



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING HONOURS	
QUALIFICATION CODE: 08 BOAH	LEVEL: 8
COURSE CODE: FAR 811S	COURSE NAME: ADVANCED FINANCIAL ACCOUNTING AND REPORTING
SESSION: June 2023	PAPER: THEORY AND CALCULATIONS
DURATION: 3 hours	MARKS: 100

FINAL ASSESSMENT – 1st Opportunity	
EXAMINER(S)	D W Kamotho
MODERATOR:	Dr E Wealth

INSTRUCTIONS	
<ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only.2. Write clearly and neatly.3. Start each question on a new page and number the answers clearly.4. No programmable calculators are allowed.5. 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.6. Any resemblance to any people, places, organisations or anything is purely coincidental.	

THIS QUESTION PAPER CONSISTS OF 9 PAGES (excluding the front page)

Question 1**(20 marks)**

Mr Van Deek the Managing director of Van Deek Manufacturing Limited has questioned the recognition and disclosure of a lease entered into for machinery to the value of N\$ 3 million, which is used in the company's manufacturing process.

Mr. Van Deek is of the opinion that it is unnecessary to capitalise the machinery and the corresponding liability, and that too much information will be disclosed when doing so.

Required:

Explain to Mr Van Deek, by **ONLY** referring to the fundamental qualitative characteristics of the conceptual framework why the lease should be capitalised and disclosed as such. **(20 marks)**

Question 2**(40 marks)**

Kimbo's investments include two subsidiaries, Githu and Katus. The draft statements of financial position of the three entities at 30 September 2020 were as follows:

	Kimbo	Githu	Katus
	N\$'000	N\$'000	N\$'000
Assets			
Non-current assets:			
Property, plant and equipment (Notes 1 and 3)	380,000	355,000	152,000
Intangible assets (Note 1)	80,000	40,000	20,000
Investments (Notes 1, 3 and 4)	497,000	Nil	Nil
	957,000	395,000	172,000
Current assets:			
Inventories (Note 5)	100,000	70,000	65,000
Trade receivables (Note 6)	80,000	66,000	50,000
Cash and cash equivalents (Note 6)	10,000	15,000	10,000
	190,000	151,000	125,000
Total assets	1,147,000	546,000	297,000
Equity and liabilities			
Equity			
Share capital (50c shares)	150,000	200,000	120,000
Retained earnings (Notes 1 and 3)	498,000	186,000	60,000
Other components of equity (Notes 1, 3 and 4)	295,000	10,000	2,000
Total equity	943,000	396,000	182,000
Non-current liabilities:			
Provision (Note 7)	34,000	Nil	Nil
Long-term borrowings (Note 8)	60,000	50,000	45,000
Deferred tax	35,000	30,000	25,000
Total non-current liabilities	129,000	80,000	70,000

Current liabilities:			
Trade and other payables (Note 6)	50,000	55,000	35,000
Short-term borrowings	25,000	15,000	10,000
Total current liabilities	75,000	70,000	45,000
Total equity and liabilities	1,147,000	546,000	297,000

Note 1 – Kimbo’s investment in Githu

On 1 October 2017, Kimbo acquired 300 million shares in Githu by means of a share exchange of one share in Kimbo for every two shares acquired in Githu.

On 1 October 2017, the market value of an Kimbo share was \$2.40. Kimbo incurred directly attributable costs of \$2 million on acquisition of Githu. These costs comprised:

- N\$0.8 million – cost of issuing own shares, debited to Kimbo’s share premium account within other components of equity.
- N\$1.2 million due diligence costs – included in the carrying amount of the investment in Githu in Kimbo’s own statement of financial position.

There has been no change to the carrying amount of this investment in Kimbo’s own statement of financial position since 1 October 2017.

On 1 October 2017, the individual financial statements of Githu showed the following reserves balances:

- Retained earnings \$125 million.
- Other components of equity \$10 million.

The directors of Kimbo carried out a fair value exercise to measure the identifiable assets and liabilities of Githu at 1 October 2017. The following matters emerged:

- Plant and equipment having a carrying amount of \$295 million had an estimated market value of \$340 million.

The estimated remaining useful economic life of this plant at 1 October 2017 was five years. None of this plant and equipment had been disposed of between 1 October 2017 and 30 September 2020.

– An in-process research and development project existed at 1 October 2017 but did not meet the recognition criteria of IAS 38 – *Intangible Assets*. The fair value of the research and development project at 1 October 2017 was \$20 million. The project started to generate economic benefits on 1 October 2018 over an estimated period of four years.

The above two fair value adjustments have not been reflected in the individual financial statements of Githu. In the consolidated financial statements, these fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%. Kimbo uses the proportion of net assets method to calculate non-controlling interests in Githu.

Note 2 – Impairment review of goodwill on acquisition of Githu.

No impairment of the goodwill on acquisition of Githu was evident when reviews were carried out on 30 September 2018 and 2019. On 30 September 2020, the directors of Kimbo concluded that the recoverable amount of the net assets (including the goodwill) of Githu at that date was N\$450 million. Githu is regarded as a single cash generating unit for the purpose of measuring goodwill impairment.

Note 3 – Kimbo’s investment in Katus.

On 1 October 2019, Kimbo acquired 144 million shares in Katus by means of a cash payment of \$125 million.

Kimbo incurred costs of \$1 million associated with this purchase and debited these costs to administrative expenses in its draft statement of profit or loss for the year ended 30 September 2020. There has been no change in the carrying amount of this investment in the financial statements of Kimbo since 1 October 2019.

On 1 October 2019, the individual financial statements of Katus showed the following reserves balances:

- Retained earnings of N\$45 million.
- Other components of equity N\$2 million.

On 1 October 2019, the fair values of the net assets of Katus were the same as their carrying amounts with the exception of some land which had a carrying amount of \$100 million and a fair value of \$130 million. This land continued to be an asset of Katus at 30 September 2020.

The fair value adjustment has not been reflected in the individual financial statements of Katus. In the consolidated financial statements, the fair value adjustment will be regarded as a temporary difference for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

There was no impairment of the goodwill arising on acquisition of Katus in the consolidated financial statements at 30 September 2020. Kimbo uses the proportion of net assets method to calculate non-controlling interests in Katus.

Note 4 – Other investments.

Apart from its investments in Githu and Katus, the investments of Kimbo included in the statement of financial position at 30 September 2020 are all financial assets which Kimbo measures at fair value through other comprehensive income. These other investments are correctly measured in accordance with IFRS 9 – *Financial Instruments*.

Note 5 – Intra-group sale of inventories.

The inventories of Kimbo and Katus at 30 September 2020 included components purchased from Githu in the last three months of the financial year at a cost of \$20 million to Kimbo and \$16 million to Katus. Githu supplied these goods to both Kimbo and Katus at a mark-up of 25% on the cost to Githu.

Note 6 – Trade receivables and payables.

Group policy is to clear intra-group balances on a given date prior to each year end. All group companies had complied with this policy at 30 September 2020, so at that date there were no outstanding intra-group balances.

Note 7 – Provision.

On 30 September 2020, Kimbo finalised the construction of an energy generating facility. The facility has an expected useful economic life of 25 years and Kimbo has a legal requirement to decommission the facility at the end of its estimated useful life. The directors of Kimbo estimated the costs of this decommissioning to be N\$34 million – based on prices prevailing at 30 September 2040. At an appropriate discount rate, the present value of the cost of decommissioning the facility is N\$10 million.

The directors of Kimbo made a provision of N \$34 million and charged this amount as an operating cost in the financial statements of Kimbo for the year ending 30 September 2020.

Note 8 – Long-term borrowings.

On 1 October 2019, Kimbo issued 40 million \$1 bonds at par. The cost of issuing the bonds was \$1 million and this cost was charged as a finance cost for the year ending 30 September 2020. No interest is payable on the bonds, but they are redeemable at a large premium which makes their effective finance cost 8% per annum. The bonds are included at a carrying amount of \$40 million in the statement of financial position of Kimbo at 30 September 2020.

Required:

Prepare the consolidated statement of financial position of Kimbo at 30 September 2020. You need only consider the deferred tax implications of any adjustments you make where the question specifically refers to deferred tax. **(40 marks)**

Question 3

(20 marks)

Spray Ltd entered into a sale agreement with Power Ltd on 3rd March 2022.

The terms of the agreement were that spray will:

- supply 3300 light fitting to Power Ltd in exchange for N\$330,000
- grant a 10% early settlement discount for full payment received before 3rd of May 2022.

On 3rd of March 2022, Spray Ltd fully anticipated that it would receive payment within the required period and thus that the discount offered would be granted.

Spray limited:

- deliver the light fittings into Power Ltd on 5th of April 2022 and
- received the payment due from power on 31st of May 2022.

Required:

- a. Using Spray limited general journal, prepare all journals necessary for the year ended 31 December 201. Ignore tax. **(8 marks)**
- b. Provide a brief explanation to support your journals. Ignore loss allowances. **(12 marks)**

Question 4**(20 marks)**

Namibia University of Science and Technology (NUST) borrowed N\$20 000 000 at an interest rate of 14% from the Development Bank of Namibia on 01 January 2021. These funds were borrowed in order to build a classroom block in the lower campus to cater for the increasing number of students in Windhoek. The classroom block is a qualifying asset under IAS 23:

- Progress payments made in 2021 are as follows.

	N\$
On 01 January	6 000 000
On 01 July	12 000 000
On 01 September	2 000 000

- The surplus funds were invested in a fixed deposit earning interest at FNB Namibia at 10% per annum.
- All banks in Namibia compounds interest charged and paid annually on 31 December.
- Construction began on 01 January 2021 and was still incomplete on 31 December 2021
- Construction however, had ceased between 01 June 2021 and 20 June 2021 while the floor concrete cured (a necessary part of the construction process).

Required:

- a) Calculate the borrowing costs to be capitalised in terms of IAS 23 by NUST and prepare the related journal entries relating to interest for the year ended 31 December 2021. **(10 Marks)**

b) Explain whether borrowing costs may be capitalised to the NUST classroom block during the year ended 31 December 2021 assuming the following alternative information.

- i. Construction of the classroom block had not begun as of 31 December 2021 because the classroom block plans that were submitted to the City of Windhoek (CoW) had failed to meet the CoW basic building regulations.
- ii. The classroom block plans were submitted during October 2021, and it was expected that the CoW would give the necessary approvals to begin construction of the classroom block in early 2022. **(10 Marks)**

END OF QUESTION PAPER