



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 15 MARCH 2021

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; each carrying 2 marks

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 is a liability?
- A. Machinery
 - B. Accounts payables of goods
 - C. Land
 - D. Cash at bank
- (2 marks)
- 1.2 Which of the following best describes the meaning of purchases?
- A. Items bought
 - B. Goods bought on credit
 - C. Goods bought for resale
 - D. Goods paid for
- (2 marks)
- 1.3 Which of the following describes a trial balance best?
- A. It shows the financial position of a business
 - B. It shows all the entries in the books
 - C. It is special account
 - D. It is a list of ledger account balances
- (2 marks)
- 1.4 K100,000.00 cash taken from the cash till and banked is entered as
- A. Debit cash column K100,000.00, credit bank K100,000.00
 - B. Debit bank column K100,000.00, credit cash K100,000.00
 - C. Debit cash column K100,00.00, credit cash K100,000.00
 - D. Debit bank column K100,000.00, credit bank K100,000.00
- (2 marks)
- 1.5 Posting the transaction in book keeping means
- A. Making the first entry of double entry transaction
 - B. Entering items in a cash book
 - C. Making the first and second entry of a double entry transaction
 - D. None of the answers above
- (2 marks)

- 1.6 You have been given 9 purchase invoices for 6 items at K150 each, less trade discount of 25% and cash discount of 5%, if paid within the credit period, how much will be paid?
- A. K641.25
 - B. K675.00
 - C. K855.00
 - D. Non of the above

(2 marks)

- 1.7 A company purchased a machine for K32, 000. It is to be depreciated at a rate of 25% using reducing balance method, what is the NBV after two years?
- A. K16,000
 - B. K18,000
 - C. K24,000
 - D. K14,000

(2 marks)

- 1.8 What should happen if the balance on a suspense account is of a material amount?
- A. Write it off in the statement of profit or loss
 - B. Write it off to the statement of financial position
 - C. Find the errors before publishing the final account
 - D. Carry forward the error to the next period

(2 marks)

- 1.9 Mwansa buys an existing business with sundry assets valued at K500,000, motor vans K150,000, fixtures and fittings K50,000 and inventory K400,000. He is asked to pay K1,400,000 for the business. This means that:
- A. He is paying K400,000 for Goodwill
 - B. Building cost K300,000 more than their value
 - C. Mwansa is paying K300,000 for Goodwill
 - D. The assets are depreciated

(2 marks)

- 1.10 The cost of goods sold is K160,000 and margin of 20%. What is the sales figure?
- A. K201,600
 - B. K136,000
 - C. K210,000
 - D. K200,000

(2 marks)

[Total 20 Marks]

SECTION B

Attempt any FOUR (4) questions out of FIVE (5) in this section.

QUESTION TWO

RKC Ltd owned the following motor vehicles as at 1 January, 2019

Motor vehicle	Date acquired	Cost (K)	Estimated residual value (K)	Estimate life in years
AAG 4080	1 July 2017	K74,500	11,500	6 years
AGB 3223	1 January 2018	K90,250	15,250	10 years

The company policy is to depreciate motor vehicles using the straight line method applied on a month for month basis. On 30 April 2019, the company sold motor vehicle AAG 4080 for K60,000 and replaced it on the same date with a new vehicle AGB 4425 for K80,000. The estimated economic life of new vehicle is 5 years with an estimated residual value of K8,000

Required:

Reconstruct the following ledger accounts for the financial year ended 31 December 2019 only, showing full supportive workings.

- A. The motor vehicles account at cost (3 marks)
- B. Allowance for depreciation motor vehicle account (13 marks)
- C. The motor vehicle disposals account (4 marks)

[Total: 20 Marks]

QUESTION THREE

A conceptual framework in the context of financial reporting is a statement of generally accepted reporting principles which form the frame of reference for financial reporting.

Required:

- (a) Identify and briefly explain the five (5) main advantages of a conceptual framework. (10 marks)
- (b) Identify and briefly explain the five (5) qualitative characteristics of useful financial information. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

The objective of IAS 2 is to prescribe the accounting treatment for inventories. The standard requires that inventory be measured at the lower of cost and net realisable value. The standard also outlines acceptable methods for the valuation of inventory, including specific methods such as First In First Out (FIFO) and Weighted average cost.

Mr Chilonga is a business man who owns a shop on Cairo road in Lusaka. He buys and sells brand new HP Laptops. For the year ending 2019, Mr Chilonga made the following purchases:

- 1 January; **10** HP Laptops from Digital runners Suppliers at a price of K8,500 each
- 2 March; **40** HP Laptops from I-Tech suppliers at a price of K9,000 each
- 6 May; **29** HP Laptops from Info Tech Suppliers at a price of K9,500 each
- 5 July; **15** HP Laptops from Tech suppliers at a price of K12,000 each
- 29 November; **30** HP Laptops from Ezed Suppliers at a price of K12, 600 each.

In the same period, the following sales were made by Mr Chilonga:

- 10 March **30** HP Laptops for K15, 000 each.
- 8 June **29** HP Laptops for K 11,550 each.
- 25 August **10** HP Laptops for K13, 000 each.
- 25 December **40** HP Laptops for K 14, 000 each.

Note:

1. Mr Chilonga had ten (10) employees. Each employee was getting K3, 500.
2. Other Cash expenses incurred for the period amounted to K150, 000.
3. 15 HP Laptops were recorded on 31 December 2019 as closing Inventory.

Required:

- (a) Prepare the stores ledger card in accordance with IAS 2 Inventories using the following methods:
 - (i) First In – First Out (FIFO) (5 marks)
 - (ii) Cumulative Weighted Average Cost (AVCO) (5 marks)
- (b) Calculate the profit under each of the above methods. (5 marks)
- (c) Briefly explain five (5) advantages of cash flow accounting over Profit and Loss. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

You have received an official e-mail from your Director which reads:

"Hello Accountant,

Hope you are doing well. We have closed from a workshop organised by the Controller and Accountant General's Department which looked at public accounts and public financial management. The discussion also tackled areas about adoption of accrual accounting in the public sector. It was emphasised that migration from cash basis to accrual basis is necessary to improve financial reporting and transparency in the public sector. You know I have little knowledge in Accountancy so I was completely lost in the discussion and I wished you had attended the workshop with me.

Another issue discussed was commitment accounting. We were made to understand that commitment accounting strengthens public financial management and therefore departments must ensure that every expenditure is committed in accordance with the appropriation prior to spending.

Please could you help me with some information on these issues?

Thank you,

Director

Required:

- (a) (i) Explain to the Director three (3) differences between accrual accounting and cash accounting. (3 marks)
- (ii) Identify three (3) justifications for adopting accrual accounting in the public sector. (3 marks)
- (iii) Explain the term ***commitment accounting*** and illustrate how it could strengthen public financial management. (4 marks)
- (b) The current medium term strategic plan of Zombe Municipal Council has overall objective of improving the performance of the institution. One critical strategy towards attainment of this goal is adoption of new public management strategy to increase participation of private sector in the provision of public services without losing sight of the differences between public sector and private sector. In fact, some of these differences are so fundamental that they cannot be washed away any time soon.

Required:

Describe four (4) fundamental differences between public sector and private sector entities that Zombe Municipal Council should be aware of. (4 marks)

- (c) Briefly explain the following accounting systems and give two similarities.
- (i) Manual accounting system (3 marks)
- (ii) Computerized accounting system (3 marks)

[Total: 20 Marks]

QUESTION SIX

Sara and Olivar in a partnership, sharing profits and loses equally. Interest at 5% per annum is allowed on both the capital and current account balances at the beginning of the year. Interest on drawings is charged at 5% per annum. Partners' salaries are: Sara – K24,000; Olivar K16,000.

Sara and Olivar trial balance as at 31 December 2018.

	Dr K	Cr K
Capital a/cs: Sara		200,000
Olivar		100,000
Current A/cs: Sara		4,000
Olivar	1,200	
Drawing: Sara	30,000	
Olivar	20,000	
Freehold premises at cost	100,000	
Inventory 1 January 2017	150,000	
Fittings at cost	30,000	
Purchases and Purchases Returns	760,000	24,000
Bank	63,200	
Sales and sales returns	12,000	1,016,000
Accounts receivables & payables	104,800	66,600
Carriage inwards	43,000	
Carriage outwards	6,000	
Staff salaries	84,000	
VAT		17,400

Office expense	15,000	
Allowance for irrecoverable debts		4,000
Advertising	10,000	
Discounts received		2,000
Discounts allowed	2,400	
Irrecoverable debts	2,800	
Rent & rates	5,600	
Accumulated dep'n fixtures & fittings		6,000
	1,440,000	1,440,000

Additional information

- (i) Inventory was valued at K136,000.
- (ii) Purchase invoices amounting to K6,000 for goods included in the inventory valuation in (i) above had not been recorded.
- (iii) Staff salaries owing K1,800.
- (iv) Business rates paid in advance K400.
- (v) Allowance for irrecoverable debts to be increased to K4,800.
- (vi) Goods withdrawn by partners for private use had not been recorded and were valued K1, 000 for Sara and K1,260 for Oliver. No interest is to be charged on these amounts.
- (vii) Provision is to be made for depreciation of fixtures and fittings at 10% on cost.
- (viii) Interest on drawings for the year is to be charged as follows: Sara K720, Oliver K560.

Required:

(a) Prepare the partnership statements of profit or loss and appropriation for the year ended 31 December 2018. (17 marks)

(b) Explain 3 disadvantages of integrated accounting package. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA 1 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

Note 1: DEPRECIATION

- (i) AAG 4080 accumulated Depreciation = $\frac{74500-11500}{6 \text{ years}} = 10500 \text{ pa}$
 Total $\therefore 10500 + (10500 \times \frac{10}{12})$ K19250
- (ii) AGB 3223 Accumulated Depreciation = $\frac{90250-15250}{10 \text{ years}} = 7500 \text{ pa}$
 Total \therefore Allowance = 7500 x 2 years = K15000
- (iii) AGB 4425: Depreciation = $\frac{80000-8000}{5 \text{ years}} = 14400 \times \frac{8}{12} = \text{K9600}$

(a) Motor vehicle A/C

Date	Details	K	Date	Details	K
Jan 1	Balance b/f	164,750	May 1	Disposal	74,500
May 1	Bank	80,000		Balance c/d	170,250
		244,750			244,750
	Balance b/f	170,250			

(b) Allowance for Depreciation – Motor vehicle A/C

Date	Details	K	Date	Details	K
	Disposal	19,250	Jan 1	Balance b/d	23,250
	Balance c/d	24,600		Depreciation expenses	20,600
		43,850			43,850

(c) MOTOR VEHICLE DISPOSAL A/C

	K	Details	K
Moto vehicles	74,500	Allowance for Depreciation	19,250
Statement of Profit or less	4,750	Bank	60,000
	79,250		79,250

SOLUTION THREE

(a) Five advantages of conceptual framework for financial reporting

1. Avoids fire-fighting approach when developing IASs/IFRSs.
2. Less Open to criticism of political/external pressure.
3. Some standards may concentrate on statement of financial position; others on statement of profit or loss.
4. Financial statements are more consistent with each other.
5. Has a principle based approach rather than rule based approach.

(b) Five (5) qualitative characteristics of useful financial information.

1. **Understandability** - Taking into account that users have a reasonable knowledge of business and a willingness to study information with reasonable diligence, the financial statements should be prepared in such a way as to be easily understood by such users. This can be enhanced by avoiding use of words that are too technical and use of easy to follow presentations.
2. **Comparability** - Use of accounting methods/measurements should be consistent from one year to another or from one company to another whose results are subject to comparison. Inconsistent methods of accounting for similar transactions will render the financial results incomparable.
3. **Timeliness** - Every time financial statements are to be prepared, they need to be prepared more quickly in good time for their use for specified decisions to be passed.
4. **Verifiability** - Financial statements need to be supported by written or verbal representation for them to be deemed valid and hence useful.
5. **Relevance** – Information is capable of making a difference to users of such information if it has predictive value, confirmatory value or both. For information to be relevant it should be material and provided timely.
6. **Faithful representation** – information must be complete, neutral and free from material error. Substance over form is implied.

SOLUTION FOUR

(a) (i) FIFO – Stores Ledger Card

DATE	RECEIPTS			ISSUES			BALANCE		
	Unit (HP)	price (K)	Value (K)	Unit (HP)	price (K)	Value (K)	Unit (HP)	price (K)	Value (K)
1 Jan	10	8,500	85,000				10	8,500	85,000
2 Mar	40	9,000	360,000				10	8,500	85,000
							40	9,000	360,000
10 Mar				10	8,500	255,000	20	9,000	180,000
				20	9,000	180,000			
6 May	29	9,500	275,500				20	9,000	180,000
							29	9,500	275,500
8 Jun				20	9,000	180,000	20	9,500	190,000
				9	9,500	85,500			
5 Jul	15	12,000	180,000				20	9,500	190,000
							15	12,000	180,000
25 Aug				10	9,500	95,000	10	9,500	95,000
							15	12,000	180,000
29 Nov	30	12,600	378,000				10	9,500	95,000
							15	12,000	180,000
							30	12,600	378,000
25 Dec				10	9,500	95,000	15	12,600	189,000
				15	12,000	180,000			
				15	12,600	189,000			

ii) Weighted Average Method

DATE	RECEIPTS			ISSUES			BALANCE		
	Unit (HP)	price (K)	Value (K)	Unit (HP)	price (K)	Value (K)	Unit (HP)	price (K)	Value (K)
1 Jan	10	8,500	85,000				10	8,500	85,000
2 Mar	40	9000	360,000				50	8,900	445,000
10 Mar				30	8,900	267,000	20	8,750	178,000
6 May	29	9,500	275,50				49	9,255	453,500
8 Jun				29	9,255	268,395	20	9,125	185,105

5 Jul	15	12,000	180,000		35	10,432	365,105		
25 Aug				10	10,432	104,320	25	10,432	260,785
29 Nov	30	12,600	378,000		55	11,614	638,785		
25 Dec				40	11,614	464,560	15	11,614	174,225

(b) Income Statement for Chilonga for year ended 31December 2019

	FIFO	AVCO
	K	K
Sales revenue	1,474,950	1,474,950
Cost of sales W1	<u>(1,089,500)</u>	<u>(1,104,275)</u>
Gross profit	385,450	370,675
Expenses:		
Salaries (10 X K3, 500)	(35,000)	(35,000)
Other expenses	<u>(150,000)</u>	<u>(150,000)</u>
Net profit	<u>200,450</u>	<u>185,675</u>

Workings:

1. Cost of sales

	FIFO	AVCO
	K	K
Opening inventory	-	-
Purchases	1,278,500	1,278,500
Closing inventory	<u>(189,000)</u>	<u>(173,719)</u>
Cost of sales	<u>1,089,500</u>	<u>1,104,781</u>

c) Five (5) advantages of cash flow accounting over Income statement.

- i. Cash flow is more comprehensive than profit which is dependent on accounting conventions and concepts.
- ii. Cash flow reporting provides a better means of comparing the results of different companies than traditional profit reporting.
- iii. The cash flow shows the ability of the company to generate cash and gives a true position of the liquidity position of the company which is not the case with the income statement.
- iv. Cash flow forecasts are easier to prepare, as well as more useful, than profit forecasts.
- v. Unlike Income statement, cash flow accounting is not based on accruals accounting hence can be understood and audited more easily.

SOLUTION FIVE

a) i) Differences between accrual accounting and cash accounting:

- In accrual accounting, a comprehensive set of financial statements are prepared to measure financial performance, position and cash condition of the entity. However, cash accounting reports mainly on cash condition of the entity by emplacing receipt and payment information.
- Under accrual accounting, non-financial assets are capitalised and depreciated over their useful life span but under cash accounting costs of non-financial assets are written off in the year of acquisition or construction, hence no depreciation is charged.
- Under cash accounting all obligations of government are disclosed in the statement of financial position but in the cash accounting system such information is not disclosed in the financial statement until they are paid.
- Under accrual accounting, allowances are permitted for receivables but no such allowances are accounted for under cash accounting.
- Under accrual accounting, revenues are reported when they are earned and expenditures when incurred but under cash accounting revenues are recognised only when received and expenditures when actually paid for.

ii) Justifications for adopting accrual accounting are that:

- It provides superior measure of performance in terms of cost of service, efficiency and effectiveness in service delivery.
- It promotes accountability and transparency in public financial management through increasing disclosure of all assets and liabilities.
- It provides comprehensive financial information that supports decision making and control.
- It ensures general improvement in the quality of financial reporting in the public sector.

iii) Commitment accounting:

- Is a technique of accounting in which expenditure is recorded when a decision is made by management to spend on an activity or item. It is a process by which appropriations are encumbered against future expenditure decisions of management. Commitment accounting strengthens public financial management in the following ways:
 - It ensures that departments do not over spend their appropriation without further authorisations.
 - It also ensures that spending is done within the ambit of a vote hence misapplication of funds may be reduced or curtailed.
 - It promotes effective planning of expenditure within the available resources and ensures that disbursements are synchronised with commitment.

b) In the new public management strategy cognisance should be made of the following differences between the public sector and the private sector:

- **Objectives are different.** Objective of public sector entities is to deliver public goods and services to all citizens in order to maximize welfare of the citizenry.

However, the principal objective of the private sector entities is to make profit on the goods and services they produce and sell on the market.

- **Means of funding is different.** Public sector entities are financed largely from the public resources resulting from taxes, levies and other public moneys whereas private sector is financed through capital contribution of owners such as shares. Therefore, public entities are collectively owned by the citizens without equity interest but equity interest is the basis of private ownership.
 - **Accountability structures are different.** Public sector entities are accountable to citizens through parliament but private entities are accountable to the shareholders through the board of directors.
 - **The nature of goods and services they offer is different.** Public sector is engaged in the provision of public goods and services which are non-excludable and non-divisible. Private sector is involved in the provision of private goods that are rivalry, divisible and discriminatory. Thus, public sector operates in a monopolistic market while private sector operates in a competitive market.
 - **The regulatory environment is different.** Public sector entities are established by a specific enactment of Parliament whereas private sector entities are governed by general commercial enactments and other industry specific enactments.
- c) i) **Manual accounting system:** A manual system is a bookkeeping system where records are maintained by hand, without using a computer system. Instead, transactions are written in journals, from which the information is manually rolled up into a set of financial statements. These systems suffer from a high error rate, and are much slower than computerized systems. Manual systems are commonly found in small enterprises with few transactions.
- ii) **Computerised accounting system:** Computerized accounting means performing all the accounting tasks on accounting software or other similar applications using computers. In computerized accounting all the accounting books are integrated with each other and there is no need to do entries in all books. Financial transactions are entered in accounting system only once and then these transactions are posted to all the relevant books automatically by the computer.

SOLUTION SIX**SARA AND OLIVAR****Statement of profit or loss and appropriation Account for the year ended 31 December, 2018**

	K	K	K
Sales (1,016,000 – 12,000)			1,004,000
Opening inventory		150,000	
Purchases (760,000 + 6,000 -2,260)		763,740	
Carriage inwards		43,000	
		956,740	
Less: purchase returns		(24,000)	
		932,740	
Closing: inventory		(136,000)	
			796,740
Gross profit			207,260
Add: Discount received			2,000
			209,260
Expenses			
Salaries (84,000 + 1,800)		85,800	
Office expenses		15,000	
Carriage outwards		6,000	
Adverts		10,000	
Discount allowed		2,400	
Rent and rates (5,600 – 400)		5,200	
Increase in allowance for Irrecoverable debts		2,800	
Dep'n – Fittings		800	
Allowance for capital debts			(131,000)
			<u>78,260</u>
Net profit			

Partnership Appropriation account

	K	K
Net profit		78,260
Add: Interest on drawing (720 + 560)		1,280
Interest on current account		<u>60</u>
		79,600
Less: Interest on capital (10,000 + 5,000)	15,000	
Interest on current account	200	
Salaries (24,000 + 16,000)	<u>40,000</u>	<u>55,200</u>
		<u>24,400</u>
Profit sharing ratios:		
50% Sara	12,200	
50% Olivar	<u>12,200</u>	
		<u>(24,400)</u>

- b. (i) Initial time and costs involved in the installing system, training personal etc
- (ii) Need for security clerks to make sure that no unauthorized personal gain access to data files.
- (iii) The necessity to develop a system of coding and checking.
- (iv) Lack of Audit trail. It is not always easy to see where a mistake has been made
- (v) Resistance on the part of staff to the introduced system

END OF SOLUTION



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 17 MARCH 2021

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

INSTRUCTIONS TO CANDIDATES

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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 Determine the annual percentage rate of interest of a deposit account that has a nominal rate of 8% compounded monthly.

- A. 8.30%
- B. 8.96%
- C. 9.00%
- D. 9.43%

(2 marks)

1.2 Which of the following statements concerning the coefficient of correlation (r), is true?

- A. $r = 1.00$ represents the absence of a relationship.
- B. The relationship between the two variables must be nonlinear.
- C. $r = 0.76$ has the same predictive power as $r = -0.76$.
- D. $r = 0.00$ represents a perfect relationship.

(2 marks)

1.3 The mean of five numbers 2, 3, 5, 6, 8 is 4.8. Calculate the standard deviation.

- A. 4.56
- B. 3.39
- C. 11.46
- D. 2.14

(2 marks)

1.4 The probability of distribution of sales of a product is given in the table below:

SALES VALUE(K)	50	60	70	80
PROBABILITY	0.3	0.1	0.4	0.2

The expected sale value is:

- A. K75
- B. K65
- C. K60
- D. K85

(2 marks)

1.5 Ngoza Company sells two products X and Y using Mulombe tree planks. Each product X has profit of K150 and each product Y has profit of K350.

The objective function is:

- A. $Z = 350x + 150y$
- B. $Z \geq 150x + 350y$
- C. $Z = 150x + 350y$
- D. $Z \geq 350x + 150y$

(2 marks)

1.6 Cyclical variation is:

- A. Variation which occurs according to regular economic pattern conditions.
- B. Trend value calculated.
- C. Variation due to changes in seasons.
- D. Variation due to occurrence of unexpected conditions.

(2 marks)

1.7 Prosperity recession and depression in a business is an example of

- A. Irregular Trend.
- B. Secular Trend.
- C. Seasonal Trend.
- D. Cyclical Trend,

(2 marks)

1.8 In linear programming, lack of points for a solution set is said

- A. Have a feasible solution.
- B. Have no feasible solution.
- C. Have single point method.
- D. Have infinite point method.

(2 marks)

- 1.9 A regression analysis between sales (in K1000) and price (in kwachas) resulted in the following equation:

$$\hat{y} = 50,000 - 8x$$

The above equation implies that an

- A. Increase of K1 in price is associated with a decrease of K42,000 in sales.
- B. Increase of K8 in price is associated with an increase of K8 000 in sales.
- C. Increase of K1 in price is associated with a decrease in K8,000 in sales.
- D. Increase of K1 in price is associated with a decrease of K8 in sales.

(2 marks)

- 1.10 In a manufacturing company, the number of employees in unit A is 40, the mean is K6400 and the number of employees in unit B is 30 with the mean of K5500 then the combined arithmetic mean is:

- A. K9500.
- B. K8000.
- C. K7014.29.
- D. K6014.29

(2 marks)

[Total: 20 Marks]

SECTION B

Attempt any Four (4) questions in this section

QUESTION TWO

- (a) The meat department at a local supermarket specifically prepares its 1 Kg packages of ground beef so that there will be a variety of weights, some slightly more and some slightly less than 1 Kg. Suppose that the weights of these 1 Kg packages are normally distributed with a mean of 1.00 Kg and a standard deviation of 0.15 Kg.
- (i) What proportion of the packages will weigh more than 1 Kg? (2 marks)
- (ii) What proportion of the packages will weigh between 0.95 and 1.05 Kg? (4 marks)
- (iii) What is the probability that a randomly selected package of ground beef will weigh less than 0.80 Kg? (3 marks)
- (iv) Would it be unusual to find a package of ground beef that weighs 1.45 Kg? How would you explain such a large package? (3 marks)
- (b) Find the compound interest rate required for K35,000 to grow to K70,000 in five (5) years. (3 marks)
- (c) A bank pays 8.5% interest, compounded annually. How long will it take for K35,000 to grow to K70,000? (5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) A service station has recorded the following frequency distribution for the number of gallons of gasoline sold per car in a sample of 680 cars.

Gasoline (gallons)	Frequency
0 – 4	74
4 – 8	192
8 – 12	280
12 – 16	105
16 – 20	23
20 – 24	6

- (i) Compute the mean (2 marks)
- (ii) Compute the variance (5 marks)
- (iii) Compute the coefficient of variation. (2 marks)

- (b) Find the trend of the following time series by the five year moving average (assume a five (5) year cycle).

Year	Value
1994	53
1995	79
1996	76
1997	66
1998	69
1999	94
2000	105
2001	88
2002	80
2003	104
2004	98
2005	96
2006	102
2007	106

(5 marks)

- (c) The Director of finance for a farm cooperative is concerned about the yield per acre she can expect from this year's maize crop. The probability distribution of the yields for the current weather conditions is given below:

Yield in Kg per acre	Probability
120	0.18
140	0.26
160	0.44
180	0.12

She would like to see a simulation of the yield she might expect over the next 10 years for weather conditions similar to those she is now experiencing. Simulate the average yield she might expect per acre using the following random numbers: 20, 72, 34, 54, 30, 22, 48, 74, 76, 02.

(6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Monze investment has the following cash flows in four (4) years.

YEAR	1	2	3	4
CASH FLOW	3000	4700	4800	3200

The initial investment of the project is K9,500 with the cost of capital of 20%.

Required:

Is this a viable project? (12 marks)

- (b) The distribution weight of five (5) bags of scrap metals is given as follows: 50kg, 40kg, 60kg, 30kg and 70kg.

Required:

Calculate:

- (i) Standard deviation of weight (1dp). (5 marks)
(ii) Median of the weight of the bags. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Define the following terms:

- (i) Systematic risk (1 mark)
(ii) Unsystematic risk (1 mark)

- (b) A stock has the following predicted returns under the following economic conditions:

Economic Condition	Probability	Return (K)
Recession	0.1	10,000
Stable economy	0.4	20,000
Moderate growth	0.2	50,000
Boom	0.3	100,000

Compute the:

- (i) Expected monetary value. (2 marks)
(ii) Standard deviation. (3 marks)
(iii) Coefficient of variation. (2 marks)
(iv) Return-to-risk ratio. (2 marks)
- (c) In a project with investment worth K400,000 and a net profit of K50,000, the forgone investment opportunity is 12%.
- (i) Compute the return. (2 marks)
(ii) Should we do the project? Explain. (2 marks)
- (d) Suppose that a capital of K500 earn K150 of interest in six (6) years. What was the interest in six (6) years if:
- (i) Compound interest is used? (3 marks)
(ii) Simple interest is used? (2 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) The motor company has forty (40) workers who can join club A or B or Both. Club A has twelve (12) members, club B has 10 members and eighteen (18) members belong to both clubs.

Required:

Calculate the probability that a worker belongs to A or B club. (3 marks)

- (b) The distribution of sale of cotton in kg is given below:

	QUARTER			
YEAR	1	2	3	4
2015	70	50	60	80
2016	40	80	90	50
2017	50	60		

Required:

Calculate:

- (i) four-quarter moving average trend values (8 marks)
(ii) Seasonal variation values by multiplicative model. (6 marks)
- (c) Mrs. S. Phiri deposited K550 at the end of each year in a bank offering 9% interest compounded annually for three years.

Required:

Find the amount. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA 2 SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 A

$$APR = \left(1 + \frac{i}{m}\right)^m - 1 = \left(1 + \frac{0.08}{12}\right)^{12} - 1 = 8.3\%$$

1.2 C

1.3 D

$$\sigma = \sqrt{\frac{(2-4.8)^2 + (3-4.8)^2 + (5-4.8)^2 + (6-4.8)^2 + (8-4.8)^2}{5}} = \sqrt{5.7} = 2.14$$

$$1.4 \quad E(X) = 50(0.3) + 60(0.1) + 70(0.4) + 80(0.2)$$

$$= 15 + 6 + 28 + 16 = 65 \quad (B)$$

$$1.5 \quad Z = 150x + 350y \quad (C)$$

1.6 Variation which occur according to regular pattern condition. (A)

1.7 The correct answer is D.

Cyclical variations, which are also generally termed as business cycles, are the periodic movements in the time series around the trend lines. These are upswings and downswings in the time series that are observable over extended periods of time.

1.8 The correct answer is B

Infeasible Solution: Infeasibility is a condition that exists when there is no solution to a linear programming problem that satisfies all the constraints and non-negativity restrictions.

1.9 The correct answer is D.

The equation $\hat{y} = 50,000 - 8x$ has a negative slope (i.e. -8). So for every increase of K1 there is a reduction of K8/

1.10 The correct answer is D

Here, $n_1 = 40, \bar{x}_1 = 6400$

$n_2 = 30, \bar{x}_2 = 5500$

$$\begin{aligned}\hat{\mu} &= \frac{n_1\bar{x}_1 + n_2\bar{x}_2}{n_1 + n_2} \\ &= \frac{40(6400) + 30(5500)}{40 + 30} \\ &= \text{K}6014.29\end{aligned}$$

SOLUTION TWO

(a)

i. $P(X > 1)$

$$Z = \frac{X - 1}{0.15}$$

$$\begin{aligned} P\left[\frac{X - 1}{0.15} > \frac{1 - 1}{0.15}\right] \\ = P[Z > 0] \\ = 1 - 0.5 = 0.5 \end{aligned}$$

ii.

$P(0.95 < X < 1.05)$

$$P\left[\frac{0.95 - 1}{0.15} < \frac{X - 1}{0.15} < \frac{1.05 - 1}{0.15}\right]$$

$$\begin{aligned} P[-0.33 < Z < 0.33] \\ P[Z < 0.33] - P[Z < -0.33] = 0.1293 + 0.1293 \end{aligned}$$

$$= 0.2586$$

iii. $P(X < 0.8)$

$$\begin{aligned} P\left[\frac{X - 1}{0.15} < \frac{0.8 - 1}{0.15}\right] \\ = P[Z < -1.33] \\ = 0.5 - 0.4082 = 0.0918 \end{aligned}$$

iv. $P(X \leq 1.45)$

$$\begin{aligned} P\left[\frac{X - 1}{0.15} \leq \frac{1.45 - 1}{0.15}\right] \\ = P[Z = 3] \end{aligned}$$

No it is not unusual, probability of $Z = 3$ indicates that the event is highly likely to happen.

(b) We use the formula:

$$P_t = P_0(1 + i)^t$$

We need calculate i given that $P_t = 35000$, $P_0 = 70000$, $t = 5$

$$70000 = 35000(1 + i)^5$$

$$\frac{70000}{35000} = (1 + i)^5$$

$$2^{\frac{1}{5}} = 1 + i$$

$$1.15 = 1 + i$$

$$i = 0.15$$

$$i = 0.15 \times 100 = 15\%$$

An interest rate of 15% is required if this investment is to double in value over a period of five years

(b) We need calculate t given that $P_t = 35000$, $P_t = 70000$, $i = \frac{8.5}{100} = 0.085$.

$$70000 = 35000(1 + 0.085)^t \frac{70000}{35000} = (1.085)^t$$

$$2 = (1.085)^t$$

$$\ln 2 = \ln(1.085)^t$$

$$t = \frac{\ln 2}{\ln(1.085)}$$

$$t = 8.497$$

Therefore, at 8.5% interest it will take over eight years for the investment to double in value.

SOLUTION THREE

(a)

Gasoline (gallons)	Mid-point x	f	fx	$(x - \bar{x})$	$(x - \bar{x})^2$	$f(x - \bar{x})^2$
0 – 4	2	74	148	-7	49	3626
4 – 8	6	192	1152	-3	9	1728
8 – 12	10	280	2800	1	1	280
12 – 16	14	105	1470	5	25	2625
16 – 20	18	23	414	9	81	1863
20 – 24	22	6	132	13	169	1014
		$\sum f = 680$	$\sum fx = 6116$			$\sum f(x - \bar{x})^2 = 11,136$

i.
$$\bar{x} = \frac{\sum fx}{\sum f} = \frac{6116}{680} = 8.994 \approx 9$$

ii.
$$S^2 = \frac{f(x - \bar{x})^2}{n - 1} = \frac{11,136}{680 - 1} = 16.4$$

iii.
$$C.V = \frac{S}{x} \times 100\% = \frac{4.05}{9} \times 100\% = 45\%$$

NOTE: $S = \sqrt{16.4} = 4.05$

Year	Value	5 – Yearly moving total	5 – yearly moving average centred
1994	53	-	
1995	79	-	
1996	76	343	68.7
1997	66	384	76.8
1998	69	410	82.0
1999	94	422	84.4
2000	105	436	87.2
2001	88	471	94.2
2002	80	475	95.0
2003	104	466	93.2
2004	98	480	96.0
2005	96	506	101.2
2006	102	-	
2007	106	-	

(c) Simulation for 10 years is carried out in the table below:

Yield in Kg/acre	Probability	Cumulative probability	Range	Random numbers fitted
120	0.18	0.18	00 – 17	02(10)
140	0.26	0.44	18 – 43	20(1),34(3),30(5),22(6)
160	0.44	0.88	44 – 87	72(2),54(4),48(7),74(8),76(9)
180	0.12	1.00	88 – 99	

Therefore, yields over the next ten years are 140, 160, 140, 160, 140, 140, 160, 160, 160 and 120 Kg respectively.

SOLUTION FOUR

(a)	Year	Cash flow	DF	(C)(DF)	PV
1	3000	0.8333		3000(0.8333)	2499.9 (1)
2	4700	0.6944		4700(0.6944)	3263.68 (1)
3	4800	0.5787		4800(0.5787)	2777.76 (1)
4	3200	0.4823		3200(0.4823)	1543.36 (1)
			(1)	(1)	$\Sigma PV = 10084.7$

$$\begin{aligned} NPV &= \Sigma PV - \text{COST} = 10084.7 - 9500 \\ &= K584.7 \end{aligned}$$

Project is viable.

(b) (i)	X	X ²
	50	2500
	40	1600
	60	3600
	30	900
	70	4900
$\Sigma X = 250$		$\Sigma X^2 = 13500$

$$\begin{aligned} \bar{X} &= \frac{\Sigma x}{n} \\ &= \frac{250}{5} = 50 \quad (1) \end{aligned} \quad \begin{aligned} \sigma &= \sqrt{\frac{\Sigma x^2}{n} - \bar{x}^2} = \sqrt{\frac{13500}{5} - 50^2} = \sqrt{2700 - 2500} \\ &= \sqrt{200} = 14.1 \quad (1) \end{aligned}$$

(ii) 30, 40, 50, 60, 70

$$\text{M.P} = \frac{n+1}{2} = \frac{5+1}{2} = \frac{6}{2} = 3^{\text{rd}}$$

Median weight = 50kg

SOLUTION FIVE

(a)

- i. Systematic risk is the risk that affects the entire market or a large numbers of assets or stock.
- ii. Unsystematic risk is the risk that is unique or specific to an asset, stock or individual company.

(b)

- i.
$$EMV = \sum_x xP(X = x)$$
$$= 0.1(10,000) + 0.4(20,000) + 0.2(50,000) + 0.3(100,000)$$
$$= K49,000$$

- ii.
$$Var(X) = E(X^2) - (E(X))^2$$

$$E(X^2) = \sum_x x^2P(X = x)$$
$$= 10,000^2(0.1) + 20,000^2(0.4) + 50,000^2(0.2) + 100,000^2(0.3)$$
$$= 10,000,000 + 160,000,000 + 500,000,000 + 3,000,000,000$$
$$= 3,670,000,000$$

$$\therefore Var(X) = E(X^2) - (E(X))^2$$
$$= 3,670,000,000 - 49,000^2$$
$$= 1,269,000,000$$

$$\therefore S.D. = \sqrt{Var(X)} = \sqrt{1,269,000,000} = K35,623.03$$

- iii.
$$C.V. = \frac{S.D.}{EMV} \times 100\% = \frac{35,623.03}{49,000} \times 100\% = 72.7\%$$

- iv.
$$RTRR = \frac{EMV}{S.D.} = \frac{49,000}{35,623.03} = 1.38$$

(c)

- i.
$$Return = \frac{Profit}{Investment} = \frac{K50,000}{400,000} = 0.125$$

∴ The return = 12.5%

- ii. Yes, we should do the project because this investment offers rates of return in excess of the opportunity cost of capital.

(d)

- i. The capital accumulated to K650, so in the case of compound interest we have to solve the rate from the equation,

$$A(t) = P \left(1 + \frac{r}{n} \right)^{nt}$$

$$500(1+r)^6 = 650$$

$$(1+r)^6 = 1.3$$

$$1+r = 1.044698$$

$$r = 1.044698 - 1$$

$$r = 0.044698$$

Thus, the interest rate is 4.47%

- ii. In the case of simple interest, the equation to solve is

$$I = Prt$$

$$500 \times r \times 6 = 150$$

$$3000r = 150$$

$$3000r = 150$$

$$r = \frac{150}{3000} = 0.05$$

So the rate is 5%.

SOLUTION SIX

(a) $P(A \text{ or } B) = P(A) + P(B) - P(A \cap B)$

$$= \frac{12}{40} + \frac{10}{40} - \frac{18}{40}$$

$$= \frac{22-18}{40}$$

$$= \frac{4}{40} = \frac{1}{10}$$

(b) (i)

YEAR	Q	SALES	MAT	MA	CA(T)	SV
2015	1	70				
	2	50				
			260	65		
	3	60			61.25	98%
		230	57.5			
	4	80			61.25	131%
2016			260	65		
	1	40			68.75	58%
			290	72.5		
	2	80			68.75	116%
		260	65			
	3	90			66.25	136%
			270	67.5		
	4	50			65	77%
2017			250	62.5		
	1	50	(1)	(1)		
	2	60				
	3					
	4					

(c) $A = P \left(\frac{(1+i)^n - 1}{i} \right) = 550 \left(\frac{(1.09)^3 - 1}{0.09} \right) = 550 \left(\frac{1.2950 - 1}{0.09} \right)$

$$= 550 \left(\frac{0.2950}{0.09} \right)$$

$$= 550(3.2778) = K 1802.79$$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 16 MARCH 2021

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 The government of a country intends to introduce a poll tax which will involve a flat rate levy of K500 on every adult member of the population. This new tax could be described as:

- A. Regressive
- B. Proportional
- C. Progressive
- D. Ad Valorem

(2 marks)

1.2 Which one of the following will be most likely lead to a rise in aggregate demand in the economy?

- A. An increase in the level of income tax
- B. A decrease in government expenditure
- C. A decrease in interest rates
- D. An increase in the marginal propensity to save

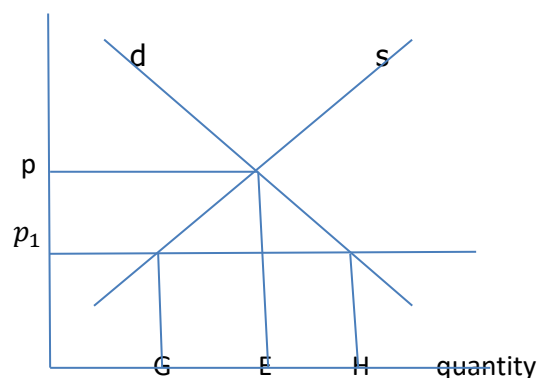
(2 marks)

1.3 Which of the following is not a benefit of economic growth?

- A. Rising employment
- B. Inflation
- C. Higher living standards
- D. Improved social infrastructure

(2 marks)

1.4 Demand and supply for good Q are initially in equilibrium as given in the diagram below.



The government introduces a price ceiling p_1 . What effect will this have on the quantity of good Q?

- A. It will rise from G to E
- B. It will rise from H to E
- C. It will fall from H to G
- D. It will fall from E to G

(2 marks)

1.5 Which one of the following is not a stakeholder for a mutual organization?

- A. Customers
- B. Staff
- C. Shareholders
- D. Directors

(2 marks)

1.6 The condition for a firm to be a price taker is:

- A. $TR > TC$
- B. $MR < AR$
- C. $MR = AR$
- D. $TR < TC$

(2 marks)

1.7 Which one of the following is not normally a feature of an oligopolistic market?

- A. There is interdependence of decision making
- B. Low barriers to entry
- C. Price stability
- D. Non-price competition

(2 marks)

1.8 Which of the following define GNP at factor cost?

- (i) Consumers' total expenditure on domestic and foreign produced goods and services
- (ii) The value of total output produced domestically plus net property income from abroad
- (iii) The total income received by residents in a country in return for factor services provided domestically and abroad.

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

(2 marks)

1.9 A money market is best defined as:

- A. A market where organizations raise any form of finance
- B. A market where organizations raise long-term finance
- C. A market where organizations raise short-term finance
- D. A market where Treasury Bills are traded.

(2 marks)

1.10 What is the balance of trade?

- A. The balance of payments on current account
- B. Net visible trade
- C. Net visible and invisible trade
- D. The theory of gains from trade

(2 marks)

[Total: 20 Marks]

SECTION B

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

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

QUESTION TWO

Below is the schedule for a firm MAPAX Investment Ltd operating in a market where there is price stability. The firm deals in a product X whose price is given in Kwacha (ZMK') and quantity in ('units), total costs in ZMK'

QUANTITY	PRICE	TOTAL COSTS
1	20	40
2	19	44
3	18	50
4	17	58
5	16	68
6	14	80
7	12	94
8	10	110
9	8	128

- (a) Compute the value for the Total Revenue (TR), Marginal Revenue (MR) and Marginal cost (MC) for each price facing the firm. (13½ marks)
- (b) Determine whether the firm above is maximizing profit or not. (3½ marks)
- (c) Calculate the highest possible profit MAPAX Investment Ltd would make. (3 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Outline any four (4) factors affecting price elasticity of demand. (8 marks)
- (b) Outline any four (4) characteristics of a perfectly competitive market. (8 marks)
- (c) List any two (2) advantages of vertical integration. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

A firm pays K200,000 in wages, K50,000 in interest on borrowed money capital, and K70,000 for the yearly rental of its factory building. If the entrepreneur worked for somebody else as a manager she would earn at most K40,000 per year, and if she lent out her money capital to somebody else in a similarly risky business, she would at most receive K10,000 per year. She owns no land or building.

- (a) Calculate the entrepreneur's economic profit if she received K400,000 from selling her year's output. (10 marks)
- (b) Calculate the entrepreneur profit from the point of view of the person on the street? To what is the difference in the results due? (5 marks)
- (c) What would happen if the entrepreneur's total revenue were K360,000 instead? (5 marks)

[Total 20 Marks]

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

QUESTION FIVE

It is important for a country like Zambia to improve on productivity and efficiency when producing at all levels of the economy namely primary, secondary and tertiary sectors. The extractive, manufacturing and service industries should contribute to the growth of the Net National Income (NNI).

- (a) Using the national income statistics to compare economies, explain any three (3) conventions used to make figures more comparable? (6 marks)
- (b) Compute the gross value added at basic prices (GDP) at factor cost when the gross national product(GNP) at factor cost is K25,800 and the capital consumption is K1,750 and net property income from abroad is K210.All figures are given in Km. (6 marks)
- (c) Calculate the multiplier in this economy if the marginal propensity to save (MPS)=0.85? (2 marks)
- (d) Explain any three (3) short term sources of capital for companies? (6 marks)

[Total: 20 Marks]

QUESTION SIX

There is need for Zambia to consider moving into economic integration of the types of Free Trade Area (FTA) and Customs Union (CU), but also position itself for the inescapable globalization.

Required:

- (a) Discuss four (4) advantages and four (4) disadvantages of globalization? (8 marks)

- (b) Unemployment in Zambia has been growing especially for the youth. Outline any two (2) the fiscal policy instruments that the Zambian government can put in place in order to reduce unemployment among the Zambian youths?
(4 marks)

- (c) The tabulation below shows production of goods X and Y by two(2) countries A and B.

	Units of good X	Units of good Y
Country A	100	300
Country B	200	800

Is trade between the two (2) countries possible even when country B has an absolute advantage in the production of both goods? (4 marks)

- (d) Explain what effect of a balance of payment; current account deficit will be on a country's external debt for a country like Zambia. (4 marks)

[Total: 20 Marks]

QUESTION SEVEN

Zambia needs to increase its capacity to produce in all sectors of the economy: primary, secondary and tertiary. From extractive industries of raw materials to finished products in the manufacturing industries, the economic growth will be reflected in the measurement of Gross Domestic Product (GDP).

Required:

Explain the following terms:

- (a) GDP at market price? (2 marks)
- (b) GDP at factor cost? (2 marks)
- (c) State any three (3) economic activities that GDP does not measure? (3 marks)
- (d) Consider a closed economy with the following consumption function:

$$C = 15 + 0.75(Y - T), \text{ where } C \text{ is consumption,}$$

Y is income and
 T taxes.

If government spending is $G = 20$, Investments $I = 70$ and Taxes $T = 40$, compute the equilibrium level of output? (5 marks)

- (e) State and explain any four (4) factors that can influence the amount of savings? (8 marks)

[Total: 20 Marks]

END OF PAPER

DA 3 SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 A

1.2 C

1.3 B

1.4 D

1.5 C

1.6 C

1.7 B

1.8 C

1.9 C

1.10 B

SOLUTION TWO

a)

QUANTITY	PRICE	TOTAL COSTS	Marginal Cost	Total Revenue	Marginal Revenue
1	20	40	40	20	20
2	19	44	4	38	18
3	18	50	6	54	16
4	17	58	8	68	14
5	16	68	10	80	12
6	14	80	12	84	4
7	12	94	14	84	0
8	10	110	16	80	-4
9	8	128	18	72	-8

(b) The condition for profit maximizing is $MR = MC$. However, the calculated values of MR and MC are never equal. Therefore, we cannot ascertain the profit maximizing price and quantity.

(c) $TR - TC = K80 - K68 = K12$ at $Q = 5$

SOLUTION THREE

a) Determinants of price elasticity of demand

- Percentage of income spent on the good: if expenditure on a good only constitutes a small proportion of a consumer's income, then demand for that good is inelastic, by contrast, demand is elastic for expensive goods.
- Availability of substitutes: a good with close substitutes will have elastic demand, by contrast, a good without close substitutes will have inelastic demand.
- Necessity: a necessity good has inelastic demand, while a luxury good has elastic demand.
- Time horizon: in the short-run demand for a good tends to be inelastic, but in the long-run demand tends to be elastic.
- Habits: goods which are habit-forming tend to be inelastic and vice versa.

b) Characteristics of a Perfectly Competitive Market

- Many suppliers each with an insignificant share of the market – this means that each firm is too small relative to the overall market to affect price via a change in its own supply – each individual firm is assumed to be a price taker
- An identical output produced by each firm – in other words, the market supplies homogeneous or standardised products that are perfect substitutes for each other. Consumers perceive the products to be identical.
- Consumers have perfect information about the prices all sellers in the market charge – so if some firms decide to charge a price higher than the ruling market price, there will be a large substitution effect away from this firm
- All firms (industry participants and new entrants) are assumed to have equal access to resources (technology, other factor inputs) and improvements in production technologies achieved by one firm can spill-over to all the other suppliers in the market
- There are assumed to be no barriers to entry & exit of firms in long run – which means that the market is open to competition from new suppliers – this affects the long run profits made by each firm in the industry. The long run equilibrium for a perfectly competitive market occurs when the marginal firm makes normal profit only in the long term
- No externalities in production and consumption so that there is no divergence between private and social costs and benefits

c) Advantages of Vertical integration

- Gives the firm greater control over its sources of supply (backward integration) or over its markets (forward integration).
- A firm can also raise the barriers to entry because of its control over supplies or markets.
- A firm can achieve financial and/or commercial economies of scale.

SOLUTION FOUR

- a) Economic profit = Revenue – (explicit costs + Implicit costs). The explicit costs of this entrepreneur are **K320,000** (K200,000 in wages plus K50,000 in interest plus K70,000 in rents). Her implicit costs are **K50,000** (K40,000 in wages in her best alternative employment plus K10,000 interest on her money capital). Thus, her total costs are **K370,000**. Since the total revenue from selling the year's output is K400,000, she earns an economic profit of **K30,000** for the year.
- b) The person on the street would instead say that this entrepreneur's profit is **K80,000** (the total revenue of K400,000 minus the out-of-pocket expenditures, or explicit costs, of K320,000). However, K50,000 of this K80,000 represents the normal return on the entrepreneur's owned factors and is appropriately considered a cost by the economist.
- c) If the entrepreneur's total revenue were K360,000, she would earn less than a normal return on her owned factors (her wage and interest in alternative employment) and it would be best to eventually go out of business and work as a manager for and lend her money to someone else. This shows that implicit costs are part of the costs of production because they must be covered in order for the firm to remain in business and continue to supply the goods and services it produces.

SOLUTION FIVE

(a) The main conventions used to make statistics more comparable are :

- Uses of real national income per capita (ie national income divided by population) to get a measure of average well-being
- All values converted from nominal values (ie measured in the prices at the time) to real values or constant values by eliminating inflation using a GDP deflator
- All values equate using exchange rate or expressed in a single currency (eg dollar)

(b)

Since GDP plus
Net property income from abroad: 210
= Gross national product, minus capital consumption: 25,800
= Net national income: 24,050

Therefore $24,050 + 1,750 = 25,800$

$25,800 - 210 = 25,590 = \text{GDP with all values at factor cost}$

(c) Multiplier = $\frac{1}{0.85} = 1.176$

(d) Sources of short term capital

- Credit agreement : allow business to borrow money for the immediate purchase of goods or services and to pay for them over an extended period of time.
- Bank overdraft : are short term facility which allow businesses to borrow money up to an agreed limit. The bank will charge interest on the amount overdrawn, but the overdraft can be a valuable means of overcoming a short-term cash flow problem or working capital shortage.
- Bills of exchange : are a means of one business providing credit to another business for a short period, usually for three months.
- Commercial paper: banks and companies with good credit ratings raise funds by issuing unsecured promissory bearer notes that can be interest-bearing or discounted. These notes usually have short lives of up to 270 days.

SOLUTION SIX

(a) Globalization

(i) Advantages of globalization

- Emergence of new growth markets,
- Enhanced competitiveness as more producers and consumers make up the global market place
- Growth of previously poor economies
- Cross-national business alliance and mergers

(ii) Disadvantages of globalization

- The main institution of globalization follow the collective will of the most powerful countries and are more concerned About aiding the economic wealth of countries which are already relatively wealthy and powerful.
- IMF, WB and G20 along with powerful multinational organizations dictate economic policy in countries but do not include real representation of these countries within the organization.
- World poverty is still an issue and many fear that the policies adopted by WB, IMF and others, for example in restricting subsidy in Africa and opening up their markets for western imports that are produced under subsidy , actually makes some nations poorer.
- There is no enduring political and economic stability in the world and the collapse of one part of the economy , for example in South America, could have disastrous knock on effects for the rest of the world.

(b) Government can create jobs or reduce unemployment:

- Spending more money directly on jobs(hiring more youths)
- Encouraging growth in the private sector of the economy. When aggregate demand is growing , firms will probably want to increase output to meet demand and so will hire more labor giving priority to the youths.
- Encouraging training in jobs skills by focussing on the youths. There might be a high level of unemployment amongst unskilled workers, and at the same time a shortage of skilled workers. A government can help to finance training schemes for the youths, in order to provide a pool of workers who have the skills that firms need and will pay for.

(c)

	X	Y	X	Y	X	Y
Country A	100	300	1	3	$\frac{1}{3}$	1
Country B	200	800	1	4	$\frac{1}{4}$	1

table (1)

table (2)

table (3)

Though country B has an absolute advantage over country A in the production of both goods, 200 units of good X and 800 units of good Y trade is possible on the basis of comparative advantage. Since country A has a comparative advantage in the production of good X (table 2) and country B has a comparative advantage in the production of good Y (table 3) trade is possible with country A exporting good X and country B exporting good Y this is because the opportunity cost for country A is lower in the production of good X (table 2 where $3 < 4$) and the opportunity cost is lower for country B in the production of good Y ($\frac{1}{4} < \frac{1}{3}$).

(d) A country's external debt increases whenever it has a balance of payments deficit on current account.

- (i) A deficit on current account must be balanced by a matching surplus in transactions in external assets and liabilities, in other words, by :
 - Borrowing from abroad
 - Selling assets that are owned abroad
- (ii) If a country balance of trade deficit is very high, it must borrow heavily from abroad. Borrowing could be :
 - Borrowing by the government
 - Borrowing by the private sector
- (iii) If the country's external debt becomes very high, the cost of servicing the debt by meeting interest payment schedules could become a severe burden on the country's economy.

SOLUTION SEVEN

- (i) The value of GDP measured by adding the total expenditure (quantity multiplied by average market price) is GDP at market price
- (ii) GDP at market price minus indirect taxes + subsidies=GDP at factor cost
- (iii) Economic activities that GDP does not measure:
- Underground/black economy, some production is hidden from government authorities either because it is illegal (drugs) or because those involved want to avoid taxes(hair dressers who operate in the comfort of their homes).
 - Non-marketed activities, GDP does not include nonmarket production, such as goods and services that are produced but not sold in the market place. Household cleaning, lawn mowing, sewing and typing that people do themselves, rather than hiring someone else, are excluded from GDP.
 - Economic bads, the positive value of economic activity is included in GDP, however, the negative externalities from such activity is not deducted from GDP. For example, the value of copper is included in GDP, but the emissions from the mines which pollute the air is not deducted from GDP.

- (iv) Equilibrium level of output:

$C=15+0.75(Y-T)$, where C is consumption, Y is income and T is taxes

If government spending is $G=20$, investment is $I=70$ and taxes $T=40$, the equilibrium level of output is:

$$C=15+0.75(Y-T)$$

$$Y=C+I+G$$

$$Y=15+0.75(Y-40)+70+20$$

$$Y=15+0.75Y-30+70+20$$

$$Y-0.75Y=15-30+70+20$$

$$Y(1-0.75)=75$$

$$Y=\frac{75}{0.25}$$

Y=300 The equilibrium level of output is 300 units

- (v) **Factors influencing the amount of savings:**

- **Income:** The level of income will be a key determinant in the level of savings. We note that $MPC+MPS=1$, but it is also true that $APC+APS=1$
- **Interest rates:** If interest rates rise, savings become attractive to consumption.
- **Cost of availability of credit:** Similarly, as the cost of credit rises, consumption becomes less attractive, meaning that people will save more. As well as cost of credit, the availability of credit is also important. When credit is easily available, people will be encouraged to spend on credit. In which case, they might acquire as much credit as they are saving, meaning that there is no net savings.
- **Inflation:** If inflation rates are high, then nominal interest rates are also likely to be high, even though the real rates (adjusted for inflation) may be low. Consumers may be attracted by the money illusion of high nominal interest rates into saving more.
- **Long term savings:** A large amount of household savings goes into long term, contractual savings, such as pension schemes. The savings may be less

likely to vary with income than with the demographics- for example, the level of savings into pension schemes have risen alongside increases in the expectancy in developed countries.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 17 MARCH 2021

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.
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.

- 1.1 Which one of the following is NOT a security issue on public websites in an organization?
- A. Identity theft
 - B. Loss of confidential information
 - C. Damage to reputation
 - D. Authentication

(2 marks)

- 1.2 Match the correct level of information (in numbers) and level of staff in the pyramid

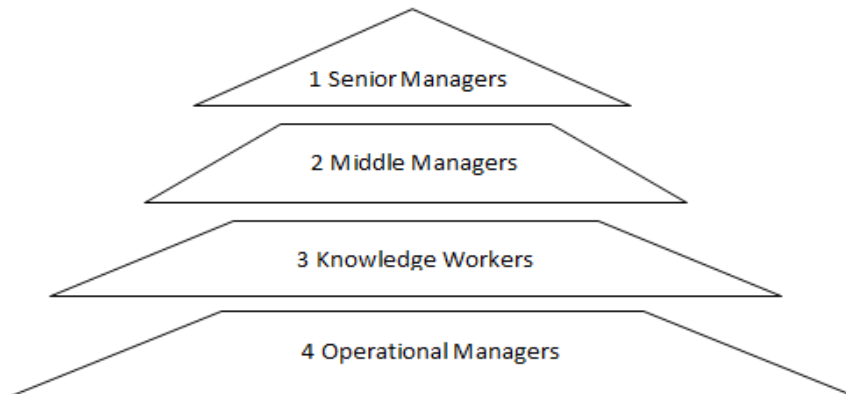


Figure 1

Which of the following option best indicates the appropriate match according to figure 1 above?

- A. 1- MIS and DSS 2- EIS or ESS, 3- KWS and OAS, 4- TPS
- B. 4- EIS or ESS, 2- KWS and OAS, 3 -TPS, 1- MIS and DSS
- C. 4- KWS and OAS, 3- MIS and DSS, 2- TPS, 1- EIS or ESS
- D. 3- KWS and OAS, 2- MIS and DSS, 4- TPS, 1- EIS or ESS

(2 marks)

- 1.3 The following is not a feature of Microsoft Windows
- A. RAM
 - B. Multitasking
 - C. User friendly
 - D. Web integration

(2 marks)

- 1.4 Software that is commercially available for purchase is often referred as:
- A. Ready-to-buy software
 - B. Off-the-shelf software
 - C. Available-on-demand software
 - D. Touch-and-go software
- (2 marks)
- 1.5 Which one of the following is the best reason for using Operating Systems?
- A. They allow Magnetic Ink Character Recognition and Bar-code readers
 - B. They attract user attention on the Screen during data entry process
 - C. Managing files, resource sharing and booting
 - D. Providing encryption and cold boot
- (2 marks)
- 1.6 Which of the following is **NOT** a medium of communication?
- A. Gestures
 - B. Discussion
 - C. Status
 - D. Letters
- (2 marks)
- 1.7 What is one of the 7Cs of communication which entails that one should be economical with words when sending message?
- A. Clear
 - B. Conciseness
 - C. Concreteness
 - D. Completeness
- (2 marks)
- 1.8 Why is it important to sign business letters?
- A. To show that it is important.
 - B. To show that it is a true or genuine document
 - C. To indicate the person who writing it.
 - D. To prove authority.
- (2 marks)
- 1.9 Which of the following statement is associated with the **KISS** concept?
- A. Ensuring that the audience characteristics are taken into consideration
 - B. Ensuring that the message contain all the facts required by the audience
 - C. Ensuring that the message is well structured
 - D. Ensuring that the message given to the audience is polite
- (2 marks)

1.10 Which of the following is an example of facial expression?

- A. perspiring
- B. Frowning
- C. voice pitch
- D. Voice tremors

(2 marks)

[Total: 20 Marks]

SECTION B

This Section has Two (2) parts: **1. INFORMATION TECHNOLOGY AND
2. COMMUNICATION**

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

As a seasoned accountant you have come to terms with the various IT terminologies. When a new accounting officer is being employed, you have been asked to explain the various IT concepts.

Required:

- (a) Describe how the following Excel statements and/or formulas can be used in your calculations:
- (i) IF statement (4 marks)
 - (ii) Chart wizard (4 marks)
- (b) RAM and ROM are both very important memory components. State any two (2) key differences between them. (4 marks)
- (c) Explain the terms *validation test* and *file checks* as process controls (4 marks)
- (d) State two (2) methods you would use to ensure data security (4 marks)

[Total: 20 Marks]

QUESTION THREE

At your new job you are required to work hand-in-hand with the IT department in the use of computers and other electronic devices. Your manager therefore needs to establish that you have sufficient knowledge about IT and its usage.

Required:

- (a) State any two (2) types of backup (2 marks)
- (b) Differentiate between a peer-to-peer network and a client-server network. Give one (1) advantage for each (8 marks)
- (c) Explain the term *data mining* and state its importance. (5 marks)
- (d) List any five (5) main Accounting Information Systems used by business entities? (5 marks)

[Total: 20 Marks]

QUESTION FOUR

There are various information systems used to compute, transmit, manage as well as store data.

Required:

- (a) Define an operating system (2 marks)
- (b) Explain any four functions of the operating system. (8 marks)
- (c) Explain any three (3) key characteristics of data quality (6 marks)
- (d) Select and list four (4) functions performed by the database management system (DBMS) from the list below:
 - (i) Opens application packages
 - (ii) Removes malware
 - (iii) Organizes data
 - (iv) Integrates data
 - (v) Boots the computer
 - (vi) Retrieves data
 - (vii) Prevents data duplication
 - (viii) It has its own hard disk and RAM (4 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Public speaking is a process of addressing a group of people in a structured, planned way in order to inform or influence them

Required:

- (a) State any five (5) factors required to consider when preparing for an oral presentation. (10 marks)
- (b) Questions play an important role during an oral presentation. Briefly explain any five (5) roles that questions play in an oral presentation. (10 marks)

[Total 20 Marks]

QUESTION SIX

It has been observed that information does not adequately flow smoothly especially in the accounts department of the organization that you work for. This is attributed to barriers to effective communication in such a case.

- (a) Write a memo to all staff outlining any five (5) barriers to effective communication. (15 marks)
- (b) State how you would overcome the barriers to communication. (5 marks)

[Total: 20 Marks]

QUESTION SEVEN

Formal communication follows a chain of command in the organizational chart.

- (a) Draw an organizational chart indicating the three major directions of how information flows smoothly in an organization (8 marks)
- (b) With appropriate examples briefly explain the following types of communication:
 - (i) Internal communication (4 marks)
 - (ii) External communication (4 marks)
 - (iii) Informal communication (4 marks)

[Total: 20 Marks]

END OF PAPER

DA4 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

a)

i) IF statement

This formula is used in excel to compare or make logical comparisons between an outcome and what you expect. So an IF statement can have two results, the first statement represents TRUE while the other represents FALSE. =if(statement, 'true','false')

ii) Chart wizard

A wizard found in Microsoft Excel application takes users into a step-by-step process of creating a chart. The Chart Wizard is accessible on the "Insert Menu", then you choose "Chart". It makes data easy to read and understand.

b) RAM and ROM are both very important memory components. State any two (2) key differences between them.

RAM – random access memory is volatile main memory which holds data and file in use

ROM – read only memory is the non-volatile memory which contains instructions which do not need to be changed such as computer clock, boot firmware.

c) Explain the terms *validation test* and *file checks* as process controls

Validation is the process of checking that the data is processed correctly. Among the checks we have file size, sequence checks, check digits and range checks.

File checks are designed to ensure the integrity of the file structure is maintained. These include header tables, trailer labels, arithmetic tests and format checks

d) State three (3) methods you would use to ensure data security

Antivirus – against viruses and other malware

Password – against unauthorized access to the computer

Physical security – secure room, proper air ventilation against damage

Encryption – scrambling the data so that even when accessed it will not be understood

Non-disclosure of any data to unauthorized people

SOLUTION THREE

At your new job you are required to work hand in hand with the IT department in the use of computers and other electronic devices. Your manager therefore needs to establish that you have sufficient knowledge about IT and its usage.

Required:

- a) Differentiate between a peer to peer network and a client server network. Give one (1) advantage for each

A client/server computer network is one which has a centralized infrastructure – one computer, called the “server,” which acts as a go-between for all other computers called “clients.” The server shares its resources with clients, but clients do not share their resources. Resources such as computing power or hard drive space. A breakdown in any one of the client computers does not affect the network and sharing, but if the server breaks down then the entire work is disrupted.

A peer-to-peer network, is one in which there is no central server. All computers are connected and each can act as the server or client to another. The computers all share resources with each other such as computer processing or hard drive space. If one computer breaks down all resources on the other computers are still available. This type of network is easy to set up and maintain as each computer manages itself.

- b) Explain the term *data mining*

IT is an analytical process designed to explore large amount of data in search of consistent patterns between variables and then to validate the findings by applying the elected patterns to new subsets of data

- c) List any five (5) main Accounting Information Systems used by business entities?(5marks)

List:

1. Financial accounting
2. Tax accounting
3. Cost accounting
4. Management or managerial accounting
5. Payroll accounting

SOLUTION FOUR

a) Define an operating system

An Operating System is a program that provides the 'bridge' between application software and computer users and the hardware

b) How does the operating system assist the users and operations of the computer? In answering this question outline the basic functionality of operating systems.

Communication with the computer user:

Communication with the computer user or operator by means of terminals or consoles, and through the use of monitor command and responses. It acts as system start up device also.

The operating system is automatically loaded into hardware main memory (RAM) when the computer is turned on. Then the operating system (OS) either waits for the user to give it a command or it brings a preselected programme into a ready to operate condition. This sequence is known as boot strapping or generally booting.

Assigning priorities

Usually in assigning priorities, the operating system (OS) has several levels of priorities. It manages the computers communication with the operators.

The scheduling and monitoring of programmes:

These are also known as sub-programmes. They are necessary in order to provide a continuous job processing sequence or to provide appropriate responses to events, job-to-job processing and job accounting.

Control over hardware resources:

This is the control over the selection and operating of all peripheral devices used to input storage. The operating system also directs the movement and processing of information required by your applications' programmes. It transfers data to and from storage and input or output devices like terminals or printers.

Managing the data and programme files:

The operating system directs the information storage and retrieval functions using one or more methods. These may include sequential (as on magnetic tape), random (as on disk units) or database storage structure.

Providing utility functions:

Providing utility functions that provide the user with tools for some operations like: loading programmes, transferring files from one floppy to another, 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 any three (3) key characteristics of data quality

The characteristics of data quality are;

Accuracy – data must represent the actual situation on the ground,

Accessibility – gathered data must be available as needed,

Comprehensiveness – data must meet all the needed criteria,

Consistency – data values are the same for all instances of an application Currency,

Relevancy – data needs must be met

Usefulness – data must be able to be used for the current need

Timeliness – data should be available when needed

d) Select and list four (4) functions performed by the Database Management System (DBMS) from the list below:

- | | |
|--|-------|
| i) Opens application packages | FALSE |
| ii) Removes malware | FALSE |
| iii) Organizes data | TRUE |
| iv) Integrates data | TRUE |
| v) Boots the computer | FALSE |
| vi) Retrieves data | TRUE |
| vii) Prevents data duplication | TRUE |
| viii) It has its own hard disk and RAM | FALSE |

SOLUTION FIVE (a)

1. The five (5) factors required to consider when preparing for an oral presentation.
 - I. Decide your main key purpose of your presentation? Ensure that you relentlessly concentrate on your message so the audience to remember one or two things well
 - II. Plan the best way to get your message across. Plan the order in which you are going to make your points.
 - III. Draft your script and reduce it to a series of notes. If possible, do not rely on reading a script verbatim as this severely reduces the impact of your presentation. However, have notes to ensure that you;
 - Cover all the points you want to make
 - Cover then in logical order
 - Can overcome mind blanks and nerves (prepare an outline to include the introduction, main body and conclusions)
 - IV. Consider the use of visual aids such as PowerPoint.
 - V. Rehearse your presentation and time it. Concentrate on dull patches of your presentation.
 - VI. Consider providing handouts for the audience. This means that they can concentrate on your presentation without having to take notes at the same time.
 - VII. Anticipate questions that might come from the audience
 - VIII. Be polite and friendly as you talk to the audience.

SOLUTION FIVE (b)

Roles that questions play in an oral presentation:

- To control and direct a discussion
- To show the presenter that the listener is interested
- To keep the conversation flowing
- To a seek for clarification
- To obtain more information
- To assess knowledge and ability
- To encourage more thoughts
- To encourage the speaker to speak more
- To encourage people to be more open about what they think

SOLUTION SIX (a)

LUPUTA GENERAL DEALERS

MEMORANDUM

To: All Accounts Staff

From: Finance Manager

Date: Any date during the exam

Inadequate communication

It has come to the attention of management that information especially in the accounts department does not flow effectively. This is attributed to barriers of effective communication.

Some of these barriers include the following.

- Inappropriate Language
- Using wrong medium of communication
- Information over loading
- Noise
- Different perceptions and many more

You are therefore advised to check out these barriers which are likely to cause problems during work operations. Your consideration in this matter will be valued.

Best regards

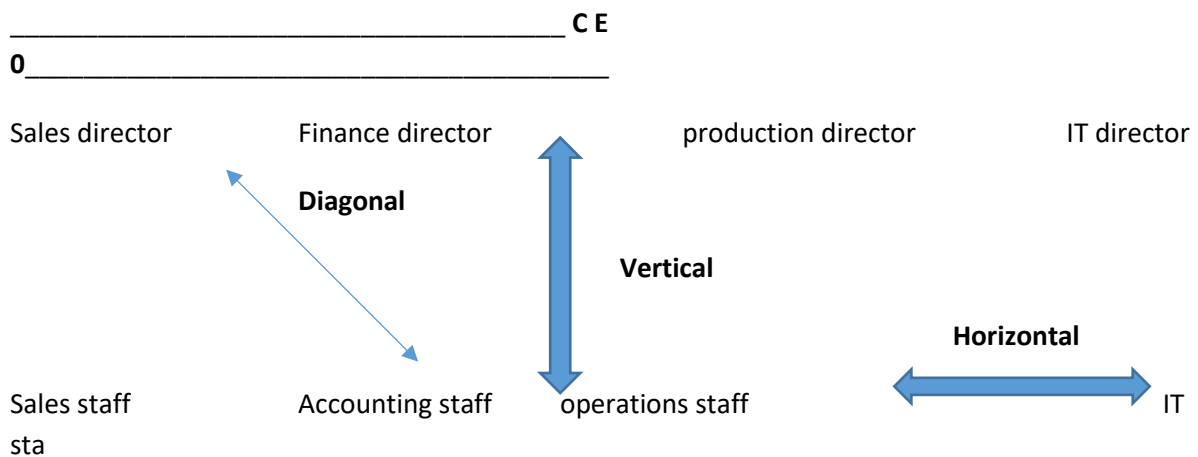
Mr. T.M Tembo

SOLUTION SIX (b)

Ways to minimize the barriers include;

- Use simple language or familiar language that people understand.
- Ensure that the right medium of communication is used
- Provide enough information for everyone to understand
- Concentrate during discussions (avoid distractions such as noise)
- Ensure that documents are neat, legible, concise and well structured.
- Ensure that content of the message is accurate, appropriately detailed and checked for factual data
- Select the right format for the letters, memos and reports

SOLUTION SEVEN (a)



The Formal Channels of Communication

SOLUTION SEVEN (b)

- (i) Internal communication is communication that takes place within an organization. It is usually planned communication that follows a chain of command. Examples include Newsletters, conference calls to discuss issues, emails/ memos reminding staff about organization instructions etc.
- (ii) External communication is communication that takes place outside an organization. Examples include; letters of enquiry to other organizations, press releases, brochures etc
- (iii) Informal communication is communication that is not official. It is casual communication among staff that has no set pattern or direction. Face to face or phone conversation about new changes in the organization without any truth or confirmation about the information received.

END OF SOLUTION



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

TUESDAY 16 MARCH 2021

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.
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4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – MULTIPLE CHOICE

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

QUESTION ONE

Each of the following questions has only one (1) 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 Fixed costs are generally considered to be:
- A. Constant per unit of output.
 - B. Unaffected by inflation.
 - C. Outside the control of management.
 - D. Constant in total within a specific production volume.
- (2 marks)
- 1.2 Which of the following would be classified as a direct labour cost?
- A. A bricklayer's wages in a construction company.
 - B. The wages of the general manager in hardware stores.
 - C. The salary of the maintenance manager in a company manufacturing cameras.
 - D. The salary of the human resources managers in a car sales company.
- (2 marks)
- 1.3 Under which of the following labour remuneration methods will direct labour cost always be a variable cost?
- A. Day rate
 - B. Piece rate
 - C. Differential piece rate
 - D. Group bonus scheme
- (2 marks)
- 1.4 A manufacturing company operates a standard absorption costing system. Last month 25,000 production hours were budgeted and the budgeted fixed cost was K125,000. Last month actual hours worked were 24,000 and standard hours for actual production were 27,000.
- What was the fixed production overhead capacity variance for last month?
- A. K5,000 Adverse
 - B. K5,000 Favourable
 - C. K10,000 Adverse
 - D. K10,000 Favourable
- (2 marks)

- 1.4 The purchase price of an item of inventory is K25 per unit. In each three month period the usage of the item is 20,000 units. The annual holding costs associated with one unit equal to 6% of its purchase price. The cost of placing an order for the item is K20.

What is the Economic Order Quantity (EOQ) for the inventory item to the nearest whole unit?

- A. 730
- B. 894
- C. 1,461
- D. 1,633

(2 marks)

- 1.6 An organization operates a piece work system of remuneration, but also guarantees its employees 80% of a time –based rate pay which is based on K20 per hour for an eight hour day. Three minutes is the standard time allowed per unit of output. Piece work is paid at the rate of K18 per standard hour.

If an employee produces 200 units in eight hours on a particular day, what is the employee's gross pay for that day?

- A. K128
- B. K144
- C. K160
- D. K180

(2 marks)

- 1.7 A Company uses an overhead absorption rate of K3.50 per machine hour, based on 32,000 budgeted machine hours for the period. During the same period the actual total overhead expenditure amounted to K108,875 and 30,000 machine hours were recorded on actual production.

By how much was the total overhead under absorbed for the period?

- A. Under absorbed by K3,875
- B. Under absorbed by K7,000
- C. Over absorbed by K3,875
- D. Over absorbed by K7,000

(2 marks)

1.8 Extract from company B's records for the last month are as follows:

	Budget	Actual
Production units	7,000	7,200
Direct material cost	K42, 000	K42, 912

What is the Total direct material cost variance for last month?

- A. K912 Adverse
- B. K288 Adverse
- C. K288 Favourable
- D. K1,200 favourable

(2 marks)

1.9 The following information is available for contract J5A:

Contract price	K15,000
Value of certified work	K8,400
Cost of work to date	K5,040
Estimated costs to date	K3,960

The amount of profit to be recognized on the contract using the proportion of cost incurred to the total cost is:

- A. Nil
- B. K3,360
- C. K6,000
- D. K1,560

(2 marks)

1.10 Abigail limited produced the following units at the following costs during June, July and August 2020:

Month	Number of units	Total costs
		K
June	4,700	252,800
July	5,500	264,000
August	9,500	320,000

What is the total fixed cost per month?

- A. K133,000
- B. K187,000
- C. K183,000
- D. K167,000

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this Section.

Attempt any FOUR (4) questions.

QUESTION TWO

Zikomo Ltd a Zambian company has produced the following budgeted figures for one of its products component M.

	Per unit
	K
Selling price	45
Direct Material	15
Direct labour	10
Variable production Overheads	9
Other data:	
Fixed production overhead	K40, 000 per month
Budgeted Output	120,000 units per year

The following are the levels of activity for January and February 2020.

	January	February
Production units	12,000	13,000
Sales units	10,500	11,500

Opening inventory at the start of January was 500 units.

Note: Actual prices and costs were the same as budgeted for January and February.

Required:

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

[Total: 20 Marks]

QUESTION THREE

- (a) Accounting is a process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of that information. It can be categorized into different themes including Financial Accounting, Cost Accounting and Management Accounting.

Required:

- (i) Explain five (5) differences between Financial Accounting and Cost Accounting. (10 marks)
- (ii) State five (5) main responsibilities of a cost accountant. (5 marks)
- (b) When making a product, costs such as materials, labour and expenses are always incurred. Costs are usually classified in a number of different ways including element, function, nature and behavior.

Required:

Identify whether the following costs are materials, labour or expense and whether they are direct or indirect.

- (i) Hire of tools or equipment (1 mark)
- (ii) Supervisor's salaries (1 mark)
- (iii) Oil for lubricating machines (1 mark)
- (iv) Depreciation of equipment (1 mark)
- (v) Parking materials such as carton boxes (1 mark)

[Total: 20 Marks]

QUESTION FOUR

Malume Limited manufactures product royal circle and the entire product is sold as soon as it is produced. The company operates a standard absorption costing system and evaluation of variances is made every month. The standard cost card for the product is as follows:

Standard cost card

Direct Material	14Kg @ K20 per kg	K 280
Direct labour	2 hours @ K60 per hour	120
Variable production overheads	2 hours @ K40 per hour	80
Fixed production overheads	2 hours @ K50 per hour	100
Total standard cost per unit		<u>580</u>

The fixed overhead included in the standard cost is based on the expected monthly output of 1,000 units.

During June 2020, the actual results were as follows:

Production	1,200 units
Direct material	16,000 kg used , costing K315,000
Direct labour	3,000 hours worked and paid for K200,000
Variable production overheads	K100,000
Fixed production overheads	K125,000

Required:

- (a) Calculate the following variances:
- (i) Material price and material usage. (4 marks)
 - (ii) Labour rate and efficiency. (4 marks)
 - (iii) Variable overhead expenditure and efficiency. (4 marks)
 - (iv) Fixed overhead expenditure and volume. (4 marks)
- (b) Prepare a cost reconciliation statement for the month of June 2020. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

Budodo Ltd is based in Luanshya and makes a range of tasty confectionary, including toffee squares. Manufacturing toffee squares involves two (2) production processes: mixing and cooking. All of the ingredients are added in the mixing process and combined thoroughly. Next, the toffee mix is cooked to the correct temperature and the poured into large trays. When the toffee is cool it is cut into squares and packed. The company has adopted process costing based on the weighted average approach. The following data relates to both processes for the month of March:

	Mixing process	Cooking process
Opening work in progress on 1 March	10,000 Kg	16,000 Kg
Materials	K24,200	K43,130
Labour and production overheads	K6,924	K35,790
Cost incurred during the month:		
Materials input 40,000 Kg	K108,000	Nil
Direct labour cost	K84,600	K45,150
Production overheads	K31,020	K14,820
Transferred from mixing to cooking process	41,000 Kg	Nil
Transferred from cooking process to packaging	N/A	56,000 Kg
Normal loss expected (% material input in the month)	5%	Nil
Scrap value	K0.50 per Kg	Nil
Closing work in progress on 31 March	6,000 Kg	Nil

Note 1: All materials are added immediately in the mixing process. The opening work in progress in the mixing process on 1 March was 60% complete in relation to labour and overheads. On 31 March it was 40% complete in relation to labour and overheads.

Note 2: The opening work in progress in the cooking process on 1 March was 50% complete.

Required:

Prepare the following accounts, for the month of March.

- (a) Mixing process account. (7 marks)
- (b) Cooking process account. (7 marks)
- (c) Normal loss account. (2 marks)
- (d) Abnormal loss/Abnormal gain account. (4 marks)

You should ensure that all workings are shown clearly.

[Total: 20 Marks]

QUESTION SIX

BUPE Ltd is a Zambian company based in Kitwe town. It is a wholesale distribution firm which has provided you with the following information product bubbly.

There is an opening inventory of 300 units, valued at K10 per unit on 1 May 2019.

		Units	Unit price
10/5/2019	Receipt	700	K12.00
14/5/2019	Receipt	200	K12.10
20/5/2019	Issued to sales	500	
22/5/2019	Receipt	400	K12.60
26/5/2019	Issued to sales	700	

Sales of 850 units @ K30 per unit are recorded for the month. The total expense for the month of May amounted to K5,000

Required:

- (a) Calculate the value of the closing inventory under each of the following methods:
 - (i) First in First out (FIFO) method (5 marks)
 - (ii) Last in First out (LIFO) method (5 marks)
 - (iii) Weighted average cost (AVCO) method (5 marks)
- (b) Calculate the net profit for the month of May 2019 under each valuation method. (5 marks)

[TOTAL: 20 Marks]

END OF PAPER

SOLUTION ONE

1.1 D

1.2 A

1.3 B

1.4 A

1.5 C

1.6 D

1.7 A

1.8 C

1.9 B

1.10 B

SOLUTION TWO

a)

	K	K
Selling price		45
Direct Material	15	
Direct labour	10	
Variable production overheads	<u>9</u>	
		<u>34</u>
Contribution		11
Fixed production overheads (w1)		<u>4</u>
Profit per unit		<u>7</u>

b)

i) Absorption Costing

	K	January K	K	February K
Sales Revenue		472,500		517,500
Opening inventory	19,000		76,000	
Cost of production	456,000		494,000	
Closing inventory	<u>(76,000)</u>		<u>(133,000)</u>	
Cost of sales		<u>(399,000)</u>		<u>(437,000)</u>
Gross profit		73,500		80,500
Over Absorption		<u>8,000</u>		<u>12,000</u>
Adjusted profit		<u>81,500</u>		<u>95,500</u>

ii) Marginal Costing

	K	January K	K	February K
Sales Revenue		472,500		517,500
Opening inventory	17,000		68,000	
Cost of production	408,000		442,000	
Closing inventory	<u>(68,000)</u>		<u>(119,000)</u>	
Cost of sales		<u>(357,000)</u>		<u>(391,000)</u>
Contribution		115,500		126,500
Fixed costs		<u>(40,000)</u>		<u>(40,000)</u>
Profit		<u>75,500</u>		<u>86,500</u>

c) **Reconciliation of profits**

	January		February
	K		K
Profits as per marginal costing	75,500		86,500
Difference in inventory (1,500 units x K4)	<u>6,000</u>	(1,500 units x K4)	<u>6,000</u>
Profits as per absorption costing	<u>81,500</u>		<u>92,500</u>

d)

The reason for the difference in profit is due to the difference in the valuation of inventory.

For example in January the difference is K6,000. This is due to the fact that in absorption K6,000 worth of the fixed overhead is not written off but instead is carried forward to February. This does not happen in marginal costing as fixed overheads are not included in inventory valuation.

WORKINGS:

W1: Fixed Production overhead cost per unit

$$= \text{K}40,000 / (120,000 \text{ units} \div 12 \text{ months}) = \text{K}4 \text{ per unit}$$

W2: Production cost per unit

	K
Direct materials	15
Direct labour	10
Variable production overheads	9
Marginal Costing CPU	<u>34</u>
Fixed production overhead	4
Absorption Costing CPU	<u>38</u>

W3: Under /Over absorption of overheads

	January		February
	K		K
Actual overheads	40,000		40,000
Overheads absorbed (12,000 units x K4)	<u>48,000</u>	(13,000 units x K4)	<u>52,000</u>
Over absorbed	<u>8,000</u>		<u>12,000</u>

SOLUTION THREE

(a) (i) Five (5) differences between Financial Accounting and Cost Accounting

S/N	Financial Accounting	Cost Accounting
1	Information mainly produced for external use e.g. shareholders, banks, government, suppliers, etc	Information mainly produced for internal use e.g. managers and employees
2	The purpose of information is to record the financial performance and position for the period under review.	The purpose of information is to aid planning, controlling and decision making
3	It is a legal requirement required by legislation and accounting standards.	It is not a legal requirement.
4	Formats and content of financial accounts are prescribed by legislation and accounting standards	Formats and contents are at the discretion of management
5	Nature of information is mostly financial	Nature of information is both financial and non-financial
6	Financial accounting is mainly a historical record	Cost accounting is both historical and forward-looking

(ii) Five (5) main responsibilities of a cost accountant

- (i) Maintaining costing records
- (ii) Establishing standard costs
- (iii) Preparing production budgets
- (iv) Preparing product costs
- (v) Reporting variances
- (vi) Inventory valuations
- (vii) Cost allocations

- (b) (i) Expense - direct
(ii) Labour - indirect
(iii) Material - indirect
(iv) Expense - indirect
(v) Material - direct

SOLUTION FOUR

a)

i. <u>Material price variance</u>			K
16,000 Kg should have cost XK20/kg	=	320,000	
But did cost	=	<u>315,000</u>	
variance		<u>5,000 (F)</u>	

Material usage variance

1,200 units should have used X 14 kg	=	16,800 kg
But did use	=	<u>16,000 kg</u>
		800kg (F)
		X K20
variance		<u>K16,000 (F)</u>

ii. <u>Labour rate variance</u>			K
3,000 hours should have cost X K60/hour	=	180,000	
But did cost	=	200,000	
		<u>20,000 (A)</u>	

Labour efficiency variance

1,200 units should have used X 2hrs	=	2,400hrs
But did use	=	<u>3,000 hrs</u>
		600 hrs (A)
		X K60
variance		<u>K36,000 (A)</u>

iii. <u>Variable production OH expenditure variance</u>			
3,000 hrs should have cost X K40/ hr	=	120,000	
But did cost	=	100,000	
		<u>20,000 (F)</u>	

Variable production OH efficiency variance

600 hrs (A) X K40/hr	=	<u>K24,000 (A)</u>
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iv. <u>Fixed production OH expenditure variance</u>			K
1,000 units should have cost X K100	=	100,000	
But did cost	=	<u>125,000</u>	
		<u>25,000 (A)</u>	

Fixed production OH volume variance

Budgeted production volume	=	1,000 units
Actual production volume	=	<u>1,200 units</u>
		200 units (F)
		X K100
variance		<u>K20,000 (F)</u>

b) **Reconciliation statement**

			K
Budgeted cost (1,200 units X K580)			696,000
Cost variance	(F)	(A)	
	K	K	
Material price	5,000		
Material usage	16,000		
Labour rate		20,000	
Labour efficiency		36,000	
Variable OH expenditure	20,000		
Variable OH efficiency		24,000	
Fixed OH expenditure		25,000	
Fixed OH volume	<u>20,000</u>		
	<u>61,000</u>	<u>105,000</u>	<u>44,000</u> (A)
Actual cost			<u>740,000</u>

SOLUTION FIVE

a)

Mixing process account

	Kg	K		Kg
K				
Opening inventory	10,000	31,124	Normal loss	2,000
Inputs		40,000	Transferred to cooking	41,000
225,910			Abnormal loss	1,000
5,510				
Labour & OH	-	115,620	Closing WIP	6,000
		<u>50,000</u>		<u>23,124</u>
		<u>225,544</u>		<u>50,000</u>
		<u>255,544</u>		

b)

Cooking process account

	Kg	K		Kg
K				
Opening WIP	16,000			
Prior process costs	-	43,130	completed & transferred	56,000
358,400			Abnormal loss	1,000
Conversion costs	-	35,790		
6,400				
Transferred in from mixing	41,000	225,910	closing WIP	0
Conversion costs	-	59,970		0
		<u>57,000</u>		<u>57,000</u>
		<u>364,800</u>		

c)

Normal loss account

	Kg	K		Kg	K
Mixing process A/C	2,000	1,000	cash for units scrapped	2,000	1,000
	<u>2,000</u>	<u>1,000</u>		<u>2,000</u>	<u>1,000</u>

d)

Abnormal loss account

	Kg	K		Kg
K				
Mixing process A/C	1,000	5,510	Cash for units scrapped	2,000
Cooking process	1,000	6,400	Income statement	-
10,910				
	<u>2,000</u>	<u>11,910</u>		<u>2,000</u>
				<u>11,910</u>

Note: Cash is only received for 1,000 units scrapped from the cooking process but all units scrapped are included here to balance the account.

Workings.

Mixing process

Inputs:	Total physical units	materials	conversion
costs	Kg	Kg	Kg
Opening WIP	10,000		
Materials input	<u>40,000</u>		
	<u>50,000</u>		

Output:			
Closing WIP	6,000	6,000	2,400
Normal loss 5% of input	2,000	0	0
Abnormal loss	1,000	1,000	1,000
Transferred to cooking process	<u>41,000</u>	<u>41,000</u>	<u>41,000</u>
	<u>50,000</u>	<u>48,000</u>	<u>44,400</u>

Costs

Opening inventory		K24,200	K6,924
Total costs incurred		K108,000	K115,620
Less scrap value (2000 Kg@K0.50)		(K1,000)	-
Total costs to be allocated	K254,544	K132,000	K122,544
Cost per equivalent units		K2.73	K2.76 =

K5.51

Allocated costs

		K	
Valuation of output transferred to costing process 41,000 kg @ K5.51 =		225,910	
Valuation of abnormal loss 1,000 kg @ K5.51 per kg			5,510
Valuation of closing WIP (6,000 kg)			
Materials: 6,000 kg X K2.75		16,500	
Conversion costs: 6,000 kg X 40% X K2.76		6,624	
		<u>23,124</u>	
			<u>254,544</u>

Cooking process

Inputs:	Total physical units Kg	materials Kg	conversion costs Kg
Opening WIP	16,000		
Materials input	<u>41,000</u>		
	<u>57,000</u>		
Output:			
Completed and transferred	56,000	56,000	56,000
Closing WIP	0	0	0
Abnormal loss	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
	<u>57,000</u>	<u>57,000</u>	<u>57,000</u>
Opening inventory	-	K43,130	K35,790
Prior process costs transferred in	-	K225,910	-
Costs incurred	-	-	K59,970
Total costs to be allocated	<u>K364,800</u>	<u>K269,040</u>	<u>K95,760</u>
Cost per equivalent units		K4.72	K1.68 =

K6.40

Valuation of finished output transferred : 56,000 Kg @ K6.40/Kg	= K358,400
Valuation of Abnormal loss: 1,000 Kg @ K6.40 /kg	= <u>K6,500</u>
Total Cost	<u>K364,800</u>

SOLUTION SIX

a. First in first out (FIFO)

Date	Details	Purchases			Issues			Balance	
		Unit	Price	Value	Unit	price	Value	Unit	Value
01/05	Opening							300	3,000
10/05	Receipt	700	K12.00	8,400				700	8,400
14/05	Receipt	200	K12.10	2,420				1,000	11,400
								200	2,420
								1,200	13,820
20/05	Issue				300	K10.00	3,000		
					200	K12.00	2,400		
					500		5,400	(500)	(5,400)
								700	8,420
22/05	Receipt	400	K12.60	5,040				400	5,040
								1,100	13,460
26/05	Issue				500	K12.00	6,000		
					200	K12.10	2,420		
					700		8,420	(700)	(8,420)
Closing								400	5,040

b. Last in first out (LIFO)

Date	Details	Purchases			Issues			Balance	
		Unit	Price	Value	Unit	price	Value	Unit	Value
01/05	Opening							300	3,000
10/05	Receipt	700	K12.00	8,400				700	8,400
14/05	Receipt	200	K12.10	2,420				1,000	11,400
								200	2,420
								1,200	13,820
20/05	Issue				200	K12.10	2,420		
					300	K12.00	3,600		
					500		6,020	(500)	(6,020)
								700	7,800
22/05	Receipt	400	K12.60	5,040				400	5,040
								1,100	12,840
26/05	Issue				400	K12.60	5,040		
					300	K12.00	3,600		
					700		8,640	(700)	(8,640)
Closing								400	4,200

c. Weighted Average Cost (AVCO)

Date	Details	Purchases			Issues			Balance		
		Unit	Price	Value	Unit	price	Value	Unit	Price	Value
01/05	Opening							300	10.00	3,000
10/05	Receipt	700	K12.00	8,400				700		8,400
								1,000		11,400
14/05	Receipt	200	K12.10	2,420				200		2,420
								1,200		13,820

20/05	Issue		500	11.52	5,760	(500)	(5,760)
						700	8,060
22/05	Receipt	400	K12.60	5,040		400	5,040
						1,100	13,100
26/05	Issue		700	11.91	8,337	(700)	(8,337)
Closing						400	4,763

b) Profit statement

	FIFO		LIFO		AVCO	
	K	K	K	K	K	K
Sales		25,500	25,500			25,500
Opening stock	3,000		3,000		3,000	
Purchases	15,860		15,860		15,860	
	18,860		18,860		18,860	
Closing stock	(5,040)		(4,200)		(4,763)	
Cost of sales		(13,820)	(14,660)		(14,097)	
Gross Profit		11,680		10,840		11,403
Less: Expenses						
Cash expense		(5,000)		(5,000)		(5,000)
Net profit		6,680		5,840		6,403

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 19 MARCH 2021

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

SECTION A

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.

QUESTION ONE

- 1.1 Judicial precedent is based on three elements. Which one is not one of the elements?
- A. There must be adequate and reliable reports of earlier decisions.
 - B. Precedents must be classified as either binding and/or persuasive.
 - C. Precedents must undergo three stages of law making process before becoming law.
 - D. There must be rules for extracting a legal principal from a previous set of facts.

(2 marks)

- 1.2 Mulenga is contracted by Nkunika to cultivate and plant maize on his 4 acres farm. Mulenga unfortunately broke his leg and was unable to complete 1 acre of the remaining work. His wife Loveless completed the remaining work, but Nkunika refused to pay her arguing that he agreed with her husband and not with her. Which of the following principles of law may enable Mulenga and his wife to be paid.

- A. Quantum meruit.
- B. Specific Performance.
- C. Breach of contract.
- D. Frustration of contract

(2 marks)

- 1.3. The Judicature of Zambia is provided for under article 120 of the Constitution of

Zambia and establishes the following courts.

1. Local Court
2. Supreme Court
3. The High Court
4. Court of Appeal
5. Constitutional court
6. Small claims
7. Subordinate Courts

Which one(s) is and/or are the highest courts in Zambia?

- A. 2 and 3
- B. 1, 3 and 6
- C. 7, 1 and 3
- D. 2 and 5

(2 marks)

1.4. Which of the following is not a duty of an employer under the Employment Act?

- A. Pay remuneration
- B. Paying for leave days in a contract for service.
- C. Provide work
- D. Healthy and Safety at work

(2 marks)

1.5. The principle of law established in the case of Donoghue v Stevenson, 1932, is that:

- A. A neighbor is someone in need.
- B. The duty of care arises with proximity.
- C. A neighbor is anyone directly or indirectly affected by my acts in contemplation.
- D. A manufacturer is always liable to the consumer

(2 marks)

1.6. Identify which of the following is not an example of a tort.

- A. Strict Liability

- B. Nuisance
- C. Defamation
- D. Specific Performance

(2 marks)

1.7. An offer that varies or intends to change the terms of the offer is called:

- A. Invitation to treat
- B. Supply of information
- C. Counter offer
- D. Revocation

(2 marks)

1.8. In which of the following acts is the employer not vicariously liable?

- A. when an employee goes for leisure outside hours of work using a private car of the employee and collides with another car recklessly.
- B. when a person employed as a clerk without authority drives and negligently collides with another car.
- C. when a man employed as a plumber without permission repairs an electrical fault, but in the process a passer-by is electrocuted on touching the tap.
- D. when a driver is expressly forbidden from giving lifts to pedestrian, but picks up a passenger who is paralyzed in the subsequent accident caused by the negligence of the driver.

(2 marks)

1.9. Which of the following distinctions between a partnership and agency is not true?

- A. The aim of both is to profit.
- B. Both are formed by an agreement.
- C. In both the business is carried on together.
- D. In both parties are personally liable for any wrongs committed

(2 marks)

1.10. In ownership is transferred immediately.

- A. A contractual agreement
- B. An agreement to sale
- C. A contract of sale
- D. A conditional sale

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Janet Nyoni, a student at ZICA pursuing a Diploma in accounts saw an article in the Daily Mail News Paper Zambia, in which Shoprite advertised two liters of milk valued at ZMW13.00 and stated that the price was only valid for a week. She rushed to Shoprite Cairo road and picked the milk from the shelves with the price still showing K13.00 as it was on the shelves. Upon approaching the counter Maluba informs her that due to changes in the kwacha the price was changed yesterday. Janet is advised to pay the new price which is now ZMW20.00 or to take the milk back. Having in mind how she was so inconvenienced she left the milk on the counter and walked away Janet intends to sue Shoprite Zambia for the breach of contract.

Required:

- (a) Explain to Janet why she can't be successful if she sues Shoprite in the scenario above. (10 marks)
- (b) Briefly explain four (4) ways of discharging a contract (8 marks)
- (c) State two (2) advantages of African customary law as a source of law. (2 marks)

[Total: 20 Marks]

QUESTION THREE

Malita Mbewe graduated with a merit in medicine 7 years ago from the University of ZICA. She has been looking for employment since then. 2 years ago, she was employed by Levy Mwanawasa Hospital as one of the Doctors there. Six (6) months ago, she performed an operation on Chipso who required routine treatment for her broken wrist. The operation was completed with ease but a few days later, Chipso was reported of having stiff fingers as a result of the operation. When Chipso went to the Hospital to report the sad development, the Hospital refused to entertain her complaint and told her to go for prayers as no operation would be able to resolve the stiff fingers. Chipso is very upset and knowing that you studied law at one point, she has come to you for advice.

Required:

- (a) Explain the elements that Chipso needs to prove in Court if she wants to bring an action for negligence. (9 marks)
- (b) Discuss with Levy Mwanawasa Hospital on the tests that should be employed to identify who should be held liable between the Hospital and Malita Banda. (11 marks)

[Total: 20 Marks]

QUESTION FOUR

Section 12 to 15 of the Sale of Goods Act of 1893, provides for various implied terms and these are; title, sale by sample, sale by description and satisfactory quality.

Required:

- (a) In light of what has been described above explain on any three (3) of the above listed implied terms in the Act. (6 marks)
- (b) Outline on any four (4) general defenses in tort (4 marks)
- (c) What happens when there is a sale by a person who is not the owner of goods? (1 mark)
- (d) List five (5) elements of a valid custom. (5 marks)
- (e) Differentiate between warranties and conditions and give one example of each. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Summary dismissal and wrongful dismissal. (8 marks)
- (b) Constructive Dismissal and Redundancy (8 marks)
- (c) Liquidated damages and unliquidated damages (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Identify the ways through which an agency relationship may arise by implication.

(10 marks)

- (b) Speedo Meter Mbewe booked a private transport vehicle as he wanted to travel to Mansa for business. Unknown to him the transporter had not paid for road tax and insurance for the vehicle as a consequence the police impounded it for three days this led to Speedo missing his business trip and lost on profits. He is now aggrieved and wants to deal with the transporter and comes to you for help.

Required:

- (i) Identify for him the branch of law under which he may sue (1 mark)
- (ii) Explain the three (3) elements that make up the offence committed under that law.

(9 marks)

[Total: 20 Marks]

END OF PAPER

DA6 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Given the circumstances of the case, the following are the reasons why Janet Nyoni may not succeed in her pursuit. From the facts it is clear that Janet saw the advert in the News Paper and a price was attached to the item she wanted to buy. Further it is also notable that when she went to Shoprite she picked the Milk from the shelves and there was a price tag. These set of facts under the law of contract amount to an invitation to treat as opposed to an offer. An invitation to treat at law is simply an invitation from the offeror to the offeree allowing the offeree to step forward and make an offer on the terms of the offeror. In application to the facts above what Janet saw in the paper appears to be an invitation to treat and not an offer. Therefore Shoprite were inviting the public to step forward and press an offer on the specified terms in this regard two litters of milk at K13.00. The foregoing is supported by the case of **Pharmaceutical Society of Great Britain v Boots Cash Chemist**, their Lordships held that the putting of drugs in the shelves with price tags did not constitute an offer but an invitation to treat and as a result the contract was completed at the counter in the presence of a Pharmacist. Further, it being an invitation to treat Shoprite reserved the right to change the terms of the contract as they were the owners of the item. In summation based on what has been canvassed above Janet may not succeed.

(b) A contract may come to an end with parties discharged of their obligations in the following ways:

- **Performance**, this entails each of the parties to the contract executing their obligation to the contract. However, at common law performance was deemed to be effected when parties fully execute their obligations, partial fulfillment was not considered at all. In the case of **Cutter v Powell** it was held that a worker who was engaged to work for 12 months and died in the eleventh month was not entitled to anything due to non-fulfillment.
- **Agreement**, a contract may come to an end at a specified date in the contract as agreed by parties at the date when they executed it or at any such time whenever, the parties decide to end it.
- **Frustration**, a contract is discharged at law due to frustration when the subject matter of the contract is affected. For Example, a hall hired to for a music concert is

under fire, such a contract is frustrated as no party was at fault rescission takes place. It should be noted under frustration that no party is at fault.

- **Breach**, this entails a situation where a party to the contract fails to execute their obligation. A breach may arise due to failure to own a warranty or a condition.

(c) • It is the indigenous source of law of Zambia. Meaning it is homemade and everyone can easily understand the source.

- Cheaper to create than legislation. This entails that no money or little is spent when making a custom a custom.

SOLUTION THREE

(a) Negligence entails doing something which a reasonable person could not have done or failing to do something which a reasonable person would have done. "Therefore, to succeed in an action for negligence under the law of torts, the Plaintiff must prove:

i. That the defendant was under a duty of care to him;

The existence of the duty of care can be traced back to the period before 1932 where there was no general legal duty of care under the law of negligence. During 1932, Lord Atkin attempted to lay down a general principle which would cover all the circumstances where the courts had already held that there could be liability for negligence in the celebrated case of **Donoghue v Stevenson [1932] AC 562**.

ii. That there has been a breach of that duty; and

Breach of duty of care, if resulting in an injury, may subject an individual to liability in tort. Duty of care is an important duty of care must exist and must have been breached for the tort to occur. The law provides that a man is not liable to everybody who is damaged as a result of his carelessness. He is only liable to those he owe a duty of care.

iii. That as a result the Plaintiff has suffered damage:

It is necessary for the plaintiff to show that he has suffered some loss since negligence is not actionable per se. This loss must be as a result of a breach of the duty that was fixed by law. The above are the elements that Chipu must satisfy before the courts of law.

(b) Levy Mwanawasa Hospital must look at the following tests so that they identify who should be sued and held liable:

- a) Control test
- b) Integration test
- c) Economic reality (or the multiple test).

The Control Test

The court will consider whether the employer has control over the way in which the employee performs his duties. Thus, the issue must be settled on the facts and not on the terms of the contract. It is what the person is actually doing that makes the control and not really what they are doing. Thus, if a person is controlled on what they do in detail, then he or she is likely under the control of the employer. Therefore, when a person is told what, when, where and how the work is done, then they are most likely be under the control of the employer hence these amounts to a contract of services.

The Integration Test

The court considers whether, if the employee is so skilled that he cannot be controlled in the performance of his duties, he was nonetheless integrated into the employer's organization. For example, if a full-time medical officer at a hospital carried out a surgical operation in a negligent fashion and the patient sued the Hospital, what would happen? The Hospital may claim that they have no control of the medical officer. Thus, in the given circumstances, the proper test is whether the employer appointed the employee, selected him for his task and so integrated him into the organization. If the patient had chosen the doctor the Ministry would not have been liable as employer. But here the Ministry (the hospital management) made the choice and so it was liable.

The Multiple (Economic Reality) Test

The court also considers whether the employee was working on his own account. This requires numerous factors to be taken into account. Thus, the most important test is whether the worker is working on his own account (the entrepreneurial test or multiple test). On these facts, the driver was a self-employed transport contractor and not an employee. The fact that the drivers could appoint a replacement for themselves was a major factor in the decision that found them as contractors rather than employees.

From the above tests, it can be seen that Malita Mbewe though an independent contractor was so integrated in the Hospital hence forming part of the Hospital as an employee. The Hospital must be held liable.

SOLUTION FOUR

- Title, there is an implied condition on the part of the seller that in the case of a sale, he has the right to sell the goods, and in the case of an agreement to sell, he will have the right to sell the goods at the time the property is to pass, Or an implied warranty that the buyer shall have and enjoy quiet possession of the goods. Or those goods will be free from encumbrances.

- Sale by description, an implied condition that the goods shall correspond to the description.

- Sale by sample, there is an implied condition that the bulk shall correspond to the sample; there is also an implied condition that the buyer shall have the opportunity to compare the bulk with the sample.

b) The following are defenses in tort'

- Consent, that the plaintiff cannot claim as they consented to the act. For example, patients signing an express consent form before operation.

- Contributory negligence, that the plaintiff suffered damage due to partly their negligent act. This enables the court to reduce damages.

- Illegality, a person cannot maintain a claim a cause of action if he has to rely on conduct which is illegal or contrary to public policy.

c) Title in goods does not pass, as a person without title cannot pass good title.

D) (i) The following are elements of a valid custom

- Uniformity

- Reasonable

- Conformity with any written law

- Consistence

- Obligatory force.

E) A warranty is a minor term in a contract as a consequence of any breach it does not entitle the innocent party to repudiate the contract but only claims damages. For example, if

Slap X is contacted to perform at ZICA for five days and rehearse with ZICA for three days missing two days on rehearsal does not entitle ZICA to repudiate the contract as a breach was a warranty.

- A condition on the other hand is a term that goes to the root of a contract, and its breach entitles the innocent party to repudiate the contract and claim damages. For example, in the scenario above if Slap X missed the first day of the concert where he was expected to perform ZICAs would terminate the contract and claim for damages suffered if any.

SOLUTION FIVE

(a) Summary dismissal and wrongful dismissal – Summary dismissal is where an employee is dismissed without notice for gross misconduct. Examples of instances where summary dismissal may be used is where an employee is involved in theft of the employer's property, fighting at work, etc that goes to the core of the contract, **Sinclair v Neighbour (1967)** . Whilst, Wrongful dismissal is dismissal that is contrary to the terms of employment one is working under. For example failure to give notice, where the contract of employment provides for notice. It is where one is dismissed without following the laid down termination procedure. Where one is wrongfully dismissed, damages may be awarded **Chilanga Cement Plc v Kasote Singogo (SCZ) (2009), Gerald Musonda Mumba v Maamba Collieries Ltd (1989)**.

(b) Constructive dismissal and Redundancy – Constructive dismissal happens where the employer makes work environment so harsh that it is impossible for the employee to carry out his work properly. The employee would have no option, but to resign due to the employer's behavior, which makes his work difficult. Examples of constructive dismissal may include where an employer denies tools to the employee to do his work, locks the offices where the employee is supposed to be working from, uses abusive language, etc, **Faidecy Mithi Lungu v Lonrho Zambia Ltd (2000)**. Whilst, Redundancy is where an employee is told to leave his/her job because the employer intends to stop carrying out that type of business he is employed in or is reducing the number of employees, because of poor business or to reduce on costs. The employee will have to be paid redundancy pay on separation with the employer as the Employment Act under Section 26B and in the case of **Samuel Manga and Others v ZCCM Ltd (2001)**.

(c) Liquidated Damages and Unliquidated Damages – Liquidated Damages are monetary compensations in case of breach of contract where parties agree, way before the contract is breached, how much/ the amount of damages payable, should there be a breach. For example parties may agree that should you not pay in full by next week, you will have to pay us a K200, which becomes liquidated damages agreed by parties. **Dunlop Pneumatic Tyre Co Ltd v New Garage and Motor Co Ltd (1915), Ford Motor Co v Armstrong (1915)**. On the other hand, an unliquidated damage is the amount of monetary compensation not agreed by the parties. The court decides the amount which will put the injured party in the position he would have been had the contract been carried out.

SOLUTION SIX

a) Implied agency refers to situations whereby the principal and the agent do not expressly agree on the agency relationship, but due to circumstances and agency relationship is inferred.

The Following are three circumstances under which implied agency may arise:

- (i) **Agency by necessity**-is by operation of law in situations of emergency. The three elements are that the person must have no practical way of communicating with the principal; the actions of the agent must be as a result of a pressing need for action; the agent must act *bona fide* and the agent must act reasonable and prudent in the circumstances.
- (ii) **Agency by ratification**: This is where an agent acts on behalf of the P without authority. The four requirements are: existence of the principal; legal capacity of the principal; the principal must be capable of being ascertained and the agents must be acting on behalf of the principal.
- (iii) **Agency by estoppel**: This arises when the words of conduct of the principal give a third party the impression that the agent's authority is greater than it really is and as a result, acts upon this.

(d) (i) Tort of Negligence

ii. The three elements to prove in order to establish the tort of negligence are as follows;

- Duty of care
- Breach of duty of care
- Damage as a subsequent consequence of the breach of duty

Duty of care

This is the obligation of one party to the contract to another to ensure that the other party gets the benefit of the contract. Duty of care operates throughout the contract till the obligation of the party owing such duty discharges it. For example, in the scenario above the transporter owed a duty Mr. Speedo Meter Mbewe to take him to his destination on time.

Breach of Duty of care

This refers to nonperformance of the obligation of duty by a party who owes it or performance of duty below standard. Duty of care has to meet the standard expected by a reasonable man for professionals there is a high standard expected for duty of care.

Resultant damage

This is the injury or loss sustained by one party due to the breach of duty of care by the other party. Damage may be in the form of loss of business profits, injury to health or loss of opportunity. The onus to prove damage lies on the injured party whose claiming from the other party.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 15 MARCH 2021

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

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 Victor Vroom developed an expectancy theory of motivation in 1960s. This is a theory for predicting the strength of motivation of an individual to put effort into his work. The theory is referred to as Expectancy theory. Which of the following is the simplest correct equation for expectancy theory?

- A. $F=V \times E$
- B. $F=V-E$
- C. $F=V>E$
- D. $F=V<E$

(2 marks)

1.2 Which one of the following is an advantage for both Sole trade and Partnership form of business?

- A. They both can borrow from the bank huge capital
- B. It is easy to form any of the two
- C. If the business is indebted the owners can be sued
- D. These form of business can close any time

(2 marks)

1.3 The type of business activities undertaken by the organization are central to the method of production used by production function. Which of the following is **NOT** a method of production

- A. Job Production
- B. Batch Production
- C. Flow Production
- D. Time production

(2 marks)

- 1.4 Which of the following is **NOT** an advantage of a functional structure?
- A. Economies of scale are realized
 - B. People care more of their own interest.
 - C. Benefits of work specialization.
 - D. monitoring of the environment is more effect
- (2 marks)
- 1.5 Robert Blake and Jane Mouton carried out a research (the Ohio State Leadership Studies) into managerial behavior and observed two basic dimensions of leadership. Which of these are correct dimensions :
- A. Concern for people and Concern for safety
 - B. Concern for people and Concern for Production
 - C. Concern for Production and Concern for Profits
 - D. Concern for Profits and Concern for Good Leadership
- (2 marks)
- 1.6 Which of the following is **NOT** the purpose of Induction
- A. Help new recruits to find their bearings.
 - B. Support recruits in beginning performance.
 - C. Identify on-going training and development need
 - D. identifying management development
- (2 marks)
- 1.7 A statement about what an organization wants to become, which sets out an organization's future, is referred to as
- A. Mission
 - B. Values
 - C. Organisational goals
 - D. Vision
- (2 marks)
- 1.8 Kurt Lewins suggested a three stage process for introducing major change into an organization? Which of these is the correct process?
- A. unfreezes, Change, and refreezes
 - B. refreeze, change, and unfreeze
 - C. unfreezes, refreeze, and change

D. refreeze, unfreeze, and change (2 marks)

1.9 Which one of the following is **NOT** an advantage of a public sector organization?

- A. Fairness
- B. Filling the gap left by private sector
- C. Accountability
- D. Operate in public interest

(2 marks)

1.10 Herzberg made a distinction between motivator factors and hygiene factors. Which of the following factors at work are hygiene factors?

- A. Pay
- B. Responsibility
- C. Career development
- D. Sanitary conditions

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Leadership is provided within a team. Team leadership is important in organizations that have a team culture, for example organizations in which there extensive use of project work. Team leaders focus on two priorities, namely managing the teams' relationships with other people and facilitating the team process. Leadership involves being able to build other leaders by delegating them some responsibilities

Required:

- (a) Identify and explain three (3) specific roles of a team leader. (9 marks)
- (b) Define the following processes used in improving job design according to Fredrick Herzberg
 - (i) Job enrichment
 - (ii) Job enlargement
 - (ii) Job rotation(9 marks)
- (c) What is delegation in leadership (2 marks)

[Total: 20 Marks]

QUESTION THREE

The transformation from the command economy to a mixed economy triggered a mixture of business ownership. There are now both public and private owned organizations. The public sector (state owned) forms part of the major employer and their main objective is not profit oriented. The private sector is focused on profits and they have created a competitive environment in the economy.

Required:

- (a) Identify four (4) main objectives and characteristics of the public sector corporations (12 marks)
- (b) Explain the four (4) advantages of private limited company form. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

Johnson, Scholes, and Whirrington in their text "Exploring Corporate Strategy" defined strategy as "...a direction and scope of an organization over the long term which achieves advantage in a changing environment, through its configuration of resources and competences with the aim of fulfilling stakeholder's expectation..."

- (a) Explain the three (3) levels of strategy within an organization. (9 marks)
- (b) Explain how you can use the SWOT analysis to analyze the organization competitive position. (8 marks)
- (c) Define the following: Mission, Goals and Objective. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Max Weber a German Sociologist, developed a management theory of Bureaucracy to help in understanding principles underlying the process of management.

Required

Explain the five (5) characteristics of Bureaucracy as proposed by Max Weber. (10 marks)

- (b) The Zambian Government policy is to promote Small and Medium Enterprises (SMEs) for the country's economic benefit.

State the five (5) economic benefits of entrepreneurship to the country. (10 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Victor Vroom is the proponent of the Expectancy Theory of motivation. In relation to this motivation theory, explain the following terms:

- (i) Vroom's Expectancy Theory (3 marks)
- (ii) Valence (3 marks)
- (iii) Expectancy (3 marks)

- (b) You have been engaged as a business consultant to make a presentation on Private Limited Companies to a group of Small and Medium Scale Entrepreneurs.

Required:

In your presentation state the benefits of forming a Private Limited Company. (5 marks)

- (c) Explain the role of leadership in the management of change. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 7 SUGGESTED SOLUTION

SOLUTION ONE

COMPULSORY

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

SECTION B

SOLUTION TWO

- (a) Identify three (3) specific roles of a team leader
- i) Team leaders liaise with people outside the team such as senior managers, other teams with the organization, customers and suppliers
 - ii) Team leaders are trouble shooters who resolve problems faced by the team
 - iii) Team leaders are conflict managers. When conflict arises, the team leader deals with the conflict by identifying the cause or source, who is involved and what options are there for the solution.
 - iv) Team leaders are coaches who clarify expectations and roles of team members.
- (b) Define the following processes used in improving job design according to Fredrick Herzberg
- (i) Job enrichment
 - (ii) Job enlargement
 - (ii) Job rotation
- i) Job enrichment is a planned, deliberate action to build greater responsibility, breadth and challenge of a work into a job.
 - ii) Job enlargement is the attempt to widen jobs by increasing the operations in which a job holder is involved.
 - iii) Job rotation is a planned transfer of staff one one job to another to increase task variety
- (c) What is delegation in leadership:

-Delegations means handing authority down from the higher level of management to a lower level in the organization. It means entrusting someone with authority

SOLUTION THREE

- (a) Identify four (4) main objectives and characteristics of the public corporations
 - (i) Commercialization: providing Goods and services to the public at a marginal profit but fulfilling government interest in their business.
 - (ii) Accountability: Board of directors appointed should be accountable to the stakeholders who are Zambians
 - (iii) Transparency: All their business and financial activities are transparent
 - (iv) Decentralization: Much of their operations are centralized
 - (v) Funding: funding is usually by the government

- (b) Explain the Four (4) advantages of private limited company form.
 - (i) The owners are veiled from the activities of the company
 - (ii) Profits are shared among the owners
 - (iii) Companies can easily access loan or advances from financial institutions
 - (iv) Operations are not controlled by the state

SOLUTION FOUR

- (a) Explain the three (3) levels of strategy within an organization
- (i) *Corporate level strategy*: concerned with the overall purpose and scope of the organization and how value will be added to the different parts of an organization.
 - (ii) *Business level strategy*: focuses on how to make decisions about how to compete in the industry.
 - (iii) *Operational level strategy*: are concerned with how the component parts of an organization deliver effectively the corporate and business strategies in terms of resources.

- (b) Explain how you can use the SWOT analysis to analyze the organization competitive position

SWOT analysis brings together an organizations internal strengths and weaknesses as well as external opportunities and threats so that potential strategies can be developed.

- Strengths must be used to exploit the strategies
- Weaknesses must be improved to withstand the external world
- Opportunities can be exploited by using the organisations strengths
- Threat need to be identified and a strategy to reduce the effect of the company must be developed

- (c) Define the following: Mission, Goals and Objective.

- Mission: is the organization's overriding purpose, it reflects the values or expectations of stakeholders.
- Goals: is a statement of a general aim or purpose that supports the mission. It may be qualitative in nature
- Objective: is a more specific aim or purpose and will be quantified.

SOLUTION FIVE

(a) The characteristics of bureaucracy

- i. There is a clear division of labour and a high level of specialisation
- ii. There is a clear hierarchy of authority through an organisation structure.
- iii. There must be uniformity of decisions and actions are achieved through formally established systems of rules and regulations.
- iv. Promotion of employees is based on achievements.
- v. Duties, responsibilities, procedures and rules are clearly stated.
- vi. An impersonal orientation is expected from officials in their dealings with clients and other officials.

(b) Benefits of entrepreneurship to the country:

- i. Creation of employment among citizens which provides as a source of income.
- ii. It provides as a source of foreign currency through exportation of goods.
- iii. It is the source of revenue for the government through payment of tax.
- iv. It improves the economic welfare of people by satisfying the basic needs.
- v. Provide various services to the people in such as food, health, education etc

SOLUTION SIX

(a) i. **Vroom's Expectancy Theory** states that an individual believes that the amount of effort expended will affect performance and ultimately the rewards. The core of the theory relates how a person perceives the relationship among effort, performance and reward.

ii. **Valence** This is the strength of the belief that attractive rewards or outcome are potentially available.

iii. **Expectancy** this is the extent of an individual's perception or belief that a particular act will produce a particular reward.

(b) The following are the benefits of forming a Private Limited Company.

- i. It has limited liability which means shareholders cannot be held liable for the debts of the company.
- ii. Separate legal entity, meaning there is a distinction between a company and its shareholders. The implication is that a company has the capacity to enter into contracts.
- iii. The company can raise more share capital since ownership is between two and fifty shareholders.
- iv. Shareholders enjoy dividends as a return of their investment.
- v. There is perpetual existence, meaning that the company continues running even if a shareholder dies.

(c) Role of leadership in change management

- i. Explain the reasons for change to the employees consistently.
- ii. Explain the benefits of change to both the employees and organisation.
- iii. Should use reward and recognition continuously to reinforce new behaviour.
- iv. Leader should focus on the management of employees psychological emotions.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 15 MARCH 2021

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

The draft financial statements below relate to King and its subsidiary Prince.

Statements of profit or loss for the year ended 31 March, 2020

	King	Prince
	K'000	K'000
Revenue	80,000	75,000
Cost of Sales	(30,000)	(25,000)
	<hr/>	<hr/>
Gross profit	50,000	50,000
Distribution costs	(8,500)	(12,500)
Administration expenses	(3,500)	(1,500)
Investment income	500	
Finance cost		(1,000)
	<hr/>	<hr/>
Profit before tax	38,500	35,000
Taxation	(9,000)	(12,000)
	<hr/>	<hr/>
Profit for the year	29,500	23,000

Statements of Financial Position for the year ended 31 March, 2020

	King	Prince
	K'000	K'000
Assets		
Non-current assets		
Property plant and equipment	150,000	200,000
Investments	250,000	
Current assets	120,000	110,000
	<hr/>	<hr/>
Total assets	520,000	310,000
	<hr/>	<hr/>
Equity and liabilities		
Ordinary shares capital of K1 each	50,000	30,000
Share premium	20,000	15,000
Retained earnings	155,000	113,000
	<hr/>	<hr/>
	225,000	158,000
Non-current liabilities		
10% Loan note	45,000	32,000
	<hr/>	<hr/>
Current Liabilities	250,000	120,000
	<hr/>	<hr/>
	520,000	310,000

Additional notes:

- (i) King a publicly listed company acquired 24 million shares in Prince on 1 October, 2019 for a consideration made up of a share exchange of 2 shares in King for every 3 shares acquired in Prince and cash payment of K2 for every share acquired in Prince to be paid on the date of acquisition. Only the cash consideration was recorded in King's books. On 1 October 2019, the market price for each share in King and Prince were K3 and K2 respectively.
- (ii) On the date of acquisition, the carrying value of net assets of Prince were approximately equal to their fair values with the exception of land whose value was assessed to be K20m below the carrying amount.
- (iii) During the post-acquisition period, Prince sold goods to King at an agreed price of K2m per month. Only one third of the received goods from Prince were held at the year end. Prince charges a mark-up of 25% on all dispatched goods.
- (iv) At the year end, King's books show an outstanding balance owed to Prince of K10m but Prince's records show a receivable from King of K15m. This difference arose because King dispatched a cheque worth K5m to Prince on 30 March 2020 which was only received on 2 April by Prince.
- (v) On 1 January 2020, King acquired 30% interest in Knight for K40m. Knight's reported profit after tax for the year ended 31 March, 2020 was K27m.
- (vi) An impairment review conducted on 31 March, 2020 revealed that the investment in Knight has suffered an impairment loss of K1m only.
- (vii) King has a policy of valuing non-controlling interest at fair value at the date of acquisition. Accordingly, the share price of Prince should be used to value non-controlling interest.
- (viii) Income and expenses should be deemed to accrue evenly throughout the year.

Required:

- (a) Prepare the King group consolidated statement of profit or loss for the year ended 31 March, 2020. (13 marks)
- (b) Prepare the King group consolidated statement of financial position as at 31 March, 2020. (12 marks)

[Total: 25 Marks]

QUESTION TWO

The following trial balance relates to Zatala Ltd as at 31 March 2020

	K'000	K'000
Revenue (note i)		720
Cost of sales	418	
Distribution costs	69	
Administrative expenses	86	
Bank (note vi)		22
Equity shares of K1 each as at 31 March 2020 (note v)		600
Land at valuation 31 March 2019 (note i)	700	
6% loan note (note iii)		250
Deferred tax (note iii)		30
Equity dividends paid (note vii)	92	
Interest paid	15	
Inventory at 31 March 2020	112	
Equipment at cost 31 March 2019 (note ii)	480	
Equipment accumulated depreciation at 31 March 2019		144
Retained earnings at 1 April 2019		181
Revaluation reserve at 1 April 2019		10
Share premium at 1 April 2020 (note v)		300
Trade receivables (notes I & vi)	275	
Trade payables		32
Suspense (note ii)		2
	<u>2,269</u>	<u>2,269</u>

- (i) Zatala Ltd made sales on 1 January 2020 to a large customer for K120,000 and were delivered on same date. The terms of sale were that Zatala Ltd would receive payment of K40,000 immediately and K80,000 on 1 January 2021. Zatala has recorded the K40,000 in the books and intends to record the K80,000 in the year ending 31 March 2021. Zatala Ltd.'s cost of capital is 10% and the appropriate discount factor is 0.909.
- (ii) Land is carried in the financial statements at fair value. The fair value of land at 31 March 2020 was K675,000. No purchase or sale of land took place during the year. In addition, Zatala Ltd disposed of equipment for K2,000 during the year. The only entry in the accounts for this was the cash received in the cash book and in the suspense account. The disposed-off equipment originally cost K37,000 and its carrying amount at 31 March 2019 was K7,000.

Equipment is depreciated at 10% per annum straight line. It is Zatala Ltd's policy to charge full year's depreciation in the year of purchase and none in the year of sale. All depreciation is charged to cost of sales.

- (iii) Zatala Ltd issued a 6% K250,000 two year loan note on 1 April 2019 and is redeemable at a large premium. The effective interest rate is 10%. Ignore issue costs.
- (iv) The Directors of Zatala Ltd have estimated the provision for income tax for the year ended 31 March 2020 at K18,000. The carrying amounts of Zatala Ltd.'s net assets at 31 March 2020 are K100,000 more than their tax base. The company's tax rate is 20%.
- (v) Zatala Ltd issued 100,000 equity shares on 30 September 2019 at K1.50 per share.
- (vi) In December 2019, the Directors discovered an error in which K6,000 worth of receivables were received but no record made in accounting records provided in above trial balance.
- (vii) At 31 March 2020, directors of Zatala Ltd declared a final dividend of K92,000.

Required:

- (a) Prepare a statement of profit or loss and other comprehensive income for Zatala Ltd for the year ended 31 March 2020. (8 marks)
- (b) Prepare a statement of changes in equity for Zatala Ltd for the year ended 31 March 2020. (5 marks)
- (c) Prepare a statement of financial position as at 31 March 2020. (12 marks)

[Total: 25 Marks]

SECTION B

Attempt any TWO (2) questions.

QUESTION THREE

Kalulu Co. sells books to wholesale and retail customers. You are the financial analyst of the company and the Finance Manager has given you the information below.

Kalulu Co. financial statements for the year ended 31 December 2019 are set out below:

STATEMENT OF PROFIT OR LOSS	K'000
Revenue	40,000
Cost of sales	<u>(34,100)</u>
Gross profit	5,900
Operating expenses	<u>(3,700)</u>
Profit before interest and tax	2,200
Finance charges	<u>(200)</u>
Profit before tax	2,000
Income tax expense	<u>(500)</u>
Profit for the year	<u>1,500</u>

STATEMENT OF FINANCIAL POSITION	K'000	K'000
Non-current assets		
Property, plant and equipment (Note 1)		5,500
Current assets		
Inventory	2,000	
Trade receivables	4,100	
Bank	<u>-</u>	
Total assets		<u>6,100</u>
Equity and liabilities		
Equity shares of K0.50 each	1,000	
Retained earnings	<u>3,800</u>	
		4,800
Non-current liabilities		
10% loan notes		2,000
Current liabilities		
Bank overdraft	100	
Trade payables	4,300	
Current tax payable	<u>400</u>	
		<u>4,800</u>
Total equity and liabilities		<u>11,600</u>

Additional information

- (i) An expensive national sales and promotion campaign was undertaken by the sales and marketing team.
- (ii) Huge trade discounts and extended credit periods were given to all wholesale customers purchasing books above set quantity levels.
- (iii) Dividends paid during the year ended 31 December 2019 were K1,000,000.
- (iv) The extracts of financial ratios from the 2019 annual industry performance assessment report are:

1. Gross profit margin	25%
2. Operating profit margin	15%
3. Return On Capital Employed	35%
4. Receivables collection period	30 days
5. Payables payment period	30 days
6. Current ratio	2:1
7. Debt/equity ratio	35%
8. Interest cover	15 times
9. Earnings Per Share	K1
10. Dividends cover	2 times

Required:

- (a) Calculate the financial ratios above for Kalulu Co for the year ended 31 December 2019. (10 marks)
- (b) Using the information above, comment on the financial performance and position of Kalulu Co for the year ended 31 December 2019. (15 marks)

[Total 25 Marks]

QUESTION FOUR

- (a) Tula Plc.'s year end is 31 March. The balance on the current tax account on 1 April 2019 was an overprovision tax liability of K12,000. The deferred tax liability at 1 April 2019 was K39,000. The provision for current tax for the year ended 31 March 2020 has been estimated at K291,000.

At 31 March 2020, experts ascertained that the carrying amounts of the net assets of Tula Plc. exceed their tax base by K405,000. Tula's rate of income tax is 25%.

Required:

Compute amounts that must be reported in Tula's financial statements for the year ended 31 March 2020 and prepare financial statement extracts in respect of the same. (6 marks)

- (b) Puta Plc. had development expenditure on new design of its product amounting to K800,000 and accumulated amortization amounting to K240,000 on 1 January 2019.

During the year to 31 December 2019, the company embarked on further research and development project aimed at improving operational processes. The research stage of the new project lasted until 1 May 2019 and incurred K50,000 of costs. From 1 May 2019, the project incurred development expenditure of K20,000 per month. On 1 October 2019, the directors became confident that the improved processes would be a success and would reduce the costs of processes thereby improving company profits. The development of the processes was still in progress as at 31 December 2019.

All development expenditure qualifying for amortization is amortized at 20% per annum straight line method.

Required:

- (i) Advise the Financial Accountant of Puta Plc. on the accounting treatment of the above transaction and show the financial statement extracts for the year ended 31 December 2019 in respect of the same. (10 marks)

- (ii) Describe the criteria for classification as 'held for sale' according to *IFRS 5 Non-Current Assets held for sale and Discontinued operations*. (6 marks)

- (c) At its year end of 31 March 2020, Gala Plc. has a machine that it expects to be sold within the next three months. Several possible buyers have been identified and the machine has been priced fairly based on current market conditions at a fair value of K3 million when its carrying amount is K4 million.

Required:

Recommend the accounting treatment of the machine to Gala Plc. as at 31 March 2020 in accordance with *IFRS 5 Non-current Assets held for sale and Discontinued Operation*. (3 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) The International Financial Reporting Standards Foundation is a non-profit seeking organisation whose mission is to develop international financial reporting standards that bring transparency, accountability and efficiency to financial markets around the globe. Usage of international financial reporting standards by preparers of financial statements promotes consistent and uniform financial reporting. The foundation works through the international accounting standards board which is supported by two organs; the international financial reporting advisory council and the international financial reporting standards interpretations committee.

Required:

- (i) Explain three (3) major functions of the International Financial Reporting Standards Foundation. (3 marks)
- (ii) Explain four (4) major objectives of the International Accounting Standards Board. (4 marks)
- (iii) Explain the four (4) steps involved in the formulation of an International Financial Reporting Standard. (8 marks)
- (b) IAS 37 provisions, contingent liabilities and contingent assets regulate the accounting treatment of provisions, contingent liabilities and assets.

Required:

- (i) Explain the difference in accounting treatment between a provision and a contingent liability. (2 marks)
- (ii) Explain the two types of obligations which can give rise to provision. (2 marks)
- (b) IFRS 5 assets held for sale and discontinued operations sets out the principles to be followed when a non-current asset is earmarked to be sold and when operations for an identifiable business line are to be discontinued.

Required:

List any three (3) conditions which should be met for an asset to be classified as held for. (6 marks)

[Total: 25 Marks]

END OF PAPER

DA8 SUGGESTED SOLUTIONS

SOLUTION ONE

Part (a)

King group consolidated statement of profit or loss for the year ended 31 March, 2020.

	K'000
Revenue ($80,000 + (75,000 \times 6 \div 12) - (2,000 \times 6)$)	105,500
Cost of Sales ($30,000 + (25,000 \times 6 \div 12) - 12,000 + 800$)	(31,300)
<hr/>	
Gross	74,200
Distribution costs ($8,500 + (12,500 \times 6 \div 12)$)	(14,750)
Administration expenses ($3,500 + (1,500 \times 6 \div 12)$)	(4,250)
Investment Income	500
Finance cost ($1,000 \times 6 \div 12$)	(500)
Bargain on Purchase	18,500
Profit from Associate ($3 \div 12 \times 27 \text{ m} \times 30\% - 1,000$)	1,025
<hr/>	
Profit before tax	74,725
Taxation ($9,000 + (12,000 \times 6 \div 12)$)	(15,000)
Profit after tax	59,725
Parents share of profits (balance)	57,585
NCI ($(23,000 \times 6 \div 12) - 800$) *20%	2,140

Part (b)

King group consolidated statement of financial position as at 31 March, 2020.

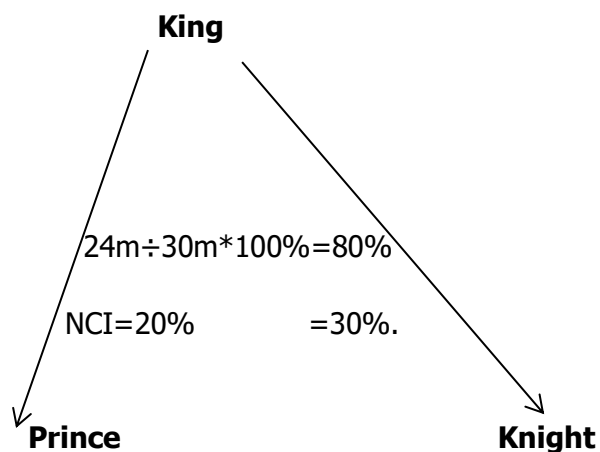
	K'000
Assets	
Non-current Assets	
Property plant and equipment ($150,000 + 200,000 - 20,000$)	330,000
Investment in Associate (W5)	41,025
Investments ($250,000 - 40,000 - 48,000$)	162,000
Current assets	
($120,000 + 110,000 - 800 \text{ URP} - 15,000 + 5,000$)	219,200
<hr/>	
Total Assets	752,225
<hr/>	
Equity	
Share Capital ($50,000 + 16,000$)	66,000
Share Premium ($20,000 + 32,000$)	52,000
Retained earnings	183,085

Equity attributed to parent	301,085
Non-controlling interest	14,140
	<hr/>
	315,225
Non-current assets	
10% Loan notes (45,000+32,000)	77,000
Current liabilities	
(250,000+120,000-10,000)	360,000
	<hr/>
Total equity and liabilities	752,225
	<hr/>

Total marks
Maximum Max available

Workings

Group Structure



W1 Net Assets

	At Acquisition K'000	At Reporting K'000	PAP K'000
Share Capital	30,000	30,000	
Share Premium	15,000	15,000	
Retained Earnings (113,000 - (23,000 * 6 ÷ 12))	101,500	113,000	

FV Adjustment			
Land	(20,000)	(20,000)	
PURP $(12000 \div 3) * (25 \div 125)$		(800)	
	<u>126,500</u>	<u>137,200</u>	<u>10,700</u>

W2 Goodwill **K'000**

Cost of Investment	
Share Exchange	
$24m * 2 \div 3 * K3$	48,000
Cash Consideration	
$(24m * K2)$	48,000
NCI at acquisition	
$30m * 20% * K2$	12,000
	<u>108,000</u>
Less net assets at acquisition	(126,500)
Bargain Purchase	<u>(18,500)</u>

W3 NCI **K'000**

At Acquisition	12,000
PAP-NCI $(10,700 * 20\%)$	2,140
	<u>14,140</u>

W4 Group Retained earnings **K'000**

King (100%)	155,000
Prince $(80 * 10,700)$	8,560
Bargain Purchase	18,500
Associate's share of profit	
$(27000 * 30% * 3 \div 12)$	2,025
Impairment Associate	- 1,000
	<u>183,085</u>

W5 Investment in Associate **K'000**

Cost	40,000
Profits Associate	
$(27000 * 30% * 3 \div 12)$	2,025
Less Impairment	- 1,000
	<u>41,025</u>

W6 Share exchange (Optional) **K'000**

DR Investment (24000*2÷3*K3)	48,000
CR Share Capital (16000*1)	16,000
CR Share Premium (16000*2)	32,000

SOLUTION TWO

a) Zatala Ltd

Statement of profit or loss for the year ended 31 March 2020

	'K'
Revenue (w1)	792,720
Cost of sales (w6)	<u>(482,300)</u>
Gross profit	310,420
Finance income (w1)	1,818
Administrative expense (w6)	(86,000)
Distribution costs	<u>(69,000)</u>
Operating profit	157,238
Finance cost (w3)	<u>(25,000)</u>
Profit before tax	132,238
Income tax (w4)	<u>(8,000)</u>
Profit for the year	<u>124,238</u>

b) Zatala Ltd. statement of changes in equity for year ended 31 March 2020

	Equity Shares 'K'	Share Premium 'K'	revaluation Reserve 'K'	Retained Earnings 'K'	Total 'K'
Balances b/f(bal fig)	500,000	250,000	10,000	181,000	941,000
Share issue (w5)	100,000	50,000			150,000
Total comp. income			(10,000)	124,238	114,238
Dividends paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>(184,000)</u>	<u>(184,000)</u>
Balances c/f	<u>600,000</u>	<u>300,000</u>	<u>0</u>	<u>121,238</u>	<u>1,021,238</u>

c) Zatala Ltd statement of financial position as at 31 March 2020

	'K'
Non-current assets'	
Property, Plant and Equipment (w2)	<u>959,700</u>
Current assets	
Inventory	112,000
Receivables (275,000+72,720w1+1,818-6000)	343,538
Bank (22000 + 6000)	<u>28,000</u>
Total current assets	<u>483,538</u>
Total assets	<u>1,443,238</u>
Equity and liabilities	
Equity shares of K1 each	600,000
Share premium	300,000
Revaluation reserve (10,000-10,000)	0
Retained earnings (answer (b))	<u>121,238</u>
Total equity	<u>1,021,238</u>
Non-current liabilities	
6% loan note	260,000
Deferred tax	<u>20,000</u>

Total non-current liabilities	<u>280,000</u>
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Current liabilities

Trade payables	32,000
Dividends payable	92,000
Current tax payable	<u>18,000</u>
Total current liabilities	<u>142,000</u>
Total equity and liabilities	<u>1,443,238</u>

WORKINGS

1) Revenue

Revenue per question	720,000
Plus unrecognized deferred income	<u>72,720</u> (80,000*0.909)
Total income	<u>792,720</u>

Unwinding of discount (finance income) $10\% \times 72,720 \times 3 \div 12 = 1,818$

Double entries:

▪	Deferred income: Dr Receivables	72,720
	Cr Sales	72,720
▪	Finance income: Dr Receivables	1,818
	Cr Finance income	1,818

2) Property, Plant and Equipment

Land		Equipment	
'K'		'K'	
	Cost/valuation b/f 1/1/2019	700,000	480,000
	Less accumulated deprn	<u>----</u>	<u>(144,000)</u>
	Carrying amount b/f	700,000	336,000
	Disposal of plant	<u>----</u>	<u>(7,000)</u>
	CA net of disposal	700,000	329,000
	Depreciation expense	<u>----</u>	
	(10% x [480-37])		(44,300)
	Revaluation	<u>25,000</u>	<u>-----</u>
CA/Revalued c/f	<u>675,000</u>	<u>284,700</u>	

3) Loan note issued

'K

Loan note issued on 1/4/2019	250,000
Add effective interest (10%*250,000)	25,000
Less interest paid (6%*250,000)	<u>(15,000)</u>
CA of loan note 31/3/2020	<u>260,000</u>

4) Income tax expense

Provision: current tax c/f	18,000
Deferred tax c/f	20,000
Less deferred tax b/f	<u>(30,000)</u>
Charge to p/l	<u>8,000</u>

5) New share issue during the year:
100,000 share @ K1 = K100,000 to share capital

100,000 shares @ K0.50 = K50,000 to share premium

6)

Cost of sales	Administration	Distribution cost	
'K'	'K'	'K'	
Per question'	418,000	86,000	69,000
Depreciation expense	44,300		
Loss on disposal	5,000		
Impairment loss of land	<u>15,000</u>	-----	-----
Totals	<u>482,300</u>	<u>69,000</u>	

SOLUTION THREE

(a) Financial ratios [1mark each: maximum 10 marks]

- (1) Gross profit margin = $GP \div Sales \times 100\%$: $5,900 \div 40,000 \times 100\% = 14.8\%$
- (2) Operating profit = $OP \div Sales \times 100\%$: $2,200 \div 40,000 \times 100\% = 5.5\%$
- (3) ROCE = $PBIT \div CE \times 100\%$ = $2,200 \div 6,800 \times 100\% = 32.4\%$
- (4) Receivables days = $receivables \div Sales \times 365 = 4,100 \div 40,000 \times 365 = 37$ days
- (5) Payables days = $payables \div CoS \times 365 = 4,300 \div 34,100 \times 365 = 46$ days
- (6) Current ratio = $C.Assets \div C.Liabilities = 6,100 \div 4,800 = 1.27 : 1$
- (7) Debt \div Equity ratio = $2,000 \div 4,800 \times 100\% = 42\%$
- (8) Interest cover = $PBIT \div Finance\ costs = 2,200 \div 200 = 11$ times
- (9) EPS = $Profit\ for\ the\ year \div number\ of\ equity\ shares = 1,500 \div 2,000 = K0.75$
- (10) Dividends cover = $Profit\ for\ the\ year \div Div\ paid = 1,500 \div 1,000 = 1.50$ times

(b) Comments on financial performance and position [1.5 marks each: maximum 15 marks]

Profitability

Gross profit margin-Kalulu's gross profit margin of 14.8% is less than that of industry KPI of 25%; this may be due to huge trade discounts given to all wholesale customers buying in bulk. Trade discounts reduce profit margins.

Operating profit margin-Kalulu's operating profit margin of 5.5% is less than that of the industry KPI of 15%; this may be due to expensive national sales and promotion campaign which may have increased the operating expenses significantly and reduced the operating profit.

ROCE-Kalulu's return on capital employed of 32.4% is less than that of the industry KPI of 35%; this may be due to lower operating profit margin.

Liquidity

Receivables collection period-Kalulu's receivables days of 37 days are more than those of industry KPI of 30 days; this may be due to extended credit periods given to credit wholesale customer buying in bulk.

Payables payment period-Kalulu's payables days of 46 days are more than those of industry KPI of 30 days; this may be due to shortage of cash since Kalulu does not have cash at bank.

Current ratio-Kalulu's current ratio of 1.27: 1 is less than that of industry KPI of 2:1; this may be due to limited current assets (inventory and receivables only) and the bank overdraft has increased the current liabilities.

Gearing

Debt÷Equity ratio-Kalulu's debt÷equity ratio of 42% is more than that of industry KPI of 35%; this may be due to lower share capital of K1, 000,000, the debt is 200% of share capital.

Interest cover-Kalulu's interest cover of 11 times is lower than that of the industry KPI of 15 times. This may be due to Kalulu negotiating loans with lower interest rates than other in the industry

Investors

Kalulu has low EPS of K0.75 compared to the industry KPI of K1. This may be due to lower profit for the year given Kalulu's small share capital.

Kalulu paid more dividends because its dividend cover is 1.5 compared to the industry KPI of 2. This is a poor dividends policy given its poor performance compared to the industry KPIs.

SOLUTION FOUR

- a) Tula had an under provision of current tax at the end of the previous accounting period which has the effect of reducing the current year charge as follows:

Current year provision	291,000
Less overprovision last year	<u>(12,000)</u>
Tax charge for the current year	279,000
Deferred tax liability c/f (25% \times 405,000)	101,250
Less deferred tax liability b/f	<u>(39,000)</u>
Increase/charge to profit/loss	<u>62,250</u>
Total charge to profit or loss: current tax	279,000
	Deferred tax <u>62,250</u>
	<u>341,250</u>

- b) The following points apply to the transaction:
- The development expenditure brought forward was already being amortized hence must have met the IAS 38 criteria of commercial use having commenced and project having been completed.
 - However, the development project that just started, on 1 January 2019 was not complete by 31 December hence not subject to amortization.
 - Further, the research cost of K50,000 require expensing as it is too early at research stage to establish whether economic benefits would flow to Puta Plc. when project is completed. The development expenditure prior to 1 October 2019 require expensing, that is K100,000 (K20,000 \times 5 months) as capitalization criteria was only met on 1 October when it was established that the new process would reduce operational expenses and boost profits.
 - Costs between 1 October and 31 December 2019 only qualify for capitalization, that is, K60,000 (K20,000 \times 3 month) but is not to be amortized as the development processes had not been put to use and not been complete.
 - Puta Plc. Profit/loss extract for the year ended 31 December 2019

Research costs	50,000
Amortization (20% \times 800,000)	160,000
Development expenditure (20,000 \times 5 months)	100,000

Puta Plc. Statement of financial position as at 31 December 2019

Non-Current Assets (800,000-240,000-160,000)+60,000 460,000

- c)
- (i)
- Asset must be available for immediate sale in its present condition.

- The sale must be highly probable
 - Management should be committed to a plan to sell the asset
 - Asset should be marketed at a reasonable price compared to fair value
 - The sale should be expected to be complete within 12 months.
 - Management should not abandon sale of the asset
- ii) IFRS 5 states that once classified as held for sale, a non-current asset need to be recognized at the lower of the carrying amount and fair value less costs. In case of Gala, the asset met all relevant recognition criteria and needed to be recognized at K3 million, its fair value as a separate item under current assets. No depreciation would be effected on the machines until sale.

SOLUTION FIVE

Part (a)

i) Functions of the foundation include:

- To appoint/recruit members of the IASB
- To fund the activities of the IASB
- To oversee the work of the IASB

ii) The accounting standards board objectives:

- To develop high quality financial reporting standards
- To promote the rigorous application of IFRSs
- To promote harmonisation of local and IFRSs
- To address the accounting needs of emerging markets

(

iii) Steps in formulating an IFRS:

The development of a new standard involves widespread consultation but the major steps are as follow

- Advisory Committee – this group is established to advise the IASB on a specific area of accounting which requires a new standard or modification of an existing standard.
- Discussion paper – the advisory group produces a discussion paper which must be availed to the public for input.
- Exposure draft – after reception of submissions from the public, the discussion paper incorporates the relevant comments of the public and is refined into an exposure draft. At this stage we are one step away from having a full IFRS.
- IFRSs – Upon approval from the majority members of the IASB, a standard comes into force. Further work including guiding markets on how to apply a standard is a continuous process.

Part (b)

i) A provision is a liability of uncertain timing and amount and a contingent liability is a possible obligation which may arise in future. A provision results from a past event but a contingent liability can only be confirmed through a future event. Provisions are thus recognised in the Financial Statements but contingent liabilities are only disclosed in the notes to the Financial Statements subject to materiality considerations.

A provision can arise on the following grounds:

- Legal obligation: arises from the requirements of the law. For example, a firm is legally required (because of existing environmental law) to restore the land which was used in its production activities.

- Constructive obligation : arises from an entity's established policies. For example, if a firm has a written policy (which is possibly aligned to expected conduct by the public) which requires it to restore the land which was used in its production activities.

Part (c)

Conditions for asset to be recognised as held for sale:

- The asset should be available for immediate sale in its current condition
- The sale should be highly probable (expected within 12 months)
- Management should be committed to plan to sale the asset
- An active program should be in place to locate the buyer and complete the sale
- The asset must be for sale and not an abandoned.
- Asset should be marketed at a reasonable price.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 16 MARCH 2021

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

Budgeting was one of the topics at the most recent CEO Workshop organized by Zambia Institute of Chartered Accountants (ZICA) for Non-Finance Managers. One of the seasoned experts in Financial Management & Budgeting gave a presentation on the budgeting and control systems. He talked about the budget period, budget manual, budget committee, fixed budgets and flexible budgets. The Chief Operations Officer of Dialogue Limited, a company situated in Ndola was in attendance at the workshop and was very much amused by the principles of flexible budgeting. Dialogue Limited is alive to the fact that industry it operates in is very uncertain. As a result, budgeted profit forecasts based on 90%, 100% and 105% activity levels for the forthcoming budget period have been prepared as follows, with 100% activity representing 50,000 sales units:

	K'000	K'000	K'000
Sales Revenue	13,500	15,000	15,750
Less			
Materials Costs	3,375	3,750	3,938
Labour Costs	4,400	4,850	5,075
Production Overhead Costs	2,175	2,350	2,437
Administration Costs	1,200	1,300	1,350
Selling and distribution costs	700	750	775
Total Costs	11,850	13,000	13,575
Net Profit	1,650	2,000	2,175

Actual activity has turned out to be far worse than anticipated and only 37,500 units have been sold, with the following results:-

	K'000
Sales Revenue	10,750
Less	
Materials Costs	3,117
Labour Costs	3,515
Production Overhead Costs	1,712
Administration Costs	1,176
Selling and distribution costs	665
Total Costs	10,185
Net Profit	565

Additional Information

1. The budgeted selling price is K300 per unit
2. All production is sold
3. The fixed element of the budgeted costs will remain unchanged to levels of production.

Required:

- (c) Determine the cost behaviour pattern and write down the total cost equation for each cost item using the high-low method. (9 marks)
- (d) Prepare a budgetary control statement using the principles of flexible budgeting for the budget period. (11 marks)
- (e) Define the following terms:
- (i) Budget period
 - (ii) Budget manual
 - (iii) Budget committee
 - (iv) Fixed budget
 - (v) Flexible budget
- (5 marks)

[Total: 25 Marks]

QUESTION TWO

ATM Ltd manufactures quality blocks for the industry in Zambia. It operates a standard marginal costing system. The following standard cost, volume and revenue data for the quarter ending 31 December 2019 are provided:

Standard cost card:

Selling price	K18 per block
Direct material:	
P	3kg @ K2.60 per kg
Q	2kg @ K2.50 per kg
Direct labour	2 hours @ K0.60 per hour

Budgeted sales for the quarter: 62,500 blocks.

Variable overheads are absorbed at the rate of K0.50 per direct labour hour.

Fixed production overhead for the quarter are estimated to be K78,500.

The following actual results were recorded for the quarter just ended 31 December 2019:

Production:	60,000 blocks
Sales :	58,000 blocks @ K17 per block
Direct material :	
P	150,000 kg were bought and used at K360,000
Q	109,000 kg were bought and used at K327,000
Direct labour	108,000 hours were worked for at a cost of K90,400
Variable overheads	K82,000
Fixed production overheads	K80,000

Required:

- (a) Calculate the following variances for the quarter just ended 31 December 2019:
- (i) Sales volume and sales price variances (3 marks)
 - (ii) Price and usage variances for each material (3 marks)
 - (iii) Mix and Yield variances for each material (3 marks)
 - (iv) Labour rate and efficiency variances (3 marks)
 - (v) Variable overhead expenditure and efficiency variances (3 marks)
- (b) Management at ATM Ltd having taken note of the increase in the complexity of the block manufacturing industry in Zambia feels that the company should prepare both financial accounts and management accounts.

Explain any five (5) principal differences between management accounting and financial accounting. (10 marks)

[Total 25 Marks]

SECTION B

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

QUESTION THREE

- (a) JB Brothers Plc. is involved in the design and manufacture of equine stables. The company has just received an enquiry about the possibility of supplying 40 stables to a large equestrian Centre, BM Plc, on the Copperbelt.

The finance director of BM Plc has informed JB Brothers Plc that they have just completed their budgets for the coming financial year and that the maximum price that they will be willing to pay is K11,000 per stable.

The management accountant of JB Brothers Plc has provided you with the following details relating to the costs involved in the construction of the stables.

1. Each stable will require 10 planks of timber. The company has 350 planks of timber in inventory and if they are not used in the stables, they will be disposed off immediately. The original purchase price for the planks of timber in inventory was K210 per unit. The replacement cost of a plank of timber is K250 per unit. The net realizable value of the timber in inventory is K110 per plank.
2. Each stable will also require 4 slabs of a special type of concrete. The concrete is sold in batches of 10 slabs. The purchase price of a batch is K1,120. The supplier of the concrete has agreed to offer a discount of 12% on the purchase price of concrete batches over 13 batches.
3. Additionally, each stable will also require 6 strips of studded steel and this type of steel is frequently used by JB Brothers plc. The company holds 250 strips of this steel in the warehouse at present. These strips of steel cost K155 each three months ago and their replacement cost is K160 per strip.
4. The construction of the stables will require a combination of skilled and unskilled labour. Each stable will require 15 skilled labour hours and 7 unskilled labour hours. The skilled labourers are paid K70 per hour and the unskilled labourers are paid 60% of the skilled hourly rate. If this contract does not go ahead, there will be 140 skilled idle hours and the company is reluctant to make redundancies.
5. The project will require a project manager to oversee the work. JB Brothers Plc currently employs a manager with this required experience. This manager currently earns K65,000. JB Brothers Plc will pay him an extra K4,000 due to the size of the project. The manager will be replaced by a less experienced manager who will earn K35,000.
6. Variable overheads are absorbed at a rate of K75 per skilled labour hour.
7. Incremental fixed overheads are absorbed at a rate of K42 per skilled labour hour.
8. In order to assess the safety implications of the stables, the company used Research Net Plc to carry out research. This research cost K15,000 and K3,000 is still outstanding.

Required:

- (i) Define the terms sunk cost and committed cost. (2 marks)
- (ii) Using relevant costing principles, determine whether or not JB Brothers Plc should undertake the contract. Your answer must include an explanation for the inclusion of each of the above points. (10 marks)
- (b) Akulu Co. produces 2 products, A and B with the following information available:

	Kalale	Migodi
Production (units)	2,000	4,000
	K	K
Direct Material Cost Per unit	80	100
Direct Labour Cost Per unit	45	65
Variable Overhead Cost Per unit	40	60
Fixed Overhead cost per unit	80	120
Sales Price per unit	380	500

Another supplier has offered to supply Kalale at a price of K150 and Migodi for K300 respectively.

Required:

- (i) Determine whether Akulu co. make or buy in the components. (7 marks)
- (ii) Explain four (4) other factors should be considered before this decision is made? (6 marks)

[Total: 25 Marks]**QUESTION FOUR**

Mosi-O-Tunya (MOT) Ltd, operating at the Victoria Falls in Livingstone, Southern province of Zambia, makes three unique wooden products (X, Y and Z) which are sold to tourists. The company's objective since inception five years ago has been to maximise profits. Due to the increase in the traffic of tourists visiting the Victoria Falls, the company has recently received orders from new customers for its three wooden products. While being delighted with the new orders, the production director is however concerned about the capacity to meet the order.

Details obtained from the company's budgeted management accounts and other relevant information are shown below:

1. Product information per unit:

	X	Y	Z
	K	K	K
Selling price	16.80	31.80	14.40
Materials	6.00	9.00	4.80
Labour	3.60	5.40	1.80

2. Total budgeted overheads for the year are expected to be K2,535,000 of which 20% are variable and allocated to the products on the basis of labour hours. Fixed costs are considered as period costs.
3. Budgeted annual demand for the three products, new orders received inclusive, is as follows:

X	140,000 units
Y	70,000 units
Z	90,000 units
4. The company has budgeted to pay its workers a fixed rate of K144 per hour for 6,500 labour hours in the budget year.

Required:

- (a) Determine the optimal production plan for MOT Ltd and show the expected annual profit. (15 marks)
- (b) Explain four factors that influence a company's demand for management accounting information. (10 marks)

[Total 25 Marks]

QUESTION FIVE

You have just completed your ZICA Diploma in Accountancy qualification and your boss is excited that you finished your studies successfully. For this reason, you have been promoted to the position of Management Accountant in your organization. Recently, there was a seminar where your boss was a participant entitled "Survival Plan for a successful Business." One of the topics that impressed him was the working capital management. However, there were certain accounting terminologies that were used in the workshop that the boss could not fully understand.

He calls on you to write a position paper to clarify these accounting terminologies and statements to him.

- (a) Briefly discuss working capital financing policy and explain the key factors to be considered in formulating it. (5 marks)
- (b) Describe a factor organisation and the services one expects to receive from such an organization? (6 marks)
- (c) Explain the economic order quantity (EOQ) model, along with the assumptions it is based on and explain its significance in inventory management. (6 marks)
- (d) Explain the term overtrading and the impact it has on cash cycle of the organisation. (4 marks)
- (e) Discuss treasury management and the benefits of operating a centralised treasury department. (4 marks)

[Total: 25 Marks]

END OF PAPER

DA9 SUGGESTED SOLUTIONS

SOLUTION ONE

(f) Cost Behaviour pattern and total cost equations

Activity Levels	90%	100%	105%
Units	45,000	50,000	52,500

1. Material:

Cost per unit (K)	75	75	75
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Material is a variable cost

Variable (K'000)	<u>3,375</u>	<u>3,750</u>	<u>3,938</u>
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: . ***Materials cost per unit = 75x***

2. Labour:

Cost per unit (K)	97.8	97.0	96.7
-------------------	------	------	------

: . Labour includes an element of fixed cost and so it is a semi-variable cost

Using High/Low method:

	Units	Cost (K'000)
High	52,500	5,075
Low	<u>45,000</u>	<u>4,400</u>
Difference	<u>7,500</u>	<u>675</u>

: . Variable per unit = $K675,000/7,500$
= K90

Labour fixed cost (K'000)	350	350	350
Labour variable (K'000)	<u>4,050</u>	<u>4,500</u>	<u>4,725</u>
Total	<u>4,400</u>	<u>4,850</u>	<u>5,075</u>

: . ***Total cost = K350,000 + K90x***

3. Production Overheads:

Cost per unit (K)	48.3	47	46.4
-------------------	------	----	------

: . Production overheads include an element of fixed costs and so is a semi-variable cost.

High/Low Method:

Units	Cost (K'000)
-------	--------------

High	52,500	2,437
Low	<u>45,000</u>	<u>2,175</u>
Difference	<u>7,500</u>	<u>262</u>

: . Variable cost per unit = $K262,000/7500 = K35$

Fixed Overhead (K'000)	600	600	600
Variable (K'000)	<u>1,575</u>	<u>1,750</u>	<u>1,837</u>
Total (K'000)	<u>2,575</u>	<u>2,350</u>	<u>2,437</u>

: . **Total Cost = K600,000 + K35x**

4. Administration Costs:

Cost per unit (K)	26.7	26	25.7
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: . Administration costs include an element of fixed costs and so is a semi-variable cost.

High/Low	Units	Cost (K'000)
High	52,500	1,350
Low	<u>45,000</u>	<u>1,200</u>
Difference	<u>7,500</u>	<u>150</u>

: . Variable cost per unit = $K150,000/7,500 = K20$

Fixed Cost (K'000)	300	300	300
Variable Cost (K'000)	<u>900</u>	<u>1,000</u>	<u>1,050</u>
Total Cost (K'000)	<u>1,200</u>	<u>1,300</u>	<u>1,350</u>

: . **Total Cost = K300,000 + K20x**

5. Selling & Distribution Costs:

Cost per unit (K)	15.6	15	14.8
-------------------	------	----	------

: . Selling and distribution costs include an element of fixed costs and so is a semi-variable cost.

High/Low Method:

High/Low	Units	Cost (K'000)
High	52,500	775
Low	<u>45,000</u>	<u>700</u>
Difference	<u>7,500</u>	<u>75</u>

: . Variable cost per unit = $K75000/7,500 = K10$

Fixed Cost (K'000)	250	250	250
Variable Cost (K'000)	<u>450</u>	<u>500</u>	<u>525</u>
Total Cost (K'000)	<u>700</u>	<u>750</u>	<u>775</u>

: . ***Total Cost = K250,000 + K10x***

(g) Budgetary Control Statement using the principles *flexible budgeting for the budget period*

	Flex Budget	Actual	Variance
Sales Units	37,500	37,500	
	K'000	K'000	K'000
Sales Revenue	<u>11,250</u>	<u>10,750</u>	<u>500 (A)</u>
Less Variable cost			
Material	2,813	3,117	304 (A)
Labour	3,375	3,165	210 (F)
Production overhead	1,313	1,112	201 (F)
Administration cost	750	876	126 (A)
Selling & distribution costs	<u>375</u>	<u>415</u>	<u>40 (A)</u>
Total variable costs	<u>8,626</u>	<u>8,685</u>	<u>59 (A)</u>
Contribution	<u>2,624</u>	<u>2,065</u>	<u>559 (A)</u>
Less Fixed Costs:			
Labour	350	350	-
Production overheads	600	600	-
Administration costs	300	300	-
Selling & distribution costs	<u>250</u>	<u>250</u>	-
Total fixed costs	<u>1,500</u>	<u>1,500</u>	-
Net profit	<u>1,124</u>	<u>565</u>	<u>559 (A)</u>

SOLUTION TWO

a) Standard cost card:

	K
K	
Selling price	
18.00	
Direct material	
P 3kg @ K2.60 per kg	7.80
Q 2 kg @ K2.50 per kg	5.00
Direct labour	
2 hours @ K0.60 per hour	1.20
Variable production overheads	
2hours @ K0.50 per hour	1.00
Variable production cost	
<u>15.00</u>	
Contribution per unit	
<u>3.00</u>	

i. Sales volume and Sales variance.

Sales volume variance

Budgeted sales units	62,500
Actual sales units	<u>58,000</u>
	4,500 A
	X <u>K3</u>
Variance	<u>K13,500 A</u>

Sales price variance

	K
58,000 units should have been sold @ K18 =	1,044,000
But did sale @ K17 =	<u>986,000</u>
Variance	<u>58,000 (A)</u>

ii. Material price and usage variance

Material (P) price variance

	K
150,000 kg should have cost@ K2.60	390,000
But did cost	<u>360,000</u>
Variance	<u>30,000 (F)</u>

Material (Q) price variance

	K
109,000 kg should have cost @K2.50	272,500
But did cost	<u>327,000</u>
Variance	<u>54,500 (A)</u>

Material (P) usage variance

60,000 units should have used @ 3kg	180,000 kg
But did use	<u>150,000 kg</u>
	30,000 kg F

Variance @K2.6
K78,000 F

Material (Q) usage variance

60,000 units should have used @ 2kg 120,000 kg
 But did use 109,000 kg
11,000 kg F
@ K2.5
 Variance **K27,500 F**

iii. Material mix and yield variances

Material mix variance

Material	Actual materials In standard mix	Actual output in actual mix	difference	standard price
K	K			
P	155,400	150,000	5,400 (F)	2.60
				14,040
Q	103,600	109,000	5,400 (A)	2.50
	<u>13,500</u>			

540 F

Material yield variance

Material	Expected Output	Actual output in standard	difference	standard yield price
K				K
P	30,000	36,000	6,000 (F)	2.56
				15,360
Q	21,800	24,000	2,200 (A)	2.56
				<u>5,632</u>

20,992 F

Standard yield price

P	3kg @ K2.50	7.80
Q	2kg @ K2.50	<u>5.00</u>
	5kg	<u>12.80</u>

Standard yield price = K12.80/5 = K2.56

iv.	<u>Labour rate variance</u>		K
	108,000 hours should have costed @ K0.60	=	64,800
	But did cost		<u>90,400</u>
	Variance		<u>25,600 (A)</u>
	<u>Labour Efficiency variance</u>		
	60,000 units should have taken @ 2 hours	=	120,000 hours
	But did take	=	<u>108,000 hours</u>
			12,000 hours (F)
			<u>@ K0.60</u>
	Variance		<u>K7,200 (F)</u>
v.	<u>Variable overhead Expenditure variance</u>		
	108,000 hours should have cost @ K0.50	=	54,000
	But did cost	=	<u>82,000</u>
	Variance		<u>28,000 (A)</u>
	<u>Variable overhead Efficiency variance</u>		
	12,000 hours(F) @ K0.50	=	<u>K6,000 (F)</u>

b) **Differences between management accounting and financial accounting**

FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
Limited companies are required by law to prepare financial accounts	There is no legal requirement to prepare management accounts
Most financial accounting information is monetary nature	Management accounts incorporate both monetary and non monetary measures
Financial accounts present an essentially historic picture of past operations	Management accounts are both historical and future planning
The law and financial reporting standards prescribe formats of published financial statements	Management accounting formats are entirely at the discretion of management
Financial accounting is for external reporting	Management accounting is for internal reporting
Financial accounts concentrates on the business as a whole aggregating revenues and costs from different operations and are an end to themselves	Management accounts can focus on the specific areas of an organization's activities. Information may be produced to and a decision rather than to be an end product of a decision

SOLUTION THREE

a) i)

Sunk cost

A sunk cost is a past cost which is not relevant to a decision.

Committed cost

A committed cost is a past cost that has not yet been paid but which the business is committed to paying.

ii) **Relevant costs**

	note	K
Material;		
Timber	1	51,000
Concrete	2	17,517
Studded steel	3	38,400
Skilled labour	4	32,200
Unskilled labour	4	11,760
Project manager;		
Existing	5	4,000
New		35,000
Variable overheads	6	45,000
Fixed production overheads	7	25,200
Research and development;		
Sunk cost		0
Committed		<u>0</u>
		260,077
Revenue	13	<u>440,000</u>
Net relevant profit		<u>179,923</u>

Palomino plc should undertake the contract as they would achieve a net relevant profit of K179,923.

Notes;

1. The project requires $(40 \times 10) = 400$ planks of timber. There are 350 planks of timber in inventory. If these planks are not used by the company then they would be sold. Therefore, if they are used on this project, the company will lose out on selling them. So, lost proceeds are $350 \times K110 = K38,500$. The company will purchase the balance required and this will cost $50 \times K250 = K12,500.50$. So the total relevant cost is K51,000.

2. The project requires $(40 \times 4) = 160$ slabs. So this equates to $160/10 = 16$ batches.
 13 batches \times K1,120 = K14,560
 3 batches \times K985.60 = K2,957
 Total cost **K17,517**
3. The steel is used regularly by the company so if its used on this project it will have to be replaced immediately. The relevant cost is $6 \times 40 \times$ K160 = K38,400.
4. Skilled labour hours required are $(40 \times 15) = 600$ hours. Because there are 140 hours idle time, the relevant cost is $(460 \times$ K70) = K32,200.
 Unskilled labour hours required are $(40 \times 7) = 280$ hours. So the cost is $280 \times$ K42 = K11,760.
5. The relevant cost for the existing project manager is K4,000 as he will receive an additional payment over what he currently earns. A replacement project manager will be employed specifically as a result of this project at K35,000 per annum.
6. Variable overheads are relevant costs as they will only be incurred if the job is undertaken. The cost is 600 labour hours \times K75 = K45,000.
7. Fixed overheads are relevant costs as they are incremental. The cost is 600 labour hours \times K42 = K25,200.
8. Research and development is not a relevant cost. The cost has been incurred irrespective of whether the construction takes place. The amount paid of K12,000 is known as a sunk cost and the unpaid amount of K3,000 as a committed cost.
9. By undertaking the contract, the company would receive $(40 \text{ stables} \times$ K11,000) = K440,000.

b) ii) Make or Buy decision

	Kalale K	Migodi K
Variable costs of making	165	225
Buying costs	150	300
Extra cost of making/buying	15	75

: . Akulu should buy Kalale and make Migodi.

(ii) Qualitative factors to be considered before this decision is made include:-

- **Specialist skills** - the external supplier may possess some specialist skills that are not available in-house.
- **Alternative use of resource** - outsourcing will free up resources which may be used in another part of the business.
- **Social** - will outsourcing result in a reduction of the workforce? Redundancy costs should be considered.
- **Legal** - will outsourcing affect contractual obligations with suppliers or employees?
- **Confidentiality** - is there a risk of loss of confidentiality, especially if the external supplier performs similar work for rival companies.
- **Customer reaction** - do customers attach importance to the products being made in-house?

SOLUTION FOUR

(a) Optimal production plan

	X	Y	Z
	K	K	K
Selling price	16.800	31.800	14.400
Less variable cost per unit:			
Material	6.000	9.000	4.800
Labour	3.600	5.400	1.800
Variable overheads (W2)	<u>1.950</u>	<u>2.925</u>	<u>0.975</u>
Total variable cost per unit	<u>11.550</u>	<u>17.325</u>	<u>7.575</u>
Contribution per unit	K5.250	K14.475	K6.825
Labour hours per unit (W1)	<u>0.025</u>	<u>0.0375</u>	<u>0.0125</u>
Contribution per labour hour	K210	K386	K546
Ranking	3	2	1

Product	Optimal product mix (units)	Hours per unit	Total labour hours available
Z	90,000	0.0125	6,500 <u>(1,125)</u>
Y	70,000	0.0375	5,375 <u>(2,625)</u>
X	110,000	0.025	2,750 <u>(2,750)</u>
			Nil

Optimal production plan

X	110,000 units
Y	70,000 units
Z	90,000 units

Expected profit

Product X	(110,000 units @ K5.25 per unit)	577,500
Product Y	(70,000 units @ K14.475 per unit)	1,013,250
Product Z	(90,000 units @ K6.825 per unit)	<u>614,250</u>
Total contribution		2,205,000
Less fixed production overheads		<u>2,028,000</u>
Profit		<u>177,000</u>

Workings:

1. Labour hours per unit

	X	Y	Z
Labour cost per unit (K)	3.60	5.40	1.80
Labour cost per hour (K)	<u>144</u>	<u>144</u>	<u>144</u>
Labour hours per unit	<u>0.025</u>	<u>0.0375</u>	<u>0.0125</u>

2. Budgeted production overhead analysis

	K
Total annual production overhead	2,535,000
Less budgeted fixed production overhead: (80% of K2,535,000)	<u>2,028,000</u>
Budgeted variable overhead (20% of total)	507,000
÷ Total budgeted labour hours	6,500
= Budgeted variable overhead per hour	<u>K78</u>

Variable overhead cost per unit

	X	Y	Z
Labour hours per unit	0.025	0.0375	0.0125
× Variable overhead cost per hour	<u>K78</u>	<u>K78</u>	<u>K78</u>
= Variable overhead cost per unit	<u>K1.95</u>	<u>K2.925</u>	<u>K0.975</u>

(b) Management accounting has grown and become more important due to the following factors:

1. Increasing competition – access to accurate information is now more important as companies compete not on product prices only but also other factors such as product quality and customer service. Accurate product information allows companies to focus attention away from pricing to other significant factors.
2. Global market place – improvements in transportation and communication has expanded the market for customers and increased company operations. Management accounting enables cost information to be provided and analysed across divisions, segments and countries to support the overall activities of the company.
3. Focus on customer satisfaction – customers have become more discerning and information relating to customers and their profitability to a business is critical. Management accounting allows companies to use cost information and techniques to obtain data on the cost of providing service to customers.
4. New management approaches – companies are now adopting a variety of new management approaches such as Total Quality Management, Value Chain Analysis and Benchmarking to facilitate focusing on customers satisfaction. Companies are also adopting a philosophy of continuous improvement and promotion of employee empowerment.
5. Changing product life cycles – intense competition and changing customer needs has resulted in product life cycles becoming shorter. Companies need to be ready and able to introduce new products quickly and management accounting can facilitate the process by providing essential information for costing and decision making.
6. Changing cost structure – materials and labour comprised the highest product cost in the past but this has changed. Overheads are now more significant and need to be carefully monitored. Management accounting facilitates this monitoring and control of costs.

SOLUTION FIVE

- a) The key factors to consider when formulating a working capital funding policy:

Working capital financing policy basically deals with the sources and amount of working capital that a company should maintain. A firm is not only concerned about the amount of current assets but also about the proportions of short-term and long-term sources for financing the current assets.

- Management attitudes to risk
At what level does management regard risk? How risks averse are they as management?
- Previous funding decisions.
The funding decision will provide trend analysis and experience
- Organization size
This will provide the basis as to the level of activities.

- b) A factor organization is specialized in trading debts, and manages the debts owed to a client on the customer's behalf.

The services expected from such an organization

- Collect cash from customers promptly
- Act as a go in between the company and the customers
- Provide advice to the company on the credit ratings of some customers

- c) An Economic order quantity is the number of units that a company should add to inventory with each order to minimize the total costs of inventory – such as holding costs, order costs, and shortage costs. Since the model assumes instantaneous replenishment, there are no inventory shortages or associated costs.

The significance of EOQ in inventory management

- A cash flow tool
- Determine cost of ordering
- Basis for cost of storage

d) The treasury management is the corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows and the complex strategies, policies and procedures of corporate finance.

Benefits of operating a centralized treasury department

- Centralized liquidity management
- Large volume of cash available for investment
- Bulk borrowing is possible.
- Can easily match foreign currency income earned by one subsidiary with expenditure.
- Can employ experts with knowledge of dealing in forward contracts, futures, options, etc.

END OF SOLUTIONS



CHARTERED ACCOUNTANT ZAMBIA

APPLICATION LEVEL

DA 10: TAXATION

THURSDAY 18 MARCH 2021

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes planning 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.
10. A Taxation table is provided from page 2 to page 6 of the question paper.

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%
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%
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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	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
Motor cars and other motor vehicles principally designed for the transport of	Aged below 5 years		Aged 5 years and over	
	Customs	Excise	Customs	Excise

persons including station wagons and racing cars	duty	duty	duty	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	
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	30,697	13,302	24,119	10,452

ignition internal combustion piston engine

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	37,086	28,432	13,907	10,662

ignition internal combustion piston engine

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:

- 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%
- 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%
--	-----
- 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

Namununga Plc. is a Zambian resident company engaged in farming operations. The following extract of the statement of profit or loss has been obtained from the company's accounts for the year ended 31 December 2020.

	Note	K	K
Gross Profit			39,532,620
Add: Other income			
Investment income:			
- Royalties (net)	(1)	76,500	
- Dividends received (net)	(1)	68,000	
- Loan note interest received (net)	(1)	202,300	
Profit on disposal of delivery van		<u>25,000</u>	
			<u>371,800</u>
			39,904,420
Less: Expenses			
Loss on disposal of farm implements		16,500	
Premium paid	(2)	1,850,000	
Entertainment expenses	(3)	227,500	
Bad debt expense	(4)	130,000	
Donations	(5)	2,550,000	
General operating expenses	(6)	<u>36,458,420</u>	
			<u>(41,232,420)</u>
loss for the year			<u>(1,328,000)</u>

The following information is available:

Note 1: Investment income

The investment income is all net of withholding tax which was deducted at source in each case.

Note 2: Premium paid

The company obtained the right for the use of a popular brand name on 1 January 2020. The company paid a premium of K1,850,000 as consideration for the grant of the right. The right will be exploited by the company over a 40-year period.

Note 3: Entertainment expenses

These included, entertainment expenses for the company's board of directors of K27,000, gifts of Namununga Plc's branded T-shirts to customers (costing K200 each) totalling K152,000, entertainment expenses for business associates of K18,500 and gifts of farm produce to employees (valued at K300 per employee) totalling K30,000.

Note 4: Bad Debt expense

	K		K
Trade debts written off	145,000	Balance b/f	
Loans to employees written off	45,000	- Specific allowance	40,000
		- General allowance	85,000
		Trade debts written off now recovered	42,000
Balance c/d		Supplier's loans written off subsequently recovered	16,000
- Specific allowance	56,000	Profit or Loss	<u>130,000</u>
- General allowance	<u>67,000</u>		<u>313,000</u>
	<u>313,000</u>		

Note 5: Donations

These included a donation of K1,803,495 to an amateur sporting athletic club, and a donation of K746,505 to an approved public benefit organisation, Namununga Plc received free advertising space in the organisation's monthly magazine for a year.

Note 6: General operating expenses

These comprised depreciation of K365,000, staff salaries of K21,108,000, skills development levy of K105,540, employer's NAPSA contributions of K1,055,400, employer's National Health Insurance Scheme Contributions of K211,080, theft of money by the company's Finance Director of K1,980,000, theft of farm produce by farm workers of K96,000, business insurance of K45,000, accountancy expenses of K155,000, provisional income tax paid during the year of K190,955 and general allowable business expenses of K11,146,445.

Note 7: Directors' accommodation

The company provided free residential accommodation to the Managing Director during the year. The gross taxable emoluments of the director are K1,440,000 and the market value of the house provided was K5,500,000.

Note 8: Implements, plant and machinery

At 1 January 2020, implements, plant and machinery qualifying for capital allowances included a delivery van with an income tax value of K40,000 (acquired at a cost K80,000), farm implements with an Income Tax value of K60,000 (acquired at a cost of K120,000).

In March 2020, the company sold the delivery van for disposal proceeds of K95,000 giving rise to the profit on disposal shown in the statement of profit or loss shown above. In June 2020, the company sold farm implements for disposal proceeds of K50,000 giving rise to the loss on disposal of farm implements shown in the statement of profit or loss above.

The company incurred the following capital expenditure during the year ended 31 December 2020.

Date	Asset	Original cost K
10 January 2020	Construction of fish ponds	800,000
15 February 2020	Construction of fence around farms	400,000
18 April 2020	Construction of six farm dwellings at K60,000 each	360,000
16 August 2020	Purchase of Isuzu Double Cab Van (3,200cc)	500,000
1 November 2020	Purchase of Tractors	680,000

The company received a government grant of K200,000 towards the actual construction cost of the fish ponds of K800,000 shown above.

The Isuzu double cab van is used on a person to holder basis by the Managing Director who uses the vehicle 30% for private purposes.

Required:

- (a) Compute the maximum amount of capital allowances claimable by Namununga Plc in the tax year 2020. (8 marks)
- (b) Calculate the final taxable profit from farming for Namununga Plc for the tax year 2020. (11 marks)
- (c) Prepare a computation of the amount of company Income Tax payable by Namununga Plc in the tax year 2020. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Chinyama and Kanyama are in partnership sharing profits and losses in the ratio of 3:2 respectively after allowing for annual partnership salaries of K300,000 for Chinyama and K240,000 for Kanyama. The partnership accounts are prepared annually to 31 December.

In January 2020, Chinyama Kanyama estimated the amount of the provisional final taxable profit for the partnership for the tax year 2020 to be K640,000 and based on this figure, the partners paid provisional income tax on the appropriate due dates.

The partnership statement of profit or loss for the year ended 31 December 2020 was as follows:

	Note	K	K
Gross profit			2,155,000
Less expenses:			
Salaries	(1)	1,048,000	
Traffic fines	(2)	18,000	
Legal and professional fees	(3)	68,600	
Repairs and renewals	(4)	37,600	
Motor car running expenses	(5)	<u>26,000</u>	
			<u>(1,198,200)</u>
Net profit			<u>956,800</u>

Notes

Note 1: Salaries

These comprises employee’s salaries of K460,000, employee’s professional subscriptions K36,000, employees golf club subscriptions of K12,000, Chinyama’s salary of K300,000 and Kanyama’s salary of K240,000.

Note 2: Traffic fines

One third of the traffic fines were incurred by the partners whilst travelling for business purposes and the balance relate to the traffic offenses committed by partnership employees on business trips.

Note 3: Legal and Professional fees

The figure for professional fees consists of K16,800 for normal accountancy work, fees for recovery of staff loans amounting to K14,800, fees for the recovery of amounts owed by customers of K22,000 and fees in connection with the acquisition of a second-hand shop building of K15,000 to be used wholly and exclusively for business purposes.

Note 4: Repair and renewals

Repairs to the partner's private houses of K12,000, repairs of business assets of K5,600 and repairs of K20,000 for the second-hand shop building acquired during the year referred to note (3) above. The building was in a poor state on acquisition and the repairs were necessary to make the building useable.

Note 5: Motor car running expenses

These include motor car running expense of K16,000 incurred on motor vehicles used by employees wholly and exclusively for business purpose, the balance relates to motor vehicles used by partners for both business and private purposes.

The partners use their own personal private motor cars in the partnership's business which were purchased by each individual two years ago at a cost of K200,000 each. Business mileage as a percentage of total mileage done by each partner together with the motor car running expenses relating to their vehicles are as given below:

<i>Partner</i>	<i>Motor car running expenses</i>	<i>Business mileage</i>
	K	%
Chinyama	6,000	70
Kanyama	<u>4,000</u>	<u>40</u>
Total	<u>10,000</u>	<u>60</u>

Note 6: Goods for own use

Chinyama and Kanyama withdrew some goods from the business costing K15,000 for each individual, which they gave to their friends and relatives as Christmas gifts. The partnership makes a margin of 25% on all sales of these types of goods. The cost of the drawn goods was reimbursed by both Chinyama and Kanyama.

Note 6: Other information

The partnership's capital allowances for the tax year 2020 on partnership assets have been calculated as K678,800.

Required:

- (a) Calculate the provisional income tax paid by the partners for the tax year 2020. (7 marks)
- (b) Compute the final taxable partnership profit for the tax year 2020. (7 marks)
- (c) Calculate the final income tax payable by the partners for the tax year 2020. (11 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

Dr. Mariah Sitwala Matibini has been employed as a Medical Doctor at PureCare Medical Hospital, on a three (3) year renewable contract which commenced on 1 January 2018. Dr Matibini is married and has three (3) school going children. Her monthly basic salary has been K30,000 from the commencement of the contract and she is entitled to a monthly housing allowance of 30% of her monthly basic salary. She is also entitled to a gratuity calculated at the rate of 25% of her cumulative basic salary which is payable upon the expiry of the contract. On 1 March 2020 she was awarded a salary increment of 20% of her monthly basic salary effective from that date.

During the tax year 2020, the hospital paid ancillary expenses relating to her private residence amounting to K2,000 per month and her house maid's wages which amounted to K1,600 per month. She was additionally paid a fuel allowance of K300 per week and a protective clothing allowance of K800 per month. The company further paid educational school fees for her three school going children which amounted to K3,500 per child, per school term. She works for fifty-two weeks per year.

Dr Matibini bought protective work clothing worth K12,000 during the tax year 2020. She incurred transport expenses from home to work totalling K18,000, half of which were incurred whilst she was on call and the remainder when she was not. She additionally made the following payments in the tax year 2020:

	K
Annual Subscriptions to the Medical Association of Zambia	5,000
NAPSA contributions	13,795
National Health Insurance Scheme Contributions	3,850
Subscriptions to local fitness gym	6,000
Tax already paid under pay as you earn system	285,748

On the expiry of her contract on 31 December 2020, Dr Matibini received accrued leave pay of K8,600, a payment to agree to a restrictive undertaking of K180,000. She was also paid her gratuity in full and her contract with PureCare Hospital was renewed for a further three years commencing on 1 January 2021.

Other income

Dr Matibini received the following investment income in the tax year:

	K
Dividends from LTX plc (a company listed on the LuSE)	17,000
Dividends from RPS Ltd (private Limited non-mining company)	34,000
Fixed Deposit interest From FFN Bank Ltd	7,500
Income from letting of property	43,200
Copy right royalties	51,000

The above amounts represent the actual amounts received by Dr Matibini. Withholding tax was deducted at source in each case and paid on the relevant due dates.

Required:

- (a) Calculate the total amount withholding tax paid by Dr Matibini for the tax year 2020. You should clearly show the amount of withholding tax paid on each type of investment income. (6 marks)
- (b) Explain the basis of assessment for employment income. (3 marks)
- (c) Prepare a computation of the income tax payable by Dr Matibini for the tax year 2020. (16 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Mirriam Chapewa, imported a second-hand Toyota Vitz Hatchback car with a cylinder capacity of 1,290cc, in March 2020. The car was manufactured in Japan in March 2010. The cost of the car was \$2,500 (free on board). She incurred insurance costs of \$200, transportation costs of \$300 in transit up to the port of Dar es salaam where clearing and forwarding costs of \$100 were incurred. She incurred further incidental costs of transporting the vehicle from Nakonde border post to Kabwe amounting to \$1,500. In Kabwe vehicle registration fees were K2,000, whilst motor car insurance costs were K3,000.

The exchange rate provided by the Commissioner General at the time of importation of the vehicle was K20.00 per US\$; however the exchange rates quoted in a local Bureau De Change was K19.80 per US\$

Required:

- (i) State the requirements Mirriam needed to meet for a complete customs and excise clearance of her vehicle under the Customs and Excise Act. (4 marks)
 - (ii) Calculate the customs value of the car and the total import taxes paid by Mirriam on the importation of the car. (7 marks)
- (b) Siavonga plc is a VAT registered company making zero rated, standard rated and exempt supplies. During the month of September 2020, the company made zero rated sales of K450,000 which represented 30% of the total sales made in the month, standard rated sales represented 50% of the total sales made in the month and the remainder of the sales were exempt supplies.

The following expenditure was incurred during the month of September 2020:

- (1) Total purchases were K928,000 comprising standard rated purchases of K464,000 (VAT inclusive) zero rated purchases of K278,400 and exempt purchases of K185,600.
- (2) Purchase of personal to holder motor car for the Managing Director at a cost of K348,000 (VAT inclusive)
- (3) Purchase of a pool car for K139,200 (VAT inclusive)
- (4) Purchase of standards rated office equipment at a cost of K92,800 (VAT inclusive)

(5) The company wrote off the following bad debts in relation to standard rated sales invoices on 30 September 2020:

- An invoice of K18,000 in respect of which payment was due 31 January 2019
- An invoice of K12,500 in respect of which payment was due on 30 September 2020.

(6) General overheads of K136,300 (VAT inclusive) comprising the following:

K	
Diesel for pool motor car	18,560
Petrol for Managing Director's pool car	34,800
Entertainment expenses for employees	9,280
Utility bills for the managing director's accommodation	4,060
Miscellaneous business overheads	<u>69,600</u>
	<u>136,300</u>

(7) The input VAT on the general overheads cannot be attributed directly to neither taxable nor exempt supplies.

(8) Unless stated otherwise all of the above figures are exclusive of VAT.

Required:

Compute the value added tax payable by Cactus Ltd for the month of February 2020. **You should clearly indicate in your computation, by the use of a zero (0), any items on which VAT is not chargeable or not recoverable.** (14 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) Explain how the following ethical principles apply to tax practitioners.

- (i) Objectivity (2 marks)
- (ii) Integrity (2 marks)
- (iii) Professional competence and due care (2 marks)

(b) The following information relates to the activities of the following two tax payers for the tax year 2020:

James Kalengwa

Kalengwa, a Zambian resident individual commenced a retail business on 1 January 2020. The business generated a profit as per accounts of K135,000 from a turnover of K588,000 which was generated evenly throughout the tax year 2020. The net profit figure was arrived at after deducting, cost of sales K178,000 and operating expenses which included Kalengwa's annual salary of K144,000, employees' salaries of K50,000, rent for business premises of K18,000, advertising expenses of K4,500, entertainment expenses for customers of K5,500, donations to an approved public benefit organisation of K2,000, and miscellaneous expenses incurred wholly and exclusively for business purposes of K51,000. (4 marks)

Amon Zulu

Amon Zulu, a Zambian resident individual purchased two vehicles which he used in his public passenger transportation business generating a net profit as per accounts for the year ended 31 December 2020 of K126,000, from a total annual turnover of K388,000 from the business. The profit as per accounts figure of K126,000 was arrived at after deducting operating expenses which included the drivers' salaries amounting to K24,000, motor vehicle running expenses of K96,400, fines for various traffic offences committed by the drivers of K14,600, depreciation charges on the motor vehicles of K50,000, Amon's personal expenses of K37,800 and other miscellaneous expenses incurred wholly and exclusively for business purposes of K39,200.

The two vehicles included a four-passenger seater Toyota Corolla car, with a cylinder capacity of 1500cc which he acquired on 16 January 2020 at a cost of K80,000 and a eighteen-passenger seater Toyota Hiace bus with a cylinder capacity of 2,200cc which he acquired on 6 May 2020 at a cost of K180,000. The Toyota Corolla was operational every day from 20 January 2020, except for a total of 22 days in the year when it was not operational due to break downs, whilst the Toyota Hiace bus was operational every day from 12 May 2020 except for a total of 18 days during the year when it was not operational due to break downs. (6 marks)

Required:

Explain giving reasons how each of the above tax payers will be assessed to tax and compute the total amount of tax paid by each individual in the tax year 2020.

- (c) Mwiya Mubiana had the following the transaction during the tax year 2020:
- (1) In February 2020, he sold a commercial plot for gross proceeds of K250,000. He paid an estate agent K15,000 for arranging the sale and incurred an additional K8,000 in connection with legal fees of transferring title to the plot. He acquired the plot in June 2009 at a cost K80,000. The open market value of the commercial plot as determined by the Commissioner General was K280,000 on the date of the transfer.
 - (2) Mwiya sold 90 000, K1 shares he held in Delite Ltd, a private limited company at K5 per share. He acquired the shares in May 2010 at a total cost of K135,000. The market value of the shares determined using approved valuation methods was K8 per share.
 - (3) In February, he gifted his residential house in Lusaka to his daughter Lindiwe as a wedding present. The open market value of the plot on that date was K450,000. He acquired the house five (5) years ago at cost of K120,000. Lindiwe paid Mwiya K15,000 to help cover the costs relating to the transfer of title to the land to her from her father.
 - (4) In September, he gifted his residential plot in Choma to his nephew Hambotwe who had just successfully completed his academic degree at a famous university. The open market value of the plot as assessed by the Commissioner General on that date was K80,000. He acquired the house six (6) years ago at a cost of

K20,000. Hambowe paid Mwiya K10,000 to cover the costs relating to the transfer of title to the property from Mwiya.

- (5) In November Mwiya sold his Range Rover for K540,000 to an unconnected third party being the open market value of the vehicle. The amount of K540,000 is after deducting the agent's fee of K5,000. John acquired the Range Rover three (3) years at a cost of K650,000.

Required:

Calculate, giving reasons, the amount of any property transfer tax arising on each of the above transactions. (9 marks)

[Total: 25 Marks]

END OF PAPER

DA 10 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2020

	K	K
<u>Delivery Van</u>		
Income Tax Value b/f	40,000	
Disposal Proceeds (restricted to original cost)	<u>(80,000)</u>	
Balancing charge	<u>(40,000)</u>	(40,000)
<u>Farm implements</u>		
Income Tax Value b/f	60,000	
Proceeds	<u>(50,000)</u>	
Balancing allowance		10,000
<u>Fish Ponds</u>		
Farm work allowance		
Cost (K800,000 – K200,000) = K600,000 x100%		600,000
<u>Fencing</u>		
Farm improvement allowance		
(K400,000 x 100%)		400,000
<u>Farm Dwellings</u>		
Farm improvement allowance		
(Restricted to K20,000 x 100% x 6)		120,000
<u>Isuzu Double cab van</u>		
Wear & tear allowance		
(K500,000 x 20%)		100,000
<u>Tractors</u>		
Wear & tear allowance		
(K680,000 x 100%)		<u>680,000</u>
		<u>1,870,000</u>

(b) COMPUTATION OF TAXABLE BUSINESS PROFIT

	K	K
Profit before tax		(1,328,000)
Add		
Loss on sale of farm implements	16,500	
Premium paid [K1,850,000 – (K1,850,000/40yrs)]	1,803,750	
Gifts to customers	152,000	
Entertaining business associates	18,500	
Loans to employees written off	45,000	
Donation to approved public benefit organisation	746,505	
Depreciation	365,000	
Theft of money by Finance Director	1,980,000	
Provisional income tax	190,995	
Accommodation benefit		
- MD's house (K1,440,000 x 30%)	432,000	
Personal to holder motor car benefit:		
- Managing Director's Ford Ranger (3,200cc)	<u>40,000</u>	
		<u>5,790,250</u>
		4,462,250
Less		
Royalties	76,500	
Dividends received	68,000	
Loan note interest received	202,300	
Profit on sale of delivery van	25,000	
Decrease in general allowance for bad debts (K85,000 – K67,000)	18,000	
Loans to suppliers recovered	16,000	
Capital allowances	<u>1,870,000</u>	
		<u>(2,275,800)</u>
Final taxable farming profits		<u>2,186,450</u>

(d) NAMUNUNGA PLC
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2020

	K
<u>Non farming income</u>	
Royalties (K76,500 x 100/85)	90,000
Loan note interest received (K202,300 x100/85)	<u>238,000</u>
Total non-farming income	328,000
Farming profits	<u>2,186,450</u>
Total taxable profits	<u>2,514,450</u>
Company income tax on non- farming profits (K328,000 x 35%)	114,800
Company income tax on farming profits (K2,186,450 x 10%)	<u>218,645</u>
	333,445

Less Tax already paid:	
Provisional income tax	(190,955)
WHT on royalties (90,000 x 15%)	(6,750)
WHT on loan interest (K238,000 x15%)	<u>(35,700)</u>
Final Company income tax payable	<u>1,707,250</u>

SOLUTION TWO

(a) COMPUTATION OF PROVISIONAL INCOME TAX FOR THE TAX YEAR 2020

	Total K	Chinyama K	Kanyama K
01.01.2020 – 30.06.2020 (6 months)			
Partnership salaries	540,000	300,000	240,000
Balance (3:2)	<u>100,000</u>	<u>60,000</u>	<u>40,000</u>
Total provisional income	<u>640,000</u>	<u>360,000</u>	<u>280,000</u>
<u>Provisional Income Tax</u>			
K39,600 x 0%		0	0
K9,600 x 25%		2,400	2,400
K25,200/K13,800 x 30%		7,560	7,560
K285,600/ K205,600 x 37.5%		<u>107,100</u>	<u>77,100</u>
		<u>117,060</u>	<u>87,060</u>

(b) COMPUTATION OF FINAL TAXABLE PARTNERSHIP PROFIT

	K	K
Profit before tax		601,800
Add		
Partner's salaries (K300,000 + K240,000)	540,000	
Partner's traffic fines (1/3 x K18,000)	6,000	
Fees for Recovery of staff loans	14,800	
Fees for acquisition of second-hand building	15,000	
Repairs of partner's private houses	12,000	
Repairs of new building	20,000	
Goods for personal use (K15,000 x 25/75) x 2	365,000	
Motor car running expenses on:		
- Chinyama's car (K6,000 x 30%)	1,800	
- Kanyama's car (K4,000 x 60%)	<u>2,400</u>	
		<u>977,000</u>
		1,578,800
Capital allowances		<u>(678,800)</u>
Tax adjusted profits		<u>900,000</u>

(c) ALLOCATION OF PARTNERSHIP PROFITS AND COMPUTATION OF FINAL TAX PAYABLE BY EACH PARTNER

	Total K	Chinyama K	Kanyama K
Partnership salaries	540,000	300,000	240,000
Balance (3:2)	<u>360,000</u>	<u>216,000</u>	<u>144,000</u>
	900,000	516,000	384,000
Less capital allowances on			
- Chinyama's car (K200,000 x 20%) x 70%	(28,000)	(28,000)	
- Kanyama's car (K200,000 x 20%) x 40%	<u>(16,000)</u>		<u>(16,000)</u>
	<u>856,000</u>	<u>488,000</u>	<u>368,000</u>

<u>Income Tax</u>		
K39,600 x 0%	0	0
K9,600 x 25%	2,400	2,400
K25,200 x 30%	7,560	7,560
K413,600/K293,600 x 37.5%	<u>155,100</u>	<u>110,100</u>
	165,060	120,060
Less Provisional income tax	<u>(117,060)</u>	<u>(87,060)</u>
Final income tax payable	<u>48,000</u>	<u>33,000</u>

SOLUTION THREE

(a) COMPUTATION OF WITHHOLDING TAX DEDUCTED AT SOURCE

	K	
Dividends from LTX plc (K17,000 x 0%)	0	
Dividends from RPS Ltd (K34,000 x 15/85)	6,000	
Fixed deposit interest (K7,500 x 0%)	0	
Income from letting of property (K43,200 x 10/90)	4,800	
Copyright Royalties (K51,000 x 15/85)	<u>9,000</u>	
	<u>19,800</u>	

- (b) The basis of assessment for emoluments from employment is the actual receipts basis. This means that emoluments from employment are taxable in the tax year when they are actually received.

As a general rule, emoluments will be deemed to have been received on the earlier of:

- (1) The time when they are actually paid; and
- (2) The time when the employee becomes entitled to them.

In case the case of directors, emoluments are deemed to be received by a director on the earliest of the above two events and the following three additional events:

- (3) The time when the amount payable is decided
- (4) The time when the amount payable is credited in the company's accounting records
- (5) The end of the company's accounting period.

(c) DR MARIAH

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2020

	K	K
<u>Employment Income</u>		
Annual Salary		
(K30,000 x 2) + (K30,000 x 120% x 10)		420,000
Housing allowance (K420,000 x 30%)		126,000
Accommodation expenses (K2,000 x 12)		24,000
House maid's wages (K1,600 x 12)		19,200
Fuel allowance (K300 x 52 weeks)		15,600
Protective clothing allowance (K800 x 12)		9,600
School children educational fees		
(K3,500 x 3 children x 3 terms)		31,500

Accrued leave pay		8,600
Restrictive undertaking		<u>180,000</u>
Gross emoluments		834,500
<i>Less allowable deductions</i>		
Purchase of protective work clothing	12,000	
Transport expenses whilst on call (K18,000 x 50%)	9,000	
Annual Subscriptions to MAZ	<u>5,000</u>	
		<u>(26,000)</u>
Taxable emoluments		808,500
<u>Investment income</u>		
Copyright royalties (K51,000 x 100/85)		<u>60,000</u>
Total assessable income		<u>868,500</u>
<u>Income Tax</u>		
On first K39,600 x 0%		0
On next K9,600 x 25%		2,400
On next K25,200 x 30%		7,560
On excess (K877,500 – K74,400) x 37.5%		<u>297,788</u>
Tax liability		307,748
Less tax already paid		
PAYE		(285,748)
WHT on copyrights (K60,000 x 15%)		<u>(9,000)</u>
Final income tax payable		<u>13,000</u>

SOLUTION FOUR

(a) (i) Complete customs clearance of a motor vehicle is granted only after all the requirements under the customs and Excise Act and other related laws have been fulfilled. The requirements Mirriam needed to meet include the following:

- (1) Presentation of genuine import documents.
- (2) Valuation has been done and agreed.
- (3) Payment of duty, VAT and Asycuda fee.
- (4) Processing of bills of entry by customs.

(1 mark for each point up to a maximum of 4 marks)

(ii) COMPUTATION OF THE VDP

Purchase cost	\$2,500
Insurance	\$200
Transportation	\$300
Clearing and forwarding costs	<u>\$100</u>
	\$3,100
Exchange rate	x K20.00
VDP	<u>62,000</u>

COMPUTATION OF IMPORT TAXES

	K	K
VDP for Customs purposes	62,000	
Specific customs duty	<u>8,564</u>	8,564
	70,564	
Specific excise duty	<u>7,422</u>	7,422
Value for import VAT purposes	77,986	
K77,986 x 16%	<u>12,478</u>	12,478
	<u>362,894</u>	
		<u>2,000</u>
Surtax charge		<u>30,464</u>

(b) COMPUTATION OF VAT PAYABLE

Output VAT

	K	K
Zero rated sales (K600,000 x 0%)		0
Standard rated sales (K600,000 x 50/30) x 16%		160,000
Exempt Sales (VAT not chargeable)		<u>0</u>
		160,000

Input VAT

Standard rated purchases (K464,000 x 4/29%)	64,000	
Zero rated purchases (K278,400 x 0%)	0	
Exempt purchases (VAT not chargeable)	0	
Personal to holder motor car (irrecoverable)	0	
Pool car (irrecoverable)	0	
Office equipment (K92,800 x 4/29)	12,800	
Bad debt relief (K18,000 x 16%)	2,880	
Diesel (K18,560 x 4/29) x 80%	2,048	
Petrol (irrecoverable)	0	
Entertainment expenses for employees (irrecoverable)	0	
Utility bills (irrecoverable)	0	
Miscellaneous business expenses (K69,600 x 4/29) x 80%	<u>7,680</u>	
		<u>(89,408)</u>
		<u><u>70,592</u></u>

SOLUTION FIVE

(a) Fundamental Principle of the Code of Ethics

Integrity

Members shall be straightforward and honest in all professional and business relationships. The principles of honesty and integrity impose an obligation on the practitioner to ensure straightforwardness, fair dealing, a commitment not to mislead or deceive and truthfulness.

This means that a member providing taxation services must not knowingly be associated with reports, returns, communications or other information where the member believes that the information contains a materially false or misleading statement or calculation or statements or information furnished recklessly. (2 marks)

Objectivity

Members shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements. Members shall be impartial and not allow prejudice or bias, conflict of interest or the influence of others to override their objective judgement in relation to tax matters.

In situations where a member is required to act as an advocate for a client when representing or assisting them before tribunals or courts of law, the member shall ensure that the client is aware that the member has an obligation not to mislead the Court or Tribunal and to safeguard their professional objectivity.

Professional competence and due care

Members shall maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and shall act diligently and in accordance with applicable technical and professional standards when providing professional services.

This means that members engaged in providing tax services shall maintain professional competence and take due care in the performance of their work. To achieve this, members shall remain continuously aware of developments in the tax profession and tax legislation to ensure that they have the requisite knowledge related to such developments, including an awareness of relevant national pronouncements and other relevant statutory requirements and regulations.

(b) James Kalengwa

James will be assessed under turnover tax as the annual turnover from his business is below K800,000. He will be required to pay turnover tax at the rate of 4% of his gross monthly turnover.

The amount of the monthly turnover Tax paid during the tax year is:

$$K588,000/12 = K49,000 \times 4\% = K1,960 \text{ per month}$$

Total turnover tax paid in the tax year 2020 is therefore

$$K1,960 \times 12 = K23,520$$

Amon Zulu

Amon will be assessed under presumptive taxes for transporters as he is an individual engaged in public passenger transportation business. As such the amount of tax he will pay will be fixed amounts based on the seating capacities of the vehicles and not on the amount of profit he generates from the business.

The amount of presumptive taxes paid in the tax year 2020 are computed below:

Toyota Corolla

Number of days vehicle was operational

$$365 \text{ days} - 19 \text{ days} - 22 \text{ days} = 324 \text{ days}$$

Presumptive tax:

$$324 \text{ days} \times K2.40 = K777.60$$

Toyota Hiace

Number of days vehicle was operational

$$365 - 31 \text{ (Jan)} - 28 \text{ (Feb)} - 31 \text{ (March)} - 30 \text{ (April)} - 11 \text{ (May)} - 18 = 216 \text{ days}$$

Presumptive tax:

$$216 \text{ days} \times K9.90 = K2,138.40$$

(c) Property Transfer Tax Implications

- (1) The realised value of the land is the higher of its open market value of K280,000 and the agreed contract price which are the gross proceeds of K250,000, before deducting estate agent fees of K15,000 for arranging the additional legal fees of K5,000 of transferring title to the plot.

The realised value of the commercial plot will therefore be K280,000 as this is higher than the agreed contract price.

Property transfer tax arising was: $K280,000 \times 5\% = K14,000$

- (2) Sale of shares

Property transfer tax will arise on the sale of shares in Delite Ltd because the company is not listed on the Lusaka Stock Exchange. The realised value of the shares will be the higher of the nominal value of the shares and their open market valuation.

Therefore, the realised value will be the highest of:

- The nominal value of the shares is:

$$K1 \times 90,000 \text{ shares} = K90,000$$

- Actual sales proceeds were

$$K5 \times 90,000 \text{ shares} = K450,000$$

- The open market value was

$$K8 \times K90,000 = K720,000$$

The realised value of the shares is therefore K720,000.

PTT arising is: $K720,000 \times 5\% = K36,000$

(3) Gift of Residential house

This is a transfer to an immediate family member because his daughter is a member of Mwiya's immediate family.

The realised value is the actual consideration received by Mwiya and this is K15,000. The open market value of K4500,000 is irrelevant.

The amount of PTT arising is therefore:

$$5\% \times K15,000 = K750$$

(4) Gift of Residential plot

Property transfer tax will arise on transfer of the residential plot to Hambotwe as he is not Mwiya's immediate family member.

The realised value of the house will be taken as the higher of the actual consideration received by Mwiya of K10,000 and The open market value of the property which is K80,000

The realised value of the property is therefore K80,000 being the higher amount.

The amount property transfer tax arising is therefore:

$$K80,000 \times 5\% = K4,000$$

(5) Sale of Range Rover

The sale of a Range Rover is not a transfer of property for the purposes of Property Transfer Tax purposes. There is therefore no realized value since there is no transfer of property and Mwiya is not required to pay Property Transfer Tax.

END OF SOLUTIONS



CHARTERED ACCOUNTANT ZAMBIA

DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 18 MARCH 2021

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 (2) COMPULSORY QUESTIONS

Attempt **BOTH** questions in this section.

QUESTION ONE

Mamba Co. Ltd manufactures coal and its year end is 31 December 2019. You are the audit manager of Kanga Co (Kanga) and are currently planning the audit of Mamba. You attended the planning meeting with the engagement partner and finance director last week and you are preparing the audit strategy and audit plan. Revenue of K160 million was reported by Mamba for the year ended 31 December 2019. The engagement partner has requested you to consider performance materiality carefully during audit planning.

Mamba has invested significantly in the coal production process and has spent K10 million maintaining and repairing plant and equipment. This amount has been capitalised. Mamba has 25 coal sites in different locations across the country and inventory count will take place at all 25 sites at the year end. A new accounting system was introduced during the year and employees did not receive training in the use of this system on the basis that it would be costly for Mamba. A loan of K20 million at an interest of 8% was obtained from the bank to finance the acquisition of a new accounting system and the loan is repayable over five (5) years.

In order to diversify, Mamba Co. Ltd spent K8 million on exploring for new minerals in one of its sites and management is certain that it is highly probable the minerals exist and for this reason the amount was capitalised. Mamba has been sued by the Environmental Regulatory Authority for polluting the nearby river. No provision has been made because its lawyers believe it is remote that Mamba will lose the case. The authority is claiming damages of K15 million.

Due to an economic downturn, management increased the receivables collection period from 30 days to 60 days to enable customers settle their debts in full. To avoid irrecoverable debts, customers who wish to purchase coal are required to pay in full when placing an order. Mamba Co. Ltd acquired a new property to enable it expand its activities. This property has not been depreciated because it is classified as investment property. The finance director of Mamba requested Kanga that in the next financial year your firm should will be engaged to carry out a review rather than an audit of the financial statements.

Required:

- (a) Explain the three components of Audit Risk (6 marks)
- (b) Using the information provided, identify and describe six (6) audit risks and explain the auditor's response to each risk in planning the audit of Mamba Co. Ltd. (12 marks)
- (c) Describe four (4) audit procedures you would perform during inventory counts in the audit of Mamba Co. Ltd. (4 marks)
- (d) Explain the difference between an external audit and a review engagement. (3 marks)

[Total 25 marks]

QUESTION TWO

Munda Co. Ltd. buys and sells sportswear. It has a wide range of suppliers and customers across the country. The company's year-end is 31 December 2019. You are the audit manager of Zenga Chartered Accountants, reviewing the systems documentation and internal controls of Munda in preparation for the audit. Zenga Chartered Accountants wants to document its systems using either flowcharts or narrative notes.

Clothing from suppliers is received by stores officers at the centralized warehouse for control purposes, who check the quality of goods received with purchase order specifications and complete a sequentially numbered goods received note. The goods received notes copies are sent to the accounts department by the warehouse supervisor the day inventory is received. To simplify inventory management Munda values its inventory using standard costs for management and financial reporting purposes. The standard costs were reviewed two years ago by an independent inventory expert.

Munda has stringent credit control systems and three senior sales ledger clerks carry out credit checks on new customers and give them credit limits. Each clerk is allowed to give the sales orders the numbers he can remember for easy tracking of their sales orders. Munda's accounting system is automated and all customers pay using electronic payment systems such as mobile payment transfers and as a result Munda has a payables accountant who captures electronic transfer receipts from the bank statements, updates the cash books and performs daily cash reconciliations and monthly bank reconciliations.

Munda employs many sales representatives who are paid on a commission basis per week. The payments accountant pays them every Friday of the week and then submits the payment schedule to the finance director for verification the following week. The finance director verifies the total amount paid by comparing it with the total on the payment schedule prepared by the sales representatives' supervisor. When the sales representatives' supervisor works overtime during the week, he completes the overtime claim form and submits it to the payments accountant who pays him when paying sales representatives.

As a result of the automated accounting system the audit engagement partner has recommended that Computer Assisted Audit Techniques (CAATs) should be used during the current year's audit.

Required:

- (a) Explain two (2) advantages and two (2) disadvantages of documenting the system using flowcharts and narrative notes (4 marks)
- (b)
 - (i) Identify and explain Five (5) deficiencies in internal controls of Munda Co. Ltd. (5 marks)
 - (ii) Suggest five (5) suitable controls to address the deficiencies identified in (i) above. (5 marks)
 - (iii) Explain suitable tests of control for each of the controls suggested in (ii) above. (5 marks)
- (c) Explain three (3) advantages and three (3) disadvantages to Zenga Chartered Accountants of using Computer Assisted Audit Techniques (CAATs). (6 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

You are the audit manager of Shanga & Co Chartered Accountants and you are planning the audit of Lima Bank Plc. which provides financial services to individuals and companies. Shanga & Co Chartered Accountants has audited Lima Bank Plc. for five (5) years and you have been given the information below to help you plan the audit of Lima.

The Finance Director of Lima Bank Plc. will be sent for training for six (6) months so Lima has requested Shanga & Co Chartered Accountants to prepare its financial statements for the current year. The bank has offered the audit team interest free loans. These loans normally attract 5% interest rate per annum but it was waived to appreciate the audit team for a good audit the last year. The finance director has proposed that the current year's audit fee should be 15% of profit before tax because of significant decline in profit in the current year.

Due to effective internal controls and computerised accounting system, the finance director informed the engagement partner that an unmodified opinion is expected. Further, Lima Bank Plc. has been sued by the tax authority and has requested your firm to represent it in court as tax experts. You know that the finance director's wife is the young sister of the audit engagement partner. Lima Bank Plc. has also requested your firm to recruit the non-executive director for its audit committee because of your firm's audit expertise and experience. The engagement partner has informed you that confidentiality is very important when auditing clients like banks.

During the course of the audit, you were communicating with those charged with governance in accordance with the provisions of ISA 260 *Communication with those charged with governance*. Among the communication to those charged with governance was the importance of the independence of auditors.

Currently, Lima Bank Plc. does not have an internal audit department and the company intends to outsource internal audit services.

Required:

- (a) Explain five (5) ethical threats which may affect the independence of Shanga & Co Chartered Accountant's audit of Lima Bank Plc. and for each threat explain how it might be reduced to an acceptable level. (10 marks)
- (b) Explain the meaning of the term confidentiality and explain the ethical guidance on mandatory and voluntary disclosures. (5 marks)
- (c) State two (2) reasons why it is important that auditors communicate throughout the audit with those charged with governance; and give three (3) examples of matters that the auditors may communicate to those charged with governance. (5 marks)
- (d) Explain five (5) disadvantages to Lima bank of outsourcing the internal audit function. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

You have been appointed as auditor of Kwanga & Co. As auditor you are expected to use both permanent and current audit files when performing the audit. The information that is contained in the permanent and current audit files is not the same. At one of the planning meetings an audit assistant wanted clarification on the differences between current and permanent audit files. As the client is new, audit senior has emphasised the need to observe professional skepticism and professional judgement. One of the responsibilities of an auditor is to obtain audit evidence in order to form an audit opinion on financial statements. This evidence is expected to come from different sources from within and outside the client accounting system. In addition, auditors are expected to review the going concern assumption. Going concern assumption is important for the determination of the basis for the preparation of financial statements. The review that the auditors undertake of going concern will have a direct effect on the audit report.

Required:

- (a) Explain the term going concern assumption and responsibilities of auditors and management regarding going concern. (6 marks)
- (b) Explain the difference between permanent audit file and current audit file and state the importance of documenting audit work using working papers. (6 marks)
- (c) Explain five (5) types of procedures for obtaining audit evidence. (5 marks)
- (d) Explain the term professional skepticism and the responsibilities of management and auditors regarding prevention and detection of fraud (6 marks)
- (e) State Four (4) contents of an engagement letter (2 marks)

[Total: 25 marks]

QUESTION FIVE

- (a) You are audit manager of Banja & Co and you are reviewing the following briefing notes on the audit report prepared by the audit senior:
 - (i) It is the responsibility of management to prepare financial statements in accordance with the applicable financial reporting framework. Our responsibility is to detect and prevent fraud and error in the financial statements.
 - (ii) We conduct our audit in accordance with key International Standards of Auditing and express unmodified opinion on the financial statement based on our audit.
 - (iii) An audit provides limited assurance as it is based on a sample.
 - (iv) Test of control are performed on an entity's internal control on which a disclaimer of opinion is expressed on their effectiveness.
 - (v) Disagreement with management on the appropriateness of accounting treatment on an issue that is material a. an adverse opinion is expressed by

the auditor. According to the new independent auditor report format, key audit matters (KAMs) paragraph is not mandatory.

Required:

Comment on the appropriateness of the briefing notes above. (12 marks)

- (b) Wenga Co is audited by Banja & Co. Wenga Co.'s financial year ends 31 December 2019. The draft financial statements show the profit before tax of K25 million, total assets of K50 million and inventory of K2 million. Testing of inventory on 15 January 2020 highlighted that third party inventory of K1.5 million was included in the K2.0million. The audit report is due to be signed on 31 January 2020.

Required:

(i) Discuss the issue regarding the third party inventory and assess whether it is material or not. (3 marks)

(ii) Explain the impact on the audit report if the issue remains unresolved. (3 marks)

- (c) The audit engagement partner has requested that the bank reconciliation is comprehensively audited because of suspected unusual transactions.

Required:

(i) Explain three (3) financial statement assertions relevant to the audit of bank balances at the year end. (3 marks)

(ii) Explain four (4) substantive procedures relevant to the audit of bank reconciliations. (4 marks)

[Total: 25marks]

END OF PAPER

DA 11 SUGGESTED SOLUTIONS

SOLUTION ONE

Three Components of Audit Risk

Inherent Risk is the risk of a material misstatement in the financial statements arising due to error or omission as a result of factors other than the failure of controls (factors that may cause a misstatement due to absence or lapse of controls are considered separately in the assessment of control risk). Inherent risk is generally considered to be higher where a high degree of judgment and estimation is involved or where transactions of the entity are highly complex.

Control Risk is the risk of a material misstatement in the financial statements arising due to absence or failure in the operation of relevant controls of the entity. Organizations must have adequate internal controls in place to prevent and detect instances of fraud and error. Control risk is considered to be high where the audit entity does not have adequate internal controls to prevent and detect instances of fraud and error in the financial statements. Assessment of control risk may be higher for example in case of a small sized entity in which segregation of duties is not well defined and the financial statements are prepared by individuals who do not have the necessary technical knowledge of accounting and finance.

Detection Risk is the risk that the auditors fail to detect a material misstatement in the financial statements.

An auditor must apply audit procedures to detect material misstatements in the financial statements whether due to fraud or error. Misapplication or omission of critical audit procedures may result in a material misstatement remaining undetected by the auditor. Detection risk can be reduced by auditors by increasing the number of sampled transactions for detailed testing.

(a)

Audit risk	Audit response
K10, 000,000 spent on maintaining and repairing plant and equipment has been capitalized. There is a risk assets and profit have been overstated and expenses understated. Maintenance and repairs expenses should be expensed (IAS 16). The amount is material (6%) to revenue.	Enquire from the finance director or management the reasons/basis of capitalizing the maintenance and repairs expenses. Discuss with the finance director that these expenses should be expensed in the statement of profit or loss.
Inventory counts will take place at all 25 sites at the year end and auditors might not be able to attend inventory counts at some sites. There is a risk inventory might be materially misstated at sites where auditors may not attend inventory counts. Inventory should be valued at lower of cost and NRV (IAS 2).	Identify sites with material inventory and auditors should attend inventory counts at these sites to verify that inventory counts are been properly done. If Kanga has adequate/enough auditors, they can attend all the inventory counts.
New accounting system was introduced	Perform analytical procedures on areas

<p>during the year. There is a risk that control risk is high especially that employees were not given any training in the use of the new accounting system. Financial statements might be materially misstated.</p>	<p>which are likely to be materially misstated such as opening balances in the system. Exercise professional skepticism throughout the audit.</p>
<p>The K20, 000,000 bank loan attracts 8% interest or finance cost. There is a risk interest expense might be understated and profit overstated. The amount is material (1%) to revenue.</p>	<p>Recalculate the loan interest using the interest rate in the loan agreement to verify accuracy. Verify that the loan interest of K1, 600,000 is recognized in the financial statements.</p>
<p>The K20, 000, 000 is repayable over 5 years. There is a risk the loan might not be correctly classified into current liability and non-current liability. Further it might not be adequately disclosed. The loan is a financial liability (IFRS 9) The amount is material (13%) to revenue.</p>	<p>Review the loan classification to verify whether it has been correctly classified and review the disclosures to verify their adequacy.</p>
<p>The K8, 000, 000 research expenditure has been capitalized. There is a risk assets and profit have been overstated and expenses understated. Research expenditure should be expensed in the statement of profit or loss (IAS 38). The amount is material (5%) to revenue.</p>	<p>Enquire from the finance director or management the reasons/basis of capitalizing the research expenditure. Discuss with the finance director that this expenditure should be expensed in the statement of profit or loss.</p>
<p>Mamba has been sued by the Environmental Regulatory Authority for polluting the nearby river. There is a risk liabilities and expenses are understated and profit overstated because a provision of K15, 000, 000 has not been recognized. A provision should be recognized since Mamba will not win the case and the amount can be reliably measured (IAS 37). The amount is material (9%) to revenue.</p>	<p>Obtain and inspect legal correspondence and enquire from Mamba's legal advisors the probability of the Mamba winning the court case. Discuss with director finance the basis for not recognizing the provision since it is remote that Mamba will win the court case.</p>
<p>Management has increased the receivables collection period from 60 days to 180 days. There is a risk receivables and profit are overstated and expenses understated, if irrecoverable debts are not written off.</p>	<p>Obtain and examine the basis/assumptions used by management to extend the receivables collection period from 60 days to 180 days to assess their reasonableness. Compare the collection period with industry norm.</p>
<p>Customers who wish to purchase coal are required to pay in full when placing an order. There is a risk revenue might be overstated if it is recognized too early. Revenue should be recognized when performance obligation is stratified (IFRS 15).</p>	<p>Enquire from finance director or management the point at which they recognize revenue paid in advance. For a sample of orders place at the year-end verify that cash received in advance is treated as deferred income in the financial statements.</p>
<p>The property has not been depreciated. There is a risk property and expenses</p>	<p>Discuss with finance director or management that this property should be</p>

are understated and profit overstated. The property acquired for the production of coal is not investment property (IAS 40). IAS 16 P.P.E will apply in this case.	depreciated in line with IAS 16 Property, Plant and Equipment because it does not meet the definition of investment property.
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- (b)
- (i) Observe the counting teams of Mamba to confirm whether the inventory count instructions are being followed correctly.
 - (ii) Select a sample and perform test counts to verify completeness' and accuracy.
 - (iii) Confirm the procedures for identifying and segregating damaged inventory or slow moving inventory are operating correctly.
 - (iv) Observe the procedures for movements of inventory during the count, to confirm that no inventory has been omitted or counted twice.
 - (v) Identify and record the last goods received notes (GRNs) and goods dispatched notes (GDNs) for 31 December in order to perform cut-off procedures.
 - (vi) Identify and record any inventory held for third parties (if any) and confirm that it is excluded from the count.
 - (vii) Obtain a photocopy of the completed sequentially numbered inventory sheets for follow up testing on the final audit.

(c)

External audit

An exercise whose objective is to enable auditors to express an opinion whether the financial statements 'give a true and fair view' or 'present fairly, in all material respects. External audit provides reasonable or positive assurance.

Review engagement

An exercise whose objective is to enable an auditor to give an opinion on whether anything has come to his attention that would mean the financial statements were not properly prepared on the basis of procedures which would not constitute an audit. Review engagement provides limited or negative assurance.

SOLUTION TWO

(a)

Flowcharts

Advantages

- (i) They are quicker to prepare than narrative notes.
- (ii) They are easy to follow and eliminate extensive narrative notes

Disadvantages

- (i) They are difficult to amend and amendment can be time consuming.
- (ii) They are only suitable for standard systems not controls.

Narrative notes

Advantages

- (i) They are easier or simpler to record using flow charts.
- (ii) Written notes are understandable by more junior members.

Disadvantages

- (i) They may be difficult to update, unless computerized.
- (ii) They may be time consuming if the system is very complex.

(b)

(i) Deficiency	(ii) Control	(iii) Test of control
The quantity (number) of goods received is not verified with purchase order specifications. There is a risk less goods or inventory might be received but may be paid for. Paying for goods not received is a waste of resources/money.	A responsible official should be appointed, who should be verifying/checking both the quality and quantity of goods received with the purchase order specifications before accepting goods delivered.	For a sample of GRNs, inspect them to verify that the responsible official signed them as evidence that both the quality and quantity of goods received were verified with the purchase order specifications
The goods received notes (GRNs) are not sent to the purchasing department. There is a risk some unfulfilled orders might not be traced. This could result in inventory shortages and a loss of revenue	The GRN should have 3 parts with one copy of the GRN being sent to the purchasing department. The second copy should be held at the warehouse and the third sent to the accounts department.	Review the file of GRNs copies held by the purchasing department; reviewing GRNs for evidence that these have been matched to purchases orders and flagged as complete.
Inventory is valued using standard costs. There is a risk inventory and profit might be materially misstated because the standard costs are unlikely to be approximately to actual costs since they have not been updated for 2 years.	The revised standard costs should be reviewed at least annually by the finance director so that they are up-to-date and there should be evidence of this review. .	Obtain a copy of the standard costs used to value inventory and examine when the last review was undertaken and inspect for evidence that the review was done by the finance director.

Senior sales ledger clerks carry out credit checks on new customers and give them credit limits. The clerks are junior and there is a risk they might set credit limits too high, leading to bad debts, or too low, leading to a loss of revenue.	Sales ledger clerks should not be setting credit limits. Someone senior in sales department should be setting them e.g. sales director. These limits should be regularly reviewed by a responsible official.	For a sample of new customers accepted in the year, review the authorization of the credit limit, and verify that this was performed by a responsible official. Enquire from sales ledger clerks as to who can set credit limits.
Each clerk is allowed to give the sales orders the numbers they can easily remember for easy tracking of their sales orders. There is a risk missing orders might not be traced because the numbers are not sequential.	All Sales orders should be sequentially numbered. Sequence checks of orders should be performed by a responsible official regularly to identify any missing orders.	Obtain samples and re-perform the control by performing a sequence check of sales orders. Discuss any gaps in the sequence with the responsible official.
Payments accountant captures receipts, updates the cash books and performs reconciliations. There is a risk errors and frauds might go unnoticed due to lack of segregation of duties.	There should be segregation of duties. At least the bank reconciliations should be performed by another person of the accounting team.	Inspect the bank reconciliations done and review for evidence that payments accountant did not perform them. Enquire from the director finance the employee who performs bank reconciliations.
The payments accountant pays wages and then submits the payment schedule to the finance director for verification. There is a risk ghost employees added to the payment list or payroll errors might not be noticed.	The finance director should authorize the payment list before the payments accountant pay sales representatives and the finance director should sign the payments list as evidence that the checks and authorization have been done.	Obtain a sample of payments lists and review or examine for evidence e.g. signature by the finance director as evidence that the checks and authorization have been done.
The finance director verifies the total amount paid by comparing the total with the total on the payment schedule prepared by the sales representative supervisor. There is a risk ghost employees added to the payment list.	The finance director, when authorizing the payments, should on a sample basis compare details on the human resource employees records with payment list and vice versa to avoid ghost employees been paid.	Obtain a sample of payments lists and inspect for evidence e.g. signature by the finance director as evidence that the checks and authorization have been done.
Sales representatives' supervisor works overtime is not authorized. There is a risk the supervisor might be paid more overtime or	All overtime should be authorized by a responsible official e.g. the sales director before the payment is processed by	Obtain and review the overtime report for evidence of authorization and verify that the sales director authorized it

paid overtime when in fact there is no overtime to be paid.	the payroll department. This authorization should be evidenced in writing.	before the payment of the overtime was made.
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(C)

(i) Procedures which need the use of CAATs

- Tests of details of transactions and balances
- Analytical Procedures
- Tests of computer Information System controls

(iii) Disadvantages of using CAATS

- (i) The cost of using CAATs in the first year will be costly because of set up cost.
- (ii) Using CAATs for first time will require training and this might be costly.
- (iii) Updating CAATs in future may be costly.
- (iv) The CAATs may not be compatible with the client's system and using customized CAATs may be costly.
- (v) If testing is done over the live system, data could be corrupted or lost.
- (vi) If testing is performed using copy files rather than live data, files may not be genuine.

SOLUTION THREE

(a)

Threat	Response
Lima has requested Shanga to prepare its financial statements for the current year. This is likely to create a self-review threat and the auditors might not report financial statements errors or misstatements and inappropriate audit opinion may be given.	The auditors should decline the offer politely especially that Lima bank is a listed entity. The auditors can only prepare the financial statements for a client that is a listed entity in case of emergency.
The bank has offered the engagement team interest free loans. This is likely to create a self-interest or intimidation threat. The auditors might not report financial statements errors or misstatements and inappropriate audit opinion may be given.	The auditors should decline the offer politely especially that these loans are not offered to them on commercial rates or terms. These loans normally attract 5% interest rate per annum
The finance director has proposed that the current year's audit fee should be 15% of profit before tax. This is contingent fee and is likely to create a self-interest threat. The auditors might not report financial statements errors or misstatements and inappropriate audit opinion may be given.	The proposal should be declined politely and the audit partner should explain to the finance director how the audit fee is calculated and that a contingent fee is not allowed because the threat cannot be reduced to an acceptable level.
The finance director informed the engagement partner that unmodified opinion is expected. This is likely to create an intimidation threat. The auditors might not report financial statements errors or misstatements and inappropriate audit opinion may be given.	Senior and experienced auditors should be included in the audit team who cannot be intimidated by the finance director's suggestion and the finance director should be informed that unmodified opinion is given when financial statements show a true and fair view.
Lima bank has requested Shanga to represent it in court as tax experts. This is likely to create an advocacy threat. The independence of auditors may be questioned since they may be seen to be acting in the best interest of Lima bank management.	The auditors should decline the offer politely because the threat is likely to be too high and might not be reduced to an acceptable level. The auditors may only accept this offer if they have separate tax experts who are not part of the audit team to audit Lima.
The finance director's wife is the young sister of the audit engagement partner. This is likely to create a familiarity threat. The audit partner might not report financial statements errors or misstatements and inappropriate audit opinion may be given.	The audit engagement partner should be removed from the audit team and another audit partner independent of Lima bank management should be appointed.
Lima has requested your Shanga to recruit the non-executive director for its audit committee. This is likely to create a management threat because auditors may end up performing management responsibilities.	Shanga should be very careful so that they do not make the final selection decision for Lima bank. They should only give Lima bank advice on profiles or skills and experience of suitable applicants of the non-executive director role.

- (b) Information gained from professional work or relationship or dealings should not be disclosed unless authorized by client. The member should not use the information for personal or third party gain.

Obligatory disclosure.

When the member knows or suspects that client is involved in the following activities:

- (i) Money laundering
- (ii) Treason
- (iii) Drug trafficking
- (iv) Terrorist offences

Voluntary disclosure

When there is need to:

- (i) Protect the member's interests or member has professional duty or right to disclose
- (ii) Disclose in the public interest

(c)

Importance of communication between the auditors and those charged with governance.

- (i) It helps the auditor and those charged with governance to understand audit-related matters.
- (ii) It helps to develop a constructive working relationship of auditors and those charged with governance.
- (iii) It helps the auditor to obtain information relevant to the audit.
- (iv) It helps those charged with governance to fulfil their responsibility to oversee the financial reporting process.

Matters that the auditors may communicate with those charged with governance:

- (i) The auditor's responsibilities regarding the financial statements.
- (ii) The planned scope and timing of the audit.
- (iii) Significant difficulties encountered during the audit.
- (iv) Significant deficiencies in internal control.
- (v) Significant qualitative aspects of the entity's accounting practices (e.g. accounting policies, accounting estimates etc).
- (vi) Significant matters discussed or subject to correspondence with management.

(d) Disadvantages of outsourcing internal audit function

- 1) Directors might find it difficult to manage an internal audit department.
- 2) More time may be needed between set up the internal audit department and results.
- 3) It might be costly because the work involved may not justify a full-time team.
- 4) Frequent rotation of contracted auditors reduces institutional knowledge and creates a continual learning curve that may affect the effectiveness of the outsourced function.

- 5) Company staff may oppose outsourcing if it results in redundancies
- 6) There may be a high turnover of internal audit staff
- 7) The company may lose in house skills
- 8) There will be independence and objectivity issues if the company uses the same firm to provide both internal and external

SOLUTION FOUR

a) Going concern assumption

An entity is viewed as continuing in business for the foreseeable future. (A period of no less than 12 months from the date of the financial statements)

Management has a responsibility under **IAS 1 Presentation of Financial Statements** are:

- (1) To undertake an assessment of the company's ability to continue as a going concern.
- (2) To make appropriate disclosures with regards to going concern.
- (3) To prepare the financial statements on a break-up basis, if the going concern basis is not appropriate.

In accordance with **ISA 570 Going Concern** the auditor's responsibilities are:

- (1) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption.
- (2) To consider whether the period of management's going concern assessment is adequate (period of no less than 12 months from the date of the financial statements).
- (3) To conclude whether there is a material uncertainty about the entity's ability to continue as a going concern and consider the reporting implications.

b) Permanent audit file and current audit file:

Permanent audit files are the files that use to save the information that uses by auditors uninterruptedly. That information contains engagement letter, client's Memorandum & Articles, long term contracts or agreement as well as board meeting minute.

Current audit files are the files that save all information associated to current year auditing. Those documents contain the current year financial statements, general ledger, management accounts, and supporting documents.

The importance of documenting audit work using working papers

- It enables the reporting partner to ensure all planned work has been completed adequately
- It provides details of work done for future reference
- It assists in planning and control of future audits
- It encourages a methodical approach

c)

(1) Analytical procedures

Analytical procedures involve comparisons of financial information through analysis of plausible relationships and investigation of significant fluctuations or inconsistent relationships.

(2) Enquiry

Enquire involves asking or seeking information from knowledgeable persons, both within the entity or outside the entity.

(3) Inspection

Inspection involves examining records or documents, whether internal or external, or a physical examination of an asset.

(4) Observation

Observation involves looking at a process or procedure being performed by others.

(5) Recalculation

Recalculation consists of checking the mathematical accuracy of documents or records.

(6) Performance

Performance involves the auditor's independent execution of procedures or controls that were originally performed.

(7) External confirmation

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party.

d) Professional skepticism

It means having an enquiring or a questioning mind and being aware of conditions which may indicate possible misstatement due to error or fraud. It helps to critically assess audit evidence.

Management responsibilities-prevention and detection of fraud

- (1) The primary responsibility for the prevention and detection of fraud is with management of the entity and those charged with governance
- (2) Management should be commitment to creating a culture of honesty and ethical behavior.
- (3) Those charged with governance should provide active oversight.

Auditors responsibilities-prevention and detection of fraud (ISA 240)

- (1) To obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- (2) To identify and assess the risks of material misstatement of the financial statements due to fraud.
- (3) To design and implement appropriate responses to address assessed risks.
- (4) To maintain professional Scepticism throughout the audit.
- (5) To ensure that the whole engagement team is aware of the risks and responsibilities for fraud and error. ISAs require that a discussion or meeting is held within the team.

e) Engagement letter contents

- (1) Objective and scope of the audit.
- (2) Auditor's responsibilities.
- (3) Management's responsibilities.
- (4) Identification of applicable financial reporting framework.
- (5) Expected form and content of any reports.
- (6) Fees and billing.
- (7) Involvement of other auditors or experts.
- (8) Involvement of internal auditors.
- (9) Predecessor auditor.
- (10) Restriction of auditor's liability etc.

SOLUTION FIVE

(a)

- (i) - The audit senior is correct to state that it is the responsibility of management to prepare the financial statements in accordance with applicable financial reporting framework.
 - The audit senior is wrong to state that it is auditors' responsibility to prevent and detect fraud and error in the financial statements.
 - It is the responsibility of management to prevent and detect fraud and error.
- (ii) - The audit senior is wrong to state that audit is conducted in accordance with key International Standards on Auditing.
 - The audit is conducted in accordance with all applicable International Standards on Auditing.
 - The audit senior is wrong to state that auditors express unmodified opinion on the financial statements.
 - The opinion expressed on the circumstance. It can be one of the four (unmodified opinion, adverse opinion, disclaimer of opinion and modified 'except for' opinion).
- (iii) The audit senior is wrong to state that limited assurance given as to whether the financial statements give a true and fair view.

When audit is performed the assurance given is reasonable or positive assurance.

 - Limited assurance is given in the review engagement.
- (iv) The audit senior is correct to state that auditor perform tests of control on operating effectiveness of the internal controls of the entity.
 - The audit senior is wrong to state that a disclaimer of opinion is expressed on the effectiveness of these internal controls.
- (v) The audit senior is wrong to state that if there is a disagreement on a material matter, auditors give an adverse opinion.
 - When the matter is material but not pervasive, modified 'except for' is given.
 - When there is a disagreement on the matter that is material and pervasive, then adverse opinion is given.
 - The audit senior is correct to state that in the new independent auditor's report format, key audit matters (KAM) paragraph is not mandatory.
 - Key audit matters (KAM) paragraph is only mandatory for listed companies or public interest entities (PIEs).

(b)

(i)

- (1) The third party inventory of K1, 500, 000 should not be included in the inventory of Wenga. Wenga should only record the inventory it owns.
- (2) Both inventory and profit have been overstated by K1, 500, 000.
- (3) Both the inventory and profit should be reduced by K1, 500,000.
- (4) The matter is material (6%) to profit before tax.
- (5) The matter is material (3%) to total assets.

(ii)

- (1) The matter is material to both profit before tax (3%) and total assets (6%).
- (2) If the matter is not resolved a modification will be needed.
- (3) The matter is material but not pervasive.
- (4) There is a disagreement on a material misstatement.
- (5) Modified 'except for' opinion should be given.

(c)

(i) **Assertions**

- (1) **Completeness** - Recorded cash balances should include the effects of all transactions that have occurred.
- (2) **Ownership, rights and obligations** - The entity should have legal title to all cash balances shown at the period end.
- (3) **Valuation, accuracy, valuation and allocation** - Recorded cash balances should be realizable at the amounts stated.
- (4) **Existence** - Recorded cash balances should exist at the period end.
- (5) **Presentation** - Disclosures relating to cash should be adequate and in accordance with accounting standards and legislation

(ii) **Audit procedures**

- (1) Agree or compare the bank statement balance per the bank reconciliation to an original year-end bank statement and to the bank confirmation letter.
- (2) Obtain the bank account reconciliation and cast or re-perform to verify the additions to ensure arithmetical accuracy.
- (3) Agree or compare the bank reconciliation's balance per the cash book to the year-end updated cash book.
- (4) Trace all the outstanding lodgments to the pre year-end cash book, post year-end bank statement and also to deposit (pay-in) book pre year end.
- (5) Trace all unpresented cheques through to a pre year-end cash book and post year-end bank statement.
- (6) Enquire from finance director all items in the cash book for which there are no corresponding entries in the bank statement and vice versa.
- (7) Review draft accounts to ensure that disclosures for bank balance are complete and accurate and in accordance with accounting standards.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND COMPANY LAW

FRIDAY 19 MARCH 2021

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) Mr. Bulaya is a young entrepreneur who has been doing business for the past five years though he has never incorporated nor registered it with PACRA. He is an ambitious young man who has a dream of becoming one of the most prominent businessmen in Zambia. However, he is not conversant with the legal framework governing entrepreneurship. He is currently running a clothing business which is situated at Lusaka's City Market area. The worth of his business is equivalent to K2,000; he enjoys making all business decisions and retaining all the profits, *inter alia*.

He now approaches you for advise as a corporate lawyer on the best business entity that he may deal with.

Required:

With reference to the above scenario, explain to Mr. Bulaya on the business entity that is appropriate for him to form. (7 marks)

- (b) In company administration, there are several officers who are involved in the running of the company.

Explain the roles played by the officers listed below:

- (i) The Company Auditor (2 marks)
- (ii) The Directors of the Company (2 marks)
- (c) Distinguish between Members' Voluntary Winding Up and Creditors' Voluntary Winding Up. (6 marks)
- (d) Discuss the main powers of a liquidator during the winding up of a company. (8 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Explain the difference between allotted share capital and paid up share capital. (4 marks)
- (b) Explain the following:
- (i) Preference shares (4 marks)
 - (ii) Redeemable shares (4 marks)
 - (iii) Ordinary shares (4 marks)
- (c) Explain all the types of resolutions that are made at company meetings. (9 marks)

[Total: 25 Marks]

SECTION B

There are Three (3) Questions in this Section, Answer any Two (2).

QUESTION THREE

- (a) Explain the similarities and differences between the Articles of Association and Shareholder Agreements. (7 marks)
- (b) Distinguish a company limited by shares from a company limited by guarantee. (8 marks)
- (c) Explain the procedure for company registration in Zambia. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Discuss the theory of Stockholder (6 marks)
- (b) Explain the term corporate governance (6 marks)
- (c) Explain the need for continuing professional development on existing board members (7 marks)
- (d) Explain the consequences of winding up of a company (6 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Define who a Director is. (3 marks)
- (b) Explain persons who are disqualified to be appointed as Director. (6 marks)
- (c) Explain ways in which one (1) can vacate the position of Director. (7 marks)
- (d) Explain any three (3) restrictions placed on Directors in a company. (9 marks)

[Total: 25 Marks]

END OF PAPER

DA 12 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) There are several types of businesses that can be formed in Zambia. Each of these businesses has certain features which distinguish between the different types of businesses. For Mr. Bulaya, the best form of business that he should form is a sole trader's business according to his preferences. A sole trader's business may include businesses such as retail trading, transport business, bottle stalls, barbershops, tailoring shops and farms. Some of the features of a sole proprietorship are that it is easy to form, the owner retains control and all the profits, decision making is easier, and it is cheap to form and operate. Thus the recommended business type for Mr. Bulaya is a sole trader's business.

(b) **Auditor**-is a person who counter checks the accuracy of the company's financial records. An auditor can either be internal or external.

Secretary-is the administrative head of a company who ensures that all the records are in order, the company complies with all company regulations and may also represent the company in case of any legal suits.

Director-is a person who takes care of the day to day running of the company.

(c) A creditor's voluntary winding up occurs where the shareholders resolve to put the company into liquidation, but cannot make a declaration of solvency. Within 24 hours of the passing of the resolution to wind up the company, the shareholders must convene a meeting with the creditors. At this meeting, either the shareholders or the creditors can appoint the liquidator. While a member's voluntary winding up occurs where the shareholders of the company pass a resolution.

(d) The company allows the liquidator to use his discretion in the management of the company's affairs. The liquidator has the power to manage all the affairs of the company; he has to investigate and report if it appears that there is fraud in the company; the liquidator has the power to get hold of the company's assets and dispose them off as well.

SOLUTION TWO

(a) Allotted share capital is also called subscribed share capital which entails that portion of the nominal capital that has been issued. It may be less than, or equal to, the nominal capital but cannot exceed it while paid up share capital is that part of called up capital which has been paid for by the shareholders. The called up capital which has not been paid up is put under unpaid.

(b) i. **Preference shares**

Preference share – these may be said to be a safe class of shares in comparison to ordinary shares in that, they have the right to payment of the fixed dividend before the ordinary shares are paid. The disadvantage to preference shares is that they have no right to receive a dividend unless the company has sufficient distributable profits to pay. Equally, once the preference dividend is fully paid, the preference shareholder has not right to share in the surplus profit

ii. **Redeemable shares**

A company with share capital may, if authorized by its articles, issue redeemable shares whether ordinary or preference. Private companies don't need this prior requirement. These types of shares may be made between certain dates at the option of the company's directors the holder knows that his shares cannot be redeemable before the earlier of the two dates, which is usually a number of years after the issue of the shares.

iii. **Ordinary shares**

These are ranked for dividends after the preference shares. Sometimes the terms of issue provide that the preference shares shall have a right to claim repayment of capital before the ordinary shares if the company is wound up. It is vital to note that these types of shares carry with them a risk.

(c) At a company meeting, the following 3 resolutions can be made:

Ordinary Resolution

An ordinary resolution is one passed by a bare majority of members present and voting at a general meeting. Any business may be determined by such a resolution except where an extraordinary or special resolution is required by legislation or by the articles.

Extraordinary Resolution

An extraordinary resolution is one passed by a majority of not less than three-fourths of such members, as being entitled so to do, vote in person or, where proxies are allowed, by proxy. The resolution has to be passed at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary has been duly given.

Special Resolution

A special resolution requires a similar majority as is required for the passing of an extraordinary resolution. It requires not less than 21 day's notice, specifying the intention to propose the resolution as a special resolution.

SOLUTION THREE

a).

A Shareholders' agreement is an agreement between shareholders of the company. The main object of entering into shareholder agreements is to govern shareholders' investment and lay down clear guidelines on the management of day to day affairs of the company. These are private document and are not available to the public. If members of the company are desirous of having some conditions regulating them, they will use these to push their agenda. These are regulated by general contract law principles. Breach of them entitles a member a right to sue just as in general ordinary contracts.

The Articles of Association of a company is a document which along with the Memorandum of Association forms the constitution of the company. It expressly lays down provisions relating to the internal management and day to day affairs of the company. Primarily, it defines the responsibilities of the directors, share transfers and means by which shareholders exert control over the Board. Being the mother document, it is a binding contract on all present and future members of the company. This is a public document. It is similar to shareholder agreements in the sense that they are both contractual in nature.

The Shareholder agreement and Articles of Association contain overlapping and conflicting provisions giving rise to ambiguity over the issue of enforceability of one over the other. This has given rise to the question of whether the clauses in the Shareholder agreements must be included in the Articles of association in order to avoid conflict between the two. When there is a conflict between the two, shareholders agreements prevail provided they are not illegal.

b) Companies limited by shares are the most common type of company in Zambia. This is because this type of a company offers limited liability. A company limited by shares is a private and can't offer shares to the public. Companies limited by shares end with the word "limited", which conveys that a company has limited liability. In this sense, your liability as a shareholder is limited by the value of your shares. If you are yet to pay for these, then you will be liable to pay it back.

Unlike a company limited by shares, a company limited by guarantee has members and not shareholders. This limits the liability of members to a fixed amount which is the guarantee fixed by the company's constitution. The guarantee is usually requested if the company is

wound up. If this occurs and the company does not have sufficient assets, each present member has an obligation to contribute an amount. If the present members cannot satisfy the guarantee, then past members (excluding past members that ceased to be members) must contribute.

Ultimately, a company limited by guarantee is mainly for not-for-profit companies. It's not common to provide a guarantee in the company's constitution because if capital needs to change, members cannot increase or decrease the guarantee.

C. The procedure for incorporation in Zambia begins with name search. Once the name is cleared, the persons desiring to incorporate must deliver to the registrar of companies a completed prescribed form accompanied by a copy of articles of association and other documents as prescribed by the Act. The law requires two people or more. Consent by directors to act as such. Nominal Capital.

The application form will state the general nature of the business. The particulars will also include the Christian names and surnames, declaration of compliance, statement as to beneficial ownership, and a prescribed application fee. The address of the company also must be included.

SOLUTION FOUR

- (a) **Stockholder Theory** – The theory that focuses on the interests of shareholders (stockholders). That only shareholders have the legitimate claim on a company, based on agency theory that shareholders are the principals (owning the company) and directors their agents, thus must serve the interests of shareholders. It makes shareholders the most important people in a company who have the overall say.
- (b) **Corporate Governance** – This is a set of relationships between directors of a company and other stakeholders. It provides a structure of how a company can be governed to best achieve its goals and be able to meet the needs of stakeholders. Where there is good corporate governance, there is better efficiency in the company, promotion of integrity, and other governance guidelines.
- (c) The need for **continuous professional development for members of the board** is aimed at improving their skills continually; improve efficiency, share new ideas, administration of the company, maximizing the work of the board etc. Board members need to be up to date on everything.
- (d) Consequences of winding up include:
- The liquidator is appointed who will have a task of managing the company until totally wound up
 - Any transfer of disposition of the company's assets during liquidation without approval of the court or any laid down procedure is void
 - The assets of the company will be distributed to pay off debts
 - The powers of the directors are terminated and they are dismissed.
 - The company is wound up

SOLUTION FIVE

- (i) Who is a director?
- A director is a person appointed by the company to direct and administer the business of the company whether or not he is called a director.
- (ii) Who is qualified to be appointed director?
- Anyone who is not the following qualifies
 - (a) Body corporate
 - (b) An infant
 - (c) Disqualified by the court for misconduct
 - (d) An undischarged bankrupt.

Any of the three suffices

- (iii) When does one vacate the position of director?
- When one resigns
 - When one is absent from meetings of directors held over a period of six months without consent of the directors.
 - When one holds an office of profit under the company save for that of Managing Director or principle executive officer, without the consent of the company by ordinary resolution.
 - When one is directly or indirectly interested in any contract or proposed contract with the company and fails to declare his interest.

Any three suffices

- (iv) List any three restrictions placed on directors in a company.
- Directors are restricted to enter into contracts or be interested in a contract with the company unless such contracts are affirmed by the company. *Cook v Deeks* (1916) court held that the benefits of the contract belonged to the construction company and that the directors could not validly use their voting power as shareholders to vest it in themselves.
 - Directors are prohibited from acquiring loans from the company.
 - Directors who may be interested in a contract are prohibited from voting on the contract with the company.
 - Directors are prohibited from engaging in any insider dealings where they use the information accruing to them as directors of a company benefit in disposing or purchase of shares in the company.

END OF SOLUTIONS

