



NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION
DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING (CHARTERED ACCOUNTANCY)	
QUALIFICATION CODE: 07 BACC	LEVEL: 6
COURSE CODE: FAC601Y	COURSE NAME: FINANCIAL ACCOUNTING 200
SESSION: JANUARY 2025	PAPER: THEORY AND PRACTICAL
DURATION: 188 MIN Reading time: 25 Min Writing time: 163 Min	MARKS: 125

Final Assessment Opportunity 2 2024– Information	
EXAMINER(S)	M E Cloete and C Mahindi
MODERATOR:	G Kafula

INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only.2. This paper consists of THREE separate questions.3. Write clearly and neatly.4. Start each question on a new page and number the answers clearly.5. No programmable calculators are allowed.6. Round all numbers to the nearest whole number.7. Show and reference all workings clearly.8. Questions relating to the paper 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.9. Any resemblance to any people, places, organisations, or anything are purely coincidental.

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including the front page)

QUESTION 1**(65 Marks)**

Fabulous Limited ("Fabulous"), an entity operating in the beauty industry of Namibia, is a provider of beauty products and services. Fabulous has been trading for decades, specializing in the sale of certain hair and make-up products, as well as operating various salons in the country. Its unique brand and natural ingredients is what attracts its customers to its products and services. Fabulous has a 31 December financial year-end.

Stylez Limited

On 1 January 2024, Fabulous decided to expand its business by acquiring the assets and liabilities of Stylez Limited in a business combination. Stylez is a hair salon that has a wide customer base in the northern region of Namibia, and would create a new market for Fabulous to enter into. Fabulous obtained direct control over majority of the assets and liabilities of Stylez. The assets and liabilities taken over in terms of the transaction represent a "business" as defined in *IFRS 3 Business combinations*.

The following information is available:

STATEMENT OF FINANCIAL POSITION OF STYLEZ LTD AS AT 1 JANUARY 2024		
	Carrying amount (N\$)	Fair Values (N\$)
ASSETS		
Land	1 150 000	1 300 000
Buildings	1 375 000	1 400 000
Plant	975 000	540 000
Investment property (cost model)	2 000 000	1 800 000
Intangible assets (meets IAS 38 requirements)	750 000	Refer to Note 1
Inventory	800 000	Refer to Note 2
Receivables	650 000	Refer to Note 3
	8 150 000	
EQUITY AND LIABILITIES		
Share capital (No par value shares)	2 750 000	-
Retained earnings	2 600 000	-
Long term liabilities	1 700 000	1 400 000
Payables	1 100 000	825 000
	8 150 000	

Notes:

- The fair value of the intangible assets of Stylez Ltd is N\$ 950 000. Stylez Ltd was also involved in research and development of a new type of hair product that can keep hair straight for longer. The research and development costs of N\$ 450 000 did not meet the requirements of **IAS 38 Intangible assets** and were therefore not capitalised when incurred. However, due to the acquisition of Stylez Ltd by Fabulous Ltd, these research and development costs may now be capitalised and the fair value of the research and development costs was determined at N\$ 600 000 on 1 January 2024. The useful life of the research and development intangible asset is 10 years.
- All inventories of Stylez Ltd are taken over by Fabulous. The carrying amount of Inventories of N\$ 800 000 consists of the following:

- Raw material (cost price N\$ 250 000). The raw material has a fair value of N\$ 310 000 and a net realisable value of N\$ 290 000 on 1 January 2024.
 - Finished goods (cost price is N\$550 000). The finished goods has a fair value of N\$ 620 000 on 1 January 2024.
3. All receivables were taken over by Fabulous. Fabulous Ltd has also determined that Judy Jetson (a receivable of Stylez) has to be written off as bad debt. Judy owed Fabulous Ltd N\$ 65 000. The carrying amount of the remaining receivables approximates fair value.
4. Fabulous Ltd has agreed to pay the following as consideration for Cooler Ltd:
- Fabulous Ltd will issue 100 000 of its own shares to Stylez Ltd. The average market price from 1 October 2023 to 1 January 2024 was N\$25 per share, and the shares of Fabulous Ltd traded on the NSX at N\$27.5 per share on 1 January 2024.
 - Fabulous Ltd will make a cash payment of N\$ 1 600 000 at the acquisition date and will make a further cash payment of N\$ 1 520 875 on 1 January 2027. The contract states that no interest is charged on this amount. The market related interest rate available to Fabulous Ltd for financing purposes is 15% per annum.
 - Equipment with a carrying amount of N\$ 420 000 and a fair value of N\$ 750 000 was transferred to the owners of Stylez Ltd on 1 January 2024 as part of the consideration as well.

Fabulous has identified the need to make its salons more attractive and has therefore engaged the services of Fishy (Pty) Ltd ("Fishy"). Fishy is an entity that provides fish tanks, installation of tanks, fish and maintenance services of tanks to various customers. Fishy imports its tanks from the Caribbean, where customized fish tanks are produced, and it is these unique fish tanks that has attracted Fabulous to Fishy. Fabulous believes that by installing various fish tanks in its salons, clients doing their hair will be more relaxed and children will be entertained for hours by watching the fish swim.

Fabulous and Fishy entered into the following agreement:

- Contract date: 20 December 2024
- Contract price: N\$ 2.5 million
- Contract obligations:
 - Supply of fish tanks
 - Installation of the fish tanks at Fabulous salons; and
 - Providing maintenance services for three years by Fishy
 - Each obligation is not interdependent on the other.

The 3-year fish tank maintenance programme is very popular with all Fishy's customers.

The stand-alone selling prices of the various contract components were as follows:

- The fish tanks are N\$400 000,
- The installation process is N\$1 050 000; and
- The 3-year maintenance plan is N\$1 650 000.

Delivery and installation information:

Fabulous took delivery of the fish tanks on 29 December 2024 but was not able to use them until the installation was done at their various salons. The installation was done by a team of Fishy's on 10 January 2025.

The total contract price (N\$2.5 mil) was payable to Fishy in installments as follows:

- Half the total contract price (N\$1 250 000) was to be paid on 29 December 2024 (this payment was received on the date).
- The balance of the contract price is due in two equal installments:
 - o The one on 31 December 2025
 - o The other one on 31 December 2026

The contract does not contain a significant financing component.

In addition to the above, while finalizing the financial statements of Fabulous Ltd, the accountant came across the following issues and requested your assistance. The directors are expecting to authorize the release of the financial statements on 3 May 2025, after considering these matters:

Audit invoice

An invoice from the auditors for N\$150 000 was received on 15 March 2025, relating to the audit of Fabulous' financial statements for the year ended 31 December 2024.

The invoice stated that the audit work was completed as follows:

- 70% of the audit work was performed before 31 December 2024; and
- 30% of the audit work was completed during January 2025.
- Fabulous has not provided for any part of these audit fees at 31 December 2024.

Investment in shares

Fabulous Ltd owns 50 000 shares in Beauty Limited, a company listed on the Indian Stock Exchange. At 31 December 2024, the market price of each share was N\$8.

During March, a war broke out in India and resulted in the share price dropping dramatically to N\$3 per share. The investment in shares as at 31 December 2024 has not been adjusted for the drop in share price.

Hair salon equipment

Fabulous has hair salon equipment that was purchased on 1 January 2022, at a cost of N\$ 2 040 000. The equipment originally had an estimated useful life of 6 years and was depreciated to a nil residual value on the straight line basis.

On 1 January 2024, the total useful life of the equipment was re-estimated to 10 years. Fabulous uses the re-allocation method to account for changes in accounting estimates.

QUESTION 2

(35 Marks)

Global Education Services (GES) is a private educational institution operating in the Oshakati District. The company has a June year-end. The following relates to properties owned by GES:

Oshakati Learning Centre

GES acquired the Oshakati Learning Centre, originally a warehouse, on 1 July 2022 for a total of N\$2,800,000. The building was subsequently renovated to transform it into a learning facility at a cost of N\$500,000. These renovations were completed on 30 September 2022,

and the property became available for use on 1 October 2022. The property's depreciation is calculated using the straight-line method over its estimated useful life of 20 years.

GES decided to expand its operations and, as a result, vacated the Oshakati Learning Centre on 30 September 2023 and moved to a newly built campus in Ongwediva. The Oshakati Learning Centre was then leased out to tenants under an operating lease agreement for 3 years, starting 1 October 2023, at an annual rental of N\$240,000.

The fair value of the Oshakati Learning Centre was unable to be determined as the building was on the outskirts of the town without similar property in the vicinity. On the date of commencement of the operating lease, it was determined that the original useful life of the building remained valid.

GES uses the cost model to account for property, plant, and equipment, and the fair value model for investment property where applicable.

QUESTION 3

(25 Marks)

This question consists of two unrelated parts

PART A

(15 Marks)

J and J Consulting Services is a consulting firm providing a variety of financial and advisory services to its clients. The current reporting period relates to the financial year end 31 August 2024.

O 1 February 2024, a client of J and J instituted legal proceedings against J and J, claiming that as a result of actions it undertook based on an opinion expressed by J and J, it suffered a loss amounting to N\$1,500,000. J and J had not been indemnified for losses as a result of incorrect advice given to clients.

J and J appointed lawyers to represent them in defense of the case, as the management of J and J are of the opinion that the advice given to its clients was based on the information that the client had provided to J and J. It later emerged that this client failed to disclose key information that may have impacted the advice the J and J gave to this client had they known about the information.

Two lawyers were appointed to the case on 1 May 2024, one Namibian Lawyer and one lawyer from South Africa for which the following provisions were raised:

- South African Lawyer: N\$200,000
- Namibian Lawyer: N\$150,000

The following expenses were paid to the lawyers on 1 October 2024:

- South African Lawyer: N\$230,000
- Namibian Lawyer: N\$125,000

No other expenses in relation to the court case have been paid. On 1 October 2024, the judge presiding over the case dismissed the case in favour of J and J Consulting, however each party to the case was responsible for their own costs. No damages were awarded to J and J's client.

PART B

(10 marks)

The management of J and J are seeking to expand their offices located in Windhoek due to the expansion of its activities and staff numbers. The expansion of their current Windhoek offices is estimated to take 6 months to complete at a cost of N\$2,000,000.

During the construction phase, J and J moved out of their current offices and rented out an office block. To continue its operations, management decided to lease out several heavy duty photo copy machines at a total rental of N\$60,000 for the 6 month period as they were unable to move their existing copy machines due to their industrial nature. J and J does not have an option to buy the machines at the end of the lease term

The management of J and J has approached you and asked for your assistance with the applicable accounting treatment.

<<END OF INFORMATION>>



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Final Assessment Opportunity 2 2024 – Required	
EXAMINER(S)	M E Cloete and C Mahindi
MODERATOR:	G Kafula

QUESTION 1

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Prepare the journal entries relating to the take-over of the assets and liabilities of Stylez Ltd in the records of Fabulous Ltd at the acquisition date. Narrations are not required.	(21)
(b)	In terms of Fishy's contract with Fabulous, discuss the application of steps 2 – 4 per IFRS 15 Revenue from contracts with customers to the revenue recognition of the contract in Fishy's records.	(20)
(c)	With regards to the Audit invoice and Investment in shares issues: i) Identify and explain whether the event is an adjusting or non adjusting event, or neither. ii) Provide the required adjusting journal entries where appropriate, or state whether or not any related information would need to be disclosed in the financial statements of Fabulous.	(9)
(d)	Prepare the depreciation journals necessary from the information provided on the hair salon equipment, assuming: i) Depreciation had not yet been processed for the year ended 31 December 2024. ii) Depreciation based on the old estimate had already been processed for the year ended 31 December 2024.	(9)
(e)	Show how the information related to the hair salon equipment would be disclosed in the notes to the financial statements of Fabulous Limited for the year ended 31 December 2024. Include both the 'statement of compliance' and the 'accounting policy note for property, plant and equipment'.	(6)
<i>(Source: Adapted from GAAP Graded Questions – CL Service & DL Kolitz)</i>		
TOTAL MARKS: QUESTION 1		(65)

QUESTION 2

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Provide all the general journal entries to account for the Oshakati Learning Centre for the reporting periods ended 30 June 2023 and 2024. Journal narrations are required. Show account classifications (SPL, SFP, etc.) and all workings. Clearly indicate whether the building is Property, Plant and Equipment (PPE) or Investment Property (IP).	(15)
(b)	Prepare the following notes to the financial statements of Global Education Services for the reporting period ended 30 June 2024: <ul style="list-style-type: none"> • Property, plant and equipment • Investment Property 	(11) (9)
TOTAL MARKS: QUESTION 2		(35)

QUESTION 3

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Part A Provide the general journal entries for the reporting period ended 31 August 2024 and 31 August 2025, relating to the legal fees. Journal narrations are required. Briefly explain your reasoning for the treatment of the amounts. Journals Explanations	(11) (4)
(b)	Part B Write a memorandum to the Management of J and J explaining the accounting treatment of the lease of the photocopy machines and provide the applicable general journal entries to account for the lease. Discussion Journal Presentation	(8) (1) (1)
TOTAL MARKS: QUESTION 3		(25)
TOTAL MARKS FINAL ASSESSMENT 6 OPPORTUNITY 2		(125)

<<END OF REQUIRED>>