FACULTY	COMMERCE, MANAGEMENT AND LAW		
DEPARTMENT	SCHOOL OF ACCOUNTING		
PROGRAMME	B. COM in ACCOUNTING (12BACC)		
SUBJECT	FINANCIAL ACCOUNTING 3A		
SUBJECT CODE	AFE3871		
DATE	June/July 2026		
TOTAL DURATION	180 Minutes	MARKS	100

Examiner : Ms C. Mhaka (UNAM)
Moderator: Mr. L Steyn (North-West University)

FIRST OPPORTUNITY EXAMINATION 2026

Students are given **1.8 minutes per mark** to complete each question. The question paper has 9 pages including this cover page

INSTRUCTIONS TO STUDENTS:

1. You are reminded that answers may **NOT** be written in **pencil** or erasable pen.
2. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and the required depth of the answer.
3. Answer the questions using:
   - Appropriate arrangement and presentation;
   - Clarity of explanation;
   - Logical argument; and
   - Clear and concise language.

   Marks will be awarded for the above.
4. Non-programmable calculators are allowed.
5. No smart watches are allowed.
6. All books must be handed in. **Answer all questions**.
7. Clearly show all calculations and cross reference your answers to the calculations.
8. Round all amounts to the nearest one N$ and all percentages to two decimal places.
9. Assume that all amounts are material except where the contrary is stated.
10. Your answer must adhere to the provisions of International Financial Reporting Standards (IFRS).
11. The companies early adopt standards as they are released so apply the requirements of IFRS 18: Presentation and Disclosure in Financial S.

CONTENT		MARKS	MINUTES
Question 1	IFRS16: Leases; IAS 19: Employee Benefits; IAS 12: Income Taxes & IFRS 18: Presentation and Disclosure in Financial Statements	57	103 minutes
Question 2	Group Financial Reporting	43	77 minutes
TOTAL		**100**	**180 minutes**

Disclaimer: *All names of persons, places and business entities mentioned in this examination paper are fictitious and any resemblance to real persons, living or dead, places and business entities is purely coincidental.*

QUESTION 1 **57 Marks(103Minutes)**

You are a bachelor of Honors Accounting final year student at the University of Namibia, who was very fortunate to secure work Integrated Learning at Smarts Chartered Accountancy (Pty) Ltd ('SCA'). SCA was recently appointed as Diamond (Pty) Ltd ('Diamond')'s IFRS technical advisor. Diamond is a Diamond mining company in the Sperrgebiet area in the South-western coast of Namibia. The directors of the Diamond group wish to express explicit and unreserved compliance with International Financial Reporting Standards (IFRS) in their financial statements. Diamond has a 31 March year end. You were provided with the following Diamond information.

Matter 1: Executive summary of the lease agreement

Diamond leased an additional warehouse (non-specialised asset) from Savannah Real Assets (Pty)('Savannah') Ltd on the following terms:

- The lease agreement is for ten years.
- Diamond has the option to extend the lease term for a further five years at the end of the initial ten-year period but are not reasonably certain at the inception date that they will exercise the option; and
- The lease agreement states explicitly that the legal title of neither the warehouse nor the land on which it is situated will at any stage transfer to Diamond during the initial or extended lease terms.

The warehouse had an estimated economic (and useful) life of 20 years at the date of inception of the lease agreement.

The building became available for use on 1 April 2025 but was only physically occupied on 1 May 2025. Diamond is considering the construction of its own logistics centre in the near future, and it is unlikely that the company will extend the lease term for the warehouse which is used as Diamond' current distribution hub.

Details of the lease agreement

The following information relates to the lease agreement with Savannah:

Inception/commencement date	1 April 2025
Asset leased	Diamond warehouse Erf 2201, Sperrgebiet, Oranjemund, Namibia
Lease term	Ten (10) years (initial lease term) Five (5) years (extension at the option of the lessee)
Instalment	N$500 000 payable monthly in arrears, Commencing on 31 April 2025
Interest rate implicit in the lease agreement	12% per annum

The fair values of the land and the warehouse were as follows on 1 April 2025:

- Land N$7.5 million
- Warehouse N$30 million

The fair value of the leasehold interest in the land and the warehouse is consistent with the fair values above.

Savannah incurred a total of N$140 000 in legal and secretarial fees relating to the drafting of the rental contract and the lease negotiation. They managed to recover N$40 000 of the total legal and secretarial fees from Diamond. Savannah expects the unguaranteed residual value to be N$9 075 200 at the end of the lease term. There were no residual value guarantees.

Savannah classified the entire lease of land and the warehouse as an operating lease. No separate classification assessment was done for the land and the building.

Matter 2: Employee benefits

Diamond has 159 head office employees and the average salary cost amounts to N$370 per working day per employee. Head office employees are each entitled to 30 days of vacation leave and 20 days sick leave per annum. The vacation leave that is not used during the year expires at the end of each financial year, whilst the sick leave can accumulate for one year thereafter, after which it also expires without a cash payment. Previous experience shows that every employee uses an average of 21 days of vacation leave and 12 days sick leave per annum. From the sick leave carried over to the following year it is expected that 6 days will be used in that year (for example of the days unused in 2026 that are carried forward to 2027, six days will be used in 2027).

During the 31 March 2026 financial year-end process, the finance team recommended that an accrual be recognised for the leave pay expense, based on the historical usage of both vacation and sick leave, in accordance with accounting standards. However, the Chief Financial Officer (CFO) refuses to authorise the posting of the leave pay provision, stating that:
"*I know IFRS requires us to follow the accrual basis and recognise the cost of accumulating leave when employees render the service, but honestly, we can turn a blind eye. No one will know. Recognising the accrual will increase our expenses, and that will reduce profits, which in turn could reduce our performance bonuses. There's no real cash outflow right now, so we can ignore it until it actually happens.*"

Other Information

At the end of 2025 the deferred tax liability balance on the statement of financial position consisted of the following:

Description	**N$**
Mining plant and machinery (Note 1)	(36 900)
Research expenses (Note 2)	19 875
Allowance for credit losses (Note 3)	4 219
Provision for rehabilitation costs (Note 4)	6 696
Balance as at 31 December 2025	**(6 110)**

Notes:

1. The depreciation provided on the mining plant and machinery for the 2026 financial year amounted to N$67 500. The Namibia Revenue Agency ('NamRa') allows a wear and tear allowance of N$200 000 p.a. not apportioned for time. The first deduction allowed by the NamRa was for the 2019 financial year. The original cost of the mining plant and machinery amounted to N$1 200 000.

2. Research expenses relate to research into new mining techniques conducted prior to the commencement of mining operations and it was correctly expensed in the statement of profit or loss, as the recovery thereof was not probable when they were incurred. The NamRa has allowed the company to claim a deduction for these expenses over four years amounting to N$26 500 per year. Two of these deductions remained at the end of 2025 to be utilised in the 2026 and 2027 tax years.
3. The NamRa allows a deduction of only 25% of the allowance for credit losses each year. The total allowance for credit losses provided for by the company amounted to N$15 000 at the end of 2025, and N$20 000 at the end of 2026.
4. The company provides for future mining site rehabilitation costs. The NamRa does not allow any deductions for these costs until they are actually incurred. The total provision was N$19 000 at the end of 2026.
5. Since incorporation, Diamond has been leasing an administrative building under an operating lease. On 1 January 2026, Diamond purchased its own administrative building for N$16 000 000 which was available for use on the same date. Buildings are depreciated at 5% per annum on the straight-line basis. The residual value of the admin building is estimated to be N$5 000 000. The NamRa does not allow any deductions for this administrative building.

Accounting Policies

1. The company's normal tax rate is 37.5%.
2. Depreciation on the warehouse is calculated on the straight-line basis. The IAS 16 residual value is N$nil.
3. Land and warehouse are subsequently measured according to the cost model in terms of IAS 16, Property, plant and equipment.

Required -Question 1		MARKS	
		Subtotal	Total
a)	Discuss, with reasons, whether you agree with the **classification** of the lease agreement in the books of Savannah Real Assets (Pty) Ltd as an operating lease. In your Discussion include all situations/criteria as stated in *IFRS 16 Leases*. *Communication skills (logical flow of ideas)*	14 1	15
b)	Prepare the lease journal entries required to account for the lease of warehouse building in the books of Diamond (Pty) Ltd for the financial year ended 31 March 2026. Statement indications are required. Also, journalise the current portion of the lease liability. **Journal narrations are not required** (refer to lease agreement section)	8	8
c)	Calculate the amount of the leave expense that should be recognised in profit or loss of **Diamond** for the year ended 31 March 2026, in accordance with IAS 19 *Employee benefits*. (Refer to employee benefits section).	5	5
d)	Discuss the ethical implications of **Diamond's** CFO's decision in regard to the employee benefit section with reference to personal ethics and virtue ethics theory.	4	4
e)	Calculate the deferred tax balance to be presented in the statement of financial position of Diamond as at 31 March 2026 in accordance with IAS 12 *Income Taxes*. Use information from Matter 1 till the end of Question 1. The deferred tax calculation should be prepared by using the statement of financial position method. Please include all items and clearly indicate whether each of the temporary differences result in a deferred tax asset or liability.	18	18
f)	Prepare an extract Statement of P/L and other comprehensive Income for Diamond Ltd, for year ended 31 March 2026, using information from Matter 1 right to the end of question 1, in compliance with IFRS 18: *Presentation and disclosure in Financial Statements*. Use the nature of expenses classification for operating category. **Use the movement in deferred tax to represent income tax expense for the year and show all 3 subtotals* as required by IFRS 18.** Communication skills- Presentation	6 1	7
TOTAL MARKS		**57**	

QUESTION 2 **43 Marks (77 Minutes)**

NamDairy Limited (NamDairy) ,is a company listed on the Namibia Stock Exchange. The accountants of the various companies in the group finalised the financial statements of the individual companies and handed them to you for preparation of the consolidated financial statements for publication.
The summarised financial statements for the year ending 31 March 2026 are as follows:

STATEMENT OF FINANCIAL POSITION AS AT 31 March 2026

	NamDairy Limited N$000	Strawberry Limited N$000	Milko Limited N$000
ASSETS			
Property, plant and equipment	3 830	1 960	2 500
Investment in subsidiaries at cost			
Investment in Strawberry Ltd	1 178	-	-
Investment in Milko Ltd	2 090	-	-
Long term loans	1 000	800	600
Debtors	800	600	500
Inventories	1 260	1 460	1 700
Cash and Cash equivalents	1 000	1 500	3 500
	N$ 11 158	N$ 6 320	N$ 8 800
EQUITY AND LIABILITIES			
Ordinary share capital	4 800	1 520	2 800
Non distributable reserves	600	-	-
Retained earnings	3 020	2 680	3 420
Creditors	990	1 500	1 400
Deferred taxation	380	120	80
Long term loans	1 368	500	1 100
	N$ 11 158	N$ 6 320	N$ 8 800

EXTRACT OF THE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 March 2026

	RETAINEDRNINGS		
	NamDairy Limited N$000	Strawberry Limited N$000	Milko Limited N$000
	Retainedearnings		
Opening balance beginning of year	1 380	2 000	2 400
Profit for the year	2 020	1 080	1 020
Ordinary dividends paid (31/03/2026)	-380	-400	-
Closing balance	N$ 3 020	N$ 2 680	N$ 3 420

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 March 2026

		NamDiary Ltd	Strawberry Ltd	Milko Ltd
		N$000	N$000	N$000
Revenue		5000	3150	3500
Cost of sales		-3000	-1890	-2100
Gross Profit		2000	1260	1400
Other operating income		794	700	600
operating expenses		-600	-400	-300
operating Profit		2194	1560	1700
dividends received		376		
interest received		600	80	30
Profit before financing and income taxes		3170	1640	1730
interest paid		-150	-50	-10
Profit before tax		3020	1590	1720
Taxation		-1000	-510	-700
Profit for the year		2020	1080	1020
Other Comprehensive Income		0	0	0
Total comprehensive Income for the year		2020	1080	1020

Additional information

1. Number of shares

1.1. Ordinary share capital consists of the following number of shares at **31 March 2026:**

	Number of shares
NamDairy	2 400 000
Strawberry	760 000
Milko	1 400 000

2. Strawberry Ltd

2.1. NamDairy Ltd obtained a 60% equity interest in Strawberry Ltd for N$1 200 000 on 1 October 2023. On the date of acquisition, the retained earnings amounted to N$250 000. On this date plant and equipment of Strawberry Ltd was revalued with N$150 000 higher than what it was in the records of Strawberry Ltd at that stage. Strawberry Ltd did not record any of the revaluations in their records. The plant and equipment had a remaining useful life of 10 years on this date.

2.2. On 1 October 2025, Strawberry Limited bought back 40 000 shares at N$10 each. 8 800 of these shares were bought back from NamDairy Ltd and the rest was bought back from non-controlling shareholders.

2.3. All profits earned by Strawberry Ltd accrued evenly throughout the year

3. Milko Ltd

3.1. NamDairy Ltd purchased 840 000 shares in Milko Ltd for N$2 280 000 on 1 June 2023. On the date of acquisition the retained earnings amounted to N$900 000. The excess above the purchase price was attributable to unutilised land of Milko Ltd which was valued higher than the carrying value thereof.

3.2. On 1 October 2025 NamDairy Ltd disposed of 70 000 shares in Milko Ltd for N$300 000.

3.3. On 1 January 2026, Milko Ltd sold plant to NamDairy Ltd with a cost of N$800 000 and a carrying value of N$550 000 for N$600 000. The plant was still included in the property, plant and equipment of NamDairy Ltd at 31 March 2026. Depreciation on plant is provided at 10% per year straight-line.

3.4. All profits of Milko Ltd accrued evenly throughout the year, except for the effect of the sale of plant of Milko Ltd to NamDairy Ltd on 1 January 2026 (refer to point 3.3).

4. General

4.1. The statutory tax rates remained unchanged at 31% during the last few years

4.2. NamDairy Ltd measures investments at cost in terms of IAS 27: *Separate Financial Statements* in its separate financial statements.

4.3. NamDairy Ltd elected to measure the non-controlling interest at its proportionate share of the acquiree's identifiable net assets at the acquisition date.

4.4. The following journals in regards to the Investment in Milko was already processed correctly in the consolidated financial statements for the Nam Dairy group:

	Dt	Cr
Share capital	2,800.00	
Retained earnings	900.00	
Reval surplus	100.00	
Investment in Milko		2,280.00
NCI (SOFP)		1,520.00
Land	100.00	
Revaluation surplus		100.00
Intragroup sale of plant		
Profit on sale of plant (p/l)	50	
Prop, plant equipment		50
Deferred tax (SOFP)	15.5	
Deferred tax (p/l)		15.5
Acc depreciation	1.25	
Depreciation (p/l)		1.25
Deferred tax (p/l)	0.388	
Deferred tax (SOFP)		0.388

These are the only pro forma journals already done and should not be reperformed.

Required -Question 1	**MARKS**	
	Subtotal	**Total**
Prepare all the pro-forma journal entries in the books of the Nam Dairy group for the reporting period ended 31 March 2026. No journal narrations are required	43	43
TOTAL MARKS		**43**

END OF PAPER!