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: BOAC	LEVEL: 7
COURSE: FINANCIAL ACCOUNTING 310	COURSE CODE: GFA 711S
DATE: JUNE 2022	SESSION: JUNE 2022
DURATION: 3HRS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	DR. ANDREW SIMASIKU MS SALMI KASITA
MODERATOR:	MRS I. VAN RENSBURG

THIS QUESTION PAPER CONSISTS OF _9_ PAGES
(Excluding this front page)

INSTRUCTIONS

1. Answer ALL the questions and in blue or black ink
2. Start each question on a new page in your answer booklet & show all your workings
3. 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

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PERMISSIBLE MATERIALS

1. Examination paper- No study materials are allowed in the examination room
2. Examination script - The examination script should be handed to the invigilator at the end of the examination session

QUESTION 1 **(30 marks)**

(a) BAQ is a listed entity with a financial year end of 31 March. At 31 March 2021, it had 8 000 000 ordinary shares in issue

The directors of BAQ wish to expand the businesses operations by acquiring competitor entities. They intend to make no more than one acquisition in any financial year. The directors are about to meet to discuss two possible acquisitions. The principal criterion for the decision is the likely effect of the acquisition on group earnings per share. Details of the possible acquisitions are as follows:

1. *Acquisition of CBR*

- 100% of the share capital of CBR could be acquired on 1 October 2021 for a new issue of shares in BAQ.
- CBR has 400 000 ordinary shares in issue
- Four CBR shares would be exchanged for three new shares in BAQ
- CBR's profits after tax for the year ended 31 March 2021 and N$ 625 000 and the entity's directors are projecting a 10% increase in this figure for the year ending 31 March 2022

2. *Acquisition of DCS*

- 80% of the share capital of DSC could be acquired on 1 October 2021 for a cash payment of N$10 per share
- DCS has 100 000 ordinary shares in issue
- The cash would be raised by a rights issue to BAQ's existing shareholders. For evaluation, it can be assumed that the rights issue would take place on 1 October 2021, that it would be fully taken up, that the market value of one share in BAQ on that would be N$5.36 and that the terms of the rights issue would be one new share for every five BAQ share held at a rights issue of N$5.00
- DCQ's projected profit after tax for the year ending 31 March 2022 is N$ 860 000.

- BAQ 's profit after tax for the year ended 31 March 2022 is projected to be N$4.2 million.

No changes in BAQ's share capital are likely to take place , except in respect of the possible acquisition described above

Required:

Calculate the group earnings per share that could be expected for the year ending 31 March 2022 in respect of each of the acquisition scenarios outlined above.

(20 marks)

(b) Talbot Plc has in issue 5 000 000 ordinary shares throughout 2022. During 2020 the company had given senior executives options over 400 000 shares excisable at N$110 at any time after May 2023. None were exercised during 2022. The average fair value of one ordinary share during the period was N$1.60. Talbot Plc had made a profit after tax of N$ 540 000 in 2022.

Required

What is the basic and diluted earnings per share for the year ended 31st December 2022? **(10 marks)**

QUESTION 2 (20 marks)

Beehive, a public limited company, is a leading support services company which focuses on the building industry. The company would like advice on how to treat certain items under IAS 19 employee benefits. The company operates the Beehive (2021) pension plan which commenced on 1 November 2021 and the Beehive (2001) pension plan which closed to new entrants from 31 October 2021, but which was open to future service accrual for the employees already in the scheme. The assets of the schemes are held separately from those of the company in funds under the control of trustees. The following information relates to the two schemes

Beehive (2001) pension plan

The terms of the plan are as follows

(i) Employees contribute 6% of their salaries to the plan

(ii) Beehive contributes, currently, the same amount to the plan for the benefit of the employee

(iii) On retirement, employees are guaranteed a pension which is based upon the number of years' service with the company and their final salary

The following details relate to the plan in the year to 31 December 2022.

	N$m
Present value of obligation at 1 November 2021	200
Present value of obligation at 31 October 2022	240
Fair value of plan assets at 1 November 2021	190
Fair value of plan asset as at 31 October 2022	225
Current service cost	20
Pension benefits paid	19
Total contributions paid to the scheme for the year to 31 October 2022	17

Actuarial gains and losses are recognised in the statement of recognised income and expense

Beehive (2021) pension plan

Under the terms of the plan, Beehive does not guarantee any return on the contribution paid into the fund. The company's legal and constructive obligation is limited to the amount that is contributed to the fund. The following details relate to this scheme.

	N$m
Fair value of plan assets at 31 October 2022	21
Contributions paid by company for the year to 31 October 2022	10
Contribution paid by employees for the year to 31 October 2022	10

The discount rates and expected return on plan assets for the two plans are

	1 November 2021	31 October 2022
Discount rate	5%	6%
Expected return on plan asset	7%	8%

The company would like advice on how to treat the two pension plans, for the year ended 31 October 2022, together with an explanation of the differences between a defined contribution plan and a defined benefit plan.

Required

Draft a report suitable for presentation to the directors of Beehive Limited which

(a) Discusses the nature of and the differences between a defined contribution plan and a defined benefit plan with specific reference to the company's two schemes **(8 marks)**

(b) Show the accounting treatment for the two Beehive pension plans for the year ended 31st October 2022 under IAS 19 employee benefits **(12 marks)**

QUESTION 3 **(25 marks)**

(a) Define the following terms and provide examples to your definitions

- Transaction risk **(2 marks)**
- Translation risk **(2 marks)**

(b) Other than the law of supply and demand, list and explain THREE causes of exchange rate fluctuations. **(6 marks)**

(c) Masuwa Limited, a South African company that manufacturers perfume, bought 16 new Fragrance testing machines for use in its laboratory in Johannesburg. The machines were imported from Estell Lord, a company based in France that produces equipment for companies in the perfume industry.

Details relating to the purchase of these machines are as follows:

- The machines were ordered on 25th April 2022.
- The machines were shipped on 15th June 2022.
- The machines arrived in South Africa on 1st September 2022
- The total invoice price was € 30 000, invoiced on a free on-board basis (FOB)
- Masuwa Limited paid the French supplier on 30 September 2022.

The machines needed to be installed before they could be put in operation.

- Installation was completed by In and Out Limited on 25 September 2022
- In and Out Limited furnished the company with an invoice for N$ 60 000.
- The machines were available for use on 1 October 2022 but due to labour unrest, these were only bought into use on 31 October 2022

The machines have a residual value of N$ 50 000 and a useful life of 8 years

Masuwa Limited's functional and presentation currency is the Rand (R).

DATE	Spot rate SA Rand(R): Euro (€)
25 April 2022	13.50: 1
15 June 2022	13.75: 1

1 September 2022	13.80: 1
25 September 2022	14.10: 1
30 September 2022	14.20: 1
31 October 2022	14.40: 1

Required

Show all journals in the books of Masuwa Limited for the year ended 31 December 2022. **(15 marks)**

QUESTION 4 **(15 Marks)**

Part A

Food for All Limited operates a chain of supermarkets around the country. It enters into a contract with Prop Limited for the lease of a warehouse in a location chosen by Food for All Limited for its proximity to some of its retail outlets and access to the road transport network. It cannot be substituted by Prop Limited.

The initial lease term is for three years, at a rental of N$ 50 000 per month which is in accordance with current market rates. It is non-cancellable. Food for all Limited has the option to extend the lease for a further three-year non- cancellable term at the same rental.

Market rentals for similar warehouses in the same area are expected to increase by 10% over six years, Over the next ten years, Food for All Limited intends to expand its retail outlets in the surrounding areas and the government has announced plans to further improve the road network

Required

Discuss, in terms of IFRS 16 Leases, the length of the lease term that Food for all should use in accounting for this contract (**10 marks)**

Part B

Food for All Limited operates a chain of supermarkets around the country. It enters into a contract with Prop Limited for the lease of a warehouse in a location chosen by Food for All Limited for its proximity to some of its retail outlets and access to the road transport network. It cannot be substituted by Prop Limited.

The initial lease term is for three years, at a rental of N$ 50 000 per month which is in accordance with current market rates. It is non-cancellable. Food for all Limited has the option to extend the lease for a further three-year non- cancellable term at a rental of N$ 55 000 per month.

Food for All Limited is considering the future of its retail outlets in the surrounding areas as some of these stores are not performing well.

Required

Discuss in terms of IFRS 16 Leases, the length of the lease term that Food for all should use in accounting for this contract **(5 marks)**

QUESTION 5 **(10 marks)**

Choma Limited is a company operating in the herbs and spice industry. The following item was identified during the audit of its financial statements for the current year ended 31 December 2022. No adjustments for which have been processed:

- The bookkeeper erroneously credited revenue with PAYE of N$250 000 owing to the tax authorities in 2021
- As a result, the current tax in 2021 has been incorrectly estimated by the accountant and the incorrect figures were submitted on the 2021 tax returns.
- The error did not affect the salaries and wages expense, nor the amount paid to the employees. The tax authorities will be reopening the tax assessment for 2021
- The rate of income tax remained constant at 30%
- There are no temporary differences, exempt income or non-deductible expenses other than those indicated by the information presented.

Required:

Prepare all the adjusting journal entries necessary to prepare the financial statements for the year ended 31 December 2022 **(10 marks)**

END OF QUESTION PAPER