

**1 Background**

Inyama Ltd ('Inyama') is one of the largest producers of processed meat in Southern Africa and is listed on the Johannesburg Stock Exchange. The company's financial year end is 31 December 2018 (FY2018).

Inyama has a head office and processed meat factory in Boksburg as well as sales and distribution centres across Gauteng and in Cape Town, Port Elizabeth and Durban.

Inyama also owns a house in Ballito that the company purchased for R2 500 000 on 1 October 2005. The property is managed by a rental agent for the benefit of Inyama and is let for R5 000 per day on short-term rentals.

Inyama has three executive management team members:

Chief Executive Officer

Financial Director

Head of Health and Safety

Donald Jantjes

Carl Cronjé CA(SA)

Chris Caine

**2 Employee matters**

Carl is in the process of finalising the company's annual financial statements for FY2018. The following transactions and events relate to these statements.

**2.1 Performance incentive plan**

On 1 January 2018 Inyama announced an employee performance incentive plan in order to motivate eligible employees to achieve their corporate targets. These targets include becoming a R500 million revenue entity whilst complying with the latest international health and safety standards and achieving a specified share price.

Eligible employees are those employees who were in Inyama's employ from 1 January 2018. Employees who leave before the dates indicated in the following paragraphs forfeit their share of the bonus pool and there is no re-allocation of the bonus entitlement to fellow employees.

The terms of the performance incentive plan are as follows:

**2.2.1 Cash incentive scheme in respect of FY2018**

A bonus pool will be made available to eligible employees payable in cash on 31 March 2019 provided that the employee is still in Inyama's employ at that date. An employee's individual share of the bonus pool is based on a ratio of his/her annual salary to the annual total salary expense per the statement of profit and loss for the period 1 January 2018 to 31 December 2018. Since there are movements in the number of employees during the year, any bonus not allocated is not reallocated between employees who do qualify for a bonus.

The bonus pool size is determined as follows:

- 10% of the amount by which revenue for FY2018 exceeds the budgeted revenue of R500 million, multiplied by the health and safety factor.
- The health and safety factor is the percentage of clean health and safety audits over total health and safety audits during FY2018.

### 2.2.2 Share incentive scheme

A total of 50 000 share options are awarded to eligible employees on 1 January 2018, at no cost, provided that they are still employed by Inyama on 30 June 2019. Each option entitles the eligible employee to acquire shares of Inyama on 30 June 2019 at R15 per share. The number of shares that the eligible employee is entitled to for each option is dependent on Inyama's closing share price on 30 June 2019.

The number of shares is determined as follows:

Closing share price of Inyama on 30 June 2019	Number of Inyama shares received per option exercised
Between R15 and R20	1
Between R20 and R25	2
Between R25 and R30	3
More than R30	4

Inyama's closing share price and the fair value per option were as follows:

Date	Fair value per option	Closing price of Inyama shares
1 January 2018	R23	R15
31 December 2018	R4	R11

### 2.2.3 Additional information

- It is expected that, on average, 1% of the employees that are on the payroll on 1 January 2018, will leave the employ of Inyama each month. From 1 January 2018 to 31 December 2018 13% of the employees on the 1 January 2018 payroll actually left Inyama.
- Actual revenue for FY2018 amounted to R550 million.
- During FY2018 Inyama was subject to seven health and safety inspections and two of these inspections failed the international health and safety standards.
- During a conference call on 28 December 2018 between the senior management of Inyama and equity investment analysts, the analysts indicated a market consensus six-month forecast share price target for Inyama of R14.
- Carl has not yet processed any journal entries in respect of the two schemes in the accounting records of Inyama.

## 2.2 Employment benefits

As part of their employment packages, Inyama grants each of the three members of the executive management team the use of the Ballito property for one week each year for personal recreational purposes. This use is free of charge. Mr Jantjes made use of this benefit during January 2018. The marginal cost incurred by Inyama during this week was negligible.

### 3 Health and safety

The email below was accidentally sent to Carl Cronjé ([cc2@inyama.co.za](mailto:cc2@inyama.co.za)) instead of Chris Caine ([cc1@inyama.co.za](mailto:cc1@inyama.co.za)). The e-mail was sent subsequent to the company's year end, but before the financial statements were authorised for issue.

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**From:** [dj@inyama.co.za](mailto:dj@inyama.co.za)  
**To:** [cc2@inyama.co.za](mailto:cc2@inyama.co.za)  
**Date:** 15 January 2019  
**Priority:** Urgent  
**Subject:** Health and safety

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Good day Chris

Alphonse (the head of health inspections at the Department of Health) just phoned me about the results of the tests performed by the international team of health experts who visited our factories last week. Unfortunately they found traces of the ST6 strain of the *Listeria monocytogenes* bacteria in the food product samples from our Boksburg factory that they tested.

I searched the internet and found that listeriosis is a disease caused by infection most often contracted after taking in contaminated foods or liquids. There have been 967 confirmed cases and 183 deaths from listeriosis since the recent outbreak in South Africa – but to date the cause of this outbreak could not be established.

Networking through our yearly hunting trip has paid off, and Alphonse has indicated that he is prepared to help us to keep this matter quiet.

Please phone me urgently to discuss the issue so that we can come up with a plan of action to keep this quiet. I will also contact our legal team to discuss.

Regards,

Donald Jantjes  
**CEO**  
***Inyama Ltd***

**INITIAL TEST OF COMPETENCE, JUNE 2019**

**PROFESSIONAL PAPER 2**

<b>PAPER 2 QUESTION 2 REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(a)	Calculate the staff expense for the performance incentive plan in the accounting records of Inyama for FY2018.	9	9
(b)	Discuss, with reference to the performance incentive plan – (i) the normal tax implications for Inyama for the 2018 and 2019 years of assessment; and (ii) the employees' tax implications for the eligible employees regarding the cash portion of the performance bonus for the 2018 year of assessment.	7 3	10
(c)	Discuss, with reference to note 2.2, the effect of the free accommodation on the taxable income of Mr Jantjes for the 2018 year of assessment.	4	4
(d)	Describe the substantive procedures that the external auditors should perform on the cash incentive scheme in relation to the 2018 annual financial statements of Inyama, assuming you performed the procedures on 4 April 2019.  <ul style="list-style-type: none"> <li>• Assume you can rely on the figures relating to payroll.</li> <li>• Ignore taxation and deferred taxation.</li> </ul> <i>Communication skills – appropriate style</i>	9   1	10
(e)	Discuss, with regard to the email received by Mr Cronjé, the actions he must take with reference to his responsibilities as a CA(SA).  <i>Communication skills – clarity of expression</i>	13  1	14
<b>Total for question 2</b>			<b>47</b>