

Part (a) Provide the journal entries (cash transactions included) to account for OrganoGas™ in the financial statements of BioEnergy Innovation for FY2020.			Marks
<ul style="list-style-type: none"> Do not provide closing journal entries. Round all calculated amounts to the nearest rand. Assume all amounts are material. 			
FY2020			
	Dr. R	Cr. R	
Internally developed patents/Intangible asset (SFP)	4 823 000		½P
Creditors (SFP)		4 823 000	
[FV = R5 835 830 (½); I = 10% (½); n = 2 (½); PV = 4 823 000]			1½
<i>Separate acquisition of in-process research and development project</i>			
Internally developed patents/Intangible asset (SFP)	1 799 000		½
Bank (SFP)		1 799 000	½P
<i>Recognition of development costs incurred post acquisition for in-process project</i>			
Internally developed patents/Intangible asset (SFP)	48 400		½P
Accumulated depreciation: Lab (SFP)		48 400	
[R34 848 000 (½) x 5/12 (½) x 1/30(½) x 200m²/2000m² (½)] <i>Capitalisation of depreciation expense during development phase in proportion to exclusive workspace area.</i>			2
Amortisation (P/L)	238 229		½P
Accumulated amortisation and impairment: Internally developed patent (SFP)		238 229	
[(4 823 000 + 1 799 000 +48 400) (1C) / (7yrs (1) x 3/12) (½)]			2½ (1C+1½)
<i>Recognition of amortisation</i>			
Finance cost (P/L)	361 725		½P
Creditor (SFP)		361 725	
[4 823 000 x 10% x 9/12] or 1 AMRT INT x 9/12			1C
<i>Recognition of unwinding of discount</i>			
		Available	10
		Maximum	10
		<i>Communication skills – presentation</i>	<i>1</i>
		Total for part (a)	11

Part (b) Disclose, for only Fermento™, the following with respect to the financial statements of BioEnergy Innovation for FY2021: (i) The 'Intangible assets' note; and		Marks
<ul style="list-style-type: none"> • Do not provide disclosure of foreign exchange differences recognised in profit or loss. • Do not provide accounting policy notes and comparative amounts. • Round all calculated amounts to the nearest rand. • Assume all amounts are material. 		
Notes to the financial statements of BioEnergy Innovation (Pty) Ltd for the year ended 30 June 2021		
3. Intangible assets		
	Internally generated patents	½
	R	
Carrying amount – opening balance	-	1
Gross carrying amount	-	
Accumulated amortisation and impairment	-	
Borrowing costs capitalised	16 800	
€100 000(½) x 0,02(½) x 6/12(½) = €1 000 x R16,5 = R16 500		1½
€1 000 x (16,8 – 16,5) = R300		½P
IAS 23,6(e) determines that foreign exchange differences on interest are also defined as borrowing costs		
Additions – Internally generated (½)	2 656 800	½
(R34 848 000 / 30) (½) x (250m² / 2000 m²) (½) x 6/12 (½) = R72 600		1½
(R73 000 + R42 000 + R48 000) (1) x 6 (½) = R978 000		1½
R2 944 700 / 11 x 6 = R1 606 200		1
Amortisation for the year	(22 280)	1
(R2 656 800 + R16 800) / 20 yrs (½) x 2/12 (½)		
Carrying amount – closing balance	2 651 320	
Gross carrying amount	2 673 600	1C
Accumulated amortisation and impairment	(22 280)	
Remaining useful life	19,83 years	1C
<i>Other material intangible assets</i> <i>Included in patents is a patent to be used in the biogas plant which can significantly improve biogas produced by the plant. The patent has a carrying amount of R2 651 320 and a remaining useful life of 19,83 years (IAS 38.122(b)).</i>		
Available		11
Maximum		11
Total for part (b)(i)		11

Part (b) Disclose, for only Fermento™, the following with respect to the financial statements of BioEnergy Innovation for FY2021:		
(ii) The research and development expenses for inclusion in profit or loss for the year.		Marks
<ul style="list-style-type: none"> • Do not provide disclosure of foreign exchange differences recognised in profit and loss. • Do not provide accounting policy notes and comparative amounts. • Round all calculated amounts to the nearest rand. • Assume all amounts are material. 		
Profit before tax is shown after taking the following (income) and expenses into account:		
Research and development expenses	R1 771 200	
$R34\,848\,000 / 30 \times 250\text{m}^2 / 2000\text{m}^2 \times 4/12 = R48\,400$		
$(R73\,000 + R42\,000 + R48\,000) \times 4 = R652\,000$		1C
$R2\,944\,700 / 11 \times 4 = 1\,070\,800$		1C
Available		3
Maximum		3
Total for part (b)(ii)		3
<i>Communication skills – layout and structure</i>		1
Total for part (b)		15

Part (c) Discuss, in terms of the Companies Act, the following with respect to the loan to Pieter:			
<ul style="list-style-type: none"> • The validity of the loan; • The possible implications for the financial director of BioEnergy Power; and • Recommend matters that should have been considered. 		Marks	
The financial director (Kobus) is related to Pieter within the second degree of affinity, as it is his son-in-law (ref. section 2).			1
The loan to Pieter therefore qualifies as financial assistance to a director in terms of section 45 of the Companies Act.			1
The scheme to provide financial assistance should be provided in terms of the company's Memorandum of Incorporation. If the Memorandum sets any specific requirements or limitation, BioEnergy Power should have met these.			1
In accordance with S45 the board must approve the financial assistance and Kobus authorised this loan without consulting other directors/board.			1
Despite any provisions of BioEnergy Power's Memorandum of Incorporation, the loan should have been granted only if –			
<ul style="list-style-type: none"> • a special resolution within the preceding two years approved this loan to Pieter or a particular category of recipients to which Pieter belongs; AND 			1
<ul style="list-style-type: none"> • the board was satisfied that immediately after providing the loan the liquidity and solvency tests were met; AND 			1
<ul style="list-style-type: none"> • the provisions under which the loan was granted were fair and reasonable. 			1
The board should have also provided written notice of the abovementioned resolution to all shareholders of BioEnergy Power and any trade union representing the employees of BioEnergy Power within 30 business days after the end of the financial year if the materiality of the loan indeed does not exceed one-tenth of 1% of the company's net asset value.			1

Since it is an interest-free loan, it cannot be argued that the provisions of the loan were fair and reasonable as the company will lose money / interest and it is thus not fair to the company. (The company could have invested the money for a return.)	1
Since all of the requirements of section 45 were not met, the decision by Kobus is void in terms of section 45 of the Companies Act (hence not valid).	1
In terms of section 77 of the Companies Act, Kobus is deemed to be liable for any damages or costs sustained by BioEnergy Power (such as the impairment loss, if any) since he seems to be the only director involved in the granting of the loan.	1
Kobus may be liable for breaching of his fiduciary duty towards BioEnergy Power in terms of section 76.	1
The company could also be considered to be trading recklessly in terms of s22 as the loans financed trucks which were defective and unreliable and, ultimately, led to an unprofitable venture which will adversely impact stakeholders.	1
Available	13
Maximum	10
<i>Communication skills – clarity of expression</i>	1
Total for part (c)	11

Part (d) Discuss the requirements, in terms of the Companies Act, that BioEnergy Power should have complied with in order to grant the contract to Gelden Transport.	Marks
The financial director (Kobus) is related to Pieter within the second degree of affinity as it is his son-in-law.	1
The supply contract granted to Gelden Transport therefore qualifies as a contract in which the financial director knows of a related person that holds a personal financial interest in terms of section 75 of the Companies Act.	1
Kobus should have –	
<ul style="list-style-type: none"> disclosed the interest and general nature to the rest of the board – he should have disclosed that Pieter, who is his son-in-law, is the sole shareholder of Gelden Transport; 	1
<ul style="list-style-type: none"> disclosed any material information relating to the matter – he should have disclosed to the board that Gelden Transport was started with a loan that was granted to Pieter by BioEnergy Power; 	1
<ul style="list-style-type: none"> disclosed any observations or pertinent insights relating to the matter if requested to do so by other directors – if Kobus was aware of the practice at Gelden Transport to not renew the professional drivers' permits of drivers and the fact that trucks are unreliable, he should have disclosed this to other directors; 	1
<ul style="list-style-type: none"> left the meeting after making any disclosure and not have taken part in consideration of the matter except in terms of making above-mentioned disclosures – Kobus should not have participated in the decision to grant the supply contract to Gelden Transport; and 	1
<ul style="list-style-type: none"> refrained from executing any document on behalf of the company in relation to the matter unless specifically requested or directed to do so by the board – Kobus should not have signed the supply contract with Gelden Transport on behalf of BioEnergy Power unless the board specifically instructed him to do so after all abovementioned requirements have been met. 	1
A decision made without complying with the S75(5) can still be valid if has been ratified by an ordinary resolution of the shareholders.	1
Available	8
Maximum	5
Total for part (d)	5

Part (e) Identify, with reasons, the key stakeholders of Gelden Transport that are affected by the supply contract between BioEnergy Power and Gelden Transport.	Marks
As the sole shareholder (and director) of Gelden Transport, Pieter (1) is a key stakeholder of the company since his decisions will impact the entity and the entity's profitability affects him directly. (1)	2
Management(including directors) of a company are considered as stakeholders and Pieter as a director of the company is reliant on the company for the salary he will obtain	2
BioEnergy Power is also a stakeholder (1), as BioEnergy Power granted a loan to Pieter with which he started Gelden Transport and the repayment of the loan might be reliant on the success of Gelden Transport as an indirect lender. (1)	2
BioEnergy Power is a stakeholder (customer) since is reliant on the delivery of organic material from Gelden Transport as a supplier.	1
The employees (including drivers) of Gelden Transport are stakeholders (1), since they are reliant on their salaries for their livelihood. (1)	2
The local community (1) in which Gelden Transport operates, is also a stakeholder – many of the locals are reliant on the trucks of Gelden Transport for lifts to work and school.	2
The local businesses – Local farmers are reliant on Gelden transport to transport the organic matter to Bio Energy power	2
The local businesses – Local garages and repair shops are reliant on Gelden transport for the revenue stream.	1
Local traffic authorities or government (1) such as the local transport department in the community in which Gelden Transport operates is a stakeholder, as Gelden Transport allows drivers to transport goods and people without renewing their professional driving permits. (1)	2
SARS can be seen as a stakeholder (1), since this is Gelden Transport's only contract and Gelden Transport will be liable for taxes. (1)	2
Industry associations and trade unions are also stakeholders that speak up for members rights.	2
Available	20
Maximum	8
Total for part (e)	8
Total for question 2	50