



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART II SECOND SEMESTER EXAMINATION

FINANCIAL ACCOUNTING IIB [BAC2201]

APRIL 2025

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin your answer to each question on a new page.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of nine printed pages including the cover page

QUESTION 1 [30 MARKS]

1.1. Which of the following forms part of the criteria a contract should meet for an entity to account for revenue?

- i. The parties to the contract have approved the contract only in writing and are committed to perform their respective obligations.
- ii. The entity can identify each party's rights regarding the goods or services to be transferred.
- iii. The entity can identify the payment terms for the goods or services to be transferred.
- iv. The contract has commercial substance.

- A. i, ii and iii
- B. ii, iii and iv
- C. i, iii and iv
- D. All of the above.

[2 Marks]

1.2. A company Kalawaa enters into a contract with a customer Themba to grant Themba a license to its IP for four years. The license period runs from 1 April 2025 and ending on 31 March 2029. Kalawaa provides Themba with a copy of the IP on 23 March 2025. On what date should Kalawaa begin to recognize revenue from the contract?

- A. 23 March 2025
- B. 1 April 2025
- C. 31 March 2026
- D. 31 March 2029.

[2 Marks]

1.3. On 1 January 2024, Construction Co sells an item of machinery to Multi Machines for its fair value of \$3 million. The asset had a carrying amount of \$1.2 million prior to the sale. This sale represents the satisfaction of a performance obligation, in accordance with IFRS 15 Revenue from Contracts with Customers. Construction Co enters into a contract with Multi Machines for the right to use the asset for the next five years. Annual payments of \$500,000 are due at the end of each year. The interest rate implicit in the lease is 10%. The present value of the annual lease payments is \$1.9 million. The remaining useful life of the machine is much greater than the lease term. Compute the right-of-use asset value.

- A. \$3.0 m
- B. \$1.20m
- C. \$0.76m
- D. \$1.90m.

[2 Marks]

1.4. On 1 March 2025, Haddon and Sly, a company that uses the dollar (\$) as its functional currency, buys goods from a Swedish supplier who uses Kronas (K) as its functional currency. The goods are priced at Kr 54,000. Payment is made 2 months later on 1 May 2025. The prevailing exchange rates are:

1 March 2025: Kr 1.80: \$1

30 April 2025: Kr 1.75: \$1

Prepare journal entries to record the purchase in dollars for Haddon and Sly.

- A. DR Inventory \$29,500 CR Payables \$29,500
- B. DR Payables \$30,500 CR Purchases \$30,500
- C. DR Receivables \$32,000 CR Inventory \$32,000
- D. DR Purchases \$30,000 CR Payables \$30,000. **[2 Marks]**

1.5. A company received payment for an export sale denominated in Euros (€) three months after the transaction date. If the exchange rate at the transaction date was 1 EUR = 1.20 USD and at the settlement date was 1 EUR = 1.15 USD, how should the exchange difference be recorded?

- A. Recognize an exchange loss in profit or loss.
- B. Recognize an exchange gain in other comprehensive income.
- C. Adjust revenue retrospectively.
- D. No adjustment is required since the transaction was initially recorded in USD. **[2 Marks]**

1.6. Under IFRS 13, how is "Fair Value" defined?

- A. The price at which an entity would sell an asset or transfer a liability in a forced liquidation.
- B. The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- C. The historical cost of an asset adjusted for inflation.
- D. The amount paid to acquire an asset in a business combination. **[2 Marks]**

1.7. A company measures the fair value of a financial asset. The asset has the following available prices:

- Quoted market price: \$100 per unit
- Price from a dealer in the secondary market: \$98 per unit
- Price based on a valuation model using significant unobservable inputs: \$95 per unit

If the asset is actively traded in a liquid market, what is the fair value per unit under IFRS 13?

- A. \$100
- B. \$98
- C. \$95
- D. \$99.

[2 Marks]

1.8. A company discloses its fair value measurements in the financial statements. It has three assets measured at fair value:

- A publicly traded stock valued using a quoted price of \$50 per share
- A building valued using a market-based appraisal of \$1,000,000
- A patent valued using a discounted cash flow model at \$500,000

Under IFRS 13, how should these fair value measurements be classified in the fair value hierarchy?

- A. Stock - Level 1, Building - Level 3, Patent - Level 2
- B. Stock - Level 2, Building - Level 3, Patent - Level 1
- C. Stock - Level 1, Building - Level 2, Patent - Level 3
- D. Stock - Level 3, Building - Level 2, Patent - Level 1.

[2 Marks]

1.9. Why does IFRS 5 require non-current assets held for sale to be classified separately in the financial statements?

- A. To ensure that such assets are no longer depreciated.
- B. To provide users of financial statements with relevant information about assets expected to be disposed of.
- C. To prevent companies from holding assets indefinitely.
- D. To align with tax regulations on asset disposal.

[2 Marks]

1.10. How should results from discontinued operations be presented in the statement of profit or loss under IFRS 5?

- A. Combined with continuing operations and disclosed in the notes.
- B. Included in other comprehensive income.
- C. As a separate line item, showing post-tax profit or loss from discontinued operations.
- D. Amortized over future periods as part of continuing operations.

[2 Marks]

1.11. Under IAS 27, which entities are required to prepare separate financial statements?

- A. All entities, irrespective of having subsidiaries, associates, or joint ventures.
- B. Entities that choose to present separate financial statements in addition to consolidated financial statements.
- C. Only entities with no subsidiaries or joint ventures.
- D. All entities that have significant influence over other entities.

[2 Marks]

- 1.12. According to IFRS 10, which entity is exempt from preparing consolidated financial statements?
- A. A parent entity that holds more than 50% of the voting rights in another entity.
 - B. A parent entity that is wholly owned or partially owned and the owners do not object to exemption.
 - C. A parent entity that exercises joint control over an investee.
 - D. A parent entity with subsidiaries in multiple countries. **[2 Marks]**
- 1.13. Which of the following scenarios is likely to represent control over an investee?
- A. Owning 50% of the shares, but the company's constitution requires unanimous consent from all shareholders for decisions.
 - B. Having currently exercisable options that would increase shareholding to 62%, but these options are subject to significant restrictions.
 - C. Owning 47% of the shares but holding the majority of voting rights within the company, allowing the investor to appoint 3 out of 5 directors.
 - D. Owning 60% of the shares and the ability to elect 7 out of 12 directors. **[2 Marks]**
- 1.14. A company holds a bond with contractual cash flows that are solely payments of principal and interest. The company's business model is to collect these cash flows and sell the bond when its fair value is advantageous. Under IFRS 9, how should the company classify this financial asset?
- A. Fair Value Through Equity
 - B. Fair Value Through Profit or Loss (FVTPL)
 - C. Fair Value Through Other Comprehensive Income (FVOCI)
 - D. Amortized Cost. **[2 Marks]**
- 1.15. Under IFRS 11, what is the primary distinction between joint operations and joint ventures?
- A. Joint operations require the use of the equity method, whereas joint ventures use proportionate consolidation.
 - B. Joint operations involve parties with joint control having rights to assets and obligations for liabilities, whereas joint ventures involve parties having rights to net assets.
 - C. Joint operations and joint ventures have the same accounting treatment.
 - D. Joint ventures require the recognition of assets and liabilities, whereas joint operations require recognition of net assets. **[2 Marks]**

QUESTION 2 [25 MARKS]

a)

i. Explain the impact of classifying a non-current asset (or disposal group) as held for sale on the financial statements of an entity. **[4 Marks]**

ii. Describe any two key disclosures required by IFRS 5 for non-current assets held for sale. **[4 Marks]**

b) On 1 April 2023, Ternall Ltd. entered into a contract to acquire a specialised piece of equipment. The agreement provided for 4 annual payments of \$15.5 million, commencing on 31 March 2024. In addition, payment of a deposit of \$30 million was required on 1 April 2023. The agreement also provided that Ternall Ltd. could buy the residual asset outright at the end of the term for a nominal sum of money. At 1 April 2023, the fair value of the equipment was \$80 million. The present value of the agreed deposit and lease payments is also \$80 million. At 1 April 2023, the effective finance cost implicit in the contract is 9.2%. The equipment has a useful economic life of 5 years.

Required

i. Using the requirements set out in IFRS16- Accounting for Leases as a basis for your answer, show the journal entries required to record the transaction above for year ended 31 March 2024. **[7 Marks]**

ii. Explain how the transaction would be accounted for in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2024. **[6 Marks]**

iii. Prepare an extract Statement of Financial Position as at that date. **[4 Marks]**

QUESTION 3 [20 MARKS]

The Finance Director of Neemar and Chapman Pvt Ltd has asked you to prepare the statement of Financial Position for the group. Neemar and Chapman has one subsidiary, Wellingtons Co. The statements of Financial Position of the two companies as at 30 September 2024 are as follows:

Statements of Financial Position as at 30 September 2024

	Neemar & Chapman \$ 000	Wellingtons Co \$ 000
ASSETS		
Non- current assets		
Property, Plant and equipment	44,352	19,884
Investment in Wellingtons Co	19,000	
	63,352	19,884

Current assets		
Inventories	14,670	3,432
Trade and other receivables	6,756	2,249
Cash and cash equivalents	1,245	342
	22,671	6,023
Total assets	86,023	25,907
EQUITY AND LIABILITIES		
Equity		
Share capital	35,000	12,000
Retained earnings	26,036	8,332
Total Equity	61,036	20,332
Non- current liabilities		
Long- term loans	14,000	4,000
Current liabilities		
Trade and other payables	8,877	1,445
Tax liabilities	2,110	130
	10,987	1,575
Total liabilities	24,987	5,575
Total equity and liabilities	86, 023	25,907

Additional information

- (i) The share capital of Wellingtons Co consists of ordinary shares of \$1 each. Ownership of these shares come with voting rights in Wellingtons Co.
- (ii) Neemar & Chapman Lts acquired 9, 000,000 shares in Wellingtons Co on 1 October 2023.
- (iii) At 1 October 2023 the balance of retained earnings of Wellingtons Co was \$5, 344,000.
- (iv) Included in the trade and other receivables for Neemar & Chapman Ltd and other trade payables for Wellingtons Co is an inter- company transaction for \$1, 250,000 that took place in early September 2024.
- (v) The directors of Neemar & Chapman Ltd have concluded that goodwill has been impaired by \$1, 500,000 during the year.
- (vi) Neemar & Chapman Ltd has decided non- controlling interests will be valued at their proportionate share of net assets.

Required

Draft the consolidated statement of Financial Position for Neemar & Chapman Ltd and its subsidiary as at 30 September 2024.

[20 Marks]

QUESTION 4 [25 MARKS]

- a) Under IFRS 9 – Financial Instruments, financial assets and financial liabilities must be recognized when certain conditions are met. Explain the criteria for the initial recognition of a financial instrument under IFRS 9 and how it should be measured initially. **[4 Marks]**
- b) Life Assure Ltd. holds a portfolio of trade receivables amounting to \$500,000. On 1 July 2024, Life Assure Ltd. entered into an agreement with First Bank to transfer these receivables. According to the agreement, First Bank will provide immediate cash payment of \$450,000 to Life Assure Ltd., and First Bank will assume the risks and rewards of ownership associated with the receivables. However, if any of the receivables are not collected within 90 days, Life Assure Ltd. will compensate First Bank for the amount of the uncollected receivables. Life Assure Ltd. retains the right to repurchase the receivables from First Bank at any time before they are collected.

Required

Based on the scenario provided and the criteria outlined in IFRS 9, analyze whether Life Assure Ltd should derecognize the trade receivables from its statement of financial position. Explain your reasoning using specific facts from IFRS 9. **[6 Marks]**

- c) Below are the statements of profit or loss for Patricia, Sammy, and Amos for the year ended 30 September 2024.

Statements of Profit or Loss for the year ended 30 September 2024

	Patricia \$ 000	Sammy \$ 000	Amos \$ 000
Revenue	8,000	4,500	3,000
Operating expenses	(4,750)	(2,700)	(2,050)
Profit from operations	3,250	1,800	950
Finance costs	(750)	(100)	(50)
Profit before tax	2,500	1,700	900
Income tax expense	(700)	(500)	(300)
Profit for the year	1,800	1,200	600

Further Information:

- (i) Patricia acquired 80% of Sammy several years ago.
- (ii) Patricia acquired 30% of the equity share capital of Amos on 1 October 2022.
- (iii) During the current year, Patricia sold goods to Amos for \$1 million at a markup of 25%. At the year-end, Amos still held one-quarter of these goods in inventory.

(iv) At 30 September 2024, it was determined that the investment in the associate was impaired by \$35,000, of which \$20,000 related to the current year.

Required

Prepare Patricia's consolidated statement of profit or loss for the year ended 30 September 2024, applying also IAS 28- Accounting for Associates. **[15 Marks]**

END OF EXAMINATION PAPER