NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	**LEVEL:** 6
COURSE CODE: FAC611S	**COURSE NAME:** FINANCIAL ACCOUNTING 201
SESSION: JUNE 2019	**PAPER:** THEORY AND CALCULATIONS
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	D KAMOTHO

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.

THIS QUESTION PAPER CONSISTS OF 5 PAGES (Excluding the front page)

QUESTION 1 (25 Marks)

Eggs Shells Limited is a company trading in decorated ostrich eggs and had a December year end. Owing to an extensive overseas market in African artefacts, Egg shells Limited decided to enter the export market for its product.

In order for Eggs Shells Ltd to enter the export market, the development of a website for its own use was necessitated. Potential export customers can visit the website to place orders and complete transactions in a secure environment.

During May and June 2017, the Management of Egg shell Limited investigated and planned the development of their own website. Costs incurred during this period were as follows:

	N$
Travelling expenses	8 000
Consultation fees	27 000

Viability studies concluded that the website would lead to a substantial improvement in profitability. During July to November 2017, a firm of web consultants was employed to complete the website and the following costs were incurred

	N$
Content development costs and programming	130 000
Graphic design costs incurred for operating as intended by management	35 000

The website was successfully completed and implemented on 31 December 2017. Assume that all the requirements of IAS 38.57 have been met for capitalization of development costs. Although the future economic benefits of the website could not be measured, it was estimated they would only flow to the entity for a period of four years due to the rapid change in technology.

Required:

(a) Advise the management of Eggs shell Limited on whether the costs incurred in connection with the website should be capitalised or expensed. Your answer must be substantiated by referring to the requirements of International financial reporting standards **(**14 Marks).

(b) Calculate the carrying amount of the Website as at December 2018 (5 Marks)

(c) How will your answer in part (a) change if the website is developed solely to promote and advertise the entity's products? (3 Marks)

(ii) Doug Limited is developing a new production process. During 2018, expenditure incurred was N$ 100 000, of which N$ 90 000 was incurred before 1 December, 2018 and N$ 10 000 between 1 December 2018 and 31 December 2018. Doug Limited can demonstrate that at 1 December 2018, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process is estimated to be N$ 50 000.

Required

Explain how the expenditure should be accounted for (3 Marks)

QUESTION 2 **(25 Marks)**

You have been provided with the following information of Gorge Limited, a company which manufactures lithium batteries in the Erongo region:

Gorge Limited purchased a machine with a cost of N$ 2.5 million on 1 January 2011. An expert in lithium battery technology provided the company with a fair value of N$ 4 million on 1 January 2012.

Mr Gorge, being the owner and managing director, believes that assets should be reflected according to the revaluation model. The depreciation rate for the machine is 20 % per annum on the straight line basis with no residual value.

On 1 April 2013, the board of directors of Gorge Limited decided to sell the machine. According to the company's financial manager, the machine had a fair value of N$ 3.250 million on that date, while costs to sell the machine amounted to N$ 250 000. The machine was never impaired at any stage of its life.

On the 31 December 2013, the financial manager noted that the fair value of the machine reduced to N$ 2.5 million, while the costs to sell dropped to N$ 150 000.

Gorge Limited uses the net replacement method to account for changes in fair value.

Required:

a) Provide all journal entries to reflect the above transactions. (18 marks)

b) Provide the disclosure for non-current assets held for sale in the financial Statements of Gorge Limited. (7 marks)

QUESTION 3 **(25 Marks)**

A. An entity started construction of a building for its own use on 1 April 2017 and incurred the following costs:

	N$ 000
Purchase price of land	250,000
Stamp duty	5,000
Legal fees	10,000
Site preparation and clearance	18,000
Materials	100,000
Labour (period 1 April 2017 to 1 July 2018)	150,000
Architect's fees	20,000
General overheads	30,000
	583,000

The following information is also relevant:

i. Material costs were greater than anticipated. On investigation, it was found that materials costing N$10 million had been spoiled and therefore wasted and a further N$15 million was incurred on materials as a result of faulty design work.

ii. As a result of these problems, work on the building ceased for a fortnight during October 2017 and it is estimated that approximately N$9 million of the labour costs relate to this period.

iii. The building was completed on 1 July 2018 and occupied on 1 September 2018.

Required:

Calculate the cost of the building that will be included as Property, Plant and Equipment in the Financial Statement. Make notes of your treatments of the additional information where necessary.(10 Marks)

B. XYZ Limited has presented the following extract from its trial balance at 31 March 2019

XYZ Limited

Extract from trial balance at 31 March 2019

	Dr	CR
Head office building: cost	72 500	
Land: at cost	116 000	
Furniture: cost	87 000	
Furniture: accumulated depreciation (at 1 April 2018)		14 500

Additional information:

i. The land was purchased on 1 October 2017

ii. The head office was purchased during the current year but only became available for use on the last day of the year, 31 March 2019.

iii. Depreciation:
- Buildings are depreciated to nil residual value, at 2% per annum on straight line basis
- Furniture is depreciated at 10% per annum reducing balance
- Land is not depreciated

Required:

Prepare the property, plant and equipment note for inclusion in the financial statements of XYZ Limited for the year ended 31 March 2019 including the accounting policies. (15Marks)

Question 4 **(25 Marks)**

On 1 April 2016 Crowns (Pty) Ltd acquired land and buildings in KwaDukuza at a cost of N$1 900 000. Costs to conclude the transaction amounted to N$100 000. The property was immediately leased to Property Ltd at an annual rental of N$200 000, payable in advance.

At the beginning of the next reporting period Crowns (Pty) Ltd decided to use the property in its own manufacturing operations due to its expanding operations and gave Property Ltd notice at the beginning of May 2017 to vacate the premises on 1 July 2017.

It is Crowns (Pty) Ltd's policy to depreciate buildings on a straight line basis over 25 years and to use the fair value model for investment properties.

The fair value of the property was N$2 400 000 on 31 March 2017 and N$2 500 000 on 1 July 2017 (Land being N$1 000 000 and buildings N$1 500 000).

Required:

a) Discuss and explain the classification and recognition of the property in the records of Crowns (Pty) Ltd for the years ended 31 March 2017 and 31 March 2018. (6Marks)

b) Journalise the transactions above according to the requirements of **IAS 16 Property, plant and equipment** and **IAS 40 Investment property** in the records of Crowns (Pty) Ltd for the period 1 April 2016 to 31 March 2018. (19 Marks)

END OF QUESTION PAPER