



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 22 JUNE 2020

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 Which of the following statements in accounts is referred to as a snapshot of the financial position of the business at any particular time?

- A. Statement of profit or loss
- B. Cash flow statement
- C. Statement of financial position
- D. Income and expenditure

(2 marks)

- 1.2 What sort of data is input into a receivable ledger system?

- A. Amendments
- B. Transaction data
- C. Adjustments to terms
- D. All of the above

(2 marks)

- 1.3 The ledger used to record credit purchases from suppliers is called:

- A. Trade receivable ledger
- B. Nominal ledger
- C. Trade payable ledger
- D. Private ledger

(2 marks)

- 1.4 Pink Ltd is a private company whose financial year ends on 31 December. During the year of 2018, the company paid rent by cheque amounting to K55,000 and by cash amounting to K35,000. Rent owing at 31 December 2017 was K10,000. Rent prepaid at 31 December 2018 was K15,000.

Calculate the rent amount to be charged to the profit and loss account for the year ended 31 December 2018

- A. K85,000
- B. K65,000
- C. K95,000
- D. K115,000

(2 marks)

- 1.5 The following books are books of prime entry except for one.
- A. Journal proper
 - B. Sales day book
 - C. Purchases returns day book
 - D. Purchases invoice
- (2 marks)
- 1.6 Villa Ltd Company issued 60,000 shares with a par value of K1 per share for K1.50 per share. State the amount to be charged to the share premium account.
- A. K60,000
 - B. K150,000
 - C. K90,000
 - D. K30,000
- (2 marks)
- 1.7 IAS 7 presents the format in which the cash flow statement must be presented. Which of the following shows the correct sequence under indirect method in which the cash flow statement must be presented?
- A. Operating activities, investing activities, financing activities
 - B. Investing activities, operating activities, financing activities
 - C. Financing activities, operating activities, investing activities
 - D. Investing activities, financing activities, operating activities
- (2 marks)
- 1.8 A, B and C are in partnership sharing profits in the ratio 1:2:3. The partners profit for the year ended 31st December 2017 was K100,000. Interest on drawings were; A-K10,000, B-K15,000 and C-K20,000. The partners receive the following salaries each per month; A-K250, B-K400 and C-K500
- Calculate the share of profit for C
- A. K65,600
 - B. K71,925
 - C. K20,600
 - D. K72,500
- (2 marks)
- 1.9 What are the elements of prime costs?
- A. Direct materials, direct labour, direct expenses and overheads
 - B. Direct materials, direct labour, direct expenses
 - C. Direct materials, direct labour
 - D. Production overheads and direct expenses
- (2 marks)

1.10 Which accounting concept states that revenue and costs must be recognized as they are incurred and should be matched in the accounting period in which they relate in order to calculate the profit or loss?

- A. Accrual concept
- B. Going concern concept
- C. Prudence concept
- D. Consistency concept

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

The following information relates to the incomplete records of Mwepu, a sole trader as at 30 June 2019:

	1 July 2018	30 June 2019
	K'000	K'000
Inventory	2,400	1,900
Trade payables	2,100	2,300
Insurance prepaid	400	-
Insurance owing	-	240
Trade receivables	4,000	3,000
Loan (10%)	12,000	12,000
Loan interest owing	-	1,200
Motor vehicle at cost	-	22,500

OTHER DETAILS:

Bank summary	K'000
RECEIPTS	
Balance as 1 July 2018	10,000
Receivables	28,000
Cash sales banked	<u>8,200</u>
	46,200
PAYMENTS:	
Accounts payable	18,000
Insurance	2,000

Purchase of motor vehicle	22,500
Stationery	4,200
Electricity	2,000
Dishonoured cheque (receivables)	<u>1,400</u>
	<u>(50,100)</u>
Balance as at 30 June, 2019	<u>(3,900)</u>

Cash account

Receipts:

	<u>K'000</u>	K'000
Balance as at July 2018		5,000
Cash sales		13,200
Accounts receivable		<u>450</u>
		18,650

Payments:

Drawings	4,000	
Rates	500	
Water bills	700	
Cash banked	<u>8,200</u>	
		<u>13,400</u>
Balance as at 31 June 2019		<u>5,250</u>

Additional information

1. Bad debts written off amounted to K310,000.
2. Discount allowed and discounts received were K120,000 and K170,000 respectively.
3. Goods taken from the business for private use at cost were K250,000. No entry has been made in the books of accounts.

4. Sales returns records amounted to K1,000,000.
5. Depreciation is charged at 20% on a straight line basis. A full year's depreciation is charged in the year of purchase, with none in the year of disposal.

Required:

- (a) Calculate the capital at 1 July 2018. (3 marks)
- (b) Prepare the Income Statement for the year ended 30 June 2019. (11 marks)
- (c) Prepare the Statement of Financial Position as at 30 June 2019. (6 marks)

[Total: 20 Marks]

QUESTION THREE

Paka, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 2019 and requires your assistance. The following trial balance has been extracted from the general ledger.

Account	Dr K'000	Cr K'000
Buildings at cost	740	
Buildings accumulated depreciation, 1 November 2016		60
Plant at cost	220	
Plant accumulated depreciation, 1 November 2018		110
Bank balance		70
Revenue		1,800
Net purchases	1,140	
Inventory at 1 November 2018	160	
Cash	20	
Trade payables		250
Trade receivables	320	
Administrative expenses	325	
Allowance for receivables at 1 November 2018		10
Retained earnings at 1 November 2018		130
Equity shares, K1		415
Share premium account		80
	2,925	2,925

The following additional information is also available:

1. The allowance for receivables was to be increased to an amount equivalent to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.
2. Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.
3. Closing inventory has been counted and is valued at K75,000.
4. An invoice of K15,000 for energy costs relating to the quarter ended 30 November 2019 was received on 2 December 2019. Energy costs are included in administrative expenses.

Required:

- (a) Prepare the statement of profit or loss of Paka at the year end of 31 October 2019.
(5 marks)
- (b) Prepare the statement of financial position of Paka Co as at 31 October 2019.
(15 marks)

[Total: 20 Marks]

QUESTION FOUR

Green Ltd is a private company which was founded by two brothers Banda and Phiri 5 years ago. The company deals with the supplies of building materials, to locally and nearby international customers. Recently, the business has grown rapidly due to the demand for construction. The company, some few years ago computerized its accounting system because manual work was posing a challenge to the firm. The accounting package which the firm uses has many separate modules such as; invoicing, inventory, different ledger books and many more.

Green Ltd does not use an integrated accounting system. At one of the Board meetings, it was agreed by the members that the firm should install an integrated system.

Required:

- (a) Explain four (4) types of ledgers. (8 marks)
- (b) Explain three (3) advantages of integrated software. (6 marks)
- (c) Explain three (3) disadvantages of integrated software (6 marks)

[Total: 20 Marks]

QUESTION FIVE

A Book-Keeper prepared the ledger accounts and posted the entries to the Trial Balance which balanced. Upon investigations, it was disclosed that there were some errors in the recordings although this was not detected by the trial balance.

- (a) Explain four (4) types of errors that cannot be highlighted by the trial balance. (8 marks)
- (b) Chunda's business ledger accounts showed the following balances as at 31 March 2020.

Accounts	Balances
	K'000
Capital	37,220
Cash at Bank	10,300
Local business taxes	1,200
Trade receivables	11,300
Returns inwards	500
Trade payables	9,000
Revenue	14,000
Interest on loan	120
Purchase	6,800
Equipment	20,000
General expenses	6,000
Bad debts	5,000
Accumulated depreciation on equipment	1,000

The following transactions were completely omitted from the books of accounts:

- 1) The sale of goods on credit to chanda K500,000 was completely omitted from the books of accounts.
- 2) A receipt by cheque for rentals K5,000,000 was not recorded in the books of accounts.
- 3) Bad debts written off amounting to K100,000 was not recorded anywhere in the books of accounts.

Required:

Prepare Chunda's trial balance as at 31 March 2020 taking into account the errors that were made. (12 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) A computerised system is an important part of an accounting system to business in various ways:
Explain five (5) factors to consider when choosing an accounting package. (5 marks)
- (b) State five (5) Characteristics of public sector entities (5 marks)

- (c) List five (5) advantages of preparing a statement of cash flows. (5 marks)
- (d) Give five (5) reasons why Year end adjustment should be critical in preparing financial statements. (5 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED MODEL SOLUTIONS

SECTION A (COMPULSORY)

SOLUTION ONE MULTIPLE CHOICE

1.1 C

1.2 D

1.3 C

1.4 B

1.5 D

1.6 D

1.7 A

1.8 A

1.9 B

1.10 A

SECTION B

SOLUTION TWO

(a) Mwepu: Calculation of capital

	K'000
Bank	10,000
Cash	5,000
Inventory	2,400
Insurance prepaid	400
Receivables	<u>4,000</u>
	21,800
Payables	(2,100)
Loans	<u>(12,000)</u>
Capital at (1 July 2017)	<u><u>7,700</u></u>

(b) Mwepu: Income Statement for the year ended 30 June 2018

	K'000	K'000
Sales(w1)		40,680
Sales returns		<u>(1,000)</u>
Net Sales		39,680
Opening inventory	2,400	
Purchases[18,370 w2 -250 stock drawings]	<u>18,120</u>	
	20,520	
Closing inventory	<u>(1,900)</u>	
Cost of sales		<u>(18,620)</u>
Gross profit		21,060
Add: discount received		<u>170</u>
		21,230
LESS EXPENSES & LOSSES		
Discount allowed	120	
Depreciation: (m/veh 20% x 22,500)	4,500	
Bad debts	310	

Insurance (w3)	2,640	
Rates	500	
Loan interest(10%x12,000)	1,200	
Electricity	2,000	
Stationery	4,200	
Water bills	700	
TOTAL EXPENSES		(16,170)
NET PROFIT		<u>5,060</u>

(c) Mwepu : Statement of financial position as at 30 June 2018

	COST K'000	DEP K'000	NBV K'000
Non-current assets			
Motor vehicle	22,500	(4,500)	18,000
Current assets			
Inventory		1,900	
Receivables		3,000	
Cash		<u>5,250</u>	
			<u>10,150</u>
TOTAL ASSETS			<u>28,150</u>
Equity & liabilities			
Equity			
Capital (part a)			7,700
Add: net profit			5,060
Less:drawings(4,000+250)			<u>(4,250)</u>
Total equity			8,510
Non current liabilities:			
10% loan			12,000
Current liabilities:			
Payables		2,300	
Insurance owing		240	
Loan interest		1,200	
Bank overdraft		<u>3,900</u>	
			<u>7,640</u>
TOTAL			<u>28,150</u>

Receivables control account

	K'000		K'000
Balance b/d	4,000	Cash	450
DishonouredCheque	1,400	Discount Allowed	120

Credit Sales (bal. figure)	27,480	Bank	28,000
		Bad Debts	310
		Sales returns	1,000
		Balance c/d	3,000
	<u>32,880</u>		<u>32,880</u>

TOTAL SALES:

	K'000
Credit sales	27,480
Cash sales	<u>13,200</u>
	<u>40,680</u>

2)

Payables control account

	K'000		K'000
Bank	18,000	Balance b/d	2,100
Discount received	170	Purchases(Bal. figure)	18,370
Balance c/d	<u>2,300</u>		
	<u>20,470</u>		<u>20,470</u>

3)

Insurance account

	K'000		K'000
Balance b/d	400		
Bank	2,000	Income statement	2,640
Balance c/d	<u>240</u>	(bal.fig)	
	<u>2,640</u>		<u>2,640</u>

SOLUTION THREE

Paka CO

a) STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 2017

	K'000
Revenue	1,800
Cost of sales (W1)	<u>(1,284)</u>
Gross profit	514
Administrative expenses (325 + 10 (W4) + (16 (W3) – 10))	<u>(314)</u>
Profit for the year	<u>175</u>

b) STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2017

	K'000	K'000
Non-current assets (W2)		731
Current assets		
Inventories	75	
Trade receivables (W3)	304	
Cash	20	
		<u>399</u>
Total assets		<u>1,130</u>
<i>Equity and liabilities</i>		
Equity		
Share capital		415
Retained earnings (130 + 175)		305
Share premium		<u>80</u>
		800
Current liabilities		
Trade and other payables (250 + 10 (W4))	260	
Bank overdraft	70	
		<u>330</u>
Total equity and liabilities		<u>1,130</u>

Workings

1 Cost of sales

	K'000
Opening inventory	160
Purchases	1,140
Closing inventory	<u>(75)</u>
	1,225
Depreciation (W2)	<u>59</u>
	<u>1,284</u>

2 Non-current assets

	<i>Property</i>	<i>Plant</i>	<i>Total</i>
	K'000	K'000K'000	
Cost	740	220	960
Depreciation b/f	(60)	(110)	(170)
Depreciation for year $740 \cdot 5\%$	(37)		
$(220 - 110) \cdot 20\%$	<u>0</u>	<u>(22)</u>	<u>(59)</u>
Net book value 31 October 2017	<u>643</u>	<u>88</u>	<u>731</u>

3 Trade receivables

Allowance = $320,000 \cdot 5\% = \text{K}16,000$

$320,000 - 16,000 = \text{K}304,000$

4 Trade and other payables

Energy cost accrual

$15,000 \cdot \frac{2}{3} = \text{K}10,000$

SOLUTION FOUR

a) Four(4) types of ledger accounts

1. General ledger

The other name for general ledger is nominal ledger. This is a ledger in which we record accounts of assets, liabilities, expense and income.

2. Payable or purchases ledger

This is a ledger in which we record personal accounts of all the suppliers

3. Receivables or sales ledger

This is a ledger in which we record personal accounts of all the customers

4. Cash book

This is a book in which we record cash transactions

b) Three(3) advantages of integrated software

1. One entry in one ledger can automatically update the other books of accounts
2. The software can automatically extract specific required reports by the users from huge relevant files
3. Simplicity. The user is saved from the burden of constantly uploading and unloading the disks.

c) Three(3) disadvantages of integrated software

1. More computer memory is required than a stand - alone system
2. Integrated package could be a jack of all trades but master of none. This is because of few facilities for each module compared to a set of specialized modules
3. Once data is corrupted, it becomes a bigger problem for the all organisation.

SOLUTION FIVE

a) Four(4) types of errors not highlighted by the trial balance

1. Error of complete omission

This type of an error is whereby a business transaction is completely omitted from the books of accounts. Example, a payment of rent by cash is completely omitted in the books of accounts.

2. Error of commission

This is an error which is common with personal accounts. This is an error in which the correct amount is entered in the wrong account but correct class of account, e.g a sale on credit to B Mulenga entered in B Muleya's account

3. Error of principal

This is an error whereby a correct amount is entered in the wrong class of account, e.g failure to distinguish between revenue and capital expenditure

4. Error of original entry

This is a type of an error whereby an incorrect figure is picked from the source document and posted into the books yet the double entry system is completed.

5. Compensating errors

These are errors that cancel each other.

6. Error of complete reversal

This is an error in which an account to be credited is debited and an account to be debited is credited.

N.B Any other errors

b) Chunda's Trial Balance as at 31st March 2017

	K'000	K'000
Capital		37,220
Cash at Bank (10,300 + 5,000)	15,300	
Local business taxes	1,200	
Trade receivables (11,300 + 500 – 100)	11,700	
Returns inwards	500	
Trade payables		9,000
Revenue (14,000 + 500)		14,500
Interest on loan	120	
Purchase	6,800	
Equipment	20,000	
General expenses	6,000	
Bad debts (5,000 + 100)	5,100	
Rent received		5,000
Accumulated depreciation on equipment		1,000
	<u>66,720</u>	<u>66,720</u>

SOLUTION SIX

(a) Five (5) factors to consider when choosing an accounting package:

- i. **User-Friendly:** The ease of use is a prime factor to consider when choosing an accounting system.
- ii. **Integration:** The system should be able to be integrated with other business software . Assist in the faster location of errors as there are fewer entries to check against in the control accounts.
- iii. **Multi-currency Transactions:** An entity should choose the system that is able to manage different transactions in different currencies.
- vi. **Data Security:** The system to be chosen should have high profile security features to protect the organisation's information.
- v. **Customer Support:** The accounting software should be able to meet customers' needs

(b) Five (5) Characteristics of public sector entities.

- I. Unique Governance structures.
- II. Multiple public interest objectives
- III. Inherent public accountability
- IV. Nature and use of public resources
- V. Volume and financial significance of non-exchange transactions

(c) Five advantages of statement of cash flow

- i. It shows the actual cash position available with the company between the two statements of financial position dates which the statements of financial position and statement of profit or loss are unable to show. It is therefore important to make a cash flow report if you want to know about the liquidity position of the company.
- ii. It helps the company in making accurate projections regarding the future liquidity position of the company and hence arrange for any short fall in money by making arrangements in advance and if there is excess it can invest it to earn extra income.
- iii. It acts like a filter and is used by many analysts and investors to judge whether company has prepared the financial statements or not because if there is any discrepancy in the cash position as shown by statement of financial position with statement of cash flow then it means that statements are incorrect.

Other reasons briefly include;

- iv. Survival in business depends on the ability to generate cash.
- v. Cash flows is more comprehensive than 'profit' which is dependent on accounting conventions and concepts.
- vi. Cash flow reporting provides a better means of comparing results.

- vii. Cash flow forecasts are easier to prepare and more useful than profit forecasts.
- viii. They are easily audited than accounts based on accruals concepts.
- ix. Cash flows are easily understood.
- x. Forecasts can be monitored by the publication of variance statements which compare actual cash flows against the forecasts.

(d) **Five (5)** reasons why Year end adjustment should be considered in preparing financial statements.

- i. To correct and rectify any error or mistake that may have occurred during the year.
- ii. To pass entries that are passed on a regular basis during the year end such as provisions of bad debts.
- iii. To make sure that generally accepted accounting principles are followed.
- iv. To give proper treatment to loss/gain due to fluctuation in foreign currencies
- v. To follow and include any suggestions or advice given by auditors
- vi. To make the trial balance tally.

END OF PAPER



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 24 JUNE 2020

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 (2) 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 The opportunity loss value is used under:

- A. Maximax rule
- B. Maximini rule
- C. Minimax regret rule
- D. Maximum loss rule

(2 marks)

1.2 The letter of the word **ANALYSIS** is selected at random. Probability of selecting a vowel and a consonant is:

- A. $\frac{3}{8}$
- B. $\frac{5}{8}$
- C. $\frac{1}{4}$
- D. $\frac{15}{64}$

(2 marks)

1.3 The concept that applies probability values to forecast values is called:

- A. Simulation analysis
- B. Replacement analysis.
- C. Network analysis
- D. Deterioration analysis.

(2 marks)

1.4 Mr. Jombo deposited K245 in an account offering $2\frac{1}{4}\%$ interest compounded annually for 3 years.

The expected future value is:

- A. K16.91
- B. K261.91
- C. K16.54
- D. K261.54

(2 marks)

- 1.5 Voxa was sent to buy the following fruits from a shop.

FRUIT	Banana	Apple	Mango	Orange
AMOUNT(K)	5	3	4	8

The appropriate method of displaying this data is:

- A Simple barchart
- B. Component barchart
- C. Scatter diagram
- D. Pie chart

(2 marks)

- 1.6 A coefficient of correlation is computed to be $r = -0.98$ means that:

- A. The relationship between two (2) variables is weak
- B. The relationship between two (2) variables is strong and positive
- C. The relationship between two (2) variables is strong and but negative
- D. Correlation coefficient cannot have this value

(2 marks)

- 1.7 Fifteen percent of the students in the school of Business Administration are majoring in Economics, 20% in Finance, 35% in Management, and 30% in Accounting. The graphical device(s) which can be used to present these data is (are):

- A. A line graph
- B. Only a bar graph
- C. Only a pie chart
- D. Both a bar graph and a pie chart

(2 marks)

- 1.8 Mr. Sikazwe plans to invest an equal amount of K2,000 in an equality fund every year –end beginning this year. The expected annual return on the fund is 15 percent. He plans to invest for 20 years. How much could he expect to have at the end of 20 years?

- A. K237,620
- B. K204,887
- C. K176,424
- D. K178,424

(2 marks)

1.9 When two (2) events are independent and we are calculating the conditional probability $P(A/B)$ then it follows that:

A. $P(A) = P(B)$

B. $P(A/B) = P(A)$

C. $P(A \cap B) = 0$

D. $P(A \cup B) = 0$

(2 marks)

1.10 Which approach would be used by an optimistic (or desperate) decision maker?

A. Maximax

B. Maximin

C. Minimax

D. Expected Monetary Value (E.M.V)

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) The sales (K000) of Mutowo company for three years 2010, 2011 and 2012 are in the table below :

YEAR	Q1	Q2	Q3	Q4
2010	40	70	82	75
2011	50	80	45	83
2012	56	65	90	77

Required:

- (i) Find 4-quarter moving average trend values. (6 marks)
- (ii) Find seasonal variation values by Additive model. (4 marks)
- (iii) Forecast 2013 **Q1** and 2013 **Q2** sales by Additive model. (6 marks)

- (b) Miss Jane deposited K60,500 in Mbingose bank offering 3 % interest compounded annually for 5 years.

Required:

Calculate compound interest.

(4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Zombe stationary average price of a teller machine is K80,000 and standard deviation of K3,500. The teller machine prices are approximated by a normal curve.

Required :

Calculate the probability of a teller machine with price more than K72,965 and less than K77,270. (3 marks)

- (b) The Mukoko company manufactures two products **X** and **Y** using three Materials of **Plastics, Dye** and **Oil**. Each product **X** consumes 11g of plastics and **Y** consumes 8g of plastics. Each product **X** consumes 3g of dye and **Y** consumes 4g of dye. Each product **X** consumes 2 litres of oil and **Y** consumes 1 litre of oil. The company has 440g of plastics, 180g of dye and 70 litres of oil allocated per day. The expected profit per product **X** is K30 and **Y** is K50.

Required:

- (i) Write down the Objective function. (2 marks)
- (ii) Construct Constraint functions to maximize the objective Function. (7 marks)
- (iii) Draw the graph of the constraint functions. (5 marks)
- (iv) Determine the profit of the products. (3 marks)

[Total: 20 Marks]**QUESTION FOUR**

- (a) During the past five years, Mr. Mulyokela owned two stocks that had the following annual rates of return:

Year	Stock A	Stock B
1	0.19	0.08
2	0.08	0.03
3	-0.12	-0.09
4	-0.03	0.02
5	0.15	0.04

- (i) Compute the arithmetic mean annual rate of return of each stock. (6 marks)
 - (ii) Compute the standard deviation of the annual rate of return of each stock. (8 marks)
- (b) Suppose that we have two events, A and B, with $P(A) = 0.50$, $P(B) = 0.60$, and $P(A \cap B) = 0.40$
- (i) Find $P(A / B)$ (2 marks)
 - (ii) Find $P(B / A)$ (2 marks)
 - (iii) Are A and B independent? Why or why not? (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The Muchinga business college courses and number of students registered for each course is distributed in the table below:

Name of course	Number of students registered
Banking and finance (BF)	15
Business administration (BA)	25
ZICA	30
Purchasing and supply (PS)	10

- (i) Draw the pie chart for the given data (6 marks)
- (ii) Draw the simple bar chart for the data (4 marks)
- (b) A building contractor regards the cost of fulfilling a particular contract as a normally distributed random variable with mean K500,000 and standard deviation K50,000.
- (i) What is the probability that the cost of fulfilling the contract will be more than K460,000 and less than K540,000? (6 marks)
- (ii) What is the probability that the cost of fulfilling the contract will be less than K600,000? (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) A company is contemplating to invest in a project with an initial outlay of K50,000. The investment is expected to produce the following of cash flows over the next four years.

Year	1	2	3	4
Cash flows	16,000	25,600	22,400	12,800

Required:

- Calculate the net present value at 10 % compounded annually. (13 marks)
- (b) A box contains 10 red cards, 7 blue cards and 8 white cards.
- (i) Calculate probability of selecting a blue card. (3 marks)
- (ii) Two (2) cards are selected at random, find the probability that both are red without replacement. (4 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A

1.1 C

1.2 D : $P(V \text{ and } N) = P(V)P(N) = \frac{3}{8} \times \frac{5}{8} = \frac{15}{64}$

1.3 A

1.4 B : $A = P(1 + i)^n = 245(1.0225)^3 = 245(1.0690) = \text{K } 261.91.$

1.5 A Simple Barchart

1.6 The correct answer is C

The relationship between two variables is strong and but negative. This is perfect negative linear relationship.

1.7 The correct answer is D

Both a bar graph and a pie chart can be used to present these data.

1.8 The correct answer is B

$$\begin{aligned} FV &= P \left[\frac{(1+r)^n - 1}{r} \right] \\ &= 2000 \left[\frac{(1+0.15)^{20} - 1}{0.15} \right] \\ &= 2000(102.4436) = \text{K } 204,887 \end{aligned}$$

1.9 The correct answer is B

$$P(A/B) = \frac{P(A \cap B)}{P(B)}$$

If A and B are independent events then the probability $P(A \cap B) = P(A)P(B)$

Therefore,

$$P(A/B) = \frac{P(A)P(B)}{P(B)} = P(A)$$

1.10 The correct answer is A

Maximax Criterion or Criterion of Optimism provides the decision maker with **optimistic** criterion. He finds the maximum possible payoff for each possible alternative and then chooses the alternative with maximum payoff within this group.

SECTION B

SOLUTION TWO

(a) (i) and (ii)	YR	Q	SALES	MAT	MA	CA(T)	SV
	2010	1	40				
		2	70				
				267	66.75		
		3	82			68	14
				277	69.25		
		4	75			70.5	4.5
				287	71.75		
	2011	1	50			67.13	-17.13
				250	62.5		
		2	80			63.5	16.5
				258	64.5		
		3	45			65.25	20.25
				264	66		
		4	83			64.13	18.87
				249	62.85		
	2012	1	56			68	-12
				297	73.5		
		2	65	72.75	-7.75		
		288	72				
		3	90				
		4	77				

(iii)	YEAR	Q1	Q2	Q3	Q4
(X)	2010	-	-	14	4.5
	2011	-17.13	16.5	-20.25	18.87
	2012	-12	-7.75	-	-
	$\sum Q$	-29.13	8.75	-6.25	23.37

$$\bar{Q} = \frac{\sum Q}{4} = \frac{-1.63}{4} = -0.4075$$

$$AF = \frac{0 - (-1.63)}{4} = \frac{0 + 1.63}{4} = \frac{1.63}{4} = 0.4075$$

$$\bar{Q}_1 = -14.57 + 0.4075 = -14.1625$$

$$\bar{Q}_2 = 4.38 + 0.4075 = 4.7875$$

$$\bar{Q}_3 = -3.13 + 0.4075 = -2.7225$$

$$\bar{Q}_4 = 11.69 + 0.4075 = 12.0975$$

$$\text{SUM} = 0$$

$$\text{SI} \quad Q_1 = -14.1625 \quad Q_2 = 4.7875 \quad Q_3 = -2.7225 \quad Q_4 = 12.0775$$

$$T\text{-RANGE} = LT - ST = 72.75 - 63.5 = 9.25$$

$$TA = \frac{9.25}{7} = 1.32$$

2012

$$T_3 = T_2 + TA = 72.75 + 1.32 = 74.07$$

$$T_4 = T_3 + TA = 74.07 + 1.32 = 75.39$$

2013

$$T_1 = T_4 + TA = 75.39 + 1.32 = 76.71$$

$$T_2 = T_1 + TA = 76.71 + 1.32 = 78.03$$

Forecast

$$T_1 = 76.71 - 14.1625 = 62.5475 = 62.55$$

$$T_2 = 78.03 + 4.7875 = 82.8175 = 82.82$$

(b) $P = K 60500 \quad n = 5 \quad i = 0.03$

$$A = P(1 + i)^n = 60500(1.03)^5 = 60500(1.1593) = K 70137.65$$

$$CI = A - P = 70137.65 - 60500 = K 9637.65$$

SOLUTION THREE

(a) $\mu = 80\,000 \quad \rho = 3500$

$$P(72965 < X < 77270) = P(72965 < X < 80000) - P(77270 < X < 80000)$$

$$\frac{72965-80000}{3500} - \frac{77270-80000}{3500} = \frac{-7035}{3500} - \frac{-2730}{3500} = -2.01 - (-0.78)$$

$$= 0.4778 - 0.2823 = 0.1955$$

(b) LP-TABLE

	PRODUCT		TOTAL
	X	Y	
PLASTICS	11	8	440
DYE	3	4	180
OIL	2	1	70
PROFIT(K)	30	50	

(i) $Z = 30x + 50y$

(ii) $11x + 8y \leq 440$

$$3x + 4y \leq 180$$

$$2x + y \leq 70$$

$$x \geq 0, y \geq 0$$

(iii) (x,y)

$$11x + 8y = 440$$

$$Y=0 \quad 11x + 8(0) = 440 \quad x=0 \quad 11(0) + 8y = 440$$

$$11x = 440 \quad 8y = 440$$

$$x = 440/11 = 40 \quad (40, 0) \quad y = 440/8 = 55, (0, 55)$$

$$3x + 4y = 180$$

$$Y=0 \quad 3x + 4(0) = 180 \quad x=0 \quad 3(0) + 4y = 180$$

$$3x = 180 \quad 4y = 180$$

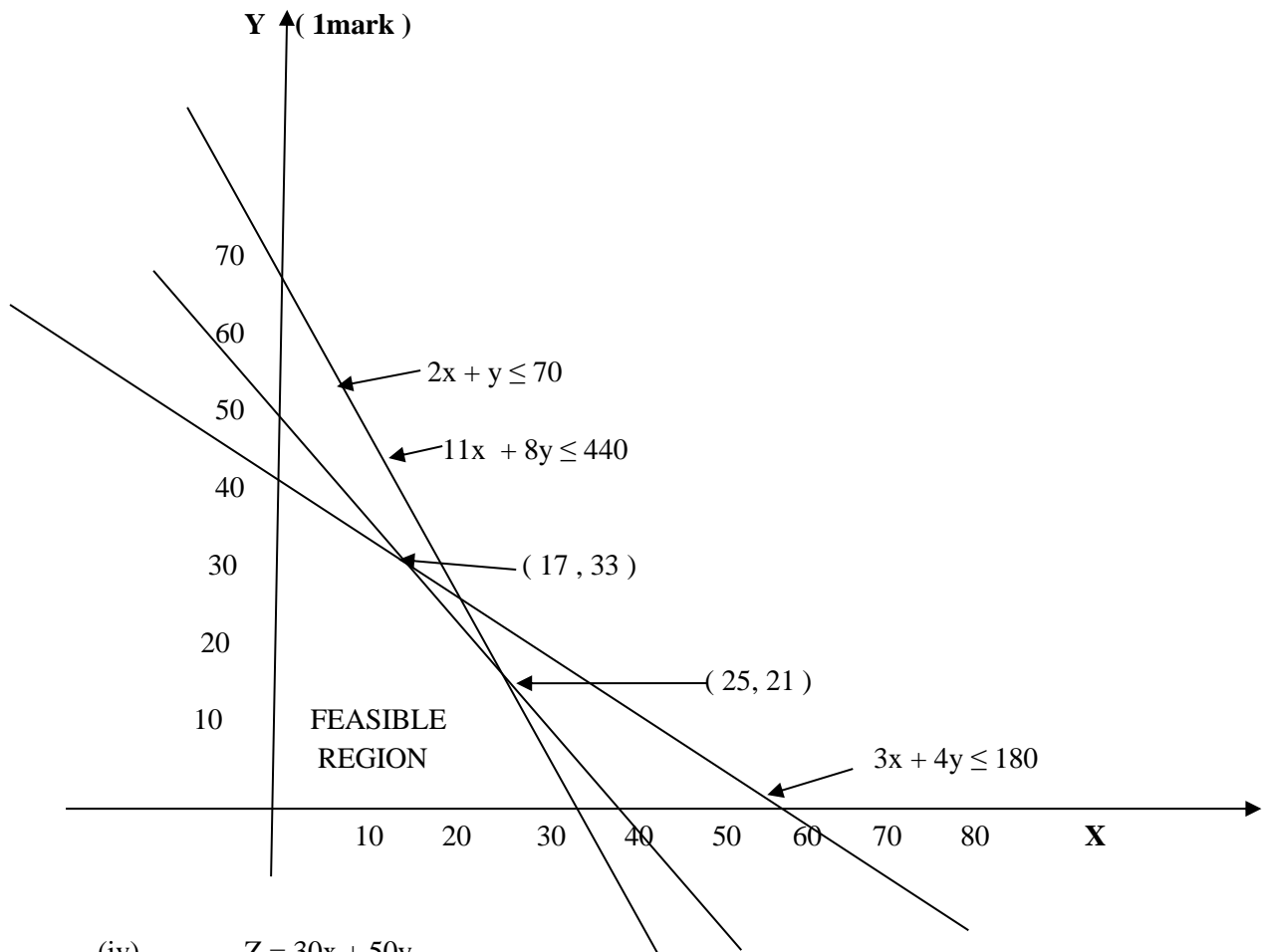
$$X = 180/3 = 60, (60, 0) \quad y = 180/4 = 45, (0, 45)$$

$$2x + y = 70$$

$$Y=0 \quad 2x + 0 = 70 \quad x=0 \quad 2(0) + y = 70$$

$$2x = 70 \quad y = 70 \quad (0, 70)$$

$$X = 70/2 = 35 \quad (35, 0)$$



(iv)

$$Z = 30x + 50y$$

$$(17, 33): Z = 30(17) + 50(33) = 510 + 1650 = \text{K}2160$$

$$(25, 21): Z = 30(25) + 50(21) = 750 + 1050 = \text{K}1800$$

Profit = K 2160

SOLUTION FOUR

Stock A

(a) (i) $\text{mean} = \frac{\sum x}{n} = 0.27/5 = 0.054$
1 mark

Stock B

Mean = $0.08/5 = 0.016$
1 mark

(ii) Stock A

$$\begin{aligned} \text{Sd} &= \sqrt{\frac{\sum x^2}{n} - \bar{x}^2} = \sqrt{\frac{0.0803}{5} - 0.054^2} = \sqrt{0.01606 - 0.002916} \\ &= \sqrt{0.013144} \\ &= 0.114642 \end{aligned}$$

Stock B

$$\text{Sd} = \sqrt{0.0174 - 0.000256} = \sqrt{0.017144} = 0.1309$$

1 mark

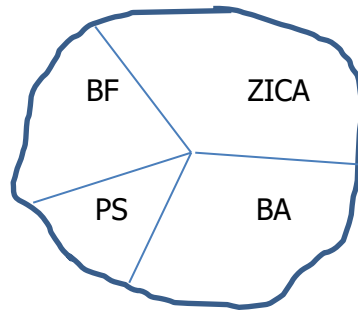
(b) (i) $P(A/B) = 0.40/0.60 = 0.67$
1 mark

(ii) $P(B/A) = 0.4/0.5 = 0.8$

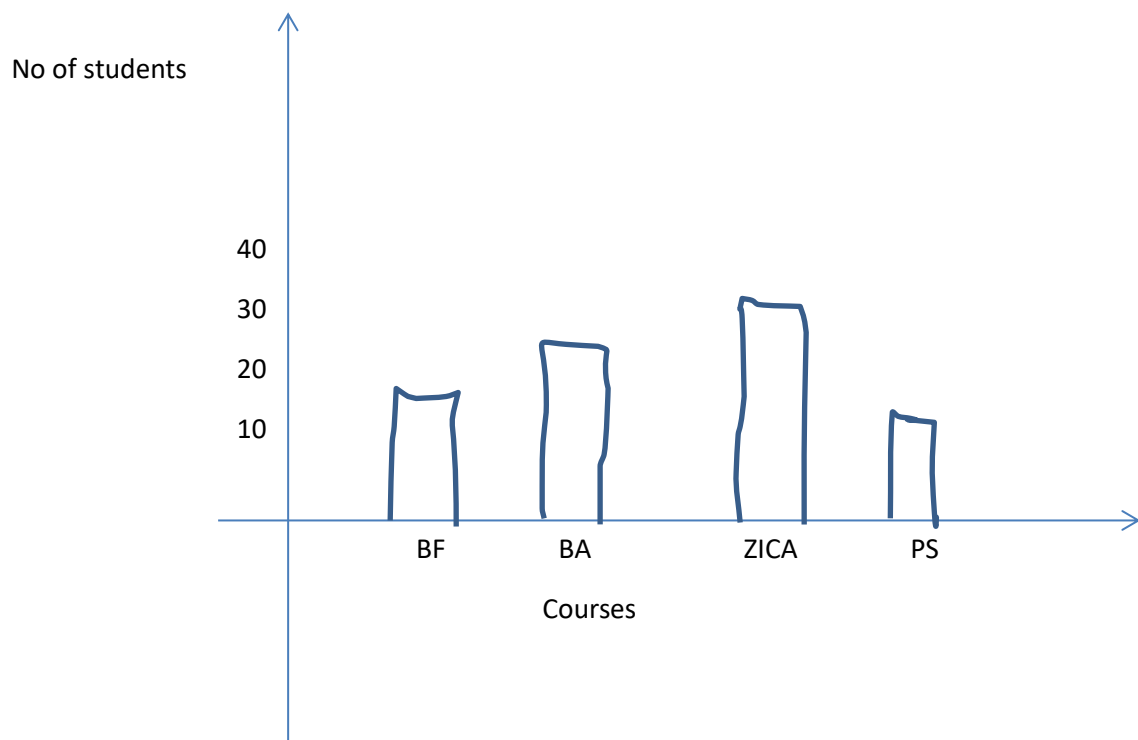
(iii) A and B not independent $P(A/B) \neq P(A)$
 $0.67 \neq 0.5$

SOLUTION FIVE

- (a) (i) $BF^\circ = (15/80)360 = 67.5^\circ$
 $BA^\circ = (25/80)360 = 112.5^\circ$
 $ZICA^\circ = (30/80)360 = 135^\circ$
 $PS^\circ = (10/80)360 = 45^\circ$



(ii)



- (b) (i) $P(460000 < X < 540000) = P(460000 < X < 500000) + P(500000 < X < 540000) =$
 $(460000 - 500000)/50000 + (540000 - 500000)/50000 =$
 $-40000/50000 + 40000/50000$

$$\begin{aligned}
 &= -0.8 + 0.8 \\
 &= 0.2881 + 0.2881 = 0.5762
 \end{aligned}$$

$$\begin{aligned}
 \text{(ii) } P(X < 600000) &= 0.5 + P(500000 < X < 600000) = \\
 &= 0.5 + (600000 - 500000)/50000 \\
 &= 0.5 + 100000/50000 \\
 &= 0.5 + 2.00 \\
 &= 0.5 + 0.4772 \\
 &= 0.9772
 \end{aligned}$$

SOLUTION SIX

(a)

YEAR	CASH	DF	DFxC	
1	16000	0.9091	16000X0.9091	14545.6
2	25600	0.8264	25600x 0.8264	21155.84
3	22400	0.7513	22400 x 0.7513	16829.12
4	12800	0.6830	12800x 0.6830	8742.4
			ΣPV	61272.96

$$NPV = 61272.96 - 50000 = 11272.96$$

(b) (i) $P(B) = 7/25$

(ii) $P(R \text{ and } R) = P(R)P(R/R) = 10/25 \times 9/24 = 3/20$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 23 JUNE 2020

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 (2) 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 – (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 against each question.

1.1. The difference between economic and accounting costs of a firm is:

- A. The corporate taxes on profits.
- B. The sunk costs incurred by the firm.
- C. The opportunity costs of the factors of production owned by the firm.
- D. The explicit costs of the firm.

(2 marks)

1.2. Which of the following is **NOT** a function of Central Bank?

- A. To formulate and implement monetary policies.
- B. To issue loans to the general public.
- C. To act as fiscal agent of government.
- D. To regulate and supervise commercial banks.

(2 marks)

1.3. Zero price elasticity of demand occurs when:

- A. A small price reduction raises the quantity demanded from zero.
- B. The quantity demanded does not change as the price changes.
- C. A given percentage change in price causes an equal percentage change in quantity demanded.
- D. A small price reduction raises the quantity demanded to infinity.

(2 marks)

1.4. Price ceilings and price floors

- A. Cause surpluses and shortages, respectively, in the market.
- B. Shift demand and supply curves and cause shortages and surpluses in the market
- C. Make the rationing function of free markets more efficient.
- D. Do not Interfere with the rationing function of prices in the market.

(2 marks)

1.5. Diminishing marginal returns means that:

- A. As more capital is used in production, but labour input is held constant, marginal productivity of capital falls.
- B. If capital and labour inputs double, output increases by less than double.
- C. As labour increases and capital decreases, the marginal rate of technical substitution increases.
- D. Average cost remains constant as output decreases.

(2 marks)

- 1.6. Which of the following is **NOT** conducive to the successful operation of a cartel?
- A. The supply of non-cartel members is very price elastic.
 - B. Market demand for the good is relatively inelastic.
 - C. The cartel supplies most of the world's output of the good.
 - D. Cartel members have a substantial cost advantage over non-members.
- (2 marks)
- 1.7. Inflation is best described as:
- A. An expansion in monetary policy.
 - B. A rise in the price of copper.
 - C. An increase in the nominal interest rate.
 - D. A rise in the overall level of prices.
- (2 marks)
- 1.8. The type of unemployment resulting from a situation where jobs become redundant because a manufacturer introduces computerised machinery is
- A. Seasonal.
 - B. Frictional.
 - C. Structural.
 - D. Cyclical.
- (2 marks)
- 1.9. Which one of the following has been a major driver of globalisation?
- A. Divergent consumer tastes in different national consumer markets.
 - B. Growth opportunities and weak competition for firms within domestic markets.
 - C. Tariffs and import quotas being imposed by national governments.
 - D. Developments in information and communication technologies.
- (2 marks)
- 1.10. Which of the following correctly describes the purpose of supply side macroeconomic policy?
- A. To raise the level of aggregate demand in an economy.
 - B. To improve the ability of an economy to produce goods and services.
 - C. To manage the money supply in an economy.
 - D. To reduce unemployment by reducing the supply of labour.

(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 the three (3) questions.

QUESTION TWO

"The Privatization Act of 1992 empowered the Zambia Privatization Agency (ZPA) today subsumed into the Zambia Development Agency (ZDA) to implement a Divestiture Sequence Plan to privatize the State-Owned Enterprises (SOEs) also called parastatals which were operating as monopolies." Source www.zpa.org.zm

- (a) Define the term privatization. (2 marks)
- (b) State and explain any two (2) limitations of privatization in a country like Zambia. (4 marks)
- (c) Evaluate any two (2) arguments for and any two (2) arguments against monopolies in a country like Zambia. (8 marks)
- (d) Contrast a perfect competitive firm and an oligopoly firm along the line of products, demand curve and competition type. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Suppose the average monthly income of households in Kitwe increases from K3,000 to K3,500. Consequently, the quantity demanded of white mealie meal increases from 2,000 to 2,100 units per day, the quantity demanded of roller mealie meal decreases from 3,000 to 2,900 units per day, and the quantity demanded of Hungry Lion fried chicken increases from 400 to 600 pieces per day.
 - (i) Calculate the income elasticity of demand for white mealie meal, roller mealie meal, and fried chicken, respectively, using the midpoint formula. (6 marks)
 - (ii) Classify each of these three products as normal or inferior. Explain your answer in each case. (6 marks)
- (b) Discuss why it is necessary for the government to impose price floors on some agricultural products? (8 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Outline any three (3) advantages and any two (2) disadvantages of private limited companies. (5 marks)
- (b) With the use of a diagram, illustrate the long-run average cost curve. (5 marks)
- (c)
 - (i) With the aid of labelled diagrams, explain how competitive firms can make supernormal profits, normal profits and losses in the short run. (9 marks)
 - (ii) Explain briefly why it is impossible for a competitive firm to make supernormal profits in the long run. (1 mark)

[Total: 20 Marks]

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

QUESTION FIVE

The multiplier process plays a crucial role in influencing a country's national income.

- (a) Describe the relationship between the multiplier and the marginal propensity to consume (MPC). (3 marks)
- (b) Determine the change in the equilibrium level of output when there is a K10 increase in net export spending and the MPC = 0.50, 0.75, and 0.80. (5 marks)
- (c) Outline the four (4) main transactions which are captured in the Current Account of the Balance of Payments. (8 marks)
- (d) Assuming a flexible exchange rate, how can a deficit in Zambia's Balance of Payments be corrected? (4 marks)

[Total: 20 Marks]

QUESTION SIX

The Zambian government macroeconomic objectives are among others to achieve a reasonable economic growth rate and to control inflation (achieve price stability).

- (a) Explain any two (2) monetary policy instruments that should be used in order for the Zambian government to reduce the rate of inflation. (4 marks)
- (b) Analyse any two (2) fiscal policy measures that should be put in place in order for the Zambian government to grow the economy. (4 marks)
- (c) Outline four (4) arguments in favour of floating exchange rate regime. (8 marks)
- (d) Distinguish between demand pull and cost push inflation. (4 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Suppose a closed economy has the following information; $C=0.8(Y-T) + 480$, $I=1,000$, $G=800$, $T=100$.
 - (i) Derive the AE function. (2 marks)
 - (ii) Calculate the equilibrium national income (1 mark)
 - (iii) If investment increases by 200 and G by 100, what will be the new equilibrium national income? (2 marks)
- (b) Suppose you are provided the following T-accounts for the central bank and the Community Bank of a given country. Assume that there is only one commercial bank, that this bank will not hold excess reserves and that there are no currency drains (that is, no one in country X holds dollars-all transactions are done using checkable deposits).

Central bank		Community bank	
Assets	Liabilities	Assets	Liabilities
T-Bills 200	Reserves 200	Reserves 200	Demand Deposits 1000
		Earning Assets 800	

- (i) Determine the required reserve ratio. (1 mark)
- (ii) Calculate the money multiplier. (2 marks)
- (iii) Holding everything else constant, what happens to the money multiplier when the central bank increases the required reserve ratio? (2 marks)
- (c) Describe the functions of any three (3) financial intermediaries. (6 marks)
- (d) Distinguish, with one example of each, between short term and long term capital. (4 marks)
- [Total: 20 Marks]**

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A: MULTIPLE CHOICE

SOLUTION ONE

1.1. C

1.2. B

1.3. B

1.4. D

1.5. A

1.6. A

1.7. D

1.8. C

1.9. D

1.10. B

SECTION B: MICROECONOMICS

SOLUTION TWO

- (a) Privatization refers to the process of moving industries from the state sector (public sector) to private sector (free enterprise). Alternatively it is the process of transferring ownership of a business, enterprise, agency or public service from the public sector (the state or government) to the private sector (businesses that operate for a private profit) or to privatized non-profit organization.
- (b) Limitations of privatization
- (i) Creates a private sector monopoly : The state may not seek to maximize profits from state enterprise and so may charge lower prices. Investors seek profit and may use the monopoly power to drive prices up.
 - (ii) Removes essential industries from state control : key industries like energy, telecommunications, transport and mining are the foundation of an economy.
 - (iii) Danger of underinvestment and cost-cutting : profit maximization may lead to cutting corners in a way that leaves the nation with a second rate industry or one that operates dangerously.
- (c) Arguments for monopolies :
- (i) Monopolies may be needed to achieve maximum economies of scale. Lower unit costs and lower marginal costs of production often translate into lower prices.
 - (ii) Monopolies can afford to spend more on research and development, and are able to exploit innovation and technological progress much better than small firms.
 - (iii) Monopolies may find it easier than small firms to raise new capital on the capital markets, so can finance new technology and new products which enhance growth.
- Arguments against monopolies :
- (i) Profit-maximizing output is likely to be at a price and output level which give supernormal profits at the expense of the consumer (ie $AR > AC$).
 - (ii) Resources are not used in the most efficient way possible as average costs (AC) are not minimized (ie $MR = MC$ but $MC < AC$)
 - (iii) If there are no economies of scale, less will be produced and more sold at a higher price than would be the case in a competitive market.
- (d) Contrast between perfect competitive firm and oligopoly firm

		Perfect Competitive firm	Oligopoly firm
1	Product	Products are homogeneous	Products are differentiated
2	Demand curve	A horizontal line	A kinked demand curve
3	Competition type	Price competition is adopted	Non-price competition is adopted

SOLUTION THREE

(a)

- (i) Midpoint income elasticity of demand = $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$

$$\text{Midpoint income elasticity of demand} = (\Delta Q_d / \Delta I) \times (\text{average } I / \text{average } Q_d)$$

Let white mealie meal = WM, roller mealie meal = RM, and Hungry Lion fried chicken = HLFC

$$\text{Midpoint elasticity (WM)} = (100/500) \times (3250/2050)$$

$$\text{Midpoint elasticity (WM)} = 325/1025$$

$$\text{Midpoint elasticity (WM)} = \mathbf{0.317}$$

$$\text{Midpoint elasticity (RM)} = (-100/500) \times (3250/2950)$$

$$\text{Midpoint elasticity (RM)} = -325/1475$$

$$\text{Midpoint elasticity (RM)} = \mathbf{-0.22}$$

$$\text{Midpoint elasticity (HLFC)} = (200/500) \times (3250/500)$$

$$\text{Midpoint elasticity (HLFC)} = 650/250$$

$$\text{Midpoint elasticity (HLFC)} = \mathbf{2.6}$$

- (ii) Let white mealie meal = WM, roller mealie meal = RM, and Hungry Lion fried chicken = HLFC

WM is a **normal good** because the income elasticity of 0.317 suggests an increase in income causes an increase in quantity demanded for WM, *ceteris paribus*.

RM is an **inferior good** because the income elasticity of -0.22 suggests an increase in income causes a decrease in quantity demanded for RM, *ceteris paribus*.

HLFC is a **normal good** because the income elasticity of 2.6 suggests an increase in income causes an increase in quantity demanded for HLFC, *ceteris paribus*.

- (b) A price floor is a government-mandated price that exists above the market's equilibrium price; price floors result in a surplus of production. While market demand for most agricultural commodities is relatively stable over time, market supply is very much influenced by the weather. A drought, for example, decreases supply and pushes up prices while a bumper crop can severely depress agricultural prices. The profitability of farming becomes uncertain, as does the price of food products and the income needed to feed a household.

Thus, the reasons for agricultural price supports (price floors) are:

- (1) To stabilise farmer incomes and encourage farmers to continue farming whether there are bumper crops or droughts;
- (2) To provide a stable flow of agricultural products at relatively stable prices; and
- (3) To stabilise the amount of income that households need to spend on food.

SOLUTION FOUR

a) Advantages and disadvantages of private ltd companies

Advantages

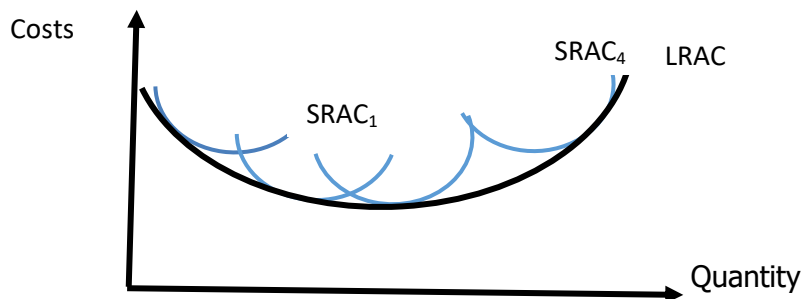
- It is a legally separate entity or personality from the owners.
- The liability of shareholders is limited, so their personal assets are not at risk.
- It can easily raise more capital by selling shares though not publicly.
- The company has sure continuity, as it does not depend on one person.
- The founders can retain control over the company by holding the majority of its shares.

Disadvantages

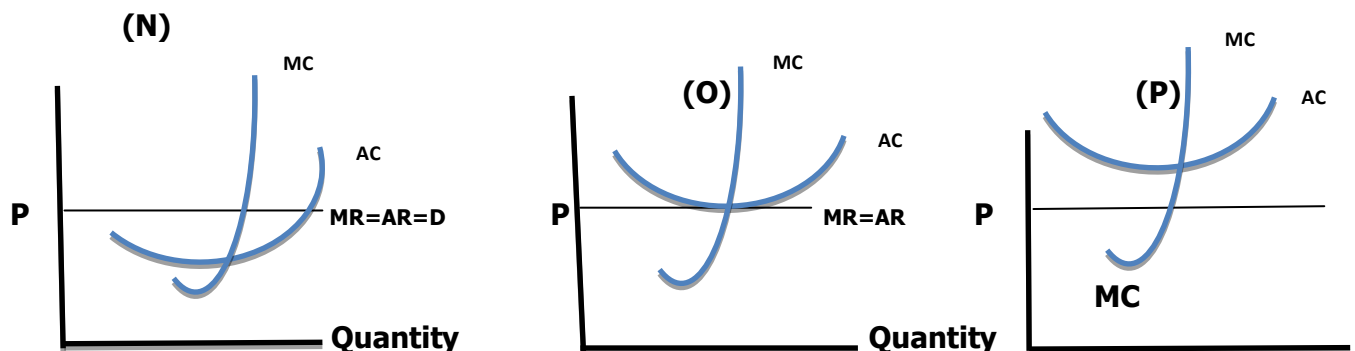
- There are too many legal formalities to comply with.
- Lack of capital can restrict the growth of a private limited company.
- The shares are not freely transferable, as the existing shareholders should approve such
- Accounts should be audited annually, hence the need to engage services of an Auditors.
- The company is less flexible when compared to a sole proprietorship.

b) Long Run Average Total Cost Curve

Is often called an envelope curve because it is the minimum points of all possible short-run average total cost curves (allowing technology and fixed cost to vary).



C (i)



Firm (N) is making supernormal profits because the price, P is way higher than average cost, AC ($p > AC$). The profits are represented by the area under MR curve. (3marks)

Firm (O) is making normal (zero economic) profit because price, p equals average cost ($P=AC$)(3marks)

Firm (P) is making losses, represented by the area under AC curve (3 marks)

C (ii) the freedom of entry and exit means that abnormal profits attract new entrants to the industry and they compete away the profits.

SOLUTION FIVE

(a)

- (i) The value of the multiplier is directly related to the magnitude of MPC such that the greater the MPC, the larger the value of the multiplier.
- (ii) The change in the equilibrium level of output is found by solving the equation $\Delta Y = m(\Delta X)$ for ΔY where m is the multiplier $= 1/(1 - MPC)$.
- The change in equilibrium level of output is K20 [$\Delta Y = 2(K10) = K20$] when $MPC = 0.50$.
 - The change in equilibrium level of output is K40 [$\Delta Y = 4(K10) = K40$] when the $MPC = 0.75$.
 - The change in equilibrium level of output is K50 [$\Delta Y = 5(K10) = K50$] when the $MPC = 0.80$.

(b)

- Reflects **merchandise exports**, i.e. exports and imports of goods and services - merchandise exports and merchandise imports (trade balance).
- **Service receipts and service payments** reflects trade in services; e.g. transport of goods and passengers, financial and insurance, other professional services. Includes money spent by tourists visiting Zambia or payments by Zambians traveling abroad.
- **Income receipts and income payments** – income earned by Zambian residents abroad, or income earned to non-residents in Zambia.
- **Current transfers** – transfers represent money or goods and services transferred without anything tangible being received in return, e.g. charitable donations, gifts, social security transfers.

- (c) A deficit in a nation's balance of payments means that at a given rate of exchange, there is a shortage (an excess of quantity demanded over quantity supplied) of the foreign currency. If the exchange rate is freely flexible or floating, the exchange rate will rise until the quantity demanded of the foreign currency equals the quantity supplied and the deficit is completely eliminated. This rise in the exchange rate means that the relative value of the domestic currency is falling or depreciating.

SOLUTION SIX

- (a) To reduce the rate of inflation, the government would use the following instruments:
Contractionary monetary policy:
- (i) Increase Interest rates, this discourages people from borrowing. Therefore spending will go down, demand will go down and prices will go down and inflation will go down.
 - (ii) Reduce the money supply by the Bank of Zambia by selling treasury bills (short term measures) or government bonds (long term measures.)
 - (iii) Increase the required reserve ratio to reduce liquidity.
- (b) To grow the economy, the government will put in place the following measures:
Expansionary fiscal policy:
- (i) Cutting levels of direct or indirect tax. The effect would be to encourage more spending and boost the economy.
 - (ii) Increasing government expenditure especially in capital projects so that the economy will grow.
 - (iii) Increase borrowing for productive purposes.
- (c) (i). Arguments for floating exchange rate regime;
- Governments do not have to spend or even hold foreign currency reserves
 - Balance of payment deficits or surpluses are automatically corrected
 - Governments need not adopt economic policies that may be undesirable for other reasons to maintain exchange rates
 - Encourage efficient allocation of resources since exchange rates will reflect economic conditions.
- (d) Demand pull inflation arises from persistent excess of aggregate demand over aggregate Supply ($AD > AS$), due to constrained aggregate supply. This occurs when full employment has been reached or when the economy is in a depression.

Cost push inflation occurs where the cost of production rise regardless of whether or not they are in short supply, and where the rise in costs is not matched by an increase in productivity. For instance, escalating costs of imported raw materials or in wages may cause cost push inflation.

SOLUTION SEVEN

a)

$$\begin{aligned} \text{i) } Y &= 480 + 0.8(Y-100) + 1000 + 800 \\ &= 480 + 1000 + 800 + 0.8(Y-100) \\ Y &= 2200 + 0.8Y \end{aligned}$$

$$\text{ii) } Y = 11,000$$

iii) If Investment increases by 200 and Government expenditure by 100

$$\begin{aligned} Y &= 480 + 1200 + 900 + 0.8Y - 80 \\ &= 2500 + 0.8Y \end{aligned}$$

$$Y = 12,500$$

b)

- Required reserve ratio = $[(\text{required reserves})/(\text{demand deposits})]*100$
 $= (200/1000)*100 = 20\%$
- Money multiplier = $1/rr = 1/.2 = 5$
- If the central bank increases the required reserve ratio this results in banks holding more of the demand deposits as reserves instead of using these funds to purchase earning assets (e.g., to make loans). As banks increase their reserves this implies a smaller money multiplier.

c) Financial intermediaries

Insurance Companies; Individuals or firms with a risky investment can go to an insurance company who can offer insurance and help spread the risk of default.

Financial Advisers; A financial adviser offers specialist advice and helps you understand all the intricacies of the financial markets and spending time looking for best investment.

Credit Union; Credit unions are informal types of banks which provide facilities for lending and depositing within a particular community.

Mutual funds/Investment trusts; These pool the small savings of individual investors and enable a bigger investment fund. Therefore, small investors can benefit from being part of a larger investment trust. This enables small investors to benefit from smaller commission rates available to big purchases.

d) Short term and Long term capital

Short term capital is capital which can be lent or borrowed for a period as short as overnight up to about one year. Examples include; commercial paper, bill of exchange, bank overdraft...

Long term capital is capital that is lent or borrowed for a period of about five years or more, though sometimes the period might be shorter. Examples include; ordinary shares, preference shares, bonds debentures ...

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 24 JUNE 2020

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 (2) 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 in your answer booklet. Marks allocated are indicated against each question.

1.1 Which one is the correct combination about the computer passwords?

- A. The combination of characters used as a secret code to access computing resources
- B. It is normally advisable to use your birth date and name for your password.
- C. Keep your password secret
- D. Passwords are not necessary in a critical database

(2 marks)

1.2 Which one of the following best describes cloud storage?

- A. It is storage found in the cloud
- B. It is a method of online storage space accessible anywhere using internet
- C. It is a storage used by flash discs
- D. It is a form of storage used in the office cabinet

(2 marks)

1.3 Which of the following is the correct absolute cell address?

- A. \$A1
- B. \$A\$1
- C. A\$1
- D. A1

(2 marks)

1.4 Which is the best combination of the data that can be entered onto a spreadsheet?

- A. Text and numbers
- B. Formulae, text and numbers
- C. Numbers and Formulae
- D. Text and Formulae

(2 marks)

1.5 In computer language, one kilobyte equals.

- A. 1,000 bytes
- B. 1,024 bytes
- C. 100 bytes
- D. 8 bytes

(2 marks)

1.6 Which one of the following is an example where managers in an organisation will have to seek for permission?

- A. Procurement of cleaning materials
- B. Employment of additional staff
- C. Holiday compassionate leave
- D. Buying a personal to holder car

(2 marks)

1.7 A notice for a meeting is:

- A. An announcement for a meeting
- B. An invitation for a meeting
- C. A meeting document which is important
- D. An announcement and an invitation to attend a meeting

(2 marks)

1.8 Feedback is important in order:

- A. To get things done
- B. To build effective working relationships
- C. To give people the information they need
- D. To confirm if the message has been received and understood

(2 marks)

1.9 A leading question is:

- A. A question that suggests the expected answer
- B. The question that provide the answer
- C. The question that require longer responses and provides the expected answer
- D. The question that requires a short response and suggest the expected answers

(2 marks)

1.10 Which of the following suggestion can be used to improve PowerPoint presentation to avoid slides each crammed with lots of text?

- A. Use a 4 X 6 rule
- B. Use a 3 X 6 rule
- C. Use a 6 X 6 rule
- D. Use a 7 X 6 rule

(2 marks)

[Total: 20 Marks]

SECTION B

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

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

A company has just prepared a spread sheet for its employee wages. As an Assistant Accountant in this organisation your task is to complete the worksheet below in Fig 1.0

	A	B	C	D	E	F	G	H
1					Allowances			
2	Employee Name	Employee number	Gross Salary	PAYE	Accommodation	Fuel	Total Allowances	Net Salary
3	Peter	1001	20000		6000	200		
4	Joshua	1002	80000		12000	500		
5	Vincent	1003	185000		120000	100		
6	Data	1004	13000		5000	100		
7								
8								
9	PAYE	15%						

Fig 1.0

Required:

- (a) Indicate the appropriate formulae for the following:
- (i) PAYE for all the employees (4 marks)
 - (ii) Total Allowances for all the employees (2 marks)
 - (iii) Net Salary for all the employees (4 marks)
- (b) Outline any three (3) advantages of a spread sheet? (3 marks)
- (c) Briefly explain three (3) benefits of the computerised accounting information system. (3 marks)
- (d) Give four (4) advantages of using the Internet as an Accountant. (4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Most organisations have moved from using file-based systems to databases for information storage.

Briefly explain any five (5) functions of the Database Management System (DBMS)
(10 marks)

- (b) Accountants mostly use spreadsheets to do their work.

Explain the following features of a spreadsheet

- (i) Cell referencing (3 marks)
- (ii) Merge and centre (4 marks)
- (iii) Show formula (3 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Define a network topology. (2 marks)

- (b) Describe any three (3) types of topologies. (6 marks)

- (c) Distinguish between soft and hard computer lockups detailing the steps you would take to resolve them in each case. (6 marks)

- (d) Explain the main models of E-commerce. (6 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Employers in any Accounting Organizations determine which communication channels work best with their approach. It is therefore important that managers get their ideas across and listen.

- (a) Explain the term '*medium of communication*'? (2 marks)
- (b) Explain the following medium of communication found in most Accounting Organizations.
 - (i) Oral communication (6 marks)
 - (ii) Written communication (6 marks)
 - (iii) Non-verbal communication (6 marks)

[Total: 20 Marks]

QUESTION SIX

Kafue Steel LTD advertised for the position of an accountant in the TimesofZambia. Qualification required is a minimum of a Diploma in accounts, work experience of three (3) years and must be a registered member of ZICA.

Required:

- (a) Write an application letter for the position advertised, create all necessary information that would support your job application letter. (14 marks)
- (b) Briefly explain the following types of letters
 - (i) Letter of complaint (2 marks)
 - (ii) Letter of apology (2 marks)
 - (iii) Letter of recommendations (2 marks)

[Total: 20 Marks]

QUESTION SEVEN

A barrier to communication is anything that prevents the communication being successful. It could be physical noise or more psychological. In business environment, it is important to be aware of barriers that can hinder effective communication.

Required:

- (a) Briefly explain the following barriers to effective communication
- (i) Status(2 marks)
 - (ii) Information overload(2 marks)
 - (iii) Wrong medium(2 marks)
 - (iv) Language(2 marks)
 - (v) Failure to provide feedback (2 marks)
- (b) Explain measures that can be put in place to overcome the barriers mentioned above. (10 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A

SOLUTION ONE

1.1 **A**

1.2 **B**

1.3 **C**

1.4 **B**

1.5 **B**

1.6 **B**

1.7 **D**

1.8 **D**

1.9 **A**

1.10 **C**

SECTION B

SOLUTION TWO

- a) Formulas for the following:
- PAYE for the employees $=B9*C3$; $=B9*C4$; $=B9*C5$; $=B9*C6$
 - Total allowances for all the employees $=E3+F3$; $=E4+F4$; $=E5+F5$; $=E6+F6$
 - Net Salary $=D3-(C3+G3)$; $=D4-(C4+G4)$; $=D5-(C5+G5)$; $=D6-(C6+G6)$
- b) Three advantages of a spread sheet are as follows:
- Allows easy graphical representation of data
 - Easy to learn and use
 - Make the calculation and the manipulation of data easier and quicker
 - Enable analysis, reporting and sharing of financial data
 - Easily show the results of using different values and assumptions
 - Less arithmetical errors compared to manual calculation
- c) Three (3) benefits of the computerised accounting information system are as follows:
- **Accuracy of processing business transaction.** It reduces error of input due arithmetic calculations and mis-posting from journals
 - **Speed of processing of business transactions.** There is timely processing of large business transaction as opposed to manual processing.
 - **Automation of data at input**
 - It is feasible as opposed to entering data manually; example of such automation at input could be the use of bar code reader.
 - **Reduction in Labour cost** the automation can significantly reduce the number of staff working on the financial transactions
 - **Integration of information** is possible between different computerised information system which require data to be shared among these system
 - **Effective management decision** due accurate information from the system
- d) Advantages of the Internet for accountants
- Payments can be done online
 - Can easily communicate using emails and video conference technology
 - Can manage and control operations from remote places
 - Returns can be done online
 - Online invoicing
 - Online business courses

SOLUTION THREE

a) Functions of DBMS

- Less duplication of work, data is held once and not duplicated in different files
- Less processing of data/information or minimising data redundancy
- Update is much easier for all applications
- Improved access to data and wide range of data for management reports that would be obtained
- Data can be used by different users for different applications and in different ways
- More formal control of the data is done by the database administrator who ensures that data is properly backed up and access is properly controlled

b) Features of the spreadsheet

- i) **A cell reference** or cell address is an alphanumeric value that is used to identify a specific cell in a spreadsheet. Each cell reference contains one or more letters followed by a number. The letter(s) identify the column and the number represents the row, e.g. A7 means Column A, Row 7.
- ii) **Merge and centre** is a feature in excel that allows several cells to be combined (merged) into one cell and the contents to be centred. If the cells to be merged have different contents, excel will keep the upper value and will discard the rest.
- iii) **Show formula** is a feature in cell that enables on the view the formulae the were entered to carry out some calculation. In excel when you enter a formula to calculate, the result will show when you press enter. To see the formulae, one needs to click show formula in the menu tab.

SOLUTION FOUR

- a) Network topology is the physical arrangement or layout of devices on the network. It defines the way different nodes are placed and interconnected with each other.

They are four main types of network topologies which are:

- **Bus topology** – in which all devices are connected to a central transmission line called a bus or the backbone. Data is transmitted via the bus and is seen by all the devices on the network. It is cheap to install and run but presents one point of failure and is also prone to collisions.
- **Star topology** – All devices are connected to one central device called a hub or a switch. All devices send data via the central device that retransmits to the right port (device). Failure in the cables that connect the device to central device does not affect the network but the failure if the central device affects the whole network.
- **Ring topology** – Each device is connected to two adjacent devices on both sides until a loop of formed called a ring. They are connected in a circular fashion and data flows in one direction.
- **Mesh topology** – devices are connected to every other device on the network forming a mesh of interconnections. It is very expensive to install but offers high fault tolerance and is most used for highly critical installations.

- b) Computer lockup is when the computer becomes unresponsive to any command input usually referred to as hanging or freezing. If the problem is resolved by pressing a combination of Ctrl, Alt and Del and end the program that is not responding, then it is a soft lockup. If the problem is not resolved using the procedure above, then it a hard lockup and one has to restart the computer.

SOLUTION FIVE (a)

Definition of medium of communication:

A medium of communication can be defined as a way or form in which messages or information is delivered from sender to the receiver. Information can be delivered using oral, written or visual communication.

SOLUTION FIVE (b)

i. Oral Communication

Oral communication is the communication executed through spoken words. The most popular channels through which oral business communication are conducted include face-to-face conversations, telephone conversations, and videoconferencing. It is a very fast medium of communication. The advantage is that there is immediate feedback of information. However there messages are easily distorted and there is no record for future reference if there is no form of recording done.

ii. Written Communication

Written communication is communication through written word. It is one of the most official means of communication in a business setting. Written letters, memos, emails, etc. are all popular channels of written communication. Expressing messages in written form is more official. It is for this reason that many businesses chose to employ the written word in matters of policy and procedure. When communicating using the written word, it is important to be clear, concise, and polite. Written communication has a record for future reference and forms a basis for contract agreements. However written communication can be time consuming and instant feedback may not be possible at times (6 marks)

iii. Nonverbal Communication

Nonverbal communication involves using body language to send cues, such as happiness, satisfaction, anger, worry, and fear. It's probably the oldest form of communication because language isn't required. It is often used as a supplement to verbal communication and sometimes is more effective. It also allows you to send an indirect message where a more direct message isn't advisable. Nonverbal communication in business is most influential when participating in communication via face-to-face meetings and videoconferencing. Some examples of nonverbal communication include nodding, smiling, gestures and general body language.

SOLUTION SIX (a)

Kafue Steel Ltd.
P. O. Box 43
Kafue

Date (Any date during exam time)

Mr. Kalindula
P. O. Box 65
Lusaka

Dear Sir

SUBJECT: **APPLICATION AS AN ACCOUNTANT**

I refer to Your advertisement which appeared in the Times of Zambia for the position of an accountant which attracted my attention. For this reason, I wish to apply for the same position

I am a male/ female Zambian Citizen aged 30 with Zambia National Registration Card no I obtained my Diploma in Accounts from Chingola School of Accounts. I am a registered member of ZICA. I have worked with ZAMEFA Ltd in Luanshya as an Assistant Accountant for past five (5) years where I gained a lot of accounting experience and skills required for the job advertised.

I believe that my accounting qualifications and my experience are favourable for the job. I would appreciate an interview with you since specialised skills are best explained in person.

Yours faithfully

Kalindula

SOLUTION SIX (b)

- (i) **Letter of complaint** – This type of a letter expresses a problem to the recipient with the view to improve a negative situation once the recipient gets the message

- (ii) **Letter of apology** – This type of a letter is a reply to a letter of complaint. It is meant to soothe anger or any form of disappointment by the other party.

- (iii) **Letter of recommendation** – This type of a letter is meant to express the positive attributes or character about someone or something. For example

employers may seek for recommendations from a potential employee by way of a letter of recommendation from referees.

SOLUTION SEVEN (a)

- (i) **Status** – can be a barrier in the sense that it could be a senior manager not wanting to get information or suggestions from a subordinator perhaps not believing what subordinates are saying. It can also happen the other way round where subordinates are uncomfortable to communicate to their superiors due to their low positions at work places.
- (ii) **Information overload** – Providing too much information that is also complex can lead to lack of understanding. In the process a barrier occurs
- (iii) **Wrong medium** – Using a wrong medium can cause a barrier. For example providing information to someone who cannot read and write using written communication.
- (iv) **Language** – Using a foreign or technical language to people who do not understand it.
- (v) **Failure to provide feedback** – Keeping silent, assuming that the other person already knows something about the message or simply failing to respond to messages creates a barrier to communication.

SOLUTION SEVEN (b)

The barriers can be minimised by:

Status – Difference in status can be minimised by having an open mind. For example, managers are expected to have an open door policy where all suggestions made by employees would be welcome. They are also expected to encourage staff to participate towards the achievement of organisational goals.

Information overload – Provide enough information for the recipient to understand. (Do not give too much or very little information)

Wrong medium – Using the right medium that suits both the sender and the receivers needs.

Language – Using simple or familiar language that the receiver understands. Technical language can also be explained and in some cases an interpreter can be used

Failure to provide feedback – Ensure that feedback is provided to the sender of the message. Seek for confirmation and clarification on anything that is not clear. Use a communication pattern that encourage giving feedback

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

TUESDAY 23 JUNE 2020

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 (2) 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 choices

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

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 Average variable costs are conventionally deemed to be:

- A. Constant per unit of output.
- B. Increasing when production volume goes up.
- C. Those unaffected by inflation.
- D. Uncontrollable by management.

(2 marks)

1.2 The following data relates to costs of a jewellery manufacturing company for the two latest periods:

<u>Total costs</u>	<u>Number of</u>
<u>Kunits produced</u>	
3,856	2,215
3,776	1,815

Using the High/low method calculate the fixed cost and the variable cost per unit for the forthcoming period.

Fixed cost	Variable cost
A. K2,215	K0.20
B. K3,085	K0.20
C. K3,413	K0.20
D. K5,299	K5.00

(2 marks)

1.3 Select the correct statement(s) from the four statements below, concerning inventory valuation during times of rising price:

- (i) Reported profits will be higher with FIFO than with LIFO.
- (ii) Reported profits will be higher with LIFO than with FIFO.
- (iii) The value of closing inventory will be higher with FIFO than with LIFO.
- (iv) The value of closing inventory will be higher with LIFO than with FIFO.

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

(2 marks)

1.4 Kasama bakery Ltd operates a piece work payment scheme as follows:

	Units produced	Rate
Level 1:	0 – 25 units	K0.00 per unit
Level 2:	26 – 100 units	K1.00 per unit
Level 3:	101 – 150 units	K1.50 per unit
Level 4:	151 – 200 units	K1.75 per unit
Level 5:	201 and above	K0.10 per unit

If Kasongo produced 250 units how much would he earn?

- A. K242.50
- B. K437.50
- C. K2,425.00
- D. K2,500.00

(2 marks)

1.5 A retailer with multiple outlets stocks a popular brand of wine, for which the following information has been made available:

Average sales	75 per day
Maximum sales	95 per day
Minimum sales	50 per day
Lead time	12 – 18 days
Re- order quantity	1,750

Calculate the level of stock at which replenishment order would be issued.

- A. 1,050
- B. 1,330
- C. 1,710
- D. 1,750

(2 marks)

1.6 Given the following information:

K

Material cost – 20,000kg	20,800
Labour cost	9,600
Production overhead cost	4,560
Output 17,500 units	

Normal loss 5% of input

There was no work-in-progress at the beginning or end of the period. Process losses have no value. Calculate the value of the abnormal gain or loss in the process.

- A. K2,760 Loss
- B. K2,760 Gain
- C. K2,622 Loss
- D. K2,622 Gain

(2 marks)

1.7 ABC Company's records for March, 2020 show the following in respect of one of the items in its stores:

<u>Date</u>	<u>Receipts</u>	<u>Issues</u>	<u>Balance in stock</u>
01			120
05		60	60
07	240		300
19		114	186
27		102	84

Last month's opening stock was valued at K1,740 and the receipts during the month were purchased at K17.50 per unit.

The organization uses Weighted Average (AVCO) method of valuation and calculates a new weighted average after each stores receipt. The total value of issues in March was?

- A. 4,416.00
- B. 4,520.40
- C. 4,554.00
- D. 4,664.40

(2 marks)

1.8 The following statements define the objectives of cost accounting as presented by a finance officer:

1. Ascertaining the cost of each product or service, process and department and enabling remedial action to be taken quickly when it is required. Estimating and price setting;
2. Production of short-period profit and loss accounts;
3. Responding to audit queries especially statutory audits;

Which of the above statement(s) is or are correct objective of cost accounting.

- A. 2 only
- B. 1 and 2 only
- C. 1 and 3 only
- D. 2 and 3 only

(2 marks)

1.9 The standard cost of providing a meal in a fast food restaurant is as follows:

K

Ingredient cost 2.88

Direct labour cost 0.48

Variable overhead cost 0.32

The standard price of the meal is K7.20 and the budgeted sales volume is 5,000 meals each period. During a particular period a total of 4,720 meals were sold for K33,229. The actual total variable cost per meal was K3.68.

Calculate the sales price variance.

- A. K744 (Favourable)
- B. K744 (Adverse)
- C. K755 (Adverse)
- D. K755 (Favourable)

(2 marks)

1.10 Product Q requires 10kgs of material per unit to produce. The standard price of material is K4 per kg. The actual consumption of material in the production of 20 units of Q was 230kgs costing K1,035.

Calculate the material cost variance.

- A. K5 (F)
- B. K115 (A)
- C. K120 (F)
- D. K235 (A)

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Universe Ltd manufactures and sells a single product. The following are the standard cost specifications for one unit:

Direct Material: 6kgs at a price of K6 per kg

Direct Labour: 6hrs at a rate of K8 per hour

Overheads: All Overheads are fixed in nature and for the next period they are budgeted at K150,000. It is Universe Ltd.'s policy to absorb overheads at a predetermined rate per labour hour.

Production and Sales: 10,000 units.

For June 2019 the following actual results were reported:

Production and sales 12,000 units

Material 90,000 Kgs were used at a cost of K432,000

Labour 81,000 hours were used at a cost K631,800

Overheads Actual expenditure K174,000

Note: There was no closing inventory

Required:

- (a) Prepare a standard cost card per unit (4 marks)
- (b) Calculate the following variances:
 - (i) Material price and usage
 - (ii) Labour rate and efficiency
 - (iii) Fixed overhead expenditure and volume(12 marks)
- (c) Briefly explain the four (4) types of standard that may be used by Universe Ltd to monitor and control its costs. (4 marks)

[Total: 20 Marks]

QUESTION THREE

The following information relates to **Fidelity plc.** a manufacturing company that has two manufacturing departments and two service departments:

	Manufac turing Dep. 1 K	Manufacturing Dep. 2 K	Service Dep. 1 K	Service Dep. 2 K	Total K
Allocated Overheads	32,400	29,200	12,400	12,850	86,850

General Overheads:

Indirect labour	32,000
Heat & Light	48,600
Repairs & Maintenance	34,700
Canteen Subsidy	5,100
Machine depreciation	10,400
Machine Insurance	6,250
Total overheads	<u>223,900</u>

The following additional information was extracted from the company`s management accounting records.

	Manufacturing Dep. 1 K	Manufacturing Dep. 2 K	Service Dep. 1 K	Service Dep. 2 K
Floor area sq.m	2,500	4,000	1,000	500
Direct labour hours	30,000	5,000		
Indirect labour hours	30,000	5,000		
Direct labour rate per hour (K)	12	8		
Number of staff	30	5		
Machine hours	2,500	25,000		
Machine value (K)	40,000	200,000	10,000	

Service Dept. overheads are to be apportioned as follows:

Service Dept.1 overheads	20%	80%
Service Dept.2 overheads	50%	50%

Data on two jobs being undertaken by the company is as follows:

	Job 230	Job 490
Direct materials cost	K240	K420
Machine hours	5	20
Direct labour hours:		
Manufacturing Dept. 1	40	25
Manufacturing Dept. 2	4	5

Required:

- Prepare a statement showing the overhead cost for each department (include the basis of apportionment, where appropriate) (12 marks)
- Calculate a suitable overhead absorption rate for each department, using an appropriate basis. (4 marks)
- Calculate the total cost of Job 230 and the total cost of job 490. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

The incomplete process account relating to a period 3 for a company that manufactures cloth is shown below:

Process Account

	<u>Units</u>	<u>K</u>		<u>Units</u>	<u>K</u>
Material	2,000	8,000.00	Finished goods	1,375	
Labour		4,062.50	Normal loss	200	350.00
Production O/H		1,749.00	WIP	350	

There was no opening work-in-progress (WIP). Closing WIP which consisted of 350 units was complete as shown:

Material	100%
Labour	50%
Production O/H	40%

Losses are recognised at the end of the production process and are sold at K0.88 per unit:

- Given the outcome of the process, what accounting entries are required in order to complete the double entry system on the process account? (5 marks)

- (b) Calculate the value of WIP (5 marks)
- (c) Calculate the value of the finished goods transferred to warehouse. (5 marks)
- (d) Explain when it is appropriate to use process costing systems. (2 marks)
- (e) Explain the accounting treatment of (i) Normal loss and (ii) Abnormal loss. (3 marks)
- [Total 20Marks]**

QUESTION FIVE

Mutinta Ltd has produced the following budgeted figures for a new product which it hopes to launch.

Direct Material	K10 per unit
Direct Labour	K5 per unit
Variable Production Overhead	K8 per unit
Fixed Production Overhead	K27,000 per month
Budgeted Output	9,000 units per month
Selling Price	K30 per unit

The following levels of activity took place over the first two months of the products life:

	Month 1	Month 2
Production units	9,000	10,000
Sales units	8,500	9,500

Note: Actual prices and costs were the same as budgeted for the first two months.

Required:

- (a) Calculate the standard cost per unit and standard profit per unit under Absorption costing principles. (4 marks)
- (b) Prepare a profit statement for each (separately) on each of the following basis:
- (i) Absorption Costing
 - (ii) Marginal Costing (12 marks)
- (c) Prepare a reconciliation of the difference in profit reported in the profit statements prepared in part (b) above. (2 marks)
- (d) Explain the reason for the difference in reported profit under the two methods. (2 marks)

[Total: 20 Marks]

QUESTION SIX

A manufacturer uses a Last in First out (LIFO) inventory valuation system. Movements of item X in the month of April are as follows:

Date (April)	Movements	Units	K per unit
1	Balance B/F	230	7.80
3	Receipts	430	7.95
8	Issues	370	
14	Issues	110	
22	Receipts	400	8.01

No other movements of item X were recorded during the month.

Required:

- (a) Calculate the value of closing inventory at the end of the month of April. (5 marks)
- (b) All units of item X were sold for K14 each. Calculate the gross profit achieved in the month of April. (5 marks)
- (c) The data below was obtained from the company's other records:

Average usage	112 units per day
Minimum usage	72 units per day
Maximum usage	140 units per day
Lead time	10 – 16 days
Reorder Quantity	2,400 units

Based on this information calculate:

- (i) Reorder level (2 marks)
- (ii) Minimum stock level (2 marks)
- (iii) Maximum stock level (2 marks)
- (d) Discuss the advantages and disadvantages of using LIFO compared to FIFO (First In First out). (4 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

- 1.1. A
Average Variable costs are constant per unit of output

- 1.2. C

Total cost	Number of units produced
K	
3855	2213
<u>3776</u>	<u>1815</u>
<u>79</u>	<u>398</u>

Variable cost per item produced $K79/398 = K0.20^*$

Substitute in high activity

	K
Total cost	3,855
Variable cost = $2213 \times K0.2$	<u>443</u>
Therefore fixed cost	3,412*

- 1.3. Answer C
i and iii.

- 1.4. A

	K
Level 1: 25 units x K0.00 per unit =	0.00
Level 2: 75 units x K1.00 per unit =	75.00
Level 3: 50 units x K1.50 per unit =	75.00
Level 4: 50 units x K1.75 per unit =	87.50
Level 5: 50 units x K0.10 per unit =	<u>5.00</u>
Total pay	242.50

- 1.5. C

Re –order level = Maximum usage x maximum lead time
 $= 95 \times 18 = 1710$

1.6. A

	K
Direct cost	20,800
Labour cost	9,600
Production overhead cost	<u>4,560</u>
	34,960

	Kg
Input	20,000
Normal loss	<u>1,000</u>
Expected output	19,000
Actual output	<u>17,500</u>
Abnormal loss	<u>1,500</u>

Cost per kg = $K34,960/19,000 = K1.84$

Cost of abnormal loss = $K1.84 \times 1,500 = K2,760$

1.7. B

Value of opening stock = 120 units @ K14.50 = K1,740

Average price per unit after the issue on the 5th = K14.50 per unit

Closing stock in value was therefore $(60 \times 14.50) = K870$

Average price after receipt on 7th = $[(60 \text{ units} \times K14.50) + (240 \text{ units} \times K17.5000)]/300$
 $= (870 + 4200)/300$
 $= 5070/300$
 $= 16.90$

Average price after the receipt on the 7th = $[(240 \times 10.50) + K870]/300 = 10.14$

Value of issues = $(60 \text{ units} \times 1740/120) + (216 \times 16.90) = 4520.40$
 $= 870 + 3650.40$
 $= 4520.40$

1.8. B

3 is the only wrong answer.

1.9. C.

K755 Favourable

Standard $K7.2 \times 7,552 = K33,984$

Actual = K33, 229

Variance 755(A)

1.10. D.

Standard cost $(4 \times 10 \times 20) = 800$

Actual cost = 1,035

Variance 235(A)

SOLUTION TWO

a) STANDARD COST CARD	K
Direct Material (6 kg x K6 per kg)	36
Direct Labour (6 hrs x K8 per hr)	48
Overheads (W1) (6 hrs x K2.5 per hr)	<u>15</u>
Standard cost	<u>99</u>

Working 1

$$\begin{aligned} \text{O. A. R} &= \frac{\text{K150,000}}{60,000 \text{ hrs}} \\ &= \text{K2.5 per hour} \end{aligned}$$

b) i) Material price variance

$$\text{K432,000} - (90,000 \times \text{K6}) = \quad = \quad \text{108,000 (F)}$$

Material Usage variance

$$(90,000 - 72,000) \times \text{K6} \quad = \quad \text{108,000 (A)}$$

ii) Labour rate variance

$$\text{K631,800} - (81,000 \times \text{K8}) \quad = \quad \text{16,200 (F)}$$

Labour efficiency variance

$$(81,000 - 72,000) \times \text{K8} \quad = \quad \text{72,000 (A)}$$

iii) Fixed overhead expenditure variance

$$\text{K174,000} - \text{K150,000} \quad = \quad \text{24,000 (A)}$$

Fixed overhead volume variance

$$(12,000 - 10,000) \times \text{K15} \quad = \quad \text{30,000 (F)}$$

c) (i) Ideal Standard – this assumes perfect working conditions without an allowance for inefficiencies. This type of standard demotivates employees.

(ii) Attainable Standard – this assumes efficiency working conditions with an allowance for wastage. This type of standard motivates employees.

(iii) Current Standard – this assumes current working conditions. This type of standard demotivates employees.

(iv) Basic Standard – this is a long term standard which remain unchanged over a period of years. This type of standard demotivates employees.

SOLUTION THREE

	Basis of Apportionment	Dept.1 K	Dept. 2 K	Service. 1 K	service. 2 K	Total K
Allocated overheads		32,400	39,200	12,400	12,850	86,850
<u>Apportioned overheads:</u>						
Indirect Labour	Indirect labour hrs	27,429	4,571	-	-	32,000
Heat & Light	Floor Area	15,188	24,300	6,075	3,037	48,600
Repairs & Maintenance	Floor Area	10,844	17,350	4,338	2,168	34,700
Canteen subsidy	Number of staff	4,371	729	-	-	5,100
Machine Depreciation	Machine value	1,664	8,320	416	-	10,400
Machine Insurance	Machine Value	<u>1,000</u>	<u>5,000</u>	<u>250</u>	<u>-</u>	<u>6,250</u>
		92,896	89,470	23,479	18,055	223,900
<u>Re-Apportioned Overheads</u>						
Re-apportioned Service 1	20% / 80%	4,696	18,783	(23,479)	-	0
Re-apportioned Service 2	50% / 50%	<u>9,028</u>	<u>9,027</u>	-	<u>(18,055)</u>	0
		<u>106,620</u>	<u>117,280</u>	<u>0</u>	<u>0</u>	<u>233,900</u>

b) Overhead Absorption Rate for each Department

Department 1

Overhead absorption rate based labour hours as this department is labour intensive.

$$= \frac{\text{K}106,620}{30,000 \text{ labour hours}}$$

$$= \text{K}3.55 \text{ per direct labour hours}$$

Department 2

Overhead absorption rate based on machine hours as this department is machine intensive.

$$= \frac{\text{K}117,280}{25,000 \text{ machine hours}}$$

$$= \text{K}4.69 \text{ per machine hours}$$

C) Job costs

	<u>Job 230</u>	K
Direct materials		240.00
Direct Labour:		
-Dept 1	40hrs x K12 per hour	480.00
-Dept 2	4 hrs x K8 per hour	32.00
Overheads:		
-Dept 1	40 DLH x K3.55 per DLH	142.00
-Dept 2	5 MH x K 4.69 per MH	<u>23.45</u>
Total Cost		<u>917.45</u>

<u>Job 490</u>		K
Direct materials		420.00
Direct labour:		
-Dept 1	25 hrs x K 12 per hour	300.00
-Dept 2	5 hrs x K8 per hour	40.00
Overhead		
-Dept 1	25 DLH x K 3.55 per DLH	88.75
-Dept 2	20 MH x K 4.69 per MH	<u>93.80</u>
Total Cost		<u>942.55</u>

SOLUTION FOUR

(a) A

The debit side (inputs) indicates that 2,000 units were input into the process but the output recorded on the credit side is 1,925 units indicating that the balance must indicate an abnormal loss of 75 units. The accounting entries for abnormal losses are to debit the abnormal loss account and credit the process account.

(b) B

(c) B

The calculation for closing WIP value and the cost of finished goods is as follows:

Cost element			<i>Abnormal loss</i>	<i>Closing WIP</i>	<i>Total</i>	<i>Cost</i>	
	Total	Completed	Equivalent	Equivalent	Equivalent	per unit	Closing
	cost (K)	units	units	units	units	K	WIP (K)
Materials	7,824	1,375	75	350	1,800	4.35	1,522.50
Labour	4,062.5	1,375	75	175	1,625	2.50	437.50
Production overhead	<u>1,749</u> <u>13,636</u>	1,375	75	140	1,590	<u>1.10</u> <u>7.95</u>	<u>154.00</u> <u>2,114</u>
Finished goods (1,375 x K7.95) =							10,931.25
Abnormal loss (75 x 7.95) =							596.25

(d) Process costing system is used where there is a series (stages) of production. This normally in mass production of similar products, where the costs associated with individual units of output cannot be differentiated from each other. In other words, the cost of each product produced is assumed to be the same as the cost of every other product.

(e)

- A certain amount of loss is expected and therefore unavoidable and this is referred to in cost accounting terminology as a *normal loss*.
- If the actual loss is greater than the normal loss then the excess loss is referred to as an abnormal loss. We have seen that the normal loss is an estimate of the loss expected to occur in a particular process. This estimate may be incorrect and a different amount of loss may occur. The abnormal loss units are valued at the same rate per unit as the good output units. The normal loss is valued at its scrap value only.

SOLUTION FIVE

a)	K	K
Selling Price		30
Direct Material	10	
Direct Labour	5	
Variable Production Overhead	8	
Fixed Production Overhead	3	
Production Cost		<u>(26)</u>
Profit per unit		<u>4</u>

b) i) Absorption Costing

	Month 1		Month 2	
	K	K	K	K
Sales Revenue		255, 000		285, 000
Opening Inventory	0		13, 000	
Cost of Production	<u>234, 000</u>		<u>260, 000</u>	
	234, 000		273, 000	
Closing Inventory	<u>(13, 000)</u>		<u>(26, 000)</u>	
	221, 000		247, 000	
(Over)/under absorption	- _____		<u>(3, 000)</u>	
Cost of sales		<u>(221, 000)</u>		<u>(244, 000)</u>
Gross Profit		<u>34, 000</u>		<u>41, 000</u>

WORKINGS

$$\begin{aligned}
 \text{W1: Production overhead cost per unit} &= \frac{\text{K}27,000}{9,000} \\
 &= \text{K}3
 \end{aligned}$$

$$\text{W2: Over/under } 27,000 - (3 \times 10,000) = \text{K}3,000$$

ii) **Marginal Costing**

	Month 1		Month 2	
	K	K	K	K
Sales Revenue		255, 000		285, 000
Opening Inventory	0		11, 500	
Cost of production	<u>207, 000</u>		<u>230, 000</u>	
	207, 000		241, 500	
Closing Inventory	<u>(11, 500)</u>		<u>(23, 000)</u>	
Variable cost of sales		<u>(195, 500)</u>		<u>(218, 500)</u>
Contribution		59, 500		66, 500
<u>Expenses:</u>				
Fixed costs		<u>27, 000</u>		<u>27, 000</u>
Profit		<u>32, 500</u>		<u>39, 500</u>

c) **RECONCILIATION OF PROFIT**

	Month 1	Month 2
	K	K
Absorption Costing	34, 000	41, 000
Opening Inventory @K3/unit	0	1, 500
Closing Inventory @K3/unit	<u>(1,500)</u>	<u>(3, 000)</u>
Marginal Costing	<u>32, 500</u>	<u>39, 500</u>

- d) The reason for the difference in profit is due to the difference in the valuation of inventory. For example, in month 1 the difference is K1, 500 (K34, 000 in absorption Vs K32, 500 in marginal).

This is due to the fact that in absorption costing K1, 500 worth of the fixed overhead is not written off but instead is carried forward to month 2. This does not happen in marginal costing as fixed overheads are not included in inventory valuation.

SOLUTION SIX

- (a) The value of the closing inventory for item X is K4,608

All units of item X were sold for K14 each. The gross profit achieved on item X during the month of April was K2, 911.50

Workings:

Date	Qty	Receipts Price	K	Qty	Price	sales K	Qty	Balance Price	K
1 Apr							<u>230</u>	<u>7.80</u>	<u>1,794.00</u>
3 Apr	430	7.95	3,418.50				230	7.80	1,794.00
							<u>430</u>	<u>7.95</u>	<u>3,418.50</u>
							<u>660</u>		<u>5,212.50</u>
8 Apr				370	7.95	2,941.5	230	7.80	1,794.00
							<u>60</u>	<u>7.95</u>	<u>477.00</u>
							<u>290</u>		<u>2,271.00</u>
14 Apr				60	7.95	477.00			
				<u>50</u>	<u>7.80</u>	<u>390.00</u>			
				<u>110</u>		<u>867.00</u>	<u>180</u>	<u>7.80</u>	<u>1,404.00</u>
22 Apr	400	8.01	3,204.00				180	7.80	1,404.00
							<u>400</u>	<u>8.01</u>	<u>3,204.00</u>
							580		4,608.00

- (b) K

Sales revenue (480 units X K14)	6,720.00
Cost of goods sold (2,941.50 + 867.00)	<u>3,808.50</u>
Gross profit	<u>2,911.50</u>

- (c) (i) Reorder level = Maximum usage x maximum lead time

$$140 \times 16 = \underline{2,240 \text{ units.}}$$

- (ii) Minimum stock level = Re-order level – (average usage x average lead time)

$$2,240 - (112 \times 13) = \underline{784 \text{ units.}}$$

- (iii) Maximum stock level = Reorder level + reorder quantity – (minimum usage x minimum lead time)

$$2,240 + 2,400 - (72 \times 10) = \underline{3,920 \text{ units}}$$

- (d) Differences between valuation methods are only significant in the times of inflation.

METHODS	ADVANTAGES	DISADVANTAGES
FIFO	<ul style="list-style-type: none"> Produces Current values for closing stock. 	<ul style="list-style-type: none"> Produces out-of-date production costs and therefore potentially overstates profit Complicates stock records as stock must be analysed by delivery
LIFO	<ul style="list-style-type: none"> Produce realistic production costs and therefore more 	<ul style="list-style-type: none"> Produces unrealistically low closing stock values.

realistic/prudent profit
figures

- Complicates stock records
as stock must be analysed
by delivery

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 26 JUNE 2020

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 (2) 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.

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 A contract needs the following elements.....;.....;..... and to be legally binding.
- A. offer, acceptance and consideration
 - B. consideration and intention to create legal relation
 - C. offer, acceptance, consideration, agreement, cash and intention to create legal relation
 - D. offer, acceptance, consideration and intention to create legal relation
- (2 marks)
- 1.2 Which of the following is **not** a method used by judges to avoid a binding precedent?
- A. Declaring the previous decision as having been made per incuriam.
 - B. Distinguishing the facts
 - C. Declaring the ratio decidendi obscure
 - D. Distinguishing the obiter dicta over the ratio decidendi
- (2 marks)
- 1.3 Which of the following types of dismissal occurs when no notice is given to the employee?
- A. Constructive dismissal
 - B. Summary dismissal
 - C. Unfair dismissal
 - D. Wrongful dismissal
- (2 marks)
- 1.4 In which of the following circumstances will a defendant be liable to pay compensation under the tort of negligence?
- A. They only breached a duty of care to the plaintiff.
 - B. They breached a duty of care to the plaintiff and so caused the plaintiff loss, injury or damage.
 - C. They caused the plaintiff loss, injury or damage
 - D. They breached a contract with the plaintiff who suffered loss, injury or damage
- (2 marks)
- 1.5 Which of the following statements is true about equitable remedies?
- A. Equitable remedies are awarded at the courts' discretion
 - B. People are entitled to equitable remedies as of right
 - C. Equitable remedies include injunction, damages and specific performance
 - D. Equitable remedies are the only remedies available for breach of contract
- (2 marks)

- 1.6 Which statement contains the correct definition of a sale of goods contract?
- A. A contract between a buyer and seller, where the seller transfers the property in the goods for money consideration known as the price.
 - B. A contract involving buying and selling of goods
 - C. Contracts entered into in market places
 - D. Buying and selling of goods by people
- (2 marks)
- 1.7 Define the word partnership.
- A. A partnership is a relationship that exist between two or more people with the view of making a profit
 - B. A partnership is an association of two people
 - C. A partnership consist of friends doing business with an intention to be legally bound
 - D. A partnership is a transaction between two or more people who know each other.
- (2 marks)
- 1.8 What is vicarious liability?
- A. An employer being liable for the actions of an employee
 - B. A third party being involved in a dispute
 - C. A ruling of the court on a party liable in a cause of action.
 - D. Being liable on behalf of your client
- (2 marks)
- 1.9 Which one of the following is not a vitiating factor?
- A. Misrepresentation
 - B. Coercion
 - C. Illness
 - D. Mistake
- (2 marks)
- 10.0 What is statutory interpretation?
- A. The process by which judges bring out the meaning of the words used in statutes
 - B. This is when judges use their discretion to simplify words
 - C. This is when people use the dictionary to understand words
 - D. This is the process of understanding words
- (2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) Explain how a partnership may come to an end. (10 marks)
- (b) Explain the effect of the following vitiating factors:
 - (i) Misrepresentation (2 marks)
 - (ii) Mistake (2 marks)
 - (iii) Duress (2 marks)
 - (iv) Undue influence (2 marks)
 - (v) Illegality (2 marks)

[Total: 20 Marks]

QUESTION THREE

Chama is a Zambian entrepreneur who runs a milling company known as Chama Milling Company. Chama has decided to sell shares to some people to increase his capital base due to a high demand for mealie-meal from the public. Chama has since written to Chomba offering to sell him a block of shares in Chama Milling Company. In his letter, which arrived on Tuesday, Chama asked Chomba, 'to let him know by next Saturday.' On Friday morning, Chomba replied by letter accepting the offer. However, by 18:00 hours he changed his mind and telephoned Chama. Chama was not there, but his telephone answering machine recorded Chomba's message stating that he wished to withdraw his acceptance. On Monday Chama opened Chomba's letter of acceptance which arrived that morning, and then played back the message on the machine which was withdrawing the acceptance.

With reference to the above scenario, advise Chama on the following features of a valid contract:

- (a)
 - (i) Offer (3 marks)
 - (ii) Acceptance (3 marks)
 - (iii) Withdrawal of the acceptance (3 marks)
 - (iv) Method of communication (3 marks)
 - (v) Advise also Chomba as to whether shares can be inherited in the event of his death. (3 marks)
- (b) Banda agreed to transport Mulenga's fresh Kapenta fish from Sinazongwe to Lusaka in Banda's refrigerated truck. The truck broke down in the remote Zambezi escarpment where there was no telephone network. Banda decided to sell the fish to

the coal miners near Maamba Coal fields. Mulenga is not happy with the transaction as he made no profit at all but was able to recover his capital.

In relation to the law of agency, advise the parties on their legal obligations.

(5 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) William worked as a cleaner at Pamundzi Lodge. His contract stated he was entitled to 2 days per month as annual leave. However, he could be summarily dismissed for deserting his employment for ten (10) days. He was diagnosed with AIDs/HIV in February 2010, and requested his employers for the statutory sick leave in January 2011. He was too sick and overstayed his leave by 12 days. When he returned, he was dismissed there and then for desertion, after being paid his wages for that month. William feels that there is some injustice done to him and has approached you for advice.

Advise William in relation to the above facts.

(12 marks)

- (b) Explain with examples whether auditors owe a duty of care to the public.

(8 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) In relation to the Sale of Goods, explain the difference between a condition and a warranty. (6 marks)

- (b) Explain any two (2) differences between civil and criminal law. (4 marks)

- (c) Discuss any five (5) defences in the law of torts. (10 marks)

[Total: 20 Marks]

QUESTION SIX

TAP employed the Complainant on 1 August 1982 as Personnel Manager on probation period of three months. In 1982 November, the defendant informed the complainant that they could not confirm him as Personal Manager. The Works Council intervened successfully and the complainants' period of probation was extended. But on 25 March 1983 the respondent terminated the complainants' contract of employment.

The complainants' complaint was that his services were terminated because of his political activities and as such was contrary to section 108 (2) of the Industrial Relations Act.

The section provides:

"Any employee who has reasonable cause for believing that his services have been terminated or that he has suffered any other penalty or disadvantages on any of the grounds set out in subsection (i) may within thirty days of the occurrence or occurrences which may give rise to such belief, lay a complaint before the Industrial Relations Court and the court shall if it finds in favour of the complainant, grant to him such remedy as it deems fit including re – instatement for loss of employment".

The court was asked to rule whether or not on the evidence before it, the respondents terminated the contract with the complainant on political ground other than the reasons advanced. The complainants' case was that respondents were not pleased with him because he mixed freely with Workers Councillors, members of the party committee and work committee members.

- (a) (i) Advise the Personnel Manager on his prospects of success. (8 marks)
- (ii) Explain if there is any legal ground to support the termination of the Personnel Managers' contract. (7 marks)
- (b) Highlight the main ways through which a contract of employment can come to an end. (5 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A

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

SECTION B

SOLUTION TWO

A partnership may be dissolved in several ways.

(a) Dissolution occurs:

- I. By effluxion of time, if the partnership was entered into for a fixed term.
- II. By termination of the adventure, if entered into for a single adventure.
- III. By the death or bankruptcy of a partner, unless the partnership agreement otherwise provides.
- IV. By subsequent illegality, i.e. an event which makes it unlawful to continue the business.
- V. By notice of a partner.
- VI. By order of the court, for one of several reasons, for example the permanent incapacity of a partner, or because it is just and equitable to do so.

(b) These are factors which affect the validity of an otherwise valid contract.

- (vi) Misrepresentation renders a contract voidable
- (vii) Mistake renders a contract void in certain cases voidable in cases of mistake as to quality
- (viii) Duress renders a contract voidable
- (ix) Undue influence renders a contract voidable
- (x) Illegality renders contract void

SOLUTION THREE

Chama must know that Treitel defines an offer as "an expression of willingness to contract on certain terms, made with the intention that it shall become binding as soon as it is accepted by the person to whom it is addressed", the "offeree".

An **offer** is a statement of the terms on which the offeror is willing to be bound. It is the present contractual intent to be bound by a contract with definite and certain terms communicated to the offeree. The expression of an offer may take different forms, such as a letter, newspaper advertisement, fax, email and even conduct, as long as it communicates the basis on which the offeror is prepared to contract.

Acceptance- A promise or act on the part of an offeree indicating a willingness to be bound by the terms and conditions contained in an offer. Also, the acknowledgment of the drawee that binds the drawee to the terms of a draft.

Communication of acceptance

Acceptance is not effective unless it is communicated either by the person accepting or a reliable third party. This is according to the case of **Powell v Lee**. There are several rules dealing with the communication of acceptance:

The acceptance must be communicated. Theisger LJ said in Household Fire and Carriage that "an acceptance which remains in the breast of the acceptor without being actually and by legal implication communicated to the offeror, is no binding acceptance". Prior to acceptance, an offer may be withdrawn.

As acceptance must be communicated, the offeror cannot include an Acceptance by Silence clause. This was affirmed in ***Felthouse v Bindley***, here an uncle made an offer to buy his nephews horse, saying that if he didn't hear anything else he would "consider the horse mine". This did not stand up in court, and it was decided there could not be acceptance by silence.

Withdrawal of acceptance

An acceptance may be withdrawn if the withdrawal reaches the offeror before or at the same time as the acceptance would have become effective. With respect to the withdrawal of an acceptance the present law provides that the offeree may change its mind and withdraw the acceptance provided that the withdrawal reaches the offeror before or at the same time as the acceptance. It should be noted that while the offeror is bound by the offer and may no longer change its mind once the offeree has dispatched the acceptance, the

offeree loses its freedom of choice only at a later stage, i.e. when the notice of acceptance reaches the offeror.

Methods of communication

The postal rule is a historical ruling, which came about in a time where the main and quickest form of business communication was by post. Through the decades other forms of communication have been invented which are now much speedier – telex, phone, fax and now instant messaging and email. Central requisites to the forming of a contract are those of offer and acceptance. The general rule in law states that acceptance is communicated, and has been received by the offeror. The ruling applies where the means of communication are deemed instantaneous *Entores Ltd v Miles Far East Corpn* (1955).

v) Shares can be inherited because they are property. Sect 57 of CAP 388. They can be bequeathed or transferred at will.

Chama is advised accordingly.

(b) This type of agency is also known as agency by operation of law. It takes place in situations of emergency which may involve perishable goods. The main elements of agency of necessity are: there must be an emergency; it must be impossible to contact the principal; the act must be done in the principal's best interest and it must be done reasonably. **GNR V Swaffield**. A type of relationship whereby one party can make essential decisions for another party. Agency by necessity is recognized in the courts and typically applies when one party is unable to make. Agency by necessity refers to a situation where an agent by necessity makes a critical decision on behalf of another party who is not in a condition to do so. For example, if Person A was severely injured in a car accident and was in a coma, Person B could make the decision to allow medical staff to operate on Person A. Under normal circumstances, Person A would have to give consent, but if he or she was unable to do so, an agent can make the decision instead.

SOLUTION FOUR

(a)

- William may sue for reinstatement since there is wrongful dismissal contrary to the Zambian laws requiring a medical report indicating that a person is unable to continue in their employment due to ill health which never happened in his case.
- Having overstayed his leave, William could have taken advantage of other leave days, such as annual leave. But he did not and absconded, for which the employer may be justified in dismissing him.
- Dismissal without notice may be justified if the employee's conduct is repudiatory and the employer is not expected to retain him. But William's conduct was not repudiatory, and dismissal without notice is wrongful. William may claim damages for wrongful dismissal.

(b) In *JEB Fasteners Ltd. v Marks, Bloom & Co., 1982*, it was held that in the accounting, professionals ought to be careful in giving advice as they owed a legal duty of care to the public at large. However in *Caparo Industries PLC v Dickman, 1990*, this decision was reversed and the court held that auditors did not owe a duty of care to the public but to shareholders as a body and not as individuals. Thus in this case, the duty of care could only arise if three conditions are met:

1. foreseeability
2. proximity
3. fairness

In other words the law regarding professional negligence which extends beyond accountants to lawyers and valuers of property, is that if they influence the outcome of a transaction through misleading advice, they can only be liable if there is sufficient proximity (nearness), foreseeability and if it is fair to impose a duty of care.

Caparo Industries acquired majority shares in Fidelity relying on the information given by the accountants in the company prospectus, which stated that the company was profitable. Actually the company had made a loss of £460,000. When the company encountered problems, the new owners sued the auditors for

professional negligence. It was held that auditors do not owe a duty of care to potential investors or the public at large, but to shareholders. The reason for this was proximity because it would be unreasonable for the accountant to know anyone within the public at large, and have him in mind as being affected by what he does.

Note: The student need not cite the above cases but the principle in the case is vital

SOLUTION FIVE

(a) Conditions and warranties are both terms of the contract, unlike a representation, which is a statement of fact made by one party, which induces the other party to enter into the contract. A condition is a central or important term of the contract. It is so essential to the contract that its non-fulfillment 'may give rise to a right to treat the contract as repudiated'.

Section 11

A warranty is 'an agreement with reference to goods which are the subject of a contract of sale, but collateral to the main purpose of such contract, the breach of which gives rise to a claim for damages but not a right to reject the goods and treat the contract as repudiated':
Section 62.

(b) **Criminal law** is a branch of law that deals with criminal liability and its punishment. The word criminal comes from the word crime, which means a legal wrong. A criminal therefore, is a person who commits an act that is wrong or contrary to the law. A person is found to be criminally liable when they are found guilty; meaning they had the mental element (mens rea) and the (actus reus) which the act of committing an offence. A person can only be approved to be guilty in a court of law. The person purported to have committed a crime is the accused and the person who is aggrieved is known as the defendant. All criminal cases are carried on in the name of the state in the name of the president representing the people. Minor criminal cases may be heard in the Magistrates' Courts, appealed to the High Court and the highest court of appeal being the Supreme Court. A criminal case will usually be cited as: **John Banda v The People**.

Civil Law-Civil case are cases which are not criminal and ay involve, contract, tort, employment, law of trusts or property law. They start in the Local courts, Small Claims Courts, the Magistrates' Courts or the High Court for complex cases. In civil cases the claimant also known as the plaintiff sues the defendant. If the claimant is successful, then the defendant is liable.

(c) A number of defences available to accused person and the aggrieved who can satisfy the courts that their allegations are indeed substantiated.

Defences

There are basically two types of defence in torts. One where, if successfully pledged, would completely exonerate the defendant from liability and others where the defendant's blame would have to be reduced because somehow the defendant was not wholly responsible for what could have happened or for the damage caused to the plaintiff.

Volenti non fit Injuria (no damage alludes to a volunteer)

A person who volunteers or consents to risk may not succeed in claiming compensation when they suffer injury in the course of events they volunteered/consented to.

Necessity:

In this defence, where the defendant is not negligent and did not contribute to the situation necessitating his/her action, the defendant would be completely exonerated from blame. Necessity allows the defendant to do an act which of itself, is unlawful but with justification that it was necessary for him/her to do the act in order to prevent greater damage from occurring.

Contributory negligence-

Where any person suffers damage as the result partly of his own fault and partly of the fault of any other person or persons, a claim in respect of that damage shall not be defeated by reason of the fault of the person suffering the damage, but the damages recoverable in respect thereof shall be reduced to such extent as the court thinks and equitable having regard to the claimant's share in the responsibility of the damage.

Novus Actus Intervention: Where causation can not be established due to an intervening act breaking the chain of causation between defendant's breach of duty and damage to the plaintiff, the courts will not find the defendant liable.

Act of God is another defence which may excuse a person from liability. There are certain occurrences which may happen not as a result of a person's fault but due to natural calamities. For example, floods, hurricanes, tsunamis. If they occur and cause injury, a defendant may not be held liable.

Inevitable accident-this refers to accidents which occur even in a situation where the defendant applied the highest standard of care and skill but the

accident still occurs. It can be used as defence as no one can stop such a accident from happening as it is due to unforeseen circumstances

Statutory authority is another defence . If statute require something to be done which causes injury to another person, the defendant may not be held liable as he or she was acting under statutory authority.

SOLUTION SIX

(a)

(i) Unfair dismissal is when an employee is dismissed from their job in a harsh, unjust or unreasonable manner including political ground. In **REDRILZA LIMITED v ABUID NKAZI AND OTHERS (S.C.Z. Judgment No. 7 of 2011)** This was an appeal against the judgment of the Industrial Relations Court. In the complaint before the Industrial Relations Court, the respondents whose contracts of employment were terminated by notice claimed, amongst other things, their salary for the unexpired term of their contracts. The Industrial Relations Court found in favour of the respondents, on the basis that the appellant invoked the termination clause in the respondent's contract of employment in bad faith, and consequently ordered that they be paid six months salary as damages. Hence the appeal.

(ii) Section 108 (2) of the Industrial Relations Act provides that:

"Any employee who has reasonable cause for believing that his services have been terminated or that he has suffered any other penalty or disadvantages on any of the grounds set out in subsection (i) may within thirty days of the occurrence or occurrences which may give rise to such belief, lay a complaint before the Industrial Relations Court and the court shall if it finds in favour of the complainant, grant to him such remedy as it deems fit including re – instatement for loss of employment". It therefore means that the termination was unfair and as reinstatement is the best with adequate damages.

In **ZAMBIA PRIVATISATION AGENCY v JAMES MATALE (1996) S.J.** ... The contract of employment made no provision for prior termination and the Court ... was a proper and lawful way of terminating the respondent's on the basis that in the marital status, religion, political opinion or affiliation, tribe extraction or social status.

(b) A contract of employment is an agreement between an employer and employee where an employee provides service in return for remuneration known as a salary. A contract of employment can come to an end through the following ways:

Section 36 (1)

A written contract of service shall be **terminated:**

- (a) by the expiry of the term for which it is expressed to be made; or
- (b) by the death of the employee before such expiry; or
- (c) in any other manner in which a contract of service may be lawfully terminated or deemed to be terminated whether under the provisions of this Act or otherwise.

36 (2) Where owing to sickness or accident an employee is unable to fulfil a written contract of service, the contract may be terminated on the report of a registered medical practitioner.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 22 JUNE 2020

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 (2) 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.

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. Kurt Lewin suggested a three-stage process for introducing change into an organization. Which one of the following is the correct order of change process as suggested by Lewin?

- A. Refreeze, change and then unfreeze
- B. Change, unfreeze and then refreeze
- C. Unfreeze, change and then refreeze
- D. Unfreeze, Refreeze and then change

(2 marks)

- 1.2. Statutory bodies were established to promote or regulate and monitor some socially and politically desired activities. Who appoints the board chairperson of a statutory organization?

- A. Parliament
- B. The responsible government minister
- C. Previous chairperson
- D. The directors of the board.

(2 marks)

- 1.3. Henri Fayol identified five (5) functions of management. Which one of the following is **NOT** one of the functions identified by Fayol?

- A. Motivating
- B. planning
- C. controlling
- D. commanding

(2 marks)

- 1.4. Stakeholders can be grouped into internal, connected and external categories. Identify a connected stakeholder from the following answers:

- A. Employee
- B. Government
- C. Management
- D. Shareholder

(2 marks)

1.5. Harrison classified four types of organisation culture to which Handy gave names of Greek gods. Which one of the following is **NOT** one of the cultures?

- A. power culture
- B. Role culture
- C. Task culture
- D. None of the above

(2 marks)

1.6. The following are advantages of a sole trader **EXCEPT**

- A. The owner has limited liability
- B. Easy to set up
- C. Minimal capital requirement
- D. All the profits go to the owner

(2 marks)

1.7. SWOT analysis is one of the corporate appraisal tools. The acronym SWOT stands for.....

- A. Strengths, weaknesses, opportunities and technology
- B. Social, weaknesses, opportunities and threats
- C. Strength, weaknesses, opportunities and threats
- D. Serious, weakness, opportunities and threats

(2 marks)

1.8. "Leaders are born and not made", a manager told his subordinates. Which theories of leadership does the manager follow?

- A. McGregor's theories X and Y
- B. Contingency theories
- C. Trait theories
- D. Style theories

(2 marks)

1.9. "I require independence, recognition, status and respect from others", Mr. Bwalya, a newly appointed head of accounting department demanded.

Which needs in the Maslows hierarchy of needs is he trying to fulfill?

- A. Physiological needs
- B. Self- actualization needs
- C. Love/Social needs
- D. Esteem needs

(2 marks)

- 1.10 Formal performance appraisal systems support objective, relevant, positive and consistent feedback by managers.

Which one of the following is **NOT** the purpose of appraisal?

- A. To highlight employees weaknesses and mistakes
- B. To encourage communication between manager and employee
- C. To assess development needs
- D. To identify performance levels

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) Mintzberg suggested that there are five (5) components in an organization which determine the way an organization operates.

Required:

Identify and briefly explain any four (4) components of an organisation structure suggested by Mintzberg.

(12 marks)

- (b) Within a large organization, there are several layers of strategy

Required:

Briefly explain the following levels of strategy:

- (i) Corporate strategy (2 marks)
 - (ii) Business strategy (2 marks)
- (c) Outline any four (4) benefits of training to an employee (4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) In order to carry out managerial functions and tasks, a manager requires a range of skills. Describe the following managerial skills:

- (i) Human/Social skills (3 marks)
- (ii) Conceptual skills (4 marks)
- (iii) Technical skills (3 marks)

- (b) Explain each of the following with two (2) relevant examples for each:

- (i) Public Sector Organisation (5 marks)
- (ii) Private Sector Organisation (5 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Some studies have concluded that emotional intelligence (EI) is a better indicator of an individual's leadership qualities than expertise or measures of intelligence quotient (IQ).

Required:

Identify and briefly explain any three (3) elements of emotional intelligence.

(9 marks)

- (b) To ensure survival and future success, organisations should respond to challenges that environmental change presents.

Required:

Explain the following types of change:

- (i) Planned change (2 marks)
- (ii) Unplanned change (3 marks)
- (iii) Incremental change (3 marks)
- (iv) Transformational change (3 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Motivation has been defined as any influence that triggers, directs or maintains goal oriented behavior. David McClelland developed a three (3) needs-based motivational model.

Required:

Identify and describe the three (3) needs suggested by McClelland. (9 marks)

- (b) A job must be brought to the attention of potential applicants either internally (within the organization) or externally (outside the organization) or both.

Required:

- (i) Outline any four (4) advantages of recruiting internally. (4 marks)
 - (ii) List any four (4) advantages of interviews as a selection method. (4 marks)
- (c) List any three (3) advantages of a partnership. (3 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) With two relevant examples briefly describe each of the following stakeholder group
- (i) Internal stakeholders (4 marks)
 - (ii) Connected stakeholders (4 marks)
 - (iii) External stakeholder (4 marks)
- (b) There is need to assess the macro- environmental factors beyond the control of an organization in strategic planning.

Required:

Briefly describe any four (4) macro environmental factors a strategic planner should take into account. (8 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

QUESTION ONE

1.1 C

1.2 B

1.3 A

1.4 D

1.5 D

1.6 A

1.7 C

1.8 C

1.9. D

1.10 A

SOLUTION TWO

a) Identify and briefly explain any four (4) components of an organisation structure suggested by Mintzberg.

- i. Strategic apex. This is the most senior management in an organization
- ii. Operating core. Consist of basic operations of the business and individuals who carry out this work. People directly involved in the process of obtaining inputs and convert them into outputs
- iii. Middle line. They are the managers who provide a link between strategic apex and operating core by converting the desires of the strategic apex into the work done by operating core.
- iv. Support staff. These are people who provide ancillary services to support operating core such as cleaning, public relations, repair and maintenance etc.
- v. Technostructure. These provide technical support to the organization and its operations and functions independent of the operating core. Eg accountants, IT specialists, personnel analysts etc.

b) Briefly explain the following levels of strategy:

i) **Corporate strategy**

This is the strategy for the entire organization. It is concerned with the overall purpose and scope of the organization as a whole.

ii) **Business strategy**

This is concerned with how to compete in a particular market.

It is a strategy for a specific business unit

c) Benefits of training to an employee

- i) It enhances employee skills thereby becoming more marketable in the labour market
- ii) It meets employee social needs and develop networks of contacts
- iii) It increases job satisfaction and possible promotion and earning prospects
- iv) It leads to greater self-esteem and confidence as a result of improved competence.

SOLUTION THREE

a) Describe the following managerial skills:

- i) **Human/social skills.** Ability to work well with others through interaction with subordinates, superiors, fellow managers and other people outside the organization.
- ii) **Conceptual skills.** The ability of a manager to think, analyse and solve complex problems. The manager should see and understand complexities of the business and its environment
- iii) **Technical skills.** This is the ability of the manager to use specific knowledge, techniques and competence to perform tasks. Managers can acquire accounting, human resources and other profession qualification for this purpose.

b). Explain each of the following with two (2) relevant examples for each:

- i) **Public sector organization.** This is an organization owned or run by central government or government agencies eg government schools, armed forces, government departments etc.
- ii) **Private sector organization.** This is an organization not owned or run by central government or government agencies but instead by private individuals eg private universities, private hospitals, e.t.c

SOUTION FOUR

a) Elements of Emotional intelligence

- i) **Self- awareness:** demonstrated by self- confidence, ability to make self- assessments and a self- deprecating sense humour.
- ii) **Self- management:** self-regulation, integrity and ethical conduct, willingness to accept change, e.t.c.
- iii) **Self- motivation:** a strong drive to achieve, optimism and high level of commitment.
- iv) **Empathy:** being sensitive to cross cultural issues, expertise in building and retaining subordinates, and providing services to customers
- v) **Social skills:** being able to interact, persuade others, negotiate and ability to lead efforts to make changes.

b) Types of organisation changes

- i) **Planned change:** this is a deliberate and intended change. Managers identify the need for change and plan how to introduce it. This change is proactive.
- ii) **Unplanned change:** This is a reactive change that happens in response to development or events that have occurred.
- iii) **Incremental change:** this is a small change and is normally gradual. Therefore, it does not require reorganization or restructuring of the organization.
- iv) **Transformational change:** this is a major change that requires a substantial organization or restructuring of the organization and systems. This has big effect on the organization and people working in it.

SOLUTION FIVE

a) McClelland's three needs theory:

- i) **Need for achievement**- a person is driven by the need for achievement and seeks advancement in his career. Such a person will need challenging tasks and targets, and feedback in his achievement
- ii) **Need for affiliation** – a person needs sense of belonging and affiliation with others. He needs friendly relationships and interactions.
- iii) **Need for power**- the person is driven by a need for authority and power. He wants to make an impression, influence and ideas to be accepted. He is motivated by leadership, status and prestige.

b). i) Advantages of recruiting internally

- Improves morale and motivation of the workforce
- Internal applicants understand the organization systems and culture
- It reduces the costs of recruitment
- Employers know the applicant very well and job requirement
- It provides a career development opportunity to hardworking individuals

ii) Advantages of interviews

- Highly interactive and flexible
- Offer opportunities to use non-verbal communication which may confirm or undermine spoken words.
- Personal appearance of a candidate can be assessed
- They offer initial opportunity to assess the rapport between the candidate and his/her colleagues or supervisors.

c). Advantages of partnership

- Partnership is fairly easy to set up
- Tasks of management can be shared between partners
- They are not required to publish accounts
- There is better continuity of the business in case one partner leaves.
- They can combine their skills, knowledge and business

SOLUTION SIX

- a) With two relevant examples briefly describe each of the following stakeholder group:
- i) Internal stakeholders- These are stakeholders that work for the organization eg management, employees
 - ii) Connected stakeholders –these are individuals or other organization with direct interest but do not work of the organization eg shareholders, lenders, customers, suppliers
 - iii) External stakeholders- these are groups that do not have any direct involvement with the organization but have interests in its operations eg government, pressure groups, professional bodies
- b) Briefly describe any four (4) macro environmental factors a strategic planner should take into account.

Macro environmental factors

- Political factors
- Economic factors
- Social factors
- Technological factors
- Legal factors
- Ecological/environmental factors

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 22 JUNE 2020

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 (2) 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

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

QUESTION ONE

You are the group accountant of Panga group and the chief financial officer wants you to prepare the draft consolidated statement of financial position and has given you the information below.

On 1 January 2018, Panga Plc acquired 80,000,000 equity shares in Sunga Plc on the following terms: An immediate cash payment of K4 per share on 1 January 2018; and a further amount deferred until 1 January 2020 of K60,500,000. The immediate cash payment has been recorded in Panga's financial statements, but the deferred payment has not been recorded. Panga's cost of capital is 10% per annum. At the date of acquisition Sunga's retained earnings were K120,000,000. On 1 May 2019, Panga also acquired 40% of the equity shares of Amba Plc paying K2.50 per share in cash. At the date of acquisition Amba's retained earnings were K318,000,000.

The summarised statements of financial position of the three companies as at 31 December 2019 are:

	Panga K'000	Sunga K'000	Amba K'000
Assets			
Non-current assets			
Property, plant and equipment	400,000	310,000	300,000
Intangible assets	75,000	-	-
Investments – Sunga and Amba	<u>420,000</u>	<u>-</u>	<u>-</u>
	<u>895,000</u>	<u>310,000</u>	<u>300,000</u>
Current assets			
Inventory	112,000	84,000	100,000
Trade receivables	74,000	53,000	50,000
Bank	<u>34,000</u>	<u>-</u>	<u>20,000</u>
	<u>220,000</u>	<u>137,000</u>	<u>170,000</u>
Total assets	<u>1,115,000</u>	<u>447,000</u>	<u>470,000</u>
Equity and liabilities			
Equity			
Equity shares of K1 each	500,000	100,000	100,000
Retained earnings	<u>349,000</u>	<u>180,000</u>	<u>333,000</u>
	<u>849,000</u>	<u>280,000</u>	<u>430,000</u>
Non-current liabilities			
Deferred tax	150,000	80,000	10,000
Current liabilities			
Bank	-	25,000	-
Trade payables	<u>116,000</u>	<u>62,000</u>	<u>30,000</u>
	<u>266,000</u>	<u>167,000</u>	<u>40,000</u>
Total equity and liabilities	<u>1,115,000</u>	<u>447,000</u>	<u>470,000</u>

The following information is relevant for the preparation of the consolidated statement of financial position:

- (i) At the date of acquisition, the fair value of Sunga's property, plant and equipment was equal to its carrying amount with the exception of the plant which had a fair value of K40,000,000 above its carrying amount. At that date the plant had a remaining life of four years. Sunga uses straight-line depreciation method for plant. Sunga has not adjusted the carrying amount of the plant as a result of the fair value exercise.
- (ii) Panga's policy is to value the non-controlling interest at fair value at the date of acquisition. Sunga's market share price at the date of acquisition was K3.50 and the directors of Panga considered the share price at that date to be representative of the fair value of the shares held by the non-controlling interest.
- (iii) At 31 December 2019, Panga's inventory included goods bought from Sunga (at cost to Panga) valued at K26,000,000. Sunga applied a mark up of 30% on cost. Panga's current account balance with Sunga was K10,000,000 (credit). This did not agree with the equivalent balance in Sunga's books due to a cheque in transit of K3,000,000 that was sent by Panga on 25 December 2019, but had not been received by Sunga until after the year end.
- (iv) Impairment tests were carried out on 31 December 2019 which concluded that consolidated goodwill was impaired by 10% due to poor trading performance and the value of the investment in Amba was not impaired.
- (v) Amba paid Panga a dividend of K1,000,000 during the year and Panga credited its retained earnings with this amount.
- (vi) The present value of K1 receivable at the end of each year based on the discount rate of 10% is 0.909 (2019), and 0.826 (2020)
- (vii) Assume all profits accrue evenly through-out the year.

Required:

Prepare Panga group consolidated statement of financial position as at 31 December 2019 according to relevant IFRSs/IASs.

[Total: 25 Marks]

QUESTION TWO

The trial Balance below relates to Tutu plc for the year ended, 31 December 2019.

	K'm	K'm
Retained earnings		15
Share Capital of 50 ngwee each		150
Share Premium		20
Revaluation Surplus		45
Property-at cost 1 January, 2015 (land element K20m) (note ii)	1,180	
Plant and equipment at cost (note ii)	200	
Accumulated depreciation - 1 January, 2019 - Building		36
-Plant and equipment		50
Bank		5
Trade receivables	29	
Trade payables		35
Current tax (note iv)		7
Revenue		1,225
Opening inventory 1 January, 2019	19	
10% Convertible loan (note i)		500
Distribution costs	43	
Administration expenses	25	
Purchases	800	
Deferred tax (note iv)		18
Suspense (note iii)		240
Interest paid	50	
	<u>2,346</u>	<u>2,346</u>

Relevant additional information:

- (i) On 1 January 2019, Tutu issued a 10% convertible loan with a par value of K500m. The terms of the loan agreement require Tutu plc to pay interest on the loan in arrears on 31 December each year. The loan note is redeemable at par on 31 December 2021 or convertible into equity shares at the option of the loan note holders on the basis of 40 equity shares for each K100 of the loan note. A similar loan note without the option to convert would cost Tutu plc an interest rate of 12% per annum.

The present value of K1 receivable at the end of each year based on the discount rates of 10% and 12% are given below.

Year	10%	12%
2019	0.909	0.893
2020	0.826	0.797
2021	0.751	0.712

- (ii) On 31 December 2019, Tutu Plc decided to revalue its land and buildings to K1200m. any revaluation surplus/deficit is subject to deferred tax at 20% (see note (iv)). The component of land in the revalued amount is K40m and the difference relates to buildings. Buildings have a useful life of 40 years and are depreciated on straight-line basis. Plant and equipment is depreciated on reducing balance method at 20% per annum. No depreciation for the property, plant and equipment has been calculated. All depreciation is to be treated as cost of sales.
- (iii) The suspense account in the trial balance relates to a rights issue of 1 for every 5 shares held made at a premium of 3.50 ngwee. Tutu only recognised an entry in its bank account in respect of this issue and this resulted in the suspense account in the trial balance above.
- (iv) The current tax in the trial balance represents an over/under provision relating to the year ended 31 December 2018. Directors of Tutu plc have estimated income tax for the current year at K45m. Tutu net assets (excluding the revaluation surplus in note (ii) above) exceeded their tax base by K40m on the reporting date. The income tax rate is 20%.
- (v) Closing inventory was only counted on 5 January 2020, owing to operational challenges and was valued at K22m. Between 31 December 2019 and 5 January 2020, Tutu received inventory costing K2m and sold goods worth K5m. Tutu adds a mark up of 25% on all its sales. The sales and purchases after 31 December 2019 have been correctly excluded from the amounts in the above trial balance.
- (vi) One of Tutu's customers had sued the company before 31 December 2019 for supplying damaged goods. The goods supplied to the customer were valued at K1m. The customer is demanding for compensation resulting from negligence of K5m. Tutu company lawyers have advised that Tutu is likely to pay K3m only once judgement is passed by the courts of law.

Note: All amounts included in the financial statements are to be rounded off to the nearest million kwacha.

Required:

- (a) Prepare Tutu Plc statement of profit or loss and other comprehensive income for the year ended 31 December 2019. (13 marks)
- (b) Prepare Tutu Plc statement of financial position as at 31 December 2019. (12 marks)

[Total: 25 Marks]

SECTION B

Attempt any TWO (2) questions.

QUESTION THREE

Zemala Plc. is a manufacturing business in the construction industry. While there is boom in this line of business, some product portfolios have not been doing well and Zemala is no exception.

The following financial statements relate to Zemala Plc. Statement of profit or loss for the year ended:

	31 March 2020.	31 March 2019
	K'000	K'000
Revenue	8,865	5,040
Cost of sales	(5,850)	(3,573)
Gross profit	3,015	1,467
Administrative expenses	(1,116)	(675)
Operating profit	1,899	792
Finance cost	(297)	(90)
Profit before tax	1,602	702
Income tax	(585)	(225)
Profit for the year	<u>1,017</u>	<u>477</u>

Statements of financial position as at:

	31 March 2020	31 March 2019
	K'000	K'000
Non current Assets		
Property, plant and equipment	6,885	3,690
Current assets		
Inventory	1,395	1,260
Trade receivables	1,530	3,555
Bank	450	405
Total current assets	<u>3,375</u>	<u>5,220</u>
Total assets	<u>10,260</u>	<u>8,910</u>
Equity and liabilities		
Share capital of K1 each	4,050	3,960
Retained earnings	945	495
Shareholder's funds	<u>4,995</u>	<u>4,455</u>
Non current liabilities		
15% Loan notes	1,980	630
Current liabilities		
Trade payables	2,115	2,700
Other payables	<u>1,170</u>	<u>1,125</u>
Total current liabilities	<u>3,285</u>	<u>3,825</u>
Total equity and liabilities	<u>10,260</u>	<u>8,910</u>

The following ratios have been calculated for Zemala Plc. for the year ended 31 March 2019:

Gross profit margin	29.1%
Operating profit margin	15.7%
Asset turnover	0.99 times
Return on capital employed	15.6%
Current ratio	1.36:1
Acid test ratio	1.04:1
Receivables days	257 days
Payables days	77 days
Gearing	12.3%
Inventory turnover	2.7 times

The following information has been obtained in relation to the operations of Zemala Plc for the year ended 31 March 2020:

- (i) Zemala Plc. reorganized its business by stopping to produce some of its product lines due to under-performance and selling off the non current assets used in their operation.
- (ii) Zemala Plc. has introduced online selling through hiring space on an already established internet platform. The hire charges are quite insignificant.
- (iii) Following heavy investment in research and development in previous years, Zemala Plc. has innovated the production processes of a number of its products this year.

Required:

- (a) Calculate the above ratios for the year ended 31 March 2020. (10 marks)
- (b) As an accountant for Zemala Plc., prepare a report for presentation at the next Board meeting that analyses the financial performance and position of Zemala Plc. for the year ended 31 March 2020. (12 marks)
- (c) Briefly explain three (3) disadvantages of a highly geared company. (3 marks)

[Total: 25 Marks]

QUESTION FOUR

Brighton Chanda a trainee Accountant from greater horizons equity firm has approached you for professional guidance. He is currently faced with five (5) clients with different accounting needs as indicated below:

Client A

This client operates in the pharmaceutical industry. In the first quarter of the year ended 31 March, 2019 the client spent K1.5 million on research in order to develop a new drug known as Z-Formula. On 1 July, 2018 the Z-Formula passed clinical tests and was accordingly authorised to be used by consumers by the authorities. Management spent an additional K5 million between 1 July and 31 December 2018 before commercial production of the drug commenced on 1 January 2019. Management has a standing policy of amortising development expenditure over a period of five (5) years. (5 marks)

Client B

On 1 October, 2018 this client moved out of its premises which it leased out to a third party under an operating lease agreement. These premises were acquired on 1 April 2014 at a cost of K 2.5 million and on that date had a useful life of 50 years. On 1 October, 2018 management decided to revalue the premises to K2.8 million. The client has elected to use fair value model in measuring the value of all investment properties. The client prepares financial statements to 31 March each year. The premises have a fair value of K3.1m at 31 March 2019. (5 marks)

Client C

This client had 8 million shares in issue on 1 April 2018. Exactly half way through the year ended 31 March, 2019 the client made a 1 for every 5 rights issue at a price of K1.5. The average market value for each share through-out the year was K3. The theoretical ex-rights price for each share is K1.75. The current year earnings which are attributed to ordinary shareholders is K1.7 million. The recorded EPS for the previous year ended is 15 ngwee. (5 marks)

Client D

This client has leased a machine on a five (5) year term commencing 1 April, 2018. The lease agreement gives an option to the client to buy the asset at an amount below its market value after the expiry of the lease period. The plant has a useful economic life of 8 years. Five annual Instalments of K40,000 should be paid by the 31 March of each year. The interest implicit in the lease is 12%. The accounting period under review is 31 March 2019. The applicable discount rate at 12 % is 3.605. (5 marks)

Client E

During the year ended 31 March, 2019 this client made the following changes to its financial policies and estimates;

- (i) Changed the inventory valuation policy from average cost (AVCO) to first in first out (FIFO) basis. This change is expected to affect reported profits. (2 ½ marks)
- (ii) Changed the depreciation policy on buildings by treating depreciation on buildings as an administration cost rather than a cost of sale. (2 ½ marks)

Required:

Explain the accounting treatment of each situation given above for the year ending 31 March 2019. Where appropriate show clear calculations of amounts to be recognised in the financial statements

[Total: 25 Marks]

QUESTION FIVE

- (a) Banga Co has been operating two major business lines for years: Tea and Milk. Banga closed the Milk business line on 30 June 2019. Milk business line made a net loss for the year of K60,000,000 for the period 1 January 2019 to 30 June 2019 (excluding disposal of assets). The assets of Milk business line with the carrying value of K35,000,000 were disposed of for K45,000, 000 on 31 October 2019. Banga incurred an expense of K25,000,000 before the year end for restructuring Tea business line.

Required:

Explain the meaning of 'discontinued operation' and show how the Two (2) business lines should be accounted for in the financial statements for the year ended 31 December 2019 according to IFRS 5. (10 marks)

- (b) You are the financial accountant of Banga Co and management sent you to a workshop on Financial Reporting updates. Topical issues covered at the workshop included accounting concepts, assumptions, elements and qualitative characteristics of financial statements among others. You took notes on the following:
- (i) Going concern
 - (ii) Substance over form
 - (iii) Equity
 - (iv) Verifiability
 - (v) Contingent liability

Required:

Explain the meaning of each of the above terms. (10 marks)

- (c) Banga Co was engaged by the public sector organisation to prepare a set of financial statements which comply with IPSAS 1. You have prepared a set of financial statements which comply with IPSAS 1.

Required:

State the complete set of financial statements according to IPSAS 1.

(5 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

Panga consolidated statement of financial position as at 31 December 2019

	K'000	K'000
Assets		
Non-current assets		
Property, plant and equipment [400,000+310,000+40,000w2 -20,000 w2]	730,000	
Intangibles	75,000	
Goodwill [179,973 w2 – 17,997 w4]	161,976	
Associate w7	<u>106,000</u>	
		1,072,976
Current assets		
Inventory [112,000+84,000-6,000 URP]	190,000	
Trade receivables [74,000+53,000-10,000 w3 -3,000 w3]	114,000	
Bank [34,000+3,000 w3]	<u>37,000</u>	
		<u>341,000</u>
Total assets		<u>1,413,976</u>
Equity share capital	500,000	
Retained earnings w5	<u>357,275</u>	
		857,275
Non-controlling interest w6		73,201
Non-current liabilities		
Deferred tax [150,000+80,000]	230,000	
Deferred consideration	<u>60,500</u>	
		290,500
Current liabilities		
Bank	25,000	
Trade payables [116,000+62,000-10,000 w3]	<u>168,000</u>	
		<u>193,000</u>
Total equity and liabilities		<u>1,413,976</u>

Workings for Panga Group

K'000

W1: Group structure

Panga in Sunga: $80,000/100,000 \times 100\% = 80\%$. NCI = 20%

Panga in Amba: 40%

W2: Net assets of the Sunga

	At acq	At SOFP
Share capital	100,000	100,000
Share premium	-	-
R/Earnings	120,000	180,000
Fair value adjustment: plant	40,000	40,000
Dep on plant FV	<u>-</u>	<u>(20,000)</u> = [40,000/4yrs] x 2yrs
	<u>260,000</u>	<u>300,000</u>

Post acquisition retained earnings 300,000 - 260,000 = 40,000
 Parent = 40,000 x 80% = 32,000 NCI = 40,000 x 20% = 8,000

Goodwill at acquisition of Sunga

FV of parent purchase consideration:

Cash 80,000 shares x K4	320,000
Deferred consideration 60,500 x 0.826	49,973
FV of NCI 20,000 shares x K3.5	70,000
Less net assets acquired	<u>(260,000)</u>
Goodwill at acquisition	<u>179,973</u>

W3: Unrealised profit: Sunga sold goods = $26,000 \times 30/130 = 6,000$

Dr: Parent/group R/Earnings = $6,000 \times 80\% = 4,800$ Dr: NCI = $6,000 \times 20\% = 1,200$

Cr: Inventory 6,000

Cheque in transit

Dr: Bank 3,000 Cr: Trade Receivables 3,000
Dr: Trade payables 10,000 Cr: Trade Receivables 10,000

W4: Goodwill impaired = $179,973 \times 10\% = 17,997$

Dr: Parent R/Earnings = $17,997 \times 80\% = 14,398$ Dr: NCI = $17,997 \times 20\% = 3,599$

Cr: Goodwill 17,997

W5: parent/group retained earnings

Parent fig in SOFP	349,000
Sunga R/Earnings w2 [$80\% \times (300,000 - 260,000)$]	32,000
Sunga unrealised profit w3 ($80\% \times 6,000$)	(4,800)
Goodwill impaired w4 [$80\% \times (10\% \times 179,973)$]	(14,398)
Interest on deferred consideration [$60,500 - 49,973$]	(10,527)
Amba R/Earnings [$333,000 - 318,000$] = $15,000 \times 40\%$	<u>6,000</u>
	<u>357,275</u>

Alternative working – group retained earnings

	Panga K'000	Sunga K'000	Amba K'000
Per question	349,000	180,000	333,000
Less pre-acquisition R.E		(120,000)	<u>(318,000)</u>
Less Fair value depreciation		(20,000)	15,000
Less PUP		<u>(6,000)</u>	
P's share of S ($80\% \times 34,000$)	27,200	34,000	
P's share of A ($40\% \times 15,000$)	6,000		
Unwinding of discount (w5)	(10,527)		
Impairment loss of Goodwill ($80\% \times (10\% \times 179,973)$)	<u>(14,398)</u>		
	<u>357,275</u>		

W6: NCI [2marks]

Fair value at acquisition (20 million shares x K3.50)	70,000
Sunga R/Earnings w2	8,000
Sunga unrealised profit w3	(1,200)
Goodwill impaired w6	<u>(3,599)</u>
	<u>73,201</u>

W7: Investment in Amba

Cost at acquisition $[100,000 \times 40\%] = 40,000 \text{ shares} \times K2.50$
Amba R/Earnings w5 $[40\% \times (333,000 - 318,000)]$

100,000
<u>6,000</u>
<u>106,000</u>

Consolidation process

SOLUTION TWO

(all figures are in thousand kwacha)

Part (a)

Tutu Plc statement of profit or loss and other comprehensive income for the year ended 31 December, 2019

	K'm
Revenue (TB)	1,225
Cost of sales (W5)	(854)
	<hr/>
Gross profit	371
Distribution costs	(43)
Administration expenses	(25)
Provision for compensation	(3)
Finance cost (12% x 476)	(57)
	<hr/>
Profit before tax	243
Tax	(28)
	<hr/>
Profit for the year	215
Other Comprehensive Income	
Revaluation Surplus (80%*85 [1,200 – 1,115])	68
	<hr/>
Total Comprehensive Income	283
	<hr/>

Total marks 13

Tutu Plc Statement of financial position as at 31 December, 2019

Assets	K'm	K'm
Non-current assets		
Property plant and equipment		1,320
Current assets		
Inventory	24	
Receivables	29	53
		<hr/>
Total assets		1,373
		<hr/>

Equity and Liabilities

Share capital 50 ngwee each (150+30)	180
Share Premium (20+210)	230
10% Convertible Loan (OCE)	24
Revaluation Surplus (45+68)	113
Retained earnings (15+215)	<hr/> 230

		777
Non-current liabilities		
Deferred Tax	25	
10% Convertible loan	483	
		508
Current liabilities		
Trade payables	35	
Overdraft	5	
Tax	45	
Provision for compensation	3	
		88
Total equity and liabilities		1373
Total marks		12

W1) Convertible Loan

CY	CF	DF	PV
	K'm	12%.	K'm
1	50	0.893	45
2	50	0.797	40
3	550	0.712	392
Debt component			476
Other Components of equity			24
Proceeds			500

K'm

Finance cost (476*12%)	57
Equity	24
Convertible Loan (476+57-50)	483

W2) Non - Current assets

	K'm
Property CV at year start (1180-36)	1,144
Depreciation (1180-20)/40yrs	(29)
CV at Revaluation	1,115
Revaluation Surplus	85
CV at reporting	1,200

Plant and Equipment	K'm
CV at year start (200-50)	150
Depreciation (150*20%)	- (30)
	<hr/> 120
Total property plant and equipment (1200+120)	<hr/> 1,320

W3) Right issue Option

K'm

Cash $(150/0.5)/5 * (K0.5+K3.5)$	240
Share Capital $(150/0.5/5*0.5)$	30
Share Premium $(150/0.5/5*K3.5)$	210

W4 Tax

K'm

Closing Differed tax $(40+85)*20\%$.	25
Opening Deferred Tax	18
Increase in Deferred tax	7
Attributed to Profit or loss (decrease)	- 10
Attributed to OCI $(85*20\%)$	17
Tax Expenses	
Estimate	45
Overprovision	- (7)
Movement in Deferred tax	- (10)
I/S	<hr/> 28

W5) Cost of sales

K'm

Opening Inventory	19
Purchases	800
Closing Inventory	- (24)
$(22-2+(5*100/125)$	
Depreciation:	
Buildings	29
Plant and equipment	30
	<hr/> 854

SOLUTION THREE

(All figures are in thousand kwacha)

- a) i) Gross profit margin = gross profit/revenue: $3,015/8,865 \times 100 = \underline{34\%}$
- ii) Operating profit margin = operating profit/revenue $\times 100$: $1,899/8,865 \times 100 = \underline{21.4\%}$
- iii) Asset turnover = $8,865/(10,260-3,285) = \underline{1.27 \text{ times}}$
- iv) ROCE = operating profit/capital employed $\times 100$: $1,899/(10,260-3,285) \times 100 = \underline{27.2\%}$
- v) Current Ratio = current assets/current liabilities: $3,375/3,285 = \underline{1.03:1}$
- vi) Acid test ratio = Current Assets-inventory/current liabilities: $3,375-1,395/3,285 = \underline{0.6:1}$
- vii) Trade receivable days = trade rec./sales $\times 365$: $1,530/8,865 \times 365 \text{ days} = \underline{63 \text{ days}}$
- viii) Trade payable days = trade pay./cost of sales $\times 365$: $2,115/5,850 \times 365 \text{ days} = \underline{132 \text{ days}}$
- ix) Gearing = interest bearing debt/interest bearing debt + shareholders' funds $\times 100$ = $1,980/1,980 + 4,995 \times 100 = \underline{28.4\%}$
- x) Inventory turnover = cost of sales/inventory: $5,850/1,395 = \underline{4.2 \text{ times}}$

b) REPORT

TO: The Board of Zemala Plc.

FROM: Accountant

DATE: (date of exam)

SUBJECT: Analysis of financial performance and position of Zemala Plc. for the year ended 31 March 2020.

As requested, this report discusses the financial performance and position of Zemala Plc. for the year under review. The analysis is made with reference to the appendix to this report that shows ratios for the year ended 31 March 2019 as well as those for the year ended 31 March 2020.

Profitability

The primary profitability ratio ROCE is now 27.2% compared to 15.6% the previous year, showing improvement in performance. When the secondary ratios are checked for possible reason of improvement in ROCE, both operating profit margin and asset turnover increased from 15.7% to 21.4% and 0.99 times to 1.27 times respectively. These respective movements represent 36% and 28% increase. It is therefore clear

that ROCE improved largely due to a rise in operating profit as its increase is higher than that of asset turnover.

Additionally, the improvement in operating profit margin may have been due to savings realized from ceasation of non performing product lines as indicated by the scenario as well as innovations with production processes which may have reduced operating expenses. As asset turnover has increased on the previous year's figure, ROCE has improved partly due to efficient operations of non current assets. Again, the scenario confirms the disposal of non current assets connected to non performing product line during the year meaning more efficient assets only have remained with Zemala Plc.

However, it is possible that improvement in ROCE may have come as a result of selling non current assets hence reducing the denominator of the ROCE formular, and not anything to do with efficiency of non-current assets that remained unsold.

Further, the current year gross profit margin may have increased by a marginal 16.8% $(34-29.1/29.1 \times 100)$ due to increase in revenue on previous year amounts arising from the introduction of online sales. This may have increased revenue as evidenced by increase in inventory turnover by 55% $(4.2-2.7/2.7)$ from 2.7 times to 4.2 times.

Liquidity

Current Ratio has decreased from 1.36 to 1.03 and acid test ratio also decreased from 1.04 to 0.6. This may be attributable to some Current assets decreasing and as seen in the question, receivables decreased from K3.555 million to K1.53million thereby threatening ratio. The online selling introduced this year may have contributed to reduction in receivables which is good for cash flow. This is further evidenced by the reduction in receivables days from 257 to 63.

Payable days increased from 77 to 131, contributing to deteriorating Current and Acid test ratios. This may have been facilitated by marginal rise in cash balance from K0.135 to K0.150.

Despite reduction in receivables days, which should have improved cash flow, Zemala Plc. issued more loan to the value of K1.35 million though cash balance has only increased by K0.45 million. The statement of financial position reveals that Zemara increased its PPE by over K3 million, representing over 80% to such an extent it was not able to meet its trade payables obligations on time.

Gearing

This has increased in the current year by 16.1% point from 12.3% to 28.4%. This is due to more loans that were issued to the value of K1.35 million during the year. Zemala will definitely have to pay higher interests than previous year thereby this negatively impacting on the dividend payable to the equity holders.

Conclusion

Zemala's financial performances this year appear to be generally sound as seen from the profitability ratios. The financial position, however, is somewhat not presenting well with gearing rising and liquidity ratios deteriorating. It is hoped that the loan acquired is put to good use as evidenced by the rise in PPE which in later years should contribute to a reduction in adverse ratios reported.

c) Demerits of a highly geared company

- A highly geared company generates high interest costs and hence reduces profits available for distribution to shareholders as dividends.
- The company may find it difficult to remain in business as any further borrowings are threatened by existing gearing levels
- If not paid, loan note holders have powers to force the company into liquidation.

APPENDIX

▪ RATIO	Y/E 31/3/2020	Y/E 31/3/2019
GROSS PROFIT MARGIN	34%	29.1%
OPERATING PROFIT MARGIN	21.4%	15.7%
ASSET TURNOVER	1.27 TIMES	0.99 TIMES
ROCE	27.2%	15.6%
CURRENT RATIO	1.03:1	1.36:1
ACID TEST RATIO	0.6:1	1.04:1
TRADE RECEIVABLES DAYS	63 DAYS	257 DAYS
TRADE PAYABLES DAYS	132 DAYS	77 DAYS
GEARING	28.4%	12.3%
INVENTORY TURNOVER	4.2 TIMES	2.7 TIMES

SOLUTION FOUR

Client A

- The K1.5 million Kwacha spent in the first quarter of the year ended 31 March 2019, should be expensed in the income statement as development expense.
- The additional K5 million spent on the drug after it was approved for human consumption can be treated as an intangible asset as economic benefits would arise from this project.
- The development expenditure should be amortised over 5 years with a 3 months charge in the year ended 31 March 2019. $(K5m/5 \times 3/12) = K0.25m$

Client B

- CV of asset on reclassification date $(K2.5 - (2.5/50 \times 4.5\text{yrs})) = K2.275m$
- Revaluation Surplus on 1/10/18 $(2.8 - 2.275) = K0.525m$
- The above revaluation should be recognised in other comprehensive income
- Fair investment property should not be depreciated from 1st October, 2018 onwards since the client is using the fair value model.
- Depreciation for 6 months 1 April 2018 – 1 October 2018 $= 2.5/50 \times 6/12 = K0.025m$
- At 31.3.2019, the premises must be revalued to a fair value of K3.1 m giving a further gain of K0.3m (i.e $3.1 - 2.8$). this gain will be reported in p/l.

Client C

Establish the WANS

Period	No of shares	Time	Bonus fraction	WANS
1 Apr 18 to 30 Sept 18	8,000,000	6/12	3/1.75	6,857,143
1 Oct 18 – 31 Mar 2019	9,600,000	6/12		4,800,000
				11,657,143

EPS 2019 $= 1,700,000 / 11,657,143 \times 100 = 14.58$ Ngwee

EPS 2018 $= 15 \times 1.75 / 3 = 8.75$ ngwee (Restated)

Client D

This client leased out a machine on a long-term basis. The lease agreement gives an option to the leasee to buy the asset at an amount below its market value after the expiry of the lease period. The lease is valued at K220,000 and the present value of the minimum lease payments is K285,000. Five annual Instalments of K40,000 should be paid by 31 March of each year.

Year	B/f	Interest @12%	Instalment	C/f
	K	K	K	K
2019	220,000	26,400	40,000	206,400

2020	206,400	24,768	40,000	191,168
------	---------	--------	--------	---------

Finance cost (2019) = K26400

Non-current liability at 31.3.2019= 191,168

Current liability at 31.3.2019= (206,400-191,168)=K15,23

Amortization of ROUA $285000/8 = 35,625$ charged to p/l

Carrying amount of right of use asset at 31.3.2019 $= 285,000 \times 7/8 = 249,375$

Client E

- (iii) The change in inventory valuation from average cost method to first in first out is a change in accounting policy. This change should be applied retrospectively in order to make the information for the current and previous years more comparable.
- (iv) The treatment of depreciation on buildings as an administrative cost is also a change in accounting policy. This change must be applied retrospectively for comparability purposes.

SOLUTION FIVE

- (a) [10 marks: 3 marks for the meaning of a discontinued operation, 5marks for the accounting treatment of milk business line and 2 marks for Tea business line]
- (i) Discontinued operation is a component of an entity that has been either disposed of or classified as non-current asset held for sale.
- It represents a major line of business or a geographical area of operation; or
 - Is part of a coordinated single plan to dispose of a major line of business or a geographical area of operation; or
 - Is a subsidiary acquired exclusively for resale.
- (i) Milk business line is a discontinued operation because it has been closed (30 June 2019) and its assets have been disposed of (31 October 2019).
- (ii) Banga should disclose a single amount representing discontinued operations (Milk) in the statement of comprehensive income of continuing operations.
- (iii) The amount is K50,000,000 [60,000,000-10,000,000] which includes:
- Post-tax profit or loss on discontinued operations [60,000,000].
 - Post-tax gain or loss on disposal of assets [10,000,000=45,000,000-35,000,000].
- (iv) Banga should analyse this single amount into revenue, expenses, profit or loss, gain or loss on assets disposed and related tax expense.
- (v) The analysis can either be in the notes or on the face of statement of comprehensive income.
- (vi) Tea business line is not a discontinued operation.
- (vii) The reorganisation cost of K25, 000,000 should be expensed in the statement of profit or loss of Tea business line.
- (b)
- (i) **Going concern**
The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.
- (i) **Substance over form**
Financial statements should reflect the commercial substance or economic reality of the transaction, not merely its legal form.
- (ii) **Equity**
Equity is the residual interest in the assets of the entity after deducting all its liabilities.
- (iii) **Verifiability**
Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement. Verifiability helps assure users that information faithfully represents the economic phenomenon it purports to represent.

(iv) **Contingent liability**

Means possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain (favourable or unfavourable) future events not wholly within the control of the entity.

(c)

A complete set of financial statements comprises:

- (1) A statement of financial position;
- (2) A statement of financial performance;
- (3) A statement of changes in net assets/equity;
- (4) A cash flow statement;
- (5) Notes, comprising a summary of significant accounting policies and other explanatory notes.
- (6) For the entity that makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 23 JUNE 2020

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 (2) 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

Bupe Ltd specializes in seasonal novelty products and is considering the manufacture of a new range of items to coincide with a major sporting event. The range will initially comprise two products, Flags and Bunting. To assist with budgeting, Bupe Ltd has collected the following projected information for the month of July;

<u>Projected sales</u>	<u>Quantity</u>	<u>Selling price</u> <u>per item (K)</u>		
Flags	4,000	18		
Bunting	2,000	50		
<u>Production</u> <u>requirements</u>	<u>Cost per metre</u>	<u>Flags</u>	<u>Bunting</u>	
Material Cer	K4.00	0.5m	4m	
Material Bar	K2.00	1m	3m	
<u>Finished Inventory</u>	<u>Flags</u>	<u>Bunting</u>		
1 July	200	0		
31 July	950	1,325		

There is no opening or closing work in progress. However, due to inefficiencies in the production process, management expects that 5% of output will not pass quality control and therefore cannot be sold.

<u>Materials inventory</u>	<u>Cer</u>	<u>Bar</u>
1 July	6,000m	20,000m
31 July	10,200m	14,000m

Labour and overheads

The standard direct labour required to produce each Flag unit is 30 minutes and a Bunting unit takes 1 hour to produce. Labour is paid at K10 per hour. Variable overheads (which will be incurred evenly over the year) are projected at K360,000 per annum and these are to be absorbed into production on the basis of direct labour hours.

Required:

- (a) Prepare the following budget statements:
- (i) Sales budget (in units and value)
 - (ii) Production budget in units
 - (iii) Material purchases budget (in metres and value)
 - (iv) Labour budget (in hours and value)
 - (v) Overhead absorption budget (16 marks)
- (b) Calculate the projected standard contribution per unit for Flags and Bunting. (4 marks)

- (c) Explain five (5) benefits of budgeting.

(5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) A church, comprising four branches, is planning its 2020 annual camp meeting. The annual camp meeting is the first major program after all the head pastors attended a leadership conference on "Blending faith and science in church decision making".

The general overseer of the church wishes to apply the scientific principles learnt at the conference in deciding between two major venues for 2020 annual camp meeting. Mutale, the general overseer or his proxy would have to veto where annual camp meetings are held. The following information is relevant for the decision;

- (i) Seven pastors will facilitate the camp meeting. "Food 4 all" restaurant will be assigned the responsibility of providing food for the pastors. They have indicated that a meal for a pastor would cost K5. This cost is expected to increase by 50% if a pastor attends the camp meeting with his wife. All pastors will be fed three times daily but only three pastors plan to attend the conference with their wives. Church members will take care of their own feeding but all camp expenses of the pastors will be borne by church members.
- (ii) Water to be served at the camp meeting. 100 bags of sachet 500mls water at K2 each and 25 boxes 750mls bottled water at K13 per box.
- (iii) The church plans to either have the conference at AKA (A) or BOBO (B) camp sites. Accommodation cost per head per day at AKA is K60 for the first 400 participants and K45 for any additional participant. BOBO will not charge any fee but the church will have to show appreciation, which will be in the region of K2,000 after the camp meeting.
- (iv) AKA campsite will require the payment of electricity and water bills of K300 and K500 respectively.
- (v) It is expected that 96 litres of fuel at K15.15 per litre will be needed at BOBO campsite.
- (vi) Transportation cost for chairs and canopies will be K400 if the camp is undertaken at AKA and K300 if the camp is sited at BOBO. Each church member's transportation cost will be K3 if AKA is chosen as the venue but this figure is expected to double if the camp is taken to BOBO.
- (vii) Pastors' appreciation. Apart from the general pastor who will receive K500, each pastor will receive K300 as appreciation support.
- (viii) The church plans that 700 church members (pastors inclusive) will take part in the annual camp meeting if it is undertaken at BOBO while 500 members will attend the camp if it is held at AKA even though the two camp sites can each take 1,000 people. The camp meeting will last for 5 days.

Required:

- (i) Advise the management using relevant costing on which site they should hold the annual camp meeting. (8 marks)
 - (ii) Suggest two (2) qualitative factors that should be considered in deciding on the venue. (4 marks)
 - (iii) Explain the term sunk costs and identify three (3) examples of sunk costs. (3 marks)
- (b) Explain the following pricing strategies:
- (i) Skimming pricing
 - (ii) Penetration pricing
 - (iii) Psychological pricing
 - (iv) Premium pricing
 - (v) Loss leaders pricing

(10 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Ethics Limited prides itself as the 'most innovative and creative' company in the country. The company has developed a number of new products over the last 5 years which are used in the agricultural sector to help farmers detect weather patterns. Ethics Limited has invested heavily in research and development and most of its survey findings are published in the quarterly Farmers Journal with the latest version indicating a new product known as ***Climate Change - CC***.

CC requires 4 hours of labour at a standard rate of K17 per hour. The budget for the month is to produce 300 units.

Actual results were:-

Hours Worked	1,400
Production	330 units
Labour Cost	K27,000

Management realized during the first day of the job that the job was more technical and specialized than anticipated and that labour would have to be paid at K18 per hour but that the standard time should have been 3 hours per unit.

Required:

Calculate the following:

- | | | |
|-------|--|-----------|
| (i) | Labour rate variance | (1 mark) |
| (ii) | Labour efficiency variance | (2 marks) |
| (iii) | Planning rate and efficiency variances | (4 marks) |
| (iv) | Operational rate and efficiency variances. | (4 marks) |
- (b) The budgetary control unit manager of the company you work for in Mkushi District has sent you an email with the following information for your attention.

Standard production cost per unit	K68
Budgeted selling price per unit	K75
Budgeted Production	8,700 units
Budgeted Sales	8,000 units
Opening Inventory	-
<i>Actual Results:-</i>	
Sales revenue	8,400 units for K613,200
Production	8,900 units costing
Materials	K163,455
Labour	K224,515
Variable Overheads	K87,348
Fixed Overheads	K134,074

Schedule of Variances :

	K
Fixed overhead expenditure variance	3,574 (A)
Fixed overhead capacity variance	1,800 (F)
Fixed overhead efficiency variance	1,200 (F)
Sales price variance	16,800 (A)
Sales volume variance	2,800 (F)
Variable overhead expenditure variance	852 (F)
variable overhead efficiency variance	800 (F)
Material price variance	3,867 (A)
Material usage variance	612 (F)
Labour efficiency variance	2,000 (F)
Labour idle time variance	6,500 (A)
Labour rate variance	2,485 (F)

Required:

- (i) Prepare an operating statement for the period under review. (8 marks)
- (ii) Calculate the actual profit for the period (3 marks)

- (c) During the last review meeting to discuss operations, the sales manager wanted to know how performance standards were set for certain cost elements in the standard cost card.

Required:

Explain how performance standards are set for direct materials and labour costs.

(3 marks)

[Total 25 Marks]

QUESTION FOUR

New Product Ltd (NPL) specializes in the designing and manufacturing of new products on the market. The company is now planning to introduce a new product specially designed for young children. Development of this product is scheduled to start soon. The company is therefore in the process of preparing a product lifecycle budget. The product is expected to have a lifecycle of three years and will be sold at K150 per unit.

The following are the estimated costs:

1. R & D and design costs – K1,350,000 in year 1, K150,000 in year 2 and nil in year 3.
2. Production costs – Annual fixed cost of K900,000 over the product lifecycle plus a unit variable cost of K24 in year 1 reducing to K22.50 in years 2 and 3.
3. Marketing costs – Annual fixed cost of K600,000 in year 1, reducing to K450,000 in years 2 and 3 plus a unit variable cost of K5.40 in year 1 reducing by 60 Ngwee in each of the remaining two years.
4. Distribution costs – Annual fixed cost of K360,000 and a unit variable cost of K1.50 over the product lifecycle.
5. Customer service costs – variable cost of K3.00 per unit in year 1 reducing to K2.25 in years 2 and 3.
6. Production and sales units will be 7,500 in year 1, 30,000 in year 2 and 22,500 in year 3.

The sales price is expected to be constant at K150 per unit through-out the product lifecycle.

Required:

- (a) Calculate the product lifecycle cost per unit and comment on the K150 sales price per unit proposed by NPL management. (10 marks)
- (b) Explain the following:
 - (i) The changes in the modern business environment that have prompted the development of lifecycle costing. (5 marks)
 - (ii) The benefits that NPL would obtain from a product lifecycle costing exercise. (6 marks)

Management is considering revising the unit sales price from K150 to K146 in order to increase sales revenue. A market research has indicated that the reduction in the price will increase total sales volume by 10%. All costs will remain unchanged.

Required:

- (c) Calculate the price elasticity of demand for the product and advise management on whether or not to reduce the sales price per unit. (4 marks)

[Total 25 Marks]

QUESTION FIVE

- (a) The following financial data is available for Pens Limited, a company located in Lusaka's industrial area.

Extract from the financial statements:

	K'000
Statement of financial position	
Non-current assets	8,441
Inventory	1,077
Trade receivables	3,020
Trade payables	1,490
Other payables	618
Overdraft	1,423
Net current assets	566
Income Statement	
Revenue	16,890
Gross Profit	5,044
Profit from operations	2,482

Required:

Calculate the following working capital ratios.

- | | | |
|-------|--------------------------|-----------|
| (i) | Quick Ratio | (2 marks) |
| (ii) | Inventory turnover ratio | (2 marks) |
| (iii) | Receivables days | (2 marks) |
| (iv) | Payables days | (2 marks) |

- (b) Overtrading is the practice of conducting more business than can be supported by a firm's working capital. When this happens, a company usually runs out of cash, placing it at considerable risk of bankruptcy.

Required:

State five (5) symptoms of overtrading (5 marks)

- (c) Phiri Daka uses components at the rate of 500 units per month, which are bought in at a cost of K120 each from the supplier. It costs K200 each time an order is placed, regardless of the quantity ordered. The holding cost is 20% per annum of the value of inventory held.

Required:

- (i) Calculate the EOQ (3 marks)
 - (ii) Calculate the number of orders made in the year (2 marks)
 - (iii) State two (2) assumptions of the EOQ model (2 marks)
- (d) Before credit is offered to a new customer, their creditworthiness needs to be assessed to give confidence that they will meet debts as and when they fall due.

Required:

State five (5) ways of assessing customers' creditworthiness (5 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

a. i) **Sales budget**

	Products:		
	Flags	Bunting	
Sales units	4,000	2,000	
Selling price	<u>K18</u>	<u>K50</u>	
Value	<u>K72,000</u>	<u>K100,000</u>	= K172,000

ii) **Production budget (units)**

	Flags	Bunting
Sales units	4,000	2,000
Add: closing inventory	<u>950</u>	<u>1,325</u>
	4,950	3,325
Less: opening inventory	<u>(200)</u>	<u>-</u>
	4,750	3,325
Normal loss 5/95	<u>250</u>	<u>175</u>
Total production (100%)	<u>5,000</u>	<u>3,500</u>

iii) **Material purchasing budget**

	<u>Materials:</u>	
	Cer	Bar
Production requirements	m	m
Flags (5,000 units)	2,500	5,000
Bunting (3,500 units)	<u>14,000</u>	<u>10,500</u>
Total	16,500	15,500
Add: closing stock	<u>10,200</u>	<u>14,000</u>
	26,700	29,500
Less: opening stock	<u>(6,000)</u>	<u>(20,000)</u>

Purchasing (metres)	20,700	9,500	
Cost per metre	<u>K4.00</u>	<u>K2.00</u>	
Cost of purchases	<u>K82,800</u>	<u>19,000</u>	= <u>K101,800</u>

iv) **labour budget**

	Flags	Bunting	
Production requirements	5,000 units	3,500 units	
Direct labour input	30/60 hrs	1 hour	
Total labour hours requirement	2,500 hours	3,500 hours	
Cost per hour	<u>K10</u>	<u>K10</u>	
	<u>K25,000</u>	<u>K35,000</u>	= <u>K60,000</u>

v) **Variable overhead production budget**

Variable overhead for the year		K360,000
Variable overhead for the month (K360,000/12)		K30,000
Direct labour hours (2,500 + 3,500)		6,000
Overhead	K5	

Absorption as follows:

Flags	K12,500
Bunting	K17,500

b. <u>Flag</u>		K	K
Sales price			18.00
Direct materials; Cer 0.5m @ K4		2.00	
Bar 1m @ K2		2.00	
Direct labour; 0.5 hours @ K10/hr		5.00	
Variable overheads; 0.5 hours @ K5/hr		<u>2.50</u>	
		11.50	
Normal loss (5%)		<u>0.58</u>	

	<u>12.08</u>
Gross profit / contribution (per unit)	<u>5.92</u>

<u>Bunting</u>		K	K
Sales price			50.00
Direct materials;	Cer 4m @ K4	16.00	
	Bar 3m @ K2	6.00	
Direct labour;	1 hour @ K10/hr		10.00
Variable overheads;	1 hour @ K5/hr		<u>5.00</u>
		37.00	
Normal loss (5%)		<u>1.85</u>	
			<u>38.85</u>
Gross profit / contribution (per unit)			<u>11.15</u>

Solution assumes that the 5% loss is incurred at the end of the production process, thereby incurring all costs, including materials, labour and overheads. No penalty to subsequent calculations if calculated on alternative basis.

c) **Benefits of budgeting**

- Provide a method of allocating and using resources within the organization.
- Help to monitor and control operations
- Promote forward thinking
- Help to co-ordinate different departments and align them towards shared objectives
- Shows employees an overall picture of the direction of the organization which can motivate staff.

(Note: other reasonable suggestions are acceptable).

SOLUTION TWO

a) Relevant costs

i. Costs under the two camp sites

	<u>AKA</u> K	<u>BOBO</u> K
Food	637.50	637.50
Water	525.00	525.00
Accommodation	4,750.00	2,000.00
Utility	800.00	-
Fuel	-	299.50
Transportation of chairs	400.00	300.00
Transportation of members	1,500.00	4,200.00
Pastors appreciation	2,300.00	2,300.00
Total	10,912.50	10,262.00

Decision: camp must be held at BOBO.

Note: Alternative solution is to exclude the irrelevant costs like food, water and pastors' appreciation.

ii. **Qualitative factors to consider in deciding on the venue;**

- Can the venue guarantee proper safety and security of participants?
- Is there any competing event in the venue for the days for which the camp meeting is planned?
- Is the church having a contingency plan in the event of poor weather?
- Proximity of venue to participants and how it will encourage attendance.

iii. **Sunk costs and examples**

A sunk cost is a cost that has already been incurred and thus can not be recovered.

A sunk cost differs from future costs that a business may face, such as decision about inventory purchase costs or product pricing.

Here are several examples of sunk costs;

- Marketing study
- Research and development
- Training
- Hiring bonus

b)

i. Skimming pricing

It is a pricing policy that involves charging high prices when a product is first launched and spending heavily on advertising and sales promotion to obtain sales. The aim of market skimming is to gain high unit profits early in the product's life.

ii. Penetration pricing

Market segmentation involves splitting or segmenting the "mass market" into different subgroups of customers.

Different products or services can then be designed and priced according to the different needs of customers in different segments.

iii. Psychological pricing

Psychological pricing strategies include pricing a product at K19.99 instead of K20 and withdrawing an unsuccessful product from the market and then re-launching it at a higher price, the customer having equated the lower price with lower quality (which is not the seller's intention).

iv. Premium pricing

This will always be paid by those customers who blindly equate high price with high quality. This can be achieved by heavy advertising.

v. Loss leaders pricing

A very low price for one product is intended to make customers buy additional products in the range which carry higher profit margins.

SOLUTION THREE

(a) Calculation of Variances

(i) Labour rate variance

1,400 hours should have cost x K17
But did cost

K
23,800
27,000
3,200 (A)

(ii) Labour efficiency variance

330 units should have taken x 4 hours
But did take
Efficiency Variance in hours
Valued @ standard rate per hour

1,320 hours
1,400 hours
80 hours (A)
x K17
K1,360 (A)

(iii) Planning rate and efficiency variances

Planning Rate

1,400 should have cost x K17 (Std)
But did cost (@ revised rate of K18)

K
23,800
25,200
1,400 (A)

Planning Efficiency

330 units have taken x 4 hrs
But did take (330 units x 3 hrs)
Efficiency variance in hrs
Valued @ std rate

1,320 hrs
990 hrs
330 hrs (F)
x K17
K5,610 (F)

(iv) Operational rate and efficiency variances.

Operational Rate

1,400 should have cost x K18
But did cost

K
25,200
27,000
1,800 (A)

Operational Efficiency

330 units should have taken x 3 hrs
But did take
Efficiency variance in hrs
Valued @ standard rate per hr

990 hrs
1,400 hrs
410 hrs (A)
x K17
K6,970 (A)

(b) (i) Variance Report

Description	K	K	K
Budgeted profit (8,000 @K7 per unit)			56,000
Sales price variance		16,800 (A)	
Sales volume variance		2,800 (F)	14,000
			42,000
Cost Variance	Adverse	Favorable	
Materials price variance	3,867 (A)		
Material usage variance		612 (F)	
Labour rate variance		2,485 (F)	
Labour efficiency variance		2,000 (F)	
Labour idle time variance	6,500 (A)		
Variable o/head expenditure variance		852 (F)	
Variable o/head efficiency variance		800 (F)	
Fixed o/head expenditure variance	3,574 (A)		
Fixed o/head efficiency variance		1,800 (F)	
Fixed o/head capacity variance		1,200 (F)	
	13,941 (A)	9,749 (F)	
			4,192(A)
			37,808
Inventory adjustment			(34,000)
Actual Profit			3,808

(ii) Actual profit schedule

	K	K
Sales revenue		613,200
Less costs		
Materials	163,455	
Labour	224,515	
Variable overheads	87,348	
Fixed Overheads	<u>134,074</u>	
		(609,392)
Actual profit		<u>3,808</u>

(c) Setting Performance standards for direct materials cost

Production experts in the work study and work measurement determine the materials resource requirements per unit of output whilst the materials resource price is determined by procurement experts by looking features such as probable discounts from suppliers, contracts already signed, etc.

SOLUTION FOUR

- (a) The product life cycle cost per unit

	Year 1	Year 2	Year 3	Lifecycle
Production and Sales units	7,500	30,000	22,500	60,000
<hr/>				
Product costs	K'000	K'000	K'000	K'000
R & D and design costs	1,350	150	-	1,500
Production costs:				
Fixed	900	900	900	2,700
Variable	180	675	506.25	1,361.25
Marketing costs:				
Fixed	600	450	450	1,500
Variable	40.50	144	94.50	279
Distribution costs:				
Fixed	360	360	360	1,080
Variable	11.25	45	33.75	90
Customer service costs	22.50	67.50	50.625	140.625
Total				<u>8,650.875</u>

$$\begin{aligned}
 \text{Product life cycle cost per unit} &= \frac{\text{K8,650,875}}{\text{K60,000 units}} \\
 &= \underline{\underline{\text{K144.18}}}
 \end{aligned}$$

The product life cycle cost per unit is K144.18. Therefore the suggested price of K150 per unit will yield profit over the whole product life cycle.

- (b) Changes in the business environment and benefits of life cycle costing

- (i) Notable changes in the business environment include the increase in product diversity and shortening of product life cycles. This has led to the replacement of mass production by flexible manufacturing. Product costs also tend to be largely determined at the onset of its life cycle.
- (ii) Life cycle approach to costing reports on costs incurred on each product over the whole course of its life.

The benefits of life cycle costing exercise are as follows:

It enables an organisation to appraise the profitability over the whole life of the product rather than a period at a time. Therefore products that are loss-making initially but profitable in the longer term will be accepted.

It enables an organisation to reconsider some of the costs at the R & D stage since a large proportion of the product costs are locked in at the design stage.

It enables management to focus marketing and promotion when required at certain critical points of the life cycle.

- (c) A reduction in price from K150 to K146 represents a percentage change in price of 2.67% which results in a 10% increase in demand or sales volume. The product's price elasticity of demand is therefore 3.75 ($10\%/2.67\%$).

Product demand is price elastic. Therefore, reducing the price will increase sales revenue. Other factors held constant, management can reduce the price as this will increase sales volume and revenue by more than the proportionate reduction in price.

SOLUTION FIVE

(a) Calculation of working capital ratios

$$\begin{aligned}\text{(i) Quick Ratio} &= \frac{\text{Currents Assets} - \text{Inventory}}{\text{Current Liabilities}} \\ &= (K4,097 - K1,077)/K3,531 \\ &= \mathbf{0.86}\end{aligned}$$

$$\begin{aligned}\text{(ii) Inventory turnover ratio} &= \frac{\text{Cost of goods sold}}{\text{Inventory}} \\ &= \frac{11,846}{1,077} \\ &= \mathbf{11 \text{ times}}\end{aligned}$$

$$\begin{aligned}\text{(iii) Receivables days} &= \frac{\text{Trade Receivables}}{\text{Revenue}} \times 365 \text{ days} \\ &= \frac{3,020}{16,890} \times 365 \text{ days} \\ &= \mathbf{65 \text{ days}}\end{aligned}$$

$$\begin{aligned}\text{(iv) Payables days} &= \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365 \text{ days} \\ &= \frac{1,490}{11,846} \times 365 \text{ days} \\ &= \mathbf{46 \text{ days}}\end{aligned}$$

(b) Five (5) symptoms of overtrading

- High revenue growth but low gross and operating profit margins.
- Persistent use of a bank overdraft facility.
- Significant increases in the payables days and receivables days ratios.
- Significant increase in the current ratio.
- Very low inventory turnover ratio.
- Low levels of capacity utilization.

(c) (i) Economic Order Quantity

$$\begin{aligned}\text{EOQ} &= \sqrt{2CD/H} \\ &= \frac{\sqrt{2 \times 200 \times 6,000}}{24} \\ &= \mathbf{1,549 \text{ units}}\end{aligned}$$

- (ii) Number of orders = D/Q
 = $6,000/1,549$
 = **4 orders**
- (iii) Two assumptions of the EOQ model
- Uniform or constant demand
 - Constant unit price
 - Constant carrying and ordering costs
- (d) Five (5) ways of assessing customers' creditworthiness include:-
- Trade references
 - Bank references
 - Credit reference agencies
 - Published accounts.
 - Information from the financial media
 - Undertaking visits

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 10 TAXATION

THURSDAY 25 JUNE 2020

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 (2) 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

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%
On income from manufacture of products made out of copper cathodes	15%

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%
	Used in mining operations	20%

Non- commercial vehicles

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

Industrial Buildings:

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

Low Cost Housing (Cost up to K20,000)

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%
-------------------------	----

Farming Allowances

Development Allowance	10%
-----------------------	-----

Farm Works Allowance	100%
Farm Improvement Allowance	100%

Presumptive Taxes

Turnover Tax	4%
---------------------	----

Presumptive Tax for Transporters

Seating capacity	Tax per annum K	Tax per day K
From 64 passengers and over	7,200	19.70
From 50 to 63 passengers	6,000	16.40
From 36 to 49 passengers	4,800	13.00
From 22 to 35 passengers	3,600	10.00
From 18 to 21 passengers	2,400	6.60
From 12 to 17 passengers	1,200	3.30
Less than 12 passengers and taxis	600	1.6

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 duties on used motor vehicles

	Aged below 5 years		Aged 5 years and over	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Motor vehicles for the transport of ten or more persons, including the driver				
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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Aged below 5 years		Aged 5 years and over	
	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
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	Aged below 5 years		Aged 5 years and over	
	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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

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

Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3. Buses/coaches for the transport of more than ten persons	
Customs Duty:	
Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%
4. Trucks/lorries with gross weight exceeding 20 tonnes	
Customs Duty:	
Minimum specifics customs duty	15%
Excise duty	K6,000
	10%

Import VAT is added to the sum VDP, customs duty and exercise duty. It is determined at the standard rate of 16%

SECTION A

Attempt BOTH questions in this section

QUESTION ONE

- (a) Mr. John Dabwisa is a Water Engineer employed by Lukambe Water and Sewerage Company (LWSC). He was employed on 1 April 2020 at an annual basic salary of K241,000.

He is entitled to the following allowances:	K
Housing allowance per annum	60,250
Transport allowance per annum	24,100
School children's allowance per child per annum	2,000

During the tax year 2020, in addition to his employment income, Mr. Dabwisa received bank deposit interest K5,960 (gross) and royalties of K29,750 (net). Withholding tax had been deducted and paid at source where appropriate.

Mr. Dabwisa has two (2) school going children. On 1 May 2020, he received a labour day award comprising cash of K5,800 and a deep freezer valued at K14,700. On 1 October 2020, he received a bonus which amounted to K12,000.

During the tax year 2020, he made the following payments:	K
School fees for children	5,700
Subscription to the Engineering Institute of Zambia (EIZ)	2,050
Donation to a local approved public benefit organisation	1,700
Donations to a political party	1,650
Pay As You Earn	70,252
Mortgage interest	12,600

In the tax year 2020, he contributed of 5% of his basic salary to NAPSA

Required:

Calculate the income tax payable by Mr. Dabwisa for the tax year 2020. (10 marks)

- (b) The Zambia Revenue Authority (ZRA) uses different factors to establish whether one is an employee or self-employed.

Required:

Explain any four (4) tests that should be taken into consideration to distinguish between an employee and a self-employed person. (4 marks)

- (c) Joe Mwiinga, a sole trader, has been in business for many years preparing accounts to 31 December each year. His annual turnover has always averaged K984,500. For the year to 31 December 2020, he estimated the tax adjusted business profits to be K610,000. Provisional income tax was computed and paid on the appropriate due dates throughout the tax year 2020. The actual taxable business profits for the year ended 31 December 2020 was calculated as K680,000.

Required:

- (i) Explain the types of persons liable to pay provisional income tax in Zambia. (3 marks)
(ii) Calculate the provisional income tax paid by Joe Mwiinga for the tax year 2020, showing the due dates and the amount paid on each due date. (5 marks)

- (iii) Calculate the final amount of income tax payable after giving relief for tax already paid.
(3 marks)

[Total: 25 Marks]

QUESTION TWO

Ignition Contractors Ltd is the company based in Kalumbilia in North Western Province. The company has won a tender of supplying goods and services to Kalumbila Copper Mines. It expects to employ about nine workers for a start, whose minimum monthly salaries will be K4, 000. It has been projected that the minimum monthly revenue is expected to be K85,000. The Company would require a reasonable capital considering the demand in the products and other services it will be providing to the mines. Ignition Contractors Ltd has not yet registered with the Zambia Revenue Authority and the company has been advised to complete the registration process with ZRA.

Required:

- (a) As a Tax accountant for Ignition Contractors Ltd, state the types of tax types the company should register for and the current tax rates applicable for each.

(3 marks)

- (b) Briefly justify why the company should register for the types of tax mentioned above.
(6 marks)

- (c) Mbengwela Limited is a company based in Lusaka. The company deals in taxable supplies and has a number of customers both within and outside Lusaka. The company entered into the following transactions in the month of November 2020:

1. Luwi Solutions Services Company was invoiced by Mbengwela Limited a year ago. Luwi Solutions Services Company is now bankrupt and Mbengwela Limited has only recovered K65,000 of the total invoice value of K200,000 the balance has been written off in respect of a standard rated invoice of registered customer. In addition, Mbengwela Limited wrote off a debt of K20,000 in respect of standard rated unregistered customer.
2. As per the policy of the company, all unused assets were sold for K90,000 VAT inclusive.
3. Mbengwela Limited had the following standard rated expenses: K

Petrol inclusive	6,000
Diesel inclusive	5,000
Entertaining customers	30,000
Expenses with regard to the Wall fence for the CEO	8,500
Utility bills	1,000
Telephone bills	<u>2,000</u>
	<u>51,500</u>
4. Mbengwela Limited sales to VAT registered customers was K315,000. Only K15,000 of the sales were zero rated and the balance were standard rated.

5. Mbengwela Limited standard rated sales to unregistered customer was K8,000.
6. Mbengwela Limited purchased standard rated goods from registered suppliers amounted to K10,000 (VAT inclusive). Purchases from unregistered suppliers amounted to K2,000 out of which K1,500 were standard rated and K500 zero rated.
7. Mbengwela Limited acquired a motor car at a cost of K95,000 and a Hilux van at a cost of K110,000. VAT on the two vehicles was charged at the standard rate and both vehicles are used wholly and exclusively for business purposes and they are (VAT inclusive).

Note*: Unless specifically stated, all the above persons are registered for VAT and the transactions are stated exclusive of VAT. Mbengwela Limited was registered for value added tax (VAT) in 2015.

Required:

Calculate the VAT payable in respect of the month of November 2020, showing clearly any output VAT payable or input VAT claimable on each transaction. (10 marks)

- (d) Briefly explain three (3) advantages and three (3) disadvantages of registering a business for Turnover Tax (TOT). (6 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Mervin and Kelvin are in business trading as partners. The following is the draft statement of profit or loss for the partnership for the year ended 31 December 2020:

	Note	K	K
Gross profit			610,000
Expenses			
Depreciation		40,000	
Salaries and wages	1	270,000	
Utility expenses	2	61,000	
Irrecoverable debts	3	23,000	
General expenses	4	<u>210,000</u>	
			<u>(604,000)</u>
Profit for the year			<u>6,000</u>

Additional information

- (1) Salaries and wages include K90,000 salaries paid to the partners.
- (2) It has been agreed with the Commissioner General that 45% of the utility expenses relate to the houses occupied by the partners.
- (3) Irrecoverable debts comprise of trade debts written off K2,000, increase in general provision K10,000, decrease in specific provision K5,000 and loan to former employee written off K6,000.
- (4) General expenses include the following:

	K
Entertaining customers	60,000
Employees' Christmas party	20,000
Donation to political party	15,000
Over speeding fines charged on partners	2,700
Other allowable expenses	<u>112,300</u>
	<u>210,000</u>

- (5) Capital allowances on partnership assets have been calculated as K29,800 for the tax year 2020.
- (6) The provisional income tax paid by the partners for the tax year 2020 was K14,000 and K15,000 for Mervin and Kelvin respectively.
- (7) The partnership agreement has been as follows:

	Mervin	Kelvin
Annual salaries	K100,000	K90,000
Share of profit/(loss)	1:	2

Required:

Calculate the amount of income tax payable by Mervin and Kelvin for the tax year 2020. (14 marks)

(b) Explain the following taxes giving an example for each:

- (i) Progressive taxes
- (ii) Regressive taxes
- (iii) Proportional taxes

(6 marks)

(c) X Limited, a Zambian resident company, calculated the provisional income to be K450,000 for the tax year 2020. Based on this figure the company computed and paid provisional income tax. Due to liquidity problems faced during the tax year 2020, the company paid the provisional income tax for the quarter ended 30 June 2020 and 30 September 2020 on 10 October 2020. The provisional income tax for the last quarter of 2020 was paid on 31 December 2020. The Bank of Zambia discount rate averaged 15.5% per annum during the tax year 2020.

Required:

Calculate the amount of penalties for late payment of provisional income tax and interest on overdue tax payable by X Limited for the tax year 2020. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Greenland Plc is a Zambian resident company engaged in farming. The company listed its shares on the Lusaka Securities Exchange (LuSE) in 2017. The company's issued share capital is 2,000,000 K1 equity shares of which 35% is held by indigenous Zambians. The following is the company's statement of profit or loss for the year ended 31 December 2020:

	Notes	K	K
Gross profit			1,910,000
Other income	1		<u>300,000</u>
			2,210,000
Expenses			
Salaries and wages	2	600,000	
Irrecoverable debts	3	50,000	
Marketing expenses	4	410,000	
Legal and professional fees	5	560,000	
General expenses	6	<u>484,500</u>	
Total expenses			<u>(2,105,100)</u>
Profit before tax			104,900
Income tax expense	7		<u>(40,000)</u>
Profit for the year			<u><u>64,900</u></u>

NOTES:**(1) Other income**

This comprise of profit on disposal of delivery van K20,000, royalties K127,500, bank interest K52,700, rental income K81,000 and dividends from D Plc, a mining company, K18,800. The amounts shown above are the actual cash received by Greenland Plc. Withholding tax has been deducted at source where appropriate.

(2) Salaries and wages

This includes directors' salaries amounting to K310,000 and employees' salaries amounting to K290,000. The directors are accommodated in company owned houses for which they pay no rent.

(3) Irrecoverable debts

This comprise of:	K
Trade debts written off	26,000
Increase in specific provision	4,600
Loan to former employee written off	57,700
Decrease in general provision	<u>(38,300)</u>
	<u>50,000</u>

(4) Marketing expenses

These comprise of:	K
Entertaining customers and suppliers	206,000
Advertising expenses	60,000
Gifts to customers of food hampers each costing K81	100,000
Gifts of Greenland calendars each costing K40	<u>46,600</u>
	<u>410,600</u>

(5) Legal and professional fees

These comprise of:	K
Legal fees in connection with acquisition of land	41,000
Legal fees in connection with issue of shares	36,000
Accountancy and audit fees	250,000
Legal fees in connection with defending title to existing assets	110,000
Legal fees in connection with income tax appeal for tax year 2019	<u>123,000</u>
	<u>560,000</u>

(6) General expenses

These comprise of:	K
Depreciation of non-current assets	60,200
Loss on disposal of computers	10,400
Donation to approved public benefit organisation	30,000
Revenue allowable expenses	<u>383,900</u>
	<u>484,500</u>

(7) Income tax

The amount of income tax expense in the statement of profit or loss represents the estimated tax expense for the year 2020. The provisional income tax paid during the tax year 2020 amounted to K26,204.

(8) Capital expenditure

As at 1 January 2020 the company had the following assets:

	Income tax value K	Original cost K
Delivery van	52,500	210,000
Computers	12,500	50,000

During the year ended 31 December 2020 the company had the following capital transactions:

	Cost/(proceeds) K
Mitsubishi canter truck	231,000
Office equipments	40,000
Toyota Mark-X car (2400cc)	140,000
Nissan Tiida car (1900cc)	80,000
Delivery van	(70,000)
Computers	(10,000)
Irrigation equipment	41,200
Storage facilities	26,200
Water conservation	24,000
Development of fruits' plantation	120,800

The Toyota Mark-X car and Nissan Tiida car are used by the Farm manager and Finance manager respectively on personal-to-holder basis. The private usage in each motor car has been agreed at 40%.

Required:

- (a) Calculate the amount of capital allowances claimable by Greenland Plc for the tax year 2020. (9 marks)
- (b) Calculate the tax adjusted business profits for the tax year 2020. (10 marks)

- (c) Calculate the amount of income tax payable by Greenland Plc for the tax year 2020. (6 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Denis Mbewe resigned from employment in 2019 in order to start his own business. He sold some assets during the tax year 2020 in order to raise capital for his business. The following transactions took place:
- (1) He sold a plot for K65,000 to his close friend. The plot was acquired in 2018 at a cost of K46,000. The open market value of the land was determined to be K80,000 at the date of the transaction. He incurred K3,000 in changing the ownership of the plot.

- (2) He sold a Toyota light truck for K90,000. The truck was acquired in 2018 at a cost of K100,000. The open market value of the truck was determined to be K75,000.
- (3) He sold three bed roomed house to his son for K15,000. The house was constructed four years ago at a total cost of K530,000. The open market value of the house was determined to be K700,000.
- (4) He sold 4,000 shares he held in Chembe plc for K10 per share. The shares have a nominal value of K2 each and had an open market value of K10.60 per share. The transaction costs amounted to K2,700.
- (5) He sold 1,200 equity shares he held in Chalwe Ltd, a mining company, for K15 per share. The shares were acquired by Denis at a cost of K10 each three years ago. The open market value of the shares was determined to be K13 per share.

Denis commenced business on 1 March 2020 as a retailer of electronic products. He prepared his first accounts to 31 December 2020 and will prepare accounts annually thereafter. His sales revenue averaged K51,766 per month throughout the tax year 2020. The purchases and operating expenses averaged K10,353 and K20,000 respectively per month. The only asset held by Denis was a Delivery van which he acquired at a cost of K60,000 in March 2020. Denis uses the Delivery van 40% for private purposes.

Required:

- (i) Explain how the sale of personal assets by Denis will be treated for property transfer tax purposes. Your answer should be supported by a computation of property transfer tax paid if any. (8 marks)
 - (ii) Explain the type and amount of tax payable by Denis on his income for the tax year 2020. Your answer should include an explanation of the tax treatment of the operating expenses incurred by Denis and the Delivery van. (7 marks)
 - (iii) Explain four (4) problems of turnover tax from the tax payers' point of view. (4 marks)
- (b) Explain how the following fundamental principles of the code of ethics apply in the provision of tax services:
- (i) Integrity (2 marks)
 - (ii) Objectivity (2 marks)
 - (iii) Professional behaviour (2 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

a) Mr John Dabwisa

Income tax payable for the tax year 2020

	K	K
Employment Income:		
Salary: K241,000 x 9/12		180,750
Housing allowance: K60,250 x 9/12		45,188
Transport allowance: K24,100 x 9/12		18,075
School children's allowance: K2,000 x 2 x 9/12		3,000
Bonus		<u>12,000</u>
		259,013
Investment Income:		
Royalties: K29,750 x 100/85		<u>35,000</u>
		294,013
Less allowable deductions:		
Subscription to EIZ	2,050	
Donation to public benefit organization	<u>1,700</u>	
		<u>(3,750)</u>
Taxable income		290,263
Tax Computation:		
First K39,600 @0%	0	
Next K9,600 @25%	2,400	
Next K25,200 @30%	7,560	
Balance K215,863 @37.5%	<u>80,949</u>	
Income tax liability	90,909	
Less tax suffered at source:		
PAYE	(70,252)	
WHT-royalties (35,000 x 15%)	<u>(5,250)</u>	
Income tax payable		<u>15,407</u>

b) In order to distinguish between an employee and a self-employed person, the following tests are normally taken into consideration:

- (i) **Type of contract:** If there is a contract of service, it will indicate the existence of relationship of master and servant. A contract for services will indicate the existence of self-employment.
- (ii) **Work performance:** Employees must perform the duties assigned to them themselves while the self-employed may hire other people to perform the work for them.
- (ii) **Control:** The work of an employee is controlled by the employer who will normally stipulate working hours and other conditions. A self-employed person will decide when to perform the duties and how to perform them.
- (iv) **Payment and financial risk:** Employees are paid an agreed salary on a monthly or weekly basis and incur no form of financial risk. In order to earn an extra sum an employee will have to work overtime. Self-employed persons are normally paid a proportion of the contract price based on the amount of work performed. They will also bear the full financial risk of their business.

- (v) **Place of work:** Employees will normally be told where the duties are to be performed from. This is normally at the employer's premises or at the premises of the client. Self-employed persons will perform the duties at a place of their choice.
- (vi) **Equipment:** An employer will provide the tools and equipment which the employees are to use. Self-employed persons will provide their own tools and equipment.
- (vii) **Correction of work:** Employees will normally rectify any faulty work during the normal working hours and they will still be paid for those hours. Self-employed persons will rectify any faulty work outside the contract time and they will not be paid for that extra work.
- (viii) **Engagement and dismissal:** The employer will take on and dismiss employees. A self-employed person will normally enter into a contract with a client specifying the beginning and end.
- (ix) **Insurance:** Employers will normally provide insurance cover for the actions of their employees. Self-employed persons will have to provide for their own insurance needs.
- (x) **Exclusivity:** Employees normally work for only one employer. A self-employed person will normally work for a number of clients.
- (xi) The courts will also consider whether an individual's activity is **fully integrated** within the organization. If this were the case, it would be difficult for an individual to prove that he/she is self-employed.

c) Joe Mwiinga

i. The following persons are liable to pay provisional income tax:

- Any person whose business annual turnover is more than K800,000.
- Any person whose income does not constitute only of income subjected to pay as you earn.
- Any person whose taxable income is more than the tax free amount of K39,600.

ii. Mwiinga Provisional income tax paid for the tax year 2020

	K
Estimated taxable profit	610,000
Tax Computation:	
First K39,600 @ 0%	0
Next K9,600 @ 25%	2,400
Next K25,200 @30%	7,560
Balance K535,600 @37.5%	<u>200,850</u>
Total provisional tax paid for year	<u>210,810</u>
Provisional tax per quarter: K210,810 /4 =	K52,702.50
Due date of amonunts:	
	K
31 March 2020	52,702.50
30 June 2020	52,702.50
30 September 2020	52,702.50
31 December 2020	52,702.50

(iii) Mwiinga

Computation of final income tax payable for tax year 2020

Taxable business profits	K 680,000
Tax Computation:	
First K39,600 @ 0%	0
Next K9,600 @ 25%	2,400
Next K25,200 @30%	7,560
Balance K605,600 @ 37.5%	<u>227,100</u>
Total tax liability	237,060
Less provisional tax paid	<u>(210,810)</u>
Income tax payable	<u>26,250</u>

SOLUTION TWO

a) Types of Tax Ignition Contractors Ltd should register for and the current tax rates applicable for each of them:

- Value added tax (VAT), at the rate of 16%.
- Pay as you earn (PAYE), tax bands are applied
- Company Tax at the rate of 35%.

b) Justification for the tax types mentioned above.

Value added tax (VAT):

-The minimum annual projected revenue of K1,020,000 (K85,000 X 12 months) exceeds the VAT threshold registration of K800,000.

-It is assumed that a company will be dealing in taxable supplies.

Pay as you earn (PAYE)

-Ignition Contractors Ltd is the company with nine employees hence it will be paying PAYE

-The minimum wages for its employees is above the exempt amount of K3,300

Income Tax

-The company is required to prepare the set of financial statements every year

-The annual projected revenue exceeds the threshold of K800,000.

(c) VAT Computation for the month of November 2020

Output VAT

	K
Sales to registered customers:	
- Standard rated sales (K300, 000 x 16%)	48,000
- Zero rated sales (K15, 000 x 0%)	nil
Sales to unregistered customers (K8,000 x 16%)	1,280
Sale of unused assets (K90,000 x 4/29)	<u>12,414</u>
	61,694

Input VAT

Purchases from registered traders	
(K10,000 x 4/29)	1,379
Diesel (5,000 X 4/29)	620
Hilux van (K110,000 x 4/29)	15,172
Utility bills (K1,000 X 16%)	160
1/2	
	<u>(17,331)</u>
	<u>22,527</u>

d) Advantages and 3 disadvantages of registering a business for Turnover Tax (TOT).

Advantages are:

- Few requirements during registration as compared to Income Tax or VAT.
- No professional consultancy fees
- Record keeping is not mandatory hence cost effective to manage.
- Easy to compute as compared to income tax and VAT.
- Turnover Tax is simple to manage hence enhance compliance level.

Disadvantages are:

- Turnover tax does not take into consideration capital allowances when computing tax payable.
- The taxpayer registered for Turnover tax does not deduct expenses from the sales hence may pay the higher portion of tax.
- Lack of proper record keeping may bring about tax evasion.
- No loss relief.

SOLUTION THREE

(a) Mervin and Kelvin

Income tax payable for the tax year 2020

	K	K
Marks		
Net profit as per accounts		6,000
Add:		
Depreciation	40,000	
Partners' salaries	90,000	
Utility expenses: K61,000 x 45%	27,450	
Increase in general provision	10,000	
Loan to former employee written off	6,000	
Donation to political party	15,000	
Entertaining customers	60,000	
Over speeding fines	<u>2,700</u>	
		<u>251,150</u>
		257,150
Less:		
Capital allowances		<u>(29,800)</u>
Taxable business profit		<u>227,350</u>

	Total K	Mervin K	Kelvin K
Salaries	190,000	100,000	90,000
Balance 1:2	<u>37,350</u>	<u>12,450</u>	<u>24,900</u>
Total	<u>227,350</u>	<u>112,450</u>	<u>114,900</u>

Tax Computation:

First K39,600 @0%	0	0
Next K9,600 @25%	2,400	2,400
Next K25,200 @30%	7,560	7,560
Balance K38,050/K40,500 @37.5%	<u>14,269</u>	<u>15,188</u>
Income tax liability	24,229	25,148
Less:		
Provisional income tax paid	<u>(14,000)</u>	<u>(15,000)</u>
Income tax payable	<u>10,229</u>	<u>10,148</u>

(b) Classification of taxes

(i) Progressive taxes

These are taxes whose marginal rates of tax increases as the level of income increases. For example pay as you earn

(ii) Regressive taxes

These are taxes whose marginal rates of tax decreases as the level of income increases. For example; Value Added Tax.

(iii) Proportional taxes

These are taxes whose marginal rates of tax remains constant regardless of the level of income. For example; withholding tax.

(c) Provisional tax

Provisional tax per quarter: $K450,000 \times 35\% / 4 = K39,375$.

The company only paid the provisional income tax for the second quarter late by 3 months. The penalty is 5% of the unpaid tax per month or part thereof.

Penalty: $K39,375 \times 5\% \times 3 \text{ months} = K5,906$

Interest on overdue tax is charged at a rate of 2% above the Bank of Zambia discount rate. In this case interest will be charged at a rate of 17.5% per annum.

Interest: $K39,375 \times 17.5\% \times 3/12 = K1,723$

SOLUTION FOUR

(a) Greenland Plc

Capital allowances for the tax year 2020

	Cost/ITV K	Capital allowance K
Delivery van		
ITV b/f	52,500	
Disposal proceeds	<u>(70,000)</u>	
Balancing charge		(17,500)
Computers		
ITV b/f	12,500	
Disposal proceeds	<u>(10,000)</u>	
Balancing allowance		2,500
Mitsubishi canter truck		
Cost	231,000	
Wear & Tear @25%	<u>(57,750)</u>	57,750
ITV c/f	<u>173,250</u>	
Office equipment		
Cost	40,000	
Wear & Tear @25%	<u>(10,000)</u>	10,000
ITV c/f	<u>30,000</u>	
Toyota Mark-X Car		
Cost	140,000	
Wear & Tear @20%	<u>(28,000)</u>	28,000
ITV c/f	<u>112,000</u>	
Nissan Tiida Car		
Cost	80,000	
Wear & Tear @20%	<u>(16,000)</u>	16,000
ITV c/f	<u>64,000</u>	
Irrigation Equipment		
Cost	41,200	
Wear & Tear @100%	<u>(41,200)</u>	41,200
ITV c/f	<u>Nil</u>	
Storage Facilities		
Cost	26,200	
Farm improvement Allowance @100%	<u>(26,200)</u>	26,200
ITV c/f	<u>Nil</u>	

Water Conserveation		
Cost	24,000	
Farm works allowance @100%	<u>(24,000)</u>	24,000
ITV c/f	<u>Nil</u>	
Development allowance: K120,800 x 10%		<u>12,080</u>
Total capital allowances		<u>200,230</u>

(b) Greenland Plc

Adjusted business profits for the tax year 2020

	K	K
Profit before tax		104,900
Add:		
Free accommodation: K310,000 x 30%	93,000	
Loan to former employee written off	57,700	
Entertaining customers and suppliers	206,000	
Gifts to customers of food hampers	100,000	
Legal fees- acquisition of land	41,000	
Legal fees- issue of shares	36,000	
Legal fees- income tax appeal	123,000	
Depreciation	60,200	
Loss on disposal of computers	10,400	
Personal-to-holder car benefit:		
Toyota Mark-X car	30,000	
Nissan Tiida car	<u>30,000</u>	
		<u>787,300</u>
		892,200
Less:		
Profit on disposal of van	20,000	
Royalties	127,500	
Bank interest	52,700	
Rental income	81,000	
Dividends	18,800	
Capital allowances (a)	200,230	
Decrease in general provision	<u>38,300</u>	
		<u>(538,530)</u>
Taxable business profit		<u>353,670</u>

(c) Greenland Plc

Income tax payable for the tax year 2020

	K	K
Adjusted business profit		353,670
Add:		
Royalties: K127,500 x 100/85	150,000	
Bank interest: K52,700 x 100/85	<u>62,000</u>	
		<u>212,000</u>
Taxable income		<u>565,670</u>

Income tax:	
Farmining income: K353,670 @5%	17,684
Non-farming income: K212,000 @30%	<u>63,600</u>
Income tax liability	81,284
Less:	
Provisional income tax paid	(26,204)
WHT- Royalties K150,000 x 15%	(22,500)
WHT- Bank interest: K62,000 x 15%	<u>(9,300)</u>
Income tax payable	<u>23,280</u>

SOLUTION FIVE

(a) Denis Mbewe

(i) Sale of personal assets

1. Denis will be required to pay property transfer tax on the sale of his plot at a rate of 5% of the realised value.

$$\text{PTT} = \text{K}80,000 \times 5\% = \text{K}4,000$$

2. Denis will not be required to pay property transfer tax on the sale of light truck because motor vehicles don't qualify as property for property transfer tax purposes.
3. Sale of the house to his son meets the definition of transfers to members of the immediate family with a consideration. Therefore, property transfer tax is chargeable only if there is a consideration received by the transferor.

The realised value in this case is the actual consideration received. $\text{PTT} = \text{K}15,000 \times 5\% = \text{K}750$

4. Denis will not be required to pay property transfer tax on the sale of his shares in Chembe Plc because transfer of shares listed on the Lusaka Securities Exchange is exempt from PTT.
5. Denis will be required to pay property transfer tax on the sale of his shares in Chalwe Ltd at a rate of 5% of the realised value.

$$\text{PTT} = \text{K}15 \times 1,200 \text{ shares} \times 5\% = \text{K}900.$$

(ii) Denis commenced business on 1 March 2020 making monthly sales of K51,766. The turnover for the tax year 2020 will be: $\text{K}51,766 \times 10 \text{ months} = \text{K}517,660$.

Denis should have paid the turnover tax because his turnover is less than K800,000. The total turnover tax payable for the tax year 2020 is: $\text{K}517,660 \times 4\% = \text{K}20,706$.

This turnover tax should be paid on a monthly basis not later than 14th day of the following. Monthly turnover tax is: $\text{K}51,766 \times 4\% = \text{K}2,071$.

The expenses incurred wholly and exclusively by Denis for the purposes of the business will not be deductible for the purposes of computing turnover tax because turnover tax is calculated on gross earnings.

Denis will not be able to claim capital allowances on the Delivery van because turnover tax is calculated on the gross earnings and not profits

However, capital allowances on the motor van will notionally be calculated as shown below.

The notional capital allowances:

Marks	Cost/ITV K	Capital allowance K
Cost	60,000	
Wear & Tear @25%	<u>(15,000)</u> x 60%	9,000
ITV c/f	<u>45,000</u>	
Notional capital allowances		<u>9,000</u>

- (iii) The following are the problems of turnover tax:
1. Turnover tax is paid regardless of whether the tax payer has made a profit or loss.
 2. The opportunity to claim capital allowances on assets used wholly and exclusively for business purposes is lost.
 3. The expenses incurred by the tax payer wholly and exclusively for business purposes are not deductible when computing the turnover tax.
 4. The opportunity to carry forward the loss, in the case where the tax payer has made a loss, is lost under turnover tax.

(b) Fundamental principles

(i) Integrity

This principle imposes an obligation on the practitioner to ensure straightforwardness, fair dealing, a commitment not to mislead or deceive and truthfulness. This entails that the member shall be straightforward and honest in all his/her dealings.

A member providing taxation services must not knowingly be associated with reports, returns, communications or other information which might contain materially false, misleading statement or calculation

(ii) Objectivity

This principle means that members shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

Members providing tax services shall be impartial and not allow prejudice or bias, conflict of interest or influence of others to override their objective judgement in relation to tax matters.

(iii) Professional behaviour

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession.

Members shall act in a manner consistent with the good reputation of the institute and the tax profession, refraining from any conducts that might bring the institute and/or tax profession into disrepute.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 25 JUNE 2020

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 (2) 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

You are the Audit Manager of Amaka & Co Chartered Accountants and are currently planning the audit of your client, Supa Co Ltd. which manufactures cement. Its year end is 31 December 2019 and its forecast profit before tax is K60. 8 million.

The company runs continuous mass production. At the year-end, it is estimated that work in progress will be approximately worth K4.8 million. Supa Co. Ltd ordered the new equipment in September for K6.8 million, 50% of this order was received in November and is in use with the remainder expected to be delivered on 31 March 2020. Supa Co. Ltd.'s policy is to depreciate all equipment at 25% per year on straight line basis. Full depreciation is charged in the year of acquisition. Employees were trained by an expert in the use of the new equipment at a cost of K2.4 million which has been capitalised.

Amaka borrowed K4.6 million from the bank which is repayable over four years. This loan attracts 12% interest rate per annum. The finance director has informed you that the company has a formal plan to declare 250 employees redundant in January 2020 and this has been communicated to the employees. He has stated that the redundancy is estimated to cost K6.8 million and the provision has been recognised in the financial statements for the year ended 31 December 2019.

The inventory turnover has reduced from 6 times to 1.5 times because of high competition from cheaper competitors. Further the finance director has informed you that Supa Co. Ltd intends to obtain a stock exchange listing in June 2020 and you have advised him that to comply with corporate governance provisions Supa Co. Ltd will need to establish an audit committee. During the planning meeting with the audit engagement partner you discussed sampling and he has requested you to carefully select the samples and audit the redundancy provision comprehensively.

Required:

- (a) Explain the difference between sampling risk and non-sampling risk. (4 marks)
- (b) Using the information provided, identify and describe six (6) audit risks and explain the auditor's response to each risk in planning the audit of Supa Co. Ltd. (12 marks)
- (c) Describe four (4) audit procedures that should be performed on the redundancy provision of Supa Co. Ltd. (4 marks)
- (d) Explain five (5) benefits to Supa Co. Ltd of establishing an audit committee. (5 marks)

[Total 25 Marks]

QUESTION TWO

Yasha Electricity Co. is a not-for-profit organisation which is funded by donors to provide value for money services to the general public. The company's year-end is 31 December 2019 and its forecast profit before tax is K100 million. You are the audit manager of Fwaya & Co Chartered Accountants, reviewing the control activities which include segregation of duties in the operations of Yasha Electricity Co. in preparation for the audit.

Yasha Electricity Co. management developed and implemented internal controls at the beginning of the year. The internal audit department reviews the effectiveness of internal controls and performs value for money audits and reports to the chief executive officer. The procurement department is at head office where all purchase requisition forms for electrical supplies are sent. Upon receipt the procurement team raises the purchase order after sourcing the supplier with the possible lowest price. The purchase order is then authorised by the purchasing director. As a result of the centralised procurement system the procurement team receives more than 2,500 requisition forms per week and all these are authorised by the purchasing director.

A capital expenditure committee has been established, made up of executive directors, and they authorise any significant capital expenditure items. Yasha Electricity Co. has invested heavily in new solar panel equipment to reduce electricity shortages. Five engineers with the necessary skills and experience operate the new solar panel equipment. Yasha Electricity Co. introduced electricity prepaid metres and customers buy the electricity units they need. The prepaid metres have the same internal serial numbers. Yasha Electricity Co. has authorised dealers who sell electricity units to the public. These dealers are allowed to charge customers commission for the service rendered.

Yasha Electricity Co. has lost some experienced engineers to private electricity entities and to meet the national demand engineers work overtime to fill staffing gaps. To monitor employees' hours Yasha Electricity Co. has introduced time card clocking in and out procedures. The annual payroll expense is K15 million and because it is material to profit before tax, the audit engagement partner has requested you to audit it comprehensively.

Required:

- (a) Explain three (3) ways in which segregation of duties can take place (5 marks)
- (b) Identify and explain six (6) internal controls in the systems of Yasha Electricity Co. (12 marks)
- (c) Explain the purpose of a value for money audit. (3 marks)
- (d) Describe five (5) substantive procedures you would perform on the payroll expense of Yasha Electricity Co. (5 marks)

[Total 25 Marks]

SECTION B

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

QUESTION THREE

You are the Audit Supervisor of Wanda & Co Chartered Accountants and are planning the audit of Tamba Insurance Plc. which has been your audit client for three (3) years and specialises in providing insurance services.

During the planning stage of the audit you have obtained the following information.

The audit team members have been offered 50% special discount on any insurance services they take. During the year the Finance Manager of Tamba Insurance Plc. resigned and your audit manager attended the job interview and has been offered the job of finance manager. The audit engagement partner sits on the tender procurement committee of Tamba Insurance Plc. as a chairperson.

Wanda & Co Chartered Accountants has been requested by Tamba Insurance Plc. to provide valuation services on a material insurance liability for the damaged building which the client insured with Tamba Insurance Plc. Last year your firm helped Tamba Insurance Plc. with tax computations, however, the tax consultancy fee is outstanding. Tamba Insurance Plc. has informed your firm that the tax fee for the current year should be 10% of tax payable. The son of the audit engagement partner has 25% shares in Tamba Insurance Plc. Tamba Insurance Plc has requested your firm to design, develop and implement its internal controls as a non-audit service.

During the planning meeting the audit engagement partner mentioned that professional judgement is important and your audit junior mentioned that he does not know the financial statement assertions relevant to the audit of purchases and trade payables; and the difference between 'tests of controls' and 'substantive procedures'.

Required:

- (a) Explain five (5) ethical threats which may affect the objectivity of Wanda & Co. Chartered Accountants in the audit of Tamba Insurance Plc. and suggest suitable safeguards. (10 marks)
- (b) Define the term professional judgement and explain its importance during audit planning. (5 marks)
- (c) Identify and explain four (4) financial statement assertions relevant to the audit of purchases. (6 marks)
- (d) Explain the difference between tests of control and substantive procedures. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

You are the Audit Supervisor of Kaya & Co Chartered Accountants and your audit manager has requested you to deal with the audit issues below.

- (a) The Companies Act 1994 contains details of the duties and rights of statutory auditors. Auditors are required to obtain sufficient appropriate audit evidence which enables them conclude whether the financial statements show a true and fair view.

To enable the statutory auditors obtain sufficient appropriate audit evidence, the act stipulates the rights that the auditors have in performing audits.

Required:

- (i) Explain the meaning of the terms true and fair. (4 marks)
- (ii) Explain four (4) statutory rights of external auditors. (6 marks)
- (b) Changa Co. is your audit client and the audit manager has given you the following information from the chief executive officer of Changa Co. for your review.

Changa Co. has been profitable in previous years, however, the chief executive officer mentioned that its major customers who owe significant amounts are bankrupt and are unlikely to pay their debts. The balances are included in the receivables figures contained in the financial statements. Five directors recently left and Changa has not yet replaced them. Its cash flow statement has shown a net cash outflow for the last six (6) months of the financial year and the statement of profit or loss forecast shows a net profit for the first six (6) months of the next financial year.

The company has been slow in paying its suppliers and major suppliers have terminated their contracts. Due to its financial difficulties, Changa has failed to repay the loan and the bank has sued it claiming K750 million. The directors have decided not to pay any dividends due to the loss for the year.

During the meeting the audit manager mentioned that ISA 580 *Written representations* provides guidance on the use of written representations as audit evidence.

Required:

- (i) Using the information provided, identify and explain five (5) potential indicators that Changa is not a going concern. (5 marks)
- (ii) Explain five (5) audit procedures that your firm will carry out to test the ability of Change Co. as a going concern. (5 marks)
- (iii) State five (5) contents that could be included in a written representation letter. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

You are the Audit Manager of Yumba & Co Chartered Accountants and the audit engagement partner has requested you to deal with the audit issues below.

- (a) Bwangu Co. is one of your firm's audit clients whose year-end is 31 December 2019. On 20 January 2020 the company's sales ledger was destroyed by fire. The audit team has been unable to access the sales ledger to perform detailed testing of revenue and year-end receivables. All other accounting records are unaffected and there are no backups available for the sales ledger. Bwangu Co.'s revenue is K125 million Profit before tax is K100 million and its receivables are K75 million. The audit team members do not know how to deal with this issue. The audit report will be signed on 28 February 2020.

Required:

- (i) Discuss the above issue, including an assessment of its materiality. (3 marks)
 - (ii) Discuss whether financial statements require to be amended. (3 marks)
 - (iii) Describe the impact of this issue on the audit report. (3 marks)
- (b) You are aware of the requirements of ISA 705 *Modifications to the opinion in the independent auditor's report* and ISA 706 *Emphasis of matter paragraph and Other matter paragraph* in the independent auditor's report.

Required:

- (i) Explain the difference between an adverse opinion and a qualified opinion. (3marks)
 - (ii) Explain the difference between the Emphasis of matter paragraph and the other matter paragraph. (3 marks)
- (c) Your audit partner has requested you to gather relevant and reliable audit evidence in accordance with ISA 500 *Audit Evidence*.

Required:

Explain four (4) ways in which external auditors obtain audit evidence. (6 marks)

- (d) Your audit junior mentioned during a meeting that he does not understand why auditors do not give absolute assurance and you told him that auditors give reasonable assurance because of limitations of audits.

Required:

Explain four (4) limitations of an external audit. (4 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Sampling risk

The risk that the auditor's conclusion, based on a sample of a certain size, may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure.

Non-sampling risk

The risk that the auditor may reach an erroneous conclusion for any other reason not related to the size of the population.

(b)

Audit risk	Response
The work in progress (K4, 800,000) is material (8%) to revenue. There is a risk inventory might be materially misstated (over or under) if cut off is not correctly done at the year-end due to continuous mass production.	Discuss with management the process they will use to assess the cut-off point for work in progress at the year end. Attend the year-end inventory count and review the process. An independent expert may be required to value the work in progress.
The new equipment (K6, 800,000) is material (11%) to revenue. There is a risk assets might be overstated if the all amount is recognised when only 50% has been received. Only assets which physically exist at the year-end should be included in P.P.E.	Physically inspect a sample of this new equipment to verify existence and ensure that only 50% of the new equipment has been recorded in the general ledger P.P.E account and non-current asset register at the year end.
The depreciation charge on the new equipment (K850, 000) is material (1.4%) to revenue. There is a risk depreciation expense might be understated and profit and assets overstated. Equipment should be depreciated from the date it is ready for use (IAS 16).	Enquire from management or finance director the point at which they commence depreciating assets and recalculate the depreciate charge to verify accuracy and ensure that the equipment is correctly valued at the year end.
Training cost (K2, 400,000) is material (4%) to revenue. There is a risk expenses have been understated and profit and assets overstated because training cost has been capitalised. Training cost should be expensed in the statement of profit or loss (IAS 16)	Enquire from the finance director the basis or reasons for capitalising training cost and discuss with the finance director that training cost should be expensed in the statement of profit or loss.
The brand (K5, 200, 000) is material (9%) to revenue. There is a risk expenses might be understated and profit and assets overstated if the brand	Inspect the supporting documents to confirm the purchase price and the useful life of four years. Recalculate the amortisation charge to verify accuracy

is not amortised. The brand should be amortised over 4 years on a systematic basis (IAS 38).	and to ensure that the brand is correctly valued at the year end.
The bank loan (K4, 600, 000) is material (8%) to revenue. There is a risk the loan might not be correctly presented as current liability and non-current liability. The loan is repayable over 4 years. Further, this loan is a financial liability, therefore, should be correctly and adequately disclosed (IFRS 9).	Inspect the cash book and bank statement to verify receipt of K4, 600, 000 bank loan and review the disclosure note to ensure disclosure is correct and adequate.
The bank loan attracts a 12% interest rate per annum. There is a risk finance cost might be understated or omitted from the statement of profit or loss to overstate profit.	Recalculated finance cost to verify accuracy. Examine the loan agreement to verify the loan terms and conditions such as loan interest of 12%.
250 employees will be made redundant in January 2020. There is a risk the redundancy provision might be understated to overstate profit and understate expenses. There is a formal plan and employees have been communicated to, therefore, the provision should be recognised (IAS 37).	Enquire from management the basis/assumptions used to calculate the redundancy provision of K6, 800, 000. Assess the reasonableness of assumptions or basis used to calculate the provision. Recalculate the provision to verify accuracy and discuss any significant different with the finance director.
The inventory turnover has reduced from 6 times to 1.5 times. There is a risk inventory might be overstated if it is slow moving. Inventory should be valued at the lower of cost and Net Realisable Value (IAS 2).	Enquire from the finance director how slowing inventory is valued. For a sample of slowing moving inventory recalculate the NRV and compare it with the actual cost to verify that it is valued at the lower of cost and Net Realisable Value.
Supa intends to undertake a stock exchange listing in June 2020. There is a risk financial statements might be materially misstated to improve financial performance and position to meet strict stock listing requirements.	Exercise professional skepticism or questioning mind throughout the audit especially on financial statements areas that can be easily manipulated like revenue, expenses, assets and liabilities.

(c)

- (1) Enquire from management assumptions used to make the provision and assess their reasonableness.
- (2) Review management's judgements for indications of management bias.
- (3) Recalculate the provision to verify accuracy or valuation.
- (4) Compare the provision with auditor's expectations and investigate variances.
- (5) Review or read disclosure notes to verify adequacy of disclosures or compliance with applicable IFRSs/IASs.
- (6) Review written management representations to assess whether management believes assumptions used are reasonable.
- (7) Evaluate or assess whether the provision is either reasonable or misstated.

(d)

The audit committee of Supa can:

- (1) Improve financial reporting quality, by reviewing the financial statements on behalf of the board.
- (2) Create a climate of discipline and control which may deter fraud.
- (3) Enable the non-executive directors to contribute an independent judgement.
- (4) Help the finance director on matters which might otherwise be difficult.
- (5) Strengthen the independence of the external auditor and provide a forum for issues of concern.
- (6) Strengthen the independence of the internal audit function.
- (7) Increase public confidence in the credibility and objectivity of financial statements.
- (8) Provide advice on risk management to the executive directors.
- (9) Help to improve the control environment since they can devote more time to internal controls.

SOLUTION TWO

(a)

The following are various ways in which duties can be segregated:

- (i) Segregation of function-the key functions that should be segregated are the carrying out of the transaction, recording the transaction in the accounting records and maintaining custody of assets that arise from the transaction.
- (ii) The various steps in carrying out the transaction should also be segregated.
- (iii) The carrying out of various accounting operations should be segregated. For example the same staff should not record transactions and carry out the reconciliations at the period end.

(b)

Identification of strength	Explanation(s)
The Internal audit department reviews the effectiveness of internal controls and performs value for money audits.	The internal audit department should be reporting to an independent party like the audit committees functionally.
The procurement team raises the purchase order after sourcing the supplier with the possible lowest price.	The list of approved suppliers should be introduced so that supplies of high quality are purchased and delivered on time.
All purchase orders are authorised by the purchasing director.	The authorisation limits should be introduced so that even the purchasing manager can be authorising orders up to a certain amount due to may orders needed so that orders are not delayed.
The capital expenditure committee made up of executive directors authorise any significant capital expenditure items.	The authorisation limits should be introduced so that very huge capital expenditure are authorised by the board of directors.
5 engineers with the necessary skills and experience operate the new solar panel equipment.	More engineers need to be trained in the use of the new solar panel equipment in case of unforeseen circumstances.
Yasha introduced electricity prepaid metres.	The prepaid metres should have different internal serial or reference numbers for easy tracking.
Yasha has authorised dealers who sell electricity units to the public.	Authorised dealers should be given a fixed commission to charge the general public to avoid the public been exploited.
To monitor employees' hours Yasha has introduced time card clocking in and out procedures.	The time card clocking in and out system should be programmed so that it can log out all employees automatically after normal knocking off time to avoid invalid overtime.

(c)

The purpose of a Value For Money audit is to independently examine the economy, efficiency and effectiveness of the activity or process of the organisation.

- (1) **Economy**-Acquiring resources in appropriate quality and quantity at minimum/lowest cost.
- (2) **Efficiency**- Maximising output (goods or services produced) for a given set of inputs (resources) or minimising inputs for a given set of output.
- (3) **Effectiveness**-how well an activity achieves its intended results or objectives (qualitative or quantitative).

(d)

Substantive procedures on annual payroll expense

Compare the total payroll expense to the prior year and investigate any significant differences.

- Compare the total payroll expense to the budgeted payroll expense and investigate any significant differences.
- Agree the total payroll expense per the payroll records or system to the trial balance, and investigate any differences.
- Agree the total net pay per the payroll records to the cash book and bank transfer payments list to confirm accuracy.
- For a sample of employees, recalculate the gross and net pay and agree to the payroll records to confirm accuracy.
- For a sample of employees, recalculation the statutory deductions to confirm accuracy.
- For a sample of payroll reconciliations, re-perform reconciliations to confirm completeness and accuracy
- For a sample of employees, agree the individual payroll wages and salaries to the personnel records to confirm bona fide employees.
- For a sample of overtime sheets trace the overtime payment in the payroll records to confirm completeness.
- For a sample of joiners and leavers, agree their start/leaving date to supporting documents, and recalculate their first/last pay packet to confirm accuracy.

SOLUTION THREE

(a)

Threat	Response
The 50% special discount has been offered to the audit team on any insurance services they prefer. This is likely to create self-interest or intimidation threat. Auditors might not report financial statements errors/misstatements and inappropriate audit opinion may be given.	The offer should be politely declined. The offer is not insignificant or on commercial terms, because it is a special offer only to the audit team.
The audit manager attended the job interview and has been offered the job of finance manager. This creates self-interest or intimidation threat. The audit manager might not report the financial statements errors/misstatements because he needs the job. Inappropriate audit opinion may be given.	The audit manager should be removed from the audit team. Someone independent person with the necessary skills and experience should be appointed as audit manager. His employment contract should be reviewed and if that if unethical he should be disciplined according.
The audit engagement partner sits on the tender procurement committee of Tamba as a chairperson. This is likely to create self-interest or familiarity threat. The audit partner might not report financial statements errors/misstatements and inappropriate audit opinion may be given.	The audit partner should be removed from the audit team. As audit partner he is not supposed to sit on the board of the audit client.
Wanda has been requested by Tamba to provide valuation service on material insurance liability. This will create self-review threat. The auditors might not report the financial statements error or misstatements and inappropriate audit opinion may be given.	The offer should be politely declined. Valuation is on the material matter. Auditors are not allowed to perform valuation on matters which will be material in the financial statements for listed entities like Tamba.
The tax consultancy fee is still outstanding. This is likely to create self-interest threat. Unpaid fees are like a free loan to the client. The auditors might not report the financial statements error or misstatements and inappropriate audit opinion may be given.	The audit partner should communicate with management or those charged with governance (i.e. audit committee) that the unpaid fee should be paid probably before the commencement of the new audit work.
The tax free for the current year to be 10% of tax payable. This is a contingent fee and it is likely to create self-interest threat. The auditors might not report the financial statements error or misstatements and inappropriate audit opinion may be given.	The audit partner should communicate with management or those charged with governance (i.e. audit committee) that the tax consultancy fee cannot be based on tax payable. Contingent fee is not allowed because the risk is too high and cannot be reduced to an acceptable level.
Tax computation is a non-audit service; however, it can create a self-review threat. The auditors might not report the financial statements error or misstatements and	Separate teams should be used, one to compute the tax and the other to audit the financial statements. The total income fee from this should be reviewed to ensure it

inappropriate audit opinion may be given.	is within the ethical requirements for listed clients.
The son of the audit engagement partner has 25% shares in Tamba. This creates a familiarity threat due to close family relationship. The audit partner might not report the financial statements errors or misstatements and inappropriate audit opinion may be given.	The son should dispose of the shares or the audit partner should be removed from the audit team and Someone independent with the necessary skills and experience should be appointed as audit partner.
Wanda has been requested to design, develop and implement internal controls for the client as a non-audit service. This is likely to create a management threat. It is management responsibility to design, develop and implement effective internal controls and not auditors.	The offer should be declined politely because the risk is too high and further auditors are not supposed to perform management responsibilities as this impairs their independence. They should only give advice where necessary.

(b)

Professional judgment

The application of relevant training, knowledge and experience, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional judgment helps auditors to:

- Identify audit risks based on their understanding of the entity and its internal controls.
- Determine materiality of the financial statements.
- Determine performance materiality at assertion level.
- Determine the nature, timing and extent of audit procedures needed to gather audit evidence.
- Determine the nature, timing and extent of audit procedures needed to meet ISAs requirements.

(c)

Assertion relevant to the audit of purchases

- **Accuracy**
Amounts relating to purchase transactions have been recorded correctly.
- **Completeness**
All purchase transactions that should have been recorded have been recorded.
- **Occurrence**
All purchase transactions recorded have occurred and relate to the entity.
- **Cut-off**
Purchase transactions have been recorded in the correct period.
- **Classification**
Purchase transactions are recorded properly in the accounts.

(d)

Tests of controls

Tests performed to obtain audit evidence about the operating effectiveness of internal controls preventing, or detecting and correcting, material misstatements at the assertion level.

Substantive procedures

Audit procedures performed to detect material misstatements (errors or omissions) in the financial statements. They are generally of two types:

(1) Analytical procedures

(2) Tests of detail of classes of transactions, account balances and disclosures

SOLUTION FOUR

(a) (i)

True

Information is factual and conforms with reality, standards and law. The financial statements have been correctly extracted from the books and records.

Fair

Information is free from discrimination and bias and in compliance with expected standards and rules. The accounts reflect the commercial substance of the transactions.

(ii)

A right to:

- Access at all times to the books, accounts and vouchers of the company.
- Require from the company's officers information, and explanations necessary for the audit.
- Attend any general meetings of the company and to receive all notices of and communications relating to such meetings.
- Be heard at general meetings which they attend on any part of the business that concerns them as auditors.
- Receive a copy of any written resolution proposed.

(a)

Identification and explanation (i)	Audit procedure (ii)
Major customers are bankrupt and are unlikely to pay their debts. This is likely to affect the entity's cash flow position and its going concern status. The entity is also likely to lose these major customers which will affect its future revenue.	Obtain and review the legal correspondence to verify that these customers are bankrupt and enquire from the management (e.g. finance director) the reasons for including these balances in the financial statements.
Five directors recently left and Changa has not yet replaced them. This is likely to affect suppliers and customers relationships. Directors may convince suppliers and customers to switch to their new employers and may affect the operations of Changa.	Enquire from management how they intend to deal with the departure of the five directors. Enquire also the reasons of senior management personnel leaving the entity from management (e.g. from the chief executive officer).
The cash flow statement has shown a net cash outflow for the last six months of the financial year. This is likely to put pressure on the cash position of Changa and it might fail to meet its obligations and this may damage its reputation.	Discuss with management if they have alternative sources of cash or funds since they have financial problems and if so, obtain and review any supporting documentation to verify the amount and the period of financial support.
The statement of profit or loss forecast shows a net profit for the first 6 months of the coming financial year. 6 months is not enough to suggest that the entity is a going concern. The minimum is at least 12 months from the financial reporting date.	Examine the assumptions or basis used to prepare the statement of profit or loss forecast to assess their reasonableness since the entity made a huge loss in the current year.
The major suppliers have terminated their	Enquire from management if they have

contracts. This is likely to affect the operations of the entity because Changa should find new suppliers and if it fails this will affect its going concern. Since major suppliers have terminated their contracts, this will damage the reputation of Changa.	alternative suppliers and if so, obtain and review the documentation such as contacts of agreements to verify the terms and conditions of the agreements or contracts.
Changa failed to repay the loan and the bank has sued it. Changa has financial problems and is not likely to pay the loan, therefore, it is likely to be declared bankrupt by the court and it may be liquidated.	Obtain and review the legal correspondence to verify the amount of damage. Enquire from the legal advisors the possibility of Changa not been declared bankrupt and liquidated.
The directors have decided not to pay any dividends due to the huge loss for the year. This is likely to send a negative signal to the shareholders that the entity is not performing well and they may decide to sell the shares to recover their investment.	Obtain and review the copy of board minutes to verify the approval that no dividends will be paid due to huge losses made in the current financial year.

(b)(iii)

A representation letter contents may include:

- Management is responsible for the proper presentation of the financial statements in accordance with the applicable accounting framework
- The financial statements conform to the applicable accounting framework
- All financial records/information have been made available to the auditors.
- All board of directors' minutes are complete.
- All material transactions have been properly recorded.
- There are no unrecorded transactions.
- The effect of all uncorrected misstatements is immaterial.
- Management is responsibility for the system of financial controls, detection and prevention of fraud.
- All related party transactions have been disclosed.
- All contingent liabilities have been disclosed.
- All subsequent events have been properly accounted for/or disclosed.
- Management has no knowledge of fraud within the company.

SOLUTION FIVE

(a)

(a)(i)

(1) The event occurred on 20 January 2020 which is after the reporting date; therefore, it is an unadjusting event according to IAS 10.

(2) Unadjusting event is indicative of a condition that arose after the reporting date.

(3) The revenue is (125%) material to profit before tax.

(4) The receivables are (75%) material to profit before tax.

(ii)

(1) The financial statements do not need an amendment since this is an unadjusting event.

(2) The event is material; therefore, it should be disclosed by note according to IAS 10.

(a)(iii)

(1) A modification will be required because the auditors are unable to obtain sufficient appropriate evidence in relation to two matters.

(2) The matters (revenue (125%) and receivables (75%)) are material and pervasive.

(3) A disclaimer of opinion will be required since the matter is material and pervasive.

(4) The opinion paragraph will be a disclaimer of opinion and will state that we are unable to form an opinion on the financial statements.

(5) A basis for disclaimer of opinion paragraph will be required to explain the limitation in relation to the lack of evidence over revenue and receivables.

(b)

(i) **An adverse opinion**

An opinion expressed when the auditor has obtained sufficient appropriate audit evidence, and concludes that financial statements misstatements are both material and pervasive.

Qualified opinion

An opinion expressed when the auditor concludes that financial statements misstatements are material, but not pervasive, or

When the auditor cannot obtain sufficient appropriate audit evidence on the matter that is material but not pervasive.

(ii) **An emphasis of matter paragraph**

A paragraph included in the auditor's report to refer to a matter appropriately presented or disclosed in the financial statements, that in the auditor's judgement, is fundamental to users' understanding of the financial statements.

Other matter paragraph

A paragraph included in the auditor's report to refers to a matter other than those presented or disclosed in the financial statements, that in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

(c)

(i) **Inspection of tangible assets**-inspection of tangible assets that are recorded in the accounting records confirm existence, but not rights and obligations or valuation.

(ii) **Inspection of documentation** or records involves examination of documents and records, both internal and external, in paper or electronic in other forms. It provides

evidence of varying reliability, depending on the nature source and effectiveness of controls over production.

(iii) **Observations** involves watching a procedure or process being performed .It is of limited use, as it only confirm the procedure took place when the auditor was watching, and because the act of being observed how the procedure or process was performed.

(iv) **Inquiries** involve seeking information from client staff or external sources. strength of evidence depends on knowledge and integrity of sources of information.

(v) **Confirmation** is the process of obtaining a representation of information or of an existing condition directly from a third party.

(vi) **Recalculation** consists of checking the arithmetic accuracy of documents or records and can be performed through the use of IT.

(vii) **Analytical procedures** is evaluating and comparing financial and /or non-financial data for plausible relationship.

(viii) **Performance** is the auditors' independent execution of procedures or controls that was originally performed as part of the entity's internal controls.

(d)

(1) Auditing is not a 100% objective exercise. Auditors use professional judgement during risk assessments and when making audit opinion.

(2) Not all items in the financial statements are tested. Auditors decide what to sample and this creates sampling risk

(3) Audit report has inherent limitations such as its standard format and may have jargon language which the layman may not understand.

(4) Audit report is issued a long time after the reporting date, therefore, the current position and historic position may be different.

(5) Audit evidence sometimes indicates what is possible because of estimates and judgements.

(6) There is a possibility of internal controls override by management.

(7) Many internal controls are not designed to deal with non-routine transactions.

(8) There is a possibility of collusion in fraud by employees or management.

(9) Internal controls are designed and implemented by people and there is a possibility of human error.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 26 JUNE 2020

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 (2) 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

Mr. Kaunda Kaliye and Mr. Biemba Biemba are businessmen based in Kaoma District, Western Province, whose main line of business is processing of pineapples from Mwinilunga town in North-Western Province. They are both ordinary shareholders owning 75% and 25% of shares respectively. Their business, a registered company operating in the name and style of Namatama Pineapples Ltd, has had challenges with its cash flow the past two years. Despite the financial challenges, the company has been able to pay all its debts on time. Few days ago, Mr. Kaunda Kaliye, the majority shareholder and managing director of Namatama Pineapples Ltd, has come to you for advice concerning a letter which he received yesterday from the Court ordering the compulsory winding up of the company. The company is considering taking the matter to the higher court to appeal against the decision ordering it's winding up.

Required:

- (a) Other than failure to pay debts, state six (6) ways under which a compulsory winding up can come about. (6 marks)
- (b) Explain any three (3) of the ways you have stated in 1(a) above. (6 marks)
- (c) Explain if Mr. Kaunda Kaliye, in his capacity as managing director, owes a fiduciary duty to Mr. Biemba Biemba personally. (7 marks)
- (d) One of Namatama Pineapples Ltd's future strategies should they win the case in court, is appointment of a non- executive director.
Explain any two (2) advantages of appointing a non – executive director. (6 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Outline the procedure to be followed when registering a Business Name in Zambia. (8 marks)
- (b) Stakeholder theory pre-supposes corporate accountability to a broad range of stakeholders. The King's Report emphasizes the stakeholder model of governance, the need for the board to take into account the legitimate expectations and interests of stakeholders when making decisions. There is considerable dispute about whose

interests should be taken into account. There are three (3) categories of stakeholders namely internal, connected and external stakeholders.

Required:

Give two (2) examples of each category of stakeholders mentioned above. (6 marks)

(c) A company has two (2) main types of capital, share capital and loan capital. In relation to the capital of a company, define the following terms:

- (i) Debenture (3 marks)
- (ii) Dividend (4 marks)
- (iii) Floating charge (4 marks)

[Total: 25 Marks]

SECTION B

There are three (3) questions in this Section. Attempt any two (2) questions.

QUESTION THREE

- (a) Explain the of Articles of Association (5 marks)
- (b) Explain the importance Articles of Association in a company. (10 marks)
- (c) Discuss pre-incorporation contract under company law. (5 marks)
- (d) Explain two (2) ways in which promoters may avoid liability arising from pre-Incorporation contracts. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Distinguish Paid up Capital from Unpaid capital (10 marks)
- (b) Explain the powers vested in the court in reduction of share capital (15 marks)

[Total: 25 marks]

QUESTION FIVE

Katendi Petronella was appointed as Company Secretary of a new online marketing business Chelstone.Com Ltd. The company's promoters were Bestine and Justine, and the two (2) are now the sole shareholders of Chelstone.Com Ltd. Katendi Petronella had no orientation upon her appointment as Company Secretary and is now stuck as she has no clue regarding her new job other than typing minutes during meetings.

Required:

- (a) State five (5) duties of a company secretary before the meeting. (10 marks)
- (b) Bestine and Jastine want to turn the company into a public limited company next year.

They have been informed of the Sarbanes Oxley Act 2002, as one of the Acts enacted in the USA, whose provisions are aimed at eliminating fraud perpetuated by public companies and securities markets. Thus a public company trading on the stock market must adhere to its provisions.

Required:

Explain five (5) provisions of the Sarbanes Oxley Act 2002. (15 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The grounds for compulsory winding up **other than** failure to pay debts:

- The company (Namatama Ltd) by special resolution resolves to be wound – up by the Court.
- If the company does not commence business within 12 months after incorporation or suspends its business for 12 months.
- When the period fixed, if any, for its existence expires or an event, if any, occurs for which the articles state would end its existence occurs.
- When the number of members is reduced below two.
- If, in the opinion of the court, it is just and equitable to wind up the company.
- If the Registrar of Companies petitions the court for winding up on the ground that the company is not following the provisions of the Companies Act.

(b) The explanation of any three of the above.

- The company (Namatama Ltd) by special resolution resolves to be wound – up by the Court. A special resolution is one which requires 2/3 majority or 75% of the members to vote for it. Thus, this company can be wound up by the court once such a resolution is passed by members.
- If the company does not commence business within 12 months after incorporation or suspends its business for 12 months. This means, that once the company is not operating within 12 months after registration or if it suspends operations for at least 12 months, then the Registrar of Companies can apply to the Court that such a company be wound – up.
- When the period fixed, if any, for its existence expires or an event, if any, occurs for which the articles state would end its existence occurs. This is winding up of the company by the court when petitioned to do so after the event or purpose for which it was formed has been achieved, the time or duration for which it was supposed to be in existence has been reached, or a certain event occurs, for example, the articles may say that the company would come to an end once the project they are working on is frustrated by any event.
- When the number of members is reduced below two. That is, the law requires that to own a company in Zambia, there must be at least two shareholders, thus if one

dies, gives up being a shareholder, etc, such a company must be wound up compulsorily.

- If, in the opinion of the court, it is just and equitable to wind up the company. This may happen where the company is used for fraud and other unethical/criminal activities.
- If the Registrar of Companies petitions the court for winding up on the ground that the company is not following the provisions of the Companies Act. The Registrar can petition the court based on some of the reasons stated above or any other legal/valid reason.

(c) No. it must be noted that a director once appointed becomes the agent of the company and as a result fiduciary duties are created. The duty, which is fiduciary in nature, is owed to the company alone and not to any other person. These duties are a lot but to mention a few, a director has fiduciary duty to act in the best interest of the company, to be accountable and to act with skill and care or not in conflict with his duty. These duties are towards the company and not individual shareholders. Therefore, Biemba as an ordinary shareholder is not owed any duty personally or in his individual capacity.

(d) Advantages of non-executive directors include:

- They bring in external experience which executive directors do not possess
- They provide a wider perspective on company operations than executive directors who are involved in the day to day operations of the company.
- They improve the company image to outsiders such as lenders as they are assured that the company is stable seeing it has independent non – executive directors (Comfort factor).
- Certain roles can be shared between executive and non – executive directors, this improve efficiency for the company.
- The Board is likely to make better and unbiased decisions as there are independent members who would look at issues objectively.

SOLUTION TWO

(a) Before a business name is registered someone will have conceived the idea to form it either alone or in association with others. The person/firm required to register under the Act must deliver to the Registrar of Business Names a completed application form, which is prescribed under the Act together with the application fee. The application forms can be obtained from the Registrar of Business Names. The particulars required to complete these forms are:

- The proposed business name
- The general nature of the business
- The present Christian and surnames of the person (or individual) or those of the partners (if a firm) or corporate name (if a corporation).

(b) **Internal:** Employees, Management

Connected: Shareholders, Customers, Suppliers, Lenders, Trade Unions, Competitors

External: The Government, Local Government, the Public, Pressure Groups, Opinion Leaders.

(c) **Debenture:** A debenture is a document stating the terms on which a company has borrowed money.

Dividend: A dividend is a distribution of reward paid out of the company's net profit, usually paid out to shareholders in the proportion of their shareholdings.

Floating Charge: A floating charge is a charge on a class of assets of a company, both present and future.....which class is in the ordinary course of the company's business, changing from time to time until the holders enforce the charge, the company may carry on business and deal with the assets charged.

SOLUTION THREE

- (a) The Articles of Association is the constitution of the company. It constitutes the company and stipulates the relationship that is to exist among the members of the company and how the company is to relate with none members.
- (b) The Articles of Association is important in that it works as a contract between members and the company, the company and the members and the members themselves. On members to company, the articles compels member to adhere to what the articles stipulates in terms of their conduct or grievance redress procedures. *Hickman v Kent* (1905) articles provided for grievances to be addressed through arbitration but the complainant took the matter to court. court held that the provisions of the article ought to be followed and referred the matter to arbitration. On company to member, members are able to compel the company to follow the articles. *Pender v Lushington* (1877) here the articles provided for the maximum votes to be attached to shareholdings. P transferred shares to nominee companies in order to increase votes. This was not allowed at a meeting and the mater went to court which ruled that the P could enforce the provisions of the articles against the company. Member to member *Rayfield v Hands* (1958) the court held that there was a contract between a member and member directors in relation to their holdings of the company's shares in its articles and the directors were bound by it.
- (c) A pre-incorporation contract is one the promoters of a company enter into in the name of a company that is yet to be incorporated. Effects of a pre-incorporation contract are that the person purporting to enter into that contract in the name of the company shall be bound and be liable individually and will be entitled to benefit from the proceeds of the contract where the such contract is not evidence in writing.
- (d) The contract is not binding until the company is formed. Once the company is formed the directors would then take office and the company ratifies or enters into the contract.
 - Where the contract is to be effected before incorporation, it should contain a clause that the personal liability of the promoters shall cease once the company enters a new contract when it is formed.

SOLUTION FOUR

(a) Paid up share capital is that part of the called up capital which has been paid for by the shareholders. The called up capital which has not been paid for is known as unpaid up capital. The difference between called-up share capital and paid-up share capital is that members have already paid in full for paid up capital. Called-up/ unpaid capital has not yet been completely paid, though payment has been requested by the issuing entity.

Share capital consists of all funds raised by a company in exchange for shares of either common or preferred stock. The amount of share capital or equity financing a company has can change over time. A company that plans to raise more equity and be approved to issue additional shares, thereby increasing its share capital.

Any amount of money that has already been paid by members in exchange for shares of stock is paid-up capital. Even if a member has not paid in full, the amount already remitted is included as paid-up capital. All paid-up capital is listed under the shareholders' equity section of the issuing company's balance sheet.

(b) Reduction of share capital is regulated under the Companies Act due to the interest of creditors. The articles of Association must permit, if not, a special resolution must be passed to amend the articles of association first. Once the Articles permit, a resolution must be passed by members to reduce share capital. This resolution must be then taken to the High Court. The company must, within 21 days of passing the resolution apply to court for an order confirming the reduction. All the creditors and interested stakeholders will be invited to make submissions, that is, agree to reduction or reject the reduction. The court shall settle a list of creditors so entitled to.

Creditors who do not object to reduction must give consent to such. If all is done, a copy of a resolution accompanied by a court order must be lodged to the registrar of companies for such purpose.

SOLUTION FIVE

(a)

- ✓ **Sending out notices:** the secretary must send notices to all members who are to attend the meeting informing them of the said meeting
- ✓ **Preparation of the agenda:** the secretary must prepare the agenda and put everything that is to be discussed in the said meeting on the agenda
- ✓ **Arrange for speeches:** the secretary must also arrange the speeches that are to be given at the meeting for individuals who are making presentations.
- ✓ **Preparing the program:** the secretary has a duty to make sure that the program is made according to the agreed timings.
- ✓ **Preparation of any documents needed for the meeting:** the secretary being the person who knows what would be happening at the meeting, s/he must make sure that all documents needed are present at the meeting.

(b) Five provisions of the Sarbanes Oxley 2002 Act include:

- Creation of oversight boards to supervise company boards,
- Setting up of audit standards
- Auditors prohibited from carrying out non-audit services such as bookkeeping and accounting,
- Introduction of quality control measures by rotating or reviewing company or audit firm management every now and then,
- Setting up of audit committees, corporate responsibility, etc

END OF SOLUTIONS