



**PAMIBIA UNIVERSITY**  
**OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION**

**DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE**

<b>QUALIFICATION: BACHELOR OF ACCOUNTING</b>	
<b>QUALIFICATION CODE: 07BOAC</b>	<b>LEVEL: 6</b>
<b>COURSE CODE: FAC 611S</b>	<b>COURSE NAME: FINANCIAL ACCOUNTING 201</b>
<b>DATE: JULY 2023</b>	<b>PAPER: THEORY AND CALCULATIONS</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>SECOND OPPORTUNITY EXAMINATION PAPER</b>	
<b>EXAMINER(S)</b>	Dr. A. Simasiku, Mr C. Mahindi, Mr. C. Simasiku and Ms. S. Ifugula
<b>MODERATOR:</b>	Dr. D. Kamocho

<b>INSTRUCTIONS</b>
<ol style="list-style-type: none"><li>1. Capture your full name, student number and assessment number on the first page.</li><li>2. Answer ALL the questions and manage your time properly.</li><li>3. Number each page correctly</li><li>4. Write clearly and neatly.</li><li>5. Do not write in pencil and do not use tip-ex, as this will not be marked.</li><li>6. The names of people and businesses used throughout this assessment do not reflect the reality and may be purely coincidental.</li></ol>

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

**Question 1****(30 marks)**

Island of Katima is a resort situated on an island just off the coast of the Zambezi region. The resort is a first of its kind as it has the first artificial aquarium, sporting robotic fish that looks real-life, can swim, consume other fish, and move in an incredibly realistic way. The fish are controlled by a remote server. The cost of constructing the aquarium was N\$350,000. An independent valuator (approved by the auditors) has separated the cost of the aquarium into the following parts, each of which is considered to have a cost that is significant to the cost of the entire aquarium.

- The structure estimated cost of N\$100,000.
- The server estimated cost of N\$50,000.
- The robotic fish estimated cost of N\$200,000.

**Additional information:**

- The resort was open and ready for visitors from 2 January 2022. However, a national strike during the month of January meant that no staff arrived and thus the grand opening was delayed until 1 February 2023.
- The aquarium is depreciated on the straight-line method:
- The structure has an estimated useful life of 100 years and a residual value of N\$ 2000.
- The server has an estimated useful life of 10 years and a residual value of N\$ 1000.
- The robotic fish have an estimated useful life of 50 years and a nil residual value.

Other costs incurred in relation to opening the resort:

Delivery and electronic set up of robotic fish	N\$1, 000
Staff training for aquarium cleaners and IT specialists	N\$15,000
Testing to ensure aquarium was fully operational before grand opening (this involved testing and checking the structure, server, and fish). This cost is allocated equally to each significant part.	N\$3,000
Grand opening launch party, including cost to hire Burna Boy, a popular musician)	N\$10,000
Initial operating loss	N\$30,000

- The resort was closed during August 2022 for the annual maintenance programme.
- Island of Katima measures all its property, plant, and equipment under the cost model. It owns only two other items of Property, plant and equipment, the relevant details for the current year ended 31 December 2022 are as follows:
  - Land: the land was purchased many years ago for N\$ 5 000 000 and it is not depreciated

- Building: construction of the building was complete on 1 January 2021 at a cost of N\$12 000 000 and it is depreciated on the reducing balance at a rate of 5% per annum. Its residual value is N\$2 000 000.

**Required**

- (a) Using Katima 's general journal, show ALL the related journal entries for year ended 31 December 2022. (18)
- (b) Disclose the Property, Plant and Equipment note in the financial statement's of Katima Island for the year ended 31 December 2022. (12)

**Question 2**

**(20 marks)**

On 31 August 2018, Tamba Investments moved its manufacturing division out the property that is owned on a freehold basis and into larger leased premises. This freehold property, consisting of land and a factory building was immediately leased out to an unrelated party under a non- cancellable ten-year operating lease.

The freehold property had originally cost N\$ 10 400 000 (Purchased on 1 January 2013), on which date its total useful life was estimated to be 25 years and its residual value was estimated to be nil.

The freehold property was revalued for the first time on 31 December 2016:

- The land was revalued to its fair value to its fair value by N\$ 1 000 000.
- The factory building was impaired by N\$ 1.8 million.

Further revaluations were performed on 31 August 2018 and 31 December 2018.

The following details pertain to the vacated factory land and buildings.

	Land	Buildings (25 years useful life)
Cost 1 January 2013	2 400 000	8 000 000
Carrying amount 31 Dec 2017	3 400 000	4 686 000
Fair value on 31 August 2018	4 000 000	7 500 000
Fair value on 31 December 2018	4 180 000	7 900 000

Land and building that are classified as property, plant and equipment are measured under the revaluation model and are depreciated using the straight-line basis. Investment properties are measured under the fair value model.

**Required:**

Prepare the general journal entries to record all the matters to the factory land and buildings, including its change of use, for the year ended 31 December 2018. (Ignore *taxation*). (20)

**Question 3****(25 marks)**

Kikiki Limited is a manufacturing company that owns various items of machinery. As a result of new technology in the manufacturing industry, Kikiki Limited now expects to earn less revenue from two items of machinery. The carrying amount of the two items on 31 December 2022 were as follows:

Machine ABC	8 500 000
Machine XYZ	7 500 000

Management determined the fair value less cost of disposal of machine ABC to be N\$8,000,000 and that the of machine XYZ to be N\$7,400,000 on 31 December 2022.

Kikiki Limited is of the opinion that machine ABC will generate net cash inflows of N\$2,100,000 per annum over the next five years and this was confirmed in the most recent cash flow budget for management. Machine ABC can be disposed of for a net amount of N\$150,000 at the end of its useful life.

The budgeted net cash inflows for the next five years from Machine XYZ (that occur at the end of each year) are as follows.

	N\$
2023	1 900 000
2024	1 950 000
2025	2 050 000
2026	2 000 000
2027	1 800 000

An appropriate discount rate is 10%.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	
10%	0.909	0.826	0.751	0.683	0.621	

Present value annuity for five years

10%	3.791
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**REQUIRED:**

Calculate the impairment loss for BOTH machines to be recognised by Kikiki Limited for the year ended 31 December 2022. Show all your workings. (25)

**Question 4****(25 marks)**

Harambe limited is a medium sided company that is based in Windhoek. Harambe’s sales have grown significantly since it started operations and in recent years, they have also started selling their products to neighbouring countries. The management of Harambe decided to develop a website in house which has a facility for orders to be placed by customers.

The website development project was commenced in January 2022 and was headed by Peter Jones an employee of Harambe who is well experienced in software development. Peter commenced the project by performing a feasibility study which cost N\$ 20 000 and these feasibility costs revealed that there was indeed a demand for the website.

The other costs relating to this project incurred during the year were as follows.

Description	N\$
Reviewing security access	2 000
Selling of product costs	150 000
Cost to train employees to operate the website	50 000
Analysing usage of the website	40 000
Registering the website with search engines	12 000
Backing up of data on the operating website	6 000
Creating, preparing, and uploading information on the website	100 000
Designing the appearance of the website	85 000
Stress testing	8 000
Installing applications on the web server	20 000
Purchasing hardware	650 000
Developing code for the application	3 000
Developing the software	162 000
Obtaining a domain name	15 000
Meeting with management to select the suppliers, hardware, and soft ware	3 000
Evaluating the various suppliers available	7 000
Defining the hardware and software specifications	3 000

Assume that where necessary, the criteria for IAS 38 For the capitalisation of development costs were met. The website has a useful life of 5 years with no residual value. The website was already operating by the end of the year.

Furthermore, Harambe had a licence which it purchased in 2018 which had the following details as of 1 January 2022.

	N\$
Cost	300 000
Accumulated depreciation	(180 000)

The licence was obtained for a period of 10 years, and it will expire at the end of 2028.

Assume that the year-end of Harambe is 31 December 2022 and all intangible assets are amortised on the straight-line basis.

**Required**

- (a) With regard to the website development, determine the following.
- Costs to be expensed.
  - Costs to be capitalised to the website costs (intangible asset) (17)
- (b) With regard to all the transactions above, prepare the following notes in the annual financial statements of Harambe for the year ended 31 December 2022
- i. Profit before tax note (5)
  - ii. Intangible asset note (3)

**END OF EXAMINATION QUESTION PAPER!**

