



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 14 DECEMBER 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 Which of the following statements best describes the concept of adequate disclosure?

- A. The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
- B. The financial statements must include a comprehensive list of each transaction that occurred during the year.
- C. The accounting department of a business must inform management of the Accounting practices used to prepare the financial statements.
- D. The company must inform users of any significant facts necessary for proper interpretation of the financial statements, including events occurring after the financial statement date.

(2 marks)

1.2 Nacha Limited purchased Standard rated goods from registered customers amounted to K20, 000 (VAT inclusive). Purchases from unregistered customers amounting to K4,000 out of which K3,000 were standard rated and K1,000 zero rated.

What amount should be shown on Input VAT Ledger account?

- A. K3, 311
- B. K3, 200
- C. K3, 680
- D. 2,759

(2 marks)

1.3 Jaid's enterprises has opening inventory of K4, 000, Closing inventory of K20,000,

operating costs of K7, 000 and purchases amounted to K86, 000. Jaid's enterprises achieve a mark-up of 25%.

Calculate the selling price.

- A. K83,000
- B. K86,000
- C. K87,500
- D. K86,900

(2 marks)

1.4 In preparing a bank reconciliation, a service charge shown on the bank statement should be?

- A. deducted from the balance per the depositor's records
- B. deducted from the balance per the bank statement
- C. added to the balance per the depositor's records
- D. added to the balance per the bank statement

(2 marks)

1.5 In Financial accounting when valuing an entity it is advisable that the lowest price is recorded in financial statements and not the current price or current market value. This is known as

- A. Money Measurement Concept
- B. Prudence Concept
- C. Cost Concept
- D. Business Entity Concept

(2 marks)

1.6 In the income statement, if credit is less than the debit, the difference is

- A. Gross loss
- B. Net profit
- C. Gross profit
- D. Net loss

(2 marks)

- 1.7 The collection of accounts receivable is recorded by a
- A. Credit to Cash and a debit to Accounts Receivable
 - B. Debit to Cash and a credit to Accounts Receivable
 - C. Credit to Cash and a credit to Accounts Receivable
 - D. Debit to Cash and a debit to Accounts Receivable (2 marks)

- 1.8 When stock that was issued by a corporation is later reacquired it is classified as
- A. restricted stock
 - B. issued shares
 - C. Treasury stock
 - D. Preferred stock (2 marks)

- 1.9 Which statement correctly describes the tax advantage of raising money by issuing bonds instead of common stock?
- A. A corporation must pay tax on the sales price of stock issued, but is not taxed on the amount received when bonds are issued.
 - B. The amount paid by the corporation to redeem bonds at maturity date is deductible in computing income subject to corporate income tax.
 - C. Interest payments are deductible in determining income subject to corporate income tax dividends are not deductible.
 - D. Both interest and dividends paid are deductible in computing taxable income, but since Interest must be paid annually; the corporation usually receives a larger tax deduction over the life of the bonds payable. (2 marks)

1.10 On December 31, 2019, accounting records of Eden Corporation contain the items below.

What is the amount of Cash owned by Eden on December 31, 2019?

Accounts Payable	K32,000	Accounts Receivable	K80
Land	K480,000	Cash	?
Capital Stock	K520,000	Equipment	K240,000
Building	K360,000	Notes Payable	K380,000

Retained Earnings	K320,000		
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- A. K1,372,000
- B. K172,000
- C. K188,000
- D. K92,000

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this Section

Attempt any FOUR (4) questions.

QUESTION TWO

Temwani, Chawanzi and Mwewa are trading as partners, sharing profits and losses in the ratio 4:1:3 respectively. Their trial balance as at 31 December 2019 was as follows:

	DR	CR
	K	K
Capital account balances		
Temwani		60,000
Chawanzi		10,000
Mwewa		30,000
Current account balances:		
Temwani		5,940
Chawanzi	2,117	
Mwewa		9,618
Drawings:		
Temwani	39,000	
Chawanzi	16,000	
Mwewa	28,000	

Sales		334,618
Purchases	196,239	
Returns inwards	10,200	
Carriage inwards	3,100	
Inventory on 1 January 2019	68,127	
Discount allowed	190	
Salaries and wages	54,117	
Irrecoverable debts	1,620	
Allowance for receivables		950
General expenses	1,017	
Business rates	2,900	
Postage stamp	845	
Computers at cost	8,400	
Office equipment at cost	5,700	
Allowance for depreciation at 1 January 2019		
Computer		3,600
Office equipment		2,900
Receivables and payables	51,320	36,480
Cash at bank	5,214	
	494,106	494,106

The following information is available at 31 December 2019.

- (1) Inventory at 31 December 2019 was K74,223.
- (2) Business rates paid in advance for K200.
- (3) Postage stamp paid in advance for K68.
- (4) Increase the allowance for irrecoverable receivables to K1,400.
- (5) Partners salaries: Chawanzi K18,000; Mwewa K14,000.
- (6) Interest on drawings: Temwani K300; Chawanzi K200; Mwewa K240.
- (7) Interest on capital is at 8% per annum.

(8) Depreciate computers by K2,800 and office equipment by K1,100.

Required:

From the information given above:

- (a) Prepare partnership statement of profit or loss, and appropriation account for the year ended 31 December 2019. (10 marks)
- (b) Prepare current accounts for the partners. (4 marks)
- (c) Prepare the partnership's statement of financial position as at 31 December 2019. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) AB Ltd is a manufacturing firm. The following figures relate to the accounts for the year ended 31 December, 2019.

Inventories at 1 January 2019:	K
➤ Raw materials	6,372
➤ Work-in-Progress	5,490
➤ Finished Goods	8,528
Inventories at 31 December 2019	K
Raw materials	8,958
Work-in-Progress	7,242
Finished Goods	19,302
Purchases of Raw materials	47,532
Purchases of finished goods	4,862
Sales of finished goods	205,390
Rent and Rates	6,584
Manufacturing wages	66,926
Factory power	3,530
Factory heating and lighting	2,474
Factory expenses and maintenance	3,638
Salaries and Wages	45,740
Advertising	8,434
Office Expenses	3,572
Depreciation of plant and machinery	4,900
Depreciation of office equipment	1,500

Additional information

One-half of salaries and wages; three-quarters of rent and rates are to be treated as a manufacturing charge.

Required:

- (i) Prepare a manufacturing Account clearly showing the cost of raw materials used, Prime cost, cost of factory overheads and the production costs of goods completed. (8 marks)
 - (ii) Prepare a statement of Profit or Loss Account for the year ended 31 December 2019. (6 marks)
- (b) W. Phiri, a sole trader bought a new delivery van, for his business on 1 January 2017 which costed K14,000. He wishes to write off depreciation of the van over three years. He uses reducing balance method of Depreciation at the rate of 35% per annum.

Required to prepare an allowance for Depreciation account on vans Account for the years 2017, 2018 and 2019. (6 marks)

[Total: 20 marks]

QUESTION FOUR

The accountant of Z Ltd has provided the trial balance on 31 December 2019.

	Dr	Cr

	K	K
Ordinary shares at k1 each		9,000
Share premium		500
10% loan note		4,000
Retained earnings as at 1 January 2019		4,840
General reserves		3,420
Land and buildings at cost	8,600	
Plant and machinery	16,600	
Allowance for depreciation on:		
Buildings		400
Plant and machinery		4,440
Inventory 1 January 2019	3,800	
Sales		56,480
Purchases	43,720	
Loan interest paid	200	
Wages and salaries	5,080	
Light and Heat	620	
Sundry expenses	2,260	
Trade receivables	3580	
Trade payables		3,900
Bank	<u>2,520</u>	
	<u>86,980</u>	<u>86,980</u>

Additional Information

1. Sundry expenses include K180 paid in respect of insurance for the year ending 31 August 2020. Light and Heat does not include an invoice of K60 for electricity for the 3 months ending 31 December 2019, which was paid in January 2020. Light and Heat also include K400 relating to sales peoples commission.
2. An old Plant was sold for K6,000. This plant had cost K7,000 and had a carrying amount of K5,480 as at 1 January 2019. K720 depreciation is to be charged on the remaining Plant and Machinery for 2019.
3. Land and buildings were acquired some years ago. The Building element of the cost was estimated at K2,000 and the estimated useful life of the asset was 50 years at the time of purchase. As at 31 December 2019, the property is to be revalued at K16,000.
4. The management wish to provide for:
 - (i) Loan stock interest due

- (ii) A transfer to general reserve of K320
- (iii) Audit fees of K80

5. Inventory as at 31 December 2019 was valued at K4,400

6. Dividend paid is K 2,580

Required:

(a) Prepare Z Ltd's statement of profit or loss and other comprehensive income for the year to 31 December 2019. (12 marks)

(b) Prepare Z Ltd's statement of financial positions as at 31 December. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

The following trial balance has been given to you for adjusting before preparing the statement position for the year ended 30 May 2019 by Mutale a sole, trader.

	DR	CR
	K	K
Sales		791,640
Purchases	198,000	
Sales returns	1,560	
Purchases returns		1,890
Opening inventory	41,400	
Trade receivables & payables	84,750	96,420
Discount allowed	4,530	
Discount received		3,354
Wages & salaries	123,600	
Electricity	6,000	
General expenses	14,040	

Bank	82,260	
Premises	420,000	
Motor vehicles	30,000	
Equipment	21,000	
Capital		150,000
Drawings	18,000	
Suspense	<u> </u>	<u>1,836</u>
	<u>1,045,140</u>	<u>1,045,140</u>

Additional information

- (i) Discount allowed of K330 was doubled but posted correctly to the ledger accounts.
- (ii) Purchases returns of K540 have been posted to the debit of sales returns.
- (iii) Mutale's bank informed him that a cheque for K2,400 from one of his customers was dishonoured due to of insufficient funds. The customer has assured Mutale that the debt will be paid soon.
- (iv) The balance at the bank excludes a fixed deposit interest of K2,880 which has been credited by the bank to the business current account.
- (v) A customer who is also a supplier has agreed to an account set off the amount he owes of K3,780.
- (vi) Closing inventory was valued at K54,414.
- (vii) It has been discovered that an electricity bill of K756 that had been accrued at 30 May 2017 was not brought down as an opening balance on the electricity account.

Required:

- (a) Prepare the suspense account showing the correction of the errors above. (4 marks)
- (b) Prepare Mutale's statement of profit or loss for the year ended 30 May 2019, after taking into account all the errors above. (8 marks)
- (c) Prepare the statement of financial position as at 30 May 2019.

(8 marks)

[Total: 20 Marks]

QUESTION SIX

The following information relates to Damuko Limited for the year ended 31 December, 2019.

	K
Revenue	180,000
Cost of sales	<u>(60,000)</u>
Gross	120,000
Less operating expenses	<u>(54,300)</u>
Net profit before interest and tax	65,700
Finance costs	<u>(7,200)</u>
Profit before tax	58,500
Corporate tax paid	<u>(31,500)</u>
Profits after tax	<u>27,000</u>

Cash position for Damuko Limited	K
Cash and bank balance 1 January 2019	<u>20,700</u>
Cash and bank balance 31 December 2019	<u>36,600</u>

During the year ended 31 December 2019, the following transactions took place:

	K
(1) Receivables decreased by	11,400
(2) Inventory increased by	12,600
(3) Payables increased by	8,100
(4) Depreciation charged was	24,000
(5) Interim dividend paid on ordinary shares in 2019	4,500
(6) Debentures issued by the company in 2016 with an interest of 12% p.a	60,000
(7) Damuko Limited bought a Van(cost) in 2019	135,000
(8) Trade-in value of vehicle given in part-exchange against Van	15,000
(9) Ordinary shares of K100 each in Damuko Limited issued at par and fully	

Paid during 2019	90,000
(10) Ordinary dividend proposed in 2019	6,000

NOTE:

Ordinary share dividend proposed in 2018 paid in 2019 7,500

Debenture interest is not in arrears.

Required:

- (a) Prepare a Statement of Cash Flow for Damuko Limited for the year ended 31 December, 2019 according to IAS 7 using the indirect method. (7 marks)
- (b) Briefly explain the term Partnership deed with regard to its importance in partnership administration. (2 marks)
- (c) Clearly state four (4) rules that apply in a situation where partners do not adopt a partnership deed. (4 marks)
- (d) Briefly explain any three (3) limitations of control accounting. (3 marks)
- (e) Give four (4) arguments against universal application of International Accounting Standards. (4 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 **D** Adequate disclosure speaks to the availability of information to the user of financial statements where decisions are based.

1.2 **D** Purchases from registered traders:

(K20,000 x 4/29) 2,759

Purchases from unregistered traders:

-Standard rated (no VAT chargeable) nil

-Zero rated (no VAT chargeable) nil
2,759

1.3 **CK**

Opening inventory	4000
Purchases	<u>86,000</u>
	90,000
Closing inventory	<u>(20,000)</u>
	70,000
	X 25%
	17,500
Selling price (K70, 000 +K17,500)	=K 87,500

1.4 **AA** service charge reduces the depositors balance

1.5 **B**This is in accordance with the prudence or conservatism concept.

1.6 **D**This means that expenses are more than Income

1.7 **B** Cash received from the customer increases cash and reduces debt

1.8 **C** Treasury stock

1.9 **C** Interest payments are allowed in and debited in the income statements in determining income subject to corporate income tax dividends are not deductible.

1.10 **D** using the accounting equation. $\text{Assets} = \text{Liabilities} + \text{Capital}$

SOLUTION TWO

(a) Temwani (T), Chawanzi (C) and Mwewa (M) statement of profit or loss and appropriation account for the year ended 31 December 2019

	K	K
Sales		334,618
Less: Returns Inwards		<u>(10,200)</u>
		324,418
Cost of sales:		
Opening inventory	68,127	
Purchases	196,239	
Carriage inwards	<u>3,100</u>	
	267,466	
Less: closing inventory	<u>(74,223)</u>	
		<u>(193,243)</u>
Gross profit		131,175
Less: Expenses		
Discounts allowed	190	
Salaries & wages	54,117	
Bad debts (1620 + 450)	2,070	
General expenses	1,017	
Business rates (2,900 – 200)	2,700	
Postage (845 – 68)	777	
Depreciation: computers	2,800	
Office equipment	<u>1,100</u>	
		<u>(64,771)</u>
Net profit		66,404
Interest on drawings:		
Temwani	300	
Chawanzi	200	
Mwewa	<u>240</u>	
		<u>740</u>
		67,144
Less: appropriations:		
Salaries		
Chawanzi	18,000	
Mwewa	<u>14,000</u>	
		<u>(32,000)</u>
Interest on capital:		
Temwani	4,800	
Chawanzi	800	
Mwewa	<u>2,400</u>	
	<u>(8,000)</u>	
Residual profits		27,144
Share of profits:		
Temwani 4/8	13,572	

Chawanzi 1/8	3,393
Mwewa 3/8	<u>10,179</u>
	(27,144)

(b) Current Accounts for the Partners

Dr.	Current accounts			T	C	M	Cr.
	T	C	M				
Balance	-	2,117	-	Balances	5,940	-	9,618
Drawings	39,000	16,000	28,000	Salaries	-	18,000	14,000
Interest on				Interest on			
Drawings	300	200	240	capital	4,800	800	2,400
Balances c/d		<u>3,876</u>	<u>7,957</u>	Share of profits	13,572	3,393	10,179
				Balances c/d	<u>14,988</u>	-	-
	<u>39,300</u>	<u>22,193</u>	<u>36,197</u>		<u>39,300</u>	<u>22,193</u>	<u>36,197</u>
Balance b/d	14,988	-	-	Balance b/d	-	3,876	7,957

(C) Temwani, Chawanzi and Mwewa Partnership's statement of financial position as at 31 December 2019

Non current assets	Cost	Dep.	N.B.V.
	K	K	K
Computers	8,400	6,400	2,000
Office equipment	<u>5,700</u>	<u>4,000</u>	<u>1,700</u>
	<u>14,100</u>	<u>10,400</u>	3,700
<u>Current assets</u>			
Inventory 31.12.20X1 (74,223 + 68)		74,291	
Receivables (51,320 – 1,400)		49,920	
Prepayments		200	
Cash at bank		<u>5,214</u>	
	<u>129,625</u>		
Total assets			<u>133,325</u>
Financed by:			
Capital accounts:	T	60,000	
	C	10,000	
	M	<u>30,000</u>	
			100,000
Current accounts:	T	(14,988)	
	C	3,876	
	M	<u>7,957</u>	
			(3,155)
Current liabilities			

Payables

36,480
133,325

SOLUTION THREE

a (i) AB Ltd's

Manufacturing Account for the year ended 31 December, 2019

	K	K
Cost of Raw materials used- Opening	6,372	
Purchases	47,532	
	<hr/>	
	53,904	
Closing	(8,958)	
	<hr/>	
		44,946
Labour cost – manufacturing wages		66,926
Prime cost		<hr/>
		111,872
Production overhead cost:-		
Salaries and wages ($\frac{1}{2} \times 45\,740$)	22,870	
Rent and Rates ($\frac{3}{4} \times 65\,84$)	4,938	
Factory Power	3,530	
Factory Heating and lighting	2,474	
Factory Expenses and maintenance	3,638	
Depreciation of Plant and machinery	4,900	
		<hr/>
		42,350
		<hr/>
		154,222
Adjust for: Opening WIP	5,490	
Closing WIP	(7,242)	(1,752)
Cost of Goods produced		<hr/>
		<hr/>
		152,470

a (ii) AB Ltd's

Statement of profit or Loss for the year ended 31 December 2019

	K	K
Sales		205,390
Opening inventory	8,528	
Purchases	4,862	
Cost of production	152,470	
	<u>165,860</u>	
Less closing inventory	(19,302)	
		<u>(146,558)</u>
Gross profit		58,832
Less: Salaries and wages ($\frac{1}{2} \times 45\,740$)	22,870	
Rent and Rates ($\frac{1}{4} \times 6584$)	1,646	
Advertising	8,434	
Office Expenses	3,572	
Depreciation of office Equipment	1,500	
		<u>38,022</u>
Net Profit.		<u><u>20,810</u></u>

(b)

Allowing for Depreciation

2017			2017		
31 Dec.	Balance	c/d	<u>4,900</u>	31 Dec.	SPL
					<u>4,900</u>
2018			2018		
31 Dec.	Balance	c/d	<u>8,085</u>	1 Jan.	Balance
				31 Dec.	b/f
					<u>4,900</u>
			<u>8,085</u>		SPL
					<u>3,185</u>
					<u>8,085</u>
2019			2019		
31 Dec.	Balance	c/d	<u>10,155</u>	1 Jan.	Balance
				31 Dec.	b/f
					<u>8,085</u>
			<u>10,155</u>		SPL
					<u>2,070</u>
					<u>10,155</u>
			2020		
			1 Jan.	Balance	b/f
					<u>10,155</u>

SOLUTION FOUR

Note 1 Cost of sales:

Opening inventory	3,800
Purchases	<u>43,720</u>
	47,520
Less closing inventory	<u>(4,400)</u>
Cost of sales	<u>43,120</u>

Note 2 Depreciation on Plant

Cost (16600 – 6000)	10,600
Accum' dDepn (4440 – 520) + 720	<u>(4,640)</u>
Carrying amount	<u>5,960</u>

Note 3 calculation of revaluation surplus

Buildings: Original cost		2,000
Accum'dDepn	(400)	
Years charge		(40)
Carrying value		1,560
Land elements		6,600
Old carrying value	8,160	
New value	16,000	
∴ Revaluation surplus	7,840	

Total PPE value 5960 + 16000 = 21,960

Note 4 Retained Earnings 4840 + 4740 = 9,580

Less: Dividend paid	2,580	
Transfer to General Reserve	320	(2,900)
		6,680

Z Ltd's

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

	K	K
Revenue		56,480
Cost of sales(note 1)		<u>(43,120)</u>
Gross Profit		13,360
Add profit on Disposal (6000 – 5480)		520

		13,880
Less expenses:		
Depreciation on plant	720	
Depreciation on buildings	40	
Finance cost	400	
wages and Salaries (5080 + 400)	5,480	
Heating and lighting (620 + 60 – 400)	280	
Sundry expenses (2260 – 120)	2,140	
Audit fee	80	
		9,140
Other comprehensive income		4,740
Revaluation surplus (note 3)		<u>7,840</u>
Total comprehensive income		<u>12,580</u>

Z Ltd's
Statement of position as at 31 December, 2019

	K	K
Non-current Asset		
PPE (note 3)		21,960
Current Assets		
Inventory	4,400	
Trade receivables	3,580	
Cash at bank	2,520	

Prepaid insurance	120	10,620
Equity and Liabilities		
Ordinary shares at K1 each	9,000	
Retained earning (note 4)	6,680	
Share premium	500	32,580
Revaluation surplus (note 3)	7,840	
General reserves	320	
Non-current Asset		
10% loan note		
Current Liabilities		
Trade payables	3,900	24,340
Accrued (60 + 80 + 200)	340	4,000
		4,240
		32580

SOLUTION FIVE

5 (a)	MUTALE SUSPENSE A/C		
K		K	
Sales returns	540	Per trial balance	1,836.00
Purchase returns	540		
Electricity	<u>756</u>		
	<u>1,836.00</u>		<u>1,836.00</u>

(b) Mutale statement of profit or loss for the year ended 30 May, 2018.

	K	K
Sales		791,640.00
Less: Sales returns (1,560 – 540)		<u>(1,020.00)</u>
		790,620.00
Opening inventory	41,400.00	
Purchases	198,000.00	
Less: Purchase returns (1890 + 540)	<u>(2430.00)</u>	
	236,970.00	
Less: closing inventory	<u>(54,414.00)</u>	<u>(182,556)</u>
Gross profit		608,064
Add: Interest received	2,880.00	
Discount received	<u>3,354.00</u>	
		<u>6,234.00</u>
		614,298
Less: Expenses		
Discount allowed (4530 – 330)	4,200.00	
Wages and salaries	123,600.00	
Electricity (6000 – 756)	5244.00	
General expenses	14,040.00	<u>(147,084)</u>
		467,214

(c) Statement of financial position as at 30 May, 2018

	K	K
Non-current assets		
Premises	420,000.00	
Motor vehicles	30,000.00	
Equipment	<u>21,000.00</u>	

	<u>471,000.00</u>
Current assets	
Inventory	54,414.00
Trade receivables (84,750.00 + 330.00 + 2,400.00 – 3,780.00)	83,700.00
Bank (82,260 – 2,640 + 2,880)	<u>82,740.00</u>
	<u>220,854.00</u>
	<u>691,854.00</u>
Equity	
Capital	150,000.00
Add: net profit	<u>467,214.00</u>
	617,214.00
Less: drawings	<u>(18,000.00)</u>
	599,214.00
Current liabilities	
Trade payables (96,420.00 – 3,780.00)	<u>92,640.00</u>
	<u>691,854.00</u>

SOLUTION SIX

a) DAMUKO LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

K K

Net cash flow from operating activities

Profit before tax	58,500 _{1/2}	
Adjust for:		
Depreciation charges	24,000 _{1/2}	
Interest paid	7,200 _{1/2}	
Increase in inventory		(12,600) _{1/2}
Decrease in receivables	11,400 _{1/2}	
Increase in payables	<u>8,100_{1/2}</u>	
Cash generated from operations	96,600	
Interest paid	(7,200) _{1/2}	
Tax paid	(31,500) _{1/2}	
Dividend paid (2018)	(7,500) _{1/2}	
Interim dividend paid (2019)		<u>(4,500)_{1/2}</u>
Net cash inflow from operating activities	45,900	
Cash flows from investing activities		
Payments to acquire property, plant and equip.	(15,000 – 135,000)	(120,000) _{1/2}
Net cash outflow from investing activities	(120,000) _{1/2}	
Cash flows from financing activities		
Issues of share capital	90,000	

Net cash inflows from financing 90,000^{1/2}

Increase in cash and cash equivalents 15,900^{1/2}

b) Partnership deed

- Partnership deeds are an agreement between partners of a firm
- This agreement defines details like the nature of the firm, duties, and rights of partners, their liabilities and the ratio in which they will divide profits or losses of the firm. (1 mark)
- Although the drafting of partnership deeds is not compulsory, it is always advised to do so. This helps in ensuring that all terms agreed by partners exist in written form. Doing so reduces disputes between partners and helps govern their functioning better. (1 mark)

c) **FOUR (4)** rules that apply in a situation where partners do not adopt a partnership deed.

- i. The partners will share profits and losses equally.
- ii. Partners will not get a salary.
- iii. Interest on capital will not be payable.
- iv. Drawings will not attract interest charge.

d) 3 Limitations of Control accounts:

1- Control accounts lack details as they are summary accounts.

2- Some errors cannot be identified by the control accounts.

3- Control accounts may themselves contain errors.

4- Some errors may be carried forward from the ledger accounts to the control accounts such as the compensating errors and complete reversal of entries, etc 3 marks

e) **FOUR (4)** arguments against universal application of International Accounting Standards:

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

- Cultural differences and nationalism prevent application of foreign standards to local companies.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 16 DECEMBER 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.
10. A mathematical/statistical formulae book **MUST** be provided to you. **Request for one if not given by the Invigilators.**

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 situation in which a decision maker knows all of the possible outcome is referred to as:
- A. Certainty
 - B. Risk
 - C. Uncertainty
 - D. Strategy
- (2 marks)
- 1.2 Suppose that the probability of an event A is 0.2 and the probability of an event B is 0.4. Also, suppose that the two events are independent. Then $P(A/B)$ is:
- A. 0.5
 - B. 0.08
 - C. 0.2
 - D. 0.4
- (2 marks)
- 1.3 A number derived from sample data, which describes the data in some useful way, is called?
- A. Constant
 - B. Statistic
 - C. Parameter
 - D. Critical value
- (2 marks)
- 1.4 The weight of paint cans is considered to be:
- A. Discrete data
 - B. Random data
 - C. Continuous data
 - D. Probability data

(2 marks)

- 1.5 The equation for joint probability of two fault events under any circumstances is given by:

$$P(A \cap B) = P(A | B) \times P(B)$$

If event A does not affect occurrence of event B in any way, the probability of occurrence, when $P(A) = 0.1$, $P(B) = 0.05$, is given by:

- A. 0.00025
- B. 0.05
- C. 0.1000
- D. 0.00500 (2 marks)

- 1.6 Interest gained only on the principle deposited is:

- A. Compound interest
- B. Simple interest
- C. Present value
- D. Ordinary annuity (2 marks)

- 1.7 The distribution weight of twenty-eight cows in Tella village is given in the table below:

WEIGHT (Kg)	20	30	40	50
NUMBER OF COWS	6	10	7	5

The average weight of cows in Tella village is:

- A. 41.3
- B. 35
- C. 33.9
- D. 40 (2 marks)

- 1.8 Mr. Kanogsha deposited K650 in Mukwaibank for three (3) years to obtain an amount of K822.445 when interest is compounded semi-annually.

The interest rate is:

- A. 8%
- B. 4%

- C. 6%
 - D. 3%
- (2 marks)

1.9 The payoff table has three states of nature of windy, sunny and cold accompanied with actions build, not-build and rent.

The data is displayed in the table below:

		STATES OF NATURE		
		WINDY	SUNNY	COLD
ACTIONS	BUILD	120	140	110
	NOT BUILD	80	100	90
	RENT	200	150	160

The Hurwicz rule action ($\alpha=0.45$) amount is:

- A. K177.5
 - B. K175
 - C. K150
 - D. K172.5
- (2 marks)

1.10 A project requiring an initial outlay of K25 000 is guaranteed to produce a return of K30 000 in two (2) years' time. If the prevailing market rate is 5% compounded annually:

Compute the internal rate of return.

- (a) 9.0%
- (b) 9.25%
- (c) 9.5%
- (d) 11.0%

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this Section.

Attempt any Four (4) questions.

QUESTION TWO

- (a) A company has three operational departments (weaving, processing and packing) with capacity to produce three different types of cloths namely, suitings, shirtings and woolens yielding the profit of K2, K4 and K3 per meter respectively. One meter suiting requires 3 minutes in weaving, 2 minutes in processing and 1 minute in packing. One meter of shirting requires 4 minutes in weaving, 1 minute in processing and 3 minutes in packing, while one meter woolen requires 3 minutes in each department. In a week, total run time of each department is 60, 40 and 80 hours of weaving, processing and packing departments respectively. Formulate the linear programming problem to find the product mix to maximize the profit. (5 marks)
- (b) An automobile dealer calculates the proportion of new cars sold that have been returned a various numbers of times for the correction of defects during the warranty period. The results are shown in the following table.

Number of returns	0	1	2	3	4
Proportion	0.28	0.36	0.23	0.09	0.04

Required:

- (i) Find the mean of the number of returns of an automobile for corrections for defects during the warranty period. (2 marks)
- (ii) Find the standard deviation of the number of returns of an automobile for corrections for defects during the warranty period.(3 marks)
- (c) An opinion poll was conducted to learn about attitudes towards investment and retirement. One question was asked to male and female respondents on how important they felt level of risk was in choosing a retirement investment. The probability table was constructed from the data provided as shown below:

	Male	Female
Important	0.22	0.27
Not Important	0.28	0.23

- (i) What is the probability that a survey respondent will say level of risk is important? (2 marks)
- (ii) What is the probability that a male respondent will say level of risk is important?(2 marks)
- (iii) What is the probability that a female respondent will say level of risk is important? (2 marks)
- (iv) Is level of risk independent of the gender respondent? Explain your answer. (2 marks)
- (v) Do male and female attitudes towards risk differ? Explain your answer. (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) A research was carried out to determine the relationship between Y and X with the results shown below:

X	10	8	7	11	17
Y	9	15	10	16	9

Required:

Calculate coefficient of correlation by Product moment method. (12 marks)

- (b) The probability of a defective product being made is 60%. A sample of 5 products is selected at random.

Required:

Find the probability that at least two products are defective. (4 marks)

- (c) The student allowance distribution is given as follows:

ALLOWANCE (K000)	50<60	60<70	70<80
NUMBER OF STUDENTS	10	7	3

Required:

Calculate the mean allowance. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The following numbers are the hours put in by 10 employees of company in a randomly selected week:

40 46 40 54 18 45 34 60 39 42

Required:

Calculate the following:

- (i) Three quartiles values. (6 marks)
- (ii) Interquartile range. (1 mark)
- (iii) Mean (2 marks)
- (iv) Standard deviation. (3 marks)
- (b) To provide for future education costs, Mr. Banda and his family considers various methods of saving. Assume saving will continue for a period of 10 years at an interest rate of 8% per annum.
- (i) Calculate the value of the fund at the end of 10 years when a single deposit of K3,000 is made annually. (3 marks)
- (ii) How much should be deposited each year if the final value of the fund is K60,000? (2 marks)
- (iii) How much should be deposited each month if the final value of the fund is K60,000? (3 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) A taxi driver finds from his previous records that the cost per year of running a taxi whose purchase price is K7,000 is given in the table below:

Year	1	2	3	4	5	6	7	8
Running cost (K)	1100	1300	1500	1900	2400	2900	3500	4100
Resale price (K)	3100	1600	850	475	300	300	300	300

At what age is the replacement due? (8 marks)

- (b) (i) State four (4) components of time series. (4 marks)
- (ii) A random sample of 10 people was asked to record the number of kilometers travelled by a minibus in a given week. The distances, to the nearest kilometer, are shown below:

70 72 75 64 58 83 80 76 75 68

Required:

Calculate four number- moving average trend values.

(8 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) A manufacturer of jeans has plants in Lusaka(LU), Kitwe(KT), and Livingstone(LS). A group of 25 pairs of jeans is randomly selected from the computerized database, and the city in which each is produced is recorded below:

CITIES

LU KT KT LS LU

LU LU LS LS LS

KT KT LU KT LS

LU KT KT KT KT

- (i) What is the experimental unit?
(1 mark)

(i) What is the

LU LS LS LU LU experimental unit?

- (iii) What is the variable being measured? Is it qualitative or quantitative?
(2 marks)

- (iv) Construct a pie chart to describe the data. (6 marks)

- (v) Construct a simple bar chart to describe the data. (4 marks)

- (vi) What proportion of the jeans are made in Kitwe? (2 marks)

- (vii) What City produced the least number of jeans in the group? (2marks)

- (viii) If you want to find out whether the three plants produced equal numbers of jeans, or whether one produced more jeans than the others, how can you use the charts from parts (iii) and (iv) to help you? What conclusions can you draw from these data? (3 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A

SOLUTION ONE

$$1.1 \quad P(A/B) = \frac{P(A \cap B)}{P(B)}$$

Since A and B are independent events, then

$$P(A/B) = \frac{P(A)P(B)}{P(B)} = P(A) = 0.2$$

The correct answer is A

1.2 The correct is B.

This is decision making under perfect information. It is referred to as decision making under certainty.

1.3 **B**

1.4 **C** .

1.5 **B**

1.6 **D**

$$P(A \cap B) = P(A|B) \times P(B) = 0.1 \times 0.05 = 0.005$$

$$1.7 \bar{x} = \frac{\sum fx}{\sum f} = \frac{950}{28} = 33.9 \quad (c)$$

$$1.8 \quad P(1 + i/m)^{mn} = A$$

$$650(1 + i/2)^6 = 822.445$$

$$(1 + i/2)^6 = 822.445/650$$

$$(1 + i/2)^6 = 1.2653$$

$$1 + i/2 = \sqrt[6]{1.2653}$$

$$1 + i/2 = 1.039$$

$$i/2 = 1.039 - 1$$

$$i/2 = 0.039$$

$$i = 0.039 \times 2$$

$$i = 0.78$$

$$R/100 = 0.78$$

$$R = 0.78 \times 100 = 7.8 = 8\% \quad (A)$$

1.9

$$(0.45)(200) + (0.55)(150) = 90 + 82.5 = K172.5 \quad (D)$$

$$1.10 \quad PV = A(1+i)^{-n}$$

$$25000 = 30000(1+i)^{-2}$$

$$0.8333 = 1/(1+i)^{-2}$$

$$0.8333(1+i)^2 = 1$$

$$(1+i)^2 = 1/0.8333 = 1.20004$$

$$(1+i) = \sqrt{1.20004} = 1.09546$$

$$i = 1.09546 - 1 = 0.09546$$

$$R/100 = 0.09546$$

$$R = 0.09546 \times 100 = 9.546\% = 9.5\% \quad (c)$$

SOLUTION TWO

- (a) Let x_1 = number of units suiting to be produced
 x_2 = Number of units of shirtings to be produced
 x_3 = Number of units of woollens to be produced

$$\begin{aligned} \text{Maximize} \quad & Z = 2x_1 + 4x_2 + 3x_3 \text{ m} \\ \text{Subject to} \quad & 3x_1 + 4x_2 + 3x_3 \leq 3600 \\ & 2x_1 + x_2 + 3x_3 \leq 2400 \\ & x_1 + 3x_2 + 3x_3 \leq 4800 \\ \text{Where} \quad & x_1, x_2, x_3 \geq 0 \end{aligned}$$

NOTE: Hours should be changed to minutes for uniformity of time.

(b)

$$\begin{aligned} \text{i.} \quad E(X) &= \sum_x xP(X=x) \\ &= 0(0.28) + 1(0.36) + 2(0.23) + 3(0.09) + 4(0.04) \\ &= 0 + 0.36 + 0.46 + 0.27 + 0.16 \\ &= 1.25 \end{aligned}$$

$$\begin{aligned} \text{ii.} \quad S.D &= \sqrt{E(X^2) - (E(X))^2} \\ E(X^2) &= \sum_x x^2P(X=x) \\ &= 0^2(0.28) + 1^2(0.36) + 2^2(0.23) + 3^2(0.09) + 4^2(0.04) \\ &= 0 + 0.36 + 0.92 + 0.81 + 0.64 \\ &= 2.75 \end{aligned}$$

$$\begin{aligned} \therefore S.D &= \sqrt{2.75 - 1.25^2} \\ &= \sqrt{1.1675} \\ &= 1.081 \end{aligned}$$

- (c) Let A = an event that the respondent is male
 B = an event that the respondent will say level of risk is important

We are given,

$$P(A \cap B) = 0.22, P(A^c \cap B) = 0.27$$

$$P(A \cap B^c) = 0.28, P(A^c \cap B^c) = 0.23$$

i.
$$P(B) = P(A \cap B) + P(A^c \cap B)$$

$$= 0.22 + 0.27$$

$$= 0.49$$

ii.
$$P(A/B) = \frac{P(A \cap B)}{P(B)} = \frac{0.22}{0.49} = 0.4490$$

iii.
$$P(A^c/B) = \frac{P(A^c \cap B)}{P(B)} = \frac{0.27}{0.49} = 0.5510$$

iv. Events A and B are said to be independent if and only if $P(A \cap B) = P(A)P(B)$

$$\therefore P(A \cap B) = 0.22, P(A)P(B) = 0.50 \times 0.49 = 0.245$$

NOTE:
$$P(A) = P(A \cap B) + P(A \cap B^c)$$

$$= 0.22 + 0.28$$

$$= 0.50$$

$$\therefore P(A \cap B) \neq P(A)P(B)$$

$$0.22 \neq 0.245$$

Hence events A and B are not independent

v. One method of solving is by comparing the probability $P(B/A)$ and $P(B/A^c)$.

We have to compare the conditional probability of respondent will say level of risk is important given that the respondent is male to the conditional probability of respondent will say level of risk is important given that respondent is female.

$$P(B/A) = \frac{P(A \cap B)}{P(A)} = \frac{0.22}{0.50} = 0.44$$

$$P(B/A^c) = \frac{P(A^c \cap B)}{P(A^c)} = \frac{0.27}{0.50} = 0.54$$

NOTE: $P(A^c) = 1 - P(A) = 1 - 0.50 = 0.50$

Comparing the two results we see that a female respondent is more likely to say level of risk is important because of the high probability. Therefore, male and female attitude towards risk do differ.

SOLUTION THREE

$$(a) \quad r = \frac{n \sum xy - (\sum x)(\sum y)}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

X	X ²	Y	Y ²	XY
10	100	9	81	90
8	64	15	225	120
7	49	10	100	70
11	121	16	256	176
17	287	9	81	153

$$\sum x = 53 \quad \sum x^2 = 623 \quad \sum y = 59 \quad \sum y^2 = 743 \quad \sum xy = 609$$

$$(1) \quad (1) \quad (1) \quad (1) \quad (2)$$

$$r = \frac{5(609) - (53)(59)}{\sqrt{[5(623) - (53)^2][5(743) - (59)^2]}} \quad (1)$$

$$= \frac{3045 - 3127}{\sqrt{(3115 - 2809)(3715 - 3481)}}$$

$$= \frac{-82}{\sqrt{(306)(234)}} \quad (1)$$

$$= \frac{-82}{\sqrt{71604}} \quad (1)$$

$$= \frac{-82}{267.6} \quad (1)$$

$$r = -0.306 \quad (2)$$

$$(b) \quad P(x \geq 2) = 1 - [P(x=0) + P(x=1)]$$

$$= 1 - [(5c_0)(0.6)^0(0.4)^5 + (5c_1)(0.6)^1(0.4)^4] \quad (1)$$

$$= 1 - [(1)(1)(0.0102) + (5)(0.6)(0.0256)] \quad (1)$$

$$= 1 - (0.0102 + 0.0768) \quad (1)$$

$$= 1 - 0.087 \quad (1)$$

$$= 0.913 \quad (1)$$

X	f	fX
55	10	550
65	7	455
75	3	225

$$\sum f = 20 \quad \sum fX = 1230 \quad (1)$$

$$\bar{x} = \frac{\sum fX}{\sum f}$$

$$= \frac{1230}{20} \quad (1)$$

$$= 61.5 \quad (2)$$

SOLUTION FOUR

40 46 40 54 18 45 34 60 39 42

Arranging we have: 18 34 39 40 40 42 45 46 54 60

i. Median = $\left(\frac{n+1}{2}\right)$ th value Lower Quartile = $\left(\frac{n+1}{4}\right)$ th value

$$= \left(\frac{10+1}{2}\right)\text{th value} = \left(\frac{10+1}{4}\right)\text{th value}$$

$$= 5.5\text{th value} = 2.75\text{th value}$$

(Average of 5th and 6th values) (Average of 2nd and 3rd values)

$$= \frac{40 + 42}{2} = \frac{34 + 39}{2}$$
$$= 41 = 36.5$$

$$\text{Upper Quartile} = \frac{3}{4}(n + 1)\text{th value}$$

$$= \frac{3}{4}(10 + 1)\text{th value}$$

$$= 8.25\text{th value}$$

(Average of 8th and 9th values)

$$= \frac{46 + 54}{2} = 50$$

ii. Inter-quartile range = *Upper Quartile* – *Lower Quartile*

$$= 50 - 36.5$$

$$= 13.5$$

iii.

$$\bar{x} = \frac{\sum x_i}{n} = \frac{18 + 34 + 39 + 40 + 40 + 42 + 45 + 46 + 54 + 60}{10}$$
$$= \frac{418}{10}$$

$$= 41.8 .$$

$$\begin{aligned}
S &= \sqrt{\frac{(18 - 41.8)^2 + (34 - 41.8)^2 + (39 - 41.8)^2 + (40 - 41.8)^2 + \dots + (46 - 41.8)^2 + (54 - 41.8)^2 + \dots}{10 - 1}} \\
&= \sqrt{\frac{1149.6}{9}} \\
&= 11.3
\end{aligned}$$

(b)

$$V_{ANU,t} = A_0 \frac{(1+i)^t - 1}{i}$$

From the data, $A_0 = 3000, i = 0.075, t = 10$ payments. Substituting we have;

$$\begin{aligned}
V_{ANU,10} &= 3000 \frac{(1+0.08)^{10} - 1}{0.08} \\
V_{ANU,10} &= 3000 \frac{2.1589 - 1}{0.08} = 3000(14.4866) = K43459.69
\end{aligned}$$

The fund will be worth $K43459.69$ at the end of 10 years.

From the data, $V_{ANU,10} = K60000, i = 0.075, t = 10$ payments. Substituting we have;

$$\begin{aligned}
60000 &= A_0 \frac{(1+0.08)^{10} - 1}{0.08} \\
60000 &= 14.4866A_0 \\
A_0 &= 4141.7586
\end{aligned}$$

To end up with $K60000$, the annual deposit should be $K4141.7586$.

(c)

$V_{ANU,10} = K60000 = \frac{i}{12} = \frac{0.08}{12}, t \times 12 = 10 \times 12 = 120$. Substituting we have;

$$\begin{aligned}
60000 &= A_0 \frac{(1+0.08/12)^{10 \times 12} - 1}{0.08/12} \\
60000 &= A_0 \frac{1.21964024}{0.00667} \\
60000 &= A_0 182.8546
\end{aligned}$$

$$A_0 = 328.13$$

Therefore, saving *K*328.13 per month will also provide a fund of *K*60000 at the end of 10 years.

SOLUTION FIVE

(a) The average annual cost for taxi is computed in the table below.

(1) Years of service (n)	(2) Resale value (S) (K)	(3) Purchase price – resale value ($C - S$) (K)	(4) Annual maintenance cost $f(t)$ (K)	(5) Summation of maintenance cost $\sum_{t=0}^n f(t)$ (K)	(6) Total cost (3)+(5)	(7) Average annual cost (6)÷(1) (K)
1	3100	3900	1100	1100	5000	5000
2	1600	5400	1300	2400	7800	3900
3	850	6150	1500	3900	10,050	3350
4	475	6525	1900	5800	12,325	3081
5	300	6700	2400	8200	14,900	2980
6	300	6700	2900	11,100	17,800	2967
7	300	6700	3500	14,600	21,300	3043
8	300	6700	4100	18,700	25, 400	3175

Thus the old taxi should be replaced at the end of 6th year.

(b) (i) Trend, Seasonal variation, Cyclical variation and random variation. (1 mark each)

(ii)	MONTH	KM	MAT	MA	CA(T)	
	1	70				
	2	72				
			281	70.25		
	3	75			68.75	(1)
			269	67.25		
	4	64			68.625	(1)
			280	70		
	5	58			70.625	(1)
			285	71.25		
	6	83			72.75	(1)
			297	74.25		
	7	80			76.375	(1)
			314	78.5		

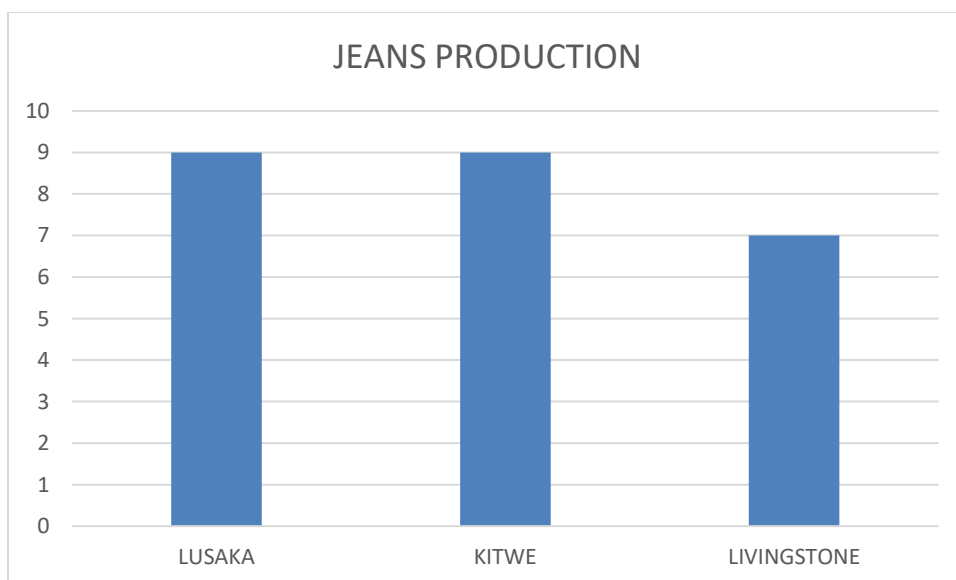
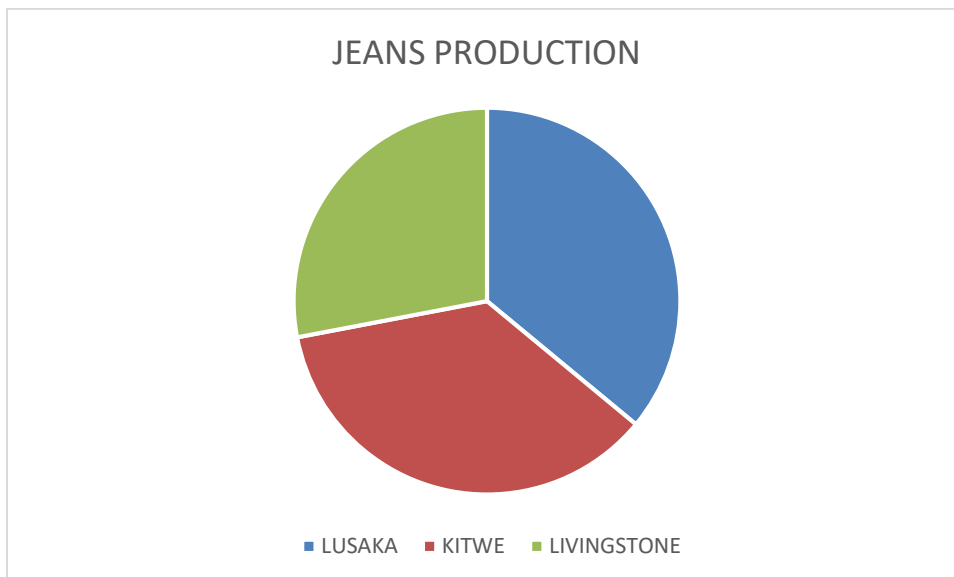
8	76	76.625	(1)
		299	74.75
9	75		
10	68	(1)	(1)

SOLUTION SIX

- (i) a pair of jeans
- (ii) the state in which the jeans are produced; qualitative

III.

Cities	Freq	Degrees
LUSAKA	9	129.6
KITWE	9	129.6
LIVINGSTONE	7	100.8



IV.

(v) $P(KT) = \frac{n(KT)}{n(S)} = \frac{9}{25}$

(vi) Livingstone

(vii) The three Cities produce roughly the same numbers of jeans.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 15 DECEMBER 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.
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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 A major feature of a market system is that.....

- A. There is economic equality
- B. There is consumer sovereignty
- C. There is full employment
- D. All producers make profits

(2 marks)

1.2 Because of unseasonably cold weather, the supply of tomatoes has drastically decreased. This statement means that.....

- A. The demand for tomatoes will necessarily rise
- B. The equilibrium quantity for tomatoes will rise
- C. The amount of tomatoes that will be available at various prices has declined
- D. The price of tomatoes will fall

(2 marks)

1.3 The income elasticity of demand for a named food item is unity. A consumer's monthly income is K2 000 of which 20% is spent on food. If income doubles, the amount spent on food will be.....

- A. K400 per month
- B. K500 per month
- C. K800 per month
- D. K1000 per month

(2 marks)

1.4 Marjory pays a 5% income tax to Zambia Revenue Authority (ZRA) regardless of her size of income. This tax can best be described as.....

- A. Proportional
- B. Regressive
- C. Progressive
- D. A mix of proportional and regressive

(2 marks)

- 1.5 Which of the following expression is another way of saying 'marginal cost'?
- A. Total cost
 - B. Additional cost
 - C. Average cost
 - D. Net cost
- (2 marks)
- 1.6 Which of the following will result when the statutory reserve is increased?
- A. Decreases the discount rate
 - B. Increases the discount rate
 - C. Decreases the amount of excess reserves for commercial banks
 - D. Changes the excess reserves to required reserves
- (2 marks)
- 1.7 Assume that the Zambian economy is experiencing a low rate of economic growth and the Bank of Zambia decides to pursue an expansionary monetary policy. Which set of actions by the Bank of Zambia would be most consistent with this policy?
- A. Selling government securities and lowering the discount rate
 - B. Selling government securities and raising the discount rate
 - C. Buying government securities and raising the discount rate
 - D. Buying government securities and lowering the discount rate
- (2 marks)
- 1.8 The multiplier can be calculated by dividing.....
- A. The initial change in spending by the change in real GDP
 - B. The change in real GDP by the initial change in spending
 - C. One by one minus marginal propensity to save
 - D. One by one minus the marginal propensity to invest
- (2 marks)
- 1.9 Fiscal policy is enacted through.....
- A. Interest rates
 - B. Money supply
 - C. Unemployment and inflation
 - D. Taxation and government spending
- (2 marks)

1.10 The demand curve faced by a perfectly competitive firm is

- A. Perfectly elastic
- B. Perfectly inelastic
- C. Elastic
- D. Inelastic

(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

- (a) Outline the central economic problem faced by all economies. (6 marks)
- (b) Define a production possibility frontier and outline any two (2) of its assumptions. (4 marks)
- (c) Explain the difference between a bowed out (concave) PPC and a straight line PPC. (4 marks)
- (d) Explain any three (3) factors which influence a developed country's economic growth. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain any four (4) of the natural and artificial barriers to entry into oligopolistic industries? (8 marks)
- (b) Explain any three (3) of the possible weaknesses of oligopoly? (6 marks)
- (c) Explain any three (3) of the possible beneficial effects of oligopoly? (6 marks)

[Total: 20 Marks]

QUESTION FOUR

It is important for a firm to know the nature of demand (Price Elasticity of Demand PED) for a product so that it can offer a discount in order to increase revenue or increase the price in order to achieve the same objective.

In the same way in its fiscal policy the Zambian government can impose a tax on cigarettes and beer in order to reduce consumption of the addictive products.

- (a) Calculate the price elasticity of demand for good Z? (Hint: Use the mid-point approach).
(4 marks)

Price and quantity demanded of good Z were recorded over two(2) periods.

Time	Price of good Z K'	Demand for good Z in units
1	10	100
2	5	200

- (b) Assuming the country is a centrally planned economy and sets a maximum price (price ceiling), with the help of a diagram, explain the effect of such an action and the rationale behind?
(6marks)
- (c) Satisficing is common managerial response when there are multiple objectives for a firm. Explain the meaning of satisficing in line with the objectives of the firms?
(4 marks)
- (d) A company may decide to grow through vertical integration. Explain this mode of growth.
(6 marks)

[Total: 20 Marks]

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

QUESTION FIVE

Suppose the economy's consumption function is specified by the equation $C = K50 + 0.80Y_d$.

- (a) Define the term 'autonomous consumption' (1 mark)
- (b) For this economy, how much is the autonomous consumption? (1 mark)
- (c) Find consumption when disposable income (Y_d) is:
 (i) K400 (2 marks)
 (ii) K500 (2 marks)
 (iii) K600 (2 marks)
- (d) Calculate the saving when disposable income is:
 (i) K400 (2 marks)

- (ii) K500 (2 marks)
 - (iii) K600 (2 marks)
- (e) Calculate the amount of induced consumption when disposable income is:
- (i) K400 (2 marks)
 - (ii) K500 (2 marks)
 - (iii) K600 (2 marks)
- [Total: 20 Marks]**

QUESTION SIX

The Finance Minister Dr. Bwalya Ng'andu held a Press Conference on the State of the economy on 10 February 2020. He stated that, 'The year 2019 was challenging on the economic point. GDP growth was revised down to 2% from an initial 4%. Following adverse weather conditions, agriculture output and electricity generation are projected to record negative growth'.

- (a) What do you understand by the term 'GDP growth'? (4 marks)
- (b) Explain any four (4) factors that can bring about GDP growth in Zambia. (8 marks)
- (c) State any four(4) benefits of GDP growth in Zambia (4 marks)
- (d) State any four(4) disadvantages of GDP growth (4 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Explain what you understand by the term 'balance of payment account' (2 marks)
- (b) Describe the three (3) components of the Balance of Payments Account (6 marks)
- (c) When a country has a persistent current account deficit in her Balance of Payments, state:
 - (i) Any four (4) ways that a country can use to finance or cover the deficit. (4 marks)
 - (ii) Any three(3) ways that a country can use to correct or rectify the deficit. (6 marks)
- (d) Explain the meaning of 'balance of trade' in the balance of payments account. (2 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SECTION A: MULTIPLE CHOICE

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

SOLUTION TWO

a) Central economic problem

What to Produce:

This problem involves selection of goods and services to be produced and the quantity to be produced of each selected commodity. Every economy has limited resources and thus, cannot produce all the goods. More of one good or service usually means less of others.

How to Produce:

This problem refers to selection of techniques to be used for production of goods and services. A good can be produced using different techniques of production. By 'technique', we mean which particular combination of inputs to be used. Generally, techniques are classified as: Labour intensive techniques and Capital intensive techniques.

For Whom to Produce:

This problem refers to selection of the category of people who will ultimately consume the goods, i.e. whether to produce goods for everyone in society (more poor and less rich) or only for those who have the capacity to pay (more rich and less poor). Since resources are scarce in every economy, no society can satisfy all the wants of its people. Thus, a problem of choice arises.

b) Definition and Assumptions of the PPC

A production possibility frontier shows various combinations of production possibilities or outputs of two commodities (or services) a person or a country can produce, keeping the inputs or resources that are needed to produce the commodities constant.

- Only two goods X (e.g. consumer goods) and Y (e.g. capital goods) are produced in different proportions in the economy.
- The same resources can be used to produce either or both of the two goods and can be shifted freely between them.
- The supplies of factors are fixed. But they can be re-allocated for the production of the two goods within limits.
- The production techniques are given and constant.
- The economy's resources are fully employed and technically efficient.
- The time period is short.

c) Distinction between concave and straight line PPC

- When the PPC is a straight line, opportunity costs are the same no matter how far you move along the curve. Which means that any combination of outputs will result in the same opportunity cost.
- When the PPC is concave (bowed out), opportunity costs increase as you move along the curve. This means that, as you increase the output of one good, you'll have to reduce the output of the other.

d) Factors influencing economic growth

- Investment – this is current output that is not consumed. An increase in investment will result in higher production in the future.
- Education and training – this improves the productivity of the labour force and thereby raises the economic growth rate.
- Technological change – this increases the productive potential of an economy.
- Improved management skills – this will lead to improved efficiency, better economic organisation and greater output.
- Population growth – this increases the productive potential of an economy and provides a steady increase in demand that will improve the investment climate.

SOLUTIONTHREE

- a) Possible barriers to entry into the oligopoly industry are:
- **Product differentiation barriers** in which a new entrant would have to create a better good and to convince customers of its quality because the existing monopolist is a supplier of an established product.
 - **Absolute cost barriers** would occur because the monopolist has access to sources of cheaper raw materials or is privy to certain information that new entrants may not have. This means the input costs for the monopolist will be lower.
 - **Economies of scale barriers** exist where long run average cost in the firm is falling and where only high output level are needed to achieve the greatest economies of scale. Otherwise new entrants would not be able to sustain the high fixed costs of production.
 - **Legal barriers** will be present when a monopoly is protected by law, for example in nationalised industries.
- b) In the long run, oligopoly may lead to the following weaknesses:
- $P > MC$ and so there is an under-allocation of the economy's resources to the firms in the oligopolistic industry
 - the oligopolist usually does not produce at the lowest point on its Long run Average Cost curve (LRAC)
 - When oligopolists produce a differentiated product, too much may be spent on advertising and model changes.
- c) The following are the possible beneficial effects of oligopoly:
- For technological reasons, many products (such as automobiles, steel, etc.) cannot be produced under conditions of perfect competition (because their cost of production would be prohibitively high)
 - In addition, oligopolists spend a great deal of their profits on research and development, and this may lead to faster technological advance and a higher standard of living than if the industry were organized along more competitive lines
 - Some advertising is useful since it informs customers
 - Some product differentiation has the economic value of satisfying the different tastes of different consumers.

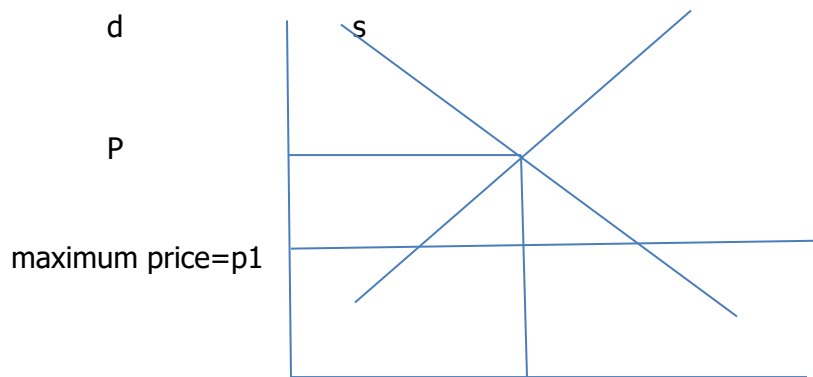
SOLUTION FOUR

$$\% \text{ change in demand} = \frac{200 - 100}{(100 + 200)/2} \times 100\% = 66.67\%$$

$$\% \text{ change in price} = \frac{5 - 10}{(5 + 10)/2} \times 100\% = -66.67\%$$

$$\text{PED} = \frac{66.67\%}{-66.67\%} = -1$$
$$\text{PED} = -1$$

(b) Maximum price



At p_1 maximum price demand is greater than supply by AB which is a shortage on the market. In a centrally planned economy the government will handle the issue of shortage of foodstuffs by distributing coupons so that eligible families can access food by this process of rationing of foodstuffs by government. This is done in order to manage a case of shortage to help the consumer access food.

(c) To satisfy means to achieve a satisfactory level of profit while the following stakeholders are kept satisfied with company's performance :

- Shareholders
- Directors
- Managers
- Employees
- Customers
- Government

- The public

(a) Two firms operating at different at different stages in the production and selling process might merge. When they do, vertical integration occurs.

Backward vertical integration involves moving back through stages in production towards the raw materials growing /extracting stage.

Forward vertical integration is integrating forward through stages in production and selling towards the end consumer sales stages.

SOLUTIONFIVE

- a) Autonomous consumption is consumption expenditure which is independent of the disposable income
- b) The autonomous expenditure is K50
- c) Consumption for each level of disposable income is found by substituting the specified disposable income level into the consumption equation as follows:
- (i) When $Y_d = K400$, $C = K50 + 0.80(K400) = \mathbf{K370}$.
 - (ii) When $Y_d = K500$, $C = K50 + 0.80(K500) = \mathbf{K450}$.
 - (iii) When $Y_d = K600$, $C = K50 + 0.80(K600) = \mathbf{K530}$.
- d) Saving is the difference between disposable income and consumption. Using the calculation from part (c), we find that saving is:
- (i) When $Y_{dis} = K400$, $S = K400 - K370 = \mathbf{K30}$
 - (ii) When $Y_{dis} = K500$, $S = K500 - K450 = \mathbf{K50}$
 - (iii) When $Y_{dis} = K600$, $S = K600 - K530 = \mathbf{K70}$
- e) Induced consumption (I) is the amount of consumption that depends upon the receipt of income. Induced consumption = Consumption – Autonomous Consumption as follows:
- (i) When $C = K370$, $I = K370 - K50 = \mathbf{K320}$
 - (ii) When $C = K450$, $I = K450 - K50 = \mathbf{K400}$
 - (iii) When $C = K530$, $I = K530 - K50 = \mathbf{K480}$

SOLUTION SIX

- a) GDP growth simply refers to the increase in the quantity of goods and services produced in a country during a given period of time, usually a year
- b) Economic growth is a steady increase in national income brought about as a result of an increase in the productive capacity of the economy. There are main sources of economic growth. An increase in supply of factor inputs such as:
- An **increase in the working age population** and an **increase in the number of women participating in economic activities** lead to increases in the labour force participation rate which in turn raises output.
 - **Increases in the stock of physical capital** due to positive net investment and **increase in natural resources by discovering more natural economic sites** such as mineral deposits and tourism sites. This means more consumer and capital goods can be produced in the future.
 - **Technological developments** where improved production techniques or machinery are innovated and bring about the exploitation of more economies of scale.
 - **Growth in human capital** which would be achieved through increased investment in improved education and training, improved working arrangements, and more effective management.
 - Political stability which encourages foreign investment
- c) The following are the benefits of GDP growth to a country:
- Increased employment opportunities
 - Improved investment climate
 - Reduced poverty level
 - Increased living standards
 - Reduction in social vices like petty crimes, prostitution, etc
- d) The disadvantages of GDP growth include the following:
- Increased pollution of the environment or waste of natural resources
 - Maximized economic growth may also fail to resolve socioeconomic problems or may exacerbate them
 - Rapid economic growth through technological change in many instances increases worker obsolescence (workers no longer have skills needed in the labor market), brings about new anxieties and insecurities, and undermines family relationships as the workplace takes on greater importance than human relationships
 - Although attempts are being made to curb pollution, industrial waste is a by-product of increased output. It therefore can be expected that water, land, and air pollution will increase with time
 - Waste of economic resources may also result when least-cost methods dictate current resource use with little attention paid to the possible effect that current use may have upon future generations
 - There is no guarantee that growth resolves socioeconomic problems such as poverty. Poverty in an economy is relative to the economy's standard of living. Thus, growth does not resolve the problem of relative poverty, which is only resolved by a redistribution of current income.

SOLUTION SEVEN

- a) A balance of payment account is a bookkeeping record of all the international transactions between a country and other countries during a given period of time.
- b) The BOP account is made up of the following:
- **Current account** – under this account are the trade in goods and services, including net investments (IPD) and net transfers.
 - **Capital account** – The capital account looks at the movements of capital into and out of the country, it is also called the external assets and liabilities account. The major items that make up the capital account are foreign direct investment, Portfolio investment and loans.
 - **Official reserves account** – this is also called the balancing item because it can increase or decrease depending on whether the sum of the balance on current account plus the balance on capital account is negative or positive. Official reserves are foreign currencies that every central bank must keep. These reserves can be increased or reduced as may be appropriate.
- c) (i) A balance of payment deficit can be financed by:
- Borrowing from official sources such International Monetary Fund
 - Using the country's reserves
 - Sale of overseas investments
 - Buying on credit
 - Accepting gifts
- (ii) A balance of payment deficit can be corrected by:
- Allowing domestic currency to depreciate which encourages exports and discourages imports.
 - Restricting imports using barriers to trade
 - Using deflationary measures aimed at reducing aggregate demand
 - Raising interest rates to attract foreign exchange
- d) Balance of trade is the value of a country's goods imports subtracted from a country's goods exports.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 16 DECEMBER 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: 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.
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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 Spreadsheets applications are commonly used on
- A. Super-Computers
 - B. Micro-Computers
 - C. Mini-Computers
 - D. Main-frame Computers

(2 marks)

Study the table below from excel and answer the questions that follow:

	A	B	C	D	E
1	13	34	56	1	=COUNT(A1:D1)
2					=SUM(A1:D1)

Table 1

- 1.2 What is the answer in cell E1 of Table 1?
- A. Four
 - B. 104
 - C. 4
 - D. 0

(2 marks)

- 1.3 Data that is held on alternative storage medium for use in case of data loss is called.....
- A. Saved data
 - B. Archived data
 - C. Backed up data
 - D. Stored data

(2 marks)

- 1.3 Which one of the following is NOT a type of Information System?

- A. Transaction Processing System
- B. Data management system
- C. Decision Support System
- D. Expert System

(2 marks)

1.4 The capability of a computer can be identified by speed and memory size. What best describes the unit of measure for speed and memory size.

- A. Herz and Bytes
- B. RAM and ROM
- C. DPI and PPM
- D. OMR and OCR

(2 marks)

1.5 State one disadvantage of non-verbal communication.

- A. It reinforces oral and written communication
- B. It forms a basis for contract agreement
- C. It is difficult to interpret messages
- D. It provides a record for future reference

(2 marks)

1.6 State two (2) factors that must be considered by a supervisor when refusing to grant permission to a junior staff in an organisation

- A. Being firm and polite
- B. Being courteous and considerate
- C. Being polite and considerate
- D. Being courteous and considerate

(2 marks)

1.8 Which one of the following is not recommended when taking notes?

- A. Using Instant Messaging (IM) language
- B. Writing main points only
- C. Spending more time on writing
- D. Include pictures, diagrams and visuals

(2 marks)

1.9 What is a letter of acknowledgement.

- A. A letter that expresses a complaint to the recipient

- B. A letter in response to correspondence or enquires received
- C. A letter that accompany an item sent
- D. A reply to a letter of complaint

(2 marks)

- 1.10 What would you consider in order to improve your listening skills?
- A. Be patient with the speaker during moments of silence
 - B. Control your conversation with the speaker
 - C. Control and direct your conversation with the speaker
 - D. Direct your conversation to the speaker

(2 marks)

[Total: 20 Marks]

SECTION B

This Section has two (2) parts: 1. INFORMATION TECHNOLOGY

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

Computers can be networked in different ways, but protection against external computer users is of great importance in these computer network based systems.

Required:

- (a) State and briefly explain any four (4) methods used to protect or minimize risks of information loss or damage against external users on accounting systems installed on networks. (8 marks)
- (b) Describe the bus network topology stating any two (2) of its advantages and disadvantages. (6 marks)
- (c) Explain any three (3) from the following threats to information systems.
 - (i) Eavesdropping
 - (ii) Denial of Service attack

- (iii) Cracking
- (iv) Malware

(6 marks)

[Total: 20 Marks]

QUESTION THREE

Spread sheets are invaluable general applications software mostly used by accountants in their day to day work during calculations of financial data.

Required:

- (a) List any three (3) common application of spread sheets. (3 marks)
- (b) Explain the differences between absolute and relative referencing. (2 marks)
- (c) Describe in detail the *Big Data* concept. (10 marks)
- (d) Mention any five (5) application software and state at least one (1) use of each package. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

When purchasing software for any use; apart from considering the usage, it is also important to engage with the would-be users for several reasons.

Required:

- (a) State the importance of an ethical code of conduct for ICT or accountancy professionals. (2 marks)
- (b) Define utility software and provide four (4) examples (5 marks)
- (c) Explain briefly the following data qualities of information
 - (i) Relevance (2 marks)
 - (ii) Accuracy (2 marks)
 - (iii) Timely (2 marks)
 - (iv) Cost effective (2 marks)
- (d) Define an Information System (2 marks)
- (e) List any three (3) web browsers. (3 marks)

[Total: 20 Marks]

COMMUNICATION

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

QUESTION FIVE

In many business organizations, emphasis is put on clear, effective and appropriate communication. This is done in order to develop good and effective public relations. Clients, customers and society at large, appreciate what an organization does in promoting good business and social responsibility.

Required:

- (a) State three (3) attributes of clear and effective communication? (6 marks)
- (b) Briefly explain two (2) reasons business organizations emphasize on clear and effective communication? (4 marks)
- (c) State three (3) challenges that are experienced in achieving effective communication? (6 marks)
- (d) State any two (2) examples of effective methods of communication commonly used in organisations. (4 marks)

[Total 20 Marks]

QUESTION SIX

- (a) Briefly explain any three (3) roles of each of the following parts in the production of a research report.
 - (i) Report title
 - (ii) Executive summary
 - (iii) Appendices
 - (iv) Reference list
 - (v) Table of contents (15 marks)
- (b) State the types of reports in the following examples:
 - (i) A report used for less complex reporting tasks
 - (ii) A report on selecting a new accounting system
 - (iii) A report with a massive, complex and highly structured content often endings with solutions to a problem.
 - (iv) A report explaining monthly sales

- (v) A report on how a fraud occurred in a business.

(5 marks)

[Total 20 Marks]

QUESTION SEVEN

Types of medium of communication provide means of daily transactions in business organisations.

- (a) State the three (3) medium of communication that business organisations use in the transactions. (3 marks)
- (b) Outline three (3) features of each of the medium of communication. (9 marks)
- (c) State four (4) roles of feedback in the in the communication process. (4 mark)
- (d) State the differences between the following:
- (i) Encoding and decoding (2 marks)
- (ii) Medium of communication and channel of communication (2 marks)

[Total: 20 Marks]

SUGGESTED SOLUTIONS

SOLUTION ONE

1.7 B

1.8 C

1.9 C

1.10 B

1.11 A

1.12 C

1.13 A

1.14 C

1.15 B

1.16 B

SECTION B

SOLUTION TWO

- a) State and briefly discuss any four (4) methods used to protect or minimize risks of information loss or damage against external users on accounting systems installed on networks.

These methods could include:

- a. the use of up-to-date **anti-virus** software on all devices joining the **network**,
 - b. **checking** that all operating system and application software has the latest security patches
 - c. To Secure WiFi **network from hackers** and data stealers you should encrypt it by using the wireless security settings in your router setting page. The encryption method available for wireless settings include WEP, WPA, WPA2 (WiFi **protected access** version 2) .
 - d. A personal VPN is one of the biggest roadblocks you can throw at a **hacker**. A personal VPN has the capability to anonymize your true location with a proxied IP address and can also put up a wall of strong encryption to **protect** your **network** traffic.
 - e. Speaking of **passwords: password protect** all of your devices, including your desktop, laptop, phone, smartwatch, tablet, camera
 - f. Firewall of Your Router. Well, if you have it, then Use it. It is the router's inbuilt protection system. In computing, a firewall is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules. A firewall typically establishes a barrier between a trusted internal network and untrusted external network, such as the Internet.
 - g. **Encryption** is the last line of defense against harmful attackers that are interested in your confidential information. Data on your server remain protected under **encryption** to keep hackers who are keen on listening to your **network** to spy or steal crucial information.
- b) Describe the bus network topology stating any two of its advantages and disadvantages
Bus topology is a type of computer network connected to a central cable and data is transmitted via the same cable.
- It is cheap to install
 - Easy to manage
 - Prone to collisions.
 - Failure of central cable will affect the whole network
- c) Explain any three (3) from the following threats to information systems
- i) Eavesdropping is when an attacker secretly listens to the data that is being transmitted over the computer network

- ii) Denial of Service attack is when the computer systems are made unavailable to the legitimate users by an attacker
- iii) Cracking is when an attacker hacks into a computer system for malicious activities
- iv) Malware are the different malicious software which attack computer systems

SOLUTION THREE

Spreadsheets are invaluable general application software mostly used by accountants in their day to day work during calculations of financial data.

a) List any five(3) common application of spreadsheets

- Management accounts
- Cash flow analysis
- Reconciliation
- Revenue analysis
- Cost analysis
- Budget and forecasts

b) Explain the differences between absolute and relative referencing

- Absolute cell referencing fixes the reference so that when the formula is copied, the reference never changes
- Whilst the relative referencing does not fix the reference and when the formula is copied it changes the reference relative to the new position

c) Describe in detail Big Data concept

According to Laney (2001) big data is "extremely large data set that may be analysed computationally to reveal pattern, trends, and associations, especially relating to human behaviour and interaction". These data sets are sometimes structures and non-structured stored in large volumes and can be accessed at high speed and in different varieties.

Such example of big data is that created by social media users which come in an unstructured manner without making sense. It is this type of data which could be analysed, compared and contrasted to create a pattern for the data to make sense.

In this era of Internet of Things (IOT), the things have capabilities of capturing data in large quantities as they interact with other things using internet technologies and their embedded sensors hence creating a big data scenario which could be analysed and patterns to be inferred to arrive at the decision.

d) Mention any five (5) application packages and state at least one (1) use of the package

- Word processing (MS Word) – this will be used for writing letters, notices, contracts, etc
- Spreadsheet (MS Excel) – this will be used for calculations of financial data and others.
- Database (MS Access) – this will be used to store data, queries and reports.
- Presentation (MS PowerPoint) – for presentations and charts, graphs, etc.
- Publisher (MS Publisher) – for cards, posters, other advertising cards.
- Paint – for graphics painting
- Outlook – for internal e-mail communication

SOLUTION FOUR

- a) As an accountant, you are required to adhere to an ethical code of conduct.
State the importance of an ethical code of conduct for ICT or accountancy professionals.

Ethics are moral principles of what is right or wrong in one's conduct at work. Morals, which constitute internal beliefs are of great concern in the profession

- b) Define utility software and provide four (4) examples
Utility software provides the user with tools for routine and repetitive operations.

For example, loading programmes, transferring files from one storage medium, backing up and copying, format a disk to accept data or programme, sending information to I/O devices like printer or a modem, displaying the directory of contents of a disk.

- c) Explain briefly the following data qualities of information

(v) **Relevance**

A piece of information must be relevant to the decision which is about to be made or the action which is about to be taken, so that it helps the manager in his decision making. Any irrelevant information will only waste the manager's time and possibly confuse the issue. It should be understood that, an item of information may be highly irrelevant to one manager and of absolutely vital importance to the other.

(vi) **Accuracy**

Information must be as accurate as is necessary for the purpose to which it is to be used. If a manager bases decision on an inaccurate decision report, then the actions that follow may well lead to sub-optimal performance and the non-attainment of goals

(vii) **Timely**

Information may be provided in time for a decision to be influenced by its content. It must be 'news' not history, its little use telling a manager that an urgently item fell below its re-order level a month ago, at the same time, we should note that the production of timely information does not necessarily imply 'instant' information.

(viii) **Cost effective**

Cost resources have to be employed so that information can be produced.

Therefore, it is vital that the use to which a piece of information is put justifies its cost of production. Bearing in mind normal investment criteria, a report should either increase revenue, or reduce other costs, by more than its cost.

Cost justification must be attempted, even though qualification in practiced is often extremely difficult.

- d) Define an Information System?

Information system, is an integrated set of components for collecting, storing, and processing data and for providing information, knowledge, and digital products.

e) List any three (3) web browsers you know.

Webrowsers

- Mozilla firefox
- Google chrome
- Opera mini
- Internet explorer

SOLUTION FIVE

(a) Attributes of clear and effective communication

- (i) Using simple language
- (ii) Using suitable medium of communication
- (iii) Providing enough information for the recipient to understand
- (iv) Avoiding noisy areas when communicating
- (v) Applying the three mnemonics when communicating i.e KISS, PASS and 7Cs to effective communication

(b) – Business organizations should emphasize on the use of clear, effective and appropriate communication because of the following.

- To promote their business
- To eliminate barriers
- To send correct messages
- To elicit desired results
- To project a positive corporate image
- To create good rapport to clients
- To market their products
- To attract customers

(c) Challenges to the principles and process of effective communication are:

- Use of a different language
- Having different perceptions
- Information overload and underload
- Emotions
- Status
- Using wrong medium of communication
- Generalizing information
- Noise environment

(d) Effective, clear and appropriate methods of communication are:

- Face to face communication
- Use of a cell phone or telephone
- Use of electronic mail
- Written communication
- Use of a radio

SOLUTION SIX(a)

- (i) Report title
 - Helps to transmit information with a clear purpose
 - Gives an idea of what the report is all about
 - Provides an idea of a specific type of the target audience who were participants in the research projects
- (ii) Executive summary
 - It summaries the purpose of the study
 - It helps to communicate key findings and the proposed course of action in a summarized way
 - It provides key information to readers without time to read the whole report
- (iii) Appendices
 - Provides extra information for the reader to gain the insight of a report
 - To avoid the interruption of the flow of information in the main body of a report
 - Complex data is summarized into graphs, charts and pictures which are usually appealing to the reader.
- (iv) Reference list
 - It provides evidence of research
 - To acknowledge the sources of information
 - Helps readers to access materials for further reading
- (v) Table of content
 - To easily access the contents of a report
 - To show a structural relationship between a section and a subsection
 - To easily identify items through numbers provided on it.

SOLUTION SIX (b)

- (i) Informal report
- (ii) One off report
- (iii) A formal report
- (iv) A routine report
- (v) Ad hoc (Special report)

QUESTION SEVEN (a)

- Oral
- Written
- Visual

QUESTION SEVEN (b)

Features of written communication

- A formal record of the communication is created.
- Recipient gets exactly the same information
- Can be used as reference material. Example, if the communication topic is complex and information needs to be referred to again
- No instant exchange of information
- Requires preparation time
- It provides a basis for contract agreement
- It confirms oral communication
- It can be used by illiterate people

Feature of oral communication

- It has an aspect of being Informal
- If communication is serial (one person to another) different recipients can receive different messages as the supplier of the information is likely to use slightly different language as time progresses.
- There is immediate clarification of ideas. Example, if the information is not understood, questions can be asked immediately.
- May not be suitable for large amounts of technical information
- Requires little preparation time so can be instant. it is very fast.
- Communication can be done in a hurry with little time of thought about something
- It cannot be used by people with hearing and speech impairment

Features of graphical communication

Graphical information includes charts, diagrams, photographs and videos

- Can have high impact on the audience
- Can be more memorable. The shape of a graph or the heights of bars on bar charts can be easier to remember than a series of figures.
- Can draw attention to changes and trends. Example, it is easy to see from a graph that profit growth might be falling off.

- Often simply more successful at demonstrating how to do something. One can easily illustrate a technique or procedure. A picture is often worth a thousand words
- In some cases it can reinforces oral and written communication

QUESTION SEVEN (c)

The roles of feedback in the communication process are:

- To confirm whether the message has been received
- To get immediate clarification on an issue
- To confirm whether the matter has been understood or not
- To know the next course of action
- To complete the communication process.

QUESTION SEVEN d (i) Encoding has to do with careful selection of words, symbols and pictures that are simple for the recipient of the message to easily understand it while decoding has to do with understanding and interpreting the message

QUESTION SEVEN d (ii) A medium of communication is a form in which messages are transmitted such as oral, written and visual communication while a channel of communication is a path through which information is transmitted.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA: 5 COST ACCOUNTING

TUESDAY 15 DECEMBER 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.**

Each of the following questions has only **ONE(1)** correct answer. Write the **LETTER** of the correct answer you have chosen in your answer booklet. Marks allocated are indicated against each question.

QUESTION ONE

1.1 A semi- variable cost is a cost that:

- A. Increases in direct proportion to output.
- B. Increases throughout the year.
- C. Contains an element of both fixed and variable cost.
- D. Remains constant irrespective of the level of output.

(2 marks)

1.2 BM Limited, a contract cleaner, has recorded the following data relating to its activities:

Square metres cleaned	12,750	15,100
Overheads incurred	K73,950	K83,585

The overhead cost to clean 16,500 square metres would be:

- A. K67,650
- B. K86,750
- C. K90,750
- D. K89,325

(2 marks)

1.3 A direct cost is best described as:

- A. A cost which needs to be apportioned to a cost centre.
- B. The highest proportion of the total cost of a product.
- C. Expenditure that may be identified with a specific cost unit.
- D. A cost which cannot be influenced by its budget holder.

(2 marks)

- 1.4 Green Agri Engineers are preparing a quote for job 699. Costs and other related information are shown below:

Raw materials	K8,500
Direct labour (@K9 per hour)	K14,400
Production overhead	K5.5 per direct labour hour
Administration overhead	10% of production cost
Profit margin	20% on selling price

Based on the information above, the sales price for job 699 would be:

- A. K43,587.50
- B. K31,487.50
- C. K39,625.00
- D. K46,493.33

(2 marks)

- 1.5 When using the last in first out (LIFO) method to value inventory which of the following statement is TRUE?

- A. When prices are increased, cost of issues to production calculated using LIFO is lower than FIFO or Average cost methods.
- B. LIFO makes the same assumptions as the physical flow of materials through an organization.
- C. LIFO is accepted by accounting standards as suitable for valuing inventory.
- D. When prices are increasing, closing inventory calculated using LIFO is valued at the lowest prices.

(2 marks)

- 1.6 In process costing, which of the following statement is FALSE:

- A. Normal losses are also called controllable losses.
- B. An abnormal gain occurs when the actual loss in a process is less than expected.
- C. Abnormal losses are also called controllable losses.
- D. Normal losses are an inherent part of the production process.

(2 marks)

- 1.7 Zwelitani uses process costing to value its production and all materials are input at the start of the process. The following information relates to the process for one month:

Input	3,000 units
Opening work in progress inventory	400 units
Normal loss expected	10% of input
Closing work in progress inventory	200 units

The total actual losses in the month were 400 units. The number of completed units transferred from the process was:

- A. 2,800 units
 - B. 2,900 units
 - C. 3,000 units
 - D. 3,200 units
- (2 marks)

- 1.8 KUKE Ltd has the following budgeted and actual data for 2020.

Budgeted fixed overhead costs	K50,000
Budgeted production units	10,000
Actual fixed overhead cost	K55,000
Actual production units	9,750

Calculate the fixed overhead volume variance for KUKE Ltd.

- A. K250 (F)
 - B. K1,250 (A)
 - C. K5,000 (F)
 - D. K1,410 (A)
- (2 marks)

- 1.9 A construction company has the following data concerning one of its contracts:

Cost of work certified	K200,000
Cost incurred to date	K210,000
Cash received	K240,000
Value of work certified	K260,000
Contract price	K400,000

How much profit should be attributed to the contract?

- A. K50,000
- B. K40,000
- C. K60,000
- D. K190,000

(2 marks)

1.10 Red Limited operates a bonus scheme to increase production. Details are available for one employee:

Employee wages rate	K9 per hour
Time allowed for job	40 minutes
Time taken for job	25 minutes

The company calculates the bonus payable to the employee as 45% of the time saved on the job.

The bonus for the employee is calculated as (to nearest two decimal places) :

- A. K2.25
- B. K1.01
- C. K3.75
- D. K1.69

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) Zekman Limited is a company that manufactures cleaning materials. It has three production departments and a service department and produced the following budgeted cost of production for the year ended 31 December 2019.

		K	K
Production cost:-	Direct materials	240,000	
	Carriage inwards	10,000	
	Direct wages	200,000	
			450,000
Indirect wages:-	Dept X	8,000	
	Dept Y	12,000	
	Dept Z	18,300	
	General Service Dept	6,700	
			45,000
Other costs:-	Consumable stores	32,000	
	Rent	21,000	
	Light and heat	14,000	
	Power	36,000	
	Depreciation	80,000	
	Insurance Machinery	2,000	
			185,000

The following is a set of data relating to the physical and performance aspects of the company:

Department	X	Y	Z	Service
Area m ²	15,000	22,500	20,000	12,500
Book Value of plant	140,000	180,000	10,000	70,000
Stores requisitions	180	120	100	-
Effective horse power	80	100	5	15
Direct labour hours	100,000	80,000	220,000	-
Direct labour cost	50,000	60,000	90,000	-
Machine hours	70,000	90,000	10,000	-

Materials	4 kg	20.00
Direct Labour	2 hours	18.00
Variable Overhead	2 hours	22.00
Fixed Overhead	2 hours	10.00
Total costs		70.00

Budgeted production 8,000 units

Actual results for the first quarter

Production	7,500 units
	K
Materials (36,000kg)	208,800
Direct Labour (18,000 hours)	158,600
Variable Overheads	172,000
Fixed Overheads	95,000

Required:

- (a) Calculate the following variances:
- (i) Material price and usage variances
 - (ii) Labour rate and efficiency variances
 - (iii) Variable overhead expenditure and efficiency variances
 - (iv) Fixed overhead expenditure ,capacity and efficiency variances
- (16 marks)
- (b) Outline two benefits and two limitations of a standard costing system. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Chimanga Limited is contemplating putting a bid for a job coded 'Katete' that would have the following costs:

Materials

11,000 Kilos of *milisi* at K4.0 per kilo
8,000 kilos of *mbuto* at K2.50 per kilo

Labour

Dept A – 2,500 hours at K4 per hour
Dept B – 1,600 hours at K5 per hour

Production Overheads

The policy is to utilize predetermined overhead absorption rates for each department based upon:

Dept A – Per labour hour
Dept B – Per % of labour cost

Budgeted Information

Direct material - K763,000
Labour Dept A – 38,000 hours K4 per hour
Labour Dept B – 25,000 hours at K5 per hour
Production Overhead Dept A - K760,000
Production Overhead Dept B – K750,000
Administrative Overheads of K510,000 are to be recovered on the basis of production cost

Company policy is to take a profit of 40% of price.

Required

- (i) Calculate the bid price that they should tender for job 'Katete' (8 marks)
- (ii) State four (4) features of job costing. (4 marks)

- (b) Mwanza Ltd is reviewing the inventory control policy of material Z. The cost of making one order is K100, the cost of holding one kilogram for one year is K0.25 and the annual demand for material Z is 80,000 kilograms. The estimated maximum usage is 1,350 kilos per day whilst the maximum lead time is 4 days.

Required

Calculate the following

- (i) Economic order quantity (4 marks)
- (ii) Number of orders to be made per annum (2 marks)
- (iii) Reorder level (2 marks)

[TOTAL: 20 Marks]

QUESTION FIVE

The following information relates to MukukaPlc, a manufacturing business that is considering the introduction of a piece – work incentive scheme in one of its departments, which has 4 employees.

	<u>Current payroll</u>			
Normal grade A pay rate is	K30 per hour			
Normal grade B pay rate is	K26 per hour			
Basic working week	38 hours			
Over- time premium: Grade A	25% of normal pay			
	Grade B	20% of normal pay		
	Employee 1	Employee 2	Employee 3	Employee 4
Normal hours worked	49	46	50	38
Normal pay grade	A	B	A	B
Normal units produced	200	220	180	230

Piecework incentive scheme proposal

Under the proposed incentive scheme, the standard time allowed would be 30 minutes per unit. The piece work rate would be based on grade A labour rates, with a standard piece work enhancement of 8%. All employees would receive the same piece work rate.

Required:

- (a) Calculate the normal pay due to each employee based on the current payroll terms. (4 marks)

(b) Calculate the standard piece work rate on the basis of the proposed incentive scheme.
(4 marks)

(c) Calculate the normal pay due to each employee under the proposed incentive scheme.
(4 marks)

(d) List six benefits of an employee incentive scheme. (6 marks)

(e) Define labour turnover. (2 marks)

[Total: 20 Marks]

QUESTION SIX

LuapulaLtd is based in Zambia and manufactures one product, a storage unit, made from recycled plastic which sells for K58 per unit. Production and sales data for each of the first three months of 2019 are as follows:

	January	February	March
Sales in units (Actual)	4,800	5,000	7,600
Production in units (Actual)	5,400	4,800	8,000

Budgeted cost information for each month

Product cost:

Direct materials: 2 square metres @ K4.20 per square metre.

Direct labour : 2 hours @ K10.25 per hour.

Variable production overheads: 50% of direct labour.

Actual cost information for each month

Fixed production overheads: K12,000.

Fixed selling overheads: K22,500.

Sales commission: 10% of sales value.

There was no opening inventory at 1 January 2019. Fixed production overheads are budgeted at K120,000 per annum and are absorbed into products based on budgeted normal output of 60,000 units per annum.

Required:

- (a) Prepare a profit statement for each of the three (3) months using absorption costing principles. (8 marks)
- (b) Prepare a profit statement for each of the three (3) months using marginal costing principles. (8 marks)
- (c) Present a reconciliation of the profit or loss figure given in your answer to (a) and (b). (4 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

i) Three (3) uses absorption costing

- Setting prices
- Determining profitability
- Inventory valuation

(a) (ii) Overhead analysis sheet

	Dept X	Dept Y	Dept Z	General Service	Total	Basis of apportionment
	K	K	K	K	K	
Indirect Wages	8,000	12,000	18,300	6,700	45,000	Allocation
Consumable stores	14,400	9,600	8,000	0	32,000	Stores requisitions
Rent	4,500	6,750	6,000	3,750	21,000	Area m ²
Light and Heat	3,000	4,500	4,000	2,500	14,000	Area m ²
Power	14,400	18,000	900	2,700	36,000	Effective Horse Power
Depreciation	28,000	36,000	2,000	14,000	80,000	Book Value of Plant
Insurance Machinery	- 700	900	50	350	2,000	Book Value of Plant
	73,000	87,750	39,250	30,000	230,000	
Apportionment of service dept	7,500	9,000	13,500	(30,000)	0	
Apportioned Overheads	80,500	96,750	52,750	0	230,000	

(iii) Overhead Absorption Rate for each production department

Dept X = K80,500/100,000 Labour hours
= K0.805 per labour hour

Dept Y = K96,750/90,000 Machine hours
=K1.075 per machine hour

Dept Z =K52,750/220,000 Labour hours
=K0.240 per labour hour

(b) Statement showing the under/over absorption per cost centre

	Machining	Assembly	Paint Shop
	K	K	K
Absorbed Overheads (W)	300,000	156,000	140,000
Actual Overheads	290,000	167,000	155,000
Over/(under) absorbed overheads	<u>10,000</u>	<u>(11,000)</u>	<u>(15,000)</u>

Workings

Machining = 10,000 machine hours x K30 per machine hour
= K300,000

Assembly = 7,800 labour hours x K20 per hour
= K156,000

Paint Shop = K35,000 X K4 per K of labour cost
= K140,000

SOLUTION THREE

a)

i) Material price and material usage variances

Material price variance

	K
36,000 kg should have cost @ K5	180,000
But did cost	208,800
Variance	<u>28,800 (A)</u>

Material usage variance

7,500 units should have used @ 4kgs	30,000 kgs
But did use	36,000 kgs
Variance	<u>6,000 kgs(A)</u>
Standard cost per kg	X K5
Variance	<u>K30,000 (A)</u>

ii) Labour rate and labour Efficiency variances

Labour rate variance

18,000 hours should have cost @K9	162,000
But did cost	158,600
Variance	<u>3,400 (F)</u>

Labour Efficiency variance

7,500 units should have taken @ 2 hours	15,000 hours
But did take	<u>18,000 hours</u>
Variance	<u>3,000 hours (A)</u>

Standard cost per hour	X K9
Variance	<u>K27,000 (A)</u>

iii) **Variable overhead Expenditure and Efficiency variances**

<u>Variable overhead Expenditure variance</u>	K
18,000 hours should have cost @K11	198,000
But did cost	172,000
Variance	<u>26,000 (F)</u>

Variable overhead Efficiency variance

3,000 hours A @ K11 per hour **K33,000 A**

iv) **Fixed overhead Expenditure, capacity and Efficiency variances**

<u>Fixed overhead Expenditure variance</u>	K
Budgeted fixed overhead	80,000
Actual fixed overhead	95,000
Variance	<u>15,000 (A)</u>

Fixed capacity variance

Budgeted hour 8,000 units x 2 hours	16,000 hours
But did take	18,000 hours
Difference	<u>2,000 hours (A)</u>
Standard cost per hour	X K5
Variance	<u>K10,000 (F)</u>

Fixed overhead Efficiency variance

3,000 hours @ K5 per hour **K 15,000 A**

b) The benefits and limitations of a standard costing system

Benefits

- i. The use of standards costs is fundamental to the management by objectives approach. When costs are out of control then managers can divert their attention to them.
- ii. They provide benchmarks for employees against which they can monitor their performance.
- iii. They can simplify book-keeping. Instead of recording actual costs the company book – keeper can record standard costs.
- iv. Standard costs fit naturally in an integrated system of responsibility accounting.

Limitations

- i. Variances can only be calculated after they have occurred.
- ii. Sometimes standards can be unattainable which causes negative morale amongst employees.
- iii. Labour rate and efficiency variance assumes that labour cost is variable whereas it can be fixed.
- iv. Sometimes expensive to set up and manage.

SOLUTION FOUR

(a) (i) Bid price for product 'Katete'

		K
<i>Materials</i>	Milisi	44,000
	Mbuto	20,000
<i>Labour</i>	Dept A	10,000
	Dept B	8,000
<i>Production Overheads</i>	Dept A	50,000
	Dept B	<u>48,000</u>
Production Costs		180,000
Administration Cost		<u>36,000</u>
Total cost		216,000
Profit		<u>144,000</u>
Bid price		<u><u>360,000</u></u>

Workings

Budget

		K	
Materials		763,000	
Labour Dept A		152,000	
	Dept B	125,000	
Overhead	Dept A	760,000	K20 per labour hour
	Dept B	<u>750,000</u>	600% of labour cost
Production cost		<u>2,550,000</u>	
Administration overhead		<u>510,000</u>	

Administration as percentage of production cost =20%

$(\frac{510,000}{2,550,000} \times 100\%)$

2,550,000

(ii) Four (4) features of job costing include:-

- Work is undertaken to customers' special requirements.
- Each order is of comparatively short duration.
- It is usual for each job to differ in one or more respects from another job.
- The main aim of job costing is to identify the costs associated with completing the order.
- Individual jobs are given a unique job number and the selling prices of jobs are calculated by adding a certain amount of profit to the cost of the job.

b. (i) Economic Order Quantity

$$\begin{aligned}
&= \sqrt{\frac{2CD}{H}} \\
&= \sqrt{\frac{2 \times \text{K}100 \times 80,000}{\text{K}0.25}} \\
&= \mathbf{8,000 \text{ Kilos}}
\end{aligned}$$

(ii) Number of orders pa

$$\begin{aligned}
&= \text{Annual Demand} / \text{Economic Order Quantity} \\
&= 80,000 / 8,000 = \mathbf{10}
\end{aligned}$$

(iii) Reorder level = maximum usage x maximum lead time
 $= 1,350 \times 4 = \mathbf{5,400 \text{ Kilos}}$

SOLUTION FIVE

a) Normal pay on current payroll terms

Employee	Calculation	K
Employee 1	38 hrs X K30	1,140.00
	11 hrs X K37.5	<u>412.50</u>
		<u>1,552.50</u>
Employee 2	38 hrs X K26	988.00
	8 hrs X K31.20	<u>249.60</u>
		<u>1,237.60</u>
Employee 3	38 hrs X K30	1,140.00
	12 hrs X K37.50	<u>450.00</u>
		<u>1,590.00</u>
Employee 4	38 hrs X K26	<u>988.00</u>

b) Standard piece work rate

Standard weekly pay (Grade A)	K 1,140
Standard weekly production 38 hrs = 2,280 minutes/30	÷ 76 units
Basic piece work rate	K15/ unit
Incentive element 8% of K15	K1.2
Standard incentive piece work	<hr/> <u>K16.20</u> <hr/>

c) Normal pay under proposed incentive scheme

Employee	Calculation	K
Employee 1	200 units X K16.20	3,240
Employee 2	220 units X K16.20	3,564
Employee 3	180 units X K16.20	2,916
Employee 4	230 units X K16.20	3,726

d) Benefits of having an employee evaluation in place

- i) Reduce friction and frustration
- ii) Increases productivity
- iii) Reduce labour turnover
- iv) Improve morale
- v) Install a higher level of accountability for performance
- vi) Enhance communication between managers and employees

- e) Labour turnover is the rate at which employees leave the employment and need to be replaced.

SOLUTION SIX

a) Profit statement for Luapula Ltd using absorption costing

Jan Feb March

	K	KKKKK		
Sales	278,400	290,000	440,800	
Opening inventory	0	24,690	16,460	
Production	222,210	197,520	329,200	
Closing inventory	<u>(24,690)</u>	<u>(16,460)</u>	<u>(32,920)</u>	
Cost of sales	<u>(197,520)</u>	<u>(205,750)</u>	<u>(312,740)</u>	
80,880	84,250	128,060		
Under/(over) absorbed		<u>(1,200)</u>	<u>(2,400)</u>	<u>4,000</u>
Gross profit	79,680	81,850	132,060	
Variable sales commission				
10% of sales volume		(27,840)	(29,000)	(44,080)
Fixed selling overheads	<u>(22,500)</u>	<u>(22,500)</u>	<u>(22,500)</u>	
29,340	30,350	65,480		

b) Profit statement for Luapula Ltd using Marginal costing

Jan Feb March

K KKKKK

Sales		278,400		290,000		440,800
Opening inventory	0	23,490		15,660		
Production	211,410		187,920		313,200	
Closing inventory	<u>(23,490)</u>	<u>(15,660)</u>	<u>(31,320)</u>			
Variable cost			<u>(187,920)</u>		<u>(195,750)</u>	<u>(297,540)</u>
90,480	94,250		143,260			
Sales commission						
10% of sales volume			<u>(27,840)</u>		<u>(29,000)</u>	<u>(44,080)</u>
Contribution		62,640		65,250		99,180
Less: Expenses						
Fixed prod overheads			<u>(12,000)</u>		<u>(12,000)</u>	<u>(12,000)</u>
Fixed selling overheads	<u>(22,500)</u>		<u>(22,500)</u>		<u>(22,500)</u>	
Net profit	<u>28,140</u>		<u>30,750</u>		<u>64,680</u>	

c) Reconciliation statement

JanFebMarch

		K		KK	
Profit as per absorption costing	29,340		30,350		65,480
Fixed production overhead in inventory					
(600 X K2) (200 X K2) (400 X K2)	<u>(1,200)</u>	400	<u>(800)</u>		
Profit as per marginal		<u>28,140</u>	<u>30,750</u>		<u>64,680</u>

Workings

W1: calculation of product cost

Under absorption costing

Direct material 2 square meters X K4.20 per square meter	8.40	K
Direct labour 2 hours X k10.25 per hour	20.50	
Variable production overheads 50% of direct labour 10.25		
Fixed production overheads (K120,000/60,000 units)	<u>2.00</u>	
Total production cost per unit	<u>41.15</u>	

Under variable costing

Direct material	8.40	K
Direct labour	20.50	

Variable production overheads
Total production cost per unit

10.25
39.15

W2: Calculation of under/over absorbed overhead

Jan Feb March

Actual fixed production overhead	12,000	12,000	12,000
12,000			
Absorbed fixed production overhead	10,800	9,600	16,000
Under/(over) absorbed	<u>1,200</u>	<u>2,400</u>	<u>(4,000)</u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 18 DECEMBER 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 only has 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 principle by which judges are guided by decisions of other judges in similar previous cases is known as:

- A. A precedent
- B. Obiter dicta
- C. Stare decisis
- D. The mischief rule

(2 marks)

1.2. Which of the following contracts is void because it is contrary to public policy?

- A. Bwalya conspiring with Daka to start a riot after their team has lost a football game.
- B. Mary agreeing with her employer to defraud the state of revenue by false Declaration on the payment slip.
- C. Jane and Joy, both students of Nyayo Nursing School, renting a room from the hostel management for the purpose of prostitution.
- D. Agreement by a prison warder to let the prisoner escape from his lawful custody upon being given a tip by the prisoner.

(2 marks)

1.3. is not an example of a tort?

- A. Trespass to land and negligence
- B. Civil defamation
- C. Trespass to a person
- D. Criminal defamation

(2 marks)

1.4. Bad Boy drove his uncle's car to Gerald and gave Gerald the impression that he had the authority to sell his uncle's car. This type of agency may be describe as

- A. Agency of necessity
- B. Agency by ratification
- C. Agency by estoppel
- D. Express agency

(2 marks)

1.5. Which one of the following is a feature of the Partnership Agreement?

- A. Estoppel
- B. Common law
- C. Retirement from the firm
- D. Just and Equitable

(2 marks)

1.6. In a partnership business, a dormant partner.....

- A. Does not take part in a profit sharing of the business.
- B. Does not take part in the management of the business.
- C. Does not contribute any capital into the business.
- D. Is also known as a nominal partner.

(2 marks)

1.7. Vitiating factors have been known to be factors that vitiate the validity of a contract.

Which one of the following is not a vitiating factor?

- A. Undue Influence

B. Res Ipsa Loquitur

C. Duress

D. Mistake

(2 marks)

1.8. Which statement denotes the mischief rule?

A. To suppress the mischief and advance the remedy

B. To read in words and avoid the absurdity

C. To apply the meaning of accompanying words

D. To avoid the grammatical sense of words.

(2 marks)

1.9. What amounts to redundancy?

A. Wrongful dismissal

B. unfair dismissal

C. Summary dismissal

D. Termination of an employee's contract based on lack of financial capacity to pay.

(2 marks)

1.10 Misconduct which warrants summary dismissal may involve the following except

A. Theft at work.

B. Assault at work.

C. Insolence or impolite at work.

D. Negligence at work

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Choma Town Council advertised in the Daily Choma Newspaper for deepening of the drainage system in the town. The terms of the contract were that the lowest bidder would win the contract. Three contractors were picked for the job: Majambere Contractors Ltd, comprising retired employees from within Choma, which needed constant supervision by the Council, Kombwiko Co Ltd, comprising engineers that needed no supervision and did their work independently, and Jangote Co. Ltd comprising unemployed youths from Chawama and Mutendere Compounds. The companies were awarded contracts in which they shared the works. Majambere contractors did half of the work assigned to it and withdrew its labour force, arguing that the money was too little. The company requested the Town Council to pay for the work done up to the time of the stoppage. Kombwiko finished the work quickly within the stipulated time frame, but as soon as the rain season began, the part of Choma Town that they had worked on was flooded once again. The work was so bad that residents lost their property due to the floods. Jangote were unable to complete their part because the water-table was too close to the surface, so that any deepening attempted resulted in floods despite this being the dry season.

You are a concerned resident of Choma Town and have been approached to advise.

Required:

(a) With reference to above scenario, explain the nature of the above contracts.

(10 marks)

(b) With reference to above scenario, explain the fate of the three (3) contracts.

(10 marks)

[Total: 20 Marks]

QUESTION THREE

Mr. Mwale a transporter for Mr. Mulenga, was on the 29 of October, 2019 instructed to deliver 6,500 boxes of tomatoes from Nakonde to Lusaka at a consideration of K5000. Due to heavy rains at Serenje Mr. Mwale's track broke down and as it was raining heavily he was unable to contact Mr. Mulenga to obtain further instructions in the situation he was in. The rains continued for about three days without ceasing and in fear that the tomatoes may go bad, he opted to sell to the local villagers at K90 per box which was half the original price. On arrival in Lusaka, Mr. Mulenga complained of Mr. Mwale's action and wants to sue him for breaching the agency agreement.

Required:

- (a) State the type of agency exhibited in the scenario above.(1 mark)
- (b) Explain four requirements in which this agency may arise.(8 marks)
- (c) Identify two (2) duties of an agent to the principal.(2 marks)
- (d) List three (3) rights of a partner in a partnership.(3 marks)
- (e) What is *non est factum* and under what circumstances does one successfully plead the defense of *non est factum* at law.(6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Abdi a Somali businessman of Kalingalinga sold his brick making factory to Soko of Chawama Township due to reduction in business arising from competition by other brick making companies. The employees complained that they were not adequately informed and did not want to be sold together with the business. Using your knowledge of employment law.

Required:

- (i) Explain the legal implication of what has happened? (1 mark)
 - (ii) Explain the three (3) elements that determine this kind of termination of a contract of employment. (3 marks)
 - (iii) Explain three (3) precautionary measures that the employer did not take, which he ought to have taken to protect the employees from the adverse effects of this termination. (6marks)
- (b) Chai Li is a Chinese tycoon who wants to partner with Galagata Zulu to set up a game ranch in Chisamba area of Lusaka province. He has inquired from Barclays Bank on the credit worthiness of Galagata, and has been assured that "Galagata is a respectable business", and the bank adds, "given in confidence, and without responsibility on our part". Chai Li partners with Galagata and they do business together. However, Li loses a lot of money in the initial stages, and his partner Galagata does not help out as he promised. When contacted by Li, he says that he is broke. The company that they had formed to run the ranch is liquidated. Chai Li is unhappy with Galagata and sues Barclays Bank for professional negligence.

Required:

With reference to the scenario above, explain what professional negligence is and whether Chai Li may succeed in his suit. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Explain the difference between transfer of property in goods and transfer of risk in goods. (10marks)
- (b) Discuss the difference between implied and apparent authority in agency relationship. (6 marks)
- (c) List any four (4) examples of an invitation to treat (4 marks)

[Total: 20 Marks]

QUESTION SIX

Briefly discuss the following:

- (a) Sale by description. (4 marks)

- (b) Transfer of title in goods by estoppel. (4 marks)
- (c) Statutory remedies of unpaid seller against the buyer. (4 marks)
- (d) The Zambian Constitution as the primary source of law.(4 marks)
- (e) Customary International Law. (4 marks)

[Total: 20 Marks]
END OF PAPER

SUGGESTED SOLUTIONS

SECTION A

1.1 C

1.2 C

1.3 D

1.4 C

1.5 C

1.6 B

1.7 B

1.8 A

1.9 D

1.10 D

SOLUTION TWO

(a) (i) Majambere is unable to complete the task and claims for payment for work done under the doctrine of Quantum Meruit, but the employer may counter claim by way of damages for breach of contract. The Company consists of retired employees that need constant supervision, and fall into the category of employees that attract vicarious liability with the employer –so the loss may be shared by employer-employee.

(ii)Kombwiko on the other hand is made up of persons who know what they are doing (independent contractors) and they are strictly liable when things go wrong –they perform the contract badly and fail to prevent flooding of the town.

(iii) Jangote’s contract is frustrated because out of no fault of his, the water table is close to the ground. It therefore becomes impossible to deepen the drainage and no one is to blame. Under the Law reform (Frustrated) Contracts Act chapter 73, parties may recover from each other money paid before occurrence of the frustrating event minus expenses incurred.

(b) The legal issues which arise from this contract is that an invitation to treat is extended to the contractors through a newspaper advert, and contracts made are made between the Town Council and three parties. Two contracts are tainted with breach of contract, while one is discharged by frustration. For contracts tainted by breach, the injured parties may claim damages.

SOLUTION THREE

(a) Agency of necessity

(b) This type of agency arises when the following happens

- When there is a genuine commercial emergence, meaning where one is carrying perishables and there is a risk of them damaging.
- Impossible to communicate, this entails the agent must find it difficult to get fresh instructions.
- When the agent acts in the best interest of the principal. Here there should be no selfish interest exhibited on behalf of the agent.
- When the agent acts with utmost good faith. Here the agent must not put his interest for example, sales perishable goods at a higher figure but declares less.

(c)

- Duty to render true accounts. Here an agent must not seek bribes
- Duty not to delegate. Here an agent must not allow another to do his work without the consent of the principal.

(d)

- Right to share profits equally
- Rights to participate in the management of the company.
- Right to be indemnified once he/she incurs any liability in the ordinary proper conduct of the business.

(e) This refers to not my document, in other ways it's a defense raised by a person who is denying the contents of a document signed by him due to a material difference from one intended to be signed by them.

The defense arises in the following ways: That is there must be a fundamental difference between the legal effect of the document signed and that which the person who signed thought it could be. This element must be genuine and the onus lies on the defendant to prove what he is alleging. Secondly, the defendant must have made such a mistake without being careless. The case of **CUTTIS VS CHEMICAL CLEANING CO.** it was held that since the plaintiff depended upon the information given by the company representative her

defense of non est factum stands. In short the court was saying she was not careless as she proved that she relied on the advise of the expert in the company. In summation there are basically two things to prove for the defense to suffice and that is proof that the material legal effect is different from the one signed and that the party injured was not careless in signing the document.

SOLUTION FOUR

(a) i redundancy has occurred.

ii. - It may be caused by –business of the employer ceasing.

- Business for which the employee was engaged ceasing.

- Reduction in work.

iii. Precautionary measures the employer did not take include

-failure to inform the trade union on the impending redundancies as agreed either in their collective agreement or their contract in general

-failure to inform the labor commissioner of labour as per requirement of the law which is a breach of the law as prescribed

- Failure to inform the employee lastly when the redundancy package is ready. This is a requirement so that the redundancy procedure begin.

(b) Professional negligence is issuing of misleading information by someone a client or customer has relied on for professional advice. This was firmly established in Hedley Byrne & Co. Ltd. v Heller & Partners Ltd. 1963. The duty of care between professionals and their clients is based on a special relationship, and all that a client has to prove are two things, namely that that he relied on the skill and judgment of the professional, and that the professional knew it or ought to know of this dependence and therefore ought to have been more careful before issuing the statement. Hence Chai Li would have succeeded if it was not for disclaimer.

(i) Define professional negligence

(ii) Explain to Chai Li whether or opt he will succeed in his action.

SOLUTION FIVE

(a) Transfer of property in goods and transfer of risk in goods are all implied terms in the Sales of Goods Act 1893, however, differ in several respects as follows; Transfer of property in goods entails the actual exchange of the rights and interests in the goods from one person to the other. The stage at which this may occur varies as it is subject to contractual terms between parties. At times property in goods may exchange hands immediately a sell or sale is conducted at times at a date determinable in future. On the contrary, transfer of risk in goods relates to the assigning of risk in goods from one person to the other. This may be before or after ownership has passed. Hence it is possible for risk to pass before the goods are in the hands of the owner.

(b) Agency is a relationship that exists between two legal persons, the principal and the agent, in which the function of the agent is to form a contract between the principal and a third party.

Implied authority

This arises where, although a particular action is not sanctioned by express agreement between the principal and the agent, the principal is nevertheless taken to have implicitly consented to the action or transaction in question.

Apparent authority

A person may be bound by the acts of another done on his behalf without his consent or even in breach of an express prohibition if his words or conduct create the impression that he has authorised the other person to act on his behalf. This is described at law as 'apparent agency or authority' or 'ostensible agency or authority'.

(c) Examples of invitation to treat are:

- i. Advertisements
- ii. Catalogues
- iii. Brochures
- iv. Company prospectuses
- v. Auctions

vi. Tenders

vii. Display of goods by the shelf

viii. Display of goods by the window

SOLUTION SIX

(a) Sale by description

– This happens where the buyer does not see the goods at the time of buying, but depends on what the goods have been described to be by the seller. It can also be sale by description where the buyer has seen the goods, but he makes the decision to buy the goods based on the description given by the seller, *Harlingdon and Leinster Enterprises Ltd v Christopher Hull Fine Art Ltd* (1990). The law Section 13 of the Sale of Goods Act provides that the description must correspond with the goods, if not, the buyer will be entitled to damages, *Beale v Taylor* (1967) or can repudiate the contract *Re Moore & Co and Landauer & Co* (1921).

(b) Transfer of title in goods by estoppel

– This happens where the true owner of the goods, by his conduct allows the buyer to believe that the seller has a right to sell the goods. Thus ownership of the goods will pass to the buyer as the true owner will be prevented (stopped) from denying that his conduct made it appear that the seller had a right to sell, *Eastern Distributors Ltd v Goldring* (1957). This is one of the exceptions to the *nemo dat quod non habet* rule (no one can give what he has not got).

(c) Statutory remedies of an unpaid seller against the buyer

– These are remedies provided for by the statute or an Act of Parliament. They are remedies to the unpaid seller provided by law. These include lien on the goods (right to retain them), right of stoppage in transit, a right of resale and has the right to bring an action on the buyer personally and sue for damages or bring an action for price of goods supplied. These are provided for under the Sale of Goods Act 1893.

(d) The Zambian Constitution as the primary source of law

– The Zambian Constitution is a set of rules or fundamental principles this country. Article 1 (1) of the Constitution (as Amended 2016) provides that it is the supreme law of the land and any law which is contrary to it shall be void to the extent of the inconsistency. All laws must be in line with the Constitution. It is a supreme law because every other law must stem from there, if it is inconsistent, the Court can strike out such inconsistent provisions *Thomas Mumba v The People* (1984), *Christine Mulundika et al. v The People* (1995).

(c) Customary international Law

– These are customary rules of international law, i.e. customs of the international community that made and used by the International Organizations such as UN, ILO, AU, etc. Customary International Law is only applicable in Zambia only when they have been domesticated Zambia Sugar PLC v Fellow Nanzaluka (2001). They do not just need to be ratified and assented, they need to be domesticated i.e. made part of our laws through Zambian legislative enactments.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 14 DECEMBER 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

Answer all Ten (10) multiple choice questions

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

QUESTION ONE

1.1 Henry Fayol is a French industrialist whose contributions are termed as operational management or administrative management. He followed “The Classical Approach” to the evolution of management thought. Which of the following is **NOT** among the list of his contribution to management?

- A. Identified six types of qualities of a manager are- Physical, mental, moral, educational, and technical and experience;
- B. He adopted scientific methods to increase the productivity and greater efficiency in production.
- C. He identified fourteen (14) principles of Management.
- D. He identified five (5) elements or functions of management.

(2 marks)

1.2. Which theory concentrates on the argument that leadership behaviour depends on how the manager views subordinates.

- A. Max Weber
- B. Elton Mayo
- C. Chester Bernard
- D. McGregor Theory X and Y

(2 marks)

1.3. A reporting relationship in which an employee receives orders from, and reports to, only one supervisor is known as:

- A. Line of authority.
- B. Centralization.
- C. Unity of command
- D. Unity of direction.

(2 marks)

1.4. Which one is an organizational - environmental theory?

- I. The open-systems view
- II. Contingency theory
- III. The Theory of Bureaucracy
- IV. Theory Z
- A. I and II
- B. I, III, and IV
- C. II, III, and IV
- D. None of the above

(2 marks)

1.5. Job enrichment represents a 'vertical' extension of the job into greater levels of responsibility, challenge and autonomy. All of the following are key factors to take into account in achieving Job enrichment **EXCEPT**

- A. Avoiding excess work division, so that workers are able to undertake the full cycle of a task to achieve a complete service
- B. Permitting workers greater freedom and control over the scheduling and pacing Oftheir work, as opposed to machine pacing
- C. Tasks which span a larger part of the total production work should reduce boredom and add to task meaning, significance and variety.
- D. Giving workers greater freedom to work in self managing teams with greater responsibility for monitoring their own performance and a minimum of direct supervision.

(2 marks)

1.6. The purpose of Job analysis is to investigate a job and analyse the requirements of the Job. State the intermediate products of Job analysis

- A. Job depth and Job Specification
- B. Job design and Job description
- C. Job description and Job Specification
- D. Job Scope and Job depth

(2 marks)

1.7. Some organisations are more capable of adapting to change than others. The management writer Rosabeth Moss Kanter suggested that there are cultural reasons why an organisation might be better than others in accepting change. According to Kanter, 'change-adept' organisations have three key attributes, **EXCEPT**

- A. Imagination to innovation
- B. Professionalism to perform
- C. Openness to collaborate
- D. Negotiation and agreement

(2 marks)

1.8. The three strategy levels that managers think in are.

- A. Conscious, business, and implementation.
- B. Corporate, business, and strategic.
- C. Business, corporate, and functional.
- D. Functional, strategic, and universal.

(2 marks)

1.9. On-the-Job training maximises transfer of learning by incorporating it into 'real' work. It utilises real work tasks as learning experiences. Which of the following are methods of On-the-Job training?

- I. Working shadowing
 - 11. Demonstration/Instruction
 - 111. E-Learning
 - IV. Action Learning
 - V. Correspondence Courses
- A. 11, IV and V
 - B. 1,11 and IV
 - C. 11, 111 and V
 - D. 1,IV and V

(2 marks)

- 1.10 Which of the following is **NOT** a characteristic of parastatal organization
- A. Public corporations owned or partly owned by the state
 - B. Profit motive limited by the state
 - C. The state sets a Board of directors to observe accountability
 - D. Profit maximization is a variation of the profit objectives

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this section. Answer any Four (4) questions

QUESTION TWO

Organisations operate in an environment that is dynamic. The environment consists of internal as well as external stakeholders. Environmental uncertainty increases as environmental conditions become more dynamic and complex". The approach to making sense of this may differ both by the extent to which the environment is stable or dynamic, and also by the extent to which it is simple or complex. Based on your knowledge of environmental analysis:

- (a) Who are stakeholders? (2 marks)
- (b) Discuss the difference between a PESTLE and SWOT analysis. (10 marks)
- (c) Identify at least EIGHT stakeholder types (8 marks)

[Total: 20 Marks]

QUESTION THREE

Early efforts to describe the ideal Leader looked at leadership traits. 'Traits' theory attempted to describe all the features that a good leader displays.

- (a) Discuss any five (5) key 'Leadership Skills' (10 marks)
- (b) The terms "leadership" and "management" are seen very differently by diverse people. Some individuals see these terms as synonyms and frequently use them interchangeably throughout phrases and sentences.

As a student of DA7course, correct this misconception by distinguishing leadership from Management. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

One student of DA 7 Course stated that 'It was Fredric Taylor who noticed that employees use vastly different techniques to do the same job — which he improved. At his time, there were no clear responsibilities laid for workers and management. The work done by workers was very slow. Worker's output never matched their abilities and attitudes. No effective work standards existed. Taylor made a mental revolution among both the workers and management by defining clear guidelines for improving production efficiency'. Based on your knowledge:

- (a) Explain the contributions of F.W.Taylor's engineering efficiency approach to Management.(5 marks)
- (b) Scientific management has been criticized by some scholars. Briefly state what has been thecenter of criticism? (5 marks)
- (c) List the various theories for motivation. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Organisations can be grouped into either public or private sector.

Required:

Briefly explain the following, giving two (2) examples in each case.

- (i) Public sector organisations (4marks)
- (ii) Private sector organisations (4marks)
- (b) The nature of decision-making within the organisation depends on the extent to which it is centralized or decentralized.
Explain the terms centralization and decentralization. (4marks)
- (c) Briefly explain the following in relation to leadership skills
 - (i) Entrepreneurship skills (2marks)
 - (ii) Self-development skills (2marks)
- (d) Shareholders in a company have limited liability.

Explain the concept of limited liability in relation to a company and state any two (2) advantages of a limited company. (4marks)

[Total: 20 Marks]

QUESTION SIX

Organizations are social structures, and they are composed of not only buildings and machines, but at the centre of organizations are human beings as the driving force behind accomplishing organizational goals. In order for organisations to achieve intended goals, they employ people to carry out a function called a Job. A job is a collection of different tasks, functions, responsibility, dutiesto be performed by the job holder.

- (a) Define the terms: Authority, Responsibility, and Accountability? What are the sources of Power and authority? (10 marks)
- (b) WRITE concise notes on the FOUR (4) organization's structure:
- (i) Functional structure
 - (ii) Multidivisional structure
 - (iii) Matrix structure and
 - (iv) Hybrid structure. (10 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

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

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

SOLUTION TWO

- a) –stakeholders of an organisation are individuals or groups of people who have an interest in or are affected by the goals, operations or activities of the organisation or the behaviour of the people who work in it.

-A **stakeholder(s)** is anyone **who** is affected by your work, has influence or power over it, or has an interest in its success.

b) A PESTLE analysis is a structured approach to analysing the macro-environment of an organisation and the threats and opportunities that exist, or may arise in the future. The environmental factors are analysed in six categories, which provide a useful framework for analysis. It looks at each of these external factors and assess whether there will be a positive or negative impact and to what extent the impact will affect the business.

PESTEL stands for:

- P – Political
- E – Economic
- S – Social and cultural
- T – Technological
- L – Legal
- E – Ecological or Environmental

Political Factors

Political factors can have a strong influence on business entities and other organisation. The long-term business development strategy of a company may depend on factors such as:

The stability of the political systems, government policy on the privatisation of state-owned businesses, the threat of terrorist activity, the attitude of the government toward encouraging investment by foreign companies or joint ventures between local companies and foreign companies, government policy on providing financial support to small businesses, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on.....

Economic Factors

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, rates of taxation, the existence trade agreements between countries, disposable income of consumers and businesses, and the level of foreign investment in the country and so on...

These factors can be further broken down into macro-economical and micro-economical factors. Macro-economical factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this.

Micro-economic factors are all about the way people spend their incomes.

Social Factors

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These can also affect the way the business is done, the behaviour of employees, customers and others. These factors include –the attitude and values of customers, employees and the general public, attitude to work and the length of the working week, tribal influence, levels of education, women in employment and issues of gender equality, the impact of HIV and AIDS, on the work force and society as a whole population growth, age distribution, health consciousness, and career attitudes and so on.

Technological Factors

Technology and technological change have a big influence on organisations and the way in which business is conducted. Development of computers, internet and mobile technologies in recent years which have revolutionised business practice and resulted in the creation of new products and services that customers want to buy. Organisations need to react to technological change in order to survive. If companies do not react to these changes in IT and computerisation, they may risk losing g business and their share of the market to competitors.

Ecological and Environmental Factors

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, pollution targets, doing business as an ethical and sustainable company, carbon footprint targets set by governments (this is a good example were one factor could be classes as political and environmental at the same time). These are just some of the issues businesses are facing within this factor. More and more consumers are demanding that the products they buy are sourced ethically, and if possible from a sustainable source.

Legal Factors

Legal factors include –company and employment law, the law of contract, tax laws, health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully.

After you have completed a PESTEL analysis you should be able to use this to help you identify the strengths and weaknesses for a **SWOT analysis**

A SWOT analysis discusses:

- The Strength of a business i.e. the areas of the organisation that should be exploited by suitable strategies

- The Weaknesses of a business i.e. area of the organisations which need strategies to improve them
- The Opportunities that the environment may provide – the external appraisal involving identifying opportunities that can be exploited by the organisation's strength
- The Threats that the environment may provide. Threats that might affect the organisation or its micro environment such as competition

Strength and weaknesses analysis is intended to shape the organisation's approach to the external world. A swot analysis brings together an organisation's internal strength and weaknesses as well as external opportunities and threats so that strategies may be developed and assessed

c) Potential stakeholders include;

interest groups/pressure groups, Employees, Investors Shareholders, management, lenders, Prospective customers , Government ,communities ,media, creditors, bankers, owners, Professional associations, Labour unions Suppliers etc.

SOLUTION THREE

a)

- **Entrepreneurship:** the ability to spot business opportunities and mobilise resource to capitalise on them

- **Interpersonal skills:** such as networking, rapport-building, influencing, negotiating, conflict resolution, listening, counselling, coaching and communicating assertively.
- **Decision- making and problem-solving skills,** including 'seeing the big picture'
- **Time management and personal organisation**
- **Self-development** skills: the ability to learn continuously from experience, to grow in self-awareness and to exploit learning opportunities.

b)

Managerial Skills and Behaviour Leadership skills and Behaviour

Planning	Inspires trust
'Does things right'	'Does the right thing'
Administers and Controls	Innovates and develops
Mainly short-term focus	long-term in outlook
Communication	Envisioning
Evaluating	Behaviour modelling
Monitoring	Involving
Team working	Promoting learning
Directing	Team-building
Management Produces (Order and Consistency)	Leadership Produces (Change & Movement)

SOLUTION FOUR

a) Frederick Taylor (1856-1915) pioneered the scientific management movement in the US. He was among the first to argue that management should be based on 'well recognised, clearly defined and fixed principles instead of depending on more or less hazy

ideas'. Taylor was a very skilled engineer and he took an engineering efficiency approach to management.

- The development of a true **science of work**: 'all knowledge which had hitherto been kept in the heads of workmen should gathered and recorded by management.' Every single subject, large and small, becomes the questions for scientific investigation, for reduction to law'.
- The **scientific selection** and **progressive development** of workers. Workers should be carefully trained and given jobs to which they best suited.
- The application of techniques such as to **plan, measure and control work** for maximum productivity
- The constant and intimate **co-operation between management and workers**: 'the relations between employers and men form without questions the most important part of this art'.

b)Scientific management, which is closely associated with work study and time and motion study, has been criticised because it leads to **the creation of jobs that involve dull, repetitive work, which demoralises the individuals who do the job**. However, the elements of scientific management are still been practiced today, whenever there is a concern for productivity and efficiency.

c) **Various theories for motivation**: Maslow's hierarchy of needs, Herzberg's two Factor, Vroom's expectancy theory, McGregor's theory X and Y, McClelland's theory of needs, Likert's organizational management styles, Adam's Equity theory, Locke and Latham's Goal setting theory needs, Likert's organizational management styles, Adam's Equity theory, Locke and Latham's Goal setting theory.

SOLUTION FIVE

a) i) Public sector organization

This is an organization owned or run by central government or government agencies e.g. 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 e.g. private schools, private banks etc.

b) Centralisation and Decentralisation

Centralisation is where decision making authority is concentrated at central point, normally at the top level management with little or no input from lower level.

Decentralisation is where the authority of decision making is spread more widely hence there is increased input from lower level management.

c) i) Entrepreneurship skills

This is the ability of a leader to spot and exploit business opportunities that may arise in the environment using the available resources.

ii) Self-development skills

This is the ability of a leader to learn from experience, grow in self-awareness and take advantages of learning opportunities.

d) Limited liability

This means the liability of shareholders is limited to their investment in a company; hence they are not personally liable for the debts of the company.

Advantages of a company

- A company has more borrowing power
- Shareholders have limited liability
- Continuity is guaranteed
- More capital can be raised from sell of more shares

(Any 2 or any other correct advantage)

SOLUTION SIX

Authority refers to the scope and amount of discretion given to a person to perform a certain task or make a decision. It may also be referred to as *the right to influence the*

behaviour of others. The organisational structure shows the hierarchy and authority derived from the positions.

b) **Responsibility** refers to the obligation to perform a particular task or the liability of a person to account for his/her actions. It may also be referred to as "*the duty*" to carry out a particular task.

Unlike authority, responsibility cannot be wholly delegated; the manager maintains the ultimate responsibility for the performance of tasks.

c) **Accountability** refers to "*answerability*" or the extent to which an individual is answerable to the results of his actions. It entails the credit for desirable results and taking the blame for unfavourable consequences. It is also used to refer to the obligation to report to superiors and it is associated with the scalar chain: the reporting levels, the subordinate remains accountable to the superior in that he has to report to him. Generally accountability of results rest with the manager.

The sources of authority are as follows:

- **The top-down authority:** - it is the authority conferred on the manager by virtue of his position in the organisational hierarchy.
- **Bottom-up authority:** - It is the authority conferred on the leader by those he leads e.g. elected leaders has bottom-up authority conferred to them by those who elected him/her.
- **Rank Authority:** Authority originates from your rank in an organisation
- **Personal Authority /Charisma:** - Some leaders acquire authority through their charisma, personal magnetism. Charismatic people can influence the behaviour of others in one way or the other.
- **Traditional Authority:** - This emanates from tradition e.g. family elders have authority over their junior counterparts.

Sources of power

- **Reward power.** It emanates from the influencer's ability to reward the influence for carrying out certain tasks.
- **Coercive Power.** It emanates from the leader's ability to punish followers for undesirable behaviour.
- **Legitimate Power.** It is the power acknowledged by the subordinate and may be referred to as formal power / authority. This power is derived from the organisational hierarchy.

- **Expert Power.** It arises from the perception that the leader has some specialised skill / knowledge that the influence does not have.
- **Referent Power.** It emanates from the leader's "**exemplary power**" – his ability to set an example to the influences

b)

Functional structure: The organization with increased complexity is managed based on simple structure. Normally, functional structure is used as a tool to fulfil the increasing needs of separation. This is called function as in this structure, the activities are classified based on logical similarity of work functions. The functions that are created based on dependent duties and shared goals. In functional structure, re-work of activities is limited and this structure is efficient. The aim of this plan is maximizing saving of specialization scale.

Multidivisional structure: In organizational development path, if functional structure is developed, it is turned into multidivisional structure as a tool to reduce the decisions responsibility by top manager. Multidivisional structure is a set of separate functional structures reporting a central centre. Each functional structure is responsible for management of daily operation. The central staff is responsible for supervision and management of organization relation with environment and strategy.

Matrix structure: This structure is created with the aim of creating a type of structure composed of functional and multidivisional structures. The aim of matrix structure is combining the efficiency of functional structure with flexibility and sensitivity of multidivisional structure not only based on product logic, customer or geographical region, but also based on functional logic in multidivisional structure. In matrix organization, functional specialized employees work in one or some project teams. This delegation of activities to employees is done via negotiation between functional and project managers and sometimes with the presence of people of teams or potential members.

Hybrid structure: In hybrid structure, one part is dedicated to the type of structure and another part to another type of structure. The reason of formation of hybrid structures is combination of advantages of two structures by designers or the organization is changing. As in hybrid structure, by moving from one section of structure to another structure, the relations basis is changed and hybrid forms can be unclear. On the other hand, hybrid structure enables the organization in which the best and flexible structure is used.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 14 DECEMBER 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

Peacock acquired 80% of the equity shares of Squirrel on 1 July 2019 when retained earnings of Squirrel were K25,500. The acquisition was through a share exchange of three shares in Peacock for every two shares in Squirrel. The market price of Peacock and Squirrel's shares on 1 July 2019 were K7.5 and K3.5 respectively. In addition, Peacock will make deferred cash payment of K0.80 per acquired share on 1 July 2020.

Peacock has not yet recorded any of the consideration in its books. Both companies' shares had a nominal value of K1 on the date of acquisition. Peacock's cost of capital is 8%.

Statements of profit and loss for the year ended 31 March 2020 are as follows:

	Peacock	Squirrel
	'K'	'K'
Revenue	105,000	21,000
Cost of sales	<u>(42,000)</u>	<u>(4,200)</u>
Gross Profit	63,000	16,800
Operating Expenses	(31,500)	(9,450)
Investment income	<u>31,500</u>	<u>7,350</u>
Operating Profit	63,000	14,700
Finance costs	<u>(6,300)</u>	<u>(1,050)</u>
Profit before tax	56,700	13,650
Income tax	<u>(8,400)</u>	<u>(2,100)</u>
Profit for the year	48,300	11,550
Other Comprehensive income:		
Revaluation Gain	<u>2,100</u>	<u>1,050</u>
Total comprehensive income	<u>50,400</u>	<u>12,600</u>

Additional information:

1. The following were the capital structures of Peacock and Squirrel at reporting date of 31 March 2020:

	Peacock	Squirrel
	'K'	'K'
Equity shares of K1 each	100,000	20,000
Retained earnings	78,500	43,200

2. At the date of acquisition, the fair value of Squirrel's assets were equal to their carrying amount with the exception of its plant which had fair value of K8,850 and carrying amount of K8,550. The plant had remaining useful life of five years and is depreciated on straight line with nil residual value. No Fair Value adjustments have been incorporated in Squirrel's accounting records. The K1,050 revaluation gain of Squirrel shown in its separate Statement of Profit or Loss was for the period prior to its acquisition by Peacock.

3. On 1 October 2019, Peacock also acquired 40% of Antelope's equity shares. Antelope profit after tax for the year ended 31 March 2020 was K19,800. During March 2020, Antelope paid a dividend of K6,000. Peacock has recorded its share in its separate Statement of Profit or Loss.

Squirrel did not pay any dividends in the year ended 31 March 2020.

4. During the year, Squirrel sold goods to Peacock for K 7,825 at a mark up of 50%. At the end of the year, K1,560 of these goods were still in inventory of Peacock.
5. Peacock's policy is to value the Non ControllingInterest at the date of acquisition at its fair value. For this purpose, the share price of Squirrel at 1 July 2019 is representative of the fair value of the shares held by the Non ControllingInterest.
6. An impairment review conducted at the end of the year revealed that goodwill on acquisition of Squirrel and investment in Antelope were impaired by K1,500 and K900 respectively.
7. All profit or loss and other comprehensive income items are deemed to accrue evenly over the year unless otherwise indicated.
8. On 1 July 2019, Squirrel sold a piece of equipment to Peacock for K7,500. The equipment had been used by Squirrel in its business and had been included in Property, Plant and Equipment at a carrying amount of K6,000. The machinery had a remaining useful life of ten years at 1 July 2019. Peacock holds the machinery in its books at 31 March 2020.

Required:

- (a) Compute the goodwill arising on the acquisition of Squirrel to be taken to statement of financial position as at 31 March 2020. (7 marks)
- (b) Prepare the consolidated statement of profit or loss and OCI for Peacock for the year ended 31 March 2020. (15 marks)
- (c) Discuss significant influence as used in IAS 28 Accounting for investment in Associates. (3 marks)

[Total: 25 Marks]

QUESTION TWO

The following is the trial balance of Zalota Plc. for the year ended 30 June 2020.

	K'000	K'000
Revenue		4,155
Cost of sales	1,920	
Distribution costs	496	
Administrative expenses	1,040	
Equity shares of K0.50 each		400
Share premium		160
Revaluation reserve		60
Retained earnings	760	
Land at valuation	160	
Buildings at cost	800	
Motor vehicles at cost	360	
Computers at cost	120	
ROU Plant at cost	1,000	
Allowances for depreciation at 1 July 2019:		
Buildings		480
Motor vehicles		180
Computers		24
ROU plant		250
ROU plant lease rental on 30 June 2020	300	
Lease liability @ 1 July 2019		780
Inventory @ 30 June 2020	248	
5% loan note		785
Loan note interest paid	40	
Deferred tax	32	
Current tax	20	
Trade payables		428
Bank		172
Trade receivables	208	
Investment property	370	
	<u>7,874</u>	<u>7,874</u>

The following additional information is relevant:

1. The Right of Use Asset (ROUA) was acquired on 1 July 2018 under a four year lease. The present value of the future lease payments and cost of ROUA was K1,000,000 on 1 July 2018. The rentals are K300,000 per annum payable in arrears on 30 June each year. The implicit rate of interest in the lease is 8% per annum. The useful life of plant is reasonably greater than the lease term and the lease has no option to the lessee to purchase the asset at the end of the lease term. Depreciation of leased plant is to be taken to cost of sales.

Further, other items of Property, Plant and Equipment are depreciated as follows:

Item	Rate	Where depreciation charged
Buildings	5% Straight line	Administration
Motor vehicle	25% Straight line	20% administration; 80% cost of sales
Computers	20% reducing balance	Administration

No depreciation has yet been charged on any Non Current Asset for the year ended 30 June 2020.

2. ZalotaPlc. has a policy of revaluing Land every year and on 30 June 2020, land was revalued to K200,000 when its Carrying Amount was K160, 000. This Revaluation has not yet been taken into account in the above trial balance.
3. The Directors of ZalotaPlc. have estimated the provision for income tax for the year ended 30 June 2020 at K56,000. The balance of current tax in the trial balance represents the under/over provision of tax liability for the year ended 30 June 2019. The deferred tax asset in the trial balance represents the figure at 30 June 2019. The figure at 30 June 2020 for deferred tax liability is K48,000.
4. ZalotaPlc. issued 10,000 equity shares on 1 May 2020 at a price of K1.00 each. The issue of these equity shares has been correctly accounted for in the books of ZalotaPlc.
5. No dividends were paid by ZalotaPlc during the year but directors of ZalotaPlc. declared a dividend of K0.05 per share on 25 June 2020 for all shares in issue at that date.
6. The 5% loan note was issued on 1 July 2018 at its face value of K800,000. Direct costs of the issue were K50,000. The loan note will be redeemed on 30 June 2021 at a substantial premium. The effective interest rate applicable is 10% per annum.
7. The Investment property in the trial balance is recorded at its fair value as ZalotaPlc. uses fair value model of IAS 40. The fair value of Investment Property on 30 June 2020 was estimated at K450,000.

Required:

- (a) Prepare the statement of profit or loss and other comprehensive income for ZalotaPlc. for the year ending 30 June 2020. (10 marks)
- (b) Prepare the statement of changes in equity for ZalotaPlc. for the year ended 30 June 2020. (3 marks)
- (c) Prepare a statement of financial position as at 30 June 2020. (12 marks)

[Total: 25 Marks]

SECTION B

Attempt any TWO (2) questions.

QUESTION THREE

You are the financial controller at Milumbe Limited, a company involved in the supply of various machinery to mining companies in Zambia. The following transactions for Milumbe Limited have arisen in the year ending 30 June 2020:

Transaction one

Milumbe Limited sold machinery to one customer Minerals Limited on 1 October 2019 for K25 million. The customer paid K10 million upfront and agreed to pay the remaining balance on 1 October 2020. Milumbe Limited's cost of capital is 8%. (9 marks)

Transaction two

Milumbe Limited sold and installed machinery for Fair Trade Copper Limited for K35 million on 1 August 2019. Included in the price was a 4 years servicing contract which has a total sales value of K12 million. The installation fee within the price has a cost to Milumbe Limited of K0.8 million. All support and installation services offered by Milumbe Limited attract a markup of 50%. (Ignore discounting). (11 marks)

Transaction three

On 1 October 2019, Milumbe Limited borrowed K12 million for a four (4) year term, exclusively to finance the construction of a new piece of machinery. The construction works commenced on 1 December 2019 but no construction took place for a temporary period of 1 month in January 2020 as workers took an industrial break. Construction was still ongoing at the year end date of 30 June 2020. The interest rate on the loan is 6% and is payable annually in arrears. (5 marks)

Required:

Prepare notes that explain the accounting treatment of the above three (3) transactions to trainee accountants in your department. Financial statement extracts for Milumbe Ltd are required.

[Total: 25 Marks]

QUESTION FOUR

(a) The objective of IAS 40 Investment Properties is to prescribe the accounting treatment and disclosure pertaining to Investment Properties.

(i) Identify and explain two methods used to measure Investment Properties subsequent to initial recognition. (2 marks)

(ii) On 1 January 2019, an entity purchased a building due to its investment potential for K5 million at which time the building had an estimated economic useful life of 50 years. The building was being accounted for using the fair value model of IAS 40.

Currently, the entity operates from a rented building. At the expiry of the tenancy agreement on 1 October 2019, the entity moved its offices into the building initially purchased for investment potential on 1 January 2019, when its fair value was assessed as K6 million. There was no change to the original estimated useful life.

Required:

Show the presentation of the above building in the entity's financial statements for the year ended 31 December 2019. (4 marks)

(b) IAS 38 Intangible Assets prescribes the specific conditions to be met for Development Expenditure to be capitalized in the books of the entity.

Required:

(i) State the criteria that should be met for the development expenditure to be capitalized. (3 marks)

(ii) An entity, Aseri Co had capitalized development expenditure at cost of K30 million brought forward on 1 July 2019 in respect of products being produced on commercial scale. In addition, Aseri Co began a new project on 1 July 2019. The research stage of the new project cost K3 million and lasted until 30 September 2019, after which the project incurred development costs of K1 million per month. On 1 January 2020, directors of Aseri Co assessed the outcome of the project as profitable and able to recover all costs at end of one (1) year after commencing commercial production. The project was completed on 1 June 2020 and immediately commercial production began.

All capitalized development expenditure is amortized by 25% straight line.

Required:

Explain the accounting treatment of the Research and Development expenditure incurred by Aseri Co, including extracts from the financial statements for the year ended 30 June 2020. (10 marks)

(c) IFRS 9 financial instruments is a project that emerged due to significant growth of financial instruments over the years that has outstripped the development of guidance for their accounting treatment.

Required:

- (i) Define a financial asset. (2 marks)
- (ii) Zota Ltd purchased 40,000 K1 listed shares at a price of K3 per share on 1 January 2020. An irrevocable election was made to recognize the shares as a Fair Value Through Other Comprehensive Income financial instrument. Transaction costs were K6,000. At the year end of 31 December 2020, the shares were trading at K7 per share.

Required:

Explain the accounting treatment for the above financial instrument and show financial statement extracts for the year ending 31 December 2020. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Zuze limited has provided you with the following extracts from their financial statements:

	2019 K'000	2018 K'000
Non current assets		
Property, Plant and Equipment	3,247	2,353
Current Assets		
Inventory	54,655	47,400
Receivables	22,145	19,460
Short term investments	290	170
Cash at bank	8,000	37,420
Non current liabilities		
Deferred taxation	520	310
Lease obligation	150	230
Government grant	750	215
Current liabilities		
Trade payables	121,495	115,810
Bank overdraft	10,615	-
Tax payable	1,500	1,250
Lease obligation	245	175
Government grant	235	130
Statement of profit or loss extract:		
Finance cost	1,420	
Taxation	3,360	

The following additional information is relevant:

1. An item of plant was sold for K4,575,000 during the year, resulting in a loss of K250,000. During the year, Zuze acquired K280,000 of an item of

plant by means of a lease arrangement with payments made in arrears on the last day of each accounting period.

Other items of Property, plant and equipment acquired for cash qualified for a government grant. Grant amortization in the period, amounting to K350,000 has been included within operating expenses.

Depreciation charge for the year on all items of property plant and equipment totaled K465,000.

2. Included in trade payables are accrued interest expenses amounting to K2,315 and K1,010 for 2019 and 2018 respectively.

Required:

Prepare an extract from the Statement of Cash Flows for the year ending 31 December 2019 that shows the following:

- i) Cash paid to acquire PPE
- ii) Government grant received
- iii) Lease rentals paid
- iv) Cash and cash equivalent at start
- v) Cash and cash equivalent at end
- vi) Interest paid
- vii) Tax paid
- viii) Depreciation expense
- ix) Loss on disposal
- x) Proceeds from sale of PPE
- xi) Increase or decrease in cash and cash equivalents in the period.

(13 marks)

- (b) IAS 2 Inventories provides guidance on how items of inventory, purchased or constructed need to be accounted for in the preparation of financial statements.

Required:

- (i) Explain how inventory produced needs to be measured in accordance with IAS 2 guidance. (4 marks)

- (ii) Kate Co. has the following products in inventory at the year-end:

Product	Quantity	cost per unit	selling price per unit	modification cost To enable sale
X	1,200	280	385	56
Y	1,800	105	176	30
Z	850	160	190	35

Required:

Explain and calculate the amount at which the above items of inventory will be recognized in the books of Kate Co at the year end. (5 marks)

List three (3) expenses that may not form part of inventory cost for goods produced.
(3 marks)

[Total:25 Marks]

END OF PAPER

SUGGESTED SOLUTION

SOLUTION ONE

- a) Goodwill on acquisition of Squirrel

Purchase consideration:

Share exchange (80% x 20,000/2 shares x 3 shares x K7.5)	180,000
Deferred consideration (K0.80 x [80% x 20,000 x 1/1.08])	11,852
Fair value of NCI at acquisition (20% x 20,000 shares x K3.5)	<u>14,000</u>
	205,852

Less net assets acquired:

Share capital	20,000	
Pre-acquisition retained earnings	25,500	
FV adjustment	<u>300</u>	(45,800)
Gross goodwill		160,052
Less impairment loss		<u>(1,500)</u>
Net goodwill		<u>158,552</u>

- b) Peacock Group

Consolidated statement of profit or loss for the year ended 31 March 2020.

	'K'
Revenue (105,000 + [9/12 x 21,000] – 7,825)	112,925
Cost of sales (42,000 + [9/12 x 4,200] +45w1 – 7,825 + 520w2-113 w3 (iii) + 1,500 w3(i))	<u>(39,277)</u>
Gross profit	73,648
Operating expenses (31,500 + [9/12 x 9,450] + 1,500)	(40,088)
Investment income (31,500 + [9/12 x 7,350] -2400)	<u>34,613</u>
Operating profit	68,173
Finance costs (6,300 + [9/12 x 1,050] + 711 w5)	(7,799)
Peacock's share of Antelope PAT (40% x [6/12 x 19,800] – 900)	<u>3,060</u>
Profit before tax	63,434
Income tax (8,400 + [9/12 x 2,100])	<u>(9,975)</u>
Profit for the year	53,459
Other comprehensive income (2,100 + 0)	<u>2,100</u>
Total comprehensive income	<u>55,559</u>
Profit for the year attributable to:	
Owners of parent (bal fig)	51,862
NCI (wkg 6)	<u>1,597</u>
Total profit for the year	<u>53,459</u>
Total comprehensive income attributable to:	
Owners of parent (bal figure)	53,962
NCI (w6)	<u>1,597</u>
Total comprehensive income	<u>55,559</u>

- c) Significant influence is the power to **participate in the financial and operating policy decisions** of an economic activity but no control. It is represented by the 20% + rule. It is evidenced by the following other than 20% rule:

1. Representation on the board of directors
2. Participation in policy making process
3. Material transactions between investor and investee
4. Interchange of management personnel
5. Provision of essential technical information

WORKINGS

1. Fair value adjustment:

	At acquisition 'K'	Movement 'K'	At reporting 'K'
Plant	300	(45) see below	255

Additional depreciation on excess fair value = $K300/5 \text{ years} \times 9/12 = 45$

2. Provision for unrealized profit on sale of goods:
 $50/150 \times 1,560 = K520$
 3. Provision for unrealized profit on intra group sale of NCA
- | | |
|-------------------|-------|
| Carrying amount | 6,000 |
| Sale proceed | 7,500 |
| Unrealized profit | 1,500 |

Double entries:

- i) For PUP

Dr Group profit or loss 80%	1,200	
Dr NCI (20%)	300	
Cr NCA		1,500
- ii) For additional depreciation:

Dr NCA (100%)	113	
Cr parent profit/loss (100%)		113

4. Peacock's share of Antelope PAT
 $40\% \times [6/12 \times 19800] - 900 = \underline{3,060}$

5. Unwinding of discount on deferred consideration:
 $8\% \times 11,852 = 948 \times 9/12 = \underline{711}$

6. NCI in profit for the year:

NCI share in post acquisition profit for the year (20% (9/12 x 11,550))	2,310
NCI share in PUP on sale of goods 20% (520)	(104)
NCI share in PUP on sale of NCA 20% (1,500)	(300)
NCI share of impairment loss 20% x 1,500	(300)
NCI share of additional depreciation on Fair value 20% x 45	<u>(9)</u>
	<u>1,597</u>

SOLUTION TWO

a) Zalota's statement of profit or loss for the year ended 30 June 2020

	'K'
Revenue	4,155,000
Cost of sales (W7)	<u>(2,242,000)</u>
Gross profit	1,913,000
Administrative expenses (W7)	<u>(1,117,200)</u>
Distribution costs (W7)	<u>(496,000)</u>
Fair value gain of Investment Property (W8)	<u>80,000</u>
Operating profit	379,800
Finance cost (78,500 W1 +62,400 W2)	<u>(140,900)</u>
Profit before tax	238,900
Income tax expense (W4)	<u>(156,000)</u>
Profit for the year	82,900
Other comprehensive income:	
Revaluation surplus (W3)	<u>40,000</u>
Total comprehensive income	<u>122,900</u>

b) Zalota Plc.

Statement of changes in equity for the year ended 30 June 2020

	Equity Shares 'K'	share Premium 'K'	Revaluation Reserve 'K'	Retained Earnings 'K'	Total 'K'
Balance b/f(bal)	395,000	155,000	60,000	(760,000)	(150,000)
Total CI			40,000	82,900	122,900
Dividends				(40,000)	(40,000)
Share issue	<u>5,000</u>	<u>5,000</u>	<u>10,000</u>
Balance c/f	<u>400,000</u>	<u>160,000</u>	<u>100,000</u>	<u>(717,100)</u>	<u>(57,100)</u>

c) Zalota Plc.'s Statement of Financial position as at 30 June 2020

	'K'	'K'
Non current assets:		
Property, Plant and Equipment (W3)		1,146,800
Investment Property		<u>450,000</u>
Total non current assets		1,596,800
Current assets:		
Inventory	248,000	
Receivables	<u>208,000</u>	<u>456,000</u>
Total assets		<u>2,052,800</u>
Equity and liabilities:		
Equity shares of K0.50 each		400,000
Share premium (answer (b))		160,000
Retained earnings (answer (b))		(717,100)
Revaluation Reserve		<u>100,000</u>
Total equity		(57,100)

Non current liabilities

5% Loan Note (W1)	823,500	
Deferred taxation (W4)	48,000	
Lease obligation (W2)	<u>285,792</u>	1,157,292

Current liabilities

Trade payables	428,000	
Bank Overdraft	172,000	
Dividends payable (W6)	40,000	
Current tax payable (W4)	56,000	
Lease obligation (W2)	<u>256,608</u>	<u>952,608</u>
Total equity and liabilities		<u>2,052,800</u>

WORKINGS

1. Financial instrument – loan note

	Balance b/f	effective finance 10%	Interest paid 5%	Balance c/f
	'K'	'K'	'K'	'K'
Y.E 30.6.19	750,000	75,000	(40,000)	785,000
Y.E 30.6.20	785,000	78,500	(40,000)	823,500

Therefore, finance cost for year to 30.6.2020 is K78,500

CA of liability at 30.6.2020 is K823,500

2. ROUA/Lease Obligation table

	Balance b/f	Interest(8%)	Lease rental	Balance c/f
	'K'	'K'	'K'	'K'
Y.E 30.6.2019	1,000,000	80,000	(300,000)	780,000
Y.E 30.6.2020	780,000	62,400	(300,000)	542,400
Y.E 30.6.2021	542,400	43,392	(300,000)	285,792

For current year, the following amounts apply:

Finance cost	62,400
Non current liabilities	285,792
Current liabilities	256,608 (542,400-285,792)
CA of ROUA	500,000 (1,000,000/4 yrs x 2 years)

3. Property, Plant and Equipment

	Land	Buildings	M. Vehicles	Computers	ROUA
	'K'	'K'	'K'	'K'	'K'
Cost/Valuation b/f	160,000	800,000	360,000	120,000	1,000,000
Less acctddep'n	(480,000)	(180,000)	(24,000)	(250,000)
Carryin amount b/f	160,000	320,000	180,000	96,000	750,000
Depreciation expense:				
Build(5%x800)		(40,000)			
M. vehicles(25% x 360)			(90,000)		
Computers (20% x 96)				(19,200)	
ROUA (1000/4)					(250,000)
CA c/f	160,000	280,000	90,000	76,800	500,000
Revaluation surplus	<u>40,000</u>				
Revalued/CA c/f	<u>200,000</u>	<u>280,000</u>	<u>90,000</u>	<u>76,800</u>	<u>500,000</u>

Total PPE = 1,146,800

4. Income Tax charge

Current tax b/f	20,000
Plus deferred tax b/f	32,000
Plus current tax c/f	56,000
Plus deferred tax c/f	<u>48,000</u>
Charge to profit/loss	<u>156,000</u>

5. New share issue

10,000 shares @ K0.50 [to share capital] K5,000
10,000 shares @ K0.50 [to share premium] K5,000

6. Dividends payable

$K400,000 / K0.50 = 800,000 \text{ shares} \times K0.05 = K40,000$

7.	Cost of sales	Administrative expense	distribution costs
	'K'	'K'	'K'
Per Trial Balance	1,920,000	1,040,000	496,000
Depreciation:			
Buildings		40,000	
Motor vehicles ^{20:80}	72,000	18,000	
Computers		19,200	
ROUA	<u>250,000</u>		
Totals	<u>2,242,000</u>	<u>1,117,200</u>	<u>496,000</u>

SOLUTION THREE

Transaction one

There are two components of consideration, that is the portion settled immediately and component not settled immediately. IFRS 15 requires that consideration not settled immediately be discounted to take into account time value of money.

At 30 June 2020, revenue recognizable will comprise the following:

	K'000
- Immediate payment (undiscounted)	10,000
- Deferred payment (15,000 x 1/1.08)	13,889
Total	23,889

Unwinding of discount at the reporting date will be: $8\% \times 13,889 \times 9/12 = 833$

Profit or loss extract

Revenue	23,889
Finance income	833

Statement of financial position extract

Current assets	
Deferred income	14,722 (13,889 + 833)

Transaction 2

IFRS 15 deals with two forms of performance obligations, that is, those that are satisfied at a point in time and those that are satisfied overtime. One of the five steps in the recognition model states, 'revenue should be recognized as and when performance obligations are satisfied. The above transaction's performance obligations are as follows:

	K'000
Installation service 800 x 150/100 time)	1,200 (at a point in time)
Machine servicing	12,000 (over time)
Machinery supply (balancing figure) time)	<u>21,800</u> (at a point in time)
Total sales value	<u>35,000</u>

The above are separate prices in total. The following are amounts based on performance obligations satisfied at 30 June 2020:

	K'000
Installation service	1,200
Machinery servicing (12,000 x 11/48)	2,750
Machinery sale	<u>21,800</u>
Total sales value for the year ending 30.6.2020	25,750

Meanwhile, the portion of machine servicing sales not recognized must be shown as deferred income in the statement of financial position divided into non current and current liabilities as follows:

K'000

Current liabilities (12months/48 months x 12,000)	3,000
Non current liability (25 months/48 months x 12,000)	6,250

Profit or loss extract for year ended 30 June 2020	K'000
Revenue	25,750

Statement of financial position extract for year ended 30.6.2020

Non current liability

Deferred income	6,250
-----------------	-------

Current liability

Deferred income	3,000
-----------------	-------

Transaction 3

For a specifically acquired loan, interest calculation is straight forward. It is the implicit interest percentage applied on the amount borrowed. This is then proportionated for a qualifying period which is the period in which the following three activities are taking place:

- i) Interest costs are being incurred
- ii) Expenditure on the project is being incurred
- iii) Active works on the project are on going.

As Milumbe only commenced construction two (2) months after acquiring the loan, no capitalization over these two months should be done as criteria was not met. The qualifying period is therefore December-June inclusive, that is, seven (7) months interest to be capitalized.

Therefore, total capitalized borrowing cost = $(6\% \times K12 \text{ million} \times 7/12) = K420,000$

As construction was still in progress, at 30.6.2020, it can not be reliably estimated how much has been incurred so far on constructing machine hence no recognition of NCA in Statement of financial position.

Finance cost to be expensed is $6\% \times 12,000 \times 2/12 = K 120,000$ for months October and November.

SOLUTION FOUR

- a) i) Investment property should initially be measured @ cost but subsequent to initial recognition is measured using either cost model or fair value model.
Cost model entails Investment property is recognized at initial cost less accumulated depreciation just like for IAS 16 PPE.

Fair value model entails that Investment Property is recognized @ its Fair value at the end of each accounting period with movement in Fair Value being recognized in profit or loss for the period in which it arises.

Once fair value model is adopted, no depreciation should be applied on the non current asset.

- ii) Where there is transfer of use of Non current assets, IAS 40 requires the change of method of accounting for the non current asset to suit the status of current use and standard.

The asset in the scenario was initially acquired as Investment property but later transfer of use to Property, Plant and equipment occurred. The accounting treatment will change as follows:

Fair value treatment from purchase of PPE.		K'000
Cost on purchase	1.1.2019	5,000
Fair value gain upon transfer		<u>1,000</u>
Fair value on transfer date		<u>6,000</u>

The fair value on date of transfer to be treated as cost so as to change the accounting when asset now became part of PPE, in accordance with IAS 16. As no change has occurred to the economic useful life, 0.75 years have been utilized (i.e. 9 months and 49.25 years are remaining which will have to be used to depreciate the asset as follows:

	K'000
Cost (Fair value at transfer date)	6,000
Less 3 months depreciation (6,000/49.25)	<u>(30)</u>
Carrying amount @ 31.12.2019	<u>5,970</u>

Profit and loss extract for the year ended 31.12.2019

	K'000
Depreciation expense	(30)
Fair value gain	1,000

Statement of financial position extract as at 31.12.2019

Non current assets	K'000
Property, plant and equipment	5,970

- b) i) criteria for recognizing Development expenditure as Non Current Asset include:
- is it probable that the developed project will bring economic benefits when complete?
 - Has the project got a reliable measure?

- Has the entity got intentions to complete the project and use or sell its outcome?
- Is there technical feasibility to complete the Intangible Asset so that it will be available for use or sale?
- Has the entity got the ability to use or sell what it is developing?
- Is there availability of technical, financial and other resources to complete the development and use or sell the intangible asset?

ii) Explanation

All research costs get expensed to profit or loss in the period when they are incurred. In this case, K3,000 will be expensed.

All development expenditure before capitalization criteria is met will be expensed as incurred. In this case, K3 million will be expensed as criteria was only met on 1 January 2020 after commencement on 1 October 2019. The development expenditure after criteria was met is K5 million (K1 million x 5 months) 1 January to 1 June 2020. This qualifies for capitalization. As commercial production began on 1 June 2020, amortization would be for one month as follows:

$$K5,000 \times 25\% \times 1/12 = 104$$

$$\text{Amortization of capitalized expenditure b/f is } 25\% \times 30,000 = 7,500$$

$$\text{Total annual amortization} = K7604 (104 + 7500)$$

Profit and loss extract for year ended 30 June 2020

	K'000
Research costs	3,000
Development expenditure	3,000
Amortization	7,604

Statement of financial position extract as at 30 June 2020

	K'000
Intangible assets (30,000 + 5,000 – 7,500-104)	27,396

- c) i) A financial asset is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity; or to exchange financial instruments with another entity under conditions that are potentially favourable to an entity.

- ii) Zota Ltd had an irrevocable election to hold the instrument as a FVTOCI. This means at reporting date, the instrument needs to be recognized at its Fair value of K280,000. The movement in fair value goes to other comprehensive income but reduced by transaction costs as follows:

Other Comprehensive Income

Fair value gain (7-3 [x 40,000 shares]) – 6,000	154,000
Statement of financial position	
NCA	
Investment in equity instrument	280,000

SOLUTION FIVE**K'000****a) Cash flows from operating activities**

Depreciation expense	465
Loss on disposal	250
Interest paid(w3)	(115)
Tax paid (w2)	(2,900)

Cash flows from investing activities

Cash paid to acquire PPE (w1)	(5,404)
Government grant received	990
Proceeds from disposal of PPE	4,575

Cash flows from financing activities

Lease rentals paid (w4)	(290)
-------------------------	-------

Decrease in cash and cash equivalents(w6) (39,915)

Cash and cash equivalents at start (w6) 37,590Cash and cash equivalents at end (w6) (2,325)

- b) i) initially, inventory produced will be measured at cost and cost comprises of direct materials, direct labour, direct expenses, production overheads absorbed based on normal activity level.

Measurement subsequent to initial recognition is based on the IAS 2 rule of 'lower of cost and net realizable value.' Net realizable value is sales value net of expenses incurred to enable the sale take place.

ii)	Product	quantity	lower of cost and NRV	Total value
	X	1,200	280	336,000
	Y	1,800	105	189,000
	Z	850	155	<u>131,750</u>
				<u>656,750</u>

Inventory value in total will be K656,750

- iii) Storage costs
 Administrative costs
 Abnormal wastage of materials
 Abnormal wastage of labour
 Selling overheads
 Distribution overheads

WORKINGS**1) Cash paid to acquire PPE**

	K'000
Balance c/f	3,247
Plus depreciation expense	465
Plus CA of disposed ppe (4,575-250)	4,325
Less balance b/f	(2,353)
Less leased asset	<u>(280)</u>
Equals cash paid	<u>5,404</u>

2) Tax paid

Deferred tax b/f	310
Plus current tax b/f	1,250
Plus tax charge for the year	3,360
Less deferred tax c/f	(520)
Less current tax c/f	<u>(1,500)</u>
Equals tax paid	<u>2,900</u>

3) Interest paid

Accrued interest b/f	1,010
Plus interest expense	1,420
Less accrued interest c/f	<u>(2,315)</u>
Interest paid	<u>115</u>

4) Lease obligations paid

Lease obligations b/f (230+175)	405
Plus leased asset during the yr	280
Less lease oblignc/f (150+245)	<u>(395)</u>
Equals rentals paid	<u>290</u>

5) Government grant received

Liability c/f (235+750)	985
Add amortization	350
Less Liab of GG b/f (130+215)	<u>(345)</u>
Grant received	990

6) Cash and cash equivalents at:

	31.12.2019	31.12.2018
	K'000	K'000
Cash at bank	8,000	37,420
Short term investment	290	170
Bank overdraft	<u>(10,615)</u>	
	<u>(2,325)</u>	<u>37,590</u>

Decrease in cash and cash equivalents was K39,915 (37,590 + 2,325)



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 15 DECEMBER 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

BM Ltd was formed five years ago in Kitwe and produces a range of health products and supplements for the Copperbelt and Lusaka markets. The management accountant is busy preparing budgets for the first quarter of 2020 and is currently compiling pertinent information relating to one of the company's newest products, the Moringa.

Moringa is a refreshing eye spray mist based on two key organic ingredients namely mineral water and green tea extract. There is a simple manufacturing process and the product is manufactured in a 250ml bottle for everyday use. Details relating to the product are shown below:

1. Projected sales for the first quarter of 2020 are as follows;

	January	February	March
Sales in units (250ml bottles)	4,300	4,380	5,020

The selling price of Moringa is K3.10 per bottle.

2. At 1 January 2020, the company expects to have an opening inventory of 980 bottles of Moringa.
3. The costs incurred to produce one 250ml bottle of Moringa are shown in the table below:

Materials	K
Mineral water (225ml)	0.18
Green tea extract (25ml)	0.30
Recycled plastic 250 ml bottle	0.10
Labour (0.06 hrs. @ K10 per hour)	0.60
Variable production overheads	<u>0.40</u>
Total	<u>1.58</u>

The company has arranged to purchase top quality mineral water at a cost of K0.80 per litre and green tea extract at a cost of K12.00 per litre. These prices have been fixed from 2019 to 2021.

4. At 1 January 2020, the company expects to have 2,000 litres of mineral water and 1,000 litres of green tea extract in inventory. It also expects to have 1,000 250 ml plastic bottles in inventory.
5. Projected closing inventory for the finished products and raw materials are as follows:

End of January	End of February	End of March
---------------------------	----------------------------	-------------------------

Moringa (250ml bottle)	1,000	1,500	2,000
Mineral water (litres)	2,108	3,010	4,108
Green tea extract (litres)	1,000	1,000	2,000
Recycled plastic bottles	1,000	1,500	2,000

Required:

- (a) Prepare the following budgets for the first three (3) months of 2020:
- (i) Sales budget (in units and value) (3 marks)
 - (ii) Production budget in units (3 marks)
 - (iii) Materials purchases budget (in units and value) for each material including mineral water, green tea and recycled plastic bottles.(9 marks)
 - (iv) Labour cost budget (2 marks)
 - (v) Variable production overhead cost budget (2 marks)
- (b) Prepare a budgeted income statement for the first quarter of 2020 based on your calculations in (i) to (v) above. (4 marks)
- (c) Explain two(2) reasons why a company prepares budgets. (2 marks)

[Total:25 Marks]

QUESTION TWO

- (a) Rhodesia Co. currently having three (3) projects in progress, is considering undertaking a one-off building project. The project will use 2 different types of window, standard and decorative. Standard windows currently cost K40 each and the project will require 20,000 of these. Decorative windows currently cost K120 each and the project will require 2,000 of these. Rhodesia Co. has 7,000 standard windows in stock which cost K30 when they were purchased 3 months ago. These are used in all projects undertaken by Rhodesia Co. Rhodesia Co has 300 decorative windows in stock which cost K150 when they were purchased. The decorative windows are currently not in use and are not expected to be used on future projects. However, decorative windows could be sold for their current cost price less 10% due to some damages.

Required:

- (i) Calculate the total relevant cost of the windows for the project? (5 marks)
 - (ii) Explain sunk costs, opportunity costs, incremental costs and avoidable costs in the context of relevant costing. (8 marks)
- (b) Kokoliko Ltd is a manufacturing company based in Muchinga province of Zambia. It manufactures grips for use on hurleys. The following is a budgeted Income Statement for Kokoliko Ltd for June 2019:

	K	K
Sales revenue		9,600

Direct materials	4,000	
Direct labour	960	
Production overhead	3,600	
Selling overhead	<u>560</u>	
		<u>9,120</u>
Profit		<u>480</u>

The following information is also supplied:

1. The monthly budgeted production and sales is 4,000 units.
2. The following breakdown between fixed and variable costs applies;

	Variable	Fixed
Direct materials	100%	N/A
Labour	K400	K560
Production overhead	K1,440	K2,160
Selling overhead	100%	N/A

Required:

Calculate for the whole year the following:

- (i) Contribution
- (ii) Contribution per unit
- (iii) Contribution/sales ratio
- (iv) Breakeven sales volume
- (v) Margin of safety as a percentage of budget
- (vi) Sales volume required to achieve a profit of K17,280.

Note; each section carries equal marks

(12 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

The management accountant of FA Sport Ltd is finding it difficult to cope with increasing demand for information and asked for your help. You have been asked to prepare variance analysis information for the March board meeting. You have been provided with budgeted and actual information as shown below:

Budgeted information for the Month of March:

Production in units	<u>25,000</u>
	K
Direct Materials (250,000 kg)	362,500
Direct Labour (87,500 hours)	1,089,375
Variable production overheads	271,250

Actual results for the month of March:

Production in units	<u>27,000</u>
	K
Direct materials (263,250 kg)	394,875
Direct Labour (97,200 hours)	1,190,700
Variable production overheads	306,180

Notes:

1. Actual fixed production overheads for March amounted to K172,400
2. Budgeted fixed production overheads are K175,000 per month.
3. Production overheads are applied to production based on budgeted labour hours.

Required:

- (a) Prepare a cost statement showing the original budget, flexed budget and actual results. (7 marks)
- (b) Calculate relevant variances in as much detail as information permits.

(14 marks)

- (c) Explain the meaning of the terms:
- (i) Ideal standards
 - (iii) Attainable standards
 - (iv) Current standards
 - (v) Basic standards (4 mark)

[Total:25 Marks]

QUESTION FOUR

- (c) Masaiti Limited is a producer and supplier of various mining industry components in Zambia and abroad particularly the Democratic Republic of Congo. Over the years, the company has been using traditional management accounting techniques to cost its products as well as providing information for decision making. Developments in business practices and production systems have caused the company to adopt latest management accounting techniques such as Throughput Accounting, Activity Based Costing, Target Costing and Life cycle Costing when circumstances are appropriate.

The following information relates to product **Nozzle**.

No. Units Sold Per Day	500
Sales Price	K250
Direct Materials Cost per unit	K100
Other Factory Costs per Day	K60,000
No. Hours of bottleneck used per day	8

Required:

- (i) Calculate the Return Per Factory Hour. (3 marks)
 - (ii) Calculate the Throughput Accounting Ratio. (2 marks)
 - (iii) Suggest five (5) ways the TA ratio can be improved. (5 marks)
- (d) Chongwe Limited manufactures various products. Recently it developed a high tech product whose lifecycle is short. The product is the first of its kind on the market and likely to face competition as its growth increases. Management has been discussing on the pricing strategy to use in launching the product.

Required:

- (i) Identify and explain the most appropriate pricing strategy to use in launching the new product. (4 marks)

- (ii) Explain any other two (2) pricing strategies that an organisation can use.
(6 marks)
- (e) In Target Costing, the difference between the estimated costs and the target cost is known as the 'Target Cost Gap'.

Required:

Explain five (5) strategies of closing the target cost gap (5 marks)
[Total 25 Marks]

QUESTION FIVE

NsombaCo. Manufactures fishing nets using imported materials. It has been ascertained that the market for the fishing nets is nil at K360 per net, 5,000 nets at nil price and that there is a linear relationship between price and demand for prices per net between nil and K360. The variable cost of manufacturing one fishing net is K90.

Required:

- (a) Calculate the selling price per fishing net that will maximise profit. (8marks)
- (b) Next year's budget for NsombaCo. is as follows:

Sales revenue	K6,720,000
Average receivables	K607,200
Gross profit margin	25% on sales
Average inventories:	
Finished goods	K420,000
Work in progress	K660,000
Raw materials	K264,000
Average payables	K252,000

Total cost of sales is twice the material costs.

Cost of materials has risen rapidly over the recent years due to high inflation in the material exporting countries. This has adversely affected the company's margins and led to increasing liquidity problems attracting shareholders attention.

Required:

- (i) Calculate the cash operating cycle to the nearest day. (8 marks)
- (ii) Discuss the significance of trade credit and the risks associated with extended trade credit. (9 marks)

[Total 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

a) i) Sales budget

	<u>Jan</u>	<u>Feb</u>	<u>March</u>
		<u>Total</u>	
Sales units	4,300	4,380	5,020
Selling price	<u>K3.10</u>	<u>K3.10</u>	<u>K3.10</u>
Value (K)	<u>13,330</u>	<u>13,578</u>	<u>15,562</u>
	<u>42,470</u>		

ii) Production budget in units (250 ml bottle)

	<u>Jan</u>	<u>Feb</u>	<u>March</u>
Sales	4,300	4,380	5,020
Add; closing inventory	<u>1,000</u>	<u>1,500</u>	<u>2,000</u>
	5,300	5,880	7,020
Less; opening inventory	<u>980</u>	<u>1,000</u>	<u>1,500</u>
Production required in 250 ml bottles	<u>4,320</u>	<u>4,880</u>	<u>5,520</u>
Production required in litres	1,080	1,220	1,380

iii) Materials purchases budget

Each 250ml bottle contains 225ml or 90% mineral water and 25ml or 10% green tea extract.

Mineral water

	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>Total</u>
Production in litres	1,080	1,220	1,380	
Mineral water required per 250ml bottle i.e 90%	972	1,098	1,242	
Closing inventory	<u>2,108</u>	<u>3,010</u>	<u>4,108</u>	
	3,080	4,108	5,350	
Less; opening inventory	<u>2,000</u>	<u>2,108</u>	<u>3,010</u>	
Purchases required	1,080	2,000	2,340	
Cost per litre	<u>K0.80</u>	<u>K0.80</u>	<u>K0.80</u>	
Value	<u>K864</u>	<u>K1,600</u>	<u>K1,872</u>	<u>K4,336</u>

Green tea extract

<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>Total</u>
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Production in litres	1,080	1,220	1,380	
Green tea extract per 250ml bottle i.e 10%	108	122	138	
Closing inventory	<u>1,000</u>	<u>1,000</u>	<u>2,000</u>	
	1,108	1,122	2,138	
Less; opening inventory	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	
Purchases required	108	122	1,138	
Cost per litre	<u>K12</u>	<u>K12</u>	<u>K12</u>	
Value	<u>K1,296</u>	<u>K1,464</u>	<u>K13,656</u>	<u>K16,416</u>

Recycled plastic bottles

	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>Total</u>
Production in 250ml bottles	4,320	4,880	5,520	
Closing inventory	<u>1,000</u>	<u>1,500</u>	<u>2,000</u>	
	5,320	6,380	7,520	
Less; opening inventory	<u>1,000</u>	<u>1,000</u>	<u>1,500</u>	
Purchases required	4,320	5,380	6,020	
Cost per bottle	<u>K0.10</u>	<u>K0.10</u>	<u>K0.10</u>	
Value	<u>K432</u>	<u>K538</u>	<u>K602</u>	<u>K1,572</u>

iv) **Labour cost budget**

	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>Total</u>
Production in 250ml bottles	4,320	4,880	5,520	
Cost to produce each bottle	<u>K0.60</u>	<u>K0.60</u>	<u>K0.60</u>	
Cost	<u>K2,592</u>	<u>K2,928</u>	<u>K3,312</u>	<u>K8,832</u>

Alternative Labour cost budget

	<u>Jan</u>	<u>Feb</u>	<u>March</u>
Total			
Production in 250ml bottles	4,320	4,880	5,520
X labour hours per 250ml bottle	<u>0.06</u>	<u>0.06</u>	<u>0.06</u>
Labour hour requirement	259.2	292.8	331.2
X labour cost per hour (K)	<u>10</u>	<u>10</u>	<u>10</u>
Labour cost (K)	<u>2,592</u>	<u>2,928</u>	<u>3,312</u>
	<u>8,832</u>		

v) **Variable production overhead**

	<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>Total</u>
Production in 250ml bottles	4,320	4,880	5,520	
Cost to produce each bottle	<u>K0.40</u>	<u>K0.40</u>	<u>K0.40</u>	
Variable overhead Cost	<u>K1,728</u>	<u>K1,952</u>	<u>K2,208</u>	<u>K5,888</u>

b) **Income Statement**

Sales		K		K
Cost of sales;				42,470
Opening inventory (note1)		15,248		
Production cost (note 2)	<u>37,044</u>			
		52,292		
Closing Inventory (Note 3)		<u>30,646</u>		
Cost of sales				<u>(21,646)</u>
Gross profit				<u>20,824</u>

Note 1

<u>Opening inventory</u>	<u>Quantity</u>	<u>Cost</u>	<u>Value</u>
Moringa	980	K1.58	K1,548
Mineral water	2,000	K0.80	K1,600
Green tea extract	1,000	K12.0	K12,000
Recycled plastic bottles	1,000	K0.10	<u>K100</u>
			<u>K15,248</u>

Note 2

Production costs

	<u>K</u>
Mineral water	4,336
Green tea extract	16,416
Recycled plastic bottles	1,572
Labour	8,832
Variable overheads	<u>5,888</u>
	<u>37,044</u>

Note 3

<u>Closing inventory</u>	<u>Quantity</u>	<u>Cost</u>	<u>Value</u>
Moringa	2,000	K1.58	K3,160
Mineral water	4,108	K0.80	K3,286
Green tea extract	2,000	K12.0	K24,000
Recycled plastic bottles	2,000	K0.10	<u>K200</u>
			<u>K30,646</u>

c) Reasons why a company should prepare budgets

Any two:

Control

Once prepared, budgeted figures are compared with actual results and a variance is extracted. The reasons for this variance are then investigated so as to make necessary corrections and control the company's operations.

Agreed targets

Budgets establish targets for all aspects of an organization's operations.

Improve co-ordination

Preparation of budgets requires managers to combine their plans and objectives with those of other managers and this ensures that each plan fits with the company's overall objectives.

Improve communication

In preparing budgets, the organization must ensure that it communicates effectively with all those involved in the budget process.

SOLUTION TWO

(c) (i) Relevant cost of windows project

	K
Standard Windows in Stock (Used regularly so 7,000 x 40)	280,000
Standard Windows not in Stock (20,000 - 7,000) x 40)	520,000
Decorative windows in Stock (120 x 0.9) x 300	32,400
Decorative windows not in Stock (2,000 - 300) x 120	<u>204,000</u>
Total Cost of Windows	<u>1,036,400</u>

(ii) **Sunk costs**

These are costs that have already been incurred. They are irrelevant for decision making. The reason for this is that in any decision we will be concerned with whether or not the future benefits from the decision will outweigh the future costs. Any costs already incurred will remain payable whatever decision we make.

Opportunity costs

This is the value of a benefit sacrificed when one course of action is taken in preference to an alternative.

Incremental costs

Incremental means extra, or additional. These are any extra costs which would be incurred as a result of the decision and will therefore be relevant to the decision.

Avoidable costs

These are the specific fixed costs of an activity or sector of a business which would be avoided if that activity or sector did not exist. These costs are usually associated with decisions as to whether or not to shut down a sector. If we were to shut down a sector, then any contribution from that area would be lost, but any avoidable fixed costs of that area would be saved.

b) i) **Total contribution**

	K
Sales revenue	9,600
Variable costs	6,400
Contribution	3,200

ii) **Contribution per unit** = Total contribution / Total units
= 3,200 / 4,000 = K0.80 per unit

iii) **C/S ratio** = Contribution / sales X 100
= 3,200 / 9,600 X 100
= 33.33%

$$\begin{aligned} \text{iv) Breakeven sales volume} &= \text{Fixed costs} / \text{Contribution per unit} \\ &= \text{K2,720} / \text{K0.80 per unit} \\ &= \underline{\underline{3,400 \text{ units}}} \end{aligned}$$

$$\begin{aligned} \text{v) Margin of safety (\%)} &= [(\text{Budgeted sales} - \text{Breakeven sales}) / \text{Budgeted sales}] \times 100 \\ &= [(4,000 - 3,400) / 4,000] \times 100 \\ &= \underline{\underline{15\%}} \end{aligned}$$

vi) **Sales volume required to achieve profit of K17,280**

$$\begin{aligned} &= \frac{\text{Total fixed costs} + \text{target profit}}{\text{Contribution per unit}} \\ &= \frac{\text{K2,720} + \text{K17,280}}{\text{K0.80}} \\ &= \underline{\underline{25,000 \text{ Units}}} \end{aligned}$$

Working 1

	<u>Variable</u> (K)	<u>Fixed</u> (K)
Direct material	4,000	-
Direct labour	400	560
Production overhead	1,440	2,160
Selling overhead	560	-
	6,400	2,720

SOLUTION THREE

a) **Statement of original budget, flexed budget and actual results**

Original budget	Flexible budget	Actual results	
Production units	25,000	27,000	27,000
K	KK		
Direct material	362,500	391,500	394,875
Direct Labour	1,089,375	1,176,525	1,190,700
Variable production overheads		<u>271,250</u>	<u>292,950</u>
Total variable costs	1,723,125	1,860,975	1,891,755
Fixed production overheads		<u>175,000</u>	<u>175,000</u>
Total production costs		<u>1,898,125</u>	<u>2,035,975</u>
		<u>2,064,155</u>	

Working

Standard cost card for one unit of product

		K
Direct material	10kgs @ K1.45 per kg	14.50
Direct Labour	3.5 hours @ K12.45 per hour	43.57
Variable production overheads	3.5 hours @ K3.10 per hours	<u>10.85</u>
Variable production cost per unit		<u>68.92</u>

b) **Variances Calculations**

Material price variance

	K
263,250 kg should have cost @K1.45 per kg	381,712.50
But did cost	394,875.00
Variance	<u>13,162.50 (A)</u>

Material usage variance

27,000 units should have used @ 10 kg per unit	270,000 kg
But did use	<u>263,250 kg</u>
Difference in usage	6,750 kg F
Standard price per kg	X <u>K1.45</u>
Variance	<u>K9,787.50 (F)</u>

Direct Labour rate variance

	K
97,200 hours should have cost @ K12.45 per hour	1,210,140
But did cost	1,190,700
Variance	<u>19,440 (F)</u>

Direct labour Efficiency variance

27,000 units should have taken @ 3.5 hours per unit	94,500 hours
But did take	<u>97,200 hours</u>
Difference in efficiency	2,700 hours A
Standard rate per hour	X K12.45
Variance	<u>K33,615 (A)</u>

Variable production Expenditure variance K

	K
97,200 hours should have cost @ K3.10 per hour	301,320
But did cost	306,180
Variance	<u>4,860 (A)</u>

Variable production Efficiency variance

2,700 hours (A) @ K3.10 per hour	<u>K8,370 (A)</u>
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Fixed production overhead variance

	K
Budgeted fixed production overhead	175,000
Actual production overhead	172,400
Variance	<u>2,600 (F)</u>

Fixed overhead capacity variance

Actual hours worked	97,200 hours
Budgeted hours of work	87,500 hours
Difference in capacity	<hr/> 9,700 hours A
Standard rate per hour	X K2
Variance	<hr/> K19,400(F) <hr/>

Fixed overhead efficiency variance

Actual hours worked	97,200 hours
Standard hours	94,500hours
Difference in capacity	<hr/> 2,700 hours A
Standard rate per hour	X K2
Variance	<hr/> K5,400(A) <hr/>

c) **Types of standards**

i. IDEAL STANDARDS

Ideal standards are standards which can be attained under perfect operating conditions, with no wastage, no inefficiencies, no idle time and no breakdowns. These standards are likely to have an unfavorable motivational impact, because employees will often feel that the goals are unattainable and not work so hard.

ii. ATTAINABLE STANDARDS

Attainable standards are standards which can be attained if production is carried out efficiently, machines are properly operated and materials are properly used. Some allowance is made for wastage, inefficiencies, machine breakdowns and fatigue. If well-set they provide a useful psychological incentive, and for this reason they should be introduced whenever possible. The consent and co-operation of employees involved in improving the standard are required

iii. CURRENT STANDARDS

Current standards are standards based on current working conditions (current wastages, current inefficiencies).The disadvantage of current standards is that they do not attempt to improve on current levels of efficiency, which may be poor capable of significant improvement.

iv. BASIC STANDARDS

Basic standards are standards which are kept unaltered over a long period of time, and may be out-of-date. They are used to show changes in efficiency or performance over an extended time period. Basic standards are perhaps the least useful and least common type of standard in use.

SOLUTION FOUR

(f) (i) Return per factory hour

Sales per day (500 units x K250)	K125,000
Less Direct Materials (500 units x K100)	<u>K50,000</u>
Throughput	<u>K75,000</u>
Usage of bottleneck hours per day	8

$$\begin{aligned} \therefore \text{Return per factory hour} &= \text{K75,000}/8 \text{ hours} \\ &= \mathbf{K9,375} \end{aligned}$$

(ii) Calculate the Throughput Accounting Ratio.

Return per factory hour as above	K9,375
Total factory costs/hour (K60,000/8)	K7,500

$$\begin{aligned} \therefore \text{Throughput Accounting Ratio} &= \text{K9,375}/\text{K7,500} \\ &= \mathbf{1.25} \end{aligned}$$

(iii) Five ways the TA ratio can be improved

- Increase the selling price per unit
- Reduce material costs per unit if possible
- Reduce the time on the bottleneck process
- Redesign the bottleneck process
- Invest in capacity to increase the bottleneck

(g) (i) The product is high tech with a short product lifecycle and the first of its kind with a high likelihood of facing competition at growth stage. The most appropriate pricing strategy at launch is skimming.

Skimming pricing strategy involves charging high prices when the product is launched and spending heavily on advertising and sales promotion to obtain sales. This will enable the company to gain high unit profits early in the product's life.

(ii) Cost-plus pricing *is a* pricing strategy in which the selling *price* is determined by adding a specific markup to a product's unit *cost*. Under this approach, you add together the direct material *cost*, direct labor *cost*, and overhead *costs* for a product, and add to it a markup percentage in order to derive the *price* of the product.

(c) Five (5) strategies of closing the target cost gap include:-

- Reduce the number of components.
- Use standard Components.
- Improve labour efficiency.

- Use cheaper materials or labour.
- Use new technology.
- Cut non-value-adding activities.

SOLUTION FIVE

- (a) Selling price for a fishing net that maximises profit is obtained when marginal revenue just equal marginal cost of an extra finishing net.

$$\begin{aligned}\text{Demand equation: } & P = a - bQ \\ \text{Marginal revenue: } & MR = a - 2bQ\end{aligned}$$

The price for which demand is nil (a) = K360
Gradient of the straight line between (nil price, 5000 nets) and (K360 price, nil nets) is the value of b. Hence $b = 0.072$.

$$\text{Hence: } P = 360 - 0.072Q$$

$$\text{Profit maximising quantity: } MR = MC$$

$$\begin{aligned}MR &= 360 - (2 \times 0.072)Q \\ MR &= 360 - 0.144Q\end{aligned}$$

$$MC = K90 \text{ (given)}$$

Equating MR to MC gives the profit maximising quantity(Q) = 1,875 finishing nets.

$$\begin{aligned}\text{Therefore optimum price} &= 360 - (0.072 \times 1,875) \\ &= \underline{\underline{K225}}\end{aligned}$$

- (b) Calculation of the parts of the cash operating cycle

$$\begin{aligned}\text{(i) Cost of sales} &= K6,720,000 \times 0.75 \\ &= \underline{\underline{K5,040,000}}\end{aligned}$$

$$\begin{aligned}\text{If cost sales is twice the cost of material, purchases} &= \frac{1}{2} \times K5,040,000 \\ &= \underline{\underline{K2,520,000}}\end{aligned}$$

$$\begin{aligned}\text{Raw material inventory holding period} &= \frac{\text{Raw materials}}{\text{Purchases}} \times 365 \text{ days} \\ &= \frac{K264,000 \times 365 \text{ days}}{K2,520,000} \\ &= \underline{\underline{38.2 \text{ days}}}\end{aligned}$$

$$\begin{aligned}\text{Work in progress inventory period} &= \frac{\text{Work in progress}}{\text{Cost of sales}} \times 365 \text{ days} \\ &= \frac{K660,000 \times 365 \text{ days}}{K5,040,000} \\ &= \underline{\underline{47.8 \text{ days}}}\end{aligned}$$

$$\begin{aligned}\text{Finished goods inventory period} &= \frac{\text{Finished goods}}{\text{Cost of sales}} \times 365 \text{ days} \\ &= \frac{K420,000 \times 365 \text{ days}}{K5,040,000} \\ &= \underline{\underline{30.4 \text{ days}}}\end{aligned}$$

$$\begin{aligned}
 \text{Trade receivables period} &= \frac{\text{Trade receivables}}{\text{Sales}} \times 365 \text{ days} \\
 &= \frac{K607,200}{K6,720,000} \times 365 \text{ days} \\
 &= \underline{33.0 \text{ days}}
 \end{aligned}$$

$$\begin{aligned}
 \text{Trade payables period} &= \frac{\text{Trade payables}}{\text{Purchases}} \times 365 \text{ days} \\
 &= \frac{K252,000}{K2,520,000} \times 365 \text{ days} \\
 &= \underline{36.5 \text{ days}}
 \end{aligned}$$

Cash Operating Cycle

	Days
Raw material inventory period	38.2
Trade payables period	(36.5)
Work in progress inventory period	47.8
Finished goods inventory period	30.4
Trade receivables period	<u>33.0</u>
	<u>112.9</u>

- (ii) Trade payables provide a critical source of short-term finance for most of the firms. Currently, most of the companies do not impose interest charges on overdue accounts. Therefore, taking extended credit is deemed to be a relatively cheap form of short-term source of finance.

There are however, risks and costs not immediately apparent, associated with taking extended credit policy.

Where discounts are foregone, effective costs of taking an extended credit should be evaluated as it may be more beneficial to shorten the credit period and take the discounts.

A company with a reputation of slow payment will endanger its credit references and may find it difficult to obtain credit from new suppliers in the future.

Suppliers who are waiting for their money may seek recompense in other ways such as raising prices and placing a lower priority on new orders. This could damage both the efficiency and profitability of the company.

A company may be placed on stop by suppliers until the account is settled. This may jeopardise supplies of essential raw materials which in turn could cause production disruption, providing a company with a high level of unwanted costs.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 10 TAXATION

THURSDAY 17 DECEMBER 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: 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%
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Industrial Buildings:

Wear and Tear Allowance	5%
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Initial Allowance		10%
Investment Allowance		10%
Low Cost Housing	(Cost up to K20,000)	
Wear and Tear Allowance		10%
Initial Allowance		10%

Commercial Buildings

Wear and Tear Allowance		2%
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Farming Allowances

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

Presumptive Taxes

Turnover Tax		4%
Presumptive Tax for Transporters		

Seating capacity

	Tax per annum	Tax per day
	K	K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.40

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

Motor vehicles for the transport of ten or more persons, including the driver	Aged below 5 years		Aged 5 years and over	
	Customs duty K	Excise duty K	Customs duty K	Excise duty K
Sitting capacity of 10 but not exceeding 14	17,778	22,223	8,889	11,112

persons including the driver				
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged below 5 years		Aged 5 years and over	
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Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars

Customs duty	Excise duty	Customs duty	Excise duty
K	K	K	K

Sedans

cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642

Hatchbacks

cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642

Station wagons

cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

SUVs

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

Aged below 5 years	Aged 5 years and over
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Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):

Customs duty	Excise duty	Customs duty	Excise duty
K	K	K	K

Single cab

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	30,697	13,302	24,119	10,452

Panel Vans

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

Trucks

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, with spark ignition internal combustion piston engine	37,086	28,432	13,907	10,662

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:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

Attempt BOTH questions in this section.

QUESTION ONE

- (a) Josephine Pintu, a sole trader, has been in business for many years preparing her financial statements to 31 December each year. Her annual turnover has always exceeded K800,000. For the tax year 2020, she estimated her provisional taxable business profits after capital allowances to be K400,000. Based on this profit, she computed and paid provisional income tax.

During the year ended 31 December 2020 the actual taxable business profit after capital allowances amounted to K350,000. In addition, she received royalties amounting to K69,700 (net) and bank interest amounting to K5,000 (gross).

Required:

- (i) Explain any three (3) types of persons required to pay provisional income tax. (3 marks)
- (ii) Compute the provisional income tax paid by Josephine Pintu for the tax year 2020. (3 marks)
- (iii) Calculate the amount of income tax payable by Josephine Pintu for the tax year 2020. (5 marks)
- (b) Lovemore Zulu has been an employee of A Plc, a Zambian resident company, as Marketing Manager. His annual salary has been K330,000 for the last three years. On 30 September 2020 he retired from employment. His other conditions of service were:

	K
Housing allowance per month	5,800
Transport allowance per month	2,100
Telephone allowance per month	760

During the tax year 2020, the company paid K18,750 in respect of school fees for Mr. Zulu's children. Mr. Zulu was reimbursed K25,000 medical expenses he incurred in respect of his sick wife during the tax year 2020. On 2 May 2020, Mr. Zulu

received a labour day award consisting of cash K8,000 and a dining table set valued at K16,000. In addition he received a long-term service award amounting to K10,000 cash on 10 July 2020.

On retirement, Mr. Zulu received the following benefits:

	K
Pension	420,000
Repatriation pay	47,000
Leave pay	30,000
Severance pay	42,600

During the tax year 2020, he incurred the following expenses:

	K
Medical expenses for his sick wife	10,000
Professional subscription	4,800
Donation to approved public benefit organisation	11,200
PAYE	97,831
Donation to political party	5,000
Travelling expenses from home to place of work	15,000

Mr. Zulu has always contributed NAPSA at 5% of his basic salary.

Other income

Mr. Zulu received the following income from his investments:

	K
Dividends from Z Limited	15,300
Royalties	46,750
Bank deposit interest	3,000
Interest on Government bonds	4,250

The amounts of investment income are the actual amounts of cash received.

Withholding tax had been deducted at source.

Required:

Calculate the amount of income tax payable by Mr. Zulu for the tax year 2020.

(14 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Explain meaning the following types of taxes levied by the ZRA on tax payers in Zambia.

- | | | |
|-------|------------------------------------|-----------|
| (i) | Turnover tax | (2 marks) |
| (ii) | Presumptive taxes for transporters | (2 marks) |
| (iii) | Customs duty | (2 marks) |
| (iv) | Income tax | (2 marks) |

(b) Mulimi runs a farming business in the Central Province of Zambia. He prepares accounts to 31 December each year. The profit and loss account for the year ended 31 December 2020 was as follows:

	K	K
Gross profit		1,210,000
Less expenses:		
Drawings	Note 1	15,000
Maintenance expenses	Note 2	57,100
Motor vehicle running expense	Note 3	32,000
General expenses	Note 4	45,600
Wages and salaries	Note 5	157,700
Entertainment	Note 6	<u>12,600</u>
		<u>(320,000)</u>
Net profit		<u>890,000</u>

Notes to the profit and loss account are as follows:

Note 1 – Drawings

Farm produce with a cost of K15,000 withdrawn from the business by Mulimi for personal use. He makes a mark-up of 20%. This transaction was recorded as sales at cost in his books.

Note 2 – Maintenance expenses

Maintenance expenses includes the following:

	K
Repainting storage facilities	5,600
Repair and maintenance to business assets	6,200
Stumping and clearing of fields in readiness for planting	10,500
Construction of a wire fence around the farm	16,300
Expenditure on works for the prevention of soil erosion	<u>18,500</u>
	<u>57,100</u>

Note 3 – Motor vehicle running expenses

Motor vehicle running expenses consists of:

	K
Servicing and fuel for farm tractor	22,500
Repairs and fuel for motor van	<u>9,500</u>
	<u>32,000</u>

It has been agreed with the Commissioner General that Mulimi has private use of 25% of the motor van.

Note 4 – General expenses

General expenses included:

	K
Increase in general provision for bad debts	2,600
Staff insurance	4,200
Loss on disposal of farm implements	7,100
Depreciation of assets	14,400
Advertisement to increase business sales	<u>17,300</u>
	<u>45,600</u>

Note 5 – Wages and salaries

Wages and salaries is comprised of:

	K
Employer's pension contributions	4,500
Salaries and wages for farm employees	31,100
Staff farming training courses	20,100
Loans to former farm employees written off	12,000
Mulimi's salary	<u>90,000</u>
	<u>157,700</u>

Note 6 - Entertainment

This was expenditure incurred on entertaining members of staff.

Other information

Mulimi bought a motor van in March 2018 at a cost of K85,000. During the year, he purchased a tractor at a cost of K145,000 and sold some farm implements for K8,500. The farm implements had an income tax value of nil at 1 January 2020, whilst the original cost was K60,000.

Required:

- (i) Calculate the capital allowances that are claimable by Mulimi in the tax year 2020. (7 marks).
- (ii) Calculate the taxable farming profit of Mulimi and the final amount of income tax payable by him for the tax year 2020. (10 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) A tax payer who is not happy with a tax assessment made by the Zambia Revenue Authority on their business may appeal to the Tax Appeals Tribunal (TAT).

Required:

- (i) Explain the main functions of the Tax Appeals Tribunal (TAT). (2 marks)
 - (ii) Describe the tax appeals process that tax payers should follow when appealing ZRA assessment. (6 marks)
- (b) Property transfer tax is chargeable on any person who transfers property to another person in accordance with the Property Transfer Act. Cap 340 of the laws of Zambia.
- And the following transactions are to be considered:
- (i) Fred Mwanza sold 150,000 ordinary shares of K1.50 each in Simba Plc. for K350,000 on 31 March 2020. Simba Plc. was listed on the Lusaka Securities Exchange (LuSE) in September 2017.
 - (ii) Tuza Mwila sold a farming plot in Mkushi farming block for K350,000 on 1 October 2020 which was bought from a prominent farmer in the same area in February 2016.
 - (iii) Jupiter Nyao sold 1,500,000 ordinary shares of K1.00 each in Mika Ltd. for K2, 000,000 on 28 February 2020. She bought these shares in the company in June 2018 immediately the company commenced operations.
 - (iv) Bina Mwiinga sold 350,000 ordinary shares of K1.00 each in Shinka Plc. for K400,000 on 30 April 2020. Shinka Plc was listed on the Lusaka Securities Exchange (LuSE) in September 2017.

Required:

Calculate the property transfer tax in each of the above transactions and state the due date of payment.(8 marks)

- (c) The Zambia Revenue Authority (ZRA) is an established body formed by Zambia Revenue Authority Act whose mandate is to collect tax revenue on behalf of the Government of the Republic of Zambia (GRZ). In order to ensure this mandate is fulfilled, ZRA has been given some powers.

Required:

- (i) Explain any four (4) responsibilities of the Zambia Revenue Authority (ZRA). (4 marks)
- (ii) Explain any five (5) powers of the Zambia Revenue Authority (ZRA). (5 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Mr. Sofa imported a brand new 1200 cc Toyota Vitz from Japan costing \$3,100 in March 2020. Insurance and freight charges paid for the car amounted to \$2,300. Port charges and transportation cost of the vehicle to Durban amounted to \$350 and \$150 respectively. The delivery cost of the vehicle from Durban to Chirundu Border amounted to \$850. And the transport cost from Chirundu Border to Lusaka was \$150.

The exchange rate quotations as agreed to by the commissioner General at the border was K16.50 per US\$.

Required:

- (i) Calculate the total import taxes clearly showing Customs duty, Excise duty and Import VAT(Value Added Tax) (5 marks)
- (ii) List any three(3) documents that must be presented at the border on importation of a motor vehicle. (1½ marks)

- (b) Value Added Tax is chargeable on taxable supplies made by a Value Added Tax registered trader.

Required:

In the context of Value added tax, briefly explain the following:

- (i) Taxable supplies, clearly explaining the two types of these supplies
- (ii) Exempt supplies
- (iii) Value Added tax Registered trader
- (iv) Input tax and output tax

(8 marks)

- (c) Aisha Jere is a VAT registered person who buys and sales a variety of goods within Zambia. And all his sales are standard rated. In relation to his return for the month of March 2020 the following details are given:

1. Standard rated sales amounted to K538, 000 and it is normal practice for Aisha to offer his customers a 10% cash discount and normally only 75% of the customers take up the discount.
2. On 20 March 2020 Aisha wrote off bad debts of K8,100 half of which was due on 31 December 2019 and the other half was due 30 June 2018.
3. Standard rated purchases and expenses amounted to K7,900 and this figure is inclusive of an amount of K500 for the entertainment of suppliers.
4. On the 29 March 2020 Aisha purchased plant and machinery at a cost of K170,000 inclusive of tax.

Unless otherwise stated, all the figures are exclusive of tax.

Required:

- (i) Calculate the amount of VAT payable or refundable to Aisha for the month of March 2020 and explain its due date. (8½ marks)
- (ii) Explain the meaning and significance of the tax point (2 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Mr. J. Kwenda has been in business for many years preparing accounts to 31 December each year. He has provided the tax adjusted trading results for the year ended 31 December 2020 and forecasted results for the years ended 31 December 2021 and 31 December 2022.

Required:

- (i) Identify the basis of assessment which will apply.
- (ii) State the tax years in which the years ending 31 December 2020, 31 December 2021 and 31 December 2022 will be assessed, clearly showing the basis periods. (4 marks)
- (b) Big and Nayo are in partnership sharing profits and losses in the ratio 2:3 respectively after allowing for partnership salaries of K80,000 per annum for each. The partnership accounts are prepared annually to 31 December.

On 1 April 2020, Mbila was admitted to the partnership and with effect from that date, the partnership agreement was changed. Profits and losses and partners' annual salaries were to be provided for as given in the table below:

	Big	Nayo	Mbila
Salaries per annum	K64,000	K60,000	K56,000
Share of balance of profits or losses	5 : 1	3 : 1	2

The partnership's profit and loss account for the year ended 31 December 2020 was as follows:

		K	K
Gross profit			754,940
Less expenses:			
Depreciation		16,300	
Repairs and renewals	Note 1	31,760	
Wages and salaries	Note 2	257,300	
Rent and rates	Note 3	168,580	
Electricity	Note 4	5,030	
Legal expenses	Note 5	8,430	

Other expenses	Note 6	24,280	
Water expenses	Note 7	20,360	
Motor car running expenses	Note 8	<u>12,500</u>	
			(544,540)
Net profit			<u>210,400</u>

The following notes to the profit and loss account are given:

Note 1 – Repairs and renewals

This includes initial repairs of K3,000, incurred on repairing a second hand fire safety equipment in the factory purchased during the year that was not in business usable form.

Note 2 – Wages and salaries

Included in wages and salaries are the partners' salaries of K24,000 for Big and K10,000 for Nayo and 18,000 for Mbila. The balance is wages and salaries for the employees employed by the business.

Note 3 – Rent and rates

One third (1/3) of the expenditure on rent and rates relates to rent paid for the partners' private residences.

Note 4 – Electricity

The charge for electricity is made up as follows:

	K
Electricity for partners' houses	1,382
Administrative offices	1,658
Factory	<u>1,990</u>
Total	<u>5,030</u>

Note 5 – Legal expenses

These are made up of the following:	K
Legal fees in connection with drafting employees service contract	1,100
Lawyers' fees in connection with defending title to land	1,730
Recovery of trade debts	1,200
Registration of title for the newly acquired land	2,400
Unsuccessful appeal against previous year's income tax assessment	<u>2,000</u>
Total	<u>8,430</u>

Note 6 – Other expenses

These expenses consist of the following:

	K
Donation to PMF, a political party	5,000
Postage and stationery	6,200
Donation to an approved public benefit organization	<u>13,080</u>
Total	<u>24,280</u>

Note 7 – Water expenses

These are expenses incurred wholly and exclusive for purpose of the partnership business.

Note 8 – Motor car running expenses (See note 9 also below)

The partners use their own personal private motor cars in the partnership's business. The following information has been provided:

Partner	Private mileage %	Motor car expenses K
Big	25	4,420
Nayo	20	4,300
Mbila	40	<u>3,780</u>
	<u>12,500</u>	

Note 9 – Partners private motor cars (See note 8 also above)

The following information is about the partners' motor cars referred to in note 8 above:

	Purchase Cost (K)	Date brought into business use
Big's car	128,000	1 October 2019
Nayo's car	130,000	1 November 2019
Mbila's car	136,000	1 April 2020

Capital allowances on other partnership assets were K24,000 for the year ended 31 December 2020.

Required:

- (i) Calculate the partnership's tax adjusted business profit for the year ended 31 December 2020 before division between the partners. (9 marks)
- (ii) Calculate the amount of business profits on which each partner will be assessed for the year ended 31 December 2020. (12 marks)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Josephine Pintu

- (i) The following are the persons required to pay provisional income tax:
1. Any person whose annual business earnings are more than K800,000.
 2. Any person whose income does not constitute income from employment.
 3. Any person whose taxable income is more than the tax free amount of K39,600.

(ii) Josephine Pintu

Provisional income tax for the tax year 2020

	K
Provisional income	<u>400,000</u>
Tax Computation	
First K39,600 @0%	0
Next K9,600 @25%	2,400
Next K25,200 @30%	7,560
Balance K325,600 @37.5%	<u>122,100</u>
Provisional tax paid	<u>132,060</u>

(iii) Josephine Pintu

Income tax payable for the tax year 2020

	K
Business profits	350,000
Royalties K69,700 x 100/85	<u>82,000</u>
Taxable income	<u>432,000</u>
Computation	
First K39,600 @0%	0
Next K9,600 @25%	2,400
Next K25,200 @30%	7,560
Balance K357,600 @37.5%	<u>134,100</u>
Income tax liability	144,060
Less:	
Provisional income tax	(132,060)
WHT-Royalties: K82,000 x 15%	<u>(12,300)</u>
Income tax refund	<u>(300)</u>

(b) Lovemore Zulu

Income tax payable for the tax year 2020

K

Salary: $K330,000 \times 9/12$		247,500
Housing allowance: $K5,800 \times 9$		52,200
Transport allowance: $K2,100 \times 9$		18,900
Telephone allowance: $K760 \times 9$		6,840
School fees		18,750
Medical expenses ($K25,000 - K10,000$)		15,000
Long-term service award		10,000
Leave pay		<u>30,000</u>
		399,190
Investment income		
Royalties: $K46,750 \times 100/85$		<u>55,000</u>
		454,190
Less:		
Professional subscription	4,800	
Donation to public benefit organisation	<u>11,200</u>	
		<u>(16,000)</u>
Taxable income		<u>438,190</u>
Computation		
First K39,600 @0%		0
Next K9,600 @25%		2,400
Next K25,200 @30%		7,560
Balance K363,790 @37.5%		<u>136,421</u>
Income tax liability		146,381
Less:		
PAYE		(97,831)
WHT- Royalties: $K55,000 \times 15\%$		<u>(8,250)</u>
Income tax payable		<u>40,300</u>

SOLUTION TWO

(a) The main taxes chargeable in Zambia are as follows:

(i) Turnover tax

Turnover tax is a tax on the turnover of businesses where such turnover does not exceed K800,000. Businesses whose turnover exceeds K800,000 pay income tax on their taxable profits.

(ii) Presumptive taxes for transporters:

Persons who engage in the business of transporting passengers pay presumptive taxes which depend upon the seating capacity of their motor vehicles. Such persons do not pay income tax on their profits.

(iii) Customs Duty

Customs duty is chargeable on the value for duty purposes of imported goods and certain goods being exported.

(iv) Income Tax:

This is a tax that is chargeable on the income and gains of all persons who are resident in Zambia. The tax is charged on the aggregate income from various sources.

(b) (i) Computation of maximum capital allowances claimable by Mulimi in 2020
K

Stumping and clearing expenditure	
Farm works allowance (K10,500 x 100%)	10,500
Construction of fence	
Farm improvement allowance (K16,300 x 100%)	16,300
Expenditure for prevention of soil erosion	
Farm works allowance (K18,500 x 100%)	18,500
Motor van	
wear and tear allowance (K85,000 x 25%) x 75%	15,938
Tractor	
Wear and tear allowance (K145,000 x 100%)	145,000
Farm implements	
Balancing charge (0 – K8,500)	<u>(8,500)</u>
197,738	

(b) (ii) Computation of taxable farming profit for the tax year 2020

	K	K
Profit for the year		890,000
Add:		
Mulimi's salary	90,000	
Loans to former employees written off	12,000	
Repairs and fuel for motor van (K 9, 500 x 25%)	2,375	
Depreciation	14,400	
Increase in general provision	2,600	
Loss on disposal of farm implements	7,100	
Stumping and clearing	10,500	
Constructing wire fence	16,300	
Expenditure on prevention of soil erosion	18,500	
Good for personal use (K15,000 x 20%)	3,000	
<u>176,775</u>		1,066,775
Less: capital allowances (a)	<u>(197,738)</u>	
Final actual taxable profit	<u>869,037</u>	
Income Tax		
K39,600 x 0%	0	
K829,437 x 10%	82,944	
Final income tax payable	<u>82,944</u>	

SOLUTION THREE

a)

i. Functions of the Tax Appeals Tribunal (TAT)

The functions of the Tax Appeals Tribunal (TAT) as outlined in the Tax Appeals Tribunal Act (2015) are to hear and determine:

- Appeals from decisions of the Commissioner-General under the Customs and Excise Act, the Income Tax Act, the Property Transfer Tax Act, the Value Added Tax Act and other tax legislation; and
- Any matter prescribed by the Minister, by statutory instrument, to be a matter against which an appeal may be made under the Acts referred to above.

ii. The Appeals Process

The appeal to the Tribunal shall be made in writing.

The appeal shall be lodged with the Tribunal within 30 days from the date of decision or determination.

It shall state:

- Details of the decision appealed against.
- The date of the decision.
- The office giving the decision.
- The grounds for appeal.
- Any other information as the Tribunal shall require.

The appellant may appear in person at a hearing or be represented by such person as he may appoint. The Commissioner General may be represented by any person the Commissioner General may appoint for the purpose.

At the hearing of an appeal, the rules of natural justice apply but the tribunal is not bound by the rules or practice as to evidence and may inform itself in relation to any matter in such manner as it thinks fit.

The tribunal delivers its decision at the end of the hearing, but in any case, the decision may be put in writing and sent to all parties to the appeal within fourteen days of delivering the decision. The registrar keeps copies of all decisions endorsed with a date of issue to all parties, and publishes the decision in the government Gazette within fourteen days of the date of the decision being delivered.

b) I) Simba Plc is a company that has listed its shares on the Lusaka Securities Exchange. Shares that are listed on Lusaka Securities Exchange are not chargeable property. Therefore, property transfer tax is not payable on the disposal of shares in Simba Plc.

ii) Land is chargeable property. The realised value is the greater of the open market value and the actual sales price. As the land was sold at the open market value, the price paid by the buyer is the realised value.

$$\begin{aligned} \text{Property transfer tax paid} &= 5\% \times \text{K}350,000 \\ &= \underline{\text{K}17,500} \end{aligned}$$

The property transfer tax of K17,500 should have been paid within 14 days following the conclusion of the transaction.

iii) Shares in Mika Ltd are chargeable property because the company is not listed on the Lusaka Securities Exchange. The realised value is the greater of the nominal value and the open market value. It is difficult to value shares that are not listed. The sales price can be assumed to be the open market value as it is more than the nominal value.

$$\begin{aligned}\text{Property transfer tax paid} &= 5\% \times \text{K}2,000,000 \\ &= \underline{\text{K}100,000}\end{aligned}$$

The property transfer tax of K100,000 should have been paid within 14 days following the conclusion of the transaction.

IV) Shinka Plc is a company that has listed its shares on the Lusaka Securities Exchange. Shares that are listed on Lusaka Securities Exchange are not chargeable property. Therefore, property transfer tax is not payable on the disposal of shares in Simba Plc.

- c) i) The main responsibilities of the Zambia Revenue Authority are to:
- 1) Ensure all monies collected are properly accounted for and banked.
 - 2) Assess properly and collect taxes and duties at the right time.
 - 3) Enforce properly all relevant statutory provisions.
 - 4) Provide information on tax revenue to the government.
 - 5) Give advice to ministries on aspects of tax policy
 - 6) Facilitate international trade.
- ii) The powers of the Zambia Revenue Authority (ZRA) are to:
- 1) Charge penalties.
 - 2) Search and seize.
 - 3) Assess tax.
 - 4) Charge tax
 - 5) Seize property up to the value of unpaid tax.
 - 6) Collect tax dues and make recoveries.
 - 7) Examine financial statements.
 - 8) Charge interest on overdue payments.
 - 9) Auction seized properties so as to recover lost taxes.
 - 10) Enter into the premises of any tax payer to carry out an audit and investigations.
 - 11) Determine the tax payable and also the rate of tax to be used in an assessment.
 - 12) To do any other acts as determined by law through the commissioner general and the minister of finance.

SOLUTION FOUR

(a) (i) Import taxes	\$
Cost	3,100.....
Insurance/freight	2,300.....
Port charges Durban	350.....
Transport cost	150.....
Delivery to Chirundu	<u>850.....</u>
	6,750
K exchange rate /\$	16.50.....
VDP	K111,375....

Import tax description	%	Calculated on	Import tax amount
Customs duty	30%	111,375.00	33,412.50..½ mark
Excise duty	20%	144,787.50	28,957.50...½ mark
VAT	16%	173,745.00	<u>27,799.20...½ mark</u>
			<u>90,169.20</u>

(ii) Documents to be presented at border post includes:

- Invoice or letter of sale
- Freight statement
- Insurance certificate
- Bill of lading for overseas imports
- Consignment note

(b)(i) Taxable supplies

Taxable supplies are those on which VAT is charged and they consist of either standard rated supplies or Zero rated supplies.....

(ii) Exempt supplies

These are supplies of goods and services to which no VAT is charged on them, are not taken into account in determining whether a trader is a taxable person and input tax attributed to them is not normally available for credit

(iii) VAT registered trader

This is a trader who registers for VAT either because they have reached the threshold of K800,000 or they have done so voluntarily

(iv) Input tax/output

Input tax is VAT which is incurred on expenses and Output VAT is VAT on sales

(c) (i) Aisha Jere VAT return March 2019

Details

Input VAT

Output VAT

- Standard rated sales (K538,000 x 16%)			86,080.00	(1 mark)
- Bad debt relief (1/2x 8,100 x 16/100)	648.00	(2 marks)		
- Standard rated purchases and expenses (7,900-500) x 16/100	1,184.00	(2 marks)		
- Plant and machinery (170,000 x 16/116)				
Sub total				
VAT payable	<u>23,448.28</u>	(1 1/2 marks)		
	25, 280.28	(1 mark)	-----	
	60,799.72	(1 mark)	-----	

	86,080.00			

(ii) Tax point

Tax point is the time when a supply is deemed to have taken place. It is important to establish a tax point so as determine the tax period in which the VAT to the supply should be accounted for and also to decide the VAT tax scheme or rate to apply in cases when there changes in the VAT tax scheme or rate.

SOLUTION FIVE

a) (i) Mr. J. Kwenda prepares accounts to a date falling between 1 April and 31 December. As such, the current year basis is the applicable basis of assessment. (ii) The tax years will be as follows:

Year ended (Basis periods)	Tax year	Basis
31 December 2020	2020	CYB
31 December 2021	2021	CYB
31 December 2022	2022	CYB

(b) Partnership's tax adjusted profit for the year ended 31 December 2020

i) Net profits per accounts	210,400
Add:	
Depreciation	16,300
Partner's salaries (K24,000 + K10,000 + K18,000)	52,000
Registration of title	2,400
Lawyers' to defend title to land	1,730
Appeal income tax assessment	2,000
Initial repairs of S.E	3,000
Rent and rates (1/3 x 168,580)	56,193
Electricity	1,382
Donation to a political party	5,000
Motor car running expenses	
- Big's car (K4,420 x 25%)	1,105
	860
- Nayo's car (K4,300 x 20%)	
	1,512
- Mbila's car (K3,780 x 40%)	_____
	353,882
Less capital allowances	(24,000)
	<u>329,882</u>

Split into:

1 st January to 31 st March	K82,470
1 st April to 31 st December	K247,412

(ii) Assessable profits for each partner

(1.1.20–31.3.20)	Total K	Big K	Nayo K	Mbila K
Salaries (3/12)	40,000	20,000	20,000	-
Balance (2:3)	<u>40,470</u>	<u>16,188</u>	<u>24,282</u>	-
3 months' profit	<u>80,470</u>	<u>36,188</u>	<u>44,282</u>	-

(1.4.20–31.12.20)

Salaries (9/12)	135,000	48,000	45,000	42,000
Balance (5:3:2)	<u>112,412</u>	<u>56,206</u>	<u>33,724</u>	<u>22,482</u>
9 months' profit	<u>247,412</u>	<u>104,206</u>	<u>78,724</u>	<u>64,482</u>
Total	327,882	140,394	123,006	64,482

Less capital allowances

Big's car				
K128,000 × 20% × 75%	(19,200)	(19,200)	(1 mark)	
Nayo's car				
(K130,000 × 20% × 80%)	(20,800)		(20,800)	(1 mark)
Mbila's car				
K136,000 × 20% × 60%	(16,320)			(16,320)
Taxable profits	<u>271,562</u>	<u>121,194</u>	<u>102,206</u>	<u>48,162</u>



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 17 DECEMBER 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

- (a) The presence of an audit committee on the board of the company is an important aspect of maintaining good corporate governance. However, very few companies are willing to have an audit committee on their boards due to some expected drawbacks.

An international body the Organization for Economic Co-operation and Development (OECD) came up with a set of principles which member countries can adopt to strengthen corporate governance and risk assessment procedures. When carrying out risk assessments, external auditors need to maintain professional skepticism, professional judgement and also observe ethics throughout the audit.

Required:

- (i) Explain four (4) drawbacks of an audit committee. (4 marks)
- (ii) Explain six (6) Corporate Governance principles of the Organization for Economic Cooperation and Development (OECD). (6 marks)
- (iii) State two (2) examples each in which professional skepticism and professional judgment can be used. (4 marks)
- (iv) State and explain one assertion that can be used by auditors to ascertain whether an outstanding debt on a customer account exists and is correct. (1 mark)
- (b) The going concern basis of accounting is significant in the preparation of financial statements and the going concern review undertaken by the auditors is an important part of an audit. ISA 507(Revised) *Going concern* provides guidance to auditors so that they obtain sufficient appropriate audit evidence regarding the appropriate use of the going concern basis of accounting. Further to conclude whether a material uncertainty exist that relate to events that may cast doubt on the entity's ability to continue as a going concern. You are the engagement partner on four of your firm's audit clients.

The Senior Audit Assistant obtained evidence from four of your clients, which you need to review as shown below:

Kariba Ltd

The management of Kariba Ltd analyzed the financial statements and discovered that one of the performance ratios was adverse. The Senior Audit Assistant was satisfied that the going concern basis of accounting was appropriate but there was a material uncertainty which management adequately disclosed in the financial statements.

Luapula Ltd

The Management of LuapulaLtd faced challenges throughout the year in buying a special type of raw material that was used in the production department. The going concern basis of accounting was appropriate, but there was a material uncertainty which was not adequately disclosed by management.

Zambezi Ltd

The management of Zambezi Ltd lost a large market share to a competitor which threatened its ability to continue as a going concern. The management of Zambezi Ltd used the going concern basis of accounting which the Senior Audit Assistant considered inappropriate.

Kafue Ltd

The management of Kafue Ltd was unwilling to extend its assessment of going concern up to twelve months. Consequently, the Senior Audit Assistant failed to obtain sufficient appropriate evidence regarding the use of the going concern basis of accounting in the preparation of the financial statements.

Required:

- (i) Analyze the impact of each of the above evidence in the four(4)clients on the auditor's report. (8 marks)
- (ii) Explain why external auditors would request management to provide written representations to confirm certain matters or support other audit evidence before an audit report is issued. (2 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Each country has its own rules and regulations that are set by the accounting body to which professional accountants belong. However there are certain elements which are common to all different bodies despite each country having its own rules.

Required:

Explain briefly, certain common elements that can be applied to all countries, despite differences in how external audits are regulated. (3 marks)

- (b) Your firm has been appointed as auditor of New Hope High School (NHHS), a non-profit making organisation. The number of pupils at NHHS has grown from one hundred and fifteen, to over seven hundred. New Hope High School employs fifteen teachers and six support staff. The owner of the school is a retired lecturer, who is both school head and board chairman. The members of the board include the head teacher's wife and two university graduates who recently graduated from the University in the schools of Engineering and Law.

In order to enhance accountability in the accounting for tuition fees, the chairman proposed that an accountant be employed who should perform both roles of accounts officer and internal auditor. The accountant is expected to ascertain the significance of weaknesses in internal controls. Consequently an advertisement was placed in the newspapers which resulted in the recruitment of a newly qualified ZiCA Diploma graduate with no experience in accounting.

At a recent Annual General Meeting (AGM) which you attended, the chairman emphasised the need for setting up internal controls in the school operations in order to achieve the objective of providing quality education and be a school of preferred choice. Further, the chairman wanted clarification on the difference between audit risk and business risk because he only reads about such terms in the Journal of Internal Auditors. Because the school has continued to grow, it was felt that not all documents such as receipts and attendance registers could be examined by the external auditors and that both statistical and non-statistical sampling method would be used when obtaining samples for testing. Among other duties as an external auditor, there are certain matters that need to be communicated with those charged with governance.

Required:

- (i) Explain four (4) matters that are likely to be considered when determining the significance of deficiencies in internal controls. (4 marks)
- (ii) Explain five (5) issues that management would face in implementing governance structures in small organizations such as New Hope High School. (5 marks)
- (iii) Explain the difference between business and audit risks. (6 marks)
- (iv) Distinguish between statistical and non-statistical sampling methods of obtaining audit evidence. (5 marks)
- (v) State two (2) matters that external auditors need to communicate to those charged with governance. (2 marks)

[Total: 25 Marks]

QUESTION THREE

Best Contractors Ltd is a construction company which is currently undertaking four road projects. During the year ended 31 December 2019, the company made a provision of K85million for its directors' retirement benefits. Due to increased costs of operations and worsening exchange rate, it acquired a loan of K250million in order to complete road projects on time. Each project is supervised by a manager and four permanent employees.

Its payroll system is described below:

General payroll administration

Each project manager has been given approval by Head office to interview and hire casual workers whenever there was a need to complete projects on time. Details of the hired casual workers are later sent by e-mail to head office in Lusaka. All casual workers that are employed by the project managers are allowed to start work immediately and their employee details are sent by the project managers to the head of Human Resources at the end of the month before payments of salaries are paid. Employees are allowed to clock-in manually and the log-book is collected by the project manager the following day.

Permanent workers for each project are paid by bank transfers from head office. Project sites do not have accounts officers and all accounting matters are handled by each project manager. Salaries and wages for casual workers are paid in cash which is delivered by a driver to the site managers who later effect payments to casual workers. In addition, reconciliations of bank accounts with details of payroll take more than one month to be completed.

Payroll budget

The payroll budget for permanent employees has been put in place and reviewed by the Director of Finance at head office. The verification involved checking basic pay details and amounts of benefit computations and total tax deductions. However, this did not apply to casual workers as funds were only made available as and when they were hired.

Termination of work

Details of employees whose services have been terminated by project managers are sent to the head office using ordinary mail to the payroll department. Therefore, details of starters and leavers are sometimes communicated late to head office. In rare cases, e-mails are sent for urgent issues containing salaries due and any deductions. The e-mails are not regularly checked by human resources officers at head office.

Your firm has been appointed as auditor and you have been assigned to review the payroll system of Best Contractors Ltd. You are considering using Computer Assisted Audit Techniques (CAATs) during the audit.

Required:

- (a) Explain four (4) control objectives of a payroll system. (4 marks)
- (b) Identify and explain five (5) deficiencies in the payroll system of Best Contractors Ltd. (5 marks)
- (c) Explain four (4) disadvantages of using Computer Assisted Audit Techniques (CAATs) as an audit tool. (4 marks)
- (d) (i) Describe four (4) audit procedures for the audit of bank loans. (6 marks)
(ii) Explain four (4) audit procedures for the provisions for director's retirement benefits. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

Cobalt & Gemstone is a small family owned mining company on the Copperbelt Province and has been operating for over ten years. Recently, it had its external auditors removed by directors as result of a disagreement on who was responsible for the design and operation of systems and controls and a report the auditors wrote to management regarding some weaknesses in the internal controls. Management defended itself that it was not their responsibility but that of external auditors. In addition, management is concerned on how

cash payments are being made as they suspected accountants were involved in fraudulent accounting despite the presence of an internal audit function.

Purchases and payables systems:

Purchase requisitions for capital expenditure are prepared by payables accountants and sent to the chief accountant for approval. Once they are approved, copies are sent back to the payables accountant who issues a purchase order after selecting the preferred supplier that quoted the lowest price. Only one copy of the order is sent to the chief accountant so that authorization for payment is done promptly. Some of the purchase requisitions are made verbally especially when critical components for underground machinery are needed in order to avoid disrupting mining operations. Suppliers and bank reconciliation statements are not reconciled regularly due to work overload being experienced by the payables accountant.

You work for a firm of Chartered Accountants and have been appointed as engagement partner for the audit of Cobalt & Gemstone Ltd. In a meeting you had with the Chief Executive Officer of Cobalt & Gemstone Ltd, he expressed concern that he does not understand the terms true and fair used in the opinion of the auditor's report.

Required:

- (a) (i) Explain four (4) reasons why it could be a problem for Cobalt & Gemstone Ltd. to put in place effective internal controls. (6 marks)
- (ii) Distinguish between the responsibility of management and that of auditors in relation to the designs and operation of systems and control. (2 marks)
- (iii) State and explain two (2) items that auditors should include in the Report to Management. (2 marks)
- (b) Identify and explain three (3) limitations of an internal audit function. (6 marks)
- (c) Describe three (3) deficiencies and recommend suitable controls in the purchases and payables systems of Cobalt & Gemstone Ltd. (6 marks)
- (d) (i) Explain the meaning of true and fair in the audit opinion of the statutory auditor. (2 marks)
- (ii) Explain the meaning of reasonable assurance in an assurance engagement. (1 mark)

[Total: 25 Marks]

QUESTION FIVE

Nkana WomenClub was formed in 1990 through contributions by womenwho worked for various audit firms in Zambia, with an accumulated fund of K45m. The money was used to acquire a small building and machinery for producing clay products which are sold to customers in bulk. The accounts department consists of a small number of accounts staff.Among other roles, they maintain a payables ledger for suppliers of its raw materials. The aim of NkanaWomen Club is to help disadvantaged girls who drop out of school with scholarships to study programmes of their choice at different Colleges and Universities. To date, NkanaWomen Club boasts of 115 members who pay annual subscription fees and the accumulated fund has now exceeded K700m. A board of management has been appointed to run the affairs on behalf of Nkana Women Club.

NkanaWomen Club has 45 customers of its products and 15 suppliers of its raw materials that it uses in the production of clay products. The company management has been using a manual accounting system to prepare financial statements and the newly appointed managing director is concerned that there are a number errors and suspected fraud that are reported to her office. She called for a meeting at which she proposed that stringent internal controls should be put in place and that Nkana Women Club should introduce a computerized accounting system with suitable general and application controls.

You work for a firm of chartered accountants andyou have been appointed as an engagement partner in charge of the audit of Nkana Women Club.Your preliminary investigations indicate that internal controls do exist but they are weak and you are considering using both tests of controls and substantive proceduresduring the audit.

Required:

- (a) Explain the difference between general and application controls, giving two (2) examples of each. (5 marks)
- (b) (i) Explainthree (3)areas auditors can consider in order to obtain an understanding if the information system in a client financial reporting is relevant. (3 marks)
- (ii) Explain the meaning of substantive audit procedures in the audit of financial statements. Give examples of audit tests for any audit assertion. (4marks)

(c) Explain three (3) key risk factors under inherent, control and control environment to consider during the audit of Nkana Women Club.

(6 marks)

(d) (i) Explain three (3) financial statement assertions relating to cash balances held at the bank for Nkana Women Club. (3 marks)

(ii) For each assertion in (d) (i) above, state the audit objective. (3 marks)

(iii) Explain two (2) audit procedures for cash donations at Nkana Women Club.

(1 mark)

[Total: 25 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Draw-backs of having an audit committee

- Executive directors may not understand the need for having an audit committee and they may regard them as distracters.
- It may not be easy to select sufficient number of non-executive directors who may have necessary competencies in auditing matters for the committee to operate effectively.
- Having such a formalized reporting structure, may dissuade or prevent external auditors from raising matters of judgment and limit them to reporting only on matters of fact.
- Costs may increase: members of the audit committee will have to sit and be paid allowances. There may be an increase in administrative costs.

(ii) The following are the principles that have been established by the OECD with regards to aims of corporate governance framework:

- It should provide transparent and efficient markets and the allocation of resources and be consistent with the rule of law and support effective supervision and enforcement.
- It should protect and facilitate the exercise of shareholders rights and ensure equitable treatment of shareholders including minority and foreign.
- It should provide sound incentives throughout the investment chain so that the stock market functions in a way to promote good governance.
- It should recognize the rights of all shareholders as require by law and create wealth in a sustainable way.
- Corporate governance should ensure that all material matters for instance financial performance, ownership and governance of the company are disclosed.

- It should ensure that the strategic guidance of the company, effective monitoring of the board is observed so that it is accountable to the shareholders.

(iii) Examples of area where professional skepticism could be used:

- When there are conditions that indicate possible fraud.
- When there is audit evidence that contradicts other evidence obtained.
- When there is information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.

Examples of areas when professional judgment could be used:

- When assessing materiality and audit risk.
- When determining nature and timing of audit procedures.
- When evaluating management judgment used in applying the applicable financial reporting framework.

(iv) Confirmation either positive or negative from the debtors.

(b)(i) Kariba Ltd

When there is a matter regarding uncertainty on the going concern basis of accounting which has been adequately disclosed by management, the auditors will issue an unmodified opinion. However a paragraph headed 'uncertainty' will be added in order to explain the matter in detail.

Luapula Ltd

There is a material uncertainty which management in Luapula Ltd has not disclosed. A qualified or adverse opinion will be issued depending on the degree of material uncertainty to the financial statement.

Zambezi Ltd

The company had lost major customers and this matter is material which may cast doubt on the going concern of the company. However an appropriate

going concern basis of accounting has been used. Therefore the auditor will issue an adverse opinion.

Kafue Ltd

The going concern assessments by management at Kafue Ltd should have been extended to twelve months in order to allow the auditor to collect sufficient and appropriate audit evidence regarding the assumptions used. In the case of Kafue Ltd, insufficient audit evidence was obtained. Therefore the auditor was expected to issue a modified opinion as either qualified or as a disclaimer.

(ii) Reason for obtaining written representations.

- (i) To consider whether management has fulfilled its responsibility for the presentation of the financial statement as set out in the terms of audit engagement. In addition, it is to confirm whether financial statements are presented in accordance with the applicable financial reporting framework (pre-condition for an audit).
- (ii) Consider whether management provided all relevant information to external auditors as agreed in the terms of an audit engagement and that all transactions have been recorded and are reflected in the financial statements.

SOLUTION TWO

- (a) The following are the elements that are commonly applied to regulations of external auditors in different countries:
- (i) **Education and work experiences** should be considered as these are issued by the International Federation of Accountants (IFAC).
 - (ii) **Eligibility**-there is a criteria as to who can be appointed as an auditor. Membership of a professional body is required.
 - (iii) **Supervision and monitoring**-All professional bodies are mandated to supervise and ensure that auditors do not fail, for instance, to detect corporate failures.
- (b) (i) Matters to consider when determining the significance of deficiencies in internal controls:
- The likelihood of the deficiency resulting in material misstatements in the financial statements in the future
 - The susceptibility to loss or fraud of the related asset or liability
 - The subjectivity and complexity to determine estimated amounts
 - The amounts exposed to the deficiencies
 - The volume of activity that has occurred or could occur
 - The importance of the controls to the financial reporting process
- (ii) Small organisation such as New Hope High School have challenges when it comes to having a strong governance structure that can contribute to effective internal controls. The following are the challenges likely to be faced by NHHS:
- Insufficient staff resources-the school has only five members of staff who include the head teacher. There will be a problem of not have an effective monitoring mechanism as staff members are few.

- Domination of activities by management (owners)-the owner of the school is the head teacher and the board chairman at the same time. There is a possibility of controls being overridden by the chairman as there won't be segregation of duties.
- Inability to recruit experienced finance directors who are capable of producing financial statements. This is evidenced by the recruitment of a new ZICA graduate as an accountant.
- Lack of focus -management at the school will be overwhelmed by a wide range of responsibilities. They will fail to find ample time for them to focus adequately on accounting and financial reporting issues
- The school will not be able to retain qualified staff due to increased cost of payroll costs, especially during holidays when schools are not operating.

(iii) Audit risk-arises when an external auditor expresses an inappropriate opinion when the financial statements are materially misstated. This can be caused by three components namely control, detection and inherent risks. In the case of the newly appointed accountant who is also an internal auditor, he may not be able to detect most material misstatements in the current year as he is new. Control risks are those arising from the failure or ineffectiveness of the internal controls to prevent or detect fraud and errors. Inherent risks could be due to the nature of account balances of fees paid being prone to misappropriated or misstated by members of staff.

Business risks are those that can threaten the existence or profitability of the organization. This could be as a result of new regulations from the Ministry of Education or a new impending law from health and safety department. In this case very little can be done to reduce the impact of such risks apart from complying with such laws .

(iv) Statistical and Non-statistical sampling.

Statistical sampling-this is an approach to sampling that includes random selection of the sample items, and the use of probability theory to evaluate results, including measurement of sampling risk.

Non-statistical sampling is an approach which does not involve use of statistics or probability theory.

Examples could be when obtaining a sample from a population.

(v) Matters to communicate with those charged with governance:

- planned scope of and timing of the audit
- significant findings from the audit
- auditors independence

SOLUTION THREE

The following are control objectives in a Payroll (salaries and wages system):

- (a)
 - (i) Salaries or payments should be made to bonafide employees.
 - (ii) All payroll costs are recorded for employees.
 - (iii) All benefits and deductions (tax, pensions etc. are computed correctly).
 - (iv) Payroll transactions are recorded in the correct accounting system.
 - (v) All payroll transactions should be recorded in the correct accounting period.
 - (vi) All payroll transactions should be properly classified in the financial statements.

- (b) **Deficiencies in the payroll system of BC Ltd.**
 - (i) Site managers recruiting casual workers-it is improper for the site managers to employ staff as that is not their responsibility. The sending of details of payroll without ascertaining who has been employed, may lead to payments of wages to employees who did not even exist (ghost workers).
 - (ii) Manual logging in-it is possible for workers to cheat as and when they started and ended the day. This is because details are maintained manually. Furthermore, the log book is allowed to be kept overnight. An employee who is late can send their colleagues to sign in for them when they did not even report for work.
 - (iii) No bank account for each site-this could lead to underpayment and errors as manual methods will be used to effect payments. In addition, delivery of cash to casual workers may lead to theft of cash whilst in transit.
 - (v) There is no cash forecast for payments and other related costs for casual workers. There is a possibility of over or under budgeting of payroll costs.

- (vi) Mode of notifying termination of work-the sending of an employee details work via e-mail is not recommended. An e-mail can be intercepted on the way or corrupted. At times there could be delays due to technical barriers during transmission of the e-mail. Passwords can also be hacked and details distorted.
 - (vii) Lack of reconciliations –this could lead to delays in identifying errors and any possible misstatements.
- (c) **Disadvantages of using CAATs**
- (i) It can be costly to acquire, setting up and maintain CAATs maybe time consuming and expensive.
 - (ii) Not all client accounting systems will be compatible with the software used with CAATS.
 - (iii) Audit staff will need to be trained so that they have a sufficient level of IT knowledge to apply CAATs
 - (iv) There is a risk that the client data can be corrupted and lost during the use of CAATs.
- (d) (i) Audit procedures for bank loans;
- obtain /prepare schedule of loans outstanding at the year-end date showing for each loan; name of lender, date of loan, material date , interest date, interest balance at the end of the period and security.
 - compare opening balances to previous year's papers
 - test the clerical accuracy of the analysis
 - Compare name of lender to register of debenture holders or equivalent (if kept)
 - trace additions and repayments to entries in the cash book
 - confirm repayments to entries in the cash book
 - examine cancelled cheque and memoranda of satisfaction for loans repaid

- verify that borrowing limits imposed by agreements are not exceeded
- Obtain direct confirmation from lenders of the amounts outstanding, accrued interest and what security they need.
- Review minutes, cash book to confirm that all loans have been recorded.

(ii) **Audit test/procedures for provisions of retirement benefits**

- obtain provisions that have been included in the accounts and all contingencies that have been disclosed
- Obtain a detailed analysis of all provisions showing opening balances, movements and closing balances.
- Determine whether the company has a present obligation as a result of past events by reviewing correspondences relating to the term and discussing with the directors whether they have created a valid expectation in other parties that they will discharge the obligations.
- determine for each material provision whether it is probable that a transfer of economic benefits will be required to settle the obligations by checking whether any payments have been made in the past year end period in respect of the item by reviewing after-date cash payments.
- Recalculate the provisions made.
- Compare the amounts provided with any past year-end payments and with any amounts paid in the past for similar items.
- Consider the adequacy of disclosures of provisions, contingent assets and contingent liabilities in accordance with IAS 37.

(iii) Obtain a computation schedule of benefits and recalculate to verify its accuracy

SOLUTION FOUR.

(a) (i) Problems of maintaining internal controls in small organizations are as follows:

- **Close involvement of owners:** as the company is a family owned business, there is a likelihood of close involvement and will cause some interference with regards to operations of other workers.
- **Overriding of transactions:** despite some controls being put in place, the owners may not respect these controls.
- **Lack of segregation of duties:** there is a possibility of mixing the roles and this will compromise accountability.
- There is a possibility of not maintaining all the required documents as the owner's would like to save administrative costs.

(ii) The ultimate responsibility for the company's internal control lies with the board of directors:

- This will involve assessing the risks facing the business so that the system can be designed to ensure that risks are properly managed.
- They are responsible for reviewing existing systems and controls regularly to ensure that they meet organizational objectives.
- In order to review internal controls effectively, the board may decide to employ an internal audit function.
- The board will be required to prepare a report on its review of the company's risk management and internal control systems as part of the annual report.

(iii) **Two (2) points to include in a report to Management**

- it should include a statement that the communication is provided for them only by management (or another specific named party)
- it will state that it discusses deficiencies in internal controls which have come to the auditor's attention as a result of the audit and that other deficiencies in internal controls may exist.

- it should state that the accounting and internal control system were considered only to the extent necessary to determine the auditing procedures to report on the financial statements and not to determine the adequacy of internal control for management purposes or to provide assurances on the accounting and internal control systems.

(b) **Limitations of an audit function**

- (i) Internal auditors are employed by management and this can impair their judgment and objectivity.
- (ii) They may not report fraud or suspected fraud because of perceived threats as a result of employment with the company.
- (iii) They are not required to be professionally qualified (as accountants are) and so there may be limitations in their knowledge and technical skills.

(b) Deficiencies in the cash payment system

- The purchase requisitions are prepared by the payables accountant. There is a possibility of collusion to commit fraud between the suppliers and the company.
- Approvals are sent back to the payables accountant who has to select their preferred suppliers. There is a chance of selecting a supplier in which the payables accountant could have financial interest.
- Maintaining one copy of the purchase requisitions. No extra copies will be kept and there will be no audit trail and future references will not be kept.
- Verbal instructions for requisitions. No record will be kept and it makes it difficult for audit trail to be conducted.
- Delays in receiving bank and suppliers statements. Errors and omissions, if any, may not be corrected in time. This may delay the computation of payables and bank balances for inclusion in the statement of financial position.

(d) (i) **True** means the information is factual and conforms to reality, standards and the law.

Fair means the information is free from discriminations and complies with expected standards and rules.

(ii) **Reasonable assurance** means that an audit does not give the reader an absolute assurance and does not guarantee that the financial statements are correct but are true and fair within reasonable margins of errors.

(iv) **Excerption** is a response that shows a difference between the information requested to be confirmed or contained in an entity's records and the information provided by the confirming party.

SOLUTION FIVE

(a) **General Controls:**

These are policies and procedures that relate to any applications and support the effective functioning of application controls by helping to ensure the continued proper operation of an information system. They include controls over:

- (i) Data Centre
- (ii) Network operations
- (iii) Systems software
- (iv) Change and maintenance
- (v) Application system acquisition

General Controls

Examples

Prevention / detection of unauthorized changes to programmes

Standard systems designs , programming and documentation

-segregation of duties

-full recording of programmes changes

-having password protection of programmes so that access is restricted to computer operations staff

Application controls: are manual or undocumented procedures that typically operate at a business process level. They can be detective or preventative in nature and are designed to ensure the integrity of accounting records. They relate to procedures that are used to (Examples)

- (i) Initiate transactions
- (ii) Process transactions
- (iii) Report transactions

(b) (i) Areas to consider when gaining an understanding of the relevance of an Information system for accounting:

- Classes of transactions in the entity's operations that are significant to the financial statements.
- The procedures within both IT and manual systems by which those transactions are initiated, recorded, corrected as necessary, transferred to the general ledger and reported in the financial statements.
- Controls surrounding journals entries, including non-standard journal entries used to record non-recurring /unusual transactions or adjustments.
- How the information system captures events and conditions other than transactions that are significant to the financial statements.
- The financial reporting process used to create the entity's financial statements including significant accounting estimates and disclosures.

(ii) Substantive procedures

These are procedures performed to detect material misstatements in the financial statements. They are generally of two types namely Analytical procedures and tests of detail of transactions, account balances and disclosures.

Examples of substantive tests carried out to obtain evidence about various financial statement assertions are:

- Cut-off testing
- Confirmation
- analytical procedures
- physical verification
- Reconciliations to control accounts.

(c)

Issues**Key factors****Inherent risks**

The complexity of regulations relating to non-profit organization

The significance of donation and cash receipts

Difficulties of the organisation in establishing ownership and timing of voluntary income where funds are raised by non-controlled bodies

Control risk

the amount of time committed by directors/trustees to the organisation

the skills and qualifications of individual directors/trustees

the frequencies and regularity of board of trustees meetings

Control environment

A recognised plan of the organisation's structure clearly showing the areas of responsibility and lines of authority and reporting

Segregation of duties

(d)

The three assertions relating to cash balances are as follows:

(i)

(ii)

Audit assertion**Audit objective**

1.Existence	Recorded cash balances exist at the end of period
2.Complete	Recorded cash balances include effect of all transactions that have occurred.
3.Rights and obligations	The entity has legal title to all cash balances shown at the period end.

(iii) Confirm-that the bank and cash balances as reconciled and are correctly stated in the financial statements or obtain copies of cash receipts and trace them to deposited cash to verify if the Subscriptions banked agree with details on the bank statements.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 18 DECEMBER 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 (2) COMPULSORY QUESTIONS.

Attempt both questions.

QUESTION ONE

- (a) Define what corporate governance is. (2marks)
- (b) Explain any five (5) reasons corporate governance is necessary in operations of an organization. (10 marks)
- (c) Briefly discuss the agency relationship that exists between Directors and shareholders. (7 marks)
- (d) Explain the meaning of the stockholder theory in corporate governance. (6 marks)

[Total:25Marks]

QUESTION TWO

- (a) Lawrence is a promoter involved in the registration of a company to be run as a hotel business. Before being issued with a certificate of incorporation, he decides to order wines on behalf of the hotel and now the suppliers are claiming for their payment.

Required:

- (i) Advise the owners of the company on Lawrence's liability. (5 marks)
- (ii) Explain to Lawrence on how he can avoid this liability. (5 marks)
- (b) Contrast between share capital and loan capital. (8marks)
- (c) Illustrate the two(2) ways through which lifting of the veil of incorporation can be done. (7marks)

[Total:25 Marks]

SECTION B

There are Three (3) Questions in this Section, Attempt any Two (2) Questions.

QUESTION THREE

NkisuMulimba is a Director in Zamtel Plc, a fast growing company in Zambia. She has proposed that the business must expand and that offices should be opened in other branches in Lusaka and all other provincial centres. For this to work out, the company needs to raise more capital, and has issued out a prospectus as required by law. However, the prospectus did not include the financial statements of the company for the past two years.

- (a) Explain the meaning of the letters 'Plc' in the scenario above(2marks)
- (b) Explain the purpose of a prospectus to Zamtel Plc. (5marks)
- (c) Discuss the effect of the omissions or untrue statements on the prospectus issued by this company. (8marks)
- (d) One of the directors based at Lusaka has resigned due to a minor difference he had with NkisuMulimba, the founder of the company.

Other than resignation, explain five (5) others ways through which a director may vacate office. (10marks)

[Total: 25 Marks]

QUESTION FOUR

Bwalya was an Architect with the ABC Gas Company Limited. He left to become a Director of XYZ Limited. He was subsequently approached by the ABC Gas Company Limited. They wished him to do some work for them by designing a gas holder at their business premises. They did not wish to deal with XYZ Limited and made it quite clear that the other offer was only applicable to Bwalya in his personal capacity. Because Bwalya was tied to XYZ Limited by contract, he told his Management that he was desperately ill and sought leave to terminate his contract. This was agreed to. Bwalya undertook the assignment and designed the gas holder.

Required:

- (a) XYZ Limited has approached you for an opinion as to whether they can succeed in an action against Bwalya for breach of any of his legal duties. (10 marks)
- (b) One of the duties of company directors is to avoid conflict of interest. Explain this duty in detail. (7marks)

- (c) Explain the meaning of non-executive Director (2 marks)
- (d) Explain the importance of appointing a non- executive Director.(6marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) List and explain the three (3) types of meetings a company is required to have.
(12marks)
- (b) Explain winding up of a company. (5marks)
- (c) Explain the three (3) ways in which a company may wind up. (6marks)
- (d) Define a Liquidator. (2marks)

[Total: 25 Marks]

END OF PAPER

SUGESTED SOLUTIONS

SOLUTION ONE

(a)

Defined as, 'the system by which organizations are directed and controlled' (Cadbury report) or; 'a set of relationships between a company's directors, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring the performance, are determined.'" (OECD).

(b)

(i) It ensures adherence to strategic objectives of the organization thereby aiding effective management.

(ii) Its promotes integrity in the operations of the company.

(iii) It provides for an adequate and appropriate system of control in a company.

(iv) It promotes best practice guidelines thereby enhancing overall performance arising from good supervision and management.

(v) It promotes ethical and effective pursuit of the company's strategy thereby offering safeguards against resource misuse.

(vi) It ensures adherence to the law in the conduct of the business of the company.

(vii) It encourages the infusion of new investments into a company.

(viii) It promotes accountability in the management of the company.

(ix) It promotes confidence in the capital markets.

(x) It promotes the independence of those who scrutinize the behavior of the company and its managers and especially of the external auditors.

(c)

- Agency relationship is a contractual one between the directors (agents) and shareholders (principal). The main aspect of this relationship is trust (fiduciary duty) that the agent owes to the principal. Directors owe a fiduciary duty to their principals through the company to ensure they exercise their powers honestly in the interests of the company. In exercising their powers, directors have a duty to use such power for the proper purpose and such

power is restricted to the purpose for which it is given.

- Besides the fiduciary duty the agent owes the principal, there is equally a duty to perform the agreed responsibilities.
 - The agent has to exercise skill in performance of the duty tasked to them.
 - The agent has a duty to be obedient to the instructions given by the principal.

 - The agent has a duty to avoid any conflict of interest between the agent's interests and those of the principal.
 - Duty of confidentiality.
 - The agent owes a duty to ensure they do not accrue for themselves benefits that are supposed to accrue to the principal.
- (d) Discuss the meaning of the stockholder theory in corporate governance.
- This is the theory that looks at the interest of shareholders. The theory states that shareholders have the legitimate claim or control over the company. The theory stresses the fact that directors are merely agents and have a moral and legal obligation to champion the interest of shareholders. It espouses the view that directors' sole duty to ensure profit maximization for the benefit of the shareholders. Hence, all the duties of the director as an agent of the shareholders are reduced into this one theory. The relationship between the agent and the principal is always to be for the benefit of the principal and the agent should not do anything that jeopardize the interests of the principal.

SOLUTION TWO

- (a) Lawrence is known as a promoter. A promoter is an individual who takes all the necessary steps to have the company registered. Promoters usually incur expenses in formation of a company. The type of contract that Lawrence entered into is known as a pre-incorporation contract. Since the company was not yet duly registered, Lawrence will incur personal liability on the contract.
- (b) However, this liability can be avoided in the following ways:
- The contract can remain a draft until the company is formed
 - If the contract has to be finalized before incorporation it must contain a clause that personal liability of promoters is to cease if the company, when formed, enters a new contract on identical terms.
- (c) The main difference between share capital and loan capital is that loan capital is the money that an organization borrows from financial institutions and pays back with interest, while share capital is the money that an organization realizes after selling shares to shareholders and dividends are paid out to the shareholders.
- (d) Lifting of the veil of incorporation can be done in two main ways:
- By the judiciary-a judge can use a tactic to counter fraud, sharp practice, oppression and illegality.
 - By statute-there are a number of ways through which the veil can be lifted by statute, the common one being where the number of members falls below the statutory requirement for more than six months.

SOLUTION THREE

(a) The letters **PLC** stands for 'Public Limited Company'. This signifies that the business offers shares to the public at the stock exchange. Such a company has the ability to raise capital by issuing share.

(b) The purpose of a prospectus is to invite members of the public to buy or subscribe for debentures or shares in a public limited company. It can be in form of a notice, advertisement, circular, etc. this comes in a form of an invitation to treat and members of the public are required to make offers in respect of the shares offered in the prospectus.

(c) Implications of an omission or an untrue statement on the prospectus are that: The above principles are explained below:

(i) (**Civil Liability**) Payment of a compensation to any person who suffer loss or injury due to the untrue statement or omission, Section 129 (1) and (2) of the Companies Act.

(ii) (**Criminal Liability**) The makers of the statement may be criminally liable, i.e. be ordered by the court to pay a fine or be imprisoned for the untrue statements or omissions, Section 130 of the Companies Act.

(iii) **Other civil reliefs** may be sought such as winding up the company, firing of directors who signed and prepared the prospectus, delisting the company from the stock market, etc.

(d) Other ways of vacating the office other than Resignation are:

(i) *Disqualification* – A director can be disqualified from office if she is

- absent from meetings for more than 6 months without consent of the other directors,
- uses her office for secret profits,
- fails to disclose her interest in a contract, etc.

(ii) *Retirement* – A director may retire due to old age or as provided for in the company's articles of association.

(iii) *Removal* – Can be removed by the shareholders when he does something wrong, contrary to the ethics of a company.

(iv) *Expiry of Contract or term of office* – A director can vacate office when her contract comes to an end or expiry of the time during which she is to work as a director

(Any five ways of termination/subsets of the above explained)

SOLUTION FOUR

a) As an employee of a company, there is an obligation on the part of the parties to each other. One of such a duty is trust between themselves. This is because there now exist fiduciary relationship between them. XYZ limited can succeed in an action against Bwalya for breach of trust. This means a wrongful act, use, misappropriation, or omission with respect to any property or fund which has been committed to a person in a fiduciary or official capacity, or the misuse of one's official or fiduciary position to engage in a wrongful act, use, misappropriation, or omission. Bwalya owes a duty of care to XYZ limited. Bwalya is bound to act in the best interest of the company and to desist from conducting parallel activities detrimental to the success of the company. This being the case, XYZ limited will succeed in its action.

b)The director's duty to avoid conflicts of interest is linked to the duty not to make a personal profit from his or her position. It also applies to the duties to act in the interests of the company, to act honestly and responsibly, to act in accordance with the company's constitution and for the director to exercise an independent judgement. A director should seek to avoid situations in which a conflict of interest is likely to occur. Depending on the potential for conflicts, the director should consider whether it is appropriate to hold the office at all. Alternatively, the director could disclose his or her interest immediately and/or not participate in discussions about, or vote on, the arrangement. Directors of certain financial institutions and State-owned companies are subject to more onerous requirements on conflicts of interest.

If there is a group of companies, avoid having common directors between parent and subsidiary companies because this can cause problems where the subsidiary's interests conflict with those of the parent. The duty to avoid conflict and to disclose personal interests can be varied or mis-applied by the company. A company will often foresee conflicts arising and excuse a director from his or her duties in certain respects, in its constitution. The Act provides for some scenarios in which the company can pre-empty them by excusing the director, by providing that "save to the extent that the company's constitution provides otherwise", he or she can:

- vote in favour of a contract in which the director has an interest;
- hold an office or place of profit in the company;
- be counted in the quorum for a meeting involving the conflict, notwithstanding his or her interest; or
- be an officer of a company promoted by the director's company.

c). A non-executive director is a member of a company's board of directors who is not part of the executive team. A non-executive director typically does not engage in the day-to-day management of the organization but is involved in policymaking and planning exercises.

d). In addition, non-executive directors' responsibilities include the monitoring of the executive directors and acting in the interest of the company stakeholders.

Non-executive directors are also known as external directors, independent directors or outside directors, are put in place to challenge the direction and performance of a company as well as its existing team. Since non-executive directors do not hold managerial positions, they are thought to understand the interests of the company with greater objectivity than the executive directors, who may have an agency problem or conflict of interest between management and stockholders or other stakeholders. Additionally, non-executive directors are often installed on a firm's board for public relations for several reasons. For instance, a particular non-executive director's community standing, record of philanthropy, and prior experience could provide positive exposure and symbolic value for the firm.

SOLUTION FIVE

(a)

(i) Annual General Meeting

- (ii) Class meeting
- (iii) Extraordinary general meeting

(b)

- Annual General Meeting – this is a meeting of shareholders that is held annually. This meeting is supposed to be held at least within three months following the end of the financial year. The business that is transacted at the AGM among other, is the appointment of auditors, declaration of dividends, consideration of accounts, balance sheets and the report of the directors and auditors, election of directors replacing the retiring ones and special business as the case may be.
- Extraordinary general meeting – this is any general meeting other than the annual general meeting. This meeting may be convened by the directors whenever they think fit or if the articles of the company provides, by any other person in accordance with the provisions. Extraordinary general meetings are convened by directors to deal with urgent matters which may not wait for the annual general meeting.
- Class meeting – this is a meeting of a class of shareholders. The meeting is convened by the directors whenever they think fit; or by two or more members of that class.

(c)

- Winding up means the closure of a company where it ceases to exist. This is done by the striking off the register of companies at the companies' registration office (PACRA). Winding up is deemed to commence at the time of the presentation of the petition for winding up which is after the passing of a resolution authorizing the said winding up.

(d)

(i) **Winding up by order of the court**

This is also called compulsory winding up by the court because the directors of the company are unable to make a statutory declaration that a company will be able to pay its debts in the approximation of within 12 months.

(ii) **Members' voluntary winding up**

This occurs because members of the company have passed a resolution to wind the company and appoint a liquidator. Here, the directors must make a statutory declaration of solvency that the company is able to pay its debts.

(iii) Creditors' voluntary winding up

The creditors here are the ones who push for the winding up and shareholders resolve to put the company into winding up process but can't make a statutory declaration of solvency.

(e)

- A liquidator is a person appointed under the Companies Act to oversee the process of winding up a company. The main objective of the liquidator is to gather all the assets of the company and use them to pay creditors owed by the company before finally winding up the company.

END OF SOLUTIONS

