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: Jul/Aug 2024	SESSION: Jun 2024
DURATION: 3 HRS	MARKS: 100

SUPPLEMENTARY ASSESSMENT – 2ND OPPORTUNITY QUESTION PAPER	
EXAMINER(S)	Kamotho, D.W., Dzomira, S., Ms. Garas, E., Kamana, R.,
MODERATOR:	M Tondota

THIS QUESTION PAPER CONSISTS OF _6_ 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.

PERMISSIBLE MATERIALS

1. Non-programmable scientific or financial calculator

Question 1 25 Marks

a) Daybed Limited is a company that manufactures and retails pool loungers. Recently due to current economic events, Daybed Limited attempted to increase sales by introducing a profit-sharing plan for its employees. The plan read as follows:

PROFIT SHARING MEMO

To: *All sales staff*

From: *Executive management*

Management has decided to implement the following profit-sharing plan for all sales staff:

- *25% of gross sales earned above predetermined target of N$1 500 000 will be allocated equally among all qualifying sales staff members.*
- *To qualify, sales staff members must have been in the employ of the company for at least two years as at the end of the current financial year and remain in the employ of the company for a further year after this current year end date.*
- *Any allocation made to an employee who fails to meet the terms of the profit-sharing plan is forfeited and will not be re-allocated amongst the remaining qualifying sales staff.*

As the financial accountant of Daybed Limited you have to account for the profit-sharing plan. The following information is available to you:

- The company had 50 employees during 2023, 60% of whom are sales staff. 10% of the sales staff had been employed by the company for less than 2 years and the remaining 90% had been employed by the company for at least 2 years. It is expected that 3 employees (all of whom had been in the company's employ for 10 years) will resign during 2024 and will be replaced by new employees.
- The gross sales achieved during the current financial year ended 31 December 2022 amounted to N$2 250 000.

Required:

i. Calculate the liability that needs to be recognised at 31 December 2022. (8)

ii. Journalise the recognition of the liability. (3)

iii. Provide the journal entries at 31 December 2023 to account for the payment if 5 sales staff members actually left during 2023, all of whom had worked for Daybed Limited for at least 2 years calculated at 31 December 2022 (the 2022 provision was considered appropriate). (6)

b) Matthew Limited's annual salary expense for 2023 is as follows:

- Gross salary of N$4 000 000, of which:
  - N$1 200 000 is employees' tax, which was withheld (payable to the tax authorities)
  - 7% was withheld, payable, on behalf of the employee, to a defined contribution plan.
  - The balance thereof was payable to the employees.
- Company contributions to the defined contribution plan: 10% of gross salaries.

Required:

Show the journals and the profit before tax note for Matthew's financial year ended 31 Dec 2023. Show the journals on an annual basis (i.e. these are normally processed monthly) (8)

[Total: 25 Marks]

Question 2 25 Marks

Smart Limited enters into a contract with Property Limited for the lease of three floors of an office building. The exact floors are specified in the contract and Property Limited is not permitted to relocate tenants to other floors of the building.

The commencement date of the lease is July 2023 and the duration of the lease is for five years with the option to extend for a further five years. Smart Limited is reasonably certain to exercise the option to extend the lease.

The lease payments are N$50 000 per annum during the initial term and N$55 000 per annum during the optional term, all payable in advance.

Smart Limited incurred initial direct costs of N$20 000, comprising N$15 000 as compensation to the tenant formerly occupying the three floors and N$5 000 as agents commission. These are paid on 1 July 2023. Property Limited agrees to reimburse the N$5 000 agents commission.

The interest rate implicit in the lease is not readably determinable. Smart Limited's incremental borrowing rate is 5% per annum. The following present value table is provided:

PV factor	
Present value annuity in advance of N$1 for years 1 to 5, discounted at 5%	4,5459
Present value annuity in advance of N$1 for years 6 to 10, discounted at 5%	3,5619

Required:

a) Calculate the amount to record as the initial lease liability and the right of use asset, explaining your answer. (15)

b) Prepare the journal entries in the accounting records of Smart Limited for the year ended 30 June 2024 and 30 June 2025. (10)
Ignore tax.

[Total: 25 Marks]

Question 3 25 Marks

The accountant of Uwanja Limited discovered an error while he was busy preparing the financial statement for the year ended 31 December 2022. He discovered that inventory that had been sold during 2021 but which had not yet been collected by the customer, had been included in the stock count at 31 December 2021.

As a result, the cost of this inventory had been included in the closing inventory at 31st December 2021. The cost of it this inventory is N$2750 and is considered to be material. Uwanja uses the periodic system to account for inventory.

The following are the draft statements, before correcting the error, that were being prepared for inclusion in Uwanja's published annual financial report for the year ended 31 December 2022.

Uwanja Limited
Statement of comprehensive income (extract)
For the year ended 31 December 2022

	2022	2021
	N$	N$
Revenue	56,000	38,750
Cost of sales	(35,000)	(23,250)
Gross Profit	**21,000**	**15,500**
Operating costs	(12,250)	(5,500)
Profit before taxation	**8,750**	**10,000**
Income tax expenses	(1,750)	(2,000)
Profit for the period	**7,000**	**8,000**
Other comprehensive income	0	0
Total comprehensive income	**7,000**	**8,000**

Uwanja Limited
Statement of changes in equity (extract)
For the year ended 31 December 2022

	Share capital	Retained earnings	Total equity
	N$	N$	N$
Balance – 01 January 2021	**12,500**	**10,000**	**22,500**
Total comprehensive income - 2021		8,000	8,000
Balance 31 December 2021	**12,500**	**18,000**	**30,500**
Total comprehensive income - 2022		7,000	7,000
Balance 31st December 2022	**12,500**	**25,000**	**37,500**

Tax related information.

The corporation income tax has remained constant at 20%.

All income is taxable, and all expenses are tax deductible.

Required

Prepare the following for inclusion in Uwanja Limited's annual financial report for the year ended 31 December 2022 and in accordance with the International Financial Reporting Standards

i. Statement of Comprehensive Income (14)

ii. Statement of changes in equity (11)

Notes to the financial statements are not required.

[Total: 25 Marks]

Question 4 25 Marks

An extract from Tuba Limited's statement of comprehensive income for the year ended 31 December 2023 is as follows:

	2023	2022
	N$'000	N$'000
Operating profit	11 800	6 900
Finance costs – preference shares	(200)	(200)
Profit before tax	11 600	6 700
Income taxation	(6 500)	(3 200)
Profit for the year and total comprehensive income	**5 100**	**3 500**

Details of authorised and issued share capital are as follows:

Authorised:

- N$2 500 000 in ordinary shares of 50 cents each.
- N$2 000 000 in 10% cumulative compulsorily redeemable preference shares of N$1 each.

Issued:

- N$1 500 000 in ordinary shares issued on 1 January 2019
- N$1 000 000 in ordinary shares issued on 31 March 2023
- N$2 000 000 in 10% cumulative compulsorily redeemable preference shares issued on 2 January 2019.

The ordinary shares issued in 2023 were issued as a rights issue at two shares for every three held. A premium of N$ 6.0 million arose on the issue. The closing market price on the last day of registration for the rights issue was 500 cents per share.

The following dividends were declared:

	2023	2022
	N$'000	N$'000
Preference dividends - 31 December	200	200
Ordinary dividends - 31 December	2 000	1 800

Included in operating profit is impairment of Goodwill amounting to N$200 000 in 2023 and N$100 000 in 2022

REQUIRED:

a) Show all disclosures required by International Financial Reporting Standards relating to Earnings Per Share for the year ended 31 December 2023. (25)

Show all your workings which carry 16 marks and note that comparatives are required.

[Total: 25 Marks]

END OF QUESTION PAPER

29/04/2024