

Part (a) Discuss any non-compliance with IFRS in the information provided in workbook B200.		Marks
	<ul style="list-style-type: none"> <li>Assume the information in workbook A100 is correct and you may use this information as a reference point.</li> <li>Do not re-draft the disclosures provided in workbook B200.</li> </ul>	
1.	<b>UniqueArt</b>	
1.1	The parent-subsidiary relationship between UniqueArt and Sunamtra must be disclosed, irrespective of whether there have been any transactions between UniqueArt and Sunamtra [IAS24.13].	1
2.	<b>DesignDecor</b>	
2.1	DesignDecor is a related party to the Sunamtra Group, since it is an associate of a member of the Group (CouchCulture) [IAS24.9(b)(ii)].	1
2.2	Although there is no indication of any related party transactions between DesignDecor and any members of the Sunamtra Group, the nature of the relationship with DesignDecor should still be disclosed [IFRS12.21].	1
3.	<b>SunProp96 and CouchCulture</b>	
3.1	Although SunProp96 and CouchCulture are related parties, no disclosure of the transactions or outstanding balances between SunProp96 and CouchCulture are required in the consolidated financial statements of the Sunamtra Group, since these intra-group transactions and balances will be eliminated on consolidation.	1 1
4.	<b>Afrique</b>	
4.1	Mrs Makhabane, in her capacity as financial director (FD) of Sunamtra, is a member of key management personnel of Sunamtra. As FD she is responsible for planning, directing and controlling the financial activities of Sunamtra.	1
4.2	However, Mrs Makhabane (a member of key management personnel) only exercises significant influence over Afrique and does not have control or joint control over Afrique and therefore Afrique is not a related party to the Sunamtra Group [IAS24.9(b)(vi)].	1
4.3	Mrs Makhabane's equity interest of 45% in Afrique results in presumed significant influence over Afrique [IAS28.5]. Although potential voting rights should be considered when assessing control, Mrs Makhabane's option to acquire a further 10% of the issued ordinary shares of Afrique are not considered to be substantive – the options are out of the money and as a result of her financial constraints she does not have the practical ability to exercise them. Therefore, Mrs Makhabane does not have control over Afrique.	1 1
4.4	Furthermore, although Mrs Makhabane has significant influence over Afrique, she does not have control or joint control over Sunamtra and therefore Afrique is not a related party to the Sunamtra Group [IAS24.9(b)(vii)]. Since Afrique is not a related party to the Sunamtra Group, no related party disclosure in respect of Afrique should have been provided.	1
5.	<b>Etosha</b>	
5.1	Etosha is a related party to the Sunamtra Group since Etosha is controlled by Mrs Makhabane (based on her 100% investment), and Mrs Makhabane is a member of the key management personnel of Sunamtra [IAS24.9(vi)].	1
5.2	Since there was a related party transaction between Sunamtra and Etosha, being the disposal of Funky Fabrics and the resultant loan, the nature of the related party relationship, as well as information about the transaction and any outstanding balances, such as the amount of consideration and interest received or receivable and the terms and conditions of the loan (i.e. repayable after 5 years, interest payable annually in arrears at SA prime plus 12%) should have been disclosed [IAS24.18].	1

5.3	An entity is required in terms of IFRS 9 to <b>recognise a loss allowance for expected credit losses in every reporting period</b> and not only when there is an indication of impairment. Therefore, the <b>statement</b> in the related party note that <b>no credit losses</b> in respect of amounts owed by related parties have been recorded <b>may be inappropriate</b> [IAS24.17(c) & (d)]. This is further supported by the fact that the interest payment on the outstanding loan to Etosha was not settled on the due date.	1 1
6.	<b>Bailey</b>	
6.1	Although <b>Mrs Makhabane's husband</b> (Mr Phiri) <b>has significant influence over Bailey</b> , Mrs Makhabane does not have control or joint control over Sunamtra and therefore <b>Bailey is not a related party</b> to the Sunamtra Group [IAS24.9(b)(vii)].	1
6.2	Since Bailey is not a related party to the Sunamtra Group, <b>no related party disclosure in respect of Bailey should have been provided.</b>	1
7.	<b>Webster</b>	
7.1	<b>Mr Faber</b> , in his capacity as <b>Chief Operations Director</b> (COD) of Sunamtra is a <b>member of key management personnel</b> of Sunamtra. As COD he is responsible for planning, directing and controlling the operating activities of Sunamtra.	1
7.2	<b>Webster is a related party</b> to the Sunamtra Group, since <b>Webster is jointly controlled by Mr Faber</b> , who is a member of key management personnel [IAS24.9(b)(vi)].	1
7.3	Since there was a related party transaction between Sunamtra and Webster, being the loan from Sunamtra to Webster, the <b>nature of the related party relationship</b> , as well as information about the transaction and any outstanding balances, such as the <b>amount of the loan and interest received or receivable</b> and the terms and conditions of the loan (i.e. <b>repayable as a lump sum</b> on 20 April 2021, <b>interest payable annually in arrears at SA prime plus 9,5%</b> ), <b>should have been disclosed</b> [IAS24.18].	1
8.	<b>Other</b>	
8.1	<b>Compensation of key management personnel</b> , such as the directors of Sunamtra, should be <b>disclosed in total and separately for each of the following categories</b> : <ul style="list-style-type: none"> <li>• termination benefits paid to the retiring directors,</li> <li>• share-based payments,</li> <li>• short-term employee benefits, and</li> <li>• post-employment benefits</li> </ul> and <b>not as one collective number</b> [IAS 24.17].	1
8.2	<b>Related party disclosures should be shown separately for each of the following categories</b> : <ul style="list-style-type: none"> <li>• subsidiaries;</li> <li>• associates;</li> <li>• joint ventures;</li> <li>• key management personnel; and</li> <li>• other related parties [IAS24.19].</li> </ul>	1
<b>Available</b>		<b>21</b>
<b>Maximum</b>		<b>11</b>
<i>Communication skills – clarity of expression</i>		<i>1</i>
<b>Total for part (a)</b>		<b>12</b>

Part (b) Describe the audit procedures that you would perform to verify – (i) the completeness of related party transactions and balances in the consolidated financial statements of the Sunamtra Group for FY2018.		Marks
1.	Request a signed <b>management representation letter</b> regarding the <b>completeness</b> of related party transactions and balances.	1
2.	Obtain a <b>list of identified related parties</b> , transactions and balances from management and compare it to the <b>previous year's working papers / financial statements</b> to identify any changes from the prior period and any related party transactions and balances not included in the current year disclosure.	1 1
3.	Enquire from management about the <b>process</b> that they follow / group-wide controls <b>to identify</b> and account for related parties and related party transactions and balances.	1
4.	Inspect the <b>minutes of shareholders' meetings and/or the register of shareholders</b> to <b>identify</b> the principal shareholders of the Sunamtra Group and compare it to the list of related parties to identify any related parties that are not included in the list of related parties.	1
5.	Inspect the <b>minutes of board meetings and/or the register of directors' interests in contracts</b> and compare it to the list of related parties to <b>identify</b> any related parties and related party transactions and balances that are not included in the list of related parties.	1
6.	Enquire through discussion with / inspect communication from <b>other members of the group engagement team / group engagement partner</b> regarding related parties identified and compare it to the list of related parties to identify any related parties and related party transactions and balances that are not included in the list of related parties.	1
7.	Perform a <b>background search</b> , e.g. over the <b>internet / Intellectual Property Commissioner</b> , to determine whether any other entities have a significant or unusual relationship with entities in the Sunamtra Group.	1
8.	Inspect any of the <b>following documentation</b> and compare it to the list of related parties to identify any missing information [ISA550.15 & .A22]: <ul style="list-style-type: none"> <li>• bank confirmations; (½)</li> <li>• legal confirmations (enquiry); (½)</li> <li>• significant contracts or agreements not in the ordinary course of business / with key management personnel / employment contracts; (½)</li> <li>• specific invoices and correspondence from professional advisors; (½)</li> <li>• life insurance contracts / records on investments or pension funds; (½)</li> <li>• reports of the internal audit function; (½)</li> <li>• filings with regulators / JSE / CIPC; (½)</li> <li>• tax returns; (½) or</li> <li>• employee whistle-blowing reports. (½)</li> </ul>	Max 3
9.	Through the use of CAATs / <b>inspection of the accounting records</b> , identify any transactions and balances with identified related parties and agree to the list of related party transactions and balances / related party disclosures in the financial statements to identify any related party transactions and balances that are not included in the list.	1
10.	<b>Agree the list</b> of identified related parties, transactions and balances to the related party disclosure in the <b>annual financial statements</b> , to ensure that all the identified related party transactions and balances have been disclosed in the financial statements.	1
<b>Available</b>		<b>13</b>
<b>Maximum</b>		<b>6</b>
<b>Total for part (b)(i)</b>		<b>6</b>

Part (b) Describe the audit procedures that you would perform to verify – (ii) the accuracy of the furniture purchases between SunProp96 and CouchCulture recorded in the financial records of SunProp96		Marks
1.	Request a signed <b>management representation letter</b> regarding the <b>accuracy</b> of recorded purchase transactions.	1
2.	Through enquiries with management, obtain an <b>understanding of furniture purchases / process followed</b> and consider whether this is consistent with our understanding of the business (e.g. does the volume of purchases align with our understanding of how much furniture was needed by SunProp96?).	1
3.	Obtain a <b>schedule</b> of all purchases between SunProp96 and CouchCulture / the purchase journal for the year and <b>recalculate</b> the schedule and <b>agree</b> these amounts to the general ledger (supplier ledger).	1
4.	For a sample of transactions on the schedule of purchases between SunProp 96 and CouchCulture, agree the transactions recorded to invoices and – <ul style="list-style-type: none"> <li>• agree the <b>quantity</b> on the invoice to the quantity on the <b>GRN / delivery note</b> from CouchCulture;</li> <li>• agree the <b>price</b> on the invoice to the price on the <b>quotation / agreement</b> for accuracy of the price;</li> <li>• agree the price (including rebates and discounts) on the invoice to the <b>authorised sales price list</b> of CouchCulture / non-related parties' terms to confirm the transaction is at <b>arm's length</b>;</li> <li>• <b>recalculate</b> the amount on the <b>invoice</b> (quantity x price / including rebates and discounts) to confirm the mathematical accuracy; and</li> <li>• <b>agree the amount</b> on the invoice to the amount recorded in the <b>schedule of purchases / purchase journal / supplier ledger</b>.</li> </ul>	1 1 1 1 1
<b>Available</b>		<b>8</b>
<b>Maximum</b>		<b>3</b>
<b>Total for part (b)(ii)</b>		<b>3</b>
<b>Total for part (b)</b>		<b>9</b>

Part (c) Prepare the consolidation journal entries required to account for the intra-group transactions in workpaper D400 in order to draft the consolidated financial statements of the Sunamtra Group for FY2018.			Marks
	Dr R	Cr R	
1.	Buildings / Property, plant and equipment (SFP) (6 000 000 + 750 000)	6 750 000	1
	Investment property (SFP) (6 250 000 – 121 196 W1)		1P
	Fair value adjustment (P/L) (6 750 000 – 6 128 804)	6 128 804	1C
	<i>Reclassify investment property as PPE and eliminate fair value adjustment</i>	621 196	
2.	Depreciation (P/L)	35 417	
	Accumulated depreciation: Building / PPE (SFP)		1P
	$[(6\ 750\ 000 - 2\ 500\ 000) / 20 \times 2/12]$ or $[(6\ 750\ 000 - 2\ 500\ 000) / 240 \times 2]$	35 417	1C
	<i>Account for depreciation on PPE</i>		
3.	Operating lease income (P/L) (W1)	121 196	
	Accrued lease income (SFP)		1P
	<i>Eliminate operating lease income</i>	121 196	
4.	Lease liability (SFP) (W2)	1 821 006	
	Right-of-use asset (SFP)		1P
	<i>Eliminate lease liability and right-of-use asset</i>	1 821 006	
5.	Accumulated depreciation: Right-of-use asset / Right-of-use asset (SFP)	101 167	1P
	Depreciation (P/L)		1C
	$(1\ 821\ 006 / 3 \times 2/12)$ or $(1\ 821\ 006 / 36 \times 2)$	101 167	
	<i>Eliminate depreciation on right-of-use asset</i>		
6.	Accrued interest / Lease liability (SFP)	25 221	
	Finance costs (P/L)		1P
	$(1\ 821\ 006 \times 8,31\% \times 2/12)$ or $(1\ 821\ 006 \times 4,155\% \times 2/6)$	25 221	1C
	<i>Eliminate finance costs i.r.o. lease liability</i>		
<b>Working 1</b>			
	Period 1	–	
	Period 2	300 000	
	Period 3	330 000	1
	Period 4	363 000	
	Period 5	399 300	
	Period 6 (439 230 + 350 000)	789 230	
		2 181 530	
	Equalised operating lease income $(2\ 181\ 530 / 3 \times 2/12)$ or $(2\ 181\ 530 / 36 \times 2)$	121 196	1
<b>Working 2</b>			
	Discount the cash flows indicated in W1 above		1C
	$i = 4,155\% (8,31\% / 2)$		1
	NPV =	1 821 006	
<b>Available</b>			<b>15</b>
<b>Maximum</b>			<b>14</b>
<i>Communication skills – presentation</i>			<i>1</i>
<b>Total for part (c)</b>			<b>15</b>

Part (d) Describe the substantive audit procedures that you would perform with regard to all matters relating to the disposal of the investment in Funky Fabrics in the separate financial statements of Sunamtra for FY2018.  Exclude any procedures related to the assessment of impairment of the loan in terms of IFRS 9 <i>Financial Instruments</i> .		Marks
1.	<b>General</b>	
1.1	Request a signed <b>management representation letter</b> referring to <b>all assertions</b> with respect to loans / disposal of the investment.	1
1.2	Obtain a <b>schedule</b> setting out the proceeds/consideration, carrying amount of the investment and the calculation of the profit or loss on sale.	1
2.	<b>Proceeds (loan agreement)</b>	
2.1	Inspect the <b>loan agreement / sales agreement</b> and verify the following:	1
	• the parties to the agreement are Sunamtra and Ethosa and the <b>loan agreement has been signed by both parties</b> (Mrs Makhabane did not sign on behalf of the company);	½
	• the <b>amount is R10 000 000</b> ;	½
	• the <b>effective date</b> of the transaction is <b>1 June 2017</b> ;	½
	• the loan is <b>repayable after five years</b> and <b>interest is payable annually on 31 May</b> of each year;	½
	• the <b>interest rate is the SA prime rate plus 12%</b> ; and	½
	• <b>100% of the subsidiary will be disposed of.</b>	½
3.	<b>Arm's length transaction</b>	
3.1	Through enquiries with management, discuss the <b>business rationale for the high interest rate / R10 million consideration</b> and –	1
	• compare to <b>market-related indicators</b> taking into account the risk profile of the entity; and	1
	• consider whether the related party transaction (loan and interest) is in fact market related and/or whether a <b>fraud indicator</b> is present (as required by ISA550.23(a)(i)).	1
4.	<b>Carrying amount</b>	
4.1	Inspect the schedule and <b>agree the carrying amount</b> of the investment to the <b>previous year's working papers / financial statements.</b>	1
5.	<b>Profit or loss</b>	
5.1	<b>Recalculate the profit / loss</b> on disposal taking into account the transfer of prior fair value adjustments recognised in other comprehensive income / mark-to-market reserves to retained earnings (within equity).	1
6.	<b>Recognition of loan and interest i.t.o. IFRS 9 (amortised cost)</b>	
6.1	<b>Recalculate the present value / fair value of the loan</b> by discounting the R10 000 000 at a market-related interest rate over five years.	1
6.2	<b>Recalculate the interest</b> on the loan in accordance with the effective interest method of IFRS 9.	1
7.	<b>Accounting for the transactions</b>	
7.1	Inspect the detailed general ledger / general journal entries to confirm that the <b>investment has been derecognised / profit or loss correctly accounted for / loan and interest correctly accounted for.</b>	1
8.	<b>Disclosure</b>	
8.1	Inspect the <b>annual financial statements</b> to confirm that the related party transactions and relationships / profit on disposal / loan have been disclosed in the separate financial statements.	1
9.	<b>Companies Act requirements</b>	
9.1	Inspect the <b>Memorandum of Incorporation (Moi)</b> for any restriction / conditions on the provision of loans to related parties / disposal of subsidiary.	1

9.2	Inspect Sunamtra's separate financial statements and calculate whether the investment in subsidiary amounts to the disposal of a <b>major part of Sunamtra's assets</b> which may require additional authorisations in terms of section 112, if applicable.	1
9.3	Inspect a copy of the <b>written notice of the resolution</b> sent to all shareholders / directors to confirm that <b>sufficient days' notice</b> had been given.	1
9.4	Inspect the minutes of the shareholders' meeting for the past two years to verify that at least 75% of the members with voting rights voted in favour of the <b>special resolution</b> at a shareholders' meeting.	1
9.5	Obtain the <b>minutes of the board meeting</b> for the approval of the sales transaction / granting of the loan / disposal of the subsidiary and inspect that –	
	<ul style="list-style-type: none"> <li>the resolution has been approved by a <b>majority (more than 50%) board resolution</b> (excluding Mrs Makhabane);</li> </ul>	1
	<ul style="list-style-type: none"> <li>the <b>solvency and liquidity test</b> has been considered in the meeting and clearly noted in the minutes and that they were satisfied that immediately after providing financial assistance that the company would meet the solvency and liquidity test;</li> </ul>	1
	<ul style="list-style-type: none"> <li>it has been noted in the minutes that the board considered and decided that the <b>loan is fair and reasonable</b> with regard to the company;</li> </ul>	1
10.	Obtain the trial balance directly after providing the financial assistance and <b>recalculate the solvency and liquidity after the loan has been granted.</b>	1
11.	Obtain the <b>minutes of the board meeting</b> for the approval of the sales transaction / granting of the loan / disposal of the subsidiary and inspect that –	
	<ul style="list-style-type: none"> <li><b>Mrs Makhabane has declared her 100% investment in Ethosa</b> before the matter was considered at the meeting;</li> </ul>	1
	<ul style="list-style-type: none"> <li>she also <b>disclosed material information with regard to Ethosa</b>, such as her ability to repay and any financial difficulties; and</li> </ul>	1
	<ul style="list-style-type: none"> <li>she <b>left the meeting and did not vote.</b></li> </ul>	1
	<b>Available</b>	<b>26</b>
	<b>Maximum</b>	<b>15</b>
	<i>Communication skills – appropriate style</i>	<i>1</i>
	<b>Total for part (d)</b>	<b>16</b>
<b>TOTAL FOR THE QUESTION</b>		<b>52</b>