



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES**

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF MARKETING, BACHELOR OF ACCOUNTING, BACHELOR OF TRANSPORT MANAGEMENT, BACHELOR OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT	
QUALIFICATION CODE: 07BMAR / 07MARB/ 07BOAC/ 07BLSC / 07BTMM	LEVEL: 5
COURSE CODE: FAC511S	COURSE NAME: FINANCIAL ACCOUNTING 101
SESSION: NOVEMBER 2019	PAPER: THEORY AND CALCULATIONS
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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MODERATOR:	J. van WYK

<p style="text-align: center;">INSTRUCTIONS</p> <ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only2. 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. The names of people and businesses used throughout this exam paper do not reflect reality and are purely coincidental.7. Show all workings!

THIS QUESTION PAPER CONSISTS OF 8 PAGES (Excluding the front page)

QUESTION 1

(10 MARKS)

Multiple choice questions

Select the correct answer from the options presented. Write down only the letter that corresponds to the correct answer in your answer book.

1. Which of the below is not a method that may be used to determine the cost price of an item of inventory:
 - a. Specific Identification Method
 - b. First-in- First Out Method
 - c. Last-in, Last Out Method
 - d. Weighted Average Method

2. IFRS 15 – Revenue from contracts with customers prescribes a 5 step process for the recognition of revenue. Which of the following is NOT one of the 5 steps?
 - a. Identify a contract
 - b. Identify the rights of each party
 - c. Determine the transaction price
 - d. Allocate the transaction price to the performance obligation
 - e. Recognise revenue

3. Which of the following items should be included when calculating the cost price of inventory in accordance with IAS 2 - Inventories?
 - a. Value Added Tax (VAT)
 - b. Storage costs
 - c. Selling expenses
 - d. Conversion costs

4. IFRS 15- Revenue from contracts with customers describes the transaction price as:
 - a. The amount of consideration the entity will receive
 - b. The amount of consideration the entity is expected to be entitled to
 - c. The amount of consideration including VAT and discounts

5. Depreciation ceases when:
 - i) An asset is held for sale
 - ii) The production unit method is used
 - iii) The asset is temporarily withdrawn from use

Select the correct answer from the above options

- a. Only i) is correct
- b. Only ii) is correct
- c. Only iii) is correct
- d. i) and ii) are correct
- e. None of the above are correct

6. Choose the answer that is incorrect.
- (a) If conflict exists between IFRS and the Conceptual Framework – the Framework overrides IFRS.
 - (b) The Conceptual Framework sets out the objective of financial reporting.
 - (c) The Conceptual Framework provides qualitative characteristics of useful financial information.
 - (d) The scope of the Conceptual Framework includes the definition, recognition and measurement of the elements of financial statements
7. Which one of the following is incorrect?
- (a) $\text{Assets} = \text{Owners Equity} + \text{Liabilities}$
 - (b) $\text{Owners' Equity} = \text{Assets} - \text{Liabilities}$
 - (c) $\text{Liabilities} + \text{Assets} = \text{Owners Equity}$
 - (d) $\text{Assets} - \text{Owners Equity} = \text{Liabilities}$
8. A tax invoice should include the following information:
- a. The VAT registration number of the supplier
 - b. A description of the goods bought as well as quantity and price
 - c. The name of the customer
 - d. All of the above
9. Which of the following is not a book of original entry?
- (a) General Ledger
 - (b) Sales Journal
 - (c) Petty Cash Book
 - (d) Cash Book
10. How often should a VAT return be submitted to the receiver of revenue?
- a. Every month
 - b. Every two months
 - c. Every three months
 - d. Every four months

QUESTION 2**(30 MARKS)****PART A****(16 MARKS)**

You are the newly appointed financial accountant of NTM Cellular Ltd (“NTM”), a large cellular phone retailer in Windhoek. You are busy preparing the financial statements for the year ended 30 June 2019 and discovered that the following matter below has not been included in the financial statements, due to uncertainty as to how to treat it.

Marketing Campaign

NTM is in the process of launching its new Samsung Galactic S5 smartphone in the Windhoek region. During June 2019, the company embarked on a N\$5 million marketing campaign in an attempt to create awareness of the product before its launch in Namibia during August 2019.

During a directors meeting held in July 2019 Mr. Mark Shutter, the CEO of NTM, stated the following:

“I have no doubt that NTM will achieve record sales during the next financial year. The Samsung Galactic S5 smartphone will be the main driving force behind the record sales because; it is like no other; and everyone will want one. I therefore believe that the amount expended on the marketing campaign during June 2019 should be recognised as an asset in the financial statements of NTM.”

REQUIRED:

With reference to the *Conceptual Framework for Financial Reporting 2018*, explain to Mr Mark Shutter why you agree or disagree with his statement of recognising the amount spent on the marketing campaign as an asset in the draft financial statements for the year ended 30 June 2019. Your answer should address the following:

- The definitions of the appropriate elements,
- The recognition criteria

(16)**PART B****(14 MARKS)**

As a result of the successful marketing campaign conducted by NTM, a huge demand for the Samsung Galactic S5 smartphone was recorded in the first week of its launch. Telephone Cellular, a long-standing customer with an excellent payment record ordered 1000 units of the Samsung Galactic S5 smartphone from NTM on 2 August 2019. NTM, sold the smartphone at a price of N\$5,000 per unit. NTM maintains a gross profit margin of 20% per unit in calculating its selling price. NTM uses the perpetual system to account for inventory

The cellphones were delivered to Telephone Cellular on 9 August 2019. The terms of the contract specified that where payment is made within 7 days of delivery, Telephone Cellular would be entitled to a 5% discount on the selling price. At inception of the contract, it was fully expected that Telephone Cellular would take advantage of the discount.

Telephone Cellular experienced some unexpected cash flow difficulties in the first three weeks of August 2019 and only managed to make payment on 30 August 2019.

IGNORE VAT IMPLICATIONS.

REQUIRED:

- i. Calculate the cost price and the gross profit of the Samsung Galactic S5 smartphone per unit in the records of NTM. (2)
- ii. Assuming that NTM maintained a mark-up of 20% in calculating the selling price of the Samsung Galactic S5 smartphone, calculate the cost price and the gross profit. (2)
- iii. Prepare the general journal entry to account for the sale of Samsung Galactic S5 smartphone to Telephone Cellular in the records of NTM. Show all relevant dates. (7)
- iv. Prepare the general journal entries to account for the payment received from Telephone Cellular in the records of NTM. Show all relevant dates. (3)

QUESTION 3**(40 MARKS)**

Karibu Flowers is a Namibian owned flower merchant whose current year-end is 31 December 2019. On 31 December 2019, the following balances appeared in the accounting records of Karibu Flowers: The entity makes use of a perpetual inventory system.

	NOTES	DEBIT (N\$)	CREDIT (N\$)
Cost of sales		4,140,000	
Salaries		1,730,000	
Computer license expense	2	132,000	
Stationery expense	3	402,000	
Insurance expense	4	39,000	
Credit losses		52,000	
Telephone expense	6	440,000	
Bank charges		48,200	
Depreciation – Delivery Vehicles	8	-	
Depreciation – Furniture and Fittings	7	76,000	
Interest-expense	8	-	
Sales			9,100,000
Discount received			10,500
Land		720,000	
Machinery at cost price	8	900,000	
Accumulated depreciation – Delivery Vehicles	8		-
Furniture and Fittings at cost price		950,000	
Accumulated Depreciation – Furniture and Fittings	7		266,000
Trade Receivables	5	876,000	
Inventory	1	829,000	
Bank		1,030,000	
Prepaid insurance expenses on 31 Dec 2018	4	17,800	
Capital			1,500,000
Accumulated profit – balance on 1 Jan 2019			810,000
Drawings		560,000	
Trade payables			355,500
Accrued expenses	2		-
Hire purchase loan	8		900,000
		12,942,000	12,942,000

Additional Information:

The following transactions and events still have to be recognised in the records of Karibu Flowers:

1. The perpetual inventory system indicates that the following two events in respect of trade inventories still have to be recognised:
 - 1.1 Obsolete and damaged inventory items with a cost of N\$22 000 on 31 December 2019 have to be written off. The write-off has already been authorised by the owner.
 - 1.2 During December 2019, the owner sent flowers as Christmas gifts to her friends with a cost price of N\$8 000.
2. Karibu Flowers makes use of computer software that allows her customers to make orders online. She pays a monthly computer license fee for the use of this programme. The fee per month to make use of the software is N\$12,000.
3. Stationery on hand on 31 December 2019 amounts to N\$42 000 and still has to be recognised.
4. Insurance premiums are paid annually on 1 July. The annual insurance premium, which was paid on 1 July 2019, amounted to N\$39 000. The full premium was debited against the insurance expense for 2019. The insurance premium prepaid on 31 December 2019 still has to be recognised. The necessary journal entry in respect of the insurance expense prepaid on 31 December 2018 also still has to be recognised.
5. The owner of the business supplied flowers for her cousin's wedding on credit. The cousin has revealed that due to all her wedding debts she will not be able to pay for the flowers. The owner has decided to write off the amount owing from her cousin of N\$24,000.
6. The phone and internet connection bill for December of N\$40 000 was only received and paid on 16 January 2020. The necessary journal entry still has to be recognised.
7. The depreciation expense on furniture and fittings for 2019 was calculated and recognised as N\$76 000. The amount should however be N\$95 000. The necessary adjustment still has to be recognised.
8. On 2 January 2019, Karibu purchased a new delivery vehicle on hire purchase (credit). The written loan agreement with the supplier *inter alia* stipulates that the interest rate is 10% per year and that the interest and the primary debt is repayable in one amount on 31 December 2020. At the end of each year, the interest is added to the primary debt. The interest schedule is as follows:

Date	Detail	Interest at 10% per year	Loan Balance
2 Jan 2019	Primary debt		900 000
31 Dec 2019	Interest	90 000	990 000
31 Dec 2020	Interest	99 000	1 089 000
		189 000	

The applicable interest-expense for 2019 still has to be recognised.

On 2 January 2019, the vehicle was received and put into service. The estimated useful life of the vehicle is 6 years with a residual value of N\$100,000. The depreciation expense for 2019 still has to be recognised in accordance with the straight-line method.

9. Accumulated profit after taking into account the above additional information was N\$2,573,000.

REQUIRED:

- a) Prepare the general journal of Karibu Flowers to recognise the above adjustments.
No narrations are required. (20)
- b) Prepare the statement of financial position of Karibu Flowers as at 31 December 2019. (20)

IGNORE VAT IMPLICATIONS

QUESTION 4

(10 MARKS)

Assume all parties are VAT vendors unless otherwise stated.
Assume a VAT rate of 14%

PMK accountants is a business that provides business consulting services to its clients. Among the services offered is an evaluation of clients' computer systems to ensure that the systems are effective and secure.

Jeffery, the IT manager, is worried as he needs to return the VAT return for PMK Accountants for the 2-month period ending 28 February 2019. The bookkeeper is currently on honeymoon and Jeffery does not know how to calculate the amounts that need to be filled in on the VAT return.

The balance on the VAT control account on 14 February 2019, when the bookkeeper went on leave, was a net liability of N\$140,444.

The only transactions that occurred between that date (14 February 2019) and the end of February were the following:

- a) The firm bought 25 laptop computers for their new staff who would be starting on the 17 March 2019. The computers had a normal listed selling price of N\$20,000 each, exclusive of VAT, but PMK Accountants received a 10% trade discount for buying in bulk. The computers were delivered to them COD (cash on delivery) on 18 February 2019.
- b) Input VAT for cash purchases on the 21 February 2019 amounted to N\$92,220.
- c) On 24 February 2019 PMK Accountants received 40c for every dollar owed in full and final settlement of a debtors accountant that amounted to N\$28,500. After receiving the deposit, the remaining balance was written off.

REQUIRED:

Prepare the VAT control account of PMK Accountants for the two month period ending 28 February 2016. Include a brief discussion on why an item has been included or excluded from the VAT control account. (10)

QUESTION 5**(20 MARKS)**

Bibi Mbona Green Enterprise Solutions (Pty) (Ltd) ("Mbona") is a hydroponic¹ agricultural urban farm located in the heart of Windhoek. They produce crops for sale to the market and conduct their business from the rooftop of the Sardinia restaurant building in Independence Avenue which they own.

Mbona had a number of items of Property, Plant and Equipment ("PPE") which they make use of in their enterprise at 1 January 2019. This includes the following:

Asset Description	Acquisition value	Accumulated depreciation (N\$) at 31.12.2018	Depreciation policy
Land	N\$5,000,000	0	No depreciation
Buildings	N\$2,000,000	N\$300,000	20 years - straight-line method
Greenhouse equipment	N\$1,200,000	N\$560,100	10% - reducing balance method

Additional information:

- On 31 March 2019 Mbona decided to replace some Greenhouse equipment with new sophisticated Greenhouse equipment. They traded-in (sold) their old Greenhouse equipment with a cost price of N\$200,000 and an accumulated depreciation of N\$145,800 at 31 December 2018, with the same supplier that provided the new Greenhouse equipment. The trade-in value of the old equipment is N\$56,000. The new equipment cost N\$350,000.
- Due to the business doing well over the last year, Mbona decided to purchase computer equipment to keep of the inventory of plants produces. The computer equipment cost N\$40,000 on the 30 September 2019 with a useful life of 3 years. Computer equipment is expected to have a residual value of N\$4,000.

REQUIRED

- Prepare the Property, Plant and Equipment Reconciliation note of Bibi Mbona Green Enterprise Solutions (Pty) (Ltd) for the year ended 31 December 2019. (10)

IGNORE VAT IMPLICATIONS**END OF EXAM PAPER**

¹ Hydroponics is a method of growing plants without soil by instead using mineral nutrient solutions in a water solvent.

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