



**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: 9 NOVEMBER 2024	PAPER: THEORY AND PRACTICAL
DURATION: 188 MIN Reading time: 25 Min Writing time: 163 Min	MARKS: 125

Final Assessment Opportunity 1 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)	Discuss and indicate, with supporting reasons, the appropriate date of acquisition of Cooler Ltd by Heat Ltd.	(4)
(b)	Calculate the purchase price (total consideration) that Heat Ltd will pay for the assets and liabilities of Cooler Ltd.	(6)
(c)	Prepare the journal entries that would be necessary to account for the change in estimate of Frozen (Pty) Ltd in the financial year ended 31 December 2024. Narrations are required.	(15)
(d)	<p>Prepare the following disclosure relating to the change in estimate for the year ended 31 December 2024 in accordance with the International Financial Reporting Standards for Frozen (Pty) Ltd:</p> <ul style="list-style-type: none"> i) Statement of Comprehensive income; ii) Profit before tax note; and iii) Change in accounting estimate note; <p><i>Comparatives are required.</i></p>	(6) (4) (3)
(e)	Prepare the journal entries that would be processed by Heat Ltd relating to its contract with Pick n Swipe for the year ended 31 December 2024 and 31 December 2025, to account for the 3-year service contract. Narrations are required.	(12)
(f)	Discuss and justify, with reference to International Financial Reporting Standards, whether a provision for servicing costs of N\$90 000 should be recognized as a liability in the financial statements of Heat Ltd at 31 December 2024.	(10)
<i>(Source: Adapted from GAAP Graded Questions – CL Service & DL Kolitz)</i>		
TOTAL MARKS: QUESTION 1		(60)

QUESTION 2

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Calculate the carrying amount of each category of inventory as at 31 October 2024.	(17)
(b)	Present and disclose inventories in the statement of financial position of Namibia Desert Manufacturers Limited as at 31 October 2024 in accordance with the requirements of IAS 2 Inventories.	(4)
(c)	Briefly explain what is meant by the specific identification formula method that may be used in determining the cost of inventory items and provide an appropriate example.	(4)
TOTAL MARKS: QUESTION 2		(25)

QUESTION 3

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	With regard to the new website, discuss the criteria used to determine whether the costs incurred during the reporting period ended 31 October 2025 will be capitalised.	(10)
(b)	Discuss how the old website will be treated in the records of ProConsult Limited for the reporting period ended 31 October 2024. Show appropriate calculations.	(13)
TOTAL MARKS: QUESTION 3		(23)

QUESTION 4

TO BE ANSWERED ON A SEPARATE PAGE		
YOU ARE REQUIRED TO:		MARKS
(a)	Prepare the cash flows from Operating activities section of the statement of cashflows of Windhoek Traders Limited for the reporting period ended 31 August 2024 in compliance with IAS 7 Statement of cashflows using the indirect method. Show all workings.	(15)
TOTAL MARKS: QUESTION 4		(15)
Presentation and Communication		(2)
TOTAL MARKS FINAL ASSESSMENT 6 OPPORTUNITY 1		(125)

<<END OF REQUIRED>>



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Final Assessment Opportunity 1 2024– INFORMATION	
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INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only.2. This paper consists of FOUR 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

(60 Marks)

Heat Limited is a company listed on the Namibian Stock Exchange (NSX), operating in Namibia that specializes in the manufacturing of solar equipment. Its products include items such as solar lights, solar geysers etc. which it sells. Heat Ltd also provides maintenance services on the products that it sells, to ensure that customers can use the products for long periods of time. Heat Limited has a 31 December financial year end.

Cooler Limited

On 30 September 2023, Heat Limited decided to expand its business by acquiring the assets and liabilities of Cooler Limited (Cooler Ltd) in a business combination. Cooler Ltd has a 31 December year end. Heat Limited signed a legal agreement which states that it would obtain direct control over majority of the assets and liabilities of Cooler Ltd on 1 October 2023, provided that approval is obtained by the Competition Commission. The Competition Commission has been known to reject similar transactions in the past, however, the management of Heat Ltd are of the opinion that the Commission's approval is more of a formality and thus, they believe the assets and liabilities of Cooler Ltd should be included in the financial statements of Heat Ltd from 1 October 2023. The final approval of the Competition Commission was however, only obtained on 1 January 2024. The assets and liabilities taken over in terms of the transaction represent a "business" as defined in *IFRS 3 Business combinations*.

Heat Ltd has agreed to pay the following as consideration for Cooler Ltd:

- Heat Ltd will issue 100 000 of its own shares to Cooler Ltd. The average market price from 1 October 2023 to 1 January 2024 was N\$30 per share, and the shares of Heat Ltd traded on the NSX at N\$35 per share on 1 January 2024.
- Heat 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 Heat 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 Cooler Ltd on 1 January 2024 as part of the consideration as well.

Frozen (Pty) Ltd

One of Heat Ltd's other subsidiaries is Frozen (Pty) Ltd ("Frozen") who specializes in the sale of ice-cream and frozen yoghurt. Frozen was acquired in 2017, when Heat identified an opportunity in the market. Frozen has a 31 December year end.

In order to keep all its products at the right temperature, Frozen purchased equipment on 1 January 2021 for N\$ 400 000. The equipment has the following details:

- This equipment has been depreciated at 20% per annum on the reducing balance method, but during 2024, management made the decision to change the method of depreciation to the straight-line method instead.
- Based on this, management estimated the equipment's remaining useful life to be 3 years (calculated from 1 January 2024) and that its residual value is N\$ 12 800.
- Frozen uses the re-allocation method to account for its changes in accounting estimates.

The below statements were drafted for inclusion in Frozen's individual financial statements for the year ended 31 December 2024, but before taking into account the decision to change the

method of depreciating equipment (i.e. journal entries processed had been based on the old method of estimating depreciation).

Frozen (Pty)Ltd
Statement of Comprehensive Income (Draft)
For the year ended 31 December 2024

	<u>2024 (N\$)</u>	<u>2023 (N\$)</u>
Revenue	520 000	460 000
Profit before depreciation	352 080	320 000
Depreciation – equipment	(220 480)	(225 600)
Profit before tax	131 600	94 400
Income tax expense	(65 500)	(42 200)
Profit for the period	66 100	52 200
Other comprehensive income	0	0
Total comprehensive income	66 100	52 200

Frozen (Pty)Ltd
Statement of Changes in equity (Draft)
For the year ended 31 December 2024

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total (N\$)</u>
Balance 1 January 2023	100 000	(20 000)	80 000
Total comprehensive income		52 200	52 200
Dividends		(10 000)	(10 000)
Balance 31 December 2023	100 000	22 200	122 200
Total comprehensive income		66 100	66 100
Dividends		(14 000)	14 000
Balance 31 December 2024	100 000	74 300	174 300

Pick n Swipe

On 1 January 2024, Heat Ltd signed a contract with a customer, Pick n Swipe, agreeing to provide maintenance services to Pick n Swipe for solar equipment bought. The services will be provided over a 3-year period at a contract price of N\$87 000, payable in advance.

The estimated costs of providing the annual maintenance services are as follows:

	<u>Estimated costs (N\$)</u>
Year 1	21 750
Year 2	32 625
Year 3	48 900

Heat Ltd considers a reasonable mark up on cost of 20% for all its performance obligations.

Additional information relating to the contract:

- All services are performed at year end.

- The effect of any financing component is considered insignificant.
- Each of the three annual services is considered to be individually distinct, in terms of the contract.

In addition to the above, Heat has its own plant and machinery used to manufacture solar equipment that needs to be serviced on an annual basis. In the process of finalizing the financial statements for the year ended 31 December 2024, the financial manager noted that the plant and machinery has moving components that require servicing.

The accountant has obtained quotes that estimate that the annual cost of servicing these components will amount to N\$90 000. He has hence authorized the following accounting entry to be processed each month:

	<u>DR</u>	<u>CR</u>
Servicing costs (SPL)	7 500	
Provision for servicing costs (SFP)		7 500
Monthly provision of servicing costs.		

The accountant is of the opinion that the balance in the provision for servicing costs account of N\$90 000 should be recognized as a liability on the statement of financial position at 31 December 2024 to cover the estimated N\$90 000 servicing cost in January 2025.

QUESTION 2

(23 Marks)

Namibia Desert Manufacturers Limited (NDM) is a company based in Windhoek. They manufacture safety equipment to be used by companies operating in the Green Hydrogen industry. These equipment include amongst others Personal Protective Equipment, Monitoring Equipment and Hazard detection devices.

The following information has been provided to you for the reporting period ended 31 October 2024.

	31-Oct-24 N\$	31-Oct-23 N\$
Inventories		
Finished goods	?	900,000
Raw materials: Fabrics	307,800	360,000
Production costs:		
Raw materials: Fabrics (Incl. VAT)	3,915,000	
Salaries and wages	810,000	
Delivery costs from suppliers (Incl. VAT)	265,500	
Transportation costs to customers (Incl VAT)	531,000	
Administration costs	1,912,500	
Depreciation Factory	202,500	

Additional information:

All amounts exclude VAT unless otherwise stated.

Inventories are valued at the lower of cost and net realisable value.

Sales for the period are N\$7,383,000 (Incl. VAT). The entity maintains a constant gross profit percentage of 25% on the selling price.

NDM Ltd utilises the perpetual inventory system to account for inventory and utilises the FIFO method to value inventories.

QUESTION 3**(25 Marks)**

ProConsult Accounting Services operates entirely online, providing financial consulting and accounting services to a global clientele. The website serves two key functions: advertising and promoting the firm's services, and facilitating client interactions, including document submissions, consultation bookings, and payment processing.

On 31 October 2024, ProConsult's website was severely compromised as a result of a system update which rendered the entire system non-functional. Due to the extensive damage, the management of ProConsult made the decision to develop a new website. The old website's domain and functionality were offered for sale to the NUST Informatics department, as it could be repurposed as a teaching tool for cybersecurity students. All confidential information had been removed from the old site to prevent any potential security breaches. The NUST will undertake the repurposing of the website to a teaching tool themselves once the sale process has been finalised.

The old website was initially being amortized over a four-year period with a nil residual value. As of 1 November 2023, the website had a carrying amount of N\$60,000, with a remaining useful life of three years. It was determined that the old website could be sold for N\$5,000, with the sale expected to be finalized by 1 February 2025.

Development of the new website to facilitate client interactions commenced on 1 November 2024, with completion on 30 November 2024, on which date it became available for use. The development of the new website cost N\$150,000 and the entire amount was paid on the same date.

ProConsult Limited accounts for Intangible assets using the cost model.

QUESTION 4**(17 Marks)**

Windhoek Traders Ltd is a small manufacturer operating in Windhoek with a financial year end of August. You have been presented with the below list of balances from the reporting periods ended 31 August 2024 and 2023.

		2024	2023
Investment Property	i.	576,000	522,000
Property, plant and equipment (Carrying amount)	ii.	849,690	330,300

Investment in bonds	iii.	54,000	36,000
Inventory		72,000	97,200
Accounts receivable		117,000	72,000
Cash and cash equivalents		19,800	-
		1,688,490	1,057,500
Ordinary share capital		648,000	576,000
Retained earnings		790,290	217,800
Long term loan		126,000	144,000
Accounts payable		32,400	39,600
Bank overdraft		-	21,600
Shareholders for dividends		72,000	54,000
Current tax payable		19,800	4,500
		1,688,490	1,057,500

Additional information:

- i. The Investment property comprises a warehouse that is leased out to tenants in terms of an operating lease. Windhoek Traders Ltd accounts for investment property using the fair value model. There has not been any acquisition or disposal of investment property during the current reporting period.
- ii. The fixed asset register of reflects the following items of PPE:

	2024	2023
Equipment at cost	619,380	342,000
Motor vehicles at cost	504,000	270,000
Accumulated depreciation: Equipment	- 129,690	- 162,000
Accumulated depreciation: Motor vehicles	- 144,000	- 119,700

During the financial year ended 31 August 2024, equipment with a cost price of N\$162,000 and accumulated depreciation of N\$48,600 was sold. A profit on disposal of the equipment was realised at an amount of N\$3,600.

- iii. The investment in bonds is a long-term investment the generates interest income on an annual basis. The income from the investments in the current reporting period amounted to N\$15,300. Investment income from government bonds is classified as income from operating activities.
- iv. Dividends declared during the period amounted to N\$63,000
- v. Current tax for the period amounted to N\$313,110
- vi. Revenue and cost of sales and other operating expenses amounted to N\$1,440,000, N\$360,000 and N\$148,770 respectively.
- vii. Total finance cost for the reporting period ended 31 August 2024 amounted to N\$14,940.
- viii. Profit before tax has correctly been determined at N\$948,600.

<<END OF INFORMATION>>