



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 14 JUNE 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 question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) 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. 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.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. 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.

Attempt all FIVE (5) questions.

QUESTION ONE

- (a) Outline four (4) advantages and four (4) disadvantages of divisional structures. (8 marks)
- (b) Explain the power of the following individual factors as determinants of personal ethical standards and how they affect managerial ethics:
- (i) Family influence (4 marks)
 - (ii) Religious values (4 marks)
 - (iii) Personal standards and needs (4 marks)

[Total: 20 Marks]

QUESTION TWO

The sales and marketing function play a crucial role in anticipating and satisfying consumer needs by using models such as the product life cycle. However, without a good work culture, organizations may not fully benefit from their marketing efforts.

Required:

- (a) Describe five (5) stages of a product life cycle. (10 marks)
- (b) Explain the four (4) types of culture as coined by Charles Handy. (8 marks)
- (c) Identify and explain the interest of two (2) internal stakeholders of a business organization. (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain the importance of an organization chart and the useful information it conveys about the organization. (6 marks)
- (b) Define leadership traits. (2 marks)
- (c) Explain the traits of an effective leader. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

Communication can promote coordination in any organisation and can greatly minimise conflict and misunderstanding between management and workers. Communication can also help to manage employee expectations and helps managers to resolve problems early before

it is too late. Managers can use the communication system of the company to implement and monitor the ethical standards.

Required:

- (a) List and explain three (3) qualities of effective communication. (6 marks)
- (b) Describe four (4) barriers to effective communication. (8 marks)
- (c) Explain three (3) specific ways of encouraging ethical behaviour in the work place. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

Explain the following management concepts

- (i) Leadership (4 marks)
- (ii) Marketing (4 marks)
- (iii) Recruitment (4 marks)
- (iv) Organization structure (4 marks)
- (v) Economic environment (4 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

The following are the advantages of divisional structures:

- i. Greater flexibility in responding to environmental changes.
- ii. Improved coordination across functional departments.
- iii. Clear points of responsibility for product or service delivery.
- iv. Expertise focused on specific customers, products and regions.
- v. Easy to grow/ shrink by adding / deleting divisions.

Disadvantages of divisional structures:

- i. Duplication of resources and effort across divisions.
- ii. Insufficient depth of technical expertise in functions.
- iii. Competition and poor coordination across divisions.
- iv. Overemphasis on division versus organizational objectives.

(b) Explain the power of the following individual factors as determinants of personal ethical standards and how they affect managerial ethics:

- (i) Family influence
- (ii) Religious values
- (iii) Personal standards and needs

- (i) Family Influence: The way a person has been brought up, for example in family of values or good morals will affect or influence their managerial ethics or behaviours and performance.
- (ii) Religious Values: The belief somebody has acquired from the practices in their religion will play a role in the way they execute their work as managers based on these values.
- (iii) Personal Standards and Needs: These will also determine the personal ethical standards of a manager through self control and taming of the need to satisfy themselves in everything, e.g. a manager who was deprived of a lot of things in their family may have tendencies of getting whatever they see from work as a manager in order to satisfy their ego.

SOLUTION TWO

Part (a)

Product life cycle

	Stage	Activities
1	Product development	At this stage there are no sales for the product. The firm is incurring high investment costs.
2	Introduction	profits do not exist at this stage as the product is still incurring heavy expense of product introduction.
3	Growth	Assuming the product is a success there will be rapid market acceptance and increasing profits at this stage.
4	Maturity	At this stage, their likely to be slowdown in sales growth. Profits cannot exceed a given threshold. The firm will invest more cash in marketing activities in order to remain competitive
5	Decline	There is a steady decrease sales and profits at this stage. Resources should be allocated to other products.

Part (b)

Power Culture (Zeus)

The organisation is controlled by a key central figure, owner or founder. Power is direct, personal, informal. Suits small organisations where people get on well.

Role Culture (Apollos)

Classical, rational organisation: bureaucracy. Stable, slow-changing, formalised, impersonal. Authority based on position and function.

Task Culture (Athena)

Management is directed at outputs: problems solved; projects completed. Team based, horizontally structured, flexible, valuing expertise – to get the job done.

Personal Culture (Dionysus)

The purpose of the organisation is to serve the interests of the individuals who make it up: management is directed at facilitating, administering.

Part (c)

Stakeholder Employee

Interest

Job security, career progress, benefits etc. May leave if the above expectations are not met.

Management

Improving shareholders wealth through acceptable stewardship practices. Expect to be rewarded greatly for extra effort put in. May also leave if their expectations are not satisfied.

SOLUTION THREE

- (a) Organization Chart is the diagram which shows job descriptions and reporting structure in an organization. It is used to control organization activities in a systematic manner in the following ways:
- (i) Job description/ Departmental titles
 - (ii) Organizational Hierarchy
 - (iii) Communication channels
- (b) Leadership Traits are integrated patterns of personal characteristics that reflect a range of individual differences and foster consistent leader effectiveness across a variety of group and organizational situations.
- (c) Traits of An Effective Leader
- (i) Integrity
 - (ii) Ability to delegate
 - (iii) Communication
 - (iv) Self-awareness
 - (v) Gratitude
 - (vi) Learning agility
 - (vii) Influence
 - (viii) Empathy
 - (ix) Vision
 - (x) Accountability

SOULUTION FOUR

Part (a)

Three Qualities of effective communication include:

- Concise which means brief but comprehensive
- Complete which means including all relevant detail
- Correct which entails information must be accurate
- Courteous which it should retain its professional appeal
- Clear which entails that it should be kept simple and short

Part (b)

Four (4) barriers of effective communication include:

- Poor communication skills of sender/receiver
- Failure to give/seek feedback
- Differences in language (including jargon)
- Personal differences ('social noise')
- Conflict: politics or hostility ('emotional noise')
- Inappropriate amount/accuracy/format of information

Part (c)

Three ways of encouraging ethical behaviour in the work place

- Ethical training
This involves sharing knowledge on ethical concerns which are likely to impact the business. Such training can be the basis of disciplinary action for erring members of staff.
- Code of ethics
A written set of rules should be made available to all members of staff so that workers become familiar with the expected ethical conduct. Codes of conduct should be easy to understand by all members of staff.
- Whistle blowing
Whistle-blowing generally means putting one's job and/or career on the line. Firms should develop procedures which secures the safety of whistle blowers.

SOLUTION FIVE

(a)

(i) Leadership

Leadership is the process of influencing, directing and coordinating the Activities of group members and guiding them towards achievement of objectives and goals of the organisation. A leader influences the actions or behavior of others in a group or organisation. Leadership can be Influenced using five sources of power which are reward, referent, Legitimate, expert and coercive powers. Leadership can be practiced using different leadership styles which are Democratic, Autocratic and Laissez-faire.

(ii) Marketing

Marketing is the process of creating demand of goods and services and Satisfying the demand by satisfying customer needs. Marketing identifies the needs and wants of the target market and producing products that will satisfy their needs. Needs and wants are identified by conducting a market research. Therefore, the business increases its sales and profits.

(iii) Recruitment

Recruitment is the process of attracting sufficient qualified candidates to apply for vacant positions in an organisation. Recruitment is initiated when an employee leaves an organisation through retirement, resignation or death. Also when an organisation has started its operation and through expansion by opening new branches. Recruitment can either be internally or externally conducted.

(iv) Organisation Structure

This is a pattern of relationship among positions in the organisation among members of the organisation. The purpose of the structure is the division of work among employees of the organisation coordination of activities. It creates a framework of order and command through which activities of the organisation can be planned, organized, directed and controlled. The structure also defines tasks, responsibilities, relationships and channels of communication.

(v) Economic Environment

This is the environment that deals with the purchasing power of consumers on goods and services. When the economy is in a boom, it Means consumers will have more disposable income which has a positive impact on demand of goods and services. Factors that influence income levels are interest rates, inflation rates, employment levels, foreign exchange rates and so on.

END OF SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 16 JUNE 2021

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

INSTRUCTIONS TO CANDIDATES

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9. Formulae are provided in a separate booklet.
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Attempt all FIVE (5) questions.

QUESTION ONE

- (a) Distinguish between fiscal policy and monetary policy. (4 marks)
- (b) Explain any two (2) ways that the Zambian government can use fiscal policy to stabilise the economy. (8 marks)
- (c) Explain four (4) canons of taxation as given by Adam Smith and highlight their relevance to the Zambian tax system. (8 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) Assume a hypothetical economy is described by the following equations.

$$\begin{aligned}AD &= C + I + G \\C &= 0.8(1 - t)Y \\t &= 0.25 \\I &= 900 \\G &= 800\end{aligned}$$

where C , I and G represent consumption, investment and government expenditure on goods and services respectively.

Required:

- (i) Determine the equilibrium level of income. (4 marks)
- (ii) Explain how the answer in (a) is affected by an increase in tax rate (t), from 0.25 to 0.3 (4 marks)
- (iii) In a situation of low liquidity in the economy, discuss three monetary policy interventions that central bank may use to stimulate aggregate demand. (8 marks)
- (b) Outline any four (4) functions of the Securities Exchange Commission in Zambia. (4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Define a sinking fund. (2 marks)
- (b) Mrs. Liseli just borrowed K200,000 to purchase a house. The bank gave her a 6% interest rate on a 15 year mortgage.
- (i) How much will her monthly mortgage payments be? (4 marks)
- (ii) How much less would her payments be if the mortgage was a 30 year mortgage? (5 marks)
- (c) A coupon bond that pays interest of K100 annually has a par value of K1, 000 matures in 5 years, and is selling today at a K72 discount from par value. What is the yield to maturity on this bond? (5 marks)
- (d) XYZ Corporation started making sinking fund deposits of K20,000 today. Its bank pays 6% compounded semi-annually and the payments will be made every six months for 20 years. What will the fund be worth at the end of that time? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The time taken by the milkman to deliver to the High street is normally distributed with a mean of twelve (12) minutes and a standard deviation of two (2) minutes.

Required:

Find the probability that on certain days during the year, the milkman takes:

- (i) Longer than 17 minutes. (3 marks)
- (ii) Less than 10 minutes. (3 marks)
- (iii) Between 9 and 13 minutes. (4 marks)
- (b) A competitive market has a demand and supply schedule, where p is measured in Zambian Kwacha:

$$\text{Demand Schedule: } P_d = 610 - 3Q_d$$

$$\text{Supply Schedule: } P_s = 50 + 4Q_s$$

Required:

- (i) Calculate the equilibrium price and quantity. (4 marks)
- (ii) Assume that government imposes a fix tax of K14 per unit sold. Write down the equation of the Supply schedule, adjusted for tax and find the new equilibrium price and quantity. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) An auditor takes a sample of 40 files per day for auditing in an organization. Based on the past experience, he has estimated the probability of one file which will deserve audit objection as 0.2.

Required:

Find the probability that

- (i) No file in the sample is without audit objection (2 marks)
 - (ii) Three files in the sample will be having some audit objection (2 marks)
 - (iii) At most two files will be having some audit objection (3 marks)
 - (iv) At least three files will be having some audit objection (3 marks)
 - (v) Find the expected number of files that will have an audit objection. (2 marks)
 - (vi) Find the standard deviation of the number of files that will have an audit objection. (3 marks)
- (b) Mr. Chilufya invested K15,000 in a high yield account. At the end of 30 years he closed the account and received K539,250.

Required:

Compute the effective interest rate he received on the account. (5 marks)

[Total: 20 Marks]

END OF PAPER

C2: ECONOMICS & FINANCIAL MATHEMATICS SUGGESTED SOLUTIONS

SOLUTION ONE

- a) Fiscal policy is a government policy concerned with control over government expenditure, taxation and borrowing while monetary policy is a government policy concerned with control over money supply, credit creation, exchange rates and interest rates to achieve economic objectives
- b) The following are the two ways that the Zambian government can use fiscal policy to stabilize the economy:
- Expansionary policies intended to increase planned spending and output, usually implemented when there is a recession. Expansionary fiscal policies involve the government cutting down tax rates or increasing its spending thereby shifting the aggregate demand curve to the right
 - Contractionary policies designed to reduce planned spending and output, usually implemented when there is an expansionary gap. This occurs when the government raises the tax rates or cuts government spending, thereby shifting aggregate demand curve to the left.
- c) The following are the canons of taxation given by Adam Smith:
- **Equity:** This requires that taxes should be fair and should depend on an individual's ability to pay. This implies that the tax burden should be distributed according to people's ability to pay. Adam Smith thought that proportional taxes would satisfy this criterion, but nowadays it is generally accepted that progressive taxes are the most equitable type of tax. The argument is based on the idea that the principle of diminishing marginal utility applies to income. Capital gains tax was introduced on grounds of equity. It was felt that a capital gain tax obtained by speculation in share or commodity markets should be subject to taxation in the same way as income earned on the factory floor.
 - **Certainty:** This is concerned with the amount to be paid, how where and when it should be paid. Taxpayers must know these in advance to avoid being cheated by tax collectors. A taxpayer should be able to assess his/her tax liability from information provided and should not be subject to tax demands made in an arbitrary fashion. In theory, the Zambian tax system satisfies these requirements – all necessary information is available to taxpayers, but the tax laws have become so complex and extensive that it is sometimes difficult for an average man to be certain of all his rights and responsibilities

- **Convenience:** Taxes must be collected in a convenient form and at a convenient time. The Pay As You Earn (PAYE) system of tax collection is probably the most convenient method in general use.
- **Economy:** The costs of collection and administration should be small in relation to the total revenue. This requirement often conflicts with that of equity. The "fairest" system of taxation would involve casting the net so widely and carefully that collection costs would be disproportionately high.

SOLUTION TWO

a)

a. $AD = C + I + G$

But $AD = Y$ therefore

$$Y = C + I + G$$

$$Y = 0.8(1 - t)Y + 900 + 800$$

$$Y = 0.8(1 - 0.25)Y + 900 + 800$$

$$Y = 0.8(1 - 0.25)Y + 1700$$

$$Y = 0.6Y + 1700$$

$$Y = 1700/0.4$$

$$Y = 4,250 \quad \text{Equilibrium level of income}$$

b. If the tax rate changes to 0.3

$$AD = C + I + G$$

$$Y = C + I + G$$

$$Y = 0.8(1 - t)Y + 900 + 800$$

$$Y = 0.8(1 - 0.3)Y + 900 + 800$$

$$Y = 0.8(1 - 0.3)Y + 1700$$

$$Y = 0.56Y + 1700$$

$$Y = 1700/0.44$$

$$Y = 3,863.6$$

When the tax rate is increased, there will be a reduction in equilibrium level of income by **386.4**.

c. In a scenario of low liquidity, expansionary MP is the target:

Reducing Reserve Required Ratio (RRR)

-RRR limits the amount of vault cash or reserves that commercial banks hold hence limits the amount of loans banks make

-The reduction in the RRR translates into reduced statutory required amount deposited with the central bank.

-This increases commercial bank liquidity and available funds in the loanable fund markets hence increases money supply.

Reducing the discount rate

-The central bank acts as the lender of the last resort to commercial bank.

-Commercial banks borrow at a reduced rate in the discount window and more funds are made available in the loanable fund market hence increasing money supply.

Open Market Purchase using (Open Market Operations)

The central bank reduces supply of reserves and buys back securities by redeeming them. It increases supply of reserves to deposit banks resulting into increased liquidity.

.-The increased liquidity is availed in the loanable fund market as loans hence increasing money supply.

Interest Rate

-The central bank lends to financial sound banks favourable interest rate at Minimal Rediscount Rate (MRR).

-MRR sets floor for interest rate in the money market as a nominal anchor rate and affects credit, supply of savings and investment which affects full-employment and GDP.

-Hence low liquidity MRR falls.

Direct Credit Control

-Central bank directs deposit money banks to have credit ceiling for sector specific, interest rate caps, liquidity asset ratio and issues credit guarantees to preferred loans hence available savings is directed to preferred sector of the economy.

-In this case, low interest caps and low liquidity to asset ratio is directed and this increases money supply.

Moral Suasion

-Central banks issues licenses to deposit money banks and regulates operations of the banking system. Hence central bank persuades banks to follow certain paths such as credit restraint or expansion, increased savings mobilization through financial support which could not be done.

Functions of SEC

- To supervise and monitor the activities of any securities exchange and the settlement of transactions in securities.
- To license and monitor the activities of security exchanges, dealers, investment advisors and their respective representatives.
- To approve the constitutions, charters, articles, by-laws, rules and regulations governing and pertaining to a security exchange.
- To promote and encourage high standards of investor protection and integrity among members of any security exchange.

SOLUTION THREE

(a) A sinking fund is a fund established by an economic entity by setting aside revenue over a period of time to fund a future capital expense, or repayment of a long term debt.

i. Here, we are given $P = \text{K}200,000, n = 15(12) = 180, r = \frac{0.06}{12} = 0.005$

$$\begin{aligned} R &= P \left[\frac{r}{1 - (1+r)^{-n}} \right] \\ &= 200,000 \left[\frac{0.005}{1 - (1.005)^{-180}} \right] \\ &= \text{K}1,687.71 \end{aligned}$$

ii. Here, we are given $P = \text{K}200,000, n = 30(12) = 360, r = \frac{0.06}{12} = 0.005,$

$$\begin{aligned} R &= P \left[\frac{r}{1 - (1+r)^{-n}} \right] \\ &= 200,000 \left[\frac{0.005}{1 - (1.005)^{-360}} \right] \\ &= \text{K}1,199.10 \end{aligned}$$

$$\begin{aligned} \text{Difference} &= \text{K}1,687.71 - \text{K}1,199.10 \\ &= \text{K}488.61 \end{aligned}$$

$$(b) \text{YTM} = \frac{C + \frac{FV - PV}{t}}{\frac{FV + PV}{2}}$$

Where,

C – Interest per coupon payment

FV – Face Value of the security

PV – Present value per price of the security

t – How many years it takes the security to reach maturity

$$\text{YTM} = \frac{100 + \frac{[1000 - (1000 - 72)]}{5}}{\frac{[1000 + (1000 - 72)]}{2}}$$

$$YTM = \frac{\left[100 + \frac{75}{5}\right]}{\frac{1928}{2}}$$

$$YTM = \frac{114.4}{964}$$

$$YTM = 11.86\%$$

$$\begin{aligned} \text{(c) } FV &= R \left[\frac{(1+r)^n - 1}{1 - (1+r)^{-n}} \right] \\ &= 20,000 \left[\frac{(1.03)^{40} - 1}{0.03} \right] \\ &= \text{K}1,508,025.20 \end{aligned}$$

SOLUTION FOUR

(a)

(i)

$$Z = \frac{X - 12}{2}$$

To find the number of days we multiply by 365

$$0.0062 \times 365 = 2.63 \approx 2$$
$$= 1 - 0.9938 = 0.0062$$

To find the number of days we multiply by 365

$$0.0062 \times 365 = 2.63 \approx 2$$

(ii)

$$P\left[\frac{X - 10}{2} < \frac{10 - 12}{2}\right]$$
$$= P[Z < -1]$$
$$= 1 - 0.8413 = 0.1587$$

To find the number of days we multiply by 365

$$0.1587 \times 365 = 57.92 \approx 58$$

(iii)

$$P\left[\frac{9 - 12}{2} < \frac{X - 12}{2} < \frac{13 - 12}{2}\right]$$
$$P[-1.5 < Z < 0.5]$$
$$P[Z < 0.5] - P[Z < -1.5]$$
$$0.6915 - (1 - 0.9332) = 0.6247$$

To find the number of days we multiply by 365

$$0.6247 \times 365 = 228.01 \approx 228$$

(b)

(i) Equilibrium occur when $Q_d = Q_s$ and $P_d = P_s$

this implies the functions are written as $P = f(Q)$ taking P and Q as only variables on LHS and RHS respectively.

Therefore $610 - 3Q = 50 + 4Q$

$$4Q + 3Q = 610 - 50$$

$$Q = 80 \quad \text{the equilibrium quantity}$$

To find the equilibrium price, substitute Q in any of the equations of P

$$P = 610 - 3(80)$$

$$P = 370$$

(ii) If the government imposes a fixed tax of K14 per good then the money that the firm actually receives from the sale of each good is the amount, P , that the consumer pays, less the tax, 14: that is, $P - 14$. Mathematically, this problem can be solved by replacing P by $P - 14$ in the supply equation to get the new supply equation $P - 14 = 4Q_s + 50$ that is

$$P = 4Q_s + 64$$

The remaining calculations proceed as before. In equilibrium, $Q_d = Q_s$. Again setting this common value to be Q gives

$$P = -3Q + 610$$

$$P = 4Q + 64$$

Hence

$$-3Q + 610 = 4Q + 64$$

Which can be solved as before to give $Q = 78$. Substitution into either of the above equations gives $P = 376$.

SOLUTION FIVE

(a) Here $n = 40, p = 0.2, q = 1 - p = 0.8$

i.
$$P(X = x) = \binom{n}{x} p^x (1 - p)^{n-x}$$

$$\begin{aligned} P(X = 40) &= \binom{40}{40} (0.2)^{40} (0.8)^{40-40} \\ &= 0 \end{aligned}$$

ii.
$$P(X = x) = \binom{n}{x} p^x (1 - p)^{n-x}$$

$$\begin{aligned} P(X = 3) &= \binom{40}{3} (0.2)^3 (0.8)^{40-3} \\ &= 0.0205 \end{aligned}$$

iii.
$$P(X \leq 2) = P(X = 0) + P(X = 1) + P(X = 2)$$

$$\begin{aligned} &= \binom{40}{0} (0.2)^0 (0.8)^{40} + \binom{40}{1} (0.2)^1 (0.8)^{39} + \binom{40}{2} (0.2)^2 (0.8)^{38} \\ &= 0.00013 + 0.00133 + 0.00648 \\ &= 0.00794 \end{aligned}$$

iv.
$$P(X \geq 3) = 1 - P(X < 3)$$

$$\begin{aligned} &= 1 - [P(X = 0) + P(X = 1) + P(X = 2)] \\ &= 1 - 0.00794 \\ &= 0.9921 \end{aligned}$$

v.
$$E(X) = np = 40 \times 0.2 = 8 \text{ files}$$

vi.
$$\text{Var}(X) = npq = 40 \times 0.2 \times 0.8 = 6.4$$

$$\begin{aligned} \text{Standard Deviation} &= \sqrt{\text{Var}(X)} \\ &= \sqrt{6.4} \\ &= 2.53 \end{aligned}$$

(b) Recall that $FV = P(1+r)^n$

$$539,250 = 15,000(1+r)^{30}$$

$$\frac{539,250}{15,000} = (1+r)^{30}$$

$$39.95 = (1+r)^{30}$$

$$\sqrt[30]{39.95} = 1+r$$

$$1.1268 = 1+r$$

$$r = 1.1268 - 1$$

$$r = 0.1268$$

$$\therefore r = 0.1268 \times 100\% = 12.68\%$$

END OF SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 14 JUNE 2021

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

INSTRUCTIONS TO CANDIDATES

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Attempt all FIVE (5) questions.

QUESTION ONE

After calculating the net profit for the year ended 31 March 2019 Willie has the following trial balance:

	Dr `K	Cr `K
Land and buildings cost	50,000	
Depreciation		10,000
Plant at cost	60,000	
Depreciation		15,000
Inventories	12,500	
Receivables	7,500	
Bank	41,250	
Payables		8,500
Rent prepaid	2,000	
Wages accrued		1,500
Capital account		97,000
Profit for the year ended		<u>48,750</u>
	<u>173,250</u>	<u>180,750</u>

A suspense account was opened for the difference in the trial balance.

The following errors were discovered:

- (i) A payables account had been debited with a K1,500 sales invoice which had been correctly recorded in the sales account.
- (ii) The heat and light account had been credited with gas paid K750. The cash account was correctly recorded.
- (iii) G. Given had been credited with a cheque received from G. Gweno for K4,000. Both are receivables.
- (iv) The insurance account contained a credit entry for insurance prepaid of K2,500 but the balance had not been carried down and hence had been omitted from the above trial balance.
- (v) Purchases returns had been over-cast by K3,500 when posting to the purchases returns account.

Required:

- (a) Clear the suspense account by correcting the errors that affect the double entry.
(6 marks)

(b) Prepare a revised trial balance as at 31 March 2019. (12 marks)

(c) From the information given below, prepare the Bank reconciliation statement as at 30 June 2019.

	K
Cash at bank as per cash book	30,000Dr
Unpresented cheques	8,000
Cheques received and paid into the bank, but not year entered on the bank statement	6,000
Credit transfers entered as banked on the bank statement but not entered in the cash book	3,000
Cash at bank as per bank statement	35,000

(2 marks)

[Total: 20 Marks]

QUESTION TWO

You have been asked to help prepare financial statements of Chandamali Ltd for the year ended 31 December 2020. The company's trial balance as at 31 December 2020 is shown below:

Chandamali Ltd

Trial Balance as at 31 December 2020

	K	K
Share capital		240,000
Trade payables		26,940
Property, Plant and Equipment – Cost	735,600	
Property, Plant and Equipment- Accumulated Depreciation		397,520
Trade receivables	42,660	
6% Bank loan repayable in 2030		240,000
Cash at bank	151,560	
Retained earnings		26,300
Bank loan interest	7,200	
Sales		715,660
Purchases	553,080	
Returns inwards	4,720	
Returns outwards		3,460
Distribution costs	37,140	
Administrative	42,120	
Inventories as at 1 January 2020	75,800	
	<u>1,649,880</u>	<u>1,649,880</u>

Additional Information

- (i) The share capital of the company consists of ordinary shares with a nominal value of K1 each.
- (ii) The inventories at the close of business on 31 December 2020 were valued at K81,340.
- (iii) The company hired some office copiers for a period 1 December 2020 to 31 March 2021. The contract price for the four (4) months was K3,280 and this was paid in full on 3 December 2020. This is included in Administrative expenses.
- (iv) Distribution costs are accrued for K1,520 as at 31 December 2020.
- (v) The corporation tax charge for the year has been calculated as K17,480.
- (vi) Provide 5% depreciation on cost to Property, Plant and Equipment as part of Administrative expenses.

Required:

- (a) Prepare a statement of Profit or Loss for the year ended 31 December 2020. (11 marks)
 - (b) Prepare a statement of financial position as at 31 December 2020. (9 marks)
- [Total: 20 Marks]**

QUESTION THREE

The most recent statement of profit or loss and statements of financial position of Maamba Ltd for the past two years are set out below:

Maamba Ltd's

Statement of Profit or Loss for the year ended 31 December 2020.

	K
Sales	1,080,000
Cost of sales	<u>(648,000)</u>
Gross profit	432,000
Gain on disposal of PPE	<u>10,800</u>
	442,800
Distribution expenses	(237,600)
Administrative expenses	<u>(97,200)</u>
Profit from the operations	108,000
Finance costs	(6,020)
Profit before tax	101,980
Tax	<u>(22,260)</u>

Profit for the period from continuing operations

79,720

Maamba Ltd's

Statement of Financial Position as at 31 December 2020

	2020	2019
	K	K
<u>Assets:</u>		
<u>Non-Current Assets</u>		
Property, Plant and Equipment	533,200	382,800
<u>Current Assets</u>		
Inventories	116,640	97,200
Trade receivables	108,000	86,400
Bank	<u>11,740</u>	<u>0</u>
Total Assets	<u>769,580</u>	<u>566,400</u>
<u>Equity and Liabilities</u>		
Equity: Share Capital	160,000	120,000
Share Premium	60,000	40,000
Retained Earnings	<u>376,520</u>	<u>296,800</u>
Total Equity	<u>596,520</u>	<u>456,800</u>
<u>Non-Current Liabilities</u>		
Bank Loans	86,000	16,000
<u>Current Liabilities</u>		
Trade payables	64,800	71,280
Tax liability	22,260	18,160
Bank overdraft	<u>0</u>	<u>4,160</u>
	<u>87,060</u>	<u>93,600</u>
Total Equity and liabilities	<u>769,580</u>	<u>566,400</u>

Additional Information

- (i) The total depreciation for the year was K67,320.
- (ii) Property Plant and Equipment costing K16,240, with accumulated depreciation of K9,500 was sold in the year.
- (iii) All sales and purchases were on credit. Other expenses were paid for in cash.
- (iv) The share capital of Maamba Ltd consists of ordinary shares of K1 each.

Required:

Prepare the statement of Cash flows for Maamba Ltd, for the year ended 31 December 2020.

(20 marks)

[Total: 20 Marks]

QUESTION FOUR

Kalaba and Landu are trading as business Partners, sharing profits and losses as Kalaba 60% and Landu 40%.

- The partners are entitled to annual salaries of:

Kalaba	K20,000
Landu	K20,000

- Interest on capital accounts is 2% per annum.

Trial Balance as at 31 December 2020

	K	K
Capital account – Kalaba		65,000
Capital account – Landu		55,000
Current account – Kalaba	41,600	
Current account – Landu	41,600	
Bank	12,150	
Cash	2,650	
Equipment at cost	48,000	
Equipment accumulated depreciation		3,300
Fixtures and fittings at cost	157,800	
Fixture and fittings accumulated depreciation		24,280
Office expenses	28,480	
Inventory on 1 January 2020	43,090	
Wages and salaries	62,400	
Purchases	349,000	
Trade payables		35,900
Advertising expenses	13,500	
Rent	56,500	
Sales		660,000
VAT control		<u>13,290</u>
	<u>856,770</u>	<u>856,770</u>

Additional Information

- (a) Inventory at 31 December 2020, was valued at K39 850.
- (b) Depreciation needs to be provided as follows: -
 - On equipment at 25% straight line.
 - On fixtures and fittings at 10% on cost.
- (c) Advertising cost of K500 have been charged to purchases.
- (d) Office expenses are prepaid by K2,600.

(e) Staff salaries are to be accrued by K5,600

Required:

(i) Prepare the partnership statement of Profit or Loss and appropriation account for the year ended 31 December 2020. (9½ marks)

(ii) The partnership current accounts as at 31 December 2020 (3 marks)

(iii) Prepare the partnership statement of financial position as at 31 December 2020. (7½ marks)

[Total: 20 Marks]

QUESTION FIVE

The following balances are relevant to you at the start of the day on 31 December 2020:

Ledger Account Name

	K
Fixtures and fittings	19,500
Purchases	449,500
Purchases returns	2,764
Trade payables control	63,068
Bank Loan	500
Discount received	4,800
Insurance prepaid	3,650
VAT (credit balance)	34,478

Additional Information

The following transactions all took place on 31 December 2020 and have been entered into the relevant books of prime entry as shown below. No entries have yet been made into the ledger system. The VAT rate is 16%.

Purchases Day Book

Date	Details	NET K	VAT K	TOTAL K
Dec 31	Shaka T	30,000	4,800	34,800
Dec 31	Daka A	1,050	168	1,218
Dec 31	Chama B	2,650	424	3,074
Dec 31	Findu S	<u>16,000</u>	<u>2,560</u>	<u>18,560</u>
		<u>49,700</u>	<u>7,952</u>	<u>57,652</u>

Purchases Returns Day Book

Date	Details	NET	VAT	TOTAL
------	---------	-----	-----	-------

		K	K	K
Dec 31	Chama B	2,300	368	2,668
Dec 31	Findu S	<u>1,700</u>	<u>272</u>	<u>1,972</u>
		<u>4,000</u>	<u>640</u>	<u>4,640</u>

Cash Book

Date	Details	K	Date	Details	Discount Received	K
Dec 31	Loan from Bank	30,000	Dec 31	Balance b/f		374
Dec 31	Cash sales banked	25,000	Dec 31	Fixtures and fittings (ignore VAT)		24,000
			Dec 31	Insurance		5,500
			Dec 31	Daka A	250	9,750
			Dec 31	ZRA –VAT		8,000
				Balance		<u>7,376</u>
		<u>55,000</u>			<u>250</u>	<u>55,000</u>
Dec 31	Balance b/f	<u>7,376</u>				

You are **required** to Post the above transactions to the following ledger accounts and balance the accounts:

- (i) Fixtures and Fittings. (2 marks)
- (ii) Purchases. (2 marks)
- (iii) Purchases Returns. (2 marks)
- (iv) Trade Payables Control. (4 marks)
- (v) Bank loan. (2 marks)
- (vi) Discount Received. (2 marks)
- (vii) Insurance. (2 marks)
- (viii) VAT Control. (4 marks)

[Total: 20 Marks]

END OF PAPER

C3: ACCOUNTANCY FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a)		K	K
	Dr Heat and Light Account	1,500	
	Cr Suspense Account		1,500
	Dr Insurance Prepayment Account	2,500	
	Cr Suspense Account		2,500
	Dr Purchases returns	3,500	
	Cr Suspense Account		3,500
(b)		K	K
	Land and buildings at cost	50,000	
	Depreciation		10,000
	Plant at cost	60,000	
	Depreciation		15,000
	Inventories	12,500	
	Receivables	7,500	
	Bank	41,250	
	Payables		8,500
	Heat and lighting	1,500	
	Purchases returns	3,500	
	Rent prepaid	2,000	
	Insurance prepaid	2,500	
	Wages accrued		1,500
	Capital account		97,000
	Profit for the year		<u>48,750</u>
		<u>180,750</u>	<u>180,750</u>

(b) Bank Reconciliation as at 30 June 2019

	K
Cash at bank per cash book	30 000
Add: credit transfers	<u>3 000</u>
Cash at hand*	33 000
Less: Bank lodgments	<u>(6 000)</u>
	27 000
Add: unpresented cheques	<u>8 000</u>
Balance as per bank statement	<u>35 000</u>

SOLUTION TWO

Chandamali Ltd's

(a) Statement of Profit or Loss for the year ended 31 December 2020

	K	K
Sales (715 660 – 4 720)		710 940
Opening inventory	75 800	
Purchases (553 080 – 3 460)	<u>549 620</u>	
	625 420	
Closing inventory	(81 340)	(544 080)
Gross profit		166 860
Distribution costs (37 140 + 1 520)	38 660	
Administrative expenses (42 120 + 36 780 – 2 460)	76 440	
		<u>(115 100)</u>
Operating profit		51 760
Finance cost (6% x 240 000)		<u>(14 400)</u>
Profit before tax		37 360
Corporation tax		<u>(17 480)</u>
Profit for the year		<u>19 880</u>

Chandamali Ltd's

(b) Statement of Financial Position as at 31 December 2020

	Cost	Accum'd depreciation	NBV
<u>Assets:</u>		K	K
<u>Non-current assets</u>			
PPE	735 600	434 300	301 300
<u>Current Assets:</u>			
Inventories		81 340	
Trade receivables		42 660	
Cash at bank		151 560	
Prepaid administrative expenses		2 460	<u>278 020</u>
			<u>579 320</u>
<u>Equity and Liabilities</u>			
Ordinary shares of K1 each		240 000	
Retained earnings (26 300 + 19 880)		46 180	286 180
<u>Non- Current Liabilities</u>			
6% Bank loan			240 000
<u>Current liabilities</u>			
Trade payables		26 940	
Accrued distribution costs		1 520	
Accrued loan interest		7 200	

Corporation tax	17 480	<u>53 140</u>
		<u>579 320</u>

SOLUTION THREE

Maamba Ltd's

Statement of Cash flows for the year ending 31 December 2020

	K	K
<u>Cash flows from operating activities</u>		
Profit before tax	101 980	
Adjustment for:- Finance costs	6 020	
Depreciation	67 320	
Profit on sale of PPE	(10 800)	
Operating cash flows before movement in working capital		164 520
Increase in inventory	(19 440)	
Increase in Trade receivables	(21 600)	
Decrease in Trade payables	(6 480)	
		<u>(47 520)</u>
		117 000
Cash generated by operations		
Tax paid	(18 160)	
Finance costs	(6 020)	<u>(24 180)</u>
Net cash inflows from operating activities		92 820
<u>Cash flows from Investing Activities</u>		
Payments to acquire PPE (wk 2)	(224 460)	
Receipts from sale of PPE (wk3)	17 540	
Net cash flows used in investing activities		(206 920)
<u>Cash flows financial activities</u>		
Issue of ordinary share capital (wk 1)	60 000	
Increase in loan note	70 000	
Net cash flows from financing activities		130 000
Net increase in cash and cash equivalents		15 900
Opening balance		<u>(4 160)</u>
Closing balance		<u>11 740</u>

Working 1

Proceeds of new share capital closing balance

	K
Closing Balance (160 000 + 60 000)	220 000
Less opening balance (120 000 + 40 000)	<u>(110 000)</u>
Issue proceeds	<u>60 000</u>

Working 2

PPE Account

	K		K
Balance b/f	382 800	NBV – Disposal (16 240 – 9 500)	6 740
:- Bank (bal. fig)	224 400	Depreciation expense	67 320
	<u>607 260</u>	Balance c/d	<u>533 200</u>
			<u>607 260</u>

Working 3

PPE Disposal Account

	K		K
Cost	16 240	Accumulated depreciation	9 500
Profit on disposal	<u>10 800</u>	:- Bank (bal. fig)	<u>17 540</u>
	<u>27 040</u>		<u>27 040</u>

SOLUTION FOUR

(i) Statement of Profit or loss for the year ended 31 December 2020

	K	K
Sales		660 000
Opening inventory	43 090	
Purchases (349 000 – 500)	<u>348 500</u>	
	391 590	
Closing inventory	<u>(39 850)</u>	<u>(351 740)</u>
Gross profit		308 260
Depreciation expenses – Equipment	12 000	
– Fixtures	15 780	
Office expenses (28 480 – 2 600)	25 880	
Wages and salaries (62 400 + 5 600)	68 000	
Advertising expenses (13 500 + 500)	14 000	
Rent	<u>56 500</u>	<u>192 160</u>
		116 100
Less Partnership salaries – Kalaba	20 000	
– Landu	<u>20 000</u>	<u>(40 000)</u>
		76 100
Interest on capital – Kalaba	1 300	
– Landu	<u>1 100</u>	<u>(2 400)</u>
		73 700
Share of profit – Kalaba (60%)	44 220	
– Landu (40%)	29 480	<u>(73 700)</u>

(ii) Current Accounts

	<u>Kalaba</u>	<u>Landu</u>		<u>Kalaba</u>	<u>Landu</u>
	K	K		K	K
Balances	41 600	41 600	Salaries	20 000	20 000
Balances	23 920	8 980	Interests	1 300	1 100
	<u>65 520</u>	<u>50 580</u>	Profits	<u>44 220</u>	<u>29 480</u>
				<u>65 520</u>	<u>50 580</u>

(iii)

Statement of Financial Position as at 31 December 2020

	K	K
<u>Non-Current Assets:</u>		
Equipment (48 000 – 15 300)	32 700	
Fixtures and fittings (157 800 – 40 060)	<u>117 740</u>	150 440
 <u>Current Assets:</u>		
Inventory	39 850	
Trade receivables	-	
Bank	12 150	
Cash	2 650	
Prepaid office expenses	<u>2 600</u>	<u>57 250</u>
		<u>207 690</u>
 <u>Capital and Liabilities:</u>		
Capitals – Kalaba	65 000	
– Landu	<u>55 000</u>	120 000
 Current Accounts – Kalaba	 23 920	
– Landu	 <u>8 980</u>	 32 900
 <u>Current Liabilities:</u>		
Trade payables	35 900	
VAT	13 290	
Accrued salaries	<u>5 600</u>	<u>54 790</u>
		<u>207 690</u>

SOLUTION FIVE

(a) (i)

Fixtures and Fitting Account

		K			K
Dec 31	Balance b/f	19 500	Dec 31	Balance c/d	43 500
Dec 31	Bank	<u>24 000</u>			
		43 500			<u>43 500</u>
Dec 31	Balance b/f	43 500			

(ii)

Purchases Account

		K			K
Dec 31	Balance b/f	449 500	Dec 31	Balance c/d	499 200
Dec 31	Trade Payables	<u>49 700</u>			
		499 200			<u>499 200</u>
Dec 31	Balance b/f	499 200			

(iii)

Purchases Returns Account

		K			K
Dec 31	Balance c/d	6 764	Dec 31	Balance b/f	2 764
		<u>6 764</u>	Dec 31	Trade payables	<u>4 000</u>
					<u>6 764</u>
			Dec 31	Balance b/f	6 764

(iv)

Trade Payables Control Account

		K			K
Dec 31	Purchases returns	4 640	Dec 31	Balance b/f	63 068
Dec 31	Bank	9 750	Dec 31	Purchases	57 652
Dec 31	Discount received	250			
	Balance c/d	<u>106 080</u>			<u>120 720</u>
		120 720	Dec 31	Balance b/f	<u>106 080</u>

(v)	<u>Bank Loan Account</u>					
			K			K
Dec 31	Balance	c/d	30 500	Dec 31	Balance b/f	500
			<u>30 500</u>	Dec 31	Bank	<u>30 000</u>
						<u>30 500</u>
				Dec 31	Balance b/f	<u>30 500</u>

(vi)	<u>Discount Received Account</u>					
			K			K
Dec 31	Balance	c/d	5 050	Dec 31	Balance b/f	4 800
			<u>5 050</u>	Dec 31	Trade payables	<u>250</u>
						<u>5 050</u>
				Dec 31	Balance b/f	5 050

(vii)	<u>Insurance Account</u>					
			K			K
Dec 31	Balance	b/f	3 650	Dec 31	Balance	c/d
Dec 31	Bank		<u>5 500</u>			<u>9 150</u>
			<u>9 150</u>			<u>9 150</u>
Dec 31	Balance	b/f	9 150			

(viii)	<u>VAT Control Account</u>					
			K			K
Dec 31	Trade payables		7 952	Dec 31	Balance	34 478
Dec 31	Bank		8 000	Dec 31	Trade payables	640
Dec 31	Balance	c/d	<u>19 166</u>			<u>35 118</u>
			<u>35 118</u>	Dec 31	Balance b/f	19 166

END OF SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

TUESDAY 15 JUNE 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 question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) 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 on pages 2 and 3 of this paper.

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

INVIGILATOR.

Taxation table for paper C4– Direct Taxes (2021 Examinations)

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K48,000	first K48,000	0%
K48,001 to K57,600	next K9,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K48,000	first K48,000	0%
Over K48,000		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%

Mineral Royalty

Mineral Royalty on Copper

Range of Norm Price	Mineral Royalty Rate
Less than US\$4,500	5.5% of norm value
From US\$4,500 to less than US\$6,000	6.5% of norm value
From US\$6,000 to less than US\$7,500	7.5% of norm value
From US\$7,500 to less than US\$9,000	8.5% of norm value
From US\$9,000 and above	10% of norm value

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Base Metals (Other than Copper, Cobalt and Vanadium)	5% of norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% of gross value
Gemstones	6% of gross value
Precious Metals	6% of norm value

Capital Allowances

Implements, plant and machinery and commercial vehicles:

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing and Leasing	50%
	Used in farming and agro-processing	100%
	Used in mining operations	20%

Non- commercial vehicles

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

Industrial Buildings:

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

Low Cost Housing (Cost up to K20,000)

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%
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Farming Allowances

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

Presumptive Taxes

Turnover Tax	4%
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Presumptive Tax for Transporters

Seating capacity	Tax per annum K	Tax per day 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%

Attempt ALL FIVE (5) questions.

QUESTION ONE

Machipisa Ltd is a Zambian resident company operating in the manufacturing sector. The company has grown rapidly in the recent past and has opened a number of branches across the country. The following is the statement of profit or loss for the year ended 31 December 2021.

		K	K
Sales			920,000
Less cost of sales			<u>(340,000)</u>
Gross profit			580,000
Other income:			
Dividends received	(Note 1)		165,000
Royalties received (net)			<u>34,000</u>
			779,000
<i>Less expenses:</i>			
Depreciation		58,000	
Wages and salaries	(Note 2)	25,000	
Motor car running expenses	(Note 3)	22,000	
Telephone expenses		9,600	
Donations to a new political party		17,200	
Entertainment	(Note 4)	28,500	
Bad debts	(Note 5)	16,000	
Advertising expenses	(Note 6)	13,300	
Selling and distribution expenses		32,100	
Legal fees	(Note 7)	10,700	
Relocation on behalf of employee		<u>6,000</u>	
			<u>(238,400)</u>
Net profit for year			<u>540,600</u>

The following notes are available:

Note 1: Dividends received

The dividends were received from other Zambian companies. The figure of K165,000 is the actual amount received.

Note 2: Wages and salaries

Wages and salaries include:	K
Directors' emoluments	18,000
Staff canteen costs	4,500
Other sundry allowable wages	<u>2,500</u>
	<u>25,000</u>

Note 3: Motor car running expenses

The Marketing Manager was provided with a personal to holder car having a cylinder capacity of 3,200cc. The motor car was bought on 5 May 2021 at a cost of K56,000. The private use of the car is 20% and the remainder relates to business use.

Note 4: Entertainment expenses

Entertaining expenses are as follows:	K
Entertaining business associates	12,200
Entertaining foreign customers	8,900
End of year staff party	<u>7,400</u>
	<u>28,500</u>

Note 5: Bad debts

Bad debts are as follows:

Trade debts written off	K 13,800
Loans to former employees previously written off now recovered	(2,300)
Decrease in specific provision for bad debts	(1,620)

Increase in general provision for bad debts	<u>6,120</u>
	<u>16,000</u>

Note 6: Advertising expenses

Included in advertising expenses is expenditure on T-shirts provided to customers (valued at K250 each) totaling K9,500, while the remainder relates to an advert which ran for a month in one of the national tabloids.

Note 7: Legal fees

Legal fees include:

Recovery of trade debts	K 2,400
Legal costs relating to the acquisition of non-current assets	3,600

Legal costs in connection with non-compliance with the environmental Act	<u>4,700</u>
	<u>10,700</u>

Note 8: Implements, plant and machinery

The following transactions took place during the year ended 31 December 2021:

		Cost/(Proceeds)
		K
5 April	Purchased manufacturing machinery	94,000
22 July	Purchased office furniture	19,600
15 November	Sold a lorry	(59,000)

The lorry which was sold on 15 November 2021 for K59,000 originally cost K45,200 when it was bought on 10 January 2019.

Note 9: Industrial building

Machipisa Ltd purchased a new factory from a builder on 1 July 2021 for K360,000 and this was immediately brought into use. The purchase price includes K95,000 for land K61,500 for general offices K54,000 for drawing office and the remainder relates to the factory.

Required:

- (a) Calculate the capital allowances to be claimed by Machipisa Ltd for the tax year 2021. (8 marks)
- (b) Calculate the tax adjusted business profit of Machipisa Ltd for the tax year 2021. (8 marks)
- (c) Calculate the income tax payable by Machipisa Ltd for the tax year 2021. (4 marks)

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

Thomas Lubilo was offered a contract by Limbikani Limited on 1 April 2021 as plumber, doing all plumbing works. Under the terms of this contract, he is only required to report for work on days the company has plumbing work for him to do, which is usually from Monday to Friday from 08:00 hours to 17:00 hours. He is paid an agreed amount at the end of the month based on the amount of work performed in that particular month. On days when there is no work for him to do for Limbikani Limited, he is allowed to work for other clients. He provides his own tools whenever his doing his work at Limbikani Ltd as well for his own personal clients.

He is not supervised by anyone when performing his work and normally does the work with his nephew as his helper. Thomas pays his nephew a monthly salary of K2,000.

A friend of Thomas Lubilo has advised him to report the company to the labour office because he feels that Thomas Lubilo works like a full time employee as opposed to a self-employed individual. He has argued that Thomas Lubilo should be entitled to a monthly salary because he spends most of his time at the company. As an employee he could be entitled to other allowances such as housing allowance, transport allowance, lunch allowance and such other perks. He also advised him that he may be visited by Zambia Revenue Authority (ZRA) because he is supposed to Pay, Pay As you Earn (PAYE) for his nephew.

Thomas Lubilo is now puzzled by these revelations from his friend and has approached you for advice.

Required:

- (a) Briefly explain to Thomas Lubilo the factors which should be considered by the tax authorities to establish whether he is an employee or self-employed individual. (10 marks)
- (b) Explain any four (4) factors which are likely to show that Thomas Lubilo is self-employed and not an employee of Limbikani Limited. (4 marks)
- (c) Explain whether Thomas Lubilo's nephew will be required to pay PAYE as an employee. (2 marks)
- (d) In relation to employment, explain the meaning of the following terms:
 - (i) Emoluments (2 marks)
 - (ii) Office (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Auto Spares Limited orders motor vehicle spare parts from China. Recently, the company opened one of the largest spares shop at Munyaule Market in Lusaka. The company has currently enjoyed an increased demand for spare parts because most of its competitors have closed down due to difficulties caused by the Corona Virus Pandemic (COVID 19).

The company is neither registered for income tax nor turnover tax even though its turnover had increased to K750,000 for the year ended 31 December 2021. The turnover is earned evenly throughout the year. The Manager who is also the owner of the company is wondering what type of tax the company will be required to pay.

Required:

- (i) Explain to the Manager of Auto Spares Limited whether the company will be assessed to income tax or turnover tax and compute the amount of tax payable in the tax year 2021, stating how it should be paid. (4 marks)
- (ii) State any five (5) persons who are not liable to turnover tax. (5 marks)
- (b) Mr. Lubasi Mwansa wishes to start a small business after retiring from the Civil Service by 2022. He feels his retiring package will not be enough to start the kind of business he wants and to make up for the shortfall in capital he wishes to sell the following assets:

Shares in Lubuto Plc

He intends to sell his 2,000 ordinary shares of K1 each in Lubuto Plc for K10,000. He acquired these shares 2 years ago through an offer for sale to the general public at a price of K3.00 per share. Lubuto Plc is currently listed on the Lusaka Securities Exchange (LuSE).

Shares in Jamu Limited

He wishes to sell 1,500 ordinary shares of K1.00 each in Jamu Limited, a private company, for K9,000 soon after his retirement. He bought these ordinary shares of K1.00 each from a friend for K3,000.

Residential House

He also intends to sell his only house in Libala for K350,000 which is believed to be the open market value of the house. Lubasi Mwansa bought the house in 2017 for K200,000 after receiving his gratuity from the previous employer.

Lubasi Mwansa has been advised by a relative that the sale of his properties will attract Property Transfer tax (PTT).

Required:

- (i) Calculate the Property transfer tax payable by Lubasi Mwansa for each of the above transactions. (6 marks)
- (ii) State any three (3) transactions which are exempt from Property Transfer Tax. (3 marks)
- (iii) Explain the tax implications of a transfer of property to member of a group of companies. (2 mark)

[Total: 20 Marks]

QUESTION FOUR

- (a) Every person who receives income has a duty to give notice to the Commissioner General of having received such income. Such notice should be given within thirty (30) days of the receipt of the income.
Following the end of the tax year, the taxpayer is required to complete a self-assessment income tax return. This return must contain the amounts of income received from all sources and a computation of income tax payable thereon.

Required:

- (i) State any three (3) circumstances in which the Commissioner General may make an estimated assessment. (3 marks)
- (ii) Explain how provisional income tax is assessed and state the due dates when it is payable. (5 marks)
- (iii) State two (2) advantages of the provisional tax system to both the Government and tax payer. (2 marks)
- (c) The mission of the Zambia Revenue Authority (ZRA) is to maximise and sustain revenue collection through integrated, efficient, cost effective and transparent systems, professionally managed to meet the expectations of all stakeholders.

Required:

- (i) State six (6) responsibilities of the Zambia Revenue Authority as enshrined in the mission statement. (6 marks)
- (ii) State four (4) powers of the Commissioner General of the Zambia Revenue Authority (ZRA). (4 marks)

[Total: 20 Marks]

QUESTION FIVE

James and John are in partnership sharing profits and losses in the ratio 2:3 respectively. The profit for the year ended 31 December 2021 was K456,500 before partnership capital allowances, but after charging the following expenses:

- (i) Interest on capital of 10% per annum on James capital account balance of K40,000 and on John's capital account of K30,000.
- (ii) Annual salary of K10,000 paid to John who works as a full time director in the partnership.
- (iii) Electricity for the partnerships' houses of K7,500 each.
- (iv) Printing and stationery of K18,750.
- (v) Entertainment expenses for the partners and their families of K22,300.
- (vi) General allowable expenses of K55,000.
- (vii) Decrease in general provision for bad debts of K32,000.
- (viii) Depreciation charges of K27,000.

Other information:

The partnership made the following purchases of non-current assets during the year:

	K
New furniture	24,000
Motor car	60,000
New machinery	85,000

The motor car is used 25% for private purposes by the partners.

Required:

- (a) Calculate the Tax adjusted business profit for the tax year 2021. (8 marks)
- (b) Calculate the profit to be assessed on each partner for the tax year 2021. (7 marks)
- (c) Calculate the amount of income tax payable by each partner for the tax year 2021. (5 marks)

[Total: 20 Marks]

END OF PAPER

C4: DIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) MACHIPISA LTD
COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2021

	Cost/ITV K	K	Capital allowances
<u>New manufacturing machinery</u>			
Cost	94,000		
Wear & tear @ 50%	<u>(47,000)</u>	47,000	ITVc/f
	<u>47,000</u>		
<u>Office furniture</u>			
Cost	19,600		
Wear & tear @ 25%	<u>(4,900)</u>	4,900	
ITV c/f	<u>14,700</u>		
<u>Motor car</u>			
Cost	56,000		
Wear & tear @ 20%	<u>11,200</u>	11,200	
ITV c/f	<u>44,800</u>		
<u>Lorry</u>			
ITV b/f	22,600		
Disposal proceeds	<u>(45,200)</u>		
Balancing charge	<u>(22,600)</u>	(22,600)	
<u>Industrial building</u>			
Qualifying cost(265,000-61,500)	203,500		
Initial allowance @10%	<u>(20,350)</u>	20,350	
Investment allowance @10%	-	20,350	
Wear & tear allowance @ 5%	<u>10,175</u>	10,175	
ITV c/f	<u>172,975</u>		
General offices (61,500 x 2%)		<u>1,230</u>	
Total capital allowances for the year		<u>92,605</u>	

Workings

Industrial building	K
Total cost	360,000
Less cost of land	<u>(95,000)</u>
Construction cost	<u>265,000</u>
10% x 265,000	<u>26,500</u>

The cost of general offices is more than 10% of the construction cost and will therefore not qualify for industrial buildings capital allowances.

(b)	<u>MACHIPISA LTD</u>	
	<u>COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2021</u>	
	K	K
	Net profit	540,600
	Add:	
	Depreciation	58,000
	Staff canteen expenses	4,500
	Personal to holder car	40,000
	Donation to political party	17,200
	Entertaining business association	12,200
	Entertaining foreign customers	8,900
	Increase in general provision	6,120
	Entertaining local customers	9,500
	Legal costs- Acquisition of assets	3,600
	Legal costs- Non- compliance with environmental Act	<u>4,700</u>
		<u>164,720</u>
		705,320
	Less:	
	Dividends received	165,000
	Royalties received	34,000
	Loan written off now recovered	2,300
	Capital allowances	<u>92,605</u>
		<u>(293,905)</u>
	Tax adjusted business profit	<u><u>411,415</u></u>

(c)	<u>Machipisa Ltd</u>	
	<u>Income tax payable for the tax year 2021</u>	
		K
	Business profit	411,415
	Add:	
	Royalties (34,000 x 100/85)	<u>40,000</u>
	Total taxable income	<u>451,415</u>
	Income tax (451,415 x 35%)	157,995
	Less: WHT- Royalties (40,000 x 15%)	<u>(6,000)</u>
	Income tax payable	<u><u>151,995</u></u>

SOLUTION TWO

- (a) Factors to consider by the tax authorities to determine whether an individual is employed or self-employed:

Type of contract

If there is a contract of service, it will indicate the existence of a legal relationship of master and servant. A contract for services will indicate the existence of self-employment.

Work performance

Employees must perform the duties assigned to them themselves while the self-employed may hire other people to perform the work for them.

Control

The work of an employee is controlled by the employer who will normally stipulate working hours and other conditions. A self-employed person will decide when to perform the duties and how to perform them.

Payment and financial risk

Employees are paid an agreed salary on a monthly or weekly basis and incur no form of financial risk. In order to earn an extra sum an employee will have to work overtime. Self-employed persons are normally paid a proportion of the contract price based on the amount of work performed. They will also bear the full financial risk of their business.

Place of work

Employees will normally be told where the duties are to be performed from. This is normally at the employer's premises or at the premises of the client. Self-employed persons will perform the duties at a place of their choice.

Tools and equipment

An employer will provide the tools and equipment which the employees are to use. Self-employed persons will provide their own tools and equipment.

Correction of work

Employees will normally rectify any faulty work during the normal working hours and they will still be paid for those hours. Self-employed persons will rectify any faulty work outside the contract time and they will not be paid for that extra work.

Engagement and dismissal

The employer will take on and dismiss employees. A self-employed persons will normally enter into a contract with a client specifying the beginning and end.

Insurance

Employers will normally provide insurance cover for actions of their employees. Self-employed persons will have to provide for their own insurance need.

Exclusivity

Employees normally work for only one employed person will normally work for a number of clients. An employee works for one employer.

- (b) The following matters are likely to show that Thomas Lubilo is self-employed:
- (i) Thomas is not entitled to a fixed salary but is paid an agreed contract price based on the amount of work performed in a particular month.
 - (ii) Thomas Lubilo uses his own tools to perform his duties shows that he is self-employed.
 - (iii) When he has no work with Limbikani Limited, Thomas Lubilo is free to work for other clients.
 - (iv) Thomas Lubilo has hired his nephew to help him do his work shows that he has the right to hire helpers.

- (c) An employee who earns less than K4,000 per month will not be required to pay tax. Therefore Thomas' nephew will not pay any tax because his salary is below the exempt amount of K4,000.
- (d)
 - (i) **Emoluments:** - are any income derived from employment such as salaries, wages, fees, bonuses, overtime pay, leave pay etc.
 - (ii) **Office:-** is a position that exists independently of the person presently occupying it. It must be capable of being declared vacant.

SOLUTION THREE

- (a) (i) Auto Spares Limited should be subjected to turnover tax in the year ended 31 December 2021. This is because the annual turnover is less than the K800,000.

Since the annual turnover will be earned evenly throughout the tax year, then the monthly turnover will be computed on that basis be paid on a monthly basis on the 14 day following the end of each month

Monthly turnover = $K750,000/12 = K62,500$

Monthly turnover tax = $4\% \times 62,500 = K2,500$

- (ii) The following persons are excluded from turnover tax:

- Any person carrying on a business where the annual turnover is over K800,000.
- Any individual or partnership carrying on business of public service vehicle for the carriage of persons.
- Any partnership carrying on business irrespective of whether the annual turnover is over or not over K800,000.
- Income of partners arising from the partnership since the partnership producing that profit is excluded from turnover tax.
- Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
- Any person running a business where the annual turnover is not over K800,000 but is voluntarily registered for VAT.
- Any person who is involved in mining operations as provided under the Mines and Minerals Development Act.

- (b) (i) **Shares in Lubuto Plc**

Lubuto Plc is a company that is listed on the Lusaka Securities Exchange. Shares that are listed on LuSE are not chargeable to Property transfer tax (PTT). Therefore, Property transfer is not payable on the disposal of shares in Lubuto Plc.

Shares in Jamu Limited

Shares in Jamu Limited are chargeable as this company is not listed on the Lusaka Securities Exchange (LuSE). The realized value is the greater of the nominal value and the open market value.

Property transfer tax payable = $K9,000 \times 5\% = K450$

House in Libala Stage 2

The sale of the house in Libala stage 2 is chargeable property. The realized value is the greater of the open market value and the actual sale price. As the house will be sold at the open market, the price payable by the buyer is the realisable value.

Property transfer tax payable = $K350,000 \times 5\% = K17,500$

- (ii) The following are exempt transactions for Property Transfer Tax (PTT):

- The transactions as a result of the sale or other disposal of any stock or share listed on the Lusaka Securities Exchange (LuSE).
- Contribution towards the equity for a company. The Commissioner General may treat a transfer of property by a shareholder of a company incorporated under the companies Act, if such transfer is his

contribution towards the equity of that company as qualifying for exemption.

- A transfer is not liable to PTT if it is occasioned by death of the transferor to a member of the immediate family.

- (iii) Where within a Group of companies a company transfers property to another company (other than a company which is not resident in Zambia) within the same group for the purposes of internal reorganization of the group, the Commissioner General may treat such transfer as having no realized value and no PTT will be charged.

SOLUTION FOUR

- (a) (i) The Commissioner General may make an estimated assessment in the following circumstances:
- A person has not submitted a return as required by the Act.
 - The return submitted does not satisfy the Commissioner General.
 - If the Commissioner General has reason to believe that the person is about to leave the Republic of Zambia.
- (ii) The Provisional Income Tax system works as follows:
At the beginning of the year, a tax payer is required to make an estimate of the taxable income for the tax year and compute the estimated amount of income tax payable for that year on that taxable income.
The tax payer is then required to complete a return of provisional income. This return shall contain an estimate of the taxable income for the tax year to which the return relates as well as an estimate of income tax on that taxable income.
The return of provisional income should be submitted to the Commissioner General not later than 31 March of the tax year to which it relates.
The provisional tax is a quarterly advance payment of income tax due and is payable on the following dates:
- 1st Installment 31st March in the tax year (10 April)
 - 2nd Installment 30th June in the tax year (10, July)
 - 3rd Installment 30th September in the tax year (10 October) and
 - 4th Installment 31st December in the tax year (10 January the following year).
- (ii) Advantages of the Provisional tax system
- There is inflow of revenue to the government throughout the year
 - The burden on the part of the tax payer is reduced as the huge amount of tax will not be payable at once at the end of the charge year.
- (b) (i) The mission statement underpins the main responsibilities of the Zambia Revenue Authority which are:
- Properly assess and collect taxes and duties at the right time without causing undue burden to the public.
 - Encourage the public to present themselves forward and pay tax voluntarily.
 - Ensure that all monies collected are properly accounted for and timely banked.
 - Properly enforce all relevant statutory provisions.
 - Give advice to Ministers on aspects of tax policy.
 - Facilitate international trade.
- (ii) The Commissioner General has the following powers:
- Power to request a return to be submitted at any time
 - Power to request accounts and documents to be submitted for examination

- Power to examine any person for the purpose of obtaining information
- Power to search and seize money, documents and property

SOLUTION FIVE

(a) **JAMES AND JOHN**
COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2021

	K	K
Net profit		456,500
<u>Add:</u>		
Interest on capitals:		
James (40,000 x 10%)	4,000	
John (30,000 x 10%)	3,000	
Salary- James	10,000	
Electricity	15,000	
Entertaining expenses	22,300	
Depreciation	<u>27,000</u>	
		<u>81,300</u>
		537,800
<u>Less:</u>		
Decrease in general provision	32,000	
Capital allowances:		
New furniture (24,000 x 25%)	6,000	
Motor car (60,000 x 20% x 75%)	9,000	
New machinery (85,000 x 25%)	<u>21,250</u>	
		<u>(68,250)</u>
Tax adjusted business profit		<u>469,550</u>

(b) **JAMES AND JOHN**
ALLOCATION OF PARTNERSHIP PROFIT FOR THE YEAR ENDED 31 DECEMBER 2021

	Total K	JAMES K	JOHN K
Interest on capitals	7,000	4,000	3,000
Salary	10,000	-	10,000
Balance shared 2:3	<u>452,550</u>	<u>181,020</u>	<u>271,530</u>
	<u>469,550</u>	<u>185,020</u>	<u>284,530</u>

(c) **COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2021**

	JAMES K	JOHN K
Partnership income	185,020	284,530
Less tax free income	<u>(48,000)</u>	<u>(48,000)</u>
Taxable income	<u>137,020</u>	<u>236,530</u>
Income tax:		
25% x 9,600	2,400	2,400
30% x 25,200	7,560	7,560
37.5% x 102,220/201,730	<u>38,333</u>	<u>75,649</u>
Income tax payable	<u>48,293</u>	<u>85,609</u>

END OF SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 17 JUNE 2021

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use this time to carefully study the examination paper so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of Twenty (20) marks each. You MUST attempt all the FIVE (5) 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 in 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 on page 2,3 and 4.

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

Taxation table for paper C5- Indirect Taxes (June and December 2021 Examinations)

Value Added Tax

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

Customs and Excise

Customs and Excise duties on used motor vehicles

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	Customs duty K	Excise duty K	Customs duty K	Excise duty 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 persons including station wagons and racing cars	Aged 2 to 5 years		Aged over 5 years	
	Customs duty K	Excise duty K	Customs duty K	Excise duty K
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

SUVs

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

Aged 2 to 5 years

Aged over 5 years

Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-diesel):

Customs duty

Excise duty

Customs duty

Excise duty

K

K

K

K

Single cab

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	30,697	13,302	24,119	10,452

Panel Vans

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

Trucks

GVW up to 2 tonnes	21,926	9,501	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	28,504	12,352	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, with spark ignition internal combustion piston engine	37,086	28,432	13,907	10,662

Customs and excise duty on new vehicles

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

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

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

Customs duty:	15%
Excise duty:	
Seating capacity of 16 persons and less	25%
Seating capacity of 16 persons and more	0%
- 4 Trucks/lorries with gross weight exceeding 20 tonnes

Customs duty:	15%
Excise duty:	0%

The minimum amount of customs duty on motor vehicles is K6,000.

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

Attempt all FIVE (5) Questions.

QUESTION ONE

- (a) Muzo Ltd is a new Zambia manufacturing company that started trading on 1 March 2021. Its expected turnover is shown below and all the amount should be assumed to accrue evenly:

	K
One month ended 31 March 2021	62 500
Quarter ended 30 June 2021	208,700
Quarter ended 30 September 2021	233,400
Quarter ended 31 December 2021	280,300

Required:

- (i) Advise the company when it should have registered for Value Added Tax (VAT) using the quarterly threshold. (2 marks)
- (ii) State the date when ZRA should be notified and explain the reason for this date of notification. (2 marks)
- (b) The basic principle of VAT is that it is a tax that is borne by the final consumer who consumes goods and services in Zambia. It is levied on production and sale of taxable suppliers. There have been arguments for and against VAT.

Required:

- (i) Explain any three (3) merits of VAT. (3 marks)
- (ii) Explain any two (2) demerit of VAT. (2 marks)
- (iii) Explain the difference between standard rated supplies and zero rated supplies. (3 marks)
- (c) Value added tax is a tax on taxable supplies of goods and services made in Zambia by a taxable person in the course of any business carried on by a VAT registered trader.

Required:

- (i) Explain how VAT paid to Zambia revenue Authority but not received from an insolvent customer can be claimed back as a bad debt relief. (4 marks)
- (ii) Explain any four (4) circumstances under which a registered trader may be deregistered for value added tax purposes. (4 marks)

[Total: 20 Marks]

QUESTION TWO

Mr. Mumba Lwando started a transport business in 2021. He imported a new 65 seater coach costing \$10,400. He paid insurance charges of \$3,200, freight charges of \$3,100 and other incidental expenses amounted to \$800. Additionally, he spent K5,800 to transport the coach from the border to Lusaka. Motor vehicle registration amounted to K1,650. All import taxes were paid when the coach arrived at Nakonde border on 8 February 2021.

The exchange rate agreed with the Commissioner General was K10.50 per US\$1. The exchange rate quoted by other bureau de change was K10.17 per US\$1.

Required:

- (a) Calculate the Value for Duty Purposes. (4 marks)
- (b) Compute the total import taxes paid Mr. Lwando on the importation of coach. (4 marks)
- (c) Explain any four (4) conditions to be met for the customs officers to use transaction value method in valuing imported goods. (4 marks)
- (d) Explain the procedure to complete the customs clearance of a motor vehicle. (4 marks)
- (e) Explain the functions of the Customs and Excise Division of Zambia Revenue Authority. (4 marks)

[Total: 20 Marks]

QUESTON THREE

The International Trade agreements are agreements between countries as regards trade. There are various guidelines for importers and exporters involved in the conduct of international trade, as well as procedures governing the trade protocols between countries. Zambia has entered into some of these trade agreements for the benefit of importers and exporters. For instance, if goods are originating from a member state, they may receive preferential tariff treatment.

Required:

- (a) Explain five (5) origin conferring criteria for the goods to be accepted as originating in a member state. (10 marks)
- (b) Explain what is meant by overlapping membership. (2 marks)
- (c) Explain four (4) objectives of Preferential Trade Area (PTA). (6 marks)
- (d) Describe the Duty Drawback System is and its purpose. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

Pachikani Phiri, a retired civil servant settled in Chipata district of Eastern Province where he established his business in January 2021 dealing mostly in taxable supplies related to hardware and motor vehicle accessories

It was estimated that his turnover per annum would exceed K800,000 and as such he registered for VAT in January 2021.

He made the following transactions for the year 2021:

Purchases (VAT inclusive)	K 1,190,00
20% being exempt sales, 5% being zero rated and the balance being standard rated	

Sales:

Standard rated cash sales	650,000
Standard rated credit sales	950,000
Zero rated credit sales	250,000

Pachiani bought two motor vehicles during the month of January 2021

Delivery Van (VAT inclusive)	K 150,000
Equipment (VAT inclusive)	105,000

The above vehicles were both used wholly and exclusively for business purposes.

Pachikani spent K50,000 entertaining customers and suppliers during the month January 2021 as way of getting to know each other.

The business incurred K80,000 (VAT inclusive) on diesel for business purposes

All the above figures and transactions are VAT exclusive unless stated otherwise

Required:

- (a) Explain the obligations of Pachikani Phiri as a VAT registered supplier (6 marks)
- (b) Calculate the VAT payable/refund by Pachikani Phiri for the year 2021 (14 marks)
- [Total: 20 Marks]**

QUESTION FIVE

- (a) Explain any four (4) strategies used by the PTA towards the attainment of their objective. (8 marks)
- (b) In relation to VAT
- (i) Explain what is meant by Tax point and explain its importance for the purposes of VAT. (3 marks)
- (ii) Explain how the basic tax point is determined for the supply of goods and the circumstances under which it can be changed. (3 marks)
- (iii) Explain how the tax point in the construction industry is determined. (3 marks)

- (c) Cash accounting scheme is a VAT scheme under which VAT is accounted on receipt basis.

Required:

Explain three advantages of a cash accounting scheme.

(3 marks)

[Total: 20 Marks]

END OF PAPER

C5: INDIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Muzo Limited

- (i) Therefore, Muzo Ltd should register for VAT on 31 July 2021 because the turnover of K208, 700 exceeds the three month's threshold registration.

- (ii) ZRA should be notified on 1 April 2021

This is because a new business who's VAT exceeds turnover of taxable supplies is likely to exceed K200,000 for three months because registered from the date of commencement of trading

(b) Value Added Tax

- (i) Merits of VAT are:
 1. It is easy to administer since it is levied on expenditure.
 2. There is less room to evade tax because the supplier of goods and services will charge the tax on the turnover.
 3. Input tax can be recovered on certain expenses is recoverable by way of credit against output tax if incurred on supplies used to make taxable supplier.

- (ii) Demerits of VAT are:
 1. Only traders that make taxable supplies can register for VAT and those dealing in exempt cannot.
 2. Input tax cannot demand on certain supplies e.g. exempt supplies.
- (iii) Taxable supplies are those on which VAT is charged either standard rate of 16% or zero rates.

Standard rated supplies are those on which VAT tax is at the rate of 16% on the VAT exclusive amount while Zero rated supplies are those on which VAT is charged at the rate of 0%.

(c) Bad debts and deregistration

- (i) The following is how the bad debt relief can be claimed:
 1. The claim is made on or before 27 January 1996.
 2. The receiver or administrator has been appointed to liquidate the assets of the insolvent customer.
 3. The debt has been outstanding for 18 months or more.
 4. The debtor has been declared insolvent by a court of law

(ii) A trader may be deregistered under the following circumstances:

1. If the business is sold or cease to trade permanently
2. If the Zambia Revenue Authority is satisfied that the trader is no longer making taxable supplies nor intending to make taxable supplies.
3. If there is a change in the legal status of the business of the trader.
4. If a trader had applied for registration before commencing trading and that the trader fails to commence trading on the expected date.
5. If a trader submits nil returns for twelve (12) consecutive standard periods.
6. When a trader's VAT exclusive turnover of taxable supplies falls below the registration threshold.

SOLUTION TWO

(a) Value for duty purpose

	\$
Cost	10,400
Insurance charges	3,200
Freight charges	3,100
Incidental expenses	<u>800</u>
CIF value	<u>17 500</u>

$$\begin{aligned}\text{Value for duty purposes} &= \$17\,500 \times K10.50 \\ &= \underline{K183\,750}\end{aligned}$$

(b) Import taxes paid

	Value K	Tax paid K
Value for day purposes	183,750	
Customs value @ 15%	<u>27,563</u>	27,563
	211,313	
Excise duty @0%	<u>0</u>	0
	211,313	
Value added tax @ 16%	<u>33,810</u>	<u>33,810</u>
Total value of the vehicle	<u>245,123</u>	
Total import duties		<u>61,373</u>

(c) The conditions are:

1. There should be no restriction to the use of goods.
2. There should be no condition to deter the determination of value for duty purpose
3. No part of the proceeds of resale would accrue to the seller, unless included in the value.
4. No relationship exists to influence the value.
(1 mark per valid point up to 4 marks)

(d) The clearance procedure of the motor vehicle is:

1. Presentation of genuine import documents
2. Revaluation by customs if necessary
3. Payment of customs duty, excise duty, import VAT and processing fee
4. Processing of the declaration form CE20 by customs
(1 mark per valid point up to 4 marks)

(e) The four (4) powers of ZRA customs officials are:

1. Collection of revenue on behalf of the central government through customs duty, excise duty and import VAT.
2. Prevention of smuggling
3. Provide statistical data to the government on imports and exports.
4. Facilitate international trade by facilitating travel and movement of goods.

SOLUTION THREE

- (a) Goods shall be accepted as originating from member states based on the following criteria:
1. Goods wholly produced in a Member State (i.e. raw materials from outside the regions have been used in their manufacture); or
 2. Goods produced in a Member State and the CIF value of any foreign (i.e. non COMESA or SADC) used does not exceed 60% of the total cost of all materials used in the production; or
 3. Goods produced in Member States whose value added resulting from the process of production accounts for at least 35% of the ex- factory cost of the goods; or
 4. Goods produced in a Member State designated in a list by the Council to be of particular importance to the economic development of the Member State and containing not less than 25% value added notwithstanding the provision in (c) above.
 5. Goods satisfying the change of tariff heading resulting from their process of manufacture where some raw materials are imported.
- (b) Overlapping membership means belonging to more than one regional or international body.
For example SADC and COMESA are regional bodies to which some countries belong. Zambia belongs to both COMESA and SADC. It has dual membership.
The organisation must be having different rules and tariffs and thereby in some instances countries with dual membership must observe these two different sets of rules.
- (c) The objectives of the PTA are as follows:
1. To promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs.
 2. To raise the standard of living of the people of the region by fostering closer relations among Member States.
 3. To create a common market in order to allow the free movement of goods, capital and labour within the sub-region and
 4. To contribute to the progress and development of all other African countries.
- (d) Duty Draw Back System is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export. The main purpose of this system is to promote exports by avoiding double taxation.

SOLUTION FOUR

(a) VAT registered supplier's obligations:

1. Notify Zambia Revenue Authority when the business starts or circumstances change
2. Co-operate with Zambia Revenue Authority officers by providing information to them
3. maintain sufficient records for at least 5 years
4. The VAT returns should be completed accurately and honestly provide tax invoices
5. display the VAT registration certificate
6. Charge VAT on taxable supplies
7. complete and submit returns by the due date which is specified by Zambia Revenue Authority and pay promptly by due date

(b) Pachikani Phiri

Computation of VAT payable (refundable) for the year 2021

<u>Output VAT</u>	K	K
Standard rated cash sales (K650,000 x 16%)		104,000
Standard rated credit sales (K950,000 x 16%)		152,000
Zero rated credit sales (K250,000 x 0%)		<u>0</u>
		256,000
<u>Input VAT</u>		
Standard rated purchases (K892,500 x 4/29)	123,103	
Zero rated purchases (K59,500 x 0%)	0	
Entertaining expenses	0	
Delivery van (K150,000 x 4/29)	20,670	
Equipment (K105,000 x 4/29)	14,483	
Purchase of diesel (K80,000 x 4/29 x 90%)	<u>9,931</u>	
		<u>(168,187)</u>
VAT payable		<u>87,813</u>

SOLUTION FIVE

(a) **PTA strategies:**

1. Reduction and elimination of trade barriers on selected goods traded within the area
2. Cooperation in customs through simplification and harmonization of customs procedures and regulations.
3. Introduction of rules of origin to determine which goods will receive preferential treatment.
4. Granting of transit rights to all transporters when coming from or entering other Member States or third parties.
5. Clearing and payments arrangements to promote trade in goods and services within the sub region.
6. Cooperation to develop coordinated and complementary policies and systems in transport and communications
7. Cooperation in the field of industrial development in order to promote self-sustained industrialization within the PTA to expand trade industrial products and to bring about structural transformation of industry.
8. Cooperation in the area of agricultural development so as to raise production and supply of food to coordinate the export of agricultural commodities to harmonise programmes in agricultural production.
9. Simplification and harmonization of trade documents and procedures in the area.
10. Interventions to assist the least industrialised Member States such as special consideration in allocating multinational industries.

(b) Value Added Tax

- (i) The Tax point is the time when a supply is deemed to have taken place

Importance of tax point

1. It helps to determine the tax period in which VAT on a supply is to be accounted for (payable/claimable).
2. It helps to determine the VAT rate or scheme to be applied to a particular supply in case of a change in the VAT rate or scheme.

- (ii) The basic tax point is the time when goods are made available to a customer or collected by a customer.

The basic tax point can be changed if a tax invoice is issued or payment made before the goods are made available to a customer. If the Tax invoice is issued within 14 days after the basic tax point, the tax point is same as when the invoice is issue.

- (iii) How the basic tax point is determined in the construction industry

1. When interim certificates are issued and payment on the amount involved
2. Any part payments, including interim or advance payments made
3. Completion of the building services and a compliance certificate issued out

- (c) The following are the advantages of the cash accounting scheme:
1. VAT is only paid when cash has been received from the customers.
 2. It is easy to prepare the VAT returns as the cash book can be to do so.
 3. Bad debts relief occurs automatically as the invoices not paid for will not be included in the VAT computations.

END OF SOLUTIONS



TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: LAW FOR TAX PRACTITIONERS

FRIDAY 18 JUNE 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 question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) 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. 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.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. 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.

Attempt all FIVE (5) Questions.

QUESTION ONE

Seth a car dealer let a car to Teddy who was to pay 36 monthly instalments and become owner on payment of the final instalments. The agreement provided that Teddy could end the agreement at any time and return the car as long as any outstanding arrears were paid. Two (2) months later, Teddy sold the car to Peter.

Required:

- (a) Identify the nature of agreement existing between Seth and Teddy. (2 marks)
- (b) Explain whether a valid contract exist between Teddy and peter. (10 marks)
- (c) List the four (4) rights entitled to a principal in an instance where the agent breaches the contract. (4 marks)
- (d) Explain an extraordinary general meeting (4 marks)

[Total: 20 Marks]

QUESTION TWO

- (a) Explain the conditions necessary for agency by ratification to subsist. (6 marks)
- (b) With the aid of examples, explain the elements of *res ipsa –loquitur* (4 marks)
- (c) Write notes on the following:
 - (i) Sole proprietorship (3 marks)
 - (ii) Instalment purchase. (2 marks)
- (d) Distinguish a finance lease from an operating lease. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Yamikani is a driver who is assigned to deliver steel from Universal Steel Ltd in Kafue to Kabwe Metal Fabricators. On the way, he decided to take a lay bye and had some few drinks of beer. As soon as he started off from the lay bye, he lost control owing to his drunken state, caused an accident, lost one of his legs and his brain got damaged. He is no longer able to do anything after the accident and wants to claim compensation under the Workers' Compensation Act (CAP 271 of the Laws of Zambia).

Required:

- (a) With reference to the above scenario, explain if Yamikani would succeed under the said Act. (4 marks)
- (b) In reference to employee accidents, explain the meaning of Concurrent Remedies. (4 marks)
- (c) Discuss the establishment, jurisdiction and composition of the following:
- (i) Lands Tribunal (6 marks)
 - (ii) Subordinate or Magistrate Courts (6 marks)

[Total: 20 Marks]

QUESTION FOUR

Annie got a loan from Barclays bank. When the bank asked her to settle the loan, she refused saying that she did not know about the loan. After further investigations, the bank learnt that Annie was insane.

Required:

- (a) With the aid of examples, advise the bank as to their legal position. (8 marks)
- (b) Explain the duties of carriers under Sale of Goods Agreement. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Explain the term 'privity' in contract (5 marks)
- (b) State five (5) exceptions to the principle of 'privity' in contract (5 marks)
- (c) With the aid of examples, explain the doctrine of *ultra vires* in relation to companies. (10 marks)

[Total: 20 Marks]

END OF PAPER

C6: LAW FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

- a) Hire purchase agreement.
- b) A hire purchase agreement is type of agreement formed between a hirer and a seller, where the hirer obtains immediate use of the goods on hire but is not the true owner until all instalments are paid in full to the seller. The goods are in essence owned by the seller until full payment when the hirer can have an option to buy. However, the owner of the goods could repossess the goods where the hirer failed to pay an installment. The owner could also recover the goods even if they fell in the hands of an innocent third party. In a hire- purchase agreement, the parties are not committed to buy and sell until the hire period. Henceforth, there is no contract existing between Teddy and Peter.
- c) The following are the rights of the principle;
 - 1. To repudiate the contract.
 - 2. Right to claim damages for loss caused.
 - 3. Lien
 - 4. Right to affirm the transaction and claim benefits.
- (d) Extraordinary general meeting – this is any general meeting other than the annual general meeting. This meeting may be convened by the directors whenever they think fit or if the articles of the company provides, by any other person in accordance with the provisions. Extraordinary general meetings are convened by directors to deal with urgent matters which may not wait for the annual general meeting.

SOLUTION TWO

a)

- The agent must purport to act as agent for a principal who is in contemplation
- There should be an act capable of ratification
- The principal must be in existence
- The principal must be competent to contract
- The principal must have full knowledge of material facts
- Whole transaction must be ratified
- Ratification must not injure a third person

b) *Res ipsa loquitur* is a Latin phrase that means "the thing speaks for itself." In personal injury law, the concept of *res ipsa loquitur* (or just "res ipsa" for short) operates as an evidentiary rule that allows plaintiffs to establish a rebuttable presumption of negligence on the part of the defendant through the use of circumstantial evidence. This means that while plaintiffs typically have to prove that the defendant acted with a negligent state of mind, through *res ipsa loquitur*, if the plaintiff puts forth certain circumstantial facts, it becomes the defendant's burden to prove he or she was not negligent.

c)

i. Sole proprietorship which is a business owned and run by one person. It has no perpetual succession, and the owner and the business are one; meaning it has no separate legal existence. It also does not have limited liability. The good features are that the owner retains all the profits and makes all decisions, but when the owner dies, the business also dies.

ii. Since under installment purchase the ownership of goods passes to the buyer immediately he or she can transfer the goods to third party which cannot be done in case of hire purchase. in installment purchase the seller can only bring a claim against buyer but cannot have his or her goods back.

d) The lease is a finance agreement in which lessor (owner of the asset) purchases the asset and let the lessee (user of the asset) use the asset for a limited period against periodic payments, i.e. lease rentals. The terms and conditions of the lease are written in the lease deed. Finance or capital lease and operating lease are two types of lease.

Finance Lease is a lease in which the risk and rewards are transferred to the lessee with the transfer of the asset. Conversely, with an Operating Lease risks and rewards are not transferred to the lessee with the transfer of the asset. Therefore, the lease is an alternative to buying the asset out of owned or borrowed funds. One of the major differences between a finance lease and an operating lease is, the former cannot be canceled, during the primary lease period, whereas the latter can be canceled by the lessee.

SOLUTION THREE

- (a) Yamikani would succeed, because Section 41 (4) of the Workers' Compensation Act CAP 271 provides that a worker is entitled to compensation whether the accident was out of his negligence or not, as long as it happened whilst he was on duty. In this case, was on duty, even though he decided to start drinking causing an accident.
- (b) *Concurrent Remedies* – This is provided for under Section 9 (1) of the Workers' Compensation Act which means that where an accident in respect of which compensation of which compensation is payable was caused in circumstances creating a legal liability in some person other than the employer, the injured worker is allowed to claim compensation even from the third party that caused the accident and may sue the third party for compensation or claim from both the employer and that third party.
- (c) The two are discussed below as follows:
- (i) *Lands Tribunal* – The Lands Tribunal is created by Section 20 of the Lands Act CAP 184. Its members are appointed by the President on advice of the Judicial Service Commission. The Tribunal consists of the Chairperson who is qualified to be a High Court Judge, the Deputy and other members from various bodies as provided by the Act. Its main duty is to hear land related matters. It is at the same level as the High Court and appeals from the Lands Tribunal go to the Court of Appeal (though students may indicate Supreme Court as reflected in the Act not yet amended).
1. *Subordinate or Magistrates Courts* - These are established by the Subordinate Courts Act Cap 28 of the laws of Zambia and presided over by the Magistrates appointed by the President through the Judicial Service Commission. Magistrates have both civil and criminal jurisdiction, but their powers depend on the different classes of respective magistrates, e.g. Chief Resident Magistrate, Principal Resident Magistrate, Senior Resident Magistrate, Resident Magistrate, Magistrate Class 1, Class 2 and Class 3. Appeals from Subordinate Courts go to the High Court.

SOLUTION FOUR

Solution 4(a)

In contract law a person who agrees to a transaction becomes liable for duties under the contract unless they are legally incompetent. Incompetence in law of contract means a person who is a minor that is below the age of 18 in Zambia or a prescribed age in other jurisdictions, a person of unsound mind that is, an insane person. A person of unsound mind is competent to contract although the contract can be avoided at his option if he satisfies the court that he was incapable of understanding the contract and the other party had the knowledge of the same. In *Imperial Loan Company v Stone* (1892) 1 QB 599 (CA) the court stated that a mentally disordered person can only set aside a contract entered into with a person of sound mind under the following circumstances, when a person enters into a contract and later alleges that he was so insane that he did not know what he was doing and proves the allegation, the contract is as binding on him in every respect whether it is executory or executed, as if he had been sane when he made it, unless he can prove further that the person with whom he contracted knew him to be so insane as not to be capable of understanding, what it was about.'

In the case of Annie, the contract is legally binding and she is to be held liable for its breach unless she can establish the test laid down in the case above.

Solution 4(b)

The following are the duties of carriers under the Sale of Goods Agreement:

- (i) Duty of carrier to carry goods safely
- (ii) The carrier must deliver the goods before the deadline of order
- (iii) To obey instructions given by the seller
- (iv) To deliver the goods to the final destination
- (v) Duty to take care of the goods
- (vi) Duty to accept the goods
- (vii) Duty to deliver goods to the right person

SOLUTION FIVE

(a) Privity of a contract is a legal principle which states that only a party to a contract can sue and be sued upon the said contract.. Third parties do not acquire rights and obligations but acquire such rights in exceptional situations to mitigate the harsh outcomes of the strict rule.

(b) The exceptions to the principle (privity of contract) are:

- (i) Exceptions provided by statute
- (ii) Collateral contracts

- (iii) Agency
- (iv) Covenants in land law (assignments of land)
- (v) Trusts

The doctrine of ultra vires in relation to companies– This doctrine simply means acting beyond the powers given by the articles/objects clause of the company. It was held in ***Ashbury Railway Carriage and Iron Co. Ltd v Richie (1875) LR 7 HL 653*** that ultra vires acts by a company are a nullity. Thus where directors transact outside their powers, they would be personally liable and not the company. However, it is now trite law that where a third party deals with the company in good faith, not knowing its capacity, such a third party would be able to enforce the contract on the company (and if the company feels injured, it will recover its loss from the directors). This was seen in the case of ***Re Introductions Ltd (1970) Ch 199***. Where the contract was unenforceable because the third party (bank) did not deal in good faith, it went ahead to contract despite knowing that the company did not have the capacity, thus the contract was unenforceable. Had it dealt in good faith (not knowing the limits of the company), the contract would have been enforceable.

END OF SOLUTIONS