



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C1: BUSINESS MANAGEMENT

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TUESDAY 13 DECEMBER 2016

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

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**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. **Cell Phones** are **NOT** allowed in the Examination Room.
6. 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

**Attempt all five (5) questions**

**QUESTION ONE**

- (a) Explain the concept of equal opportunity in relation to human resource management. (8 marks)
- (b) Distinguish between one-to-one interview and panel interview used in the selection process. (6 marks)
- (c) Explain how the macro-economic factors for 2015 affected the collection of tax revenue by the government. (6 marks)

**[Total: 20 marks]**

**QUESTION TWO**

- (a) Most managers underestimate the variety of ways they can use to influence people during a period of change.  
Explain the six (6) tactics that change agents adopt in overcoming resistance to change. (12 marks)
- (b) Effective communication is a two way information sharing process which involves one party sending a message that is easily understood by the other. To achieve this effective communicators use the *KISS* and *PASS* Model.  
Explain the meaning of the two (2) models of communication. (8 marks)

**[Total 20 Marks]**

**QUESTION THREE**

A bureaucracy is a form of structure you find in many large-scale organisations. This approach to management is often criticised to connote red tape and rigidity.

- (a) Explain five (5) characteristics of bureaucratic organisations (10 marks)
- (b) Discuss five (5) disadvantages of bureaucracy. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Market research is defined as the process of gathering, interpreting and disseminating information to help solve specific marketing problems.

Explain three (3) reasons why organizations conduct market research. (6 marks)

- (b) Oral business communication like seminars is enhanced by use of visual aids.

Describe any three (3) visual aids that you would use during an oral presentation session. (6 marks)

- (c) Give four (4) reasons why an organization needs to provide training for its employees.

(8 marks)

**[Total: 20 marks]**

#### **QUESTION FIVE**

- (a) Explain four (4) characteristics of charismatic leaders. (8 marks)

- (b) Why is SWOT Analysis important in Marketing Planning? (4 marks)

- (c) Explain four (4) barriers to effective communication. (8 marks)

**[Total: 20 marks]**

**END OF PAPER**

**December 2016 Examinations  
C1 Solutions**

**SOLUTION ONE**

**(a) Equal opportunity**

- These are requirements that prohibit the discrimination at a place of work based on race, gender, religion, disability, marital status etc.
- The organisation must ensure that equal opportunity principles are applied in all its human resource policies such as recruitment, selection, training and development, promotions etc.
- Companies declare themselves to be equal opportunities employers.
- Government institutions and private companies have embraced equal opportunity policy by employing more women, therefore taking affirmative action.

**(b) Differences between one-to-one interview and panel interview**

- One-to-one interview involves one interviewer while panel interview involves more than three interviewers conducting the interview.
- One-to-one interview usually involves jobs that are unskilled while panel interviews involve skilled and professional jobs.
- Panel interviews are usually used for managerial positions while one-to-one used for lower positions.

**(c) Effects of macro-economic factors**

The macro-economic factors of 2015 had a negative effect on the performance of companies. There was reduction on the levels of production and profit margin. Therefore, reduction in production, loss of employment and profits may have affected tax collection negatively. The following macro-economic factors could have contributed:

- Depreciation of the kwacha as a currency could have resulted into the reduction of imports hence reducing import duty revenue.
- Also the weakening kwacha made imported goods become more expensive resulting into decreased demand that resulted into reduced VAT collection.
- Declining copper prices resulted into the mining companies laying off workers hence reducing on PAYE revenue collection.
- Declining copper prices had also resulted into reduced company tax collection from mining companies due to low production levels.

## SOLUTION TWO

- Change agents have used six tactics with varying degrees of success namely:
  - *Education and training:* Communication with employees to help them understand the rationale of change reduces resistance to change.
  - *Participation:* When people participate in the change process, they are unlikely to resist their proposed ideas toward change.
  - iii) *Facilitation and support:* A range of supportive efforts to reduce resistance can be made. When employees express fear, management provide support through counselling and therapy, new skills training or short-term leave to facilitate adjustment.
  - iv) *Negotiation:* Change may be negotiated where change is exchanged for something of value for lessening of resistance especially when resistance comes from a powerful source.
  - v) *Manipulation and Co-optation:* Manipulation refers to covert influence attempts thus twisting and distorting facts to make them appear more attractive and withholding undesirable information and create false rumours to get employees to accept a change. Whereas it is a form of both manipulation and participation, this is where leaders of resistance are bought-off by giving them a key role in the change decision. Before any decision is made the resistance leader's opinion is sought
  - vi) *Coercion:* That is the application of direct threats or force upon the resisters. Examples include threats of transfer, loss of promotion and negative evaluations and poor letters of recommendation.
- **The *KISS* and *PASS* Models**
  - *KISS* refers to **Keep It Short and Simple**. This principle requires the communicator to keep his message within reasonable length determined by necessity of detail presented. Although people are always willing to listen to

a speaker or read whatever is sent to them, the length of the message could have less inspiring effects.

- *PASS*

For communication to be successful and effective, serious consideration of the purpose, audience, structure and style of the communication must be made:

**Purpose:** What is the communication meant to achieve – is it to inform, advice, request, soothe, hurt, or what? All effort and detail will be directed towards achieving the set purpose which acts as the motive for the communication.

**Audience:** Who is the intended audience of the message? The various methods of analysing the target audience of the communication should be applied.

**Structure:** a suitable form or design must be adopted to most effectively and efficiently deliver the message. This is in line with the level, purpose and audience of the communication.

**Style:** the language employed will vary from situation to situation and from individual to individual. However, style in this case refers to the use of language

### **SOLUTION THREE**

The characteristics of a bureaucratic organisation include the following:

- The tasks of the organisation are allocated as official duties among positions.
- There is an implied clear-cut division of labour and a high level of specialisation.
- A hierarchical authority applies to the organisation of offices and positions.
- Uniformity of decisions and actions is achieved through formally established systems of rules and regulations. Together with authority, this enables the coordination of various activities within the organisation.
- An impersonal orientation is expected from officials in their dealings with clients and other officials. This is meant to promote rational judgements by officials in their performance of their duties.

- Employment by the organisation is based on technical qualifications and constitutes a lifelong career for the officials.

Disadvantages of bureaucracy include the following:

- The over-emphasis on rules and procedures, record keeping and paperwork may become more important in its own right than as a means to an end.
- Officials may develop a dependence upon bureaucratic status, symbols and rules.
- Initiative may be stifled and when a situation is not covered by complete set of rules or procedures, there may be a lack of flexibility or adaptation to changing circumstances.
- Position and responsibilities in the organisation can lead to officious bureaucratic behaviour. There may also be a tendency to conceal administrative procedures from outsiders.
- Impersonal relations can lead to stereotyped behaviour and a lack of responsiveness to individual incidents or problems.
- Bureaucracies provide safe haven where managers can hide from responsibility and avoid being held accountable for errors of judgement or problems they created or failed to solve.

## **SOLUTION FOUR**

### **(a) Reasons for conducting market research.**

- To determine the quality of goods or services in comparison to competitors.
- To ascertain how satisfied customers are with products they are buying.
- To identify the needs of our customers and how they could be satisfied.
- To find out the cost and impact of marketing activities such as advertising.
- To find the most effective and efficient distribution channel.

### **(b) The visual aids that can be used during an oral presentation include:**

1. A video: this would easily capture audience's/ participants '/recipients attention.
2. Statistical information presented in graph, table or pie: This helps to compress complex information to be presented in a manner that can be easily understood by the audience/participants
3. Software presentation (PowerPoint) : provides easy explanation.
4. Flip charts: these are portable.
5. Samples: audience can have a clear picture about something.

**(c) Reasons for training**

- To improve productivity among employees because of the acquired skill and knowledge.
- To improve the quality of goods or services.
- It increases motivation and commitment of the employees.
- It improves customer care.

**SOLUTION FIVE**

**FOUR (4) CHARACTERISTICS OF CHARISMATIC LEADERS**

- **VISIONARY**

They offer an exciting image of where the organization is headed and how to get there.

- **MASTERFUL COMMUNICATION SKILLS**

They inspire people; they use colorful language and exciting metaphors and analogies.

- Able to make group members feel capable, thus empowering them.
- Have an energy and action orientation, that is, to be result-focused.
- Emotional expressiveness and warmth, that is to love and embrace the followers.

- **ROMANTIC RISK**

They enjoy risk so much that they feel empty in its absence.

- **SWOT ANALYSIS**

SWOT analysis is important to carry out because it reveals very important information to the manager on which he will base his decisions:

- **STRENGTH**

The strength is what the company does better than other companies; you could rate quality of staff as a major strength. Location could be strength too and companies may gain by moving nearer to their major markets. Other strengths may include design capabilities, money in the bank, production capabilities and marketing skills.

- **WEAKNESSES**

Weaknesses include internal limitations and negative situational factors that may interfere with the business's performance.

- **OPPORTUNITIES**

These are favorable factors or trends in the external environment that the business may be exploited to gain a competitive advantage.

- **THREATS**

These are unfavorable factors that a firm may face and may be visible or come invisible; they may include competition, new products and processes or action by governments.

#### **4 BARRIERS TO EFFECTIVE COMMUNICATION**

- **POOR USE OF COMMUNICATION CHANNELS**

Good managers choose the right communication channel, or combination of channels. Written channels are acceptable for simple and easy to convey messages while oral channels work best for complex messages.

- **SEMANTIC PROBLEMS**

This barrier refers to the type of language used. It is important to use simple, straight forward language. Communication will be effective only to the extent that the sender expresses a message in ways that can be clearly understood by the receiver.

- **ABSENCE OF FEEDBACK**

This refers to the failure to provide to the sender with cues as to how the message has been received. This may also be by use of one way communication. Letters, memos, written reports and posted notices are examples of one way communications.

- **PHYSICAL DISTRACTION**

Any number of physical distractions can interfere with the effectiveness of a communication attempt. For example when trying to communicate in an environment with too much background noise or other distractions operating, it is a barrier to communication.

- **STATUS EFFECTS**

The hierarchy of authority in organizations creates potential barriers to effective communication. Status effects refer to the unwillingness of people in lower positions in organizations to communicate back or negative information to persons at higher levels.

#### **END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C2: ECONOMICS & FINANCIAL MATHEMATICS

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MONDAY 12 DECEMBER 2016

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

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8. Present legible and tidy work.
9. Formulae are provided in a separate booklet.
10. Graph paper (if required) is provided at the end of the answer booklet.

**Attempt all FIVE (5) questions**

**QUESTION ONE**

- (a) Outline any four (4) factors that can influence investments in the economy. (8 marks)
- (b) In the consumption function  $C = a + bY$ ;  $C = K200m$ ,  $a = K10m$ ,  $b = 0.2$ , where  $C$  is consumption per month,  $a$  is fixed amount of money per month, and  $Y$  is income per month.
- (i) Determine the Marginal Propensity to Consume (MPC). (1 mark)
- (ii) Calculate the monthly income ( $Y$ ). (2 marks)
- (iii) Briefly explain the meaning of MPC. (1 mark)
- (c) Explain any four (4) types of Central Bank independence. (8 marks)

**[Total: 20 marks]**

**QUESTION TWO**

- (a) Identify any four (4) main features of a free market economic system and outline three (3) advantages and three (3) disadvantages of this economic system. (10 marks)
- (b) What is the importance of financial intermediation in aiding the flow of funds from surplus to deficit economic units? (5 marks)
- (c) Define the consumer price index (CPI). Briefly explain how it is used to measure inflation. (5 marks)

**[Total: 20 marks]**

**QUESTION THREE**

- (a) Let  $X$  be a random variable that represents blood glucose level after a 12-hour fast and let  $Y$  be a random variable representing blood glucose level one hour after drinking sugar water (after the 12-hr fast). Units are in mg/ 10ml. A random sample of eight adults gave the following information:

|   |     |      |      |      |      |     |      |      |
|---|-----|------|------|------|------|-----|------|------|
| X | 6.2 | 8.4  | 7.0  | 7.5  | 8.1  | 6.9 | 10.0 | 9.7  |
| Y | 9.8 | 10.7 | 10.3 | 11.9 | 14.2 | 7.0 | 14.6 | 12.2 |

- (i) Determine the least square regression line for the data above. (9 marks)

(ii) Calculate the coefficient of correlation. (3 marks)

(b) The supply and demand functions of a good are given by:

$$\begin{aligned}P_d &= 240 - Q_d \\P_s &= 60 + 2Q_s\end{aligned}$$

(i) Calculate the equilibrium price and quantity. (4 marks)

(ii) Assume that the government imposes tax of K10 per unit, write down the new supply equation and calculate the new equilibrium price and quantity.

(4 marks)

#### **QUESTION FOUR**

(a) A team of financial advisers guiding the launch of a national newspaper has modelled the future circulation of the newspaper by the equation

$$N = c(1 - e^{-kt})$$

Where  $N$  is the daily circulation after  $t$  days of publication and  $c$  and  $k$  are positive constants. Suppose  $c = 600,000$  and  $k = 0.0231$  calculate the daily circulation after 30 days. (4 marks)

(b) Despite all efforts by the quality control department, the fabrics made by a Zambian Corporation always contain a few defects. A certain type of fabric made at this corporation contains an average of 0.5 defects per 100 meters. Suppose the occurrence of defects is Poisson distributed,

(i) Find the probability that a given piece of 100 meters of this fabric will contain exactly five defects. (3 marks)

(ii) Find the probability that a given piece of 100 meters of this fabric will contain at least three defects? (4 marks)

(c) (i) Suppose a firm's annual sales rise from K40, 000 to K50, 000 from one year to the next, express the rise as a percentage of the original. (3 marks)

(ii) The government imposes a 14% tax on the price of Fridges. How much tax does the consumer pay for a fridge sold by a firm at K2,000? (3 marks)

- (d) There has been a fall in a firm's investment during the course of the year by 8%. Find the value of the investment at the end of the year if it was worth K10,000 at the beginning of the year. (3 marks)

**[Total: 20 marks]**

**QUESTION FIVE**

- (a) The life time of a television (TV) tube, measured in hours of use, is approximately normally distributed with a mean of 5,000 hours and standard deviation of 1000 hours. Calculate the probability that a TV tube will last for:
- (i) Between 5,500 hours and 6,500 hours (4 marks)
  - (ii) Calculate the probability that, for someone using a TV for 1,500 hours per year the tube will last for less than five years. (4 marks)
- (b) (i) An investment of K10 million is expected to produce the following cash flows at each year-end (the amounts are in millions).

| Year      | 1    | 2   | 3   | 4    |
|-----------|------|-----|-----|------|
| Cash flow | 2.50 | 4.0 | 5.0 | 1.50 |

Find the Net Present Value (NPV). Is the investment worthwhile? Assuming the interest rate is 8% compounded semi-annually. (4 marks)

- (ii) Construct an amortization schedule for K25 million repaid by four equal monthly payment with interest at 15% compounded monthly. (8 marks)

**[Total: 20 marks]**

**END OF PAPER**

**December 2016 Examinations**  
**C2 SOLUTIONS**

**SOLUTION ONE**

- (a) Four factors that can influence investment in the economy:
- (i) The rate of interest on capital
  - (ii) The marginal efficiency of capital invested
  - (iii) Expectations about the future and business confidence, including expectations about future cash flows and flows arising from the investment.
  - (iv) The strength of consumer demand for goods
  - (v) Opportunity cost of investment
- (b)
- (i)  $C = a + bY$   
Marginal Propensity to Consume  $MPC = 0.2 = b$  in the consumption function equation  $C = a + bY$
  - (ii)  $C = a + bY$  where  $C = 200$   $a = 10$   $b = 0.2$   
 $200 = 10 + 0.2Y$   
 $0.2Y = 200 - 10$   
 $0.2Y = 190$   
 $Y = 190 / 0.2 = 950$   
 $Y = 950$   
**Monthly income  $Y = K950m$**
  - (iii) MPC is the proportion of the income which is spent on non-autonomous consumption  $MPC = b$  in  $C = a + bY$
- (c) Four types of Central Bank independence:
- Operational independence – where the Central Bank has the right to determine the best way of achieving its policy goals, including the types of instruments used and the timing of their use.
  - Legal independence – which is the independence of the Central Bank backed and defined by law.
  - Management independence – where the Central Bank has the authority to run its own operations like appointing staff without excessive involvement of the government.

- Goal independence – where the Central Bank has the right to set its own policy goals, whether inflation targeting, control of money supply or maintaining a fixed exchange rate.

## **SOLUTION TWO**

- (d) A free market economic system is characterised by:
- Private ownership of productive resources
  - Coordination by prices and markets
  - Self-interest drives economic activity i.e. profit maximising motive for producers and maximisation of satisfaction for consumers
  - Distribution of output according to ability to pay
  - Defined and legally protected property rights
  - Limited government interference

Some advantages of the free market economic system include:

- Efficient use of resources due to profit motive
- Satisfaction of consumers' needs by producing what they want
- Rewards initiative and innovation

Some disadvantages of the free market economic system include:

- There are greater risks and possibility of market failure
- Production may be biased towards luxury goods for the wealthy at the expense of necessities for the poor
- Prone to economic recessions and pervasive unemployment
- Monopoly influences may distort competition and exploit the consumer

- (e) **Ease of saving;** financial intermediaries provide convenient ways for a saver or the surplus economic unit to save money. The intermediary serves as an easier channel of funds for net savers to net borrowers.

**Source of funds;** they are a ready source of funds for the deficit economic unit.

**Lender's capital is secure;** financially sound intermediaries provide security for the lenders who entrust them with their funds.

**Aggregation;** this means that intermediaries are able to pool up funds from savers to lend to borrowers who want to borrow large amounts which would be hard to find otherwise.

**Risk transformation;** financial intermediaries minimise risk by absorbing the potential bad debts an individual saver may be exposed to if they were to lend to another individual.

**Maturity transformation;** financial intermediaries bridge the gap between the preference of most lenders for liquidity and the preference of most borrowers for loans over a long period of time. It is the process of managing the different time preferences of savers and borrowers.

- (f) The consumer price index (CPI) is an index which reflects **the cost of a representative basket of consumer goods and services**. The basket consists of the basic goods and services consumed in households and each of them is assigned a weight according to the average spending on the item. The CPI is estimated by comparing the cost of one basket to that of the next basket. It is calculated for each month and the annual figure is an average of the monthly CPI for the 12 months in a year. To compute the inflation rate from year to year, the change in annual CPI between the respective years is calculated as a percentage.

### SOLUTION THREE

(a)

| X     | Y     | X <sup>2</sup> | Y <sup>2</sup> | XY      |
|-------|-------|----------------|----------------|---------|
| 6.2   | 9.8   | 38.44          | 96.04          | 60.76   |
| 8.4   | 10.7  | 70.56          | 114.49         | 89.88   |
| 7.0   | 10.3  | 49             | 106.09         | 72.1    |
| 7.5   | 11.9  | 56.25          | 141.61         | 89.25   |
| 8.1   | 14.2  | 65.61          | 201.64         | 115.02  |
| 6.9   | 7.0   | 47.61          | 49             | 48.3    |
| 10.0  | 14.6  | 100            | 213.16         | 146     |
| 9.7   | 12.2  | 94.09          | 148.84         | 118.34  |
| Σ63.8 | Σ90.7 | Σ521.56        | Σ1070.87       | Σ739.65 |

- $n = 8$ 
 $\bar{X} = \frac{63.8}{8} = 7.975$ 
 $\bar{Y} = \frac{90.7}{8} = 11.3375$
- $S_{yy} = \sum y^2 - \frac{(\sum y)^2}{n}$ 
 $S_{xx} = \sum x^2 - \frac{(\sum x)^2}{n}$ 
 $S_{xy} = \sum xy - \frac{(\sum x)(\sum y)}{n}$

$$\begin{aligned}
&= 1070.87 - \frac{(90.7)^2}{8} &= 521.56 - \frac{(63.8)^2}{8} &= 739.65 - \frac{(63.8)(90.7)}{8} \\
&= 42.559 &= 12.755 &= 16.3175
\end{aligned}$$

$$\bullet \quad b = \frac{S_{xy}}{S_{xx}} = \frac{16.3175}{12.755} = 1.279$$

$$\begin{aligned}
\text{Therefore: } a &= \bar{y} - b\bar{x} \\
a &= 11.3375 - (1.279)(7.975) \\
a &= 1.1375
\end{aligned}$$

Since  $\hat{y} = a + bx$ , the regression line is:  $\hat{y} = 1.1375 + 1.279x$

ii.

$$\begin{aligned}
r &= \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum X^2 - (\sum X)^2][n \sum Y^2 - (\sum Y)^2]}} \\
&= \frac{(8)(739.65) - (63.8)(90.7)}{\sqrt{[(8)(521.56) - (63.8)^2][(8)(1070.87) - (90.7)^2]}} \\
&= \frac{130.54}{\sqrt{(102.04)(340.47)}} \\
&= \frac{130.54}{186.3909} \\
&= 0.700356
\end{aligned}$$

b.

$$\text{i. } P_d = 240 - Q_d$$

$$P_s = 60 + 2Q_s$$

At equilibrium  $Q_d = Q_s = Q$  and the price  $P_d = P_s = P$

Solving the equation simultaneously

$$P = 240 - Q$$

$$P = 60 + 2Q$$

Subtracting the two equations, we get

$$0 = -3Q + 180$$

$$Q = 60$$

$$\text{And so } P = 60 + 2(60) = 180$$

Therefore  $Q = 60$  and  $P = 180$

ii. Due to Tax of K10, the price received by the producer is  $(P_s - 10)$

$$P_s - 10 = 60 + 2Q_s$$

$$P_s = 70 + 2Q_s$$

The new equilibrium price will be;

$$P = 240 - Q$$

$$P = 70 + 2Q$$

$$240 - Q = 70 + 2Q$$

$$3Q = 170$$

$$Q = 56.66 \approx 57$$

$$P = 240 - 57 = 183$$

#### **SOLUTION FOUR**

$$\begin{aligned} \text{a. } N &= c(1 - e^{-kt}) \\ &= 600000(1 - e^{-(0.023)(30)}) \\ &= 299,054.36 \end{aligned}$$

b. (i)  $x = \text{number of defects}, \mu = 0.5$

$$p(x = 5) = \frac{e^{-\lambda} \lambda^x}{x!} = \frac{e^{-0.5} (0.5)^5}{5!} = 0.00018$$

(ii)  $p(x \geq 3) = p(3) + p(4) + p(5) + \dots$

$$= 1 - [p(0) + p(1) + p(2)]$$

$$= 1 - \left[ \frac{e^{-0.5} (0.5)^0}{0!} + \frac{e^{-0.5} (0.5)^1}{1!} + \frac{e^{-0.5} (0.5)^2}{2!} \right]$$

$$= 1 - [0.606 + 0.303 + 0.0758]$$

$$= 1 - 0.9848$$

$$= 0.0152$$

c. (i)  $50\,000 - 40\,000 = 10\,000$

$$\frac{10\,000}{40\,000} \times 100 = 25\%$$

$$\begin{aligned}
 \text{(ii) new price} \times 100 / \text{old price} &= 114 \\
 2000 \times 100 / \text{old price} &= 114 \\
 \text{Old price} &= 1,754.39 \\
 \text{Tax} &= 2000 - 1754.39 = K245.61
 \end{aligned}$$

d. Fail by 8% implies

$$\frac{100-8}{100} \times 10\,000 = K9\,200$$

## SOLUTION FIVE

a.

i. Required probability

$$\begin{aligned}
 &= P(5,500 \leq x \leq 6,500) \\
 &= P\left(\frac{5,500 - 5,000}{1000} \leq z \leq \frac{6,500 - 5,000}{1000}\right) \\
 &= P(0.5 \leq z \leq 1.5) \\
 &= 0.308 - 0.067 \\
 &= 0.241
 \end{aligned}$$

ii. Required probability

$$\begin{aligned}
 &= P(x < 7,500) \\
 &= P\left(z < \frac{7,500 - 5,000}{1,000}\right) \\
 &= P(z < 2.5) \\
 &= 0.994
 \end{aligned}$$

$$\begin{aligned}
 \text{b. i) } NPV &= 2.50(1.04)^{-2} + 4(1.04)^{-4} + 5(1.04)^{-6} + 1.5(1.04)^{-8} - 10 \\
 NPV &= 2.311 + 3.419 + 3.952 + 1.096 - 10 \\
 &= 10.778 - 10 \\
 &= 0.778
 \end{aligned}$$

Since NPV is positive, the investment is worthwhile.

$$\begin{aligned}
 \text{ii) } R &= \frac{Ar}{1-(1+r)^{-n}} \\
 &= \frac{25\left(\frac{0.15}{12}\right)}{1-\left(1+\left(\frac{0.15}{12}\right)\right)^{-4}} \\
 &= \frac{0.3125}{0.04848} \cong 6.45
 \end{aligned}$$

| Period | Outstanding principle<br>at beginning<br>of period | Periodic interest | Periodic<br>payment | Principle repaid<br>At end of period |
|--------|----------------------------------------------------|-------------------|---------------------|--------------------------------------|
| 1      | 25                                                 | 0.3125            | 6.45                | 6.1375                               |
| 2      | 18.8625                                            | 0.2358            | 6.45                | 6.2142                               |
| 3      | 12.6483                                            | 0.1581            | 6.45                | 6.2919                               |
| 4      | 6.3564                                             | 0.0795            | 6.45                | 6.3564                               |
| TOTAL  |                                                    | 0.7859            | 25.8                | 25                                   |

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C3: ACCOUNTANCY FOR TAX PRACTITIONERS

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MONDAY 12 DECEMBER 2016

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

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**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. **Cell Phones** are **NOT** allowed in the Examination Room.
6. 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

### **QUESTION ONE**

Makosa, a sole trader, has extracted the following trial balance from his books of accounts at 30 June 2016

#### **Trial balance as at 30 June 2016**

|                                   | Dr<br>K'000      | Cr<br>K'000      |
|-----------------------------------|------------------|------------------|
| Capital                           |                  | 400,000          |
| Bank                              | 15,200           |                  |
| Carriage inwards                  | 8,400            |                  |
| Factory supervisor's salary       | 24,800           |                  |
| General factory expenses          | 16,200           |                  |
| Electricity                       | 10,800           |                  |
| Indirect factory wages            | 73,600           |                  |
| Insurance                         | 24,000           |                  |
| Inventory @ 1 July 2015 @ cost:   |                  |                  |
| Raw materials                     | 78,000           |                  |
| Work in Progress                  | 96,000           |                  |
| Finished goods                    | 114,000          |                  |
| Manufacturing wages               | 518,200          |                  |
| Office salaries                   | 74,600           |                  |
| Office equipment at cost          | 180,000          |                  |
| Plant & Machinery @ cost          | 540,000          |                  |
| Accumulated depreciation 1.7.15:  |                  |                  |
| Office equipment                  |                  | 76,000           |
| Plant and machinery               |                  | 180,000          |
| Allowance for irrecoverable debts |                  | 3,200            |
| Purchase of finished goods        | 4,200            |                  |
| Purchase of raw materials         | 324,000          |                  |
| Returns outwards (raw materials)  |                  | 2,400            |
| Rent and rates                    | 84,000           |                  |
| Returns inwards                   | 3,600            |                  |
| Revenue                           |                  | 1,537,000        |
| Trade payables                    |                  | 60,600           |
| Trade receivables                 | 69,600           | -                |
|                                   | <u>2,259,200</u> | <u>2,259,200</u> |

#### **Additional information:**

- i) Inventories at 30 June 2015 @ cost:
  - Raw materials K92 million
  - Work in progress K108 million
  - Finished goods K104 million

- ii) Depreciation is to be provided on all non-current assets at 15% per annum using the reducing balance method.
- iii) The following expenses are to be apportioned:
- |                | <b>Factory</b> | <b>Office</b> |
|----------------|----------------|---------------|
| Rent and rates | 85%            | 15%           |
| Insurance      | 80%            | 20%           |
| Electricity    | 85%            | 15%           |
- iv) At 30 June 2015, insurance of K8 million had been paid in advance.
- v) At 30 June 2015, electricity of K1.2 million had accrued but remained unpaid.
- vi) An irrecoverable debt of K3.6 million is to be written off at 30 June 2016.
- vii) The allowance for receivables is to be maintained at 3% of trade receivables.
- viii) 8% of the carriage inwards figure relates to the purchase of finished goods and the balance relates to raw material purchases.

**Required:**

- (a) Prepare Makosa's manufacturing account for the year ended 30 June 2016.  
(10 marks)
- (b) Prepare Makosa's statement of profit or loss for the year ended 30 June 2016  
(10 marks)
- [Total 20 marks]**

**QUESTION TWO**

Musinda, a sole trader, does not keep proper books of accounts. He provided the following information:

|                                    | <b>1 January 2015</b> | <b>31 December 2015</b> |
|------------------------------------|-----------------------|-------------------------|
|                                    | K'000                 | K'000                   |
| Land and buildings at cost         | 50,000                | 50,000                  |
| Fixtures and Fittings @ valuation  | 6,000                 | 4,500                   |
| Motor vehicles at Carrying amounts | 7,600                 | ?                       |
| Trade payables                     | 16,750                | 14,900                  |
| Trade receivables                  | 14,670                | 13,690                  |
| Wages owing                        | 1,200                 | 1,400                   |
| Inventory                          | 21,750                | 22,450                  |
| Cash in hand                       | 800                   | 950                     |
| Rent in advance                    | 1,000                 | ?                       |

Summary of Musinda's bank account for the year showed the following:

| <b>RECEIPTS</b>                     | <b>K'000</b>   |
|-------------------------------------|----------------|
| Receipts from credit customers      | 156,420        |
| Cash sales                          | 20,700         |
| Proceeds from sale of motor vehicle | <u>1,500</u>   |
|                                     | <u>178,620</u> |
| <b>PAYMENTS</b>                     |                |
| Payments to credit suppliers        | 109,620        |
| Wages                               | 22,670         |
| Rent                                | 19,000         |
| Electricity                         | 8,650          |
| General expenses                    | 4,750          |
| Purchase of new motor vehicle       | <u>16,400</u>  |
|                                     | <u>181,090</u> |
| Bank balance at 1 January 2015      | 16,980 Debit   |
| Bank balance at 31 December 2015    | 14,510 Debit   |

**The following additional information is available:**

- i) During the year, Musinda took goods costing K2.6 million for his own use.
- ii) Before banking his receipts from cash sales, Musinda took a total of K4.8 million cash for his personal use. All other payments were made through his bank account.
- iii) Musinda rents the premises he uses for his business and the annual rent payable is K16 million.
- iv) One of Musinda's customers has been declared bankrupt and owes Musinda a K0.75 million which is unlikely to be paid. This amount is included in the closing receivables figure.
- v) In addition to writing off irrecoverable debts, Musinda has decided to create an allowance for receivables of 5%.
- vi) Musinda depreciates his vehicles @ 20% per annum using the reducing balance method. A full year's depreciation is provided in the year of purchase but none is provided in the year of disposal.
- vii) The vehicle sold had a net book value of K2.88 million at 1 January 2015.

**Required:**

- (a) Calculate Musinda's capital at 1 January 2015. (4 marks)
- (b) Prepare Musinda's statement of profit or loss for the year ended 31 December 2015. (8 marks)
- (c) Prepare Musinda's statement of financial position as at 31 December 2015. (8 marks)

**[Total 20 marks]**

**QUESTION THREE**

- (a) Explain the following accounting concepts:
- (i) Money measurement concept. (2 marks)
  - (ii) Realisation concept. (2 marks)
  - (iii) The dual aspect concept. (2 marks)
  - (iv) Historical cost concept. (2 marks)
  - (v) The accruals concept. (2 marks)
- (b) Explain double entry accounting and summarise the principle. (4 marks)
- (c) List two (2) advantages and two (2) disadvantages of double entry theory. (4 marks)
- (d) Distinguish between Trade discount and cash discount. (2 marks)

**[Total 20 marks]**

**QUESTION FOUR**

Derbyfields is preparing its statement of cash flows for the year ended 31 October 2015. You have been presented with the following information:

**Derbyfields statement of profit or loss for the year ended 31 October 2015.**

|                        | <b>K'000</b>   |
|------------------------|----------------|
| Profit from operations | 31 460         |
| Finance cost           | <u>(1 460)</u> |
| Profit before tax      | 30 000         |
| Taxation               | <u>(8 700)</u> |
| Profit for the year    | <u>21 300</u>  |

## Statements of financial position as at 31 October

|                              | 2015         |                | 2014         |               |
|------------------------------|--------------|----------------|--------------|---------------|
|                              | K'000        | K'000          | K'000        | K'000         |
| Non-current assets:          |              | 88 564         |              | 53 148        |
| Current assets:              |              |                |              |               |
| Inventory                    | 7 120        |                | 19 270       |               |
| Trade receivables            | 12 810       |                | 9 084        |               |
| Cash                         | <u>1 118</u> |                | <u>2 126</u> |               |
|                              |              | <u>21 048</u>  |              | <u>30 480</u> |
| Total assets                 |              | <u>109 612</u> |              | <u>83 628</u> |
| Equity and liabilities:      |              |                |              |               |
| Equity:                      |              |                |              |               |
| Ordinary share capital       |              | 32 000         |              | 30 000        |
| Share premium account        |              | 6 730          |              | 4 992         |
| Retained earnings            |              | <u>31 258</u>  |              | <u>12 930</u> |
|                              |              | 69 988         |              | 47 922        |
| Non-current liabilities:     |              |                |              |               |
| 9% loan notes                |              | 16 000         |              | 20 600        |
| Current liabilities:         |              |                |              |               |
| Bank overdraft               | 2 460        |                | 858          |               |
| Trade payables               | 14 884       |                | 8 528        |               |
| Interest payables            | 240          |                | 200          |               |
| Taxation                     | <u>6 040</u> |                | <u>5 520</u> |               |
|                              |              | <u>23 624</u>  |              | <u>15 106</u> |
| Total equity and liabilities |              | <u>109 612</u> |              | <u>83 628</u> |

## Additional information

- (i) Dividends were K2 972 000 during the year.  
(ii) Changes to non-current assets during 2015 are summarised in the schedule below.

|                         | Cost           | Accumulated depreciation | Carrying value |
|-------------------------|----------------|--------------------------|----------------|
|                         | K'000          | K'000                    | K'000          |
| Balance brought forward | 66 436         | 13 288                   | 53 148         |
| Addition                | 48 680         |                          | 48 680         |
| Disposal                | (5 928)        | (1 980)                  | (3 948)        |
| Depreciation            |                | <u>9 316</u>             | <u>(9 316)</u> |
| Balance carried forward | <u>109 188</u> | <u>20 624</u>            | <u>88 564</u>  |

- (iii) The total proceeds from the disposals of non-current assets were K5 388 000.

**Required:**

- (a) Prepare a statement of cash flows for Derbyfeilds for the year ended 31 October 2015 in accordance with IAS 7 statement of cash flows. (15 marks)
- (b) Give five (5) reasons why the statement of cash flow is important. (5 marks)

**[Total 20 marks]**

**QUESTION FIVE**

- (a) A business has debtors of K25 400 at the end of it's first year of trading, 31 December 2013. At this date it is decided to set up a provision for doubtful debts of 5% of the debtors figure. By 31<sup>st</sup> December 2014 debtors have increased to K30 400 and a provision of 5% is again required for doubtful debts. Debtors at 31 December 2015 total K29 600 and it has been decided to decrease the provision for doubtful debts to 4% of the debtors figure.

**Required:**

Write up the following ledger account for each of the three years:

- (i) Bad debts expense account. (3 marks)
- (ii) Provision for doubtful debts account . (7 marks)
- (b) A fixed asset was purchased on 1 January 2013 for K50 000. It is being depreciated over it's useful economic life of 5 years on the straight line basis with an estimated residual value of K6 000 and full year's charge in the year of disposal. The asset was sold on 31 December 2015 for K22 000. The business has balance sheet date of 31 December each year.

**Required:**

- (i) Prepare the fixed asset account. (2 marks)
- (ii) Prepare the provision for depreciation account. (4 marks)
- (iii) Prepare the disposal account (4 marks)

**[Total 20 marks]**

**END OF PAPER**

**December 2016 Examinations  
C3 SOLUTIONS**

**SOLUTION ONE**

**a) Makosa's manufacturing account for the year ended 30 June 2016**

|                                    | K'000 | K'000           |
|------------------------------------|-------|-----------------|
| <b>Direct materials</b>            |       |                 |
| Opening inventory of raw materials |       | 78,000          |
| Purchases of raw materials         |       | 324,000         |
| Returns out of raw materials       |       | (2,400)         |
| Carriage inwards (92% x 8,400)     |       | 7,728           |
| Closing inventory of raw materials |       | <u>(92,000)</u> |
| Cost of materials consumed cost    |       | 315,328         |
| Direct labour                      |       |                 |
| Manufacturing wages                |       | <u>518,200</u>  |
| Prime cost                         |       | 833,528         |

**Add production overheads:**

|                                                |               |                  |
|------------------------------------------------|---------------|------------------|
| Factory supervisor's salary                    | 24,800        |                  |
| Indirect factory wages                         | 73,600        |                  |
| Depreciation of machinery<br>(15% x [540-180]) | 54,000        |                  |
| Rent and rates (85% x 84,000)                  | 71,400        |                  |
| Insurance (80% x 16,000 [24-8])                | 12,800        |                  |
| Electricity (85% x 12,000 [10.8 + 1.2])        | 10,200        |                  |
| General factory expenses                       | <u>16,200</u> |                  |
|                                                |               | <u>263,000</u>   |
|                                                |               | 1,096,528        |
| Add opening WIP                                |               | 96,000           |
| Less closing WIP                               |               | <u>(108,000)</u> |
| Production cost of goods completed             |               | <u>1,084,528</u> |

**b) Makosa's statement of profit or loss for the year ended 30 June 2016**

|                                     | K'000            | K'000              |
|-------------------------------------|------------------|--------------------|
| Revenue                             |                  | 1,537,000          |
| Less returns inwards                |                  | <u>(3,600)</u>     |
|                                     |                  | 1,533,400          |
| Cost of goods sold:                 |                  |                    |
| Opening inventory                   | 114,000          |                    |
| Production cost of goods            | 1,084,528        |                    |
| Purchases of finished goods         | 4,200            |                    |
| Carriage inwards                    | 672              |                    |
| Closing inventory of finished goods | <u>(104,000)</u> |                    |
|                                     |                  | <u>(1,099,400)</u> |
| Gross profit                        |                  | 434,000            |

**Less expense**

|                                                                  |                |                |
|------------------------------------------------------------------|----------------|----------------|
| Rent and rates (15% x 84,000)                                    | 12,600         |                |
| Insurance (20% x 16,000)                                         | 3,200          |                |
| Electricity (15% x 12,000)                                       | 1,800          |                |
| Office salaries                                                  | 74,600         |                |
| Depreciation – office equipment<br>(15% x [180,000 – 76,000])    | 15,600         |                |
| Irrecoverable debts                                              | 3,600          |                |
| Allowance for receivables<br>(3% x 66,000[69,600-3,600] – 3,200) | <u>(1,220)</u> |                |
|                                                                  |                | <u>110,180</u> |
| Net profit                                                       |                | <u>323,820</u> |

**SOLUTION TWO**

a) Calculation of capital @ 1 January 2015

| <b>Assets</b>                     | K'000        | K'000           |
|-----------------------------------|--------------|-----------------|
| Bank balance                      | 16,980       |                 |
| Land and buildings @ cost         | 50,000       |                 |
| Fixtures and Fittings @ valuation | 6,000        |                 |
| Motor vehicles @ netbook value    | 7,600        |                 |
| Trade receivables                 | 14,670       |                 |
| Inventory                         | 21,750       |                 |
| Cash in hand                      | 800          |                 |
| Rent paid in advance              | <u>1,000</u> |                 |
|                                   |              | 118,800         |
| <b>Liabilities</b>                |              |                 |
| Trade payables                    | 16,750       |                 |
| Wages owing                       | <u>1,200</u> |                 |
|                                   |              | <u>(17,950)</u> |
| Capital @ 1 January 2015          |              | <u>100,850</u>  |

**b) Musinda's statement of profit or loss for the year ended 31 December 2015.**

|                             | K'000           | K'000            |
|-----------------------------|-----------------|------------------|
| Sales (W1)                  |                 | 181,090          |
| <b>Less cost of sales:</b>  |                 |                  |
| Opening inventory           | 21,750          |                  |
| Purchases (107,770 – 2,600) | 105,170         |                  |
| Closing inventory           | <u>(22,450)</u> |                  |
| Cost of sales               |                 | <u>(104,470)</u> |
| Gross profit                |                 | 76,620           |

**Less expense**

|                                    |              |                 |
|------------------------------------|--------------|-----------------|
| Wages                              | 22,870       |                 |
| Rent                               | 16,000       |                 |
| Electricity                        | 8,650        |                 |
| General expenses                   | 4,750        |                 |
| Loss on disposal of Motor Vehicles | 1,380        |                 |
| Irrecoverable debts                | 750          |                 |
| Allowance for receivables          | 647          |                 |
| Depreciation expense               | 4,224        |                 |
| Impairment loss on revaluing       | <u>1,500</u> |                 |
|                                    |              | <u>(60,771)</u> |
| Net profit                         |              | <u>15,849</u>   |

**c) Musinda's statement of financial position as at 31 December 2015**

|                                      | K'000         | K'000          | K'000          |
|--------------------------------------|---------------|----------------|----------------|
| <b>Non-current assets</b>            |               |                |                |
| Land and Buildings at cost           | 50,000        | -              | 50,000         |
| Fixtures and Fittings                | 6,000         | (1,500)        | 4,500          |
| Motor vehicles                       | <u>21,120</u> | <u>(4,224)</u> | <u>16,896</u>  |
|                                      | <u>77,120</u> | <u>5,724</u>   | <u>71,396</u>  |
| <b>Current assets</b>                |               |                |                |
| Inventory                            |               | 22,450         |                |
| Trade receivables (13,690 – 750-647) |               | 12,293         |                |
| Cash at bank                         |               | 14,510         |                |
| Rent prepaid                         |               | 4,000          |                |
| Cash in hand                         |               | <u>950</u>     |                |
|                                      |               |                | <u>54,203</u>  |
| Total assets                         |               |                | <u>125,599</u> |
| <b>Capital and Liabilities</b>       |               |                |                |
| Capital                              |               |                | 100,850        |
| Add net profit                       |               |                | 15,849         |
| Less drawings (4,800 + 2,600)        |               |                | <u>(7,400)</u> |
| Owner's equity                       |               |                | 109,299        |

**Current liabilities**

|                              |              |                |
|------------------------------|--------------|----------------|
| Trade payables               | 14,900       |                |
| Wages owing                  | <u>1,400</u> | <u>16,300</u>  |
| Total equity and liabilities |              | <u>125,599</u> |

Workings

K'000

**1. Computation of credit sales:**

|                                    |                 |
|------------------------------------|-----------------|
| Closing receivables                | 13,690          |
| Plus cash received (156,420 + 150) | 156,570         |
| Less opening receivables           | <u>(14,670)</u> |
| Equals Credit sales                | <u>155,590</u>  |
| Total sales = credit sales         | 155,590         |
| Plus cash sales (20,700 + 4,800)   | <u>25,500</u>   |
| Equals                             | <u>181,090</u>  |

**2. Computation of purchases figure**

K'000

|                                   |                 |
|-----------------------------------|-----------------|
| Closing payables                  | 14,900          |
| Plus payments to credit suppliers | 109,620         |
| Less opening payables             | <u>(16,750)</u> |
| Purchases                         | <u>107,770</u>  |

**3. Rent expense:**

|                            |                 |
|----------------------------|-----------------|
| Rent paid                  | 19,000          |
| Add rent prepaid b/f       | 1,000           |
| Less rent expense          | <u>(16,000)</u> |
| Rent prepaid c/f (bal fig) | <u>4,000</u>    |

**4. Carrying amount of motor vehicles**

K'000

|                                   |                |
|-----------------------------------|----------------|
| Balance b/f                       | 7,600          |
| Additions                         | 16,400         |
| Disposal                          | <u>(2,880)</u> |
| Balance c/f                       | <u>21,120</u>  |
| Depreciation charge for the year: |                |
| (20% x 21,120)                    | <u>(4,224)</u> |
| Carrying amount @ 31.12.15        | <u>16,896</u>  |

**5. Profit or loss on disposal of motor vehicles**

K'000

|                  |                |
|------------------|----------------|
| Carrying amount  | 2,880          |
| Proceeds         | <u>(1,500)</u> |
| Loss on disposal | <u>1,380</u>   |

## 6. Wages expense

|                      |                |
|----------------------|----------------|
| Wages paid           | 22,670         |
| Plus wages owing c/f | 1,400          |
| Less wages owing b/f | <u>(1,200)</u> |
| Less wages owing b/f | <u>22,870</u>  |

## SOLUTION THREE

- (a) (i) Money measurement concept is concerned with facts that can be measured in Monetary terms with a fair degree of objectivity. The means of recording quantitative information is by translating into the common language of money.
- (ii) Realisation concept: Profit is normally regarded as being earned at the time when goods or services are passed to the customer and incurs liability on them, not when the order is received. E.g. for gains to be realized, it must be possible to be reasonably certain that it existed and that it can be measured with sufficient reliability.
- (iii) Is recognition that every transaction involves a giving and receiving effect. The concept states that the two aspects are always equal to each other. E.g. assets = capital + liabilities.
- (iv) Quantitative information recorded in monetary values retained at its historic cost e.g. good purchased will be at the price originally paid for them. An items historical cost is the value, paid or payable on money's worth, which was spent in actually obtaining it.
- (v) Accruals concept: the concept states that when profit is being calculated, revenue earned must be matched against the expenditure incurred in earning it. It is necessary to introduce accruals and prepayments or adjustment into accounting so that revenues and cots are recognised as they are incurred or earned not as money is received or paid.
- (b) Double entry is a system a company keeps track of all it's transactions by recording them in the accounts in the company's general ledger. It is where each transaction is entered twice, one on the debit side and the other on the credit side.

The principle is summarised as debit the receiver and credit the giver. The one who receives is a debtor or receivable and the one who gives is a creditor or payable.

### (C) Part (a) Two (2) advantages of double entry system.

- (i) The balance can be drawn up on any day to prove the arithmetical accuracy of records.

- (ii) The transaction being recorded in the most scientific and systematic way gives the most reliable information of business.
- (iii) It prevents fraud by rendering any alteration in any account more difficult.

**Part (b) Two (2) disadvantages of double entry system.**

- (i) The system requires the maintenance of a number of books of accounts which is not practical in small concerns.
  - (ii) The system is costly because a number of records are maintained.
  - (iii) There is no guarantee of absolute accuracy of the books of accounts in spite of the agreement of the trial balance.
- (d) Trade discount is an allowance given by the seller to a trade buyer and bulky buyers. Trade discount does not appear anywhere in the books and financial statements while cash discount is an allowance given to a customer if he pays before the due date of payment.

**SOLUTION FOUR**

**(a) Derbyfields statement of cash flows for the year ended 31 October 2015**

|                                                   | <b>K'000</b>   | <b>K'000</b>   |
|---------------------------------------------------|----------------|----------------|
| <b>Cash from operating activities:</b>            |                |                |
| Net profit before tax                             | 30 000         |                |
| Adjustments for:                                  |                |                |
| Depreciation                                      | 9 316          |                |
| Finance cost                                      | 1460           |                |
| Profit on disposal of non-current assets (W1)     | <u>(1 440)</u> |                |
| Operating profit before working capital changes   | 39 336         |                |
| Decrease in inventory                             | 12 150         |                |
| Increase in receivables                           | (3 726)        |                |
| Increase in payables                              | <u>6 356</u>   |                |
| Cash generated from operations                    | 54 116         |                |
| Interest paid (W2)                                | (1 420)        |                |
| Tax paid (W3)                                     | <u>(8 180)</u> |                |
| Net cash from operating activities                |                | <u>44 516</u>  |
| <b>Cash flows from investing activities</b>       |                |                |
| Payments to acquire PPE                           | (48 680)       |                |
| Proceeds from sale of PPE                         | <u>5 388</u>   |                |
|                                                   |                | (43 292)       |
| <b>Cash flows from financing activities:</b>      |                |                |
| Proceeds from issue of share capital              | 3 738          |                |
| Repayment of long term borrowing (10 300 – 8 000) | (4 600)        |                |
| Dividend paid                                     | (2 972)        |                |
| Cash used in financing activities                 |                | <u>(3 834)</u> |
| Net decrease in cash and cash equivalents         |                | (2 610)        |

|                                                                                      |       |
|--------------------------------------------------------------------------------------|-------|
| Cash and cash equivalents at the beginning of the period ( $2\,126 - 858 = 1\,268$ ) | 1 268 |
|--------------------------------------------------------------------------------------|-------|

|                                                                                   |         |
|-----------------------------------------------------------------------------------|---------|
| Cash and cash equivalents at the end of the period ( $2\,640 - 1\,118 = 1\,342$ ) | (1 342) |
|-----------------------------------------------------------------------------------|---------|

### Workings:

|                                                  |              |
|--------------------------------------------------|--------------|
| 1. Profit on sale of tangible non-current assets | <b>K'000</b> |
| Sale proceeds                                    | 5 388        |
| NBV                                              | <u>3 948</u> |
| Profit                                           | <u>1 440</u> |

|                         |                         |                              |              |
|-------------------------|-------------------------|------------------------------|--------------|
| 2.                      | <u>Interest Payable</u> |                              |              |
|                         | <b>K'000</b>            |                              | <b>K'000</b> |
| Interest paid (bal fig) | 1 420                   | Balance b/f                  | 200          |
| Balance c/d             | <u>240</u>              | Statements of profit or loss | <u>1 460</u> |
|                         | <u>1 660</u>            |                              | <u>1 660</u> |

|                        |                 |                              |               |
|------------------------|-----------------|------------------------------|---------------|
| 3.                     | <u>Taxation</u> |                              |               |
|                        | <b>K'000</b>    |                              | <b>K'000</b>  |
| Tax paid (balance fig) | 8 180           | Balance b/f                  | 5 520         |
| Balance c/d            | <u>6 040</u>    | Statements of profit or loss | <u>8 700</u>  |
|                        | <u>14 220</u>   |                              | <u>14 220</u> |

- (b)
- (1) The statement of cash flow is regarded as a key measure of performance. It represents information which is not available from the statement of comprehensive income and statement of financial position.
  - (2) Statement of cash flows can provide a satisfactory basis for stewardship accounting (for shareholders and auditors).
  - (3) Information needs of creditors and employees will be better served by a cash flow statement.
  - (4) a business cannot survive without cash and cash flow cannot be ignored when assessing performance.
  - (5) Cash flow information is thought to have predictive value. It may assist users in making judgments.
  - (6) It gives an indication of the relationship between profitability and cash generation ability and thus of the quality of the profit earned.

## SOLUTION FIVE

(i)

### Bad debts expense Account

|                            | K            |                      | K            |
|----------------------------|--------------|----------------------|--------------|
| 31 December 2013 provision | <u>1 270</u> | 31 December 2013 P&L | <u>1 270</u> |
| 31 December 2014 provision | <u>250</u>   | 31 December 2014 P&L | <u>250</u>   |
| 31 December 2015 provision | <u>336</u>   | 31 December 2015 P&L | <u>336</u>   |

### Workings:

|                  |             |              |
|------------------|-------------|--------------|
| 31 December 2013 | 25 400 x 5% | 1 270        |
| 31 December 2014 | 30 400 x 5% | <u>1 520</u> |
|                  |             | <u>250</u>   |

|                  |             |              |
|------------------|-------------|--------------|
| 31 December 2014 |             | 1 520        |
| 31 December 2015 | 29 600 x 4% | <u>1 184</u> |
|                  |             | <u>336</u>   |

(ii)

### Provision for doubtful debts Account

|                              | K            |                            | K            |
|------------------------------|--------------|----------------------------|--------------|
| 31 December 2014 balance c/d | <u>1 520</u> | 31 December 2013 Bad debts | 1 270        |
|                              | <u>1 520</u> | 31 December 2013 Bad debts | <u>250</u>   |
| 31 December 2014 Bad debts   | 336          |                            | <u>1 520</u> |
|                              | <u>1 184</u> | 1 January 2015 Balance b/f | 1 520        |
| 31 December 2015 balance c/d | <u>1 520</u> |                            | <u>1 520</u> |
|                              |              | 1 January 2016 Balance b/c | 1 184        |

(b) Annual depreciation charge =  $\frac{50\,000 - 6\,000}{5}$

= 8 800

i)

### Fixed Asset at Cost Account

|                     | K      |                           | K      |
|---------------------|--------|---------------------------|--------|
| 1 January 2013 Bank | 50 000 | 31 December 2015 Disposal | 50 000 |

ii)

**Provision for Depreciation Account**

|                              | <b>K</b>      |                                   | <b>K</b>      |
|------------------------------|---------------|-----------------------------------|---------------|
| 31 December 2014 Balance c/d | <u>17 600</u> | 31 December 2013 Depreciation Exp | 8 800         |
|                              | <u>17 600</u> | 31 December 2014 Depreciation Exp | <u>8 800</u>  |
| 31 December Disposal         | 26 400        |                                   | <u>17 600</u> |
|                              | <u>26 400</u> | 1 January 2015 balance b/f        | 17 600        |
|                              |               | 31 December 2015 Depreciation Exp | <u>8 800</u>  |
|                              |               |                                   | <u>26 400</u> |

iii)

**Disposal Account**

|                       | <b>K</b>      |                            | <b>K</b>      |
|-----------------------|---------------|----------------------------|---------------|
| 31 December 2014 cost | 50 000        | 31 December 2013 provision | 26 400        |
|                       |               | 31 December 2015 bank      | 22 000        |
|                       |               | Loss on disposal           | <u>1 600</u>  |
|                       | <u>50 000</u> | 1 January 2015 balance b/f | <u>50 000</u> |

**END OF PAPER**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C4: DIRECT TAXES

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THURSDAY 15 DECEMBER 2016

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

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**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. **Cell Phones** are **NOT** allowed in the Examination Room.
6. 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2, 3 and 4 of this paper.

## TAXATION TABLE FOR THE CHARGE YEAR 2016

### Taxation Table

#### Income Tax

##### Standard personal income tax rates

| Income band        | Taxable amount | Rate |
|--------------------|----------------|------|
| K1 to K36,000      | first K36,000  | 0%   |
| K36,001 to 45,600  | next K9,600    | 25%  |
| K45,601 to K70,800 | next K25,200   | 30%  |
| Over K70,800       |                | 35%  |

##### Income from farming for individuals

|               |               |     |
|---------------|---------------|-----|
| K1 to K36,000 | first K36,000 | 0%  |
| Over K36,000  |               | 10% |

##### Gratuity

|               |               |     |
|---------------|---------------|-----|
| K1 to K36,000 | first K36,000 | 0%  |
| Over K36,000  |               | 25% |

##### Terminal benefits

|               |               |     |
|---------------|---------------|-----|
| K1 to K35,000 | first K35,000 | 0%  |
| Over K35,000  |               | 10% |

##### Company Income Tax rates

|                                        |     |
|----------------------------------------|-----|
| On income from manufacturing and other | 35% |
| On income from farming                 | 10% |

#### Capital Allowances

##### Implements, plant and machinery and commercial vehicles:

|                           |                                         |     |
|---------------------------|-----------------------------------------|-----|
| Wear and Tear Allowance – | Plant used normally                     | 25% |
|                           | Used in Manufacturing, Farming, Leasing | 50% |

Non- commercial vehicles

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 20% |
|-------------------------|-----|

##### Industrial Buildings:

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 5%  |
| Initial Allowance       | 10% |
| Investment Allowance    | 10% |

##### Low Cost Housing

(Cost up to K20,000)

|                         |     |
|-------------------------|-----|
| Wear and Tear Allowance | 10% |
| Initial Allowance       | 10% |

|                         |    |
|-------------------------|----|
| Commercial Buildings    |    |
| Wear and Tear Allowance | 2% |

|                            |      |
|----------------------------|------|
| Farming Allowances         |      |
| Development Allowance      | 10%  |
| Farm Works Allowance       | 100% |
| Farm Improvement Allowance | 100% |

### **Presumptive Taxes**

|              |    |
|--------------|----|
| Turnover Tax | 3% |
|--------------|----|

### Property Transfer Tax

|                                                                    |    |
|--------------------------------------------------------------------|----|
| Rate of Tax on Realised Value of property other than mining rights | 5% |
|--------------------------------------------------------------------|----|

### Value Added Tax

|                                                           |          |
|-----------------------------------------------------------|----------|
| Registration threshold                                    | K800,000 |
| Standard Value Added Tax Rate (on VAT exclusive turnover) | 16%      |

### Customs and Excise

#### **Duty rates on:**

- Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

#### **Customs Duty:**

|                                       |        |
|---------------------------------------|--------|
| Percentage of Value for Duty Purposes | 30%    |
| Minimum Specific Customs Duty         | K6,000 |

#### **Excise Duty:**

|                                                                |     |
|----------------------------------------------------------------|-----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes |     |
| Cylinder capacity of 1500 cc and less                          | 20% |
| Cylinder Capacity of more than 1500 cc                         | 30% |

- Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

#### **Customs Duty**

|                                       |        |
|---------------------------------------|--------|
| Percentage of Value for Duty Purposes | 15%    |
| Minimum specific Customs Duty         | K6,000 |

#### **Excise Duty:**

|                                                                |     |
|----------------------------------------------------------------|-----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes | 10% |
|----------------------------------------------------------------|-----|

**3. Buses/coaches for the transport of more than ten persons**

**Customs Duty:**

Percentage of Value for Duty Purposes

15%

Minimum Specific Customs Duty

K6,000

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes

Seating Capacity of 16 persons and less

25%

Seating Capacity of 16 persons and more

0%

**4. Trucks/lorries with gross weight exceeding 20 tonnes**

**Customs Duty:**

Percentage of Value for Duty Purposes

15%

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes

0%

**5. Surtax**

**On all motor vehicles aged more than five (5) years from year of manufacture** K2,000

**Attempt all five (5) questions**

**QUESTION ONE**

**FOR THE PURPOSES OF THIS QUESTION, ASSUME THAT TODAY'S DATE IS 31<sup>st</sup> DECEMBER 2016.**

Green, Blue and Pink are in partnership sharing profits and losses in the ratio of 2:2:1 after allowing for partnership salaries of K200,000 per annum for each partner.

On 30 June 2016, Pink resigned from partnership, because he secured a job with a Zambian company as a Director at an annual salary of K300,000. Green and Blue continued with the partnership business and with effect from 1 July 2016, the profits and losses were to be shared in the ratio of 1:1 after partnership salaries of K220,000 and K180,000 for Green and Blue respectively.

For the tax year 2016, the partners estimated the taxable partnership profits of K500, 000. On this basis the partners paid provisional income tax on the normal due dates. For the tax year 2016, the actual taxable business profit after capital allowances was calculated at K550,000.

Pink paid PAYE of K52, 420. Apart from Pink, no other partner has any other income.

**Required:**

- (a) Calculate the provisional income tax paid by each partner for the tax year 2016.  
(10 marks)
- (b) Calculate the Income tax payable by each partner for the tax year 2016.  
(10 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

Pawpaw Fruits Plc. is a Zambian resident manufacturing company that manufactures non-carbonated drinks which it sells within the Zambian market. The company was incorporated in 2000 and since then, it has grown significantly leading to the listing of its shares on the Lusaka Stock Exchange (LuSE) during the tax year 2016.

The company issued 35% of its shares to indigenous Zambians during the tax year 2016.

The following is the Income Statement for the year ended 31 December 2016:

|                                    | K        | K                  |
|------------------------------------|----------|--------------------|
| Gross profit                       |          | 1,560,000          |
| Other Income                       | (Note 1) | <u>250,000</u>     |
|                                    |          | 1,810,000          |
| Expenses:                          |          |                    |
| Depreciation of Non-current assets | 210,000  |                    |
| Salaries and wages                 | (Note 2) | 680,000            |
| Bad debts                          | (Note 3) | 70,800             |
| Entertainment expenses             | (Note 4) | 150,000            |
| General expenses                   | (Note 5) | <u>490,000</u>     |
|                                    |          | <u>(1,600,800)</u> |
| Net profit                         |          | <u>209,200</u>     |

**The following additional information is available:**

**Note 1: Other Income**

This comprises Rental income K90, 000 (Net), Bank deposit interest K38, 250 (Net), Dividends K50, 000 (Gross), Royalties K55, 250 (Net) and profit on Disposal of Nissan car (Note 6) K16,500.

**Note 2: Salaries and Wages**

This figure includes K280, 000 annual Salary for a managing director to whom the company has provided a house. The house was acquired in 2009 at a cost of K690, 000. If rented the company could have been charging monthly rentals of K8, 900 per month.

**Note 3: Bad debts**

These include trade debts written off K40,000, Loans to former employees written off K35,600, Increase in General provision K12, 500, Decrease in specific provision K5, 500 and Trade debts previously written off now recovered K11, 800

**Note 4: Entertainment expenses**

These include entertaining suppliers K20, 800, Entertaining customers K54, 000 and Employees' Christmas party K75, 200.

**Note 5: General expenses**

These comprise the following:

|                                                   | K              |
|---------------------------------------------------|----------------|
| Accountancy and Audit fees                        | 45,000         |
| Legal fees in connection with acquisition of land | 21,600         |
| Staff canteen expenses                            | 160,000        |
| Sundry allowable expenses                         | <u>263,400</u> |
|                                                   | <u>490,000</u> |

**Note 6: Implements, Plant & Machinery**

The Income Tax Values of the assets qualifying for capital allowances at 1 January 2016 were as follows:

|                         | ITV (K) | Original Cost (K) |
|-------------------------|---------|-------------------|
| Fuso Truck              | 90,000  | 180,000           |
| Nissan Laurel Car       | 9,000   | 45,000            |
| Manufacturing Equipment | 150,000 | 300,000           |

The Nissan Laurel car, which had a cylinder capacity of 3000cc, was sold during the year for K50,000 (Note 1) and was replaced by a Range Rover car which was acquired at a cost of K200,000 and has a cylinder capacity of 3200cc. Both cars, Nissan Laurel car and Range Rover car, were used by the Chief Executive Officer on a personal-to-holder basis during the charge year 2016. Business use by the Chief Executive in each car in the tax year 2016 was determined to be 45%.

The company acquired computers worth K55,000 during the tax year 2016.

**Note 7: Buildings**

The company owns a factory building and an administrative building with costing K900,000 and K300, 000 respectively. The factory building was newly acquired during the tax year 2015. In the tax year 2015 the administrative building was under construction and was brought into use on 1 July 2016.

**Note 8: Provisional income tax**

The company paid provisional income tax of K90,000 for the tax year 2016.

**Required:**

- (a) Calculate the maximum capital allowances to be claimed by Pawpaw Fruits Plc. for the charge year 2016. (7 marks)
- (b) Calculate the tax adjusted business profit of Pawpaw Fruits Plc. for the charge year 2016. (8 marks)
- (c) Calculate the final income tax payable by Pawpaw Fruits Plc. for the charge year 2016. (5 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

The Zambia Revenue Authority is a very vital organisation to the Zambian tax system.

**Required:**

- (a) List and explain the main responsibilities of the Zambian Revenue Authority in the Zambian tax system. (6 marks)
- (b) List any six (6) powers of the Zambian Revenue Authority. (6 marks)
- (c) Explain the composition of the board of directors of the Zambia Revenue Authority. (4 marks)
- (d) List the main operating divisions of the Zambia Revenue Authority and explain their main functions. (4 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) Explain the differences between employment and self-employment based on the following factors:
  - (i) Contract
  - (ii) Work performance
  - (iii) Insurance
  - (iv) Engagement and Dismissal
  - (v) Exclusivity (10 marks)
- (b) Hamunzele is a Human Resources Officer with Bauze Ltd, a company dealing in growing and selling of potatoes for the export market;

In the month of March 2016 he had the following income and expenses:

|                                                       |        |
|-------------------------------------------------------|--------|
|                                                       | K      |
| Basic salary per month before the March 2016 increase | 9,000  |
| Salary increment from March 2016                      | 2,000  |
| Housing allowances per month                          | 1,500  |
| Transport allowance per month                         | 250    |
| Other data is as follows:                             |        |
| Cumulative basic salary up to February 2016           | 18,000 |
| Cumulative NAPSA for two months                       | 510    |
| Cumulative PAYE                                       | 4,876  |

**Required:**

Calculate Hamunzele's:

- (i) Pay As You Earn for the month of March 2016 (9 marks)
- (ii) State the due for payment of Pay As You Earn. (1 mark)

**[Total: 20 Marks]**

**QUESTION FIVE**

- (a) List any five (5) properties of a good tax system in Zambia. (5 marks)
- (b) Evans Sakala aged 70 had the following transactions in the tax year 2016:
  - 1. He had acquired a piece of land (8 hectares) 10 years ago in Kapiri Mposhi at a cost of K10, 000 from a Mr. Mvula. On 31/10/16 he decided to sell the land to a Mr. Katapa of Lusaka East, at a new value of K250,000. His children had no interest in farming.
  - 2. BMC Ltd is a company in which he was a shareholder of 40,000 shares acquired on 31/8/1992 at a cost of K40 per share. The company is listed on the stock exchange. The company disposed of 80,000 shares whose nominal value was K35. On 31/11/2016 the market value per share was K38. The shares disposed did not affect the shares held by Moono.
  - 3. Moono transferred on 1/7/2016, 10,000 shares to his last-born daughter at a cost of K30 per share. He also transferred 20,000 shares to his 60-year-old wife at a cost of nil. He sold the remaining 10,000 shares to a close friend a Mr. Benu at market value of K50 per share and the nominal value of each share was K46.

4. The ministry of lands had repossessed a property in Kalomo and sold it to him on 30/6/2016 at a cost of K65,000
5. Moono has transferred a house valued at K140,000 at nil value to his son the third born in a family of 4 children and a cottage valued at K70,000 to his nephew who paid K30,000 as consideration agreed upon. The open market values of the two properties are K190,000 and K90,000 as per the determination of government property valuers.
6. Evans sold four trucks at a total sales value of K240,000. These four trucks were bought at K85,000 each and the tax written down value for each of them was K5,500 at the time of sale.

**Required:**

Prepare a statement that shows the total Property Transfer Tax payable by Evans Sakala for the tax year 2016.

(15 marks)

**[Total: 20 marks]**

**END OF PAPER**

## December 2016 Examinations

### C4 SOLUTIONS

#### Solution One

##### a. GREEN, BLUE AND PINK

##### PROVISIONAL INCOME TAX PAID FOR THE TAX YEAR 2016

|                             | Total           | Green           | Blue            | Pink            |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
|                             | K               | K               | K               | K               |
| <b>First six (6) months</b> |                 |                 |                 |                 |
| Salaries                    | 300,000         | 100,000         | 100,000         | 100,000         |
| Balance of profits 2:2:1    | <u>(50,000)</u> | <u>(20,000)</u> | <u>(20,000)</u> | <u>(10,000)</u> |
|                             | <u>250,000</u>  | <u>80,000</u>   | <u>80,000</u>   | <u>90,000</u>   |
| <b>Last six (6) months</b>  |                 |                 |                 |                 |
| Salaries                    | 200,000         | 110,000         | 90,000          |                 |
| Balance of profits 1:1      | <u>50,000</u>   | <u>25,000</u>   | <u>25,000</u>   |                 |
|                             | <u>250,000</u>  | <u>135,000</u>  | <u>115,000</u>  | <u>-</u>        |
| Taxable profits             | <u>500,000</u>  | <u>215,000</u>  | <u>195,000</u>  | <u>90,000</u>   |
| <b>Tax computation</b>      |                 |                 |                 |                 |
| <b>First K36, 000</b>       |                 | -               | -               | -               |
| Next K9,600                 |                 | 2,400           | 2,400           | 2,400           |
| Next K25, 200               |                 | 7,560           | 7,560           | 7,560           |
| Bal K144,200 @35%           |                 | 50,470          |                 |                 |
| Bal K124,200 @35%           |                 |                 | 43,470          |                 |
| Bal K19,200 @35%            |                 |                 |                 | <u>6,720</u>    |
| Provisional income tax paid |                 | <u>60,430</u>   | <u>53,43</u>    | <u>16,680</u>   |

##### b. GREEN, BLUE AND PINK

##### INCOME TAX PAYABLE FOR THE CHARGE YEAR 2016

|                             | Total           | Green           | Blue            | Pink           |
|-----------------------------|-----------------|-----------------|-----------------|----------------|
|                             | K               | K               | K               | K              |
| <b>First six (6) months</b> |                 |                 |                 |                |
| Salaries                    | 300,000         | 100,000         | 100,000         | 100,000        |
| Balance of profits 2:2:1    | <u>(25,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>(5,000)</u> |
|                             | <u>275,000</u>  | <u>90,000</u>   | <u>90,000</u>   | <u>95,000</u>  |
| <b>Last six (6) months</b>  |                 |                 |                 |                |
| Salaries                    | 200,000         | 110,000         | 90,000          | -              |
| Balance of profits 1:1      | <u>75,000</u>   | <u>37,500</u>   | <u>37,500</u>   | <u>-</u>       |
|                             | <u>275,000</u>  | <u>147,500</u>  | <u>127,500</u>  | <u>-</u>       |
| Taxable profit              | <u>550,000</u>  | <u>237,500</u>  | <u>217,50</u>   | <u>95,000</u>  |

|                        |                |                |                |
|------------------------|----------------|----------------|----------------|
| Salary K300,000 X 6/12 | <u>-</u>       | <u>-</u>       | <u>150,000</u> |
| Taxable income         | <u>237,500</u> | <u>217,500</u> | <u>245,000</u> |

### **Tax computation**

|                             |              |              |                 |
|-----------------------------|--------------|--------------|-----------------|
| First K36,000               | -            | -            | -               |
| Next K9,600                 | 2,400        | 2,400        | 2,400           |
| Next K25,200                | 7,560        | 7,560        | 7,560           |
| Bal K166,700 @35%           | 58,345       |              |                 |
| Bal K146,700 @ 35%          |              | 51,345       |                 |
| Bal K174,200 @ 35%          | <u>-</u>     |              | 60,970          |
| Tax liability               | 68,305       | 61,305       | 70,930          |
| Less                        |              |              |                 |
| Provisional income tax paid | (60,430)     | (53,430)     | (16,680)        |
| PAYE                        | -            | -            | <u>(52,420)</u> |
| Income tax payable          | <u>7,875</u> | <u>7,875</u> | <u>1,830</u>    |

## **Solution Two**

### **a. PAWPAW PLC**

#### **CAPITAL ALLOWANCES FOR THE CHARGE YEAR 2016**

| <b>Implements, Plant &amp; Machinery</b> | <b>Cost/ITV</b>  | <b>Capital Allowance</b> |
|------------------------------------------|------------------|--------------------------|
| Fuso Truck                               | K                | K                        |
| ITV b/f                                  | 90,000           |                          |
| W & T @25%                               | <u>(45,000)</u>  | 45,000                   |
| ITV c/f                                  | <u>45,000</u>    |                          |
| <br>Nissan Laurel Car                    |                  |                          |
| ITV b/f                                  | 9,000            |                          |
| Disposal proceeds (Restricted to cost)   | <u>(45,000)</u>  |                          |
| Balancing charge                         | <u>(36,000)</u>  | (36,000)                 |
| <br>Manufacturing Equipment              |                  |                          |
| ITV b/f                                  | 150,000          |                          |
| W & T @50%                               | <u>(150,000)</u> | 150,000                  |
| ITV c/f                                  | <u>Nil</u>       |                          |
| <br>Range Rover car                      |                  |                          |
| Cost                                     | 200,000          |                          |
| W & T @20%                               | <u>(40,000)</u>  | 40,000                   |
| ITV c/f                                  | <u>160,000</u>   |                          |

|            |                 |        |
|------------|-----------------|--------|
| Computers  |                 |        |
| Cost       | 55,000          |        |
| W & T @25% | <u>(13,750)</u> | 13,750 |
| ITV c/f    | <u>41,250</u>   |        |

### **Buildings**

|                  |                 |        |
|------------------|-----------------|--------|
| Factory Building |                 |        |
| ITV b/f          | 900,000         |        |
| W & T @5%        | <u>(45,000)</u> | 45,000 |
| ITV c/f          | <u>855,000</u>  |        |

### **Administration Building**

|                          |                |                |
|--------------------------|----------------|----------------|
| Cost                     | 300,000        |                |
| W & T @2%                | <u>(6,000)</u> | <u>6,000</u>   |
| ITV c/f                  | <u>294,000</u> |                |
| Total Capital allowances |                | <u>263,750</u> |

## **b. PAWPAW PLC**

### **ADJUSTED BUSINESS PROFIT FOR THE CHARGE YEAR 2016**

|                                       | K             | K              |
|---------------------------------------|---------------|----------------|
| Net profit as per accounts            |               | 209,200        |
| Add:                                  |               |                |
| Depreciation                          | 210,000       |                |
| Free Accommodation (K280,000 X 30%)   | 84,000        |                |
| Loans to former employees written off | 35,600        |                |
| Increase in general provision         | 12,500        |                |
| Entertaining Suppliers                | 20,800        |                |
| Entertaining Customers                | 54,000        |                |
| Legal fees incurred in acquiring land | 21,600        |                |
| Staff canteen expenses                | 160,000       |                |
| Personal-to-holder car(Range Rover)   | <u>20,000</u> |                |
|                                       |               | <u>618,500</u> |
|                                       |               | 827,700        |
| Less:                                 |               |                |
| Rental income                         | 90,000        |                |
| Bank deposit interest                 | 38,250        |                |
| Dividends                             | 50,000        |                |
| Royalties                             | 55,250        |                |

|                                     |                  |
|-------------------------------------|------------------|
| Profit on disposal of motor vehicle | 16,500           |
| Capital allowances (a)              | <u>263,750</u>   |
|                                     | <u>(513,750)</u> |
| Adjusted Business profit            | <u>313,950</u>   |

**c. PAWPAW PLC**

**INCOME TAX PAYABLE FOR THE CHARGE YEAR 2016**

|                                         |                |
|-----------------------------------------|----------------|
|                                         | K              |
| Business profit                         | 313,950        |
| Investment income                       |                |
| Bank deposit interest: K38,250 X 100/85 | 45,000         |
| Royalties: K55,250 X 100/85             | <u>65,000</u>  |
| Taxable income                          | <u>423,950</u> |
| Income tax @ 28%                        | 118,706        |
| Less:                                   |                |
| Provisional income tax                  | (90,000)       |
| WHT-Bank interest: K45,000 X 15%        | (6,750)        |
| WHT-Royalties: K 65,000 X 15%           | <u>(9,750)</u> |
| Income tax payable                      | <u>12,206</u>  |

The company listed its shares on the Lusaka Stock Exchange during the charge year 2016, receiving 2% discount, and a further 5% for issuing more than one-third (1/3) of the shares to indigenous Zambians. (35%-2%-5% = 28%)

**Solution Three**

(a)

The main responsibilities of ZRA are:

1. To properly assess and collect taxes and duties at the right time.
2. To ensure that all monies collected are properly accounted for and banked.
3. To properly enforce all relevant statutory provisions.
4. To provide information on revenue to the government.
5. To give advice to ministries on aspects of tax policy.
6. To facilitate international trade.

(b)

#### THE POWERS OF ZRA

1. The power to charge penalties.
2. The power to search and seize. (s104)
3. The power to assess tax .(s630)
4. The power to charge tax and also the power to seize property up to the value of unpaid tax
5. The power to collect tax dues and make recoveries.
6. The power to examine financial statements
7. The power to charge interest on overdue payments
8. The power to auction seized properties so as to recover lost taxes.
9. The power to enter into the premises of any tax payer to carry out an audit and investigation.
10. The power to determine the tax payable and also the rate of tax to be used in an assessment.
11. The power to do any other acts as determined by law via the commissioner general and the minister of finance.

(c)

A Governing Board oversees the operations of ZRA. The membership of this board includes: the Secretary to the Treasury; Permanent Secretary in the Ministry of Legal Affairs; Governor of the Bank of Zambia; representatives from the Law Association of Zambia, Zambia Association of Chamber of Commerce and Industry, Bankers' Association of Zambia, Zambia Institute of Chartered Accountants; and two private persons nominated by the Minister of Finance and National Planning. The Board elects the Chairman of the Board from amongst its members. The Chief Executive of the ZRA is the Commissioner General who is appointed by the President of Zambia.

(d)

The Zambia Revenue Authority is an autonomous body headed by the Commissioner General and is supported by three Commissioners. The Commissioners head the following divisions: Domestic Taxes, Customs Services, and Corporate Services. There are also four other support divisions headed by Directors. These are Research & Planning, Human Resource, Internal Audit and Finance. The treasury functions are incorporated in the Finance Department under the Corporate Services Division. There is also an Internal Affairs unit under the Commissioner General's office that looks at staff integrity.

The two divisions responsible for tax related matters are as follows:

(i) The Domestic Taxes Division

This division is responsible for the administration of Income Tax, Property Transfer Tax and Mineral Royalty Tax, Excise duty and domestic Value Added Tax. In as far as VAT is concerned, the division grants registration for VAT purposes to eligible traders so that

they are able to charge VAT on their taxable supplies and pay that VAT to ZRA. The Division is headed by the Commissioner – Domestic taxes.

(ii) The Customs Services Division

This is the division that has been set up to deal with Customs Duty and Import VAT. It is headed by the Commissioner Customs Services.

## **Solution Four**

(a)

### **CONTRACT**

If there is a contract of service, it will indicate the existence of a legal relationship of master and servant. A contract for services will indicate the existence of self-employment.

As already, the contract may be written or it may be oral. Where the contract is a written one, a copy should be obtained and the contents of that particular contract should be studied.

In the case of oral contracts, the parties to the contract should be interviewed to establish what has been agreed upon. Care should still be taken when, as they are not likely to contain all the relevant points. It is always important to use several other methods of the relevant information.

### **Work performance**

Employees must perform the duties assigned to them themselves while the self-employed may hire other people to perform the work for them.

If a person does not have a right to hire helpers, that is likely to lead to the conclusion that there is employment. The self-employed persons will normally have the right to hire their own helpers.

In contracts of service, personal performance is always required while in the contracts for services, there may be personal performance or there may not be one. In other words, personal performance is not normally a must in contracts for services. In the case of Hall v Lorimar, a video mixer was engaged under a series of short term contracts. It was held that the video mixer was self-employed because the nature of the factors surrounding the case was that of self-employment.

### **Engagement and dismissal**

The employer will take on and dismiss employees. The employer will have a right or power to terminate the contracts of employment by giving the employees an appropriate choice.

A self-employed person will normally enter into a contract with a client specifying the beginning and end. The contract normally ends when the work has been performed completely or accurately.

#### Insurance

Employers will normally provide insurance cover for the actions of their employees. This is because they are vicariously liable for the offences committed by their employees.

Self-employed persons will have to provide for their own insurance needs. The hirer is not vicariously liable for the offences committed by the hired self-employed contractors.

#### Exclusivity

Employees normally work for one employer. A self-employed person will normally work for a number of clients

The courts will also consider whether an individual's activity is fully integrated within the organisation. If this were the case, it would be difficult to prove that he/she is self-employed.

In order to come to a final conclusion as to whether an individual is an employee or is self-employed, all the above factors are generally taken into account and weighed, There is no specific way of indicating which points are more important than others or otherwise. It all depends upon the factors of each case. What may indicate, or a weighting basis, the existence of employment may not indicate the same in another case.

(b) i)

#### Hamunzele Computation of Pay As You Earn for the Month of March 2016

|                        | K            |
|------------------------|--------------|
| Basic salary           | 9,000        |
| Add increment in march | <u>2,000</u> |
|                        | 11,000       |
| Less NAPSA             | <u>255</u>   |
| Net                    | 10,745       |
| Add housing allowance  | 1,500        |
| Transport allowance    | <u>250</u>   |
| Total income           | 12,495       |

|                   |              |
|-------------------|--------------|
| Less tax free pay | <u>3,000</u> |
| Taxable pay       | <u>9,495</u> |
| Tax charge/payee  |              |
| Next 800 x 25%    | 200          |
| Next 2,100 x 30%  | 630          |
| Excess 6,595x 35% | <u>2,308</u> |
| Therefore payee = | <u>3,138</u> |

ii) The due date for the payment of pay as you earn is the 14<sup>th</sup> day of the month following the month in which the salaries are paid.

### **Solution Five**

(a)

The properties of a good tax system are:

1. Taxation should bear as lightly as possible on production. Taxes should not be so high that they make production very expensive. Taxes that bear heavily on production lead to lower production.
2. Taxes should be easy and cheap to collect, and fall directly on the ultimate payer. Great resources that are devoted to tax collection are simply wasted if the amounts collected are low.
3. Sales taxes, which are imposed on the sellers and importers are finally borne by the consumers. This makes sales taxes to be cumbersome as they do not fall directly on the person making the payment.
4. Taxes should be certain. If tax rules are complex, they can be subverted and evaded. If tax rules can only be understood by specialists, then only those tax payers who can afford to pay the specialists are likely to comply with the rules. The tax rules should therefore be easy to understand.
5. Taxes should bear equally so as to give no individual an advantage. This simply means that taxes should be levied on the basis of ability to pay. If the taxes are not based on this principle, then persons in low income groups will find the taxes to be more burdensome than those in high income groups.

In addition to the original canons of taxation, modern economists have developed the following:

6. A tax must not hinder efficiency. Where it is not possible to achieve this, the tax should involve the least loss of efficiency.
7. A tax should be compatible with the relevant foreign tax systems. In the case of Zambia, the tax system should be compatible with the tax systems of the SADC and COMESA member states.
8. The tax should automatically adjust to changes in the rate of inflation. As inflation keeps on rising and falling, the tax system should automatically adjust to such rises and falls.

(b)

Evans Sakala

Statement of computation of total property transfer tax payable for tax year 2016

|                      | K             | K             |
|----------------------|---------------|---------------|
| 1. (PTT=250,000X.05) |               | 12,500        |
| 2. NO PTT            |               | -             |
| 3. PTT ON DAUGHTER   |               |               |
| 30X10000X.05         | 15,000        |               |
| PTT ON FRIEND        |               |               |
| 50 X 10,000 X .05    | <u>25,000</u> |               |
|                      |               | 40,000        |
| 4. NO PTT            |               | -             |
| 5. PTT ON NEPHEW     |               |               |
| 30,000X .05          |               | 1,500         |
| 6. NO PTT            |               | -             |
| TOTAL PTT PAYABLE    |               | <u>54,000</u> |

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C5: INDIRECT TAXES

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THURSDAY 15 DECEMBER 2016

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

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**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. **Cell Phones** are **NOT** allowed in the Examination Room.
6. 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on page 2 only.

## TAXATION TABLE FOR THE CHARGE YEAR 2016

### Value Added Tax

|                                                           |          |
|-----------------------------------------------------------|----------|
| Registration threshold                                    | K800,000 |
| Standard Value Added Tax Rate (on VAT exclusive turnover) | 16%      |

### Customs and Excise

#### Duty rates on:

1. **Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

**Customs Duty:**

|                                       |        |
|---------------------------------------|--------|
| Percentage of Value for Duty Purposes | 30%    |
| Minimum Specific Customs Duty         | K6,000 |

**Excise Duty:**

|                                                                |     |
|----------------------------------------------------------------|-----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes |     |
| Cylinder capacity of 1500 cc and less                          | 20% |
| Cylinder Capacity of more than 1500 cc                         | 30% |
2. **Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

**Customs Duty**

|                                       |        |
|---------------------------------------|--------|
| Percentage of Value for Duty Purposes | 15%    |
| Minimum specific Customs Duty         | K6,000 |

**Excise Duty:**

|                                                                |     |
|----------------------------------------------------------------|-----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes | 10% |
|----------------------------------------------------------------|-----|
3. **Buses/coaches for the transport of more than ten persons**

**Customs Duty:**

|                                       |        |
|---------------------------------------|--------|
| Percentage of Value for Duty Purposes | 15%    |
| Minimum Specific Customs Duty         | K6,000 |

**Excise Duty:**

|                                                                |     |
|----------------------------------------------------------------|-----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes |     |
| Seating Capacity of 16 persons and less                        | 25% |
| Seating Capacity of 16 persons and more                        | 0%  |
4. **Trucks/lorries with gross weight exceeding 20 tonnes**

**Customs Duty:**

|                                       |     |
|---------------------------------------|-----|
| Percentage of Value for Duty Purposes | 15% |
|---------------------------------------|-----|

**Excise Duty:**

|                                                                |    |
|----------------------------------------------------------------|----|
| Percentage of Value for Duty Purposes for Excise Duty Purposes | 0% |
|----------------------------------------------------------------|----|
5. **Surtax**  
**On all motor vehicles aged more than five (5) years from year of manufacture**

|  |        |
|--|--------|
|  | K2,000 |
|--|--------|

## Attempt all FIVE (5) Questions

### QUESTION ONE

KUTI Ltd. commenced its trading operations in tax year 2011 and was registered for Value Added Tax in 2012. The following income statement relates to the company for the month of March 2016:

|                                  | K                  |
|----------------------------------|--------------------|
| Sales                            | 2,500,000          |
| Cost of sales                    | <u>(1,800,000)</u> |
| Gross profit                     | 700,000            |
| Profit from sale of delivery van | <u>80,000</u>      |
|                                  | 780,000            |
| Expenses:                        |                    |
| Administration expenses          | (250,000)          |
| Selling & Distribution           | <u>(260,000)</u>   |
| Net profit                       | <u>270,000</u>     |

#### **The following information is available:**

1. Sales revenue includes exempt supplies amounting to 10% of the total sales figure. Zero-rated supplies amount to 20% of the total sales figure.
2. The balance of the sales are all standard-rated supplies of which 50% were made to customers not registered for Value Added Tax.
3. The cost of sales figure was calculated as follows:

|                   | K                |
|-------------------|------------------|
| Opening inventory | 480,000          |
| Purchases         | 1, 500,000       |
| Depreciation      | 220,000          |
| Closing inventory | <u>(400,000)</u> |
|                   | <u>1,800,000</u> |

The purchases figure includes K1,200,000 and K300,000 for standard-rated and exempt purchases respectively. Of the standard-rated purchases, 40% were bought from suppliers not registered for VAT.

4. The company sold a standard-rated delivery van during the month of March 2016 for K162,400 (VAT inclusive) making a profit of K80,000.
5. Administration expenses comprise the following:

|                          | K              |
|--------------------------|----------------|
| Salaries & wages         | 170,000        |
| Bad debts written off    | 50,000         |
| Standard-rated overheads | <u>30,000</u>  |
|                          | <u>250,000</u> |

The two (2) invoices written off are all in respect of standard-rated sales with amounts of K25,000 each, and were due on 1 January 2014 and 1 February 2015 respectively. The invoices were written off on 31<sup>st</sup> March 2016.

6. Selling and distribution expenses comprise the following:

|                                      | K              |
|--------------------------------------|----------------|
| Petrol                               | 80,000         |
| Diesel                               | 120,000        |
| Entertaining customers and suppliers | 45,000         |
| Marketing expenses                   | <u>15,000</u>  |
|                                      | <u>260,000</u> |

All the above figures are standard-rated expenses for VAT purposes.

#### 7. **Other Information**

The company bought two motor vehicles during the month of March 2016:

|                  | K       |
|------------------|---------|
| Delivery Van     | 185,600 |
| Toyota Prado car | 278,400 |

The motor vehicles are all used wholly and exclusively for business purposes and the cost of the vehicles are all inclusive of VAT.

**Unless stated otherwise, all the figures above are exclusive of VAT.**

#### **Required:**

- (a) Calculate the amount of VAT payable/refundable for the month of March 2016.

(15 marks)

- (b) State the due date when the VAT calculated in part (a) above should have been paid, and explain the consequences of paying the VAT late. (5 marks)

**[Total: 20 Marks]**

## **QUESTION TWO**

Kosapo Ltd is a Zambian resident company which operates from the North-Western province of Zambia. The company imported the following motor vehicles:

### **Marcopolo Bus**

The bus is mainly used to transport employees to and from work. The purchase price of the Bus was \$60,800. The company paid shipping costs of \$2,500 and Insurance costs of \$3,800 from Japan up to the port of Dar-es-Salaam. Incidental costs amounted to \$1,100 from Dar-es-Salaam up to Nakonde border post. The company incurred further costs of \$6,700 from Nakonde to Solwezi. The seating capacity of the bus is 55 passengers.

### **Fuso Fighter Truck**

The company decided to buy a truck to help the company deliver goods to customers from far places. The purchase price of the truck was \$42,700. The company paid shipping costs of \$2,300 and Insurance costs of \$3,200 up to the port of Dar-es-Salaam. Other incidental costs incurred from Dar-es-Salaam to Nakonde border post were \$1,200. The company incurred further costs amounting to \$5,460 from Nakonde to Solwezi. The gross weight of the truck is 19 tonnes.

### **Range Rover car**

The company bought this 3400cc car for the managing director as a personal-to-holder car. The purchase price of the car was \$45,600. Freight charges amounted to \$2,800 and insurance costs were \$4,300. Incidental costs amounted to \$960 up to the border of Nakonde. The company incurred K15,720 including vehicle registration to transport the vehicle from Nakonde to Solwezi.

The motor vehicles were acquired in April 2016 and arrived at Nakonde border post in June 2016. On this date, the Commissioner General's approved exchange rate was K10.32 per US\$1.

### **Required:**

- (a) Calculate the total amount of import duties paid by Kosapo Ltd on each motor vehicle imported. (18 marks)
- (b) Define customs duty. (2 marks)

**[Total: 20 Marks]**

## **QUESTION THREE**

- (a) Zambia is a member of a number of regional groupings. This makes it import and export goods to other countries. The customs and customs division charges taxes on imports and exports of goods.

**Required:**

- (i) Explain two (2) roles of the Customs and Excise Division of Zambia Revenue Authority (ZRA) in the exportation of goods. (4 marks)
  - (ii) Define what a bonded warehouse is, and briefly explain three (3) advantages to the importer of goods. (6 marks)
- (b) Zambia has entered into international trade agreements for the benefit of importers and exporters. It is in this spirit that Zambia is a member of COMESA and SADC. If goods are originating from a member state, they may receive preferential tariff treatment.

**Required:**

Explain five (5) origin conferring criteria for goods to be accepted as originating in a member state. (10 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) Where a VAT registered supplier has a disagreement with the ZRA, a request may be made for ZRA internal review or appeal to the Revenue Appeal Tribunal (RAT).

**Required:**

Explain the matters that can be lodged to the Revenue Appeal Tribunal where ZRA cannot resolve internally. (5 marks)

- (b) Yakanga Limited paid VAT collected in the month of March 2016 on 1<sup>st</sup> May 2016 (10 days late). The amount due was K120, 000.

**Required:**

Calculate the penalty and interest payable on the late payment. (4 marks)

- (c) One of the current contentious issues of VAT repayable is to the mining sector businesses.

- (i) Explain the VAT consideration in the mining sector. (2 marks)
- (ii) Explain why the VAT repayable to the mining companies is a contentious issue. (5 marks)

- (iii) Explain the current VAT consideration in the banking and financial services and state any three (3) banking services that are standard rated. (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

The Zambia Revenue Authority (ZRA) is the agency of the Republic of Zambia charged with the responsibility of collecting taxes on behalf of the government. In order to effectively discharge this responsibility, it has divisions that have specific functions. One of these divisions is the customs and excise division.

**Required:**

- (a) State any five (5) of the taxes collected by the customs division. (5 marks)
- (b) Explain any four (4) of the functions of customs division apart from collecting revenue. (4 marks)
- (c) Explain the various powers of ZRA officers of the Customs Division. (5 marks)
- (d) Explain the various methods used for the valuation of goods and services for customs and excise duty purpose. (6 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## December 2016 Examinations

### C5 SOLUTIONS

#### Solution One

##### a. KUTI LTD

##### VAT PAYABLE FOR THE MONTH OF MARCH 2016

| OUTPUT VAT                                    | K       | K                |
|-----------------------------------------------|---------|------------------|
| Exempt sales: K2,500,000 X 10%                |         | -                |
| Zero-rated sales: K2,500,000 X 20% X 0%       |         | 0                |
| Standard-rated sales: K2,500,000 X 70% X 16%  |         | 280,000          |
| Standard-rated Van: K162,400 X $\frac{4}{29}$ |         | <u>22,400</u>    |
|                                               |         | 302,400          |
| INPUT VAT                                     |         |                  |
| Standard-rated purchases:                     |         |                  |
| K1,200,000 X 60% X 16%                        | 115,200 |                  |
| Exempt purchases                              | -       |                  |
| Bad debts written off: K25,000 X 16%          | 4,000   |                  |
| Overheads: K30,000 X 90% X 16%                | 4,320   |                  |
| Petrol: K80,000 X 16% X 20%                   | 2,560   |                  |
| Diesel: K120,000 X 16%                        | 19,200  |                  |
| Entertaining customers & suppliers            | -       |                  |
| Marketing expenses: K15,600 X 16%             | 2,400   |                  |
| Delivery van: K185,600 X $\frac{4}{29}$       | 25,600  |                  |
| Toyota prado car                              | _____   | -                |
|                                               |         | <u>(173,280)</u> |
| VAT payable                                   |         | <u>129,120</u>   |

- b. The due date for payment of VAT is 21<sup>st</sup> day of the month following the month to which the VAT relates. KUTI Ltd should have paid the VAT before or on 21 April 2016.

The consequences of paying the VAT late are a daily penalty of 0.5% of the amount of VAT payable (that remains unpaid), plus interest on overdue VAT at 2% above the Bank of Zambia discount rate per annum.

## Solution Two

### a. Marcopolo Bus

Value for Duty Purposes

|                  |                |
|------------------|----------------|
|                  | \$             |
| Cost             | 60,800         |
| Shipping costs   | 2,500          |
| Insurance costs  | 3,800          |
| Incidental costs | <u>1,100</u>   |
| VDP in US\$      | 68,200         |
| Exchange rate    | <u>K10.32</u>  |
| VDP in ZMW       | <u>703,824</u> |

Value of the vehicle Total duties

|                            |                |                |   |
|----------------------------|----------------|----------------|---|
|                            | K              | K              |   |
| VDP for customs duty       | 703,824        |                |   |
| Customs duty @15%          | <u>105,574</u> | 105,574        | 1 |
| VDP for excise duty        | 809,398        |                |   |
| Excise duty@0%             | <u>0</u>       | 0              |   |
| VDP for import VAT         | 809,398        |                |   |
| Import VAT @ 16%           | <u>129,504</u> | 129,504        |   |
| Total Value of the vehicle | <u>938,902</u> |                |   |
| Total duties paid          |                | <u>235,078</u> |   |

### Fuso Fighter Truck

Value for Duty Purposes

|                  |                |
|------------------|----------------|
|                  | \$             |
| Cost             | 42,700         |
| Shipping costs   | 2,300          |
| Insurance costs  | 3,200          |
| Incidental costs | <u>1,200</u>   |
| VDP in US\$      | 49,400         |
| Exchange rate    | <u>K10.32</u>  |
| VDP in ZMW       | <u>509,808</u> |

Value of the vehicle Total duties

|                            |                |                |
|----------------------------|----------------|----------------|
|                            | K              | K              |
| Value for duty purposes    | 509,808        |                |
| Customs duty @15%          | <u>76,471</u>  |                |
| VDP for excise duty        | 586,279        |                |
| Excise duty @ 10%          | <u>58,628</u>  | 58,628         |
| VDP for import VAT         | 644,907        |                |
| Import VAT @16%            | <u>103,185</u> | 103,185        |
| Total value of the vehicle | <u>748,092</u> |                |
| Total taxes paid           |                | <u>238,284</u> |

### **Range Rover Car**

|                         |                |
|-------------------------|----------------|
| Value for duty purposes | \$             |
| Cost                    | 45,600         |
| Freight charges         | 2,800          |
| Insurance cost          | 4,300          |
| Incidental costs        | <u>960</u>     |
| VDP in US\$             | 53,660         |
| Exchange rate           | <u>K10.32</u>  |
| VDP in ZMW              | <u>553,771</u> |

|                            |                           |                   |
|----------------------------|---------------------------|-------------------|
|                            | Value of the vehicle<br>K | Total duties<br>K |
| VDP for customs duty       | 553,771                   |                   |
| Customs duty @25%          | <u>138,443</u>            |                   |
| VDP for excise duty        | 692,214                   |                   |
| Excise duty @30%           | <u>207,664</u>            | 207,664           |
| VDP for import VAT         | 899,878                   |                   |
| Import VAT @16%            | <u>143,980</u>            | 143,980           |
| Total value of the vehicle | <u>1,043,858</u>          |                   |
| Total taxes paid           |                           | <u>490,087</u>    |

- b. Customs duty is the tax charged or imposed by the Government on all imported goods.

### **Solution Three**

- a. The main role of the customs and excise division in the exportation of goods:
  - I. Customs and excise division of Zambia Revenue Authority controls all exports to ensure the enforcement of national legislation concerning export prohibition and restrictions. Restricted goods can only be exported after obtaining an export permit.
  - II. The customs and excise division also collects information needed for preparation of national trade statistics.
- b. A bonded warehouse is a building, an installation or an area licensed, in terms of section 55 of the customs and excise Act, in which goods may be stored without payment of duty.

The following are the advantages of a bonded warehouse:

  - I. Goods can be stored without payment of duty, thus giving the importer enough time to source for funds.
  - II. Some goods may sell slowly due to fluctuating demand, hence duty can be paid according to demand.
  - III. Constant supply of raw materials can be assured in manufacturing industry by importing in bulk and payments being made according to production demands.
- c. The following are the origin conferring criteria:
  - I. Goods wholly produced in a member state (that is, no raw materials from outside the regions have been used in their manufacture).
  - II. Goods produced in a member state and the Cost, Insurance, and Freight (CIF) value of any foreign (that is non-COMESA or SADC) materials used does not exceed 60% of the total cost of all materials used in the production; or
  - III. Goods produced in member states whose value added resulting from the process of production accounts for at least 35% of the ex-factory cost of the goods.
  - IV. Goods produced in member states designated in a list by the council to be of particular importance to the economic development of the member state.
  - V. Goods satisfying the change of tariff heading resulting from their process of manufacture where some raw materials are imported.

### **Solution Four**

- (a) Matters that can be lodged to the Revenue Appeal Tribunal where ZRA cannot resolve internally are:
- Registration of taxable suppliers, or cancellation of registration, or refusal to register a supplier.
  - Tax assessed on any supply of goods/services or the importation of goods.

- Input tax that may be claimed by a taxable supplier.
- The application of any rule providing for the apportionment or disallowance of input, tax: or
- Notice requiring early payment of tax or security.

(b) Late payment of VAT due is calculated as follows:

- For late payment of VAT ½% of the tax due for each day the VAT is unpaid
- Interest chargeable for each month or part of a month that a payment is overdue and is charged at the Bank of Zambia discount rate plus 2% per annum.

Therefore the penalty for late payment of VAT was:

$$- \text{K120, 0000} \times \frac{1}{2}\% \times 100 \text{ days} = \text{K6,000}$$

The interest payable on the amount outstanding for late payment was:-

$$- \text{K120, 000} \times (13\% + 2\%) \times \frac{10 \text{ days}}{365 \text{ days}} = \text{K493}$$

(c) The VAT considerations in the Mining sector are that:

Exports of the mines are zero-rated. However minerals sold locally attract VAT. Hospital charges in mine-run hospitals are zero-rated. Inputs such as electricity, coal, haulage services, mining contractor costs, copper concentrates, loader spares and other items directly linked to production including consumable items used in the production process are standard rated. The input tax on them is claimable. Standard rated non-claimable items are usually those that are not processed further, including transport, uniforms, paper, beverages, etc.

- (i) The VAT repayable to the mining companies is a contentious issue, because there must be proof of exportation such as:-
  - Commercial invoices
  - Certified copies of the documents presented to Zambian Customs at exportation
  - Certified copies of customs import at the country of destination
  - Proof of payment (settlement) if applicable
- (ii) In addition some of the mining companies rarely paid the scrapped windfall tax, resulting in the ZRA not having enough resources to effect the repayment.
- (iii) Effective from 1 January, 2011, some backing services which are fee based became standard rated.

Accordingly various banking services are standard rated as follows:

- Commissions on drafts and transfers
- Commission on foreign drafts and transfers
- Commissions on certified vouchers, managers' bank cheque
- Standing orders
- Commission on status enquiry
- Excess withdrawal fees
- Administration charge imposed on customer exceeding overdraft limit
- Commission on invoices discounted
- Stop payments
- Commission on on-line and TT transactions
- Own acceptances
- Cable charges
- Commission on lost connect cards
- Commission on postage
- Commission on guarantees negotiated.

### **Solution Five**

(a) The various taxes collected by the customs division at ZRA are:-

- Customs duty – tax on goods imported into Zambia.
- Excise duty – tax some imported goods as well as goods manufactured in the country of a luxury nature.
- Import VAT – VAT on imports at the entry point into Zambia based on value for duty purposes (VDP).
- Fuel levy – tax on fuel e.g. petrol and diesel
- Dumping duty – tax on goods which are imported into Zambia which unfairly disadvantage Zambian goods and as such the tax is meant to protect Zambian industries from unfair competition.

(b) Apart from collecting the above named taxes and duties, the customs division has various other functions which include:-

- (i) Ensuring compliance by tax payers and collection of the various taxes under customs division.
- (ii) Management of customs and excise duty.

- (iii) Licensing and control of imports.
  - (iv) Facilitation of trade and movement of goods.
- (c) The various powers of ZRA officers of the customs division include;
- (i) To stop and search any person including those within or upon any ship, aircraft, or vehicle, whom they have good reason to suspect of having secreted about them or in their possession any dutiable goods or any goods in respect of which there has been a contravention of the law.
  - (ii) For the protection of revenue and proper administration of the customs and excise Act, an officer may;
    - Enter any shop, office, store, structure or enclosed area for making such examination and enquiry as he considers necessary;
    - Demand for any book, document or thing which is required under the Act;
    - Examine and make extract from and copies of such books and documents.
    - Take with him onto such premises an Assistant who may be a Police Officer.
- (d) When charging customs or excise duty, the transaction value of the item is determined as follows;
- (i) The purchase invoice value.
  - (ii) Rentals payable on leased goods.
  - (iii) Identical goods valued at CIF (i.e. cost, insurance and freight).
  - (iv) Similar goods imported based on CIF.
  - (v) The computed value or cost of production.
  - (vi) The residual value.
- The determination of the transaction value is done in the order given above.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C6: LAW FOR TAX PRACTITIONERS

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FRIDAY 16 DECEMBER 2016

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

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**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. **Cell Phones** are **NOT** allowed in the Examination Room.
6. 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

## **Attempt all FIVE (5) Questions**

### **QUESTION ONE**

- (a) Discuss the difference between the Articles of Association and the Memorandum of Association (8 marks)
- (b) Explain the following terms:
  - (i) Stoppage in transit (3 marks)
  - (ii) Conditional sale (3 marks)
- (c) Distinguish a finance lease from an operating lease (4 marks)
- (d) Explain a leasehold under land law (2 marks)

**[Total: 20 marks]**

### **QUESTION TWO**

- (a) Explain consideration and the three (3) rules that govern it. (10 marks)
- (b) Jombo owned a Maize Mill in Chipata which he insured in his name with Copper Insurance Company. He later incorporated the business to Jombo & Co. Ltd but did not change the insurance policy. The Mill was consequently gutted by fire and Jombo's claim for compensation from the insurance company was turned down. He has sued the Insurance Company for breach of the insurance contract.  
Explain if he can succeed. (10 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Define a collective dispute? (4 marks)
- (b) Explain the procedure for settling a collective dispute. (12 marks)
- (c) Explain two rights of a seller under a hire-purchase agreement. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) List any five (5) consequences of incorporating a company. (5 marks)
- (b) Give any three (3) similarities between a company and a partnership. (3 marks)
- (c) Discuss three (3) duties of the principal in an agency relationship. (3 marks)
- (d) Explain "*uberrimae fidei*" in insurance law. (5 marks)
- (e) List any four (4) sources of law in Zambia. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) With reference to Company law in Zambia, explain:
  - (i) Incorporation (3 marks)
  - (ii) Effects of incorporation (3 marks)
  - (iii) Statement of affairs (3 marks)
- (b) Explain the three (3) types of endorsements for legal transfer of title in banking. (6 marks)
- (c) Explain employee's shares (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## December 2016 Examinations

### C6 SOLUTIONS

#### **Solution ONE**

(a)

##### **(i) Articles of Association**

Articles of association are documents that provides for the regulation of the internal activities or the running of the company. They also formulate the basis of the relationship between the company and its members.

This document can only be amended by way of a special resolution by the company as per section 8 of the Companies Act Chapter 388 of the Laws of Zambia.

It for example deals with issues to do with transfer of shares, director's powers, procedure at meetings, the payment of dividends and the secretary. It is a must that every company must have these articles.

##### **(ii) Memorandum of Association**

This is a document that which contains information meant for the general public as to business name, share capital, address of registered office, the objects clause and the statement that the liability of its members is limited. It also states the amounts into which the share capital is sub divided to the shareholders. It is vital to note that every clause of the memorandum may be altered except the registered office clause, i.e. the country of incorporation cannot be altered.

#### **(b) Briefly explain the following terms:**

##### **(i) Stoppage in transit**

This is one of the remedies that a seller has in the event of the buyer's default in payment for the goods. In an event that there is a sale of specific goods in which the property has passed to the buyer but the goods have not yet been delivered, that is , the goods are in transit to the buyer but the buyer has not taken possession of them. Thus, the seller can detain the goods before dispatch and if already dispatched has a right of recovering them from the carrier.

##### **(ii) Conditional sale**

Here, the property in the goods does not pass to the buyer until full payment is made but gives the buyer immediate possession of the goods. The position under a conditional sale is that the parties are committed to buy and sell at the outset. Thus, in a conditional sale agreement, the

customer has agreed to buy the goods from the outset and hence can pass good title to a third party.

### **(c) Distinguish a finance lease from an operating lease**

#### **(i) A Finance Lease**

A finance lease involves a lease of an asset such as a machinery to a commercial customer under an agreement which is non-concealable or only concealable on payment of a financial penalty. The agreement is set such as to allow the lessor to recover all or the major part of the capital cost of the asset plus profit. It is normally the responsibility of the lesser to maintain, repair and even insure the asset with an option to continue leasing the asset at reduced rental after the end of the lease agreement.

#### **(ii) Operating Lease**

This is a lease that is normally for a short term purpose and the lessor only contemplates that the asset will be let under a series of short leases to different lessees during the life of the asset. Thus, it is normally, the responsibility of the lessor to maintain, repair and even provide insurance for the leased asset.

### **(d) Explain a leasehold under land law**

This is a type of tenure that is created with limited life duration out of a freehold tenure. It must be noted that at the end of the period of less for example 99 years, the land reverts to the freeholder absolutely.

Thus, the features to note under leasehold are

- i. Right to exclusive possession
- ii. It is for a definite term

Creates a landlord and tenant relationship.

### **Solution TWO**

- (a) Consideration can be defined by case law in two ways: in *Currie v Misa, 1875*, it is some right, interest, profit or benefit accruing to one party, or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other. A simpler definition is found in *Dunlop v Selfridge & Company Ltd. 1915*, where consideration is defined as the price which buys the promise.

The rules of consideration are:

-consideration must move from promisee to promisor because the person to who the promise is made must pay the price (consideration).

-consideration must be sufficient in law. This means that courts do not concern themselves with a poor bargain, leaving this to the freedom of parties. But they will require that something of value, however small, has been given in return.

-consideration must not be past because if it is past, it cannot be used again. Consideration is past when it has been used to support another promise and cannot support another promise. For example in *Roscorla v Thomas, 1842*, the defendant assured the plaintiff after concluding a contract of sale of the horse, that the horse was not hostile. When this turned out to be untrue, the plaintiff sued the defendant for breach of warranty of soundness of the horse. It was held that the second promise was supported by consideration which was used in the contract of sale and could not be used again since it was past. The plaintiff needed to supply fresh consideration after the second promise was made, but he did not.

- (b) For a person to be compensated under an insurance contract, he must have an insurable interest in the insured property, which is either proprietary or contractual. When Jombo incorporated the maize mill which he had earlier insured in his name, he lost the proprietary interest of the mill in favour of the new owner, Jombo & Co. Ltd. Unfortunately the new owners did not insure the mill, and when it was gutted by fire, it was uninsured. Jombo lost the insurable interest in the mill when he incorporated it.

The principles established in *Salomon v. Salomon*, is that a company is separate from its owners, thus a company is an independent person with capacity to sue and be sued in its own name, capacity to own assets in its name. Thus Jombo and Company is separate from Mr. Jombo. Following the court decision in *Macaura v. Northern Assurance Co. Ltd (1925) AC 619*, Jombo though being the main shareholder and effectively owner of the company, he has no insurable interest in the mill as it now belonged to the company and not him. The only person who may claim should be the company, provided it had insured the mill in its name. Now that it did not, Mr. Jombo's claim will not succeed.

### **Solution THREE**

- (a) A collective dispute is a dispute between the employer or employer's association and the trade union, and where one party has presented to the other in writing its claims and demands.
- (b) The procedure for settling a collective disputes is as follows:
- The parties refer the matter to the conciliator or board of conciliation.
  - the conciliator summons the parties within 7 days
  - failure to resolve the dispute, parties may refer the matter to the court or conduct a ballot for strike or lock-out in a simple majority basis.
  - strike or lock-out commences 10 days after the vote.

- the Minister of Labour may intervene at any time to settle the dispute using his good offices,
- or he may apply to court to quash the strike if its continuance is not in the public interest.

(c) The rights of a seller under a hire-purchase agreement are:

- Right to repossess goods when the hirer defaults installment payments
- Right to terminate the contract by giving reasonable notice
- Right to charge interest on all overdue amounts
- Right to be indemnified of any loss or damage to the goods

### **Solution FOUR**

(a) When a company is incorporated, there are several consequences which follow.

The following are the consequences of incorporating a company:

- The company becomes a separate legal entity at law
- The company can own property in its own name
- The company can sue and be sued
- The company has limited liability
- The company has perpetual succession
- The company is liable for its own debts
- The company can sell shares
- The company can borrow money
- The company can be held liable in tort and contract

(b) There are several similarities that exist between a company and a partnership.

- They are both business associations
- They are both regulated by Acts
- They both are aimed at making profits
- They both have formalities to be followed before they can be registered.
- They are both regulated by PACRA in Zambia

(c) **Principal**

- Duty to pay for services performed
- Duty to act in good faith

- Duty indemnify the agent
- Duty to frustrate the agent in the performance of his duties
- Duty to provide the agent with relevant information

(d) The meaning of *uberrimae fidei* is that an insurance contract is a contract of utmost good faith, based on trust and honesty. Both parties to an insurance contract are expected to furnish each other with true information or details pertaining to the contract.

(e) The following are the sources of law in Zambia:

Statutes

Delegated Legislation

Case Law

Books of Authority

Customary law

International law

### **Solution FIVE**

(a)

- i) Incorporation of a company is where two or more people apply through the prescribed forms under section 6 of the Company's Act Cap 388 of the Laws of Zambia to have their company registered by the Registrar of Companies at PACRA. Section 6 of the Act prescribes forms to be completed by applicant and stipulates the documents to be lodged together with the application. Upon approval by the registrar, the company then stands registered and is born as an artificial person.
- ii) Effects of incorporation are that the company stands alone from its sponsors and has legal capacity to sue or be sued in its own name. Upon incorporation, the company is liable for its debts and sponsors cannot be answerable for the company's debts. ***Salomon v Salomon*** is instructive on this. In the case the court held that once incorporated, a company becomes a separate legal personality and can be held liable for its actions and not the sponsors. Even where the company is a sole trader as long as it is incorporated the sole owner cannot be held liable for the acts of the company.
- (iii) A statement of affairs is a document required to be made by the debtor pursuant to section 16 of the Act. The statement of affairs shows the assets and liabilities and the details of the debtor's creditors. In the case of a company, a company in

liquidation is required to prepare a statement of affairs by the date of winding up which should indicate the assets, debts and liabilities. Names and addresses of creditors, securities held by each of the creditors, dates on which securities were given and any other information as requested by the liquidator. Per section 287 of the Company's Act.

(b) Types of endorsements:

- (i) Endorsement in blank – this is where a negotiable instrument is signed by the drawer either at the front or back of the instrument thereby making it payable to the bearer.
- (ii) Special endorsement – is one where the holder signs the cheque on its back with directions to pay a specified person.
- (iii) Restrictive endorsement – as the name suggests this endorsement restricts the payment of the instrument only to the person named on the instrument. Special and restrictive endorsements are not very distinct as they both look at specific payees.

(c) Employee's shares

An employee may buy and own shares of any class in the company in which he is employed or its subsidiary company as long as he adheres to the terms and conditions fixed by the board of directors. The Companies Act also provides that where a company proposes to issue such rights or options to one or more employees then this shall be adopted at a general meeting by special resolution.

**END OF SOLUTIONS**