



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
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COURSE CODE: FAC511S	COURSE NAME: FINANCIAL ACCOUNTING 101
SESSION: JUNE 2017	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. G Jansen, Mr. C Mahindi and Mr. A Ketjinganda
MODERATOR:	Ms. J van Wyk

INSTRUCTIONS	
<ol style="list-style-type: none">1. This question paper is made up of four (4) questions.2. Answer ALL the questions and in blue or black ink.3. Start each question on a new page in your answer booklet.4. 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.	

THIS QUESTION PAPER CONSISTS OF 7 PAGES (Including this front page)

GENERAL

The names of people and businesses used throughout this examination paper do not reflect the reality and may be purely coincidental.

QUESTION 1

(30 MARKS)

This question consists of two independent parts.

PART A

(15 MARKS)

- a) List one (1) primary user of financial statements as per *Conceptual Framework for Financial Reporting* and also explain for what purpose they could use the financial statements. (2)
- b) List six (6) *Qualitative Characteristics* of Financial Statements. (6)
- c) Explain what the underlying assumption of going concern means. (1)
- d) Define the element liability as per *Conceptual Framework for Financial Reporting*. (3)
- e) Explain the difference between input VAT and output VAT. (2)
- f) What does the abbreviation VAT stands for? (1)

PART B

(15 MARKS)

CATERNAM (Pty) Ltd supplies fine dining catering services for high end functions and events in all regions of Namibia. While at the Hage Geingob Soccer Cup final match on 30 May 2017, the owner Mr. Baloyi bumped into an old university friend, Ms. Masango who owns an events management company, Events Today (Pty) Ltd.

While they chatted, Ms. Masango indicated that she would like CATERNAM (Pty) Ltd to provide catering services for some of her company's events. CATERNAM (Pty) Ltd would prepare fine dining meals with invoicing based on the number of people attending each event. Events Today (Pty) Ltd would provide the number of guests to be catered for at each event. Invoices would be paid within 30 days from the date of receipt of the invoice by Events Today (Pty) Ltd. The two parties agreed on the terms and shook hands. In addition it was also agreed that Ms. Masango would send a written contract by the end of the business on 7 June 2017 for signatures by both parties.

At the end of the Hage Geingob Soccer Cup final match, Ms. Chabalala, who had overheard the conversation between the two, called Mr. Baloyi aside. She alerted him to the fact that she had recently provided catering services for Events Today (Pty) Ltd but not all payments were received as the company is experiencing some financial difficulty.

REQUIRED:

Determine whether the arrangement between Mr. Baloyi and Ms. Masango satisfies the requirements of a contract in terms of IFRS 15 *Revenue from contracts with customers* in the records of CATERNAM (Pty) Ltd on 30 May 2017. (15)

QUESTION 2**(25 MARKS)**

Beer Pressure Limited brews their own beer in central Windhoek, where they rent a property from Broll and list Namibia (Pty) Ltd. The reporting period of Beer Pressure Limited ends on 31 December 2017. The chief accountant of Beer Pressure Limited has always expressed explicit and unreserved compliance with *International Financial Reporting Standards (IFRS)* in its annual financial statements.

The following information relates to the property, plant and equipment of Beer Pressure Limited.

SPECIAL FACTORY PLANT

Beer Pressure Limited purchased a special factory plant on 1 January 2017. Details of the cost incurred to acquire the plant are as follows:

	N\$
Purchase price (including VAT of 15%)	1 140 000
Initial operating loss	70 000
Delivery costs	90 000
Import duties (non-refundable)	200 000
Staff training to use plant	24 000
Installation costs	60 000
Proceeds from sale of samples produced during testing	26 000
Testing to ensure plant is fully operational	84 246
Inauguration function to introduce the plant	28 000

Additional information:

1. The initial operating loss was incurred as a result of having to dump unsold "bad beer" since the colour of this sample was dark orange.
2. Beer Pressure is a VAT vendor.
3. All amounts are stated exclusive of VAT unless stated otherwise.

MOTOR VEHICLES

The following information is obtained from the books of Beer Pressure Limited on 31 December 2016 in respect of motor vehicles:

Motor vehicle	Cost Price	Date of purchase
2015 Nissan	N\$ 100 000	1 July 2015
2016 Toyota Carola	N\$ 140 000	1 Sept 2016

On 1 July 2017 the 2015 Nissan was traded in for N\$40 000 (excluding VAT) for a GWM single cab which cost N\$150 000 (excluding VAT). Beer Pressure provides for depreciation at 20% per annum on the reducing balance method.

REQUIRED:

- a) Calculate the cost at which the special factory plant will be recognised by complying with IAS 16 *Property, Plant and Equipment.* (10)

- b) Prepare the following general ledger accounts for the reporting period ended 31 December 2017:
 - i) Motor vehicles (5)
 - ii) Accumulated depreciation; motor vehicles (6)
 - iii) Disposal of motor vehicles (4)

Note: Show all your workings.
Round off all amounts to the nearest Dollar.

QUESTION 3

(15 MARKS)

Dimensions Data was established in 2015 by Mr. Angula. The organisation sells computers and its main market is young professionals. Dimensions Data purchase its computers from a local supplier, Business Connexions (Pty) Ltd, which is a VAT registered vendor. Dimensions Data is also a registered VAT vendor. The price of one computer bought from its supplier, Business Connexions (Pty) Ltd amounts to N\$10 350 (VAT inclusive).

Mr. Angula has informed you that he will be travelling a lot during 2017, as the world is his oyster and he need to be on the lookout for new business opportunities all the time.

The computers are sold by Dimensions Data at a mark-up of 35%.

The accountant of Dimensions Data had the following information regarding the financial year ending 30 June 2017:

	<u>Units</u>
Opening Inventory	180
Dell computers bought	750
Dell computers sold	840
Donations to the best IT students at the Namibia University of Science and Technology	12

On 7 July 2017 SangHu computers established a branch in Windhoek and they sell mostly MAC Book (computers) which are currently in high demand and Dimensions Data will have no option but to sell their computers at N\$8 400 (excluding VAT) each, in order to keep up with the competitive market.

You may assume a VAT rate of 15% is applicable.

REQUIRED:

- a) Explain to Mr. Angula what the differences are between the two inventory systems and advise him on which system would be more appropriate for his business. (6)
- b) Calculate the selling price of each Dell computer. (2)
- c) What will your answer be in (b) above, if the profit margin was 20%? (2)
- d) Calculate the value of closing inventory computers on hand on 30 June 2017 and explain to Mr. Angula the reason(s) for using the value per item that you used in your closing balance calculation. (5)

QUESTION 4

(30 MARKS)

Crazzy Store Entity's current reporting date is 31 December 2017. On 31 December 2017, the following balances appeared in the accounting records of Crazzy Store Entity: The entity makes use of a perpetual inventory system.

	Additional information	DEBIT	CREDIT
Cost of sales		4 140 000	
Salaries		1 730 000	
Water and electricity	2	328 000	
Office supplies – expense	3	402 000	
Insurance expense	4	39 000	
Credit losses		52 000	
Rent expense	6	440 000	
Bank charges		48 200	
Depreciation – machinery	8	0	
Depreciation – furniture and equipment	7	76 000	
Interest-expense on supplier's loan	8	0	
Sales			9 100 000
Interest-income on favourable bank balance			10 500
Land		720 000	
Machinery at cost price	8	900 000	
Accumulated depreciation – machinery	8		0
Furniture and equipment at cost price		950 000	
Accumulated depreciation – furniture and equipment	7		266 000
Receivables (A to I) – total of individual balances		852 000	
Receivable J	5	24 000	
Trade inventories	1	829 000	
Bank		802 000	
Office supplies on hand on 31 Dec 2016	3	32 000	
Insurance expense prepaid on 31 Dec 2016	4	17 800	
Capital			1 500 000
Retained earnings – balance on 1 Jan 2017			810 000
Drawings		560 000	
Trade payables (K to P) – total of individual balances			355 500
Payable City of Windhoek	2		0
Supplier's loan	8		900 000
		12 942 000	12 942 000

ADDITIONAL INFORMATION:

The following transactions and events **still have to be recognised** in the records of Crazzzy Store Entity:

1. The perpetual inventory system indicates that the following two events in respect of trade inventories still have to be recognised:
 - 1.1 Obsolete and damaged inventory items with a cost of N\$22 000 on 31 December 2017 have to be written off. The write-off has already been authorised by the owner.
 - 1.2 During December 2017, the owner took inventories with a cost price of N\$8 000 for personal use.
2. The statement for water and electricity for December 2017, which reflects an amount due of N\$26 500 in respect of the water- and electricity usage for December 2017, was received on 8 January 2018 from City of Windhoek and still has to be recognised.
3. Office supplies on hand on 31 December 2017 amounts to N\$42 000 and still has to be recognised. The necessary journal entry in respect of office supplies on hand on 31 December 2016 also still has to be recognised.
4. Insurance premiums are paid annually on 1 July. The annual insurance premium, which was paid on 1 July 2017, amounted to N\$39 000. The full premium was debited against the insurance expense for 2017. The insurance premium prepaid on 31 December 2017 still has to be recognised. The necessary journal entry in respect of the insurance expense prepaid on 31 December 2016 also still has to be recognised.
5. After numerous fruitless attempts over a period of eight months, Receivable J could not be located. It was consequently decided to write-off the amount due by Receivable J as irrecoverable. The write-off has already been authorised by the owner and still has to be recognised.
6. Due to an oversight, the lease payment for December 2017 to the amount of N\$40 000 was paid only on 16 January 2018. The necessary journal entry still has to be recognised.
7. The depreciation expense on furniture and equipment for 2017 was calculated and recognised as N\$76 000. The amount should however be N\$95 000. The necessary adjustment still has to be recognised.
8. On 2 January 2017, Crazzzy Store Entity utilised a supplier's loan for the purchase of a machine. The written loan agreement with the supplier *inter alia* stipulates that the interest rate is 10% per year and that the interest and the primary debt is repayable in one amount on 31 December 2018. At the end of each year, the interest is added to the primary debt. The interest schedule is as follows:

Date	Detail	Interest at 10% per year	Amortised cost of the loan
2 Jan 2017	Primary debt		900 000
31 Dec 2017	Interest	90 000	990 000
31 Dec 2018	Interest	99 000	1 089 000
		189 000	

The applicable interest-expense for 2017 still has to be recognised.

On 2 January 2017, the machine was received and put into service. The estimated useful life of the machine is 6 years. The depreciation expense for 2017 still has to be recognised in accordance with the straight-line method.

REQUIRED:

- a) Prepare the statement of profit or loss and other comprehensive income of Crazzzy Store Entity for the reporting period ended 31 December 2017. (14)
- b) Prepare the statement of financial position of Crazzzy Store Entity for the reporting period as at 31 December 2017. (16)

Note: VAT must not be accounted for.

END OF EXAMINATION PAPER



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