



JUNE 2018 EXAMINATIONS

CHIE EXAMINERS REPORTS

DIPLOMA

IN

TAXATION

## **SUBJECT: C1-BUSINESS MANAGEMENT**

### **INTRODUCTION**

In this paper, all five questions were compulsory. Four (4) candidates sat for the exam. Out of which 2 passed, representing 50% pass rate and 2 candidates failed, representing 50% fail rate. In preparing this report input was sought from the markers in the marking panel, and their opinions are here-in presented:

In preparing this report input was sought from the markers in the marking panel. The following are addressed:

### **Analysis of Questions:**

#### **QUESTION ONE**

4 candidates attempted this question and all the 4 failed, representing 100% fail rate. The question had two parts; on organization structure and on leadership respectively

(a) Most candidates did define the Matrix structure but failed to explain the benefits to the organization and hence they lost marks.

(b) (i) Leadership may be defined as getting others to follow or getting people to do things willingly or the use of authority in decision-making. It is related to motivation, interpersonal behaviour and the process of communication. It may also be referred to as a relationship through which one person influences the behavior or actions of other people. To people outside the organization the manager might not necessarily be seen in a leadership role. The emphasis of Leadership is on interpersonal behavior in a broader context. It is often associated with the willingness and enthusiastic behavior of Leadership which does not necessarily take place within the hierarchical structure of the organization.

Most Candidates were able to get the definition basically correct in a basic manner.

(ii) Most candidates could not give the correct definitions of the leadership styles listed below and hence lost marks:

- 1- The Authoritarian/Autocratic style
- 2- The Democratic style
- 3- The Laissez-faire style

## **QUESTION TWO**

4 candidates attempted this question. Out of which 2 passed, representing a pass rate of 50%. The question had two parts, one on corporate code of ethics and the second part on partnership.

- (a) (i) The question required the candidates to define the corporate codes of ethics and list any three principles. The expected solution includes:

Corporate Code of ethics or ethics code may be defined as a written set of guidelines issued by an organization to its workers and management to help them conduct their actions or business in accordance with its values and ethical standards. For instance a code of ethics for accountants has been issued by the **International Federation of Accountants (IFAC)**, which represents all the major accountancy bodies around the world.

Principles of the code include:

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality

- (ii) Most candidates could not come up with what the question was asking for.

The expected solutions include;

- Trust
- Honesty
- Respect
- Empowerment
- Accountability

- (b) Most candidates attempted to answer the question but failed to give the required number of solutions and hence lost marks. Candidates needed to state why the partnership will be ideal form of business and why it cannot be ideal.

## **QUESTION THREE**

4 candidates attempted this question and all the 4 passed representing a pass rate of 100% pass rate.

- (a) Most of the candidates correctly stated the characteristics well and got full marks.
- (b) The question was straightforward and most candidates explained how social and demographic factors may affect demand of a product and got it correct.

#### **QUESTION FOUR**

4 candidates attempted this question. Out of which 2 passed, representing a pass rate of 50%. And 2 failed representing a 50% fail rate; the question was on two parts; on communication and on Leadership. Candidates were required to;

- (a) Briefly explain any five reasons why communication is important to business organizations.

This part of the question was well answered by most candidates and they got full Marks.

- (b) Discuss the five Leadership styles according to Blake and Mouton managerial grid

Most candidates failed to answer this part correctly. The expected solutions were as follows;

**1.1 Impoverished:** This point shows that the manager had little concern for both workers and production, he/she is lazy.

**1.2 Country Club:** The manager is employee oriented which means he/she pays more attention to employees than production or task.

**1.3 Task:** The manager is more concerned with tasks to be performed than relationships with employees.

**1.4 Middle of the road:** The manager is at the middle where he/she shows equal concern for production and employees.

**1.5 Team Management:** This is the ideal leadership style where the manager shows high concern for production and employees.

## **QUESTION FIVE**

4 candidates attempted this question. Out of which 2 passed, representing a pass rate of 50%. And 2 failed representing a 50% fail rate; the question had two parts; organization structure and on marketing. Candidates were required to;

- (a) Most candidates were able to answer the first part but failed to answer the second part. The expected solutions included;
  - (i) Marketing mix elements are crucial tool to help understand what the customers want as they affect the consumer decisions to buy or not. They are price, product, promotion, and place.
  - (ii) The market research process he can use
    - i. Define the problem and research objectives.
    - ii. Develop the research plan for data collection.
    - iii. Data collection and analysis.
    - iv. Interpreting and reporting the findings.
- (b) This part was well answered by most candidates.

### **Overall performance of candidates**

Highest mark obtained in this paper:	63%
Lowest mark obtained in this paper:	21%
Average score in this paper:	40.3%

## **SUBJECT: C2-ECONOMICS AND FINANCIAL MATHEMATICS**

A total number of **14** candidates sat for this examination. The overall performance of candidates in this paper was good. The pass rate was **64%**. The highest mark awarded was **74%** and the lowest **17%**. The paper consisted of five compulsory questions.

### **The analysis of the questions is as follows:**

#### **QUESTION ONE**

This question was divided into three parts:

Part (a) required candidates to explain how consumption of merit goods such as education generates positive externalities for society. Candidates should define what a merit good is and recognize that such goods are under-consumed leading to inefficient free market outcome. Thus, the marginal benefit to society curve shifts to the left. Candidates performed poorly.

Part (b) required candidates to discuss whether or not they agree that the given statement that "banks do not create money.....). Correct answers should have disagreed and then explained how banks create money through granting of loan.

Part (c) required candidates to explain any three traditional methods used by the bank of Zambia to control money supply. Candidates should have explained Discount Rate Policy, Required reserve policy and Open Market Operations policy. Answers were not very good.

#### **QUESTION TWO**

This question was divided into three parts namely (a), (b) and (c).

Part (a) tested candidates' understanding on the work of World trade Organisation in promoting economic growth, increased consumer choices, reduced costs of production and good governance. Good candidates scored well here while weak candidates could not answer the question as required.

Part (b) tested candidates understanding of International Terms of Trade particularly CIF. Performance was bad.

Part (c) tested candidate's knowledge on the arguments for and against the use of progressive taxation. Performance was fair.

### QUESTION THREE

This question tested candidates' understanding on NPV and IRR, and bond calculations. It was divided into three parts (a, (b) and (c).

Part (a) (i) required candidates to calculate NPV at 15% and

(ii) at 20% then use the answers to calculate

(iii) IRR.

(iv) Last recommend whether or not the project was worthwhile using IRR method.

The answers were fair. The major problem was that workings were incomplete and candidates are advised not to omit any steps because doing so reduces their final score.

Part (b) tested candidates on definitions of floater and coupon rate and finally

In (c) the calculation of the issue price of the bond. This was poorly done. Many candidates could not use the correct formula.

### QUESTION FOUR

This question was divided into three parts:

Part (a) required candidates to calculate the least square regression line. Overall performance on this question was good. However, weaker candidates could not calculate  $\Sigma X$ ,  $\Sigma Y$ ,  $\Sigma XY$ , and  $\Sigma X^2$  before substituting hence lost easy marks.

Part (b) required candidates to calculate probabilities.

(i) Required candidates to apply the complementary rule of probability given  $P(\text{female}) = 0.25$ . The required answer was  $1 - 0.25 = 0.75$ .

(ii) Tested candidates on the use of multiplication rule of probability. The key word is 'and'.

(iii) Tested candidates on the use of addition rule. The key word is 'or'.

Part (c) simply required the use of Poisson Distribution to calculate the probability. Many candidates got this wrong as some used the Binomial Formula while others simply left it unanswered. Candidates are urged to understand the characteristic features of probability distributions to answer questions in this area well.

## **QUESTION FIVE**

This is the question where candidates scored the lowest mark on the paper. This question was divided into three parts:

Part (a) required candidates to define (i) Yield to Maturity, and (ii) Price Value of a Basis point. Definitions were very poor indicating that some candidates ignore the theoretical issues when studying.

Part (b) required candidates to construct the amortization schedule for the bond. Candidates should have first worked out the price of the bond before constructing the schedule.

Part (c) required candidates to calculate the present value of perpetuity. This was a very simple question. All students needed was to use the correct formula, that is  $PV = a/r$ . Weak candidates used a wrong formula. Good candidates performed very well here.

## **CONCLUSION**

Candidates are urged to seriously study the entire syllabus. Question spotting was implicitly assumed by the markers and indication that students fail to cover the syllabus in their preparation for the exam. The C 2 Study Manual has all the materials that students have to use to pass the examination.

### **Overall performance of candidates**

Highest mark obtained in this paper:	74%
Lowest mark obtained in this paper:	17%
Average score in this paper:	47.1%



## **SUBJECT: C3 –ACCOUNTANCY FOR TAX PRACTITIONERS**

The question paper consisted of FIVE (5) compulsory. The total candidature in the June 2018 examination diet was 13 out of which 3 candidates passed representing a pass rate of 23.1%.

### **Analysis of Questions:**

#### **QUESTION ONE**

- a) i) This question required candidates to prepare journal entries. The average performance was 3 marks out of 6 available marks. Most candidates attempted this question.
- ii) Required candidates to prepare income statement for partnership. Most candidates who attempted the question scored 3 out of 6 available marks.
- b) Required candidates to prepare the appropriation account for the partnership. Most candidates who attempted this question failed to compute correctly the values for salaries and interests to be subtracted from the net profit.

#### **QUESTION TWO**

This question required candidates to prepare the income statement and statement of financial position (final accounts). This question was well attempted and most candidates managed to score above 15 marks out of 20 available marks. The general performance in this question was very good.

#### **QUESTION THREE**

This question required candidates to prepare a statement of cash flow for the year ended 30 September 2017. The general performance in this question was very poor and this is due to lack of preparation by students.

#### **QUESTION FOUR**

This question was attempted by 90% of candidates with the general performance of 5 out of 20 marks. The question was divided into two parts:

- a) This part required candidates to assess the financial operating performance in comparison to its sector average. Most candidates who attempted the question performed poorly.
- b) This part of the question required candidates to explain limitations on the usefulness of ratios. The general performance in this part of the question was good.

## **QUESTION 5**

- a) This question required candidates to prepare the updated cash book. Most candidates who attempted the question performed very well.
- b) This section of the question required candidates to prepare bank reconciliation statement. The general performance in this section was 3 marks out of 4 available marks. Over 95% of candidates attempted this question.
- c) This section of the question required candidates to state the criteria of Assets, liabilities, incomes and expenses. Most candidates who attempted this section of the question were explaining what these elements are instead of stating the criteria of the elements. The general performance was very poor.

### **Overall performance of candidates**

Highest mark obtained in this paper:	53%
Lowest mark obtained in this paper:	13%
Average score in this paper:	39.2%

## **SUBJECT: C4- DIRECT TAXATION**

The question paper consisted of FIVE (5) compulsory questions. The total candidature in the June 2018 examination diet was 23 out of which 12 candidates passed representing a pass rate of 52%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had two parts (a), and (b). In part (a) (i), (ii) and (ii) candidates were required to explain the procedure followed in appointing a Commissioner General of ZRA, functions of the operating divisions of ZRA and other sources of revenue for the government.

In part (b) candidates were required to explain the types of persons who are liable to provisional tax and to calculate the provisional and final tax in a case study.

In part (a) (i) and (ii) most candidates were able to explain the procedure for appointment of the Commissioner General and the functions of the operating divisions of ZRA (Domestic taxes division and Customs division). Some candidates failed to explain the other sources of revenue for the central government apart from tax revenue in part (a) (iii). The other sources of revenue which candidates were required to explain include privatization, international borrowing, donor funding and issue of government securities. In this part of the question the performance by most candidates was not good.

In part (b) (i) most candidates' demonstrated lack of knowledge as they failed to explain the person required to pay provisional income tax. The types of person required to pay provisional income tax include any person whose annual turnover is above K800,000, any person whose taxable income is more than the tax free amount of K39,600 and any person whose income is subjected to tax under pay as you earn system. In part (b) (ii) and (iii) the performance by most candidates was not impressive as they failed to compute the provisional income tax and the final income tax payable. The main challenge on this part of the question was that candidates could not differentiate how income tax for individuals and companies is computed. Most candidates were using the flat rate of 35% which is the rate applicable to companies. Candidates were supposed to use the income tax bands i.e. First K39,600 @0%, Next K9,600 @25%, Next K25,200 @30% and excess over K74,400 @37.5%. Using these bands the correct provisional income tax on the estimated profit of K585,000 was coming to K201,435 payable in four equal installments. The income tax liability on the actual taxable profit of k620,000 was K214,560 giving rise to the income tax payable of K13,125 (K214,560 – K201,435).

The overall performance on this question was average because 56% of the candidates who attempted this question scored more than 10 marks.

## **QUESTION TWO**

This question had three parts (a), (b), and (c) where candidates were required to calculate the capital allowances and the final adjusted taxable profit and to explain the basis rules applicable in the relevant tax years.

In part (a) candidates were required to compute capital allowances claimable for the tax years affected in the question which were 2017 and 2018. The performance on this part of the question was very poor because most candidates failed to compute the capital allowances. However, it should be noted that capital allowances has always been a challenging subject area for candidates. The challenge for most candidates was failure to calculate the balancing allowance from the disposal of the motor car during the tax year 2017 which was supposed to be calculated as the difference between the cost of the car and the disposal proceeds. The cost was used because no capital allowances were claimed on the motor car. The balancing allowance was supposed to be restricted to business use of 50%. i.e.  $(K62,800 - K48,000) \times 50\% = K7,400$ .

The main challenge for most candidates in computing the capital allowances for the tax year 2018 was failure to apply the correct wear and tear rate. Some candidates demonstrated lack of knowledge on the basic rules of capital allowances such as; (i) capital allowances are claimed in full in the year of purchase and none in the year of disposal, (ii) capital allowances are claimed on straight line basis on cost of the asset until the cost is written down to zero. Most candidates were apportioning capital allowances proportionate to time especially for the tax year 2017.

In part (b) the performance by most candidates was not good because they demonstrated lack of knowledge on accounting dates and basic rules. In the case of Jonasi, the basic rules applicable were "commencement rules". Candidates were supposed to explain how the period for the first set of accounts was to be treated for tax purposes. Since the accounting period was for more than 12 months, this period was to be split into two notional accounting periods where the first period should be of less than 12 months (i.e 3 months) and the last one with exactly 12 months.

In part (c) candidates were required to compute the final taxable profit for the tax years 2017 and 2018. The answer to this part of the question depended on the amount of capital allowances in part (a) and the explanation in part (b). The profit as per accounts of K300,000 was to be adjusted for the disallowable expenses of K90,000. The adjusted business profits of the first accounting period were supposed to be split into two i.e. the first three (3) months:  $K390,000 \times 3/15 = K78,000$  and

the last twelve (12) months:  $K390,000 \times 12/15 = K312,000$ . These profits are before capital allowances of which candidates should have now deducted capital allowances computed in part (a).

The overall performance on this question was very poor because only 22% of the candidates who attempted this question scored more than 10 marks.

### **QUESTION THREE**

This question had two parts (a), (b) and (c). In part (a) candidates were required to explain the tax treatment repairs and renewals as well as entertainment expenses..

And in parts (b) and (c) candidates were required to calculate tax adjusted business profit and company income tax payable for charge year 2018.

In part (a) candidates were required to explain the tax treatment of repairs and renewals and entertainment expenses when computing the taxable business profits. The treatment of repairs and renewals depends on whether the expenditure is revenue or capital in nature. Normally the expenditure incurred in improving the state of newly acquired assets is disallowable as these are capital expenses. Entertainment expenses incurred in entertaining third parties are disallowed. But if the expense is incurred in entertaining employees, the expense is disallowed. The performance on this part of the question was average.

In part (b) candidates were required to compute the adjusted business profits of the limited company. The performance by most candidates was very poor. The main challenge was failure to differentiate allowable from disallowable expenses. Most candidates were adding back expenses which were allowable for tax purposes and adding exempt income to taxable business profits such as rental income (it is taxed at source at 10% which is the final tax).

In part (c) candidates were required to calculate the income tax payable by the company. The answer to this part of the question depended on the answer to part (b). Since most candidates did not know which expenses to add back and which investment income to tax, the adjusted business profit was wrong so as the total taxable income. This affected the final company income tax payable. Some candidates demonstrated lack of knowledge on company income taxation because they were using the income tax bands for individuals to calculate the company income tax, instead of the flat rate of 35%. As a result, the performance by most candidates was very poor.

The overall performance was average because about 56% of the candidates who attempted this question scored more than 10 marks.

## **QUESTION FOUR**

This question had two parts (a), and (b). In part (a) candidates were required to explain the types of persons who are liable to turnover tax.

And in part (b) candidates were required to explain the categories of chargeable property for property tax purposes and to calculate transfer property transfer in given cases and to state the due date for payment of property transfer tax.

In part (a) candidates were required to explain the types of persons not liable to turnover tax. The persons include persons carrying on business whose annual turnover is more than K800,000, any person carrying on the business of public transportation for the carriage of persons, any partnership regardless of the level of turnover etc. The performance by most candidates on this part of the question was good.

In part (b) (i) candidates were required to explain the categories of property for property transfer tax which includes any land in the republic of Zambia, any building, any share issued by a Zambian company not listed on the LuSE, any mining right in Zambia and any intellectual property in Zambia. The performance on this part of the question was good with exception of few candidates who scored less marks.

In part (b) (ii) and (iii) candidates were required to compute the property transfer tax on the transactions entered into by Send Town. The performance on this part of the question was very poor by most candidates with exception of few who scored good marks. The challenge by most candidates was failure to identify the properties that are chargeable to property transfer tax and those which are outside the scope of property transfer tax. Most candidates failed to determine the realized value of the properties sold, others were using 10% as the rate of property transfer tax. Some candidates failed to identify the transactions on which property transfer was to be charged because some transactions involved purchase of property in which case property transfer tax was not chargeable because PTT is paid by the transferor and not the transferee.

The overall performance was average because about 52% of those who attempted this question scored above 10 marks.

## **QUESTION FIVE**

This question had two parts (a) and (b) where in part (a) candidates were required to explain the tax treatment of subscriptions paid by individuals. And in part (b) candidates were required to calculate the total amount of Income Tax payable by an individual tax payer.

In part (a) candidates were required to explain the tax treatment of subscription paid by an employee. Subscription is only allowable for tax purposes if it is paid to a professional body relevant to the office that the employee holds. The performance on this part of the question was very good by most candidates.

In part (b) candidates were required to compute the income tax payable by an employee on the emoluments and investments income. This question was on personal income tax computations where employees are assessed to tax on the aggregated taxable income. The performance on this part of the question was not impressive by most candidates. Most candidates failed to calculate the taxable emoluments earned by the employee during the tax year 2018. The employee resigned on 30 September 2018, meaning he only worked for 9 months. All the annual and emoluments given in the question were supposed to be multiplied by 9/12 and the monthly emoluments multiplied by 9 months. This was the main challenge by most candidates which resulted into loss of marks. The other challenge by some candidates was failure to gross up the investment income as per general rule. NAPSA is no longer an allowable deduction when computing the taxable income for an employee, but most candidates included it as part of the allowable deductions. Some candidates were using the flat rate of 35% for companies to calculate the income tax for an individual instead of the income tax bands. The performance on this part of the question was good by most candidates.

The overall performance on this question was average because about 52% of the candidates who attempted this question scored more than 10 marks.

**Overall performance of candidates**

Highest mark obtained in this paper:	80%
Lowest mark obtained in this paper:	1%
Average score in this paper:	46.3%

## **SUBJECT: C5- INDIRECT TAXES**

The question paper consisted of FIVE (5) compulsory. The total candidature in the June 2018 examination diet was 18 out of which 12 candidates passed representing a pass rate of 67%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had two parts (a) and (b). In part (a) candidates were required to explain four conditions that should be satisfied for the transaction method to apply, calculate the customs value, compute import taxes and explain the documents that are presented at a border post when importing a vehicle.

And in part (b) candidates were required to explain how the value for duty purposes is calculated and the four powers of ZRA officials related to importation and exportation of goods.

In part (a) (i) candidates were required to explain the conditions to be met for the customs officers to use the transaction value method to value the imported goods. Transaction value is based on the actual price paid as revealed by the importation documents. The conditions to be met includes no restrictions to the use of goods, no conditions to deter determination of the VDP, no part of the proceeds should accrue to the seller, and no relationship to influence the value. This part of the question was poorly answered by most candidates.

In part (a) (ii) candidates were required to calculate the value for duty purposes which included the cost, insurance, freight charges and incidental costs. The value for duty purposes was US\$14,000 which was translated into kwacha at an exchange rate of K9.25. The amount of the VDP in kwacha was K129, 500. The performance on this part of the question was very good by most candidates.

In part (a) (iii) candidates were required to compute the import taxes payable on the importation of the bus. Import taxes on motor vehicles are calculated depending on whether the vehicle is new or used. Most candidates scored good marks on this part of the question.

In part (a) (iv) candidates were required to explain the documents that are supposed to be presented at the point of entry into the country by the importer of the motor vehicle. These documents include the invoice, bill of lading, freight statement, road or rail consignment and insurance certificate. The performance on this part of the question was very good.

In part (b) (i) candidates were required to explain how the value for duty purposes for export is calculated. The value for duty purposes is the free on board at the place



of dispatch or customs port of shipment. The performance on this part of the question was very poor.

In part (b) (ii) the candidates were required to explain the powers of ZRA officials in relation to importation of goods. The powers include entering and searching tax payer's premises, for money and documents, power to assess, charge and collecting tax dues and making recoveries, power to request and examining financial statements, power to charge interest and power to seize property. The performance on this part of the question was good by most candidates.

The overall performance was average because 50% of the candidates who attempted this question scored more than 10 marks.

## **QUESTION TWO**

This question had three parts (a), (b), and (c) where candidates were required to explain the difference between quotas and tariffs and why tariffs are preferred to quotas.

In part (b) candidates were required to explain any four functions of the customs division and to state any prohibited imports and to explain any four methods that can be used to value imported goods.

In part (a) candidates were required to explain the difference between quotas and tariffs and why tariffs are preferred to quotas. The tariffs are taxes imposed on imports while the quotas are restrictions in the quantity of certain products which should be imported into the country. Quotas normally promote corruption and smuggling. Tariffs are other revenue sources of revenue for the central government. The performance on this part of the question was good by most candidates.

In part (b) (i) candidates were required to explain the functions of the customs division which include collection of revenue on behalf of the government, regulation and control of imports and exports, facilitation of trade, travel and movement of goods, and providing statistical data to the government. This part of the question was well answered by most candidates.

In part (b) (ii) candidates were required to state the prohibited goods from importation which include bases or counterfeit coins, goods that are indecent, obscene or objectionable, goods that corrupt the morals of people and goods that are prohibited under any law. The performance on this part of the question was good by most candidates.

In part (b) (iii) candidates were required to explain the methods that are used to value imported goods. These methods include transaction value method, transaction value for identical goods, and transaction value for similar goods, deductive value,

computed value and residual basis. The performance on this part of the question was poor by most candidates.

In part (c) candidates were required to explain the methods that are used to determine the value excise duty purposes on goods manufactured in Zambia. The methods include the open market value at which a licenced manufacturer sale them, the open market value for identical goods in the same quantity, open market value for identical good in different quantities etc. The performance on this part of the question was very poor by most candidates.

The overall performance was average because 50% of the candidates who attempted this question scored more than 10 marks.

### **QUESTION THREE**

This question had three parts (a), (b), and (c) where in part (a) candidates were required to explain how the value for duty purposes is calculated on imports, locally manufactured goods and services as well as on exports.

In part (a) candidates were required to explain how the value for duty purposes is determined for imports, locally manufactured goods and exports. The value for duty purposes of imported goods is the cost, insurance, freight charges and other incidental costs. For locally manufactured goods the value for duty purposes is the cost, insurance, freight and other incidental costs. For exports it is the free on board. The performance on this part of the question was average.

In part (b) candidates were required to compute the import taxes payable on the importation of motor vehicle. Candidates were supposed to calculate the value for duty purposes which was US\$4,560 and K44, 688 in Zambian Kwacha. The customs duty was to be calculated at 15% of K44, 688 = K6, 703. The excise duty was to be computed at 10% of K51, 391 (K44, 688 + K6, 703) = K5, 139. The import VAT was to be calculated at 16% of K56, 530 (K44, 688 + K6, 703 + K5, 139) = K9, 045. The performance on this part of the question was very good by most candidates.

In part (c) (i) candidates were required to explain why the use of official documents is important when dealing with importation. They are important because they provide a n audit trail, establishes accountability and follow the procedures. The performance on this part of the question was not good by most candidates.

In part (c) (ii) candidates were required to define excise duty which is the levy charged on goods of a luxurious nature. Most candidates answered well this part of the question.

In part (c) (iii) candidates were required to list the reference documents used in the customs service division which include the customs and tariff book, the harmonized

system explanatory notes, the compendium of classification opinions, etc. The performance on this part of the question was very poor by most candidates.

In part (c) (iv) candidates were required to explain why valuation of new imported goods is easier than second hand goods. Some candidates failed to explain as result lost marks. The main reason why new goods are easy to value is because values used for second hand goods are subjective. Most candidates scored good marks.

The overall performance was average because 50% of the candidates who attempted this question scored more 10 marks.

#### **QUESTION FOUR**

This question had three parts (a), (b), and (c) where in parts (a) (i) and (ii) candidates were required to describe the various documents which are necessary for the clearance of a motor vehicle and to explain why clearance procedures are now carried out in Lusaka. And in part (b) candidates were required to explain the normal and extended VAT accounting systems.

In part (a) candidates were required to describe the documents necessary for the clearance of a motor vehicle. The documents include invoice or letter of sale, bill of lading/ manifest, insurance certificate, freight statement, contract of sale etc. Most candidates answered this part of the question very well, scoring good marks.

In part (b) candidates were required to explain the normal VAT accounting scheme and the extended VAT accounting scheme. The normal accounting scheme is where the VAT is accounted on a standard tax period basis of one month regardless of whether the sales are on credit (invoice basis) or cash (receipts basis). The extended accounting scheme is where the VAT is accounted for on a quarterly basis. Most candidates had no idea on these schemes, therefore, failed to explain. The performance on this part of the question was poor.

In part (c) candidates were required to explain how bad debt may arise and the circumstances under which a bad debt relief can be claimed. Bad debt relief may arise where the business accounted for and paid VAT on the invoice issued to the customer but the business does not receive any payment from the customer. The circumstances under which the relief may be claimed include the customer proving bankruptcy, the bad debt should be outstanding for at least 18 months, providing evidence that the VAT on the invoice was remitted to ZRA. Most candidates failed to explain and demonstrated lack of knowledge on this subject area. The performance on this part of the question was very poor by most candidates.

The overall performance was not impressive because only 39% of the candidates who attempted this question scored more than 10 marks.

## **QUESTION FIVE**

This question had four parts (a), (b), (c) and (d). In part (a) candidates were required to state the effective date of registration for VAT purposes and in part (b) candidates were required to state the obligations of a VAT registered person.

In part (a) the candidates were required to explain when the trader in question was required to register for VAT. At the date of commencement of the business the trader expected the annual turnover to exceed the registration threshold of K800,000, therefore, required to register on the date of commencement of business which was 1 March 2018. Most candidates were able to explain this and scored good marks on this part of the question.

In part (b) the candidates were required to explain the VAT obligations of the registered trader which include displaying the VAT registration certificate, issuing tax invoices, submitting returns and paying VAT on the appropriate due date, advising ZRA of any changes in business, keeping proper accounting records and retain them for a minimum period of 6 years. Most candidates answered this part of the question very well scoring good marks.

In part (c) candidates were required to explain the advantages and disadvantages of registering for value added tax. Advantages include the impression of a substantial business being given since it is believed that only a business with an annual turnover of more than K800,000 can register for VAT, able to claim the input VAT and be able to compete with other businesses. The disadvantages include increase in administration cost, penalties being charged if the trader fails to adhere to the VAT regulations, and customers who are not registered for VAT normally have increase in the purchase cost. Most candidates were able to explain these advantages and disadvantages very well, scoring good marks on this part of the question.

In part (d) candidates were required to explain the circumstances under which a trader may be deregistered for value added tax purposes. VAT registration may be cancelled if the trader does no longer deal in taxable supplies, if the trader was registered under compulsory registration and the annual turnover falls below the registration threshold of K800,000, if the business ceases to trade permanently or if it is sold, if there is change in the legal status of the business, and if the trader registered for VAT under voluntary registration, may apply for deregistration. Most

candidates were able to explain these circumstances and scored good marks on this part of the question.

The overall performance was good because 67% of the candidates who attempted this question scored good marks.

**Overall performance of candidates**

Highest mark obtained in this paper:	73%
Lowest mark obtained in this paper:	5%
Average score in this paper:	49.1%

## **SUBJECT : C 6-LAW FOR TAX PRACTITIONERS.**

The question paper consisted of FIVE (5) compulsory questions. The total candidature in the June 2018 examination diet was 12 out of which 7 candidates passed representing a pass rate of 58.3%.

### **Analysis of Questions:**

#### **QUESTION ONE**

The question was on the elements of a valid contract and to be precise consideration.

The students were able to give their decision on the given case study.

In future, students need to prepare more on such questions relating to elements of a contract as they are a key component in this programme.

#### **QUESTION TWO**

This question was based on contractual effect of various types of a contract including Contract and Hire Purchase which students seem to understand the concept as seen from the scripts. This one was perfectly answered by the candidates with 90% getting everything correctly.

In future, tutors must emphasize on the distinction that is present in relation to a contract and hire purchase.

#### **QUESTION THREE**

Most candidates answered this question correctly. Most of them were familiar with the definitions needed. They were able to bring out the correct answers as expected of them in relation to the role of equity and its application in jurisdictions which follow common law.

Future candidates are implored to study the whole common law legal system and appreciate its attributes.

## **QUESTION FOUR**

Candidates did very well on this question. Their performance was satisfying and above average. Candidates were able to identify the ways through which an agency relationship can be created without any difficulty and to discuss well the three main elements of negligence.

## **QUESTION FIVE**

This question was dealing with contract of sale, choses in action and possession, differences between a Partnership and Limited Company.

All the candidates who answered this question got an average mark which was satisfactory.

Generally, the paper was well set with in the required learning outcomes.

## **DETAILED OUTLINE**

### **QUESTION ONE**

The question was on the elements of a valid contract. viz a viz consideration. It had three parts.

- (a) The students were able to give their decision on the given case study.
- (b) This part was well answered and over 86% of students got it right as they were able to discuss offer and counter offer including its effects on a valid contract.
- (c) Most students could not answer (c)(iii) on the sufficiency of consideration and (c)(i) on consideration must move from the promise. About 25% were able to answer the question very well, the other 75% had some issues.

In future, students need to prepare more on such questions relating to elements of a contract. Elements of a contract are a key component in this programme.

### **QUESTION TWO**

The question had two parts A and B.

(a) This Part was on Remedies in Contract and Hire Purchase which wanted students to show their skills in relation to their understanding on the various contracts at law. This one was perfectly answered by the candidates with 90% getting everything correctly.

In future exams, the student must read further on various types of contract like partnership, agency hire purchase etc.

(b) This Part was on a number of terms such as Finance Lease, Negotiable instruments, Holder In Due Course and Transfer of Property in Goods. Candidates appeared to have a fair understanding on the above concepts, except that Transfer of Property in Goods was slightly appeared to be hard to the students as they mistook it for Transfer of Title.

### **QUESTION THREE**

(a) Most candidates answered this question correctly. Most of them were familiar with the definitions needed. They were able to bring out the correct answers as expected of them. About 80 % of students got this question correctly.

Future Students are encouraged to study this topic in full.

(b) Students were able to appreciate the role of equity and its application in jurisdictions which follow common law. A few failed to understand it at all and this may be attributed to selective study by students. At least 75% were able to get this question right.

Future candidates are implored to study the whole common law legal system and appreciate its attributes.

(c) Majority of candidates gave correct explanations. Students were able to appreciate the jurisdiction of the lands tribunal and matters it handles. Students are encouraged to get accurate mandate or jurisdiction from the Act and also to appreciate the same from the manual so given for the



same. At least 70 % of the students answered the question correctly and gave the right answers.

(d) Students were privy to insurable interest. About 80% of the students got the question right. Those who failed could be due to selective study. The question was clear and only demanded resolute students to apply themselves.

Future students are encouraged to study the whole manual as it is meant for their own benefit

#### **QUESTION FOUR**

As all questions are compulsory, candidates did very well under this question. Their performance was satisfying and above average. Going forward, candidates should continue displaying this exemplary performance.

(a) Candidates were able to identify the ways through which an agency relationship can be created without any difficulty and related fairly well with the question.

(b) Under the law of Tort, this part was fairly attempted by Candidates who were able to discuss well the three main elements of negligence which included duty of care, breach of the duty and the resultant damage. It was interesting to see other students even citing the leading cases on the subject matter.

(c) Candidates did in fact define a contract of sale very well in relation to the Sale of Goods. A few who got it wrong thought this was a pure contract of law. Future students should note that contracts vary depending on the type i.e. contract of sale, hire purchase contract or partnership just to mention but a few.

(d) All candidates managed to bring out the main remedies of the buyer under a contract of sale. It was interesting to see some students who were able to explain the theory of sale under contracts and relate its remedy in relation to the question.

Future students should note that contracts vary depending on the type but a few have their own remedies. Thus, it is vital to know each type of a contract and its remedies.

### **QUESTION FIVE**

This question comprised five sub-sections a, b, c, d, and e dealing with contract of sale, choses in action and possession, differences between a Partnership and Limited Company.

Though similar to the previous question, the candidates answered this question well and had an average of about over 15 of the 20 marks allocated Contract of sale was somehow explained, a chose in action and possession was slightly explained with difficulty.

The difference between a Partnership and Limited Company was also fairly attempted.

### **Overall performance of candidates**

- 1.1 Highest mark obtained in this paper: 74%
- 1.2 Lowest mark obtained in this paper: 24%
- 1.3 Average score in this paper: 55.6%

## **SUBJECT: D 1- BUSINESS INFORMATION MANAGEMENT**

Most candidates were reasonably prepared for the examination. Most candidates were able to bring out the correct answers.

The total number of candidates who attempted the examination was 04. The pass rate for this paper was 50% with a 50% failure rate.

### **Analysis of Questions:**

#### **QUESTION ONE**

Question one (a) requested candidates to explain what is considered or done in different feasibility studies that can be conducted when developing a system.

Part (b) required them to list five testing /methods techniques that can be used to test the system that is being developed for an external client (c) list five major business functions or specialized tasks performed by business organisations and the part (d) required candidates to explain what data redundancy is.

This was the only part of the question that was not answered well. Most candidates could not identify the business functions of an organization which includes marketing, manufacturing and production, Finance etc. Most of them explained the functions of management such as planning, organizing which was not supposed to be the case

#### **QUESTION TWO**

Part (a) required candidates to compare and contrast the brick mortar strategy and the click – and – mortar strategy. Part (b) required candidates to explain the level of management in an organisation with the aid of a diagram. While part (c) required them to explain security risks (i) denial of service (DOS) attack (ii) Eavesdropping (iii) Password cracking to information systems and how they can be prevented.

Candidates failed to express themselves very clearly in all the three parts of the question.

In some cases candidates failed to differentiate between brick-and-mortar and click-and-mortar business strategies in part (a) of the question.

In part (b) Candidates could not identify and explain the different levels of management. In some case

### **QUESTION THREE**

This question required candidates to: (a) Describe in detail the components of expert systems (b) explain what the fire safety can include or take into consideration and (c) explain the term total quality management.

The following were the common mistake on this question:

- (a) Candidates failed to explain the components of expert system.
- (b) In some cases the fire safety consideration was also not clearly explained in this question
- (c) Some Candidates had problems with coming up with a clear explanation of total quality management

### **QUESTION FOUR**

Candidates were required to (a) Distinguish between Data mining and Data warehousing (b) Briefly explain the stages involved in project management and (c) describe ant three models of e commerce.

The common mistake on this question were; (a) explanation on Data mining and Data warehousing were not very clear (b) Candidates could not explain the stages involved in project management correctly. They mixed up the terms with systems development life cycle (SDLC) others in part (c) failed to clearly explain e commerce well.

### **Overall performance of candidates**

Highest mark obtained in this paper: 62 %  
Lowest mark obtained in this paper: 21 %  
Average score in this paper: 40.8%

## **SUBJECT: D2-FINANCIAL MANAGEMENT**

The question paper consisted of FOUR (4) compulsory. The total candidature in the June 2018 examination diet was 9 out of which 4 candidates passed representing a pass rate of 44.4%.

### **Analysis of Questions:**

#### **QUESTION ONE**

The performance was below average.

A total of 9 students attempted the question and 11.1% managed to pass and 88.9% failed.

Part (a) of the question required candidates to calculate the market value of the debentures using the yield to maturity. Majority of the candidates failed to compute the market value correctly because of the wrong number of period to maturity and also the annuity factor.

Part (b) asked candidates to explain the concept of WACC and the reasons companies use it as discounts rate. The question was poorly answered as most candidates failed to articulate.

Part(c) asked candidates to calculate the amount to be recognised in the consolidated financial statements of WT Ltd for goodwill on acquisition and reserves. The pre-acquisition reserves of the subsidiary was wrongly done and as well as the goodwill. Most of the candidates got the figure wrong for reserves because of the wrong calculation of post-acquisition reserves of CCP.

#### **QUESTION TWO**

The performance was above average.

A total of 9 students attempted the question and only 66.7% managed to pass and 33.7% failed.

Part (a) required candidates to explain the concept of agency problem, alternative investment market, Goodwill and factoring. Part (b) asked the candidates to discuss the relationship between investment, financing and dividend decisions. Part(c) asked candidates to explain three types of market efficiency and comment on how information plays a pivotal role in investment decisions made financial managers. The majority of candidates reasonably attempted the question although a few candidates failed to adequately explain the forms of market efficiency.

### **QUESTION THREE**

The performance was below average.

A total of 9 students attempted the question and only 22.2% managed to pass and 77.8% failed.

The question asked candidates to calculate the weighted average cost of capital using market values as weights. Candidates failed to compute the growth rate using the Gordon's growth model to use in the computation of equity. Computation of the market value of loan notes was a challenge.

### **QUESTION FOUR**

The performance was below average.

A total of 9 students attempted the question and only 33.3% managed to pass and 66.7% failed.

Part (a) and (b) asked candidates to calculate the NPV and discounted payback period and to advise the directors on the financial viability of the planned investment.

Surprisingly many candidates did not get the relevant cash flows correctly for the NPV calculation. The discounted payback was wrongly done.

Part(c) required candidates to discuss the techniques used to assess the impact of risk on a project i.e Payback period technique, adjusted discount rate technique and sensitivity analysis technique. The explanation was fairly good except for sensitivity analysis were candidates struggled.

### **Overall performance of candidates**

Highest mark obtained in this paper: 51%

Lowest mark obtained in this paper: 26%

Average score in this paper: 40.2%

## **SUBJECT: D3- BUSINESS TAXATION**

The question paper consisted of FOUR (4) compulsory questions. The total candidature in the June 2018 examination diet was 12 out of which 6 candidates passed representing a pass rate of 50%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had two parts (a), and (b). where candidates were required to calculate adjusted mining profit and total income tax payable by a company in charge year 2018.

In part (a) candidates were required to calculate the adjusted mining profits. In this part of the question most candidates failed to properly adjust for capital expenditure which was charged to profit or loss. These expenses are disallowable because they are capital in nature. However, most candidates treated these expenses according to the old mining tax regime where expenses incurred in construction of roads, schools and hospitals within the mining community were allowed for tax purposes. This could be due to use of outdated study materials. The other challenge was failure to properly adjust for finance costs as the mining company was thinly capitalized. In the question the debt: equity ratio was 5:1, of which candidates were supposed to disallow K840, 000 ( $K2, 100,000 \times 2/5$ ).

Under the disallowable expenses, candidates were supposed to add a personal-to-holder car benefit of K80,000 (K40,000 for each car) and the free residential accommodation benefit of K150,000 ( $K500,000 \times 30\%$ ) which most candidates failed. Mineral royalty tax was to be deducted as the question stated that mineral royalty tax was not properly for. The mineral royalty tax was to be calculated at 5% of the gross sales revenue, because the average price per metric tone of copper was US\$4,700. Mineral royalty was therefore;  $K22, 600,400 \times 5\% = K1, 130,020$ .

Candidates were also required to compute capital allowances on the implements plant and machinery owned by the company. This was challenging for most candidates as they failed to calculate the correct capital allowances. Most candidates were using 100% as the wear and tear allowance rate on mining implements and construction of road and school in the mine community. Other candidates were restricting capital allowances on motor cars which is not applicable to companies.

The other part on this question was to deduct the relief for employing persons who are differently abled which is K1, 000 per person. They had employed ten persons, therefore, claiming a total relief of K10, 000 deducted from the taxable mining profits.

Candidates were required to compute the income tax payable on mining profits and non-mining income. The mining income is now taxed at 30% with non-mining income taxed at 35%. Most candidates failed this part because they were using the variable profit tax rate formula to calculate the rate at which the mining company was to be taxed. This also showed that most candidates were using outdated study materials.

The performance on this part of the question was not good as most candidates scored less marks.

The overall performance was not impressive because only 42% of the candidates who attempted this question managed to score more than 13 marks.

## **QUESTION TWO**

This question had two parts (a), and (b) where in part (a) candidates were required to compute tax adjusted profits before capital allowances, to establish the relevant tax years for final tax purposes and to compute the final taxable profits as well as capital allowances for relevant tax years.

In part (a) (i) candidates were required to compute the adjusted taxable profits before capital allowances. The company was a bank of which candidates were supposed to use the principles of taxation for financial institutions. The only disallowable expenses were provision for loan losses and depreciation. Deductions included unrealized trading gains, profit on disposal and rental income. The main challenge by most candidates was failure to adjust for these items as most candidates were deducting total trading gains including realized while others were adding back the unrealized gains. The adjusted business profits were K5, 229,900. The performance on this part of the question was not good.

In part (a) (ii) candidates were required to determine the tax years in the profits were to be assessed. This part of the question required candidates to apply the rules on change of accounting date. Candidates were supposed to explain how the preceding year and current year basis of assessment is determined. Since this was a change in accounting date, the profits made during the period to 31 March 2018 were to be taxed in the tax year 2017 as the preceding year basis of assessment was to be used. Profits reported during the period from 31 March 2018 to 30 September 2018 were to be taxed in the tax year 2018 which is the current year



basis of assessment. The taxable profits for the tax year 2018 are expandable profits to cover a period of at least 12 months i.e.  $K5, 229,900 \times 6/18 \times 12/6 = K3, 486,600$ . The performance on this part of the question was very poor.

In part (a) (iii) candidates were required to calculate the final taxable profits after capital allowances. The answer to this part of the question depended on part (a) (i) and (ii) which was poorly answered by most candidates. Candidates were also required to calculate the capital allowances claimable by the company for two tax years 2016, 2017 and 2018. Most candidates could not calculate the correct capital allowances because they were using wrong rates of wear and tear, and some were calculating initial allowance and investment allowance on the administrative building which is a commercial building. The only allowance available on administrative buildings is the wear and tear @2%. The other challenge was failure to apply the capital allowance rules of calculating the capital allowances on straight line basis especially for the tax year 2018, candidates were calculating the capital allowances on the income tax values brought forward from 2017. The performance on this part of the question was poor by most candidates.

In part (b) candidates were required to explain and calculate the overlap profits due to a change in an accounting date. Due to the fact that part (a) of the question was poorly answered; it costed most candidates' marks in this part of the question. The overlap profit is the excess of taxable profit over the actual profit. i.e.  $K3, 486,600 - (K5, 229,900 \times 6/18) = K1, 743,300$ . This part of the question was poorly answered by most candidates.

The overall performance was very poor because no one of all the candidates who attempted this question scored more than 13 marks.

### **QUESTION THREE**

This question had three parts (a), (b), and (c) where in part (a) candidates were required to explain tax implications of purchase on Hire purchase as opposed to outright purchase.

And in part (b) candidates were required to advise directors of a company in various tax implication options. And in part (c) candidates were required to calculate import taxes on the importation of a car.

In part (a) the candidates were required to explain the income tax and value added tax implications of acquiring an asset under hire purchase and an outright purchase. The performance on this part of the question was good by most candidates.

In part (b) candidates were required to explain the income tax and value added tax implications of acquiring the manufacturing equipment using various financing options. In part (b) (i) the company was the considering purchasing the equipment using the loan. The implications are that interest payable on loan is not an allowable expense, capital allowances at a rate of 50% on the VAT exclusive cost are claimable, the input VAT on the purchase of the equipment is recoverable.

In part (b) (ii) the company was considering using the finance lease to finance the purchase of the equipment. the implications are that the interest on the lease is an allowable expense, capital allowances at the rate of 50% on the VAT exclusive cost is claimable and the input VAT is recoverable.

In part (b) (iii) the operating lease considered under which the company could not have claimed capital allowances, lease rentals exclusive of VAT could have been allowed for tax purposes and input VAT on lease rentals could have been recovered.

In part (b) (iv) the issue of share was considered. The implications are the share issue costs are not allowable for tax purposes, capital allowances could have been claimed at 50% on the VAT exclusive cost, Input VAT is recoverable and the dividends payable on those shares are not allowable. The performance on this question was good with exception of few candidates who failed to explain the tax implications of the various financing options.

In part (c) candidates were required to calculate the import taxes payable on the importation of the motor vehicle. Candidates were supposed to calculate the value for duty purposes of the vehicle which amounted to US\$4,310 translated into Zambian kwacha at an exchange rate of K9.70. The value for duty purposes in Zambian kwacha amounted to K41,807. Customs duty and excise duty on the importation of used vehicles is now predetermined according to the type of the vehicle, age of the vehicle and the cylinder capacity or seating capacity or the gross weight. The fixed amount of duties is provided in the question paper. Some candidates poorly answered this part of the question because they were using the old rates which are now restricted to brand new vehicles. The performance on this part of the question was not very good.

The overall performance was good because 69% of the candidates who attempted this question scored more than 13 marks.

#### **QUESTION FOUR**

This question had three parts (a), (b), and (c) where candidates were required to calculate capital allowances, tax adjusted business profit and amount of income tax payable by two individuals.

In part (a) candidates were required to calculate capital allowances claimable by the partnership which was engaged in farming. Capital allowances have proved to a challenging subject area for most candidates. In this part of the question most candidates were using wrong rates to calculate the capital allowances, while others were computing capital allowances on the income tax values. The main problem is lack of practice on capital allowances questions. The performance on this part of the question was not good by most candidates.

In part (b) candidates were required to calculate the adjusted business profit of the partnership. The candidates were supposed to identify the expenses which are disallowed and those which are allowable by using the general rule for deductibility of expenses. Candidates needed to disallow entertainment expenses, birthday party, gifts of vegetables alimony to former wife, acquisition of the new lease, salaries for Nakonde and Chikonde, motor expenses relating to private mileage and goods drawn for personal consumption. The capital allowances calculated in part (a) affected the calculation of the adjusted business profits. The performance on this part of the question was very poor.

In part (c) candidates were required to compute the income tax payable by Nakonde and Chikonde. In this question, the business was run as a sole trader during the first 6 months and as partnership during the last 6 months of the tax year 2018. The candidates were supposed to split the adjusted business profit calculated in part (b) into two. The adjusted business profit was K800,000. The K400,000 for the first 6 months should be treated as income of the sole trader in which case the salary payable to Chikonde of K72,000 ( $K144,000 \times 6/12$ ) would be treated as an allowable deduction, with the balance of K328,000 being the taxable income for Nakonde. The K400,000 for the last 6 months should have been allocated to Nakonde and Chikonde as partners using the partnership agreement. The candidates failed to allocate the profits to Nakonde and Chikonde. The other challenge for some candidates was failure to tax the profits as farming income which is First K39,600 @0% and excess over K39,600 @10%, with exception of the salary of K72,000 for chikonde which he earned before being admitted as a partner, which is treated as non-farming income. The performance on this part of the question was not good.

The overall performance was very poor because only 17% of the candidates who attempted this question scored more than 13 marks.

### **Overall performance of candidates**

Highest mark obtained in this paper:	64%
Lowest mark obtained in this paper:	31%
Average score in this paper:	46.8%

## **SUBJECT: D4-PERSONAL TAXATION**

The question paper consisted of FOUR (4) compulsory questions. The total candidature in the June 2018 examination diet was 11 out of which 3 candidates passed representing a pass rate of 27%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had four parts (a), (b), (c) and (d).

In part (a) (i) and (ii) candidates were required to explain the tax implications of exercising share options and that of selling share options and in part (b) candidates were required to explain the tax implications of a share option that is approved.

In part (c) candidates were required to explain the criteria that must be met for a share option to be approved and in part (d) candidates were required to compute income tax that was payable by a tax payer involved in a share option scheme.

In part (a) (i), most candidates did not seem to understand the meaning of share options and as a result could not explain the tax implications of exercising share options, that on the exercise of the share options by an employee from a share option scheme run by an employer in a scheme that is not approved for tax purposes, the price paid is compared with the open market value at that time, and if less, the difference is charged to income tax.

In part (a) (ii), very few candidates had an idea of the tax implications on the sale of shares where property transfer tax is payable on the realized value of shares sold. The shares have a realized value for property transfer tax purposes that is equal to the higher of their nominal value and the open market value.

The property transfer tax could have been K21, 250 (50,000 x K8.50) X 5%.

In part (b), the performance was equally poor as the majority of candidates failed to acknowledge that any gain arising to an individual on allotment of shares under an approved share option scheme is exempt from income tax. The gain or benefit arises when the market value per share at the time when the option is being exercised exceeds the exercise price.

Therefore, the gain arising on exercise of the options of [K375, 000 (150,000 x (K7.00 – K4.50))] would have been exempt from income tax if the share option scheme was approved for tax purposes.

Part (c) was fairly done as most of the candidates were able to recall a number of points that were required for the Commissioner General to approve a share option scheme. For example the scheme must be established in Zambia and the employer must be carrying on business wholly or partly in Zambia. The scheme should provide for the participation of all eligible employees including directors.

In part (d), most candidates performed better and managed to score the maximum number of marks although a few of them had difficulties in identifying the taxable items and also computing the double taxation relief on the dividends which would have been K5,292 (  $K15,000/K807,000 \times K284,685$  )

## **QUESTION TWO**

This question had three parts (a), (b), and (c) where in part (a) candidates were required to calculate the income taxes payable by two individuals and in part (b) candidates were required to explain the income tax and NAPSA implications for same two tax payers related to drawings of K180,000 in the form of a cash bonus and cash dividend respectively and in part (c) candidates were required to explain the income tax and NAPSA implications to the company of drawings of K180,000 in the form of either a cash bonus or cash dividend.

The performance on part (a) was better because candidates were only required to calculate the income tax payable on a single figure (salary) which was the same for both tax payers by simply applying individual income tax bands.

In part (b), the performance was quite poor because a number of candidates failed, to both compute and explain the income tax and NAPSA implications of the additional K180,000 which was as follows:

The bonus would be an additional taxable emolument for both tax payers and would be assessed as taxable emoluments at the rate of 37.5% because their existing income exceeded K74,400. Therefore the additional income tax payable on the bonus would be  $K180,000 \times 37.5\% = K67,500$  each.

The cash dividend payment would be subjected to withholding tax at the rate of 15% and treated as a final tax, hence no further assessment.

In part (c) (i) the performance was equally poor because the majority of them failed to explain the treatment of the cash bonus payment which should have been treated as an allowable deduction when computing taxable business profits. The company would therefore save some tax. The amount of income tax savings would be K126,000 ( $K180,000 \times 2 \times 35\%$ ).

In part (ii), the cash dividend payment would not be an allowable deduction when computing the taxable business profits for the company. Dividends would be paid out of profits already subjected to income tax.

NAPSA contributions would not be payable by the company as dividends do not attract NAPSA contributions because they do not qualify as earnings.

### **QUESTION THREE**

This question had three parts (a), (b), and (c). In part (a) candidates were required to compute tax payable by an individual tax payer assuming that she had been engaged as an employee by a company and in part (b) candidates were required to explain how a tax payer would be assessed to income tax as well as to compute the income tax that would be payable assuming that she had been engaged as a self-employed person and in part (c) candidates were required to advise a taxpayer as to the best option as between being engaged as an employee as opposed to being engaged as a self- employed person by the company.

In part (a) a majority of candidates performed well because they managed to compute the income tax payable mainly on emoluments by applying individual income tax bands.

In part (b), the performance was above average. The question required candidates to calculate revenue for 12 months and deducting allowable expenses including capital allowances to arrive at the taxable business profit which was taxed using the individual income tax bands.

Part (c) was poorly performed because a number of candidates failed to distinguish between the taxation of a self-employed and employed in order to determine the better option and according to the question, self-employed contractor was a better option because it gave a higher net income than being employed.

### **QUESTION FOUR**

This question had two parts (a) and (b). In part (a) candidates were required to explain the type of persons who are required to pay presumptive taxes for transporters and to also state the types of persons who would be exempt from presumptive taxes for transporters. And candidates were also required to explain five advantages that presumptive taxes for public passenger transporters have over regular income tax systems as well as to state three weaknesses which are generally associated with presumptive taxation for public passenger transporters.

And in part (b) candidates were required to explain how a tax payer would be assessed to income tax on a transportation business as well as to explain how whose investment income would be assessed to income tax.

In part (a) (i), very few candidates managed to explain the type of persons who were required to pay presumptive tax, ie presumptive taxes for transporters are chargeable on individuals and partnerships carrying on businesses for the transportation of passengers for a reward.

Secondly, transporters who are limited companies are exempt from presumptive as they have the capacity to comply fully with all the standard requirements under the income tax law.

Part (ii) was fairly dealt as most of the candidates were able to produce goods points on the advantages presumptive taxes for transporters, such as simplified process, cash flow friendly, No need for professional consultancy services, equity and allowance for break-downs.

In part (iii) on the weaknesses of presumptive tax, few candidates managed to get the question right and the performance was quite poor.

Part (b) had sub-questions (i) and (ii) where in part (i), they were required to explain how the tax payer would be assessed to income tax from the transportation business. The performance on that part of the question was relatively fair except for few mistakes in calculating the presumptive tax on each bus for 6 days per week for 4 weeks per month giving 24 days per month. The total amount of presumptive tax payable on the three buses for the tax year 2018 would be K3,564 being  $(K4.95 \times 24 \text{ days} \times 10 \text{ months}) \times 3 \text{ buses}$ .

In part (ii) where candidates were required to explain how the investment income would be assessed to tax and to compute the total tax due on the investment income. Some candidates tried to provide better explanations but had difficulties in simply calculating withholding tax on the respective investment income given in the question. Most of them did not know where to charge and where not to charge withholding tax. For example there was no withholding tax on Fixed deposit interest and dividends from a company listed on LUSE.

The overall performance in that part was way below average as shown by the statistics above.

### **Overall performance of candidates**

Highest mark obtained in this paper:	68%
Lowest mark obtained in this paper:	17%
Average score in this paper:	39.1%

## **SUBJECT: D5-INTERNATIONAL TAXATION**

The question paper consisted of FOUR (4) compulsory questions. The total candidature in the June 2018 examination diet was 11 out of which 7 candidates passed representing a pass rate of 64%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had four parts (a), (b), (c) and (d).

In part (a) candidates were required to explain the areas of interaction between human rights law and tax law and the major sources of conflict between tax law and human rights law. The main areas of interaction which the candidates were required to explain include the enforcement of social and legal values, and interference of tax with international human rights standards. The major sources of conflicts include transfer pricing, tax incentives, natural resources, off-shore investment activities and secrecy jurisdiction. The performance was good by most candidates.

In part (b) candidates were required to explain the difference between tax evasion and tax avoidance. Tax avoidance is the reduction of tax liabilities by taking advantage of the loopholes within the tax system, whilst tax evasion is the reduction of tax liabilities through illegal means. Most candidates were able to explain the differences and scored good marks on this part of the question.

In part (c) candidates were required to define money laundering and to explain the recommendations to combat money laundering. Most candidates were able to explain the recommendations which include demand for full transparency from financial institutions, establishing interconnected and well integrated systems of legal shareholders, formation of financial intelligence unit etc. The performance on this part of the question was good by most candidates.

In part (d) (i) candidates were required to explain whether Blessed would be regarded as a resident in Zambia. An individual is regarded as a resident if he/she is physically present in Zambia for more than 183 days, and he/she has the intentions of establishing permanent residence in Zambia. Most candidates were able to explain and scored good marks.

In part (d) (ii) candidates were required to calculate the income tax payable by Blessed assuming Zambia had entered into a double taxation treaty with Brazil. Most candidates were able to calculate the income tax with exception of few candidates who were calculating the unilateral credit relief instead of the treat relief.

The overall performance was very good because 91% of the candidates who attempted this question scored more than 13 marks.



## QUESTION TWO

This question had three parts (a), (b), and (c) where in part (a) candidates were required to explain a tax haven and also giving three features of such tax havens. In part (b) candidates were required to discuss the tax position of two companies .And in part (c) candidates were required to discuss the tax implications of Double Tax Agreement between given countries.

In part (a) candidates were required to explain what is meant by a tax haven and the features of a tax haven. A tax haven is a country which imposes low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. Features include no or nominal taxes, lack of effective exchange of information, lack of transparency and no substantial activities. Most candidates scored good marks on this part of the question.

In part (b) candidates were required to discuss the tax position of the non-resident persons earning revenue in Zambia. In part (b) (i) candidates were required to explain the tax position of a foreign company which was subcontracted by the Zambian contractor. A payment made to a non-resident contractor is charged a withholding tax at a rate of 20% which is the final tax i.e  $K7,600,000 \times 20\% = K1,520,000$ . In part (b) (ii) candidates were required to explain the tax position of a non-resident entertainer which also attracts withholding tax at a rate of 20% which is the final tax i.e  $K480,000 \times 20\% = K96,000$ . This part of the question was poorly answered by most candidates.

In part (c) candidates were required to explain the tax implications of a foreign multinational company entering a foreign market through setting up a branch, through agents, and through incorporating a 100% owned subsidiary. The most important point emphasized on in the OECD model is whether the multination enterprise will enter the market through a permanent establishment. If there is a permanent establishment, then income tax is chargeable in the country of operations. This part of the question was not well answered by most candidates resulting into loss of marks.

The overall performance was very poor because only 9% of the candidates who attempted this question scored more than 13 marks.

### **QUESTION THREE**

This question had three parts (a), (b), and (c) where in part (a) candidates were required to explain the application of transfer pricing rules in domestic cases, to state six problems associated with arm's length principle and to state any two solutions for solving transfer pricing problems.

In part (a) candidates were required to explain the application of transfer pricing rules in domestic cases, problems associated with arm's length principle and the solutions to solve these problems. The problems of transfer pricing includes lack of comparable prices, lack of information, risk of effective double taxation through disagreement over transfer price, and huge information demands. These problems can be solved by advanced pricing arrangements and unitary taxation. This part of the question was poorly answered by most candidates.

In part (b) (i) candidates were required to explain the meaning of thin capitalization and the tax treatment of thin capitalization. Thin capitalization refers to the company being excessively financed by debt capital in excess of its borrowing capacity. Companies are motivated funding their operations using debt finance due the fact that interest expense is generally allowable. This part of the question was well answered by most candidates. In part (b) (ii) candidates were required to explain the tax treatment of thin capitalization. This part of the question was not well answered by most candidates. Most candidates demonstrated lack of knowledge on the subject area.

In part (c) candidates were required to calculate the company income tax payable. The company was engaged in mining of copper. The question had key areas such as tax treatment of interest expense incurred by the company which is thinly capitalized and the tax treatment of non-allowable expenses. The company had a debt: equity ratio of 5: 1, therefore candidates were supposed to disallow K20 m ( $K50 \text{ m} \times \frac{2}{5}$ ) because the allowable debt: equity ratio is 3: 1. The performance on this part of the question was good by most candidates.

The overall performance was not good because only 18% of the candidates who attempted this question scored more than 13 marks.

## QUESTION FOUR

This question had three parts (a), (b), and (c) where in parts (a) candidates were required to explain two given companies were going to be treated as being resident in Zambia.

And in part (b) candidates were required to compute income tax payable by a given company in the tax year 2018.

In part (a) candidates were required to explain the residence of persons other than individuals. A person other than an individual is resident in Zambia if it was incorporated in Zambia and if the effective control and management of that person's affairs are exercised in Zambia. The performance on this part of the question was very good by most candidates.

In part (b) candidates were required to compute the income tax payable of the company which had two subsidiaries outside Zambia. The candidates were supposed to include the gross amounts dividends received by THG from its foreign subsidiaries in the Zambian income tax computations. Since there was no double taxation agreement between Zambia and the countries in which those subsidiaries were resident, candidates were supposed to calculate the double taxation relief unilaterally. The challenge for some candidates was failure to gross up the foreign investments income. Some candidates were using income tax bands for individuals to compute the tax payable by the company. The performance on this part of the question was good by most candidates.

In part (c) candidates were required to calculate the income tax payable by David who was a CEO of THG. The main source of income for David was employment income and dividends received from the two subsidiaries of THG as he held some shares in those companies. Candidates were supposed to aggregate the emoluments with the gross amounts of foreign dividends and then compute income tax payable using the income tax bands. Some candidates were allowing NAPSA contributions paid by David which is no longer an allowable deduction. The main challenge was on the grossing up of foreign income which affected the computation of the double taxation relief using the unilateral credit relief. The performance on this part of the question was very good by most candidates.

The overall performance was very good because 73% of the candidates who attempted this question scored more than 13 marks.

### Overall performance of candidates

Highest mark obtained in this paper:	65%
Lowest mark obtained in this paper:	39%
Average score in this paper:	50.6%

## **SUBJECT: D6-TAX AUDIT AND INVESTIGATIONS**

The question paper consisted of FOUR (4) compulsory questions. The total candidature in the June 2018 examination diet was 6 out of which 3 candidates passed representing a pass rate of 50%.

### **Analysis of Questions:**

#### **QUESTION ONE**

This question had three parts (a), (b) and (c). Part (a) of the question required candidates to briefly explain FOUR (4) key elements of a tax legal framework in relation to a tax audit and investigations and in part (b) candidates were required to explain the difference between the functional and a tax payer's segment models. In part (c) candidates were required to calculate income tax payable by a company for charge year 2018.

In part (a) the performance was below average as most candidates were unable to provide relevant points for the elements of a tax legal framework. The required points in summary should have been:

- The tax payer's record keeping obligations.
- Giving Tax Inspectors access to books and records
- Giving Tax officials access to third party information
- Sanctions for non-compliance

In part (b) where candidates were required to explain the difference between functional and a tax payer's segment model, very few of them managed to provide satisfactory answers and those who tried ended up swapping the meaning of the two. Under the Functional model, staff is organized by functional groupings such as registration, accounting, information processing, and audit, collection of appeals and generally across taxes.

Under Tax payer's segment model, the rationale is to organize functions around a tax payer's segment because each group of tax payers has different characteristics and tax compliance behaviours and presents different risks to ZRA.

Therefore, a number of candidates could not get the required six (6) marks on that part of the question.

In part (c), a number of candidates performed better on the computation of the income tax payable except that some of them ended up applying individual income tax

bands instead of using a flat rate of 35% on the taxable profit because that was a Limited Company.

## **QUESTION TWO**

This question had four parts (a), (b), (c) and (d). In part (a) candidates were asked to briefly explain tax treatment of services which included discounts on airtime, discounts to subscribers', network switching expenditure as well as roaming charges and income.

In part (b) candidates were required to explain FOUR (4) elements of a tax audit and in part (c) of the question candidates were required to state six (6) matters that should be included in an introductory meeting letter between the tax auditor and its client and in part (d) candidates were required to describe any five types of tax audits that can be carried out by the tax auditor..

In part (a), the performance was not very good because a number of candidates seemed to have had little or no knowledge on the tax treatment of services such as discounts on airtime, discounts to subscribers, network switching expenditure and roaming charges and income.

In part (b) where candidates were required to explain the four elements of a tax audit, the performance was very poor as most candidates expressed so much ignorance and lost all the vital marks. The elements of the tax audit include:

- The tax payer's records and accounts have been reviewed in sufficient details in order to reach a conclusion regarding all items of material consequences.
- That appropriate income tests have been performed where necessary to ensure the
- proper and complete reporting of income has been made regardless of the sources of that income.
- The responsibility of the tax payer regarding the filing of all tax returns has been ascertained.
- That the conclusions expressed are documented in sufficient details to enable the reader to comprehend the process as to what lead to the conclusion.

In part (c) where candidates were required to state the six matters that must be communicated to the client before an introductory meeting with auditors, the performance was below average as most of them did not have any ideal. The points should have been:

- Purpose of the main study
- Time schedule for the main study

- A list of members who will be on the audit team
- The types of methods that will be used by the audit team.
- The information that will be requested from the auditee
- The need to appoint or confirm the contact person.

Part (d) on five types of tax audits that can be carried out by the tax auditor was performed better as most candidates were able to produce the relevant points and scored good marks.

### **QUESTION THREE**

This question had four parts (a), (b), (c) and (d). In part (a) candidates were required to discuss four theories that may explain the demand for financial statement audit services according to Hayes et al. (2005).

And in part (b) candidates were required to explain the tax treatment of given items of expenditure as identified during a tax audit of a limited company.

And in part (c) candidates were required to discuss thin capitalization, tax havens and transfer pricing in line with rules of multinational enterprises and in part (d) candidates were required to give advice on thin capitalization as well as transfer pricing criteria.

In part (a), the performance was very good as most candidates were able to discuss the four theories that may explain the demand for financial statement audit services, ie, The policeman theory, the "lending credibility theory", the "theory of inspired confidence" also called theory of rational expectations and the "agency theory".

In part (b) the performance was above average because a number of candidates were quite familiar with the treatment of allowable and disallowable expenditure and most of them scored good marks on this part of the question. The only challenge they had was to state the evidence expected for each item.

In part (c), very few candidates were able to explain thin capitalization, tax haven and transfer pricing. A company is thinly capitalized if a person funds the business with more debt than the business could sustain had it been funded as a standalone entity, borrowing from unconnected persons acting at arms' length.

Tax haven is where some countries do not charge heavy taxes or the tax rates are marginally low.

Transfer pricing is the general term used to refer to the problem of allocating profits by a multinational enterprise among the parts of a corporate group.

In part (d) at least the performance was fair as most candidates were able to give the appropriate advice in terms of the treatment of interest according to thin capitalization and also according to transfer pricing.

#### **QUESTION FOUR**

This question had four parts (a), (b), (c) and (d). In part (a) candidates were required to discuss interconnection charges together with their impact on VAT liability. And in part (b) candidates were required to calculate a tax rebate for a tax payer for the tax year 2018 and in part (c) candidates were required to explain deferred tax showing how it arises. And in part (d) candidates were required to compute the amount of tax deferred by a limited company as of 31<sup>st</sup> March 2018.

Part (a) of this question was poorly performed because most candidates did not even understand the meaning of interconnection charges and their impact on VAT liability. Otherwise the majority of them could not score any marks from that section.

In part (b) the performance was quite good as most candidates were able to compute the income tax payable mainly on the salary for five months by simply applying individual income tax bands.

The performance in part (c) was quite poor because a number of candidates didn't seem to understand the meaning of deferred and how it arises.

Deferred tax liability represents taxes that a company would have had to pay under its regular financial accounting but that it has deferred to the future by way of tax legislation.

Deferred tax arises as a result of temporary differences. Temporary differences are differences between the carrying amount of an asset within the statement of financial position and its tax base. Taxable temporary differences are those on which tax will be charged in the future when the asset (or liability) is recovered (or settled)

In part (d) very few candidates performed better on the computation of deferred based on the temporary differences provided in the question. The deferred tax liability should have been  $35\% \times K4,900,000 = K1,715,000$ .

The overall performance in the paper was average as indicated above.

#### **Overall performance of candidates**

Highest mark obtained in this paper:	61%
Lowest mark obtained in this paper:	39%
Average score in this paper:	50.0%

