

# **Tutorial letter 101/3/2014**

**Legal aspects in Accountancy**

**AUE1601**

**Semesters 1 & 2**

**Department of Auditing**

**IMPORTANT INFORMATION:**

This tutorial letter contains important information  
about your module.

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# 1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUE1601 student in the Department of Auditing. We, as lecturers, are at your disposal and will gladly assist you in your studies. Be assured of our willingness to support you with advice during your studies.

You will receive a number of tutorial letters during the semester. A tutorial letter is one way of communicating with you about teaching, learning and assessment. Please read the *my Studies* brochure in combination with this tutorial letter (Tutorial Letter 101) as it gives you an idea of generally important information when studying within our College.

Right from the start we would like to point out that you must read **all the tutorial letters** you receive during the semester **immediately and carefully**, as they always contain important and, sometimes, urgent information.

This tutorial letter contains important information that will assist you in your studies. Please read it carefully and keep it at hand when working through the study material, preparing the assignments, preparing for the examination and directing questions to your lecturers. We trust that you will benefit from everything that this module has to offer.

## Study material

You will be supplied with the following tutorial material for this module by the Despatch Department:

- Study guide and
- Tutorial Letters

All tutorial material will be mailed to you upon registration. Tutorial matter that is not available when you register will be posted to you as soon as possible, but is also available on *myUnisa*.

To contact the Department of Despatch regarding tutorial material that you have not received, use only the telephone numbers indicated in the booklet entitled ***my Studies @ Unisa*** (which you received with your tutorial material).

You may access the tutorial letters for the modules for which you are registered on the University's online campus, *myUnisa*, at <http://my.unisa.ac.za>. You can also use *myUnisa* to confirm that you have received all the tutorial letters. **It is very important that you access *myUnisa* because important announcements are placed there during the semester that will assist you in the preparation of the examinations.**

**Note:** Some of the tutorial matter may not be available when you register. Tutorial matter that is not available when you register will be posted to you as soon as possible. When you register, you will also receive an inventory letter containing information about your tutorial matter. See also the booklet entitled: ***my Studies @ Unisa*** (which you received with your tutorial matter).

## **2 PURPOSE OF AND OUTCOMES FOR THE MODULE**

### **2.1 Purpose**

The purpose of this module is stated in the “general overview” in your study guide.

### **2.2 Outcomes**

For the learning outcomes of this module we refer you to the different topics in your study guide for this module. In the “general overview” you will also find an overview of the module and we also explain our teaching strategy and how the study guide should be used to guide you through the study material.

During the semester you should:

- kickoff by reading Tutorial Letter 101.
- work through your study material, make summaries and complete the activities.
- complete and submit assignment 01 (compulsory assignment for examination admission) and assignment 02 **before the due dates** and complete the self evaluation assignment. All the compulsory assignments and the self evaluation assignment are included in this tutorial letter.
- prepare yourself for the examination (for examination preparation and technique refer to the ***my Studies @ Unisa*** brochure).

All students will receive the solutions to the assignments, even if they do not submit their assignments.

## **3 LECTURER(S) AND CONTACT DETAILS**

### **3.1 Lecturer(s)**

#### **Lecturer for AUE1601**

The lecturer responsible for this module, and to whom you should direct your enquiries, is:

**Lecturer:**

Ms C Roets

E-mail: roetsc@unisa.ac.za

**Course co-ordinator:**

Mr FN van Niekerk

E-mail: vniekfn@unisa.ac.za

**PLEASE NOTE:** Personal appointments should be arranged beforehand.

**Always have your student number and module code ready when you contact the university!!!**

### 3.2 Department

#### Department of Auditing:

If you wish to write to us, letters should be addressed to:

The Module leader: AUE1601

Department of Auditing

PO Box 392

UNISA

0003

#### Secretarie(s):

Tel: 012 429 4707/ +27 12 429 4707

#### Departmental Webpage:

<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=194>

The Department of Auditing is situated on the 2nd level of the AJH van der Walt building on the main campus in Pretoria and our telephone number is +27 12 429 4707. Professor HJ Theron is the chair of the department.

### 3.3 University

If you need to contact Unisa about matters not related to the content of this module, please consult the brochure *my Studies @ Unisa*, which you should have received with your study material. In this document you will find the contact details of various administrative departments. If you did not receive this document and have access to the Internet, you can find it on *myUnisa* under the 'Resources' option. Remember to always have your student number ready when making an enquiry.

**Please ensure that you contact the correct section or department for each enquiry as this will result in a speedy resolution of the enquiry.**

The contact details are:

|                            |                 |
|----------------------------|-----------------|
| Fax number (RSA only)      | (012) 429-4150  |
| Fax number (international) | +27 12 429-4150 |

Other means of contacting the university are:

|                  |   |
|------------------|---|
| Physical address | University of South Africa<br>Preller Street<br>Muckleneuk<br>Pretoria<br>City of Tshwane |
|------------------|---|

|                |   |
|----------------|---|
| Postal address | University of South Africa<br>PO Box 392<br>UNISA<br>0003 |
|----------------|---|

Online address <http://my.unisa.ac.za>  
Unisa website <http://www.unisa.ac.za>

### **E-mail addresses**

First enquiries (prospective students) [study-info@unisa.ac.za](mailto:study-info@unisa.ac.za)  
All international students [international@unisa.ac.za](mailto:international@unisa.ac.za)  
(registration-related enquiries)

### **Other departments**

Aegrotat exams [aegrotats@unisa.ac.za](mailto:aegrotats@unisa.ac.za)  
Assignments [assign@unisa.ac.za](mailto:assign@unisa.ac.za)  
Despatch, study material [despatch@unisa.ac.za](mailto:despatch@unisa.ac.za)  
Examinations [exams@unisa.ac.za](mailto:exams@unisa.ac.za)  
Graduation affairs [gaudeamus@unisa.ac.za](mailto:gaudeamus@unisa.ac.za)  
Remark papers [remark@unisa.ac.za](mailto:remark@unisa.ac.za)  
Recheck papers [recheck@unisa.ac.za](mailto:recheck@unisa.ac.za)  
Finance [finan@unisa.ac.za](mailto:finan@unisa.ac.za)

### **Student information**

Fellow student names [condiscipuli@unisa.ac.za](mailto:condiscipuli@unisa.ac.za)  
Student counselling and career development [counselling@unisa.ac.za](mailto:counselling@unisa.ac.za)  
Enquiries about prescribed books [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za)

### **Library**

The *my Studies @ Unisa* booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries [bib-oasis@unisa.ac.za](mailto:bib-oasis@unisa.ac.za)  
Library Web co-coordinator [bib-web@unisa.ac.za](mailto:bib-web@unisa.ac.za)  
Inter-library loans enquiries [libr-ill@unisa.ac.za](mailto:libr-ill@unisa.ac.za)  
Enquiries about subject databases [bib-dbase@unisa.ac.za](mailto:bib-dbase@unisa.ac.za)  
Library information desk [bib-help@unisa.ac.za](mailto:bib-help@unisa.ac.za)  
Enquiries about training presented by the library [bib-oplei@unisa.ac.za](mailto:bib-oplei@unisa.ac.za)  
Send a question to the library staff [bibrefq@unisa.ac.za](mailto:bibrefq@unisa.ac.za)

### **Short SMS codes**

Send an SMS direct query with your name, student number/ID number and a short description of your query.

|                                |       |
|--------------------------------|-------|
| Applications and registrations | 43578 |
| Assignments                    | 43584 |
| Exams                          | 43584 |
| Study material                 | 43579 |
| Student accounts               | 31954 |
| myUnisa/myLife                 | 43582 |

**NB: Lecturers cannot assist you with registration, payments, module codes, examinations, etc. These are administrative issues which should be discussed with the relevant sections.**

## **4 MODULE-RELATED RESOURCES**

The resources at your disposal are classified into two categories.

### **4.1 Prescribed books**

There are no prescribed books for this module. You should however obtain a copy of the Companies Act no. 71 of 2008 and the Companies Regulations. A copy of this Act and the Companies Regulations will be made available for download on *myUnisa*. You can also purchase a printed version of this Act:

- Auditing: Legislation and Standards; LexisNexis. (Students may alternatively use the digital version or any other version of the Companies Act no 71 of 2008 as amended and the Companies Regulations – see 4.3 below.)

Please refer to the list of official bookshops and their addresses in the brochure ***my Studies@ Unisa***.

### **4.2 Recommended books**

There are no recommended books for this module.

### **4.3 Electronic Reserves (e-Reserves)**

The Companies Act no. 71 of 2008 and the Companies Regulations can be obtained electronically from:

<https://www.saica.co.za/Technical/LegalandGovernance/Acts/ActsCorporate/tabid/3065/language/en-US/Default.aspx>

## **5 STUDENT SUPPORT SERVICES FOR THE MODULE**

For student support services you are referred to the ***my Studies @ Unisa*** brochure.

### **UNISA LIBRARY LOGIN**

You will be required to provide your login details, i.e. your student number and your *myUnisa* password, in order to access the library's online resources and services.

This will enable you to

- view or print your electronic course material
- request library material
- view and renew your library material
- use the library's e-resources

## Requesting library books

It is expected of students to purchase their own prescribed books listed in this tutorial letter. Should you encounter any problems in obtaining the books at the bookshops, please contact the Section Prescribed Books at telephone number +27 12 429 4152 or via email: [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za).

## Electronic requests

The preferred way of requesting **books** is **online** via the library's catalogue.

Go to <http://oasis.unisa.ac.za>, or via *myUnisa*, go to <http://my.unisa.ac.za> > Login > Library > Library catalogue, or for mobile access (AirPAC), go to <http://oasis.unisa.ac.za/airpac>.

## Telephonic book requests

This can be done on +27 (0)12 429-3133. Please supply the reservation order number (RON).

## 6 MODULE-SPECIFIC STUDY PLAN

You are responsible to pace yourself. The volume of work is enormous and therefore bear this in mind when planning your studies. Spread your studies evenly throughout the semester.

Also use the *my Studies @ Unisa* brochure for general time management and planning.

## 7 MODULE PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

## 8 ASSESSMENT

### 8.1 Assessment plan

#### Assignments

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

You are required to **submit the compulsory assignment 01 before the due date** to obtain **admission to the examination**. Admission will be obtained by submitting compulsory assignment 01 and not by the marks you obtain for it.

The marks you obtain for assignment 01 and assignment 02 will contribute towards your year mark.



## Commentaries and feedback on assignments

The solution to assignment 01 will be provided to you in Tutorial Letter 201 which will only be distributed after the due date of assignment 01. The solution to assignment 02 will be sent to you in Tutorial Letter 202 which will only be distributed after the due date of assignment 02.

As soon as you have received the commentaries, please check your answers. The assignments and the commentaries on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination. The solution and commentary on the self evaluation examination paper will be included in Tutorial Letter 104 which will enable you to mark your assignment.

## Year mark

The marks that you obtained for assignment 01 and assignment 02 will contribute towards your year mark for the module.

Your year mark contributes 10% towards your final examination mark. A student requires a final mark of 50% to pass a module. The final mark is calculated as follows:

5% x mark obtained for compulsory assignment 01 plus

5% x mark obtained for compulsory assignment 02 plus

90% x mark obtained in the examination (sub-minimum of 40%)

The sub-minimum of 40% implies that if you obtain a mark of less than 40% in the examination, your year mark will not be taken into account.

Please ensure that your assignment 01 and assignment 02 reach the University **before the due date – late submission of these assignments will result in you not receiving marks that count towards your year mark.**

**THUS:**

**TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 BEFORE OR ON THE DUE DATE**

**YOUR MARKS FOR BOTH ASSIGNMENTS 01 AND 02 WILL BE USED TO DETERMINE YOUR YEAR MARK**

## 8.2 General assignment numbers

Assignments are numbered consecutively per module, starting from 01. Only Arabic numerals are used, for example: Assignments 01, 02, 03, and so on.

### 8.2.1 Unique assignment numbers

In addition to the general assignment number (e.g. 01), each assignment has its **own unique assignment number** (e.g. 102717). This number must be written on the mark reading sheet or assignment cover page in the designated area.

### 8.2.2 Due dates for assignments

| Assignment      | FIRST SEMESTER<br>Due date if you are registered<br>for the first semester | SECOND SEMESTER<br>Due date if you are registered<br>for the second semester |
|-----------------|--|--|
| 01 (Compulsory) | 10 March 2014<br>Unique number: 891753                                     | 01 September 2014<br>Unique number: 869697                                   |
| 02              | 31 March 2014<br>Unique number: 862393                                     | 15 September 2014<br>Unique number: 847260                                   |

### 8.3 Submission of assignments

You may submit written assignments and assignments done on mark reading sheets either by post or electronically via *myUnisa*. Assignments may **not** be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure, ***my Studies @ Unisa***, that you received with your study material.

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with your student number and password.
- Select the module from the orange bar.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Please ensure that your assignment 01 reaches the University **before the due date – late submission of assignment 01 will result in you not being admitted to the examination.**

**PLEASE NOTE: You must submit assignment 01 in order to be admitted to the examination while both assignments 01 and 02 must be submitted for purposes of determining your year mark. No extension of the due dates can be given by the lecturers for these assignments.**

#### General remarks

For enquiries about assignments (e.g. whether or not the University has received your assignment or the date on which an assignment was returned to you) please refer to the contact information in 3.3 of this tutorial letter. You may also find this information on *myUnisa*. To go to the *myUnisa* website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “login to *myUnisa*” link under the *myUnisa* heading on the screen. This should take you to the *myUnisa* website. You can also go there directly by typing in <http://my.unisa.ac.za>.

Assignments should be addressed to:

The Registrar  
PO Box 392  
UNISA  
0003

## Completion of assignment cover

**PLEASE NOTE:** Make sure that you read the instructions on the assignment cover carefully before completing it. Make sure that you complete the cover **correctly**. Please make sure that the following information appears on the COVER of your assignment.

Name.  
 Address (and postal code).  
 Student number.  
 Subject code (e.g. AUE1601).  
**Correct** assignment number.  
 Correct unique assignment number (applicable only to assignments 01 and 02).  
 Label with bar code.

## 8.4 Assignments

### 8.4.1 Semester 1: Compulsory assignment 01

#### Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.
- (3) Consult *my Studies @ Unisa* for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: *my Studies @ Unisa* when you answer multiple-choice assignments.

#### Special instruction regarding the answering of this assignment

- (1) This assignment consists of 10 multiple choice questions.
- (2) This assignment covers topics 1 to 4 of the study guide.
- (3) If you honestly attempt the assignment **after** first consulting your study guide, you will reap the benefits. If you copy the solution with the aim to mainly obtain a high year mark, do not be surprised if you fail the examination in spite of an excellent year mark!

## ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:  
891753

DATE OF SUBMISSION

First semester: 10 March 2014

### QUESTION 1

15 marks

#### REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1. 1
2. 3

(1½ marks per question)

1. Which one of the following situations is **in compliance** with the requirements of the Companies Act 71 of 2008, as amended? (**Topics 2 & 4**)
  - 1 Lilly and Rose are going to register a new company, namely Flowers Limited. They are going to be the only directors of the company.
  - 2 Carnation Limited will have a shareholders meeting on 30 June 2013. The notice of the shareholders meeting was delivered on 20 June 2013 to each shareholder.
  - 3 The shareholders meeting of Daisy Limited, held on 30 June 2013, was conducted successfully. As per the minutes of the meeting, a voting quorum of persons holding 30% of all the voting rights that are entitled to be exercised in respect of at least one matter, were present.
  - 4 Violet Limited was newly incorporated on 3 June 2012. The date of the first financial year-end as set out in the company's notice of incorporation is 28 February 2013. The first annual general meeting will be held on 15 December 2013.
2. Which one of the following statements is **not true** in terms of the Companies Act, 71 of 2008, as amended? (**Topics 2 and 4**)
  - 1 Except to the extent that the Memorandum of Incorporation provides otherwise, the board may, by resolution, approve the issuing of any authorised shares of the company as capitalisation shares on a pro-rata basis to existing shareholders.

- 2 The voting rights attached to the shares of a holding company held by its subsidiary, may be exercised while held by the subsidiary and whilst it remains a subsidiary.
  - 3 Every company must establish and maintain a register of its issued securities which, inter alia, contains the details of the security and the holder, and any transfers of securities.
  - 4 A subsidiary of a company may acquire shares of its holding company.
3. Which one of the following statements is **not true** in terms of the Companies Act 71 of 2008, as amended? **(Topic 4)**
- 1 Not all of the shares of any particular class have an associated voting right on any proposal to amend the preferences, rights, limitations and other terms associated with shares of that particular class.
  - 2 All of the shares of any particular class authorised by a company have preferences, rights, limitations and other terms that are identical to those of other shares of the same class, except to the extent that the company's Memorandum of Incorporation provides otherwise.
  - 3 Each issued share of the company has associated with it one general voting right, subject to the provisions of the Act and the Memorandum of Incorporation.
  - 4 If the company has established only one class of shares, those shares have a right to vote on every matter that may be decided by shareholders of the company.
4. Which one of the following statements regarding voting and shareholders' meetings is **false** in terms of the Companies Act 71 of 2008, as amended? **(Topic 4)**
- 1 A shareholder of a company may only appoint an individual that is a shareholder of that company as a proxy to participate in, speak and vote at a shareholders meeting on behalf of the shareholder.
  - 2 On a show of hands, a person will only have one vote, irrespective of the number of shares he holds or represents.
  - 3 On a poll, any member (including his proxy) is entitled to exercise all the voting rights attached to the shares held or represented by that person.
  - 4 Voting on any matter at a shareholders meeting may be conducted by polling the persons present and entitled to exercise voting rights on that matter.
5. Which one of the following situations will lead to the non-compliance with the Companies Act 71 of 2008, as amended? **(Topic 3)**
- 1 Bieber Limited's financial year-end is 30 June 2013. The company prepared and completed its annual financial statements on 30 September 2013.
  - 2 The financial statements for the financial year-end 30 June 2013 of Bieber Limited are not going to be audited or independently reviewed.

- 3 Financial statements of Bieber Limited must not be false, misleading or incomplete. Any person of Bieber Limited who is party to the preparation, approval, dissemination or publication of financial statements which are materially false or misleading will be guilty of an offence.
  - 4 The first financial year of Bieber Limited commenced on 1 April 2012 (the date on which the company was registered, as stated in its registration certificate). The first financial year of Bieber Limited ends on 30 June 2013, as set out in the Notice of Incorporation.
6. According to the Companies Act 71 of 2008 a person controls a juristic person, or its business in certain instances. Which one of the following instances **does not** constitute control? (**Topic 2**)
- 1 Mr. Barone and his son Crunchy have the right to appoint the directors of Candy Limited, who control the majority of the votes at a meeting of the board. Therefore Mr. Barone and his son Crunchy control Candy Limited.
  - 2 Milo and his wife Marshmallow control the entity Chocolate Limited. Chocolate Limited owns the majority of shares in Horlics Limited. Therefore Milo and Crunchy also control the entity Horlics Limited.
  - 3 Jellytot Limited is able to indirectly exercise a majority of the voting rights of Smartie Limited, pursuant to shareholders agreement. Therefore Jellytot Limited controls Smartie Limited.
  - 4 Allsorts (Pty) Ltd recently purchased 50% of the shares in Jellybean Limited. Allsorts (Pty) Ltd controls Jellybean Limited.
7. Steven Jobs entered into a written rental agreement to rent a building in Johannesburg in the name of Apple Limited. The company Apple Limited does not exist yet, however it is contemplated to be incorporated in terms of the Companies Act 71 of 2008. Which of the following statements are **false**? (**Topic 2**)
- 1 Steven Jobs is not liable for the rental agreement if Apple Limited is never incorporated.
  - 2 Steven Jobs is liable for the rental agreement if Apple Limited is incorporated and the board of directors of Apple Limited rejects the rental agreement.
  - 3 Steven Jobs is not liable for the rental agreement if Apple Limited, after its incorporation, enters into a rental agreement on the same terms as the rental agreement that Steven Jobs entered into.
  - 4 If within three months after the date on which Apple Limited was incorporated, the board has not rejected the rental agreement, Apple Limited will be regarded to have ratified the rental agreement and the liability of Steven Jobs regarding the rental agreement will be discharged.

8. The following extract is from Pizzaz Limited's annual financial statements at 31 December 2013:

|                               | <b>2013</b>      |
|-------------------------------|------------------|
|                               | <b>R</b>         |
| <b>ASSETS</b>                 |                  |
| Total Non-Current Assets      | 800 000          |
| Total Current Assets          | 300 000          |
|                               | <u>1 100 000</u> |
| <b>EQUITY AND LIABILITIES</b> |                  |
| Total Non-Current Liabilities | 900 000          |
| Total Current Liabilities     | 700 000          |
|                               | <u>1 600 000</u> |

Which one of the following statements is **false** in terms of the Companies Act 71 of South Africa (**Topic 2**)?

- 1 It appears that Pizzaz Limited will not be able to pay its debts as they become due in the ordinary course of business for a period of 12 months.
  - 2 The liabilities of Pizzaz Limited fairly valued equal or exceed the assets of Pizzaz Limited fairly valued.
  - 3 Pizzaz Limited satisfies the solvency and liquidity test.
  - 4 Pizzaz Limited is not entitled to declare a relevant dividend at the next shareholders meeting.
9. In terms of the Companies Act 71 of 2008, which of the following company names would be permissible? (**Topic 2**).
- 1 Government Suppliers (Pty) Ltd
  - 2 Xenophobic Contractors Limited
  - 3 Mobile123 (Pty) Ltd
  - 4 Bling Bling Company
10. Which one of the following statements is **false** in terms of the Companies Act? (**Topic 4**)
- 1 If the Memorandum of Incorporation restricts it, any transaction between the company and a third party is void.
  - 2 After a company has changed its name, any legal proceedings that might have commenced against the company under its former name may commence against it under its new name.

- 3 A company may not carry on trading under insolvent circumstances.
- 4 Every company must maintain minutes of all meetings and resolutions of directors for a period of seven years after the date of each such meeting or on which each such resolution was adopted.

---X---

#### 8.4.2 Semester 1: Compulsory assignment 02

##### Instructions:

- (1) Consult *my Studies @ Unisa* for instructions on how to submit written assignments.

##### Special instruction regarding the answering of this assignment

- (1) This assignment covers topics 1 to 10 of the syllabus.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

|   |
|---|
| <p style="text-align: center;"><b>ASSIGNMENT 02: ESSAY TYPE QUESTIONS</b></p> <p style="text-align: center;"><b>UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:</b><br/><b>862393</b></p> <p style="text-align: center;"><b>DATE OF SUBMISSION</b></p> <p style="text-align: center;"><b>First semester: 31 March 2014</b></p> |
|---|

#### QUESTION 1

22 marks

You are a Registered Auditor and an expert on the Companies Act.

Kate Master, a former housewife, was recently a winner on a famous television cooking game show and decided to start her own business. She used her prize money and established the company Mastering Chef (Proprietary) Limited ("Mastering Chef") on 1 July 2012. Mastering Chef is a distributor of high-quality kitchenware in South Africa.

Kate appointed her co-star on the game show, Michael Knife as the financial manager of Mastering Chef. Kate appointed Michael, as he is knowledgeable in the culinary industry and he is a Chartered Accountant (SA) as well as a Registered Auditor. Michael prepared the financial statements for the year ending 30 June 2013.

Due to Kate's resultant fame at winning the cooking game show, her company successfully penetrated the market with all her loyal fans as customers. Mastering Chef performed exceptionally well and had a turnover of R1 200 000 in the first year of business, ending 30 June 2013. Due to the success of Mastering Chef, Kate decided to expand the operations of the company to the international market. Mastering Chef obtained a loan to the amount of R500 000 from GNB Bank in order to finance this expansion of the company.



Kate is a major shareholder of Mastering Chef and holds 51% of the issued share capital. At the incorporation of the company, Kate issued a 20% share in Mastering Chef to Michael. Kate issued the remaining share capital to 100 of her most loyal fans.

Mastering Chef had 50 employees on average during the financial year ended 30 June 2013.

Kate approaches you for advice regarding the following:

- 1.1** Kate and Michael had a disagreement regarding whether or not Mastering Chef should be audited, for the financial year ending 30 June 2013 in terms of the Companies Regulations.

**REQUIRED**

**Marks**

- (a) Calculate the public interest score for Mastering Chef for the financial year ending 30 June 2013 in terms of the Companies Regulations. **(5)**
- (b) Based on the public interest score calculated in part (a), discuss whether or not Mastering Chef should be audited for the 2013 financial year end in terms of the Companies Act and the Companies Regulations. **(6)**

- 1.2** Assuming that Mastering Chef should be audited for the financial year ending 30 June 2013. Kate is also uncertain of which candidate would be permissible and suitable to appoint as the auditor of Mastering Chef. Kate suggested the following candidates:

- Michael Knife, the financial manager of Mastering Chef
- Adam Fork, the managing director of Mastering Chef, who has a degree in Accounting
- The wife of Adam Fork, Marion Fork. She is a Registered Auditor and also a partner at Up To Date Incorporated, a firm of Registered Auditors.
- No Repeat Incorporated, a firm of Registered Auditors. The firm is one of the biggest auditing firms in South Africa and no employee at No Repeat Incorporated has any relationship to Mastering Chef.

**REQUIRED**

**Marks**

- (a) List five requirements for a person or a firm to be appointed as an auditor of Mastering Chef in accordance with the Companies Act. **(5)**
- (b) Briefly consider the eligibility of each of the candidates mentioned above in terms of the requirements of the Companies Act, to be appointed as the auditor of Mastering Chef for the audit of the financial year ended 30 June 2013. **(6)**

**QUESTION 2**

**28 marks**

I-Roll Limited (“I-Roll”) was established to assist with the management of the new electronic toll system (“e-toll”) in South Africa. The main responsibilities of I-Roll are the contracting, administration and managing of all e-toll customer accounts. The company therefore manages all e-toll transaction processing and clearing. In instances of non-payment by e-road users, I-Roll also implements the fining and debt collection process.

I-Roll is financially healthy with a turnover for the current financial year of R9.5 million. After taking into account the matters for discussion below, the company's current assets will amount to R5 million and its current liabilities to R2.5 million. The company's net asset value will be R5 million.

Below is an extract of the minutes of the meeting of the board of directors of I-Roll held on 30 June 2013:

**Attendees:**

Bonolo Avenue, managing director  
 Sarah Lane, chairman, independent non-executive director  
 Cornelius Toll, marketing director  
 Waseem Crossing, financial director and holds 60% of I-Roll's shares

**Matters for discussion:**

1. Minnesh Crossing, son of Waseem Crossing is experiencing severe cash flow problems and applied for a long-term loan from I-Roll. The loan of R1 million to Minnesh Crossing was approved and granted. The loan was granted after the directors of the board evaluated that all the conditions and restrictions in respect of the granting of financial assistance as set out in the Memorandum of Incorporation of I-Roll were satisfied. This is the first time this type of loan has been approved and granted since the incorporation of I-Roll. On 20 July 2013 a notice of the adopted resolution was sent to all the share-holders of the company.
2. Allegations recently emerged against Bonolo Avenue, regarding his involvement in a money laundering operation. Bonolo Avenue has not yet been found guilty; however the board requested Bonolo Avenue to voluntarily resign as a director as his involvement in the scheme may bring I-Roll into disrepute. Bonolo refused this request and pleaded his innocence with the board of directors.

| <b>REQUIRED</b> |  | <b>Marks</b>  |
|-----------------|--|---|
| <b>2.1</b>      | Determine whether Minnesh Crossing is a related party of Wasseem Crossing in terms of the Companies Act.   | <b>(3)</b>  |
| <b>2.2</b>      | Discuss the legality of the granting of the loan to Minnesh Crossing in terms of the requirements of the Companies Act. Structure your answer according to the following points: <ul style="list-style-type: none"> <li>• Granting of a loan to a person related to a director.</li> <li>• Solvency and liquidity requirements.</li> <li>• Authorisation to approve the loan.</li> <li>• Requirements to give notice of the resolution.</li> <li>• Whether the granting of the loan was legal or not.</li> </ul> | <b>(1)</b><br><b>(5)</b><br><b>(2)</b><br><b>(6)</b><br><b>(1)</b><br><b>(15)</b> |
| <b>2.3</b>      | List the process and requirements to remove a director in terms of the Companies Act.  | <b>(10)</b>   |

---X---

### 8.4.3 Semester 2: Compulsory assignment 01

#### Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark reading sheet.
- (3) Consult **my Studies @ Unisa** for an example of how a computer mark reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult: **my Studies @ Unisa** when you answer multiple-choice assignments.

#### Special instruction regarding the answering of this assignment

- (1) This assignment consists of 10 multiple choice questions.
- (2) This assignment covers topics 1 to 4 of the study guide.
- (3) If you honestly attempted the assignment **after** first consulting the study guide, you will reap the benefits. If you copied the solution with the aim to mainly obtain a high year mark, do not be surprised if you fail the examination in spite of an excellent year mark!

## ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:  
**869697**

DATE OF SUBMISSION

Second semester: **1 September 2014**

**QUESTION 1**

**15 marks**

#### REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follow:

1. 1
2. 3

(1½ marks per question)

1. Which one of the following situations will lead to non-compliance with the Companies Act 71 of 2008, as amended? **(Topic 3)**
  - 1 Moulin Rouge Limited's financial year-end is 30 June 2013. The company prepared and completed its annual financial statements on 30 September 2013.
  - 2 The financial statements for the financial year-end 30 June 2013 of Moulin Rouge Limited are not going to be audited or independently reviewed.
  - 3 Financial statements of Moulin Rouge Limited must not be false, misleading or incomplete. Any person of Moulin Rouge Limited who is party to the preparation, approval, dissemination or publication of financial statements which are materially false or misleading will be guilty of an offence.
  - 4 The first financial year of Moulin Rouge Limited commenced on 1 April 2012 (the date the incorporation of the company was registered, as stated in its registration certificate). The first financial year of Moulin Rouge Limited ends on 30 June 2013, as set out in the Notice of Incorporation.
  
2. Which one of the following transactions will not be legal in terms of the Companies Act 71 of 2008, as amended? **(Topic 4)**
  - 1 Aqua Limited has an authorised share capital of 180 000 ordinary shares and an issued ordinary share capital of 130 000 ordinary shares. A decision to issue 30 000 shares to the directors of the company has been approved by means of a special resolution obtained at the annual shareholders' meeting. None of the shareholders present at the meeting opposed this particular transaction.
  - 2 Aqua Limited has approved a decision to declare a dividend of R100 000. The decision was authorised by the board of the company and it reasonably appears that after the dividend has been declared, the company will still satisfy the liquidity and solvency requirements.
  - 3 Aqua Limited has approved a decision to acquire 30 000 of its own shares in a share buyback. The decision was authorised by the board of the company and it reasonably appears that after the acquisition of its own share, the company will still satisfy the liquidity and solvency requirements and none of the shares are acquired from a director or prescribed officer or person related to the mentioned parties.
  - 4 Aqua Limited has approved a decision to acquire 20% of the shares of its holding company. The decision was authorised by the board of Aqua Limited and it reasonably appears that after the acquisition of its own share, the company will still satisfy the liquidity and solvency requirements and none of the shares are acquired from a director or prescribed officer or person related to the mentioned parties.
  
3. The following extract is from Newton Limited's annual financial statements at 31 December 2013:

|                               | <b>2013</b>       |
|-------------------------------|-------------------|
|                               | <b>R</b>          |
| <b>ASSETS</b>                 |                   |
| Total Non-Current Assets      | 4 000 000         |
| Total Current Assets          | <u>5 000 000</u>  |
|                               | <u>9 000 000</u>  |
| <b>EQUITY AND LIABILITIES</b> |                   |
| Total Non-Current Liabilities | 6 000 000         |
| Total Current Liabilities     | <u>9 000 000</u>  |
|                               | <u>15 000 000</u> |

Which one of the following statements is **true** in terms of the Companies Act 71 of 2008, as amended? (**Topic 2**)

- 1 It appears that Newton Limited will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months.
  - 2 The assets of Newton Limited fairly valued equal or exceed the liabilities of Newton Limited fairly valued.
  - 3 Newton Limited does not satisfy the solvency and liquidity test.
  - 4 Newton Limited is entitled to declare a relevant dividend at the next shareholders meeting.
4. Which one of the following situations is **in compliance** with the requirements of the Companies Act 71 of 2008, as amended? (**Topics 2 and 4**)
- 1 Simba and Mufasa are going to register a new company, namely Lion King Limited. They are going to be the only directors of the company.
  - 2 Nemo Limited will have a shareholders meeting on 30 June 2012. The notice of the shareholders meeting was delivered on 20 June 2012 to each shareholder.
  - 3 The shareholders meeting of Cinderella Limited, held on 30 June 2012, was conducted successfully. As per the minutes of the meeting, a voting quorum of persons holding 30% of all the voting rights that are entitled to be exercised in respect on at least one matter were present.
  - 4 Mermaid Limited was newly incorporated on 3 June 2011. The date of the first financial year-end as set out in the company's notice of incorporation is 28 February 2012. The first annual general meeting will be held on 15 December 2012.
5. According to the Companies Act 71 of 2008, as amended, a person controls a juristic person, or its business in certain instances. Which one of the following instances **does not** constitute control? (**Topic 2**)
- 1 Buzz Close (Pty) Ltd owns 50% of the shares in Woody (Pty) Ltd. Therefore Buzz (Pty) Ltd controls Woody (Pty) Ltd.

- 2 Donald Duck and his wife Daisy control the entity Disney Entertainment Limited. Disney Entertainment Limited owns the majority of shares in DreamWorks Limited. Therefore Donald and Daisy Duck also control the entity DreamWorks Limited.
  - 3 Jacks Parow Limited is able to indirectly exercise a majority of the voting rights of Caribbean Limited, pursuant to a shareholder agreement. Therefore JacksParow limited controls Caribbean Limited.
  - 4 Mr Shrek and his son Mr Donkey have the right to appoint directors of FarFar Away Limited, who control the majority of the votes at a meeting of the board. Therefore Mr Shrek and his son Mr Donkey control FarFar Away Limited.
6. Which one of the following statements is **true** in terms of the Companies Act 71 of 2008 **(Topic 2)?**
- 1 The shareholders of a company may enter into any agreement with one another concerning any matter relating to the company. This agreement may amend any requirement stipulated in the Companies Act and the company's Memorandum of Incorporation.
  - 2 The Memorandum of Incorporation may include a provision dealing with a matter that the Act does not address or altering the effect of any alterable provision in the Companies Act.
  - 3 The Memorandum of Incorporation may include provisions to amend any requirement included in the Companies Act, which is deemed to be necessary to operate the company.
  - 4 An amendment to the Memorandum of Incorporation in compliance with a court order is effected by the board and requires an additional special resolution.
7. Which one of the following statements is **false** in terms of the Companies Act? **(Topic 2 and 4)**
- 1 Except to the extent that the Memorandum of Incorporation provides otherwise, the board may, by resolution, approve the issuing of any authorised shares of the company as capitalisation shares on a pro-rata basis to existing shareholders.
  - 2 The voting rights attached to the shares of a holding company held by its subsidiary may be exercised while held by the subsidiary and whilst it remains a subsidiary.
  - 3 Every company must establish and maintain a register of its issued securities which contains the details of the security and the holder, and any transfers of securities.
  - 5 A subsidiary of a company may acquire shares of its holding company.
8. Which one of the following statements regarding voting and shareholders' meetings is **false** in terms of the Companies Act? **(Topic 4)**

- 1 A shareholder of a company may only appoint an individual that is a shareholder of that company as a proxy to participate in, speak and vote at a shareholders' meeting on behalf of the shareholder.
  - 2 Voting on any matter at a shareholders' meeting may be conducted by polling the persons present and entitled to exercise voting rights on that matter.
  - 3 On a poll, any member (including his proxy) is entitled to exercise all the voting rights attached to the shares held or represented by that person.
  - 4 On a show of hands, a person will only have one vote, irrespective of the number of shares he holds or represents.
9. Which one of the following statements is **false** in terms of the Companies Act? **(Topic 3)**
- 1 A Memorandum of Incorporation and a record of its directors form part of the company records that must be maintained by every company.
  - 2 A private company need not be audited at all.
  - 3 The annual financial statements of a public company must be audited.
  - 4 The annual financial statements of a public company must be audited by a registered auditor.
- 10 Which one of the following statements is **false** in terms of the Companies Act? **(Topic 2)**
- 1 The Companies Act provides for the formation and incorporation of profit companies and non-profit companies.
  - 2 A "profit company" refers to a company incorporated for the purpose of financial gain for its shareholders.
  - 3 A "non-profit company" is allowed to distribute its income to its incorporators, members, directors, officers or persons related to any of them, with no requirements to be met.
  - 4 The Memorandum of Incorporation of a private company prohibits it from offering any shares to the public.

---X---

#### 8.4.4 Semester 2: Compulsory assignment 02

##### Instructions:

- (1) Consult **my Studies @ Unisa** for instructions on how to submit written assignments.

## Special instruction regarding the answering of this assignment

- (1) This assignment covers the whole syllabus.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

**ASSIGNMENT 02: ESSAY TYPE QUESTIONS**

**UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:  
847260**

**DATE OF SUBMISSION**

**Second semester: 15 September 2014**

### QUESTION 1

**50 marks**

Barking Mad Limited ("Barking Mad") is a veterinarian pharmaceutical company that specialises in the development and manufacturing of vaccines and medicine for domestic animals and livestock. Barking Mad is an industry leader in the scientific research, development, manufacture and sale of quality, proven veterinary pharmaceutical products.

Rinus Terrier, the founder and the financial director of Barking Mad, has a significant equity interest of 75% in Anamalia (Proprietary) Limited ("Anamalia").

Barking Mad holds a 90% interest in Multivet Limited ("Multivet").

The following extract is from Barking Mad's annual financial statements at 30 June 2013:

|                               | <b>2013</b> |
|-------------------------------|-------------|
|                               | <b>R</b>    |
| <b>ASSETS</b>                 |             |
| Total non-current assets      | 4 000 000   |
| Total current assets          | 5 000 000   |
|                               | 9 000 000   |
| <b>LIABILITIES</b>            |             |
| Total non-current liabilities | 6 000 000   |
| Total current liabilities     | 9 000 000   |
|                               | 15 000 000  |

The following extract is from Barking Mad's notes to the annual financial statements for the financial year end of 30 June 2013:



**2013**  
**R**

## 8. SHARE CAPITAL

**Authorised share capital**

100 000 ordinary shares

|         |
|---------|
| 100 000 |
|---------|

**Issued share capital**

80 000 ordinary shares

|        |
|--------|
| 80 000 |
|--------|

You are a Registered Auditor and an expert on the Companies Act. Rinus Terrier presented the following proposed matters to you for your evaluation:

### 3.1 Matter 1:

The board of directors of Barking Mad will approve a decision to issue 30 000 shares to Anamalia. The board has determined that if the share issue takes places, the shares will be issued at the current market value of the shares.

**REQUIRED**

**Marks**

Discuss the requirements of the Companies Act for the issue of the 30 000 shares to Anamalia, in terms of the following points **only**:

- Authority to issue shares. (2)
  - Authorised shares available for issue. (4)
  - Consideration for the shares. (3)
  - Share issue to Anamalia. (4)
  - Voting requirements for a special resolution to be approved by shareholders. (2)
  - Notice of the shareholders meeting. (2)
  - Requirements for a shareholders' meeting quorum. (3)
- (20)**

### 3.2 Matter 2:

The board of directors of Barking Mad will approve a share buyback of 80 000 of the issued shares of Barking Mad as follows: 30 000 shares will be acquired by Multivet and the remaining 50 000 shares will be acquired by Barking Mad so that there would no longer be any shares of Barking Mad in issue. The board of directors of Multivet approved the acquisition of the 30 000 shares at the current market value of the shares.

**REQUIRED**

**Marks**

- 3.2.1** List in detail the Companies Act requirements related to a company or its subsidiary, acquiring that company's own shares. (10)

**Marks**

**3.2.2** From the information in the scenario, indicate whether or not the acquisition of the Barking Mad shares by Barking Mad and Multivet is legal, in accordance with the requirements of the Companies Act. You may assume that the issue of the 30 000 shares in Matter 1 did not take place.

**(10)**

**3.3 Matter 3:**

Rinus Terrier is considering expanding his business and starting another company. He has already entered into a new lease agreement with a third party for premises for his new company. He is unsure about the requirements of the Companies Act regarding pre-incorporation contracts.

**REQUIRED**

**Marks**

Explain to Rinus Terrier the Companies Act requirements and consequences concerning pre-incorporation contracts.

**(10)**

## **9 OTHER ASSESSMENT METHODS**

An examination paper which serves as a self evaluation assessment is provided as an addendum to this tutorial letter.

### **Special instructions and remarks regarding the answering of this assessment opportunity**

It is advised that you complete this assessment opportunity under examination conditions within two hours without consulting your study material.

After having completed this, you should compare your answers with the key in Tutorial Letter 104. This assessment opportunity **must not** be sent to the University.

### **Tutorial material for this assessment opportunity**

This assessment opportunity deals with the entire content of this module.

### **Purpose of this assessment opportunity**

The purpose of this assessment opportunity is to serve as a revision of the study material as a whole and at the same time is an indication of the standard which can be expected in the examination.

Attached find the May/June 2013 examination that serves as a self assessment assignment.

| QUESTION | MAIN TOPIC   | MARKS      |
|----------|--|------------|
| 1        | Diverse Companies Act Issues   | 13         |
| 2        | Issuing of shares; Consideration for Shares; Directors Personal Financial Interest; Disposal of the Major Part of a Company's Assets; Dividends; Companies Secretary | 70         |
| 3        | Rotation of Auditors; Audit Committee; Public Interest Score   | <u>17</u>  |
|          |  | <u>100</u> |

**NOTE:**

The main objective of the examination is to test a candidate's knowledge and ability to apply the study material, although the examiners will also take into account the candidate's ability to organise and present that knowledge in writing and according to an acceptable standard.

In this paper, references to the Companies Act and the Companies Regulations are to the Companies Act 71 of 2008, as amended and the Companies Regulations of the Republic of South Africa.

**QUESTION 1****13 marks**

Webber Productions Ltd ("Webber Productions") is a company operating in the theatre production industry. Mr Andrew Webber, and his brother Lloyd Webber are both shareholders and directors of the company. The company has an authorised and issued share capital of 100 000 shares.

**REQUIRED****Marks**

- 1.1 During the financial year under review, a loan was made by Webber Productions to Ms Eva Peron. Ms Peron and Mr Andrew Webber are not married, but they have been living together for several years with their two children.

Are Andrew Webber and Eva Peron related persons in terms of the related persons definition in section 2 of the Companies Act? Provide a reason for your answer.

**(1½)**

- 1.2 In order to grant a loan to Eva Peron, Webber Productions is required *inter alia*, in terms of the Companies Act, to meet the solvency and liquidity requirements. The loan should also have been approved in the previous two years, by a special resolution of shareholders. Are the following statements true or false? Give a reasons for your answers.

## REQUIRED

Marks

- (i) Webber Productions is liquid if it is able to pay its debts as they become due, in the ordinary course of business, immediately after the date of the test. (1½)
- (ii) Unless the Memorandum of Incorporation of Webber Productions provides for a lower percentage to constitute a voter's quorum, the quorum for all shareholders' meetings is the presence at the meeting of the holders of at least 75% of the shares entitled to vote. (1½)
- 1.3 Webber Productions has updated its Memorandum of Incorporation (MOI) to comply with the Companies Act. Is the following statement true or false? Give a reason for your answer.
- The Memorandum of Incorporation of Webber Productions will state that the company is a personal liability company. (1½)
- 1.4 The board of Webber Productions wishes to issue 10 000 shares to Phantom (Pty) Ltd ("Phantom"), a company that supplies decor and costumes for theatre productions. The board is further planning to issue another 10 000 shares to the only subsidiary company of Webber Productions, Cats (Pty) Ltd ("Cats"). Are the following statements true or false? Give reasons for your answers.
- (i) Shares can **only** be issued to Phantom by the board of Webber Productions, if the authorised share capital has been increased by a special resolution before the company issues the shares. (3)
- (ii) The rights and limitations attached to shares which are stated in the company's founding statement can be altered by a resolution of the board of directors. (1½)
- (iii) Cats may not hold more than 10% of any class of shares of Webber Productions, and may exercise any voting rights attached to those shares. (1½)
- 1.5 Cats (Pty) Ltd is considering converting itself into a close corporation. Is this allowed in terms of the Companies Act? Give a reason for your answer. (1½)

## QUESTION 2

70 marks

You are a Chartered Accountant and an expert on the Companies Act.

Bond Ltd ("Bond") is the official printer and distributor of the popular "Jane Bond" action novel series, written by Ina Flemming. The majority of the company's income is derived from the printing and selling of the novels. The company also earns royalties from Fox Pictures Ltd, for rights to produce screenplays and films based on the books. These films are screened in leading cinemas all over the world. Bond experienced a substantial increase in turnover during the year, due to the public's enthusiasm regarding the new "Jane Bond" film, entitled "Falling-Sky".

Below is an extract of the minutes of the meeting of the board of directors of Bond:

**BOND LIMITED  
MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS HELD ON  
31 JANUARY 2013**

**Present:**

Ms. Sienna Connery, chairman and independent non-executive director  
 Mr. Percy Brosnan, non-executive director  
 Mr. Danny Craig, sales and marketing director  
 Ms. Rachel Moore, managing director  
 Mr. Thomas Dalton, financial director  
 Ms. Geraldine Lazenby, company secretary

**Apologies:**

Ms. Money Penny, independent non-executive director

**Matters for discussion:**

**1. *Investment in Fox Pictures***

Mr. Danny Craig indicated that the success of the “Falling-Sky” film resulted in significant growth for the company. To avoid any decline in growth before the next book is published, Mr. Craig suggested that other areas of operation, such as film production and screenplay writing, should be explored. He also proposed the investment and acquisition of 49% of the issued share capital of Fox Pictures. He indicated to the board that, as he is a holder of 20% of the shares in Fox Pictures, he is aware that Fox Pictures is a very successful company. He is also convinced that this acquisition will increase the share value of Fox Pictures. Mr. Thomas Dalton questioned how this transaction will be financed since the purchase price of the shares will amount to R1 million. Ms. Rachel Moore proposed that the purchase price of R1 million be settled by issuing an additional 200 000 shares in Bond Ltd at fair market value of R5 per share. Bond Ltd currently has 50 000 unissued authorised shares.

The voting commenced and the proposed transactions to invest in Fox Pictures and to fund the investment with a share issue were approved by **all** of the directors.

**2. *Disposal of printing machines:***

Ms. Rachel Moore indicated that Bond currently does not utilise all of the specialised printing machinery that it owns. She subsequently proposed to dispose of seven of the ten machines that the company owns, with a book value of R3 million each.

The voting commenced and the proposal was unanimously accepted. It was deemed unnecessary to inform the shareholders of this decision.

### **3. Declaration of Dividend**

Mr. Thomas Dalton presented the financial results for the financial year ended 31 December 2012 which indicated the following:

Profit for the year: R12 million  
Total Assets: R35 million  
Total Liabilities: R20 million

As at 31 December 2012 the current assets of the company exceeded its current liabilities by R7 million.

The directors applied the solvency and liquidity test and resolved to declare a dividend of R5 million due to the company's favourable financial results flowing from the "Falling-Sky" film

### **4. Resignation of Company Secretary**

Ms. Geraldine Lazenby presented her written notice of resignation as company secretary, and indicated her intention to resign from the position with effect from 21 February 2013, as her husband has been offered a job opportunity in the United States.

The board approved her resignation, and suggestions were made for one of the following nominees to be appointed at the next board meeting:

- Casino Royale Incorporated, the auditors of Bond Ltd.
- Quantum of Solace (Pty) Ltd ("Quantum") which is incorporated in Russia. The brother of Mr. Dalton, is the managing director of Quantum. He lives in South Africa with his family and previously acted as the company secretary for a few well-known listed companies.

The next board meeting is to be held on 1 April 2013.

Ms. Sienna Connery approached you for advice regarding the resolutions passed at the meeting of the board of directors held on 31 January 2013.

## **REQUIRED**

**Marks**

### **Refer to the first agenda point: Investment in Fox Pictures**

**2.1** Discuss whether the purchase price of R1 million can be settled by issuing 200 000 shares at a fair market value of R5 per share in terms of the requirements of the Companies Act by first stating the requirements of the Companies Act and then applying these to the scenario. Use the following headings in your solution:

**(i)** Issuing of shares **(12)**

**(ii)** Consideration for the shares **(3)**

|   | <b>Marks</b> |
|---|--------------|
| <p><b>2.2</b> With regard to Mr. Craig's personal financial interest in the acquisition of the Fox Pictures shares by Bond Ltd, discuss the legality of Mr. Craig's actions, by first stating the requirements of the Companies Act, and then applying these to the scenario.</p> | <b>(14)</b>  |
| <p><b>Refer to the second point on the agenda: Disposal of printing machines</b></p>  |              |
| <p><b>2.3</b> List the requirements of the Companies Act for the disposal of the greater part of a company's assets. Do not include any requirements on quorums or voting.</p>  | <b>(5)</b>   |
| <p><b>2.4</b> Discuss the legality of the disposal of the printing machines in terms of the Companies Act. Do not discuss any requirements regarding quorums or voting. (You should also refer to the financial information supplied in the minutes)</p>                          | <b>(5)</b>   |
| <p><b>Refer to the third point on the agenda: Declaration of dividend</b></p>   |              |
| <p><b>2.5</b> Determine whether Bond Ltd satisfies the solvency and liquidity test as defined in the Companies Act, by first stating the requirements of the Companies Act, and then applying these to the scenario.</p>  | <b>(6)</b>   |
| <p><b>2.6</b> (i) List the requirements of the Companies Act in respect of the declaration of the dividend of R5 million.</p>   | <b>(4)</b>   |
| <p>(ii) Apply the requirements listed in (i) above to the scenario in order to determine where the Companies Act has been complied with regarding the dividend declaration.</p>   | <b>(4)</b>   |
| <p><b>Refer to the fourth point on the agenda: Resignation of Company Secretary</b></p>   |              |
| <p><b>2.7</b> Discuss the resignation of Ms. Lazenby, the company secretary, in terms of the Companies Act.</p>   | <b>(6)</b>   |
| <p><b>2.8</b> Explain to the board of Bond Ltd which of the candidates nominated for the position of company secretary at Bond Ltd will be permitted to act as such in terms of the requirements of the Companies Act .</p>   | <b>(6)</b>   |
| <p><b>2.9</b> List any five duties of the Company Secretary.</p>  | <b>(5)</b>   |

### QUESTION 3

17 marks

You are a director at the audit firm Windsor Incorporated (“Windsor”), together with two (previously three) other auditors, Mr. William Windsor and Mr. Harry Mountbatten. The following matters require your attention:

#### Matter 1

Ms Kate Middleton, the auditor in charge of one of Windsor’s audit clients, Buckingham Ltd, resigned as a director from the audit firm during the year.

#### Matter 2

Mr. Earl Spencer, the managing director of one of your audit clients, Kensington Ltd, contacted you for advice regarding the composition of the audit committee of Kensington Ltd. He wanted to know if the following persons are allowed to form part of the audit committee, in terms of the Companies Act.

- Mr. Spencer himself;
- The son of Mr. Spencer, since he has chaired audit committees in the past; and
- Ms. Sarah Ferguson, an expert on the Companies Act. She is also one of the major customers of Kensington Ltd.

### REQUIRED

|  | <b>Marks</b> |
|--|--------------|
| <b>3.1</b> With reference to matter 1, determine whether a vacancy arose in the position of auditor due to the fact that Ms. Middleton resigned from Windsor Incorporated, the current auditor of Buckingham Ltd, in terms of the requirements of the Companies Act. | <b>(3)</b>   |
| <b>3.2</b> With reference to matter 2, discuss if Kensington Ltd is required to have an audit committee in terms of the Companies Act.   | <b>(1)</b>   |
| <b>3.3</b> List all the requirements of the composition of the audit committee in terms of the Companies Act and discuss the legality of the composition of the audit committee as suggested by Mr. Spencer in terms of these requirements.                          | <b>(10)</b>  |
| <b>3.4</b> List the four factors that contribute to the calculation of the Public Interest Score of a company.   | <b>(3)</b>   |

## 10 EXAMINATION

### Requirements for admission to the examination

Submission of the **compulsory assignment 01** by its due date will give a student *admission* to the examination in this module. Admission will be obtained by submitting this assignment **in time** and not by the marks you obtain for it. Please ensure that this assignment reaches the University **before or on the due date**. **Late submission of the assignment will result in you not being admitted to the examination. No extension will be given for the late submission of assignments 01 and 02.**



## **The Examination Period**

This module is offered in both semesters. This means that if you are registered for the first semester, you will write the examination in May/June 2014 and the supplementary examination will be written in October/November 2014. If you are registered for the second semester you will write the examination in October/November 2014 and the supplementary examination will be written in May/June 2014.

During the semester, the examination section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

## **The Examination Paper**

Note that your self evaluation assignment is an example of an examination paper. It will be included in this tutorial letter under point 9. Please refer to this assessment opportunity for the format of the examination paper and type of questions you can expect in the examination.

### **Previous Examination Papers**

Previous examination papers are available to students on *myUnisa*. Suggested solutions are not provided. You may, however, accept that the type of questions that will be asked in the examination will be similar to those found in your study material.

Use the *my Studies @ Unisa* brochure for general guidance for the examination as well as for your preparation for the examination.

## **11 FREQUENTLY ASKED QUESTIONS**

The *my Studies @ Unisa* brochure contains an A-Z guide of the most relevant study information.

## **12 SOURCES CONSULTED**

Apart from the Companies Act no 71 of 2008, and the Companies Regulations, no additional sources were consulted.

## **13 CONCLUSION**

Wishing you every success with your Auditing studies! We are here to assist you where we can with the content of the module. Please make the most of your opportunity to learn about this module.

## **14 ADDENDUM**

There are no addendums to this tutorial letter.