per analysis below) (1)	(R957 042)	2P
	Beautha's share in FCTR (excluding goodwill) (R957 042 x 40%)	(R382 817)	1P
		R391 730	
	Transfer to statement of changes in equity		14 ½

Analysis of equity for Hiro						
	Total	Rate	Total	Beautha (40%)		
	JPY		R	At acquisition	Retained earnings	Foreign currency translation reserve
<b>At acquisition: 1 April 2021</b>						
Share capital	26 320 000					
Additional share capital	78 611 278					
Retained earnings	83 431 500					
Profit until 1 April 2022	3 708 918					
	192 071 696	0.133	25 545 536	10 218 215		
Goodwill				237 086		
Consideration				10 455 300		
<b>Current year</b>						
Profit for 6 months	3 708 918	0.130	482 159		192 864	
Depreciation on equipment	(3 759 398)	0.130	(488 722)		(195 489)	
Interest on loan	(702 623)	0.130	(91 341)		(36 536)	
Forex on loan	(905 216)	0.130	(117 678)		(47 071)	
Dividend paid	(391 500)	0.128	(50 112)		(20 045)	
FCTR - Excluding goodwill			(957 042)			(382 817)
FCTR - Goodwill			(8 913)			(8 913)
	190 021 877	0.128	24 322 800		(106 277)	(391 730)

<b>Part (c) Recommend improvements to the inventory count procedures in annexure A that were followed by Beautha's employees during the year-end inventory count.</b>		<b>Marks</b>
1.	The inventory count instructions document is stamped as a confidential document and addressed only to the auditors and the accountant while it should be provided in writing to all members directly and indirectly involved in the count.	1
2.	Raw materials like the plastic and rubber compound, fabric and leather are kept on consignment basis from local suppliers and must be kept separate and counted separately from the inventory belonging to Beautha.	1
3.	The inventory count should be conducted by staff members that are independent of the warehouse staff / warehouse staff should be included together with other staff.	1
4.	The barcode scanner should be tested at the beginning of the count to ensure that it is working correctly to conduct the inventory count.	1
5.	The sealed boxes must be opened and the items in the box counted to ensure the quantity on the label is correct.	1
6.	The content of the boxes should also be compared with the description of the goods and picture printed on the label to ensure that the correct inventory items are included in the box.	1
7.	Counters must sign physical sheets or there needs to be electronic isolation of responsibility and should work in teams of two as allocated by management and not on their own to confirm the correct quantities of items are counted and captured.	1
8.	If counters can randomly decide which items they want to count, certain items might be skipped/missed and not counted at all. Each counter must therefore receive a floorplan indicating the inventory he/she will be responsible to count.	1
9.	After the counter scanned the bar code, the items must be marked with a sticker or chalk to indicate that it has been counted' and the 2nd person in the team must confirm that the scanner functioned correctly.	1
10.	The instructions should also include the process to be followed if any damaged/slow moving inventory items are identified (e.g. stored separately).	1
11.	No dispatches of goods should take place during the inventory count / movements of inventory between sections during the count should be prevented (not allowed) to avoid miscounting inventory that is being moved.	1
12.	Any inventory received from suppliers or from the factory after the count has begun should be stored separately in the receiving bay until the count is complete.	1
13.	After the inventory count has been completed, these items (see point 12) must be counted and confirmed that it is not included in the inventory balance at year end.  Also, testing against supporting documentation should be done to ensure that goods received before year end were included (and goods received after year end were excluded from the inventory value at year end).	1  1
14.	The person in charge of the inventory count should make sure that all items have been counted once the count is complete by verifying that all items have a sticker / been marked.	1
15.	For any item where a discrepancy is identified, meaning that the actually inventory per the inventory count does not agree with the theoretical inventory, the specific item must be recounted and the difference investigated/ the inventory should be counted twice by two different count teams.	1
16.	The theoretical inventory quantity must be adjusted by the warehouse manager after it has been confirmed that the actual inventory was counted correctly.	1

<b>Part (c) Recommend improvements to the inventory count procedures in annexure A that were followed by Beautha's employees during the year-end inventory count.</b>		<b>Marks</b>
17.	Counters must be formally dismissed once the count is complete and all queries have been attended to.	1
18.	The instructions are focused on the inventory count at the warehouse. As the factory is running, the inventory in the factory should also be included in the inventory count.	1
19.	<p>The counting instructions should be updated as follows:</p> <ul style="list-style-type: none"> <li>• Unused count sheets should be returned to Count Supervisors and those partially used should be stricken to prevent fraudulent activity during the count process.</li> <li>• The counters should agree in writing or verbally that they understand and agree on all inventory count procedures.</li> <li>• Point 12 "Inventory items where the quantities per the system are more than the actual quantity may be ignored, as it could possibly be ascribed to errors made by the counters" should be removed from the procedures.</li> <li>• Procedures for counting work in progress should be stipulated, namely, how to identify stage of completion, etc.</li> <li>• Count sheets/inventory sheets should be pre-printed, numerically sequenced and reflect the inventory item number, category and location in the warehouse. It should also have columns for first and second count (or discrepancies noted).</li> </ul>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>
20.	<p>A count controller should be appointed.</p> <p>When done counting, all count teams should hand in the signed count sheets to count supervisors, who should also sign the count sheets. All count sheets should be handed in to the Count Controller for the recording of actual inventory quantity on entity's records.</p>	<p>1</p> <p>1</p>
<b>Available</b>		<b>26</b>
<b>Maximum</b>		<b>12</b>
<b>Total for part (c)</b>		<b>12</b>



<b>Part (d) Criticise the appropriateness of the planning of the attendance of the inventory count detailed in workpaper J500.</b>		<b>Marks</b>
<b>Objective</b>		
1.	The attendance of the inventory count should also address the accuracy, valuation and allocation assertion as the inventory should also be inspected for evidence of damaged or obsolete items (slow moving inventory).	1
2.	Items should also be selected from the floor and compared to the inventory list to address the completeness assertion/count should be done from both directions.	1
<b>Selection of the stores</b>		
3.	The selection of the sites will not address the risk of material misstatement regarding inventory as the selection of the sites/stores as well the items selected for testing is inappropriate, for the following reasons:	1
3.1	R7,7 million of the total inventory of R8,6 million lies within the finished goods category, yet only five of the 30 items with a total value across all sites of R78 742 in the sample selected for counting is from the finished goods category. As items are only counted at selected sites an amount of less than R78 742 will be counted in respect of finished goods (which is insufficient).	1
3.2	As the majority of the finished goods are delivered to the stores, the majority of the finished goods are kept at the megastores ( $681\,405 + 702\,810 = 1\,384\,215 / 2 \times 10 = R4\,195\,455$ ) and only two of the ten megastores are selected for the attendance of the inventory count.	1
3.3	The same satellite stores cannot be selected year after year, as selection of the satellite stores (components that are not significant components in terms of ISA 600) must be varied over a period of time and incorporation of unpredictability could address the overall fraud risk indicators.	1
<b>Audit sampling</b>		
4.	Audit sampling was not correctly applied in the selection of the inventory items to be counted as the first five or ten items per category on the inventory list was selected and therefore all the items in the population did not have an equal chance of being selected. (Names of the inventory items were used) / No unpredictability in terms of selection, counting different floors/levels etc., counting storerooms where stock could be missed was not incorporated into the plan.	1
5.	The team did not consider stratifying the population into three sub-populations consisting of raw materials, work-in-progress and finished goods in order to consider the materiality each category of inventory in selecting samples included therein OR	1
6.	The team did not consider selecting a sample using the value-weighted selection method where the audit effort can be directed to the larger value items because they have a greater chance of selection.	1
7.	The audit team did not consider all high value/negative inventory items (i.e. where the value of the specific inventory value is higher than the performance materiality) and then perform audit sampling on the remainder of the population.	1
<b>Procedures performed</b>		
8.	The plan should include that when test counts are performed, some of the sealed boxes must be opened and the description of the goods on the label should be compared to the contents of the box. When opening the boxes, the description and the quantity in the box should be agreed to the label (if pairs of shoes are individually boxed, it should be checked that both pairs of shoes are inside the box).	1

9.	The plan should include that it should be confirmed whether the quantity per the inventory list consists of the number of boxes (i.e. one item is a box of 100 or 20 items) or the number of individual inventory items (i.e. number of boxes x 100 or 20).	1
10.	The inventory list as at 30 September 2021 was used for the selection. The quantities of the test counts should be agreed to the inventory list on 3 October 2021 (the date of the inventory count)/ balance should be reconciled to year end date.	1
11.	The plan did not include that the test count quantities should be agreed to the inventory list after the inventory count adjustments have been processed to ensure that the theoretical inventory was adjusted to the actual inventory.	1
12.	The plan did not include that the auditor should also request any shipping documentation or the goods received notes for inventories that are purchased free-on-board from international suppliers and Hiro to verify that all inventories in transit at year end from the foreign supplier are included in the inventory count.	1
13.	The plan did not include that the auditor should also request confirmation from GG regarding the 200 pairs of sneakers on consignment at year end to ensure that these have not been sold prior to year end.	1
14.	The plan did not include that the auditor should also observe that security guards are searching and checking the counting staff upon entering and leaving the warehouse and the stores to ensure that they have not taken any inventory items (i.e. sneakers)/ cameras / other access monitoring.	1
15.	The plan did not include clear instructions on identifying damaged inventory items.	1
	<b>Other</b>	
16.	Working paper prepared on 30th September 2021 for attendance on 3rd October. This appears to have been prepared too late to organize logistics.	1
17.	The planned audit procedures seem incomplete, not comprehensive enough such that the audit risk pertaining the inventory account balance is addressed.	1
18.	The plan did not include that the auditor should record the last source document numbers (e.g. issue and receipt notes).	1
	<b>Available</b>	<b>21</b>
	<b>Maximum</b>	<b>11</b>
	Communication skills – logical argument	<b>1</b>
	<b>Total for part (d)</b>	<b>12</b>

Part (e) Discuss any ethical concerns you may have regarding the token of appreciation by Beautha to the audit team and the arrangement between Theo and the engagement partner, in terms of the SAICA Code of Professional Conduct.		Marks
<ul style="list-style-type: none"> <li>Do not discuss how the concerns should be evaluated and addressed.</li> </ul>		
1.	The <b>engagement partner</b> on the audit is a CA(SA) in practice and should comply with parts 1, 3 and 4A of the SAICA <b>Code of Professional Conduct</b> (also applied through quality control)	1
2.	The <b>trainee accountants</b> are SAICA trainee accountants and should therefore comply with parts 1, 3 and 4A of the <b>SAICA Code of Professional Conduct</b> .	1
<b><u>Gift / inducement</u></b>		
3.	<u>Identify threats to fundamental principles</u> The free pair of sneakers results in a <b>self-interest threat</b> and <b>Intimidation threat</b> to the audit team members' <b>objectivity</b> (independence), <b>integrity</b> and <b>professional behaviour</b> because –	½ ½ ½ ½ ½
3.1	<ul style="list-style-type: none"> <li>of the perception that <b>the behavior</b> of trainees, who may fear not receiving the gift, may be <b>influenced</b>, possibly <b>causing them</b> to be <b>biased</b> in their professional and business <b>judgement</b>;</li> <li>the free pair of sneakers could be interpreted as a <b>bribe</b>, causing <b>non-compliance with laws and regulations</b> relating to bribery and corruption. That is, trainees may be improperly influenced to <b>not be straightforward and honest</b> in their professional and business relationships; and</li> <li>the conduct of trainees receiving the sneakers might <b>discredit the profession</b> and may result in the team's <b>independence in appearance</b> by outside parties being impaired.</li> </ul>	1 1 1 1
<b><u>Arrangement between Theo and the audit partner (uncomfortable questions)</u></b> An arrangement between Theo and the engagement partner, that the provision of the sneakers will only take place if the audit team does not ask Beautha staff any 'uncomfortable' questions.		
4.	Arrangement between Theo and the audit partner (uncomfortable questions) creates an <b>intimidation threat</b> to the audit team members' <b>integrity, objectivity(independence)</b> and <b>professional competence and due care</b> because-	½ ½ ½ ½
4.1	Theo's intentional aim is to – <ul style="list-style-type: none"> <li>deter the trainees from acting objectively (<b>compromising their professional judgement</b>);</li> <li>which threatens their ability to be <b>straight-forward and honest</b> in performing the audit as they will not ask uncomfortable questions to address any potential misstatement or illegal conduct, to ensure that they still receive the sneakers; and</li> <li>ensure that trainees will not ask 'uncomfortable questions' that might be necessary to investigate or identify any fraud or misstatements, which means that they will not <b>act diligently</b> and <b>in accordance with the applicable technical and professional standards</b>.</li> </ul>	1 1 1
<b><u>Theo and audit partner arrangement (client can influence the composition of audit team)</u></b> Where a member of the audit team asks uncomfortable questions, Theo has agreed that he will notify the engagement partner to remove such member from the team.		

5.	This could cause an <b>intimidation threat</b> to the <b>objectivity, professional behaviour</b> and <b>professional competence and due care</b> of the engagement partner because –	$\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$
5.1	<ul style="list-style-type: none"> <li>• The engagement partner's <b>professional judgement</b> would be compromised if <b>Theo is allowed</b> to determine who is on his audit team, because he may <b>fear losing the audit client</b>;</li> <li>• It may result in the engagement partner <b>not acting diligently and in accordance</b> to the applicable technical and professional standards (<b>ISQM 1 etc.</b>) to ensure the necessary knowledge and skills required to complete the audit; and</li> <li>• It may cause the engagement partner not to be compliant <b>or avoid conduct that might discredit the profession.</b></li> </ul>	1  1  1
6.	The fact that the engagement team is not allowed to ask uncomfortable questions may be indicative of a <b>scope limitation on the audit</b> ; The scope limitation creates an <b>intimidation threat</b> contravening the fundamental principal of <b>Professional Behaviour</b> requiring compliance with relevant laws and regulations or <b>professional competence and due care</b> of the engagement partner.	1  $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$
<b>Available</b>		<b>21</b>
<b>Maximum</b>		<b>12</b>
<i>Communication skills – clarity of expression</i>		<b>1</b>
<b>Total for part (e)</b>		<b>13</b>