



UNIVERSITY OF THE FREE STATE

EACG6808/6838/5808/5838

SCHOOL OF ACCOUNTANCY

Marks: 100 **Minutes:** 180

Date: 27 October 2021

PAPER: 1 of 2

(Reading time: 30 minutes – Writing time: 150 minutes)

This paper comprises of one question, set on 8 numbered pages (Cover sheet on 1 page and information on 7 pages). The "REQUIRED" section is on 2 pages that will be handed out after the reading time. Please ensure that your paper is complete.

INSTRUCTIONS

1. Answer all questions.
2. Your name must not appear anywhere in your answer.
3. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and the required depth of the answer.
4. Marks are awarded for appropriate arrangement and layout, clarity of explanation, logical argument and clear and concise language.
5. Please use a **black pen** while answering the assessment, and ensure that your handwriting is legible.
6. It is your responsibility to ensure your answer and your handwriting is easily readable. If we cannot read your handwriting or follow the sequence of your answer, we cannot award any marks.
7. Please leave **margins of about 2 cm**, on all sides of the paper.
8. PLEASE note that your **answer script should be scanned in and uploaded on the EACG Blackboard. Filename: studentnoEACG-Exam Paper 1**

Disclaimer: All names of persons, places and business entities mentioned in this paper are fictitious, and any resemblance to real persons, living or dead, places and business entities are purely coincidental.

1. BACKGROUND AND GROUP STRUCTURE

MultiStar Ltd ('MultiStar') is listed on the Johannesburg Stock Exchange (JSE) and specialises in paid satellite television in South Africa. Subscription-based satellite television service refers to a system for the distribution of television signals broadcast directly to the public in exchange for paying a subscription fee. MultiStar offers decoder packages that requires customers to have a decoder and satellite installed. The decoder packages allow customers to customise their viewing channels according to the customer's specific needs (see further information in section 3).

MultiStar has investments in the following companies:

- SupraSport Ltd ('SupraSport') (subsidiary)
- BetKing (Pty) Ltd ('BetKing') (investment in associate)

SupraSport is South Africa's premier sports broadcaster, producing and broadcasting local and international sport for pay-TV subscribers across South Africa. SupraSport acquire annual exclusive rights to air some of the most sought after sport events (i.e. the Olympic games in 2021). SupraSport receives significant royalties from 'selling' their exclusive rights to other media houses. MultiStar offer several sport channels as part of their decoder packages. SupraSport is the only provider of the sports channel for MultiStar and is responsible for the operation and broadcasting the sports channels on the MultsiStar platform. MultiStar pays SupraSport for the operation of the sports channel and MultiStar earn fees from advertising on this channel.

BetKing provides online short courses to professionals wanting to further their careers in the filming and advertising industry (see further information in section 6).

Peyper Auditors Inc ('Peyper') is the appointed audit firm of MultiStar and SupraSport and has been since 2018 while CPI Auditors & Associates Inc ('CPI') is the appointed audit firm of BetKing (see section 7 for further information). Peyper is responsible for the audit of the MultiStar and SupraSport standalone financial statements, as well as the MultiStar consolidated financial statements. All companies in the group have a 30 September 2021 financial year end ('FY2021'). You are an audit manager at Peyper and you are currently busy with the FY2021 year-end audit of the MultiStar group. The responsible audit engagement partner for the MultiStar group is Heleen Bruwer. The performance materiality for MultiStar has been set at R20 million for the FY2021.

2. MULTISTAR LTD: AN OVERVIEW

The following is selected information pertaining to MultiStar for the FY2021:

A. Leadership and governance

The board of MultiStar consists of five directors, being the managing director, Maxwell Truth, the financial director, Edwin Prinsloo and three non-executive directors, namely John Gunter, Sarah Naidoo and Molly Ntikasana. The chairman of the board, John Gunter, is an industry expert who provides valuable strategic input and he spends 50% of his time on the business of MultiStar. The board has classified him as non-executive but not independent. MultiStar also has a number of board committees including an Audit Committee, Nominations Committee, Remuneration Committee and Social & Ethics Committee.

The remuneration of the executive directors and key management is determined by the Remuneration Committee and a substantial element of performance-related pay is linked to profit targets, sales targets and share price movements. The Remuneration Committee also determines the remuneration of non-executive directors, which consists of a fixed monthly fee and fees for the attendance of board and committee meetings.

B. Extract from board meeting held on 25 August 2021

All the directors were present during this board meeting and no apologies were noted. The following is an extract from the minutes of the meeting regarding the three matters:

Matter 1: JSE proactive monitoring report¹

The chairman shared the correspondence received from the JSE in relation to the JSE proactive monitoring report pertaining to matters identified in MultiStar's interim financial statements for FY2021. The main issues highlighted by the JSE relates to a lack of disclosure on related party transactions and balances and insufficient disclosure on the fair value measurements in terms of IFRS 13. The chairman requested the board members to review the report and provide input at the next board meeting on 30 November 2021.

Matter 2: Declaration of dividend

The board declared a gross dividend of R5,50 per listed ordinary share. This dividend declaration was subject to approval with a special resolution at a shareholders meeting to be held on 20 September 2021. Subject to the aforementioned approval, dividends will be paid to MultiStar's shareholders recorded in the shareholder register as at 30 September 2021. The dividend will be declared from income. It will be subject to the dividend tax rate of 20%, yielding a net dividend of R4,40 per listed ordinary share to those shareholders not exempt from paying dividend tax. Dividend tax will be R1,10 per listed ordinary share.

Matter 3: Mandatory vaccination for all employees

The chairman provided the board with some feedback on the surveys completed by employees of the MultiStar group regarding their views on the proposed mandatory vaccination of employees against Covid-19 before they can return to office. The chairman once again emphasized to the board that the employees work with clients on a daily basis. He further suggested that employees who are not willing to get vaccinated will have to negotiate a decrease in their salary package as the 'working from home' arrangement has turned out not to be effective and efficient for MultiStar operations.

C. ICASA Broadcasting regulations regarding content on MultiStar's platform

The Independent Communications Authority of South Africa (ICASA) is an independent regulatory body of the South African government, established in 2000 by the ICASA Act to regulate both the telecommunications and broadcasting sectors in the public interest. The Department of Communications and Digital technologies approved an amendment to the Broadcasting Act no 4 of 99 that provides that 30% of content aired by South African broadcasters must be South African content (i.e. produced in South Africa). The effective date for the amendment was 1 December 2020. Communications and Digital Technologies minister Sheldon Abra has provided more details on her department's plans to enforce local content quotas on broadcasters. The minister mentioned the following during an interview regarding this amendment:

"The South African broadcasting industry must ensure that it adheres to the local content regulations as stipulated by the regulator to prevent the regulator from revoking its broadcasting licence."

¹ The JSE has launched an initiative whereby a task team proactively monitor and investigate the financial statements of all listed companies, in a bid to pick up any non-compliance with recognised International Financial Reporting Standards (IFRS). All issues identified during this review process is published in a *JSE proactive monitoring report*.

Edwin Prinsloo (Financial Director) acknowledged to Heleen Bruwer (Audit partner) that the board members discussed the content currently showing on MultiStar's platform and concluded that in these trying economic circumstances, MultiStar should rather show cast the content which is most profitable which is not local content, but international content (i.e. produced in other countries). The international content attracts higher number of viewers due to its popularity. For the FY2021 the international content was 90% of the total content broadcast on MultiStar's platform.

D. Acquisition of new head office

MultiStar purchased a new head office building, situated in Waterfall park in Midrand, on 1 September 2020 for a total purchase price of R43 million. MultiStar moved into this new head office on the same date. MultiStar still owns the previous head office building in Kyalami, Johannesburg. Approximately 20% of the office space of the previous head office building is rented out to SupraSport. The remaining 80% of the office space is still vacant and has not yet been rented out. A big construction company showed interest in signing a long term rental agreement. However, as at year end, no rental agreement has been signed yet.

MultiStar's property, plant and equipment is reflected in its statement of financial position at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment. The useful lives of assets are reviewed, and adjusted if necessary, at the end of each financial reporting period. Buildings have an estimated residual value of between 60% and 80% of original cost which is determined at acquisition date and is a fixed amount.

3. BRIEF DESCRIPTION OF THE SUBSCRIPTION REVENUE FOR DECODER PACKAGES

A variety of decoder packages are available for the paid satellite television that range from R 100 per month for the *Starter package*, to R1 000 per month for the *Advanced package*. A customer has the option to enter into a 24-month, 12-month or a month-to-month contract when subscribing to MultiStar. Once the relevant contract subscription has come to an end – the contract automatically defaults to a month-to-month option until the customer formally terminates the contract.

Subscriptions are payable in advance on the first day of each month. If a customer does not pay his / her monthly subscription fee – the customer's subscription is suspended until the outstanding amount is settled. A decoder is required for a customer to enjoy the content provided by MultiStar. Depending on the customer's needs, packages include the option for a customer to pay for the decoder as part of the monthly subscription fee or upfront. The upfront payment is R8 500 per decoder or alternatively the amount will be added to the package depending which contract option the customer selected.

4. ACQUISITION OF INTEREST IN BETKING

On 1 October 2020 MultiStar acquired 20% of the issued share capital in BetKing. Management determined this transaction to be the acquisition of an associate as a result of MultiStar obtaining significant influence over BetKing, as defined per International Accounting Standard 28 (IAS 28) *Investments in Associates and Joint Ventures*.

The consideration consisted of an upfront cash payment of R81 million (paid on 1 October 2020) and a contingent consideration of R31 million (that is subject to certain conditions being met between September 2021 and September 2023 regarding BetKing's profitability). The amount of R31 million is payable in cash on 1 October 2023 (if the agreed conditions are to be met). The fair value of the contingent consideration on 1 October 2020 was R22 million and R24 million on 30 September 2021.

Significant judgement was exercised by management on the identification and valuation of the separately identifiable assets and liabilities acquired within BetKing and the likelihood of the contingent consideration materialising. Management engaged external valuation experts who applied their judgement to assist management in determining the fair value of the underlying assets and liabilities which were recognised at acquisition, and in assessing the likelihood of the conditions relating to the contingent consideration being met. During FY2021 BetKing's reported profit after tax was R8 200 000 and BetKing paid a dividend of R200 000 to all shareholders that held shares on 31 August 2021.

5. DESCRIPTION OF MULTISTAR FIXED ASSET SOFTWARE

MultiStar has a fixed asset software system called *Track-Me* which enables them to maintain and manage the assets and all the information relevant to the fixed assets on an asset database. The *Track-Me* software keep a record (a database) of all current and past data relating to fixed assets. *Track-Me* can create several reports based on the assets, for example a fixed asset register for a particular year being FY2021. The fixed asset register logs, tracks and monitors fixed assets. MultiStar uses QR codes as asset tags. The QR codes are printed on metal tags and mounted on the fixed assets. On a regular basis the fixed assets are monitored and if the asset tag is scanned, its last-seen location will also update in real time.

MultiStar captures the following key pieces of information in the *Track-Me* software:

- Asset and location data – location, asset barcode number and asset description.
- Financial data – date of purchase, purchase price, depreciation rate, depreciation for current year, accumulated depreciation, impairment amount, residual value, useful live, date of disposal (if applicable), disposal amount.
- Insurance data – amount insured, terms of insurance.
- Maintenance data – date of maintenance, description of maintenance, amount of maintenance incurred. This information is used to determine when an asset is due for replacement or when economic benefits are not sufficiently derived from the asset.

6. BETKING - DESCRIPTION OF SYSTEM - CONTENT PROVIDERS' REVENUE SHARE

BetKing offers several short courses ranging from digital advertising to filmmaking courses. BetKing does not produce the short courses themselves, but the content of the short courses is sourced from various experts in the industry known as content providers. BetKing enters into revenue sharing agreements with its content providers with regard to the online short courses. In terms of the agreements, the provider's share of the revenue is 50% of total revenue received from a short course and is settled in two payments. The first 40% of the provider's share becomes due when delegates (also known as the part time students) register for a course. The remainder becomes due upon the completion of a particular course offering. Delegates are issued a digital certificate upon completion of a short course.

When a new delegate wishes to register for the first time, s/he provides all relevant personal information on the registration page of the website. This information is used to update the registered delegate database ('RDD'). When the delegate wishes to register for an online course, s/he selects the course from the course catalogue pages of BetKing's website. The course information displayed (e.g. course outcomes, syllabus, duration, course fee, payment options) is extracted from the content course database (i.e. masterfile) for the delegate's review. Once the delegate has confirmed the course selection, s/he has to indicate whether the registration is to be paid by the delegate's employer or by the delegate him/herself. Once all the pertinent data required for completion of the registration has been captured, the RDD is updated and the delegate has access to the course content database ('CCD'). As the content providers spend significant time on the development of the course content, only authorized delegates should get access to the CCD. There are two accountants responsible for the process of preparing the payment schedule to the

content providers as follows: At the end of every month, any of the two accountants (who have capacity) extract two electronic reports from the RDD; one report reflecting all new course registrations for the month and a second report reflecting completed courses for the month. The details in these reports include the name of the content provider, the course registration date, course completion date (if applicable), and course fee. These reports are downloaded and imported into an MS Excel spreadsheet on the accountant's computer.

The accountant sorts the data on the MS Excel spreadsheet to reflect the sub-totals per each content provider and cast the course fee column (using excel functions) to determine the total fee earned by each content provider with regard to new registrations and completed courses. The accountant then prepares a payment schedule (spreadsheet) summarising the totals per content provider and uses an MS Excel formula to multiply the amounts with the appropriate percentages, depending on whether the amount relates to new course registrations (40%) or completed courses (60%). The amount due to each respective content provider is recorded on a payment voucher and posted to the content provider's account in the creditors' ledger. Once the payment has been effected, the accountant sends the payment voucher to each content provider. Each accountant reports back to the financial manager on a regular basis regarding the tasks they performed.

Notes: The content providers raised concerns on whether the fees paid over to them are complete, and accurate. In addition, they raised concerns about the possibility of delegates getting unauthorized access to the course content as this could result in delegates getting access to the content, for which they did not pay – resulting in the content providers not receiving their fair share of revenue.

7. APPOINTMENT OF CPI AUDITORS - BETKING

CPI was appointed on 20 September 2021 as the external auditor of BetKing for FY2021. BetKing's Memorandum of Incorporation requires the appointment of an external auditor and an Audit committee. Heleen Bruwer received an email from the audit engagement partner at CPI, Tony Pengy, who is responsible for the audit engagement of BetKing.

CPI is a medium-sized audit firm. Tony Pengy predominantly deals with clients in the mining industry. The following e-mail was received by Heleen Bruwer from Tony Pengy. Heleen Bruwer suspects that the original e-mail that Tony Pengy sent to the audit manager allocated to the BetKing audit, Christoff Hani, was accidentally included (forwarded) as part of this email:

From: tpengy@cpiauditors.co.za
Sent: 22 September 2021
To: heleen@peyperinc.co.za
Subject: BetKing audit engagement for 2021

Good morning Heleen,

Thanks for the quick telephone conversation this morning about the MultiStar group audit. I am awaiting the schedule with all the deadlines that we need to meet to ensure that the group audit runs smoothly and that you have sufficient time to audit the consolidated financial statements. Please see the contact details of Christoff Hani below. As mentioned, he is the audit manager allocated to the BetKing audit.

Speak soon.

Tony Pengy

Audit partner: CPI Auditors & Associates Inc.

forwarded email

From: tpegy@cpiauditors.co.za
Sent: 21 September 2021
To: christoffhani@cpiauditors.co.za
Subject: Appointment as external auditors of BetKing

Morning Christoff

I haven't seen you in a while.....but on the other hand....I haven't seen anyone lately. I wish this Covid thing was something of the past so that we can continue with our 'normal' lives. I have some good news! My good old friend, Edwin, the financial director at MultiStar informed me that we have been formally appointed as the auditors of BetKing. I want you to prepare an audit planning document and have it ready for discussion at BetKing's Audit Committee meeting, which is scheduled for tomorrow afternoon, the 22 September 2021. Start with the standard audit planning template used for Goldfields Mines – it is a good template!

In terms of the staffing for this audit, you will only have one second-year trainee to assist you. I however managed to also recruit two post-graduate students to assist on a part-time basis. Unfortunately, there will be no other trainees available at the time this engagement will be performed.

From previous audits on which we have worked together, I know you are capable of running the engagement on your own. Just let me know when I can come for the sign-off of the auditor's report. As you are currently in your final stretch of your additional 18 months program in gaining experience before you can register as an auditor with the IRBA, the experience is very valuable. The experience that you gain when taking sole responsibility for an audit and being 'thrown in at the deep end' when running audits will definitely set you apart from the other audit managers!

As I have mentioned previously, I will make sure you are considered for promotion to partner level within the next year or two.

Regards
Tony

end of emails

8. SUPRASPORT – DEVELOPMENTS DURING FY2021

You have received the following email from the audit partner regarding developments at SupraSport for the FY2021:

From: heleen@peyperinc.co.za
Sent: 20 October 2021
To: auditmanger@peyperinc.co.za
Subject: FWD: Matters of concern

Dear Audit manager

As discussed yesterday, the cancellation of sports events during 2020 and 2021 has really 'hit' SupraSport quite hard. This resulted in limited sporting events for which SupraSport has broadcasting rights resulting in less sports being broadcast over the past 18 months to subscribers. This has resulted in a significant decline in subscriptions. There is also no evidence as to when this situation will turn around.

From the detail procedures performed by the audit team on the cash flow forecast it is evident that SupraSport are facing some real challenges. Maxwell Truth and I had a 'straight talk' regarding the issue and he agreed that there is an uncertainty about the future of SupraSport. In the meantime, I have obtained a copy of the draft financial statements and management intend to only include the following paragraph in the annual financial statements:

“Due to the Covid 19 pandemic, SupraSport has experienced difficult trading conditions. The directors are monitoring the situation and are implementing, on a continuous basis, measures to ensure the financial sustainability of SupraSport.

After discussing the proposed disclosure with John Gunther (Board Chairman) he was adamant that the abovementioned disclosure is sufficient (according to him!) and they are not planning to disclose any additional information. I think we need to discuss this further as a matter of urgency! Please let know what your diary looks like next week Monday.

Regards

Heleen