

Presentation and Interpretation of Financial Statements

Presenter: Jako Liebenberg CA(SA)

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Presenter

Jako Liebenberg

CA(SA) and RA

Jako consults for public sector and private clients across South Africa on Accounting Standards and Compliance, Broad Based Black Economic Empowerment, Tax matters and Business Development.

Jako conducts Estate administration, statutory audits and independent reviews

Jako serves as an Assessor the Free State High Court of Appeals as representative in Public Practice.



Course Outline

Table of Content

- Why do we need fair presentation
- Requirements of Statute
- Interpreting financial statements
- IFRS for SMME's
- Example financial statements
- Complex matters
- Ratios
- Q&A Segments

***The secret to success is to be
ready for your opportunity
when it comes.***

- Benjamin Disraeli

Why fair presentation?

- **Required by law**
- **Required by users**
- **Avoid accounting scandals**

Requirements of Statute

Companies Act

- S28 Accounting records
- S29 Financial Statements
- S30 Annual financial statements

S28 Accounting records

- Applies to CC's
- A Co must keep accurate & complete accounting records in 1 of the official languages
- As necessary to satisfy the Act and produce AFS
- Including any other records in the prescribed format
- Must be kept at Registered Office and kept in accessible form

An offence to:

- Falsify, mislead, intent to deceive by failing to keep accurate records, or records in prescribed format
- Or permit another to do so
- Compliance Notice may be issued,
- “irrespective whether failure constitutes an offence”

S29 Financial Statements

- Applies to CC's
- If any financial statements including AFS are provided to another, they must
- Satisfy the financial reporting standards, if prescribed
- Under 100 PI points(?)
- Fairly present and explain transactions
- Show assets, liabilities, equity, income & expenses
- Date financials published and accounting period they apply to

Sec29 Cont

- S29(e) FS must bear on 1st page, a **prominent notice**, including
 - Whether the statements
 - Have been audited in compliance with Act
 - If not audited – independently reviewed
 - Haven't been audited or independently reviewed
- **The name & professional designation, if any, of the individual who prepared, or supervised the preparation**

S29 Cont

- FS's prepared must not be false or misleading or be incomplete
- Can provided summary of FS, provided
- Comply with the prescribed requirements
- 1st page must "prominently" disclose
- Summary and dates covered
- Audited, independently reviewed or not
- Name & designation of preparer or supervisor
- How person can get the full set of AFS

S30 Annual Financial Statements

- FS's prepared must not be false or misleading or be incomplete
- Can provide summary of FS, provided
- Comply with the prescribed requirements
- 1st page must "prominently" disclose
- Summary and dates covered
- Audited, independently reviewed or not
- Name & designation of preparer or supervisor
- How person can get the full set of AFS

S30 Cont

- Applies to CC's
- Must prepare FS's within 6 months of YE (can be shorter if necessary to get notice out for AGM)
- Must be audited if Public, state owned or required by Regulations
- Primary activity to hold assets in a fiduciary capacity of > R5 million
- NPO: state involvement or foreign
- Can be voluntarily audited
- Independently reviewed if required by Regulations

Sec 30 Cont

Public interest score (Reg 26(2)):

Average no of employees during yr = no. of points

1 point for each R 1 million (part thereof) of third party debt

1 point for each R 1 million (part thereof) of turnover

1 point per owner (beneficial interest)

Audit:

over 350 pts

100 to 349 pts and internally compiled

Independent Review

100 to 349 pts and externally compiled

CC's still need Accounting Officer's Report

Sec 30 Cont

Public interest score (Reg 26(2)):

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Audit:

over 350 pts

100 to 349 pts and internally compiled

Independent Review

100 to 349 pts and externally compiled

CC's still need Accounting Officer's Report

Sec 30 Cont

- S30(2A) Exemption from audit or independent review
- If every person who is a holder of, or has beneficial interest in, any securities issued by the company
- Is also a director of the company,
- That company is exempt from audit/independent review
- Applies to those companies that have a PI Score of less than 350
- If another law requires, not exempt

Sec 30 Cont

Annual Financial Statements must include

- Auditors report
- Directors Report
- Approved by BoD and signed by an authorised director
- Be presented at the 1st shareholders meeting after approval

Sec 30 Cont

S30 (4) to (6) Additional disclosure if AFS audited:

Remuneration & benefits received by :

- Each director
- Individuals who hold (have held) a prescribed office
- Pensions paid by the Co or to a pension scheme for.
- Current & past directors
- Individuals who hold (have held) a prescribed office
- Compensation paid for loss of office
- Current & past directors
- Individuals who hold (have held) a prescribed office
- No. & class of any securities held plus compensation received by Co for securities
- by the directors or prescribed officers
- Anyone related to them
- Details of service contracts
- Each director
- Individuals who hold (have held) a prescribed office

Sec 30 Cont

- Remuneration or benefits paid or receivable by Directors or Prescribed officers
- As directors/prescribed officers
- Includes
- for being a Director/PO of another Co in Group
- In connection with carrying on the affairs of the Co/another Co in Group

Requirements of Statute

Tax Administration Act

- S29 Duty to keep records
- S30 Forms of records kept or retained
- S31 Inspection of records

S29 TAA

- A person must keep records, books of account or document that
- Enable a person to observe the requirements of the Act
- Are specifically required by Act or Com
- Enable SARS to be satisfied that the person has observed these requirements
- The requirements to keep record for the tax period apply to a person who
- Has submitted a return for that period
- Is required to submit, and has as yet not submitted
- Is not required to submit but has been exposed to a transaction that creates a tax event

S29 TAA cont

- At the request of a SARS official, produce a translation of records (S33)
- S29(3) Records need to only be retained for 5 years from the **submission** of the return or the end of the relevant tax period (if no return required)
- Need to keep records until the end of a SARS audit or investigation (Chapter 5), if applicable
- Or if the taxpayer lodges an objection or an appeal to an assessment, until matter is satisfied, concluded and decision is final.

S30 TAA

Forms and records to be maintained:

- Must be kept or retained in
- Their original form in an orderly fashion, and
- In a safe place
- In electronic format
- As prescribed by Com in a public notice
- In a form specifically authorised by a senior SARS official
 - acceptable to that official

S31 TAA

Inspection of records:

- Must at all reasonable times during the required periods
- Be open for inspection by a SARS official in RSA
- For the purpose of
- determining compliance with the requirement above
- An inspection, audit or investigation

Interpreting financial statements

Understanding the business

Non financial indicators:

Political, global and economic conditions

Social and mainstream media

Staff

Competition

Customer base

Legislation (BBEEE)

Corporate citizenship

Technology and innovation

Production and quality

Users of financial statements and their needs

Owners/shareholders

Directors/managers

Employees

Finance providers (secured vs
unsecured)

Preferential

Banks

Regulators

SARS

Acquisition analysts

Auditors

Public at large

What is IFRS for SME's

- Separate reporting framework for SME's
- Separate from full IFRS
- No cross references to full IFRS
- Weigh-Less version (230pg vs 2800pg)
- Stand alone, self contained
- Organised by topic via 35 sections

Wants to facilitate reporting for SME's

by:

- Simplifying recognition and measurement in certain areas
- Providing significantly less guidance
- Excluding irrelevant topics
- Excluding certain more complex options that are included in full IFRS

Who can use it?

Any entity that does not have public accountability, and

Publish general purpose financial statements for external users

Not available to Entities that have other regulatory frameworks that they need to comply with

IASB point of view

- Wanted Standards for entities that
- Do not have public accountability
- But still publish general purpose financial statements
- Still see these being for external users

Public Accountability

- Trades (or intends trading) equity or debt instruments publicly
- Holds assets in a fiduciary capacity as one of its primary businesses
- Eg bank, insurance companies, mutual funds
- Excludes schools, estate agents, charities etc if assets held incidental to primary business

Who in SA can use it?

All **companies** that do not have public accountability
Therefore excludes state owned enterprises and listed companies

All **other entities** provided
No public accountability and
not required to comply with any other framework

Accounting policy selection

- Rare for IFRS for SME's to offer
- If don't have specific guidance in IFRS for SME's consider
- FIRST: IFRS for SME's guidance on similar topic
- SECOND: Definitions, recognition or measurement per S2 Concepts and Pervasive Principles
- May consider full IFRS – not required
- No requirement to consider other standard setters pronouncements

When you decide to walk the path less travelled

.....

Need to follow IFRS for SME's in their entirety

No cherry picking
No “gaap” that can override

Auditors Report and Basis for presentation needs to disclose

Layout of Standard

- Section 1 – Scope
- Section 2 Concepts and Pervasive Principles
- Objective of AFS of SME's
- Qualitative characteristics
- Understandability, Relevance, Materiality, Reliability, Substance over form, **Prudence**, Completeness, Comparability, **Timeliness**, **Balance between benefit and cost**

Principles

Financial Position

$OE = A - L$

Performance

Income (revenue and gains)

Expenses (expenses and losses)

Recognition

Probability

Measured with reliability

Measurement

Common models: Historic Cost and Fair Value

Principles

- Initial Recognition
- Cost unless an IFRS statement says otherwise
- Subsequent Measurement
- Financial assets and liabilities
- Cost or amortised cost allowed
- Non financial
- Allows Fair value
- **Revaluation of PPE**

Standard

Section 3 : General Standards of AFS

Presentation

Fair Presentation

Compliance with IFRS for SME's (SA Standards of GAAP for SME's)

Going Concern (relevant due to COVID 19)

Frequency of Reporting – annual

Consistency of Presentation

Comparative info

Materiality and aggregation

Complete set of AFS

Can use other titles.

- Includes:
- Statement of financial position (Balance Sheet)
- Statement of Comprehensive Income (Income Statement)
- Statement of Changes of Equity
- Statement of Cash Flow
- Notes to AFS

Can use the following: Statement of Income and Retained Earnings

Revenue	
Expenses	
Profit before tax	
Tax	
Profit for the year	
Dividends/ Errors/Change in Policy	
Opening Retained Earnings	
Closing Retained Earnings	

WARNING: Only if you don't have any items of revenue or expenses that DOESN'T go straight to equity

Section 4 : SoFP-Balance Sheet

Gives minimum disclosable items

Current vs. non-current

Normal operating cycle

For trading

12 months

Liabilities – settled on demand (have no right to extend terms)

Only 2 years disclosure required

Minimum disclosable items:

Cash and cash equivalents

Trade and other receivables
(related parties)

Financial assets

Inventories

Merchandise, production supplies, materials, work in progress
and finished goods

Investment Properties @ FV

Investment Properties @ HDC

PPE

Minimum disclosable assets cont..

- Intangible Assets
- Biological Assets
- Investments accounted for using the equity method
- Trade and other payables
- Financial liabilities
- Current tax liabilities

Minimum disclosable assets cont..

- Provisions
- Employee benefits
- Deferred Tax (asset or liability)
- NCI
- Equity attributable to the parent
- Classes of equity (Share capital and share premium, Retained Earnings and NDR's)
- Normal details

Minimum disclosable assets cont..

- No prescription as to order, consider
- Liquidity
- Function
- Amount, nature and timing
- *Prior year recon relief extended to share capital and biological assets*
- *Relief fro disclosing acc policy for termination benefits*
- Always welcome to disclose more.
- Other forms of entities

Section 5 : Performance Statement

What is a performance statement

Statement of Profit or Loss

Statement of Comprehensive Income

Income Statement

Nature vs. Function

Group items in OCI based on whether they are potentially reclassifiable in P&L

Items that make up Other Comprehensive Items

Revaluation of PPE

Fair Value of Equity to a reserve

Cash Flow Hedges

Net Investment in Foreign Operations (NCTR)

Actuarial gains and loss due to employee benefits

Performance statement cont.

Minimum disclosure

Revenue

Finance costs

Share of profit from associates/joint venture (equity accounted)

Tax expense

After tax profit/loss on discontinued operations and disposal groups

Profit and loss

Separate disclosure

NCI vs. attributable to parent

By function does not require further disclosure of:

depreciation,

amortisation and

employee benefit

As required by full IFRS

Detailed Income

Statement??????

Section 6 : Statement of Changes in Owners Equity (SoCOE) and Statement of Income and Retained Earnings (SoIRE)

Section 7 : Cash Flow Statement

- Direct vs. Indirect method
- Reconciliation of profit to cash generated from operations
- Non cash items, separately disclosed, changes in working capital
- Operating
- Investing
- Financing
- What makes up your cash and cash equivalents?

Section 8 : Notes to the AFS

- Key sources of estimation uncertainty and judgment still there
- *Disclosing reasoning for undue cost or effort exemption*
- All the other usual suspects

Section 9 : Consolidation

Bringing together separate legal entities into an economic group

$H + S = \text{Group}$

Business combinations and goodwill

Non controlling interest

(Outside of today's scope)

SC	RE	FV adj	Total	NCI	Inv	(GW)
100	1000	200	1300	130	1500	(330)

Do we or don't we???

IFRS for SME's says yes unless:

- The parent is itself a subsidiary; and
- Its intermediate/ultimate parent produces consolidated AFS that comply with IFRS or IFRS for SME's)
- Separately disclose and treat as a financial instruments if
- Subsidiaries were acquired with the intention of disposing of them within 1 year
- Date of acquisition definition amended

Disclosures in consolidated AFS

Disclose CA of investments in subsidiaries not consolidated at reporting date in SoFP or notes

Combined financial statements

Under common control

Separate AFS

Investment in subsidiary, joint venture, and associate that is not held for sale

Will be accounted for at :

Equity accounted

Cost less impairment, or

Fair value through P/L

Must apply same acc policy for all investments in a single class, but can have different policies for different classes

Full IFRS = IAS39 FVTPL or AFS vs **IFRS 9**



Time Warp: to Section 35

**Transition to IFRS for SME's
(First time adoption)**

Your are a 1st time adopter if:

- You followed:
- SA GAAP
- SA GAAP for SME's
- IFRS
- “gaap”
- Used IFRS for SME but “forgot” one year

- *An entity applied SME's in previous reporting period,*
- *but whose most recent previous AFS did not contain an explicit and unreserved statement of compliance*
- *must either 1st time adopt or*
- *apply SME retrospectively as if no break*
- *Disclose reasons...*
- *Base requirement of change in accounting policy still applies*

Date of transition

- Defined as:
 - “the beginning of the earliest period
 - for which an entity presents
 - Full comparative information
 - Under IFRS”
- **DATE THAT ALL IFRS CHANGES ARE CALCULATED**

Picture this.....

Balance Sheet: Adopting 28 Feb 2018 as a reporting year

29 Feb 2016	1 Mar 2016	28 Feb 2017	28 Feb 2018
Previously reported	Transition Balance Sheet	IFRS for SME's	IFRS for SME's

Key Provisions

- Opening IFRS balance sheet
- **All IFRS transitions adjustments processed to Retained Earnings**
- At transition date
- Publish or Perish
- **Don't** need to publish Opening SoFP
- **Do** need to publish recon of equity
- Old (??) to new (IFRS for SME's)

Golden Rule

RETROSPECTIVE APPLICATION

Comparatives

Opening IFRS Balance Sheet

Need to get your Balance Sheet right

For all assets and liabilities:

- **RECOGNISE** those required by IFRS
- **DERECOGNISE** those not permitted by IFRS
- **RECLASSIFY**
- **MEASURE** using IFRS (NB!!)
- **COMPLY** with P & D
- Clean up balance sheet to **Retained Earnings**

CAN'T change previous accounting for:

- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Estimates
- Assets classified as held for sale and discontinued operations
- *New: Government loans*
- *Prospective per SME requirements*

Buffet of choices: Optional exemptions

- *Event driven FV measurement of deemed costs for all assets or liabilities (EG valuation of a business for a planned sale)*
- Business Combinations
- Don't need to change retrospective
- PPE
- Revaluation dated before/at transition date = deemed cost

Cumulative translation reserves

Don't have to retrospectively separate out equity

Compound financial instruments

If liability settled, don't need to split

Share based payments

Exempted if granted before transition date

Deferred Tax

Exempted if undue cost or effort involved

- *Separate financial statements*
- *Investment in subs, associates, and JV*
- *FV, cost or equity accounted*
- *At date of transition*
- *Operations subject to rate regulation*
- *Severe hyperinflation...*
- *Impracticable dilemma*
- *Disclose challenge*

Worksheet

Account (TB)	29 Feb 2016	Errors	Adjust	Sub Total	Reclassify	1 Mar 2016
Fin Asset						
RE						

Extend for P&L adjustments for 2017 year

Disclosure

Need to explain how transition affected:

- Financial position
- Financial performance
- Cash flows
- Separate out errors from change of policy
- Did we get PPE right?
- Financial instruments: Fair value?

Recons

- Set worksheet up to help with **recon** of
- **Equity** previously reported to new B/S at transition date **and** latest reported date
- **Profit or loss** (old GAAP to new IFRS) for latest reported period



Back to Section 10

Change in Accounting Policy and Errors

Section 10: Accounting Policies, Estimates and Error

Change in accounting policy

- Retrospective
- **Change in policy for PPE – Revaluation prospective**
- Material Errors
- Fundamental...
- Retrospective
- Change in Estimates
- Prospective
- Reallocation methods vs. Cumulative Catch Up

First Time Adoption

Mandatory Exemption from FULL
RETROSPECTIVE application

An entity **shall not change** the accounting that
it followed under its **previous** reporting
framework for **estimates**

Choosing an Accounting Policy

Section 33: Related Party Transaction

High Risk

If you think you are related, you most probably are

Think virtually all of the recent scandals in public and private sector – think related parties

Related Parties – Accounting and Assurance

IFRS 24 Related parties

- IFRS for SME's Section 33
- 3 step process
- Identify relationship
- Identify transactions and balances
- Identify terms and conditions
- Assurance
- Hide and go seek

Related Party Disclosure

Disclosures draw attention to fact that existence of / transaction with related parties could affect:

- SOFP
- SOCI

Knowledge of transactions , balances & relationships could affect users' assessments of:

Operations

Opportunities

- Risks

Therefore important to correctly:

Identify RP relationships

Make disclosures!

Related Party Disclosure

Application:

Which financial statements

- Individual / separate financial statements
- Consolidated financial statements

What to disclose – high level

- If no transactions – the relationship (parents & subsidiaries)
 - If transactions – the relationship plus information on the transactions
-
- Substance versus form

Related Party Disclosure

Examples of transactions:

- Dividends / transfer of asset for free
- Remuneration & share-based payments (key management)
- Sale of asset / give asset in exchange for something
- Owner transfers asset for free / makes cash contribution
- Loans, guarantees
- Commission / management or admin fees
- Transactions with trusts
- Goods / services
- Leases

Related Party Disclosure

Definition – part A:

- (a) A person or close member of that person's family is related to reporting entity (RE) if that person:
 - (i) is member of key management personnel of RE or of a parent of RE
 - (ii) has control over RE
 - (iii) has joint control or significant influence over RE or has significant voting power in it

Related Party Disclosure

Definition – part B:

- (i) entity & RE are members of same group (therefore each parent, subsidiary & fellow subsidiary is related to the others)
- (ii) either entity is associate (A) or joint venture (JV) of the other entity (or of a member of a group of which the other entity is a member)
- (iii) both entities are JV of third entity
- (iv) either entity is a JV of third entity & the other entity is A of third entity

Related Party Disclosure

Definition – part B (continued):

- (v) entity is a post-employment benefit plan (PEBP) for benefit of employees of either RE or an entity related to RE. If the reporting entity is itself such a plan, sponsoring employers are also related to the plan
- (vi) the entity is controlled (C) or jointly controlled (JC) by a person identified in (a)
- (vii) a person identified in (a)(i) has significant voting power (SVP) in entity

Related Party Disclosure

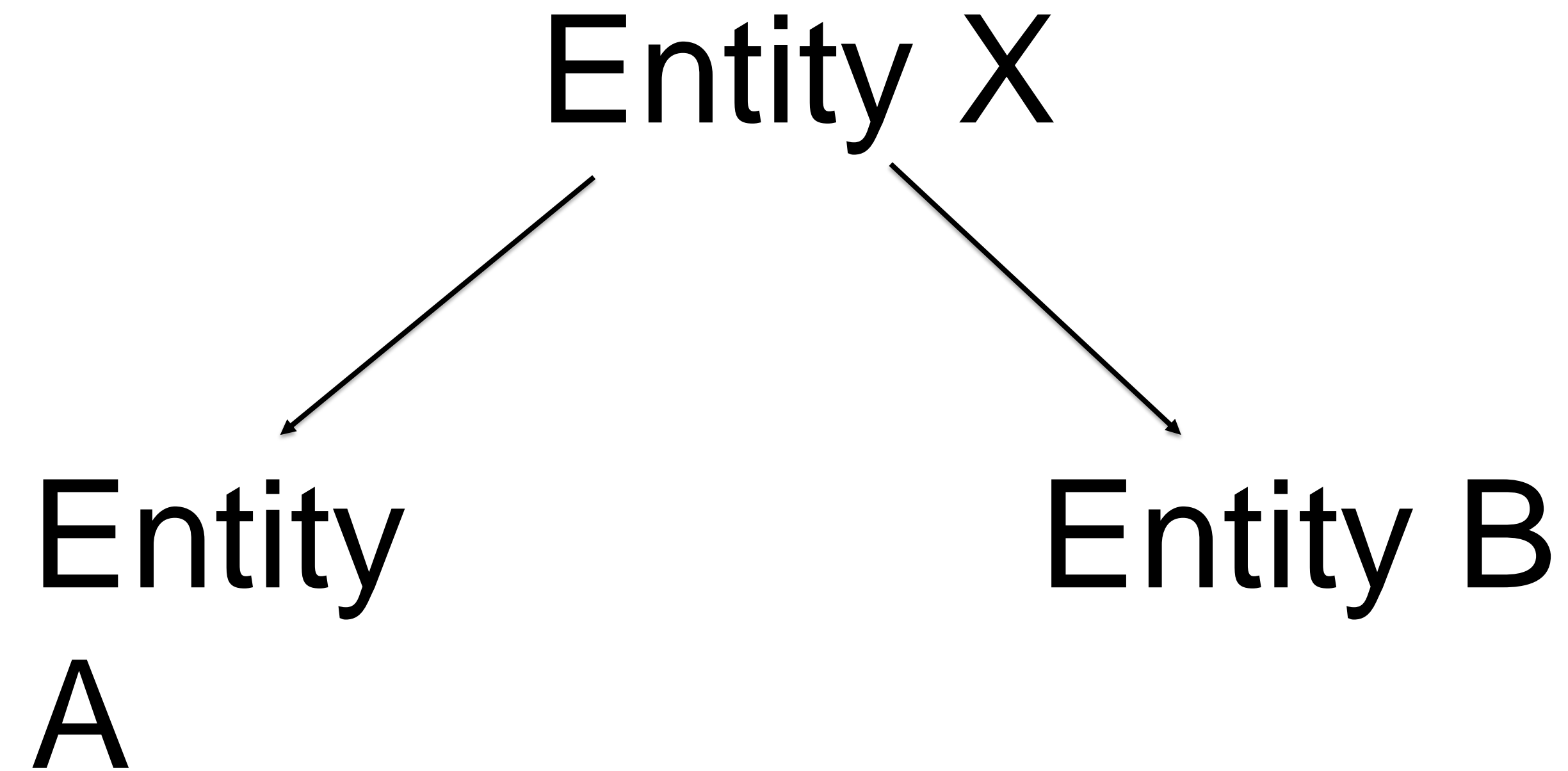
Definition – part B (continued):

(viii) a person identified in (a)(ii) has significant influence (SI) over entity or SVP in it

(ix) a person or a close member of that person's family has both SI over the entity or SVP in it & JC over RE

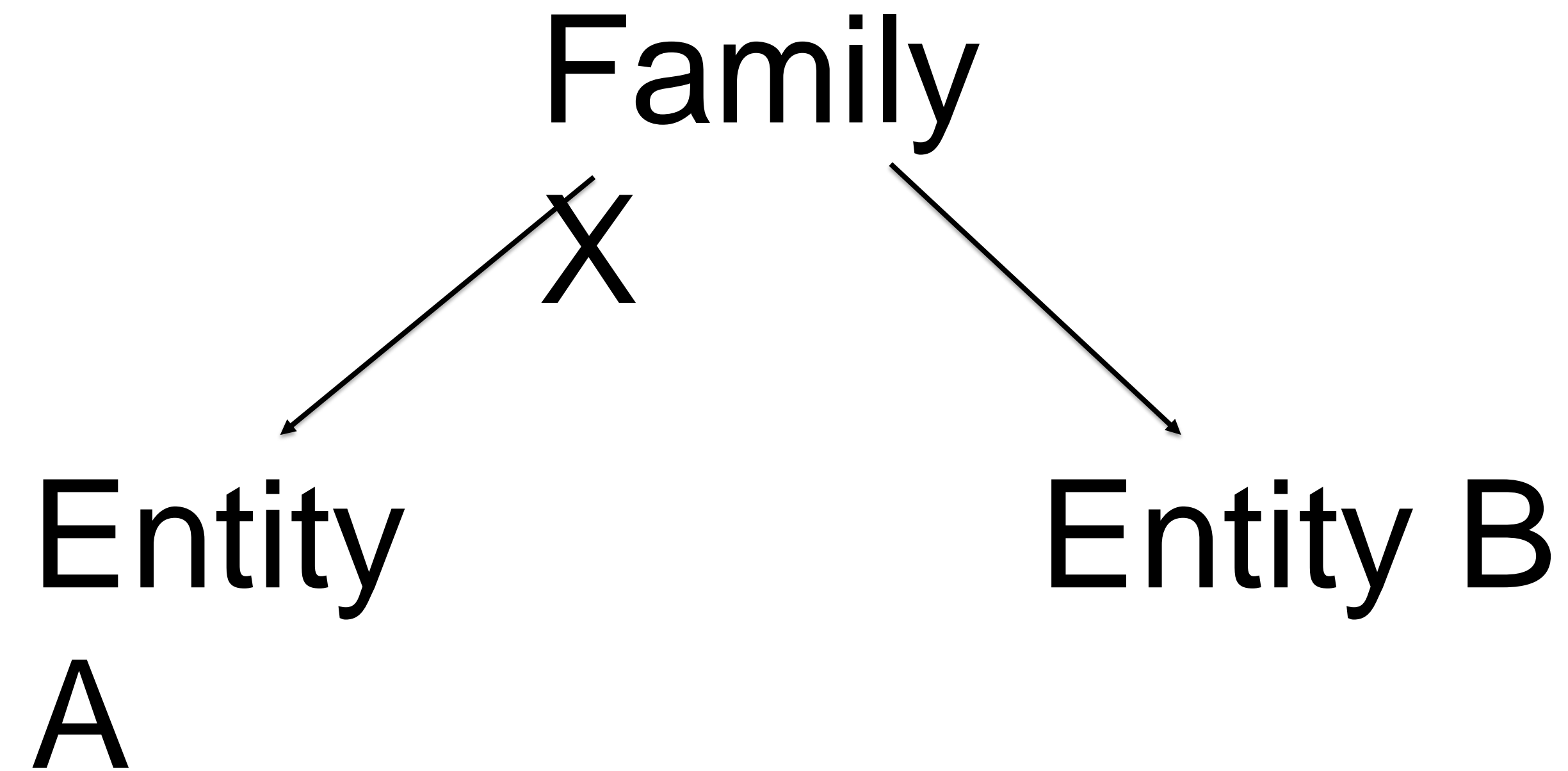
(x) a member of key management personnel of entity or of a parent of entity, or a close member of that member's family, has C or JC over RE or has SVP in it

Are A and B they related?



		Entity X's level of influence over Entity A		
Entity X's level of influence over Entity B		Control	Joint Control	Significant Influence
	Control			
	Joint Control			
	Significant Influence			????

Are A and B they related?



	Family X's level of influence over Entity A					
Family X's level of influence over Entity B		Contr ol	SPV	KMP	Joint Control	Significant Influence
	Control					
	Special Purpose Vehicle					
	KMP			a		b
	Joint Control				c	d
	Significa nt Influenc e			e	f	g

Disclosures

Parent – subsidiary relationships - disclose

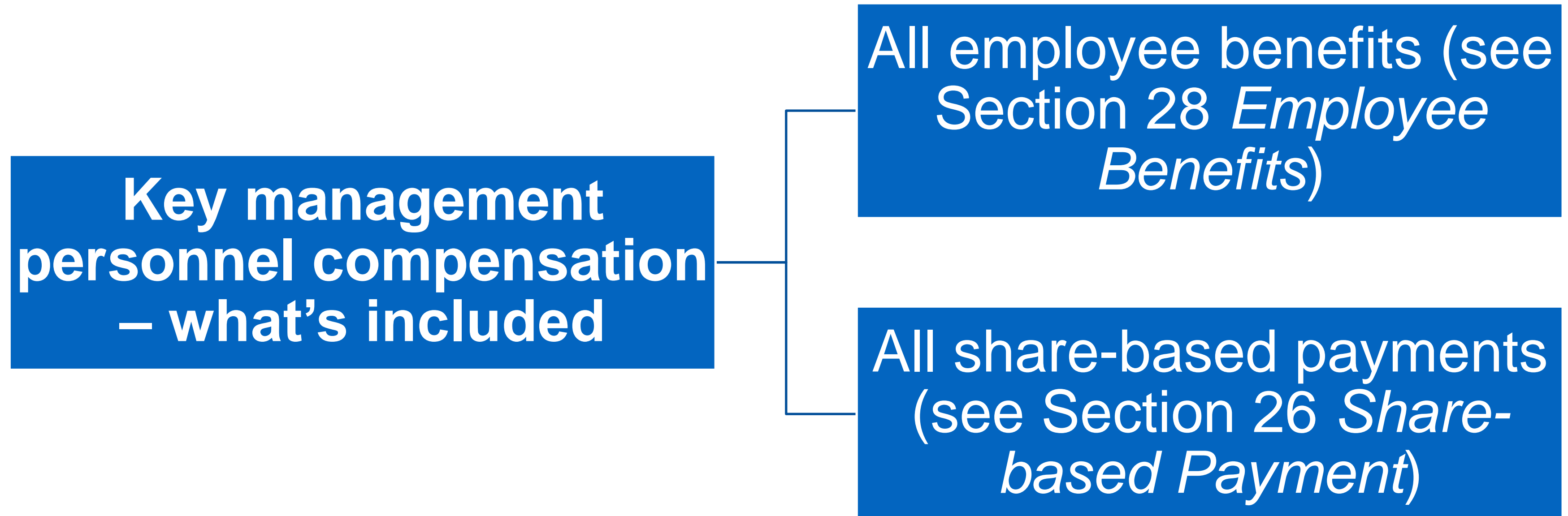
- Relationships even if no RP transactions
- Name of parent &, if different, the ultimate controlling party
- If neither parent nor ultimate controlling party produces FS available for public use:
 - Name of next most senior parent that does so (if any) shall also be disclosed

Disclosures

Key management personnel compensation - definition

- Those persons that have authority & responsibility
- For planning, directing & controlling activities
- Directly or indirectly
- Includes any director (whether executive or otherwise) of that entity

Disclosures



Disclosures

Key management personnel compensation – disclosure

Disclose key management personnel compensation in total

Important to note:

This includes all forms of consideration

Paid, payable or provided by the entity, or on behalf of entity (e.g. by its parent or by a shareholder)

In exchange for services rendered to entity

Also includes such consideration paid on behalf of a parent of entity in respect of goods or services provided to entity

Disclosures

RP transaction is

- Transfer of resources, services or obligations
- Between a reporting entity and a related party
- Regardless of whether a price is charged

Could include:

- Purchases, sales, transfers of goods or services
- Leases
- Guarantees & settlements by entity on behalf of RP

If RP transaction, disclose

- Nature of RP relationship
- Information about transactions, outstanding balances & commitments
- Necessary for understanding potential effect
- Of relationship on FS

Disclosures

Transactions – minimum disclosures

Amount of transactions

Amount of outstanding balances plus:

Terms & conditions, including whether they are secured

Nature of consideration to be provided in settlement

Details of any guarantees given or received

Provisions for uncollectible receivables i.r.o. outstanding
balances

Expense recognised during the period i.r.o. bad or doubtful
debts due from RP

Disclosures

Transactions – minimum disclosures

Disclosures on previous slides must be shown per category
i.e.

Entities with control, joint control or significant influence over entity

Entities over which entity has control, joint control or significant influence

Key management personnel of entity or its parent (in the aggregate)

Other related parties

Disclosures

Judgements & estimates

Section 8.6 - judgements that management has made in process of applying accounting policies

That have most significant effect on amounts recognised in FS

Section 8.7 - disclose information about key assumptions concerning the future & other key sources of estimation uncertainty at reporting date

That have significant risk of causing a material adjustment to the CA of A & L within next financial year

DIGGING INTO THE ANNUAL FINANCIAL STATEMENTS

Disclaimer

- Fictitious financials
- Prepared based on IFRS for SME's

Approach

- Look at structure (what should be there)
- Read the AFS (Make notes of the things you see)
- Leave them for two hours and read them again
- Apply Financial Ratios

Cover Page



CARYN & CARON PROPRIETARY LIMITED

(Registration number 2019/123456/07)

Trading as Knowledge for You

**Annual Financial Statements
for the year ended 31 December 2016**

These annual financial statements were prepared by:

N Mischief

Chartered Accountant (S.A.)

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Published 31 January 2017

General Information & Index

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)

Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Educational Toy Production & Training Services
Directors	R Read S Spelling
Registered office	1234 Reading Road Toyland Estate Reading South Africa 5678
Postal address	PO Box 9876 Reading South Africa 5680

Ultimate holding company

Caryn Holdings (Pty) Ltd
incorporated in South Africa

Bankers

My Bank Limited

Auditors

Audit Firm Incorporated
Chartered Accountants (S.A.)
Registered Auditors

Company registration number

2019/123456/07

Tax reference number

My tax number

Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Preparer

The annual financial statements were independently compiled by:
N Mischief
Chartered Accountant (S.A.)

Published

31 January 2017

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)
Trading as Knowledge for You
Annual Financial Statements for the year ended 31 December 2016

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Directors Responsibilities & Approval

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)

Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

Directors' Responsibilities and Approval

The directors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2017 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independantly auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 5-6.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 4-5.

The annual financial statements set out on pagess 7 to 26, which have been prepared on the going concern basis, were approved by the directors on 31 January 2017 and were signed on its behalf by:

R Read

S Spelling

Pietermaritzburg

31 January 2017

Independent Auditors Report



Independent Auditor's Report

To the shareholders of Caryn & Caron Proprietary Limited

Qualified opinion

I have audited the Annual Financial Statements of Caryn & Caron Proprietary Limited set out on pages 8 to 24, which comprise the Statement of Financial Position as at 31 December 2016, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies.

In my opinion, except for the possible effect of the matter described in the basis for qualified opinion section of my report, the Annual Financial Statements present fairly, in all material respects, the financial position of Caryn & Caron Proprietary Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008.

Basis for qualified opinion

I conducted my audit in accordance with International Standards on Auditing. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of my report. I am independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty related to going concern

I draw attention to note 27 in the Annual Financial Statements, which indicates that the company incurred a net loss of R- during the year ended 31 December 2016 and, as of that date, the company's current liabilities exceeded its total assets by R-. As stated in note 27, these events or conditions, along with other matters as set forth in note 27, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the directors for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008, and for such internal control as the directors determine is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Annual Financial Statements

My objectives are to obtain reasonable assurance about whether the Annual Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Financial Statements.

As part of an audit in accordance with International Standards on Auditing, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

Independent Auditor's Report

- Identify and assess the risks of material misstatement of the Annual Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Annual Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Annual Financial Statements, including the disclosures, and whether the Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Audit Firm Incorporated
Partner
Chartered Accountant (S.A.)
Registered Auditors

31 January 2017
Reading

Compilers Report



Practitioner's Compilation Report

To the shareholders of Caryn & Caron Proprietary Limited

I have compiled the Annual Financial Statements of Caryn & Caron Proprietary Limited, as set out on pages 8 - 24, based on the information you have provided. These Annual Financial Statements comprise the statement of financial position of Caryn & Caron Proprietary Limited as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these Annual Financial Statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These Annual Financial Statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these Annual Financial Statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these Annual Financial Statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

Another Audit Firm Incorporated
N Mischief
Director
Chartered Accountant (S.A.)

Directors Report

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)

Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Caryn & Caron Proprietary Limited for the year ended 31 December 2016.

1. Incorporation

The company was incorporated on 04 March 2013 and obtained its certificate to commence business on the same day.

2. Nature of business

Caryn & Caron Proprietary Limited was incorporated in South Africa with interests in the educational production and service sector. The company operates in South Africa.

There have been no material changes to the nature of the company's business from the prior year.

3. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

4. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

5. Dividends

Given the current state of the global economic environment, the directors believes that it would be more appropriate for the company to conserve cash and maintain adequate debt headroom to ensure that the company is best placed to withstand any prolonged adverse economic conditions. Therefore the directors has resolved not to declare a dividend for the financial year ended 31 December 2016.

6. Directors

The directors in office at the date of this report are as follows:

Directors	Designation
R Read	Executive
S Spelling	Executive

There have been no changes to the directorate for the period under review.

7. Directors' interests in contracts

During the financial year, no contracts were entered into which directors or officers of the company had an interest and which significantly affected the business of the company.

8. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

9. Going concern

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

Statement of Financial Position

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)

Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

Statement of Financial Position as at 31 December 2016

	Note(s)	2016 R	2015 R
Assets			
Non-Current Assets			
Plant and equipment	2	109 908 520	69 134 776
Current Assets			
Inventories	3	58 994 374	55 410 042
Loans to shareholders	4	-	10 159 737
Trade and other receivables	5	87 786 253	57 929 801
Other financial assets	6	28 596 638	9 433 885
Current tax receivable		954 874	748 017
Cash and cash equivalents	7	1 200 221	223 761
		177 532 360	133 905 243
Total Assets		287 440 880	203 040 019

Equity and Liabilities

Equity

Share capital	8	100	100
Retained income		59 207 153	44 972 058
		59 207 253	44 972 158

Liabilities

Non-Current Liabilities

Other financial liabilities	9	25 318 157	12 578 163
Deferred tax	10	12 736 868	8 914 693
		38 055 025	21 492 856

Current Liabilities

Trade and other payables	11	97 663 194	96 409 675
Loans from shareholders	4	13 737 969	-
Other financial liabilities	9	19 866 462	11 928 133
Bank overdraft	7	58 251 098	28 237 197
Commercial loan	12	659 879	-
		190 178 602	136 575 005

Total Liabilities

Total Equity and Liabilities

228 233 627	158 067 861
287 440 880	203 040 019

Statement of Comprehensive Income

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)

Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

Statement of Comprehensive Income

	Note(s)	2016 R	2015 R
Revenue	13	694 938 324	438 679 556
Cost of sales	14	(577 210 523)	(360 534 049)
Gross profit		117 727 801	78 145 507
Other income	15	2 621 470	7 439 055
Operating expenses		(90 799 795)	(69 498 924)
Operating profit	16	29 549 476	16 085 638
Investment revenue	17	7 285 290	515 386
Finance costs	18	(17 018 753)	(4 204 431)
Profit before taxation		19 816 013	12 396 593
Taxation	19	(5 580 918)	(3 514 133)
Profit for the year		14 235 095	8 882 460
Other comprehensive income		-	-
Total comprehensive income for the year		14 235 095	8 882 460

Statement of Changes in Equity

Caryn & Caron Proprietary Limited
(Registration number 2019/123456/07)
Trading as Knowledge for You
Annual Financial Statements for the year ended 31 December 2016

Statement of Changes in Equity

	Share capital	Retained income	Total equity
	R	R	R
Balance at 01 January 2015	100	36 089 598	36 089 698
Profit for the year	-	8 882 460	8 882 460
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	8 882 460	8 882 460
Balance at 01 January 2016	100	44 972 058	44 972 158
Profit for the year	-	14 235 095	14 235 095
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	14 235 095	14 235 095
Balance at 31 December 2016	100	59 207 153	59 207 253
Note	8		

Statement of Cash Flows

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)
Trading as Knowledge for You
Annual Financial Statements for the year ended 31 December 2016

Statement of Cash Flows

	Note(s)	2016 R	2015 R
Cash flows from operating activities			
Cash receipts from customers		695 045 468	456 858 890
Cash paid to suppliers and employees		(681 960 946)	(428 817 157)
Cash generated from operations	21	13 084 522	28 041 733
Interest income		7 285 290	515 386
Finance costs		(4 091 825)	(2 617 315)
Tax paid	22	(1 965 600)	(659 886)
Net cash from operating activities		14 312 387	25 279 918

Cash flows from investing activities

Purchase of plant and equipment	2	(54 296 145)	(29 692 333)
Sale of plant and equipment	2	268 227	124 624
Advance on financial assets		(96 527 572)	(89 718 955)
Repayments of financial assets		77 364 819	80 665 151
Net cash from investing activities		(73 190 671)	(38 621 513)

Cash flows from financing activities

Proceeds from other financial liabilities	3 099 802	268 282
Repayment of other financial liabilities	17 578 521	5 763 761
Movement in commercial loan	659 879	-
Proceeds from shareholders loan	(32 494 862)	(55 535 671)
Repayment of shareholders loan	56 392 568	50 456 910
Finance lease payments	(15 395 065)	(4 055 253)
Net cash from financing activities	29 840 843	(3 101 971)

Total cash movement for the year	(29 037 441)	(16 443 566)
Cash at the beginning of the year	(28 013 436)	(11 569 870)
Total cash at end of the year	(57 050 877)	(28 013 436)

Accounting Policies

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)
Trading as Knowledge for You
Annual Financial Statements for the year ended 31 December 2016

Accounting Policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. They are presented in South African Rands.

These principal accounting policies as set out below are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make judgements, estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Critical judgements in applying accounting policies

Management did not make critical judgements in the application of accounting policies, apart from those involving estimations, which would significantly affect the annual financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of plant and equipment

The company assesses its financial assets measured at cost and amortised cost for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Residual values

Residual values and useful lives of property, plant and equipment are assessed if there are indicators present that there is a change from the previous estimate. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with the expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of property, plant and equipment in future. Residual value assessments consider issues such as future market conditions, the remaining life of the assets and projected disposal values.

Financial assets measured at cost and amortised cost

The company assesses its financial assets measured at cost and amortised cost for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

1.2 Plant and equipment

Plant and equipment are tangible items that are held for use in the production or supply of goods or services, or for rental to others or for administrative purposes; and are expected to be used during more than one period.

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Cost include costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Cost includes all costs incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is provided in a manner that reflects the pattern of consumption of economic benefits within the asset method to write down the cost, less estimated residual value over the useful life of the plant and equipment as follows:

Item	Depreciation method	Average useful life
Plant and machinery	Straight line	5-10 years
Furniture and fixtures	Straight line	6 years
Motor vehicles	Straight line	4 years
Office equipment	Straight line	6 years
IT equipment	Straight line	3 years
Leasehold improvements	Straight line	10 years

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, the cost of the asset is allocated to its major components and each such component is depreciated separately over its useful life.

The residual value, depreciation method and useful life of each asset are reviewed a each reporting period only where there is an indication that there has been a significant change from the previous estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss in the period.

1.3 Financial instruments

Initial measurement

Financial instruments are initially measured at the transaction price. This includes transaction costs, except for financial instruments which are measured at fair value through profit or loss.

Financial instruments at amortised cost

These include loans, trade receivables and trade payables. Those debt instruments (such as an account, note or loan receivable or payable), are subsequently measured at amortised cost using the effective interest method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At each reporting date, the carrying amounts of assets held in this category are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence, the recoverable amount is estimated and compared with the carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

Financial instruments at cost

Commitments to receive a loan are measured at cost less impairment.

Financial instruments at fair value

All other financial instruments are measured at fair value through profit and loss.

1.4 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences and for the carry forward of unused tax losses and unused tax credits.

Deferred tax assets and liabilities are measured at an amount that includes the effect of the possible outcomes of a review by the tax authorities using tax rates that, on the basis of enacted or substantively enacted tax law at the end of the reporting period, are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax asset balances are reviewed at every reporting date. When necessary, a valuation allowance is recognised against the deferred tax assets so that the net amount equals the highest amount that is more likely than not to be realised on the basis of current or future taxable profit.

Tax expenses

Tax expense is recognised in the same component of total comprehensive income or equity as the transaction or other event that resulted in the tax expense.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are operating leases.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless:

- another systematic basis is representative of the time pattern of the benefit from the leased asset, even if the payments are not on that basis, or
- the payments are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Any contingent rents are expensed in the period they are incurred.

1.6 Inventories

Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell, on the weighted average cost basis.

1.7 Impairment of assets

The company assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

1.9 Provisions and contingencies

Provisions are recognised when the company has an obligation at the reporting date as a result of a past event; it is probable that the company will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably.

Provisions are not recognised for future operating losses.

Contingent assets and contingent liabilities are not recognised.

1.10 Revenue

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer, or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts.

Interest is recognised, in profit or loss, using the effective interest rate method.

1.11 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.12 Foreign exchange

Foreign currency transactions

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise.

A foreign currency transaction is recorded, on initial recognition in the functional currency of the company, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period: foreign currency monetary items are translated using the closing rate.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

1.13 Statement of cash flows

The statement of cash flows is prepared on the direct method, whereby the major classes of gross cash receipts and gross cash payments are disclosed.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held on call with banks net of bank overdrafts, all of which are available for use by the company unless otherwise stated.

Investing and financing operations that do not require the use of cash and cash equivalents are excluded from the statement of cash flows.

Notes to the Annual Financial Statements

Caryn & Caron Proprietary Limited

(Registration number 2019/123456/07)
Trading as Knowledge for You
Annual Financial Statements for the year ended 31 December 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
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2. Plant and equipment

	2016			2015		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Plant and machinery	116 330 812	(35 262 200)	81 068 612	77 483 610	(26 074 905)	51 408 705
Furniture and fixtures	389 021	(331 909)	57 112	389 021	(289 666)	99 355
Motor vehicles	46 953 032	(22 158 368)	24 794 664	30 140 435	(16 870 494)	13 269 941
Office equipment	357 126	(241 358)	115 768	324 636	(191 464)	133 172
IT equipment	8 220 613	(4 815 256)	3 405 357	7 629 841	(4 583 550)	3 046 291
Leasehold improvements	2 468 137	(2 001 130)	467 007	2 468 137	(1 290 825)	1 177 312
Total	174 718 741	(64 810 221)	109 908 520	118 435 680	(49 300 904)	69 134 776

Reconciliation of plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	51 408 705	38 847 201	-	(9 187 294)	81 068 612
Furniture and fixtures	99 355	-	-	(42 243)	57 112
Motor vehicles	13 269 941	17 293 818	(40 102)	(5 728 993)	24 794 664
Office equipment	133 172	32 490	-	(49 894)	115 768
IT equipment	3 046 291	590 773	-	(231 707)	3 405 357
Leasehold improvements	1 177 312	-	-	(710 305)	467 007
	69 134 776	56 764 282	(40 102)	(15 950 436)	109 908 520

Reconciliation of plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	36 446 670	21 444 973	-	(6 482 938)	51 408 705
Furniture and fixtures	75 419	61 618	-	(37 682)	99 355
Motor vehicles	8 675 471	8 178 931	(38 447)	(3 546 014)	13 269 941
Office equipment	178 920	-	-	(45 748)	133 172
IT equipment	2 916 706	1 155 170	-	(1 025 585)	3 046 291
Leasehold improvements	117 916	1 319 778	-	(260 382)	1 177 312
	48 411 102	32 160 470	(38 447)	(11 398 349)	69 134 776

Plant and equipment encumbered as security

The following carrying value of assets have been encumbered as security for instalment sales as per note 9:

Plant and machinery	20 395 414	12 879 280
Motor vehicles	8 205 283	8 919 476
IT equipment	560 102	440 319

3. Inventories

Raw materials	53 907 942	52 407 400
Finished goods	5 086 432	3 002 642
	58 994 374	55 410 042

4. Loans to (from) shareholders

Shareholder Number 1	(13 737 969)	10 159 737
This loan is unsecured, bears interest at 8% (2015: 7.5%) per annum and has no set date of repayment.		
Current assets	-	10 159 737
Current liabilities	(13 737 969)	-
	(13 737 969)	10 159 737

5. Trade and other receivables

Trade receivables	82 201 468	56 705 075
Allowance for credit losses	(1 569 450)	(565 100)
Deposits	5 992 065	911 004
Other receivables	1 162 170	878 822
	87 786 253	57 929 801

Trade and other receivables pledged as security

Trade and other receivables were pledged as security for overdraft facilities per note 8.

6. Other financial assets

At amortised cost

Related Party Number 1

The loan is unsecured, interest free and has no set date of repayment.

28 596 638 9 433 885

Current assets

At amortised cost

28 596 638 9 433 885

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 200 221	191 614
Short-term deposits	-	32 147
Bank overdraft	(58 251 098)	(28 237 197)
	(57 050 877)	(28 013 436)

Current assets	1 200 221	223 761
Current liabilities	(58 251 098)	(28 237 197)
	(57 050 877)	(28 013 436)

An overdraft facility of R100,000,000 (2015: R50,000,000) is secured as follows:

- Limited letter of surety by Shareholder 1 to the value of R100,000,000
- Unlimited letter of surety by Related Party 1
- Cession of debtors
- General Notorial Bond of R50,000,000
- Cession of fire policy

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Notes to the Annual Financial Statements

	2016 R	2015 R
8. Share capital		
Authorised		
1000 Ordinary shares of R1 each	1 000	1 000
Issued		
100 Ordinary shares of R1 each	100	100

9. Other financial liabilities

At amortised cost

Instalment sales	45 184 619	22 374 488
It is company policy to lease certain motor vehicles and equipment under finance leases. The average lease term is 4 years (2015: 5 years) and the average effective borrowing rate is 10.5% (2015: 9.5%) per annum. The company's obligations under finance leases are secured by the leased assets.		
Commercial bank loan	-	2 131 808
This loan bears interest at rates linked to prime and is repaid in full during the current year.Instalments of - (2015: R135,123). The loan is unsecured.		
	45 184 619	24 506 296

Non-current liabilities

At amortised cost	25 318 157	12 578 163
-------------------	------------	------------

Current liabilities

At amortised cost	19 866 462	11 928 133
	45 184 619	24 506 296

10. Deferred tax

Deferred tax liability

Plant and equipment	(13 667 419)	(9 276 837)
---------------------	--------------	-------------

Deferred tax asset

Allowance for credit losses	329 585	118 671
Provision for leave pay	169 271	138 920
Operating lease accrual	431 695	104 553
Deferred tax balance from temporary differences other than unused tax losses	930 551	362 144
Total deferred tax asset	930 551	362 144

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	(13 667 419)	(9 276 837)
Deferred tax asset	930 551	362 144
Total net deferred tax liability	(12 736 868)	(8 914 693)

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(8 914 693)	(6 301 497)
Originating taxable temporary difference on plant and equipment	(4 390 582)	(2 466 591)
Reversing (Originating) deductible temporary differences on provision for credit losses	210 914	(18 609)
Reversing deductible temporary differences on leave pay accrual	30 351	24 814
Reversing (Originating) deductible temporary differences on operating leases	327 142	(152 810)
	(12 736 868)	(8 914 693)

11. Trade and other payables

Trade payables	93 305 447	94 254 523
VAT	2 211 439	1 285 606
Accrual for leave pay	604 540	496 143
Accrued expenses	-	1
Operating lease accrual	1 541 768	373 402
	97 663 194	96 409 675

12. Commercial loan

This loan bears interest at rates linked to prime and is repaid during the current year.Instalments of 2016 R140,000 (2015: R135,123). The loan is unsecured.

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	2016 R	2015 R
13. Revenue		
Sale of goods	694 938 324	438 679 556
14. Cost of sales		
Sale of goods		
Cost of goods sold	482 584 331	293 284 527
Manufacturing expenses	94 626 192	67 249 522
	577 210 523	360 534 049

15. Other income

Profit on sale of assets	228 125	86 177
Profit and loss on exchange differences	457 963	-
Allowance for credit losses	-	653 715
Sundry income	864 499	617 915
Bad debts recovered	827	1 120
Insurance received	-	215 658
Other income	1 070 056	5 864 470
	2 621 470	7 439 055

16. Operating profit

Operating profit for the year is stated after accounting for the following:

Operating lease charges

Premises

- Contractual amounts

1 647 176	243 794
-----------	---------

Profit on sale of plant and equipment

228 125	86 177
---------	--------

Depreciation on plant and equipment

15 950 436	11 398 349
------------	------------

Employee costs

20 288 768	14 949 175
------------	------------

17. Investment revenue

Interest revenue

Bank
Interest on shareholders loan

7 145 878	240 237
139 412	275 149
<hr/>	
7 285 290	515 386
<hr/>	

18. Finance costs

Instalment sale agreements
Bank overdraft
Other interest paid

12 926 928	1 587 116
3 950 858	2 595 959
140 967	21 356
<hr/>	
17 018 753	4 204 431
<hr/>	

19. Taxation

Major components of the tax expense

Current

Local income tax - current period	1 758 743	900 937
-----------------------------------	-----------	---------

Deferred

Originating and reversing temporary differences	3 822 175	2 613 196
	5 580 918	3 514 133

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	19 816 013	12 396 593
-------------------	------------	------------

Tax at the applicable tax rate of 28% (2015: 28%)	5 548 484	3 471 046
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Tax effect of adjustments on taxable income

Donations	29 932	31 154
Fines	4 311	5 953
Legal fees	560	5 981
Other	(2 369)	-
	5 580 918	3 514 134

20. Auditors remuneration

Fees

199 959	330 772
---------	---------

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Notes to the Annual Financial Statements

	2016	2015
	R	R
21. Cash generated from operations		
Profit before taxation	19 816 013	12 396 593
Adjustments for:		
Depreciation	15 950 436	11 398 349
Profit on sale of assets	(228 125)	(86 177)
(Profit) loss on foreign exchange	(457 963)	6 298 921
Interest received	(7 285 290)	(515 386)
Finance costs	17 018 753	4 204 431
Changes in working capital:		
Inventories	(3 584 332)	(27 892 571)
Trade and other receivables	(29 856 452)	(19 261 341)
Trade and other payables	1 711 482	41 498 914
	13 084 522	28 041 733

22. Tax paid

Balance at beginning of the year	748 017	989 068
Current tax for the year recognised in profit (loss) or loss	(1 758 743)	(900 937)
Balance at end of the year	(954 874)	(748 017)
	<u>(1 965 600)</u>	<u>(659 886)</u>

23. Commitments

Instalment sale agreements

Minimum lease payments due
- within one year
- in second to fifth year inclusive

19 866 462	12 225 322
25 318 145	12 604 600
45 184 607	24 829 922

Operating leases – as lessee (expense)

Minimum lease payments due
- within one year
- in second to fifth year inclusive

10 882 064	2 714 175
38 908 295	-
49 790 359	2 714 175

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases have been negotiated for a term of five years and end in February 2021. Annual escalation is incorporated into the lease agreements at a rate of 8%. No contingent rent is payable.

24. Related parties

Relationships			
Ultimate holding company	Caryn Holdings (Pty) Ltd		
Shareholders with significant influence	Shareholder 1		
	Shareholder 2		
Other	Related Party 1		
	Related Party 2		
Members of key management	R Read		
	S Spelling		
Related party balances			
Loan accounts - Owing (to) by related parties			
Shareholder 1	(13 737 969)	10 159 737	
Related party 1	28 596 637	9 433 885	
Amounts included in Trade receivable (Trade Payable) regarding related parties			
Related party 2	(5 508 151)	(5 588 023)	
Related party transactions			
Interest paid to (received from) related parties			
Shareholder 1	(139 412)	515 386	
Purchases from (sales to) related parties			
Related party 2	21 303 495	11 455 392	
Rent paid to (received from) related parties			
Shareholder 2	5 523 322	4 875 878	
Related party 1	-	(2 482 000)	
Income paid to (received from) related parties			
Related party 1	-	(2 639 745)	

25. Directors' remuneration

Executive

2016

R Read
S Spelling

Emoluments	Bonus	Total
71 428	8 467	79 895
700 000	2 500	702 500
771 428	10 967	782 395

2015

R Read
S Spelling

Emoluments	Total
724 205	724 205
650 000	650 000
1 374 205	1 374 205

26. Comparative figures

Certain comparative figures have been reclassified. Credit balances found in debtors have been reclassified to creditors. Debit balances found in creditors have been reclassified to debtors.

The effects of the reclassification are as follows:

Statement of Financial Position

Trade and other receivables	1 492 993	-
Trade and other payables	(1 492 993)	-

27. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

28. Events after the reporting period

The annual financial statements were authorised for issue on Tuesday, 31 January 2017 by the directors of the company.

No material events have taken place after the reporting period that are required to be disclosed in these annual financial statements.

Detailed Income Statement

Caryn & Caron Proprietary Limited

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Trading as Knowledge for You

Annual Financial Statements for the year ended 31 December 2016

Detailed Income Statement

	Note(s)	2016 R	2015 R
Revenue			
Sale of goods		694 938 324	438 679 556
Cost of sales			
Opening stock		(3 002 642)	(1 956 214)
Purchases		(579 294 313)	(361 580 477)
Closing stock		5 086 432	3 002 642
	14	(577 210 523)	(360 534 049)
Gross profit		117 727 801	78 145 507
Other income			
Bad debts recovered		827	1 120
Gains on disposal of assets		228 125	86 177
Insurance received		-	215 658
Interest received	17	7 285 290	515 386
Other income		1 070 056	5 864 470
Profit and loss on exchange differences		457 963	-
Allowance for credit losses		-	653 715
Sundry income		864 499	617 915
		9 906 760	7 954 441
Expenses (Refer to page 26)		(90 799 795)	(69 498 924)
Operating profit	16	36 834 766	16 601 024
Finance costs	18	(17 018 753)	(4 204 431)
Profit before taxation		19 816 013	12 396 593
Taxation	19	(5 580 918)	(3 514 133)
Profit for the year		14 235 095	8 882 460

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Detailed Income Statement

	Note(s)	2016 R	2015 R
Operating expenses			
Advertising	20	(2 899 504)	(2 876 949)
Auditors remuneration		(199 959)	(330 772)
Bad debts		(1 238 019)	(570 735)
Bank charges		(2 900 239)	(2 118 441)
Cleaning		(1 647 107)	(1 049 637)
Commission paid		(10 000)	-
Computer expenses		(1 066 603)	(1 004 801)
Consulting fees		(409 741)	(23 910)
Depreciation, amortisation and impairments		(15 950 436)	(11 398 349)
Donations		(106 900)	(111 265)
Employee costs		(20 288 768)	(14 949 175)
Entertainment		(1 334 703)	(893 218)
Fines and penalties		(15 395)	(21 259)
General expenses		(32 355)	(34 545)
Insurance		(1 068 772)	(845 498)
Lease rentals on operating lease		(1 647 176)	(243 794)
Leasing charges		-	(11 232)
Legal expenses		(457 920)	(213 412)
Loss due to theft		-	(117 269)
Loss on exchange differences		-	(6 298 921)

Minor assets written off	(14 034)	(6 569)
Motor vehicle expenses	(26 821 143)	(18 491 519)
Municipal expenses	107 263	(444 290)
Postage	(1 280)	(2 889)
Printing and stationery	(283 102)	(217 552)
Promotions	(76 000)	(27 118)
Repairs and maintenance	(3 852 243)	(2 715 189)
Repairs and maintenance - Projects	(3 078 081)	-
Security	(591 035)	(566 759)
Sponsorship	(546 640)	(614 897)
Staff welfare	(843 695)	(455 221)
Subscriptions	(95 907)	(70 745)
Telephone and fax	(655 615)	(733 285)
Training	(85 611)	(104 500)
Transport and freight	(1 736 531)	(1 421 986)
Travel - local	(746 931)	(427 400)
Travel - overseas	(205 613)	(85 823)
	(90 799 795)	(69 498 924)

Complex transactions

Application of complex transactions

- Accounting for black economic transactions
- Liquidation and business rescue
- Contingent liabilities
- Intangible assets
- Deferred tax

Accounting for black economic transactions

- What structure have you used?
- Preference shares?
- Corporate restructure rules from tax?
- Do you have a share trust involved?
- Unique and vary from the simple to the complex
- IFRS for SME does not have a interpretation note for these transactions
- Need to look at the underlying transactions and whether they meet the definitions

Liquidation and business rescue

- Fundament concept of accounting is going concern – its opposite is liquidation and business rescue
- It is all about the values and communication
- Basis of preparation
- Directors report
- Auditors report
- Explanatory narration
- EVERYWHERE!!!

Contingent liabilities

Definition of a liability:

- A present obligation of the entity
- As a result of past events
- The settlement of which is expected to result in an outflow of resources from the enterprise

All currently have a present obligation

Liability

Obligation
certain

Amount and
timing

In TB -
calculated

Provision

Obligation
Probable

Amount or timing
uncertain

In TB - estimated

Contingent Liab

Obligation
possible

Unsure about
amount or timing

Note in AFS

Intangible assets

- Definition
- Goodwill
- Internally generated assets
- Research and development
- Accounting policy
- Initial recognition
- Can you improve an intangible?
- Subsequent measurement
- Amortisation
- Derecognition

Deferred Tax

It's all about reconciling

➤ **Current Tax**

- Accounting Profit vs Taxable Income
- Permanent and Temporary Differences

➤ **Deferred Tax**

- Carrying values to Tax bases
- Temporary not timing differences!

Temporary Differences

$$TD = CV - TB$$

Two categories:

Taxable TD result in taxable amounts in the determination of future periods' taxable profit

CV > TB ie depn rate is **lower** than W&T

Result in DTax **Liabilities**

Deductible TD result in amounts that are deductible in the determination of future periods' taxable profit

CV < TB ie depn rate is **higher** than W&T

Result in DTax **Assets**

CV????

Simple example

Bought a building for R100 000 in a company.

What will happen if I revalue (or sell) it for R200 000? Will my shareholder realize R100 000 through retained earnings?

No:

Potential profit: R100 000

Company CGT inclusion: 80%

Thus: R80 000 potential taxable income.

Deferred tax @28% : R22 400

Tax Base of an Asset

Where **taxable** economic benefits will flow to the enterprise when it recovers the carrying amount of an asset:

The tax base of the asset is the amount that will be deductible for tax purposes against those future taxable benefits

TB = future deductions (Eg PPE)

Where the economic benefits that flow to the enterprise as it recovers the carrying amount of an asset **will not be taxable**:

The tax base of the asset will be equal to its carrying amount

TB=CV (Eg cash, trade debtors)

Admin Buildings

Net Investment in Lease (Receivable + VAT)

Tax Base of a Liability

The tax base of a liability is its **CV less any amount that will be deductible for tax purposes** iro that liability in future periods, and

$TB = CV - \text{future deductions}$

Eg loans payable, provisions, bank OD

Revenue received in advance:

The tax base of the liability is its **CV less any amount of revenue that will not be taxed in future periods.**

$TB = CV - \text{non future deductions}$

General Rule

Tax base not immediately apparent:

Fundamental principle

An enterprise should, with certain limited exceptions, recognise a deferred tax liability (asset) whenever **recovery or settlement of the carrying amount** of an asset or liability would make **future tax payments larger/smaller** than they would be if such recovery or settlement were to have **no tax consequences**.

Measurement of DTax

Consider the following:

The tax rate (substantially) enacted at B/S date

The TD which are exempt from DTax

The manner in which management **intends** to realise the asset or recover the liability

The Dtax balance should not be discounted

Revaluations

Factory vs Admin Building

Tax base, but no CV (R & D)

Other Considerations

- Tax Expense
- Format of DTax Comp
- Revaluations and Fair Value Adjustments
- Change of intention
- General Disclosure

Deferred tax changes

- Deferred tax wrt taxpayers graduated rates
- Change in tax status
- Recoupments
- Change in tax rate

Financial Analysis

Limitations of FS Analysis

- Difficult to compare a highly diversified enterprise to industry averages
- Average performance is not necessarily good
- Inflation distorts BS
- Seasonal factors distort ratios
- “Window Dressing” AFS
- Different operating and accounting policies
- Difficult to tell if ratio good or bad
- Difficult to tell if Co’s ratios overall are good or bad (conflicting signals)

Don't Forget!!!!!!

- Context
- Understanding your business
- Going concern assessment
- Solvency and liquidity (Co Act)
- Need a benchmark
- Interpreting the numbers

Limitation of Accounting Data

- Only express monetary items (management team??)
- Simplification and Summarisation
- Estimation, judgement and accounting policies
- Inflation/Historical

Approaches

- Comparative AFS and Trend Analysis
- Index Analysisn
 - (base year; %)
- Common Size Analysis
- Ratio Analysis
 - (Clear, direct and understandable rel. btn 2 variables)

Ratio Analysis

- Liquidity
- Asset Management
- Debt Management
- Profitability
- Cash Flow
- Market Values

Ratio Analysis

Co. ability to meet it's maturing obligations

Cash Flow/ Cash Budget

Current (2:1)

Current Assets

Current Liab.

Quick (1:1)

CA - Inventory

Current Liab.

Ratio Analysis

Asset management

How effectively is management utilising the Co. assets??

Inventory Turnover

Cost of Sales (or Sales)

Inventory

Stock Obsolescence Prov??

Average Collection Period (DSO)

Accounts Receivable

Sales/365

Allowance for credit losses (prov for DD)??

Ratio Analysis

Asset Management (Cont.)

Property, Plant and Equipment Turnover

$$\frac{\text{Turnover}}{\text{Average PPE (NBV)}}$$

Total Asset Turnover

$$\frac{\text{Turnover}}{\text{Average Operating Assets}}$$

Ratio Analysis

Debt Management

Total Debt : Total Assets

Times Interest Earned

$$\frac{\text{EBIT}}{\text{Interest Expense}}$$

Total Debt : Total Equity

Deferred Tax

Ratio Analysis

Profitability
GP Margin

$$\frac{GP}{Sales}$$

Net Profit Margin

$$\frac{NP (EAIT)}{Sales}$$

Return on Assets (Investment)

$$\frac{Earnings}{Total Assets}$$

Ratio Analysis

Profitability

ROA

Earnings:

EBIT = **BEP**

Also known as **BASIC EARNING POWER**

Useful to compare co.s with different gearing and tax structures.

EBIAT (most correct)

NP (Understates Return)

Ratio Analysis

Return on Equity

$$\frac{\text{Earnings after tax}}{\text{Total Shareholders' Funds}}$$

Cash Flow to Total Debt

Indicator of financial stability

$$\frac{\text{CF from operations}}{\text{Total Debt}}$$

Ratio Analysis

Market Value Ratios

Dividend yield (SH getting)

$$\frac{\text{DPS}}{\text{Price per share}}$$

Earnings yield (SH demanding)

$$\frac{\text{EPS}}{\text{Price per share}}$$

Price Earnings (SH willing to pay for reported earnings)

$$\frac{\text{Price per share}}{\text{EPS}}$$

Ratio Analysis

Ratios

Dividend Cover

$$\frac{\text{EPS}}{\text{DPS}}$$

Market vs Book

$$\frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

Book Value = Net Assets/ No of Shares

Indicates value added by Management

Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

If you would like to e-mail a question please use:

technicalquestions@accountingacademy.co.za

**Thank you for your
participation**

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