



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

Faculty of Management Sciences

Department of Accounting, Economics and Finance

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BACC	LEVEL: 7
COURSE: FINANCIAL ACCOUNTING 202	COURSE CODE: FAC612S
SESSION: JANUARY/FEBRUARY 2020	PAPER: THEORETICAL FRAMEWORK
DURATION: 3 HOURS	MARKS: 100
SECOND OPPORTUNITY EXAMINATION QUESTIONS	
EXAMINER(S)	W. GERTZE, A. SIMASIKU, C. SIMASIKU AND DR JO AKANDE
MODERATOR:	D. KAMOTHO
INSTRUCTIONS	
1. This examination paper is made up of four (4) questions 2. Answer ALL questions in blue or black ink 3. Start each question on a new page in your answer sheet & show all your workings 4. Questions relating to this test 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.	

PERMISSIBLE MATERIALS
1. Non-programmable calculator may be used 2. The examination scripts must be handed over to the invigilators before leaving the examination hall.

THIS QUESTION PAPER CONSIST OF 6 PAGES (excluding this front page)

Question 1

Wharton anticipates capital expenditure in a few years and so invests its excess cash into short- and long-term financial assets so it can fund the expenditure when the need arises. Wharton will hold these assets to collect the contractual cash flows, and, when an opportunity arises, the entity will sell financial assets to re-invest the cash in financial assets with a higher return. The managers responsible for this portfolio are remunerated on the overall return generated by the portfolio.

As part of this policy, Wharton purchased N\$50,000 par value of loan notes at a 10% discount on their issue on 1 January 2016. The redemption date of these loan notes is 31 December 2019. An interest coupon of 3% of par value is paid annually on 31 December. Transaction costs of N\$450 were incurred on the purchase. The annual internal rate of return on the loan notes is 5.6%.

At 31 December 2016, due to a decrease in market interest rates, the fair value of these loan notes increased to N\$51,000.

Required

- a. **Discuss the classification, and with suitable calculations, provide the necessary journal to record the asset for the year ended 31 December 2016.**
15 marks
- b. **Provide journals for the year ended 31 December 2017 if the loan note was reclassified at amortised cost during the year 2016 and the new model took effects immediately.**
10 marks

QUESTION 2**(25 marks)**

Below are the statement of financial position for Fat Limited as at 31 December 2018 and 31 December 2017 and the statement of profit and loss and other comprehensive Income for the year ended 31 December 2018

	2018	2017
	N\$ 000	N\$ 000
ASSETS		
Non –current assets		
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>
EQUITY AND LIABILITIES		
Equity		
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 or 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 2018 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\$7000. 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 2018
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 Fat Limited for the year ended 31 December 2018 using the indirect method in accordance with IAS 7 Statement of Cash Flows.

Question 3**(25 marks)**

Quest (Pty) Ltd is a company operating in the local stationary supplies industry. It has branches all over Namibia and has a 31 March 2019 year end. The accountant prepared the following relating to the current and deferred tax for the 2019 year end.

Current Tax calculation:

	N\$
Profit before tax	430,000
Depreciation - Plant	120,000
Depreciation – Motor Vehicles	43,000
Wear & Tear - Plant	(160,000)
Wear & Tear – Motor Vehicles	(27,520)
Fines	5,000
Claim received (non-taxable)	(68,000)
Prepaid Insurance	(32,000)
Taxable Income	310,480
Current Tax @ 28%	86,934

Deferred Tax calculation:

	Carrying Amount	Tax Base	Temporary difference	Deferred tax (asset)/liability @28%
31 March 2019	N\$			
Plant	560.000	480,000	80,000	22,400
Motor Vehicles	86,000	110,080	(24,080)	(6,742)
Insurance	<u>32,000</u>	-	<u>32,000</u>	<u>8,960</u>
	678,000	590,080	87,920	24,618
31 March 2018				
Plant	680.000	640,000	40,000	11,600
Motor Vehicles	<u>129,000</u>	<u>137,600</u>	<u>(8,600)</u>	<u>(2,494)</u>
	809,000	777,600	31,400	9,106

Additional notes:

1. The tax rate changed from 29% in 2018 to 28% in 2019.
2. Deferred tax is provided for all temporary differences using the Statement of Financial Position approach.
3. All calculations prepared above are correct.

Required:

Prepare all the relevant notes applicable (including the tax rate reconciliation in both N\$ and %) to current and deferred tax in the annual financial statements of Quest Ltd for the year ended 31 March 2019. Ignore comparative figures and accounting policy notes.

Question 4

25 Marks

The financial statements of Mossie Ltd for the year ended 31 December 2013 were presented to the board of directors for authorisation for issue on 20 March 2014. You are the accountant of the company. The following events occurred after the reporting date:

1. Owing to the current economic recession and to increased competition, the selling price of Mossie Ltd, main product was considerably reduced on 15 February 2014. The lower selling price will cause a 15% decrease in gross profit in respect of the main product. It is estimated that total comprehensive income for the year ended 31 December 2014 will decrease by N\$500,000 before tax.
2. The board of directors decided to declare N\$20,000 additional ordinary dividends on 15 February 2014. The dividends will be paid on 5 April 2014.
3. Dik Daan, a debtor, sent a letter to all his creditors on 18 March 2014 stating that he was terminating business owing to financial difficulties. He suggested an offer of compromise of N\$0.20 in N\$1. The amount owing by Dik Daan to Mossie Ltd amounts to N\$20,000 and is included in receivables at the reporting date. (Assume that the transactions were in the normal course of business.)
4. On 15 January 2014, a customer sued Mossie Ltd for failing to meet specifications on certain goods supplied. The case was taken to court and judgement has not been passed. The attorneys of Mossie Ltd notified the financial director that the company will probably lose the case and that costs and compensation (which are tax deductible) will be approximately N\$100, 000. The inventory was delivered during 2013.

Required:

For each of the above 1 to 4 above;

- a. Identify whether an adjusting or non-adjusting event took place. **(4 Marks)**
- b. Briefly discuss the effect of the event on the financial statements as at December 2013. **(8 Marks)**
- c. Provide an extract of the financial statements of Mossie Ltd as at 31 December 2013 disclosing the details in b. above so as to comply with the requirements of the International Financial Reporting Standards (IFRS) **(13 Marks)**

Assume that all amounts are material and that the company is a going concern, notwithstanding the effect of the above events on the financial statements.