



**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> June 2025	<b>PAPER:</b> THEORY AND CALCULATIONS
<b>DURATION:</b> 3 hours	<b>MARKS:</b> 100

<b>FINAL ASSESSMENT – 1<sup>st</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 6 PAGES** (excluding the front page)

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

The following information relates to Sunrise Enterprises.

**(a) Contract with a Modification Payment**

Sunrise Enterprises is a manufacturer of electronic gadgets. On 15 June 2024, Sunrise entered into a nine-month contract to supply its flagship smart device to a multinational retailer. Under the contract the retailer committed to purchase at least N\$25 million of devices over the period. The contract required Sunrise to pay a non-refundable fee of N\$2.5 million to the retailer on contract inception to cover the costs of adapting the retailer's in-store display. Sunrise paid the fee on 15 June 2024. In August 2024, Sunrise delivered devices with an invoice value of N\$3.2 million.

**(9 marks)****(b) Contract with a Volume Discount**

On 1 April 2024, Sunrise entered into a contract with another customer to sell Device X at a price of N\$250 per unit. The contract specifies that if the customer purchases more than 800 units over a nine-month period, the price per unit is retrospectively reduced to N\$230. For the quarter ending 30 June 2024, Sunrise sold 50 units of Device X and initially assessed that the customer was unlikely to exceed the 800-unit threshold. In November 2024, following an upswing in orders, the customer purchased an additional 400 units. Sunrise now concludes that it is highly probable that the total purchases during the contract period will exceed 800 units.

**(11 marks)****(c) Sale with a Right of Return and Financing Component**

On 31 December 2024, Sunrise sold Device Y to a customer for a contract consideration of N\$16,500, with payment due 18 months after delivery. The customer obtained control of the device at contract inception. However, the contract grants the customer the right to return the device within 60 days. The cash selling price of Device Y is N\$13,000 – the price that would apply under otherwise identical terms at delivery. Sunrise's cost of the device is N\$9,000.

**(12 marks)**

**(d) Costs Relating to a New Production Line**

On 1 August 2024, Sunrise purchased a new production line for use in its factory. The directors have capitalised the purchase cost but now need guidance on the treatment of the following related expenditure:

- Testing costs of N\$350,000 were incurred to ensure the production line functions correctly. During the testing phase (August–September 2024), trial products were produced and sold for a total of N\$50,000.
- Training costs of N\$250,000 were incurred to instruct employees in operating the new line.
- Promotional expenses of N\$900,000 were incurred to launch a new product manufactured on the new line. The production line was declared ready for commercial production on 1 October 2024. **(8 marks)**

**Required**

Advise Sunrise on the accounting treatment of the transactions above in its financial statements for the period ending 31 December 2024 (and up to 31 March 2025 for part (c)). Illustrate your responses with journal entries where appropriate.

*Note. The mark allocation is indicated against each part. (Total = 40 marks)*

**Question 2****30 marks**

The question consists of four independent parts. For each scenario, advise the acquirer on the accounting treatment in accordance with IFRS 3 – Business Combinations. Provide detailed explanations and illustrative journal entries where appropriate.

**(a) Acquisition of a Subsidiary with an unfavorable Lessee Contract and Residual Franchise**

On 1 July 2022, DEF Limited acquired 100% of GHI Ltd, a specialist distributor. At the acquisition date, the identifiable assets and liabilities of GHI Ltd are measured as follows:

*Identifiable Assets*

- Property, Plant & Equipment (PPE): N\$1,200,000
- Inventory: N\$500,000
- Trade Receivables: N\$300,000
- Patent (held by GHI for a technology licensed to DEF as part of a continuing franchise arrangement): N\$250,000

*Identifiable Liabilities*

- Trade Payables: N\$350,000
- Liability arising from an unfavorable lease contract entered by GHI (the subsidiary had signed a long-term lease with a counterparty of poor credit quality under adverse terms): N\$150,000

The purchase consideration paid by DEF Limited is N\$2,500,000.

**Required**

Explain how DEF Limited should account for this business combination under IFRS 3. In your answer, include:

- The measurement of identifiable assets and liabilities (with particular reference to the unfavorable lessee arrangement and the residual patent/franchise arrangement);
- The calculation of net identifiable assets and goodwill (or gain on bargain purchase); and
- Illustrative journal entries at acquisition. **(9 marks)**

**(b) Acquisition with Earn-Out Provisions**

On 1 October 2022, JKL Ltd acquired 70% of MNO Tech, a software development firm. The fair value of MNO Tech's identifiable net assets is estimated at N\$4,000,000. In addition, the acquisition agreement includes an earn-out: if MNO Tech's annual revenue exceeds N\$10 million within 12 months from the acquisition date, JKL Ltd will pay an additional N\$600,000. The base consideration is N\$2,800,000.

### **Required**

Discuss how JKL Ltd should account for the earn-out under IFRS 3. Your answer should address:

- The initial measurement of the contingent consideration at fair value;
- Its impact on the total acquisition cost and subsequent goodwill calculation; and
- Any remeasurement requirements after the acquisition date.

Support your discussion with relevant illustrative journal entries.

**(11 marks)**

### **c) Acquisition with Non-Controlling Interest**

On 1 January 2023, PQR Corp acquired an 85% interest in STU Retail, a chain of specialty stores. At the acquisition date, STU Retail's identifiable net assets are measured at N\$6,000,000. PQR Limited elects to measure the non-controlling interest (NCI) at fair value, which is determined to be N\$1,200,000. The total purchase consideration paid by PQR Limited is N\$4,200,000.

### **Required**

Explain how PQR Limited should account for:

- The measurement of NCI;
- The aggregation of total consideration (purchase consideration plus NCI); and
- The calculation of goodwill or a gain on bargain purchase.

Include detailed steps and illustrative journal entries in your explanation.

**(7 marks)**

### **d) Acquisition-Related Restructuring Costs**

On 1 April 2023, UVW Plc acquired 100% of XYZ Logistics for a total purchase price of N\$5,500,000. In connection with the acquisition, UVW Plc expects to incur integration restructuring costs of N\$400,000.

### **Required**

Discuss the accounting treatment for these restructuring costs under IFRS 3. Should these costs be included as part of the acquisition cost or recognised separately? Explain your answer and provide appropriate illustrative journal entries.

**(3 marks)**

*For each scenario, advise the acquirer on the accounting treatment in accordance with IFRS 3 – Business Combinations. Provide detailed explanations and illustrative journal entries where appropriate.*

### Question 3

30 marks

On 1 January 2024, Stellar Limited issued 1,000 convertible bonds with the following terms:

- **Nominal (Face) Value:** N\$1,000 per bond
- **Total Proceeds:** N\$1,000,000
- **Coupon Rate:** 4% per annum (i.e. \$40 per bond per year), with interest payable annually in arrears
- **Term:** 3 years
- **Conversion Feature:** Each bond is convertible, at the option of the bondholder, into 20 ordinary shares at any time up to maturity
- **Market Rate for Similar Non-convertible Debt:** 8% per annum

At initial recognition, Stellar Limited applies split accounting by allocating the proceeds between:

- (a) a liability component measured as the present value of the contractual cash flows (discounted at 8%); and
- (b) an equity component equal to the residual (representing the conversion option).

In addition, consider the following subsequent scenario:

#### **Additional Scenario (Part d): Modification of Settlement Terms**

On 1 January 2025, due to changing market conditions, Stellar Limited modifies the terms of the convertible bonds so that the conversion option becomes cash-settled rather than by issuance of shares. At 31 December 2024, the carrying amounts were as follows:

- Liability component (amortised cost): N\$928,641
- Equity component: N\$103,110

Thus, the total carrying amount of the compound instrument is N\$1,031,751.

At the date of modification, the fair value of the entire instrument is determined to be N\$950,000.

**Required:**

a) Calculate the amounts allocated at initial recognition to the liability and equity components. Show your workings. **(8 marks)**

b) Prepare an amortisation schedule for the liability component for the period from 1 January 2024 to 31 December 2024 using the effective interest method. Based on your schedule, prepare the journal entry to record the interest expense for 2024. **(8 marks)**

c) Discuss the subsequent measurement of the equity component of the convertible bonds under IFRS 9, particularly if, by 31 December 2024, market conditions indicate that bondholders are likely to convert. **(4 marks)**

d) **Modification Scenario:**

On 1 January 2025, Stellar Limited modifies the convertible bonds so that the conversion option is now cash-settled. Under IFRS 9, this change requires that the compound instrument be reclassified as a cash-settled financial liability measured at fair value through profit or loss.

(i) Explain the accounting implications of this modification.

(ii) Prepare the necessary journal entries to reclassify the instrument. **(10 marks)**

**END OF QUESTION PAPER**

