



**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)	
COURSE CODE: FAC701Y	COURSE NAME: FINANCIAL ACCOUNTING 300
DATE: 14 NOVEMBER 2025	PAPER: PRACTICAL AND THEORY
DURATION: 180 MINUTES (3 HOURS) READING TIME: 30 MINUTES WRITING TIME: 150 MINUTES	MARKS: 100
ASSESSMENT 6 2025 - OPPORTUNITY 2 - INFORMATION	
EXAMINERS:	G. Kafula Z. Stellmacher
MODERATOR:	Z. Patel

INSTRUCTIONS
<ul style="list-style-type: none">• This question paper is made up of TWO (2) questions.• Answer BOTH questions in blue or black ink only. NO PENCIL.• You are allowed to use a non-programmable or financial calculator and the IFRS standards during the assessment.• You are advised to pay due attention to expression and presentation. Failure to do so will cost you marks.• Start each question on a new page in your answer booklet and number your answers correctly.• Show all your workings and where relevant, round all answers to two decimal places.• Questions relating to this paper may be raised in the initial 30 minutes after the start of the assessment. Thereafter, candidates must use their initiative to deal with any perceived errors or ambiguities and any assumption made by the candidate should be clearly stated.• Please take note that all names and case studies used are fictional.

THIS QUESTION PAPER CONSISTS OF 11 PAGES (Including this front page)

QUESTION 1

50 MARKS

E-quip Ltd is a listed company that leases construction equipment to the public. In recent years, the construction industry has experienced an upswing, and the company has made significant profits. E-quip Ltd has decided to expand its operations by making the following investments:

Mach Ltd

On 1 January 2024, Equip Ltd acquired 170 000 ordinary shares of Mach Ltd. As at acquisition date, E-quip Ltd had control over Mach Ltd.

The identifiable assets and liabilities of Mach Ltd were fairly valued at the acquisition date, except for the following:

- Accounts receivable: Overvalued by R 20 000
- Land: Undervalued by R 40 000.

The carrying value of land was R300 000 on 1 January 2024. On 31 December 2024, the land's fair value was R 420 000. The revaluation of land was not recorded in the accounting records of Mach Ltd as it applies the cost model in terms of IAS16 as its policy for owner-occupied property.

The purchase consideration was settled as follows:

- Cash of R 150 000 was paid on the same date.
- 20 000 ordinary shares in Derm Ltd with a fair value of R 4.00 per share on 1 January 2024. These shares were originally issued at a price of R 3 per share.
- Equipment, with a carrying amount of R 800 000 and a fair value R 900 000 on the acquisition date.

The newly appointed assistant accountant, who has limited knowledge of Group Statements, passed the following proforma at-acquisition journal:

	Debit	Credit
Share capital	170 000	
Retained earnings	1 599 690	
Land (420 000 - 300 000)		120 000
Gain on bargain purchase		686 690
Accounts receivable	20 000	
Investment in Mach Ltd (150 000 + 60 000 + 800 000)		1 010 000
Deferred tax [(120 000 x 27%) + (-20 000 x 27%)	27 000	
<i>Acquisition of Mach Ltd</i>		

Sale transaction

On 31 December 20X22, E-quip Ltd sold 10% of its shares in Mach Ltd to the non-controlling shareholders for R145 000.

Logos Ltd

E-quip Ltd used the services of an external logistics company (B. Ltd) to deliver equipment to customers country-wide. Due to the fast growth of E-quip Ltd, the Board of Directors, decided that it would be more cost-effective to obtain shares in a logistics company for this purpose.

Equip Ltd acquired significant influence in Logos Ltd by purchasing 35 000 ordinary shares on 31 March 2024, for R250 000. The assets and liabilities of Logos were fairly valued at acquisition date. At year-end, the market value of the investment in Logos Ltd was R 295 000.

During the year, Logos Ltd purchased inventory from E-quip Ltd for R 350 000. E-quip Ltd sold the inventory to Logos Ltd at a profit mark-up of 25% on the cost price. On 31 December 2024, Logos Ltd had inventory on hand that was purchased from E-quip Ltd amounting to R 120 000.

The newly appointed assistant accountant prepared the following journal entries to account for the above intragroup transaction of inventory for the year ending 31 December 2024.

	Debit	Credit
Investment in associate (120 000 x 65%)	78 000	
Cost of sales (120 000 x 35%)	42 000	
Revenue		120 000

Elimination of unrealised profit in closing inventory

	Debit	Credit
Income tax expense (78 000 x 27%)	21 060	
Deferred tax		21 060

Tax implication of unrealised profit in closing inventory

The following are extracts from the financial statements of the entities in the E-quip Ltd Group for the year ended 31 December 2024:

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

	E-quip Ltd	Mach Ltd	Logos Ltd
	R	R	R
Revenue	6 592 455	3 522 401	1 825 253
Cost of Sales	(3 691 911)	(1 099 422)	(899 991)
Gross profit	2 900 544	2 422 979	925 262
Other income	595 486	101 567	232 548
Other expenses	(403 286)	(122 451)	(133 452)
Profit before tax	3 092 744	2 402 095	1 024 358
Income tax expense	(901 304)	(802 405)	(319 633)
PROFIT FOR THE YEAR	2 191 440	1 599 690	704 725
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2 191 440	1 599 690	704 725

EXTRACT FROM THE STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024

	E-quip Ltd Retained earnings	Mach Ltd Retained earnings	Logos Ltd Retained earnings
	R	R	R
Balance at 1 January 2024	1 342 560	1 010 011	545 205
Changes in equity for 2024:			
Profit for the year	2 191 440	1 599 690	704 725
Dividends paid (31 December 2024)	(400 000)	(200 000)	(100 000)
Balance at 31 December 2024	3 134 000	2 409 701	1 149 930

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

	E-quip Ltd	Mach Ltd	Logos Ltd
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment	1 842 900	944 655	756 311
Investment in Mach Ltd at cost	1 130 000		
Investment in Logos Ltd at cost	250 000		
Total non-current assets	3 222 900	944 655	756 311
<u>Current assets</u>			
Cash and cash equivalents	1 086 866	1 245 000	921 357
Inventory	606 543	504 298	326 544
Trade and other receivables	458 657	321 608	223 103
Total current assets	2 152 066	2 070 906	1 471 014
Total assets	5 374 966	3 015 561	2 227 325
EQUITY			
Share capital:			
500 000 ordinary shares	1 000 000		
200 000 ordinary shares		200 000	
100 000 ordinary shares			100 000
Retained earnings	3 134 000	2 409 701	1 149 930
Total equity	4 134 000	2 609 701	1 249 930
LIABILITIES			
<u>Non-current liabilities</u>			
Deferred tax liability	320 000	198 000	121 000
Total non-current liabilities	320 000	198 000	121 000
<u>Current liabilities</u>			
Trade and other payables			
Total current liabilities	920 966	207 860	856 395
Total liabilities	920 966	207 860	856 395
Total equity and liabilities	5 374 966	3 015 561	2 227 325

Other information

1. The profits of Mach Ltd and Logos Ltd were earned evenly throughout the current year.
2. Investments in subsidiaries, associates and joint ventures are measured at cost in E-quip Ltd's separate financial statements.
3. The Equip Ltd Group measures non-controlling interests at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
4. Assume a normal tax rate of 27% and that Namibia is subject to capital gains tax. The capital gains tax (CGT) inclusion rate is 80%. You may assume that both tax rates have remained unchanged.
5. Goodwill has correctly never been impaired.
6. Each share carries one vote and the issued share capital of all entities in the group remained unchanged since 1 January 2024.
7. All the companies within the E-quip Ltd Group have a 31 December year end.

YOU ARE REQUIRED TO:		Marks
a)	<p>Critically discuss the accuracy (accounts and amounts) of the pro forma at-acquisition journal entry prepared by the new assistant to account for E-quip's investment in Mach Ltd in the E-quip Group's financial statements. Do NOT prepare any correcting journal.</p> <p>Your answer should include what the accountant did correctly and what she did incorrectly.</p>	11
b)	<p>Prepare any correcting journal entries you deem necessary to correctly account for the sale of inventory from E-quip Ltd to Logos Ltd in the consolidated accounting records of the E-quip Ltd Group for the year ended 31 December 2024.</p>	9
c)	<p>Prepare only the asset section of the consolidated statement of financial position of the E-quip Ltd Group for the year ended 31 December 2024.</p>	15
d)	<p>Prepare the "Investment in associate" note to the consolidated financial statements of the E-quip Ltd Group as at 31 December 2024.</p> <p>The following information is not required:</p> <ul style="list-style-type: none"> • Unrecognised share of losses; and • Risks relating to associates 	10
e)	<p>Discuss the impact the sale transaction (selling 10% shares in Mach Ltd) on 31 December 2024 will have on the E-quip Group.</p> <p>Your discussion should include the type of transaction it is and how the E-quip Group will account (include amounts) for this transaction in the financial year.</p> <p>Please note:</p>	5

	Your answer must comply with the requirements of International Financial Reporting Standards (IFRS). Comparative figures to the consolidated financial statements are not required. All calculations must be shown, and all amounts must be rounded off to the nearest dollar.	
	Total Marks Question 1	50

UNAM (Adapted)

QUESTION 2

50 MARKS

FarmX Ltd (“FarmX”) is a farming enterprise based in Piesanghoek, Makhado, South Africa. FarmX has over the years grown to become one of the largest producers of potatoes and pumpkins in Africa. FarmX is listed on the Johannesburg Stock Exchange (JSE) and has a 31-March year end.

The following relates to some of the transactions, assets & liabilities of FarmX for the year ended 31 March 2024:

1. Farm in KZN

On 1 February 2024, FarmX acquired a farm in KZN, KwaZulu-Natal for R1 125 000. The farm was acquired to be used as an expansion of its current potato farming business within the KwaZulu Natal province. The strategic location of the farm and the favorable climate conditions in the area make it the ideal location for potato farming. The farm spans an area of 650 hectares and features a large river running through it. FarmX is legally entitled to use the water from the river for irrigation purposes. The river is one of the largest in South Africa and never runs dry. Over the years, the river has proved to be a reliable water source for most communities in the area.

On 1 April 2024, you received the following email from the group Chief Financial Officer (CFO) of FarmX in relation to the river running through the farm:

*From: Ms. Sibongile Ngomane (Group CFO) To: FAC701Y Student
Date: 1 April 2024
Subject: Recognition of the river in the financial*

statements Good Day

Hope this email finds you well.

I have been discussing the issue around the river flowing through the newly acquired KZN farm with the Group Chief Executive Officer. He is of the view that this river should be recognized as a separate asset in the FarmX financial statements.

This will also have a positive impact on the financial position of the

*company. Kind Regards
Ms. Sibongile Ngomane CA (SA)
Group CFO – FarmX Ltd*

2. Contract with SaveU supermarket

On 1 August 2023, FarmX entered into an agreement with SaveU supermarket in Eswatini to supply potatoes at R20 per kg. The agreement stipulated that if SaveU supermarket buys more than 10 000kgs of potatoes within a twelve-month period, the price per kg will be retrospectively reduced to R17. At the time of the agreement and throughout the period when the potatoes were sold, it was expected that SaveU supermarket would qualify for the rebate.

On 31 March 2024, FarmX delivered 8 500kgs of potatoes to SaveU supermarket. FarmX still estimated that the sales to SaveU would exceed 10 000kgs by 31 July 2024. All sales made to SaveU supermarket are settled in cash on the date of delivery.

The junior accountant has prepared the following journal entry to account for the agreement between FarmX and SaveU supermarket for the year ended 31 March 2024:

	DR	CR
31 March 2024		
Bank (SFP)	170 000	
Revenue (P/L)		170 000

3. Spraying tractors

On 1 May 2022, the directors of FarmX decided to lease 5 spraying tractors from Bafana leasing (Pty) Ltd (“Bafana”). The lease agreement was correctly determined to contain a lease in terms of IFRS 16, *Leases*. Below is an extract from the signed lease agreement between FarmX and Bafana:

Commencement date	1 May 2022
Annual instalment (paid in arrears on 30 April)	R900 000
FarmX’s incremental borrowing rate.....	12.3% p.a.

- The lease term is for a non-cancellable period of 3 years with an option to renew the

lease for an additional 2 years. The directors of FarmX are not sure whether they will exercise the renewal option as this will depend on the circumstances at the point of renewal;

- FarmX incurred and paid legal and administrative costs of R75 000 to enter into the lease;
- Ownership of the tractors will not transfer to FarmX at the end of the lease term;
- The implicit interest rate is indeterminable;
- The tractors were estimated to have a useful life of 5 years on 1 May 2022;
- SARS recognizes the lease of the tractors as a rental agreement in terms of part (b) of the definition of an instalment credit agreement in the VAT Act, which means all lease payments are deductible when paid.

Additional information:

- The profit before tax of FarmX for the year ended 31 March 2024 amounted to R5 550 000. The profit was calculated **before** taking into account the effect of all the transactions above but **after** taking into account the following:
 - Dividends received in respect of a 20% shareholding interest acquired in a JSE listed farming company, Chewa Ltd (“Chewa”) in 2023. Chewa declared a final dividend of R550 000 to all registered shareholders on 31 December 2023. The dividend was paid on 28 February 2024.
 - Legal fees amounting to R133 000 were incurred and paid by FarmX during the 2024 financial year. The legal fees are not deductible for tax purposes.
- The opening deferred tax liability as per the audited annual financial statements for the year ended 31 March 2023, amounted to R22 646. You should assume this amount to be correct in all respects, the information provided in the scenario is not sufficient to recalculate it.
- The first and second provisional tax payments made during the current financial year, which have not been recorded in the accounting records of FarmX, amounted to R190 000 and R55 500 respectively. FarmX had an assessed loss of R122 000 for the year ended 31 March 2023. A deferred tax asset was provided for against the assessed loss as FarmX anticipated to have sufficient taxable profit in future against which any unused tax losses can be utilized.
- The South African normal tax rate is 27% and the capital gains inclusion rate is 80%. These tax rates were also applicable in the previous financial year.
- The South African Revenue Service (SARS) allows a 5% annual building allowance on the processing plant in terms of section 13(1) of the Income Tax Act, not apportioned for

periods shorter than a year.

- SARS allows a tax allowance on tractors over a period of 5 years on the straight-line method in terms of section 11(e) of the Income Tax Act, apportioned for periods shorter than a year.
- Deferred tax is provided for on all temporary differences in accordance with the statement of financial position approach. There are no other items causing temporary differences, except for those mentioned in the question. The company will have sufficient taxable profits and capital gains in the future, against which any unused tax losses can be utilized.
- All property, plant and equipment are accounted for on the cost model in accordance with IAS 16
Property, plant and equipment.

4. Assumptions

All amounts are material.

Ignore the implications of Value-Added Tax (VAT).

YOU ARE REQUIRED TO:		Marks
a)	Write a memorandum to the Group Chief Financial Officer (CFO) of FarmX advising her on whether the river flowing through the KZN farm is an asset and whether it can be recognized as a separate asset in the accounting records of FarmX Ltd for the year ended 31 March 2024, with reference to the Conceptual Framework.	14
	Communication mark – Presentation	1
	Communication mark – Logical argument	1
b)	Critically evaluate, with reasons, the journal entry processed by the junior accountant of FarmX Ltd in respect of the agreement entered into with SaveU supermarket for the financial year ended 31 March 2024. <ul style="list-style-type: none"> • Discuss both correct and incorrect aspects of the journal entry where applicable. • Support your discussion with calculations and provide any correcting journal entry/(s), if any. • Do not include any tax related discussions or calculations. 	10

c)	<p>Calculate the amount of current tax payable to the South African Revenue Service (SARS) as it would be disclosed in the statement of financial position of FarmX Ltd as at 31 March 2024.</p> <ul style="list-style-type: none"> • The movement in temporary differences in the current tax calculation should be calculated using the statement of financial position approach. • All assets and liabilities evident from the scenario should be considered, even if they have no deferred tax consequences. 	20
d)	<p>In a recent engagement with the Group Chief Financial Officer (CFO) of FarmX Ltd, she indicated that the company will not be paying any income tax due to SARS as this may deprive the executive management team from earning their bonuses.</p> <p>Discuss any ethical considerations you may have regarding the suggestion by the Group CFO around the non-payment of income tax to the South African Revenue Services, in terms of the SAICA Code of Professional Conduct (CPC) and any other applicable legislation.</p>	4
Total Marks Question 2		50

END

