



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

<b>QUALIFICATION: BACHELOR OF ACCOUNTING</b>	
<b>QUALIFICATION CODE: 07BAC</b>	<b>LEVEL: 6</b>
<b>COURSE CODE: FAC612S</b>	<b>COURSE NAME: FINANCIAL ACCOUNTING 202</b>
<b>SESSION: JANUARY 2019</b>	<b>PAPER: THEORY AND APPLICATION</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>SECOND OPPORTUNITY EXAMINATION PAPER</b>	
<b>EXAMINER</b>	<b>A. Simasiku, E. Mushonga and W. Gertze</b>
<b>MODERATOR:</b>	<b>M. Dikua</b>

**INSTRUCTIONS**

1. Answer all questions.
2. Write clearly and neatly.
3. Queries relating to this paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities and any assumption made by the candidate should be clearly stated.
4. Number the answers clearly.

**PERMISSIBLE MATERIALS**

1. Examination paper.
2. Examination script.
3. Non-programmable calculator

**THIS QUESTION PAPER CONSISTS OF 5 PAGES** (Excluding this front page)

**Question 1****(23 marks)**

The financial statements of Transform Ltd are in the process of being finalised for the year ended 31 March 2018. Transform Ltd would like to present the financial statements for authorisation for issue on 10 June 2018. Uncertainty still exists on the following matters

1. Transform Ltd determined during May 2018 that a debtor, Cent Ltd, which owed an amount of N\$20 000 to Transform Ltd at 31 March 2018, is currently experiencing financial difficulties and will probably not be able to settle its debt. After further investigation it came to light that the problem had already existed for the past six months, but as Transform Ltd was unaware of this, the company continued granting credit to Cent Ltd. The result is that an amount of N\$35 000 was owed by Cent Ltd at 31 May 2018.
2. Owing to a cloud burst during the first week in April 2018, the basement level of Transform Ltd's premises was flooded, resulting in the total destruction of the inventory stored there. The cost of this inventory, amounting to N\$75 000, is included in the inventories figure in the financial statements at 31 March 2018. Transform Ltd was not insured.
3. A claim amounting to N\$150 000 was instituted against Transform Ltd on 1 March 2018 arising from the terms of a product guarantee given by Transform Ltd on its products. On 10 June 2018 it is still not certain if the claim will be successful and the extent of the costs are also uncertain.
4. Transform Ltd has a debtor, Dot Ltd, which owed the company N\$55 000 as at 31 March 2018. During April 2018 Dot Ltd's premises were destroyed by a fire, including all the assets and the accounting records. Dot Ltd was not insured and it appears that the company will not be able to settle any of its debts. At the time of the fire the outstanding amount according to Transform Ltd's records was N\$64 000.
5. On 31 March 2018 Transform Ltd had 800 'Item 4' units on hand at a cost of N\$16 000. During April 2018 Transform Ltd determined that half of the 'Item 4' inventory items on hand at 31 March 2018 had a defect due to a manufacturing error resulting from a problem encountered with Machine 1. The defective items can be sold for N\$5 each and the costs to repair the machine will be N\$15 000. Ignore the tax effects.

## Required

State, in each of the above cases, whether an adjusting or non-adjusting event occurred. In each case briefly discuss how the event will affect the financial statements for the year ended 31 March 2018. *(23 marks)*

Give reasons for the answers in each of the above cases. It is not necessary to give the disclosure concerning the date the financial statements were authorized for issue and who gave the authorization, as required by IAS 10. Your solution must comply with the requirements of International Financial Reporting Standards (IFRS).

## Question 2

**(28 marks)**

Medicworld Ltd is a company that specialises in medical research. During 2016, a breakthrough was made in one of the research projects. To continue with the research, the company needed to purchase additional machines. The directors decided to fund them by issuing convertible bonds rather than obtaining finance from the bank.

Subsequently, Medicworld issued 150 5-year convertible bonds at a par value of N\$750 per bond on 1 January 2017. Interest was payable annually in arrears at 4% per annum. Each bond could be converted into 20 ordinary shares at the discretion of the bondholder at any point during the life of the instrument. Mediworld paid lawyers N\$10 000 to issue the bond. The company recognised the equity portion of the transaction costs in the convertible bond reserve.

The effective rate of interest is 7.654% per annum.

- (a) Provide the journal entries to account for the convertible bond in 2017 and 2018. Round amounts to the dollar. *(18 marks)*
- (b) Prepare all the required disclosure in relation to the bond at 31 December 2018. Comparatives are required. *(10 marks)*



**Question 3****35 marks**

Below are the statement of financial position for Mujoza Limited as at 31 December 2017 and 31 December 2016 and the statement of profit and loss and other comprehensive Income for the year ended 31 December 2017

	<b>2017</b>	<b>2016</b>
	<b>N\$ 000</b>	<b>N\$ 000</b>
<b>ASSETS</b>		
<b>Non –current assets</b>		
Property Plant and Equipment	528	447
Development cost	<u>110</u>	<u>93</u>
	<u>638</u>	<u>540</u>
Current assets		
Inventory	413	380
Trade receivables	238	215
Investment	28	0
Cash	111	4
	<u>790</u>	<u>599</u>
Total Assets	<u><u>1 428</u></u>	<u><u>1 139</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
N\$1 Ordinary shares	240	200
Share premium	140	120
Revaluation surplus	100	0
Retained earnings	<u>538</u>	<u>530</u>
	<u>1 018</u>	<u>850</u>
Non –current Liabilities		
Provision for warranties	30	25
6% Debentures	150	0
	<u>180</u>	<u>25</u>

**Current liabilities**

Income tax payable	37	32
Trade payables	<u>193</u>	<u>232</u>
	<u>230</u>	<u>264</u>
Total Equity and Liabilities	<u>1 428</u>	<u>1 139</u>

**Statement of profit and Loss and other Comprehensive Income**

Revenue	900
Cost of sales	<u>(550)</u>
Gross profit	350
Expenses	(245)
Finance costs	(9)
Profit on sale of equipment	<u>7</u>
Profit before tax	103
Income tax expense	<u>(30)</u>
Profit for the year	<u>73</u>

**Additional information:**

1. Deferred development expenditure amortised during 2017 was N\$ 25 000
2. Additions to property, plant and equipment totalling N\$ 167 000 were made. Proceeds from the sale of equipment were N\$ 58 000, giving rise to a profit of N\$7 000. No other items of property, plant and equipment were disposed of during the year.
3. Finance costs represent interest paid on the new 6% debentures issued on 1 January 2017
4. Current assets investments represent treasury bills acquired. The company deems these to represent cash equivalents
5. Dividends paid during the year amounted to N\$ 65 000
6. Expenses include wages paid of N\$ 44 000 and bad debts of N\$ 12 000

**Required**

Prepare a statement of cash flows for Mujoza Limited for the reporting period ended 31 December 2017 using the indirect method in accordance with IAS 7.

*(35 marks)*

**Question 4****15 marks**

Ride On (Pty) Ltd (hereafter "RO") is a local transport company. They provide transport services for employees, students and school learners. RO does not deal directly with the public, but operates on a contract signed with various employers, universities and schools. The company has a 30 June year end.

The accounting profit before tax for the financial year ended 30 June 2018 is N\$920 000. Included in the accounting profit before tax are non-taxable foreign income of N\$125 000 and donations made of N\$1 500.

The company acquired a new fleet of transport vehicles on 1 July 2017 for N\$990 000. The vehicles have a four year useful life and N\$270 000 residual value. In terms of the Income Tax Act, 1/3 of the cost of the asset is allowed as a tax deduction, not apportioned for part of a year. The old vehicles which were fully depreciated, were traded in (sold to the motor dealer in partial payment of the new vehicles) for the new vehicles at their residual value of N\$120 000. The tax base on date of sale was N\$80 000.

Annual price increases are effected on 1 July annually. However, RO decided to implement a new pricing strategy whereby it offers customers a 10% discount on their transport fees, if they pay the annual fees in advance. A group of employers decided to take up the offer and to pay the full amount of N\$210 000 on 28 June 2018. RO is then contractually bound to provide their transport services for the year ended June 2019.

The current tax rate is 28% (2017: 28%).

**Required:**

- a) Calculate the Current tax payable of RO (Pty) Ltd as at 30 June 2018.  
(9 marks)
  
- b) Calculate the Deferred tax balance of RO (Pty) Ltd as at 30 June 2018 using the Statement of Financial Position approach. (6 marks)

**END OF PAPER**