NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07 BOAC	**LEVEL: 7**
COURSE: FINANCIAL ACCOUNTING 310	**COURSE CODE: GFA 711S**
DATE: June 2019	**SESSION: Jun 2019**
DURATION: 3 HRS	**MARKS: 100**

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	**ANDREW SIMASIKU** **KAMOTHO DANIEL**
MODERATOR:	**I VAN RENSBURG**

THIS QUESTION PAPER CONSISTS OF _5_ PAGES (Excluding this front page)

INSTRUCTIONS

1. Answer all the questions 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. Non programmable scientific or financial calculator

QUESTION 1 **(25 marks)**

IAS 8 Accounting Policies, Accounting Estimates and Errors sets out the criteria for selecting, applying and changing accounting policies as well as relevant disclosures. It also sets out how to account for and present fraud and errors in the financial statements.

REQUIREMENTS:

a) Outline in sufficient details the meaning of the following terms:

i. Accounting policy.

ii. Accounting estimate. **(4 Marks)**

b)

Explain in details the circumstances in which a company is allowed to make a change in accounting policy. Provide practical examples **(4 Marks)**

c)

Explain the required accounting treatment where a company discovers an error in the financial statements in:

i. The current accounting period; and

ii. A previous accounting period. **(4 Marks)**

d)

Explain, with the aid of any **relevant calculations and journals** where applicable, how the following independent scenarios should be **presented** in the financial statements of Robots LTD for the year ended 31 December 2018:

(i) At 31 December 2018, Robots LTD decided to revalue all of its property for the first time. The revaluation surplus was $1 million. **(3 Marks)**

(ii) At 1 January 2018, the company decided to extend the useful life of all its vans and trucks by two years. This has a material effect on its profit for 2018. **(3 Marks)**

(iii) In November 2018, the company discovered that the Sales Director had been creating false sales on credit to fictitious customers. This took place in a sales channel where his son was the Manager. The sales amounted to $120,000 in 2018, $180,000 in 2017 and $90,000 in 2016. These sales were not picked up by the credit control department and the receivables were all outstanding at 31 December 2018. **(7 marks)**

(13 Marks)

[Total: 25 Marks]

QUESTION 2 **(25 marks)**

You are the financial controller of Com Limited, an entity which has recently established a pension scheme for its employees. It chose a defined benefit scheme rather than a defined contribution scheme. Com Limited makes payments into the pension scheme on a monthly basis. Com Limited prepares financial statements to 31 December each year.

On 31 December 2017, the market value of the scheme's assets was N$20 million and the present value of the scheme's liability N$22 million. Actuarial losses not yet recognised in the income statement amounted to $1.5 million. In 2018, the following data is relevant:

- Current service cost: N$2 million,
- unwinding of discount: N$1.8 million,
- Expected return on pension plan assets: N$2.4 million,
- Contributions for the year: N$1.7 million.

On 31 December 2018 the market value of the scheme's assets was N$21 million and the present value of the scheme's liability N$22.5 million. Com Limited accounting policy is to defer actuarial gains and losses to future periods so far as is permissible under the requirements of IAS 19.

Required

(a) Define employee benefits and identify the major categories of employee benefits as per International Accounting Standard No. 19 (IAS19) **(5 marks)**

(b) Determine the total charge in the statement of profit or loss and other comprehensive income for pensions (excluding amounts deducted from employees' gross salaries) and the amounts shown in the statement of financial position in respect of long term employee benefits (pensions). Ignore deferred taxation **(10 marks)**

(c)

CBA is a listed entity that runs a defined benefit pension scheme on behalf of its employees. In the financial year ended 30 September 2018 the scheme suffered an actuarial loss of N$7.2 million. The entity's directors are aware that the relevant accounting standard, IAS 19 Employee benefits, was amended recently. They have asked you, the financial manager, to write a short memorandum, setting out an outline of the options for accounting for the actuarial loss in accordance with the international accounting standards (IFRS).

Required

Write a memorandum explaining the options and identifying, as far as possible from the information given, the potential impact of the two alternative accounting treatments on the financial statements of CBA as per IAS 19. **(10 marks)**

[Total: 25 Marks]

QUESTION 3 **(25 marks)**

Extracts of Big Limited's consolidated statement of comprehensive income for the year to 31 March 2018 are:

	N$ 000
Revenue	36 000
Cost of sales	(21 000)
Gross profit	15 000
Other operating losses	(6 200)
Interest payable	(800)
Share of profits to associate	(1500)
Profit before tax	5 500
Income tax expense	(2 800)
Profit for the year	2700
Profit attributable to:	
Owners of the parent company	2585
Non-controlling interest	115
	2 700

The draft income statement does not include any amounts in respect of the preference dividends or equity dividend of the year. The impairment of non- current assets attracted tax relief of N$ 1 million which has been included in the tax charge. Big limited paid an interim dividend of 3 cents per share in June 2017 and declared a final dividend on 25th March 2018 of 6 cents per share.

The issued share capital of Big Limited on 1st April 2017 was:

Ordinary shares of 25c each	N$3 million
8% preference shares	N$1 million

The preference shares are non- redeemable

The company also had in issue N$2 million 7% convertible loan stock maturing 31 December 2020. The loan stock will be redeemed at par in 2020 or converted to ordinary shares on the basis of 40 new shares for each N$100 of loan stock at the option of the stockholders. Big Limited's tax rate is 30%.

There are also in existence share options (issued in 2016) which entitles the directors to receive 750 000 new shares in total in 2020 at no cost to the directors

The following share issues took place during the year to 31 March 2018.

- 1 July 2017, a rights issue of 1 new share at N$1.50 for every 5 shares held. The market price of Big Limited the day before the rights issue was N$2.40.
- 1 October 2017, an issue of N$ 1 million 6% non-redeemable preference shares at par. Both issues were fully subscribed.

Big Limited's basic earnings per share in the year to 31 March 2017 was correctly disclosed at 24 cents.

Required:

Calculate for Big Limited for the year ended 31 March 2018

(a) The basic earnings per share including comparatives **(12 marks)**

(b) The diluted earnings per share **(10 marks)**

(c) Advise a prospective investor on the significance of the diluted earnings per share **(3 marks)**

[Total: 25 Marks]

QUESTION 4 **(25 marks)**

IFRS 16 - Leases was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. However, early adoption was permitted, provided IFRS 15 - Revenue from Contracts with Customers was implemented as well. The IFRS brings significant changes to those leases formerly classified as operating leases under IAS 17 - Leases, the previous standard.

i. On 1 August 2017, Manliv Ltd entered into an agreement to lease a building for a 10-year period. The lease terms stipulated that the annual lease rental would be N$100,000 per annum in arrears, with the first payment due on 31 July 2018. The interest rate implicit in the lease is 7%, and the present value of the minimum lease payments is N$702,358. Manliv incurred costs of N$30,000 in entering the lease. The lease terms allow for the extension of the lease at market rental. However, it is not certain that Manliv will take up this option.

ii. On the same date, Manliv Ltd entered into an agreement to acquire a motor vehicle. The terms of the agreement were that the vehicle would be leased for 5 years from the date of inception, subject to a deposit of N$19,972 and 5 annual payments of N$6,500 in advance, commencing on 1 August 2017. The fair value of the vehicle and the present value of the lease payments were N$48,000 at inception. The interest rate implicit in the lease is 8%.

REQUIRED:

a. Outline in details the key principles behind the accounting treatment for leases as required by IFRS 16. **(6 marks)**

b. Show, with appropriate calculations, the accounting entries required to record each transaction above for the year ended 31 July 2018. Present the relevant extracts from the statement of profit or loss for the year ended 31 July 2018, and the statement of financial position as at that date. **(19 marks)**

[Total: 25 Marks]

END OF QUESTION PAPER