NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

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 2022	PAPER: THEORY AND CALCULATIONS
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. C. Mahindi, Mr. C. Simasiku and Dr. A. Simasiku
MODERATOR:	Dr. 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. Do not write in pencil and do not use tip-ex, as this will not be marked.
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.
6. The names of people and businesses used throughout this assessment do not reflect the reality and may be purely coincidental.
7. Show all workings!

PERMISSABLE MATERIALS

1. Non- programmable calculator

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

Question 1 **(15 marks)**

Part A: Multiple choice questions **(5 marks)**

Required: Write only the letter that represents the correct answer in your answer booklet.

1. Which of the following is not an example of directly attributable costs?

    a. Costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment
    b. Costs of site preparation
    c. Costs of conducting business in a new location or with a new class of customer
    d. Initial delivery and handling costs
    e. Professional fees

2. Multipart has purchased a budget airline and is discussing the way in which it should depreciate the aircraft as aircraft have a lifespan of 10 years, engines have a lifespan of seven years and tyres have a lifespan of 18 months. The aircraft should be depreciated on a straight-line basis over:

    a. Seven years useful life
    b. Seven years useful life of the engine, 1.5 years useful life of the tyres, and 10 years useful life applied to the balance
    c. 10 years composite useful life
    d. 18.5 years

3. An entity constructs a machine for its own use. Construction is started on 1 January 2022 and is completed on 1 March 2022. The machine is installed on 1 April 2022 and the entity does not begin using the machine until 1 May 2022. The entity should begin charging depreciation on:
    a. 1 January 2022
    b. 1 May 2022
    c. 1 April 2022
    d. 1 March 2022

4. An entity purchased an asset on 1 January 2006 for $10m. The asset has a useful life of 10 years and uses the straight-line method of depreciation. On 1 January 2009, the asset's useful life is revised to add a further three years to it. The asset has no residual value. The depreciation charge for the year to 31 December 2009 should be:
    a. N$769,320
    b. N$700,000
    c. N$1,000,000
    d. N$538,461

5. When the depreciated cost of a tangible asset is higher than its recoverable amount:
    a. An impairment loss should be recognised only if the NRV is higher than the value in use
    b. An impairment loss should be recognised as expense in the statement of profit or loss immediately
    c. The tangible asset must be reported at its fair value
    d. An unrealised gain must be accounted for

Part B **(10 marks)**

You have recently been approached by your cousin, Nailoke who has opened a car rental business. Nailoke has acquired five vehicles at a total cost of N$1,250,000 and intends to rent out these vehicles to tourists visiting Windhoek. Nailoke expects to each vehicle to have a useful life of 5 years.

Required:

Advise Nailoke on the appropriate accounting treatment to account for these vehicles. Your discussion should focus on the definition and recognition criteria provided by the appropriate standard.

QUESTION 2 **(65 marks)**

Rainbow (Pty) Ltd "Rainbow" has a diverse portfolio of operations. Their revenue portfolio ranges from retail, property, leisure and manufacturing operations, one of a few companies in Namibia with such diversification. One of their success factors is their ability to increase their return on assets based on their investment decisions. They have been operational in the country for the last 25 years and its head office is located in Walvis Bay. The current reporting date is 31 December 2021.

Part A **(41 marks)**

Head Office building

Rainbow has occupied their office building for the last 15 years and decided per resolution on 2 January 2021 to sell it as is before the end of the current reporting period to generate cash flows in this difficult economic environment. The following information pertains to the Office Building:

- Acquired: 1 January 2006
- Cost at acquisition: N$12 500 000
- Useful life: 20 years
- Residual value: N$450 000

The last impairment assessment was performed on 31 December 2020, when the recoverable amount was determined to be N$2 500 000.

Rainbow's management regards the sale to be highly probable and have committed to a plan to complete the sale by the anticipated date of 1 January 2022.

Advertising costs and estate agent fees of N$300 000 were paid on 2 April 2021 to attract potential buyers.

No significant changes have been made to the plan up until April 2021 and the estate agent has indicated that the price set is in line with market expectations and therefore regarded as reasonable.

On 02 April 2021, the fair value less cost to sell amounted to N$2 300 000 and N$2 100 000 on 31 December 2021. The sale was completed on 31 December 2021 and proceeds were received to the amount of N$2 200 000.

Required:

i. Discuss whether the Head Office building should be classified as Held for Sale per IFRS 5, and if so, when it should be classified as such. (14 marks)
ii. Calculate the carrying amount on 31 December 2020 and any impairment losses if applicable. (5 marks)
iii. Assuming the Head Office building meets the IFRS 5 classification criteria; provide the general journal entries of Rainbow (Pty) Ltd for the reporting periods ended 31 December 2020 and 2021. Provide the classification of the accounts (SPL, SFP, OCI etc). (22 marks)

Part B **(24 marks)**

Plant

Rainbow owns a plant that originally cost N$700 000, with a residual value of nil. At 1 January 2019, the accumulated depreciation amounted to N$140 000. The useful life was 10 years at acquisition of the plant, and depreciation is calculated on the straight-line method over its useful life. Plant is held per the cost model in IAS 16 Property, Plant and Equipment.

By the end of the 2019 reporting period, it became clear that the plant did no longer perform as needed, due to some changes in the market and because of its inability to manufacture products of a high quality. The accountant therefore made the following estimates relating to the plant:

	N$
Fair value	400 000

At that date, the accountant also determined that it would cost N$25 000 to sell the plant.

The plant is expected to generate the following net cash flows at a pre-tax discount rate of 15%: (N$)

2019	**2020**	**2021**	**2022**	**2023**
80 000	88 000	155 000	120 000	100 000

After investment in training of staff to operate plant, the company is now able to produce high quality products and restore client confidence in their products and gain market share.
The 2020-year end assessment revealed the following:
Fair value less cost to sell: N$410 000
Value in Use: N$430 000

Required:

i. Calculate the recoverable amount and any impairment loss or impairment loss reversal for the years ended 31 December 2019 and 31 December 2020 respectively. (14)
ii. Provide the general journal entries required for the reporting periods ended 31 December 2019, 2020 and 2021. Provide the classification of the accounts (SPL, SFP, OCI etc). (10)

Question 3 **(20 Marks)**

Bongani Limited conducts business in the clothing retail sector based in Windhoek and has a 31 May financial year end. After observing an increase in the market of young adults who are focused on their health and thus have taken up running, Bongani Limited purchased the HA® trademark for lightweight sneakers from a Haimbodi Apparel, a Namibian company that specialises in manufacturing sporting attire. The HA® trademark gives Bongani Limited the exclusive right to sell HA® sneakers. Apart from being comfortable running shoes, these sneakers are also fashionable, and a growing number of young people are wearing them as part of their casual attire. The following information relating to the trademark is available on 1 June 2020.

	N$	N$
HA® Trademark (cost – 1 June 2018)	1 200 000	
Accumulated amortisation (on the straight-line method over 5 years)		480 000

Additional information:

i. On 1 June 2020, it was estimated that the remaining useful life of the trademark is 2 years. This came about due to extended lockdowns by the government due to COVID-19, thus less people were taking up running and more people were spending their time indoors.

ii. On 31 May 2021, it was determined that the recoverable amount of the trademark amounted to N$260 000.

iii. Bongani Limited uses the cost model to account for Intangible Assets

Required:

a) Determine whether the trademark meets the definition of an intangible asset in accordance with IAS 38 – Intangible Assets. (8)

b) Prepare the general journal entries to account for the above transactions in the records of Bongani Limited for the reporting period ended 31 May 2021. Provide the classification of the accounts (SPL, SFP, OCI etc). (5)

c) Prepare the intangible asset note to comply with the requirements of IAS 38 Intangible assets. (7)

END OF QUESTION PAPER