

SUGGESTED SOLUTION

PAPER 2

QUESTION 3

(a) Memorandum to the CFO

MEMORANDUM

Date: 28 September 2011
To: CFO
From: CTA Student
Subject: Accounting for proposed employee trust (Presentation: 1 mark)

A special purpose entity is an entity that is created to accomplish a narrow and well-defined objective. (1)

In terms of IAS 27 an entity should consolidate all subsidiaries. A subsidiary is an entity that is controlled by the parent. (1)

A special purpose entity (SPE) shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. (1)

The following circumstances may indicate a relationship in which an entity controls a SPE and consequently should consolidate the SPE:

- In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operations; or (1/2)
- In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up and "autopilot" mechanism, the entity has delegated these decision-making powers; or (1/2)
- In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or (1/2)
- In substance, the entity retains the majority of the residual or ownership risks related to the SPE, or its assets in order to obtain benefits from its activities. (1/2)

The employee trust will be created with the specific purpose to buy back shares on the open market which will be allocated to employees should they exercise it after certain service conditions have been met. (1)

ABC Ltd will benefit from the employee trust as the employees will be in service of the company for at least another three years. (1/2)

ABC Ltd retains a significant beneficial interest in the employee trust (equity). (1/2)

Two directors of ABC Ltd will be appointed as trustees of this employee trust. They will be in control of the trust and they will be responsible for buying back shares. The employee trust thus operates an "autopilot" mechanism. (2)

In substance, the employee trust will thus be controlled by ABC Ltd. (1/2)

ABC Ltd is exposed to the risks of the trust as it guaranteed the trust's loan to the bank. (1/2)

The employee trust is a special purpose entity in terms of SIC 12 and should therefore be consolidated by ABC Ltd. The employee trust's assets and liabilities should be included in ABC Ltd's consolidated financial statements. (2)

Total (13)
Maximum (10)

(b) Customer list

In terms of IFRS 3.B31 the acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination. (1)

An intangible asset is identifiable if it either:

- Is separable, ie. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged; or (1/2)
- Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. (1/2)

Customer lists that are frequently licensed therefore meet the separability criterion. (1/2)

In terms of IFRS 3.B33 a customer list acquired in a business combination would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchange information about its customers. (1 1/2)

ABC Ltd Group has signed a confidentiality agreement with X Ltd that allows ABC Ltd Group full access to the customer information and can utilise the information per their need. (1)

It also practises in the industry to licensed customer lists. (1/2)

Therefore based on the above it seems that the customer list does meet the separability criterion and therefore an intangible asset should be recognised at the fair value of R500 000. (1 1/2)

The customer list should be tested annually for impairment in accordance with IAS 36. (1/2)

Total	<u>(7 1/2)</u>
Maximum	<u>(5)</u>

(c) Pro forma consolidation journals for investment in X Ltd

		Dr R	Cr R	
J1	Mark-to-market reserve (OCI) [C1]	300 000		(1 1/2)
	Investment in X Ltd (SFP)		300 000	(1/2)
	Deferred tax (SFP)	42 000		(1/2)
	Mark-to-market reserve (OCI) [300 000 x 14%]		42 000	(1)
	Reversal of current year fair value adjustment recognised in the separate financial statements of ABC Ltd			
J2	Investment in X Ltd (SFP)	100 000		(1/2)
	Gain on bargain purchase (P/L) [C3]		100 000	(2 1/2)
	Recognition of gain on bargain purchase on the acquisition of the 10 000 shares			
J3	Investment in X Ltd (SFP)	652 000		(1/2)
	Share of profit of associate (P/L)		652 000	(2)
	[(3 500 000/12 x 6) – (1 000 000 x 2 x 12% x 6/12)] x 40%			
	Equity accounting the profit for the six months attributable to the 40% interest			
J4	Investment in X Ltd (SFP)	100 000		(1/2)
	Share of other income of associate (OCI)		100 000	(1 1/2)
	[(500 000 – 250 000) x 40%]			
	Equity accounting the other comprehensive income for the six months attributable to the 40% interest			

	Dr R	Cr R	
J5	Fair value adjustment (P/L) [C4]	552 000	(3½)
	Investment in X Ltd (SFP)		552 000 (½)
	Fair value adjustment on the previously held interest		
J6	Ordinary share capital (SOCE) (given)	5 000 000	(½)
	Preference share capital (SOCE) (given)	1 000 000	(½)
	Retained earnings (SOCE)	1 500 000	(½)
	Profit from 1/1/2010 - 30/6/2010 (P/L)		
	[(3 500 000 x 6/12) + 120 000 - 120 000] or [equity analysis]	1 750 000	(½)
	Mark-to-market reserve (500 000 x 6/12)	250 000	(1)
	Intangible asset - Customer list (SFP) (given)	500 000	(½)
	Gain on bargain purchase (balancing) (P/L) or [C5]		1 892 000 (½)
	Investment in X Ltd (SFP)		4 118 000 (3½)
	[(10 000 x R280) + 1 318 000 [C2]]		
	Non-controlling interest (SFP)		3 920 000 (3)
	[[[(25 000 x 40%) x 280] + [1 000 000 x 0.24 x 6/12] + 1 000 000 pref shares] [equity analysis] (2 800 000 + 1 120 000)]		
	Deferred tax (SFP) (500 000 x 14%)		70 000 (1)
	Elimination journal at acquisition		
J7	Non-controlling interest (P/L)	772 000	(2)
	[(3 500 000 x 6/12) - (1 000 000 x 0.24 x 6/12)] x 40% + [(1 000 000 x 0.24 x 6/12)] or [equity analysis] (700 - 48 + 120)		
	Non-controlling interest (OCI) [(500 000 - 250 000) x 40%]	100 000	(1)
	Non-controlling interest (SFP)		872 000 (½)
	Allocating portion of profit for the year and other comprehensive income to NCI		
			Total <u>(30)</u>
			Maximum <u>(25)</u>

(d) (i) Consolidated group profit for the current year

Profit for ABC Ltd for the year (given)	3 800 000	(1/2)
Profit from Investment in X Ltd	3 070 000	
- Gain on bargain purchase (from (c))	100 000	(1/2)
- Gain on bargain purchase (from (c))	1 892 000	(1/2)
- Share of profit of associate (from (c))	652 000	(1/2)
- Fair value adjustment on remaining investment (from (c))	(552 000)	(1/2)
- Profit for the year of X Ltd	3 500 000	(1/2)
- Profit eliminated (J6) (from (c))	(1 750 000)	(1/2)
- NCI portion on the profit: (from (c))	(772 000)	(1/2)
Profit from Investment in Y LLC	204 400	
- Eliminate gain on rights issue in separate accounting records (12 000 x 2 x \$18,50 x R8,20)	(3 640 800)	(1)
- Group profit on rights issue [C9]	3 492 760	(4)
- Current year profit [(28 000 x 6/12) x R8,30]	116 200	(1)
- Non-controlling interest portion [\$14 000 x R8,30 x 40%]	(46 480)	(1 1/2)
- Reclassification exchange gain [C12]	282 720	(4)
Profit for the year	7 074 400	
	Total	<u>(15 1/2)</u>
	Maximum	<u>(15)</u>

Current year movement in the mark-to-market reserve for the group**Movement in the current year**

Movement in mark-to-market reserve in the current year: ABC Ltd [1 350 000 – 850 000]	500 000	(1)
Group adjustment on movement in current year:	(385 200)	
- Reversal of fair value adjustment on X Ltd (from (c)) (300 000 – 42 000)	(258 000)	(1)
- Movement in mark-to-market reserve: X Ltd [500 000 – 250 000]	250 000	(1)
- Non-controlling interest portion on movement for 6 months (part c)	(100 000)	(1/2)
- Share of other income from associate (from (c))	100 000	(1/2)
- Group fair value adjustment [C6]	(377 200)	(2)
Movement in mark-to-market reserve (OCI) in current year	114 800	
	Total	<u>(6)</u>
	Maximum	<u>(5)</u>

(ii) Consolidated statement of changes in equity for the year ended 30 June 2011

ABC LTD GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Retained earnings R [C10]	Mark-to-market reserve R [C11]	Foreign currency translation reserve R [C12]		
Balance at 1 July 2010	4 872 800	850 000	136 980	[2½]+[½]+[3]	(6)
Changes in equity for 2011					
Total comprehensive income for the year	7 074 400	114 800	(136 980)**	[½]+[½]+[4]	(5)
Balance at 30 June 2011	<u>11 947 200</u>	<u>964 800</u>	<u>-</u>		
				Total	<u>(11)</u>
				Maximum	<u>(10)</u>

** Control is lost and therefore in terms of IAS 21.48 and 48.B the cumulative amount of the exchange differences has to be reclassified from equity to profit and loss as a reclassification adjustment, on a net basis.

CALCULATIONS

C1. Carrying amount of investment in X Ltd in separate accounting records of ABC Ltd

	Shares	R	
Original investment (given)	10 000	2 500 000	[½]
Fair value of investment at 31 December 2010 [10 000 x R280]		<u>2 800 000</u>	[1]
Fair value adjustment recognised in OCI current year	10 000	300 000	<u>[1½]</u>
Cost of additional 5 000 shares [C2]	5 000	1 318 000	[2½]
Deemed cost of 10 000 shares	10 000	<u>2 800 000</u>	[½]
	15 000	<u>4 118 000</u>	<u>[3]</u>
Thus carrying amount of the investment at year-end (separate)		<u>4 118 000</u>	

C2. Journals on future contracts: Separate accounting records of ABC Ltd**COMMENT**

The journals on the future contract were not required. It is however given for informational purpose and the student could have used the journals to determine the cost of the additional 5 000 shares bought by ABC Ltd.

Alternatively the student could have just calculated the cost of the additional shares.

	Dr R	Cr R	
1 August 2010			
J1	Transaction costs (P/L) (given) 350		
	Margin deposit account (SFP) (given) 3 000		
	Bank (SFP)	3 350	
	Recognition of payment into deposit account as well as the transaction cost on the future in P/L because the future is recognised at fair value through profit and loss.		
31 December 2010			
J2	Margin deposit (SFP) [(239 – 222) x R10 x 500] 85 000		
	Hedging gain (P/L)	85 000	
	Recognise the gain on the future – a fair value hedge is recognised in profit or loss		
J3	Fair value loss (P/L) 85 000		
	Investment in X Ltd (firm commitment) (SFP) [(280 – 263) x 5 000 shares]	85 000	[1]
	Recognise fair value movement in share price for the period of the fair value hedge, against the investment		
J4	Investment in X Ltd (SFP) (given) 3 000		[½]
	Bank (SFP)	3 000	
	Transaction costs capitalised		
J5	Investment in X Ltd (SFP) [280 x 5 000] 1 400 000		[1]
	Bank (SFP)	1 400 000	
	Recognise the purchase of the shares		

	R
Thus total cost of the addition of 5 000 shares in Investment in X Ltd	1 318 000
- J3	(85 000)
- J4	3 000
- J5	1 400 000

Alternative to the journals calculation:

	R	
Thus total cost of the addition of 5 000 shares in Investment in X Ltd	1 318 000	
- Fair value movement on the share price: [(280 – 263) x 5 000 shares]	(85 000)	[1]
- Transaction costs (given)	3 000	[½]
- Purchase of shares at market value on 31 December 2010 (280 x 5 000)	1 400 000	[1]
		<u>[2½]</u>

C3. Gain on bargain purchase: X Ltd

	R	
Share capital at acquisition (given)	5 000 000	[1/2]
Retained earnings at acquisition (given)	1 500 000	[1/2]
Total equity	<u>6 500 000</u>	
Interest in at acquisition equity [6 500 000 x 10 000/25 000 (40%)]	2 600 000	[1]
Consideration paid (given)	2 500 000	[1/2]
Gain on bargain purchase (2 600 000 – 2 500 000)	<u>100 000</u>	<u>[2 1/2]</u>

C4. Fair value adjustment on previously held interest

	R	
Fair value of previously held interest: 31 December 2010 (10 000 x 280)	2 800 000	[1]
Less carrying amount of investment in X Ltd as associate	3 352 000	
- Original cost of investment (given)	2 500 000	[1/2]
- Gain on bargain purchase [C3] or [J2]	100 000	[1/2]
- Profit of associate current year [J3] [(3 500 000/12 x 6) – (1 000 000 x 0.24 x 6/12)] x 40%	652 000	[1/2]
- Other income of associate [J4]	100 000	[1/2]
Fair value adjustment (2 800 000 – 3 352 000)	<u>(552 000)</u>	<u>[3]</u>

C5. Gain on bargain purchase: X Ltd 31 December 2010

	R
Net asset value of X Ltd on 31 December 2010	8 500 000
- Share capital (given)	5 000 000
- Retained earnings [1 500 000 (given) + 3 500 000 x 6/12]	3 250 000
- Mark-to-market reserve [500 000 x 6/12]	250 000
IFRS 3 adjustments:	430 000
- Customer list (given)	500 000
- Deferred tax [500 000 x 14%]	(70 000)
Non-controlling interest	(2 920 000)
- Fair value of non-controlling interest [25 000 x 40% x R280]	(2 800 000)
- Preference share dividend not recognised [1 000 000 x 0.24 x 6/12]	(120 000)
Investment in X Ltd [(10 000 x R280) + 1 318 000 [C2]]	<u>(4 118 000)</u>
Gain on bargain purchase	<u>(1 892 000)</u>

Owners' equity analysis of X Ltd (ordinary shares)

	100%	ABC Ltd (60%)		40%
	Total R	At R	Since R	NCI R
At acquisition (31 December 2010)				
Share capital	5 000 000			
Retained earnings	1 500 000			
Profit (1/7/2010 - 31/12/2010) [(5 000 - 1 500) x 6/12]	1 750 000			
Intangible asset (customer list) (500 x 86%)	430 000			
Preference dividend [(1 000 x 0.24) x 6/12]	(120 000)			
Mark-to-market reserve (500 - 250)	250 000			
	8 810 000	6 010 000		2 800 000*
Cost of investment [C1]		4 118 000		
Gain on bargain purchase		1 892 000		
Current year				
Profit from 1/1/2011 - 30/6/2011 [(5 000 - 1 500) x 6/12]	1 750 000		1 050 000	700 000
Mark-to-market reserve (500 x 6/12)	250 000		150 000	100 000
Preference dividend [(1 000 x 0.24) x 6/12]	(120 000)		(72 000)	(48 000)
	10 690 000		1 128 000	3 552 000

* NCI at fair value of R280 x 10 000 shares = R2 800 000

Owners' equity analysis of X Ltd (preference shares)

	100%	ABC Ltd (0%)		100%
	Total R	At R	Since R	NCI R
At acquisition (31 December 2010)				
Share capital	1 000 000	-		1 000 000
Preference dividend in arrears [(1 000 x 0.24) x 6/12]	120 000	-		120 000
	1 120 000	-		1 120 000
Cost of investment		-		
Goodwill/gain on bargain purchase		-		
Current year				
Profit attributable to pref shares (1 000 x 0.24)	240 000		-	240 000
Preference dividend accrued [(1 000 x 0.24) x 6/12]	(120 000)		-	(120 000)
	1 240 000		-	1 240 000

C6. Pro forma consolidation journals for Investment in Y LLC**COMMENT**

The journals were not required and are provided for informational purposes only. The student could have used the journals in support of their solution in part [d]. It is important that marks can only be given on the journals if the student used the amounts in their solution.

	Dr R	Cr R
J1 Investment in Y LLC (SFP)	377 200	
Gain on rights issue: separate accounting records (P/L) (12 000 x 2 x \$18,50 x R8,20)	3 640 800	
Non-controlling interest: 6 months (P/L) [14 000 (given) x R8,30 x 40%] or [C7]	46 480	
Non-controlling interest (OCI) [C7]	97 160	
Retained earnings (SOCE) [((\$220 000 - \$180 000) x R7,20 x 60%] or [C7]		172 800
FCTR: Opening balance (SOCE) [C7]		136 980
Exchange differences on translation of foreign operation (OCI) [C8]		242 900
Net profit for the current year (14 000 x R8,30)		116 200
Gain on rights issue: group (P/L)		3 492 760
Recognise the profit and loss for the group and since equity reserves		
J2 Reclassification adjustment (OCI) [136 980 + 242 900 – 97 160]	282 720	
Reclassification exchange gain (P/L)		282 720
Reclassification adjustment to P/L		
J3 Mark-to-market (separate) (OCI) [1 394 000 - (12 000 x 19,30 x 8,55)]	586 180	
Mark-to-market (group) (OCI) [1 771 200 - (12 000 x 19,30 x 8,55)]		208 980
Investment in Y LLC (SFP)		377 200
Recognition of group fair value adjustment		

COMMENT

In the case of non-monetary items carried at fair value, no distinction will be made between fair value adjustments and exchange differences arising on such items. This means that the fair value adjustments on the instruments are determined in the foreign currency and only then translated to Rand. The entire change in fair value, including any exchange differences, is therefore recognised in other comprehensive income (see journal 3 above).

C7. Owners' equity analysis of Y LLC

	US\$	Rate	Total R	ABC Ltd (60% - 20%)		NCI	
				At	Since		
At acquisition							
Share capital	40 000						
Retained earnings	180 000						
	220 000	6,80	1 496 000	897 600		598 400	[1]
Goodwill	89 000	6,80	605 200	496 400		108 800	[1]
Consideration [\$205 000 x R6,80] & [\$13 x 20 000 x 40% x R6,80]	309 000	6,80	2 101 200	1 394 000		707 200	[1]
Since acquisition							
Retained earnings (220 000 – 180 000)	40 000	7,20	288 000		172 800	115 200	[2]
FCTR			228 300		136 980	91 320	[2]
	349 000	7,50	2 617 500	1 394 000	309 780	913 720	
Current Year							
Profit: 6 months [28 000 – 14 000]	14 000	8,30	116 200		69 720	46 480	[2]
FCTR			242 900		145 740	97 160	[2]
	363 000	8,20	2 976 600	1 394 000	525 240	1 057 360	
Rights issue of 40 000 shares				(929 333)	(350 160)	1 279 493	
				464 667	175 080	2 336 853	
Re-measurement of retained investment [C7]					1 131 453	-	
				464 667*	1 306 533*	N/A	

* 464 667 + 1 306 533 = 1 771 200 (fair value of remaining interest)

C8. Proof of goodwill

	US\$	
Consideration transferred at acquisition date (given)	205 000	[½]
Amount of non-controlling interest [\$13 x 20 000 x 40%]	104 000	[1]
Net identifiable assets acquired and liabilities assumed at acquisition (given)	<u>(220 000)</u>	[½]
Thus goodwill in US\$	89 000	
Goodwill in rand [\$89 000 x R6,80]	<u>605 200</u>	[1]

C9. Gain or loss on disposal of interest: IAS 27.34

	R	
Derecognise assets and liabilities at date control is lost [net asset value used]	(2 976 600)	[1]
Derecognise non-controlling interest	1 057 360	[1]
Consideration received [12 000 x 2 x \$18,50 x R8,20]	3 640 800	[1]
Fair value of remaining interest [12 000 x \$18,00 X R8,20]	<u>1 771 200</u>	[1]
Gain on rights issue (group)	<u>3 492 760</u>	[4]

OR Gain or loss in group context using amounts in analysis

	R	
Proceeds received (12 000 x 2 x \$18,50 x R8,20)	3 640 800	[1]
Attributable net assets disposed of [(2 976 600 – 605 200) x 40%]	(948 560)	[1]
Goodwill realised: parent only (496 400 x 40/60)	(330 933)	[1]
Remeasurement gain [(1 771 200 – (474 280 + 496 400 – 330 933))]	1 131 453	[1]
Gain as per group context	<u>3 492 760</u>	<u>[4]</u>

C10. Calculation of retained earnings opening balance and closing balance

	R	
Opening balance: ABC Ltd	4 700 000	
- Closing balance (given)	8 500 000	[1/2]
- Profit for the year (given)	(3 800 000)	[1/2]
Retained earnings: X Ltd (1 500 - 1 500(J6))	-	
Retained earnings (since acquisition): Y LLC [C7] or [(220 000–180 000) x R7.20] x 60%	172 800	[1 1/2]
Opening balance as on 1 July 2010	<u>4 872 800</u>	<u>[2 1/2]</u>

C11. Calculation of mark-to-market reserve opening balance and movement

	R	
Opening balance: ABC Ltd (given)	850 000	[1/2]
Opening balance as on 1 July 2010	<u>850 000</u>	

C12. Foreign currency translation reserve

	R	
Opening balance: Y LLC [C7]	136 980	[3]
Opening balance as on 1 July 2010	<u>136 980</u>	

Movement in the current year

Current year movement: Y LLC [C7]	242 900	[2 1/2]
Non-controlling interest portion [242 900 x 40%]	(97 160)	[1]
Amount reclassified to profit and loss on loss of control [C6]	(282 720)	[1/2]
Movement in mark-to-market reserve (OCI) in current year	<u>(136 980)</u>	<u>[4]</u>

QUESTION 4**(a) Share based payment journal**

	Dr R	Cr R	
Employee benefit expense (P/L) [C4]	572 750		
Share-base payment reserve (SoCE)		572 750	(10½)
<hr/>			
Retained earnings (SoCE) [C4]	38 250		
Share based payment reserve (SoCE/equity) [C4]	1 032 750		
Employee benefit expense (255 x 150 x (R30 – 28))(P/L)	76 500		
Bank (255 x R30 x 150) (SFP)		1 147 500	<u>(2)</u>
			<u>(12½)</u>
		Limited to	<u>(10)</u>

(b) Journal entry for leave pay accrual

	Dr R	Cr R	
Staff cost (P/L) [C3]	191 712		(4)
Leave pay accrual (SFP)		191 712	(½)
Accrual for the leave pay for the non-vesting unused accumulated leave for 2011			<u>(½)</u>
			<u>(5)</u>

(c) Work in Progress transferred to finished products

	R	
Raw material		
- Opening balance at 1 July 2010	532 800	(½)
- Purchases (5 728 500 + 56 000 + 32 000)	5 816 500	(1)
- Closing balance (5 816 500 x 28%)	<u>(1 628 620)</u>	<u>(1)</u>
Transferred to WIP	<u>4 720 680</u>	<u>(2½)</u>
Work in progress		
- Opening balance at 1 July 2010	428 400	(½)
- Raw material	4 720 680	(½)
- Direct labour (125 000 + 3 400) x 12.60	1 617 840	(1½)
- Fixed production overheads [C1]	1 150 276	(1)
- Variable production overheads	752 800	(½)
- Closing balance (8 241 596 x 15%)	<u>(1 236 239)</u>	<u>(1)</u>
Transferred to finished products	<u>7 433 757</u>	<u>(4½)</u>
		<u>(7½)</u>
	Limited to	<u>(7)</u>

(d) Cost of sales

Cost of products sold [C2]	7 144 318	(2)
Unallocated fixed production overhead costs [C1]	<u>100 024</u>	<u>(1)</u>
Cost of sales	<u>7 244 342</u>	<u>(3)</u>

(e) Discussion if raw materials need to be written-down to its NRV

The general rule of IAS 2 is that inventories should be reflected at the lower of cost or net realisable value. (1/2)

There is however one exception to this general rule and this is that raw materials or supplies that will be incorporated in the finished product are not written-down below cost if the finished product is expected to be sold at or above cost (IAS 2.32). (1/2)

	R	
Selling price of finished products (750 – 50 – (750 x 2.5%))	681,25	(1)
Cost price of finished products (1 858 446 / (13 800 x 25%))	538,68	(1)
Cost per kilogram of raw material purchased during the year (5 816 500 / 105 000)	55,39	(1)
Net realisable value per kilogram (given)	50,00	(1/2)

Because the NRV of the finished products are above the cost price, the raw material should not be written down to NRV

	<u>(1)</u>
	<u>(6 1/2)</u>
Limited to	<u>(5)</u>
	<u>30</u>

CALCULATIONS**C1. Fixed production overheads**

Fixed overheads / Normal capacity units (R1 250 300/15 000)	83,35 per unit	[1/2]
Per unit x actual units produced (R83,35 x 13 800)	R1 150 276	[1/2]
Under-recovery of fixed production overheads (1 250 300 – 1 150 276)	R 100 024	[1]

C2. Finished products

	R	
Opening balance	1 569 000	[1/2]
Work in progress	7 433 757	[1/2]
Closing balance (25% x 7 433 757)	<u>(1 858 439)</u>	[1]
Products sold, i.e. cost of sales	<u>7 144 318</u>	[2]

C3. Leave provision

Directors	570 000 / 260 x 4 x 14#	122 769	[1 1/2]
Sales personnel	356 500 / 260 x (8 – 2) x 5	41 135	[1 1/2]
Factory personnel	120 500 / 260 x 60 x 1	<u>27 808</u>	[1/2]
		<u>191 712</u>	[3 1/2]

28 – 12 = 16 days, but limited to 15 days that are allowed to be carried over, but expected only to take 14 days in 2012

C4. Share based payment reserve balance 30 June 2010

Original options $(350 - 40 - 20 - 60) \times R26 \times 150 \times 2/4$	448 500	[2]
Modification $(230 \times 150 \times 1/3 \times (R23 - R22))$	<u>11 500</u>	[1½]
Balance 30 June 2010	<u><u>460 000</u></u>	

Accelerated vesting at 30 June 2011

Original options $(350 - 40 - 20 - 35) \times R26 \times 150$	994 500	[1½]
Modification $(255 \times R150 \times (R23 - R22))$	<u>38 250</u>	[1]
Balance as at 30 June 2011	1 032 750	
Less: Share based payment reserve	<u>(460 000)</u>	[½]
Total to be expensed for the year ended 30 June 2011	<u><u>572 750</u></u>	[6½]
	Limited to	<u>[6]</u>