



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

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

**DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE**

<b>QUALIFICATION : BACHELOR OF ACCOUNTING HONOURS</b>	
<b>QUALIFICATION CODE:</b> 08 BOAH	<b>LEVEL:</b> 8
<b>COURSE CODE:</b> FAR 811S	<b>COURSE NAME:</b> ADVANCED FINANCIAL ACCOUNTING AND REPORTING
<b>SESSION:</b> July 2025	<b>PAPER:</b> THEORY AND CALCULATIONS
<b>DURATION:</b> 3 hours	<b>MARKS:</b> 100

<b>SUPPLEMENTARY ASSESSMENT – 2<sup>nd</sup> Opportunity</b>	
<b>EXAMINER(S)</b>	D W Kamocho
<b>MODERATOR:</b>	Dr E Wealth

<p style="text-align: center;"><b>INSTRUCTIONS</b></p> <ol style="list-style-type: none"><li>1. Answer ALL questions in blue or black ink only.</li><li>2. Write clearly and neatly.</li><li>3. Start each question on a new page and number the answers clearly.</li><li>4. No programmable calculators are allowed.</li><li>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 &amp; any assumption made by the candidate should be clearly stated.</li><li>6. Any resemblance to any people, places, organisations or anything is purely coincidental.</li></ol>
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**THIS QUESTION PAPER CONSISTS OF 5 PAGES** (excluding the front page)

**Question 1****40 marks**

This question consists of four independent parts. For each scenario, advise the lessor on the accounting treatment in accordance with IFRS 16. Support your responses with detailed journal entries where appropriate.

**(a) Finance Lease**

Alpha Limited, a lessor of industrial machinery, entered into a lease agreement on 1 January 2021 with Beta Corp. The lease has a term of 5 years and transfers substantially all the risks and rewards of ownership. The present value of the lease payments is \$800,000, while the fair value of the machine is N\$850,000. Alpha's carrying amount of the machine is N\$750,000. In addition, at the end of the lease, Beta Corp has a bargain purchase option with an exercise price of N\$50,000. Annual lease payments of N\$180,000 are payable at the beginning of each year.

Advise Alpha on:

- The classification of the lease under IFRS 16.
  - The initial measurement of the lease receivable and derecognition of the underlying asset; and
  - The subsequent accounting treatment, including recognition of interest income.
- Illustrate your responses with appropriate journal entries.

**(10 marks)****(b) Operating Lease Modification**

Gamma Ltd is a lessor that originally entered into an operating lease on 1 July 2021 for office equipment with Delta Inc. The lease was for 4 years with fixed annual payments of N\$100,000. In 2022, due to changed market conditions, Gamma and Delta agree to modify the contract so that Delta will pay N\$120,000 per year for the remaining 3 years, and the lease term is extended by one additional year.

Explain how Gamma should account for this modification under IFRS 16. In your answer, address:

- The impact on the measurement of the lease receivable and any reclassification; and
- The journal entries necessary to reflect the modification.

**(10 marks)****(c) Sale and Leaseback Transaction**

On 31 December 2021, Omega Ltd sold a piece of land for N\$1,200,000. Simultaneously, Omega entered into a leaseback arrangement to lease the land for 10 years. At the date of the transaction, the fair value of the land was N\$1,300,000, and Omega carried the land at N\$1,000,000. The leaseback is classified as an operating lease.

Advise Omega on:

- The accounting treatment for the sale and leaseback under IFRS 16;
- How to measure any gain or loss on the sale; and
- The subsequent recognition of lease payments, including any adjustments.

Include the relevant journal entries.

**(12 marks)**

**(d) Variable Lease Payments and Initial Direct Costs**

On 1 October 2021, Zeta Leasing entered into an operating lease for a fleet of vehicles for a period of 3 years. The contract includes variable lease payments based on the customer's usage levels. Although the estimated annual lease payment is N\$50,000 on average, actual usage in the first year resulted in a payment of N\$60,000. Zeta also incurred initial direct costs of N\$20,000 to secure the contract.

Explain how Zeta should:

- Account for the variable lease payments; and
- Treat the initial direct costs in accordance with IFRS 16.

Illustrate your answer with the necessary journal entries.

**(8 marks)**

*Note. Mark allocations are indicated against each part (Total = 40 marks).*

## Question 2

30 marks

This questions contains four independent parts. For each part, provide clear explanations and, where applicable, illustrative examples or journal entries to support your discussion. Your answers should reflect a deep understanding of the Conceptual Framework 2018 and its practical implications in financial reporting.

### (a) Objective of Financial Reporting

Explain the primary objective of financial reporting as set out in the Conceptual Framework 2018. In your answer, discuss how this objective supports the decision-making needs of users and the role that financial reports play in providing information about an entity's performance, position, and cash flows. **(5 marks)**

### (b) Qualitative Characteristics of Financial Information

XYZ Ltd is considering redesigning its financial reporting presentation to improve its comparability with its peers. Using the Conceptual Framework 2018, discuss the fundamental and enhancing qualitative characteristics of financial information. Explain how each characteristic is relevant to achieving comparability and overall usefulness of financial reports. **(10 marks)**

### (c) Materiality, Faithful Representation, and Recognition Decisions

ABC Ltd is evaluating whether to capitalize a significant cost related to the development of a new product line.

- (i) Explain how the concepts of materiality and faithful representation, as described in the Conceptual Framework 2018, influence recognition and measurement decisions.
- (ii) Discuss the factors ABC Ltd should consider when deciding whether to expense or capitalize the cost, supporting your answer with reference to the qualitative characteristics and the overall objective of financial reporting. **(10 marks)**

### (d) Definitions of Assets, Liabilities, and Related Challenges

The Conceptual Framework 2018 provides definitions for assets and liabilities. Critically evaluate these definitions by:

- (i) Summarising the key elements that constitute an asset and a liability;
- (ii) Using a hypothetical sale and leaseback transaction, explain one potential challenge that may arise when applying these definitions in practice; and
- (iii) Suggest any improvements or clarifications that might be needed in the definitions to enhance their application. **(5 marks)**

*Note. Mark allocations are indicated against each part (Total = 30 marks).*

**Question 3****30 marks**

The statements of financial position of Parent Ltd and its investee companies, Subs Ltd and Assot Ltd, at 31 December 2021 are shown below.

## STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Parent Ltd	Subs Ltd	Assot Ltd
	N\$'000	N\$'000	N\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Freehold property	1,950	1,250	500
Plant and equipment	795	375	285
Investments	1,500	–	–
	4,245	1,625	785
<b>Current assets</b>			
Inventories	575	300	265
Trade receivables	330	290	370
Cash	50	120	20
	955	710	655
	5,200	2,335	1,440
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital (N\$1 ordinary shares)	2,000	1,000	750
Retained earnings	1,460	885	390
	3,460	1,885	1,140
<b>Non-current liabilities</b>			
12% debentures	500	100	–
<b>Current liabilities</b>			
Bank overdraft	560		
Trade payables	680	350	300
	1,240	350	300
	5,200	2,335	1,440

**Additional information**

(a) Parent Ltd acquired 600,000 ordinary shares in Subs Ltd on 1 January 2016 for N\$1,000,000 when the accumulated retained earnings of Subs Ltd were N\$200,000.

(b) At the date of acquisition of Subs Ltd, the fair value of its freehold property was considered to be N\$400,000 greater than its value in Subs Ltd statement of financial position. Subs Ltd had acquired the property ten years earlier and the buildings element (comprising 50% of the total value) is depreciated on cost over 50 years.

(c) Parent Ltd acquired 225,000 ordinary shares in Assot Ltd on 1 January 2020 for N\$500,000 when the retained profits of Assot Ltd were N\$150,000.

(d) Subs Ltd manufactures a component used by Parent Ltd only. Transfers are made by Subs Ltd at cost plus 25%. Parent Ltd held N\$100,000 of these components in inventories at 31 December 2021.

(e) It is the policy of Parent Ltd to review goodwill for impairment annually. The goodwill in Subs Ltd was written off in full some years ago. An impairment test conducted at the year-end revealed impairment losses on the investment in Assot Ltd of N\$92,000.

(f) It is the group's policy to value the non-controlling interest at acquisition at fair value. The market price of the shares of the non-controlling shareholders just before the acquisition was N\$1.65.

	REQUIRED	MARKS
a	Prepare, in a format suitable for inclusion in the annual report of the Parent Group, the consolidated statement of financial position at 31 December 2021. Show your workings	20
b	Under IFRS 10, a parent must consolidate all subsidiaries into a single set of financial statements. Discuss the key consolidation issues and required treatments when a subsidiary has: <ul style="list-style-type: none"> <li>• <b>A non-contiguous year-end</b> (e.g., three months earlier than the parent),</li> <li>• <b>Different accounting policies</b> (e.g., depreciation methods, inventory valuation), and</li> <li>• <b>Fair-value uplifts on acquisition</b> that create temporary differences.</li> </ul> <p>In your answer, cover:</p> <ul style="list-style-type: none"> <li>• <b>Year-end alignment and disclosures</b></li> <li>• <b>Policy harmonisation and consolidation adjustments</b></li> <li>• <b>Recognition of deferred tax on consolidation fair-value adjustments</b></li> </ul>	10
	<b>Total</b>	<b>30</b>

**END OF QUESTION PAPER**