NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 23 BACC	**LEVEL:** 7
COURSE NAME: FINANCIAL ACCOUNTING 320	**COURSE CODE**: GFA 712S
SESSION: NOVEMBER 2019	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS:** 100

1ST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Daniel Kamotho & Andrew Simasiku
MODERATOR:	Ms I Van Rensburg

INSTRUCTIONS

1. This examination paper is made up of four (4) questions
2. Answer ALL the questions and in blue or black ink
3. Start each question on a new page in your answer booklet & show all your workings
4. 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 & any assumption made by the candidate should be clearly stated

PERMISSIBLE MATERIALS

1. Non Programmable calculators
2. Examination question paper and script - The examination script should be handed to the invigilator at the end of the examination session

THIS QUESTION PAPER CONSISTS OF 9 PAGES (excluding this front page)

QUESTION 1 **(20 marks)**

Furniture (Pty) Ltd (hereafter Furniture) is a highly successful producer of patio furniture's in Namibia. The furniture's manufactured by the company are of a very high quality and are highly comfortable. The company started exporting them to South Africa two years ago and now needs a new challenge. The owner, Mrs Amuyela wants to expand into bed manufacturing. The board of Furniture (Pty) Ltd has come to the conclusion that the only way that it will be able to expand is to take over an existing business or buy their assets second-hand. Mrs Amuyela, together with the operations director Mr. Steyn have done a lot of research and now have their eye on BedAfrica (Pty) Ltd (hereafter BedAfrica), a company situated in Windhoek, that manufactures high quality beds. BedAfrica's bed products are highly sought after by hotels, guest houses and luxurious homes all over the Southern Africa region and are manufactured using special equipment imported from Germany. Due to the current recessionary conditions and the poor value of the Namibian dollar, these machines have become exorbitantly expensive. Patented bed products, bought from a bed manufacturer in France that give BedAfrica the sole manufacturing rights in Africa for ten years, are also highly guarded secrets and contributes to the success of BedAfrica.

The abridged statement of financial position of BedAfrica (Pty) Ltd was as follows on 30 June 2019:

	N$'000
ASSETS	
Machinery	1 800
Vehicles	400
Intangible assets – Patented recipe	500
Inventories	1 300
	4 000
EQUITY AND LIABILITIES	
Share capital – 100 000 shares	800
Retained earnings	1 000
Long term loan	2 200
	4 000

Mrs Amuyela has presented the following two options to the board of directors to facilitate the proposed expansion:

Option 1

Furniture will buy only the assets stated in the abridged statement of financial position of BedAfrica for N$4 500 000. The financial director has informed the board of Furniture that the assets taken over do not qualify as a business in terms of **IFRS 3 Business Combinations**.

Option 2

Furniture will take over all the assets and assume all the liabilities of BedAfrica. The values in the financial statements of BedAfrica are considered to reflect the fair values of the assets and liabilities of Choco at 30 June 2019. Furniture will obtain 80 000 shares in BedAfrica from its existing shareholders. Furniture will issue 10 000 of its 100 000 own shares at N$130 each at 30 June 2019 as full consideration for its interest in Nougat, thus obtained. The financial director informed the board of Furniture that the assets taken over and liabilities assumed in this manner will meet the definition of a business in IFRS 3.

You may assume that one voting right is attached to each share and that BedAfrica is governed through decisions made at its annual general meeting.

Required

a) Define a business as per IFRS 3. (2 marks)

(b)

(i) For option 1:

(Supply the journals to account for the transaction in the records of Furniture on 30 June 2019. (5 marks)

(ii) For option 2:

Supply the journals to account for the transaction in the records of Furniture on 30 June 2019. (3 marks)

(c) Explain in terms of IFRS the relationship that will be created between Furniture and BedAfrica, should Option 2 be actioned by the board. (6 marks)

(d) Calculate the purchase difference in Option 2 and explain what Furniture will have to do before it may be recognised in the group statements. (4 marks)

(20 marks)

Question 2 **(35 marks)**

Jolly Limited is a public listed manufacturer. The group's summarised consolidated financial statements for the year ended 31 July 2018 (with 2017 comparatives) are as follows:

Jolly Limited: Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 July:		
	2018 N$ million	**2017 N$ million**
Revenue	9,650	8,790
Cost of sales	(4,893)	(5,750)
Gross profit	4,757	3,040
Operating expenses	(3,756)	(3,020)
Finance costs	(49)	(33)
Profit (loss) before taxation	952	(13)
Income tax expense	(80)	0
Profit for the year	**872**	**(13)**
Profit for the year attributable to:		
Owners of the parent	857	(13)
Non-controlling interests	15	-
Profit for the year	872	(13)

Jolly Limited: **Consolidated Statements of Financial Position as at 31 July:**		
	2018	2017
Non-current assets:		
Property, plant and equipment	3,680	2,400
Intangible assets	330	350
Goodwill	67	0
Financial assets	144	140
	4,221	2,890
Current assets:		
Inventory	400	275
Trade receivables	460	340
Bank	---	230
	860	845
Total assets	**5,081**	**3,735**
Equity:		
Equity shares of $1 each	1,350	1,200
Share premium	500	350
Retained earnings	1,787	1,265
	3,637	2,815
Non-controlling interest	50	0
	3,687	2,855
Non-current liabilities:		
6% bonds 2021	680	550
	680	550
Current liabilities:		
Trade payables and provisions	466	280
Bank overdraft	168	0
Current tax payable	80	90
	714	370
Total equity and liabilities	**5,081**	**3,735**

The following notes should be taken into account::

i. On 1 December 2017, Jolly bought an 80% stake in another entity, Happy Limited. The consideration for this stake was satisfied by Jolly issuing 48 million equity shares and an immediate $80 million cash. The price per share of Jolly shares were N$2.45, N$2.50, N$2.75 and N$3.0 on 31 July 2017, 01 December 2017, 31st July 2018 and 01 July 2019 respectively. Jolly has no other subsidiaries. These transactions were correctly processed in the separate and consolidated financial statements

The fair value of the net assets acquired on the acquisition date was N$180 million, consisting of the following:

	N$
• Property, plant and equipment	130m
• Intangible assets	20m
• Inventory	25m
• Cash	20m
• Trade payables	(15m)
	180m.

ii. The fair value of the non-controlling interest at the acquisition date was N$ 47 million. Jolly uses the full (fair value) goodwill method in all acquisitions. Goodwill was tested for impairment at 31 July 2018, and any impairment loss was correctly accounted for through operating expenses.

iii. Depreciation of property, plant and equipment amounted to N$207 million, charged to operating expenses. Amortisation charges of N$45 million relating to intangible assets were also charged to operating expenses.

iv. Disposals of property, plant and equipment were made for proceeds of N$140 million, on which gains of N$14 million were recognised. These gains were netted against operating expenses. No disposals of intangible assets were recorded.

v. There were no non-cash adjustments to the 6% bonds. Interest has been paid up to date.

vi. Equity dividends were paid during the period by both Jolly and Happy.

vii. There was no gain nor loss in the revaluation of financial assets as at 31 July 2018.

viii. Financial assets which had cost N$60 million, and had a carrying value on 1 August 2017 of N$75 million, were sold during the year for N$78 million. The gain was netted against finance costs.

ix. Other shares were issued for cash, in addition to those to fund the acquisition referred to in note (i) above.

Required :

Prepare for the Jolly Group for the year ended 31 July:

a) A Consolidated Statement of Changes in Equity in accordance with IAS 1- Presentation of Financial Statements, and (8 marks)

b) A Consolidated Statement of Cash Flows in accordance with IAS 7 - Statement of Cash Flows. (22 marks)

Question 3 **(35 marks)**

On 1st October 2017, Mango Plc acquired the following non- current investments

- 3 million equity shares in Kangaroo Plc by an exchange of one share in Mango Plc for every two shares in Kangaroo plus N$1.25 per acquired Kangaroo Plc share in cash. The market price of each Mango Plc share at the date of acquisition was N$6 and the market price of each Kangaroo Plc share at the date of acquisition was N$3.25
- 30% of the equity shares of Seams Plc at a cost of N$7.50 per share in cash.

Only Mango Plc has recorded the cash consideration of the above investments. In addition, N$500 000 of the professional costs relating to the acquisition of Kangaroo are also included in the cost of the investment.

The summarised draft statements of financial position of the three companies at 30 September 2018 are

	Mango Ltd N$ 000	Kangaroo Ltd N$ 000	Seams Ltd N$ 000
ASSETS **Non- current assets**			
Property plant and Equipment	18400	10 400	18000
Investment in Kangaroo and Seams	13 250		
Available for sale investment	6500		
	38 150	**10 400**	**18 000**
Current assets			
Inventory	6 900	6 200	3 600
Trade receivables	3 200	1500	2 400
	48 250	**18 100**	**24 000**
Equity and Liabilities			
Equity shares of N$1each	10 000	4 000	4 000

Retained earnings - At 30 September 2017 - Profit for the year ended 30 September 2018	16 000 9 250	6 000 2 900	11 000 5 000
	35 250	**12 900**	**20 000**
Non- current liabilities			
7% Loan	5 000	1 000	1 000
Current liabilities	8 000	4 200	3 000
Total equity and liabilities	**48 250**	**18 100**	**24 000**

The following information is relevant:

I. At the date of acquisition, Kangaroo Plc had five years remaining of an agreement to supply goods to one of its major customers. Kangaroo Plc believes it is highly likely that the agreement will be renewed when it expires. The directors of Mango estimate that the value of this customer based contract has a fair value of N$ 1 million and an indefinite life and has not suffered any impairment

II. On 1st October 2017, Mango sold an item of plant to Kangaroo Plc at its agreed fair value of N$2.5 million. Its carrying amount prior to the sale was N$ 2 million. The estimated remaining life of the plant at the date of sale was five years (Straight –line depreciation)

III. During the year ended 30 September 2018, Kangaroo Plc sold goods to Mango Plc for N$2.7 million. Kangaroo Plc had marked up these goods by 50% on cost. Mango had a third of the goods still in its inventory at 30 September 2018. There were no intra-group payables/receivables at 30 September 2018.

IV. Impairment tests on 30 September 2018 concluded that neither consolidated goodwill nor the value of the investment in Seams Plc were impaired

V. The available for sale investments are included in Mango Plc statement of financial position (above) at their fair value on 1st October 2017, but they have a fair value of N$9 million at 30 September 2018.

VI. No dividends were paid during the year by any of the companies.

VII. It is the group policy to value non- controlling interest at acquisition at full (or fair) value. For this purpose, the share price of Kangaroo Plc at this date should be used.

Required:

(a) Prepare the consolidated statement of financial position for Mango Plc as at 30 September 2018. (30 marks)

(b) A financial assistant has observed that the fair value exercise means that a subsidiary's net assets are included at acquisition at their fair values in the consolidated statement of financial position. The assistant believes that it is inconsistent to aggregate the subsidiary's net asserts with those of the parent because most of the parent's assets are carried at historical cost.

Required:

Comment on the assistant's observation and explain why the net assets of acquired subsidiaries are consolidated at acquisition (5 marks)

Question 4 **(10 marks)**

Fat Limited has an asset that needs its fair value measured in terms of IFRS 13 *Fair value measurement.* The accountant is unsure what the fair value would be. He has summarised the information he has on hand for your benefit.

The asset could be sold either in Windhoek or Walvis- bay.

- If the asset is sold in Windhoek, the selling price will be N$10 800, the transport costs will be N$ 1 200 and the transaction costs would be N$ 1200.
- If the asset is sold in Walvis- bay, the selling price will be N$10 000, the transport costs will be N$800 and the transaction costs would be N$400.

Required

Explain how the fair value should be measured assuming that there is no principal market

(10 marks)

END OF QUESTION PAPER