NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	**LEVEL: 6**
COURSE CODE: FAC612S	**COURSE NAME:** FINANCIAL ACCOUNITNG 202
SESSION: NOVEMBER 2023	**PAPER:** THEORY + CALCULATIONS
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. C MAHINDI, Mr. C SIMASIKU and Ms. S IFUGULA
MODERATOR:	DR. D KAMOTHO

INSTRUCTIONS

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. Do not write in pencil and do not use tip-ex, as this will not be marked.
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 assessment do not reflect the reality and may be purely coincidental.
7. Show all workings!

PERMISSABLE MATERIALS

1. Non- programmable calculator

THIS QUESTION PAPER CONSISTS OF 7 PAGES (Excluding this front page)

Question 1 **(10 marks)**

For multiple choice questions, only write down the correct answer in your answer booklet. E.g., 1A

1. What is the appropriate accounting treatment for Adjusting events after the reporting date according to IAS 10?
    A. No action is required; they are not considered in financial statements.
    B. They should be disclosed in the notes to the financial statements.
    C. They should result in adjustments to the financial statements.
    D. They should lead to changes in accounting policies.

2. Which of the following is true regarding the treatment of non-adjusting events (events occurring after the reporting date) under International Accounting Standard 10 (IAS 10)?
    A. Non-adjusting events always require adjustments to the financial statements.
    B. Non-adjusting events do not require disclosure in the financial statements.
    C. If a Non-adjusting event is material, it should be disclosed in the notes to the financial statements.
    D. Non-adjusting events are never considered in the preparation of financial statements.

3. A significant customer, with a substantial accounts receivable balance, declared bankruptcy two weeks after the reporting date. How should this event be treated according to IAS 10?
    A. Adjust the accounts receivable balance in the financial statements.
    B. Disclose the event in the notes to the financial statements.
    C. Both A and B are correct.
    D. Ignore the event as it occurred after the reporting date.

4. Company X's financial year-end is December 31, 2021. On January 10, 2022, it discovers that a major customer, which accounted for 20% of its total revenue in 2021, has declared bankruptcy and will not be able to pay its outstanding receivables. What type of event is this, and how should it be treated according to IAS 10?
    A. Adjusting event; It should be disclosed in the notes to the financial statements.
    B. Adjusting event; It should result in an adjustment to the financial statements.
    C. Non-Adjusting event: It should be disclosed in the notes to the financial statements.
    D. Non-Adjusting event: It should result in an adjustment to the financial statements.

5. A company's financial statements for the year ended December 31, 2021, were authorized for issue on February 15, 2022. On February 25, 2022, the company discovered a significant error in its inventory valuation that materially affected the financial statements. How should this error be addressed?
   A. The error should be adjusted in the financial statements for the year ended December 31, 2021.
   B. The error should be disclosed in the notes to the financial statements for the year ended December 31, 2021.
   C. The error should be adjusted in the financial statements for the year ended December 31, 2022.
   D. The error should not be addressed in the financial statements.

6. A company's financial year-end is December 31. On January 10 of the following year, the company becomes aware of a significant customer bankruptcy that occurred on December 20 of the previous year, which was after the reporting date. How should this event be accounted for in the company's financial statements?
   A. It should be recognized as an adjustment in the current year's financial statements.
   B. It should be disclosed in the notes to the current year's financial statements if material.
   C. It should not be considered in the financial statements.
   D. It should result in a restatement of the prior year's financial statements.

7. Which of the following is a non-adjusting event under IAS 10, "Events after the Reporting Period"?
   A. The discovery of a material error in the financial statements made after the financial statements were authorized for issue.
   B. A significant customer payment received on the reporting date, which was expected but not yet received at the time of preparing the financial statements
   C. A major fire at the company's warehouse that occurred two weeks after the financial statements were authorized for issue.
   D. A change in accounting policies to better reflect the economic substance of transactions after the financial statements were authorized for issue.

8. Company XYZ has a reporting date of December 31, 2023. On January 15, 2024, they receive notice of a lawsuit filed against them for a significant amount related to a product liability issue arising from a product sold in December 2023. According to IAS 10, how should this event be treated in Company XYZ's financial statements for the year ended December 31, 2023?
   A. It should be recognized as a liability and included in the financial statements for 2023.

B. It should be disclosed in the notes to the financial statements for 2023.
C. It should be recognized as a contingent liability in the financial statements for 2023.
D. It should be ignored as it occurred after the reporting date.

9. Why is it important for users to know the date when financial statements were authorised for issue?
   A. Because users of the financial statements need to know the nature and extent of non-adjusting events that took place after this date.
   B. Because users of the financial statements may judge whether financial statements were issued in time.
   C. Because the financial statements do not reflect events after this date.
   D. Because users of the financial statements need to know the amount of profit or loss that the entity generated during the reporting period, covered by these statements.

10. Which of the following non-adjusting events would not result in disclosure.
   A. A major business combination after the reporting period.
   B. The destruction of a major production plant by a fire after the reporting period.
   C. Announcing a plan to discontinue an operation.
   D. Entering into insignificant commitments or contingent liabilities

Question 2 **(20 marks)**

Komady Limited is a manufacturer of electrical appliances. Due to a slow-down in the economy, Komady does not have viable business opportunities to invest in. Excess cash is invested in two different portfolios consisting of government bonds and equity instruments respectively.

Portfolio 1 – Government bonds

The portfolio is held to earn contractual cashflows where the contractual cashflow comprises of a return of the principal amount and interest on the principal.

	N$
Purchase price on acquisition date – 1 January 2022	780 000
Transaction costs 1 January 2022	60 000
Maturity date	31/12/2026
Coupon payment (payments in arrears on 31 December annually)	45 000
Redemption amount	900 000

All related cashflows took place on the due date. Assume that the acquisition price was equal to the fair value on 01 January 2022. The effective interest rate has been determined as 6.60895%.

Portfolio 2 – Listed Shares

On 2 February 2022, 5,000 listed shares in Spures Ltd were purchased for N$ 100 000 with brokerage fee of N$ 500. These shares form part of the portfolio of financial instruments that are managed together and showed a pattern of short-term profit taking in the recent past. The company does not intend to sell those shares in the near future. On 31 December 2022 the shares were trading for N$ 19 per share on the Namibian Stock Exchange (NSX).

Required:

a) Discuss how the Portfolio 1 in Government bonds should be measured and recognised in terms of *IFRS 9 – Financial Instruments.* (5)

b) Provide the general journal entries to account for the government bonds for the year ended 31 December 2022. Journal narrations are required. (8)

c) Provide the general journal entries to account for the listed shares for the year ended 31 December 2022. (7)

Question 3 **(35 marks)**

You have been provided with the following information extracted from the records of Nelago limited. The current reporting period relates to the 2023 financial year:

Statement of profit or loss and other comprehensive income for the year ended 31 October 2023.

	N$
Revenue	6 460 000
Cost of sales	-3 003 000
Gross profit	3 457 000
Operating expenses	-2 574 000
Profit from operations	883 000
Finance costs	-65 000
Profit before tax	818 000
Taxation	-204 500
Profit for the year	613 500
Other comprehensive income	
Gain on property revaluation	200 000
Total comprehensive income for the year	813 500

Statement of financial position as at 31 October 2023.

		2023 N$	2022 N$
Non-current assets			
Property, plant and equipment	Note 1	2 095 000	1 250 000
Current assets		745 800	831 500
Inventory		263 500	187 500
Trade receivables		341 400	265 500

Prepaid insurance	63 000	52 500
Investments	75 400	230 000
Cash at bank	-	93 500
Cash in hand	2 500	2 500
Total assets	2 840 800	2 081 500
Equity and liabilities		
Equity	2 096 900	1 226 200
Ordinary share capital (N$1 shares)	400 000	190 000
Revaluation reserve	300 000	100 000
Retained earnings	1 396 900	936 200
Non-current liabilities		
Long- term loan	400 000	500 000
Current liabilities	343 900	355 300
Trade payables	129 400	206 500
Taxation	194 000	142 600
Accrued finance costs	5 500	6 200
Bank overdraft	15 000	-
Total equity and liabilities	2 840 800	2 081 500

Additional information:

1. Property, plant and equipment has been calculated as follows:

	2023	2022
Carrying amount at 31 October	2 095 000	1 250 000
Property, plant and equipment at valuation	3 620 000	2 500 000
Accumulated depreciation	-1 525 000	-1 250 000

2. Operating expenses includes:

	N$
Depreciation	525 000
Loss on disposal of non-current assets	60 000
Staff costs	1 020 000
Credit losses	167 500

3. During the year ended 31 October 2023, non-current assets that had originally cost N$500 000 and had a carrying amount of N$250 000 were disposed of. This was the only disposal of non-current assets during the year. The company charges a full 12 months depreciation on all non-current assets held at 31 October.
4. During the year ended 31 October 2023 the company paid total dividends of N$152 800.

5. Insurance is included in operating expenses in the statement of profit or loss and other comprehensive income.

Required:

a) Prepare the statement of cashflows for the reporting period ended 31 October 2023 in accordance with IFRS using the direct method. (25)

b) Prepare the reconciliation note of profit before tax with cash generated from operations for the reporting period ended 31 October 2023. (10)

Question 4 **(20 marks)**

Safari tours Ltd operates luxury bus touring company, offering tours to tourists throughout Namibia. On 5 October 2022 one of the drivers was involved in an accident when the brakes of the one of its luxury buses failed and the bus crashed into a building.

On 10 October 2022 Safari tours Ltd was sued by the owner of the building for damages of N$500,000. The attorneys of Safari tours Ltd expects that the claim will succeed and that Safari tours Ltd will have to pay N$500 000 for the damages. All indications are that the case will probably be heard in court during the second half of 2023.

Required:

a) Discuss whether a provision should be recognised at the end of the reporting period 31 October 2022. (7)

b) Provide the journal entries to account for the provision at 31 October 2022. (2)

c) Assuming that at the end of 2023 the legal proceedings are still in progress. The lawyers have however estimated that the court will rule that damages of N$350 000 will have to be paid. In 2022 a provision was made for N$500 000.

   i. Provide the required journal entry at 31 October 2023. (3)

   ii. Provide the following disclosure notes:

      - Profit before tax (2)
      - Short-term provisions (6)

Question 5 **(15 marks)**

You have been provided the following information from the records of Hinda Limited for the year ended 31 October 2023 and have been requested to assist with preparing documentation regarding the taxation of the entity.

The profit before tax of Hinda Limited is N$300,000. This amount is calculated after taking the following into account:

	N$
Depreciation on property, plant and equipment (PPE)	60,000
Dividends received (not taxable)	12,000
Profit on sale of PPE	10,500
Loss on sale of PPE	15,000
Speeding fine (not deductible for tax purposes)	1,350

The following information is also available:

	N$
Tax allowance on PPE	90,000
Recoupment on sale of PPE	18,000
Scrapping allowance on sale of PPE	13,000

Required:

a) Determine the taxable income and current tax payable for the reporting period ended 31 October 2023. Assume a prevailing company tax rate of 30%. (12)

b) Provide the general journal entries to account for the current tax payable (3)

END OF QUESTION PAPER