



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

<b>QUALIFICATION: BACHELOR OF TECHNOLOGY IN ACCOUNTING</b>	
<b>QUALIFICATION CODE: 23BACF</b>	<b>LEVEL: 7</b>
<b>COURSE CODE: FAC312S</b>	<b>COURSE NAME: FINANCIAL ACCOUNTING 3B</b>
<b>SESSION: JANUARY 2019</b>	<b>PAPER: THEORY AND CALCULATIONS</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>SECOND OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER(S)</b>	Ms. W Gertze
<b>MODERATOR:</b>	Ms. I Van Rensburg

<p style="text-align: center;"><b>INSTRUCTIONS</b></p> <ol style="list-style-type: none"><li>1. Answer ALL the questions.</li><li>2. Start each question on a new page, number the answers correctly and clearly.</li><li>3. Write clearly and neatly.</li><li>4. Round off only final answers to two (2) decimal places</li><li>5. Questions relating to this examination 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 assumptions made by the candidate should be clearly stated.</li></ol>
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**PERMISSIBLE MATERIALS**

1. Scientific calculators

**THIS QUESTION PAPER CONSISTS OF 7 PAGES (Including this front page)**

**QUESTION 1**

**(16 marks)**

Sundowns Limited is currently in the process of finalising their financial statements for the year ended 31 December 2017. The following events occurred and information became available between 1<sup>st</sup> January 2018 and 28 February 2018 (the date the financial statements were finalised for issue).

- (a) A debtor that owed Sundowns Limited N\$ 110 000 at the year-end was in financial difficulties at year –end and as a result, Water Limited processed a bad debt adjustment of N\$ 30 000 against this account. In January 2018, the debtor’s lawyers announced that it will be paying 40% of all debts. (4)
- (b) Inventory costing N\$ 100 000 at year end was sold for N\$ 80 000 in January 2018. It had been damaged during the flood during November 2017. (4)
- (c) Current tax expenses of N\$ 30 000 has been incorrectly debited to revenue in 2017. (4)
- (d) A debtor that owed Sundowns Limited N\$ 150 000 at year end had their factory destroyed in a labour strike in January 2018. As a result, this debtor has filed for insolvency and will probably pay 60% of the balance owing. (4)

None of the above events have yet been considered.

**Required:**

Briefly explain whether the above events should be adjusted for or not when finalising the financial statements for the year ended 31 December 2017. If the event is an adjusting event provide the relevant **journal entries**. (16 marks)

**QUESTION 2****(30 marks)**

Jane Lane Limited's Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2017 and the Statement of Financial Position as at 31 December 2016 and 31 December 2017 were as follows:

**JANE LANE LIMITED Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2017**

	N\$ 000
Sales	720
Raw material consumed	(70)
Staff costs	( 94)
Depreciation	(118)
Loss on disposal of non-current assets	<u>(18)</u>
Operating profit	420
Interest payable	(28)
Profit before tax	392
Taxation	(124)
Profit for the period	268

**JANE LANE LIMITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**

	2017	2016
	N\$ 000	N\$000
<b>Non – current assets</b>		
Cost	1596	1560
Depreciation	<u>(318)</u>	<u>(224)</u>
	1278	1 336
<b>Current assets</b>		
Inventory	24	20
Trade receivables	76	58
Bank	<u>48</u>	<u>56</u>
	148	134
<b>Total assets</b>	<b>1 426</b>	<b>1470</b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital	360	340
Share premium	36	24
Retained earnings	<u>716</u>	<u>514</u>
	1 112	878
<b>Non- current liabilities</b>		
Long term loans	200	500
<b>Current liabilities</b>		
Trade payables	12	6
Taxation	<u>102</u>	<u>86</u>
	114	92
<b>Total equity and liabilities</b>	<b>1426</b>	<b>1470</b>

1. Dividends paid were N\$ 66 000.
2. During the year, the company paid N\$ 90 000 for a new piece of machinery.

**Required:**

Prepare the statement of cash flows for Jane Lane Limited for the year ended 31 December 2017 in accordance with the requirements of IAS 7 using the **INDIRECT METHOD**. (*show all your workings*)

**QUESTION 3: Earnings per share (IAS 33)****(25 marks)**

The following are the extracts from the financial statements of Method Ltd for the period ended 31 December 2017.

	<b>2017</b> <b>N\$'000</b>	<b>2016</b> <b>N\$'000</b>
Sales	2 000	1 600
Profit before tax	840	600
Income tax expense	<u>340</u>	<u>200</u>
Profit for the year	<u>500</u>	<u>400</u>

**Additional information**

	<b>2017</b> <b>N\$000</b>	<b>2016</b> <b>N\$000</b>
<b>Dividends</b>		
Paid :		
14% non-cumulative preference	-	20
<b>Proposed:</b>		
10% cumulative preference	30	30
14% non-cumulative preference	60	40
Ordinary	10	10

- Method Ltd has issued share capital of 10 000 shares of N\$10 each
- The dividend Harvey Ltd paid on its 14% preference shares is in respect of previous years. There are no arrears on cumulative preference dividend.

**Required:**

Treating each of the following assumptions separately, calculate as advised the following:

- (1) Calculate the basic earnings per share (EPS) for each of the two years. **(11 marks)**
- (2) On 30 April 2016 Method Ltd issued a 10% N\$50 000 convertible loan stock. These were convertible as follows: 3 ordinary shares per N\$100 convertible loan stock. None of the loan stock had been converted by 31 December 2016. Calculate the diluted EPS for 2016. (ignore tax) **(9 Marks)**
- (3) On 31<sup>st</sup> May 2016 Method Ltd granted options to subscribe for 1 000 ordinary shares at an exercise price of N\$30 each the average market price of an ordinary share during 2016 was N\$40 each. Calculate the diluted EPS for 2016. **(5 Marks)**

**Question 4**

**(29 marks)**

**Part A**

**(14 Marks)**

- (a) Show the journal entry that you would process to account for the current income tax calculated for the current year. (1)
- (b) Peter Ltd's profit before tax for the year ended 31 December 2017 amounted to 80 000. Included in this profit is an income of N\$12 000 that was received in 2016 but accruing in 2017. Tax authorities tax income at the earlier of receipt or accrual. Rate is 30%. What is the current tax expense and deferred tax for 31 December 2017? (2)
- (c) State any two examples of permanent differences. (1)
- (d) A company sells a vehicle on 31 December 2017 for N\$120 000. The vehicle was originally purchased on 1 January 2016 at a cost of N\$300 000. The accumulated depreciation at 31 December 2017 is N\$200 000. The wear and tear allowances that have been claimed on the vehicle up to date of sale are N\$150 000.
- What is the profit on sale and the taxable recoupment. (4)
- (e) The deferred tax asset balance is N\$9 000 (2016) and N\$8 100 in 2017. The tax rate applicable was 29% (28% in 2016). Process the journal entry for deferred tax. (6)

**Part B****(15 marks)**

Quick Transfers (Pty) Ltd (hereafter "QT") is a local transport company. They provide transport services for employees, students and school learners. QT 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, QT 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. QT 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 QT (Pty) Ltd as at 30 June 2018. (10 marks)
  
- b) Calculate the Deferred tax balance of QT (Pty) Ltd as at 30 June 2018 using the Statement of Financial Position approach. (5 marks)

2018 -10- 11

RODNEY [Signature]  
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