

3. ACCOUNTING ESTIMATES, JUDGEMENTS AND FAIR VALUES

The board of directors has considered the group's accounting policies, key sources of uncertainty and areas where accounting judgements were required in applying the group's accounting policies. A number of the group's accounting policies and disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and (or) disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Accounting judgements and determination of fair values in applying the group's accounting policies

Judgements made in the application of IFRS that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Property, plant and equipment

The estimation of the useful lives is based on historic performance as well as expectation about future use and, therefore, requires a degree of judgement to be applied. The depreciation rates represent management's best estimate of the useful lives of the assets. All properties are accounted for as own use assets and are thus held at cost less accumulated depreciation. Market indicators reflect that these properties could realise more than their carrying values if disposed of. The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market values of other assets are based on the quoted market prices for similar items.

Property, plant and equipment are depreciated over their useful lives, taking into account applicable residual values.

Goodwill and indefinite life intangible assets

The group has assessed the carrying value of goodwill and indefinite life intangible assets to determine whether any of the amounts have been impaired. The carrying values were assessed using the discounted cash flow method and the actual results and forecasts for future years. The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Deferred taxation

Deferred taxation assets are recognised to the extent it is probable that the taxable income will be available against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and taxation rates and competitive forces.

Inventories

Impairment allowances are raised against inventory when it is considered that the amount realisable from such inventory's sale is considered to be less than its carrying amount. The impairment allowances are made with reference to an inventory age analysis as well as expiry dates. The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the efforts required to complete and sell the inventory.

Revenue (agent versus principal)

The group considers the determination of the agent versus principal classification to be a judgement applied in determining that the relationship is one of principal rather than one of an agent. For logistics revenue recognition, the group obtained an understanding of the nature of these revenue transactions and utilised our technical accounting experts to evaluate whether control was transferred to the group before transferring to the customer or not. The group considered whether control associated with inventory had passed to the group before transfer to the customer; which party carried the inventory risk before and after the customer order; which party had the primary responsibility for providing the goods to the customers; and who had influence over setting the price at which the product was sold to the customers.

Trade receivables

Trade receivables are initially measured at fair value, which is equal to the consideration expected to be received from the satisfaction of performance obligations, plus any directly attributable transaction costs. At the time of initial recognition in accordance with IFRS 9 the group assesses the expected credit loss by applying the simplified approach. To measure ECLs each operation applies a historic loss ratio to trade receivables at each reporting date. In determining the ECL, each operation splits the trade receivables into groups based on shared credit risk characteristics and the days past due, namely by splitting customers into the type of customer (Independent, Chain, Logistics, and Retail), geographical regions, product types, customer ratings and trade credit insurances. In instances where there was no evidence of historical impairment, each operation's management used their knowledge of their business and forward-looking macro-economic information to determine the potential loss rate. In addition, specific provisions are raised for trade receivables if doubts on their collectability are known.

Notes to the consolidated financial statements continued

for the year ended June 30

3. ACCOUNTING ESTIMATES, JUDGEMENTS AND FAIR VALUES (continued)

Accounting judgements and determination of fair values in applying the group's accounting policies (continued)

Puttable non-controlling interest liabilities

The group has entered into put non-controlling interest (NCI) arrangements where non-controlling interests are entitled to sell certain of their holdings in subsidiaries to the group at future contracted dates. The puttable non-controlling interest liability is calculated as the present value of the contracted redemption value (ie contracted EBITDA multiple or market value formula), discounted from the expected redemption date to the reporting date. The main assumptions used in the calculation of the liability is the contracted redemption value at the expected redemption date and the discount rate used to discount the expected redemption value to the reporting date. The discount rate is derived from an applicable government bond yield curve, in the country in which the subsidiary operates, and is applied over the number of years between the reporting date and the redemption date, plus an appropriate credit spread.

The group has applied judgement to recognise subsequent measurement changes in the puttable NCI liabilities in accordance with the principles of IFRS 10.23. Changes in assumptions used to estimate the future purchase price of the puttable NCI liabilities are recorded directly in retained earnings in the statement of changes in equity. There is diversity in practice as to whether to recognise subsequent measurement changes in the carrying amount in profit or loss or equity. This accounting policy judgement applied by the group has not had a significant impact on the amounts recognised in the financial statements. Refer to the statement of changes of equity and note 10.4 for the remeasurement of the puttable NCI liabilities during the year. This accounting policy treatment has been consistently applied by the group and will be applied going forward until there is an interpretation note that is definitive on where subsequent measurement changes are required to be accounted for in terms of IFRS.

Forward exchange contracts

The fair value of forward exchange contracts are based on their market prices.

Borrowings

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. The carrying value of the bank overdrafts is the fair value.

Share-based payments

Share appreciation right

The fair value of the share appreciation right awards are measured using a binomial method. Measurement inputs include share price at measurement date, exercise price of the instrument, expected volatility (based on the historic volatility), option life, distribution yield and the risk-free interest rate (based on national South African government bonds).

Conditional share plan

The fair value of the conditional share plan awards are measured using a Monte Carlo method, which best captures the path dependent nature and specific features of these awards. The path dependency of the share award arises from the interaction between dividends and the performance hurdle in the valuation model, as well as the dependency of the valuation on the level of achievement of the vesting conditions at the performance period end dates. The evolution of Bidcorp's and the peer group members' total shareholder return prices are modelled using the market-accepted log-normal share price process taking into account input parameters which are based on historical share price data.