

| <b>Part (a) On the assumption that Sibahle chooses option 1 and enters into the lease with Severite on 1 July 2023 –<br/>(i) discuss the errors in the journal entry proposed by Sibahle with regard to the initial recognition of the SPE1+S lease; and</b>   | <b>Marks</b> |
|--|--------------|
| <b>Initial direct costs</b>  |              |
| IFRS 16 states that, at commencement the lessee shall recognise a right of use of an asset and a lease liability. The right of use of an asset must be measured at cost. The cost includes only initial direct costs paid by the lessee.   |              |
| The lease administration costs were incorrectly capitalised to the costs of right of use and a liability raised.   | 1            |
| These should have not been accounted for as these will be paid by the lessor.  | 1            |
| <b>Separating components of a contract</b>   |              |
| For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient.   |              |
| The maintenance costs were incorrectly expensed. It was also incorrect to recognise a liability raised as there is no separate obligation.   | 1            |
| Sibahle has elected to apply the practical expedient and as a result the lease and non-lease component should not be separated.  | 1            |
|  |              |
| <b>Lease term</b>  |              |
| IFRS 16.18 states that an entity shall determine the lease term as the non-cancellable period of the lease together with both: (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.                                 |              |
| The system input of using the non-cancellable period of four years is incorrect.   | 1            |
| It is not appropriate to ignore the two-year renewal period as it is reasonably certain that Sibahle will renew for a further two years because industry experts anticipate that load shedding will continue for the next decade as South Africa's electricity provider does not have plans to resolve the power shortages. This is an indicator that it is reasonably certain Sibahle will renew the lease. | 1            |
|  |              |
| <p style="text-align: right;"><b>Available</b></p>   | <b>6</b>     |
| <p style="text-align: right;"><b>Maximum</b></p>   | <b>5</b>     |
| <p style="text-align: right;"><b>Total for part (a)(i)</b></p>   | <b>5</b>     |

| Part (a) On the assumption that Sibahle chooses option 1 and enters into the lease with Severite on 1 July 2023 –<br>(ii) provide the journal entry(ies) to correct the errors identified and to record the finance costs and the payment for FY2024. |            |            | Marks      |
|---|------------|------------|------------|
| <b>Correcting journal entries</b>   |            |            |            |
|   | Dr         | Cr         |            |
| Right of use – equipment (SFP)  | 386 661    |            | 0.5        |
| Payables (SFP)  | 86 000     |            | 0.5        |
| Lease liability (SFP)   |            | 386 661    | 0.5        |
| Other expenses (P/L)  |            | 64 000     | 0.5        |
| Right of use - initial direct costs (SFP)   |            | 22 000     | 0.5        |
| <i>Correcting the right of use, lease liability and reversing the maintenance cost expense</i>  |            |            |            |
| <b>Alternative journal entries</b>  |            |            |            |
| Right of use- Equipment (SFP)   |            | 1 093 446  | 0.5        |
| Lease Liability (SFP)   | 1 093 446  |            | 0.5        |
| Right of use asset: Initial direct costs (SFP)  |            | 22 000     | 0.5        |
| Payables (SFP)  | 86 000     |            | 0.5        |
| Other expenses (P/L)  |            | 64 000     | 0.5        |
| Right of use – Equipment (SFP)  | 1 480 107  |            | 0.5        |
| Lease Liability (SFP)   |            | 1 480 107  | 0.5        |
| Finance costs (1 480 107 * 12%)   | 177 613    |            | 1P         |
| Lease liability (balancing)   | 182 387    |            | 0.5P       |
| Bank  |            | 360 000    | 0.5        |
| <i>Recognition of finance cost and payment</i>  |            |            |            |
| <b>Calculations</b>   |            |            |            |
| <b>Present value of the lease</b>   |            |            |            |
|   | <b>PV</b>  | <b>PMT</b> | <b>i</b>   |
|   | <b>FV</b>  | <b>n</b>   |            |
| Lease payments  | R1 480 107 | - 360 000  | 12,00%     |
|   |            |            | 0          |
|   |            |            | 6          |
| <b>Correction</b>   |            |            |            |
|   | Correct PV | Proposed   | Difference |
| Lease liability   | R1 480 107 | R1 093 446 | 386 661    |
| <b>Available</b>  |            |            | <b>7</b>   |
| <b>Maximum</b>  |            |            | <b>7</b>   |
| <b>Communication skills – presentation</b>  |            |            | <b>1</b>   |
| <b>Total for part (a)(ii)</b>   |            |            | <b>8</b>   |
| <b>Total for part (a)</b>   |            |            | <b>13</b>  |

| Part (b) Discuss whether the compensation in clause 7 of the agreement (see Appendix A) will constitute gross income of AllOut, for the year of assessment ending 30 June 2023. |  | Marks    |
|---|--|----------|
| <ul style="list-style-type: none"> <li>• Assume that Sibahle chooses option 3.</li> <li>• Assume that the agreement was entered into on 1 January 2023.</li> </ul>              |  |          |
| <b>Fixed monthly fee</b>  |  |          |
| 1   | An amount is recognised as part of gross income at the earlier of receipt or accrual   | 1        |
| 1.1   | For purposes of gross income, an amount accrues to a taxpayer when that tax payer becomes unconditionally entitled to the amount   | 1        |
| 1.2   | AllOut would be unconditionally entitled to the fixed monthly amount (R60 000 (R10 000 x 6)) at the end of every month of the contract period and therefore it will be included in gross income  | 1        |
| 1.3   | The full amount (R60 000) would be included in gross income under para. (c) of the definition of gross income since it would accrue in respect of services to be rendered by AllOut.   | 1        |
| <b>2 Payment for Instagram weekly stories and live feeds</b>  |  |          |
| 2.1   | AllOut would receive R390 000 (R15 000 x 26 weeks) for stories posted by Colleen in the current year of assessment.  |          |
| 2.2   | This amount would be included in gross income in terms of para. (c) when it accrues or is actually received as AllOut is not unconditionally entitled to the payment until the services have been actually rendered (i.e. story posted on Instagram).  | 1        |
| 2.3   | <p>The R7 500 fee is per 100 000 views. The total amount that would accrue to AllOut can only be determined after the live feed has been posted on Instagram and the number of views at that time were taken into consideration. There will not be any inclusion in gross income in 2023 because the number of views will only be determined in 2024.</p> <p><b>Alternative:</b><br/>The R7 500 fee will accrue to AllOut with each increment of 100 000 views. Although the contract states that the number of views shall be determined one year after posting (Clause 7.2.2) it is possible to determine the number of views at any point in time on Instagram and AllOut should accrue for the revenue at the earlier of receipt/accrual. Therefore AllOut will accrue for the R7 500 for each 100 000 views reached during the 2023 tax year.</p> | 1        |
| 2.4   | The 2.5% sales performance bonus will accrue to AllOut as and when the code is used by a customer.   | 1        |
|   |  |          |
| <b>Available</b>  |  | <b>7</b> |
| <b>Maximum</b>  |  | <b>5</b> |
| <b>Total for part (b)</b>   |  | <b>5</b> |

|   |   |          |
|---|---|----------|
| <b>Part (c) Advise Sibahle on whether it has an obligation to withhold employees' tax from the amounts paid to AllOut</b> |   |          |
| <b>• Assume that Sibahle chooses option 3.</b>  |   |          |
| 1.  | An employer is required to withhold employees' tax on any remuneration paid to an employee. The definition of an employee includes a personal service provider.   | 1        |
| 2.  | AllOut does not, or will not, throughout the year of assessment employ three or more full-time employees who are on a full-time basis engaged in the business of AllOut. It only employs two such employees and it is therefore not precluded from being classified as a personal service provider.   | 1        |
| 3.  | AllOut could be classified as a personal service provider in terms of the fourth schedule if the following conditions are met:  |          |
| 4.  | The services rendered to the client would be rendered personally on behalf of AllOut by a connected person (Colleen is the sole shareholder and therefore holds at least 20% of the equity shares and voting rights of the company) provided one of the following requirements is also met:   | 1        |
| 5.  | <i>(a) Would be regarded as an employee if services were rendered directly – Colleen works as independent influencer and the agreement that would be signed specifies that AllOut is an independent contractor.</i>   | 1        |
| 6.  | <i>(b) Duties must be performed mainly at the premises of the client – Colleen would not be required to perform her duties at Sibahle's premises and would not be subject to Sibahle's control as her posts are managed by AllOut.</i>  | 1        |
| 7.  | <i>(c) More than 80% of the income of such company is likely to consist of amounts from any one client – The income earned from the agreement with Sibahle is not material in relation to the income earned from AllOut's existing clients, therefore it is unlikely that more than 80% of its income would consist of income earned from one client.</i> | 1        |
| 8.  | In relation to (c) above, Sibahle could obtain a declaration from AllOut that not more than 80% of AllOut's income for the year of assessment would be derived from one client.   | 1        |
| 9.  | <b>Conclusion:</b> AllOut would not be a personal service provider (as defined) and as a result would not be regarded as an employee. Therefore Sibahle would not have an obligation to withhold employees' tax from the amounts paid   | 1P       |
| <b>Available</b>  |   | <b>8</b> |
| <b>Maximum</b>  |   | <b>6</b> |
| <b>Total for part (c)</b>   |   | <b>6</b> |

| Part (d) Discuss how AllOut would recognise revenue if the agreement with Sibahle is entered into.   |  | Marks      |
|--|--|------------|
| <ul style="list-style-type: none"> <li>Limit your answer to the first two steps of the five-step revenue approach in IFRS 15, Revenue from Agreements with Customers.</li> </ul> |  |            |
|  | <b>Step 1- Identifying the contract</b>  |            |
| 1.   | <p>This is a contract with a customer that is within the scope of IFRS 15, <i>Revenue from Contracts with Customers</i> as:</p> <ul style="list-style-type: none"> <li>Sibahle is a customer of AllOut as it has contracted AllOut to render marketing services by managing the content of Colleen’s Instagram posts for two years in exchange for consideration, being the compensation set out in the contract.</li> <li>There is an agreement between AllOut and Sibahle that creates enforceable rights and obligations, as it creates enforceable rights for both Sibahle and AllOut relating to Sibahle’s right to AllOut’s performance in terms of the contract and AllOut’s right to be compensated by Sibahle for performing in terms of the contract.</li> </ul> | 1<br><br>1 |
| 2  | <p>AllOut shall account for the contract in accordance with IFRS 15 if –</p> <ol style="list-style-type: none"> <li>there is an approval of the contract and parties are committed to perform their respective obligations;</li> <li>it can identify each parties’ rights regarding the services to be transferred;</li> <li>it can identify the payment terms for the goods and services to be transferred;</li> <li>the contract has commercial substance; and</li> <li>it is probable that AllOut will collect the consideration.</li> </ol>  |            |
| 3  | If the contract is entered into there will be a signed written agreement between Sibahle and AllOut and a commitment and intention from both parties to deliver per the agreement and honour its obligations   | 1          |
| 4  | The contract clearly outlines the services that must be provided by AllOut Colleen for two years. Colleen (AllOut’s representative) is to post a weekly story and a feed post and attend Sibahle’s events.   | 1          |
| 5  | In return Sibahle is to pay a stipulated amount of money as specified in section 7 of the proposed agreement.  | 1          |
| 6  | In addition, sections 7 sets out when payment is to be made by Sibahle (i.e. the payment terms).   | 1          |
| 7  | Given the cash compensation to be received from the Sibahle partnership, cash flows will change and it is likely that revenue will be generated and the partnership will change the financial standing of AllOut.  | 1          |
| 8  | Sibahle is an industry leader in this sector despite the financial challenges due to the Covid-19 pandemic. There is an intention to pay the amounts and , it is expected that Sibahle will be able to pay for the services rendered by AllOut and that the amounts are thus collectable.  | 1          |
| 9  | Conclusion: AllOut meets the criteria to account for the contract, most likely at inception of the contract (but the date would need to be assessed when all the criteria are met).  | 1          |
|  | <b>Step 2 - Identifying the performance obligations</b>  |            |
| 10   | At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either  |            |
| 11   | <ul style="list-style-type: none"> <li>a good or service (or a bundle of goods or services) that is distinct; or</li> </ul>  |            |

|    |   |        |
|----|---|--------|
| 12 | <ul style="list-style-type: none"> <li>a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.</li> </ul>  |        |
| 13 | <p>These are the promises that are explicitly promised in the contract;</p> <ul style="list-style-type: none"> <li>Weekly Instagram story</li> <li>Story analytics</li> <li>One feed post per week</li> <li>Attendance of Sibahle's events.</li> </ul>  | 2      |
| 14 | <p>A good or service that is promised to a customer is distinct if</p> <ul style="list-style-type: none"> <li>The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and</li> <li>The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).</li> </ul> |        |
| 15 | <p><b><u>Weekly Instagram story:</u></b></p> <ul style="list-style-type: none"> <li>The weekly Instagram story is capable of being distinct as Sibahle can benefit from the Instagram story on its own by having Colleen post the story and promote the Sibahle brand; and</li> <li>The weekly Instagram story is separately identifiable from the other promises in the contract as Colleen can post the Instagram story independently from the story analytics, feed post and attendance of Sibahle's events.</li> </ul>  | 1<br>1 |
| 16 | <p><b><u>Story analytics:</u></b></p> <ul style="list-style-type: none"> <li>The analytics are capable of being distinct as Sibahle can benefit from the analytics by using the information from the analytics on its own or together with other readily available information; and</li> <li>The analytics are not separately identifiable as it is an output of the weekly stories, i.e. not independent from the Instagram story. The analytics will be bundled with the weekly stories.</li> </ul>   | 1<br>1 |
| 17 | <p><b><u>Feed posts:</u></b></p> <ul style="list-style-type: none"> <li>The feed posts are capable of being distinct as Sibahle can benefit from the feed posts on their own by having Colleen promote the Sibahle brand through the feed posts; and</li> <li>The feed posts are separately identifiable from the promises in the contract as Colleen can post independently from the weekly Instagram story, story analytics and attendance of Sibahle's events.</li> </ul>  | 1<br>1 |
| 18 | <p><b><u>Colleen's appearances at Sibahle's events</u></b></p> <ul style="list-style-type: none"> <li>Colleen's appearances at Sibahle's events are capable of being distinct as Sibahle can benefit by having a star like Colleen attend the events on its own; and</li> <li>Colleen's appearances at Sibahle's events are separately identifiable as she can attend the event independently from the other promises in the contracts, i.e. weekly Instagram story, story analytics and feed posts.</li> </ul>   | 1<br>1 |
| 19 | <p>The weekly story, story analytics and feed posts could have the same pattern of transfer if:</p> <ul style="list-style-type: none"> <li>The obligation will be satisfied over time as the stories and posts are transferred for two years in their respective ways.</li> </ul> <p>This is because Sibahle simultaneously receives and consumes the benefits from AllOut's performance through the posting of the weekly stories, story analytics and feed posts – given the nature of the marketing</p>  | 1<br>1 |

|   |  |           |
|---|--|-----------|
|   | <p>services, another entity would not need to substantially reperform work that AllOut has already completed if that entity were to fulfil the remaining performance obligations to Sibahle.</p> <p>OR AllOut’s performance under the contract has no alternate use other than to Sibahle.</p> <p>and</p> <ul style="list-style-type: none"> <li>The same method would be used to measure AllOut’s progress towards satisfying its performance obligations to Sibahle.</li> </ul> <p>This could apply in this instance as the stories and posts are transferred over the two years, and the progress can be measured using time as the measurement period. This would need to be considered considering methods applied by AllOut to measure progress for similar performance obligations relating to its other customers.</p> | 1         |
| 20  | <p><b>Overall conclusion</b></p> <p>The contract has the following performance obligations:</p> <ul style="list-style-type: none"> <li>Weekly stories bundled with story analytics</li> <li>The feed posts<br/><i>(Or the above could be a series of distinct goods or services identified as a single performance obligation)</i></li> <li>Appearance of Colleen at Sibahle’s events.</li> </ul>  | 2         |
| <b>Available</b>                                |  | <b>26</b> |
| <b>Maximum</b>                                  |  | <b>20</b> |
| <b>Communication skills – appropriate style</b> |  | <b>1</b>  |
| <b>Total for part (d)</b>                       |  | <b>21</b> |
| <b>Total for part I</b>                         |  | <b>45</b> |

| Part (e) Critically discuss the strategic risk factors and other relevant qualitative factors that Sibahle should consider with regard to each of the three options proposed for the recovery strategy before making a decision. |  | Marks  |
|--|--|--------|
|  | <b>General</b>   |        |
| 1  | The company could consider <b>diversification</b> by pursuing more than one strategy and choose more than one of the options to increase the profits overall, taking into account the capital limitations that the company might have.   | 1      |
| 2  | The amounts in each option are forecasts which introduces risk as they may be inaccurate. <b>Accuracy and reliability</b> of the estimated forecasts provided needs to be considered. Tools such as <b>break-even point, sensitivity or scenario</b> analysis could be utilised.   | 1      |
| 3  | The nature of the items being branded corporate gifts are <b>non-essential items</b> , which may be influenced by the adverse economic outlook of South Africa, and whether companies will have budget for 'non-essential' items, which may reduce revenues.   | 1      |
| 4  | The three options have different useful lives and <b>annual equivalents</b> should be considered to be able to make an appropriate comparison of the different investments. (Assuming that they are mutually exclusive)  | 1      |
| 5  | Sibahle does not have a finance/accounting team and the options have been made with the <b>marketing director</b> , who might not have the appropriate <b>expertise</b> to assess the options below, which increases risk of incorrect or incomplete estimates and costing.  | 1      |
| 6  | The adverse impact of <b>load-shedding</b> on each of the options in terms of the values currently projected should be considered. For example, the impact of load shedding under option 1 might mean that despite having the increased sales force, the company is still unable to grow at the required growth rates because of the 'down times'.                         | 1      |
| 7  | The <b>plans or reactions of competitors</b> pose a risk to the company, and this should be considered for each of the options, as this will impact on the market share that Sibahle is able to capture for each option. The options are very different routes, and each should be considered based on the competitors' activities.  | 1      |
| 8  | Options 2 and 3 will likely only yield benefits in South Africa, therefore exposed to one <b>geography/economic circumstance</b> . Potentially, option 1 might have an impact <b>internationally</b> which would diversify this risk. There is an added risk of <b>foreign currency</b> impacts however on any foreign market that is accessed, depending on how invoiced. | 1<br>1 |
| 9  | The <b>upfront investment and funding</b> required for each of the options should be considered, together with <b>sources of finance</b> available from a cash flow and capital structure perspective, as this will impact on the <b>liquidity and gearing</b> risk profile of the company as a whole.   | 1      |
|  | <b>Option 1</b>  |        |
| 10   | There could be <b>additional costs</b> around the campaign that might have not been considered (staff recruitment costs, training costs).  | 1      |
| 11   | An influx of new staff may cause a decline in existing <b>staff morale</b> which could create a downturn in sales. Staff may be sensitive to change, and feel they are missing out on opportunity.   | 1      |
| 12   | Consider whether the newly acquired machine could provide the opportunity to print in a different way/ create a <b>new product</b> for Sibahle.  | 1      |
| 13   | Operating <b>flexibility benefits provided by the leasing</b> alternative means that the business would be able to respond to demand more easily under this option / be innovative.  | 1      |



|    |  |        |
|----|--|--------|
| 14 | The leasing option provides the alternative to have the most <b>up to date equipment technologically</b> as Sibahle would be able to upgrade to the latest version when it becomes available easily.   | 1      |
| 15 | After <b>cutting payroll</b> expenses in the previous year, Sibahle must consider potential resistance from the existing staff and staff that were given <b>part-time positions</b> when trying to hire new personnel. Sibahle must consider employing the part-time staff members on a full-time basis first prior to hiring external staff.<br>This would however result in payroll costs taking on a <b>fixed nature</b> , increasing the operating leverage. This reduced flexibility might not be value adding. | 1<br>1 |
| 16 | Before hiring more staff, consider whether they have <b>sufficient space, and sufficient capacity</b> and revenue to support the additional staff costs.   | 1      |
| 17 | More <b>administration time and expenses</b> will be incurred to manage the new employees, in order to perform services like doing taxes, making leave days, medical contributions, training and other related costs.  | 1      |
| 18 | Strategically this option has merit due to the previous reduction in full-time employees, coupled with cutting expenditure such as training. Sibahle's business model requires marketing and sales personnel which are well <b>capacitated and motivated</b> .   | 1      |
| 19 | Consider the <b>reliability</b> of the China machine supplier, their <b>reputation</b> and ability to deliver and maintain the machine, including warranty period.<br><b>Compatibility of the solar panel</b> with the machine seeing that the machine is imported from China and the solar panel is sourced locally.  | 1<br>1 |
| 20 | Consider whether <b>machine / maintenance / spares</b> would be denominated in South African Rand or Yuan, may expose the firm to <b>foreign exchange risk</b> .   | 1      |
| 21 | Consider the <b>availability of after-sales support</b> available from China to maintain the machinery, including maintenance, software upgrades, breakdowns etc.  | 1      |
| 22 | What are the <b>running costs</b> of the new printer, will they be adding any costs to the current <b>fixed</b> costs of the Sibahle?  | 1      |
| 23 | Do they have the necessary <b>skilled personnel</b> to operate the machine? Since this a new specialized equipment, it might require <b>trained</b> staff to operate it, and additional cost.  | 1      |
| 24 | <b>Liquidity</b> needs to be considered: Consider whether there is sufficient working capital to fund additional costs before revenue is realised.   | 1      |
| 25 | The forecast is based on <b>probabilities</b> , and three different states from which an expected value is created. This adds additional <b>forecasting risk</b> , as it is possible that the lower probability outcome is the one that arises. Consider using <b>sensitivity/scenario</b> analysis.   | 1      |
|    | <b>Option 2</b>  |        |
| 26 | Targeted stations might not have the listenership of Sibahle's <b>target market</b> and the strategy could prove to be ineffective overall. The company should ensure that it selects the appropriate radio station that will reach Sibahle's <b>target audience</b> as this can significantly change the results of how much revenue could be obtained and make this the preferable option.   | 1      |
| 27 | There is a huge advantage that radio <b>adverts cannot be skipped</b> , this would be a very valuable advantage of this option.<br>Or<br>Radio would however be less favourable for the same reason, where consumers may <b>migrate to recorded or streamed</b> content to avoid the advertisements, therefore abandoning the radio media.   | 1      |

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|----|---|-----------|
| 28 | Radio can be argued to be the most flexible option. Radio commercials can usually be produced in a <b>relatively short time and at low cost</b> and if required, the advertising message can be changed almost just before broadcast time.  | 1         |
| 29 | Lack of <b>visual content</b> that might leave users unable to relate to the types of corporate gifts that Sibahle provides. (The radio advertiser cannot show or demonstrate the product or make use of any other visual appeal.)  | 1         |
| 30 | Limited <b>research data</b> is available for assessing the efficiency of the advertisements, which makes it difficult to estimate the impact. This is where it differs from the other options provided where it is easy to track the benefit associated with the cost.   | 1         |
| 31 | Option 2 requires an <b>upfront payment</b> which needs to be considered whether Sibahle can afford this outflow, and have <b>sufficient reserves</b> .   | 1         |
|    | <b>Option 3</b>   |           |
| 32 | There could be <b>reputational damage</b> of being associated with Colleen in view of the possible outcomes of the trial.   | 1         |
| 33 | The brand ambassador that has been proposed does not appear to be <b>strategically aligned</b> with Sibahle's core values as a business. Consider whether she would be able to reach the intended target customers.   | 1         |
| 34 | The brand ambassador might not appeal to the target market that Sibahle is trying to reach (she is a <b>singer/actress</b> and not necessarily someone that Sibahle's corporate clients will follow).   | 1         |
| 35 | Over the <b>period of the trial</b> the brand ambassador will have a larger followership than usual due to people being interested in the trial and this could result in positive exposure for the firm.<br>Although leveraging off a heightened following during the court case, creates an <b>ethical dilemma</b> . | 1<br>1    |
| 36 | There might be <b>additional costs around possible litigations</b> linked to the payment of the legal fees to make the case disappear (Sibahle might be sued as a result of making the payment).  | 1         |
| 37 | Sibahle might potentially involve itself in <b>criminal activities</b> by assisting Colleen in making the case disappear (Sibahle would be defeating the ends of justice).  | 1         |
| 38 | Sibahle could lose customers who do not want to be associated with a company with <b>negative publicity</b> .   | 1         |
| 39 | The nature of this option, an influencer with <b>unfiltered content</b> in itself creates a reputation risk for Sibahle.<br>Radio content is regulated by the broadcast complaints bureau, therefore safer for firm reputation, less risk of incorrect messages.  | 1<br>1    |
|    | <b>Available</b>  | <b>44</b> |
|    | <b>Maximum</b>  | <b>20</b> |
|    | <b>Communication skills – logical argument</b>  | <b>1</b>  |
|    | <b>Total for part (e)</b>   | <b>21</b> |

| Part (f) Based on the information in the scenario, quantitatively evaluate option 1 and 2 proposed for the recovery strategy and recommend which option should be selected.       |  |                  |                  |                  |                  |                        |                  | Marks |
|---|--|------------------|------------------|------------------|------------------|------------------------|------------------|-------|
| <ul style="list-style-type: none"> <li>Use discounted cash-flow techniques where necessary.</li> </ul>  |  |                  |                  |                  |                  |                        |                  |       |
| <b>Option 1</b>   |  |                  |                  |                  |                  |                        |                  |       |
|   |  |                  |                  |                  |                  | <b>Increase in PBT</b> |                  |       |
|   |  |                  |                  |                  |                  | <b>R</b>               | <b>R</b>         |       |
| Low recovery  |  | 10%              | 1 500 000        | 150 000          |                  |                        |                  |       |
| Average recovery  |  | 30%              | 2 300 000        | 690 000          |                  |                        |                  |       |
| Full recovery   |  | 60%              | 3 100 000        | 1 860 000        |                  |                        |                  |       |
| Expected profits  |  |                  |                  |                  |                  |                        | 2 700 000        | 1     |
| After tax expected profits  |  | (100-27%)        |                  |                  |                  |                        | <b>1 971 000</b> |       |
|   | <b>0</b>   | <b>1</b>         | <b>2</b>         | <b>3</b>         | <b>4</b>         | <b>5</b>               | <b>6</b>         |       |
|   | <b>ZAR</b>   | <b>ZAR</b>       | <b>ZAR</b>       | <b>ZAR</b>       | <b>ZAR</b>       | <b>ZAR</b>             | <b>ZAR</b>       |       |
| <b>Calculation of applicable discount rate:</b><br>(after tax) =<br>$12\% \times (1-27\%)$<br>=<br>8.76%  | Award mark if questions rate as reasonable for WACC. |                  |                  |                  |                  |                        |                  | 1     |
| <b>Leasing decision</b>   |  |                  |                  |                  |                  |                        |                  |       |
| Lease payments  |  | (360 000)        | (360 000)        | (360 000)        | (360 000)        | (360 000)              | (360 000)        | 1     |
| Tax shields   |  | 97 200           | 97 200           | 97 200           | 97 200           | 97 200                 | 97 200           | 1     |
|   | <b>0</b>   | <b>(262 800)</b> | <b>(262 800)</b> | <b>(262 800)</b> | <b>(262 800)</b> | <b>(262 800)</b>       | <b>(262 800)</b> |       |
| <b>NPC (leasing)</b>  | <b>(1 187 383)</b>                                   |                  |                  |                  |                  |                        |                  | 1C    |
| <b>Buy decision</b>   |  |                  |                  |                  |                  |                        |                  |       |
| Cost<br>(2 225 000 + 186 000)   | (2 411 000)  |                  |                  |                  |                  |                        |                  | 1     |
| Wear and tear tax shield<br>( $2\,411\,000 \div 5 \times 27\%$ )  |  | 130 194          | 130 194          | 130 194          | 130 194          | 130 194                |                  | 1     |
| 12B discussion & 100MW limit  |  |                  |                  |                  |                  |                        |                  | 1B    |
| Residual value  |  |                  |                  |                  |                  |                        | 750 000          | 1     |
| Recoupment  |  |                  |                  |                  |                  |                        | (202 500)        | 0.5   |
| Maintenance expense<br>(18 000 + 46 000)  |  | (64 000)         | (64 000)         | (64 000)         | (64 000)         | (64 000)               | (64 000)         | 1     |
| Tax shield on maintenance   |  | 17 280           | 17 280           | 17 280           | 17 280           | 17 280                 | 17 280           | 1     |
|   | <b>(2 411 000)</b>                                   | <b>83 474</b>    | <b>83 474</b>    | <b>83 474</b>    | <b>83 474</b>    | <b>83 474</b>          | <b>500 780</b>   |       |
| <b>NPC (buy)</b>  | <b>(1 781 709)</b>                                   |                  |                  |                  |                  |                        |                  | 1C    |
| The better choice would be to lease the asset as the NPC of leasing is lower than the NPC of borrowing to purchase.<br>Net advantage of leasing = 1 781 709 – 1 187 383 = 594 326 |  |                  |                  |                  |                  |                        |                  | 1C    |

| NPV   |                  |                    |                  |                |           |           |           |      |
|---|------------------|--------------------|------------------|----------------|-----------|-----------|-----------|------|
|   | 0                | 1                  | 2                | 3              | 4         | 5         | 6         |      |
|   | R                | R                  | R                | R              | R         | R         | R         |      |
| Incremental profits after tax (6 years to make it comparable with the lease decision)   |                  | 1 971 000          | 1 971 000        | 1 971 000      | 1 971 000 | 1 971 000 | 1 971 000 | 1    |
| NPV @ after tax discount rate   | 8 905 372        |                    |                  |                |           |           |           | 0.5C |
| Reduce by NPC – lease Or individ amt  | (1 187 383)      |                    |                  |                |           |           |           |      |
| <b>NPV</b>  | <b>7 717 989</b> |                    |                  |                |           |           |           | 1C   |
| Excluding depreciation, administration cost and interest on the lease   |                  |                    |                  |                |           |           |           | 1    |
| <b>Option 2</b>   |                  |                    |                  |                |           |           |           |      |
| <b>Package 1:</b>   |                  | <b>0</b>           | <b>1</b>         | <b>2</b>       |           |           |           |      |
| Cost  |                  | (1 480 000)        |                  |                |           |           |           | 0.5  |
| Tax shield S23H on cost of radio advert   |                  |                    | 199 800          | 199 800        |           |           |           | 1    |
| Incremental GP  |                  |                    | 1 120 000        | 900 000        |           |           |           | 1    |
| Additional tax on GP  |                  |                    | (302 400)        | (243 000)      |           |           |           | 1    |
|   |                  | <b>(1 480 000)</b> | <b>1 017 400</b> | <b>856 800</b> |           |           |           |      |
| NPV@ after tax discount rate = R179 792   |                  |                    |                  |                |           |           |           | 1C   |
| <b>Package 2:</b>   |                  | <b>0</b>           | <b>1</b>         | <b>2</b>       |           |           |           |      |
| Cost  |                  | (950 000)          |                  |                |           |           |           | 0.5  |
| Tax shield S23H on cost of radio advert   |                  |                    | 128 250          | 128 250        |           |           |           | 0.5  |
| Incremental GP  |                  |                    | 700 000          | 500 000        |           |           |           | 0.5  |
| Additional taxation on GP   |                  |                    | (189 000)        | (135 000)      |           |           |           | 0.5  |
|   |                  | <b>(950 000)</b>   | <b>639 250</b>   | <b>493 250</b> |           |           |           |      |
| NPV@ after tax discount rate = R54 755  |                  |                    |                  |                |           |           |           | 0.5C |
| Package 1 yields a higher NPV, therefore choose that option   |                  |                    |                  |                |           |           |           | 1C   |
| <b>EVALUATION OF OPTIONS</b>  |                  |                    |                  |                |           |           |           |      |
| The NPV of Option 1 is significantly higher than Option 2. However, the term of Option 1 (6 years) is not directly comparable with Option 2 (2-year radio contracts). |                  |                    |                  |                |           |           |           |      |
| To compare the options, the annual equivalent NPV is assessed:  |                  |                    |                  |                |           |           |           | 1B   |
| Option 1:   |                  |                    |                  |                |           |           |           |      |
| PV = 7 717 989  |                  |                    |                  |                |           |           |           |      |
| N = 6   |                  |                    |                  |                |           |           |           | 1B   |
| i = 8.76%   |                  |                    |                  |                |           |           |           |      |
| PMT = R1 708 200  |                  |                    |                  |                |           |           |           |      |
| Option 2:   |                  |                    |                  |                |           |           |           |      |
| PV = 179 792  |                  |                    |                  |                |           |           |           |      |
| N = 2   |                  |                    |                  |                |           |           |           | 1B   |
| i = 8.76%   |                  |                    |                  |                |           |           |           |      |
| PMT = 101 874   |                  |                    |                  |                |           |           |           |      |

|  |           |
|--|-----------|
| Based on the quantitative information, Option 1 should be selected. Or Accept all positive NPV projects. | 1C        |
| <b>Bonus marks for S23H consideration</b>  |           |
| Though process for S23H consideration:   |           |
| 1. Determine if capital or revenue in nature.  | 0.5B      |
| 2. Determine whether qualifies under S(11)(a)  | 0.5B      |
| 3. Determine whether there is an enduring benefit.   | 0.5B      |
| 4. Determine whether the enduring benefit is more than 6 months.   | 0.5B      |
| 5. Determine whether the enduring benefit is more than R100,000  | 0.5B      |
| 6. Conclusion on 23H applies, therefore spread evenly over 24 months                                     | 0.5B      |
| <b>Available</b>   | <b>25</b> |
| <b>Maximum</b>   | <b>23</b> |
| <b>Communication skills – presentation</b>   | <b>1</b>  |
| <b>Total for part (f)</b>  | <b>24</b> |

| Part (g) Discuss any ethical concerns you may have with regard to the voice note sent by Charles to Colleen and how these can be mitigated. |  |                                       |
|---|--|---------------------------------------|
| <ul style="list-style-type: none"> <li>Assume that Sibahle chooses option 3.</li> </ul>   |  |                                       |
| 1.  | <p>One of the ethical frameworks that Sibahle needs to consider is whether this act is good for the self and good for others:</p> <p><b><u>Good for self</u></b></p> <ul style="list-style-type: none"> <li>The marketing director can argue that the incentive would be paid to the judge to <b>protect Sibahle's investment</b>, to ensure that Colleen dedicates her time to the campaign and that she does not go to jail. However, this act is not good for others for the reasons listed below.</li> <li>Being involved in illegal activities is not in the <b>best interest</b> of the company. This may be to the company's detriment in the short term if the prosecutor identifies and prosecutes the incident, and long run if this is detected, and <b>damages the company reputation</b> as being unethical and supporting and conspiring to conceal illegal behaviour.</li> </ul> <p><b><u>Good for others</u></b></p> <ul style="list-style-type: none"> <li>The <b>judge</b> might be removed from office through impeachment and all the parties involved in making the case 'disappear' might face serious <b>criminal charges</b>, which will result in them being fined or jailed.</li> <li>This is also not good for the influencer Colleen as the case will not be <b>procedurally fair</b>, as the suggestion that the legal team can make the case "disappear" suggests a possible underhanded approach. This would not be in her best interests as such activity is likely to create additional liability if prosecuted for <b>manipulation</b>.</li> </ul> | 1<br><br>1<br><br>1<br><br>1<br><br>1 |
| 2.  | This incident should be considered as to whether it represents committing <b>corruption / bribery</b> (accepting gratification from another person or gives gratification to any other person to induce the other party to act in an <b>improper manner</b> . This would appear to be the case where the judge has agreed to the lumpsum of R1.5 m.  | 1                                     |
| 3.  | <p>Bribery is an <b>unethical behaviour</b> and not in line with behaviour one would expect from a director of a company in terms of S76 of the companies act.</p> <ul style="list-style-type: none"> <li>The <b>marketing director</b> does not appear to be taking decisions on an ethical basis but rather focused on financial gain (<b>self-interest</b>)</li> <li>The 'tone at the top' appears questionable as this does not constitute <b>ethical leadership</b> within the entity.</li> <li>The entity would essentially be paying a bribe to the presiding judge on Colleen's case, which does not create an <b>ethical culture</b>.</li> <li>The act of paying the legal fees might lead to Sibahle not being viewed as a <b>good corporate citizen</b> by stakeholders.</li> </ul>   | 1<br><br>1<br><br>1<br><br>1          |
| 4.  | <p>Corruption and bribery are against various <b>laws and regulations</b> in South Africa, which is illegal (Prevention and Combating of Corrupt Activities Act (PRECCA)). By making the court case 'disappear', Sibahle will be in contravention of South African law as it will be defeating the ends of justice. This entails non-compliance with laws and regulations. (<b>NOCLAR</b>)</p> <ul style="list-style-type: none"> <li>NOCLAR could have a negative impact on the entity and the director, and the company / director could be liable in terms of S77 of the Companies Act for knowingly entering into illegal transactions.</li> <li>Sibahle could be taken to court and charged for <b>bribery</b>, which could lead to high legal costs as well for breaking the law.</li> </ul>   | 1<br><br>1<br><br>1                   |
| 5.  | Sibahle would face the risk of <b>being associated</b> with a suspect in a house robbery case which may impair their reputation.   | 1                                     |

|                           |   |             |
|---------------------------|---|-------------|
|                           | This could result in the company potentially having <b>customers withdraw</b> their support as they might not want to be associated with a company that pays bribes.  | 1           |
| 6                         | Charles mentions at the end that “The matter doesn’t have to go through your company...” it is quite clear that the ‘consulting fee’ ultimately being given to Colleen will not be declared from a tax perspective – There are <b>SARS Tax concerns</b> that need to be considered.   | 1           |
| 7                         | Charles does not appear to be <b>objective</b> in his actions as a Director of a Company as he refers to Colleen as “Dearest” and it is very clear that he really wants to help her - this seems outside the normal course of <b>a business relationship</b> . <ul style="list-style-type: none"> <li>• He appears to possibly have an “<b>interest in contract</b>” (Section 75 of Companies Act) due to the above.</li> <li>• The companies Act and King IV proper application - Charles did not <b>disclose his friendship</b> with Colleen to the rest of Sibahle’s management, which he should have done as a director of the company in terms of the Companies Act and KING IV Code.</li> </ul> | 1<br>1<br>1 |
| 8                         | Charles states in the voice note “I am sure I could convince them....” (referring to Sibahle): <ul style="list-style-type: none"> <li>• this leads to questioning the <b>decision-making power / influence</b> he may exert over the other Directors.</li> <li>• and more importantly why does he appear so sure of this – perhaps the company has been involved in <b>similar fraudulent transactions before</b> (otherwise how can he be so sure that he can convince management to enter into an illegal transaction).</li> </ul>  | 1<br>1      |
| <b>Mitigating factors</b> |   |             |
| 1.                        | Sibahle should <b>not pay the incentive</b> to the presiding judge on Colleen’s case.   | 1           |
| 2.                        | To minimise the reputational risk associated with AllOut, Sibahle should <b>wait for the outcome</b> of the court case prior to entering into any agreement with AllOut.  | 1           |
| 3.                        | Management could perhaps have <b>legal expert discussions</b> (ie. with the Legal team of Sibahle) to obtain a better understanding of the future legal implications of the situation.  | 1           |
| 4.                        | Sibahle can advise Colleen that they cannot enter into an agreement with her and take steps to find <b>another influencer</b> instead.  | 1           |
| 5.                        | There appears to be no <b>policy in place</b> regarding the selection of companies with whom Sibahle becomes affiliated with, since it appears that contracts are awarded based on who the directors and managers know (nepotism) based on the voice note. Management needs to develop a <b>marketing policy</b> that has clear guidance as to which categories of marketing strategies the company should not get involved in, to protect the company from reputational damage.  | 1           |
| 6.                        | Charles disclosed <b>confidential information</b> to Colleen in the voice note, by informing her that she is one of the influencers the company is considering using in their new marketing campaign.<br>The company should have a policy in place that also stipulates that <b>disciplinary procedures</b> would be taken against any employee who misuses confidential information for private gain.  | 1           |
| 7.                        | Charles committed to pay a bribe of R1.5 million, and with Sibahle’s funds, to the judge dealing with the criminal case involving Colleen, which is illegal. Sibahle should have <b>strong consequence management</b> strategies in place to deal with employees who commit <b>criminal</b> offences in their capacity as agents acting on behalf of the company.   | 1           |

|  |  |            |
|--|--|------------|
|  | <b>Available</b>                                       | <b>30</b>  |
|  | <b>Maximum</b>   | <b>9</b>   |
|  | <b><i>Communication skills – appropriate style</i></b> | <b>1</b>   |
|  | <b>Total for part (g)</b>                              | <b>10</b>  |
|  | <b>Total for part II</b>                               | <b>55</b>  |
|  | <b>TOTAL FOR PAPER 4</b>                               | <b>100</b> |