FINANCIAL ACCOUNTING 201 (FAC 611S)

DATE: 9th March 2019
DURATION: 90 Minutes
MARKS: 50

TEST 1

INSTRUCTIONS
1. This test paper is made up of three questions
2. Answer ALL questions in blue or black ink
3. Start each question on a new page in your answer sheet & show all your workings
4. Questions relating to this test 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.

REQUIREMENTS None

EXAMINERS: A. Simasiku, Dr. J Akande, F. Mashoko and W. Gertze
MODERATOR: M. Dikuua

This paper consists of 3 pages excluding this cover page
BIG Manufactures Ltd manufactures wood products as well as plastic crockery including drinking glasses.

**Wood Operations**

BIG manufacturers purchased a plant on 1 January 2018 for N$ 1000 000. During January 2018, some equipment was installed, and other equipment was modified. Installation and modification costs incurred amounted to N$ 200 000. For security reasons a fence was erected at the plant at a cost of N$ 20 000. The plant was ready for use on 1 February 2018. An opening function was held in the plant on 15 February 2018 at a cost of N$ 25 000 to entertain customers and to introduce the new products to be manufactured at this plant. Production only commenced on 1 March 2018. The plant has a useful life of 10 years and residual value was estimated at N$ 200 000. Expected scrapping (dismantling) costs amount to N$ 140 000 (discounted present value of scrapping costs equals N$ 100 000). Assume that the provision for the scrapping costs will be raised.

At the end of August 2018, heavy rain caused severe damage to the houses of the employees in the region. Management granted special leave to all the employees of the plant to attend to the repair of their houses. The plant stood idle during September 2018.

**Plastic and glass operations**

BIG manufacturers have a moulding machine that is used to mould plastic into glasses. The mould can mould 600 million plastic glasses before it needs to be replaced. The engine and machine have a useful life of 25 years. The moulding machine initially cost BIG manufactures N$36.5 million. The cost of the mould represents approximately 55% of the total cost of the machine. During 2018 the moulding machine was used to mould 8 000 000 glasses of which 200 000 were destroyed during quality control proceedings. A residual value of nil applies.

The company’s year-end is 31 December.
Ignore all taxes

**Required:**

a) Calculate the cost of the plant (used in the wood operations) (6)
b) Calculate the depreciable amount of the plant (3)
c) Calculate the depreciation for the year ended 31 December 2018 (2)
d) Calculate the carrying amount of the plant on 31 December 2018 (3)
e) Calculate the depreciation to be provided on the moulding machine and the mould for the 2018 year of assessment (8)

**QUESTION 2 (28 marks)**

Namib leisure is a private limited company that operates a single cruise ship. The ship was acquired on 1 October 2009. Details of the cost of the ship’s components and their estimated useful lives are:

<table>
<thead>
<tr>
<th>Component</th>
<th>Original cost (N$m)</th>
<th>Depreciation basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ship's fabric (hull, decks etc)</td>
<td>300</td>
<td>25 years straight line</td>
</tr>
<tr>
<td>Cabins and entertainment area fittings</td>
<td>150</td>
<td>12 years straight line</td>
</tr>
<tr>
<td>Propulsion system</td>
<td>100</td>
<td>Useful life of 40,000 hours</td>
</tr>
</tbody>
</table>

At 30 September 2017 no further capital expenditure had been incurred on the ship. In the year ended 30 September 2017, the Ship had experienced a high level of engine trouble which had cost the company considerable lost revenue and compensation costs. The measured expired life of the propulsion system at 30 September 2017 was 30,000 hours. Due to the unreliability of the engines, a decision was taken in early October 2017 to replace the whole propulsion system at a cost of N$ 140 million. The expected life of the new propulsion system was 50,000 hours and in the year ended 30 September 2018 the ship had used the engines for 5,000 hours.
At the same time as the propulsion system replacement, the company took the opportunity to do a limited upgrade to the cabin and entertainment facilities at a cost of N$60 million and repaint the ship’s fabric at a cost of N$ 20 million. After the upgrade of the cabin and entertainment area fittings, it was estimated that their remaining useful life was 5(five) years from the date of the upgrade. For calculating depreciation, all the work on the ship can be assumed to have been completed on 1 October 2017. All residual values are taken as nil. Any changes in estimates are effected using the re-allocation method.

**Required:**

(a) Prepare a NOTE showing the carrying value of Namib Leisure’s cruise ship at 30 September 2018 (23 marks)

(b) Prepare related extract profit or loss account showing expenditure for the year ended 30 September 2018. (5 marks)

*Brief explanations of the treatment of the above transactions will be awarded marks*

**END OF PAPER**
MARKING SCHEME

QUESTION 1                                                                                              (22 marks)

(a) Cost
Purchase price 1000 000√
Installation and modification 200 000√
Fence 20000√
Opening function 0 √
Scraping costs 100 000√
Cost 1320 000 √

(b) Depreciable amount
Cost 1320 000√
Less residual value (200 000) √
Depreciable amount 1120 000√

(c) Depreciation
1120 000/ 10 x 11/12 = 102 666√√

(d) Carrying amount
Cost 1320 000√
Accumulated depreciation (102 666) √
Carrying amount 1217 333√

(e)
Cost of machine 36 500 000
Cost of Mould (separately depreciated) 36 500 000 x 55% = 20 075 000√√
Cost of engine = 36 500 000 x 45% = 16 425 000

Depreciation on engine = 16425 000/25 years = 657 000

Depreciation on mould = 20 075 000 x 8000 000/600 000 = 267 667

Note to the marker: consideration should not be given to the glasses that were damaged: these glasses were still produced and have thus reduced the useful life

QUESTION 2 28 Marks

At 30 September 2017, the ship is eight (8) years old and its cost and carrying value is as follows:

<table>
<thead>
<tr>
<th>Workings</th>
<th>Cost N$m</th>
<th>Depreciation period</th>
<th>Accumulated depreciation N$m</th>
<th>Carrying value N$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ships fabrics</td>
<td>300</td>
<td>8/25 years</td>
<td>96</td>
<td>204</td>
</tr>
<tr>
<td>Cabins and</td>
<td>150</td>
<td>8/25 years</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>entertainment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Propulsion system</td>
<td>100</td>
<td>30 000/40000 hours</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>550</td>
<td></td>
<td>271</td>
<td>279</td>
</tr>
</tbody>
</table>

Changes during Y/e 30 September 2018

Replacing the propulsion system N$ 140 m

The old engines will be scrapped giving rise to a N$25m loss on disposal

The new engine will be capitalised and depreciated over their 50 000-hour working life. The charge for the year will be N$140m x 5000/50000 hours = N$14m

Upgrading cabins and entertainment area.

These costs can be capitalised because they are improvements and because they extend the useful life of the asset. The revised carrying amount at 1 October 2017 is N$110m (N$50m + N$ 60m). The depreciation charge for the year is N$22m (N$110m/ 5 years

Repainting the ship’s fabric N$20m
This is a maintenance cost. It will be charged to the profit or loss account statement for the year. The depreciation for the ship itself will be N$12m, based on its N$300m cost and 25 years useful life.

<table>
<thead>
<tr>
<th></th>
<th>Ships and fabric N$m</th>
<th>Cabins etc N$m</th>
<th>Propulsion N$m</th>
<th>Total N$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening carrying amount</td>
<td>204 √</td>
<td>50 √</td>
<td>25 √</td>
<td>279 √</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>0</td>
<td>(25) √</td>
<td>(25) √</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>60 √</td>
<td>140 √</td>
<td>200 √</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(12) √</td>
<td>(22) v</td>
<td>(14) v</td>
<td>(48) √</td>
</tr>
<tr>
<td>Closing carrying amount</td>
<td>192 V</td>
<td>88 √</td>
<td>126 √</td>
<td>406 √</td>
</tr>
</tbody>
</table>

**Profit and loss ac extract**

<table>
<thead>
<tr>
<th></th>
<th>N$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>48 v</td>
</tr>
<tr>
<td>Loss on disposal</td>
<td>25 √</td>
</tr>
<tr>
<td>Repainting</td>
<td>20 √</td>
</tr>
<tr>
<td>Total charge</td>
<td>83 √</td>
</tr>
</tbody>
</table>