NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING HONOURS	
QUALIFICATION CODE: 08 BOAH	**LEVEL:** 8
COURSE CODE: FAR 811S	**COURSE NAME**: ADVANCED FINANCIAL ACCOUNTING AND REPORTING
SESSION: June 2022	**PAPER:** THEORY AND CALCULATIONS
DURATION: 3 hours	**MARKS: 100**

FINAL ASSESSMENT – 1st Opportunity	
EXAMINER(S)	D W Kamotho
MODERATOR:	Dr E Mashiri

INSTRUCTIONS
1. Answer ALL questions in blue or black ink only. 2. Write clearly and neatly. 3. Start each question on a new page and number the answers clearly. 4. No programmable calculators are allowed. 5. Questions relating to the 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 & any assumption made by the candidate should be clearly stated. 6. Any resemblance to any people, places, organisations or anything is purely coincidental.

THIS QUESTION PAPER CONSISTS OF 8 PAGES (Including the front page)

QUESTION 1 **(15 marks)**

Shimo Ltd is a wholly owned subsidiary of Litho Ltd. Shimo Ltd commenced with the construction of a qualifying asset on 1 July 2021 and on this date obtained a loan of N$ 1 500 000 at 15% interest per annum from Citizen Bank, specifically for constructing the qualifying asset.

Litho Ltd finances capital expenditure with a general-purpose loan of N$2 0000 000 from County Bank at 14% per annum. Rhyne Ltd lends money to its subsidiaries for capital expenditure in excess of original loans granted, at a rate of 16% per annum.

The average accumulated expenditure incurred on the qualifying asset for the six-month period ended 31 December 2021 amounted to N$1 900 000. Construction activities are expected to be completed during the 2023 financial year.

Ignore taxation.

	YOU ARE REQUIRED TO:	**MARKS**
a	Calculate and journalise the amount of borrowing costs to be capitalized by Shimo Ltd for the year ended 31 December 2021, in accordance with International Financial Reporting Standards (IFRS)	7
b	Calculate the amount of borrowing costs to be capitalized in the consolidated financial statements of the Litho Ltd Group for the year ended 31 December 2021 and prepare the Consolidation journal entries in respect of borrowing costs of the Litho Ltd Group on 31 December 2021. your answer must comply with International Financial Reporting Standards (IFRS).	8
	TOTAL MARKS: QUESTION 1	**(15)**

QUESTION 2 **(40 Marks)**

(a)

IFRS 15 *Revenue from Contracts with Customers* provides detailed and consistent guidance regarding revenue recognition. IFRS 15 sets out a five-step model, which applies to revenue earned from a contract with a customer with limited exceptions, regardless of the type of revenue transaction or the industry. Step one in the five-step model requires the identification of the contract with the customer and is critical for the purpose of applying the Standard. The remaining four steps in the Standard's revenue recognition model are irrelevant if the contract does not fall within the scope of IFRS 15.

Required

(a) (i) Discuss the criteria which must be met for a contract with a customer to fall within the scope of IFRS 15. **(10 marks)**

(ii) Discuss the four remaining steps which lead to revenue recognition after a contract has been identified as falling within the scope of IFRS 15. **(10 marks)**

(b)

(i) Tang enters into a contract with a customer to sell an existing printing machine such that control of the printing machine vests with the customer in two years' time. The contract has two payment options. The customer can pay N$240,000 when the contract is signed or N$300,000 in two years' time when the customer gains control of the printing machine. The interest rate implicit in the contract is 11.8% in order to adjust for the risk involved in the delay in payment. However, Tang's incremental borrowing rate is 5%. The customer paid N$240,000 on 1 December 2020 when the contract was signed. **(7 marks)**

(ii) Tang enters into a contract on 1 December 2020 to construct a printing machine on a customer's premises for a promised consideration of N$1,500,000 with a bonus of N$100,000 if the machine is completed within 24 months. At the inception of the contract, Tang correctly accounts for the promised bundle of goods and services as a single performance obligation in accordance with IFRS 15. At the inception of the contract, Tang expects the costs to be N$800,000 and concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the printing machine is highly susceptible to factors outside of Tang's influence, mainly issues with the supply of components.

At 30 November 2021, Tang has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained in accordance with IFRS 15. However, on 4 December 2021, the contract is modified with the result that the fixed consideration and expected costs increase by N$110,000 and N$60,000 respectively. The time allowable for achieving the bonus is extended by six months with the result that Tang concludes that it is highly probable that the bonus will be achieved and that the contract still remains a single performance obligation. Tang has an accounting year end of 30 November. **(13 marks)**

	YOU ARE REQUIRED TO:	MARKS
a.	(i) Discuss the criteria which must be met for a contract with a customer to fall within the scope of IFRS 15. (ii) Discuss the four remaining steps which lead to revenue recognition after a contract has been identified as falling within the scope of IFRS 15.	10 10
b.	Discuss how the above two contracts should be accounted for under IFRS 15. (In the case of (b)(i), the discussion should include the accounting treatment up to 30 November 2022 and in the case of (b)(ii), the accounting treatment up to 4 December 2021.) **Note.** The mark allocation is shown against each of the items above.	20
	TOTAL MARKS: QUESTION 2	**(40)**

QUESTION 3 **(25 marks)**

Part A

Financial statements have seen an increasing move towards the use of fair values in accounting. Advocates of 'fair value accounting' believe that fair value is the most relevant measure for financial reporting, whilst others believe that historical cost provides a more useful measure. Issues have been raised over the reliability and measurement of fair values, and over the nature of the current level of disclosure in financial statements in this area.

The objective of **IFRS 13 *Fair Value Measurement*** is to define fair value, set out in a single IFRS a framework for measuring fair value and require disclosure about fair value measurements.

Part B

(i)

Fairview acquired a research and development project as part of a business combination. Fairview does not intend to complete the project, but instead acquired the project to prevent its competitors from accessing the technology.

Therefore, the project principally provides defensive value to Fairview by improving the prospects for the output of its own project and preventing competitor access to the developed technology.

(ii)

Fairview and Westway individually entered into legal obligations to each pay N$200,000 to Brownfield in seven years in exchange for some goods.

Fairview has a very good credit rating and can borrow at 4%. Westway's credit rating is lower, and it can borrow at 8%.

(iii)

Fairview holds shares in Greenfield, which it treats as an equity instrument (a financial asset). Sale of this financial asset is restricted by contract to qualifying investors.

	YOU ARE REQUIRED TO:	MARKS
a)	With reference to Part A of the information above, **Discuss** the view that **fair value is a more relevant measure** to use in corporate reporting **than historical cost.**	12
b)	With reference to the information provided in Part B:	
	i. How might the **highest and best use** of the project **be determined** for the purpose of **measuring fair value** in order to apply **IFRS 13** ***Fair Value Measurement***?	6
	ii. What is the **fair value of the legal obligation** that Fairview and that **Westway must record** in their financial statements?	3
	iii. How would **the fair value** of this instrument be **measured**?	4
	TOTAL MARKS: QUESTION 3	**(25)**

QUESTION 4 **(20 Marks)**

The statements of financial position of Parent Ltd and its investee companies, Subs Ltd and Assot Ltd, at 31 December 2021 are shown below.

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Parent Ltd	Subs Ltd	Assot Ltd
	N$'000	N$'000	N$'000
Assets			
Non-current assets			
Freehold property	1,950	1,250	500
Plant and equipment	795	375	285
Investments	1,500	–	–
	4,245	1,625	785
Current assets			
Inventories	575	300	265
Trade receivables	330	290	370
Cash	50	120	20
	955	710	655
	5,200	2,335	1,440
Equity and liabilities Equity			
Share capital (N$1 ordinary shares)	2,000	1,000	750
Retained earnings	1,460	885	390
	3,460	1,885	1,140
Non-current liabilities			
12% debentures	500	100	–
Current liabilities			
Bank overdraft	560		
Trade payables	680	350	300
	1,240	350	300
	5,200	2,335	1,440

Additional information

(a) Parent Ltd acquired 600,000 ordinary shares in Subs Ltd on 1 January 2016 for N$1,000,000 when the accumulated retained earnings of Subs Ltd were N$200,000.

(b) At the date of acquisition of Subs Ltd, the fair value of its freehold property was considered to be N$400,000 greater than its value in Subs Ltd statement of financial position. Subs Ltd had acquired the property ten years earlier and the buildings element (comprising 50% of the total value) is depreciated on cost over 50 years.

(c) Parent Ltd acquired 225,000 ordinary shares in Assot Ltd on 1 January 2020 for N$500,000 when the retained profits of Assot Ltd were N$150,000.

(d) Subs Ltd manufactures a component used by Parent Ltd only. Transfers are made by Subs Ltd at cost plus 25%. Parent Ltd held N$100,000 of these components in inventories at 31 December 2021.

(e) It is the policy of Parent Ltd to review goodwill for impairment annually. The goodwill in Subs Ltd was written off in full some years ago. An impairment test conducted at the year-end revealed impairment losses on the investment in Assot Ltd of N$92,000.

(f) It is the group's policy to value the non-controlling interest at acquisition at fair value. The market price of the shares of the non-controlling shareholders just before the acquisition was N$1.65.

Required

	YOU ARE REQUIRED TO:	**MARKS**
	Prepare, in a format suitable for inclusion in the annual report of the Parent Group, the consolidated statement of financial position at 31 December 2021. Show your workings	20
	TOTAL MARKS: QUESTION 4	**(20)**

END OF QUESTION PAPER