



**QUESTION AND ANSWER
FOR
JUNE 2019
DIPLOMA IN ACCOUNTANCY PROGRAMME
PAPERS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 10 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

- 1.1 Who issues International Financial Reporting Standards?
- A. The IFRS Advisory Committee
 - B. The stock exchange
 - C. The International Accounting Standards Board
 - D. The government
- (2 marks)
- 1.2 Which groups of people are most likely to be interested in the financial statements of a sole trader?
- 1 Shareholders of the company
 - 2 The business's bank manager
 - 3 The tax authorities
 - 4 Financial analysts
- A. 1 and 2 only
 - B. 2 and 3 only
 - C. 2, 3 and 4 only
 - D. 1, 2 and 3 only
- (2 marks)
- 1.3 Which ONE of the following statements describes faithful representation, a qualitative characteristic of faithful representation?
- A. Revenue earned must be matched against the expenditure incurred in earning it.
 - B. Having information available to decision-makers in time to be capable of influencing their decision.
 - C. The presentation and classification of items in the financial statements should stay the same from one period to the next.
 - D. Financial information should be complete, neutral and free from error.
- (2 marks)

1.4 Which of the following statements about accounting concepts and the characteristics of financial information are correct?

- 1 The concept of accruals requires transactions to be reflected in the financial statements once the cash or its equivalent is received or paid.
- 2 Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- 3 Based on faithful representation, it may sometimes be necessary to exclude material information from financial statements due to difficulties establishing an accurate figure.

A. 1 only

B. 1 and 2 only

C. 2 only

D. 2 and 3 only

(2 marks)

1.5 A sole trader took some goods costing K800 from inventory for his own use. The normal selling price of the goods is K1,600.

Which of the following journal entries would correctly record this?

	Dr	Cr
	K	K
A. Inventory account	800	
Purchases account		800
B. Drawings account	800	
Purchases account		800
C. Sales account	1,600	
Drawings account		1,600
D. Drawings account	800	
Sales account		800

(2 marks)

1.6 You are given the following information:

Receivables at 1 January 2018 K10,000

Receivables at 31 December 2018 K9 000

Total receipts during 2018 (including cash sales of K5,000) K85,000

What are sales on credit during 2018?

A. K81,000

B. K86,000

C. K79,000

D. K84,000

(2 marks)

1.7 In preparing its financial statements for the current year, a company's closing inventory was understated by K300,000.

What will be the effect of this error if it remains uncorrected?

A. The current year's profit will be overstated and next year's profit will be understated.

B. The current year's profit will be understated but there will be no effect on next year's profit.

C. The current year's profit will be understated and next year's profit will be overstated.

D. The current year's profit will be overstated but there will be no effect on next year's profit.

(2 marks)

1.8 Which of the following should be disclosed for tangible non-current assets according to IAS 16 *Property, plant and equipment*?

1 Depreciation methods used and the total depreciation allocated for the period

2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period

3 For revalued assets, whether an independent valuer was involved in the valuation

4 For revalued assets, the effective date of the revaluation

A. 1, 2 and 4 only

B. 1 and 2 only

C. 1, 2, 3 and 4

D. 1, 3 and 4 only

(2 marks)

1.9 At 31 May 2017 Molly's trial balance included the following items.

Inventory at 1 June 2016 K23,856

Trade receivables K55,742

Trade payables K32,165

Bank overdraft K5,855

Loan due for repayment in 2019 K15,000

What is the value of Molly's current liabilities at 31 May 2017?

A. K38,020

B. K53,020

C. K61,597

D. K76,597

(2 marks)

1.10 Which of the following statements are correct?

1. A company might make a rights issue if it wished to raise more equity capital.
2. A rights issue might increase the share premium account whereas a bonus issue is likely to reduce it.
3. A bonus issue will generate cash for a company.
4. A rights issue will always increase the number of shareholders in a company whereas a bonus issue will not.

A. 1 and 2

B. 1 and 3

C. 2 and 3

D. 2 and 4

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section. Attempt any four (4) questions.

QUESTION TWO

(a) D. Muchi a sole trader, produced the following trial balance at 31 December 2018:

D. Muchi's Trail Balance as at 31 December 2018

	K	K
Sales		1, 850,600
Purchases	1,127,400	
Capital		455,000
Freehold Premises at cost	542,000	
Allowance for depreciation on Freehold Premises as at 1 January 2018		108,000
Machinery at cost	168,000	
Allowance for depreciation on machinery as at 1 January 2018		42,000
General expenses	29,200	
Wages and salaries	358,800	
Rent and rates	12,200	
Electricity	9,600	
Irrecoverable receivables	2,800	
Allowance for irrecoverable receivables		2,400
Trade receivables	148,400	
Trade payables		136,600
Inventory as at 1 January 2018	163,800	
Cash at bank	<u>32,400</u>	<u> </u>
	<u>2,594,600</u>	<u>2,594,600</u>

You are given the following additional information:

1. Inventory in trade on 31 December 2018 is K188,600.
2. Wages and salaries accrued at 31 December 2018 amounted to K3,600.
3. Rent and rates paid in advance at 31 December 2018 amounted to K1,400.
4. The allowance for irrecoverable receivables is to be increased to K3,000.
5. Allowance for depreciation is to be made on Freehold Premises of K50,000 and machinery at the rate of 25% per annum on cost.

Required:

- (i) Prepare D. Muchi's statement of profit or loss for the year ended 31 December 2018.
(7 marks)
 - (ii) Prepare D. Muchi's statement of financial position as at 31 December 2018.
(7½ marks)
- (b) The payables ledger control Account balance at 1 January 2019 was K50,000 credit.

In the month to 31 January 2019, these transactions occurred:

	K
- Discount allowed	15,000
- Discount received	7,500
- Irrecoverable receivables	2,500
- Cash paid to suppliers	150,000
- Credit purchases.	200,000
- Contras with receivables ledger	5,000

Required:

Draw up the payables control account for the month of January 2019.

(5½ marks)

[Total 20 Marks]

QUESTION THREE

The list below shows Mukonje's ledger accounts balances extracted for the year ended 31 March 2017.

	K'000
Inventory at 1 April 2016:	
Raw materials	7,000
Work in progress	9,000
Finished goods	11,000
Sales	100,500
Purchases of raw materials	40,300
Carriage inwards on raw materials	6,000
Returns inwards	4,200
Fuel and lighting	8,000
Rent and rates	7,400
Discount allowed	3,000
Factory direct wages	6,000
Discount received	1,400
Royalties	900
Salaries and wages	25,500
Motor van running expenses	4,800
Stationary	6,700
Bad debts	3,500
Allowance for Receivables 1 April 2016	900
Receivables	18,000
Payables	16,000
Bank	16,000
Cash	5,000
Drawings	6,000
Capital	175,600
Fixtures and fittings at cost	20,000
Plant and Machinery	90,000
Allowances for depreciation on:	
Fixtures and fittings 1 April 2016	1,200
Plant and Machinery April 2016	4,500

The following notes relates to Mukonje business as at 31 March 2017.

1. Inventory was valued at:
 Raw material K12,000,000
 Work in progress K7,000,000
 Finished goods K9,000,000
2. Fuel and light is to be apportioned in the ratio of 80% to 20% to manufacturing account and statement of profit or loss.
3. Rent and rates to be apportioned in the ratio of 60% to 40% to the manufacturing account and statement profit or loss.
4. Fuel and lighting prepaid K1,000,000
5. Rent and rates accrued K2,200,000
6. Make an allowance for receivables of 10 % on receivables.
7. Transfer production cost at 10% markup.
8. Depreciation:
 - Fixtures and fittings at 2% using straight line method.

- Plant and machinery is to be depreciated at 5% per cent using reducing balance method

Required:

- (a) Prepare Mukonje's manufacturing account for the year ended 31 March 2017.
(10 marks)
- (b) Prepare Mukonje's statement of profit or loss account for the year ended 31 March 2017.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

Jajids is a limited liability company which has just been incorporated. The director of the company has heard of the requirement to comply with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). He is not, however, sure how useful compliance to the standards in issue would be, and whether international harmonization of accounting standards is practical.

Required:

- (a) Explain the extent of application of IASs/IFRSs to companies in a country such as Zambia. (4 marks)
- (b) Give four (4) benefits of global application of International Accounting Standards. (8 marks)
- (c) Give four (4) limitations to global application of International Accounting Standards. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

Banda, Hara and Zulu are trading as partners, sharing profit and losses in the ratio 5:2:3 respectively. Interest on capital is at 8%. Partnership salaries are; Hara K90 000 per annum and Zulu K70 000 per annum

Their trail balance as at 31 December 2018 was as follows:

	Dr	Cr
	K	K
Capital account balances:		
Banda		300,000
Hara		50,000
Zulu		150,000
Current account balances:		
Banda		29,700
Hara	10,585	
Zulu		48,090
Drawings:		
Banda	195,000	
Hara	80,000	
Zulu	140,000	
Computers at cost	42,000	
Office equipment at cost	28,500	
Allowance for depreciation at 01/01/2018:		
- Computers		18,000
- Office equipment		14,500
Sales		1,622,090
Purchases	996,695	
Inventory on 01/01/2018	340,635	
Selling and Administration expenses	303,445	
Allowance for irrecoverable receivables		4, 750
Trade payables		182, 400
Trade receivables	256,600	
Cash at bank	<u>26,070</u>	<u> </u>
	<u>2,419,530</u>	<u>2,419,530</u>

The following information is available at 31 December 2018.

- (i) Inventory at 31 December 2018 was K371,115.
- (ii) Administration expenses are paid in advance for K1,340.
- (iii) Increase the allowance for irrecoverable receivables to K7,000.
- (iv) Interest on drawings: Banda K1,500; Hara K1,000 and Zulu K1,200.
- (v) Depreciate computers by K14,000 and office equipment by K5,500.

Required:

From the information given above:

- (a) Prepare the partnership statement of profit or loss, and appropriation account for the year ended 31 December 2018. (10½ marks)
- (b) Prepare the current accounts for the partners. (3 marks)
- (c) Prepare the partnership's statement of financial position as at 31 December 2018. (6½ marks)

[Total 20 marks]

QUESTION SIX

Public sector accounting is important as it ensures accountability of the public funds. In order to ensure accountability, public sector organizations are required by law to prepare the financial statements which must be audited before presenting them to the users.

Required:

- (a) Describe Five (5) users of public sector financial reports. (10 marks)
- (b) The following are opening Assets and liabilities entries for Mr. B Chabala as at 1 March 2017. Buildings K500,000, Equipments K300,500, Motor Vehicles K130,200, Cash in hand K40,100, inventory K50,000, Receivables; K Kalaba K30,500, L Pupa K20,000, payables K250,000, Bank overdraft K150,000, Rent prepaid K30,000, Wages accrued K6,000, Commission receivable accrued K25,000.

Prepare B Chabala's Journal Proper and find his capital as at 1 March 2017.

(10 marks)

[Total: 20 marks]

END OF PAPER

DA1 FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C The role of the IASB is to develop and publish International Financial Reporting Standards.

1.2 B A sole trader does not have any shareholders. The financial statements are unlikely to be of interest to a financial analyst, they are more usually interested in the financial statements of public companies.

1.3 D Financial information should be complete, neutral and free from error.

1.4 C Statement (2) only is correct. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Statement 1 describes the opposite of the accruals concept. Statement 3 is also incorrect, faithful representation does not prevent estimates being made.

1.5 B The selling price is not relevant to this adjustment.

1.6 C Credit sales = K80,000 – K10,000 + K9,000 = K79,000.

1.7 C If closing inventory is understated, cost of sales will be overstated. Next year opening inventory will be understated and cost of sales will be understated.

1.8 C The disclosure requirements in IAS 16 are comprehensive, particularly in relation to revalued assets.

1.9 A The trade payables are due to be paid within 12 months, the overdraft is repayable on demand.

1.10 A Statements 1 and 2 are correct.

QUESTION TWO SOLUTION

(a) (i) D. Muchi's

Statement of profit or loss for the year ended 31st December 2018

	K	K
Sales		1 850 600
Opening inventory	163 800	
Purchases	<u>1 127 400</u>	
	1 291 200	
Closing inventory	<u>(188 600)</u>	
		<u>(1 102 600)</u>
Gross profit		748 000
Depreciation on premises	50 000	
Depreciation on machinery	42 000	
General expenses	29 200	
Wages and salaries (358 800 + 3 600)	362 400	
Rent and rates (12 200 – 1 400)	10 800	
Electricity	9 600	
Irrevocable receivables	2 800	
Increase in allowance for irrecoverable	<u>600</u>	
		<u>(507,400)</u>
Net profit		<u><u>240 600</u></u>

(ii) D. Muchi's

Statement of Financial position as a at 31st December 2018

	K	K	K
	Cost	Accum'd Depn	NBV
<u>Non-current assets:</u>			
Freehold premises	542 000	158 000	384 000
Machinery	168 000	84 000	<u>84 000</u>
			468 000
<u>Current assets:</u>			
Inventory		188 600	
Trade receivables (148 400 – 3 000)		145 400	
Bank		32 400	
Prepaid rent and rates		<u>1 400</u>	<u>367 800</u>
			<u><u>835 800</u></u>
<u>Equity and Liabilities:</u>			
Capital			455 000
Net profit			<u>240 600</u>
			695 600
<u>Current Liabilities:</u>			
Trade payables		136 600	
Wages and salaries accrued		3 600	<u>140 200</u>
			<u><u>835 800</u></u>

(b)

Trade Payables Control Account

	K		K
Discount received	7 500	Balance b/f	50 000
Bank	150 000	Purchases	200 000
Trade receivables ?	5 000		
Balance c/d	<u>87 500</u>		<u> </u>
	<u>250 000</u>		<u>250 000</u>

SOLUTION THREE

a) Mukonje's manufacturing account for the year ended 31 March 2017

	K'000	K'000
Raw materials:		
Opening inventory	7,000	
Purchases	40,300	
Carriage inwards	<u>6,000</u>	
Total inventory	53,300	
Less closing inventory	<u>(12,000)</u>	
Cost of raw materials consumed		41,300
Direct Labour:		
Wages		6,000
Direct expenses:		
Royalties		<u>900</u>
PRIME COST		48,200
Over heads		
Fuel and lighting [(8,000 – 1,000) x 0.8]	5,600	
Rent and rates [(7,400 + 2,200) x 0.6]	5,760	
Depreciation:		
Plant and mach. [(90,000 – 4,500) x 0.05]	<u>4,275</u>	
		<u>15,635</u>
		63,835
Add opening work in progress		<u>9,000</u>
		72,835
Less closing work in progress		<u>(7,000)</u>
Production cost		65,835
10% mark up		<u>6,584</u>
Total production cost		<u>72,419</u>

b) Mukonje's statement of profit or loss for the year ended 31 March 2017

	K'000	k'000
Sales	100,500	
Returns inwards	<u>(4,200)</u>	
Turnover		96,300
Less cost of sales:		
Opening inventory	11,000	
Production cost	<u>72,419</u>	
Total inventory available	83,419	
Less closing inventory	<u>(9,000)</u>	
		<u>(74,419)</u>
Gross profit		21,881
Add income:		
Discount received		<u>1,400</u>
Total income		23,281
Less: Expenses:		
Fuel and lighting [(8,000 – 1,000) x 0.2]	1,400	
Rent and rates [(7,400 + 2,200) x 0.4]	3,840	
Discount allowed	3,000	
Salaries and wages	25,500	
Motor van running expenses	4,800	
Stationary	6,700	
Bad debts	3,500	
Allowance for receivable s(18,000 x 0.1)-900	900	
Depreciation:		
Fixtures and fittings (20,000 x 0.02)	<u>400</u>	
Total expenses		<u>(50,040)</u>
Net loss		<u>(26,759)</u>

SOLUTION FOUR

(a) The level of standard application:

Every country has a national regulatory body that ensures that local laws and accounting standards are applied by companies. International Accounting Standards do not mandatorily override or replace local regulation. Accounting standards to apply are therefore those issued by the local regulatory body of each country.

Where it becomes necessary to apply international accounting standards the members of the local regulatory body should persuade local authorities to adopt the application of IASs, considering the benefits that would accrue for doing so.

IASs are intended to be simple to adopt, to be applied prospectively and to essential material matters only. Companies that adopt the application of IASs should disclose this fact in their financial statements.

(b) Benefits of global application of International Accounting Standards.

- Investors would compare financial results in terms of profitability of different companies nationally and internationally before making decisions
- Foreign entities coming to Zambia as investors would easily be appraised
- Accounting staff between countries would easily and acceptably be transferred.
- Adopting IASs by governments of developing countries would save money since they would avoid the lengthy and expensive process of issuing a new standard.
- Determining the tax liability payable by multinationals and other foreign investors would easily be done.
- Application of common accounting standards would promote regional trade such as that between SADC members.
- International accounting firms would find it easier to audit companies in different countries as a result of application of IASs.

(c) Limitations to global application of International Accounting Standards:

- Some countries have different purposes for preparing financial statements e.g. for tax purposes, and others for tax and investment decision purposes
- Differing legal systems prevent development of certain accounting practices, and sometimes list the options available.
- Identification of the primary user group differs from country to country. For example, in the UK the employee is more important whereas in the US the creditor and investor are more important.
- Developing countries are behind in most aspects, and so the need to adopt existing standards rather than develop completely new ones that suit their situation.
- Cultural differences and nationalism prevent application of foreign standards to local companies.

- Some countries may be experiencing unique circumstances such as civil war, hyperinflation, currency restriction, etc. These would prevent the prompt adoption of international standards.

QUESTION FIVE SOLUTION

(a) Banda, Hara and Zulu's

Statement of Profit or Loss and appropriation account for the year ended 31st December 2018

	K	K
Sales		1 622 090
Opening inventory	340	
	635	
Purchases	<u>996</u>	
	<u>695</u>	
	1 337	
	330	
Closing inventory	<u>371</u>	<u>966 215</u>
	<u>115</u>	
Gross profit		655 875
Allowance for depreciation on:- Computers	14 000	
- Office equipment	5 500	
Selling and Administration (303 445 – 1 340)	302	
	105	
Increase in allowance on irrecoverable receivables (7 000 – 4 750)	<u>2 250</u>	<u>323 855</u>
Operating net profit		332 020
Add interest on drawings - Banda	1 500	
- Hara	1 000	
- Zulu	<u>1 200</u>	<u>3 700</u>
		335 720
Less: Partnership salaries - Hara	90 000	
- Zulu	<u>70 000</u>	(160 000)
Interest on capitals - Banda	24 000	
- Hara	4 000	
- Zulu	12 000	<u>(40 000)</u>
Residual profit		135 720
Share of residual profit - Banda	67 860	
- Hara	27 144	
- Zulu	40 716	<u>(135 720)</u>
		<u>-</u>

(b) Current Accounts

		Banda	Hara	Zulu		Banda	Hara	Zulu
Balance	b/f	-	10 585	-	Balances b/f	29 700	-	48 090
Interest		1 500	1 000	1 200	Interest on	24 000	4 000	12 000
drawings					caps			
Drawings		195 000	80 000	140 000	Salaries	-	90 000	70 000

Balances	c/d	-	29 559	29 606	Share of profits	67 860	27 144	40 716
					Balance c/d	<u>74 940</u>	<u>-</u>	<u>-</u>
		<u>196 500</u>	<u>121 144</u>	<u>170 806</u>		<u>196 500</u>	<u>121 144</u>	<u>170 806</u>

(c) Banda, Hara and Zulu's

Statement of Financial position as at 31 December 2018

<u>Non-Current Assets</u>	K Cost	K Accum'd Depn'	K NBV
Computers	42 000	32 000	10 000
Office equipment	28 500	20 000	<u>8 500</u>
			18 500
<u>Current Assets</u>			
Inventory		371 115	
Trade receivables (256 600 – 7 000)		249 600	
Bank		26 070	
Prepaid Administration		<u>1 340</u>	<u>648 125</u>
			<u>666 625</u>
<u>Equity and Liability</u>			
Capacity – Banda		300 000	
– Hara		50 000	
– Zulu		<u>150 000</u>	500 000
Current Accounts: – Banda		(74 940)	
– Hara		29 559	
– Zulu		<u>29 606</u>	<u>(15 775)</u>
			484 225
<u>Current Liability</u>			
Trade payables			<u>182 400</u>
			<u>666 625</u>

SOLUTION SIX

a) Five (5) users of public sector financial reports

1. Managers

Managers are responsible for ensuring that budgets are adhered to as they have the mandate to smoothly run the organisation.

2. International funding organizations

These are interested in the financial reports so as to assess whether the development funds were used for purpose which was intended

3. Taxpayers

These are interested to know how the government is using the funds which was paid in as tax and also helps to know the levels of future taxes.

4. Central government

They use the reports to assess how well the funds were used and also assist them in future control and planning

5. General public

These are interested in the quality and quantities of service by those elected are able to provide

b) B Chabala's Opening Journal Proper as at 1 March 2017

Details	Dr	Cr
	K	K
Assets		
Buildings	500,000	
Equipments	300,500	
Motor Vehicles	130,200	
Cash in Hand	40,100	
Inventory	50,000	
Receivables: K Kalaba	30,500	
L Pupa	20,000	
Rent prepaid	30,000	
Commission receivable accrued	25,000	
Less Liabilities		
Payables		250,000
Bank overdraft		150,000
Wages accrued		6,000
Capital(Bal figure)		720,300
	<u>1,126,300</u>	<u>1,126,300</u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 12 JUNE 2019

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

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10. A mathematical/statistical formulae book **MUST** be provided. **Request for one if not given by the Invigilators.**

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SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

- 1.1. Mr. Moses Ngoma deposited K800 in Zere bank offering 6% simple interest for 12 years. The interest obtained is:

- A. K57600.
- B. K57.6
- C. K5760
- D. K576

(2 marks)

- 1.2. If weights are normally distributed with mean 65kg and standard deviation 8kg. What is the probability of a weight being less than 70kg?

- A. 0.2357
- B. 0.7357
- C. 0.7643
- D. 0.2643

(2 marks)

- 1.3. The cash flows of a project for three years are given in the table below :

YEAR	1	2	3
CASHFLOW	50	40	70

The initial investment is K120 and cost of capital is 3%. The Net Present Value (NPV) of the project is:

- A. K 30.
- B. K30.31
- C. K30
- D. K30.13

(2 marks)

1.4. The mode of the following set of data 4, 6, 3, 8, 6, 9, 6, 3, 8 is :

- A. 3
- B. 6
- C. 8
- D. 5.9

(2 marks)

1.5. The statistical diagram that displays proportional shares of the whole part is called:

- A. Component
- B. Multiple bar chart.
- C. Scatter diagram.
- D. Pie chart.

(2 marks)

1.6. At Smart Profession Training Centre, 60% of the students are male and 75% are ZICA candidates. The probability that a student chosen at random is either female or a ZICA candidate is:

- A. 0.85
- B. 0.30
- C. 0.40
- D. 1.00

(2 marks)

1.7. What is the difference between data and information?

- A. They are the same.
- B. Data can only be figures, whereas information can be facts or figures.
- C. Information results from sorting and analysing data.
- D. Data results from obtaining many individual pieces of information.

(2 Marks)

1.8. Coefficient of Correlation measures:

- A. Relationship.
- B. Skewness.
- C. Deviation.
- D. Variation.

(2 marks)

1.9. If the regression equation (k'000) linking sales (Y) and advertising expenditure (x) is given by $Y = 5,000 + 10X$; the forecast sales of K100 spent on advertising is:

- A. K1, 005, 000
- B. K501,000
- C. K4 million
- D. K6 million

(2 marks)

1.10 The ordinary annuity is:

- A. Constant amount of money paid at end of each of interval.
- B. Constant amount of money paid at the end of interval.
- C. Amount of money paid at the end of each of interval.
- D. Constant of money paid at the beginning of each interval

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section. Attempt any FOUR (4) questions.

QUESTION TWO

- (a) Mr Muke deposited K60,000 to get an amount of K95,628 at 6% interest compounded annually.

Required:

Calculate the period.

(5 marks)

- (b) The distribution of weight of cows (kg) in the village Koya is given in the table below:

WEIGHT	20 and under 30	30 and under 40	40 and under 50	50 under 60
NUMBER OF COWS	7	12	5	6

Required:

Calculate:

- (i) Mean weight of the cows. (4 marks)
- (ii) Standard deviation of weight of the cows. (5 marks)
- (iii) Median of the weight of the cows. (6 marks)

[Total: 20 marks]

QUESTION THREE

- (a) The distribution of salaries paid to direct labour employees at Lusaka Fitment company is as follows.

SALARY (K'000)	NUMBER OF EMPLOYEES
40 and < 50	4
50 and < 60	6
60 and < 70	10
70 and < 80	8
80 and < 90	2

Required:

- (i) Calculate the mean salary (4 marks)
- (ii) Draw the cumulative frequency curve (Ogive). (6 marks)
- (iii) Use the graph to find the median salary. (3 marks)
- (b) Sekuru Furniture in Mandevu compound manufactures two types of beds: Double bed and single bed using mukwa and nails. Each double bed uses 8 metres of mukwa and single bed uses 5 metres of mukwa. Each double bed uses 1kg of nails and single bed uses 1kg of nails. The maximum quantity of mukwa is 400 metres and maximum weight of nails is 60kg available per week. The profit per double bed is K50 and single bed is K30.

Required:

- (i) Write down the objective function. (3 marks)
- (ii) Construct constraint functions to maximise the objective function. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The cash flows of two projects M and N are given in the table below:

YEAR	1	2	3
M	700	800	500
N	500	1000	700

The initial cost of each project is K1,700 and the cost of the capital is 10%.

Required:

Determine the optimum project by the Net Present Value method. (14 marks)

- (b) The distribution of prices of seven items bought from shop B is as follows:
K90, K40, K30, K50, K60, K70 and K80.

Required:

Calculate:

- (i) Median price. (2 marks)
- (ii) Standard deviation of the prices. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The quarterly production of timber in kilograms of Yesi company of 2003 and 2005 are given in the table below :

YEAR	QUARTER			
	1	2	3	4
2003	50	20	30	50
2005	80	70	50	60

Required:

Calculate:

- (i) Four quarter moving average trend values. (8 marks)
- (ii) Seasonal variation values by Additive model. (4 marks)

- (b) The average price of a Maths textbook book is K450 and standard deviation of K55. The prices are normally distributed.

Required:

Calculate the probability of a book with price:

- (i) Between mean price and K518.75. (3 marks)
- (ii) Between K461 and K577.05. (5 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) A Chinese investor is expected to choose one of the farming blocks for investment purpose. The table below shows three farming blocks Chisamba, Serenje and Mkushi including rainfall levels of high, medium and low with their respective profit values.

RAINFALL LEVELS ('000)

FARM BLOCK	HIGH	MEDIUM	LOW
Chisamba	40	80	70
Serenje	70	50	90
Mkushi	60	65	100

Required:

Determine the best farming block using:

- (i) Maximax criterion (4 marks)
- (iii) Minimax regret rule (6 marks)

- (b) A retailer has placed an order for 40 units to be delivered. The estimated sales for each day are expected to follow probability distribution, to which random number digits have been allocated.

Demand	Probability
10	0.06
20	0.10
30	0.15
40	0.40
50	0.16
60	0.13

Random number digits to be used for daily demand are:

9353819388232296790614946735

Required:

- (i) Simulate first ten day's demand. (7 marks)
- (ii) State three circumstances under which simulation will be used. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA2 QUANTITATIVE ANALYSIS SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 **D**

1.2 **B** $P(w < 70) = P[z < (70 - 65)/8] = P(z < 0.63) = 0.5 + 0.2357 = 0.7357$

1.3 **B**

8	YR	CASH	DF	C(DF)	PV
	1	50	$(1.03)^{-1} = 0.9709$	50X 0.9709	48.55
	2	40	$(1.03)^{-2} = 0.9426$	40X 0.9426	37.70
	3	70	$(1.03)^{-3} = 0.9151$	70X0.9151	64.06
				Sum	= 150.31

$$NPV = \text{Sum PV} - \text{Cost} = 150.31 - 120 = 30.31.$$

1.4 **B** The mode is the number with the highest frequency in this case 6.

1.5 **D**

1.6 **A** $P(\text{male}) = 0.6$, $P(\text{female}) = 1 - 0.6 = 0.4$, $P(\text{Zica}) = 0.75$ We have to use the general rule of addition to avoid double counting. Hence

$$\begin{aligned} P(\text{female or Zica candidate}) &= P(\text{female}) + P(\text{Zica}) - P(\text{female and zica}) \\ &= 0.4 + 0.75 - (0.4 \times 0.75) \\ &= 1.15 - 0.3 = 0.85 \end{aligned}$$

1.7 **C**

1.8 **A**

1.9 **D** $Y = 5,000 + 10x$, and $x = 100$ $Y = 5,000 + 10 \times 100 = 6,000$ (K'000). Hence sales forecast is K6m

1.10 **A .**

SOLUTION TWO

(a) $P(1 + i)^n = A$
 $60000(1.06)^n = 95628$
 $(1.06)^n = 95628/60000 = 1.5938$
 $\text{Log } (1.06)^n = \text{log}1.5938$
 $n\text{log}(1.06) = \text{log}1.5938$
 $n = \text{log}1.5938/\text{log}1.06 = 7.99 = 8 \text{ years}$

(b) (i) $\bar{x} = \text{sum } fx/\text{sum } f = 1150/30 = 38.3\text{kg}$

(ii) $\sigma = \sqrt{\frac{\sum fx^2}{\sum f} - \bar{x}^2} = \sqrt{47350/30 - 38.3^2} = \sqrt{1578.3 - 1466.89} = \sqrt{111.41} = 10.55$

$= 10.6 \text{ Kg}$

(iii)

Class	f	cf
20<30	7	7
30<40	12	19
40<50	5	24
50<60	6	30

$$\text{Median} = L + \left(\frac{\frac{n}{2} - cf}{f}\right) c = 30 + \left(\frac{15 - 7}{12}\right) 10 = 30 + 8/12(10) = 30 + 80/12$$

$$= 30 + 6.7 = 36.7 \text{ Kg}$$

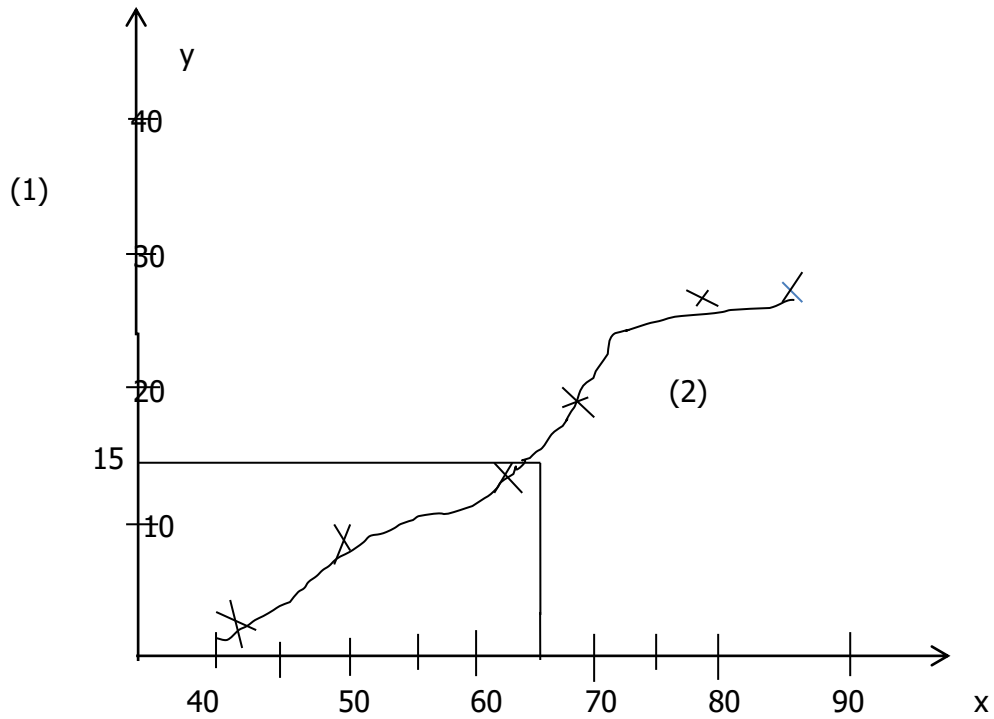
SOLUTION THREE

(a)	(i)	X	f	fx
		45	4	180
		55	6	330
		65	10	650
		75	8	600
		85	2	170
			$\Sigma f = 30$	$\Sigma fx = 1930$

$$(i) \text{ Mean} = \frac{\Sigma fx}{\Sigma f} = \frac{1930}{30} = 64.33 \times 100 = \text{K}64,330$$

(ii)	CLASS	f	cf
	40<50	4	4
	50<60	6	10
	60<70	10	20
	70<80	8	28
	80<90	2	30

(ii) cf-



Class Limits

(iii) Median salary = $\frac{\sum fx}{2} = \frac{30}{2} = 15\text{th item}$

Median = K65 x 1000 = K65,000

(b) (i) Let X = number of double beds made.

Y = number of single bed made.

$$\text{Max}(Z) = 50X + 30Y$$

subject to :

(ii) $8x + 5y \leq 400$ (mukwa)

$x + y \leq 60$ (nails)

$X, Y \geq 0$ (None negative)

SOLUTION FOUR

(a) M-Project

YR	Cash	DF	C(DF)	PV
1	700	$1.1^{-1} = 0.9091$	700×0.9091	636.37
(1)				
2	800	$1.1^{-2} = 0.8264$	800×0.8264	
661.12				
3	500	$1.1^{-3} = 0.7513$	500×0.7513	
375.65				

Sum= 1673.14

$$NPV = 1673.14 - 1700 = -K26.86$$

N – Project

Yr	Cash	DF	c(DF)	PV
1	500	0.9091	500×0.9091	454.55
2	1000	0.8264	1000×0.8263	826.4
3	700	0.7513	700×0.7513	525.91

Sum = 1806.86

$$NPV = 1806.86 - 1700 = 106.86$$

Project N is the optimum (2).

(b) (i) 30, 40,50, 60,70,80,90

Median = K60

(ii) X	X^2
30	900
40	1600
50	2500
60	3600
70	4900
80	6400
90	8100

Sum= 420

Sum= 2800

Mean = $420/7 = 60$.

$$\sigma = \sqrt{\frac{2800}{7} - 60^2} = \sqrt{400 - 3600} = \sqrt{400} = 20$$

SOLUTION FIVE

(a) (i) Year	Q	Kg	MAT	MA	CA(T)	SV
2003	1	50				
	2	20				
	3	30	150	37.5	41.25 - 11.25	
	4	50	180	45	51.25 - 1.25	
2005	1	80	230	57.5	60	20
	2	70	250	62.5	63.75	6.25
	3	50	260	65		
	4	60				

(b) $\mu = 450$ $\sigma = 55$ $Z = x - \mu/\sigma$

(i) $P(450 < X < 518.75) = (518.75 - 450)/55 = 68.75/55 = 1.25 = 0.3944$

(ii) $P(461 < X < 577.06) = (577.06 - 450)/55 - (461 - 450)/55 = 127.06/55 - 11/55$

$$= 2.31 - 0.2 = 0.4896 - 0.0793 = 0.4103$$

SOLUTION SIX

(a) Maximax criteria

	(Rainfall levels)			
Farm Block	HIGH	MEDIUM	LOW	maximum
Chisamba	40	80	70	80
Serenje	70	50	90	90
Mkushi	60	65	100	100

Under the Maximax rule, Mkushi must be chosen.

(b) Minimax regret rule

	(Rainfall levels)			
Farm Block	High	Medium	Low	
Chisamba	40	80	70	
Serenje	70	50	90	
Mkushi	60	65	100	
maximum	70	80	100	
Regret table	High	Medium	Low	Maximum
Chisamba	30	0	30	30
Serenje	0	30	10	30
Mkushi	10	15	0	15

Under the Minimax regret rule, Mkush is the best option.

(b) (i) Demand per day	Probability	Assigned numbers	Random numbers	Simulated Demand
10	0.06	00-05	93	60
20	0.10	06-15	53	40
30	0.15	16-30	81	50
40	0.40	31-70	93	60
50	0.16	71-86	88	60
60	0.13	87-99	23	30

22	30
96	60
79	50
06	20
14	20
94	60
67	40
35	40

(ii) Simulation is used when the problem is either; too costly, too dangerous (e.g. in plane crash) or impractical to solve directly because they random elements.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 11 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: Ten (10) compulsory multiple choice questions.
Section B: Any two (2) of three (3) optional questions on Microeconomics.
Any two (2) of three (3) optional questions on Macroeconomics.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

- 1.1 The problem of scarcity in economics:
- A. Exists only in economies which rely on the market mechanism.
 - B. Could be eliminated if we force prices to fall.
 - C. Means that there are shortages of some goods.
 - D. Exists because there are insufficient resources to satisfy human wants.
- (2 marks)
- 1.2 Which of the following statements is true, regarding the supply of a particular good, and that good's own price?
- A. A price increase shifts the supply curve to the right.
 - B. A price increase shifts the supply curve downward.
 - C. A price change alone does not shift the supply curve.
 - D. A price change is the only way to shift the supply curve.
- (2 marks)
- 1.3 Which of the following is a disadvantage faced by sole proprietors?
- A. No bureaucratic decision-making
 - B. Full responsibility for the business' debts
 - C. Demands placed on them by shareholders
 - D. "Double taxation" of profits through corporate and dividend taxes
- (2 marks)
- 1.4 Monopolistically competitive firms most frequently do which of the following?
- A. Compete in pricing wars with other firms in the industry
 - B. Advertise the traits that make their product identifiable
 - C. Enjoy monopoly pricing power
 - D. Merge and consolidate into oligopolistic groupings
- (2 marks)
- 1.5 The kinked demand curve model of oligopoly is based upon the assumption that:
- A. A firm's competitors match both its price increases and price reductions.
 - B. One firm in the industry sets the price for all other firms.
 - C. A firm's competitors match its price reductions but not its price increases.
 - D. The price charged by a firm can either rise or fall depending on what happens to its competitors' prices.
- (2 marks)

- 1.6 The expression "too much money chasing too few goods," describes:
- A. Demand-pull inflation.
 - B. Cost-push inflation.
 - C. Hyperinflation.
 - D. Supply-shock inflation.
- (2 marks)
- 1.7 The Phillips curve shows that the:
- A. Higher the level of prices, the lower will be the rate of unemployment.
 - B. Higher the rate of inflation, the lower will be the rate of unemployment.
 - C. Lower the level of prices, the lower will be the rate of unemployment.
 - D. Higher rate of inflation, the higher will be the rate of unemployment.
- (2 marks)
- 1.8 Which of the following is the least liquid?
- A. A K20 note in your pocket
 - B. Three shares of Microsoft stock
 - C. A certificate of deposit (CD) in your bank.
 - D. A new Toyota Vitz
- (2 marks)
- 1.9 Equity instruments are traded in the:
- A. Capital market.
 - B. Money market.
 - C. Commodities market.
 - D. Bond market
- (2 marks)
- 1.10 Using the Aggregate demand and aggregate supply model, what is the likely new equilibrium if there is a rise in the cost of oil?
- A. The price level is higher and real GDP lower than in the initial equilibrium
 - B. The price level is higher and real GDP remains the same as in the initial equilibrium
 - C. The price level is lower and real GDP is higher than in the initial equilibrium
 - D. The price level and real GDP are lower than in the initial equilibrium
- (2 marks)
- [Total: 20 Marks]**

SECTION B

This section has two parts: **Part 1. Microeconomics** and **Part 2. Macroeconomics**

1. MICRO ECONOMICS: Attempt any two (2) questions out of three (3).

QUESTION TWO

- (a) Suppose that a society could produce the following maximum combinations of schools and hospitals in a given year:

Alternative	Schools	Hospitals
A	100	0
B	80	30
C	60	50
D	40	60
E	20	65
F	0	68

- (i) Draw a production possibilities frontier (PPF) with schools on the horizontal axis and hospitals on the vertical axis. (5 marks)
- (ii) Explain if it is possible and/or efficient for this society to produce 50 hospitals and 80 schools. (2 marks)
- (iii) If society is currently producing at alternative C, what is the opportunity cost of increasing the output of schools from 60 to 80? (1 mark)
- (iv) Compare the opportunity cost of producing schools when you move from alternative C to B, with moving from E to D. (2 marks)
- (b) Suppose the government has been advised to privatize the education sector, bring out any three (3) benefits and any two (2) limitations of privatization. (10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain the difference between a change in quantity demanded and a change in demand. (4 marks)
- (b) Assume that the supply of lemonade is represented by:
 $Q_S = 40P$
Where Q is measured in litres and P is measured in kwacha per liters.
- (i) If the demand for lemonade is $Q_D = 5,000 - 10P$, what is the current equilibrium price and quantity? (2 marks)
- (ii) Suppose the cost of producing lemonade goes up and producers reduce the quantity supplied of lemonade by 400 litres at every price. What is the new equation for the supply of lemonade? (2 marks)
- (iii) Using the equation in (ii) above, compute the new equilibrium price and quantity of lemonade. (2 marks)
- (c) Outline any three (3) factors that determine the price elasticity of supply. (6 marks)
- (d) Illustrate with the use of diagrams the difference between relative elastic supply and relative inelastic supply. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Distinguish between public sector organisations and non-profit organisations. (2 marks)
- (b) A small town newspaper, The Star, has fixed production costs of K70 per edition, and marginal printing and distribution costs of 40n/copy. The Star sells for 50n/copy.
- (i) Write down the associated cost, revenue, and profit functions. (3 marks)
- (ii) What profit (or loss) results from the sale of 500 copies of The Star? (1 mark)
- (iii) How many copies should be sold in order to break even? (3 marks)
- (c) With the aid of a graph, explain the shutdown point of a firm under perfect competition. (5 marks)
- (d) "An oligopoly is characterised by a high degree of interdependence between firms." Explain any other three (3) characteristics of oligopoly. (6 marks)

[Total: 20 Marks]

2. MACRO ECONOMICS – Attempt any two (2) questions out of the three (3).

QUESTION FIVE

- (a) Show how you can derive Net National Income (NNI), given the Gross Domestic Product (GDP) and the Gross National Product (GNP). (4 marks)
- (b) With the aid of an appropriate diagram, explain how a country can reach the point of 'ideal' equilibrium of national income (full employment). (4 marks)
- (c) Consider the following information about an open economy:
Consumption (C) = 40,000 + 0.1Y_d
Disposable income (Y_d) = Y – T
Taxes (T) = 0.45Y
Government spending (G) = 2,500
Investment (I) = 5,000
Exports (X) = 10,000
Imports (M) = 1,000 + 0.5Y.
- (i) Determine the equilibrium income (Y) for this economy with the condition that injections (J) equal withdrawals (W). (4 marks)
- (ii) Write the aggregate demand (AD) function/equation. (3 marks)
- (iii) By how much will equilibrium income change if exports fall to 3,500? (3 marks)
- (iv) Will the change in equilibrium income be an increase or decrease? (2 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Consider the following money demand function expressed as, $M_d = f\{P, Y, i, E(p)\}$ where P = domestic price level, Y = domestic real income level, i = domestic interest rate and $E(p)$ = expected inflation.

For each of the variables on the right hand side, explain how they are related to demand for money. (8 marks)

- (b) Assume a simple, closed economy with no government. The marginal propensity to consume (MPC) = 0.2. Assume that firms expect the future sales and profits to fall, and they suddenly cut back (unintended) investment spending by 50 million kwacha.

(i) By how much will output eventually fall? (2 marks)

(ii) Now assume the same as above, except that now the MPC= 0.1. How much will output fall when unintended investment spending drops by 50 million? (2 marks)

(iii) Explain the crowding out effect of an increase in the Government Budget Deficit on the rate of interest and the level of private investment. (4 marks)

- (c) Explain any two (2) ways in which the government can finance its expenditures.

(4 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Explain any four (4) arguments that can be used to support the use of trade barriers. (8 marks)

- (b) Outline any three (3) advantages and any two (2) disadvantages of floating exchange rates. (10 marks)

- (c) Distinguish between Spot market and Forward market. (2 marks)

[Total: 20 Marks]

END OF PAPER

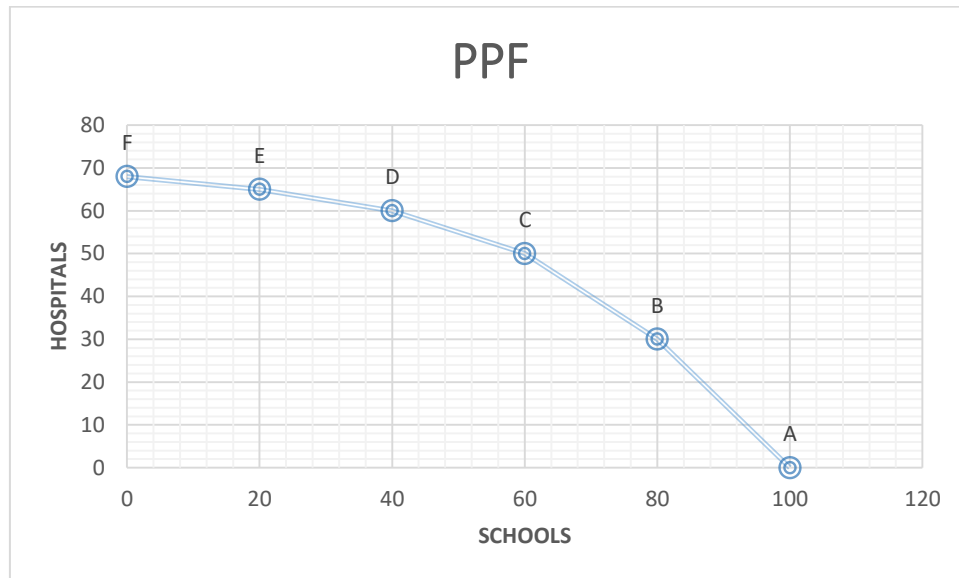
DA 3 SUGGESTED SOLUTIONS

SOLUTION ONE

1.1	D
1.2	C
1.3	B
1.4	B
1.5	C
1.6	A
1.7	B
1.8	D
1.9	A
1.10	A

SOLUTION TWO

- a) PPF
i)



- ii) **No**, 50 hospitals and 80 schools is unattainable, because it's beyond the PPF.
iii) To go from 60 to 80 schools, 20 hospitals must be given up. Thus the opportunity cost of 20 schools is 20 hospitals.
iv) The opportunity cost of moving from C to B is higher than it is moving from E to D. As can be seen, while the opportunity cost of moving from C to B is **20** hospitals, the opportunity cost of moving from E to D is only **5** hospitals.

b) **Benefits and Limitations of privatization**

Benefits

- To improve efficiency since it is believed that the state is inefficient and wasteful.
- Privatization attracts funding from private investors
- It removes political influence
- Privatization helps to raise funds for the government, money received from the sale, as well as taxes that maybe realized henceforth
- It encourages competition

Limitations

- Removes essential industries from government control
- It may create private sector monopoly, which is worse than state monopoly
- Danger of underinvestment and cost cutting
- Privatization may have negative social effects

SOLUTION THREE

a) Change in quantity demanded and change in demand

Change in quantity demanded: A movement along the demand curve that occurs as a result of a change in the good's price: while

Change in demand: A shift of the entire demand curve caused by a change in a non-price factor that affects demand.

b) Equilibrium

- i) To solve for the equilibrium price and quantity, we need to equate quantity demanded and supplied. $QD = QS$

$$5,000 - 10P = 40P$$

$$50P = 5,000$$

$$P^* = K100$$

$$QD = 5,000 - 10(100) = \mathbf{4000 \text{ liters}}$$

$$QS = 40(100) = \mathbf{4000 \text{ liters}}$$

- ii) Quantity supplied has fallen by 400 litres at every price, so the supply curve is shifting left

$$QS_1 = QS - 400$$

$$QS_1 = 40P - 400$$

- iii) To solve for the new equilibrium price and quantity, we set

$$QD = QS_1:$$

$$5,000 - 10P = 40P - 400$$

$$50P = 5,400$$

$$P_1 = K108$$

$$QD = 5,000 - 10(108) = \mathbf{3920 \text{ liters}}$$

$$QS_1 = 40(108) - 400 = \mathbf{3920 \text{ liters}}$$

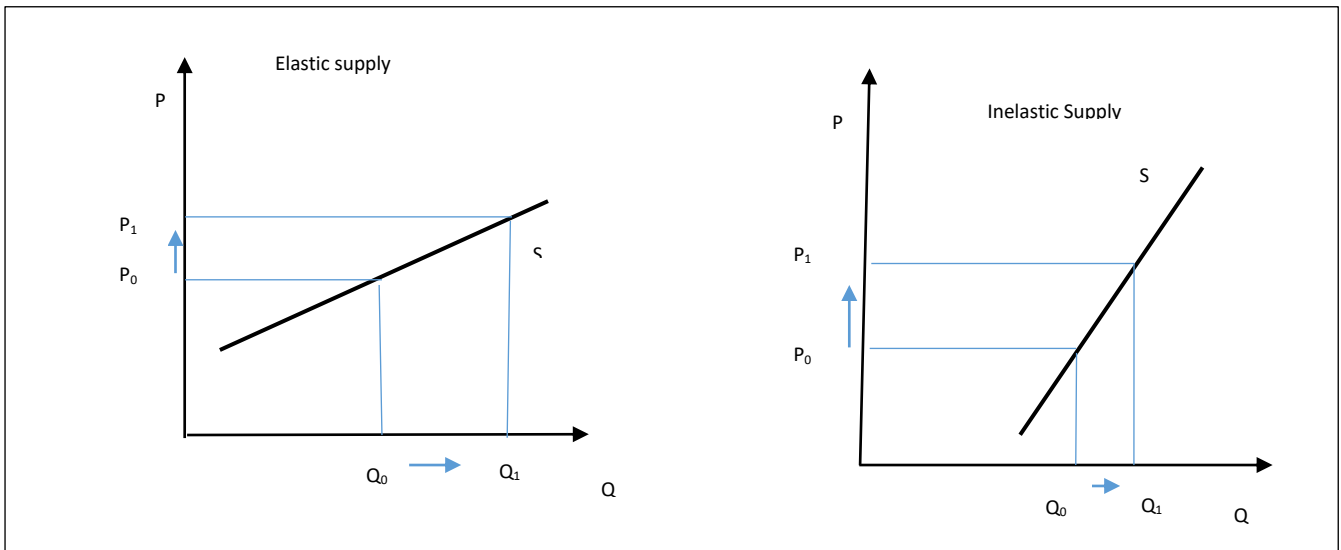
- c) Determinants of PES

- **Spare production capacity:** If there is plenty of **spare capacity** then a business can increase output without a rise in costs and supply will be elastic in response to a change in demand.
- **Stocks of finished products and components:** If stocks of raw materials and finished products are at a high level then a firm is able to respond to a change in demand - supply will be elastic. Conversely when stocks are low, dwindling supplies force prices higher because of scarcity
- **The ease and cost of factor substitution/mobility:** If both capital and labour are **occupationally mobile** then the elasticity of supply for a product is higher than if capital and labour cannot easily be switched. E.g. a printing press which can switch

easily between printing magazines and greetings cards. Or falling prices of cocoa encourage farmers to switch into rubber production

- **Time period and production speed:** Supply is more price elastic the longer the **time period** that a firm is allowed to adjust its production levels. In some agricultural markets the **momentary supply** is fixed and is determined mainly by planting decisions made months before, and also climatic conditions, which affect the production yield. In contrast the supply of milk is price elastic because of a short time span from cows producing milk and products reaching the market place.

d) Elastic and Inelastic supply



- Elastic supply means that an increase in price causes a bigger percentage increase in supply. It has a PES of greater than 1.
- Inelastic supply. This means that an increase in price causes a smaller percentage increase in supply. It has a PES of less than 1

SOLUTION FOUR

a) Public sector and not-for profit organisations

The **Public Sector** is usually comprised of organizations that are owned and operated by the government and exist to provide services for its citizens. Similar to the voluntary sector, organizations in the public sector do not seek to generate a profit. Funding for public services are usually raised through a variety of methods, including taxes, fees, and through financial transfers from other levels of government. Examples of public sector: clinics, hospitals, government schools.

Not for profit describes a type of organization that does not earn profits for its owners. All of the money earned by or donated to a not-for-profit organization is used in pursuing the organization's objectives and keeping it running.

b)

- i) We are told that the marginal cost is K0.40 per copy, and that the fixed costs are K70 . This means that our cost function is:

$$\mathbf{C(x) = 0.4x + 70}$$

Since they are selling the newspaper for K0.50 per copy, the revenue function is:

$$\mathbf{R(x) = 0.50x}$$

Since profit is defined to be revenue minus cost, the profit function is

$$\begin{aligned} P(x) &= 0.50x - (0.40x + 70) \\ &= \mathbf{0.10x - 70} \end{aligned}$$

- ii) We can find the profit that results from selling 500 copies by finding $P(500)$, that is, plugging 500 into the profit function. We get

$$P(500) = 0.10(500) - 70 = 20$$

This means that if they sell 500 newspapers, it will result in a loss of **K20**.

- iii) To find the break-even quantity, we can either set revenue equal to cost and solve for x , or we can set profit equal to zero and solve for x .

If we set profit equal to zero, we get $0.10x - 70 = 0$

Solving this for x gives $\mathbf{x = 700}$,

so they must sell 700 newspapers in order to break even.

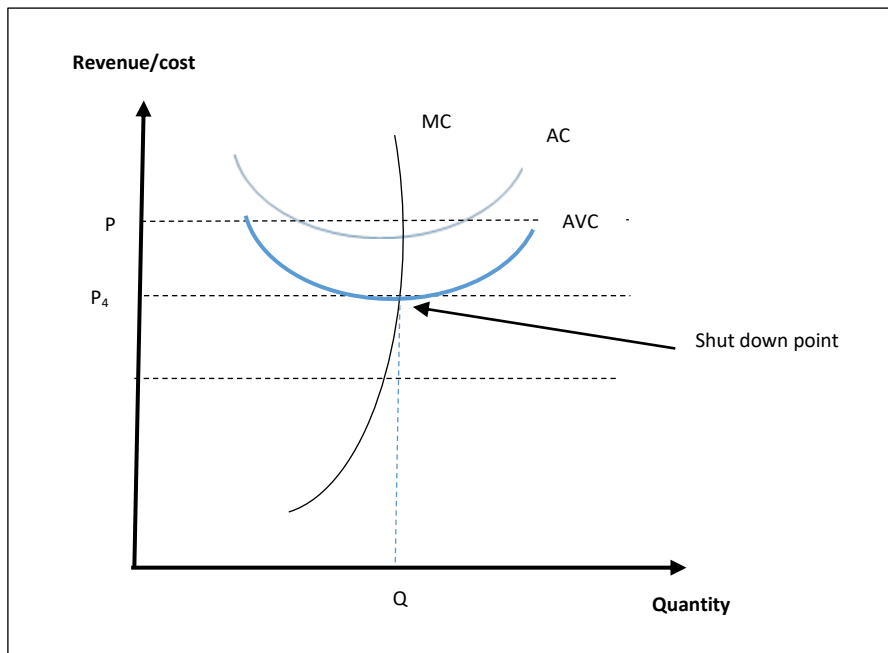
Alternatively,

$$0.50x = 0.40x + 70$$

$$0.10x = 70$$

$$X = 700$$

c) Shutdown point perfect competition.



If the market price drops below P_4 , the business will not be able to continue and will be forced to close down, at a point where $AVC = MC$.

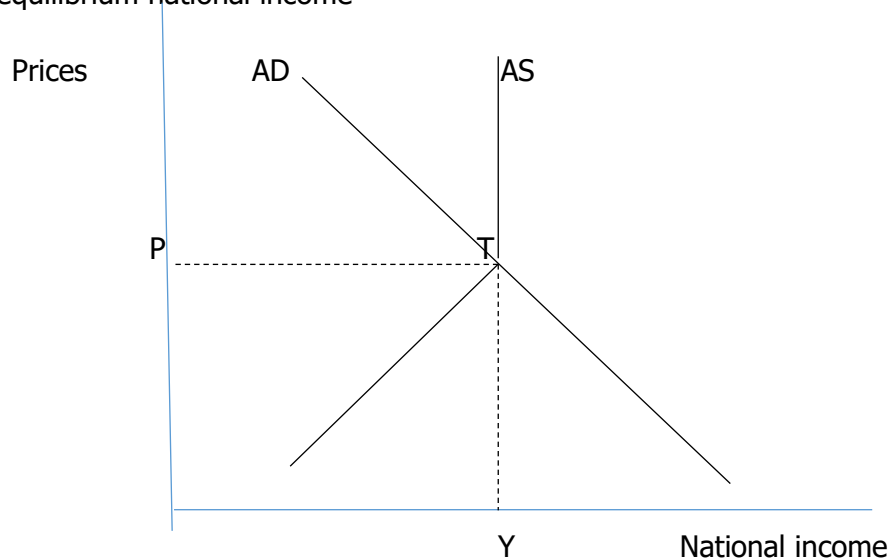
d) **Characteristics of oligopoly**

- Number of firms; Oligopoly is a market structure dominated by a small number of large firms. If there are only two firms in the market, it is called a duopoly.
- Nature of products Firms sell identical or differentiated products
- Barriers to entry; There are significant barriers to entry, because of high capital needed to start the business.
- Control over price; Producers generally have considerable control over the price of their products, although not as much as in a monopoly.
- Oligopolies are characterised by price rigidity because if one cuts its price, rival firms retaliate by cutting theirs as well. A price cut by one firm initiates a price war in the market.
- Incomplete information; Firms do not always have perfect information about circumstances in the market. Each firm tries to prevent other firms in the industry from getting knowledge of its production processes, its new products, and the results of any new research

SOLUTION FIVE

(a) Gross National Product + Net property income from abroad = Gross National Product - Capital consumption (depreciation) = NNI (Net National Income)

(b) Ideal equilibrium national income



AD: Aggregate demand AS: Aggregate supply

If one aim of a country's economic policy is full employment, then the ideal equilibrium level of national income will be where AD and AS are in balance at the full employment level of national income T, without any inflationary gap or deflationary gap, in other words, where aggregate demand at current price levels is exactly sufficient to encourage firms to produce at an output capacity where the country's resources are fully employed.

At T equilibrium output will be Y (full employment level) with price P.

(c) (i) $W = J$ at equilibrium

$S + T + M = I + G + X$, where S is saving and T is Taxes.

$$S = Y_d - C$$

$$S = 0.55Y - (40,000 + 0.055Y)$$

$$S = 0.55Y - 40,000 - 0.055Y$$

$$S = 0.495Y - 40,000$$

Therefore, from the information provided, given that $T = 0.45Y$,

$$S + T + M = I + G + X$$

$$0.495Y - 40,000 + 0.45Y + 1,000 + 0.5Y = 5,000 + 2,500 + 10,000$$

$$1.445Y = 56,500$$

$$\mathbf{Y = 39,100.35}$$

(ii) $AD = C + I + G + (X - M)$

$$AD = 40,000 + 0.1Y_d + 5,000 + 2,500 + [10,000 - (1,000 + 0.5Y)]$$

$$AD = 40,000 + 0.1Y_d + 5,000 + 2,500 + 10,000 - 1,000 - 0.5Y$$

$$AD = 56,500 + 0.055Y - 0.5Y$$

$$\mathbf{AD = 56,500 - 0.445Y}$$

(iii) The decrease in exports by 3,500 means that the AD function now becomes $AD = 53,000 - 0.445Y$. At equilibrium $Y = AD$, so the new equilibrium becomes:

$$Y = 50,000 - 0.445Y$$

$$0.555Y = 53,000$$

$$Y = 95,495.50$$

The change in equilibrium income is $95,495.50 - 39,100.35 = 56,395.15$

(iv) The change in equilibrium income will be an increase which shows that if aggregate demand increases, national output and income will also increase.

SOLUTION SIX

a) Demand for money

- **Price** is positively related to money demand because an increase in the price level requires more money to carry out a given (same) transaction as before.
- **Income** is positively related to money demand for two reasons. First, an increase in real income will increase consumption, which will require more money for transaction purposes. Second, an increase in real income will also increase demand for asset where money is an asset.
- **The interest rate**, i , is negatively related to money demand, because i represents an opportunity cost of holding money. An increase in the interest rate will lead to a substitution away from money as an asset to bonds.
- **Expected inflation** is negatively related to money demand for two reasons. First, an increase in expected inflation means that money is expected to lose purchasing power, making it less attractive to hold. Second, with expected inflation, the return of other assets (especially real asset) is expected to increase with inflation. Once again making money less attractive to hold.

b) Equilibrium National Income

- i) Since the marginal propensity to consume (MPC) = 0.2, $MPS = 1 - 0.2 = 0.8$, the multiplier = $1/MPS = 1.25$. With a ΔI of 50 million, $\Delta Y = 1.25 \times 50$ million
- ii) = **K62.5 million**
- iii) Now with an MPC = 0.1, the multiplier = 1.11. With a ΔI of 50 million, $\Delta Y = \text{mult } \Delta I = 1.11 \times 50$ million $\Delta Y = \text{K55.5 million}$.
- iv) The effect of an increase in the Government Budget Deficit on the rate of interest and the level of private investment are:
 - Increased government expenditure financed by budget deficits i.e., printing of additional notes, produces an impact on the money market. Because of the multiplier effect, an increase in government expenditure will now cause an increase in the demand for money. Since demand for money exceeds the supply of money (let us assume for the moment that M is fixed) interest rate tends to rise. This discourages private investment and consequently a lower volume of aggregate output would now be available.
 - Thus, the phenomenon, whereby increased government expenditure may lead to a squeezing of private investment expenditure, is referred to as the **crowding-out effect**. Government expenditure crowds out private sector investment expenditure.

c) Financing government expenditure

- **Taxation**: The main objective of taxation is raising revenue. Taxation is used as an instrument of attaining certain social objectives i.e. as a means of redistribution of wealth and thereby reducing inequalities. Taxation in a modern Government is thus needed not merely to raise the revenue required to meet its ever-growing expenditure on administration and social services but also to reduce the inequalities of income and wealth. Taxation is also needed to draw away money that would otherwise go into consumption and cause inflation to rise
- **Government borrowing**: Governments, like any other legal entity, can take out [loans](#), issue [bonds](#) and make [financial investments](#). Government debt can be

categorized as [internal debt](#), owed to lenders within the country, and [external debt](#), owed to foreign lenders. Governments usually borrow by issuing [securities](#) such as [government bonds](#) and bills. Less creditworthy countries sometimes borrow directly from [commercial banks](#) or international institutions such as the International Monetary Fund or the World Bank.

- **Seigniorage:** This is the net revenue derived from the issuing of currency. Seigniorage is an important source of revenue for some national banks, although it provides a very small proportion of revenue for advanced industrial countries.
- **Public finance through state enterprise:** Public finance in centrally planned economies has differed in fundamental ways from that in market economies. Some state-owned enterprises generate profits that help finance government activities.

SOLUTION SEVEN

a) Arguments for trade barriers

- **Fledging industry argument:** Certain industries possess a possible comparative advantage but have not yet exploited [economies of scale](#). Short-term protection allows the 'infant industry' to develop its comparative advantage at which point the protection could be relaxed, leaving the industry to trade freely on the international market.
- **Externalities and market failure:** Protectionism can also be used to internalize the social costs of de-merit goods. Or to correct for environmental market failure in the supply of certain imports.
- **Protection of jobs** and improvement in the **balance of payments**
- **Protection of strategic industries:** The government may also wish to protect employment in strategic industries, although value judgments are involved in determining what constitutes a strategic sector. This might involve attempting to reduce long-term dependence on certain imports
- **Anti-dumping duties:** Dumping is a type of predatory pricing behaviour and a form of price discrimination. Goods are dumped when they are sold for export at less than their normal value. The normal value is usually defined as the price for the like goods in the exporter's home market. Recent examples of disputes about alleged dumping have included.

b) Advantages & Disadvantages of floating exchange rates

Advantages of floating exchange rates

- Monetary policy can be conducted independently of other countries without the need for controls on the movement of capital. This means governments are able to pursue independent fiscal and monetary policies suited to the needs of the domestic economy.
- A floating exchange rate will tend to move to offset a balance of payments deficit or surplus automatically.
- A floating exchange rate can also insulate the domestic economy from the effects of foreign price shocks and other economic shocks. For example if foreign inflation rises, this may lead to an appreciation of the domestic currency so insulating the domestic economy from the foreign price shock.
- There is no need for the central bank to hold large amounts of gold and foreign currencies, as the government need not intervene in foreign exchange markets.

Disadvantages of floating exchange rates

- Floating exchange rates is that they introduce uncertainty into foreign trade transactions. However, traders can alternatively use financial markets to carry out forward exchange deals to protect themselves against unexpected movements.
- Foreign exchange markets when left to float can also lead to overvalued and undervalued currencies that can cause trade frictions between economies. Countries of currencies that become substantially overvalued will complain about unfair trade advantages that are conferred on countries with undervalued currencies.
- Exchange rate under floating might be subject to excessive volatility caused by irrational speculation or by the tendency to overshoot their long run equilibrium values in the short run. This may adversely affect global trade volumes.

- Although floating exchange rates give policy makers a high degree of monetary autonomy, there are some governments who use this autonomy to pursue excessively inflationary policies with adverse outcomes for the economy over the medium to long run.
- c) **Spot market Forward market:** The spot market involves transactions in the present; the forward market involves contracts today for transactions that will take place in the future.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 12 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO sections:
Section A: Ten (10) Compulsory multiple choice questions: Five (5) on Information Technology and five (5) on Communication.
Section B: There are three (3) questions on **Information Technology**. Attempt any two (2) questions.
There are also three (3) questions on **Communication**. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen. Marks allocated are indicated against each question.

1.1 Which one the following listed types of software below will make a computer **not to** operate if it is not available?

- A. Freeware
- B. Application software
- C. Firmware
- D. Operating systems software

(2 marks)

1.2 Which one of the following key combination achieves copy and paste function in MS Excel Programs?

- A. Ctrl-D and Ctrl-V
- B. Ctrl-F and Ctrl-E
- C. Ctrl-L and Ctrl-T
- D. Ctrl-C and Ctrl-V

(2 marks)

1.3 Which one is **not a** network topology in computer networks?

- A. Star
- B. Ring
- C. Chain
- D. Mesh

(2 marks)

1.4 Assuring a customer that the product or service will meet their expectations in quality management is referred to as

- A. Quality control
- B. Quality assurance
- C. Quality promise
- D. Total Quality Management (TQM)

(2 marks)

1.5 Which of the following are used to measure the power of a computer system?

- A. Memory capacity and processor speed
- B. USB stick and screen size
- C. Size of the battery and mouse speed
- D. Carry case and mother board

(2 marks)

1.6 Which of the following is a characteristic of written communication?

- A. It draws attention to changes and trends
- B. It has a high impact on a wide audience
- C. Every recipient gets exactly the same information
- D. It allows interaction.

(2 marks)

1.7 Give an example of a forward and backward looking report in the following:

- A. A report that contains information about a takeover target
- B. A result about sales results in an organisation
- C. A report that is highly massive complex and highly structured
- D. A report on how a fraud occurred in business.

(2 marks)

1.8. What does the element BCC in a letter mean?

- A. Everyone knows you have a copy of the original letter
- B. The writer does not know that you have a letter
- C. The addressee knows you have a copy of their letter
- D. The addressee does not know you have a copy of his letter.

(2 marks)

1.9 Why is non-verbal communication difficult to understand at particular times?

- A. Nodding or shaking one's head is difficult to understand.
- B. The meaning can be altered from place to place and from culture to culture.
- C. Eye contact is difficult to interpret.
- D. It is always not clear.

(2 marks)

1.10 Which of the following statements best defines resolution minutes?

- A. A formal record of decisions agreed upon during a formal meeting
- B. A formal record of manuscripts of conversations recorded word for word
- C. A formal record of describing what happened during the meeting
- D. A formal record of action taken during a formal meeting.

(2 marks)

[Total: 20 Marks]

SECTION B

This section has two parts: **1. INFORMATION TECHNOLOGY AND**

2. COMMUNICATION

ATTEMPT ANY TWO (2) FROM QUESTIONS: TWO, THREE AND FOUR

1. INFORMATION TECHNOLOGY

QUESTION TWO

- (a) State any three (3) roles of AIS that facilitate the processing of transactions reducing uncertainty and improving. (6 marks)
- (b) Distinguish between single user and multi user operating system (4 marks)
- (c) Describe any five (5) examples of output controls the institution would implement to ensure output of data is authorised, accurate and complete (10 marks)

[Total: 20 Marks]

QUESTION THREE

A client server network model usually consists of one or more computers that provides services to a number of work station computers.

Required:

- (a) Briefly explain any four (4) main advantages of a network that uses the client server. (8 marks)
- (b) Write short notes on the following classes of computers
 - (i) Mini computers (2 marks)
 - (ii) Super computers (2 marks)
 - (iii) Micro computers (2 marks)
- (c) State any four (4) **DOs** required when using passwords (4 marks)
- (d) Briefly explain **copyright law** with regards to software. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

You were hired in the finance department and one of the requirements for the job was proficiency in excel

Required:

- (a) Explain the following features of Excel
 - (i) Macro and how it is used (4 marks)
 - (ii) Absolute and Relative Referencing (4 marks)
- (b) Distinguish between:
 - (i) Quality control and quality assurance (4 marks)
 - (ii) Batch processing and online processing (4 marks)
- (c) Describe Enterprise Resource Planning system and state any two (2) advantages.
(4 marks)

[Total: 20 Marks]

2. COMMUNICATION

ATTEMPT ANY TWO (2) FROM QUESTIONS: FIVE, SIX AND SEVEN

QUESTION FIVE

- (a) State any four (4) situations when one is expected to write notes. (4 marks)
- (b) Briefly explain any six (6) note taking techniques that can be used in different situations. (12 marks)
- (c) List any four (4) types of questions that are commonly used during oral communication. (4 marks)

[Total: 20 Marks]

QUESTION SIX

It is common nowadays to face difficulties in communication in many organizations, despite the fact that the world has become a global village when it comes to communication.

Required:

- (a) Define the concept 'communication barriers' (2 marks)
- (b) Briefly explain any six (6) barriers to that occur in organisations (12 marks)
- (c) Briefly explain any three C's that can be used to overcome some of the barriers to effective communication (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

As a supervisor, you wish to remind your junior staff on what needs to be done when preparing a report so that good business documents are prepared

Required:

- (a) Define the concept 'report' (2 marks)
- (b) In a memo format, write to the assigned junior staff stating any six (6) aspects that need to be considered when preparing a report. (16 marks)
- (c) Distinguish between a formal and an informal report. (2 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

COMMUNICATIONS MULTIPLE CHOICE

SOLUTION ONE

- 1.1 D Operating systems software
- 1.2 D Ctrl-C and Ctrl-V
- 1.3 C Chain
- 1.4 B Quality assurance
- 1.5 A Memory capacity and processor speed
- 1.6 C. Every recipient gets exactly the same information

- 1.7 A. A report that contains information about a takeover target
- 1.8. D. The addressee does not know you have a copy of his letter
- 1.9 B. The meaning can be altered from place to place and from culture to culture.
- 1.10 A. A formal record of decision agreed upon during a formal meeting

SOLUTION TWO

a) Roles of AIS

- Management decision making process
- Internal Control
- Quality of Financial Reporting
- Ability to plan and schedule activities

b) The **main difference** between single user and multiuser operating system is that **in a single user operating system, only one user can access the computer system at a time while in a multiuser operating system, multiple users can access the computer system at a time.**

c) Examples of **output controls**

The output control ensures that the output from the database is accurate and updated including being complete and timely.

The common examples of output controls could include the following:

1. Preventing the unauthorised distribution of data, or data distribution to unauthorised persons
2. Ensuring that access is restricted to confidential or sensitive data to a secure location
3. Ensures that data in the output document is checked before it is distributed
4. Comparison of values in the output document to the values from the relevant input
5. Identifying and registering all or files produced so they can be accounted for
6. Developing feedback system that allow any errors identified in outputs to be reported and corrected
7. Check the log for errors and consistency

SOLUTION THREE

- a) **Advantages of a network that uses client server computers**
- **Shared peripherals** – peripheral equipment can be shared .eg. in a LAN, five PC's might share a single printer.
 - **Compatibility** – Client server systems are more likely than centralized system to have windows interfaces, making it easier to move information between application such as spread sheets and accounting systems.
 - **Shared workloads** – each PC in a network can do the same work. .it provides flexibility in sharing workloads.
 - **Greater resilience** – if one server breaks down, other locations can carry on processing.
 - **Shared programs and data** – program and data files held on a file server can be shared by all the PC's in the network. Data duplication is avoided.
 - **Scalability** – they are highly scalable – hardware can be added as required.
 - **Communication – LAN** can be linked up to the office communications network. Electronic mail, calendar and diary facilities can be used.
 - **Ad hoc enquiries** – information may be moved to a separate server, allowing data to be manipulated without disrupting the main system.
 - **Centralization** - there is a centralized control and server helps in administering the whole setup. Access rights and resource allocation is done by servers
 - **Better management** – all the files are stored at the same place and management of files becomes easy to find
 - **More secure** – security and access rights can be defined at the same time of set up of the server
 - **Easier to backup** – As all data is stored on the server, its easier to make a backup of it. It can be recovered easily and efficiently
- b)
- i) Minicomputer is a midrange computer that lies between a mainframe and a microcomputer. It has less processing power and are usually used as network servers.
 - ii) Micro Computer is based on a microprocessor and is small enough to fit on top of a desk and meets the computing need of an individual.
 - iii) Supercomputer is specialized computer with extremely high speed with the ability to carry out billions of instructions taking millions of variables.
- c) The **Dos** required when creating a strong passwords are:
- Use a combination of upper, lowercase, digits and punctuations characters
 - The password must be kept secretly
 - Change password frequently
 - Where possible use at least six characters.
 - make your password easy for you to remember, but difficult for someone else to remember.
 - Change default system password when you first receive them
 - Use a single theme where possible for all passwords so that they are different for all services but are memorable.

- Avoid saving passwords in cookies or allowing the system to remember your password

d) **Copyright law** is a law to protect individuals who have developed a software product from being copied and used for commercial purposes or any other way not indicated in the terms of use of the product.

Or

Software is protected under the copyright law, known as intellectual property. No one is allowed to duplicate or change the software without the permission of the creator or developer of the software.

SOLUTION FOUR

- a)
- i) A macro is a set of stored functions that can be used to automate processes that are repeated often in a spreadsheet. There are tools that can be used to perform most of the redundant tasks with relative cases.
 - ii) Absolute referencing is a way of referencing data where the contents of the cell or cells are locked. The address contains a dollar sign \$ in the row or column coordinate, or both. Relative referencing is a way of cell referencing where when copied across multiple cells, they change based on relative position of rows and columns.
- b)
- i) Quality Assurance is part of quality management focused on providing confidence that quality requirements will be met. It gives security about the product while Quality Control is focused on fulfilling the quality requirements. It focuses on identifying and correcting defects.
 - ii) Batch processing is a type of data processing where the inputs are gathered over a period of time (batched) and are sent for processing at one go as a batch while online is a type of data processing where inputs are entered and processed as they come in and all the necessary files are updated.
- c) Enterprise Resource Planning (ERP): this is an information system that integrates the core functions into a single system.
- It binds together the different computer systems for a large organisation
 - It integrates HR, finance, manufacturing, procurement etc into a single system and all related modules are updated when a transaction that affects all of them is updated.
 - This improves management of functions and operational efficiency.
 - ERP reduces costs
 - It also brings competitive advantage.

SOLUTION FIVE

- (a)
 - During meetings
 - When getting directions to visit business organisations
 - When getting instructions from a supervisor
 - When researching on something related to work
 - Workshops/seminars/ conferences
 - Information needed for future reference
 - When handling complex information

- (b)
 - Using own words maintain meaning
 - Leaving space between line in case would want to complete later
 - Using either personal or common abbreviations
 - Writing main points only
 - Avoiding long and full sentences
 - Using linear notes and spider diagrams
 - Using short forms

- (c) Types of questions commonly asked include:
 - Closed questions
 - Open questions.
 - Leading question
 - Funnelling
 - Loaded questions

SOLUTION SIX

- (a) Definition: Barriers in communication are hindrances which can cause communication not to take place or when the speaker or sender fails to relay the message to the listener or sender due to certain obstacles experienced during the course of transmitting communication
- (b) Communication barriers are:
- Ignorance -Not knowing what to do due to lack of knowledge, an individual who is ignorant cannot communicate properly because he or she has no knowledge of the subject.
 - Illiteracy - Not knowing how to read and write. A person who cannot read or write will find it difficult to communicate. Since he or she is illiterate, cannot interpret the alphabetical symbols into reality or make communication.
 - Middlemen - Messages which are sent through a go-between middleman can be misinterpreted. The person who has been sent will deliver a different message, leaving the real subject which is important.
 - Misinformation - Certain information or ideas are not presented as they are originally said or written. The sender can easily twist the message and misinform the receiver or listener.
 - Bad weather - Bad weather can hinder communication, heavy rain, heavy storms, cyclones, flooding and hail storms can make communication impossible, and people cannot use telephones, radios, internet and other gadgets due to bad weather.
 - Environmental features - Some physical features in our environment can hinder communication. A place which is mountainous or an island in the middle of a sea.
 - Language incompetence – using a jargon or unfamiliar language. The recipient of the message may fail to understand anything hence a barrier occurs in such situations
 - Wrong choice of a medium – choosing an unsuitable medium or channel may jeopardise the flow of information
 - Information overload – a provision of information more than the recipient can accommodate etc.
 - Noise – any distractions in the form of physical, technical or psychological noise can cause a breakdown in communication.
 - Generalising information without specifying details may cause a serious misunderstanding and distortion of the message leading to a communication breakdown.

(c) The 7 C's of effective communication are;

- **Clear** – presenting information that is not ambiguous, one that is easy to understand.
- **Completeness** – The message must contain all the facts and relevant information required by the audience
- **Consideration** – effective communication must take into account characteristics of the audience such as age, education, technical and cultural background.
- **Conciseness** – presented information must be brief and bringing out correct information in the few possible words
- **Concreteness** – communicating information in a clear manner, avoiding ambiguous words and specifying what someone is talking about so that the receiver understands the message.
- **Courtesy** – communicating in a polite manner. In some cases diplomacy and tact is required so as not to hurt the other party.
- **Correctness** – providing information that is accurate , with relevant facts.

SOLUTION SEVEN

(a) Definition: A report is an oral account or a written document of a particular matter in the form of an official document after thorough investigation by the assigned person or committee.

(b) Mwiya and Company

Memorandum

Ref:

Date: any date during examination time

To: The Accounts Clerk

From: The Assistant Manager

Subject: Factors to Consider when Preparing a Report

In a couple of weeks you will be required to carry out an investigation on challenges that the organization is facing in debt collection.

In order to carry out a thorough investigation and come up with a good report, I wish to remind you on some of the issues to consider when preparing a report.

These include:

- the main purpose of writing the report must be clear
- deadline or time frame of the report
- the audience or various stakeholders who will receive the report
- the method of collecting information in the field
- the logical structure and style of presentation of the report
- the cost of producing a report

Note that many other factors not mentioned in this memo can still be considered as you prepare a report.

Your cooperation in this matter will be appreciated.

Writer's signature

Writer's name

(c) The difference between a formal and an informal report is that a formal report can be massive, complex and highly structured whereas an informal one is less complex and does not follow a strict structure.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA: 5 COST ACCOUNTING

TUESDAY 11 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – MULTIPLE CHOICE

Attempt ALL ten (10) multiple choice questions in this Section.

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

QUESTION ONE

- 1.1 Chisa Ngulu has established the following information regarding fixed production overheads for the coming month:

Budgeted information:

Fixed overheads	K180,000
Labour hours	3,000
Machine hours	10,000
Units of production	5,000

Actual fixed costs for the last month were K160,000.

Chisa produces many different products using highly automated manufacturing processes and absorbs overheads on the most appropriate basis.

What will be the pre-determined overhead absorption rate?

- A. K16
- B. K18
- C. K36
- D. K60

(2 marks)

- 1.2 An engineering firm in Solwezi operates a job costing system. Production overhead is absorbed at the rate of K8.50 per machine hour. In order to allow for non-production overhead costs and profit, a mark-up of 60% of prime cost is added to the production cost when preparing price estimates.

The estimate requirements of job number 909 are as follows:

Direct materials	K10,650
Direct Labour	K3,260
Machine hours	140

The estimated price notified to the customer for job 909 will be:

- A. K22,256
- B. K22,851

- C. K23,446
- D. K24,160

(2 marks)

- 1.3 Kacholola uses a standard costing system, in which material inventory account is being maintained at standard costs. The following details have been extracted from the standard cost card in respect of direct materials:

8kg at K80 per kg=K640 per unit
 Budgeted production in April was 850 units

The following details relate to actual materials purchased and issued to production during April, when actual production was 870 units:

Materials purchased	8,200 kgs costing K688,800
Materials issued to production	7,150 kgs

Which of the following correctly states the material price and usage variance to be reported?

- | | Price | Usage |
|----|--------------|--------------|
| A. | K28, 600 (A) | K15, 200 (A) |
| B. | K28, 600 (A) | K28, 000 (A) |
| C. | K28, 600 (F) | K29,400 (F) |
| D. | K32,800 (A) | K15,200 (A) |

(2 marks)

- 1.4 Which one of the following is NOT a stage in accounting for overheads in a conventional manner?

- A. Overhead Allocation
- B. Overhead Apportionment
- C. Overhead Absorption
- D. Overhead Absorption Rate

(2 marks)

The following information is required for questions 1.5, 1.6 and 1.7

The incomplete process account relating to period 2 for a Chingola based company which manufactures mining components is shown below.

Process Account

Details	Units	K	Details	Units	K
Material	4,000	16,000	Finished Goods	2,750	
Labour		8,125	Normal Loss	400	700
Production Overhead		3,498	Work in Progress	700	

There was no opening work in progress (WIP). Closing WIP, consisting of 700 units, was complete as shown:

Material	100%
Labour	50%
Production Overheads	40%

Losses are recognized at the end of the production process and are sold for K1.75 per unit.

- 1.5 Given the outcome of the process, which ONE of the following accounting entries is needed to complete the double entry to the process account?

DR	CR
A. Abnormal Loss Account	Process Account
B. Process Account	Abnormal Loss Account
C. Abnormal Gain Account	Process Account
D. Process Account	Abnormal Gain Account

(2 marks)

- 1.6 What will be the value of closing WIP?

- A. K3,868
- B. K4,158
- C. K4,678
- D. K5,288

(2 marks)

- 1.7 What will be the total value of the units transferred to finished goods?

- A. K12, 052.50
- B. K21,587.50
- C. K22,122.50
- D. K22,656.50

(2 marks)

1.8 A direct cost is a cost which ...

- A. is incurred as direct consequence of a decision;
- B. can be economically identified with the item being costed;
- C. cannot be economically identified with the item being costed;
- D. is the responsibility of the board of directors

(2 marks)

1.9 Prime cost is ...

- A. all costs incurred in manufacturing a product
- B. the total of direct costs
- C. the material costs of a product
- D. the cost of operating a department

(2 marks)

1.10 Which one of the following is NOT a performance standard in a standard costing system?

- A. Ideal Standards
- B. Material Standards
- C. Attainable Standards
- D. Current Standards

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this Section. Attempt any FOUR (4) questions.

QUESTION TWO

'Over time or over a specific range of activity, some costs tend to be unaffected by the level of output, whereas others will change as output changes.'

Required:

(a) Explain, each of the following **three** (3) cost classifications. Give one example for each cost classification.

- (i) Variable cost.
- (ii) Fixed cost.
- (iii) Mixed cost also known as semi-variable or semi-fixed cost.

(6 marks)

(b) The following information has been supplied for **Mapu Ltd**, a manufacturing company based in Zambia:

Activity	Activity level 1	Activity level 2
Production (units)	40,000	80,000
Sales (units)	36,000	68,000
Costs:	K	K
Direct material	100,000	200,000
Administration	60,000	60,000
Factory overhead	340,000	400,000
Production labour	360,000	560,000
Selling and distribution	58,000	74,000

Required:

Prepare a table summarising the variable cost per unit and total fixed cost for each of the five cost headings above. (10 marks)

(c) Calculate the total estimated cost using your answer in part (b), for an activity with level of production of 60,000 units and sales of 46,000 units. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Munalula Enterprise is an agro-chemical company situated in Ndola's industrial area. It provides specialized vegetable chemicals to small scale farmers in the outskirts of the city who use it to improve the yield of their produce.

The company reported the following current year data for one of its chemical 'Muti':

January 1	Beginning Inventory	200	Units@K10	K2,000
March 14	Purchases	350	Units@K15	K5,250
July 30	Purchases	450	Units@K20	K9,000
October 26	Purchases	700	Units @K25	K17,500

Sales in the period were all made at the price of K40 per unit for the following quantities.

January 10	Sales	100 Units
March 15	Sales	150 Units
October 5	Sales	310 Units

Required

- (a) Determine the cost assigned to cost of goods sold and ending inventory using
- (a) FIFO (6 marks)
 - (b) LIFO (6 marks)
 - (c) AVCO (6 marks)
- (b) Explain the purpose of the following documents which are used in the control of, and accounting for, the materials distributed to farmers
- (i) Purchase requisition (1 mark)
 - (ii) Goods Received Note (GRN) (1 mark)

[Total: 20 Marks]

QUESTION FOUR

Triple Cee Ltd is a leading manufacturer of silver picture frames. The company uses a traditional costing system to allocate production overheads to products using machine hours.

The newly appointed financial controller believes that activity based costing can provide a better allocation of production overheads to products than the current system does. The following total production overheads for the last period were recorded by the cost accounting system:

	K
Utility costs related to machine hours	189,000
Production set-up costs	120,000
Cost of ordering materials	18,000
Cost of handling materials	33,000

Details of the three product models and relevant information for the last period are as follows:

	Model 1	Model 2	Model 3
Number of production runs	17	25	18
Number of material orders	20	30	40
Number of material requisitions	30	100	70
Units produced	1,000	2,000	2,500
Machine hours per unit	1	1.5	2
Direct labour hours per unit (K60 per hour)	0.5 hour	1 hour	2 hours
Direct materials per unit	K10	K12	K15

Required:

Calculate the unit production cost of each of the three products using:

- (a) The traditional absorption costing (8 marks)
- (b) The activity based costing approach (12 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) **Smooth Ltd** is a medium size company that specializes in the construction of iron gates for Zambian clients. It has three (3) production departments through which all jobs are processed, assembling, welding and finishing. The following data relates to the year ended 30 June, 2019.

Budgeted Data:

	Assembling	Welding	Finishing
Overhead	K64,050	K108,900	K83,520
Direct labour hours	nil	nil	14,400
Machine hours	5,250	6,600	nil

Job CA2 was undertaken during the last month of the year recording the following:

Direct materials:

	K
From stores	16,500
Bought-in	12,600

Direct labour:

Assembling	450 hours @ K8 per hour
Welding	535 hours @ K8 per hour
Finishing	1,235 hours @ K6 per hour

Machine hours:

Assembling	425
Welding	532
Finishing	nil

Trials and testing cost of K5,400 is incurred on each job. It is company policy to add a mark-up of 50% of profit on each job.

Required:

- (i) Calculate an appropriate overhead absorption rate for each department for the year ended 30 June, 2019. (5 marks)
- (ii) Calculate the total cost, and hence, the price of **Job CA2**. (10 marks)
- (b) BUBU Ltd is a manufacturing company specialized in sugar production. It uses process costing to account for the cost of production.

Required:

State five (5) features of process costing.

(5 marks)

[Total: 20 Marks]

QUESTION SIX

Computech Ltd is a Zambian company specialized in manufacturing and selling of computers used in colleges in Zambia. You have been provided with the following standard costs and production information for analysis:

Standard cost information:

Direct materials	6kgs @ K10.00 per Kg
Direct labour	2hrs @ K12.50 per hour
Total projected overheads	K840,000 per year
Fixed	50%
Variable	50%

Projected level of activity is 60,000 units, which will be spread evenly throughout the year. The actual data for the month of June 2019 is as follows:

Production	4,800 units
Materials	28,000 Kg costing K273,000
Labour	10,000 hours costing K126,000
Variable overheads	K34,500
Fixed overheads	K36,000

Required:

(a) Calculate the following variances;

- (i) Material price
- (ii) Material usage.
- (iii) Labour rate.
- (iv) Labour efficiency.
- (v) Variable overhead expenditure.
- (vi) Variable overhead efficiency.
- (vii) Fixed overhead expenditure.
- (viii) Fixed overhead volume.

(16 marks)

(b) List four (4) causes of idle time variance

(4 marks)

[Total: 20 Marks]

END OF PAPER

1.6 B

Cost Element	Total Cost(K)	Completed Units	Abnormal loss equivalent units	Closing WIP equivalent units	Total equivalent units	Cost per unit (K)	Closing WIP (K)
Materials	15,300	2,750	150	700	3,600	4.25	2,975.00
Labour	8,125	2,750	150	350	3,250	2.50	875.00
Production Overhead	3,498	2,750	150	280	3,180	1.10	308.00
	<u>26,923</u>					7.85	4,158.00
			Finished goods (2,750 x K7.85)				21,587.50
			Abnormal loss (150 x K7.85)				<u>1,177.50</u>
							<u>26,923</u>

Notes

- The debit side (input) indicates that 4,000 units were input into the process but the output recorded on the credit side is 3,850 units, thus indicating that the balance must represent an abnormal loss of 150 units.
- K16,000 materials less K700 scrap value of the normal loss.

1.7 B

1.8 B

1.9 B

1.10 B

SOLUTION TWO

a)

i. **Variable Cost**

Variable cost is a cost that varies as the level of activity changes. An example of a variable cost is the cost of materials. As production is increased, the material requirement will increase and therefore the cost of materials will increase.

ii. **Fixed cost**

Fixed cost is a cost that remains the same irrespective of the level of activity. The cost of renting a building is classified as a fixed cost. The rent would be paid periodically and would not vary with the level of activity.

iii. **Mixed cost**

Mixed cost is a cost that is partly fixed and partly variable. An example of a mixed cost is the remuneration package of a sales representative.

The basic salary of a sales representative is the fixed element and any sales commission paid is the variable element.

The commission payable would depend on the volume of sales achieved, hence, the variable element.

b)

	Variable cost per unit	Fixed cost	<u>working</u>
	K	K	
Direct material	2.5	0	1
Administration	0	60,000	2
Factory overhead	1.5	280,000	3
Production labour	5.0	160,000	4
Selling & distribution	<u>0.5</u>	<u>40,000</u>	5
Total	<u>9.5</u>	<u>540,000</u>	

c)

Direct material	60,000 X K2.50 =	<u>K</u> 150,000
Administration		60,000
Factory overhead	(60,000 X K1.5) + K280, 000 =	370,000
Production labour	(60,000 X K5) + K160,000 =	460,000
Selling & distribution	(46,000 X K0.5) + K40,000 =	63,000
		<u>1,103,000</u>

WORKINGS

W1:	<u>Direct material</u>	Activity volume	Total cost	Variable	Fixed
		Units	K	K	K
	Production	40,000	100,000	2.5	-
	Production	<u>80,000</u>	<u>200,000</u>	2.5	-
	Increase in units & cost	<u>40,000</u>	<u>100,000</u>	2.5	Nil
W2:	<u>Administration</u>				
	Production	40,000	60,000		NIL
-	Production	<u>80,000</u>	<u>60,000</u>	NIL	-
	Increase in units & cost	<u>40,000</u>	<u>Nil</u>		Nil
		60,000			
W3:	<u>Factory overhead</u>				
	Production	40,000	340,000	NIL	-
	Production	<u>80,000</u>	<u>400,000</u>	NIL	-
	Increase in units & cost	<u>40,000</u>	<u>60,000</u>	1.5	
		280,000			
W4:	<u>Production labour</u>				
	Production	40,000	360,000	-	-
	Production	<u>80,000</u>	<u>560,000</u>	-	-
	Increase in units & cost	<u>40,000</u>	<u>200,000</u>	5.0	
		160,000			
W5:	<u>Selling and distribution</u>				
	Production	36,000	58,000	-	-
	Production	<u>68,000</u>	<u>74,000</u>	-	-
	Increase in units & cost	<u>32,000</u>	<u>16,000</u>	0.5	40,000

Workings using high-low method

1. VC $K100,000/40,000 = K2.50$ per unit; $K200,000/80,000 = K2.50$
2. All fixed because there is no increase in costs as volume of output increases.
3. $40,000 \times K1.5 = K60,000$ variable. Total is $K340,000$. Fixed is $K280,000$
4. $40,000 \times K5 = K200,000$ variable. Total is $K360,000$. Fixed is $K160,000$.
5. $V.C = (K74,000 - K58,000) / (68,000 - 36,000) = K0.5$ per unit. $K58,000 - (0.5 \times 36,000) = K40,000$.

SOULTION THREE

Stores Ledger Cards

(a) FIFO

DATE	RECEIPTS			ISSUES			BALANCE		
	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)
Jan 1	200	@10	2,000				200	10	2,000
Jan 10				100	@10	1,000	(100)	10	(1,000)
							100		1,000
March 14	350	@15	5,250				350	15	5,250
							450		6,250
March 15				100	@10	1,000	(100)		(1,000)
				50	@15	750	(50)		(750)
							300		4,500
July 30	450	@20	9,000				450		9,000
							750		13,500
Oct 5				300	@15	4,500	(300)		(4,500)
				10	@20	200	(10)		(200)
							440		8,800
Oct 26	700	@25	17,500				700		17,500
						7,450	1,140		26,300

Cost of issues = K7,450

Closing inventory valuation = K26,300

(b) LIFO

DATE	RECEIPTS			ISSUES			BALANCE		
	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)
Jan 1	200	@10	2,000				200	10	2,000
Jan 10				100	@10	1,000	(100)	10	(1,000)
							100		1,000
March 14	350	@15	5,250				350	15	5,250
							450		6,250
March 15				150	@15	2,250	(150)		(2,250)
							300		4,000
July 30	450	@20	9,000				450		9,000
							750		13,000
Oct 5				310	@20	6,200	(310)	20	(6,200)
							440		6,800
Oct 26	700	@25	17,500				700		17,500
						9,450	1,140		24,300

Cost of Issues = K9,450

Closing Inventory Valuation = K24,300

(c) AVCO

DATE	RECEIPTS			ISSUES			BALANCE		
	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)	Qty	Unit Price (K)	Value (K)
Jan 1	200	@10	2,000				200	10	2,000
Jan 10				100	@10	1,000	(100)	10	(1,000)
							100		1,000
March 14	350	@15	5,250				350	15	5,250
							450	14	6,250
March 15				150	@14	2,100	(150)	14	(2,100)
							300		4,150
July 30	450	@20	9,000				450		9,000
							750	18	13,150
Oct 5				310	@18	5,580	(310)	18	(5,580)
							440		7,570
Oct 26	700	@25	17,500				700		17,500
						8,680	1,140		25,070

Cost of Issues = K8,680

Closing Inventory Valuation = K25,070

(d) Purposes inventory control documents:

(iii) Purchase requisition

Purchase requisitions are a document used when an employee needs to make a purchase or an order request on behalf of their company. It is a document that is used to **inform** department managers or the purchasing officer of the decision so that the purchasing department can start the purchasing process

(iv) Goods Received Note (GRN)

It's a record of goods received at the point of **receipt**. This record is used to confirm all **goods** have been **received** and often compared to a purchase order before payment is issued.

SOLUTION FOUR

(a) Traditional Absorption Costing

Total Machine Hours

Model 1	(1,000 units@1 hour)	1,000
Model 2	(2,000 units @ 1.5 hours)	3,000
Model 3	(2,500 units @ 2 hours)	<u>5,000</u>
		<u>9,000</u>

Production overheads

	K
Utility Costs	189,000
Set up costs	120,000
Ordering Costs	18,000
Handling Costs	<u>33,000</u>
	<u>360,000</u>

$$\begin{aligned}
 \text{Overhead Absorption Rate} &= \frac{\text{Budgeted Overheads}}{\text{Budgeted Machine Hours}} \\
 &= \frac{\text{K}360,000}{9,000 \text{ machine hours}} \\
 &= \text{K}40 \text{ per machine hour}
 \end{aligned}$$

Summary Costs

	Model 1 K	Model 2 K	Model 3 K
Direct Material	10,000	24,000	37,500
Direct Labour	<u>30,000</u>	<u>120,000</u>	<u>300,000</u>
Prime Costs	40,000	144,000	337,500
Production Overheads	<u>40,000</u>	<u>120,000</u>	<u>200,000</u>
Total Production Costs	<u>80,000</u>	<u>264,000</u>	<u>537,500</u>
Units Produced	<u>1,000</u>	<u>2,000</u>	<u>2,500</u>
Cost per unit (K)	<u>80</u>	<u>132</u>	<u>215</u>

(b) Activity Based Costing

Cost Pool	Set-up	Ordering	Handling	Utilities
Total Costs (K)	120,000	18,000	33,000	189,000
Cost Driver	Runs	Orders	Requisitions	Machine
Hrs				
Volume	60	90	200	9,000

ABC rate (K)	2,000	200	165	21
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Cost Summary

	Model 1	Model 2	Model 3
	K	K	K
Direct Material	10,000	24,000	37,500
Direct Labour	<u>30,000</u>	<u>120,000</u>	<u>300,000</u>
Prime Costs	40,000	144,000	337,500
Production Overheads:			
Set up Costs	34,000	50,000	36,000
Ordering	4,000	6,000	8,000
Handling	4,950	16,500	11,550
Utilities	<u>21,000</u>	<u>63,000</u>	<u>105,000</u>
Total Production Costs (K)	<u>103,950</u>	<u>279,500</u>	<u>498,050</u>
Unit produced	<u>1,000</u>	<u>2,000</u>	<u>2,500</u>
Cost per unit (K)	<u>103.95</u>	<u>139.75</u>	<u>199.22</u>

SOLUTION FIVE

i. Overhead absorption rate	=	<u>Budgeted overhead</u>
		Budgeted activity
Assembly	=	<u>K64,050</u>
		5,250 machine hrs
	=	<u>K12.20/machine hr</u>
Welding	=	<u>K108,900</u>
		6,600 machine hrs
	=	<u>K16.50/machine hr</u>
Finishing	=	<u>K83,520</u>
		14,400 labour hrs
	=	<u>K5.80/labour hr</u>

ii. **Job CA2 Cost sheet**

	K	K
Direct materials:		
From stores	16,500	
Bought-in	<u>12,600</u>	
		29,100
Direct labour:		
Assembling (450 X K8)	3,600	
Welding (535 X K8)	4,280	
Finishing (1,235 X K6)	<u>7,410</u>	
		15,290
Trials & testing		<u>5,400</u>
Prime cost		49,790
Production overheads:		
Assembling (425 X K12.20)	5,185	
Welding (532 X K16.50)	8,778	
Finishing (1,235 X K5.80)	<u>7,163</u>	
		<u>21,126</u>
Production		70,916
Profit mark-up (1/2 X K70,916)		<u>35,458</u>
Selling price		<u>106,374</u>

b) **Five (5) features of process costing**

- The production of goods is continuous (except where the plant is shut down for repairs) until the final product.
- The finished product is the result of two or more processes.
- Each process is distinct and is pre- determined.
- Costs are accumulated by processes.
- The cost of production of one process is transferred to subsequent process or processes just as output on one process is transferred as input of other process.
- It is quite common to incur normal loss and wastage. Sometimes, owing to abnormal conditions even abnormal loss is also absorbed.
- The product of first process becomes the raw material for the second process and so on.

SOLUTION SIX

i.	<u>Material price variance</u>		K
	28,000 Kg should have cost X K10/kg	=	280,000
	But did cost	=	<u>273,000</u>
			<u>7,000 (F)</u>
ii.	<u>Material usage variance</u>		
	4,800 units should have used X 6Kg/unit	=	28,800kg
	But did use	=	<u>28,000kg</u>
			800 Kg (F)
			X K10
			<u>K8,000 (F)</u>
iii.	<u>Labour rate variance</u>		K
	10,000 hrs should have cost X K 12.50/hr	=	125,000
	But did cost	=	<u>126,000</u>
			<u>1,000 (A)</u>
iv.	<u>Labour efficiency variance</u>		
	4,800 units should have taken X 2hrs/unit	=	9,600hrs
	But did take	=	<u>10,000hrs</u>
			400 hrs (A)
			X K12.50
			<u>K5,000 (A)</u>
v.	<u>Variable overhead expenditure variance</u>		K
	10,000 hrs should have cost X K3.5/ hr	=	35,000
	But did cost	=	<u>34,500</u>
			<u>500 (F)</u>
vi.	<u>Variable overhead efficiency variance</u>		
	400 hrs (A) X K3.5/hr	=	<u>K1,400 (A)</u>
vii.	<u>Fixed overhead expenditure variance</u>		K
	Budgeted fixed overhead 5,000 Units @ K7 per unit	=	35,000
	Actual fixed overhead	=	<u>36,000</u>
			<u>1,000 (A)</u>
viii.	<u>Fixed overhead volume variance</u>		
	Budgeted volume (60,000 units/12)	=	5,000 units
	Actual volume	=	<u>4,800 units</u>
			200 units (A)
			X K7
			<u>K1,400 (A)</u>

Workings:

1. Variable overhead rate $K840,000 \times 50\% / 60,000 \text{ units} \times 2 \text{ hrs per unit} = K3.5/\text{hr}$
2. Budgeted units per month = $60,000 \times 12 = 5,000 \text{ units}$
3. Budgeted fixed overheads = $K840,000 \times 50\% = K420,000$
4. Budgeted fixed overheads rate = $K420,000 / 60,000 \text{ units} = K7/\text{unit}$

b) **Causes of idle time**

- Machine break down
- Power failure
- Shortage of raw materials
- Temporary lack of work
- Waiting for tools
- Strikes and lockouts



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 14 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory scenario question.
Section B: Five (5) Optional Questions. Attempt any four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

QUESTION ONE

1.1 A contract is voidable when

- A. It cannot be avoided by either party.
- B. It cannot be avoided by one of the parties.
- C. It is void ab initio.
- D. It is valid until avoided by one party.

(2 marks)

1.2 Jerry promised to supply 2000 litres of milk at 5 kwacha per litre to Tembo during the dry season when fresh milk is scarce and expensive. How best can we describe the business arrangement between the two parties?

- A. It is a definite offer.
- B. It is a unilateral offer.
- C. It is a standing offer.
- D. It is an invitation to treat.

(2 marks)

1.3 Which one of the following rules is not established under the element of consideration as far as contracts are concerned?

- A. In the execution of a public duty, there is insufficient consideration for anyone to be paid at all.
- B. When one performs his contractual obligations, there is sufficient consideration to be paid the contract price, unless one has exceeded his contractual obligation may he be paid extra.
- C. There is sufficient consideration for a contractor to be paid extra if this confers a benefit on the employer.
- D. There is sufficient consideration for the creditor to forego the balance if the debtor requests to pay less than the original debt on due date.

(2 marks)

1.4 From the options below, which one defines an agent?

- A. A person who opens a company for the principal.
- B. A person who goes with the principal on his business
- C. A person who acts on behalf of the principal.
- D. A third party who acts with the agent.

(2 marks)

1.5. What is unfair dismissal?

- A. This is dismissal by the manager
- B. This is the dismissal which is imputed by the company
- C. This is dismissal that is based on the status of an employee as created by statute
- D. This is the dismissal where the statute has not been followed

(2 marks)

1.6 Which of the following statements is/are incorrect?

- (i) Legal title cannot pass on a contract induced by misrepresentation
- (ii) Misrepresentation renders a contract voidable
- (iii) A victim of negligent misrepresentation may seek rescission and damages

- A. (i) only
- B. (ii) only
- C. (i) and (iii)
- D. (ii) and (iii)

(2 marks)

1.7 Identify which remedy does not exist for unpaid seller under the Sale of Goods.

- A. A lien on the goods.
- B. Stoppage on transit
- C. A right of resale
- D. Rejection of the goods

(2 marks)

1.8 Which of the following essentially is a "defence" to the negligence defence called contributory negligence--that is, something that will knock out an otherwise-good contributory negligence defence?

- A. Last Clear Chance
- B. *Res Ipsa Loquitur*
- C. Proximate Cause
- D. The "Substantial Factor" Doctrine

(2 marks)

1.9 The rule that a statute should be construed to avoid a manifest absurdity or contradiction within itself is known as.....

- A. The Literal rule
- B. Mischief rule
- C. Contextual rule
- D. Golden rule

(2 marks)

1.10. Which one of the following statements about traditional (unlimited) partnerships is incorrect?

- A. In England a partnership has no existence distinct from the partners.
- B. A partnership must have a written partnership agreement.
- C. A partnership is subject to the Partnership Act.
- D. Each partner is an agent of the firm.

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section. Attempt any four (4) questions.

QUESTION TWO

- (a) Two colleagues signed contracts of employment with Trade Chiefs, a company specialized in manufacturing of Zoon energy saving bulbs. Mulenga's contract contained a clause which stated that during his employment he would not reveal to anybody whatever he learnt in the manufacturing of bulbs. Bwalya's contract contained a clause to the effect that for seven years after leaving Trade Chiefs, he would not become engaged in making bulbs anywhere in Zambia.

Required:

Explain if the clauses in the contract of employment above are enforceable at law.

(10 marks)

- (b) Chilli Boy wants to celebrate his birthday in a proper village setting, and heads off to Mafinga, in the far North East of Zambia. He indicates to one of the shop attendants of the Kob chain shops that he wants to buy decorations for the party. The attendant replies that they did not have that particular decoration, but they can improvise. Chilli Boy accepted and paid for the package. He decorates the village hall nicely but before the party begins, the wind blows the humid air into the hall and all the toilet paper which had been used for decoration disintegrates. Chilli Boy blames the shop for the mess, but the shop insists that "caveat emptor".
- (i) Define 'caveat emptor' (2 marks)
- (ii) Explain the term that has been violated above (5 marks)
- (iii) Discuss any remedies available to the buyer from the above facts

(3 marks)

[Total: 20 Marks]

QUESTION THREE

Kekenice (Pty) Ltd manufactures clothes and used to sell them through its own retail shop. Bwalya, who is 40 years old, is employed by Kekenice (Pty) Ltd for three years as the manager of the shop. Bwalya at one point has a disagreement with her employer. Soon after that, Bwalya is told that her services are no longer required as Kekenice (Pty) Ltd has decided to close its store and concentrate solely on manufacturing. Bwalya has also been told that she will not receive any recompense for her job loss.

Required:

- (a) Explain to Bwalya as to the likelihood of her successfully claiming for unfair dismissal or redundancy. (10 marks)
- (b) It has been said that "Every contract involves an agreement but not all agreements amount to a contract."

Required:

With the help of examples, explain the correctness or otherwise of the above statement.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

In relation to the Zambian legal system;

- (a) Discuss any 2 advantages of delegated legislation. (5 marks)
- (b) Explain the jurisdiction of the courts over delegated legislation. (5 marks)
- (c) FWD's aged house is leaking in one of the bedrooms. He then hires KC who is known as a contractor to repair the leakage. KC works tirelessly the whole day:

(i) When he is about to finish, KC falls through the roof and breaks his left leg. Discuss FWD's liability to KC'S injury. (5 marks)

(ii) FDW realizes that by KC falling through the roof, KC has actually inflicted more damage than repair to the roof and ceiling board. He comes to you for help because he is not sure who should repair the damaged roof.

Explain KC's consequential damage to the roof (5 marks)

[Total: 20 Marks]

QUESTION FIVE

On Tuesday, James is scheduled to attend interviews in Livingstone for a scholarship. He then buys a ticket with Pro-Drive Bus Services. He is handed a ticket and boards the bus. 10 minutes before the bus is to start off, an announcement is made, "The bus will not travel today because the driver is tired. All passengers are advised to come back tomorrow at the same time. The current tickets remain valid." James is furious and rushes to the ticket salesman to get back his money so that he could use other buses. However, the ticket man pulls a book entitled, Pro-Drive Company Rules and opens page 3 where there is a rule that reads, "tickets once bought cannot be refunded." James' fury turns to horror! If he doesn't get his money, he will not get to Livingstone on time and will definitely miss the interview. Luckily, you come across James and the ticket man exchanging bitter words.

Required:

- (a) Define the clause at play from the facts (2 marks)
- (b) Explain to the Company on whether the "Pro-Drive Company Rules" formed part of the Contract or not. (8 marks)
- (c) Discuss how Redundancy and Constructive Dismissal arise (10 marks)

[Total: 20 Marks]

QUESTION SIX

It has been agreed that that the principal is bound by the acts done by the agent under a contract. However, the position may change when the principal is not disclosed or when the principal does not give express authority.

Required:

- (a) Explain circumstances under which a principal may be bound by a contract entered into by an agent on his behalf without his express authority. (10 marks)
- (b) Discuss the 3 essential features of a partnership. (6 marks)
- (c) Distinguish between damages and injunction in the law of torts. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA6 – SUGGESTED SOLUTIONS AND MARKING KEY

SOLUTION ONE

QUESTI

1. D

2. C

3. D

4. C

5. C

6. C

7. D

8. A

9. D

10. C

SOLUTION TWO

(a) These are contracts in restraint of trade, a legal device to balance between an employee's right to exercise his profession freely and the employer's interest in keeping certain aspects of his business confidential. The general rule is that such contracts are prima facie illegal and void as they infringe on freedom to compete in a free market. However in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co., 1894*, it was established that a restraint clause is void unless the party alleging its validity proves that it is reasonable between the parties and is in the public interest. Only then can the contract may be enforceable against the parties. Reasonableness is a matter of law to be determined by the court depending on trade practices and customs.

The facts of the scenario reflect two contracts of restraint: Mulenga's contract contains a non-disclosure clause, under which he is obligated not to disclose the trade secrets of his employer. This is justifiable in protection of the intellectual property of the employer. If the employee is allowed to reveal secrets of the employer during and after employment, the employer will not be in business as he is out-competed. The protection of an interest of a former employer must not be unnecessarily long, and seven year may excess and unreasonable, knowing that Bwalya needs to survive through his profession.

(12 marks)

(b)

- (i) Caveat emptor means let the buyer be aware. This means that the buyer alone is responsible for checking the quality and suitability of goods before a purchase is made. The seller will therefore not be blamed if the buyer is not careful in his choice of goods.
- (ii) The term that has been violated is seen under the provisions of the Sale of Goods Act of 1893. The law provides that where a buyer indicates to the seller the purpose of the goods, there is an implied condition under section 14 of the Sale of Goods Act, that the goods shall be fit for the intended purpose. In this case the buyer indicated that he wanted decorations, and selling him toilet paper which disintegrated in the humid conditions, is a breach of this condition.
- (iii) The buyer may reject the goods. But since he has already received the unsatisfactory goods that deteriorate in his possession, he may ask for a refund upon returning the defective goods to the seller.

SOLUTION THREE

- (a) This question requires candidates to explain the law relating to redundancy and unfair dismissal. Unfair dismissal arises when the dismissal is without merit or is unlawful. The law requires that the employee must be given justifiable reasons for the dismissal or sue the employer claiming damages, re-instatement or re-employment. Under both the Industrial and Labour Relations Act and the Employment Act, unfair dismissal may arise from discriminatory dismissal, and the employee is entitled to the same remedies above. Since Bwalya is dismissed without reasonable cause, he can sue the employer claiming the above remedies.

The fact that Bwalya's services are no longer needed and he is laid off gives rise to a claim under redundancy. Bwalya must be properly dismissed under this ground or the employer may be liable for wrongful dismissal. The procedure to follow is section 26 (b) of the Employment Act, which requires notification of the employee's trade union, the Labour Commissioner and the employee given notice of the impending redundancy. If this is not done as the case was in the scenario, Bwalya may claim damages from the employer for wrongful dismissal.

- (b) It is true that every contract is an agreement but not all agreements amount to a contract. The distinction lies in the intentions of the parties to the agreement to enter into legal relations and thereby bind themselves to carry out the agreement.

Furthermore, a valid contract is characterized by the following 5 issues. Intention to create legal relations, offer, acceptance, consideration and capacity. If anyone of these components is missing in an agreement, then such agreement will be a mere agreement that does not amount to a contract.

It is also presumed that family members do not usually intend to be legally bound by their agreements. On the other hand, as seen in the *Carlolic Smokeball* case, when commercial entities enter into an agreement, such agreement is presumed to be intended to be enforced legally. The distinction is clear in the decided cases of *Balfour v Balfour (1919)* and *Merrit v Merrit 1970*.

SOLUTION FOUR

(a) The use of delegated legislation has the following advantages:

- (i) Time-saving. Delegated legislation can be introduced quickly where necessary in particular cases and permits rules to be changed in response to emergencies or unforeseen problems. The use of delegated legislation also saves Parliamentary time generally. It is generally considered better for Parliament to spend its time in a thorough consideration of the principles of enabling legislation, leaving the appropriate minister, or body, to establish the working detail under their authority.
- (ii) Access to particular expertise. Given the highly specialized and extremely technical nature of many of the regulations that are introduced through delegated legislation, the majority of Members of Parliament simply do not have sufficient expertise to consider such provisions effectively. It is necessary therefore, that those authorized to introduce delegated legislation should have access to the external expertise required to make appropriate regulations. In regard to bye-laws, local knowledge should give rise to more appropriate rules than general Acts of Parliament.
- (iii) Flexibility. The use of delegated legislation permits ministers to respond on an *ad hoc* basis to particular problems as and when they arise.
- (iv) Accountability. A key issue involved in the use of delegated legislation concerns the question of accountability. Parliament is presumed to be the source of statute law, but with respect to delegated legislation government ministers, and the civil servants, who work under them to produce the detailed provisions, are the real source of the legislation. As a consequence, it is sometimes suggested that the delegated legislation procedure gives more power than might be thought appropriate to such un-elected individuals.
- (v) It is also faster as compared to the primary law making process.

(b) It specifically requires a consideration of the way in which the courts seek to control it. Within Zambia, Parliament has the sole power to make laws, but can delegate this responsibility to some other body or individual. Firstly, it issues a Parent Act (Act of Parliament) which is used in delegated legislation. The cabinet minister may use this to issue a Statutory Instrument, or the local authority such as the town council may follow the Parent Act when making subsidiary legislation. Thus delegated legislation is law made by some person, or body, to whom Parliament has delegated its general law making power. Secondly, parliament further controls delegated legislation by way of parliamentary scrutiny, which is the process by which the body designated to make the law lays it before parliament for examination.

(c)

- (i) Contracts of employment distinguish between contracts of service and contract for services. An independent contractor working for himself has a contract for services while a clerk in a company is employed under a contract of service. Thus, KC being a contractor, is working under a contract for services. The law further states that a private contractor is responsible for his own safety. Therefore, KC should have exercised good skill and care to avoid falling through the roof. In fact, *res ipsa loquitur* can apply.
- (ii) A professional has to take steps to avoid being negligent. In this case, it was the negligence of a contractor who has made FWD to suffer loss by way of a damaged and not mended roof. Therefore, KC is liable for the repair of the damaged roof of FWD.

SOLUTION FIVE

(a) An exemption clause is a clause that tends to limit or exclude a party or parties from liability.

(b) The explanation to the company is that for a term or clause to be relied upon, there must be proof that it was or formed part of a contract at the time the said contract was made. Thus, one party cannot try to add or remove terms such as exemption clauses after a contract has already been made. The contract was made at the point the ticket was made while the clause was made after the contract was made.

Clearly, the exemption clause was not part of the contract hence this was a breach of contract on the part of the company. This position is supported by the case of ***Olley v Malborough Court 1949***, two guests booked into a hotel. When they reached their bedroom, for the first time, a notice to the effect that the hotel would not accept responsibility for any articles which might get lost or stolen. There was a breaking and the couple lost valuables. It was held that since the contract had been made and concluded at the reception, the hotel's attempt to exclude liability had come too late to be effective.

In the scenario at hand, the exclusion clause to the effect that, "Tickets once sold cannot be refunded," came a little too late to be effective. At the time James was buying the ticket, the exemption clause was not part of the contract. Thus, the company is liable in contract.

(c) In accordance with section 26 of the Employment Act, Redundancy arises when an employer intends to stop carrying on his business or is reducing the size of his workforce due to poor business and or in a bid to save the business. An employee so declared redundant is eligible to redundancy payment. The aim of redundancy payment is not to cushion a person over a period of unemployment but to recognize an employee's stake in the employment. Hence, even if such an employee has another employment to go to, he is still eligible to the redundancy pay.

On the other hand, constructive dismissal arises when the employer makes the working environment so uncomfortable for the employer that it is impossible for the employee to continue working. The employee is left with no choice but to resign. Hence the

constructive dismissal occurs when the employee although resigns on their own, does so because he/she is protesting management's behavior.

SOLUTION SIX

- (a) There are three occasions where a principal may be bound by a contract entered into by an agent on his behalf but without his express authority. These are agency of necessity, agency with implied authority and agency involving apparent (or ostensible) authority. An agency relationship between principal and agent can arise by operation of law if very strict conditions apply. This is agency by necessity. It applies where the 'principal' entrusts goods to the 'agent' for some purpose (usually carriage) and an emergency arises while the goods are in the agent's possession, in circumstances where it is impossible to contact the principal for instructions. This emergency must cause the agent to take some action to protect the principal's interest; it must not be action taken for the agent's own convenience: ***Sachs v Miklos (1948)***.

If these conditions are satisfied, then the principal is bound by the contract made by the agent (for example, for the feeding and care of livestock left in the agent's care: ***Great Northern Railway v Swaffield (1874)***).

An agent may also have apparent (or ostensible) authority. A former agent may continue to bind his principal if the third party with whom the agent deals is unaware of the agent's loss of authority. Similarly, if the agent purports to act on the principal's behalf and the principal, aware of this, does nothing to deny this, the principal cannot refuse to be bound by the contract: ***In Pickering v Busk (1812)***. A broker was employed by a merchant to buy hemp. After he had completed the purchase the broker retained the hemp at his wharf, at the request of the merchant. He then sold the goods. The purchaser was held to have obtained a good title to the goods because the broker was apparently an agent to sell, and the merchant was estopped by his conduct from denying the agency.

A contract made by the agent without the principal's authority may be adopted as the principal's contract by ratification. The principal must exist when the contract is made (***Kelner v Baxter (1866)***), and must be identified as a party to the contract by the agent (***Keighley Maxstead & Co v Durrant (1900)***). The contract is not binding until ratified. Ratification is of retrospective effect, but must be done before the

contract is to come into effect. The principal must be aware of all the facts relevant to the contract for effective ratification.

(b)

- i) **Two or more persons:** A partnership requires an association of two or more people. This entails that there is no partnership that can exist with one person. Consequently, a partnership that exceeds that number is illegal and void.
- ii) There must be a common purpose of which each partner must contribute. Contribution could be in the form of money, labour, industry, skill or property. These contributions make the common fund.
- iii) The carrying on of such a business should be with the objective of making profit. The partners must be carrying on a business together with the purpose of making a profit. Business is anything that occupies the time and attention and labour of a man for the purpose of profit: Once it is established that there is a business, it must be shown that the partners have got a common interest and that they are carrying it out themselves or through agents: *Wulfsohn v Taylor* (1928).

(c) Damages and injunction

Damages are compensation in monetary form. These may include sums of financial loss, damage to property, personal injury, distress disappointment and upset caused to the plaintiff. Whereas, an injunction is a restraining order granted at the discretion of the court in an instance where they deem damages may not be sufficient remedy. An injunction may either be mandatory or prohibitory.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 10 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
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Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any four (4) questions.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – COMPULSORY

Attempt all ten (10) multiple choice questions

Each of the following questions has only one correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

1.1 Which of the following is **NOT** the key role of a manager in organizing work?

- A. Work planning
- B. Resource allocation
- C. Working hard
- D. Project management

(2 marks)

1.2 “I cannot join in the business because of my busy work schedule, but I can invest to add to your capital so that you Esther and Katanekwa can continue running the business. I will be coming for profits sharing”.

What form of business type will be created in the above statement?

- A. Sole Proprietorship with shares
- B. General Partnership
- C. Partnership by limited liabilities
- D. A Co-operative with shares

(2 marks)

1.3 Strategic marketing involves knowing how to mix and use the marketing tools. Which of the following marketing tools is a revenue tool?

- A. Product
- B. Place
- C. Price
- D. promotion

(2 marks)

- 1.4 Parastatal organizations such as ZSIC and ZESCO's prime objective is to:
- A. Look after the interests of the public.
 - B. To be the biggest employer and the biggest buyer of goods and services.
 - C. To reach the target market in the form prescribed and that customers are not exploited.
 - D. To expand its clientele.

(2 marks)

- 1.5 Herzberg's Hygiene factors are to do with the environment and conditions of work but do **not** include:

- A. Company policy
- B. Salary
- C. Responsibility
- D. Interpersonal relations

(2 marks)

- 1.6 Change may be incremental or transformational, Transformational change is:
- A. Change that changes to exploit a new opportunity that has been identified.
 - B. Change that happens in response to developments that have occurred.
 - C. Change that requires restructuring of the organization and its systems.
 - D. Change that is fairly small.

(2 marks)

- 1.7 Which school of management is considered to be the originator of Time Motion Study?

- A. Max Webber
- B. Elton Mayo
- C. Chester Bernard
- D. Fredrick W Taylor

(2 marks)

1.8 Which production method has the characteristics of producing standard products for the mass market and there is continuous production?

- A. Job production
- B. Batch production
- C. Flow production
- D. Customized production

(2 marks)

1.9 The leadership theory which stresses that the leaders behaviour in relation to task, group and individual needs must be related to the overall situation is called

- A. Contingency theory
- B. Trait theory
- C. Behavioral theory
- D. Style theory

(2 marks)

1.10 is the process of inviting potential candidates to apply for vacant positions in an organization .

- A. Selection
- B. Employment
- C. Recruitment
- D. Placement

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this section. Attempt any FOUR (4) questions.

QUESTION TWO

Mr. Lindunda has been promoted as a senior Manager in Audit section barely two years after being employed. However he cannot understand why most of his subordinates are avoiding him. He has just heard about how a leader must motivate the employees.

- (a) Explain the difference between a Leader and a Manager. (4 marks)
- (b) Use the Blake and Mouton managerial grid to explain the behavioral theory of leadership. (10 marks)
- (c) Draw the Maslow hierarchy of needs and explain to Mr. Lindunda each level starting with the lowest. (6 marks)

[Total: 20 Marks]

QUESTION THREE

Research has shown that most of the companies in Zambia do not succeed to the second generation because of non-involvement of expertise and governance in the operations and management. It is also a common observation that most firms do not have clear mission statements and objectives. However it is always encouraged that people must register their companies as limited entities or partnerships and not as sole traders.

- A. What is a mission statement? (3 marks)
- B. Explain five (6) advantages of private limited company form. (12 marks)
- C. Explain what is meant by objectives must be SMART. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

In Zambia many former parastatals have now been privatized, and are part of the private sector.

- (a) Explain five (5) characteristics of parastatal organization (10 marks)
- (b) Explain two (2) ways in which public sector organizations differ from public limited companies. (6 marks)
- (c) Explain two (2) objectives of Community non- profit organizations. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Describe how the following would influence the culture of an organization:

- (i) History
- (ii) Leadership style
- (iii) Organization environment

(12 marks)

(b) Generally there is more emphasis on organizational plans than on personal development plans which link the development needs of the individual to the needs of the organization.

Explain the importance of a personal development plan to an individual. (8 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Advantages and disadvantages of individual interviews. (10 marks)

(b) Explain how the following social and cultural environmental factors can affect how business is done.

- (i) Impact of HIV and AIDS (4 marks)
- (ii) Influence of religion (3 marks)
- (iii) Values (3 marks)

[Total: 20 Marks]

END OF PAPER

DA7 PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

Attempt all ten (10) multiple choice questions in this section

1	2	3	4	5	6	7	8	9	10
C	A	C	A	C	C	D	C	A	C

SOLUTION TWO

a)

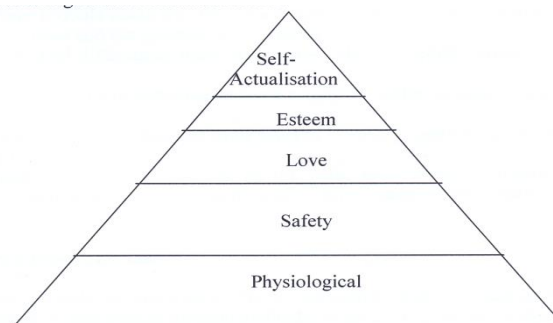
- i. **Leader-** innovates, develops, focuses on people and inspires trust, and holds a long-term view. A leader does the right thing;
- ii. **Manager-** administers and maintains, by focusing on systems and control and the short term view. A manager does things right.

b)

- Grid 1,1 **Impoverished:** this is where the leader exerts a minimum effort to accomplish the work; he is lazy and shows little interest either in work or staff
- Grid 1,9 **Country Club.** The leader focuses on being supportive and considerate of subordinates and little concern for task efficiency and achieving results;
- Grid 9,1 **Task.** The leader concentrates on task efficiency and results but shows little concern for the development and morale of subordinates;
- Grid 5,5 **Middle of the road or the dampened pendulum.** The leader maintains adequate task efficiency and satisfactory morale though balancing or switching between;
- Grid 9,9 **Team.** The leader facilitates task efficiency and high morale for coordinating and integrating work-related activities.

c)

(1 marks for the diagram and 1 mark for each explained level = 6 marks)



- a. **Physiological Needs.** These include needs for satisfaction of hunger and thirst, need for sleep, sensory pleasures, activities, material behaviour and sex desire.
- b. **Safety Needs.** These include safety and security, freedom from pain or threat of physical attack, protection from danger or deprivation and the need for predictability and orderliness.
- c. **Love or Social Needs.** These include needs for affection, sense of belonging,

social activities, friendship, and giving and receiving of love.

- d. **Esteem or Ego Needs.** These include self-respect and esteem of others. Self-respect involves the desire for confidence, strength, independence and freedom and achievement. Esteem of others means reputation or prestige, status, recognition, attention and appreciation.
- e. **Self-Actualisation Needs.** This is the development and realisation of one's full potential. Maslow regards this as what humans can be, they must be, becoming everything that one is capable of becoming.

Once a lower level need is satisfied, it no longer acts as a strong motivator but the higher level need becomes the motivator and so on. Thus a satisfied need is no longer a motivator.

SOLUTION THREE

- a) **A mission** of the organisation defines the business the organisation is engaged in. It is a general expression of the overall purpose of the organisation, which ideally is in line with the values and expectations of major stakeholders. It defines the purpose of the organisation, it questions, what business or businesses we are in?
- b) Forming a private limited company is probably the most secure way of owning a business. The benefits of this kind of business include the following:
1. It is a legally separate entity or personality from the owners.
 2. The liability of shareholders is limited, so their personal assets are not at risk.
 3. It can easily raise more capital by selling shares though not publicly.
 4. The company has sure continuity, as it does not depend on one person.
 5. Shareholders have direct control over the company's affairs. They present their views at the annual general meeting.
 6. The founders can retain control over the company by holding the majority of its shares.
- c) **S**=Specific **M**=measurable; **A**=Achievable; **R**= Realistic;; **T**= Time bound

SOLUTION FOUR

(a)

- Public corporations owned or partly owned by the state
- Profit motive limited by the state
- Provides goods and services at reasonable prices
- They obtain capital from the government
- Political influence in the operations is strong
- The state sets a Board of directors to observe accountability

(b)

- Public sector organizations are accountable to the government and rely on government for most or all of their funding, while public limited sector organizations do not.
- Prime objective of the Public sector organization is to provide benefits to the public at not profit, while private sector they do it for a profit.

(c)

- Established to provide services to the community and do not seek to make a profit
- May be funded by members or by donations.
- Tend to be democratic with elected officials, who may also act as managers of the organizations.

SOLUTION FIVE

a)

The following can influence culture in the in different ways:

- i. History- Through the reflections on the era of the organization through stories, rituals, and symbolic behavior.
- ii. Leadership style- an organization with strong culture recruits and develops managers who naturally con form to its way of doing things and perpetuate the culture.
- iii. Organizations environment- this is more about the values and aspirations of the leaders and how they act and promote the organization objectives through its mission.

b)

The following are the purpose of the personal development plan to an individual:

- i. To recognize the experience and knowledge that they have acquired, and monitor their progress: by recording their achievements, training courses attended and career development
- ii. Take responsibility for their own learning and development
- iii. Define their needs for further training and development, in consultation with their boss
- iv. Understand their personal weaknesses, and think about how to improve
- v. Provide evidence of their strength, so that they can discuss their achievements with their boss

SOLUTION SIX

a) Advantages and disadvantages of individual interview

Advantages:

- i. The interviews gives the interviewer chance to use verbal and nonverbal the cues to assess the candidate.
- ii. The rapport between them allows for all attention to be given in this relaxed atmosphere.
- iii. There is flexibility in the direction and follow up of questions

Disadvantages:

- i. Candidate may be able to disguise lack of knowledge in a specialist area the interview knows little about.
- ii. The interviewer perception may be selective or distorted which may go unnoticed.
- iii. The greater opportunity for personal rapport with the candidate may cause a weakening of the interviewer's objective judgment.

b) The impact of HIV and AIDS and the effect it has on the workers is that it will affect the work they do and may bring about high employee turnover reduce productivity due to the disturbance on the demographics such as disposable income and may result in low demand for goods and services.

- i. Influence of religion is that people may be careful in the way they choose the products and food due to the impact of their beliefs on what they do, eat and use.eg Christians are against homosexuality.
- ii. Values are very important in different ethnic backgrounds and will affect some actions or rules in companies that may be against them as members may be unwilling to learn new ways of doing things which may become barriers to development of the organization due to lack of willingness to serve.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 10 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A-TWO COMPULSORY QUESTIONS

Both Questions in this Section are compulsory and must be attempted.

QUESTION ONE

On 1 October 2017, Pawpaw acquired 36 million shares of Strawberry's equity shares, when Strawberry's retained earnings were K246 million.

Pawpaw paid K360 million cash and promised to pay K24 million on 30 September 2019. Pawpaw has recorded the cash consideration but not the deferred consideration. The cost of capital for Pawpaw is 8%.

On 1 July 2018, Pawpaw also acquired 25.2 million shares of the 84 million equity shares of Apricot for K100.8 million. This consideration has been recorded by Pawpaw. Apricot made a net loss of K48 million for the year ended 30 September 2018.

Below are the draft statements of financial position for Pawpaw and Strawberry at 30 September 2018:

	Pawpaw	Strawberry
	K'000	K'000
Non current assets		
Property, Plant and Equipment	1,035,000	423,000
Investments	519,000	-
	<u>1,554,000</u>	<u>423,000</u>
Current Assets		
Inventories	129,000	51,960
Trade receivables	97,200	114,000
Bank	55,800	30,000
	<u>282,000</u>	<u>195,960</u>
Total assets	<u>1,836,000</u>	<u>618,960</u>
Equity and Liabilities		
Equity		
Equity shares of K1 each	510,000	45,000
Retained earnings	1,012,950	318,000
Total equity	1,522,950	363,000
Current liabilities	313,050	255,960
Total equity and liabilities	<u>1,836,000</u>	<u>618,960</u>

The following additional information is relevant:

- (i) At the date of acquisition of Strawberry, the fair values of its net assets were equal to their carrying amounts with the exception of a building, which had a fair value of K9 million in excess of its carrying amount. At the same date, the building had a remaining useful life of 40 years.
- (ii) During the post acquisition period, Strawberry sold goods to Pawpaw for K60 million of which one third of the goods were still in inventory of Pawpaw at 30 September 2018. Strawberry marked up the goods at 25%. Additionally, Apricot sold goods to

Pawpaw, after being acquired, for K30 million and all these goods had been sold to third parties by Pawpaw.

- (iii) As a result of the intra group trading in (ii) above, Pawpaw had payables to both Strawberry and Apricot of K18 million and K12 million respectively. Strawberry's receivable balance of K24 million did not agree with Pawpaw's payable balance. The difference was due to cash in transit from Pawpaw. On the other hand, Apricot's receivable balance agreed with Pawpaw's payable.
- (iv) The remaining investments in Pawpaw are fair value through profit or loss financial assets. These investments have a fair value of K87 million at 30 September 2018.
- (v) Non controlling interests are measured using the fair value method. The fair value of the non controlling Interest at the date of acquisition was K50.625 million.
- (vi) Goodwill on acquisition of Strawberry is impaired by K13.12 million whereas an impairment review of the investment in Apricot found it was equally impaired by K5 million.

Required:

- (a) Prepare for Pawpaw Group, the consolidated statement of financial position as at 30 September 2018. (21 marks)
- (b) Pawpaw has a policy of measuring Non Controlling Interest using fair value method. There is an alternative method for this measure.

Required:

- (i) Identify the alternative method for measuring Non Controlling Interest. (1 mark)
- (ii) Distinguish between fair value method and the method in (i) above, in terms of their measurement and accounting treatment of impairment loss of goodwill. (3 marks)

[Total: 25 Marks]

QUESTION TWO

Makwebo Plc is an agent of Trade Kings products and has super markets throughout the country. You are the senior accountant of Makwebo Plc and the finance manager has requested you to prepare the draft financial statements and has provided the trial balance below.

The following trial balance relates to Makwebo Plc at 31 March 2019:

	K' 000	K' 000
Revenue (note (i))		980,000
Cost of sales	581,200	
Distribution costs	67,000	
Administrative expenses	73,600	
Loan note interest and dividends paid (notes ((iii), (iv)))	26,760	
Bank interest	1,800	
20-year leased property at cost	200,000	
Plant and equipment at cost (note (ii))	311, 000	
Accumulated depreciation at 1 April 2018:		
Leased property		50,000
Plant and equipment		87,000
Inventory at 31 March 2019	122,000	
Trade receivables	126,000	
Trade payables		64,400
Bank		11,000
Equity shares of K0.50 each (note (iv))		112,000
Share premium		50,000
Retained earnings at 1 April 2018		52,160
5% convertible loan note (note (iii))		100,000
Current tax (note (v))	6,400	
Deferred tax (note (v))	-	9,200
	<u>1,515,760</u>	<u>1,515,760</u>

The finance manager has provided the following relevant information to help you prepare the financial statements.

- (i) Makwebo's revenue includes K40,000,000 for cash sales made as an agent for Trade Kings. According to the agency agreement, Makwebo is entitled to a commission of 10% of the selling price of goods sold. By 31 March 2019, Makwebo paid Trade Kings K30,000,000 for the goods sold and recorded this amount in cost of sales.
- (ii) Plant and equipment is depreciated at 20% per annum on the reducing balance basis. Leased property is depreciated on a straight line basis. All depreciation of non-current assets is charged to cost of sales.
- (iii) On 1 April 2018, Makwebo issued a 5% K100,000,000 convertible loan note at par. Interest is payable annually in arrears on 31 March each year. The loan note is redeemable at par or convertible into equity shares at the option of the loan note holders on 31 March 2021. The interest on an equivalent loan note without the conversion rights would be 8% per annum. The present values of K1 receivable at the end of each year, based on discount rates of 5% and 8%, are:

		5%	8%
End of year	1	0·952	0·926
	2	0·907	0·857
	3	0·864	0·794

- (iv) On 1 August 2018, Makwebo made a fully subscribed rights issue of equity share capital based on two new shares at K1.20 each for every five shares held. The issue has been fully recorded in the trial balance figures. An equity dividend of K0.08 per share was paid on 30 May 2018 and, after the rights issue, a further dividend of K0.04 per share was paid on 30 November 2018.
- (v) The balance on current tax represents the under/over provision of the tax liability for the year ended 31 March 2018. A provision of K56,000,000 is required for current tax for the year ended 31 March 2019 and at this date the temporary difference was K66,400,000 and deferred tax liability rate is 25%.
- (vi) In February 2019, Makwebo's internal auditors discovered a fraud committed by the company's receivables accountant who did not return from a foreign business trip. The outcome of the fraud is that K8,000,000 of the company's trade receivables have been stolen by the receivables accountant and are not recoverable. Of this amount, K2,000,000 relates to the year ended 31 March 2018 and the remainder to the current year. Makwebo is not insured against this fraud and has not made any adjustments.

Required:

- (a) Prepare the statement of profit or loss and other comprehensive income for Makwebo for the year ended 31 March 2019.
(12 marks)
- (b) Prepare the statement of financial position of Makwebo as at 31 March 2019.
(13 marks)
- [Total: 25 Marks]**

SECTION B

There are **THREE (3)** questions in this section. Attempt any **TWO (2)** questions.

QUESTION THREE

The following information relates to draft Financial statements of Mwandu Plc. for the year ended 31 March 2019 and its 2018 comparatives.

Summarized statements of profit or loss for the year ended

	31 March 2019	31 March 2018
	'K'	'K'
Revenue	495,000	350,000
Cost of sales	<u>(394,200)</u>	<u>(215,000)</u>
Gross profit	100,800	135,000
Administrative expenses	(72,000)	(45,000)
Distribution costs	<u>(36,000)</u>	<u>(9,000)</u>
Operating profit/(loss)	(7,200)	81,000
Finance cost	<u>(7,200)</u>	<u>(4,500)</u>
Profit/(loss) before tax	(14,400)	76,500
Income tax relief/(expense)	4,500	<u>(26,100)</u>
Profit/(loss) for the year	<u>(9,900)</u>	<u>50,400</u>

Summarized Statements of Financial Position as at:

	31 March 2019	31 March 2018
	'K'	'K'
Non Current Assets		
Property, Plant & Equipment	171,000	229,500
Current Assets		
Inventory	112,500	41,400
Trade Receivables	40,500	18,000
Tax Refund due	4,500	-
Bank	-	<u>13,500</u>
Total Current Assets	<u>157,500</u>	<u>72,900</u>
Total Assets	<u>328,500</u>	<u>302,400</u>
Equity and Liabilities		
Equity shares of K1 each	90,000	72,000
Share Premium	28,800	36,000
Retained earnings	<u>40,500</u>	<u>56,700</u>
Shareholder's funds	<u>159,300</u>	<u>164,700</u>
Non Current Liabilities		
12% loan note	15,000	20,000
Government Grant	30,000	25,000
Lease obligations	20,000	18,000

Deferred tax	<u>34,000</u>	<u>7,200</u>
Total Non Current liabilities	<u>99,000</u>	<u>70,200</u>

Current Liabilities

Trade Payables	32,300	30,000
Bank overdraft	12,600	-
Tax payable	-	22,500
Government Grant	10,000	7,800
Lease Obligations	<u>15,300</u>	<u>7,200</u>
Total Current Liabilities	<u>70,200</u>	<u>67,500</u>
Total Equity and Liabilities	328,500	302,400

Additional information relevant to the above financial statements include:

- (i) Property, Plant and Equipment is made up of the following:

	31 March 2019	31 March 2018
	'K'	'K'
Owned Property, Plant and Equipment	112,500	207,000
Right of Use Asset (ROUA)	<u>58,500</u>	<u>22,500</u>
	<u>171,000</u>	<u>229,500</u>

During the year to 31 March 2019, owned plant with the carrying amount of K54,000 was sold for K76,500. Depreciation charge included in cost of sales for the year ending 31 March 2019 is K33,300. Right Of Use Asset acquired during the year to 31 March 2019 amounted to K20,400. There was no disposal of ROUA during the year to 31 March 2019.

- (ii) Credited to Administrative expenses was a K9,500 in respect of Government Grants during the year.
- (iii) On 1 August 2018, there was a bonus issue of shares from share premium of 2 new shares for every 5 shares held. In the same year, on 1 November, there was a fully subscribed rights issue of shares.

Required:

- (i) Prepare a statement of cash flows for Mwandu Plc for the year ended 31 March 2019 in accordance with IAS 7 statement of cash flows, using the Indirect method.

(20 marks)

- (ii) Mwandu Plc also engages in overseas trade. On 31 January 2019, it purchased a piece of land for \$1,200 on credit overseas. The land is part of PPE and is measured using cost model. Mwandu's functional currency is kwacha.

At 31 March 2019, Mwandu paid the seller \$500 with the \$700 still owing.

The following exchange rates apply:

	Kwacha: 1 Dollar
At 31 January 2019	10
At 31 March 2019	12
Average rate for year ended 31 March 2019	11

Required:

Prepare extracts for financial statements of Mwandu Plc. for the year to 31 March 2019. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Zam-com Plc sells telecommunication equipment to organisations in the telecommunication industry. On 1 April 2018 Zam-com entered into a contract with Yaka-cell Limited to supply the equipment and provide after sale services for five years. The contract price is K500,000,000. The stand alone prices are 60% for the telecommunication equipment and 40% for after sale services. The equipment was delivered on 30 September 2018 and the performance obligation for the after sale service for the year ended 31 March 2019 was satisfied. Management wants to recognise revenue from this contract using the IFRS 15 revenue from contracts with customers, five steps model.

Required:

Explain how this contract should be accounted for, for the year ended 31 March 2019 using the IFRS 15 revenue from contracts with customers, five steps model.

(10 marks)

- (b) Zam-drinks Plc trades in three business areas which are reported separately in its internal accounts provided to the chief operating decision maker. The results of these segments for the year ended 31 March 2019 are:

Operating segment information as at 31 March 2019:

	Total revenue (K)	Total profit/(loss) (K)	Total assets (K)
Coke	85, 000,000	75, 000, 000	84, 000, 000
Fanta	8, 000, 000	25, 000, 000	7, 000, 000
Sprite	<u>7, 000, 000</u>	<u>(8, 000, 000)</u>	<u>9, 000, 000</u>
	<u>100, 000, 000</u>	<u>92, 000, 000</u>	<u>100, 000, 000</u>

Required:

Explain which of the operating segments of Zam-drinks Plc constitute a 'reportable' operating segment under IFRS 8 Operating segments for the year ending 31 March 2019. (Note: relevant calculations must be shown) (7 marks)

- (c) Zam-Oil Plc acquired a business (cash generating units) on 1 April 2018 for K950,000,000. The carrying values of the CGU at 31 March 2019 were:

	K' 000
Property	250, 000
Plant and equipment	150, 000
Goodwill	75, 000
Patent	180, 000
Trade receivables (recoverable value)	120, 000
Cash	125, 000
Trade payables	<u>(100, 00)</u>
	<u>800, 000</u>

On 31 March 2019, the cash generating unit (CGU) was reviewed for impairment and had the value in use of K550,000,000 and recoverable amount of K600,000,000. Further management indicated that the net realisable value of the patent had fallen to K155,000,000.

Required:

Explain the difference between 'value in use' and 'recoverable amount' of an asset; calculate the CGU impairment loss; explain how it should be allocated and the value of the CGU to be reported in the statement of financial position according to IAS 36 impairment of assets.

(8 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Makasa, a manufacturing company purchased a property for K10 million (with land element of K3 million) on 1 January 2018 for investment potential. The buildings element had an expected life of 70 years at acquisition.

Makasa uses Fair Value model of *IAS 40 Investment properties* for its investment properties but decided to change to cost model on 30 June 2018 when the property had fair value of K14 million (with land element of K4 million).

Required:

Explain accounting treatment of Investment Property and prepare extract for the financial statements of Makasa for the year ended 31 December 2018. (7 marks)

- (b) The IASB's conceptual framework for financial reporting lists four enhancing qualitative characteristics of financial statements.

Required:

Identify and explain the four qualitative characteristics.

(8 marks)

- (c) IAS 23 Borrowing Costs provides guidance on when the borrowing costs are to be capitalized as part of the cost of a qualifying asset.

Required:

- (i) Outline three conditions for capitalization of borrowing costs to commence. (3 marks)
- (ii) Explain the accounting treatment of investment income from temporary investment of borrowed funds. (3 marks)
- (iii) Musa had the following bank loans in issue during the year ended 31 December 2018.

4% bank loan K25 million

3% bank loan K50 million

Musa commenced the construction of an item of qualifying non current asset on 1 April 2018 using existing borrowings. K10 million of expenditure was drawn on 1 June 2018 and K20 million was drawn on 1 August 2018. Construction was completed on 30 November 2018

Required:

Calculate the amount of borrowing cost to be capitalized as part of item of qualifying non current asset. (4 marks)

[Total: 25 Marks]

END OF PAPER

DAS FINANCIAL REPORTING SOLUTIONS

SOLUTION ONE

Pawpaw Group

Consolidated Statement of Financial Position as at 30 September 2018

Non Current Assets	'K'
Property, Plant and Equipment (1,035,000 + 423,000 + 8,775) (w3)	1,466,775
Goodwill (w2)	118,081
Investments (w7)	87,000
Carrying amount of investment in Apricot	<u>92,200</u>
Total non current assets	<u>1,764,056</u>
Current assets	
Inventories (129,000 + 51,960 – 14,000 PUP)	176,960
Trade receivables(97,200 + 14,000 – 6,000 – 18,000)	187,200
Bank (55,800 + 30,000 + 6,000)	<u>91,800</u>
Total current assets	<u>455,960</u>
Total assets	<u>2,220,016</u>
Equity and Liabilities	
Equity shares of K1 each	510,000
Retained earnings (w6)	1,075,228
Non controlling interest (w8)	<u>61,556</u>
	<u>1,646,784</u>
Current liabilities	
Payables (313,050 + 255,960 – 18,000)	551,010
Deferred consideration (20576 + 1,646 unwinding)	<u>22,222</u>
Total current liabilities	<u>573,232</u>
Total equity and liabilities	<u>2,220,016</u>

b) (i) proportionate of fair value of Identifiable net assets method.

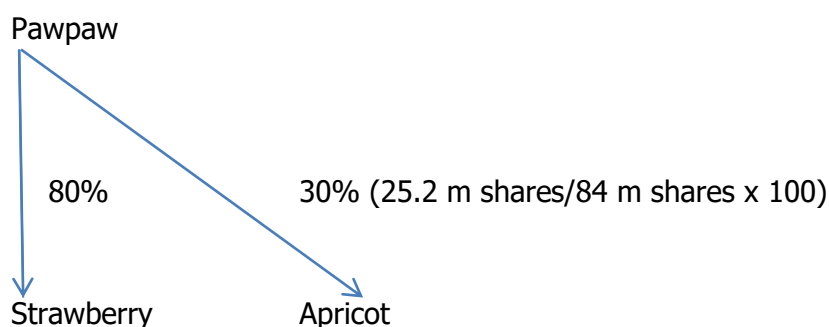
- It was the only method in previous version of IFRS 3.
- It has been carried forward to the revised standard.
- The method entails the Goodwill so calculated belongs only to the owners of the parent company

ii) Distinction:

Fair value method	Proportionate method
Goodwill belong to both owners of the parent and the NCI	Goodwill belongs to only owners of the parent
Impairment loss is shared between parent and NCI	Whole impairment loss suffered by the parent company
NCI is either given or calculated by NCI shares at market price of shares of subsidiary at acquisition	NCI is calculated as NCI % of the net assets of subsidiary at acquisition.

WORKINGS

1. Group structure



2. Goodwill on acquisition of Strawberry

	K'000	K'000
Purchase consideration:		
Cash		360,000
Deferred consideration[24 m x 1/(1.08) ²]		20,576
Fair value of NCI		<u>50,625</u>
		431,201
Less net assets at acquisition:		
Share capital	45,000	
Pre-acquisition retained earnings	246,000	
Fair value adjustments – buildings	<u>9,000</u>	(300,000)
Goodwill		131,201
Less impairment loss		<u>(13,120)</u>
Net goodwill		<u><u>118,081</u></u>

3. Fair value adjustments:

	At acquisition Reporting K'000	movement K'000	At K'000
Building	<u>9,000</u>	<u>225</u>	<u>8,775</u>

Depreciation = 9000/40yrs

4. Provision for unrealized profit

Sale by Strawberry to Pawpaw ($1/3 \times K60 \text{ m} \times 25/125 = K4 \text{ m}$)

Sale by Apricot to Pawpaw - No PUP as all intragroup sales were further sold to third parties.

5. Carrying amount of investment in Apricot

	K'000
Cost of investment	100,800
Less Pawpaw's share of Apricot post	
Acquisition losses ($30\% \times [3/12 \times 48,000]$)	(3,600)
Less impairment loss	<u>(5,000)</u>
	<u>92,200</u>

6. Group Retained Earnings

	Pawpaw K'000	Strawberry K'000	Apricot K'000
Per question	1,012,950	318,000	(48,000)
Less/add pre-acquisition retained Earnings		<u>(246,000)</u>	<u>36,000</u>
Post-acquisition retained earnings/losses		72,000	<u>(12,000)</u>
Fair value additional depreciation (w3)		(225)	
PUP (S to P) (w4)		<u>(4,000)</u>	
		<u>67,775</u>	
Unwinding of discount ($8\% \times 20,576$)	(1,646)		
Fair value gain of investment (w7)	28,800		
Share of Apricot ($30\% \times 12,000$)	(3,600)		
Share of Strawberry ($80\% \times 67,775$)	54,220		
Impairment loss of Goodwill ($80\% \times 13,120$)	(10,496)		
Impairment loss of investment in Apricot	<u>(5,000)</u>		
Total to CSFP	<u>1,075,228</u>		

ALTERNATIVELY

	NET ASSETS AT ACQUISITION K'000	NET ASSETS AT REPORTING POST ACQUI K'000	
	K'000	K'000	K'000
Share capital	45,000	45,000	--
Retained earnings	246,000	318,000	72,000
PUP		(4,000)	(4,000)
FV depreciation		<u>(225)</u>	<u>(225)</u>
	<u>291,000</u>	<u>358,775</u>	<u>67,775</u>

Group retained earnings	
Pawpaw	1,012,950
Strawberry post acqu ($80\% \times 67775$)	54,220
Apricot post ($30\% \times 12,000$)	(3,600)

Unwinding of discount(8% * 20576)	(1,646)
Fv gain on investment (w7)	28,800
Imp't loss of g/dwill(80%*13,120)	(10,496)
Imp loss of invst. In Apr	<u>(5,000)</u>
	<u>1,075,225</u>

7. Other investments at Fair value through profit or loss (FVTPL)

FV at acquisition (51,9,000 -360,000 – 100,800)	58,200
FV gain (bal fig.)	<u>28,800</u>
FV at 30 September 2018	<u>87,000</u>

8. Non controlling Interest (NCI)

NCI @ acquisition	50,625
NCI share of post acquisition RE (20% x 67,775)	13,555
NCI share of impairment loss (20% x 13,120)	<u>(2,624)</u>
	<u>61,556</u>

OR

NCI fair value at acquisition	50,625
NCI share of Post acqu. Retained earning (20% *72,000)	14,400
NCI share of PUP (20% * 4,000)	(800)
NCI share of additional depreciation (20% * 225)	(45)
NCI share of impairment loss (20% * 13,120)	<u>(2,624)</u>
	<u>61,556</u>

SOLUTION TWO

Makwebo statement of profit or loss for the year ended 31 March 2019

	K' 000
Sales revenue 980,000 – 36,000	944,000
Cost of sales 581,200 +44,800w2 + 10,000w2 – 30,000w1	<u>(606,000)</u>
Gross profit	338,000
Distribution costs	(67,000)
Admin expenses 73,600 + 6,000w2	(79,600)
Finance costs w3	<u>(91,831)</u>
Profit before tax	182,217
Tax w4	<u>(69,800)</u>
Profit for the year	<u>112,417</u>

Makwebo statement of financial position as at 31 March 2019

	K'000
Non-current assets	
Property, plant and equipment 179,200w2 +140,000w5	<u>319,200</u>
Current assets	
Inventory	122,000
Trade receivables 126,000-8,000w6	<u>118,000</u>
	<u>240,000</u>
 Total assets	 <u>559,200</u>
Equity	
Share capital	112,000
Share premium	50,000
Retained earnings 52,160+112,359-21,760 -2,000w7	140,817
Other components of equity w3	<u>7,715</u>
	310 532
Non-current liabilities	
5% loan note (W3)	94,668
Deferred tax (w4)	<u>16,600</u>
	111,268
Current liabilities	
Trade payables 64,400+6,000w6	70,400
Tax	56,000
Bank overdraft	<u>11,000</u>
	<u>137,400</u>
 Total equity and liabilities	 <u>559,200</u>

Workings **K000****W1: cost of sales**

Per trial balance	581,200
Depreciation:	
Plant and equipment	44,800
Property	10,000
Agency cost	<u>(30,000)</u>
Total	<u>606,000</u>

W2: administrative expenses

Per trial balance	73,600
Plus irrecoverable debt	<u>6,000</u>
	<u>79,600</u>

W3: splitting of compound financial instrument (calculation of finance cost for profit/loss).

PV of Principal (100,000@0.794)	79,400
PV of Coupon (100,000@5%@2.577)	<u>12,885</u>
Debt component	92,285
Equity component	<u>7,715</u>
Total proceed	<u>100,000</u>

Amortisation of liability component

O/balance	effective interest@8%	interest paid	C/balance
92,285	7,383	(5,000)	94,668

Therefore, finance cost comprise of interest on liability component based on effective interest rate and bank interest in the trial balance as follows:

5% loan interest at effective rate	7,383
Bank interest paid (per trial balance)	<u>1,800</u>
Total	<u>9,183</u>

W4: Income tax expense

Current tax c/f	56,000
Current tax b/f	6,400
Less deferred tax b/f	(9,800)
Plus deferred tax c/f(66,400*25%)	<u>16,600</u>
	<u>69,800</u>

OR

Income tax account

	K'000		K'000
Balance b/f	6,400	Balance b/f (DT)	9,200
Balance c/f CT	56,000	P/L (bal fig)	69,800

Balance c/f DT	<u>16,600</u>	
	<u>79,000</u>	<u>79,000</u>

W5:

	Plant and equipment		Property
Cost b/f	311,000	Cost b/f	200,000
Acc-dep	<u>(87,000)</u>	Acc-dep	<u>(50,000)</u>
	224,000		150,000
Dep @20%	<u>(44,800)</u>	Dep 200,000/20yrs	<u>(10,000)</u>
Carrying amount	<u>179,200</u>		<u>140,000</u>
Total carrying amount	<u>319,200</u> (179,200 + 140,000)		

W6: Fraud

Dr: Retained earnings (last year fraud)	2,000
Dr: Admin expenses (current year fraud)	6,000
Cr: Trade receivables (Total fraud)	8,000

W7 Retained earnings at reporting date

Retained earnings b/f	52,160
Less fraud relating to last year	<u>(2,000)</u>
Plus profit for the year	112,417
Less dividends paid (W8)	<u>(21,760)</u>
	<u>140,817</u>

W8 Dividends paid

Total interest paid plus dividend paid per trial balanc	26,760
Less interest paid at nominal rate	<u>(5,000)</u>
Equals dividends paid	<u>21,760</u>

	OR	
Balances b/f (bal)	Share capital	share premium
	80,000	5,200
New issue(2/7 * 112,000)	<u>32,000</u> (80,000/0.5*5*2*0.7)	<u>44,800</u>
Total plus new issue	<u>112,000</u>	<u>50,000</u>

Interim dividends paid before new issue (K80,000/0.5 * K0.08)	12,800
Final dividends paid after rights issue K112,000/0.5*K0.04)	<u>8,960</u>
Total	<u>21,760</u>

W9 Agency revenue

Dr: sales revenue	40,000
Cr: cost of sales	30,000
Cr: other income	4,000
Cr: trade payables	6,000
OR	
Dr Sales revenue	36,000
Cr Cost of sales	30,000
Cr Trade Payables	6,000

SOLUTION THREE

i) Mwandi's Statement of cash flows for the year ended 31 March 2019.

	'K'	'K'
Cashflows from operating activities		
Loss before tax		(14,400)
Add back: depreciation expense		33,300
Less: amortization of Government grant		(9,500)
Less profit on disposal of PPE (w1)		(22,500)
Add: finance cost in profit or loss		<u>7,200</u>
Cash generated from operations before working capital adj		(5,900)
Increase in inventory		(71,100)
Increase in receivables		(22,500)
Increase in payables		<u>2,300</u>
Net cash out of operations		(97,200)
Interest paid		(7,200)
Tax refund received (w6)		<u>4,300</u>
Net cash outflow from operations		(100,100)
Cash flows from investing activities		
Cash paid to acquire PPE (w2)	(8,400)	
Proceeds from disposal of PPE	76,500	
Receipt of government grant (w3)	<u>16,700</u>	
Net cash inflow from investing activities		84,800
Cash flows from financing activities		
Proceeds from the issue of shares (w5)	10,800	
Lease rental paid (w4)	(10,300)	
12% loan repayment (20,000-15,000)	(5,000)	
Dividends paid (w7)	<u>(6,300)</u>	
Net cash outflow from financing activities		(10,800)
Net decrease in cash in the period (w8)		(26,100)
Cash and cash equivalent at 1.4.18		<u>13,500</u>
Cash and cash equivalent at 31.3.19		<u>(12,600)</u>

WORKINGS

1. Profit or loss on disposal of PPE	'K'
Proceeds	76,500
Carrying amount	(54,000)
Profit on disposal	22,500
2. Acquisition of PPE	
Cost or valuation b/f	229,500
New ROUA	20,400
Disposal	(54,000)
Depreciation expense	(33,300)
Acquisition (bal fig.)	<u>8,400</u>

Cost/valuation c/f 171,000

OR

Property, Plant and Equipment account

	'K'		'K'
Bal b/f	229,500	depreciation expense	33,300
ROUA	20,400	Disposal	54,000
Acquisition (bal fig.)	<u>8,400</u>	Balance c/d	<u>171,000</u>
	<u>258,300</u>		<u>258,300</u>

3. Government grant received 'K'

Grant deferred income b/f – current	7,800
Grant deferred income b/f – non current	25,000
Amortization to profit/loss	(9,500)
Grant received (bal fig.)	<u>16,700</u>
Grant deferred income (current + non current)	<u>40,000</u>

OR

Grant Deferred income liability account

	'K'		'K'
Profit or loss	9,500	Bal b/f current	7,800
		Bal b/f non current	25,000
Balance c/f current	10,000	Grant received (bal)	16,700
Balance c/f Non cur.	<u>30,000</u>		
	<u>49,500</u>		<u>49,500</u>

4. Lease rentals paid 'K'

Current lease obligation b/f	7,200
Non current lease obligation b/f	18,000
New leased asset	20,400
Lease rental paid	<u>(10,300)</u>
Lease obligation c/f (current + Non)	<u>35,300</u>

OR

Lease obligations account

	'K'		'K'
Bank (bal)	10,300	Balances b/f current	7,200
		Non current	18,000
Balance c/f (current/non)	<u>35,300</u>	new lease	<u>20,400</u>
	<u>45,600</u>		<u>45,600</u>

5. Proceeds from the issue of shares

Existing shares (K72,000/K1 = 72,000 shares/5 x 2 = bonus shares of 28,800 x K1
= K28,800

	'K'
Total current proceeds : share capital	90,000
Share premium	28,800
Less total proceeds b/f share capital	(72,000)
Share premium	<u>(36,000)</u>
	10,800
Add back bonus from share premium	28,800
Less bonus from share capital	<u>(28,800)</u>
Net proceeds	<u>10,800</u>

6. Income tax paid

	'K'
Tax relief in profit or loss	4,500
less current tax b/f	(22,500)
less deferred tax b/f	(7,200)
Add deferred tax c/f	34,000
Less current tax c/f	<u>(4,500)</u>
Tax refund received (bal fig.)	<u>4,300</u>

OR

Income tax account

	'K'		'K'
Profit or loss	4,500	Balance b/f current tax	22,500
Balance c/f def tax	34,000	Deferred tax	7,200
	<u>-----</u>	Bank (bal fig)	4,300
	<u>38,500</u>	Balance c/f	<u>4,500</u>
			<u>38,500</u>

7. Retained Earnings Account

	'K'		'K'
Profit/loss	9,900	Balance b/f	56,700
Dividends paid (bal)	6,300		
Balance c/f	<u>40,500</u>		<u>-----</u>
	<u>56,700</u>		<u>56,700</u>

8. Cash and cash equivalents at:

	31.3.2019	31.3.2018
	'K'	'K'
Bank overdraft	(12,600)	-----
Bank balance	---	<u>13,500</u>
	<u>(12,600)</u>	<u>13,500</u>

Net decrease in cash and cash equivalents 13,500 – (-12600) = 26,100

b) Profit and loss extract

Exchange loss	2,400
---------------	-------

Statement of financial position

NCA	
Land	12,000

Current liability	
Payables	8,400

Working

- Land will be valued at spot rate without retranslating as NCA are non monetary items ($\$1,200 * K10 = K12,000$)
- Closing payable of \$700 will be retranslated using closing rate hence $\$700 * K12 = K8,400$, with payment of K6,000 ($\$500 * K12$) leaving us with exchange gain on credit of payable account of K2,400

SOLUTION FOUR

(a)

1. Identify the contract with the customer.
Zam-com has a contract with Yaka cell to deliver the telecommunication equipment and provide after sale services for 5 years.
2. Identify the performance obligation(s).
Zam-com has 2 performance obligations. (i) To deliver the telecommunication equipment. (ii) To provide after sale services for 5 years.
3. Determine the transaction price.
Zam-com has determined the transaction price of K500, 000, 000.
4. Allocate the transaction price to performance obligations.
Zam-com should allocate K300, 000, 000 (K500, 000, 000 @60%) as telecommunication equipment revenue and K200, 000, 000 (K500, 000, 000 @40%) as after sale services revenue.
5. Recognise revenue when performance obligation is satisfied.
Revenue (K300, 000, 000) for the telecommunication equipment should be recognised at 30 September 2018 when the equipment is delivered. Revenue (K200, 000, 000) for the after sale services should be recognised over 5 years. Only K40, 000, 000 should be recognised for the year ended 31 March 2019.

(b)

	Total revenue (%)	Total profit/ (loss) (%)	Total assets (%)
Coke	85%	75%	84%
Fanta	8%	25%	7%
Sprite	<u>7%</u>	<u>(8%)</u>	<u>9%</u>
	<u>100%</u>	<u>92%</u>	<u>100%</u>

Coke meets all 10% or above criteria. Its total revenue is 85%, total profit is 75% and total assets are 84%. It is a reportable segment according to IFRS 8.

Fanta meets 10% or above criteria. Its total profit is 25%. It is a reportable segment according to IFRS 8, even if total revenue and total assets are below 10%.

Sprite does not meet all 10% or above criteria. It is not a reportable segment according to IFRS 8.

(Note: Sprite can also be reported separately if management believes the information would be useful to users of the financial statements).

- (c) Value in use is the present value of the future cash flows that an asset is expected to generate from its continued use other than through a sale.

Recoverable amount is the higher of the fair value less selling costs of an asset (i.e. its net realisable value) and the value in use.

Impairment loss = 600, 000, 000 – 800, 000, 000
 (200, 000, 000)

Allocation of impairment to the CGU

	Carrying Value K' 000	Impairment K' 000	Recoverable Value (RV) K' 000
Property	250, 000	(62, 500)*	187, 500
Plant and equipment	150, 000	(37, 500)*	112, 500
Goodwill	75, 000	(75, 000)	-
Patent	180, 000	(25, 000)	155, 000
Trade receivables (RV)	120, 000	-	120, 000
Cash	125, 000	-	125, 000
Trade payables	<u>(100, 00)</u>		<u>(100, 000)</u>
	<u>800, 000</u>	<u>(200, 000)</u>	<u>600, 000</u>

*Shared on prorata basis.

Value to report in statement of financial position
 K600, 000, 000 will be reported.

SOLUTION FIVE

a)

Statement of profit or loss extract		
Fair value gain on investment property	4,000	
Depreciation expense	72	
Statement of Financial position		
Investment property	13,928	
	Land	Building
	K'000	K'000
Investment property at cost on 1.1.2018	3,000	7,000
Fair value gain	1,000	3,000
Fair value of propert at 30 June 2018	4,000	10,000
Depreciation expense (10,000/69.5 x 6/12)	-----	____(72)
Carring amount at 31 December 2019	<u>4,000</u>	<u>9,928</u>

Explanation

When transferring from Fair value model of IAS 40 to cost model, fair value gain is treated as per fair value model hence the taking to profit and loss of the gain of K4million.

b) Understandability

Taking into account that users have a reasonable knowledge of business and a willingness to study information with reasonable diligence, the financial statements should be prepared in such a way as to be easily understood by such users. This can be enhanced by avoiding use of words that are too technical and use of easy to follow presentations.

Comparability

Use of accounting methods/measurements should be consistent from one year to another or from one company to another whose results are subject to comparison. Inconsistent methods of accounting for similar transactions will render the financial results incomparable

Timeliness

Every time financial statements are to be prepared, they need to be prepared more quickly in good time for their use for specified decisions to be passed.

Verifiability

Financial statements need to be supported by written or verbal representation for them to be deemed valid and hence useful

c)

- i) Three conditions include:
 - Expenditure on the asset being constructed is being incurred
 - Borrowing costs are being incurred
 - Activities necessary to prepare the asset are in progress.
- ii) Investment income qualify to be deducted from borrowing costs eligible for capitalization if income is earned in the qualifying period of capitalization. However, if income is earned outside a qualifying period, it should be credited to profit and loss account.
- iii) Weighted average capitalization rate = $4(25/75) + 3(50/75)$
= $1.33 + 2 = 3.33\%$
K'000

$$3.33\% \times 10 \text{ million} \times 6/12 = 166.50$$

$$3.33\% \times 20 \text{ million} \times 4/12 = \underline{222.00}$$

$$\text{Total} = \underline{388.5}$$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 11 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – TWO COMPULSORY QUESTIONS

Attempt Both questions

QUESTION ONE

Three engineers (Manyando, Mapenzi and Mabvuto) from a reknown university have decided to form a company called 3M Limited. 3M Limited plans to manufacture a specialized electrical component mainly for the mining industry. This will require an investment of K162,500 on the first day of operation. They will also transfer fixed capital assets to the company which were a donation by an overseas company in a similar line of production.

The following information is available:-

1. The selling price per component has been set at K100 for the whole year and sales forecasts for the first four months are:-

	Month 1	Month 2	Month 3	Month 4
Sales (components)	1,500	1,750	2,000	2,100

20% of sales revenue for each month will be received within the month of sale while 45%, 25% and 5% will be received one month, two months and three months later respectively. The balance represents expected bad debts. There is a 2% discount given to customers for payment received in the month of sale.

2. No inventory of finished goods is expected on the first day of month 1 but after that it will be company policy to hold closing inventory equal to 20% of the following months forecast sales.

3. Variable production cost per component:-

Direct materials	3.8kg @ K5 per kg
Direct wages	3 hours @ K11 per hour
Variable production overhead	3 hours @ K4 per hour

4. 100% of the material required for production will be purchased in the month of production and no inventory will be held. These will be paid for in the month following purchase. 5% of total material is wasted in the production of the specialist electrical components.
5. Direct wages will be paid for in the month in which production occurs.
6. 40% of the variable production overheads will be paid one month later while the remainder will be paid in the month in which production occurs.
7. Fixed production overhead costs are estimated at K750,000 per annum and are expected to be incurred in equal amounts each month. 50% of the fixed production overhead costs will be paid in the month in which they are incurred and 40% in the following month, while the balance represents depreciation of fixed assets.

Required:

- (a) Prepare for each of the first three (3) months:
- | | | |
|-------|--------------------------|------------|
| (i) | Production budget | (3 marks) |
| (ii) | Raw material cost budget | (3 marks) |
| (iii) | Labour cost budget | (3 marks) |
| (iv) | Cash budget | (10 marks) |
- (b) Explain Zero Based Budgeting (ZBB) and outline two benefits of ZBB over incremental budgeting.
(6 marks)

[Total 25 marks]

QUESTION TWO

Top Quality Limited manufactures a high quality range of products under its own brand name. The company has been in operation for the past thirteen years.

Top Quality Limited has now received a special contract from Wada Limited a retail company for the supply of a customized product at a value of K6.38 per unit and allows it to be sold under Wada Limited brand as part of a one-off, three months promotion. To supply all of its customers during the three months promotion, Wada Limited requires 150,000 units of this product per month.

The following information relating to the supply of one unit of the customised product is available:

1. Material A, 0.25kg per unit. The current market value of material A is K12 per kg and it is not currently used by Top Quality Limited.
2. Material B, 0.5kg per unit. 25,000kg of material B is currently in inventory which was purchased a month ago at K2 per kg but its current market value is K2.40 per kg and top Quality Limited uses this material in its routine work.
3. Material C, 0.03kg per unit. Top Quality Limited currently has 14,000kg of material C in inventory bought a few months ago at K39.38 per 1.5kg. Material C can be purchased now at a price of K30.00 per kg. There is no more use for this material but can be sold for K20.00 per kg.
4. Fixed production overheads are applied to the product on the basis of machine hours. Total budgeted annual fixed overhead is K22,500 and machine hours are expected to be 200,000 hours. It is also estimated that each unit of the customized product requires a total of 12 minutes of machine time. Variable manufacturing overhead have been estimated at K0.60 per unit.
5. Each unit of the customized product supplied must have a Wada label. The labels cost K37,500 for a batch of 1,500,000 and if not used on this contract they would be scrapped.

6. Top Quality Limited will hire production machine for K75,000 per month for the duration of the contract.
7. Each unit of the customized product is packaged in a special box which Top Quality Limited purchases from suppliers in batches of 200,000 boxes for K180,000. These boxes are in constant use in the manufacture of various products.

Another specialized company in manufacturing customized products has offered to supply top Quality Limited with the required units of the special contract at K5.10 per unit. However, Top Quality Limited must provide the labels to the supplier and pay transport costs to bring the product to their factory for ultimate delivery to the client. Total transport costs are estimated to be K93,000.

Required:

- (a) Explain the following relevant costing terms giving an example for each one:
 - (i) Relevant cost
 - (ii) Sunk cost
 - (iii) Opportunity cost

(6 marks)
- (b) Calculate relevant amounts and advise top Quality Limited whether or not to outsource the special contract, purely on financial grounds.

(14 marks)
- (c) Discuss the importance of considering qualitative factors in relevant costing, giving two examples of such factors.

(5 marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions in this section. Attempt any two (2) questions.

QUESTION THREE

Just Leather Limited (JLL) manufactures and sells leather belts for children. The company's product has come under intense competition from imported leather belts from china resulting in significant adverse volume and profit variances. Just Leather Limited absorbs fixed production overheads using a plant-wide machine hour basis. However, actual machine hours have become less than budgeted machine hours due to a fall in production and sales volume as evidenced by the adverse volume variances.

As a response to the emerging competition, Just Leather Limited now produces customer specific belts and not standardized belts.

This has increased the product range and these varieties are sold in small quantities. The company's management accountant has for some time been advocating for the implementation of an activity based costing system as the products were unprofitable, but the managing director could not buy-in the idea. His argument has since been that the customer is always right and there would be no difference in cost between customer specific products and high sales volume standard products when they are all sold at the same price. The management accountant decided to resign a month ago due to frustration and a trainee management accountant has taken over the duties.

The trainee management accountant has prepared the following monthly report for one of the high volume standardized products and presented it at the last monthly executive management committee meeting.

	Budget	Actual	Variance
Production and sales (belts)	10,000	6,500	3,500(A)
	K	K	K
Sales revenue	450,000	260,000	190,000(A)
Cost of sales	(300,000)	(220,000)	80,000
Gross profit	150,000	40,000	110,000(A)
Selling and distribution	(90,000)	(56,000)	34,000(F)
Net Profit	<u>60,000</u>	<u>(16,000)</u>	<u>76,000(A)</u>

Before leaving, the management accountant had established that:

Variable cost of sales per unit equal K20

Total fixed selling and distribution cost per month equal K40,000

Required:

- (a) Prepare an appropriate budgetary control statement (10 marks)
- (b) Prepare a report on activity based costing (ABC) basis for the managing director at JLL that:
 - (i) Explains the distinction between traditional overhead absorption costing and ABC (3 marks)

- (ii) Describes the operation of an ABC system (6 marks)
 (iii) Outlines four benefits and two shortfalls of adopting ABC system (6 marks)
[Total 25 marks]

QUESTION FOUR

MKG Limited manufactures high quality coffee mugs which are sold in hotels, lodges and restaurants in Zambia. Most of the sales are on credit in order to increase demand.

A month ago, MKG Limited prepared a budget for the fourth coming financial year whose details are:-

	K	K
Sales revenue		900,000
Direct materials	312,000	
Direct labour	174,000	
Variable overheads	126,000	
Fixed overheads	<u>247,500</u>	
Total cost		<u>859,500</u>
Profit		<u>40,500</u>

Budgeted number of coffee mugs manufactured and sold, 8,000.

Due to changes in economic conditions, the sales forecast for the next year have now been revised to 7,200 mugs while unit selling price, direct costs and variable overhead remain unchanged. Fixed overheads will be the same as those budgeted.

Management are now considering a number of options so as to improve profitability and liquidity.

The managing director, chief accountant and chief internal auditor have agreed to seek the services of a factoring organization to improve the management of receivables.

Required:

- (a) Explain the steps that MKG Limited should take before the decision to factor debts is undertaken. (10 marks)
- (b) Calculate based on the forecast activity the:
- (i) Breakeven point
 (ii) Margin of safety and
 (iii) Sales revenue required to earn a profit of K49,860.00 (7 marks)
- (c) Management accountants provide information so that management can reach an informed decision. State the steps in the decision making process. (8 marks)
[Total 25 Marks]

QUESTION FIVE

Comfort Rest is a manufacturing company producing and selling two types of standardized mattresses; standard and luxury. The mattresses are produced in a single factory and supplied to different customers within the country.

Fixed production overheads are absorbed into the cost of each product on labour hour basis. Budgeted details of the two types of mattresses for Comfort Rest in 2018 were:

	<u>Luxury</u>	<u>Standard</u>
Sales volume (mattresses)	4,000	2,000
	K	K
Selling price per mattress	500.00	350.00
Direct cost per mattress:		
Material	195.00	110.00
Labour @ K8 per hour	80.00	40.00

Fixed overheads were budgeted at K750,000 and absorbed on the basis of the number of mattresses produced. No inventory of mattresses was planned for.

Actual results for 2018:

	<u>Luxury</u>	<u>Standard</u>
Sales volume (mattresses)	2,600	2,500
	K	K
Selling price per mattress	650.00	305.00
Direct cost per mattress:		
Material	290.00	75.00
Labour @ K8 per hour	73.60	38.40

Fixed overheads were K875,000 and all the mattresses for each type produced were sold.

Required:

- (a) Calculate the following variances:
- (i) Sales price, mix and quantity contribution variances (8 marks)
 - (ii) Labour rate and efficiency variances (3 marks)
- (b) Direct labour costs rose drastically with increased demand for the speciality skill skill required to produce the product and general market rate for labour was K13.50 per hour.
- (i) Calculate the labour rate planning and operation variances (4 marks)
 - (ii) Explain the relevance of calculating planning and operation variances. (3 marks)
- (c) Explain the changes in working practices that would be necessary for a JIT system to succeed. (7 marks)

[Total 25 marks]

END OF PAPER

DA9 MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Preparation of budgets:

(i) Production Budget

	Month 1	Month 2	Month 3
Sales forecasts	1,500	1,750	2,000
Closing inventory	350	400	420
Opening Inventory	<u>-</u>	<u>(350)</u>	<u>(400)</u>
Production (Components)	<u>1,850</u>	<u>1,800</u>	<u>2,020</u>

(ii) Raw Material Costs Budget

	Month 1	Month 2	Month 3
Production (Components)	1,850	1,800	2,020
D. Material per component	<u>3.8</u>	<u>3.8</u>	<u>3.8</u>
Material usage	7,030	6,840	7,676
Material wastage (5/95)	<u>370</u>	<u>360</u>	<u>404</u>
Material requirements	7,400	7,200	8,080
X Material cost per kg	<u>K 5</u>	<u>K 5</u>	<u>K 5</u>
Cost of material (K)	<u>37,000</u>	<u>36,000</u>	<u>40,400</u>

(iii) Labour Cost Budget

	Month 1	Month 2	Month 3
Production (Components)	1,850	1,800	2,020
X Labour hours per component	<u>3</u>	<u>3</u>	<u>3</u>
Labour hour 5	5,550	5,400	6,060
X Cost per labour hour	<u>11</u>	<u>11</u>	<u>11</u>
Cost of labour (K)	<u>61,050</u>	<u>59,400</u>	<u>66,660</u>

(iv) Cash Budget

	Month 1	Month 2	Month 3
	K	K	K
Cash sales (W1)	29,400	34,300	39,200
Credit sales (W1)	-	67,500	116,250
Cash inflows	<u>29,400</u>	<u>101,800</u>	<u>155,450</u>
Direct material (a(ii))	-	37,000	36,000
Direct wages (a(iii))	61,050	59,400	66,660
Variable overheads (W2)	13,320	21,840	23,184
Fixed production cost (W3)	<u>31,250</u>	<u>56,250</u>	<u>56,250</u>
Cash out flows	<u>105,620</u>	<u>174,490</u>	<u>182,094</u>
Net cashflows	(76,220)	(72,690)	(26,644)
Opening balance (investment)	<u>162,500</u>	<u>86,280</u>	<u>13,590</u>
Closing balance	<u>86,280</u>	<u>13,590</u>	<u>(13,054)</u>

Working 1

Sales receipts

	Month 1	Month 2	Month 3
Sales units	1,500	1,750	2,000
x Selling price (K)	<u>100</u>	<u>100</u>	<u>100</u>
Sales revenue (K)	150,000	175,000	200,000
Receipts:			
Cash sales (20% x 98%)	<u>29,400</u>	<u>34,300</u>	<u>39,200</u>
Credit sales:			
A month later (45%)	-	67,500	78,750
Two months later (25%)	<u>-</u>	<u>-</u>	<u>37,500</u>
	<u>-</u>	<u>67,500</u>	<u>116,250</u>

Working 2

Variable overheads

	Month 1	Month 2	Month 3
Production (components)	1,850	1,800	2,020
x Variable overhead per component (K)	<u>12</u>	<u>12</u>	<u>12</u>
Variable overhead	<u>22,200</u>	<u>21,600</u>	<u>24,240</u>
Paid in a month (60%)	13,320	12,960	14,544
Paid a month later (40%)	<u>-</u>	<u>8,880</u>	<u>8,640</u>
	<u>13,320</u>	<u>21,840</u>	<u>23,184</u>

Working 3

Fixed production overheads

	Month 1	Month 2	Month 3
	K	K	K
Monthly overhead (K750,000/12)	<u>62,500</u>	<u>62,500</u>	<u>62,500</u>
Paid in a month (50%)	31,250	31,250	31,250
Paid a month later (40%)	<u>-</u>	<u>25,000</u>	<u>25,000</u>
	<u>31,250</u>	<u>56,250</u>	<u>56,250</u>

- (b) Zero Based Budgeting is a different approach from conventional budgeting (incremental budgeting). It requires activities to be re-evaluated each time a budget is produced. Each functional budget is prepared on the basis that each cost element is justified as though the activities were occurring for the first time. No item of expenditure is included in the budget without full prior evaluation and justification. Zero based budgeting attempts to eliminate unnecessary expenditure being retained in incremental budgets from year to year.

Advantages of Zero Based Budgeting:

- It eliminates unnecessary expenditure being retained in budgets
- It allows questions to be asked by managers before committing funds and not afterwards as in traditional budgeting
- It focuses attention on achieving value for money
- It leads to a greater understanding of the workings of the organization by management
- If properly implemented, it leads to a more efficient allocation of scarce resources in an organization.

SOLUTION TWO

(a) Explanation of the following relevant costing terms:

(i) Relevant Cost

A Relevant Cost is a future incremental cash flow arising as a direct consequence of a decision. It is a cost specifically relating to a particular decision or that will be changed by a particular decision. For example, the cost of hiring a production machine by top Quality Limited.

(ii) Sunk Cost

These are costs already incurred as a result of a decision made in the past and which cannot be changed by any decision that will be made in the future. For example the K39.35 price paid per 1.5kg of material C in inventory purchased some months ago.

(iii) Opportunity Cost

It is the financial benefit sacrificed when one course of action is chosen in preference to the next best option forgone. This arises when the choice of one action requires that another course of action may not be taken-up e.g. Producing special contract in-house deprives Top Quality Limited the benefit of selling material C at K20.00 per kg.

(b) Relevance of Cost Making

	K
Material A: 0.25kg @ K12 x 450,000	1,350,000
Material B: 450,000 x 0.5kg @ K2.40	540,000
Material C: 13,500 kg @ K20 (Opportunity cost)	270,000
Fixed production overhead	-
Variable overhead: 450,000 units x K0.60	270,000
Labels cost	37,500
Machine hire (75,000 x 3)	225,000
Packaging costs (450,000/200,000 x K180,000)	<u>405,000</u>
Relevant cost of making	<u>3,097,500</u>

Relevant Cost of Buying

	K
Sub-contractor cost (450,000 units x K5.10)	2,295,000
Label costs	37,500
Transport cost	<u>93,000</u>
Relevant cost of buying	<u>2,425,500</u>

Top quality Limited should outsource the special contract for a total cost of K2,425,500 compared to internal manufacturing at a cost of K3,097,500 This will result in a saving of K672,000.

(c) Having prepared financial calculation to assess the viability of a particular decision or project, it is vital to examine non-financial or qualitative factors before making a final decision.

Qualitative factors are those issues that cannot be expressed in monetary terms. Examples of qualitative factors include; the effect on staff morale of making a

particular decision, the effect of the decision on the quality of the product produced or service provided.

In the case of Top Quality Limited, outsourcing the special contract should only be taken after considering factors such as supplier delivering time, possible effect on customer goodwill and any legal issues that need to be examined.

Generally, qualitative factors needs to be taken into account in the decision making process to avoid the danger of making a wrong decision.

SOLUTION THREE

(a) Budgetary Control Statement

	Original <u>Budget</u>	Flexible <u>Budget</u>	Actual <u>Results</u>	Variances
Production and sales units	10,000 K	6,500 K	6,500 K	- K
Sales revenue	450,000	292,500	260,000	32,500 (A)
Cost of sales	<u>300,000</u>	<u>230,000</u>	<u>220,000</u>	<u>10,000 (F)</u>
Gross profit	150,000	62,500	40,000	22,500(A)
Selling and distribution	<u>90,000</u>	<u>72,500</u>	<u>56,000</u>	<u>16,500 (F)</u>
Net Profit	<u>60,000</u>	<u>(10,000)</u>	<u>(16,000)</u>	<u>6,000 (A)</u>

Workings:

Budget cost allowance calculations

- Cost of sales

	K
Total budgeted cost	300,000
Variable cost (10,000 x K20)	(200,000)
Fixed cost	<u>100,000</u>

Budget cost allowance = K100,000 + (6,500 x K20)
= K230,000
- Selling and distribution

Variable cost per unit $\frac{[90,000 - 40,000]}{10,000 \text{ units}} = \text{K5}$

Budget cost allowance = (40,000 + (6,500 x 5))
= K72,500
- Budget sales = $\frac{450,000}{10,000} \times 6,500$
= K292,500

(b) Report

To: Managing Director - Just Leather Limited
From: Management Accountant
Subject: Activity Based Costing
Date: June 2019

Further to your request for assistance, the information regarding activity based costing (ABC) is provided below. Firstly the report distinguishes between traditional overhead absorption costing and activity based costing. Next it describes the operation of activity based costing and finally it presents the advantages and disadvantages of activity based costing.

Distinction between traditional overhead absorption costing and activity based costing

Both traditional overhead absorption and activity based costing use a two stage allocation process and the main differences between the two costing methods occur in this process.

Traditional overhead absorption costing assigns overheads to production and service departments while activity based costing assigns overheads to each major activity.

Traditional overhead absorption costing traces overheads to products by applying overhead absorption rates calculated using a small number of allocation bases. Activity based costing identifies the drivers of cost for each activity and hence may use many different 'cost drivers' to allocate costs to products.

The operation of activity based costing

Activity based costing involves a number of stages as follows:

1. The activities that cause overheads to be incurred are identified
2. Costs are accumulated (or pooled) based on these activities
3. The factors that cause the cost of each activity to arise (or change) are selected. These are called 'cost drivers'. The total quantity (or volume) of each cost driver is established and each activity overhead cost is divided by this cost driver total to obtain an activity cost per cost driver.
4. Activity overhead are assigned to products based on the usage of the activity and the activity cost per cost.

Benefits and shortfalls of activity based costing (ABC)

Benefits of ABC

1. ABC will provide more realistic product costs for Just Leather Limited
2. ABC will allow more overheads to be traced to the products
3. ABC recognizes that it is activities which cause cost not products and it is products which consume activities.
4. ABC focuses attention on the real nature of cost behaviour and will help Just Leather Limited to reduce costs and identify activities which do not add value to the products.

5. ABC recognizes the complexity and diversity of modern production by the use of multiple cost drivers, many of which are transaction based rather than based on production volume.
6. ABC provides useful financial measures (e.g. Cost driver rates) and non-financial rates (e.g. Transaction volumes).

Shortfalls of ABC

1. A full ABC system with numerous cost pools and multiple cost drivers is understandably more complex than traditional systems and will thus be more expensive for Just Leather Limited to develop and administer.
2. The company may experience difficulty in selecting appropriate cost drivers.
3. If there are overhead costs in Just Leather Limited that are common across activities there will be problems in deciding how to split these costs accurately between activities.

Should you require clarification or explanation in relation to the matters noted in this report, or any requirement and assistance further, I will be happy to assist you.

Signed
A/Management Accountant

SOLUTION FOUR

- (a) The decision to factor the debts should only be taken once a wide ranging assessment of the benefits and costs of doing so has been carried out. This involves the following steps:

Finding a factor

This is an organization providing factoring services. It could be the firm's own bankers or specialist agencies available to do the job.

Assessment of services provided

Factors take on the responsibility of collecting the client firm's debts. These may be in a number of ways;

- (i) With recourse factoring – the factoring organization undertakes to collect the debts and offer an advance e.g. 80% the debt with the remainder paid over once cash is received from customer. In an event that debt cannot be collected, factor can claim the advance from the client.
- (ii) No recourse factoring – the factoring organization undertakes to pay the debts, but cannot claim the advance back from the client if its debt does not prove collectable.
- (iii) The factor may purchase a number of invoices at a substantial discount but not responsible for the client's overall credit administration.

Assessment of the factoring costs

These are usually calculated as a percentage of the book value of the debts factored; for example, if a factor took over K500,000 of debt at a factor cost of 1.5%, the client would pay a fee of K7,500. An interest on the advance may also be charged. Other costs such as interest on overdraft may also be included.

Alternative to factoring

It is also important to consider factoring alternative before a final decision is made such as: Introduction of settlement discounts, use of credit insurance, stronger credit policy and possibly appointing more credit control staff.

This will help to ascertain the cheaper strategy in the long-run

(b)

	<u>Contribution per unit</u>	
	Total	Per unit
	7,200	
	K	K
Sales revenue	900,000	112.50
Less variable costs:		
Direct materials	312,000	39.00
Direct labour	174,000	21.75
Variable overheads	<u>126,000</u>	<u>15.75</u>
Contribution	<u>288,000</u>	<u>36.0</u>
(i) Breakeven point	=	<u>K247,500</u>
		36
	=	<u>6,875 mugs</u>

$$\text{Breakeven point (Revenue)} = 6,875 \text{ mugs} \times \text{K}112.50 = \underline{\underline{\text{K}773,437.50}}$$

$$\begin{aligned} \text{(ii) Margin of safety} &= \frac{\text{Budgeted sales} - \text{Breakeven sales}}{\text{Budgeted sales}} \times 100\% \\ &= \frac{7,200 - 6,875}{7,200} \times 100\% \\ &= \underline{\underline{4.51\%}} \end{aligned}$$

$$\begin{aligned} \text{(iii) Sales revenue required to earn K}49,860 \text{ profit} & \\ &= \frac{\text{K}49,860 + \text{K}247,500}{36} \times \text{K}112.50 \\ &= \underline{\underline{\text{K}929,250}} \end{aligned}$$

(c) Steps in the decision making process

1. Identify goals, objectives or problems
2. Identify alternative solutions/opportunities which might contribute towards achieving the goal or alleviating the problems.
3. Collect and analysis relevant data about each alternative
4. Make the choice/decision. Also state the expected outcome and check that the expected outcome is in line with overall goals.
5. Implement the decision
6. Obtain data about the actual results
7. Compare actual results with the expected outcome and evaluate the achievements
8. Take corrective action, as necessary, to bring actual results into line with the expected outcome.

SOLUTION FIVE

(a) (i) Variance calculations

Sales price variance

	Luxury K	Standard K
Actual sales units should sale (2,600 x K500/2,500 x K350)	1,300,000	875,000
But did sale (2,600 x K650/2,500 x K305)	<u>1,690,000</u>	<u>762,500</u>
Sales price variance	<u>390,000(F)</u>	<u>112,500(A)</u>
Total sales price variances	<u>K277,500 (F)</u>	

Sales mix contribution variance

Product	Actual in Actual mix (mattresses)	Actual in Standard mix (mattresses)	Variance (mattresses)	Standard Contribution K	Mix Variance K
Luxury	2,600	3,400	-800	225	180,000(A)
Standard	<u>2,500</u>	<u>1,700</u>	<u>800</u>	<u>200</u>	<u>160,000(F)</u>
Total	<u>5,100</u>	<u>5,100</u>	<u>-</u>	<u>-</u>	<u>20,000(A)</u>

Standard contribution per unit

	Luxury K	Standard K
Selling price	500	350
Direct material	(195)	(110)
Direct labour	(80)	(40)
Contribution	<u>225</u>	<u>200</u>

Sales quantity contribution variance

Product	Standard in Standard mix (Units)	Actual in Standard mix (Units)	Variance (Units)	Standard Contribution K	Quantity Variance K
Luxury	4,000	3,400	(600)	225	135,000(A)
Standard	<u>2,000</u>	<u>1,700</u>	<u>300</u>	<u>200</u>	<u>60,000(A)</u>
Total	<u>6,000</u>	<u>5,100</u>	<u>900</u>	<u>-</u>	<u>195,000(A)</u>
Sales quantity contribution variance			=		<u>K195,000(A)</u>

(ii)	Actual labour hours worked:	Hours
	Luxury mattress (2,600 x 73.6/8) =	23,920
	Standard mattress (2,500 x 38.4/8) =	<u>12,000</u>
		<u>35,920</u>

Labour rate variance:	K
35,920 hours should cost (x K8)	287,360
But did cost (35,920 hrs x K8)	<u>287,360</u>
	Nil

Labour efficiency variance			
		Luxury	Standard
Actual output should take (2,600 x 10/2,500 x 5)		26,000	12,500
But did take		<u>23,920</u>	<u>12,000</u>
Efficiency variance in hours		2,080(F)	500(F)
x Standard labour rate		<u>K 8</u>	<u>K 8</u>
Labour efficiency variance		K16,640(F)	K
4,000(F)			
	Total labour efficiency variance		<u>K20,640 (F)</u>

(b)	(i)	Labour rate operational variance	
			K
		Actual hours at revised rate (35,920 hrs x K13.5)	484,920
		Actual hours at actual rate (35,920 hrs x K8)	<u>287,360</u>
		Labour rate operational variance	<u>197,560(F)</u>
		Labour rate planning variance	K
		Revised: 35,920 hours should cost (x K13.5)	484,920
		Original: 35,920 hours should cost (x K8)	<u>287,360</u>
		Planning rate variance	<u>197,560(A)</u>

(ii) Relevance of calculating planning and operation variances:

A variance analysis system as a planning, control and performance measurement system should be able to highlight areas in need of improvement and areas of efficiently performing.

Unlike, the tradition of variance analysis systems, calculating planning and operational variances help to indicate the efficiency with which a company operated during a given period. It enables management have an insight into whether some of the variances arose as a result of inappropriate standards (planning variances) and cannot be controlled at operational management level or whether they were due to efficient or insufficient in implementation of those standards (operational variances) which is fully controllable at operational level.

(c) If Comfort Rest were to adopt a JIT system, it would be necessary to reduce the number of suppliers for their raw materials and just focus on those that are most

reliable and with the companies proximity enabling them to respond quickly to the company's needs.

There is need to develop good co-ordination of activities between different points of the production process and internal communications between production and sales department to improve awareness in the production department of what the customers' requirements are and delivery dates.

The company needs to introduce a number of quality control measures such as control checks on raw materials, production processes and finished items. This will ensure a 100% quality throughout its production process as there would be no inventory of materials to use in an emergency.

Agreement with material suppliers should focus much more on material quality delivery reliability and flexibility rather than price.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 10 TAXATION

THURSDAY 13 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

Taxation table for paper DA10 – Taxation (June and December 2019 Examinations)

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K39,600	first K39,600	0%
K39,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400		37.5%

Income from farming for individuals

K1 to K39,600	first K39,600	0%
Over K39,600		10%

Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%

Capital Allowances

Implements, plant and machinery and commercial vehicles:

Wear and Tear Allowance – Plant used normally	25%
Used in Manufacturing and Leasing	50%
Used in farming and agro-processing	100%

Non- commercial vehicles

Wear and Tear Allowance	20%
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Industrial Buildings:

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

Low Cost Housing (Cost up to K20,000)

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%
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Farming Allowances

Development Allowance	10%
Farm Works Allowance	100%
Farm Improvement Allowance	100%

Presumptive Taxes

Turnover Tax	4%
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Presumptive Tax for Transporters

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	10
From 12 to 17 passengers	1,800	5.0
Less than 12 passengers and taxis	900	2.50

Property Transfer Tax

Rate of Tax on Realised Value of Land, Land and Buildings and shares	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%
Rate of Tax on Realised Value on a transfer of Intellectual Property	5%

Value Added Tax

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

Customs and Excise**Customs and Excise duties on used motor vehicles**

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0

Sitting capacity exceeding 44 persons	108,121	0	43,248	0
	Aged 2 to 5 years		Aged over 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		Aged over 5 years	
Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801

GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	30,697	13,302	24,119	10,452
Panel Vans				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, with spark ignition internal combustion piston engine	37,086	28,432	13,907	10,662

Customs and excise duty on new vehicles

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

Customs duty:	30%
Excise duty:	
Cylinder capacity of 1500 cc and less	20%
Cylinder capacity of more than 1500 cc	30%
- 2 Pick-ups and trucks/lorries with gross weight not exceeding 20 tonnes:

Customs duty	15%
Excise duty	10%
- 3 Buses/coaches for the transport of more than ten persons

Customs duty:	15%
---------------	-----

- Excise duty:
- | | |
|---|-----|
| Seating capacity of 16 persons and less | 25% |
| Seating capacity of 16 persons and more | 0% |
- 4 Trucks/lorries with gross weight exceeding 20 tonnes
- | | |
|---------------|-----|
| Customs duty: | 15% |
| Excise duty: | 0% |
- 5 The minimum amount of customs duty on motor vehicles is K6,000.
- 6 Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

SECTION A

Attempt BOTH questions in this section

QUESTION ONE

The following extract of the statement of profit or loss has been obtained from the financial statements of ZewelANJI plc, a company engaged in manufacturing, for the year ended 31 December 2019:

	<i>Note</i>	K	K
Gross profit			8,212,000
Income from investments:			
Profit on sale of pool car		5,000	
Rental income (gross)		260,000	
Dividends (gross)		225,000	
Bank interest (gross)		<u>40,000</u>	
			<u>530,000</u>
			8,742,000
Expenses:			
Depreciation		450,000	
Loss on disposal of office furniture		22,000	
Allowance for receivables	1	375,000	
Premium paid	2	144,000	
Entertainment expenses	3	216,000	
Legal fees	4	531,500	
Donations	5	1,565,000	
General operating expenses	6	<u>5,838,500</u>	
			<u>(9,142,000)</u>
Loss before taxation			<u>(400,000)</u>

The following additional information is available:

Note1. Allowance for Receivables

	K		K
Trade debts written off	185,000	Balances b/f	
Loans to suppliers written off	70,000	- Specific provision	160,000
Loans to employees written off	130,000	- General provision	210,000
		Trade debts recovered	115,000
Balances c/d		Supplier's loans previously written off now recovered	30,000
- Specific provision	115,000	Profit or loss	<u>375,000</u>
- General Provision	<u>390,000</u>		<u>890,000</u>
	<u>890,000</u>		

Note2. Premium paid

The company obtained a right for the use of a trade mark on 1 January 2019. The company paid a premium of K144,000 as consideration for the grant of the right. The right will be exploited by the company over a 40-year period.

Note3. Entertainment expenses

This includes the following:

	K
Entertaining suppliers	153,000
Gifts to customers of food and drinks costing K50 per customer	<u>63,000</u>
	<u>216,000</u>

Note4. Legal fees

Legal fees were in connection with the following:

	K
Fees for renewal of leases of land	45,000
Fees in connection with acquisition of non-current assets	65,000
Legal fees in connection with debt collection	<u>55,000</u>
	<u>165,000</u>

Note5. Donations

Donations include donations to political parties of K815,000 and donations to approved public benefit organisations of K750,000.

Note6. General operating expenses

These consist of miscellaneous operating expenses which are all allowable for tax purposes.

	K
Salaries and wages	2,108,500
Advertising and marketing	75,000
Insurance	45,000
Audit and accountancy expenses	155,000
VAT penalties	17,600
General allowable business expenses	<u>3,437,400</u>
	<u>5,838,500</u>

Note7. Directors' accommodation

The company provided free residential accommodation to the following directors throughout the tax year 2019. The following information is available:

	Director's taxable emoluments	Market value of house
	K	K
Managing Director	840,000	2,500,000
Human Resources Director	600,000	1,600,000

Note8. Provisional Income Tax

The amount of company income tax paid under the provisional income tax system for the tax year 2019 was K91,975.

Note9. Buildings

The company constructed a building during the tax year 2019, which was brought into use on 1 July 2019. The construction cost of the building which amounted to K2,600,000 was made up of the following items:

	K
Land	600,000
Staff canteen	300,000
Factory	950,000
Administration offices	<u>750,000</u>
Total cost	<u>2,600,000</u>

Note10. Implements, plant and machinery

At 1 January 2019, implements, plant and machinery qualifying for capital allowances included manufacturing equipment with an income tax value of K250,000 (acquired at a cost K500,000), office furniture with an Income Tax value of K60,000 (acquired at a cost of K120,000) and a pool car with an Income tax value of K20,000 (acquired at cost K100,000).

Transactions in the year ended 31 December 2019 were as follows:

Date	Disposals	Proceeds K
10 March 2019	Disposal of office furniture	50,000
20 April 2019	Disposal of pool car	35,000

Date	Purchases	Cost K
25 March 2019	Purchase of Toyota Fortuner car (3000cc)	360,000
30 June 2019	Purchase of Delivery truck	660,000
30 June 2019	Construction of new manufacturing plant	920,000

The Toyota Fortuner car is used on a person to holder basis by the Managing Director whose private use of the car is 40%.

Required:

- (a) Prepare a computation of the company's capital allowances for the tax year 2019 in respect of:
- (i) Buildings (5 marks)
 - (ii) Implements, plant and machinery (6 marks)
- (b) Calculate the tax adjusted business profit for ZewelANJI plc for the tax year 2019. You should start with the loss before taxation figure of K400,000. (12 marks)

(c) Calculate the Company income tax payable by ZewelANJI plc for the tax year 2019.

(2 marks)

[Total: 25 Marks]

QUESTION TWO

(a) The tax system of any country in the world must have certain properties which are common to all tax systems.

Required:

Explain any three (3) of such properties or qualities of a tax system. (3 marks)

(b) In Zambia, for any individual to be chargeable to taxation, one must be a Zambian resident in any tax year.

Required:

Explain the criteria used to establish whether an individual is resident in Zambia for taxation purposes. (2 marks)

(c) Bwezani Sakala has been an employee of Kasempa Ltd as an electrical engineer on a three year renewable contract. This was his third contract in the same company.

His monthly salary is K24,800. Bwezani is married and has four (4) school going children.

He was also entitled to the following allowances in the tax year 2019:

	K
Fuel allowance per week	280
Servant allowance per month	1,500
Medical allowance per year	8,000
Education allowance per month per child	900
Housing allowance per month	4,600
Entertainment and subsistence allowance per month	1,200
Utility allowances per month	800

The working days and weeks in the year were two hundred and ninety days (290) while the weeks were fifty (50).

Bwezani was also entitled to three (3) leave days in a month and the leave rate was K70 per day. He never went on leave throughout the year and he decided to commute his leave days for cash. The company paid him a bonus of K7,000 for his hard work that enabled the company to make an extra increase in profit of 15% above the target .

On 1 November 2019 the company accommodated him in a company owned house that was occupied by a manager who retired and was paid full benefits and the company immediately stopped paying him housing allowance.

In the last two months of the tax year 2019, the company paid on behalf of Bwezani ancillary services for his new home amounting to K10,500.

Whilst in employment Bwezani used his own personal car 80% for company business. The company was waiting for brand new cars it had ordered in the tax year 2019. These cars had not yet come by the end of the tax year 2019. The cost of Bwezani's motor car was K106,250.

Bwezani made the following payments in the tax year 2019:

	K
Subscription to the institute of electrical engineers	2,700
Donations to an approved public benefit organisation NAPSA	6,600
School fees for his children	9,400
Subscription to golf club	15,000
Fuel costs from home to work	2,300
Lodging and meals while on duty in another town	5,200
Tax already paid under pay as you earn system	3,800
Motor car repairs	104,400
	3,825

In addition to the above income and payments Bwezani Sakala also had received in the tax year 2019, the following investment income:

	K
Royalties (Net)	59,500
Gaming /betting and winnings (gross)	10,000
Bank deposit interest (gross)	6,500
Dividends from a non-mining company (net)	8,500

Required:

Prepare a computation of income tax payable by Bwezani Sakala for the tax year 2019.

(20 marks)
[Total: 25 marks]

SECTION B

There are **THREE (3)** questions in this section. Attempt any **TWO (2)** question.

QUESTION THREE

- (a) Property transfer tax is chargeable on the realized value whenever there is a transfer of property.

Required:

- (i) Describe any three (3) properties on which property transfer tax (PTT) is charged. (3 marks)
- (ii) Explain how the realised value for the properties described above is determined. (4 marks)
- (iii) Explain what is meant by a transfer for the purposes of property transfer tax and state the due date for payment of property transfer tax. (3 marks)
- (b) Mulubwa, a Zambian resident, had the following transactions in the tax year 2019:
- (1) In March 2019, He sold his house for K620,000. The market value of the house was determined to be K540,000 by the Government valuations department. Mulubwa paid fees amounting to 1% of the sale proceeds for the valuation services.
- (2) In April 2019, he bought a house in a medium cost area for K350,000 from Andrew. The open market value was determined to be K360,000. The professional and legal costs incurred amounted to K5,400.
- (3) In June 2019, he sold 2,400 shares held in M plc, a public limited company, for K50 per share. The open market value, calculated using approved share valuation methods, was K52 per share. Mulubwa bought these shares ten (10) years ago at a cost of K32 per share.
- (4) In August 2019, he sold two (2) motor vehicles for K45,000 each. The motor vehicles were valued at K48,000 each by the engineers.
- (5) In October 2019, he sold 1,200 shares he held in X ltd, a private limited company, for K70 per share. The open market value was determined to be K72 per share.

Required:

Calculate the property transfer tax paid by Mulubwa on each of the above transactions and give reasons (5 marks)

- (c) Explain any four (4) persons who are not required to pay turnover tax. (4 marks)
- (d) Explain any four (4) benefits of presumptive taxes for transporters have over the regular assessed system. (4 marks)
- (e) Explain the difference between progressive taxes and regressive taxes.

(2 marks)

[Total: 25 marks]

QUESTION FOUR

- (a) Kabuswe Ltd is a VAT registered business dealing in both taxable and exempt supplies. The following transactions took place during the month of December 2019:

- (i) sales revenue was as follows:

	K
Standard-rated sales	600,000
Zero-rated sales	300,000
Exempt sales	<u>100,000</u>
	<u>1,000,000</u>

- (ii) Purchases comprised of the following:

	K
Standard-rated purchases	212,000
Zero-rated purchases	68,000
Exempt purchases	<u>40,000</u>
	<u>320,000</u>

- (iii) Operating expenses, which are all VAT inclusive, comprised of the following:

	K
Entertaining customers	29,696
Entertaining suppliers	75,400
Diesel	53,244
Petrol	20,253
Motor vehicle servicing and repairs	27,840
General overheads	<u>331,064</u>
	<u>537,497</u>

Operating expenses were incurred in making both taxable and exempt supplies in the proportional of sales.

- (iv) The company bought a delivery van at a cost of K101,152 (VAT inclusive), a Toyota Prado car at a cost of K139,664 (VAT inclusive) and equipment at a

cost of K52,896 (VAT inclusive). All non-current assets are used 60% in making taxable supplies and 40% in making exempt supplies.

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

Required:

Calculate the Value Added Tax payable by the company for the month of December 2019. You should clearly indicate using zero (0) for each expense where input VAT is irrecoverable. (13 marks)

- (b) Jack imported a brand new 3,200 cc Land Rover car at a cost of \$6,500. He paid insurance and freight charges up to the port of Dar es Salam amounting to \$1,800 and \$2,100 respectively. He paid further insurance and transportation costs from the port of Dar-es - lam to Nakonde border post amounting to \$400 and \$320 respectively. Incidental cost incurred to transport the vehicle from Nakonde to Lusaka amounted to \$750. Motor vehicle registration amounted to \$200.

Jack paid for the motor vehicle at an exchange rate of K8.10 per US\$1 which he agreed with the bank in a forward contract. The bank of Zambia exchange rate averaged K8.75 per US\$1 at the time the motor vehicle was imported, which was approved by the Commissioner General.

Required:

- (i) Calculate the total amount of import taxes paid by Jack on the importation of the motor vehicle. (8 marks)
- (ii) Explain the functions of the customs services division of the Zambia Revenue Authority. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) **Mwendalubi**

Mwendalubi has been in business for quite some time. She had been preparing accounts annually to 31 December and paying all the relevant taxes.

In the tax year 2019, she bought two (2) Rosa buses that carry 30 passengers and six (6) Toyota corolla motor cars for use in the public passenger transportation business. The sitting capacity for each motor car is five passengers including the driver and the cost of each, car was K45,000.

Each Rosa bus cost K180,000 and will earn K2,000 per day for three working days per week, for four weeks per month, throughout the tax year 2019.

Each car will earn K120 per day, for six working days per week, for four weeks per month, throughout the tax year 2019.

Mwendalubi will employ eight drivers, two for the Rosa busses and six for the motor cars. Rosa bus drivers will receive an all-inclusive salary of K10,000 per month each while taxi drivers will receive a salary of K6,000 per month all inclusive. Rosa buses running expenses will average K20,000 per month per bus. The car running expenses will average K850 for each car per month. Each driver will make a NAPSA contribution of 5% of their salary and Mwendalubi will also contribute 5% of each driver's salary to NAPSA as employer's contribution.

Required:

Calculate the total amount of presumptive taxes Mwendalubi will pay for the tax year 2019. (4 marks)

(b) **Clive Mambwe**

Mr. Clive Mambwe is self-employed. He has been running a business which is located in one of the main trading areas of Ndola. In his business he has been dealing with phone accessories and also motor vehicle spare parts. He always prepares accounts to 31 December each year and for the year ended 31 December 2019, his statement of profit or loss was as follows:

	K	K
Gross profit		536,000
Less expenses:		
Depreciation	10,900	
Electricity (note 1)	5,860	
Water (note 1)	3,080	
Motor car running expenses (note 2)	9,160	
Wages and salaries (note 3)	170,000	
Sundry expenses (note 4)	<u>8,740</u>	
		<u>(207,740)</u>
Net profit		<u><u>328,260</u></u>

Additional information:

Note 1 – Private accommodation

25% of the expenditure on electricity and water relates to the private accommodation.

Note 2 – Motor Car running expenses

During the year ended 31 December 2019, Clive drove a total of 48,000, kilometres of which it has been agreed with the Commissioner General that 36,000 kilometres were for business purposes.

Note 3 – Wages and salaries

Included in the figure for wages and salaries of K170,000 is the annual salary of K25,000 paid to Clive and also K24,000 paid to Clive's daughter who works full time in her father's business while all other employees earn K19,200.

Note 4 – Sundry expenses

Included in the figure for sundry expenses of K8,740 is a fine of K2,500 for breach of safety regulations. The theft of cash by an employee amounted to K500, a donation to a political party of K1,800 and a subscription to a trade associate of K1,900.

Note 5 – Goods taken for personal use

Clive in each week withdrew goods from the business for personal and family use without making payments for them. He has estimated that the weekly drawings have an average of K150. His gross profit is 25% of cost of sales.

Note 6 – Capital allowances

Clive owns a personal Motor Car which he sometimes uses for business purposes. On 1 January 2019, the motor car had an income tax value of K15,000. The motor car was acquired for K25,000. The other capital allowances on his assets amounted to K18,400.

Note 7- Other Income

During the tax year 2019, Clive received investment income which has not been recorded in the statement of profit or loss shown above which included royalties of K51,000, dividends from Zambian companies of K5,510, betting and gaming winnings K12,000, and debenture interest of K15,600. These figures represent the actual cash received by Clive.

On 1 July 2019, Clive also received income from part-time lecturing of K100,500 gross (PAYE of K16,700 was deducted by his employer).

Note 8- Provisional income tax

For the tax year 2019, Clive's provisional Income tax payments totaled K44,500.

Required:

- (i) Calculate Clive's taxable business profit for the year ended 31 December 2019. (9 marks)
- (ii) Calculate Clive's final amount of income tax payable for tax year 2019. (9 marks)
- (iii) State the due date for payment of income tax calculated in part (b) (ii) above and the due date for submitting the self-assessment income tax return for the tax year 2019. (1 mark)

- (iv) Assuming that Clive submitted his self-assessment income tax return for 2019 three months after the due date, calculate the amount of penalty and interest that would be charged. You should assume that the Bank of Zambia discount rate is 11% per annum.

(2 marks)

[Total: 25 marks]

END OF PAPER

DA 10 SOLUTIONS

SOLUTION ONE

(a) (i) CAPITAL ALLOWANCES ON BUILDINGS

	K	
Total cost	2,600,000	
Less cost of land	<u>(600,000)</u>	
Potential qualifying cost	<u>2,000,000</u>	
 10% x K2,000,000		 <u>200,000</u>

The cost of the administration buildings of K750,000 exceed the above amount and will therefore not be classified as industrial buildings.

(1 mark)

COMPUTATION OF CAPITAL ALLOWANCES

	K	
<u>Staff Canteen</u>		
Initial allowance (K300,000 x 10%)	30,000	
Investment allowance (K300,000 x 10%)	30,000	
Wear and tear allowance (K300,000 x 5%)	15,000	
 <u>Factory</u>		
Initial allowance (K950,000 x 10%)	95,000	
Investment allowance (950,000 x 10%)	95,000	
Wear and tear allowance (950,000 x 5%)	47,500	
 <u>Administration building</u>		
K750,000 x 2%	<u>15,000</u>	
		<u>327,500</u>

(ii) COMPUTATION OF CAPITAL ALLOWANCES ON IMPLEMENTS PLANT AND MACHINERY

	K	
<u>Manufacturing equipment</u>		
Wear & Tear allowance (K500,000 x 50%)	250,000	
 <u>Office furniture</u>		
Balancing allowance (K60,000 – K50,000)	10,000	
 <u>Pool car</u>		
Balancing charge (K20,000 – K35,000)	(15,000)	
 <u>Toyota Fortuner</u>		
Wear and tear allowance (K360,000 x 20%)	72,000	

<u>Delivery Truck</u> Wear and tear allowance (K660,000 x 25%)	165,000
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<u>Manufacturing plant</u> Wear and tear allowance K920,000 x 50%	<u>460,000</u> <u>942,000</u>
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(b) COMPUTATION OF TAXABLE PROFIT FOR THE TAX YEAR 2019

	K	K
Loss before taxation		(400,000)
<i>Add:</i>		
Depreciation	450,000	
Loss on sale of office furniture	22,000	
Increase in general provision	180,000	
Loans to suppliers written off	70,000	
Loans to employees written off	130,000	
Premium paid [K144,000 – (144,000/40)]	140,400	
Entertaining suppliers	153,000	
Gifts to customers	63,000	
Legal fees – acquisition of fixed assets	65,000	
Political donations	815,000	
VAT penalties	17,600	
Accommodation benefit		
- Managing Director (K840,000 × 30%)	252,000	
- Human Resources Director (K600,000 × 30%)	180,000	
Personal to holder motor car benefit	<u>40,000</u>	
		<u>2,578,000</u>
		(2,178,000)
<i>Less:</i>		
Profit on sale of pool car	5,000	
Dividends	225,000	
Rental income	260,000	
Bank interest	40,000	
Supplier's loans recovered	30,000	
Capital allowances on implements plant and machinery (a)	942,000	
Capital allowances on buildings (a)	<u>327,500</u>	
		<u>(1,829,500)</u>
Tax adjusted business profits		348,500
Add: Bank interest		<u>40,000</u>
Total taxable income		<u>388,500</u>

K K

(c) COMPUTATION OF COMPANY INCOME TAX PAYABLE

K

Company income tax (K388,500 x 35%)	135,975
Less Tax already paid:	
Provisional income tax	(91,975)
WHT on bank interest (K40,000 x 15%)	<u>(6,000)</u>
Income tax payable	<u><u>38,000</u></u>

SOLUTION TWO

(a) Qualities of a good tax system are as follows:

i. Economic efficiency

Taxation should bear as lightly as possible on production. Taxes should not be so high that they make production very expensive. Taxes that bear heavily on production lead to lower production.

ii. Simplicity

Taxes should be easy and cheap to collect, and fall directly on the ultimate payer. Great resources that are devoted to tax collection are simply wasted if the amounts collected are low.

iii. Certainty

Taxes should be certain. If tax rules are complex, they can be subverted and evaded. If tax rules can only be understood by specialists, then only those tax payers who can afford to pay the specialists are likely to comply with the rules. The tax rules should therefore be easy to understand.

iv. Fairness/proportionate/flexible

Taxes should bear equally so as to give no individual an advantage. This simply means that taxes should be levied on the basis of ability to pay. If the taxes are not based on this principle, then persons in low income groups will find the taxes to be more burdensome than those in high income groups.

v. Efficiency

A tax must not hinder efficiency. Where it is not possible to achieve this, the tax should involve the least loss of efficiency.

vi. Compatibility

A tax should be compatible with the relevant foreign tax systems. In the case of Zambia, the tax system should be compatible with the tax systems of the SADC and COMESA member states.

vii. Convenient/progressive

The tax should automatically adjust to changes in the rate of inflation. As inflation keeps on rising and falling, the tax system should automatically adjust to such rises and falls.

(b) An individual is resident in Zambia in any tax year if that individual is physically present in Zambia for a period of at least 183 days.

An individual who come into Zambia with an intention of staying in Zambia for a period of at least 12 months becomes resident in Zambia from the day of arrival.

(c) Bwezani Sakala

Personal income tax computation for the tax year 2019

EARNED INCOME	K	K
Salary (K24,800 x 12)		297,600
Fuel allowance (K280 x 50)	14,000	
Servant allowance(K1,500 x 12)	18,000	
Medical allowance	8,000	
Education allowance (K900 x 4 x 12)	43,200	
Housing allowance (K4,600 x 10)	46,000	
Entertainment & subsistence allowance (1200x12)	14,400	
Utility allowance (K800 x 12)	9,600	
Leave commutation (K70 x 36)	2,520	
Bonus	7,000	
Accommodation –auxiliary services	<u>10,500</u>	
		<u>173,220</u>
		470,820
Add investment incomes		
Royalties gross K59,500 x 100/85		<u>70,000</u>
Total gross receipts/income		540,820
Less allowable deductions:		
Motor car repairs (K3,825 x 80%)	3,060	
Professional subscriptions	2,700	
Donations to approved public benefit organisation	6,600	
Capital allowance on motor car (K106,250 x 20% x 80%)	<u>17,000</u>	
		<u>(29,360)</u>
Assessable income		<u>511,460</u>

Tax computation:

Details	Amount K	Tax rate	Tax (K)
Total assessable income	511,460		
First	(39,600)	0%	-
Next	(9,600)	25%	2,400
Next	(25,200)	30%	7,560
Balance	(437,060)	37.5%	<u>163,898</u>
	0		173,838
		Less:	
		- PAYE (8,700 x 12)	(104,400)
		- WHT Royalties (70,000 x 15%)	(10,500)
		Final income tax payable	<u>58,958</u>

SOLUTION THREE

- (a) (i) The property on which property transfer tax is charged include:
- Any land in Zambia (including any building on it)
 - Any building, structure or other improvements thereon
 - Any share issued by a company in Zambia that is not listed on the Lusaka Stock Exchange.
 - Intellectual property

- (ii) The realised value is determined as follows:

For land and buildings, the realised value is the higher of:

- i. The contract price agreed upon by the transferor and the transferee, and
- ii. The open market value.

For shares, the realised value is the higher of:

- i. The open market value of those shares, if this is more than the sale proceeds; and
- ii. The nominal value of the shares.

For mining rights, the realised value is the higher of:

- i. The actual price of mining right or an interest in mining rights at the time of the transfer; and
- ii. The value as determined by the Commissioner General

For Intellectual property, the realised value is the higher of:

- i. The actual price of the intellectual property at the time of the transfer; and
- ii. The value as determined by the Commissioner General

- (iii) For the purposes of property transfer tax, a transfer is a sale of property, a part disposal of property or a gift of property or any other operations as a result of which there would be a change in the ownership of property.

The due date when property transfer tax is payable is within 14 days following the date when the transaction giving rise to the tax is completed.

- (b) The property transfer tax on Mulubwa's transactions is as follows:

- (i) Property transfer tax is chargeable on the transfer of property at 5% of the realised value. i.e., $K620,000 \times 5\% = K31,000$
- (ii) Property transfer tax is chargeable on the transfer of the qualifying asset, and not on the purchase of property. Therefore, no property transfer tax is charged on the purchase of property.
- (iii) Transfer of shares listed on the Lusaka Stock Exchange is exempted from property transfer tax. Therefore, no property transfer tax is charged.

- (iv) Property transfer tax is not chargeable on the transfer of assets other than qualifying property. Therefore, no property transfer tax is charged on the transfer of the motor vehicles.
- (v) Transfer of shares in a private limited company attracts property transfer tax at a rate 5% of the realised value. i.e., $K72 \times 1,200 \text{ shares} \times 5\% = K4,320$.

(c) The following are the persons not required to pay turnover tax:

- (i) Any person whose annual turnover is more than K800,000
- (ii) Any person whose annual turnover is below K800,000 but has voluntarily registered for value added tax
- (iii) Any individual or partnership carrying on the business of public service vehicle for the carriage of persons
- (iv) Any partnership carrying on business irrespective of whether the annual turnover is over K800,000 or not.
- (v) Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
- (vi) Income of partners arising from the partnership since the partnership producing that profit is excluded from turnover tax.

(d) Presumptive taxes has the following benefits:

- (i) The process of dealing with taxes has been simplified because there is no requirement to file returns, no requirement to keep proper business and accounting records, and the taxes payable are predictable and therefore ease the cash flow planning process.
- (ii) Presumptive taxes are cash flow friendly because operators find it fairly easy to pay a whole range of fees on a daily basis, such as loading fees, because the amounts look small and do not seriously disrupt their daily cash flow position.
- (iii) No need for professional consultancy services since paying the levies is as straightforward as paying loading fees. Therefore, there is very little intellectual or professional effort required.
- (iv) Equity as all transporters are expected to play their part, hence, there are no free riders as the case was before the introduction of presumptive tax.
- (v) Allowance for breakdowns as levies are only charged for vehicles that are on the road during the tax accounting period

- (e) - Progressive taxes are taxes whose marginal rates of tax increase as the level of income increases e.g. PAYE
- Regressive tax is the tax whose marginal rate of tax decreases as the level of income decreases e.g. Value added tax.

SOLUTION FOUR

(a) KABUSWE LTD

VAT PAYABLE FOR THE MONTH OF DECEMBER 2019

Output VAT	K	K
Standard-rated sales: K600,000 x 16%		96,000
Zero-rated sales: K300,000 x 0%		<u>0</u>
Total output VAT		96,000
Input VAT		
Standard-rated purchases: K212,000 x 16%	33,920	
Zero-rated purchases: K68,000 x 0%	0	
Entertaining customers	0	
Entertaining suppliers	0	
Diesel: K53,244 x 4/29 x 90%	5,949	
Petrol	0	
Motor vehicle servicing and repairs: K27,840 x 4/29 x 90%	3,456	
General overheads: K331,064 x 4/29 x 90%	41,098	
Delivery van: K101,152 x 4/29 x 60%	8,371	
Toyota Prado	0	
Equipment: K52,896 x 4/29 x 60%	<u>4,378</u>	
		<u>(97,172)</u>
VAT repayable		<u>(1,172)</u>

(b) Importation on motor vehicle

(i) Value for duty purposes

	\$
Cost	6,500
Insurance (1,800 + 400)	1,800
	400
Freight charges (2,100 + 320)	2,100
	<u>320</u>
VDP in \$	11,120
Exchange rate /\$1	<u>K8.75</u>
VDP in ZMW	<u>97,300</u>

	Value of the vehicle	Import taxes
	K	K
VDP for customs duty	97,300	
Customs duty @30%	<u>29,190</u>	29,190
	126,490	
Excise duty @30%	<u>37,947</u>	37,947
	164,437	
Import VAT @16%	<u>26,310</u>	26,310
	<u>190,747</u>	
Total import taxes		<u>93,447</u>

- (ii) The following are the functions of the customs services division:
- i. Collection and management of customs and excise duties and other duties, licensing and control of warehouses and premises for manufacturing of certain goods
 - ii. Regulation and control of imports and exports
 - iii. Facilitation of international trade, travel and movement of goods
 - iv. Providing statistical data to the government on imports and exports

SOLUTION FIVE

(a) Mwendalubi computation of total presumptive tax payable in the tax year 2019.

	K
Toyota Corolla K2.50 x 6 x 4 x 6 x 12	4,320
Rosa busses K14.80 x 3 x 4 x 2 x 12	<u>4,262</u>
Total presumptive tax for the year will be:	<u>8,582</u>

(b) (i) CLIVE MAMBWE

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE YEAR ENDED 31ST
DECEMBER 2019

	K	K
Net profit as per accounts		328,260
Depreciation	10,900	
Electricity (25% x 5,860)	1,465	
Water (25% x 3,080)	770	
Motor car running expenses (12/48 x K9,160)	2,290	
Wages and salaries –Clive	25,000	
-daughter (24,000-19,200)	4,800	
Sundry expenses-fine	2,500	
-political party	1,800	
Drawings (150 x 52 x 125/100)	<u>9,750</u>	
		<u>59,275</u>
		387,535
Less		
Capital allowances –other	18,400	
Motor car (K25,000 x 20% x 36/48)	<u>3,750</u>	
		<u>22,150</u>
Tax Adjusted Business Profit		<u>365,385</u>

(ii) **Clive Mambwe**

Personal income tax computation for charge year 2019

	K	K
EARNED INCOME		
Tax adjusted business profit		365,385
Employment income		<u>100,500</u>
		465,885
Investment income		
Royalties (51,000 x 100/85)		<u>60,000</u>
Assessable income		<u>525,885</u>

Tax computation:

Details	Amount K	Tax rate	Tax (K)
Total assessable income	525,885		
First	(39,600)	0%	-
Next	(9,600)	25%	2,400
Next	(25,200)	30%	7,560
Balance	(451,485)	37.5%	<u>169,307</u>
	0	Less:	179,267
		- Provisional tax	(44,500)
		- PAYE	(16,700)
		- WHT Royalties (70,000 x 15%)	(9,000)
		Final income tax payable	<u>109,067</u>

(iii) The due date for the payment of income tax payable of K109,067 is 21 June 2019.

The due date for submission of tax return and payment of the related tax is **21 June 2019**.

(iv) The penalty for late submission of income tax returns by three months is 1000 penalty units per month or K300 per month.

Since there were three months late then the penalty will be $1000 \times 3 = 3000$ penalty units or $K300 \times 3 = K900$.

The interest on overdue tax is calculated as bank of Zambia discount rate plus 2% that is $11\% + 2\% = 13\%$.

Therefore the interest on overdue tax will be:

$13\% \times 3/12 \times K109,067 = K3,545$.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 11 PRINCIPLES OF AUDITING

THURSDAY 13 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:

Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A- TWO COMPULSORY QUESTIONS

Attempt **BOTH** questions in this section.

QUESTION ONE

Luwingu Ltd is a leading manufacturer of high quality electronic equipment. It was formed in 1986 and is owned by Ruth Kasanga. The company has experienced a number of fraudulent activities over the past three years.

Internal control system

Charles Kasanga, the young brother to Ruth Kasanga, is the Managing Director and an engineer by profession. He has little interest in internal controls. The Accountant of Luwingu Ltd is a ZiCA diploma holder who is responsible for all the financial reporting processes in Luwingu Ltd. Ruth Kasanga has expressed great concern over fraudulent activities and wants a solution to be found as a matter of urgency.

Luwingu Ltd faces significant challenges in the following areas:

- Management attitude towards internal controls
- Creating and maintaining a culture of honesty and ethical behavior
- Human resource policies and practices
- Segregation of duties

Internal Audit

An Internal Auditor was recently employed as a means of addressing the owner's concerns over fraudulent activities. The Internal Auditor assisted an in-house project team in redesigning and computerizing the payroll system. The Accountant was trained by the Project Manager on how to use the system. Luwingu Ltd.'s other accounting systems are manual.

External audit

You are an Audit Senior in Kapalu Associates. Kapalu Associates was recently appointed as external auditors of Luwingu Ltd for the year ending 31 May 2018.

During a de-briefing meeting, the Audit Manager emphasized the need to maintain confidentiality over the audit documentation. Kapalu Associates recently strengthened its policy on safe custody and retention of audit documentation.

The Engagement Partner has decided that the audit team should use computer-assisted audit techniques (CAATs) when auditing the computerized payroll system. Kapalu Associates is yet to invest in audit software and the audit team will therefore use test data. Flowcharts will be used to record the payroll system.

Required:

- (a) Using the guidelines in ISA 230 *Audit documentation*, explain the guidance on safe custody and retention of audit documentation. (2 marks)
- (b) Explain the components of an internal control system. (10 marks)

- (c) State two (2) advantages and two (2) disadvantages of using flowcharts to record internal control systems. (4 marks)
- (d) State four (4) limitations of internal controls in relation to fraud and error and clearly explain why segregation of duties and management may fail to deter fraud. (6 marks)
- (e) Explain the use of test data in the audit of the computerized payroll system in Luwingu Ltd. (3 marks)

[Total: 25 marks]

QUESTION TWO

Umo Care Co develops, manufactures and sells a range of pharmaceutical products and has a wide customer base. You are the senior audit manager in Simba & Co and you are planning the audit of Umo Care Co whose year end is 31 March 2018. You attended a planning meeting with the finance director and engagement partner and you are now reviewing the meeting notes.

Revenue for the year is forecast at K100 million. During the year the company spent K1 million on research and K8 million on completed and saleable products. These products passed clinical tests and Umo Care Co started manufacturing them. The pharmaceuticals board does not approve the use of products that do not pass the clinical tests.

At the planning meeting, the engagement partner emphasized the need for the audit team to understand their responsibilities regarding laws and regulations as guided by ISA 250 *Consideration of laws and regulations in an audit of financial statements*. The chief financial officer intends to capitalize the expenditure K9 million.

In order to fund the manufacturing of new products, Umo Care Co. raised K10 million through a 15% long-term loan repayable over five years. There are bank covenants attached to the loan, the main one relating to a minimum value of total assets. If these covenants are breached the loan becomes repayable immediately. The company has a policy of revaluing land and buildings at the beginning of the year. However, land and buildings will be revalued again at the year end.

The manufacturing process of pharmaceuticals is complex and at the year-end it is estimated that there will be significant levels of work in progress. In order to fulfil customer orders promptly, Umo Care Co. rents warehouses across Zambia where inventory is stored.

In December 2017 a new accounting software was introduced. This software was developed by the internal software engineer. There was no parallel run of the old and new systems after the new accounting software was introduced. Six weeks after the system changeover the software engineer resigned. A new software engineer was recruited three months later.

The audit engagement partner has suggested they use an auditor expert to value work in progress.

Required:

- (a) Explain the responsibilities of the auditor and management regarding compliance with laws and regulations. (6 marks)
- (b) Using the information provided, identify and explain six (6) audit risks and explain the auditor's response to each risk in planning the audit of Umoyo Co. (12 marks)
- (c) Explain the factors Simba & Co should consider before relying on the work of an auditor expert. (3 marks)
- (d) Describe four (4) substantive procedures you should perform to obtain sufficient appropriate evidence in relation to inventory held at the third party warehouses. (4 marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions in this section. Attempt any **TWO (2)** questions

QUESTION THREE

Zara Fashion is a retailer of youth clothing and accessories. It operates in all ten provinces of Zambia. The company's year-end is 31 March 2018 and its purchases and trade payables systems are described below:

Each store has an ordering clerk who prepares purchase orders when inventory runs out of stock. An ordering supervisor approves all purchase orders for the store after verifying that the purchase order has been correctly completed. The company buys its products from a number of suppliers who allow it 30 days credit. It takes up to three weeks for goods to be received in store. It is not allowed to transfer goods between stores. If customers request clothes, which are not available in a particular store, then they are told to visit other stores.

To ensure efficiency and effectiveness of the purchasing cycle, the goods are delivered directly from the suppliers to the individual stores. On receipt of goods, the quantities received are checked by the stores officer against the supplier's goods despatch note, and then the stores officer raises a Goods Received Note (GRN) which is not pre-numbered. The checked GRNs are sent to the accounts office for matching with purchase invoices.

The matching of Goods Received Notes and invoices is time consuming with invoices averaging 300 per store. Once the invoices have been matched they are processed into the purchases ledger before authorization by the Purchasing Director. Some suppliers have remained unpaid for up to two months due to financial constraints and lack of a senior person reviewing which suppliers are paid.

A payables control account is maintained and on a monthly basis the accounts supervisor checks and reconciles the balance on the control account to the total in the payables sub ledger. The checking is evidenced in writing by the supervisor signing on the reconciliation.

Required:

- (a) (i) Identify and explain five (5) deficiencies in the purchases and payables systems of Zara Fashion. (5 marks)
- (ii) Explain the possible implication of each deficiency. (5 marks)
- (iii) Suggest a recommendation to address each deficiency. (5 marks)
- (b) Describe five (5) substantive procedures that should be performed on the year-end trade payables of Zara Fashion. (5 marks)
- (c) Describe five (5) tests of control the auditor should perform to test the effectiveness of the controls in the purchasing system of Zara Fashions. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

You are the audit manager in Zuba & Co and you are planning the audit of Kamba Hotels, a listed company, which has been an audit client of your firm for ten years and it specializes in providing luxury hotel services.

During the planning stage of the audit, you obtained the following information. The audit team members of Zuba & Co are entitled to a room discount of 20% per night during the audit period. The audit engagement partner has been in charge of the audit for the past eight years. During the year, the finance director of Kamba Hotels resigned and the company requested Zuba & Co for help and the senior audit manager of Zuba & Co was seconded to the client for six months. The audit engagement partner recommended that the senior audit manager be assigned to this audit because he has a better understanding of the client's internal controls, procedures and systems. The fee income derived from Kamba Hotels was increased by this engagement and along with the audit and tax fees, now accounts for 16% of the firm's total fees.

You are aware that the audit engagement partner and the financial controller have known each other socially for many years and they went to South Africa on holiday together last summer with their families. As a result of this close relationship the audit engagement partner is afraid to talk to the client about the audit fee for last year's audit, 30% of which is still outstanding.

Kamba Hotels intends getting a loan from the bank and has requested Zuba & Co to represent it at the meeting with the bank because Zuba & Co has expertise in corporate financing.

Kamba Hotels recently established an audit committee and one of the audit committee members mentioned that there is no need to have both internal and external audits.

Required:

- (a) Explain the five (5) elements of an assurance engagement. (5 marks)
- (b) Identify and explain five (5) ethical threats and safeguards in the audit of Kamba Hotels. (10 marks)
- (c) Explain five (5) benefits of having an audit committee to Kamba Hotels. (5 marks)
- (d) Explain five (5) differences between external auditors and internal auditors. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Audits are sample based because not all financial statement items are tested. The auditor should use appropriate audit sampling techniques in order to get representative samples from which conclusions will be drawn.

Required:

Explain the meaning of Random sampling and Systematic sampling. (2 marks)

- (b) You are the audit manager of Tobwa & Co Chartered Accountants and the audit senior has given you four draft audit opinions of four audit clients for your review.

Client one: Mukwa Timba Co

We audited the financial statements of Mukwa Timba Co and we believe the financial statements are presented fairly, in all material respects, therefore, a *qualified* opinion is appropriate.

Client two: Somba Co

We were unable to obtain sufficient appropriate audit evidence because management refused to give us documents, accounting books, information and explanations necessary for the audit. The matter is material and pervasive, therefore, an *adverse* opinion is appropriate.

Client three: Yamba Co

The accounting treatment of a provision was not in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*. We believe the matter is material but not pervasive; therefore, an *unmodified* opinion is appropriate.

Client four: Munda Co

The entity prepared financial statements using going concern basis, however, we believe the application of going concern concept is inappropriate, therefore, a *disclaimer of opinion* is appropriate.

The new independent auditors' report for public interest entities or listed entities should include a key audit matters (KAM) paragraph.

Required:

- (i) Explain the appropriateness of the draft audit opinions by the audit senior giving reasons for your conclusion in each case. (12 marks)
- (ii) Explain the difference between the Emphasis of Matter (EoM) paragraph and the Other Matter (OM) paragraph. (6 marks)
- (iii) Explain the meaning of Key Audit Matters (KAM) and state how they are determined. (5 marks)

[Total: 25 Marks]

END OF PAPER

DA11 SUGGESTED SOLUTIONS

SOLUTION ONE

a) **Safe custody and retention of working papers:**

Judgment may have to be used in deciding the length of holding working papers, and further consideration should be given to the matter before their destruction. ISA 230 states that the auditor must not delete or discard audit documentation of any nature before the end of its retention period. The ISA also makes reference to the requirements of ISQC 1 regarding the retention of engagement documentation.

ISQC 1 requires that firms establish policies and procedures for the retention of engagement documentation. It states that "The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the group auditor's report." Working papers are the property of the auditors. They are not a substitute for, nor part of, the entity's accounting records.

Auditors must follow ethical guidance on the confidentiality of audit working papers. They may, at their discretion, release parts of or whole working papers to the entity, as long as disclosure does not undermine 'the independence or validity of the audit process.' Information should not be made available to third parties without the permission of the entity.

b) **Components of an internal control system:**

ISA 315 (Revised) *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* states that internal control has five elements as follows:

1. The control environment

The control environment is the framework within which controls operate. This is very much determined by the management of a business. Control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity.

2. The entity's risk assessment process

The entity's risk assessment process is the process for:

- Identifying business risks relevant to financial reporting
- Estimating the significance of the risks
- Assessing the likelihood of their occurrence
- Deciding upon actions to address those risks.

3. The information system, including the related business processes, relevant to financial reporting and communication

The information system relevant to financial reporting is a component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) to maintain accountability for the related assets, liabilities and equity.

4. Control activities

Control activities are those policies and procedures that help ensure that management directives are carried out. Control activities include those activities designed to prevent or to detect and correct errors. Examples include activities relating to authorization, performance reviews, information processing, physical controls and segregation of duties.

5. Monitoring of controls

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions.

c) Advantages of using flowcharts:

- After a little experience they can be prepared quickly.
- As the information is prepared in a standard form, they are fairly easy to follow and to review.
- They generally ensure that the system is recorded in its entirety, as all document flows have to be traced from beginning to end. Any 'loose ends' will be apparent from a cursory examination.
- They eliminate the need for extensive narrative and can be of considerable help in highlighting the salient points of control and any deficiencies in the system.

Disadvantages of using flowcharts:

- They are most suitable for describing standard systems. Procedures for dealing with unusual transactions will normally have to be recorded using narrative notes.
- Major amendments are difficult without redrawing.
- Time can sometimes be wasted by charting areas that are of no audit significance.

d) Limitations of internal controls in relation to fraud and error:

- The costs of control outweighing their benefits
- The potential for human error
- Collusion between employees

- The possibility of controls being by-passed or overridden by management
- Controls being designed to cope with routine and not non-routine transactions

The safeguard of segregation of duties can help deter fraud. However, if employees decide to perpetrate frauds by collusion, or management commits fraud by overriding systems, the accounting system will not be able to prevent such frauds.

e) Use of test data in the audit of the computerized payroll system:

Test data techniques are used in conducting audit procedures by entering data into an entity's computer system and comparing the results obtained with predetermined results.

The auditor is the one who prepares the test data and prepares predetermined answers which he compares with the results of the processing using the client's system.

Test data can, for example, be used to check the controls that prevent the processing of invalid data by entering data with a non-existent employee code or unreasonable overtime hours, or a basic pay which may, if processed, break highest approved basic pay in Luwingu Ltd.

SOLUTION TWO

a) Responsibilities for laws and regulations:

ISA 250 *Laws and regulations in an audit of financial statements* gives guidance in this area.

Management's responsibilities:

It is management's responsibility to ensure that the entity complies with the relevant laws and regulations.

Management is responsible for putting in place controls to assist it detect non-compliance with the relevant laws and regulations.

Auditor's responsibilities:

The auditor's responsibility is to obtain reasonable assurance that the financial statements are free from material misstatements due to non-compliance with laws and regulations.

The auditor must take into account the legal and regulatory framework within which the entity operates.

The auditors should remain alert throughout the audit and look out for any indications of non-compliance with laws and regulations.

Further, the auditor should undertake specified audit procedures for identifying non-compliance with laws and regulations that have a material effect on the financial statements.

b) Audit risks and Responses:

Risks	Responses
Umo's chief financial officer intends to capitalize the K9, 000, 000 of development expenditure incurred. This material amount should only be capitalized if IAS 38 <i>Intangible Assets criteria is met</i> . There is a risk that assets and profits are overstated because K1, 000,000 should be expensed.	The auditor should obtain and review a schedule of developments costs and inspect financial statements to verify that only K8, 000,000 is capitalized as intangible asset and K1, 000,000 is expensed. K1, 000, 0000 is material to revenue (1% of revenue).
K10, 000,000 long-term loan has been raised during the year. There is a risk that the loan might not be properly presented and classified as current liability and non-current liability. Disclosures need to be sufficient to comply with IFRSs.	The auditor should review the financial statements to verify that the loan has been properly presented and classified as current liability and non-current liability and disclosures comply with IFRSs.
15% finance cost is required per year. There is a risk that this might be understated to understate liabilities and overstate profit.	The auditor should confirm the 15% loan interest in the loan agreement and recalculate the finance cost reported in the financial statements to verify accuracy.
The loan has covenants attached to it. There is a risk that assets values may be	The auditor needs to maintain professional skepticism when auditing

<p>overstated to meet the minimum value required by the bank.</p> <p>If the loan covenants are breached then the loan would be repayable immediately and would need to be classified as a current liability. If the company did not have sufficient cash available to repay the loan balance, the going concern ability of the company could be at risk.</p>	<p>assets because they could be manipulated by management.</p> <p>The auditor should obtain and review covenant calculations (assets values) to identify any breaches and assess the likelihood of the bank demanding repayment and the potential impact on the company. The audit team needs to maintain professional skepticism throughout the audit.</p>
<p>All land and buildings will be revalued as at the year end. There is a risk that the revaluation is not carried out in accordance with IAS 16 <i>Property, Plant and Equipment</i> because of inconsistency in the application of the policy. The non-current assets may be over-valued to meet loan covenants.</p>	<p>The auditor should review the reasonableness of changing the application of revaluation policy; assess the competence, experience and independence of the individual(s) performing the valuation. The surplus/deficit should be recalculated to verify accuracy.</p>
<p>The pharmaceuticals manufacturing processes are complex and at the year-end it is estimated that there will be significant levels of work in progress, which is likely to be a material balance. There is a risk that inventory might be overstated and the audit team may lack qualifications, skills and experience to determine the value of work in progress.</p>	<p>Simba & Co should put the auditor with necessary qualifications, skills and experience to determine the value of work in progress in the audit team and if they do not have one, they should use an independent expert to value the work in progress.</p>
<p>Inventory is held in third parties warehouses. There is a risk that inventory might be overstated. E.g. inventory that does not exist might be included during inventory count if auditors don't attend inventory count.</p>	<p>The auditors should select warehouses with material inventory and attend inventory counts at third party warehouses to verify that inventory quantities have been confirmed and inventory properly counted and valued.</p>
<p>During the year a new accounting software was introduced and the two systems were not run in parallel. There is a risk that errors that occurred during the changeover were not noticed. Financial statements figures could be Materially misstated.</p>	<p>Detailed testing should be performed to ensure that the closing data on the old system was correctly transferred as the opening data on the new system.</p>
<p>The software engineer left the company six weeks after the changeover and has not been replaced. There is a risk that errors may occur and may not be detected due to a lack of knowledge and experience of the system. Financial statements figures could be Materially misstated</p>	<p>During the audit the auditors should exercise professional skepticism throughout the audit for evidence of errors, particularly when testing transactions occurring between December and March.</p>

c) Factors to consider before relying on the work of an Auditor expert:

- (i) The competence of the expert
 - Professional body membership, experience and reputation in his field
- (ii) The objectivity and independence of the expert
 - The expert should be independent of the firm and the audit client.
- (iii) The scope of the expert's work
 - The evidence must be relevant to the audit of inventory.
- (iv) Evaluation of the work performed
 - The auditor will consider the following:
 - Source data used.
 - Assumptions and methods used and their consistency with previous years.
 - The consistency of the results of expert's work with other audit evidence.

d) Substantive procedures for inventory held at third party warehouses

- i. Attend any inventory count at the third party warehouses to observe the controls in operation, to ensure completeness.
- ii. Attend any inventory count and inspect inventory to verify existence of inventory.
- iii. Attend any inventory count and perform any necessary test counts to verify accuracy.
- iv. Inspect any documentation relating to third party inventory to verify valuation.
- v. Obtain direct written confirmation of quantities of inventory balances held at year end from the third party warehouse providers to verify valuation.
- vi. Obtain confirmation of any damaged or slow moving goods to verify existence and rights and obligations. This will be performed by reviewing management's processes of identifying damaged and slow moving inventory.
- vii. Review any available inventory reports by the auditors of the third parties to verify accuracy.

SOLUTION THREE

a)

(i)Deficiency	(ii)Implication	(iii)Recommendation
Ordering of inventory. An ordering clerk who prepares purchase orders when inventory runs out of stock.	The entity will lose revenue and customers because the store might be closed for 3 weeks due to stock outs. If customers do not find the items of clothing in stores the entity reputation might be damaged.	Inventory should be ordered when the re-order level is reached. The system should be computerized so that the system can alert the purchasing manager automatically.
Approval. An ordering supervisor approves all purchase orders for the store after verifying that the purchase order has been correctly completed.	The ordering supervisor may approve wrong orders as he is likely to lack the necessary skills and experience.	Someone senior should be approving all purchase orders. E.g. the purchasing manager. Authorization should be done by the purchasing director.
Internal orders. It is not possible to order goods from other stores in order to ensure effective internal controls and control of inventory movements.	The entity might have stores with huge unsold inventory which might become obsolete or may be sold at significant discounts leading to lose of revenue.	The entity should change its ordering system to allow stores with lower inventory levels to order from stores with high unsold inventory to avoid inventory becoming obsolete.
Wrong matching. On receipt of goods the quantities received are checked by the stores officer against the supplier's goods dispatch note, and then the stores officer produces a goods received note.	The clothing and accessories which were not ordered may be received and paid for. The entity will lose money if goods which were not ordered are paid for.	The quantities of goods received should be checked against the approved and authorized purchase order to ensure the correct quantity is received.
Quality not checked. On receipt of goods only the quantities received are checked by the stores officer.	The clothing and accessories of poor quality might be received which may not be sold leading to lose of revenue. If they are sold the entity reputation might be damaged.	The stores officer should be checking the quality of goods received against the approved and authorized purchase order to ensure the quality of goods received is correct.
Goods received notes. Goods received notes (GRNs) are not pre-numbered	It will be difficult to trace the Goods received note (GRN) if it is lost because there will be no trail.	All Goods received notes (GRNs) should be pre-numbered for easy identification.

Manual matching. All purchase invoices received are manually matched to GRNs from the stores, this can be a very time consuming process.	Manual matching is prone to error especially that there purchase invoices are many. E.g. over 300 purchase invoices per store, which means minimum of 3,000 purchase invoices for 10 stores.	The entity should automate the purchases system so the purchase invoices and goods received notes are electronically matched and all unmatched purchase invoices highlighted.
Authorization of purchase invoices. Once the invoice has been agreed then it is entered onto the purchase ledger and sent to the purchasing director for authorization.	The wrong purchase invoices might be entered onto purchase ledger if they are posted before they are authorized by the purchasing director.	All purchase invoices should be authorized by the purchasing director before they are entered onto the purchase ledger to ensure that only valid purchase invoices are entered onto the purchase ledger.
Supplier payments. In some cases, suppliers are paid two months after the purchase invoice is authorized by the purchasing director. There is no checking of payments by an independent person other than the payments clerk.	The supplier payments might be delayed and this might damage the reputation of the entity or the suppliers might terminate the credit facility if any.	The suppliers should be paid promptly to protect the reputation of the entity and take advantage of any available settlement discounts.

b) Substantive procedures for year-end trade payables

- i. Compare the list of trade payables with the previous year's to identify any potentially significant omissions.
- ii. Compare the payables turnover and payables days to the previous year and industry data.
- iii. Inspect that trade payables are classified as current liabilities in the financial statements.
- iv. Inspect the cash book entries or the bank statements after the end of the year for payments which could indicate the existence of unrecorded trade payables.
- v. Select a sample of pre year end goods received notes, inspect that the related payables have recorded pre year end (i.e. that cut off is appropriate).
- vi. Obtain a trade payables purchase ledger listing and agree the total to the general ledger and the figure included in the financial statements to ensure accuracy.
- vii. Review after date invoices and credit notes for evidence of unrecorded liabilities.
- viii. Reconcile a sample of payables balances with supplier statements and investigate differences which could indicate a significant misstatement.
- ix. Reconcile the total of the purchase ledger accounts with the purchase ledger control account and cast the list of balances and the control account.

c) Test of control on purchases and payables cycle:

- i. Select a sample of purchase invoices and inspect them to ensure they are supported by GRNs, authorized, priced correctly etc.
- ii. Select a sample of purchase day book totals and agree them to general ledger purchase and trade payables accounts to ensure accuracy.
- iii. Select a sample of purchase invoices and review numerical sequences.
- iv. Observe whether the purchase day book is referenced to invoices.
- v. Select a sample of supplier statement reconciliations and review them to ensure accuracy.
- vi. Select a sample of control account reconciliations inspect them to ensure accuracy.
- vii. Select a sample of purchase orders, requisition and inspect them to ensure they have been approved and authorized by appropriate officials.

SOLUTION FOUR

a) 5 elements of assurance engagement:

Criteria: The subject matter is evaluated or measured against criteria in order to reach an opinion. The criteria in financial statements are the IFRs and other regulations such as the Company's Act.

Report: A written report containing the practitioner's opinion is issued to the intended user.

Evidence: Sufficient appropriate evidence needs to be gathered to support the required level of assurance.

Subject matter: This is the data to be evaluated that has been prepared by the responsible party.

Three party relationship. The three parties are the intended user, the responsible party and the practitioner.

b) Ethical issues that may affect independence and objectivity and safeguards

Threats	Safeguards
The audit team has been offered a 20% discount on luxury services from Kamba Hotels which will potentially have a high value. Only services with a trivial and inconsequential value can be received, this will create a self-interest threat or intimidation threat. The auditors might not report financial statements misstatements.	The offer for the discount should be declined politely since the value is likely to be significant.
The audit partner has been in charge of the audit of Kamba Hotels for eight years. This will create a familiarity threat. The auditors might not report financial statements misstatements.	The audit partner should be removed from the audit team and someone independent should be appointed as audit partner. The cooling period is normally 2 years. Could also carry out an independent quality control review by someone who was not involved in the audit.
The senior audit manager was seconded to Kamba Hotel as finance director for six months during the year. The senior audit manager probably prepared a significant proportion of the records to be audited; this creates a self-review threat as he will review his own work during the audit. The auditors might not report financial statements misstatements.	The senior audit manager should be removed from the audit team to avoid the threat to independence and someone independent should be appointed as senior audit manager.
The fee income from Kamba Hotels is 16% of Zuba & Co.'s total fees. The total fee for audit and non-audit services will create self-interest threat because of undue	Zuba & Co should consider whether the further work should be accepted and also consider appointing an external quality control reviewer. Going forward, the firm

dependence on this client. Where recurring fees exceed 15% for listed companies, objectivity is impaired. The auditors might not report financial statements misstatements.	needs to assess the recurring fee position for Kamba Hotels and consider refusing further offers of work where this will take them over the 15% threshold.
The partner and finance controller of Kamba Hotels have been on holiday together and appear to have a longstanding close relationship. This creates familiarity and self-interest threats. Both are key senior personnel. The auditors might not report financial statements misstatements.	The partner should be rotated off the audit and replaced with another independent partner.
The overdue fees (30% of the total fee) may be perceived as a free loan which is prohibited, but may also create a self-interest threat. The auditors might not disagree with management out of fear that they may not recover the fees. The auditors might not report financial statements misstatements.	The reasons for non payment should be determined, and if possible an agreement reached so that Kamba Hotels repays the fees before to the commencement of any further audit work. The matter should also be communicated to the audit committee.
Kamba Hotels intends to get a loan from the bank and has requested Zuba & Co to represent it at the meeting with the bank. This creates advocacy threat. The auditors might not report financial statements misstatements.	The offer should be declined politely since Zuba & Co will be seen to be on the side of the client.

(c) Benefits to Kamba Hotels of having audit committee:

- (i) Improve the quality of financial reporting, by reviewing the financial statements on behalf of the board
- (ii) Create a climate of discipline and control which will reduce the opportunity for fraud
- (iii) Enable the non-executive directors to contribute an independent judgment and play a positive role
- (iv) Help the finance director, by providing a forum in which they can raise issues of concern and which they can use to get things done which might otherwise be difficult
- (v) Strengthen the position of the external auditor by providing a channel of communication and forum for issues of concern
- (vi) Provide a framework within which the external auditor can assert their independence in the event of a dispute with management
- (vii) Strengthen the position of the internal audit function, by providing a greater degree of independence from management
- (viii) Increase public confidence in the credibility and objectivity of financial statements

(d) Differences between internal audit and external audit:

	Internal audit	External audit
Objective	Designed to add value to and improve an organization's operations.	An exercise to enable auditors to express an opinion on the financial statements.
Reporting	Reports to the board of directors, or other people charged with governance, such as the audit committee. Reports are private and for the directors and management of the company.	Reports to the shareholders or members of a company on the truth and fairness of the accounts. Audit report is publicly available to the shareholders and other interested parties.
Scope	Work relates to the operations of the organization. The scope of internal auditors is much wider than that of external auditors.	Work relates to the financial statements.
Relationship	Often employees of the organization, although sometimes the function is outsourced.	Independent of the company and its management. Usually appointed by the shareholders.
Planning and evidence	Strategic long-term planning carried out to achieve objective of assignments, with no materiality level being set.	Planning carried out to achieve objective regarding truth and fairness of financial statements.

SOLUTION FIVE

a) Sampling:

Random sampling ensures that all items in the population have an equal chance of selection, normally using random number tables or random number generators.

Systematic sampling involves selecting items using a constant interval between selections, the first interval having a random start.

b) Client one (1): Mukwa Timba Co:

- Modified 'qualified' opinion is given when there is either a disagreement on an accounting matter or inability to obtain sufficient appropriate audit evidence and the matter is material but not pervasive.
- In this case the financial statements are presented fairly, in all material respects or show a true and fair view, therefore, the proposed audit opinion by the audit senior is wrong / inappropriate.
- The correct audit opinion should be an unmodified opinion.

Client two (2): Somba Co:

- Adverse opinion is given when there is a disagreement on an accounting matter and the matter is material and pervasive.
- In this case the auditors were unable to obtain sufficient appropriate audit evidence because management refused to give them documents, accounting books, information and explanations necessary for the audit, therefore, the proposed audit opinion by the audit senior is wrong / inappropriate.
- The correct audit opinion should be disclaimer of opinion.

Client three (3): Yamba Co:

- An Unmodified opinion is given when the financial statements are presented fairly, in all material respects or show a true and fair view.
- In this case there is a disagreement on the accounting treatment of a provision and the matter is material but not pervasive; therefore, the proposed audit opinion by the audit senior is wrong / inappropriate.
- The correct audit opinion should be a qualified opinion.

Client four (4): Munda Co:

- A disclaimer of opinion is given when auditors are unable to obtain sufficient appropriate audit evidence to make a conclusion. In this case the auditor has obtained sufficient appropriate evidence.
 - The application of going concern concept is inappropriate; therefore, the proposed audit opinion by the audit senior is wrong / inappropriate.
 - The correct audit opinion should be adverse opinion.
- ii. An Emphasis of Matter (EoM) paragraph is included in the auditors' report to refer to the matter that is appropriately presented and disclosed in the financial statements, but in the auditors' judgment the matter is fundamental to the users' understanding of financial statements.

Other matter (OM) paragraph is included in the auditors' report to refer to the matter other than those presented or disclosed in the financial statements, but in the

auditors judgment the matter is relevant to the users' understanding of the auditors' responsibilities, audit and audit report.

iii. ISA 701 *Communicating key audit matters in the independent auditor's report* gives guidance in this area.

Key Audit Matters (KAM) are matters that in the auditor's judgment were of most significance in the audit of the financial statements of the current year.

These matters will be selected from among the matters that the auditor discussed with those charged with governance during the audit.

To determine key audit matters (KAMs) the auditor should take into account:

- Areas of higher assessed risk of material misstatement or significant risks.
- Areas in the financial statements that involved significant management judgment such as accounting estimates.
- The effect on the audit of significant events or transactions that occurred during the period.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 14 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – TWO COMPULSORY QUESTIONS

Attempt both questions

QUESTION ONE

- (a) Some have tried to equate a company to a State (Country). They argue that certainly, a company was designed on the same principles that a State was formulated.

Explain the extent to which this assertion may be true. (10 marks)

- (b) Write short notes on the following:

(i) Capital maintenance. (5 marks)

(ii) The requirements for incorporating a company and that of registering of a business name. (5 marks)

- (c) Explain the difference between company promoters and directors of a company.

(5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) There are three (3) types of general meetings which a company may have.

Explain each of the three meetings that may be held by a Company. (9 marks)

- (b) Explain the procedure followed in voluntary winding up. (5 marks)

- (c) Explain the different types of capital that a company may have. (5 marks)

- (d) Explain the functions of the Audit Committee. (6 marks)

[Total: 25 Marks]

SECTION B

There are Three (3) questions in this section. Attempt any TWO (2) questions.

QUESTION THREE

- (a) There is time for everything; a time to laugh and a time to cry. A time to be born and a time to die. It is inevitable that every kingdom that rises must also fall. Equally, every company must surely fall.

Explain the various ways through which a company may die. (10 marks)

- (b) Shares of a company rank *pari passu* (they have the same class).

Explain the above statement. (5 marks)

- (c) Two day dreaming uncles of yours have just retired and they proceeded to incorporate a private company, Wishes Co. Ltd. However, they soon realise that the undertaking needs more money than their meager pensions from the local council can provide. If they do not find more money soon, they will lose everything they have put in. If this were to happen, they are likely to die from depression. You are tasked to save your uncles from premature deaths.

Explain to your uncle on how they can raise the said amount. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Explain any four (4) elements of corporate governance. (8 marks)

- (b) Discuss the fiduciary responsibility that exist between the directors and shareholders. (8 marks)

- (c) Explain any two (2) advantages of the principles-based approach. (4 marks)

- (d) Explain the difference between voluntary and involuntary stakeholders. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Discuss the three (3) types of resolutions of a board. (9 marks)

- (b) State three (3) types of meetings in a company. (3 marks)

- (c) Explain the competence of a company secretary. (6 marks)

- (d) Elaborate on prohibition of insider dealing. (7 marks)

[Total: 25 Marks]

END OF PAPER

DA.12 GOVERNANCE AND CORPORATE LAW

SOLUTION ONE

(a) To a large extent but not completely, a state and a company are similar. It is thus plausible to argue that a company was formulated after a state. Here are the similarities,

State (Country)	Company
<ul style="list-style-type: none"> • Has a defined geographical location • Has a population • Has the ability to enter into relations with other nations • Can own property • Can sue and or be sued • Has perpetual succession • Has separate legal personality • Depends on agents to run it • Has a constitution 	<ul style="list-style-type: none"> • Has a defined geographical location of registered office, which in turn determines its nationality • Has a population of workers and other stakeholders who identify themselves with the company • Can own property • Can sue and or be sued • Has perpetual succession • Has separate legal personality • Has the ability to enter into contracts with other companies • Depends on agents to run it • Has a constitution called articles of association

(b)

- (i) Capital maintenance is not a single act but all the measures taken or the rules that are followed to safeguard creditors by ensuring that capital can only be returned to members in limited circumstances only. There are several ways through which this is done.
1. The Companies Act does not easily allow Companies company to reduce its share capital.
 2. A company may not be allowed to purchase its own shares as this will lead to a loss in its capital.
 3. A company cannot use its own capital to enable somebody else to purchase its own shares or make the payment of capital to any shareholder.
 4. A company cannot issue shares at a discount. (*Oregon Gold Mining Compnay of India Ltd v Roper [1982]*).
 5. A company cannot return issued shares to shareholders except in winding up.
 6. Strict procedures are put in place for the alteration of share capital of a company
 7. Strict procedures also exist for reduction of share capital.
 8. The court also has wide powers as far as reduction of share capital is concerned. By section 78 of the Companies Act, a reduction of share capital can only be

sanctioned after according a chance to all those who may be affected by the reduction to object, and the court is satisfied.

9. Dividends are paid from profits

(ii) The requirements of incorporation of a company and that of registration of a business name are as follows:

Company Incorporation Requirements	Business Name Registration
<ul style="list-style-type: none"> • Incorporation is done under the companies Act of 2017. • Applicable to body corporates alone • Articles of association • At least two directors 	<ul style="list-style-type: none"> • Registration is done under The Registration of Business names Act, CAP 389 of the laws of Zambia. • Not mandatory to all, especially those who carry out business using their own true names • Concerns sole traders, companies and firms. • Proposed Business name, usually three names • The general nature of the business • The present Christian and surnames of the persons in a sole trader, names of partners if it's a firm and company name if a body corporate • The age of the individual or partners • The commencement date of the business • The location of the business/ address

(c)

A company promoter is a firm or person who does the preliminary work incidental to the formation of a company, including its promotion, incorporation and floatation and solicits for people to invest money in the company. A promoter is neither a trustee nor an agent of the company because there is no company in existence yet. As thus, a promoter is personally liable for any pre incorporation contracts entered on behalf of the company before it was incorporated, **Kelner v Baxter**. However, a promoter stands in fiduciary position with respect to the company that is promoting.

A director on the other hand is an officer of a company usually entrusted with the responsibility of running the day to day activities of a company. Unlike a promoter, a director is actually an agent of the company. This is because the company is already in existence. Like a promoter, a director stands in a fiduciary duty with the company. A director is not personally liable for the contracts of a company.

SOLUTION TWO

a) A company can hold several meetings as follows:

- i. **Annual general meeting (AGM).** This is the mother of all meetings for any company which by its name, must be held annually. This type of meeting is provided for in Section 57 of the Companies Act No. 10 of 2017. The Act provides that within 90 days after the end of each financial year, a company must hold its AGM. Where there is default in holding an AGM, a member can apply to the registrar who will then direct that the AGM be held. Failure to hold an AGM is punishable by a fine, Section 57 (2,3,4) of the Companies Act. The business to be transacted at an AGM includes appointment of directors, financial reports, declaration of dividends, special business etc.
- ii. **Extraordinary General Meeting.** According to sections 59 of the Act, this meeting may be called upon by the Board of Directors or any other person authorized by the articles of association. In short, any general meeting other than annual general meeting is an extraordinary general meeting. They are convened to deal with emergencies which cannot wait until the AGM.
- iii. **Class Meetings.** Section 60 of the Act provides for meetings of members of the same class, e.g. preferential members and so forth. These meetings may be convened by Board of Directors, two or more members of that class. The holding of a general meeting for class members is usually held to verify the rights that attach to the class. If the shares are held by one person, he is entitled to do what a meeting of that class would have done under the articles of the company.

b) The procedure for voluntary winding up commences with a resolution to have the company voluntarily wound up. It can be done either by members, whereby its termed members voluntary winding up or by creditors whereby its termed creditors voluntary winding up.

Creditors' voluntary winding up commences with creditors resolve to put the company under liquidation but cannot make statutory declaration of solvency. Within 24 hours of passing the resolution, the shareholders must convene a meeting of creditors. At this meeting, either the creditors or members appoint a liquidator.

Members' voluntary winding up commences with the members holding an extraordinary general meeting to pass a resolution to wind up the company voluntarily. Then a liquidator is appointed and a statutory declaration of solvency is made. In this form of winding up, the members must appoint one or more liquidators.

c) In commerce, capital means financial assets, such as funds held in deposit accounts as well as tangible factors of production. Capital also includes physical assets like buildings and machinery. In company law however, Capital means the total amount which the

shareholders of the company have contributed or are liable to contribute as payment for their shares.

1. The most basic capital for a company are its shares. A share is a unit of ownership that represents an equal proportion of a company's capital. The shares are issued out at a price to those wishing to invest in the company. The money raised from the sale of these shares enable the company to have finances to conduct business. Needless to say, a company raises money from shares when they are first issued.
2. Loan capital. Trading companies have an implied power to raise finances through borrowing. Simply. A company can raise money through loans. The articles of association also augment the power to borrow. A company will borrow money and charge its assets as collateral for that loan. The money so borrowed is acknowledged through a debenture, which is simply a written acknowledgement of a loan. The charge over the assets may be floating or fixed.

d) Corporate Governance policies require that companies should have audit committees. They comprise independent non- executive directors. Their main duties are roles are to:

1. Liaise with external auditors: should be able to coordinate and work together with external auditors. They also have power to appoint or remove external auditors.
2. Supervise internal audit: looks at the objectivity of the internal audits, the technical and professional standards of the internal auditors. The scope, resources and results of the audits are also a cardinal issue of concern.
3. Review the annual accounts: Before annual or quarterly statements are made public, it's the duty of the audit committee to review them and make any amendments where necessary.
4. Review of internal financial controls: critically look at the internal financial controls
5. Financial Investigations: the audit committee should be involved in carrying out financial investigations as and when they become necessary.
6. Review risk management: there is need to put a policy framework in place for risk management.

SOLUTION THREE

- a) The dying of a company denotes winding up. Mostly, winding up occurs where a company has more liabilities than assets. Also it can occur when it is no longer legal to conduct the business it was incorporated to conduct, or where it is simply just and equitable for the company to wind up. Basically, there are two ways through which a company may wind up, either compulsorily or voluntarily.

Compulsory winding up, also called winding up by the court.

Compulsory winding up happens when the directors of a company are not able to make a statutory declaration that it is able to settle its debts within 12 months. There are several grounds for compulsory winding up.

- a. By special resolution that the company be wound up by the court
- b. A company does not commence trading within 12 months of incorporation
- c. A company is unable to pay its debts
- d. expiry of time
- e. the number of members reduce to less than two
- f. it is just and equitable to do so.

Voluntary winding up on the other hand is initiated by the members or creditors. Hence, it can be termed members voluntary winding up or creditors' voluntary winding up, depending on who initiates the quest for winding up. The object of voluntary winding up is for the company and its creditors to settle matters without the involvement of the court. One unique feature of voluntary winding up is that it can happen even where the company is not facing financial difficulties. Where a merger is imminent, or take over, voluntary winding up is ideal.

Creditors' voluntary winding up occurs where although the shareholders by resolution, put the company into liquidation, are not able to declare solvency. Hence, within 24 hours, a meeting of creditors need to be convened. At this meeting, either party will appoint a liquidator.

Members voluntary winding up occurs where shareholders of the company by resolution, at an extraordinary general meeting, decide to wind up the company. However, the members make a statutory declaration of solvency. A liquidator is then chosen to see to the winding up.

- b) Shares are as fictitious as the company is. They are the creation of the company and the law at large. Shares are units of ownership in a corporation or financial asset that provide for an equal distribution of profits if they are declared as dividends. In company law, shares are known by several terminologies: nominal capital, issued and unissued shares, subscribed shares, called up and uncalled shares, paid and unpaid shares. Just like the many faces of shares as depicted above, shares do not have the same status. It all depends on the tag they are accorded. In that case, only shares with the same tag or class have the same status. The following are the different classes of shares:

- i. Ordinary shares or equity shares.
 - ii. Preference shares. dividends even for the years when dividends were not declared.
 - iii. Redeemable shares.
- c) This question has to be looked at from corporate financing perspective. All the two uncles need is a way to raise money for the company. If money is raised, the company will be afloat, depression and premature deaths will be avoided. To help on how this can be done, the first step is to examine the nature of a limited company.

Every limited company is made up of shares and the liability of its members is limited to the shares acquired from the company. A limited company may be private or public. A private company does not offer shares to the public but trades the shares privately.

How can a private company raise money?

- i. By issuance of debentures
- ii. By borrowing and charging its assets
- iii. Issue of shares to more willing private investors
- iv. Convert the company from a private into a public limited company (plc) and raise money from the purchases of the floated shares.

SOLUTION FOUR

(a)

- 1) The aim of corporate governance is to ensure adherence to and satisfaction of the strategic objectives of the organisation, thus aiding effective management.
- 2) Corporate governance should promote integrity that is straightforward dealing and completeness.
- 3) Good governance can attract new investment into companies, particularly in developing nations.
- 4) Accountability is generally a major theme in all governance frameworks, including accountability not just to shareholders but also other stakeholders.
- 5) Good governance is not just about extremely established codes, it also requires a willingness to apply the spirit as well as the letter of the law
- 6) The notion that overall performance is enhanced by good supervision and management within set best practice guidelines underpins most definition.

(b) Fiduciary responsibilities is a duty imposed upon certain persons because of the position of trust and confidence in which they stand in relation to another.

Company director owe a fiduciary duty to the company to exercise their powers in what they honestly consider to be the interests of the company. This duty is owed to the company and not generally to individual shareholders. In exercising the powers given to them by the constitution of the company, the directors have a fiduciary duty not only to act with integrity buy also only to use their powers for a proper purpose. The powers are restricted to the purpose for which they were given.

(c) **ADVANTAGES OF THE PRINCIPLES OF BASED APPROACH**

- 1) It avoids the need for flexible legislation that companies have to comply with even though the legislation is not appropriate.
- 2) It less burdensome in terms of time and expenditure.
- 3) A principle's based approach allows companies to develop their own approach to corporate governance that is appropriate for their circumstances within the limits aid down by stock exchange.
- 4) Enforcement on a comply or explain bases means that businesses can explain why they have departed from a specific decision if they feel it is appropriate.

5) A principles based approach accompanied by disclosure requirements puts the emphasis on investors making up their own minds about what businesses are doing.

(d) **Voluntary and involuntary stakeholders**

Voluntary stakeholders are those who engage with the organization of their own free will and choice, and who can detach themselves from the relationship- management, employees, customers, suppliers, shareholders and pressure groups.

While:

Involuntary stakeholders are those whose involvement with the organisation is imposed and who cannot themselves choose to withdraw from the relationship – regulators, Government, local communities, neighbors, the natural world, future generations.

SOLUTION FIVE

(a) The resolutions are:

(i) Ordinary resolution

An ordinary resolution is one passed by a bare majority of members present and voting at a general meeting. Any business may be determined by such a resolution except where an extraordinary or special resolution is required by legislation or by the articles. Examples of the use of an ordinary resolution are to adopt the report and accounts of directors and to elect directors.

(ii) Extraordinary resolution

An extraordinary resolution is one passed by a majority of not less than three-fourths of such members, as being entitled so to do, vote in person or, where proxies are allowed, by proxy. The resolution has to be passed at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary has been duly given.

(iii) Special resolution

A special resolution requires a similar majority as is required for the passing of an extraordinary resolution. It requires not less than twenty-one days' notice, specifying the intention to propose the resolution as a special resolution.

(b) The meeting are as follows:

Annual general meetings

Extraordinary general meetings

Class meetings

Wherever the duties of the company, the secretary's ultimate loyalty must be to the company. This may mean the secretary coming into conflict with, for example a director or even the chief executive. If one of the directors has a clear conflict of interest between his duties to the company and his personal interest, the company secretary should ensure that the board minutes reflect the conflict. If the conflict prevents a director from voting and being counted in the quorum at the board meeting, the proper procedure should be followed. Thus, because of the legal knowledge that the secretary

needs to have, in many countries the secretary of a listed or public company is required to be a member of an accountancy or company secretarial body.

(c) Insider dealing

It is a criminal offence for directors and others to use inside information that they have to gain from buying or selling shares in a stock market. Inside information has been defined as information that is specific and precise, has not yet been made public, and if made public would have a significant effect on the share price. For directors, an obvious example would be using the advance knowledge they have of the company's results to make gains before the information is released to the market. Rules in many countries therefore include prohibition in directors dealing in shares during a close period, defined as a specific period (60 days for example) before the publication of annual or period results. As well as being a criminal offence, it is also an abuse of directors' roles as agents, a clear instance of directors using the superior information they have for their benefit, rather than putting shareholders' interests first. It also undermines the capital markets by deterring investors who do not have access to privileged information and feel therefore that market distortions will result in insufficient returns for the risks that they face.

END OF SOLUTIONS