



**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**FACULTY OF SCIENCE AND TECHNOLOGY EDUCATION**  
**DEPARTMENT OF SCIENCE, MATHEMATICS AND TECHNOLOGY EDUCATION**  
**FINANCIAL ACCOUNTING II**  
**PST1263**

**Special Examination**

**August 2024**

**Time Allowed: 3 hours**

**Total Marks: 100**

**Special Requirements: None**

**Examiner's Name: Lungisani Mpofu**

**INSTRUCTIONS**

Answer all questions

**Question one 25 Marks**

IFRS 15 Revenue deals with the criteria that needs to be met in order for a company to recognise revenue and also the method that should be used to measure the revenue.

**Required:**

(a) Define 'revenue' and explain how it should be measured and state the five criteria that must be met before revenue is recognised for the sale of goods [10]

(b) Nust Motors Ltd enters into an agreement with customer A for the sale of a motor vehicle along with three years of services for a total of \$600 000.

A customer may also acquire a motor vehicle from Nust Motors Ltd without a service plan for a stand-alone price of \$560 000.

Nust Motors Ltd regularly sells three-year service plan to customers on a stand-alone basis for \$50 000.

**Required**

Discuss how the above will be treated in the Financial Statements of Nust Motors Ltd. [8]

(c) ABC Co enters into a contract with a customer to sell equipment on 31 December 2020. Control of the equipment transfers to the customer on that date. The price stated in the contract is \$1m and is due on 31 December 2022.

Market rates of interest available to this particular customer are 10%.

**Required:**

Explain how this transaction should be accounted for in the financial statements of ABC Co for the years ended 31 December 2020, 2021 and 2022. [7]

**Question two [25 Marks]**

(a) State and explain the conditions that must be met for a currency to be defined as a Functional Currency [10]

(b) Earnit is a listed company. The issued share capital of the company at 1 April 20X9 was as follows:

- 500 million equity shares of 50c each;

• 100 million \$1 non-equity shares, redeemable at a premium on 31 March 20Y4.  
 The effective finance cost of these shares for Earnit is 10% per annum. The carrying value of the non-equity shares in the financial statements at 31 March 20X9 was \$110 million.

	\$m
Revenue	250
Cost of sales	(130)
Gross profit	120
Other operating expenses	(40)
Operating profit	80
Exceptional gains	10
Finance costs	(36)
Profit from operations	54
Income tax expense	(20)
Profit from operations	34

The company has a share option scheme in operation. The terms of the options are that option holders are permitted to subscribe for 1 equity share for every option held at a price of \$1.50 per share. At 1 April 20X9, 100 million share options were in issue. On 1 October 20X9, the holders of 50 million options exercised their option to purchase, and 70 million new options were issued on the same terms as the existing options. During the year ended 31 March 20Y0, the average market price of an equity share in Earnit was \$2.00.

There were no changes to the number of shares or share options outstanding during the year ended 31 March 20Y0 other than as noted in the previous paragraph

Required:

(a) Compute the basic and diluted earnings per share of Earnit for the year ended 31 March 20Y0 Comparative figures are NOT required. [7]

(b) Explain to a holder of equity shares in Earnit the usefulness of both the figures you have calculated in part (a).

[8]

### **Question three [25 Marks]**

On 1 October 20X2 Pumice acquired the following non-current investments:

80% of the equity share capital of Silverton transferring \$3.6 million in cash immediately, a further \$8 million on 1 October 20X4 and two shares in Pumice for every three shares acquired in Silverton. The market price of shares in Pumice and Silverton on 1 October 20X2 were \$1.80 and \$1.40 respectively.

1.6 million equity shares in Amok at a cost of \$6.25 each

Extracts from the statements of financial position of the three companies at 31 March 20X3 are as follows

	<b>Pumice</b>	<b>Silverton</b>	<b>Amok</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	20 000	8 500	16 500
<b>Equity</b>			
Equity Shares of \$1 each	10 000	3 000	4 000
Retained earnings 1 April 20x2	27 000	6 000	12 000
- For the year ended 31 March 20x3	10 000	2 000	28 000

The following information is relevant:

(i) The fair values of Silverton's assets were equal to their carrying amounts with the exception of land and plant. Silverton's land had a fair value of \$400,000 in excess of its carrying amount and plant had a fair value of \$1.6 million in excess of its carrying amount. The plant had a remaining life of four years (straight-line depreciation) at the date of acquisition.

(ii) In the post-acquisition period, Pumice sold goods to Silverton at a price of \$6 million. These goods had cost Pumice \$4 million. Half of these goods were still in the inventories of Silverton at 31 March 20X3.

(iii) The directors elected to measure the non-controlling interests in Silverton at their fair value of \$3 million at acquisition. An impairment test at 31 March 20X3

concluded that consolidated goodwill was impaired by \$400,000 and the investment in Amok was impaired by \$200,000.

(iv) An appropriate discount rate is 6%. The present value of \$1 receivable in one year is \$0.943 and the present value of \$1 receivable at the end of two years is \$0.890.

Required

Prepare extracts from Pumice's consolidated statement of financial position as at 31 March 20X3, which shows the balances as at that date for:

- |  |     |
|--|-----|
| (a) Consolidated goodwill                        | [6] |
| (b) Investment in associate                      | [3] |
| (c) Equity (share capital and retained earnings) | [7] |
| (d) Non-controlling interests                    | [3] |

Assume profits accrued evenly throughout the year.

(e) Subsidiaries are entities that are controlled by an investor, whereas associates are those over which an investor has significant influence.

Explain the difference between control and significant influence and discuss how this affects the way these entities are accounted for in the consolidated financial statements [6]

**Question Four [25 Marks]**

(a) Define the following terms in accordance with the relevant accounting standards, giving examples of each.

- |   |     |
|---|-----|
| (i) Provision in accordance with IAS 37             | [5] |
| (ii) Contingent liability in accordance with IAS 37 | [5] |
| (iii) Fair presentation in accordance with IAS 1    |     |

(b) On 1 October 20Y0 Pine Ltd entered into a lease agreement with Cone Plc for use of a new needle machine with a fair value of \$22.3 million at inception of the

lease. The machine was modified slightly for Pine Ltd's use, the cost of which was incorporated into the rentals. The lease requires four annual payments of \$6.4 million with the first being due on 1 October 20Y0. Pine Ltd is expected to return the machine at the end of the four-year period. Pine Ltd is responsible for insuring the machine over the lease term and will undertake regular maintenance checks. It is expected that the machine has a useful economic life of five years. This type of lease has an implicit interest rate of 10% per annum. The finance assistant is unsure if this is an operating lease or a finance lease.

Required:

(a) Explain the concept of accounting for substance when applied to leases and discuss how the lease above should be treated in the financial statements for the year ended 31 March 20Y1.

[7]

(b) Provide extracts of Pine Ltd's statement of profit or loss and statement of financial position in respect of the leased asset for the year ended 31 March 20Y1.

[8]