



**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: July 2019	SESSION: Aug/Jul 2019
DURATION: 3 HRS	MARKS: 100

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

THIS QUESTION PAPER CONSISTS OF _8_ 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 and 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

PERMISSIBLE MATERIALS

1. Non programmable calculator (scientific or finance)

QUESTION 1**(25 marks)**

Joel Amupolo, and his business partners Mr. Goabeb and Mrs. Paulus, former classmates and alumnus of NUST, are very proud of their business – Oshiweb Chicken Feeds (Pty) Ltd (OCF hereafter). The company owns chicken feeds factory situated in Oshakati, and was incorporated on 01 January 2010. Their business has grown tremendously over the last few years. They recently appointed a new financial accountant in their team, Ms. Sherry Leonard, a close relative of Mr. Goabeb who graduated top of NUST bachelor of accounting programme in April 2018.

Ms. Leonard requires your assistance with the following matters which arose during the financial year ended 31 December 2018:

1. Payroll queries

Ms. Leonard did her internship at one of the big four auditing firms in Windhoek for three months. After graduating she worked for a printing company in Walvis Bay for the last few months before joining OCF in early December 2018, but she doesn't have any direct experience in accounting for payroll related transactions. This is because she was never assigned that section of the audit during her time at the audit firm or at the printing company. Her OCF accounting team had not processed any payroll entries for the month of December. On 5 January 2019, she reviewed the OCF's electronic bank statement and identified the following payments made:

Date	Description	Note	Amount N\$
25 December 2018	Various payments made directly to employees		3,405,600
25 December 2018	OCF Defined benefit plan	i	167,000
31 December 2018	Receiver of revenue: Income- tax		1,259,384
31 December 2018	Unemployment insurance fund (UIF)	ii	64,300
03 January 2019	Alexander Forbes	iii	395,800
03 January 2019	Discovery Medical Holdings	iv	313,000

Notes:

- i) Only senior executives qualify for membership to the OCF Defined benefit plan, and the contributions to the fund are made by OCF. It forms part of the executive's total cost to company.
- ii) Unemployment insurance fund (UIF) contributions are statutory contributions to a government administered insurance fund that both the employer and the employee are

required to contribute to in equal parts, and is calculated with reference to gross salaries (i.e. 50:50 contribution).

- iii) Employees may elect to contribute up to 12% of the gross salaries to the Alexander Forbes provident fund (a post-employment defined contribution retirement fund). OCF does not contribute to this fund.
- iv) The payment to Discovery Medical Holdings in respect of medical aid contributions comprises: N\$200,000 employer contributions, N\$110 000 employee contributions and N\$3 000 employee contributions for the Vitality benefit offered by Discovery to its members.

Leave pay

Ms. Leonard received a summary report in respect of employees' leave balances from the Human Resources department on 31 December 2018.

The summary report has been included as Annexure A.

REQUIRED:

(a) Assist Ms. Leonard by preparing the journal entries which she will need to process to record the payroll for the month ended 31 December 2018 to the extent that the information provided allows you to do.

- Round all workings to the nearest N\$ in your calculations and journals
- Include relevant amounts and calculations where necessary as marks will be awarded for them.
- Include journal narrations.
- Clearly indicate where an account is situated in the financial statements, i.e. statement of financial position (SFP); profit or loss (SP/L); other comprehensive income (SOI); or statement of changes in equity (SCE)
- Where effective and efficient communication: *narrations; correct statements are indicated, a mark will be awarded*

(11 marks)

(b) Calculate the amount of leave pay which should be accrued and/or provided for by Oshiweb Chicken Feeds (Pty) Ltd (OCF) in respect of the outstanding leave balances for the year ended 31 December 2018.

- Round all workings to the nearest N\$
- Include all calculations as marks will be awarded for them.
- Effective and efficient communication: *structured calculations; easy to follow thought process will be awarded a mark*

(14 marks)

Annexure A - Summary report: OCF leave balances at 31 DECEMBER 2018

Salary band (employment level)	Number of employee on salary band	Leave entitlement per employee (days)	Leave balance for level per employee (days)	Accumulating?	Vesting?	Average annual gross salary at 31 December 2018	Average annual cost to company at 31 December 2018	Expected increases: 2018
Executive	3	30	7	Yes	Yes	N\$550,000	N\$650,000	3%
Management	4	20	5	Yes	No	N\$300,000	N\$350,000	4%
Admin	7	20	3	No	Yes	N\$175,000	N\$200,000	5%
Factory	20	15	1	No	No	N\$80,000	N\$100,000	5%

- All employees work for 5 days a week; that is 260 days per annum
- Where leave accumulates, it accumulates for a maximum of one year.
- Vested leave is paid out in the first month of the new financial year.
- Average sick leave balance per employee: 25 days

QUESTION 2**(25 marks)**

(a)

After the financial statements for 2018 have been prepared, Namib Limited changed its method of depreciating machinery. The previous pattern of depreciation differed from the actual pattern of economic benefits derived from the depreciable assets. As a result, the reducing balance method at 20% will be applied in future instead of the straight line method over five years as in the past.

A summary of the machinery account at 30 June 2017, the previous financial year end of the company is as follows:

	N\$
Cost	800 000
Accumulated depreciation	(400 000)
Carrying amount	400 000

No machinery has been purchased or disposed of during the year ended 30 June 2018
(Ignore all tax implications)

Required

a) Calculate the following amounts resulting from the change in accounting estimates for inclusion in the financial statements of Namib Limited for the year ended 30 June 2018

i) Depreciation for the current year **(3 marks)**

ii) Depreciation for 2019 and 2020 **(4 marks)**

(b) Journalise all necessary adjustments to account for the change in accounting estimate in 2018 **(2 marks)**

(c) Assume the amounts involved in the change in accounting estimate to be material, and disclose these in terms of the requirements of International financial reporting standards (IFRS) accounting policy notes are not required **(5 marks)**

(d) Lima Limited is a company operating in the farming sector. The company purchased its only item of equipment on 2 January 2017 at a cost of N\$100 000. During the 2018 financial year, it was discovered that the equipment purchased in January 2017 was recorded as a repair expense. The profit before depreciation and repair expense amounted to N\$2 000 000 for the 2017 financial year and amounted to N\$2 500 000 for the 2018 financial year.

The corporate tax rate is 30%. The company provides for depreciation at 10% per annum on a straight line method. The tax authorities allow a wear and tear allowance of 20% per annum also on the straight line basis.

Required

Prepare the correcting journal entries that are processed in the 2018 year (11 marks)
[25 marks]

QUESTION 3 (25 marks)

a)

Earnings per share (EPS) are generally regarded as a key accounting ratio for use by investors and others. Like all accounting ratios, however, it has its limitations. You have been asked to make a brief presentation to CA students on the topic.

Required

- i. Explain why EPS is regarded as so important that the IASB has issued an accounting standard on its calculation; (3 marks)
- ii. Explain the general limitations of the EPS accounting ratio and its specific limitations for investors who are comparing the performance of different entities (6 marks)

b)

On 1 February 2017, C and D Limited, a listed entity had 3 000 000 ordinary shares in issue. On 1 March 2017, C and D made a rights issue of 1 to 4 at N\$6.50 per share. The issue was completely taken up by the shareholders.

Extracts from C and D Limited' financial statements for the year ended 31 January 2018 are presented as follows

	N\$ 000
Operating profit	1 380
Interest payable	<u>(400)</u>
Profit before tax	980
Income tax	<u>(255)</u>
Profit for the period	<u>725</u>

Extracts for the summarised statement of changes in equity for the year ended 31 January 2018 as follows:

	N\$ 000
Balance as at 1 st February 2017	7 860
Issue of share capital	4 875
Surplus on revaluation of PPE	900
Profit for the period	725
Ordinary dividend	<u>(300)</u>
Balance as at 31 January 2018	<u>14 060</u>

Just before the rights issue, C and D Limited' share price was N\$7.50 rising to N\$8.25 immediately afterwards. The share price at close of business on 31 January 2018 was N\$6.25.

At the beginning of February 2018 the average price ratio in C and D Limited 'business sector was N\$28.4 cents and the P/E ratio of its principal competitor was N\$ 42.5 cents.

Required:

Calculate the earnings per share for C and D Limited for the year 31 January 2018 and its P/E ratio at that date **(6 marks)**

c)

Talbot Plc has in issue 5 000 000 ordinary shares throughout 2017. During 2016 the company had given senior executives options over 400 000 shares excisable at N\$1 10 at any time after May 2019. None were exercised during 2018. 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 2018.

Required

What is the basic and diluted earnings per share for the year ended 31st December, 2018

(10 marks)

[25 marks]

QUESTION 4**(25 marks)****PART 1**

Delta is an entity which prepares financial statements to 31 March each year. The functional currency of Delta is the dollar (\$). The following events have occurred which are relevant to the year ended 31 March 2018:

On 1 February 2018, Delta purchased some inventory from a supplier whose functional currency was the dinar. The total purchase price was 3.6 million dinars. The terms of the purchase were that Delta would pay for the goods in two instalments. The first instalment payment of 1,260,000 dinars was due on 15 March 2018 and the second payment of 2,340,000 dinars on 30 April 2018. Both payments were made on the due dates. Delta did not undertake any activities to hedge its currency exposure arising under this transaction. Delta sold 60% of this inventory prior to 31 March 2018 for a total sales price of \$480,000. All sales proceeds were receivable in \$. After 31 March 2018,

Delta sold the remaining inventory for sales proceeds which were in excess of their cost.

Relevant exchange rates are as follows:

- 1 February 2018 – 6.0 dinars to \$1.
- 15 March 2018 – 6.3 dinars to \$1.
- 31 March 2018 – 6.4 dinars to \$1. (10 marks)

Required:

- a) Discuss in details what is meant by the concept of an entity's functional currency and how it may be determined in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

(5 marks)

- b) Explain in details and show by mean of journal entries or other calculations how the above events would be reported in the financial statements of Delta for the year ended 31 March 2018.

(10 marks)

PART 2

Botwholesa Limited (BL) is a subsidiary of Botswana Wholesaler based in Gobabis Namibia. Its functional currency is the Botswana Pula (P). It made a credit sale to a Botswana customer on 1 October 2018 for N\$100,000. This transaction was incorrectly recorded by Botwholesa Limited as a sale of P100,000. Botwholesa Limited received part payment on 30 November 2018 of N\$50,000 and this again was incorrectly recorded as P50,000 in its records.

The following exchange rates applied during the financial year:

1 October 2018	P1 = N \$ 1.25
30 November 2018	P1 = N \$ 1.20
31 December 2018	P1 = N \$ 1.10

REQUIREMENT:

- (a) Prepare journal entries to show how the above transactions should be recorded in the books of Botwholesa Limited for the year ended 31 December 2018. **(7 Marks)**
 - (b) Calculate the foreign exchange gain or loss at the 31 December 2018 for Botwholesa Limited. **(3 Marks)**
- [25 marks]**

END OF QUESTION PAPPER

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