



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

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

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| SECOND OPPORTUNITY EXAMINATION QUESTION PAPER | |
| EXAMINER(S) | Z. STELLMACHER, DR J AKANDE, A. SIMASIKU, W. GERTZE |
| MODERATOR: | D KAMOTHO |

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| INSTRUCTIONS |
| <ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only2. 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)**

Company X has decided to sell some of its assets in one transaction. This transaction met all criteria for the classification of a disposal group held for sale on 15 October 2018. You are the newly appointed financial manager of Company X. The accountant provided the following information with regard to these assets on the aforementioned date:

| Account | Details |
|-----------------------------------|---|
| Trade receivables: | Carrying amount N\$ 40 000. The accountant is confident that all debtors will settle their outstanding debts. |
| Goodwill: | Carrying amount N\$ 120 000 |
| Inventory: | Cost: N\$ 300 000; Net realizable value: N\$ 280 000 |
| Property plant and equipment: | Carrying amount: N\$ 600 000; Value in use: N\$ 650 000; Fair value less cost of disposal: N\$ 630 000 |
| Investment property (fair value): | Carrying amount: N\$ 320 000 |
| Investment property (cost): | Carrying amount: N\$ 200 000, Value in use: N\$ 240 000, Fair value less cost of disposal: N\$ 220 000 |

The fair value less cost to sell of the disposal group on 15 October 2018 was N\$ 1 080 000.

Required:

- a) Calculate the carrying amount of each asset immediately after classification as Held for Sale. Also indicate the total for the disposal group.
(14 marks)
- b) Prepare a memorandum to the Chief financial officer in which you explain the following:
 - i) Which criteria should be present in order for an asset to be classified as held for sale.
 - ii) Why an abandoned asset cannot be classified as held for sale.
(11 marks)

QUESTION 2**(25 Marks)**

Shana limited is a manufacturing company that owns various items of machinery. As a result of new technology in the manufacturing industry, Shana Ltd now expects to earn less revenue from two items of machinery. The carrying amounts of the two items on 31 December 2018 were as follows.

| | N\$ |
|-------------|------------|
| Machine ABC | 8500 000 |
| Machine XYZ | 7500 000 |

Management determined the fair value less cost of disposal of Machine ABC to be N\$8000 000 and that of Machine XYZ to be N\$7400 000 on 31 December 2018.

Shana Limited is of the opinion that machine ABC will generate net cash inflows of N\$ 2100 000 per annum over the next five years and this was confirmed in the most recent cash flow budget of management. Machine ABC can be disposed of for a net amount of N\$150000 at the end of its useful life.

The budgeted net cash inflows for the next five years from Machine XYZ (that occur at the end of each year) are as follows

| | N\$ |
|------|------------|
| 2019 | 1900 000 |
| 2020 | 1950 000 |
| 2021 | 2 050 000 |
| 2022 | 2 000 000 |
| 2023 | 1 800 000 |

An appropriate after tax discount rate is 7%. The tax rate is 30% . The following are the discount rates to choose from

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----|--------|--------|--------|--------|--------|
| 7% | 0.935 | 0.873 | 0.816 | 0.763 | 0.713 |
| 9% | 0.917 | 0.842 | 0.772 | 0.708 | 0.650 |
| 10% | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

Present value of annuity for five years

| | |
|-----|-------|
| 7% | 4.100 |
| 9% | 3.890 |
| 10% | 3.791 |

Required

Calculate the impairment loss to be recognised by Shana Limited for the year ended 31 December 2018 so as to comply with the requirements of International Financial Reporting Standards (15 marks)

QUESTION 3**(25 Marks)**

The extracts from the trial balance of Kandy as at 30 September 2014 are:

| | N\$'000 | N\$'000 |
|---|---------|---------|
| Land (N\$5 million) and buildings – at cost | | 55 000 |
| Plant and equipment – at cost | 58 500 | |
| Accumulated depreciation at 1 October 2013 | | |
| Building | | 20 000 |
| Plant and equipment | | 34 500 |

The following notes are relevant:

Non-current assets:

The price of property has increased significantly in recent years and on 1 October 2013, the directors decided to revalue the land. The directors accepted the report of an independent surveyor who valued the land at N\$8 million on that date. The remaining life of the buildings at 1 October 2013 was 15 years.

Plant and equipment is depreciated at 12½% per annum using the reducing balance method.

No depreciation has yet been charged on any non-current asset for the year ended 30 September 2014. Depreciation is charged to cost of sales.

Required:

Prepare extracts from the statement of profit or loss for Kandy for the year ended 30 September 2014 and from the statement of financial position as at the same date with regards property, plant and equipment.

QUESTION 4**(25 Marks)**

Tower Limited purchased a property at a cost of N\$11 000 000 on 1 July 2016. At the date of purchases the directors estimated that N\$2 000 000 of the cost was attributable to the land and N\$9 000 000 of the costs was attributable to the building.

The building is depreciated on the straight-line basis over a period of twenty-five years with a residual value of N\$1 000 000. At 30 June 2017, there were indicators that the value of the building impaired and the recoverable amount is estimated at N\$7 240 000. The useful life and the residual value remained unchanged.

The property was used as executive offices for Tower Limited from 1 July 2016 until 30 June 2018. At 30 June 2018, Tower Limited moved its executive offices to rented premises and in turn, rented this property to Hobo Limited for a period of three years commencing from 30 June 2018. Tower Limited intends to keep the building for rental and capital appreciation purposes.

Tower Limited uses the cost model to measure property, plant and equipment and the fair value model to measure investment property. The fair value of the building is estimated at N\$8 500 000 on 30 June 2018 and at N\$9 200 000 on 30 June 2019.

The fair value of the land was estimated at N\$2 000 000 on both 30 June 2018 and 30 June 2019.

Required:

- a) Prepare the journal entries relating to the building for the years ended 30 June 2017 – 2019 (22 marks)

- b) Prepare the Investment Property Note as it would appear in the notes to the financial statements for the year ended 30 June 2019 (3 marks)

END OF EXAMINATION PAPER