



DECEMBER 2018 EXAMINATIONS

CHIEF EXAMINERS REPORTS  
TAXATION PROGRAMME

## **C1-BUSINESS MANAGEMENT**

### **QUESTION ONE**

The general performance on the question was very poor. Eleven (11) candidates attempted this question, Two (2) passed and Nine (9) failed, representing 18% and 82% pass and failure rate respectively. The question had three parts; on marketing, strategic plans and HRM respectively.

Candidates required to state five (5) common components/elements of a marketing plan; Briefly discuss why modern management practitioners find it necessary to analyze organization's strengths and weaknesses along with its environmental opportunities and threats as a prerequisite to strategy formulation and Outline the general human resources management uses of performance appraisals or evaluation in organisations.

Most candidates could not apply to respond to the "why" part of the question. The best they did was just to repeat the SWOT.

### **QUESTION TWO**

The general performance on this question was very good. 11 candidates attempted the question. Out of which 8 passed, representing a pass rate of 72.7% and a 27.3% failure rate. The question had three parts, and required candidates to:

- (a.i) Database information systems and outline two reasons why database management system (DBMS) are widely used today.
- (a.ii) Giving appropriate examples, distinguish between data and information
  
- (b) i. briefly explain the five competitive forces/factors that may influence shareholders return.

(b) ii. Briefly explain the how five competitive forces model may be used to make strategic business decisions.

Most of the candidates responded well to this part of the question and those who failed to get full marks were due to insufficient answering.

### **QUESTION THREE**

The general performance of question three was excellent. 11 candidates attempted the question and all the 11 passed representing a pass rate of 100% pass rate. Candidates were required to:

Briefly explain the following five different stakeholders who would be interested in the planned mining activity and their respective interests.

- (a) Community
- (b) Government
- (c) Pressure group
- (d) Potential investor
- (e) Supplier

Most the candidates answered the part of the question well and got full marks.

#### **QUESTION FOUR**

The general performance for this question was extremely poor. 11 candidates attempted the question. Out of these, 1 passed, representing a pass rate of 9% and 10 failed representing a 91% failure rate.

The question was scenario based and had two parts; on strategic decision making and business types. Candidates were asked to;

- (a)i. What do you call the strategic move made by ZamBeef (in the scenario) and briefly explain what term means
- (a)ii Briefly explain any four benefits of such a move to the company.
  
- (b) Explain to Mary the major ownership restrictions that are in a private limited company in order for her to make a better business choice.

Most candidates failed to answer this part correctly. Candidates failed to understand the meaning of strategic move.

#### **QUESTION FIVE**

The general performance on question four was poor. 10 candidates attempted this question. Out of the 10, only 4 passed, representing a pass rate of 40%. The remaining 6 failed representing a 60% fail rate.

The question had three parts; management, business environment and strategic formulation. Candidates were required to;

- (a) Explain the four levels of strategy as recognized by Thomson
- (b) Describe the type of organization control that will make it possible for an organisation to cope with changes in the business environment.

(c) Explain the four major elements of strategic formulation that will directly affect them through the strategic formulation process.

Most candidates made good effort to mention the correct answers. Most candidates were able to answer the first part but failed to get the second part. From the third part most candidates could not explain the elements of strategic formulation.

**Overall performance of candidates:**

Highest mark obtained in this paper: **69%**

Lowest mark obtained in this paper: **22%**

Average score in this paper: **45.4%**

## **C2 ECONOMICS AND FINANCIAL MATHEMATICS**

### **QUESTION ONE**

The general performance on this question was fairly good. A total of 15 candidates attempted the question of which 8 passed while 7 failed representing a pass rate of 53%.

This was divided into four parts (a), (b), (c) and (d). Candidates were asked to explain the expansionary effects of fiscal policy using the diagram; to explain how a decrease in personal disposable income influences AD as well as explain how the multiplier process works, having already defined what the multiplier is. Candidates were further required to state any three arguments in support of and any three arguments against Central Bank Independence and to outline any three set of rules of the Lusaka Stock Exchange.

Some candidates lost marks due to lack of knowledge in the subject area. They seem not to have had an ideal of what an AD curve is, or a shift. Some candidates could not demonstrate an understanding of what disposable income is.

### **QUESTION TWO**

The general performance on this question was very good. A total of 15 candidates attempted the question of which 10 passed while 5 failed it representing a pass rate of 67%.

The question was divided into three parts namely (a), (b) and (c). Candidates were required to demonstrate their understanding on Externalities; to define a merit good as well as define a public good and to list any three economic advantages of a well-functioning public and road network.

Candidates were further requested to state any three economic advantages of an educated population in the country; to demonstrate their understanding on trade; how they can make a gain from selling second hand clothes given background figures; to

calculate the gain per bag from the given situation; to explain what eventually happens when other traders attracted by the gains increase the quantity supplied in Tanzania and to name two main tools used by the government in its fiscal stabilization policy and to describe how they influence economic activity.

The most common mistake noted was that candidates failed to point out that they can make a gain by buying clothes in a country where they are relatively cheaper and selling in a country where they are relatively expensive. They could not state that taxes and government expenditure are the tool used for economic objectives.

### **QUESTION THREE**

The general performance on this question was fairly good. A total of 15 candidates attempted the question of which 8 passed while 7 failed it representing a pass rate of 53%.

This was the first question on the Financial Mathematics part and was divided into two namely (a) and (b). Candidates were asked to calculate the NPV of an investment project @ 15% and @ 8% with the decision as to where the project is worthwhile at each rate and calculate the purchase price of a bond.

Further, candidates were asked to use the answers to part (i) and (ii) to calculate the Internal Rate of Return (IRR) using the interpolation formula. Finally, candidates were asked to list two factors that can make the NPV @ 8% become smaller.

The most common mistake noted was that candidates could not remember the formula to be used.

## QUESTION FOUR

The general performance on this question was very poor. A total of 15 candidates attempted the question of which 3 passed and 12 failed, representing a pass rate of 20%.

This question was divided into four parts (a), (b), (c) and (d). Candidates were asked to calculate the value of 'a' the Y-intercept using the given information; to calculate (i) Correlation Coefficient (r), and the coefficient of determination ( $r^2$ ) x 100; to find how many years it would take K1000 to grow to k3 500 at 9.5% compounded every two months and to find the present value of a perpetuity of K11, 200 @ 5.5% compounded semi-annually.

The most common mistake was that candidates forgot that  $a = \frac{\sum Y}{n} - b \frac{\sum X}{n}$ ; i.e. they forgot to divide by  $n = 10$ !

## QUESTION FIVE

The general performance on question five was very poor. A total of 15 candidates attempted the question of which 4 candidates passed while 11 failed it representing a pass rate of 27%.

The question was divided into three parts (a), (b) and (c). Candidates were asked to calculate the NPV of a project costing K20 000 but bring in K3,000 annually for 7 years using a discount rate of 8%; to calculate the internal rate of Return (IRR) for an investment of K3,500 now and receive K5,000 in two years' time and to calculate the price of a (i) zero coupon bond @ 10% and (ii) a coupon bond @ 8% coupon rate compounded semi-annually.

Most candidates could not distinguish between the initial outlay and the regular cash inflow, they interchanged the two.



**Overall performance of candidates:**

Highest mark obtained in this paper: **81%**

Lowest mark obtained in this paper: **20%**

Average score in this paper: **41%**

## **C3 ACCOUNTANCY FOR TAX PRACTITIONERS**

### **QUESTION ONE**

The general performance on this question was very good. The question was attempted by 13 candidates, out of whom 77% passed and 23% failed.

### **QUESTION TWO**

The general performance on question two was very poor. It was attempted by 13 candidates. Only 31% of the students that attempted the question passed while the remaining 69% failed.

This is a standard question. Candidates obtained relatively good marks. Ratios and interpretation of final account is also a regularly topic.

### **QUESTION THREE**

The general performance on this question was poor. The question was attempted by 13 candidates, 46% passed and 54% failed.

It was question on payables and receivables control account. This was equally a very good question within the syllabus.

The most common mistake noted was that some candidates seem to have forgotten that when doing receivables and payables control accounts one should restrict to transactions that relate to credit sales and purchases rather than entering all transactions as long as they are given in the question.

#### **QUESTION FOUR**

The general performance on this question was very poor. Only 23% of those that attempted it passed while 775 failed.

This was a question on accounting concepts and conversions has been examined so many times but candidates still did not seem to understand the concepts and conversions.

#### **QUESTION FIVE**

The general performance on question five was extremely poor. The question was attempted by 13 candidates, out of whom only 2 passed representing a 15% pass rate and 85% failure rate.

This was a theory question which required candidates to write brief notes on preference shares, prime cost, limited liability, partnership agreement and international accounting standards board (IASB).

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

Highest mark obtained in this paper: **72%**

Lowest mark obtained in this paper: **19%**

Average score in this paper: **45.4%**

## **C4 DIRECT TAXATION**

### **QUESTION ONE**

This question had two parts (a) and (b).

In part (a) (i) candidates were required to calculate the monthly pay as you earn for the month of April 2018. The candidates were supposed to use the monthly tax bands of; first K3, 300 @0%, next K800 @25%, next K2, 100 @30% and above K6, 200 @37.5%. In part (a) (ii) candidates were required to calculate the net pay for the month of April 2018.

In part (b) candidates were required to explain, with one example; revenue taxes, capital taxes, progressive taxes, regressive taxes, direct taxes and indirect taxes.

Few candidates demonstrated lack of knowledge on the types and classification of taxes that are administered in Zambia, while some candidates were able to explain but failed to give an example.

### **QUESTION TWO**

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

In part (a) candidates were required to calculate for chileshe (sole trader), the taxable business profits for the tax year 2018. In part (b) candidates were required to calculate the income tax payable by chileshe for the tax year 2018. In part (c) candidates were asked to explain any four badges of trade used to establish whether the sale of the motor vehicle constitutes trade.

Some candidates failed to disallow the obvious expenses such as depreciation and entertainment expenses incurred in respect of customers. Other candidates also had

problems in treating the profit on disposal of plant and loans to former employees written off.

### **QUESTION THREE**

This question had two parts (a) and (b).

In part (a) candidates were required to calculate income tax payable by Emmanuel for the tax year 2018. Emmanuel was a commercial farmer.

In part (b) (i) candidates were required to explain the basic rules to be used when determining the basis of assessment for the first period of trading.

The common mistake was that candidates were failed to adjust the farming profit by adding back depreciation and deducting capital allowances. Most candidates were required to calculate the final amount of taxable profits for the relevant tax years which are 2017 and 2018.

### **QUESTION FOUR**

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

In part (a) (i) candidates were required to explain the property transfer tax position of the company on the disposal of property. In part (a) (ii) candidates were required to calculate the property transfer tax on the disposal of land.

In part (b) candidates were required to calculate the capital allowances claimable by the company for the tax year 2018. In part (c) candidates were required to calculate the

adjusted business profits for the year ended 31 December 2018. Lastly, in part (d) the candidates were required to calculate the company income tax payable for the tax year 2018.

The main challenge by most candidates was the failure to differentiate between allowable and disallowable expenses. Some expenses which are allowable were disallowed by most candidates while disallowable expenses were allowed. Most candidates calculated the adjusted business profit wrongly mainly due to the wrong capital allowances figure in part (b).

## **QUESTION FIVE**

This question had two parts (a) and (b).

In part (a) candidates were required to explain any other five functions of taxation in the economy. In part (b) (i) candidates were required to calculate the partnership's final adjusted business profit for the tax year 2018. In part (b) (ii) candidates were required to calculate the amount of profits on which each partner was to be assessed for the tax year 2018.

The common mistake was in computing capital allowances, candidates included the privately owned motor cars which each partner was to claim after allocation of profits.

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

Highest mark obtained in this paper: **84%**

Lowest mark obtained in this paper: **27%**

Average score in this paper: **57.4%**

## **C5 INDIRECT TAX**

### **QUESTION ONE**

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

In parts (a) (i) and (ii) candidates were required to list four documents that are required by the Zambia Revenue Authority (ZRA) for an exporter to qualify for a Duty Draw Back Claim and to briefly explain two main challenges associated with the Duty Draw Back system. In part (b) candidates were required to explain the term smuggling as well as the adverse effects that go with smuggling.

In part (c) candidates were required to briefly explain any four products that are prohibited and restricted for importation into Zambia and in part (d) candidates were required to explain any four methods of calculating the Value for Duty purposes for imported goods.

The most common mistake was that candidates could not explain the documents needed for the exporter to be successful with the duty draw back claim which includes invoices, proof of payment and documents presented to the Zambian customs.

### **QUESTION TWO**

This question had five parts (a), (b), (c), (d) and (e). The overall performance on this question was average because most candidates scored between 9 and 12.

In parts (a) candidates were required to give a reasoned date which a tax payer was required to register for VAT. In part (b) candidates were required to explain any two conditions which are required to be met for input VAT incurred on purchases and expenses to be claimed. In part (c) candidates were required to calculate the total input VAT claimable by a tax payer in 2017. In part (d) candidates were required to explain five obligations that the taxpayer in the question would have after being registered for VAT purposes. And lastly, in part (e), candidates were required to explain the main differences between exempt and zero-rated supplies.

The most common mistake was that candidates failed to analyse the sales revenue to determine when the thresholds were exceeded.

### **QUESTION THREE**

This question had four parts (a), (b), (c) and (d). The overall performance was good on this part of the question as most candidates who attempted this question scored more than 13 marks.

In parts (a) (i) and (ii) candidates were explain two conditions which should be met for anyone to claim a new resident rebate and to state three rebates which are available to new residents in Zambia. In part (b) (i) and (ii) candidates were required to calculate Value for duty purposes as well as the respective import duties.

In part (c) candidates were required to explain any four methods of calculating the value for duty purposes for locally manufactured goods and In part (d) candidates were required to explain the meaning and importance of declaration of currencies and the consequences of making false declarations.

Most candidates were explaining the methods used to calculate the value for duty purposes of imported goods.

### **QUESTION FOUR**

This question had three parts (a), (b) and (c). The overall performance on this question was good as most candidates who attempted this question scored between 10 and 13 marks.

In parts (a) candidates were required to explain the steps which should be followed by a VAT registered supplier to successfully claim for a bad debt relief. In part (b) candidates were required to explain the meaning of Minimum Taxable Value and In part (c) candidates were required to briefly describe the operation of the Reverse VAT.



Most candidates were explaining the conditions to be met in order to claim the bad debt relief instead of the steps. Candidates were supposed to also explain whether the reverse VAT can be claimed by the trader and how different it would have been if the tax agent was to be appointed.

## **QUESTION FIVE**

This question had three parts (a), (b) and (c). The overall performance on this question was good by most candidates who attempted this question because they scored more than 13 marks.

In parts (a) (i) and (ii) candidates were required to state the five functions and five powers of the customs division. In part (b) candidates were required to give a description of African Growth Opportunity Act (AGOA) and its benefits for Africa and in part (c) candidates were required to calculate Value for duty purposes as well as value for VAT purposes and the corresponding duties and VAT.

The most common mistake was that candidates could not explain the responsibilities and powers of the customs division and customs officials respectively. Some candidates included the clearing and incidental costs in computing the value for duty purposes.

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

Highest mark obtained in this paper: **74%**

Lowest mark obtained in this paper: **39%**

Average score in this paper: **61.4%**

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

### **QUESTION ONE**

The general performance on this question was very good. Of the 23 candidates that attempted it, 16 obtained 50% and above, representing a 69.5% pass rate.

The question was on the elements of a valid contract and whether a contract was validly made between Mwila and her mother. In terms of performance, all demonstrated a concrete understanding of the elements of contract and their importance in ascertaining whether a valid contract existed or not.

The question also dealt with intention to create legal relations in terms of relatives who whom you stay within one house or when a husband and wife are on separation.

The students were able to give their understanding on the question.

### **QUESTION TWO**

The general performance on this question was excellent. 18 out of the 23 three candidates that attempted the question obtained 50% and above of the total marks available, representing a 78% pass rate and 22% failure rate.

The question was based on the rights of the buyer under a hire purchase agreement as well as the types of cheques that are used in the baking circles and the powers that trustees have under the Bankruptcy Act.

The students seem to have a better understanding on Hire Purchase as shown from their performance. This one was perfectly answered by the candidates almost getting everything correctly.

Most candidates answered this question correctly. Most of them were familiar with the rights of the buyer under hire purchases agreements which include the right to reject

the goods, rescission, and or damages to mention a few. They were able to bring out the correct answers as expected of them.

### **QUESTION THREE**

The general performance on question three was very good. Out of the 23 students that attempted it, 16 obtained 50% and above of the available marks, representing a 69.5% pass rate.

Most of the students knew the rules of statutory interpretation and how they are distinguished.

Some students nevertheless were not giving correct answers from the Lands Act as the answers they were giving seemed more of guess work. This showed lack of knowledge on the said powers.

### **QUESTION FOUR**

The general performance on this question was excellent. 18 out of 23 students that attempted the question obtained 50% and above marks. The pass rate was 78%.

The question was on Sale of Goods, specifically on the duties of the carriers and the buyer. There was need to differentiate choses in action and choses in possession. The question also wanted students to differentiate a general partnership from a limited Company. Lastly, there was need for students to explain the remedies under employment law where there is a breach.

The common mistake noted was that students could not tell the differences that are there on the types of business entities and accustom themselves to the Sale of Goods Act and employment law fully.

## **QUESTION FIVE**

The general performance on question five was very good. 69.5% of those that attempted the question obtained 50% and above.

This question was dealing with disadvantages of converting a partnership into a company limited by shares and further wanted students to explain the purpose of articles of association to a limited liability company. About 80 % of students got this question correctly. The students were also needed to explain the meaning of partner by estoppel.

Students understood the contents of a Partnership Deed as shown in their answers which included name of partners, business address, type of activities, partnership name to mention but a few. The performance was good.

Most candidates answered this question correctly. Most of them were familiar with partnership by estoppel. They were able to bring out the correct answers which was partnership by implication or conduct and that Pula was still a partner in that firm as his name was still appearing on the letterhead.

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

Highest mark obtained in this paper: **84 %**

Lowest mark obtained in this paper: **33 %**

Average score in this paper: **64.1 %**

## **D1 BUSINESS INFORMATION MANAGEMENT**

### **QUESTION ONE**

The general performance on this question was excellent. Of the 7 students that attempted the question, 5 obtained 50% and above representing a pass rate of 71.4%.

This question required candidates to outline the challenges of the emergences in the information systems knowledge that may affect the business firm and their management from the scenario that was given in part (a) of the question. Part (b) of the question required the candidates to list and explains each stage of the SDLC and part c required them to differentiate between Electronic Data Interchange (EDI) and Enterprise Resource Planning (ERP).

The following were the common mistakes noted:

- i. The systems Development life cycle was confused with the project development life cycle.
- ii. The EDI and the ERP was also mixed up by some candidates.
- iii. No clear explanation was given in some cases.
- iv. Inadequate answers were provided in some cases.

### **QUESTION TWO**

The general performance on this question was fairly good. Of the 7 students that attempted the question, 4 obtained 50% and above representing a pass rate of 57.1%.

Candidates were required to draw an appropriate network diagram, using the Activity On Node (AON) approach, by clearly showing the early start time, early finish time, late start time, late finish time, activity ID and duration. In part (i) of question 2(a) and Identify all the possible paths and stating the critical path in the network diagram in part (ii) of the same question. The necessary information to draw the diagram was

provided in the question. Part (b) of this question required candidates to explain how the organization can achieve competitive advantage over other organizations.

The following were the common mistakes noted:

- i. Failure to clearly show the early start time, early finish time, late start time and late finish time Activities.
- ii. Failure to clearly show activity ID and duration in the network diagram using the activity node.
- iii. Incomplete answers were presented how porter's value chain can lead to competitive advantages to other organisations.
- iv. Wrong diagrams were presented in some cases.

### **QUESTION THREE**

The general performance on question three was excellent. All the 7 student that attempted the question obtained marks above 50%, representing a 100% pass rate.

In question three, candidates were required to explain e-commerce and state the infrastructure elements needed to support e-commerce in part (a) of the question. In part (b), candidates were required to explain the terms confidentiality and integrity in terms of computer security. The last part of the question required them to:

Write short notes on any three (3) types of change over methods.

The following were the common mistakes noted:

- i. Failure to identify all the elements needed to support e-commerce correctly which include computers, the internet, web sites, electronic payment systems web server.
- ii. Failure to clearly explain the term integrity.

## QUESTION FOUR

The general performance on question four was poor and the lowest in terms of pass rate. 2 out of the 7 that attempted the question obtained 50% and above of the available marks while the remaining two obtained marks below 50%. The pass rate was 28.6% and failure rate 71.4%.

Candidates were required to List any five (5) techniques that can be used to acquire information in part (a) of the question. Part (b) required them to explain the Porter's Value chain model and how it can lead to competitive advantage to an organisation and part (c) required them to explain any two (2) advantages and two (2) disadvantages of bespoke software.

The following were the common mistakes noted:

- i. presented the answer as Porter's five forces model of competitive analysis which was not supposed to be the case.
- ii. Failure to clearly explain the advantages and disadvantages of Bespoke software.

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

Highest mark obtained in this paper: **81%**

Lowest mark obtained in this paper: **46%**

Average score in this paper: **61.9%**

## **D2- FINANCIAL MANAGEMENT**

### **QUESTION ONE**

The general performance on this question was good as 61.5% (8 out of 13) of the students who attempted the question managed to pass while 5 (38.5%) failed.

It was noted on question one that candidates that did not do well failed to identify and discuss the advantages internal sources of finance such retained earnings.

### **QUESTION TWO**

The general performance on this question was poor. 5 out of the 13 students that attempted it obtained 50% and above of the available marks while the remaining 6 obtained marks below 50%. The pass rate was 38.5% while the failure rate was 61.5%.

This question was fairly attempted although most of the candidates failed to re-gear the asset beta when computing the cost of equity. In addition, most of the candidates in part(c) were discussing generally the limitation of ratio analysis instead of apply to corporate failure context.

### **QUESTION THREE**

The performance on this question was very good as 69.2% (9 out of 13) of the students who attempted managed to pass and 30.8% (4 out of 13) failed.

The question was divided into three parts (a), (b) and (c). All the parts were fairly answered by most candidates though some of them lost some marks because of being too brief. The requirement for Part (b) was for instance, a discussion rather than just brief notes provided by most candidates.



## **QUESTION FOUR**

The general performance on this question was excellent as 12 out of the 13 students that attempted it managed to pass, representing a pass rate of 92.3%. The question was fairly well attempted.

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

Highest mark obtained in this paper: **83%**

Lowest mark obtained in this paper: **44%**

Average score in this paper: **60.4%**

## **D3 BUSINESS TAXATION**

### **QUESTION ONE**

The general performance on this question was excellent. 15 of the 16 students that attempted it obtained 50% and above of the available marks representing a 93.8% pass rate.

The question had three parts (a), (b) and (c). In part (a) candidates were required to calculate the income tax payable by the bank for the tax year 2018.

In part (b) candidates were required to explain the conditions to be met for an employee share option scheme to be approved, for tax purposes, by the Commissioner General.

In computing the adjusted business profit for the bank, the rules which apply to any other business applies to a financial institution. Therefore, candidates were supposed to disallow some expenses such as depreciation, donation to political party, increase in general provision for loan losses, interest on debentures, free accommodation benefit and personal-to-holder benefit. The candidates were also required to compute capital allowances on the implements, plant and machinery and buildings. Capital allowances totaled K1, 405,000. Most candidates could not calculate the correct capital allowances due to the wrong rates of wear and tear, while others were claiming initial and investment allowances on a commercial building. Because of these errors, the adjusted business profit was wrong. The bank had also investment income of which only the royalties were to be included in the computation of income tax. Some candidates were including rental income in the computation, whose only tax is the withholding tax at a rate of 10% final. In view of the above most candidates calculated a wrong figure of income tax payable. The bank is taxed at a flat rate of 35% just like any other company. Some candidates were using income tax bands to compute the income tax payable. The performance on this part of the question was average.

If the company is to benefit from a share options granted to the employees, the scheme has to be approved for tax purposes. The conditions include; the scheme should be established in Zambia, the employer must be carrying on business in Zambia either wholly or partially, all eligible employees should participate including directors, no employee should be allowed to buy more than 20% of the shares, only ordinary shares should be offered under the scheme and employees must be citizens of Zambia. Most candidates scored good marks on this part of the question with exception of few candidates who failed to explain the conditions to be met for the approval of the share option scheme.

In parts (c) candidates were required to explain the tax benefits arising from an approved employee share option scheme to both the employer and the employees. The tax benefits include; share issue costs allowed for tax purposes, exemption from income tax on any income generated from shares under the scheme, exemption from property transfer tax on the transfer of shares, and for the employees all the benefits arising from shares under the scheme is exempt from tax. Most candidates failed to explain these benefits as they demonstrated lack of knowledge on the benefits of an approved share option scheme.

## **QUESTION TWO**

The general performance on question two was poor. 7 of the 16 that attempted it obtained 50% and above of the marks available. The pass and failure rates were 43.8% and 56.2% respectively

This was a scenario based question with two parts (a) and (b).

In part (a) candidates were required to calculate the income tax payable by Emmanuel and Margaret for the tax year 2018. The candidates were supposed to compute capital allowances on the assets owned by the business and deducting them from the profits in

arriving at the taxable business profits. The tax year was to be split into two notional periods with the first period consisting of 4 months when Emmanuel was a sole trader and Margaret as an employee, and the last period consisting of 8 months when Emmanuel and Margaret were running the business as a partnership. In computing the adjusted business profits most candidates treated partners' salaries as an allowable deduction and wrong rates of wear and tear allowances were used; hence the profit calculated by most candidates was wrong. The correct adjusted partnership profit was K628,800 which split into K209,600 and K419,200 for the first 4 months and last 8 months respectively. Allocation of profits to the partners was another challenge by most candidates. Because the adjusted business profit was wrong, and the profit was allocated wrongly, the income tax payable calculated by most candidates was wrong.

In parts (b) candidates were required to calculate the value added tax payable by B Ltd for the quarter ended 31 December 2018. Most candidates scored good marks on this part of the question with exception of few candidates who failed to calculate the VAT payable. The main challenge was failure to identify on which expenses the input VAT is recoverable.

### **QUESTION THREE**

The general performance on this question was good. 62.5% of the students that attempted it managed to obtain 50% and above of the available marks.

This question had two parts (a) and (b). In parts (a) candidates were required to calculate the income tax payable by KMC Ltd for the tax year 2018. Most candidates could not calculate the correct amount of the adjusted mining profit and hence the income tax payable was wrong. The main challenge by most candidates was failure to identify allowable and disallowable expenses, failure to compute the correct amount of capital allowances.

In part (b) candidates were required to explain the taxation implications arising from change in accommodation policy for the directors. The candidates were supposed to explain the taxation treatment of rentals on the company and tax treatment of housing allowances on both the company and the individual directors. However, most of them failed to explain the tax implications as a result scored poor marks. They generally demonstrated lack of knowledge on the subject area.

#### **QUESTION FOUR**

The general performance on this question was excellent. 12 out of 16 students that attempted it managed to obtain 50% and above of the available marks, representing a pass rate of 75%.

This question had five parts (a), (b), (c), (d) and (e). In part (a) candidates were required to explain what may constitute a loan to an effective shareholder. The loan to an effective shareholder may include; any amount of money advanced, the extent of credit facilities advanced, any difference between the cost of providing a benefit and the amount paid for it. Most candidates demonstrated lack of knowledge on this topic as they failed to explain what may constitute a loan to an effective shareholder. The performance on this part of the question was very poor by most candidates.

In part (b) candidates were required to describe the liquidation process of a company. The process include; appointment of a liquidator, the assets are sold, receivables collected and liabilities paid, any company tax due is paid, the balance of funds are paid to the shareholders and the shareholders pay any tax due on the amounts received. Some candidates were able to explain the above points and as a result scored good marks. Few candidates demonstrated lack of knowledge on liquidation of companies. The performance on this part of the question was average.

In part (c) candidates were required to explain the income tax implications of income (profit or loss) arising from hedging. Hedging is considered to be a separate source of income and therefore is taxed at 35% just like any other income. The loss from hedging can be carried forward for a period of five years to be relieved against future profits from the same source. Some candidates were able to explain the taxation implications of hedging income. The performance on this part of the question was not impressive by most candidates.

In part (d) (i) candidates were required to explain the taxation implications for DK Ltd of employing fifteen differently abled persons. There is a relief of K1,000 treated as an allowable deduction for employing a differently abled person. The company was to claim a deduction of K15,000 in total. This part of the question was well answered by the majority of candidates.

In part (d) (ii) candidates were required to explain the taxation implications of providing free residential accommodation to the three directors. Free residential accommodation is not taxed on the employees but on the employer. Therefore, the company was to be disallowed 30% of the director's taxable emoluments. The total disallowable benefit was K363,000. This part of the question was well answered by most candidates.

In part (d) (iii) candidates were required to explain the taxation implications of providing personal-to-holder cars to the directors. The personal to holder cars are not taxed on the employees but on the employer. The amount to be disallowed depends on the cylinder capacity of the car. 2800 cc and above K40,000 per annum, below 2800 cc but above 1800cc K30,000 and below 1800 cc K18,000 per annum. The company was therefore to be disallowed a total benefit of K120,000 for the three vehicles. The performance on this part of the question was very good by most candidates.

In part (e) candidates were required to calculate the company income tax for the tax year 2018. The company was engaged in farming and the profit given in the question was before capital allowances. Candidates were supposed to compute the capital allowances on the assets owned by the company. The capital allowances totaled

K532,000 deducted from a profit of k1,280,000 giving a final taxable profit of K748,000. The final amount of tax payable was K74,800 ( $K748,000 \times 10\%$ ). Some candidates had difficulties in computing the capital allowances on implements plant machinery. The performance on this part of the question was average.

**Overall performance of candidates:**

Highest mark obtained in this paper: **71%**

Lowest mark obtained in this paper: **30%**

Average score in this paper: **53.6%**

## **D4 PERSONAL TAXATION**

### **QUESTION ONE**

The general performance on this question was fairly good. The pass and failure rates recorded were both 50%.

This question had four parts (a), (b) and (c). In Part (a) candidates were required to calculate the tax payable for the tax year 2018 while Part (b) required them to calculate the tax payable on the estate left behind by Josh Kalambo and also to calculate the inheritance due to Kalombo, Kabwili and Kabwibwi. Candidates were further required to explain the Tax implications for investing in the under listed investment options in Part (c).

Most candidates were not able to compute the correct income tax payable and worse still failed to calculate the Total market value of the estates of Kalambo despite being a copy and paste type of question.

### **QUESTION TWO**

The general performance on question two was equally fairly good. 5 of the students that attempted the question obtained 50% and above (representing a 50% pass rate).

The question had four parts (a), (b) and (c). In Part (a) candidates were required to calculate the tax payable for the tax year 2016 by Yizukanji and ZewelANJI, if ZewelANJI is brought into business as an Employee. Part (b) required candidates to calculate the tax payable for the tax year 2016 by Yizukanji and ZewelANJI, if ZewelANJI is brought into business as a Partner while Part (c) required them to advise Yizukanji as to which option is beneficial from a tax point of view (as an employee or a partner).

Part (b) of the question was poorly answered with most candidates scoring below 12 marks. Most candidates were unable to calculate and allocate the final taxable partnership profits.



### **QUESTION THREE**

The performance on this question was excellent. A pass rate of 80% was recorded (8 out of the 10 students that attempted it passed).

This question had two parts (a) and (b). In Part (a) candidates were required to discuss four (4) factors which distinguish employees from self-employed contractors. Part (b) (i) required candidates to calculate Mwansa's income tax payable and employees NAPSA contributions payable if he does not accept the offer and continues to be employed by the company while (b) (ii) required them to calculate Mwansa's income tax liability if he continues providing services as self-employed for tax year 2018. In part (b) (iii) candidates were required to advise Mwansa whether it is beneficial to accept the offer to provide IT services on self-employed services.

The performance of candidates was generally good with most candidates scoring above average marks despite most of them failing to calculate the income tax liability as required in part (b, ii).

### **QUESTION FOUR**

The general performance on this question was fairly good. The pass and failure rates recorded were both 50%.

This question had two parts (a) and (b). In Part (a) (i) candidates were required to explain six (6) conditions to be met for the share option scheme to be approved by Commissioner General. In Part (a) (ii) candidates were required to explain the benefits of an approved share option scheme to both the employer and employees

Part (b) required candidates to calculate the income tax payable by Davison in the tax year 2018

The performance on this question especially in Part (a) was good. However, most candidates had challenges in part (b) were they failed to compute double taxation relief and dividends.

**Overall performance of candidates:**

Highest mark obtained in this paper: **73%**

Lowest mark obtained in this paper: **34%**

Average score in this paper: **52.5%**

## **D5 INTERNATIONAL TAXATION**

### **QUESTION ONE**

The performance on this question was excellent. A pass rate of 90.9% was recorded (10 out of the 11 students that attempted it passed).

This question had three parts (a), (b) and (c). In part (a) candidates were required to discuss six functions of double taxation agreements and how they can provide opportunities for international tax avoidance. Most candidates scored good marks on this part.

In part (b) candidates were required to explain whether money laundering could encourage companies to engage in tax evasion. Most candidates failed to explain. They demonstrated lack of knowledge on money laundering.

In parts (c) candidates were required to calculate the amount of the excess of foreign tax over the Zambian tax charge for the tax year 2018 for Dodgers International Ltd. Dodgers Ltd had received dividends from foreign companies. The question required candidates to compute the foreign tax on dividends and the Zambian tax charge on dividends. Few candidates were able to calculate correctly the Zambian tax charge because many of them ignored the rental income; others were deducting dividends from the total taxable income. The performance on this part of the question was not impressive.

### **QUESTION TWO**

The performance on this question was very poor. A pass rate of 18.1% was recorded (2 out of the 11 students that attempted it passed).

This question had four parts (a), (b), (c) and (d). In part (a) candidates were required to explain what is meant by transfer pricing and its international taxation consequences

to the government. Most candidates were able to thoroughly explain on this part and therefore scored good marks on this part of the question.

In parts (b) candidates were required to explain what is meant by thin capitalization and describe the tax taxation implications for the company that is thinly capitalized. Most candidates were able to explain the meaning of thin capitalization and the tax implication, as a result scored good marks.

In Part (c) (i) candidates were required to explain, with appropriate calculations, the tax consequences for BM Ltd to the government for transferring 60% of its products to its parent company "Garlic Ltd" at a transfer fee of FL\$8. Some candidates were able to explain and calculate the tax consequences.

In part (c) (ii) candidates were required to explain the tax consequences of the loan obtained from the parent company at an interest rate of 40% per annum. The open market rate of interest at that date was 22%. Few candidates were able to calculate and explain the tax consequences, therefore scored good marks.

In part (d) candidates were required to calculate the company income tax payable by BM Ltd for the tax year 2018. The net profit was not given in the question. The candidates were supposed to start from sales revenue incorporating any transfer pricing adjustments explained in part (c) (i) and (ii) above. The candidates were also supposed to calculate the cost of production, administration expenses, and finance costs (restricted to the interest expense equal to 22%). This part of the question was poorly answered by most candidates as they failed to make correct adjustments especially on the transfer pricing. As a result, the adjusted business profit was wrong and the income tax payable. The performance by most candidates was poor.

### **QUESTION THREE**

The performance on this question was good. A pass rate of 63.6% was recorded (7 out of the 11 students that attempted it passed).

This question had three parts (a), (b) and (c). In parts (a) (i) candidates were required to explain the four factors for identification of tax havens as defined by the OECD. The factors include; no or nominal taxes, lack of effective exchange of information, lack of transparency and no substantial activities. Most candidates were able to explain the above points with exception of few candidates who demonstrated lack of knowledge on this area of the syllabus. The performance was good by most candidates who attempted this question.

In part (a) (ii) candidates were required to explain four co-operations models between revenue authorities in order to work to their mutual benefit. The performance by most candidates was poor as they could not explain the points expected of them and demonstrated lack of knowledge on this area of the syllabus.

In part (b) candidates were required to describe the origin principle and destination principle for indirect taxes as they apply in international taxation. Majority of candidates were able to score good marks on this part of the question with exception of few candidates who failed to explain due to lack of knowledge in the subject area.

In part (c) candidates were required to explain three different ways in which a cross-border merger may be effected. A good number of candidates scored good marks with exception of few candidates who failed to explain.

The overall performance on this question was good by majority of candidates who attempted this question. The main challenge by candidates was failure to bring out point as required by the question as stated above which demonstrated lack of knowledge on the subject area.

## **QUESTION FOUR**

The performance on this question was good. A pass rate of 63.6% was recorded (7 out of the 11 students that attempted it passed).

This question had four parts (a), (b), (c) and (d). In part (a) (i) candidates were required to explain the Border Tax Adjustments (BTAs) in accordance with OECD working party. According to the Organisation for Economic Cooperation and Development (OECD) working party, BTAs are any fiscal measures that put into effect the destination principle in whole or in part. Most candidates were able to explain the above points and scored good marks on this part of the question.

In part (a) (ii) candidates were required to explain why BTAs is somewhat a confusing term. It is confusing because it suggests that a fiscal measure is applied at the border, which is not always the case. Although in many cases imports are taxed on entry, certain countries apply a tax on imports after the goods have crossed the border. Most candidates scored good marks on this part of the question.

In part (a) (iii) candidates were required to explain the destination principle as it is applied in international taxation. The performance on this part of the question was good by most candidates.

Part (b) required candidates to explain the tax treatment of foreign mission. Tax exemption privileges for foreign diplomats, consular officers, and staff members are generally based on two treaties; the Vienna convention on Diplomatic Relations and the Vienna Convention on Consular Relations. Not all foreign missions are entitled to tax exemption, because the privilege is based on reciprocity and not all foreign countries grant such tax exemption to foreign embassies and their personnel. The performance on this part of the question was poor by most candidates.

In part (c) candidates were required to explain the tax treatment of resident individuals in Zambia with overseas business and investments. The performance was poor by majority of candidates.

In part (d) candidates were required to calculate the final income tax paid by Christine in the tax year 2018. Christine had both Zambian and foreign income. Credit was available in Zambia against any foreign tax paid in the foreign country. The Zambian income was on a salary of K350, 000 (K50, 000 x 7months) and foreign income was interest of K7, 500. The performance on this question was good by most candidates with exception of few candidates calculated a wrong income tax payable. The main challenge was failure to calculate the double taxation relief.

**Overall performance of candidates:**

Highest mark obtained in this paper: **74%**

Lowest mark obtained in this paper: **40%**

Average score in this paper: **54.1%**

## **D6 TAX AUDIT INVESTIGATIONS.**

### **QUESTION ONE**

The performance on this question was very poor. A pass rate of 33.3% was recorded (4 out of the 12 students that attempted it passed).

This question had four parts (a), (b) (c) and (d). In part (a) candidates were required to briefly discuss the importance of the tax legal framework and further state the key elements as it relates to audit function.

In part (b) candidates were required to state four (4) possible reasons for PAYE Audit inspections while Part (c) required them to explain the issue of tax rebates in relation to PAYE.

In parts (d) candidates were required to calculate the company final income tax payable for the tax year ended 2018 and state the due date

Though some candidates obtained good marks on this question, some did not. Those that did not do well were unable to explain the Tax rebates with regards to when they may occur. Majority of the candidates failed to compute the correct final company income tax payable for 2018 as required in part (d) of the question. Some candidates were starting with income after taxes instead of income before taxes and adding back disallowable



## **QUESTION TWO**

The performance on this question was excellent. All the 12 students that attempted it obtained 13/25 and above, representing a 100% pass rate.

This question had five parts (a), (b), (c), (d) and (e). In part (a) candidates were required to explain four (4) differences between a system based and risk based approaches to a forensic investigation.

In part (b) candidates were required to explain how an auditor can verify information from third parties

In parts (c) candidates were required to state the five (5) types of records a customer needs to keep under the Income Tax and VAT acts

In parts (d) candidates were required to explain the difference between tax audit and a tax investigation.

In parts (e) (I) candidates were required to briefly explain what Single Audit issue is.

In parts (e) (ii) candidates were required to briefly explain what Policeman theory is.

## **QUESTION THREE**

The performance on this question was very good. A pass rate of 75% was recorded (9 out of the 12 students that attempted it passed).

This question had four parts (a), (b), (c) and (d). In parts (a) (i) candidates were required to explain how loan relationships with shareholders can be treated in the financial statements of a Mining company.

In part (a) (ii) candidates were required to explain the treatment of mining losses in the financial statements that have been brought forward from 2017

In part (b) candidates were required to explain the tax treatment of the under listed family extracts from the business.

- i. Interest or rental income
- ii. Pension contribution
- iii. Salaries

In part (c) candidates were required to explain the introduction of a separate reporting for capital expenditure for each mining company

In part (d) (i) candidates were required to briefly explain the tax implication of an operating lease

In part (d) (ii) candidates were required to briefly explain the tax implication of a finance lease

The main challenge by candidates was failure to fully explain the treatment of a loan relationship with shareholders in the financial statements.

The other challenge was failure by candidates to explain reasons for the separate reporting for capital expenditure for each mining company as requested in part (c ) of the question.

#### **QUESTION FOUR**

The performance on this question was poor. A pass rate of 41.7% was recorded (5 out of the 12 students that attempted it passed).

This question had three parts (a), (b), (c) and (d). In part (a) candidates were required to explain three main reasons for a Tax investigation

In part (b) ( i ) candidates were required to explain the indirect audit techniques used to verify income on the source and application of funds method and

In part (a) (ii) candidates were required to explain the indirect audit techniques used to verify income from Bank deposits and cash expenditure method.

In part (c) candidates were required to compute the correct turnover of a customer using the information provided in the scenario

In part (d) candidates were required to explain three methods which Zambia Revenue Authority (ZRA) could use to recover the additional revealed by a tax investigation

It was noted that most candidates failed to compute the correct turnover as required in part (c) of the question.

### **Overall performance of candidates**

Highest mark obtained in this paper: **78%**

Lowest mark obtained in this paper: **50%**

Average score in this paper: **58.3%**