TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

WEDNESDAY 17TH DECEMBER 2014

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).

5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

6. All workings must be done in the answer booklet.

7. Present legible and tidy work.

8. Graph paper (if required) is provided at the end of the answer booklet.

Answer all questions in this paper.

QUESTION ONE

The following information relates to Mapalo, a limited liability company as at 31 May 2014.

	K'000	K'000
K1 ordinary shares		18,000
Retained earnings at 1 June 2013		3,360
5% loan note		7,200
Trade receivables	5,256	
Trade payables		6,000
Cash at bank	600	
Inventory at 1 June 2013	14,400	
Revenue		72,312
Loan interest paid	360	
Purchases	26,400	
Plant and equipment at cost	8,400	
Buildings at cost	60,000	
Motor vehicles at cost	1,920	
Accumulated depreciation:1 June 2013:		
Plant and equipment		2,880
Buildings		24,000
Motor vehicles		720
Stationery	7,200	
Electricity	1,080	
General office expenses	2,976	
Wages and salaries	5,880	
	134,472	134,472

The following additional information is relevant:

(a) Inventory at 31 May 2014 was valued at K9.6 million.

(b) An issue of 3 million shares for cash during the year at K1.80 per share has not been included in the above figures yet.

(c) Wages and salaries are to be accrued by K120,000 at the year end.

(d) Directors remuneration of K40,000 are to be accrued, and allocated to administrative costs.

(e) An allowance for receivables is to be established amounting to 2% of receivables at the end of the year. The allowance to be charged to administrative expenses.

(f) Depreciation is to be provided for as follows:

i) Buildings 5% per annum straight line.
ii) Motor vehicles 25% per annum using reducing balance method.
iii) Plant and equipment at 20% per annum using reducing balance method.

(g) Dividends paid during the year (including on newly issued shares) were 20 ngwee per share. This has not yet been accounted for in the above figures.

(h) All other expenses should be apportioned as follows:

Expense	cost of sales	distribution Costs	administrative expenses
	%	%	%
Wages and salaries	40	20	40
Stationery	20	40	40
Electricity	60	20	20
General office	10	20	70
Depreciation –Plant	100	-	-
-buildings	60	10	30
-motor vehicles	-	100	-

(i) Income tax of K3 million is to be provided for, for the year ended 31 May 2014.

Required:

Prepare the following financial statements for Mapalo Ltd, for the year ended 31 May 2014, showing workings where appropriate, in accordance with IAS 1 presentation of financial statements.

(i) A statement of profit or loss. (8 marks)
(ii) A statement of changes in equity. (4 marks)
(iii) A statement of financial position. (8 marks)

Note: all amounts to be rounded up to the nearest thousand kwacha.

QUESTION TWO

The bookkeeping system of Chikwama, a sole trade shows an imbalance in the trial balance as at 30th September 2014 as follows:

Debit total K3,592,200

Credit total K3,705,634

He nevertheless proceeded to prepare draft financial statements. The draft statement of profit or loss showed a profit of K282,560 for the year ended 30th September 2014.

He then opened a suspense account for the difference in the trial balance and discovered the following errors:

(i) The balance of K76,520 on an electricity account had been omitted from the trial balance.

(ii) The Returns Day Book totals for the month of September 2014 had not been posted to the Returns accounts in the normal ledger. The amounts were:

Returns inwards K1,672
Returns outwards K1,838

(iii) K19,200 paid for an item of plant purchased on 1 April 2014 had been debited to the plant repairs account. The company depreciates its plant at 20% per annum on straight line basis, with proportionate depreciation in the year of purchase.

(iv) K1,160 insurance prepared at 30 September 2013 had not been brought down as an opening balance.

(v) K17,960, the total of discounts allowed column for September 2014 had been credited to discounts Received account.

(vi) A car held as a non-current asset had been sold during the year for K9,600. The proceeds of sale were entered in the cashbook but had been credited to sales account in the nominal ledger. All other transactions pertaining to the sale were correctly entered.

(vii) K8,500 received for rent of part of the office has been correctly recorded in the cash book and credited to Discount Received account.

Required

(a) Open a suspense account for the difference between the trial balance totals and show connections to be made to clear the balance. (7 marks)

(b) Prepare the journal entries necessary to correct the errors. (6 marks)

(c) Calculate the revised net profit figure after the correction of errors. (7 marks)

QUESTION THREE

Chimwemwe is a sole trader who deals in building materials in the Mazabuka central business district. She does not keep her records in a double entry system as she does not understand how it ought to be done.

You have recently graduated as a tax practitioner with the Zambia Institute of Chartered Accountants (ZICA) and Chimwemwe has approached you for some assistance in putting her records right. She has provided you with the following details:

Bank account summary		**K**
Balance on 1 April 2013		40,000
Receipts		
Trade account receivables	130,000	
Cash banked	20,500	
		150,500
		190,500
Payments		
Trade account payables	92,500	
Loan interest	1,500	
Dishonoured cheque (account receivable)	1,250	
Insurance	7,250	
Wages and salaries	30,500	
Rent	7,000	
Motor vehicles	37,500	
		(177,500)
Balance on 31 March 2014		13,000

Cash account summary		
Balance on 1 April 2013		1,500
Receipts		
Cash sales	70,000	
Account receivables	2,000	
		72,000
		73,500

Payments

Drawings	47,500	
Rent	1,500	
Electricity	3,750	
Cash banked	20,500	
		73,250
Balance on 31 March 2014		250

Chimwemwe has also provided you with a note where she recorded some of the one off transactions that affected her business in the period under review which reads in part

'one of the customers (Bweupe) was reported to be out of business and all the amount owed by him of K2,000 is deemed irrecoverable.'

'I took goods for personal use with a cost of K1,500 and a sales value of K2,500.'

'Suppliers offered me discount of K1,750 upon payment for goods earlier purchased on credit, and

'customers were allowed to return goods to the value of K6,000.'

The following balances at the beginning and end of accounting period are to be taken into account.

	1 April 2013	31 March 2014
	K	**K**
Motor Vehicles	63,000	79,500
Inventory	20,500	16,000
Rent prepaid	1,000	-
Rent owing	-	1,250
Account receivables	31,500	25,000
Account payables	12,000	12,500
8% bank loan	25,000	25,000
Loan interest accrued		500

Required:

(i) Prepare a computation of Chimwemwe's value of capital at 1 April 2013. (4 marks)

(ii) Prepare the statement of profit or loss for Chimwemwe for the year ended 31 March 2014. (10 marks)

(iii) Prepare a statement of financial position for Chimwemwe as at 31 March 2014.

(6 marks)

[Total 20 marks]

QUESTION FOUR

(a) Explain **four (4)** objectives of preparing a trial balance. (8 marks)

(b) The Accounts Assistant of Betta Enterprises prepared the following draft trial balance for the year ending 30th September 2014.

	K	K
Sales revenue		260,000
Inventories at 1st October 2013	35,000	
Inventories at 30th September 2014		39,000
Purchases	170,000	
Salaries and wages	65,000	
Electricity and water		15,000
Rent and rates		24,000
General expenses	16,000	
Current assets (excluding inventories)	14,000	
Non-current assets		220,000
Current liabilities		13,000
Non-current liabilities		156,000
Capital		200,000
Retained earnings (loss) at 1st October 2013	23,000	
Suspense account	578,000	
	914,000	914,000

Required:

Redraft the trial balance for the year ending 30th September 2014. (6 marks)

(c) The recalculated suspense account balance was caused by the following errors:

(i) Cash paid by Betta Enterprises to Tomas, a credit supplier, of K6,500 was correctly recorded in the cash book. However, the amount was credited in Tomas' account.

(ii) Goods returned by Lotas, a credit customer, for K20,000, were correctly recorded in Lotas account but were not recorded in returns inwards account.

(iii) Goods sold on credit to Motas for K28,000, were correctly recorded in the sales account. However, Motas account was debited with K14,000.

Required:

Clear the recalculated suspense account by correcting errors (i) to (iii) above.

(6 marks)

[Total: 20 marks]

QUESTION FIVE

(a) Miniva is a Public listed company. Its summarized financial statements for the years 31 March 2014 and the comparative figures are shown below:

Statements of profit or loss for the year ended 31 March

	2014	2013
	K'000	K'000
Revenue	5,400	3,640
Cost of sales	(3,780)	(2,184)
Gross profit	1,620	1,456
Distribution costs	(460)	(260)
Administrative expenses	(690)	(400)
Finance cost	(80)	(10)
	390	786

Income tax expense	(120)	(226)
Profit for the year	270	560
Other comprehensive income	160	-
	430	560

Statements of financial position as at 31 March

	2014		2013	
	K'000	K'000	K'000	K'000
Non current assets				
Property, plant and equipment		2,420		1,220
Current assets				
Inventory	400		220	
Trade receivables	390		150	
Bank	nil		240	
		790		610
Total assets		3,210		1,830
Equity and liabilities				
Equity				
Equity shares of K1 each		700		500
Revaluation reserve		160		-
Retained earnings		750		590
		1,610		1,090

Non current liabilities				
15% loan notes		800		200
Current liabilities				
Bank overdraft	220		nil	
Trade payables	420		320	
Current tax payable	160		220	
		800		540
Total equity and liabilities		3,210		1,830

The following information is relevant:

(i) Depreciation charge for the year ended 31 March 2014 for property, plant and equipment is estimated to be K280,000.

(ii) There was no disposal of Property, plant and equipment in the year to 31 March 2014.

Required:

Prepare the statement of cashflows for the year ended 31 March 2014 for Miniva, using the indirect method in accordance with IAS 7 statement of cash flows. (12 marks)

(b) Exotic and Apple are equal partners in the electrical fittings business, and agree to Kiwi becoming a partner on 1 January 2014. Their capital accounts show balances as follows: Exotic K240,000; Apple K180,000; and Kiwi agrees to introduce K60,000 capital and K20,000 for his share of the partnership Goodwill. The three partners agree to share profits in the ratio Exotic 2, Apple 2 and Kiwi 1. They also decide that Goodwill should not be shown in the books. The partners have estimated that the Goodwill arising upon admission of Kiwi is K100,000.

Required:

Show the partners' capital accounts and Goodwill account to reflect the above transactions. (6 marks)

(c) State two reasons why a sole trader may decide to partner with someone in business. (2 marks)

[Total: 20 marks]

END OF PAPER

C3 SUGGESTED SOLUTION

SOLUTION ONE

i) Mapalo Ltd's statement of profit or loss for the year ended 31 May 2014

	k'000
Revenue	72,312
Cost of sales (W1)	(38,890)
Gross profit	33,422
Distribution costs (W1)	(5,491)
Administrative expenses (W1)	(8,624)
Operating profit	19,307
Finance cost	(360)
Profit before tax	18,947
Income tax	(3,000)
Profit for the year	15,947

ii. statement of changes in equity for Mapalo for the year ended 31 May 2014

	Share Capital	Share Premium	Retained earnings	Total
	K'000	K'000	K'000	K'000
Balances b/f	18,000	-	3,360	21,360
Profit for the year	-	-	15,947	15,947
Dividends paid	-	-	(4,200)	(4,200)
Issue of shares	3,000	2,400	-	5,400

Balances c/f	21,000	2,400	15,107	38,471

i) Mapalo Ltd's statement of financial position as at 31 May 2014

	K'000	K'000
Non current assets		
Property, plant and equipment(W2)		38,316
Current assets		
Inventory	9,600	
Receivables(5,256 -105)	5,151	
Bank (600 +5,400 – 4,200 dividends)	1,800	16,551
Total assets		54,867
Equity and liabilities		
Equity shares (answer (ii)		21,000
Share premium (answer ii)		2,400
Retained earnings (answer ii)		15,107
		38,507
Non current liabilities		
5% loan note		7,200
Current liabilities		
Trade payables	6,000	
Income tax payable	3,000	
Accrued expenses (120 +40)	160	9,160
Total equity and liabilities		54,867

WORKINGS

1.	Cost of sales	distribution	administrative
	K'000	K'000	K'000
Opening inventory	14,400		
Purchases	26,400		
Closing inventory	(9,600)		
Stationery	1,440	2 880	2,880
Electricity	648	216	216
General office exp.	298	595	2,085
Wages and sdalaries	2,400	1,200	2,400
Depreciation:			
Buildings(5%x60000)	1,800	300	900
Plant(20%x(8400-2880)	1,104		
M vehic(25%x(1,920-720)	-	300	-
Allowance for receivables			105
Directors remuneration			40
Totals	38,890	5,491	8,624

2. property, plant and equipment

	Buildings	plant & Equip	M vehicle	Total
	K'000	K'000	K'000	K'000
Cost b/f	60,000	8,400	1,920	
Less depn b/f	(24,000)	(2,880	(720)	

Carrying amount b/f	36,000	5,520	1,200	42,720
Depreciation	(3,000)	(1,104)	(300)	(4404)
Carrying amt c/f	33,000	4,416	900	38,316

3. issue of shares

3,000,000 @ K1 to share capital = K3,000,000

3,000,000@ K0.80 to sahare premium = K2,400,000

SOLUTION TWO

a) Suspense account

Balance b/f	113,434	returns in	1,672
Returns out	1,838	insurance	1,160
		Electricity	76,520
		Discount received	17,960
		Discounts allowed	17,960
	115,272		115,272

b) Journal entries

i)	Electricity	76,520	
	Suspense		76,520
ii)	Returns in	1,672	
	Suspense		1,672
	Suspense	1,838	
	Returns out		1,838
iii)	Plant	19,200	
	Plant repairs		19,200

iv)	Insurance	1,160	
	Suspense		1,160
v)	Discount received	17,960	
	Discount allowed	17,960	
	Suspense		35,920
vi)	Discounts received	8,500	
	Rent received		8,500

c) Corrected net profit

Profit before corrections	282,560
Less electricity balance omitted	(76,520)
Less returns in	(1,672)
Add returns out	1,838
Add: expense plant repairs overstated	19,200
Less: additional deprec'n (20% x 19,200 x6/12)	(1,920)
Less: insurance prepaid omitted	(1,160)
Less discounts allowed omitted	(17,960)
Less discounts received wrong credit	(17,960)
Less sales overstated	(9,600)
Corrected net profit	176,806

SOLUTION THREE

a) Computation of capital at 1 April 2013

Assets at 1 April 2013:	**'K'**	**'K'**
Motor vehicles	63,000	
Bank	40,000	
Cash	1,500	
Inventory	20,500	
Rent prepaid	1,000	
Trade account receivables	31,500	
Liabilities at 1 April 2013		
Trade account payables		12,000
8% bank loan		25,000
Capital at 1 April 2013 (balance)	-	120,500
	157,500	157,500

b) Chimwemwe's statement of profit or loss for the year ended 31 March 2014

	'K'	'K'
Sales (W2)		202,250
Less returns in		(6,000)
Turnover		196,250
Less cost of sales:		
Opening inventory	20,500	
Purchases (w3)	93,250	
Closing inventory	(16,000)	(97,750)
Gross profit		98,500
Add other income: discount received		1,750
Total income		100,250
Less Expenses		
Loan interest (1,500 + 500)	2,000	
Insurance	7,250	
Wages and salaries	30,500	
Rent	10,750	
Electricity	3,750	
Irrecoverable debts	2,000	
Depreciation:		
M cars (63,000 +37,500 – 79,500)	21,000	
Total expenses		(77,250)
Net profit		23,000

c) Chimwemwe's Statement of financial position as at 31 March 2014

	'K'	'K'
Non current assets		
Motor vehicles		79,500
Current assets		
Inventory	16,000	
Receivables	25,000	
Bank	13,000	

Cash	250	
		54,250
Total assets		133,750
Capital and liabilities		
Capital at 1 April 2013		120,500
Add net profit		23,000
Less drawings (47,500 + 1,500)		(49,000)
Capital at 31 March 2014		94,500
Non current liabilities		
8% loan		25,000
Current liabilities		
Trade payables	12,500	
Rent owing	1,250	
Interest owing	500	14,250
Total capital and liabilities		133,750

WORKINGS

1) Rent expense	**'K'**
Paid via Bank	7,000
Paid via Cash	1,500
Add prepayment b/f	1,000
Add owing c/f	1,250
To profit or loss a/c	10,750

2) Credit sales	**'K'**
Received from customers through bank	130,000
Received from customers through cash	2,000
Plus irrecoverable debts	2,000
Plus returns in	6,000

Plus closing receivables	25,000
Less dishonoured cheques	(1,250)
Less opening receivables	(31,500)
Equals credit sales	132,250

Therefore, total sales for the statement of profit or loss

Is:	cash (from cash a/c)	70,000
	Credit (w2)	132,250
	Total sales	202,250

3) Credit purchases	**'K'**
Payments to suppliers	92,500
Plus discounts received	1,750
Plus balance c/f	12,500
Less balance b/f	(12,000)
Equals credit purchases	94,750
Less drawings of goods	(1,500)
Purchases to profit or loss account	93,250

SOLUTION FOUR

a) Objectives of preparing a trial balance (any four)

i. To check the arithmetical accuracy

The trial balance may confirm the correctness of postings in ledger accounts as well as the accuracy of the ledger accounts' balances among others.

ii. To help in the preparation of financial statements

The trial balance provides ledger account balances for various items that go in the preparation of statement of profit or loss and statement of financial position.

iii. Helping in locating errors

The trial balance must always balance. If it does not balance, that may be an indication of errors in posting transactions to respective ledger accounts and/or in extracting balances from ledger accounts among others. However, it is worth noting that not all errors affect the agreement of the trial balance.

iv. Helps in comparison

It helps management to make informed decisions by comparing ledger account balances from one period to the other.

v. Helps in making adjustments

The trial balance may help the preparer of financial statements to identify items that require adjusting.

b) Betta Enterprises

Trial balance for the year ending 30th September 2014

	K	K
Sales revenue		260,000
Inventories at 1st October 2013	35,000	
Purchases	170,000	
Salaries and wages	65,000	
Electricity and water	15,000	
Rent and rates	24,000	
General expenses	16,000	
Current assets	14,000	
Non-current assets	220,000	
Currents liabilities		13,000
Non-current liabilities		156,000
Capital at 1st October 2013		200,000
Retained earnings (loss) 1st October 2013	23,000	
Suspense account	47,000	
	629,000	629,000

c) Journal Entries

		K	K
i)	DR Tomas account (6,500 x 2)	13,000	
	CR Suspense account		13,000
ii)	DR Returns inwards account	20,000	
	CR Suspense account		20,000
iii)	DR Motas account	14,000	
	CR Suspense account		14,000

Suspense Account

	K		K
Diff. as per trial balance	47,000	Tomas account	13,000
		Returns inwards	20,000
		Motas account	14,000
	47,000		47,000

SOLUTION FIVE

a) Miniva's statement of cash flows for the year year ended 31 March 2014

Cash flows from operating activities	*'K'000*	*K'000*
Profit before tax		390
Add back: depreciation expense		280
Interest expense		80
Cash generated from operations before		
Working capital movements		750
Increase in inventory		(180)
Increase in receivables		(240)
Increase in payables		100
Cash generated from operations		430
Interest paid	(80)	
Tax paid (W2)	(180)	(260)
Net cash inflow from operating activities		170
Cash flows from investing activities		
Cash paid to acquire PPE (W1)		(1,320)
Cash flows from financing activities		
Equity dividends paid (W3)	(110)	
Proceeds from the issue of shares	200	
Loan acquired	600	
Net cash inflow from financing activities		690
Net decrease in cash in the period		(460)
Cash and cash equivalents at 1 April 2013		240

Cash and cash equivalents at 31 March 2014	(220)

WORKINGS

1) Cash paid to acquire PPE	**'K'000**
PPE c/f	2,420
Depreciation charge	280
Revaluation reserve	(160)
Balance b/f	(1,220)
Additions during the year	1,320

2) Income tax paid	**'K'000**
Balance b/f	220
Charged in P/L	120
Balance c/f	(160)
Tax paid	180

3) Dividends paid	**K'000**
Retained earnings b/f	590
Profit for the year	270
Retained earnings c/f	(750)
Dividends paid in the year	110

b) Goodwill account

	K'000		K'000
Partners capital accounts	200	Partners capital accounts	200
	200		200

Partners capital accounts

	Exotic	Apple	Kiwi		Exotic	Apple	Kiwi
	K'000	K'000	K'000		K'000	K'000	K'000
Goodwill	80	80	20	Balances b/f	240	180	-
Balances c/d	260	200	60	Goodwill	100	100	
				Cash	-	-	80
	340	280	80		340	280	80

c) – to increase capital

- To share managerial responsibilities
- To introduce more skill and experience into the business

END OF SUGGESTED SOLUTIONS