Part (a)	**Discuss the key risks that FreschKart was exposed to in its operating environment before the company shifted to an eco-friendly strategy.** ● **Ignore risks that would be addressed by a shift to an eco-friendly strategy.**	**Marks**
1	**Concentration / Market risk**	
1.1	The highly competitive nature of the South African retail industry could lead to challenges in attracting and retaining customers.	1
1.2	Price conscious consumers will make it difficult for FreschKart to increase its prices to help the company to turn a profit.	1
1.3	There is an over reliance on the SA leg of the business (which accounts for >90% of all revenue)	1
1.4	FreschKart's products are too generalised, and thus they risk not offering the right products for customers' needs. This can lead to stock obsolescence and/or poor working capital management	1
2	**Exchange rate risk**	
2.1	FreschKart operates in several countries around Africa and the company could be negatively affected by fluctuations (rand appreciation) in the local currency.	1
2.2	Furthermore, FreschKart imports some of its products from other countries, thus the company could be forced to pay higher prices for imports should the rand depreciate.	1
3	**Financial and liquidity risk**	
3.1	The volatility of interest rates in the countries in which FreschKart operates increases the risks of the company being unable to repay its debts, as debt costs are likely to rise.	1
3.2	FreschKart’s high gearing level will affect the **company’s ability to raise new debt finance** and how much debt it can support (debt capacity). Given its high gearing level, FreschKart may find that it cannot raise any more debt finance, or it may find that new debt will be at a **significantly higher interest rate** shown by the proposed Bank Finance Ltd loan.	1 1
3.3	High gearing leads to a high interest obligation for FreschKart and an increased risk of being unable to pay all its interest given the company’s reduction in profits and low cash flow.	1
3.4	Escalating debt may cause the company to further be in breach of its key covenant ratios (debt/equity) which could result in further restrictions on lending for the company or increases in debt repayment costs.	1
3.5	Increased volatility of earnings and the declining share price will increase the cost of equity, making equity finance more expensive.	1
3.6	FreschKart’s lack of cash flow increases the risk that the company would be unable to repay its creditors on time, resulting in default on supplier terms and possible restrictions on supplier sales to the company.	1
4	**Operational risk**	
4.1	Strikes taking place are indicative of an unhappy workforce. This may lead to productivity concerns, more union actions, reputational damage and a high employee turnover rate.	1
4.2	The unfavourable, unilateral change to the leave policy/lack of salary increases might lead to further labour unrest and an unsupportive management team.	1
4.3	FreschKart uses its own drivers to deliver goods ordered via the app - they may therefore be held liable if their drivers cause accidents or are	1

	themselves injured on the road (or risks around hiring and vetting of drivers process).	
4.4	As FreschKart's operations are spread across three countries it may be difficult for management to be involved in the day-to-day operations where needed.	1
4.5	There could be supply delays as a result of imported products causing stock-outs. In addition, high shipping costs relative to local purchases could lead to increased inventory costs leading to higher prices than competitors.	1 1
3.11	Franchisees may not uphold the ethos and brand quality desired by FreschKart leading to reputational risk.	1
3.12	The cost of FreschKart's loyalty program could exceed the benefit thereof which will increase profitability concerns.	1
5	**Technology risk**	
5.1	As the company's GoFresch application is dependent on the functionality of the operating system, there is a risk that the system may be hacked and stop operations from continuing.	1
5.2	Given the nature of the GoFresch application, it is likely that personal data will be stored on the application, which increases the risk of data breach that may cause the company to not be in compliance with the POPIA.	1
5.3	Payment information is housed on the application and therefore a data breach may cause the company to be financially liable or suffer reputational damage.	1
5.4	The GoFresch application requires constant upgrades due to the rapid pace of technological advancements. Failure to do so may render the app obsolete or user unfriendly.	1
6	**Regulatory and compliance risk**	
6.1	Adhering to rigorous health, safety and food standards is crucial in the competitive retail industry, and non-compliance could result in penalties or reputational damage.	1
6.2	As the company's liabilities exceeded its assets by 75%, FreschKart is technically insolvent. Therefore, the directors who continue to trade may face personal liability as a result.	1
	Available	**27**
	Maximum	**11**
	Z2: Business external environment	***1***
	Total for part (a)	**12**

Part (b)	Critically evaluate the strategic actions that FreschKart has undertaken to become more eco-friendly.	Marks
1	**Alignment with values**	
1.1	The suggested strategy shows a commitment by FreschKart's management to sustainability. This is evidenced by their proactive step to improve environmental influence by reducing the company's reliance on non-ecofriendly electricity generation sources and focusing on sustainable water harvesting techniques, the removal of plastic bags and not selling non-environmentally safe products.	1 1
1.2	By selling the non-environmentally safe products to another retailer, there is a likelihood that such products will still be sold to the public and will therefore still possibly cause harm to the environment through production or disposal.	1
1.3	FreschKart could also be said to be assisting in increasing the demand for such products as these products will now be sold at cheaper prices by the Pay and Choose, which could encourage more customers to purchase them. Thus this would not seem to align to the company values.	1
1.4	The company has not done enough to suggest that most of its products are sustainable as no effort has been made to ensure that its clothing lines are made from sustainable, long-lasting products.	1
1.5	The published list of environmental commitments is good; however, the company seems to want to report selectively on its achievements in this area, which shows a lack of transparency to the public about the company's commitment to real environmental change as there is no accountability for non-achievements in this area.	1
1.6	The marketing of the company as an environmentally friendly company could be seen as the company 'greenwashing' its business given the above. This would be misleading to the public and may create a negative perception of the company, as the company could be said to doing the rebrand only to generate more profits.	1
2	**Improvement of profitability**	
2.1	The introduction of recycling bins would encourage more customers to do business with FreschKart, as non-customers would also make use of recycling bins, which will help them to take notice of the company and may encourage them to do business with the company.	1
2.2	There is however no guarantee that the new ecofriendly rebrand would increase the demand for FreschKart products and increase company profits.	1
2.3	FreschKart's decision to rebrand itself as a sustainable retailer will help the company to attract a new customer base, which may assist the company in growing its market share. This seems to be the main reason why the CEO suggested this strategy.	1
2.4	However, introducing more expensive bags to consumers, especially those who buy from CB stores (being lower income households), may deter some of the customers from shopping in these stores given the increased cost of shopping bags.	1
2.5	Investing in solar technology and water harvesting would assist the company in reducing the cost of water and electricity, which would help to improve the company's profitability.	1
2.6	Escalating government interference and threats of additional cost and levy initiatives by Eskom could have a negative effect on the profitability of FreschKart.	1
2.7	As no financial projections have been done to show how the new strategy will influence profitability, the strategy may not be appropriate for the company in improving its profitability given the lack of success of the company's recent GoFresch strategy.	1

2.8	Furthermore, the agreement with Pay and Choose over the resale of the laundry detergent will have a negative impact on the profitability of the company.	1
3	**Other**	
3.1	Given the current poor financial position and cash flow of the company, how has the rebrand been financed? This may not be the most appropriate strategy given the company's lack of access to finance. The question is whether this strategy will create value for current shareholders of the company.	1
3.2	Senior management does not appear to have the necessary experience in this rebrand, thus the rebrand may not be successful unless FreschKart makes use of a specialist company to assist it.	1
3.3	The proposed strategy will be more in line with the UN sustainability goals/ value creation principles (King IV) and could lead to increased interest in the company by its stakeholders, particularly if the strategy is included in the company's triple bottom line reporting.	1
3.4	FreschKart should consider if there are any other options available to them to achieve their change in strategy, for example: partnerships with eco-friendly suppliers, improving its product labelling to communicate sustainability information etc.	1
	Available	**19**
	Maximum	**8**
	Total for part (b)	**8**

Part (c)	Write a memorandum to the board of directors in which you critically review its decision to vote against a rights issue as a means to reducing the company's debt. ● Include calculations and key ratios. *Calculations: 10 marks; Discussion: 16 marks*	Marks

Share price						
	2020	**2021**	**2022**	**2023**	**2024**	
Share price	R36	R28	R25	R24	R20,5	
Annual change		-22,2%	-10,7%	-4%	-14,6%	1
Compound growth					-13,13%	1
Alternative: Market capitalisation	R36 000	R28 000	R25 000	R24 000	R20 500	1
Annual change		–22,2%	–10,7%	–4%	–14,6%	1
Share price prior to announcement					R20,5	
Rights issue price					R17,2	
Discount					16,1%	1
Total # shares prior to rights issue					1 000	
Rights issue shares					250	
Post rights issue					1 250	1
Current firm value					20 500	
New equity/cash post rights issue					4 300	
Total equity value					24 800	1
Share price post rights issue	(24800 / 1250)				19,84	1C
Value per right	(R19.84 – R17.2)				2,64	1C
Ratios						
				Excluding rights issue	**Including rights issue**	
Interest bearing debt	(111371+10625) (121997-4300)			121 997	117 697	1
Total assets				149 584	149 584	
Interest-bearing debt / Assets ratio				82%	79%	2C
Total liabilities	(111372+27794) (139166-4300)			139 166	134 866	
Total assets				149 584	149 584	
Total liabilities / Assets ratio				93%	90%	2

Profit from operations (EBIT)	(737+11972– 525)			12 184	12 184	1
Interest expense *New interest expense = R11 972 – R4 300 x 10,75%*				11 972	11 510	1
Interest cover ratio (%)				102%	106%	2
Equity				20 500	20 500	
Debt : equity ratio	(121997 : 20 500) (117697 : 24 800)			5,95 *or* *595,1%*	4,75 *or* *474,58%*	2
Earnings	(-98+(4300x0,1075x0,73))			-98	239	1
Earnings/(loss) per share	(-98/1000) (239/1250)			-0,10	0,19	2
					Available	**21**
					Maximum	**10**
					Total for part (c) calculations)	**10**

Discussion		**Marks**
To: Board of Directors **From: IAC Candidate** **Date: January 2025** **Possible Rights Issue**		
1	**Introduction**	
1.1	I would agree that issuing rights would be good initiative to recapitalise the company as FreschKart is heavily geared.	1
2	**Effect on share price and expected return**	
2.1	Not having the rights issue and further increasing leverage would result in shareholders requiring a higher return, thereby increasing the cost of equity.	1
2.2	The rights issue would reduce the company's share price to below the board's targeted levels of between R20 and R35 for the company's share price.	1
2.3	However, market sentiment to the rights issue may increase the share price if investors believe that the rights issue is warranted. Investors might interpret it as a sign that the company is struggling and can't secure funding through other means like debt (signalling effect).	1 1
2.4	The rights issue would give shareholders the opportunity to sell their rights, which may allow the company to gain a new type of investor who is willing take more financial risk.	1
2.5	Delaying the rights issue may continue to have a negative impact on the company's share price as the market is clearly not encouraged by the increasing debt. This is evidenced by the difference in asset and equity beta.	1 1
3	**Key ratios**	
3.1	The rights issue would have a positive effect on key debt and financial ratios, which may help to encourage shareholders about the prospects of the company.	1

3.2	The issuing of the rights would also have an effect on the current solvency of the company, as the company's solvency ratio would improve by 3%.	1
3.3	This would still be above the company's targeted debt to total firm value and above some of the entities covenant ratios, which means that the company would still need to raise more equity after the issue. This may further negatively affect the share price.	1
3.4	The i**nterest cover ratio would improve** slightly, which would help to reduce the overall company risk. In addition, **interest costs would reduce**, which would improve overall cash flow of the company.	1 1
3.5	Not having the rights issue now would continue to negatively affect the company's ability to raise debt and increase the cost of debt and further erode profits.	1
3.6	In the case of a rights issue the payment of dividends is not compulsory in times of financial difficulty whereas the payment of interest on the loan cannot be delayed.	1
3.7	A non-rights issue would make it harder for the company to pay dividends, as it may struggle in future to meet solvency ratios as required by the Companies Act. This may further discourage potential investment.	1
4	**General**	
4.1	The 16,1% discount to the share price prior to the rights issue would be enticing current shareholders to take up the rights.	1
4.2	Shareholders' concern about the company's constant declining share price and negative growth over time (-13%) may increase the chances of shareholders not taking up the rights issue resulting in FreschKart failing to raise the full amount needed.	1
4.3	The question is that if the rights issue is not fully generated, will the remaining funds needed be obtained via one or more loans?	1
4.4	FreschKart has not had a successful history with rights issues, with the company failing to raise the required capital. This may be due to the company issuing rights in times of need and not for expansionary purposes.	1
4.5	Debt costs have risen significantly since the last time the loan was taken out, as the new loan would be at 19%. This means the company will need to repay more than it would for debt servicing costs. Thus, recapitalising by avoiding debt the company would appear to be imperative for the company to continue to operate profitably.	1 1
4.6	A rights issue may be attractive to a different profile of shareholder, such as those that are eco-conscious. Such investors may purchase rights from those that would sell their rights in the company. This may help to increase the value of the company.	1
4.7	A rights issue will give existing investors the opportunity to be part of the company's new eco-friendly strategy, which, if successful, would increase investor value in the company.	1
4.8	Having a rights issue may encourage all shareholders to take up their rights as they may not want to lose their current shareholding within the company	1
4.9	A rights issue may be a cheaper way to raise additional finance given the company's low cash flow, as the company would be able to save on underwriting fees.	1
	Available	**26**
	Maximum	**16**
	Y4: Judgement and decision making ***X1 Communication skill – layout and structure***	***1*** ***1***
	Total for part (c) for discussion	**18**
	Total for part (c)	**28**

<table>
<tr><th>Part (d)</th><th>Discuss the ethical behaviour and ethical leadership of FreschKart as demonstrated by the directors towards the following stakeholders: the lenders, suppliers represented by Cisty, the store managers and the local communities.</th><th>Marks</th></tr>
<tr><td colspan="3">General ethical theory</td></tr>
<tr><td>1</td><td>Ethical behaviour refers to doing what is good for self and also for others, even when no one sees it. (Good for self/ Good for others theory)</td><td>1</td></tr>
<tr><td>2</td><td>Directors are expected to display personal ethics in their capacity, business ethics as representative of FreschKart (tone from the top) and display professional ethics as presumably some of them are members of professional bodies. That is, they need to act with integrity and honesty, be straightforward and with fairness and uphold stakeholder inclusivity.

Alternative: For a company that adopts King IV, principle 16 requires that the directors uphold stakeholder inclusiveness. Moreover, ethical theories require that the company upholds laws and regulations, which include company policies. (Personal ethics/King IV theory)</td><td>1</td></tr>
<tr><td colspan="3">Demonstration of ethical behaviour and ethical leadership by directors – Lenders</td></tr>
<tr><td>3</td><td>Refinancing existing loans at favourable terms, is good for FreschKart from a cash flow commitment perspective and demonstrates responsibility to existing lenders, safeguarding any defaults, and upholding and honouring of commitments. (Good for lenders)</td><td>1</td></tr>
<tr><td>4</td><td>It can however be said that FreschKart did not behave ethically when it breached one of its covenants. This is detrimental to the financiers' sustainability. (Bad for lenders)</td><td>1</td></tr>
<tr><td colspan="3">Demonstration of ethical behaviour and ethical leadership by directors – Suppliers (Cisty)</td></tr>
<tr><td>5</td><td>FreschKart's communication with Cisty, and honouring of its commitment, being the lower of continuing with the contract or incurring the penalty, is a responsible and ethical act towards Cisty. (Good for Cisty)</td><td>1</td></tr>
<tr><td>6</td><td>Cisty may not like the fact that its products are now being sold through Pay and Choose – it does not represent the exclusive contract they signed with FKB stores (which may have a better reputation as a more upmarket store). (Bad for Cisty)</td><td>1</td></tr>
<tr><td colspan="3">Demonstration of ethical behaviour and ethical leadership by directors – Employees (Store managers)</td></tr>
<tr><td>7</td><td>Revising the leave day policy from vesting to non-vesting, as an example, in response to FreschKart's poor financial results, and no salary increases and employer contributions are good for FreschKart that is struggling financially, but also retaining all store managers and not retrenching them especially under the prevailing circumstances is in the interest of the store managers. (Good for store managers)</td><td>1</td></tr>
<tr><td>8</td><td>However, the zero increase to salaries may create unhappiness, lead to labour union involvement, potential unrest, a desire to change jobs by store managers, reduce morale, etc. (Bad for store managers)</td><td>1</td></tr>
<tr><td colspan="3">Demonstration of ethical behaviour and ethical leadership by directors – Communities</td></tr>
<tr><td>9</td><td>The pursuit of the eco-friendly strategy is beneficial to the majority of FreschKart's customers, that is, communities in which FreschKart</td><td>1</td></tr>
</table>

	operates. It ensures their sustainability and their safety. **(Good for communities)**	
10	The non-eco friendly Cisty products, although not sold directly by FreshKart to the public, will still reach communities through Pay and Choose. This is counter to ensuring safety for communities in which FreshKart operates. **(Bad for communities)**	1
Demonstration of ethical behaviour and ethical leadership by directors – Pervasive to all stakeholders		
11	Due to FreschKart's pursuit of an eco-friendly strategy, withdrawing from the Cisty contract was good for FreschKart and its stakeholders. This is because companies with strong ESG practices attract more investors, which could have a positive impact on for lenders, suppliers, store managers/employees as well local communities. **(Cisty exit, good for multiple stakeholders)**	1
12	In addition, the pursuit of the eco-friendly strategy is beneficial to FreschKart's reporting and business standing on sustainability and compliance with King IV, which again in turn results in strong ESG practices attract more investors, which could have a positive impact on for lenders, suppliers, store managers/employees as well local communities. **(King IV/sustainability good for multiple stakeholders)**	1
13	Based on the transparency in negotiating and communicating changes and responding to prevailing challenges, means that FreschKart, represented by its directors, is acting ethically and is displaying ethical leadership. They consider the interests of other stakeholders in their decision-making processes. **(Transparency good for multiple stakeholders)**	1
14	The directors are fulfilling their fiduciary duty in terms of s76 of the Companies Act / Principle 1 of the KING IV Code on Corporate Governance, which is evident in their recent decisions attempting to act in the best interest of FreschKart, whilst at the same time ensuring job security and honouring contracts. **(Fiduciary duty good for multiple stakeholders)**	1
15	The directors adopt the stakeholder theory on corporate governance (organisational ethics theory), which is evident in their decisions, which seem to deem all stakeholders' interests equally important to the interests of the shareholders of FreschKart. **(Stakeholder/Legitimacy/ubuntu good for multiple stakeholders)** *Alternative: The directors adopt the legitimacy theory as the directors comply with laws and that their further actions (adopting an eco-friendly strategy, restricting employee leave policy whilst keeping all employees employed and honouring Cisty contract) are to prevent sanctions against the company.*	1
16	The company might be trading whilst commercially insolvent, yet it is still entering into new contracts, such as the contract with the solar company, where they still need to pay 50% of the contractual fee in March, and they might not be able to do so. Continuing to trade while insolvent will affect multiple stakeholders. **(insolvency bad for multiple stakeholders)**	1
	Available	**16**
	Maximum	**8**
	Y6: Ethical reasoning	***1***
	Total for part (e)	**9**
	Total for part I	**57**

Part (e)	Prepare the correcting journal entries to account for the sales made by the selected FKB stores via GoFresch (see section 2) during December 2024 in FreschKart's FY2024 financial statements. • Ignore all forms of taxation. • Dates and journal narrations are not required. • Assume all amounts are material. • Round all calculated amounts to the nearest rand.	Marks

Correcting journal entries	Dr.	Cr.	
Revenue: Sale of goods (P/L)	R3 233		C4
Revenue: Delivery services (P/L)	R243		C5
Contract liability: FreschRewards (SFP) **(note1)**		R3 476	1
Contract liability: FreschRewards (SFP)	R2 492		1
Revenue: Sale of goods (P/L) **(note 2)**		R2 492	C3

Note 1: *Or award 1 mark if journal is balanced to the contract liability account.*
Note 2: *Can be combined with top line Revenue: Sale of goods.*

CALCULATIONS:

C1: Stand-alone selling price

Total cash sales	Given	R5 000 000	1
Online sales to FreschRewards members	x 20%	R1 000 000	1
Less delivery fees (not earning points)	10 000 x 20% x R35	(R70 000)	1
Sales subject to points Or: (R5 000 000 – R350 000) x 20%		**R930 000**	
Number of points (1 point for R2 spent)	/2	465 000 points	1
Considering likelihood of redemption (IFRS 15.B42)	x 75%	348 750 points	1
SSP: 100 points = R1 discount	/100	**R3 488**	1

C2: Allocation of transaction price

PO's	SSP (R)		Allocated SSP (R)	Calculation	
Sale of goods	930 000	C1	926 767	930 000 / 1 003 488 x 1 000 000	1P
Delivery services	70 000	C1	69 757	70 000 / 1 003 488 x 1 000 000	1P
Material right – FreschRewards	3 488	C1	3 476	3 488 / 1 003 488 x 1 000 000	1P
Total	**1 003 488**		**1,000,000**		1 (TP)

C3: FreschRewards redeemed

Actual	250 000 points	C1
Estimate	348 750 points	C1
Allocated SSP	R3 476	C1
R3 476 x 250 000 / 348 750	**R2 492**	1P
C4: R930 000 – R926 767 or R4 650 000 – (R3 720 000 + R926 767 = R4 646 767)	R3 233	1P
C5: R70 000 – R69 757 or R350 000 – (R280 000 + R69 757 = R349 757)	R243	1P

Available	**15**
Maximum	**15**
Y1: Critical thinking	***1***
Total for part (e)	**16**

Part (f) Calculate the annual effective cost of the new loan from Bank Finance Ltd. • Ignore all forms of taxation.					**Marks**
Nominal interest rate 19% Effective annual interest rate 20.4% (19 ENT; 4 XY)					1
	0	**2025**	**2026**	**2027**	
Upfront receipt	4 300				1
Issue cost (4 300 x 3%)	(129)				1
Interest paid 2025 (4 300 x 20,40%)		(877)			1
Interest paid 2026 (4 300 - 1 433 = 2 967) x 20,40%			(585)		1
Interest paid 2027 (4 300 - 2 866) / (2 967 – 1 433) x 20,40%				(292)	1
Capital repayment		(1 433)	(1 433)	(1 433)	1
	4 171	(2 310)	(2 018)	(1 726)	
IRR (Annual)	22.47%				1
				Available	**8**
				Maximum	**8**
				Total for part (f)	**8**

Part (f) Alternative								***Marks***
Nominal interest rate 19%								
	0	***2025 Q1-Q3***	***Q4***	***2026 Q1-Q3***	***Q4***	***Q1-Q3***	***2027 Q4***	
Upfront receipt	*4 300*							*1*
Issue cost	*(129)*							*1*
Interest repayment		*(204)*	*(204)*	*(136)*	*(136)*	*(68)*	*(67)*	*3 (1 x 3)*
Capital repayment			*(1 433)*		*(1 433)*		*(1 433)*	*1*
	4 171	*(204)*	*(1 637)*	*(136)*	*(1 569)*	*(68)*	*(1 500)*	
IRR (Per quarter)	*5.22%*							*1*
Nominal rate	*20.89%*							
Effective annual rate (Annual)	*22.59%*							*1*
							Available	**8**
							Maximum	**8**
							Total for part (f)	**8**

Part (g)	**Prepare, based on the information on the Sandton store in section 4, an extract of FreschKart SA's FY2024 property, plant and equipment note as it would appear in the notes to its financial statements.** • **Total columns are not required.** • **Round all calculated amounts to the nearest rand.**			**Marks**
	FreschKart SA Ltd			
	Extract **Notes to the financial statements for the year ended 31 December 2024**			
12. Property, plant and equipment				
	Land **R**	**Buildings** **R**	**Furniture & fittings** **R**	
MOVEMENT				
Impairment loss recognised in profit or loss	(593 690)	(1 018 509)	(2 506 692)	1C
Carrying amount 31 December 2024	**1 656 310**	**2 841 491**	**6 993 308**	1C
CALCULATIONS:				
C1: Impairment loss				
Carrying amount			28 260 000	0.5
Recoverable amount			(24 000 000)	0.5
Impairment loss			**4 260 000**	
Allocate to goodwill (IAS 36.104a)			(120 000)	1
Remaining impairment loss			**4 140 000**	
C2:Impairment loss allocation				
Total carrying amount			28 260 000	0.5
Financial assets			(2 150 000)	0.5
Inventory			(10 300 000)	0.5
Goodwill			(120 000)	1C
			15 690 000	
Alternative:				
Land			*2 250 000*	*or 0.5*
Buildings			*3 860 000*	*or 0.5*
Furniture and fittings			*9 500 000*	*or 0.5*
Intangible assets (200 000 – 120 000)			*80 000*	*or 1P*
			15 690 000	
C3: Allocation of impairment loss			**R**	
Land (4 140 000 x 2 250 000 / 15 690 000)			593 690	0.5P
Buildings (4 140 000 000 x 3 860 000 / 15 690 000)			1 018 509	0.5P
Furniture & fittings (4 140 000 x 9 500 000 / 15 690 000)			2 506 692	0.5P
			Available	**8**
			Maximum	**8**
			X1: Communication skill – presentation	***1***
			Total for part (g)	**9**

Part (h) **Prepare all the journal entries necessary to account for all aspects relating to the solar panels in FreschKart's FY2024 financial statements.** • **Ignore all forms of taxation.** • **Dates and journal narrations are not required.** • **Round all calculated amounts to the nearest rand.**			**Marks**
	Dr.	**Cr.**	
Entertainment expense / other expenses (P/L)	143 750		1
Bank (SFP)		143 750	
Expensing of entertainment expenses			
Alternative 1			
Solar panels (SFP)	24 427 000		C1
Creditor (SFP)		12 213 500	
Bank (SFP)		12 213 500	0.5
Recognition of initials costs			
Solar panels (SFP)	5 850 000		C1
Foreign expense (P/L)	526 500		C2
Creditor (SFP)	12 213 500		
Bank (SFP)		18 590 000	0.5
Payment of creditors			
Alternative 2			
Solar panels (SFP)	*30 277 000*		*C1*
Forex expense (P/L)	*526 500*		*C2*
Bank (SFP)		*30 803 500*	*0.5 + 0.5*
Recognition of initial cost			
Depreciation (P/L)	403 693		C3
Accumulated depreciation (SFP)		403 693	0.5
Recognition of depreciation expense			
CALCULATIONS:			
C1: Initial cost			
Cost (USD1.3m x R18.79)		24 427 000	1
Other costs		5 850 000	
Shipping cost	1 100 000		1
Import duties	2 600 000		1
Transport cost	750 000		1
Installation cost	1 200 000		1
Testing cost	200 000		1
		30 277 000	
C2: Forex difference			
Forex			
(R18.79 - R19.60) x (USD1.3M x 50%)		526 500	1P + 1P
Or: (USD1.3M x 50% x R19.60) - (USD1.3M x 50% x R18.79)			
C3: Depreciation expense			
30 277 000 x 80% / 40 x 8 /12		403 693	0.5 + 1 + 1
		Available	**13**
		Maximum	**13**
		Total for part (h)	**13**

Part (i) Calculate the total FY2024 profit or loss effect related to one FKB store of – (i) the Cisty contract; and (ii) the change in the leave policy • Assume the following additional information: ○ On 1 January 2024 and 30 November 2024, each FKB store had (on average) 4 000 and 9 000 Cisty detergent units respectively on hand and were able to sell Cisty detergent units (on average) at R120 per detergent unit prior to 1 December 2024. ○ The 9 000 units on hand on 30 November 2024 were sold to Pay and Choose on 1 December 2024. All other cash flows occur at the end of each month. ○ An appropriate discount rate of 10% per annum (compounded monthly). ○ The FKB stores did not buy more than the minimum number of Cisty detergent units they were contractually required to purchase. • Ignore all forms of taxation. • Round all calculated amounts to the nearest rand.			**Marks**
Total profit or loss: FKB store		**P/(L) (R)**	
Revenue: 1 Jan 2024 to 30 Nov 2024		12 600 000	C1
Cost of sales 1 Jan 2024 to 30 Nov 2024	R95 (R90 x 1.053 x 105 000 (C1))	(9 975 000)	1
Inventory write-down / loss on sale on 30 Nov 2024	9 000 detergents x R95 x 10% OR: (9 000 detergents x R95) less (9 000 detergents x R95 x 90%)	(85 500)	1P
Onerous contract expense		(1 142 137)	C2
Finance cost	PV x 0.83% (or 1 Amrt Int)	(9 518)	1P
Leave pay expense		74 769	C3
Effect on profit /loss: Profit increase		**1 462 614**	
CALCULATIONS:			
C1: Inventory sold		**R**	
On hand 1 Jan 2024		4 000	0.5
Purchased 1 Jan to 30 Nov 2024	10 000 detergents x 11 months	110 000	1
Less on hand 30 Nov 2024		(9 000)	0.5
		105 000	
Total revenue	R120 x 105 000 detergents	R12 600 000	0.5P
C2: Onerous contract			
I =	10%/12	0.83%	1
PMT =	R95 x 1,057 (0.5) x 10% (1) x 10 000 (0.5)	100 412	2
N =		12	0.5
Comp PV =		**(1 142 137)**	
Fine		1 500 000	0.5
Lower of:		1 142 137	0.5P
C3: Leave pay expense			
Number of employees		1	
Vesting days	40 x 80%	**32**	0.5
Basic gross salary		800 000	0.5
Basic gross salary per day	/260 days	3 077	0.5
	R3 077 x 32	**98 464**	
Non-vesting days	40 x 20%	**8**	0.5
Basic gross salary		800 000	0.5
Company contributions		80 000	0.5

Cost-to-company		**880 000**	
Cost-to-company per day	/260 days	3 385	0.5
	R3 385 x 8	**27 080**	
Opening balance FY2024	R98 464 + R27 080	**125 544**	
Days accumulated at beginning of year		40	0.5
Days granted		30	0.5
Days taken		(45)	0.5
Accumulated days		**25**	
Limited to 60% (non-vesting)		**15**	0.5
Cost-to-company per day		3 385	0.5P
Closing balance FY2024		**50 775**	
Movement (income)	**R125 544 – R50 775**	**74 769**	1P
		Available	**17**
		Maximum	**17**
		Total for part (i)	**17**
		Total for part II	**63**