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: NOVEMBER 2019	PAPER: THEORETICAL FRAMEWORK
DURATION: 3 HOURS	MARKS: 100
FIRST 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 7 PAGES (excluding this front page)

Question 1 **(25 marks)**

a. According to IAS 32, Investment in equity and debt instruments could be classified in any of three ways, amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Outline the conditions necessary for these classifications. **3 marks**

b. Paraskos NA has been operating in the building material sector of the Namibian Stock Exchange, manufacturing security doors. The business both raises and invest funds in the market depending on the prevailing economic conditions and the state of its cashflows. Paraskos issued and purchased the following liability and asset in the year commencing January 2019.

i. Issues 1,000 convertible bonds on 1 January 2019 at par. Each bond is redeemable in three years' time at its par value of N$2,000 per bond. Alternatively, each bond can be converted at the maturity date into 125 N$1 share. The bonds pay interest annually in arrears at an interest rate (based on nominal value) of 6%. The prevailing market interest rate for 3-year bonds that have no right of conversion is 9%.

Explain how the compound instrument be treated in the financial statement at the inception and provide relevant workings.

3-year discount factors:	*Simple*	*Cumulative*
6%	0.840	2.673
9%	0.772	2.531

10 marks

ii. Purchases loan notes (nominal value N$100,000) for N$96,394 on 1 January 2019, incurring transaction costs of 0.35% of the nominal value. The loan notes carry interest paid annually on 31 December of 4% of nominal value. Paraskos intend to collect contractual cash flows and the business model is to hold till maturity in which case the loan notes will be redeemed at par on 31 December 2021. The effective interest rate is 5.2%. The asset was not considered to be credit impaired at any stage.

The relevant expected credit losses for use in measuring the loss allowance, were as follows;

- 1 January 2019: N$6,000
- 31 December 2019: N$9,000
- 31 December 2020: N$8,000
- 31 December 2021: N12,500

Show the amortised cost of the loan notes from 1 January 2019 to 31 December 2021 and provide the journal entries for 31 December 2019 and 2020.

12 marks

Question 2 **(25 marks)**

The financial statements of Mash Ltd are as follows:

Statement of financial position as at 31st December

	2018		2017	
	N$		N$	
Non-current assets				
Tangible Assets	380,000		305,000	
Intangible Assets	250,000		200,000	
Investments	-		25,000	
	----------	630,000	-----------	530,000
Current Assets				
Inventories	150,000		102,000	
Trade receivables	390,000		315,000	
Short term investments	50,000		-	
Cash in hand	2,000		1,000	
	----------		-----------	
	592,000		418,000	
Current liabilities				
Trade payables	(127,000)		(119,000)	
Bank overdraft	(85,000)		(98,000)	
Taxation	(120,000)		(110,000)	
Proposed dividends	(100,000)		(80,000)	
Net current assets		160,000		11,000
Total Assets less Current liabilities		790,000		541,000
Non-current liabilities				
Long-term loan		(100,000)		-
Deferred taxation		(70,000)		(50,000)
		620,000		491,000

Capital and Reserves

Share capital (N$1 ordinary shares)	200,000	150,000
Share premium	160,000	150,000
Revaluation reserve	100,000	91,000
Profit and loss account	160,000	100,000
	620,000	491,000

Income statement for the year ended 31st December 2018

	N$
Turnover	2,553,000
Cost of Sales	1,814,000
Gross Profit	739,000
Distribution costs	(125,000)
Administrative expenses	(264,000)
Operating profit	350,000
Interest received	25,000
Interest paid	(75,000)
Profit on ordinary activities before tax	300,000
Taxation	140,000
Profit after Tax	160,000
Dividends	100,000
Retained profit for the year	60,000

The following information is available:

a) The proceeds of the sale of fixed asset investments amounted to N$ 30,000.

b) Fixtures and fittings, with an original cost of N$ 85,000 and a net book value of N$ 45,000 were sold for N$ 32,000 during the year.

c) The following information relates to tangible non-current assets:

	31st December 2018	**31st December 2017**
Cost	720,000	595,000
Accumulated depreciation	340,000	290,000

Net book value	380,000	305,000

d) 50,000 N$1 ordinary shares were issued during the year at a premium of 20 cents per share.

e) It is the company's policy to pay dividend accrued the following year.

Required

Prepare a cash flow statement for Mash Ltd for the year to 31st December 2018 as per requirement of IAS 7, using **indirect method**.

Marks allocated include workings and proper presentation

Question 3 **(25 marks)**

The following information is an extract from the statement of profit or loss and other comprehensive income and notes of Sugar and Spice Ltd for the financial year ended 31 December 2018.

	N$	Notes
Profit before tax	**120,000**	
Profit before tax includes the following items:		
Income		
Profit on sale of motor vehicle	25,000	2
Dividends received	40,000	
Expenses		
Interest and penalties on the late payment of Value-added Tax	15,000	
Depreciation - plant and equipment	20,000	
Depreciation - motor vehicles	30,000	2
Depreciation - machinery	?	3

Additional information

1. The following information regarding the property, plant and equipment of Sugar and Spice Ltd is an extract from the fixed asset register after the recording of all the asset transactions for the year.

	Cost	Carrying Amount	Depreciation rate	Tax base	Tax allowance	Notes
Plant and equipment	200,000	140,000	10 years	80,000	5 years	-
Motor Vehicles	120,000	20,000	4 years	32,000	5 years	2
Machinery	500,000	?	5 years	?	0 years	3

2. Excluded from the carrying amount and tax base above, is a motor vehicle with a cost price of N$40 000 which was sold on 31 December 2018 for N$35 000. The carrying amount and tax base of the motor vehicle at the date of the sale was N$10 000 and N$16 000 respectively. No other property, plant and equipment were bought or sold during the current and prior financial years. Unless otherwise state, assume that all property, plant and equipment were acquired on the first day of the financial year and a residual value of nil applies.
3. On 1 July 2018, the company purchased a customised piece of machinery for N$500 000. There is no tax allowance or deductions granted on this machinery.
4. Deferred tax is provided for on all temporary differences according to the statement of financial position approach. The deferred tax account reflected a

credit balance of N$8,120 on 31 December 2017. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised. There are no other items causing temporary or exempt differences except those identified in the question.

5. The Namibian normal income tax rate was 29% for 2017 and 28% for the 2018 financial year.

Required:

a) Calculate the current tax expense in the statement of profit or loss and other comprehensive income of Sugar and Spice Ltd for the year ended 31 December 2018. **(11 marks)**

b) Calculate the deferred tax balance of Sugar and Spice Ltd for the year ended 31 December 2018, by using the statement of financial position approach. List all the temporary differences and indicate next to every temporary difference if it results in a deferred tax asset or a deferred tax liability. **(4 marks)**

c) Calculate the change in tax rate as it would appear in the statement of profit or loss and other comprehensive income of Sugar and Spice for the year ended 31 December 2018. **(2 marks)**

d) Prepare the income tax expense note, including the rate reconciliation note (in N$ only) in the statement of comprehensive income for the year ended 31 December 2018. Your answer must comply with the International Financial Reporting Standards (IFRS's). Ignore comparative figures and accounting policy notes. **(9 marks)**

Question 4 **25 marks**

A. Real Style Ltd, a retail store, has a policy of refunding the purchases of dissatisfied customers, even though it is under no legal obligation to do so. Its policy of refunds is generally known to its customers. According to Real Style Ltd's refunding policy, customers may return purchased goods within three months of the date of purchase provided that they still have price tags attached.

Previous experience shows that 10% of goods sold are returned in the month following the month of sale, 5% in the second month and 2% in the third month after the sale.

Actual refunds amounted to N$34 000 during 2018 and N$30 000 during 2017. The balance on the provision for refunds account amounted to N$36 500 on 01 January 2017.

The following sales figures are available:

	2018	**2017**
	N$	**N$**
October	120 000	110 000
November	130 000	130 000
December	150 000	140 000

Assume that the effect of discounting is immaterial

Required

I. Prepare the journal entries to account for the above information related to the provision for refunds for the year ended December 2018. **(10 Marks)**

II. Prepare an extract of the statement of financial position as well as the short-term provisions note to the financial statements of Real Style Ltd for the year ended 31 December 2018 to reflect the information provided in the question. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

(5 Marks)

B. Sea Food Limited received a letter from Total Liquidators on 15 January 2017, stating that Katima Fish Shop has been placed into liquidation owing to trading difficulties and that all creditors could expect to receive a liquidation dividend of no more than N$0.15 in N$1. Katima Fish Shop owed See Food Limited N$136,000 at 31 December 2018.

The financial statements for the year ended 31 December 2018 were approved on 15 March 2019. The income tax rate for 2018 and 2019 is 30%.

Required:

a) If the going concern assumption is no longer appropriate the entire financial statements will need revision. True or False? Explain your answer. (2 Marks)
b) Disclose all the effects of the above information in the annual financial statements of Sea Food Limited as at 31 December 2018 in accordance with IAS 10. (8 Marks)