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: JANUARY 2024	**PAPER:** THEORY + CALCULATIONS
DURATION: 3 HOURS	**MARKS:** 100

SECOND 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 9 PAGES (Excluding this front page)

Question 1 **(19 marks)**

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

1. IAS 37 __________ to executory contracts __________ they are onerous.
   A. Applies; unless
   B. Applies; even if.
   C. Does not apply; unless
   D. Does not apply; regardless of if (1)

2. Which of the following defines the term "provision"?
   A. A deferred liability
   B. A contingent liability
   C. A liability of an uncertain timing or amount
   D. A contractual liability (1)

3. Which of the following is defined by this statement: "A present obligation of the entity to transfer economic resources as a result of past events,"?
   A. A legal obligation
   B. A constructive obligation
   C. A liability
   D. An obligating event (1)

4. An onerous contract is a contract in which __________ of meeting the obligations under the contract __________ the economic benefits expected to be received under it.
   A. Sunk costs, exceed.
   B. Unavoidable costs, exceed.
   C. Opportunity costs, are less than
   D. Avoidable costs, are less than (1)

5. Which of the following statements more likely defines the term "restructuring"?
   A. A significant change in the scope of the business undertaken by the entity.
   B. A significant change in the manner in which business is conducted.
   C. A significant change in the political and legal environment that regulates the reporting matters of an entity.
   D. A and B
   E. A, B and C (1)

6. Under which of the following conditions shall a provision be recognised?
   A. An entity has a present obligation as a result of a past event.
   B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
   C. A reliable estimate can be made of the amount of the obligation.

D. A and C
E. All of the above (1)

7. An entity shall not recognise a contingent liability __________.
   A. Unless an entity has a present liability as a result of a past event
   B. Unless it is probable that an outflow of resources embodying economic benefits will be required to settle this liability
   C. Unless a reliable estimate can be made of the amount of this liability
   D. None of the above (1)

8. Contingent assets __________ in financial statements __________ this may result in the recognition of income that may never be realised.
   A. Shall not be recognised, since
   B. Shall be recognised; unless
   C. Shall be disclosed; even if.
   D. Shall be disclosed; unless (1)

9. The amount recognised as a provision shall __________
   A. Reflect the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
   B. Reflect the reasonable assurance that the entity will face the outflow of benefits at the end of the reporting period.
   C. Be supported by the actuarial valuation report.
   D. All of the above (1)

10. Entity X believes that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. Which of the following will most likely not be reflected in the amount of a provision for cleaning up a site in the entity's financial statements?
    A. Expected cost reductions associated with increased experience in applying existing technology.
    B. Expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out.
    C. The development of a completely new technology for cleaning up
    D. All of the above (1)

11. Where the expenditure required to settle a provision is expected to be reimbursed by another party, __________.
    A. The reimbursement shall be recognised when it is virtually certain that reimbursement will be received if the entity settles the obligation.
    B. The reimbursement shall be treated as a separate asset.
    C. The amount of reimbursement recognised shall not exceed the amount of the provision.
    D. A and C

E. All of the above (1)

12. When does the obligation arise for the sale of an operation?
    A. When an entity has taken the decision to sell an operation
    B. When an entity has announced a decision to sell an operation publicly
    C. When an entity has found a potential purchaser
    D. When an entity has a binding sale agreement (1)

13. Which of the following expenditures shall be included in the restructuring provision?
    A. Retraining costs
    B. Marketing costs
    C. Staff relocation costs
    D. All of the above
    E. None of the above (1)

14. IAS 10 states that if an entity declares dividends after the reporting period, the entity __________ those dividends as a liability at the end of the reporting period.
    A. shall recognise.
    B. shall not recognise.
    C. is encouraged to recognise.
    D. is encouraged not to recognise. (1)

15. Which types of events does IAS 10 identify?
    A. Those that provide evidence of conditions that existed before the end of the reporting period.
    B. Those that provide evidence of conditions that existed at the end of the reporting period.
    C. Those that are indicative of conditions that arose after the reporting period.
    D. B and C
    E. All of the above (1)

16. Which of the following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised?
    A. The settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period.
    B. The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
    C. Discovery of fraud or errors that show that the financial statements are incorrect.
    D. A and B
    E. All of the above (1)

17. If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it __________ that relate to those conditions, in the light of the new information.
   A. shall update disclosures.
   B. shall update financial statements but leave disclosures unchanged.
   C. shall not update disclosures.
   D. shall not update financial statements (1)

18. An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 5 million would result.

    The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. What is the expected cost of repairs of the entity?
   A. N$400,000
   B. N$450,000
   C. N$500,000
   D. N$550,000 (2)

Question 2 **(26 marks)**

The following information appears in the records of Nicodemus Ltd for the reporting period end 31 December 2023.

		Notes	N$
i.	Investment in listed shares	1	100,000
ii.	Investment in unlisted shares	1	50,000
iii.	Loan to Barnabas	2	120,000
iv.	Receivables	3	380,000
v.	Ordinary share capital (100,000 shares)		200,000
vi.	Redeemable preference shares	4	100,000
	Retained earnings		150,000
	Allowance for credit losses	3	19,000

Additional information:

1. Investment in equity instruments

1.1. Investment in Listed shares

Nicodemus Ltd acquired the listed investment on 1 January 2023 and does not intend to sell this investment in the near future. The investment comprises 10,000 shares with a market value of N$14 per share on 31 December 2023.

1.2. Investment in unlisted shares

The unlisted shares were acquired on 1 October 2023 for speculative purposes and the company wanted to sell this investment at the first available opportunity in 2023. The 5,000 shares were valued by the directors at N$65,000 on 31 December 2023, using reliable valuation techniques.

2. Loan to Barnabas

The loan is a receivable amount which originated on 1 January 2022. The intention is to hold the loan to collect contractual cashflows from it. The applicable interest rate is 14.5% per annum compounded annually and is repayable in full on 31 December 2025. Interest is repayable annually in arrears. The interest for 2023 was received on 29 December 2023.

3. The accountant for Nicodemus Limited has for the first time provided an allowance of doubtful debts based on 5% of outstanding receivables. According to your calculations, based on cashflow projections, the expected cashflow from outstanding receivables on 31 December 2023 is N$375,000.

4. The 100,000 compulsorily redeemable preference shares pay dividends at a market related rate of rate of 10c per share per annum and will be redeemed on 31 November 2026.

Required:

a. For items i to iv above:
   - Classify the items as a financial instrument or non-financial instrument. If it is a financial instrument, indicate what type of financial instrument it is, e.g. Financial Instrument – Financial Asset; Financial Instrument- Financial Liability etc. (6)
   - Where the item is a financial instrument, indicated indicate in which category the financial instrument will be measured, e.g. Financial asset at fair value through profit or loss, etc. (6)

   Use a tabular format as below:

	Item	**Classification**	**Measurement**
i.	Investment in listed shares	?	?

b. For the items included in additional information 1, provide the appropriate adjusting journal entries for the reporting period ended 31 December 2023 in the records of Nicodemus Limited. Show account classification (SPL, SFP, OCI etc.). (7)

c. Prepare an extract to the statement of financial position of Nicodemus Limited as at 31

December 2023 for the items classified i to iv above. (7)

Question 3 **(28 marks)**

The following information has been provided for Samson Ltd, a construction company. The financial year ended is 31 December 2023.
The statements of financial position and statement of profit or loss (before tax expenses) are shown below.

Samson Ltd
Statement of profit or loss for the year ended 31 December 2023

Revenue	2,402,000
Cost of sales	1,910,000
Gross profit	492,000
Operating expenses	400,000
Profit from operations	92,000
Finance costs	12,000
Profit before tax	80,000

Samson Ltd
Statement of financial position as at 31 December 2023

Non-current assets	
Property, plant and equipment	550,000
Current assets	
Inventories	130,000
Trade receivables	350,000
Cash and cash equivalents	95,000
	1,125,000
Equity	
Share capital	500,000
Retained earnings	412,368
Non-current liabilities	
Liability for product warranty costs	8,000
Deferred tax liability (from 2022)	9,632
Current liabilities:	
Trade payables	195,000
	1,125,000

Additional information:

i. The wear and tear allowance for the year ended 31 December 2023 is N$103 000. Depreciation included in operating costs was N$85 000. The cost of the property, plant and equipment was N$800 000. Accumulated wear and tear for tax purposes amounted to exactly N$208 000 as at 1st January 2023.

ii. During 2023, the company increased the liability for product warranty costs by N$2 500. Product warranty costs are not tax deductible until the company pays claims. In 2023 claims paid amounted to N$3 100.

iii. Expenses for promotion included in operating expenses amounted to N$900. These are not deductible for tax purposes.

iv. Tax rate for 2023 was 30% (2022, 28%).

Required:

a) Calculate the current tax payable for the year ended 31 December 2023. (8)

b) Disclose the income tax expense note for the year ended 31 December 2023. (9)

c) Calculate the deferred tax balance for the year ended 31 December 2022. (5)

d) Calculate the deferred tax balance for the year ended 31 December 2023. (2)

e) Disclose the deferred tax note in the financial statements for the year ended 31 December 2023. (4)

Question 4 **27 Marks**

The financial statements of Mash Ltd are as follows:

Statement of financial position as at 31 December

	2023	2022
	N$	N$
Non-current assets	630,000	530,000
Property, Plant and Equipment	380,000	305,000
Intangible Assets	250,000	200,000
Investments		25,000
Current Assets	592,000	418,000
Inventories	150,000	102,000
Trade receivables	390,000	315,000
Short term investments	50,000	-
Cash in hand	2,000	1,000
Total Assets	1,222,000	948,000
Equity and Liabilities		
Equity	620,000	491,000
Share capital (N$1 ordinary shares)	360,000	300,000
Revaluation reserve	100,000	91,000
Retained earnings	160,000	100,000
Liabilities		
Non-current liabilities	170,000	50,000
Long-term loan	100,000	-
Deferred taxation	70,000	50,000
Current liabilities	432,000	407,000
Trade payables	127,000	119,000
Bank overdraft	85,000	98,000
Taxation	120,000	110,000
Shareholders for dividends	100,000	80,000
Total Liabilities	602,000	457,000
Total Equity and Liabilities	1,222,000	948,000

Mash Limited

Statement of profit or loss for the year ended 31 December 2023

	N$
Revenue	2,553,000
Cost of Sales	-1,814,000
Gross Profit	739,000
Distribution costs	- 125,000
Administrative expenses	- 264,000
Operating profit	350,000
Interest received	25,000
Interest paid	- 75,000
Profit on ordinary activities before tax	300,000
Taxation	- 140,000
Profit after Tax	160,000

Additional information:

i. The proceeds of the sale of fixed asset investments amounted to N$ 30,000.

ii. Fixtures and fittings, with an original cost of N$85,000 and a carrying amount of N$45,000 were sold for N$32,000 during the year.

iii. The following additional information is available in relation to Property, Plant and equipment:

	31-Dec 2023	31-Dec 2022
Cost	720,000	595,000
Accumulated depreciation	- 340,000	- 290,000
Carrying amount	380,000	305,000

Required:

Prepare the statement of cashflows for the reporting period ended 31 October 2023 in accordance with IFRS using the indirect method. (27)

END OF QUESTION PAPER