



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	LEVEL: 6
COURSE CODE: FAC611S	COURSE NAME: FINANCIAL ACCOUNTING 201
DATE: JUNE 2024	PAPER: THEORY AND CALCULATIONS
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION PAPER	
EXAMINER(S)	Ms. P. Erkie, Ms. G. Kafula, Mr. C. Mahindi, Mr. C Simasiku and Ms. L Dala
MODERATOR:	Dr. D. Kamotho

INSTRUCTIONS
<ol style="list-style-type: none">1. Capture your full name, student number and assessment number on the first page.2. Answer ALL the questions and manage your time properly.3. Number each page correctly4. Write clearly and neatly.5. Do not write in pencil and do not use tip-ex, as this will not be marked.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!

THIS QUESTION PAPER CONSISTS OF 5 PAGES (excluding this front page)

Question 1**(10 Marks)**

New Era Construction Limited (“New Era”) is a company operating in the construction industry in Windhoek. It deals with the production, sale and trade of buildings in the ordinary course of business. The information below relates to one of their buildings.

The fair value of a building in the Windhoek CBD (it has always been leased to tenants) has never been determinable. The building was completed on 1 May 2022 at a cost of N\$5,000,000. Its total estimated useful life is 10 years. Fair values are now considered possible, and the accountant is adamant that the asset should either be measured under the fair value model forthwith or that the depreciation on the building should be measured using an estimated residual value of N\$1,000,000 (previously the residual value was nil). The estimated useful life has remained unchanged. The fair value on 30 April 2024 was N\$6,800,000.

New Era construction limited elects to use the fair value model to measure investment property.

Required:

Discuss how the above property should be classified and recognised in the records of New Era Construction Limited. Your discussion should include, the appropriate definition, initial recognition and subsequent measurement. (10).

Question 2**(70 Marks)**

This question consists of two interrelated parts.

PART A**(35 Marks)**

Namrose (Pty) Ltd “Namrose” is a company incorporated in Namibia during 2022 for the purpose of manufacturing flower vases. The founder, Ms. August was very fond of flowers but could never quite find the perfect vases for her flowers. The company has a 31 December year-end.

You have recently been appointed as an Assistant Accountant responsible for the non-current assets of the company. The following are details of the non-current assets owned by the company.

Land

On 01 January 2022, the company purchased a plot of land to start the construction of the factory building. Namrose paid N\$2 000 000 as settlement of the purchase price to the previous owner of the land, and an additional fee of N\$200 000 as legal fees to have the title deed changed into its name. The fair value of the land was N\$2 500 000 on 31 December 2022 and at N\$2 000 000 on 31 December 2023.

Factory Building

Namrose commenced construction of a factory building on 1 January 2022. The construction was completed on 30 November 2022, Namrose at a cost of N\$4 500 000. Namrose financed the construction of this factory building via bank loan from FNB that was obtained on 1 January 2022. Finance costs incurred on the loan up to 30 November 2022 amounted to N\$500,000. These finance costs meet the criteria of qualifying borrowing costs. The factory building was available for use on 1 December 2022, on which date, it was put into use. An inauguration function was held on 1 December 2022 to officially open the factory building at a cost of N\$50 000. The useful life of the building is 10 years with a nil residual value.

Machinery

The company also purchased machinery at a cost of N\$800 000 on 1 December 2022. The machinery's useful life was estimated to be 5 years, with a nil residual value.

On 31 December of 2023, the employee responsible for servicing the machine used the incorrect oil, causing serious damage to the machine. On this date, the fair value less cost to sell the machine was estimated to be N\$450 000,

The following estimated cashflows of the machinery for a period of 5 years at an appropriate discount rate of 10% are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Cashflows	230,000	160,000	110,000	69,606	45,900
10% PV factor	0.9091	0.8264	0.7513	0.683	0.6209

The machinery is depreciated using the reducing balance method at a rate of 20% per annum.

Additional information:

- Namrose measures its Property, Plant and Equipment using the cost model except for land which it measures using the revaluation model.
- All purchase amounts were settled via bank electronic transfers where applicable.
- All amounts exclude VAT.

YOU ARE REQUIRED TO:

Show all your calculations!

PART A

(35 Marks)

- i. Prepare all the journal entries for the years ended 31 December 2022 and 31 December 2023 arising from transactions of the **Land** and **Factory Building**.

- Present the journals for each non-current asset separately.
- Indicate the date of the transaction, the statement being affected (SPL, SFP etc)
- Journal narrations are required.

Mark Allocation:

- Land (10)
- Factory Building (15)

- ii. Discuss whether the **Machinery** should be impaired as at 31 December 2023. Support your answer with relevant calculations (10)

PART B

(35 Marks)

Equipment

On 01 January 2023, equipment with a cost of N\$500 000 was purchased by Namrose. At the date of purchase, the estimated useful life of this equipment was 4 years. On the date of purchase no separate components were identified. However, on 30 June 2023, a component of the equipment suddenly stopped functioning. On that same day, the company purchased a replacement component for N\$50 000 and estimated it to have a remaining useful life of 2 years. It also estimated that the original component cost when purchased as part of the equipment amounted to N\$20,000.

Sale of Equipment

You have been provided with the following internal memorandum by Ms. August.

MEMORANDUM

TO: All Staff Members

FROM: Management,

DATE: 31 December 2023

SUBJECT: Sale of Equipment and Future Investment Plan

Dear Team,

We would like to inform you about a significant decision made by the management of Namrose Limited. On December 31, 2023, it was decided to sell one of our pieces of equipment 'voetstoots' (as is).

To ensure a swift sale, we have engaged a reputable advertising agency which has been tasked with marketing the equipment at a price that aligns with current market values. This strategic pricing is expected to expedite the sale process. Our aim is to complete the sale by March 2024. The funds generated from this sale will be used to acquire other equipment.

Best Regards,

Management

Additional information:

- Namrose measures its Property, Plant and Equipment using the cost model except for land which it measures using the revaluation model.
- All purchase amounts were settled via bank electronic transfers where applicable.
- All amounts exclude VAT.

**YOU ARE REQUIRED TO:
Show all your calculations!**

PART B

(35 Marks)

- Prepare all the general journal entries to account for the **Equipment Components** for the reporting period ended **31 December 2023**. (13)
- With regard to the sale of Equipment, discuss whether the equipment meets the criteria to be classified as held for sale in accordance with *IFRS 5 Non-current assets held for sale and discontinued operations*. (15)
Clarity of discussion (1)
- Assuming the equipment met the IFRS 5 classification criteria, present the non-current assets held for sale as it would appear in the Statement of financial position of Namrose Limited as at 31 December 2023 assuming the fair value less cost to sell of the equipment amounted to N\$400,000. Provide reasons as to the value you used. Show all calculations! (6)

Question 3

(20 Marks)

Farmcor Limited is a manufacturer of insecticides that is situated in Karibib. The company has a 28 February year end. The following details are available regarding the assets of the company:

Purchased – PestAway patent

On 1 May 2021 Farmcor Limited acquired an insecticide patent, called PestAway, for N\$795,000. This innovative patent positioned the company at the forefront of the insecticide market worldwide. On 1 May 2021 the patent's useful life was determined to be 10 years, and no residual value was allocated to the patent. The patent was available for use, as intended by management, on the acquisition date.

Over the past two years, the company decided to focus more on organic markets and on 30 November 2022, management decided to sell the **PestAway patent**. The sale is expected to be completed by 31 May 2023 for cash. All the criteria as set out in IFRS 5 for classifying an asset as held for sale were met on 30 November 2022.

Internally generated intangible asset – Organopest patent

On 1 March 2022 the company commenced with research on a new patent for organic insecticides as part of its latest business strategy to enter the organic market. The research phase was completed on 30 September 2022. On this date the chief financial officer of Farmcor Limited determined that all the criteria for the recognition of an internally generated intangible asset were satisfied. The development of the Organopest patent commenced on 1 October 2022 and was still in progress at year end.

The following costs were evenly incurred during the research and development phases of the Organopest patent:

- The total salaries for the developers who were involved full time in both the research phase and the development phase amounted to N\$ 76 000 per month.
- Water and electricity directly attributable to patent research and development for the 2023 financial year amounted to N\$387 000.

Farmcor Limited used an insecticide manufacturing machine that was purchased for N\$438,550 during the 2021 financial year in the development phase of the Organopest patent for the period 1 November 2022 until 31 January 2023. The useful life of the machine was estimated to be 15 years, with a residual value of N\$25 000.

Additional information

1. It is the accounting policy of the company to account for intangible assets according to the cost model and to provide amortisation on intangible assets according to the straight-line method over the estimated useful lives of the assets.

REQUIRED:

- a) Disclose the Intangible assets notes to the annual financial statements of Farmcor Limited for the year ended 28 February 2023. (A total column is not required). **(20 marks)**

END OF EXAMINATION QUESTION PAPER

