

**QUESTION 1****40 marks****Ignore any value-added tax (VAT)**

Alpha Pharmaceutical Holdings Ltd ('Alpha') is registered in Zimbabwe and quoted on the Zimbabwe Stock Exchange. The Alpha group is a leading supplier of branded and generic pharmaceutical products in Africa through major investments in three subsidiaries in the pharmaceutical industry. It has an established market presence in South Africa through two subsidiaries, namely Omega Pharmaceuticals (Pty) Ltd ('Omega') and Delta Pharmaceuticals (Pty) Ltd ('Delta'). Alpha also has a third subsidiary, Alpha Pharmaceuticals (Pvt) Ltd ('APM'), which is registered in Zimbabwe. APM distributes pharmaceutical products throughout Zimbabwe and, from the beginning of 2012, also exported products to Omega and to Delta.

**1 APM**

On 1 July 2010 APM granted 500 share options to each of the 15 members of the executive committee of APM. These options entitle each of these members to one share in Alpha when exercised. The options are subject to the following conditions:

- The share options vest on 30 June 2013, provided that the employee is still employed within the Alpha group at that date.
- Vested but unexercised share options may be exercised on or before the earlier of 1 July 2016 or the date on which an employee resigns. If they are not exercised by the earlier of these dates, the options will lapse.
- The strike price associated with these options amounted to \$15 per option.

The following information relates to the share option scheme:

	<b>Actual number of employees still employed at relevant date</b>	<b>Estimated number of employees expected to be employed at vesting date</b>	<b>Fair value* of share option</b>	<b>Alpha share price (closing price)</b>
1 July 2010	15	13	\$10,00	\$26,00
31 December 2010	15	13	\$11,00	\$30,00
31 December 2011	13	13	\$12,00	\$31,00
31 December 2012	12	11	\$10,00	\$29,00
27 February 2013	12	11	\$9,00	\$25,00
30 June 2013	12	n/a	\$12,00	\$28,00
31 August 2013	12	n/a	\$12,50	\$28,50
15 September 2013	12	n/a	\$12,75	\$28,75
31 December 2013	11	n/a	\$13,00	\$29,00

\* The fair value was determined using an options pricing model.

2 000 share options were exercised by 31 December 2013 and APM settled all amounts owing to the employees on each exercise date.

## 2 Executive share option transactions

Amongst the 15 members participating in the share option scheme were Messrs Smith, Jones and Sibanda and Mrs Moyo.

- Messrs Smith, Jones and Sibanda all exercised their options on 30 June 2013.
  - Mr Smith, who is 58 years of age and who hoped to retire at the end of the 2013 year, sold his options in July 2013 for \$14 000.
  - Mr Sibanda, who is 53 years of age, also sold his shares on 31 August 2013 for \$14 250.
  - Mr Jones had not sold his shares by the 2013 year end.
- Mrs Moyo, who is 48 years of age, exercised her right to acquire the 500 shares on 31 August 2013. She sold 200 of the shares towards the end of December 2013 for \$28,75 per share.
- One executive left the employ of APM towards the end of 2013 and forfeited his right to participate in the share option scheme.
- The remaining executives had not exercised their options to acquire the shares by the 2013 year end.

## 3 Other information

Consumer price indices that may be relevant were as follows:

July 2010	0,95%
June 2013	1,84%
July 2013	1,25%
August 2013	1,28%
September 2013	0,86%

All entities in the Alpha group –

- present annual financial statements in accordance with International Financial Reporting Standards (IFRS);
- have a 31 December financial year end; and
- apply consistent group accounting policies.

The required section of this question consists of two parts. Answer each part in the correct answer book.

PART I OF QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	With reference to the Alpha share option scheme granted to the executive committee of APM, discuss, with supporting calculations, the amounts that should be recognised in profit before taxation for the financial year ended 31 December 2013 of – (i) APM; and (ii) the Alpha group.  <i>Communication skills – clarity of expression</i>	13 6  1	   20
<b>Total for part I</b>			<b>20</b>

Continued

The required section of this question consists of two parts. Answer each part in the correct answer book.

<b>PART II OF QUESTION 1 – REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(a)	Provide a detailed explanation of how share options are taxed.	5	5
(b)	Calculate any tax benefit accruing to Messrs Smith, Jones and Sibanda arising from the exercise of their options.	6	6
(c)	Calculate any tax benefit accruing to Mrs Moyo arising from the exercise of her options.	3	3
(d)	Calculate any capital gains tax liability for – (i) Mr Smith, and (ii) Mr Sibanda.	4 2	6
<b>Total for part II</b>			<b>20</b>
<b>TOTAL FOR THE QUESTION</b>			<b>40</b>