

**QUESTION 1****52 marks****Ignore taxation**

You are a trainee accountant at Lehasa and Allen Inc. ('LA Auditors'), a firm of Registered Auditors, and you have been assigned to the audit of Sunamtra Ltd ('Sunamtra') and its subsidiary companies ('the Group'). LA Auditors is responsible for the audit of the separate and consolidated financial statements of Sunamtra and its subsidiaries for the financial year ended 31 May 2018 (FY2018). The holding company of the Group is Sunamtra, a company listed on the Johannesburg Stock Exchange.

Key information pertaining to the Group:

- The Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).
- The Group has early adopted IFRS 16 *Leases*.
- Sunamtra is not an investment entity as defined in IFRS 10 *Consolidated Financial Statements* and no person has control or joint control over Sunamtra.
- All the entities within the Group have a 31 May year end.
- The functional and presentation currency of all companies in the Group is the South African rand.

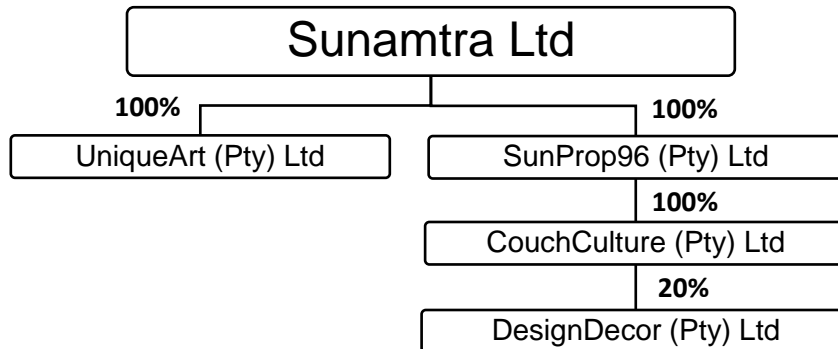
The following workpapers have been prepared and are available:

Reference number	Workpaper
A100	Background and understanding of the Group, including an extract of some Group accounting policies
B200	The related party note extracted from the Group consolidated financial statements of Sunamtra
D400	Property lease between Sunprop96 and CouchCulture

<b>Client:</b> Sunamtra Group	<b>Year end:</b> 31/05/2018	<b>A100/1</b>
<b>Prepared by:</b> Junior Trainee	<b>Date:</b> 29/06/2018	
<b>Reviewed by:</b>	<b>Date:</b>	
<b>Subject:</b> Background and understanding of the Group, including an extract of some Group accounting policies		

### Group structure

Sunamtra invests mainly in entities that operate within the retail, manufacturing and property sectors. The following diagram illustrates the group structure as at 31 May 2018 as well as the percentages of issued ordinary shares held by the different entities:



UniqueArt (Pty) Ltd ('UniqueArt') focuses on home and business décor and the distribution of imported décor products to wholesalers in South Africa. There were no transactions between UniqueArt and Sunamtra during FY2018 and FY2017.

SunProp96 (Pty) Ltd ('SunProp96') was incorporated by Sunamtra to enable it to own all the properties occupied by the Sunamtra Group.

CouchCulture (Pty) Ltd ('CouchCulture') owns and operates a chain of 50 furniture stores in South Africa. It manufactures and sells a wide range of couches to the public. During FY2018 SunProp96 bought furniture to the value of R1 500 000 (FY2017: R800 000) from CouchCulture to furnish their buildings. R450 000 (FY2017: R0) of the purchase price had not been settled by SunProp96 at year end.

DesignDecor (Pty) Ltd ('DesignDecor') manufactures linen such as duvets and curtains, which it sells in its 24 stores throughout the country. CouchCulture has significant influence over DesignDecor.

### Management Information

- Mrs Makhabane, the Financial Director of Sunamtra, has a 45% equity interest in Afrique (Pty) Ltd ('Afrique') as well as an out of the money option to acquire a further 10% of the issued ordinary shares of Afrique from existing shareholders. Mrs Makhabane does not have the financial ability, nor will she be able to obtain funding, to exercise this option. She also holds a 100% investment in Etosha (Pty) Ltd ('Etosha'). Mr Phiri, the husband of Mrs Makhabane, has significant influence over Bailey (Pty) Ltd ('Bailey').

<b>Client:</b> Sunamtra Group	<b>Year end:</b> 31/05/2018	<b>A100/2</b>
<b>Prepared by:</b> Junior Trainee	<b>Date:</b> 29/06/2018	
<b>Reviewed by:</b>	<b>Date:</b>	
<b>Subject:</b> Background and understanding of the Group, including an extract of some Group accounting policies		
<p>2 Mr Faber, the Chief Operations Director of Sunamtra, contractually agreed with another party to share control of Webster (Pty) Ltd ('Webster'). In terms of this agreement, decisions about the financing and operating activities of Webster require the unanimous consent of both these parties. During FY2018 Sunamtra lent money to Webster in terms of an agreement that Webster will pay annual interest in arrears at the South African prime lending rate plus 9,5%. The outstanding capital amount is repayable as a lump sum on 30 April 2021.</p> <p>3 During FY2018 termination benefits were paid to retiring directors. Directors still in Sunamtra's employ received share-based payments in addition to their short-term employee benefits and post-employment benefits.</p> <p><b>Funky Fabrics</b></p> <p>On 1 June 2017 Sunamtra sold one of its wholly-owned subsidiaries, Funky Fabrics (Pty) Ltd ('Funky Fabrics') to Etosha for R10 million. The decision to sell the company was prompted by the substantial losses that Funky Fabrics had suffered. In terms of the sale of shares agreement, the purchase price would be payable after five years. Etosha will pay interest annually on 31 May each year, at the South African prime lending rate plus 12%, on this outstanding amount. Etosha has not paid the interest for FY2018 to date.</p>		
<p><b>Sunamtra Group</b>  <b>Extract from the notes to the consolidated financial statements</b>  <b>for the year ended 31 May 2018</b></p>		
<b>3.18 Property, plant and equipment</b>		
<p>Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their initial cost prices less accumulated depreciation and accumulated impairment losses.</p> <p>Depreciation is accounted for on the straight-line method.</p>		
<b>3.19 Investment property</b>		
<p>Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost. Subsequent to initial recognition, investment properties are measured at fair value.</p>		

<b>Client:</b> Sunamtra Group	<b>Year end:</b> 31/05/2018	<b>B200</b>
<b>Prepared by:</b> Junior Trainee	<b>Date:</b> 24/07/2018	
<b>Reviewed by:</b>	<b>Date:</b>	
<b>Subject:</b> The related party note extracted from the Group consolidated financial statements of Sunamtra		

## 32. Related parties

### 32.1 Relationships

<b>Subsidiaries</b>	SunProp96 (Pty) Ltd
	CouchCulture (Pty) Ltd
<b>Disposal of subsidiary</b> – Funky Fabrics (Pty) Ltd	See pages 44 to 46
<b>Associates</b>	Afrique (Pty) Ltd
<b>Directors</b>	See pages 141 and 142
<b>Other related parties</b>	
<ul style="list-style-type: none"> <li>Mr Phiri, the husband of Mrs Makhabane, has significant influence over Bailey (Pty) Ltd.</li> <li>Mr Harding Jnr, the son of Mr Harding Snr (CEO of Sunamtra), provided certain once-off consulting services to the Group during the year. A market-related amount of R90 000 was paid to him. No amounts were outstanding on 31 May 2018 in this regard.</li> </ul>	

### 32.2 Trading transactions

During the year Group entities entered into the following trading transactions with related parties:

	Sale of goods to related parties		Purchase of goods from related parties	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
SunProp96 (Pty) Ltd	–	–	1 500	800
CouchCulture (Pty) Ltd	1 500	800	–	–
Bailey (Pty) Ltd	4 850	7 500	–	–

The following balances were outstanding at the end of the reporting period:

	Amounts receivable from related parties		Amounts payable to related parties	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
SunProp96 (Pty) Ltd	–	–	450	–
CouchCulture (Pty) Ltd	450	–	–	–
Bailey (Pty) Ltd	–	–	4 850	7 500

Sales of goods to related parties were made at the Group's usual list prices, less volume rebates and an average early settlement discount of 5%.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for possible credit losses in respect of amounts owed by related parties.

### 32.3 Compensation of key management

Remuneration of directors and key management during the year was as follows:

	2018	2017
	R'000	R'000
Directors' remuneration	15 000	13 000

<b>Client:</b> Sunamtra Group	<b>Year end:</b> 31/05/2018	<b>D400</b>
<b>Prepared by:</b> Senior Trainee	<b>Date:</b> 01/08/2018	
<b>Reviewed by:</b>	<b>Date:</b>	
<b>Subject:</b> Property lease between Sunprop96 and CouchCulture		

SunProp96 contracted with Brocor (Pty) Ltd ('Brocor'), a non-related third party, to buy an investment property for a total cash amount of R6 million. This building did not constitute a business as defined in IFRS 3 *Business Combinations*. This amount included bond registration and transfer costs of R972 789 and was paid on 1 February 2018, at which date the control over the building passed to SunProp96.

During February and March 2018 SunProp96 renovated the building at a cost of R750 000, paid in cash. It was leased to CouchCulture from 1 April 2018, the commencement date of the lease and also the date on which the building was available for use. The fair value of the building equalled its carrying amount on 1 April 2018. SunProp96 also determined that the estimated residual value of the building was R2 500 000. SunProp96 estimated that the remaining useful life of the building was 20 years at 1 April 2018.

SunProp96 correctly determined that the fair value of the building was R6 250 000 on 31 May 2018. This amount included accrued operating lease income.

CouchCulture is using the building to operate its 50th furniture store. The agreement contains the following terms and conditions:

- CouchCulture will lease this building from SunProp96 for a lease term of three years;
- Over and above the three-year lease term, CouchCulture has an option to extend the lease annually for a maximum of 12 years (initially it was uncertain if CouchCulture would extend the lease term);
- The risks and rewards incidental to ownership of this building will not transfer to CouchCulture at the end of the lease term;
- The following lease payments will be made by CouchCulture:

<b>Date</b>	<b>Amount</b>
	<b>R</b>
30 September 2018	0
31 March 2019	300 000
30 September 2019	330 000
31 March 2020	363 000
30 September 2020	399 300
31 March 2021	439 230

- An additional payment of R350 000 is payable at the end of the three-year lease term.

CouchCulture correctly calculated the interest rate implicit in this lease as 8,31% per annum.

The audit team has verified that the entities correctly recorded these transactions in their separate financial statements. However, the consolidation journal entries at group level have not yet received any consideration.

**INITIAL TEST OF COMPETENCE, JANUARY 2019**

**PROFESSIONAL PAPER 4**

<b>QUESTION 1 – REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(a)	<p>Discuss any non-compliance with IFRS in the information provided in workpaper B200.</p> <ul style="list-style-type: none"> <li>Assume the information in workpaper A100 is correct and you may use this information as a reference point.</li> <li>Do not re-draft the disclosures provided in workpaper B200.</li> </ul> <p><i>Communication skills – clarity of expression</i></p>	11	
		1	12
(b)	<p>Describe the audit procedures that you would perform to verify –</p> <p>(i) the completeness of related party transactions and balances in the consolidated financial statements of the Sunamtra Group for FY2018; and</p> <p>(ii) the accuracy of the furniture purchases between SunProp96 and CouchCulture recorded in the financial records of SunProp96.</p>	6	
		3	9
(c)	<p>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.</p> <p><i>Communication skills – presentation</i></p>	14	
		1	15
(d)	<p>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.</p> <p>Exclude any procedures related to the assessment of an impairment of the loan in terms of IFRS 9 <i>Financial Instruments</i>.</p> <p><i>Communication skills – appropriate style</i></p>	15	
		1	16
<b>Total for question 1</b>			<b>52</b>