



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1. Profits should not be anticipated but taken into account only when they are realized. Possible losses should be anticipated.'
- Which accounting concept or principle does this describe?
- A. Accruals
 - B. Prudence
 - C. Going concern
 - D. Consistency
- (2 marks)
- 1.2. Which of the following are true of partnerships?
- 1. The partners' individual exposure to debt is limited.
 - 2. Financial statements for the partnership by law must be produced and made public.
 - 3. A partnership is not a separate legal entity from the partners themselves.
- A. 1 and 2 only
 - B. 2 only
 - C. 3 only
 - D. 1 and 3 only
- (2 marks)
- 1.3. Which of the following is a 'transposition error'?
- A. Omitting an entry from the accounts
 - B. Incorrect classification of a balance
 - C. Switching the debit and credits regarding a journal entry
 - D. Switching two (2) adjacent digits in a number
- (2 marks)
- 1.4. One of the qualitative characteristics of financial information is 'reliability'. Which of the following is NOT a component of what makes financial information reliable?
- A. Neutrality
 - B. Prudence
 - C. Faithful representation
 - D. Consistency

(2 marks)

1.5 The trial balance of Kalyafye is extracted and a difference of K812 credit has arisen, this has been posted to the credit of a suspense account. The following errors have been discovered:

- (i) The year-end bank overdraft of K756 has been entered into the trial balance as a debit balance.
- (ii) The total of the discounts receivable for the last month of the year amounting to K13,400 has been posted from the daybook to the discounts receivable account as K14,300, the other side of the entry was correct.
- (iii) A purchase invoice totaling K2,015 has been correctly credited to the control account, but the full amount has been debited to light and heat.

After correction of these errors, what will the balance of the suspense account be?

- A. K200 credit
- B. K3,224 credit
- C. K1,600 debit
- D. K956 credit

(2 marks)

1.6 Tuleya Tulekula Co. had a general allowance for receivables at 1 January 2020 of K1,000.

Tuleya Tulekula calculates that at 31 December 2020 an allowance of K1,500 is required. In addition, K2,000 worth of debts were written off during the year and K70 was received regarding a debt written off in an earlier accounting period.

How much should be included in Tuleya Tulekula's statement of profit or loss account Regarding irrecoverable debts for the year ended 31 December 2020?

- A. K3,430
- B. K2,430
- C. K2,500
- D. K2,000

(2 marks)

1.7 Mr. Nguzu includes the following amounts in his accounts:

Particulars	Amounts (K)
Purchases	80,000
Purchases returns	5,000
Carriage outwards	800
Carriage inwards	1,000
Cash discount received	2,000
Opening inventory	10,000
Closing inventory	12,000

What is Mr. Nguzu's cost of sales?

- A. K74,000
- B. K75,000
- C. K70,000
- D. K65,000

(2 marks)

1.8 Parte after Parte company acquired a car on 1 June 2018 for K11,700 and has depreciated it on a reducing balance basis at the rate of 20% per annum, proportionate basis. On 1 August 2020 the car was sold for K5,800.

In relation to this motor vehicle what is the total depreciation charge to the statement of profit or loss account for the year ended 30 September 2020?

- A. K2,964
- B. K2,184
- C. K1,456
- D. K1,310

(2 marks)

1.9 Mr. Chimutunta payables control account has a credit balance of K34,500 as at 1 December 2020. During December, credit purchases were K78,400, cash purchases were K2,400 and payments made to suppliers excluding cash purchases and after deducting settlement discounts of K1,200 were K68,900. Purchases returns were K4,700.

What was Mr. Chimutunta's balance as at December 31?

- A. K38,100
- B. K40,500
- C. K47,500
- D. 49,900

(2 marks)

1.10 Mr. Nkhunzi cash book at 31 December 2020 shows a credit bank balance of K565,000. On comparing this with his bank statement at the same date, he discovered the following:

1. A cheque for K57,000 drawn by him on 29 December 2020 has not yet been presented for payment.
2. A cheque for K92,000 from a customer which was paid in to the bank on 24 December 2020 was dishonoured on 31 December 2020.

What is the bank balance to be shown in the statement of financial position as at 31 December 2020?

- A. K714,000 credit
- B. K657,000 credit
- C. K473,000 credit
- D. K530,000 debit

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Roy Mutelo is a sole trader who has been successfully trading for some years under the trade name Loafers. Loafers use a manual accounting system.

The books of original entry are totaled and posted to the double entry system at the end of each week. The following transactions took place in the first week of March 2020.

The rate of Value Added Tax (VAT) is 16%.

2 March – Received an invoice from Buumba Ltd for inventory supplied. The invoice amount is K754 inclusive of VAT.

- Loafers issued an invoice to Angel Banda for inventory supplied. The invoice amount is K1,276 inclusive of VAT.

3 March – Received an invoice from John Mweene for inventory supplied. The invoice amount is K464 inclusive of VAT.

- Received an invoice from Esther Chama for inventory supplied. The invoice amount is K928 inclusive of VAT.

- Loafers issued an invoice to J. Hara for inventory supplied. The invoice amount is K1,856 inclusive of VAT.

4 March – Received an invoice from Evans Nawa for inventory supplied. The invoice amount is K696 inclusive of VAT.

- Loafers issued an invoice to R. Daka for inventory supplied. The invoice amount is K1,160 inclusive of VAT.

6 March – Loafers issued an invoice to V. Sampa for inventory supplied. The invoice amount is K638 inclusive of VAT.

Required:

(a) Write up Loafers' Purchases day Book and sales day Book clearly showing net amount, VAT amount and total amount for each transaction. (14 marks)

(b) Post the day book totals to the general ledger. Do not balance the ledger accounts.

(6 marks)

[Total: 20 Marks]

QUESTION THREE

At the end of 28 February 2020, Mutema's cash book revealed a debit balance of K24,670. Mutema being a teacher, couldn't understand why the bank statement on the same date reflected a credit balance different from the cash book balance.

Mutema has, however, presented before you the following transactions that took place in the month of February 2020. Upon comparing the cash book with the bank statement, you discovered the following differences:

1. Rentals received from her flats of K5,438 which were credited by the bank did not reflect in the cash book.
2. The bank debited Mutema's account by error with a cheque amount of K863.
3. Cheque No. 3 amounting to K1,250 is a standing order payment to the Zambia Revenue Authority with regard to Turnover tax payable on 13th of every month which had been paid by the bank but not entered on the cash book.
4. Amounts received on 28 February 2020 totalling K4,323 and recorded in the cash book had not been included in the bank statements until 5 March, 2020.
5. A cheque in the sum of K500 payable to Mader Ltd was misplaced when totalling the cash book.
6. A cheque paid to Mwendabaya amounting to K1,365 was posted twice in the cash book.
7. Cheques amounting to K13,218 paid according to the cash book during February were not presented for payment to the bank until 4 March, 2020.
8. Bank charges of K638 appeared on the bank statement but not on the cash book.

Required:

- (a) (i) Prepare a revised Cashbook. (3 marks)
(ii) Draw up a Bank Reconciliation Statement as on 28 February 2020. (3 marks)
- (b) Errors are inevitable in financial records, it is therefore important to understand some of the ways in which errors come about so that appropriate measures can be taken to correct them. Some of these errors can be corrected by journal entries and others may require the use of suspense account.

Below are transactions for Kamaka Company Limited recorded by the bookkeeper for the period of February 2020.

1. The stationery expenses of K200,000 were debited to Telephone expenses account.
2. Kamaka Company Limited intends to dispose of its machine which was bought ten (10) years ago. The machine cannot be sold in its current condition, expenditure amounting to K44,000 was incurred to improve its performance. The bookkeeper debited a repairs expenses account.
3. Kamaka Company Limited owed its suppliers, Luwi cleaning solutions to an extent of K25,200. A payment to the supplier was posted by debiting the purchase ledger with K25,000 and crediting the bank by K25,000.
4. Kamaka Company Limited received an invoice from a supplier amounting to K550,800. This transaction was not recorded anywhere in the books of the company.
5. Kamaka Company Limited spent K1,500,000 on Research and Development. The future benefits of this research are certain. The bookkeeper is unsure whether this expenditure is revenue or capital expenditure. In order to avoid an imbalance in the trial balance the suspense account was used.

Required:

Identify the type of errors committed for each of the above transactions and show the relevant correcting Journal entries without narratives. (10 marks)

- (c) Briefly explain the following:
- (i) Accounting policies (2 marks)
 - (ii) Accounting choices (2 marks)

[Total: 20 Marks]

QUESTION FOUR

Banda and Saku are trading in partnership, sharing profits and losses in the ratios 2:3 respectively. Interest is to be allowed on capital and on the opening balances on the current accounts at a rate of 5% per annum. Saku is to be given a salary of K36,000 per annum.

The following trial Balance was extracted from the books of the partnership at 31 December 2020.

QUESTION FIVE

Mwita Manda, a wholesale fruit and vegetable trader, does not keep a full set of accounting records.

1. Summary of the bank account for the year ended 31 December 2020

BANK ACCOUNT

Date	Details	K	Date	Details	K
2020			2020	Purchase of motor van (AGB 2332)	65,000
Jan	Balance b/f	9,850	Dec	Payments to Suppliers	360,000
	Trade receivables	580,000		Rent and rates	13,000
	Sale of motor van (ACR 4598)	10,500		Wages	75,500
				Motor vehicles expenses	16,750
				Postage and Stationery	6,800
				Drawings	46,000
				Repairs expenses	3,250
				Insurance	4,000
				Balance c/d	<u>10,050</u>
					<u>600,350</u>
2021		—————			
Jan 1	Balance b/f	<u>600,350</u>			
		10,050			

2. Assets and liabilities, other than balances at bank in 2020

	January	December 31
Trade payables	23,500	12,950
Trade receivables	36,600	47,500
Rent and rates accrued	1000	1,300
Motor van: ACR 4598 at cost	50,000	
Accum'd depreciation	40,000	
ABG 2332		
Accum'd depreciation		65,000
		To be determined
Inventory	24,500	29,500
Insurance prepaid	800	1,000

3. All receipts are banked and all payments are made from the business bank account.
4. A trade debt of K1,500 owing by John Banda and included in the trade receivables at 31 December 2020 (see (2) above) is to be written off as an irrecoverable debt.
5. Mwita Manda provides depreciation at the rate of 20% at cost on motor vans held at the end of each financial year. No depreciation is provided in the year of sale or disposal of a motor van.
6. Discount received during the year ended 31 December 2020 from trade payables amounted to K5,500.

Required:

- (a) Prepare Mwita Manda's statement of profit or loss for the year ended 31 December 2020
(11¹/₂ marks)
- (b) Prepare Mwita Manda's statement of financial position as at 31 December, 2020.
(8¹/₂ marks)

[Total 20 Marks]

QUESTION SIX

Mr. Kasuli had the following transactions that took place during the month of January 2020:

		UNITS	UNIT COST	AMOUNT
			K'	K'
1 Jan	Opening inventory	200	12	2,400
6 Jan	Purchases	400	17	6,800
9 Jan	Sales	300	30	9,000
15 Jan	Sales	250	32	8,000
17 Jan	Purchases	100	18	1,800
21 Jan	Sales	60	32	1,920

Required:

(a) Prepare a stores ledger card and use it to estimate the closing inventory using each of the following inventory valuation method:

- (i) First In-First Out (FIFO) (5 marks)
- (ii) Last In-First Out (LIFO) (5 marks)
- (iii) Weighted Average Cost (AVCO) (4 marks)

(b) Prepare a statement of profit or loss for each of the above inventory valuation methods. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA1: FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i) Purchases Day Book.

Date	Details	Net	VAT	Total
		K	K	K
2 March	Buumba Ltd	650	104	754
3 March	John Mweene	400	64	464
	Esther Chama	800	128	928
4 March	Evans Nawa	600	96	696
		2,450	392	2,842

(ii) Sales Day Book

Date	Details	Net	VAT	Total
		K	K	K
2 March	Angel Banda	1,100	176	1,276
3 March	J. Hara	1,600	256	1,856
4 March	R. Daka	1,000	160	1,160
6 March	V. Sampa	550	88	638
		4,250	680	4,930

(b) General Ledger Extract only

Date	Details	Purchases Account		
		Net		
		K	K	K
6 March	Trade Payables	2,450		

Trade Payables Control Account

6 March Purchases 2,842

VAT Control Account

6 March Trade Payables 392 6 March Trade Receivables 680

Sales Account

6 march Trade Receivables 4,250

Trade Receivables Control Account

6 March Sales 4,930

SOLUTION THREE

(a) i **UPDATED CASHBOOK -MUTEMA**

2020	K	2020	K
28.02 Bal b/d	24,670	28.02 Bank Charges	638
28.02 Rentals	5,438	28.02 Standing order	1,250
28.02 Cheques posted twice	<u>1,365</u>	28.02 Mader Ltd	500
	<u>31,473</u>	28.02 Bal c/d	<u>29,085</u>
			<u>31,473</u>

(ii) Bank reconciliation statement as on 30th June 2020

	K	K
Balance as per revised cashbook		29,085
Add: unpresented cheques		<u>13,218</u>
		42,303
Less: Uncredited cheques	4,323	
Cheque wrongly posted	<u>863</u>	
		<u>(5,186)</u>
Balance as per bank statement		<u>37,117</u>

(b) Identification of the type of errors and how to correct them

1. The stationery expenses of K200,000 were debited to Telephone expenses account.

- **This is an error of commission:** This means that the total debits and credits of the stationery and telephone accounts balance. The stationery expenses are understated by K200,000 and telephone expenses are overstated by the same amount

- To correct the transaction:

Debit: Stationery expenses account by K200, 000

Credit: Telephone expense account by K200, 000

2. Disposing of the machine which was bought 10 years ago.

- **This is an error of principle:** It involves making a double entry in the belief that the transaction is being entered in the correct account, but subsequently finding out

that the accounting entry breaks the rules of an accounting principle or concept. In this case the bookkeeper treated the cost as revenue expenditure instead of capital expenditure.

- To correct the transaction:

Debit: Non-current assets under machinery by K44, 000

Credit: Repairs expenses account by K44, 000 1 mark

3. Debiting the purchase ledger by K25,000 and crediting the bank by K25,000.

This is an error of original entry: This error takes place when an incorrect amount is posted to the correct amount. It has an equal debit and credit balance which proves difficult to be detected by a trial balance. 1 mark

- To correct the transaction:

Debit: Payables account by K25, 000

Debit: Payable account by K200

Credit: Purchase ledger account K25, 000

Credit: Bank account by K200 1 mark

4. Kamaka Company Limited receives an invoice from a supplier amounting to K550,800. This transaction was not recorded anywhere in the books of the company.

- **This is an error of Omission:** This is an error where the company has completely failed to capture the transaction in its books. This means that both total debits and total credits will be less by K550,800.

- To correct the transaction:

Debit: Payables account by K550,800

Credit: Bank account by K550,800

5. Kamaka Company Limited spent K1,500,000 on Research and Development.

- **This is one sided entry errors:** This where the bookkeeper makes a mistake by only entering one side of the double entry.

- To correct the transaction:

Debit: Non-current assets (Research and Development)

Credit: Suspense account

c) To briefly explain the following terms:

(i) **Accounting policies**

- These are specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- It is also important to know that accounting policies are as a result of accounting choices made by managers.

(ii) **Accounting choices**

- An accounting choice is any decision whose primary purpose is to influence (either in form or substance) the output of the accounting system in a particular way, including not only financial statements published in accordance with GAAP, but also tax returns and regulatory filings.

(iii) The broad choices include:

- Choice of LIFO vs. FIFO
- Choice to structure a lease so that it qualifies for operating lease treatment
- Choice affecting level of disclosure
- Choice in the timing of adoption of new accounting standards

SOLUTION FOUR

(a) **Banda and Saku's**

Statement of profit or loss and appropriation Account for the year ended 31 December, 2019.

	K	K
Sales (1083500-1600)		1,081,900
Purchases (5836 60 + 6300 – 660)	589,300	
Less closing inventory	(3,000)	586,300
Gross profit		<u>495,600</u>
Less: Staff salaries	282,300	
Rent	5,000	
Insurance (5000 – 300)	4,700	
General Expenses	39,000	
Irrecoverable Receivables (2300 + 3000)	5,300	
Depreciation on office Equipment	14,800	(351,100)
Trading Net Profit		<u>144,500</u>
Add interest on Drawings – Banda	1,100	
Saku	2,100	<u>3,200</u>
		147,700
Less: Partnership Salary – Saku		<u>(36,000)</u>
		111,700
Interest on capitals – Banda	5,000	
Saku	<u>7,500</u>	(12,500)
		99,200
Interest on current A/cs – Banda	400	
Saku	<u>500</u>	(900)
Residual Profit		98,300
Share of Profits : - Banda $\frac{2}{5}$ x 98,300	39,320	
Saku $\frac{3}{5}$ x 98,300	<u>58,980</u>	<u>(98,300)</u>
		-

(b) **Current Accounts**

	Banda	Saku		Banda	Saku
	K	K		K	K
Drawings	40,000	34,000	Balances b/f	8,000	10,000
Interest on Drawings	1,100	2,100	Salary	-	36,000
Balances c/d	11,620	76,880	Int. on capital	5,000	7,500
			Int. on current	400	500
			Share of Profit	39,320	58,980
	52,720	112,980		52,720	112,980

(c) Banda and Saku's Statement of Financial Position as at 31 December 2019.

	Banda	Saku
	K	K
<u>Non – current Assets</u>		
Office Equipment [148,000 –24,000-14,800]		109,200
<u>Current Assets:</u>		
Inventory	3,000	
Trade receivables (275,000 – 3,000)	272,000	
Bank	800	
Prepaid insurance	300	276,100
TOTAL ASSETS		385,300
<u>Capitals and Liabilities</u>		
Capitals – Banda	100,000	
Saku	<u>150,000</u>	250,000
Current Accounts – Banda	11,620	
Saku	<u>76,880</u>	88,500
<u>Current Liabilities</u>		
Trade Payables		46,800
		385,300

SOLUTION FIVE

(a)

Note 1 Calculation of opening Capital figure.

	Dr	Cr
Opening Journal Entry		
Inventory	24,500	
Motor vehicle (50000 – 40000)	10,000	
Trade receivables	36,600	
Bank	9,850	
Prepaid insurance	800	
Trade payables		23,500
Rent and Rates Accrued		1,000
∴ Capital at start		<u>57,250</u>
	<u>81,750</u>	<u>81,750</u>

Note 2 Rent and Rate = 13000 + 1300 – 1000 = K13300

Note 3 Insurance Adjustment = 800 + 4000 – 1000 = K3800

Note 4 Trade receivables = 580000 + 47500 – 36600 = K590900

Note 5 Trade Payables = 360000 + 5500 + 12950 – 23500 = K354950

MWITA MANDA'S

Statements of profit or loss for the year ended 31 December, 2019

	K	K
Sales (note 4)		590,900
Cost of sales: opening inventory		
Purchases (note 5)	24,500	
	<u>354,950</u>	
Less closing inventory	379,450	
	<u>(29,500)</u>	(349,950)
Gross profit		<u>240,950</u>
Other income: Discount received		240,950
Profit on Sales of motor vehicle	5500	
	500	<u>6,000</u>
Less expenses: Depreciation expenses		246,950
Rent and rates (note 2)	13,000	
Wages	13,300	
Motor vehicle expenses	75,500	
Potage and stationery	16,750	
Repair expenses	6,800	
Insurance (note 3)	3,250	
Irrecoverable debt	3,800	
Net profit	1,500	<u>133,900</u>
		<u>113,050</u>

(b) Mwita Manda's Statement of financial Position as at 31 December, 2019

Non-current Assets	K	K
Motor vehicles (65000 – 13000)		52,000
Current Assets		
Inventory	29,500	
Trade receivable (47500 – 1500)	46,000	
Bank	10,050	
Prepaid insurance	<u>1,000</u>	86,550
Total assets		<u>138,550</u>
Financed by:		
Capital (note 1)		57,250
Net profit	113,050	
Less Drawings	<u>(46,000)</u>	67,050
		<u>124,300</u>
Current liabilities		
Trade Payables	12,950	
Rent and Rate accrued	<u>1,300</u>	14,250
		<u>138,550</u>

SOLUTION SIX**(a) Mr. Kasuli Stores Ledger Card for Closing Inventory Valuation****(i) FIFO METHOD**

Date	Purchased	Sales	Inventory Balance After each transaction
1 January	-	-	200 x K12 each K2 400
6 January	400 @ \$17 each K6 800	-	K6 800 + K2 400 K9 200
9 January	-	300 @ K30 each K9000	(200 @ 12) (2 400) (100 @ 17) (1 700) 300 @ 17 5 100
15 January 5 100	-	250 @ 32 each K8 000	300 @ 17 (250 @ 17) (4 250) 50 @ 17 850
17 January 650	100 @ \$18 each	-	1 800 2
21 January	-	60 @ 32 each K1 920	50 @ 17 (850) 10 @ 18 (180) 90 @ 18 1 620
	K8 600	K18 920	

(ii) LIFO METHOD

Date	Purchased	Sales	Inventory Balance After each transaction
1 January	-	-	200 @ 12 each K2 400
6 January	400 @ K17 each K6 800	-	K6 800 + K2 400 K9 200
9 January	-	300 @ K30 23	600 (300 @ 17) 5 100

		K9000	100 @ 17	1 700
			<u>200 @ 12</u>	<u>2 400</u>
			300	4 100
15 January	-	250 @ 32	300	
			(100 @ 17)	
		K 8 000	(150 @ 12)	
			50 @ 12	K600
17 January	100 @ K18 each	-	50 @ 12	K600
	K1 800		<u>100 @ 18</u>	<u>K1 800</u>
			150	K2 400
21 January	-	60 @ 32	150	
		K1 920	<u>60 @ 18</u>	
			40 @ 18	K720
			<u>50 @ 12</u>	<u>K600</u>
	K8 600	K18 920	90	1320

(iii) **Using AVCO**

Date	Purchased	Sales	Inventory Balance After each transaction
1 January	-	-	200 x K12 each K2 400
6 January	400 @ 17 each	-	K6 800
	K6 800		+ K2 400 K9 200
9 January	-	300 @ 30	600
		(300)	300 @ 15 each K4
		K9,000	
15 January	-	250 @ 32	300
		K8 000	(250)
			50 @ 15 each
			K750
17 January	100 @ 18 each	-	50 @ 15 each K
	K1 800		<u>100 @ 18 each</u> <u>K1</u>
			150 K2 550
21 January	-	60 @ 32 each	150
		K1 920	(60)
			90 @ 17 K1 530

(b) Mr. Kasuli statement of profit or loss for each inventory valuation method

FIFO

	K	K
Sales		18 920
Purchases	8 600	
Closing inventory	<u>(1 620)</u>	
		<u>(6 980)</u>
Profit		<u>11 940</u>

LIFO

	K	K
Sales		18 920
Purchases	8 600	
Closing inventory	<u>(1 320)</u>	
		<u>(7 280)</u>
Profit		<u>11 640</u>

AVCO

	K	K
Sales		18 920
Purchases	8 600	
Closing inventory	<u>(1 530)</u>	
		<u>(7 070)</u>
Profit		<u>11 850</u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 16 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 paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A mathematical/statistical formulae book **MUST** be provided to you. **Request for one if not given by the Invigilators.**

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 The data collected is usually displayed using various methods.

The diagram in which each bar is divided into portions is:

- A. Multiple bar charts.
- B. Simple bar chart.
- C. Component bar chart.
- D. Mixed bar chart.

(2 marks)

1.2 A problem is given to three students whose chances of solving it are $\frac{1}{5}$, $\frac{2}{3}$, and $\frac{1}{8}$ respectively. What is the probability that the problem will be solved?

- A. $\frac{1}{60}$
- B. $\frac{7}{30}$
- C. $\frac{23}{30}$
- D. $\frac{3}{4}$

(2 marks)

1.3 How do we classify a series of payments made periodically?

- A. effective payment
- B. nominal payment
- C. marginal payment
- D. annuity

(2 marks)

1.4 Regression analysis was applied between sales (y) and advertising (x) across all the branches of a major international corporation. The following regression function was obtained.

$$\hat{y} = 5000 + 7.25x$$

If the advertising budgets of two branches of the corporation differ by K30,000, then what will be the predicted difference in their sales.

- A. K217,500
- B. K222,500
- C. K5,000
- D. K7.25

(2 marks)

1.5 If the simple interest on a sum of money at 5% per annum for three (3) years is K1,200, then the compound interest on the same sum for the same period at the same rate is:

- A. K1,225
- B. K1,236
- C. K1,248
- D. K1,261

(2 marks)

1.6 What is the median of the sample 6, 6, 12, 10, 19, 9?

- A. 6
- B. 9
- C. 10
- D. 12

(2 marks)

1.7 Maximize $Z = 5x + 3y$ subject to the constraints: $x + y < 4$, $x > 0$, $y > 0$. Find the maximum value of Z ?

- A. 12
- B. 20
- C. 32
- D. 8

(2 marks)

1.8 Mr. Pentane deposited K5000 for three (3) years in Mofya bank offering 18% interest compounded semi-annually.

The effective interest rate is:

- A. 18.8 %
- B. 18.1%

- C. 18 %
- D. 18.08%

(2 marks)

1.9 Mr. Mulenga deposited K500 at the end of each year for three (3) years in Monze bank offering 4% interest compounded annually.

The expected amount is:

- A. K562.45
- B. K1561.25
- C. K62.45
- D. K560

(2 marks)

1.10 X and Y are two (2) events such that $P(X|Y) = 0.5$, $P(Y) = 0.45$ and $P(X) = 0.3$. Find $P(X \cup Y)$.

- A. 0.25
- B. 0.53
- C. 0.60
- D. 0.55

(2 marks)

[Total: 20 Marks]

SECTION B

Attempt any FOUR (4) questions in this section.

QUESTION TWO

(a) Define the following major sources of uncertainty:

- (i) Business risk (1 mark)
- (ii) Financial risk (1 mark)
- (iii) Liquidity risk (1 mark)
- (iv) Exchange rate risk (1 mark)

(b) The rate of return expectations for the common stock of XYZ Company during the next year are:

XYZ Company	
Possible Rate of Return	Probability
-0.10	0.25
0.00	0.15
0.10	0.35
0.25	0.25

Required:

- (i) Compute the expected return on this investment. (2 marks)
- (ii) Compute the standard deviation of this return (3 marks)
- (iii) Under what conditions can the standard deviation be used to measure the relative risk of two (2) investments? (1 mark)
- (iv) Under what conditions the coefficient of variation must be used to measure the relative risk of two investments? (1 mark)

(c) The table below shows the ages of internet visitors to a travel agency Web site.

Age	0 – 10	10 – 20	20 – 30	30 – 40	40 – 50
Frequency	8	10	13	12	6

Required:

- (i) Construct a cumulative frequency distribution (2 marks)
- (ii) Construct a relative frequency distribution (2 marks)
- (iii) Calculate the mean age of internet visitors (2 marks)
- (iv) Calculate the variance of the age of internet visitors (3 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) In a high school class, 55% of the students take Chinese as a foreign language, 35% take French as a foreign language, and 70% take at least one of these languages.

Required:

What is the probability that a randomly chosen student takes French given that the student takes Chinese? (8 marks)

- (b) The time x in years that an employee spent at a company and the employee's hourly pay, y , for five employees are listed in the table below:

x	6	4	5	11	16
y	26	21	22	36	39

Required:

- (i) Calculate the coefficient of correlation r and interpret the coefficient r . (9 marks)
- (ii) Include a plot of the data in your discussion. (3 marks)

[Total 20 Marks]

QUESTION FOUR

- (a) Mr Monoza deposited K9,000 in a bank offering 2% simple interest for nine (9) years.

Required:

Calculate:

- (i) Interest. (3 marks)
- (ii) Amount. (2 marks)

(b) The probability distribution of sales is given in the table below:

SALES	K 5000	K6000	K7000	K8000
PROBABILITY	0.24	0.36	0.05	0.35

Required:

Simulate the sales for the next four (4) days using the following random numbers 30, 18, 80 and 63. (8 marks)

(c) The probability of a horse rider winning a race is 75%. In a sample of five (5) horse riders, find the probability that:

(i) No horse rider wins the race. (3 marks)

(ii) At most one (1) horse rider wins the race. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Mr. Kalunga is a farmer and has recently acquired a 110 hectares piece of land. He has decided to grow wheat and corn on that land. Due to the quality of the sun and the region's excellent climate, the entire production of wheat and corn can be sold. He wants to know to plant each variety in the 110 hectares, given the costs, net profits and labour requirements according to the data shown below:

Variety	Cost (Price/hectare)	Net Profit (Price/hectare)	Man (days/hectare)
Wheat	100	50	10
Corn	200	120	30

Mr. Kalunga has a budget of K10,000 and availability of 1,200 man – days during the planning time.

Required:

- (i) Formulate a linear programming model for the problem. (3 marks)
(ii) Solve the problem by the graphical method to find the optimal solution.

(7 marks)

- (b) For two events A and B it is known that the probabilities $P(A) = P(B) = \frac{1}{5}$ and

$$P(A \cap B) = \frac{1}{10}$$

Required:

- (i) Find $P(B^c)$ (1 mark)
(ii) Find $P(A \cup B)$ (2 marks)
(iii) Find $P(A \cap B^c)$ (2 marks)

- (c) A new university employs 75 lecturers. The following table summarises their length of service at the university level, classified by gender.

	Less than 3 years	3 years to 8 years	More than 8 years
Female	12	20	13
Male	8	15	7

Required:

Find the probability that a randomly selected lecturer

- (i) is female (2 marks)
(ii) is female, given that the lecturer has more than eight (8) years' service

(3 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) The amount of money expended in fiscal year 2009 by the Zambia Department of Defense in various categories is shown below:

<u>Category</u>	<u>Amount(K billions)</u>
Military Personnel	147.3
Operation and Maintenance	259.3
Procurement	129.2
Research and Development	79
Military Construction	17.6
Other	4.3
<u>Total</u>	<u>636.7</u>

Required:

- (i) Construct a pie chart of the data. (6 marks)
- (ii) Construct a bar chart of the data. (4 marks)
- (b) According to a 2004 survey by the telecommunications division of Zambia Gas, Zambians spend an average of 225 minutes per day communicating electronically (on a fixed landline phone, on a mobile phone, by emailing, by texting, and so on). Assume that currently such times for all Zambians are normally distributed with a mean of 225 minutes per day and a standard deviation of 62 minutes per day.

Required:

What percentages of Zambians communicate electronically for:

- (i) Less than 60 minutes per day? (3 marks)
- (ii) More than 360 minutes per day? (3 marks)
- (iii) Between 120 and 180 minutes per day? (4 marks)

[Total: 20 Marks]

END OF PAPER

DA2: QUANTITATIVE ANALYSIS SUGGESTED SOLUTIONS

SOLUTION ONE

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

- 1.8 A

- 1.9 B

- 1.10 B

SOLUTION TWO

- (a)
- (i) Business risk is the uncertainty of income flows caused by the nature of a firm's business.
 - (ii) Financial risk is the uncertainty introduced by the method by which the firm finances its investments.
 - (iii) Liquidity risk is the uncertainty introduced by the secondary market for an investment.
 - (iv) Exchange rate risk is the uncertainty of returns to an investor who acquires securities denominated in a currency different from his or her own.

(b)

(i)
$$E(X) = \sum_x xP(X = x)$$
$$= -0.10(0.25) + 0.00(0.15) + 0.10(0.35) + 0.25(0.25)$$
$$= -0.025 + 0 + 0.035 + 0.0625$$
$$= 0.0725$$

(ii)
$$Var(X) = E(X^2) - (E(X))^2$$
$$E(X^2) = \sum_x x^2P(X = x)$$
$$= -0.10^2(0.25) + 0.00^2(0.15) + 0.10^2(0.35) + 0.25^2(0.25)$$
$$= 0.0025 + 0.0000 + 0.0035 + 0.015625$$
$$= 0.021625$$

$$\therefore Var(X) = E(X^2) - (E(X))^2$$
$$= 0.021625 - 0.0725^2$$
$$= 0.01636875$$

$$\text{Standard deviation} = \sqrt{Var(X)}$$
$$= 0.01636875$$
$$= 0.127940415$$

□ 0.13

- (iii) The standard deviation can be used to measure the relative risk of two investments when the characteristic features of the two investments are the same.
 - (iv) The coefficient of variation can be used to measure the relative risk of two investments when characteristic features of the two investments are different.
- (c)

(i)

Age	Cumulative Frequency
0 – 10	8
10 – 20	18
20 – 30	31
30 – 40	43
40 – 50	49

(ii)

Age	Relative Frequency
0 – 10	0.16
10 – 20	0.20
20 – 30	0.27
30 – 40	0.24
40 – 50	0.12

(iii) $\bar{x} = \frac{\sum f_x}{\sum f} = \frac{1205}{49} = 24.6 \approx 25 \text{ years}$

Age	f	Mid - point x	fx	$(x - \bar{x})$	$(x - \bar{x})^2$	$f(x - \bar{x})^2$
0 – 10	8	5	40	-20	400	3200
10 – 20	10	15	150	-10	100	1000
20 – 30	13	25	325	0	0	0
30 – 40	12	35	420	10	100	1200
40 – 50	6	45	270	20	400	2400
Total	$\sum f = 49$		$\sum f = 1205$			$\sum f(x - \bar{x})^2 = 7800$

(iv) $\therefore S^2 = \frac{\sum f(x - \bar{x})^2}{n-1} = \frac{7800}{48} = 162.5$

SOLUTION THREE

(a) Let C, F be the events one takes Chinese and French language respectively. Then

$$P(C) = 0.55, P(F) = 0.35 \text{ and } P(C \cup F) = 0.70.$$

$P(F|C) = \frac{P(F \cap C)}{P(C)}$ Conditional probability. From the addition rule of probability, $P(C \cup F) =$

$$P(C) + P(F) - P(C \cap F);$$

$$0.70 = 0.55 + 0.35 - P(C \cap F)$$

$$P(C \cap F) = 0.20$$

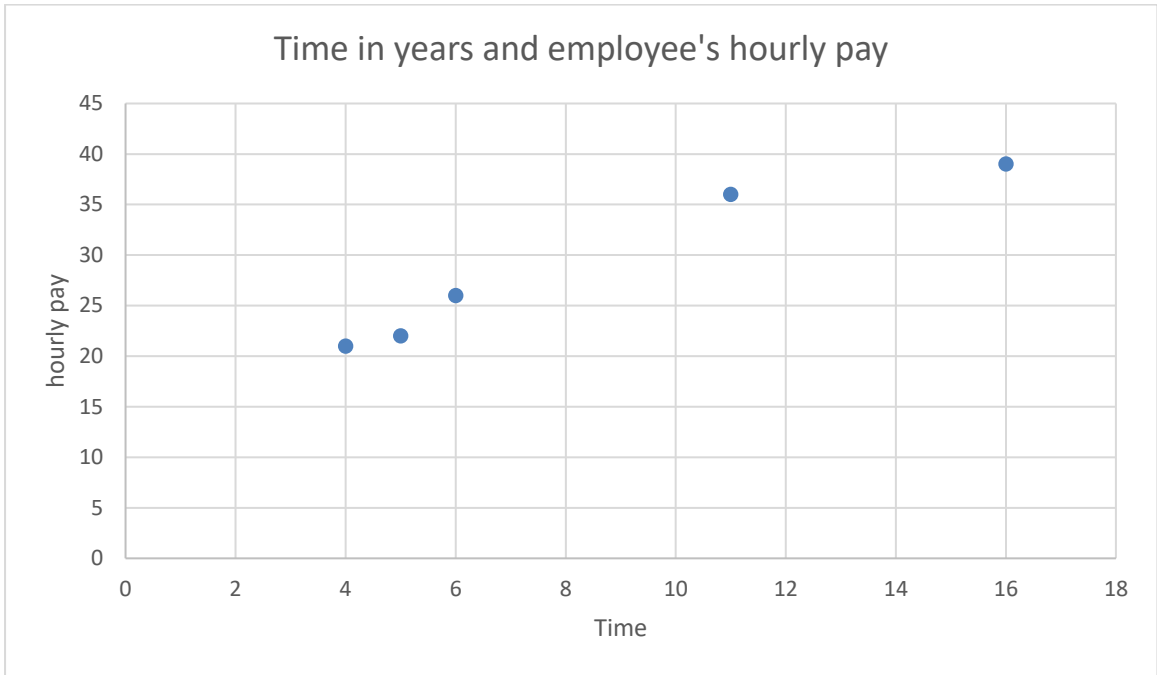
$$P(F|C) = \frac{0.20}{0.55} \approx 0.3636$$

(b)

x	y	x^2	y^2	xy
6	26	36	676	156
4	21	16	441	84
5	22	25	484	110
11	36	121	1296	396
16	39	256	1521	624
$\sum x = 42$	$\sum y = 144$	$\sum x^2 = 454$	$\sum y^2 = 4418$	$\sum xy = 1370$

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}} = \frac{6850 - 6048}{\sqrt{(506)(1354)}} \approx 0.97$$

There is a strong positive correlation between the number of years and experience has worked and the employee's salary, since r is very close to 1.



SOLUTION FOUR

(a) $P = K9000$ $R = 2\%$ $T = 9$ years

$$(i) \quad I = \frac{PRT}{100} = \frac{9000(2)(9)}{100} = 90(18) = K1620$$

$$(ii) \quad A = P + I = 9000 + 1620 = K10620$$

SALES	PROB	%	CUM%	INTERVAL
5000	0.24	24	24	00 - 23
6000	0.36	36	60	24 - 59
7000	0.05	5	65	60 - 64
8000	0.35	35	100	65 - 99

RANDOM NO	SALES
30	6000 (1)
18	5000 (1)
80	8000 (1)
63	7000 (1)

(b) $P = 0.75$ $q = 1 - 0.75 = 0.25$ $n = 5$

$$P(x) = {}^n C_x (P^x)(q^{n-x})$$

$$(i) \quad P(X = 0) = ({}^5 C_0) (0.75^0) (0.25)^{5-0} = (1)(1) 0.00097 = 0.00097$$

$$(ii) \quad \begin{aligned} P(X \leq 1) &= P(x = 0) + P(x = 1) \\ &= {}^5 C_0 (0.75^0) (0.25^{5-0}) + {}^5 C_1 (0.75^1) (0.25^{5-1}) (1) \\ &= 0.00097 + 5(0.75) (0.0039) (1) \\ &= 0.00097 + 0.01462 (1) \\ &= 0.01559 (1) \end{aligned}$$

SOLUTION FIVE

(a)

i. Let x_1 = the total area for growing wheat (in hectares)

x_2 = the total area for growing corn (in hectares)

Maximize $Z = 50x_1 + 120x_2$

Subject to $100x_1 + 200x_2 \leq 10,000$

$10x_1 + 30x_2 \leq 1200$

$x_1 + x_2 \leq 110$

Where $x_1, x_2 \geq 0$

ii. $100x_1 + 200x_2 = 10,000$

Table of values

x_1	0	100
x_2	50	0

$10x_1 + 30x_2 = 1200$

Table of values

x_1	0	120
x_2	40	0

$x_1 + x_2 = 110$

Table of values

x_1	0	110
x_2	110	0

Test Point (0,0)

(0,0)

$100x_1 + 200x_2 \leq 10,000$

$100(0) + 200(0) \leq 10,000$

$0 \leq 10,000$ (True)

Test Point (0,0)

$10x_1 + 30x_2 \leq 1200$

$10(0) + 30(0) \leq 1200$

$0 \leq 1200$ (True)

Test Point

$x_1 + x_2 \leq 110$

$0 + 0 \leq 110$

$0 \leq 110$ (True)

NOTE: Graph attached on the hard copy printout

There are several integer points in the region.

Coordinates

A(0,4)

B(60,20)

C(100,0)

D(0,0)

$Z = 50x_1 + 120x_2$

$Z = 50(0) + 120(4) = 480$

$Z = 50(60) + 120(20) = 5,400$

$Z = 50(100) + 120(0) = 5,000$

$Z = 50(0) + 120(0) = 0$

The point B(60,20) gives the optimal solution and the optimal solution is

$x_1 = 60$

$x_2 = 20$

$Z_{\max} = \text{K}5,400$

(b)

i. $P(B^c) = 1 - P(B)$

$= 1 - \frac{1}{5}$

$= \frac{4}{5} \text{ or } 0.8$

ii. $P(A \cup B) = P(A) + P(B) - P(A \cap B)$

$= \frac{1}{5} + \frac{1}{5} - \frac{1}{10}$

$= \frac{2+2-1}{10}$

$= \frac{3}{10} \text{ or } 0.3$

iii. $P(A \cap B^c) = P(A) - P(A \cap B)$

$= \frac{1}{5} - \frac{1}{10}$

$= \frac{2-1}{10}$

$= \frac{1}{10}$

(c) Let F = employ is female M = Employ is male A = Employ has less than 3 years service

B = Employ has 3 years to 8 years

C = Employ has more than 8 years service

We are given,

$$P(F \cap A) = \frac{12}{75} = 0.16, P(F \cap B) = \frac{20}{75} = 0.2667$$

$$P(F \cap C) = \frac{13}{75} = 0.1733, P(M \cap A) = \frac{8}{75} = 0.1067$$

$$P(M \cap B) = \frac{15}{75} = 0.20, P(M \cap C) = \frac{7}{75} = 0.0933$$

i. $P(F) = P(F \cap A) + P(F \cap B) + P(F \cap C)$

$$\begin{aligned} &= \frac{12}{75} + \frac{20}{75} + \frac{13}{75} \\ &= \frac{45}{75} = 0.6 \end{aligned}$$

ii. $P(F/C) = \frac{P(F \cap C)}{P(C)}$

$$\begin{aligned} &= \frac{13}{75} \div \frac{20}{75} \\ &= \frac{13}{75} \times \frac{75}{20} \\ &= \frac{13}{20} \end{aligned}$$

NOTE: $P(C) = P(F \cap C) + P(M \cap C)$

$$\begin{aligned} &= \frac{13}{75} + \frac{7}{75} \\ &= \frac{20}{75} \end{aligned}$$

SOLUTION SIX

(a)

Military Personnel	147.3
Operation and Maintenance	259.3
Procurement	129.2
Research and Development	79
Military Construction	17.6
Other	4.3
<hr/>	
Total	636.7
<hr/>	

$$\text{Military Personnel } \frac{147.3}{636.7} \times 360^\circ = 83.3^\circ$$

$$\text{Operation and Maintenance } \frac{259.3}{636.7} \times 360^\circ = 146.6^\circ$$

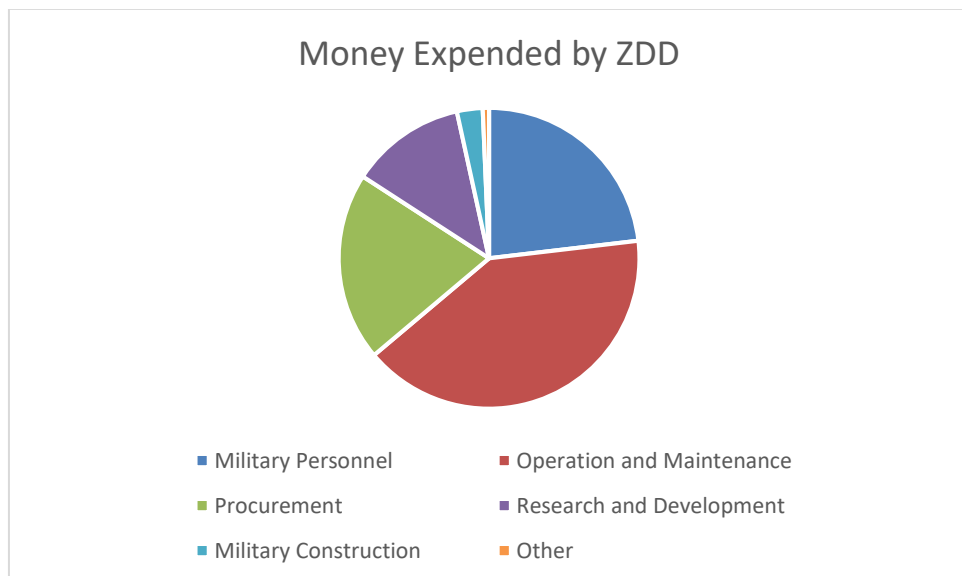
$$\text{Procurement } \frac{129.2}{636.7} \times 360^\circ = 73.1^\circ$$

$$\text{Research and Development } \frac{79}{636.7} \times 360^\circ = 44.7^\circ$$

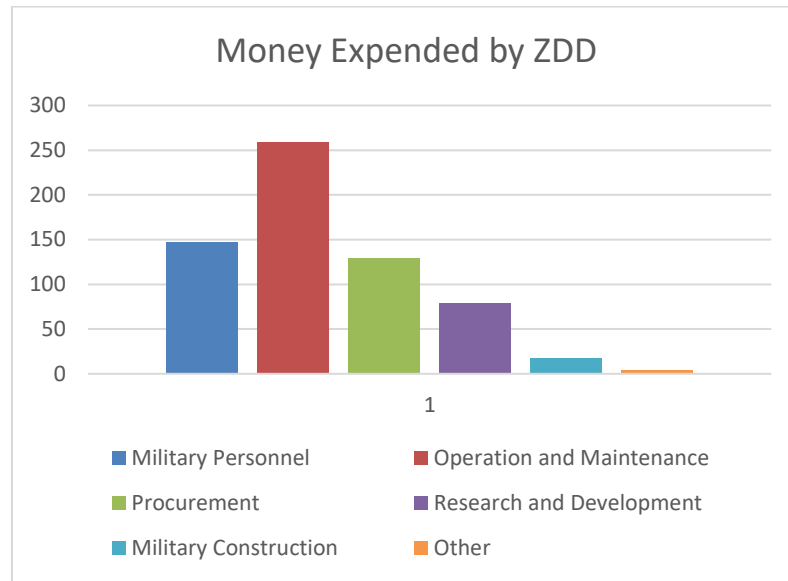
$$\text{Military Construction } \frac{17.6}{636.7} \times 360^\circ = 10^\circ$$

$$\text{Other } \frac{4.3}{636.7} \times 360^\circ = 2.4^\circ$$

(i) Pie chart



(ii) Bar Chart



(b) The percentage of Zambians communicating electronically are:

i. $Z = \frac{X-225}{62}$

$$\begin{aligned} P\left[\frac{X-225}{62} < \frac{60-225}{62}\right] \\ &= P[Z < -2.66] \\ &= 1 - 0.9960 \\ &0.004 \end{aligned}$$

ii.

$$\begin{aligned} P\left[\frac{X-225}{62} > \frac{360-225}{62}\right] \\ &= P[Z > 2.18] \\ &= 1 - 0.9854 \\ &0.0146 \end{aligned}$$

iii.

$$\begin{aligned} P\left[\frac{120-225}{62} < \frac{X-225}{62} < \frac{180-225}{62}\right] \\ &= P[-1.69 < Z < -0.73] \\ &= P[Z < -0.73] - P[Z < -1.69] \\ &= (1 - 0.7673) - (1 - 0.9545) \\ &0.1872 \end{aligned}$$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

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 paper is divided into TWO (2) sections:
Section A: Ten (10) compulsory multiple choice questions.
Section B: Any two (2) of three (3) optional questions on Microeconomics.
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.
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5. **Cell Phones** are **NOT** allowed in the Examination Room.
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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A - (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one (1) correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Marks allocated against each question

- 1.1 Which one of the following is not a drawback of economic growth?
- A. Promotion of inflation
 - B. Environmental degradation
 - C. Rising employment
 - D. Resource depletion
- (2 marks)
- 1.2 Which of the following is a factor of production?
- A. Workmanship
 - B. Statesmanship
 - C. Entrepreneurship
 - D. Partisanship
- (2 marks)
- 1.3 Which one of the following will be most likely lead to a fall in aggregate demand in an economy like Zambia.
- A. An increase in the level of income tax
 - B. A decrease in interest rates
 - C. An increase in the marginal propensity to consume
 - D. An increase in government expenditure
- (2 marks)
- 1.4 Good X priced at K5 has annual sales of 1000 units. When the price is reduced to K4, the quantity demanded increases to 1,250 units. Other things being equal, the price elasticity of Good X is.....
- A. Elastic
 - B. Inelastic
 - C. Unitary
 - D. Undefined
- (2 marks)
- 1.5 Compute the household's average propensity to consume (APC) if monthly income in the national economy is K1, 200 and consumption K550:
- A. 18.2%
 - B. 45.8%
 - C. 2.18%

D. 0.18%

(2 marks)

- 1.6 Compute the equilibrium national income if consumption function is $C=250+0.2Y$, where Y is change in national income, and injection J in the economy is 400.

- A. 325
- B. 812.5
- C. 650
- D. 400

(2 marks)

- 1.7 The capacity in the banks to create money is limited by all the following except:

- A. A reduced reserve ratio
- B. Low demand for loans
- C. Prudent lending operations
- D. Leakages of cash out of the banking system

(2 marks)

- 1.8 In recent years the economy of country Zed has been experiencing an economic recession. A new government was recently elected. This new government is operating an expansionary fiscal policy.

Which one of the following is this most likely to include:

- A. Reducing money supply
- B. Increasing income tax
- C. Reducing corporate tax
- D. Increasing interest rates

(2 marks)

- 1.9 Which of the following would normally result from a rise (appreciation) in a country's exchange rate?

- A. An increase in the volume of imports
- B. An increase in the country's rate of inflation
- C. A rise in the volume of export
- D. An improvement in its balance of payments

(2 marks)

1.10 Which one of the following is the distinguishing feature of an oligopoly market?

- A. There are barriers to entry
- B. The oligopolist is a price maker
- C. There is non-price competition
- D. Products are differentiated

(2 marks)

[Total: 20 Marks]

SECTION B

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

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

QUESTION TWO

- (a) Define the term 'market failure'. (2 marks)
- (b) Describe any three (3) types of market failure. (6 marks)
- (c) The table below shows the supply schedule for computers.

Price of Computer	Quantity of computers supplied
K1,100	12,000
K900	8,000

Required:

Using the information in the table above:

Calculate the price elasticity of supply when the price increases from K900 to K1,100 using the midpoint method. (3 marks)

- (i) Suppose firms produce 1,000 more computers at any given price due to improved technology. As price increases from K900 to K1,100, calculate the price elasticity of supply? (3 marks)
- (ii) Outline any three (3) determinants of price elasticity of supply. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain any four (4) features of a capitalist economic system. (8 marks)
- (b) Explain any four (4) features of a socialist economic system. (8 marks)
- (c) Why would most governments prefer a mixed economic system? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Explain any two (2) reasons why monopolistic competition is considered wasteful? (6 marks)
- (b) Mr. Kasongo has K500,000 and is considering starting a project which makes use of a machine he owns, but was about to sell it to a local scrap metal dealer for K100,000.
 - (i) What is the implicit cost of using the machine in the project? (3 marks)

(ii) The cash flows from the project have been projected to be a net of K500,000. Is the project worth undertaking? (3 marks)

(c) The following table summarizes the relationship between a firm's output and its total costs.

Output(units)	0	1	2	3	4
Total costs (K'000)	50	70	100	150	220

Calculate the firm's marginal cost and average cost? (6 marks)

(d) Define **normative statements** in economics and give an illustration of the same.

(2 marks)

[Total: 20 Marks]

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

QUESTION FIVE

- (a) Define expectational inflation. (4 marks)
- (b) Describe any three (3) instruments that the Bank of Zambia can use to implement monetary policy. (6 marks)
- (c) Globalization used to be the unquestionable model for economic growth and stability but there are now many critics of the phenomena.
Explain two (2) disadvantages of globalization to developing countries. (4 marks)
- (d) The corona virus pandemic has affected production and the provision of services in many industries. The tourism and air transport industries have been hit the most, causing unemployment levels to increase.
- (i) Define cyclical unemployment. (2 marks)
- (iii) How can the government solve the problem of unemployment caused by corona virus using fiscal policy instruments? (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Explain any two (2) roles of intermediaries in the financial market. (4 marks)
- (b) Outline any two (2) functions of the commercial banks (4 marks)
- (c) Explain any three (3) limitations banks may face in the credit creation process. (6 marks)
- (d) Suppose you have the following information about a closed economy:
 $C = 50 + 0.80(Y - T)$ $I = 200$ $G = 100$
- (i) Calculate the equilibrium level of income. (3 marks)
- (ii) Suppose G increases to 125 what is the new equilibrium level of income? (1 mark)
- (iii) What level of G is needed to achieve a target income of 2000? (2 marks)

[Total: 20 Marks]

QUESTION SEVEN

Transnational companies are tending more and more to take a global view of production facilitated by technological advantages which make it easier to do business internationally.

Required:

- (a) In view of the above, give any three (3) reasons why production facilities may be located in particular countries. (6 marks)
- (b) Differentiate between a tariff and an import quota as a means of reducing the volume of imports? (6 marks)
- (c) Explain managed floating as a government policy on exchange rate. (4 marks)
- (d) Distinguish between customs union and common market. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA 3: BUSINESS ECONOMICS SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 C

1.3 A

1.4 A

1.5 B

1.6 B

1.7 A

1.8 C

1.9 A

1.10 C

SOLUTION TWO

(a) **Market failure;** Market failure refers to the inefficient distribution of goods and services in the free market. In a typical free market, the prices of goods and services are determined by the forces of supply and demand. Market failure occurs when there is a state of disequilibrium in the market due to market distortion.

(b) Types of market failure

Externality

An externality refers to a cost or benefit resulting from a transaction that affects a third party that did not decide to be associated with the benefit or cost. It can be positive or negative. A positive externality provides a positive effect on the third party. On the other hand, a negative externality is a negative effect resulting from the consumption of a product, and that results in a negative impact on a third party.

Public goods

Public goods are goods that are consumed by a large number of the population, and their cost does not increase with the increase in the number of consumers. Public goods are both non-rivalrous as well as non-excludable. Public goods create market failures if a section of the population that consumes the goods fails to pay but continues using the good as actual payers.

Market control

Market control occurs when either the buyer or the seller possesses the power to determine the price of goods or services in a market. The power prevents the natural forces of demand and supply from setting the prices of goods in the market. On the supply side, the sellers may control the prices of goods and services if there are only a few large sellers (oligopoly) or a single large seller (monopoly). On the demand side, the buyers possess the power to control the prices of goods if the market only comprises a single large buyer (monopsony) or a few large buyers (oligopoly).

Imperfect information in the market

Market failure may also result from the lack of appropriate information among the buyers or sellers. This means that the price of demand or supply does not reflect all the benefits or opportunity cost of a good. The lack of information on the buyer's side may mean that the buyer may be willing to pay a higher or lower price for the product because they don't know its actual benefits. On the other hand, inadequate information on the seller's side may mean that they may be willing to accept a higher or lower price for the product than the actual opportunity cost of producing it.

(c) Price elasticity of supply

- (i) Using the midpoint method, the percentage change in quantity supplied is

$$\frac{12,000 - 8,000}{(12,000 + 8,000)/2} \times 100 = \frac{4,000}{10,000} \times 100 = 40\%$$

And the percentage change in price is

$$\frac{1,100 - 900}{(1,100 + 900)/2} \times 100 = \frac{200}{1,000} \times 100 = 20\%$$

$$\text{PES} = 40\%/20\% = 2$$

- (ii)

$$\frac{13,000 - 9,000}{(13,000 + 9,000)/2} \times 100 = \frac{4,000}{11,000} \times 100 = 36\%$$

And the percentage change in price is

$$\frac{1,100 - 900}{(1,100 + 900)/2} \times 100 = \frac{200}{1,000} \times 100 = 20\%$$

$$\text{PES} = 36\%/20\% = 1.8$$

- (iii) Determinants of Price Elasticity of Supply

- **Time period;** If the price of a commodity rises and the producers have enough time to make adjustment in the level of output, the elasticity of supply will be more elastic. If the time period is short and the supply cannot be expanded after a price increase, the supply is relatively inelastic.
- **Ability to store output;** The goods which can be safely stored have relatively elastic supply over the goods which are perishable and do not have storage facilities.
- **Factor mobility;** If the factors of production can be easily moved from one use to another, it will affect elasticity of supply. The higher the mobility of factors, the greater is the elasticity of supply of the good and vice versa.
- **Excess supply;** When there is excess capacity and the producer can increase output easily to take advantage of the rising prices, the supply is more elastic. In case the production is already up to the maximum from the existing resources, the rising prices will not affect supply in the short period. The supply will be more inelastic.
- **Availability of infrastructure facilities;** If infrastructure facilities are available for expanding output of a particular good in response to the rise in prices, the elasticity of supply will be relatively more elastic.

SOLUTION THREE

(a) Features of capitalist of economic system

Private Property; Most goods and services are privately-owned. The owners can make legally binding contracts to buy, sell, or lease their property. Their assets give them the right to profit from ownership.

Freedom of Choice; Owners are free to produce, sell, and purchase goods and services in a competitive market. They only have two constraints. First is the price at which they are willing to buy or sell. Second is **the amount of capital they have.**

Motive of Self-Interest; Everyone sells their wares to the highest bidder while negotiating the lowest price for their purchases. Although the reason is selfish, it benefits the economy over the long run. This auction system sets prices for goods and services that reflect their market value. It gives an accurate picture of supply and demand at any given moment.

Competition; The force of competitive pressure keeps prices low. It also ensures that society provides goods and services most efficiently. As soon as demand increases for a particular item, prices rise thanks to the law of demand. Competitors see they can enhance their profit by producing it, adding to supply. That lowers prices to a level where only the best competitors remain. This competitive pressure also applies to workers and consumers. Employees vie with each other for the highest-paying jobs. Buyers compete for the best product at the lowest price.

System of Markets and Prices; A market economy relies on an efficient market in which to sell goods and services. That's where all buyers and sellers have equal access to the same information. Price changes are pure reflections of the laws of supply and demand.

Limited Government; The role of government is to ensure that the markets are open and working. For example, it is in charge of national defence to protect the markets. It also makes sure that everyone has equal access to the markets. The government penalizes monopolies that restrict competition. It makes sure no one is manipulating the markets and that everyone has equal access to information

(b) Features of socialist economy

- The government creates a central economic plan. The plan sets economic and societal goals for every sector and region of the country. Shorter-term plans convert the goals into actionable objectives.
- The government allocates all resources according to the central plan. It tries to use the nation's capital, labor, and natural resources in the most efficient way possible. It promises to use each person's skills and abilities to their highest capacity. It seeks to eliminate unemployment.
- The central plan sets the priorities for the production of all goods and services. Its goal is to supply enough food, housing, and other basics to meet the needs of everyone in the country. It also sets national priorities.
- The government owns monopoly businesses. These are in industries deemed essential to the goals of the economy. That includes finance, utilities, and automotive. There is no domestic competition in these sectors.

(c) **Why a mixed economic system would be preferred**

- Freedom the citizens enjoy. Especially the economic freedom to ownership of property and choice of goods and services.
- Ownership and existence of private producers also increase capital formation in the country. There is an incentive to do better and innovate as well.
- Price mechanism prevails. So the allocation of resources is more scientific and beneficial to the economy.
- Also enjoys the advantages of central economic planning. This will help the economy grow rapidly and in the correct direction.
- There is healthy competition in the market. There is no cut-throat competition and adverse tactics due to government oversight. Also, there is no absolute lack of competition which is disadvantageous,
- The government creates laws, regulations, and directives to enforce the central plan. Businesses follow the plan's production and hiring targets. They can't respond on their own to free-market forces.

The idea behind a Mixed Economy is to tackle the demerits of both a capitalist economy and a socialist economy and come up with a unique system. It appreciates the concept and the freedom of private ownership of properties and resources.

But at the same time, it understands the disadvantage of unchecked capitalism. Hence it proposes government oversight and economic planning so there is no discrimination against the poorest citizens.

SOLUTION FOUR

(a) It can be argued that monopolistic competition is not really in the best interest of either consumers or business firms, it is wasteful for the following reasons:

- Price is higher and output lower than would be the case with perfect competition. The firm is not making the best use of its resources, since average cost is falling.
- Profits are confined to the normal minimum required to keep firms in the market.

It is considered wasteful to produce a wide variety of differentiated version of the same product.

(b)

(i) The next best alternative to using the machine in the project is to sell it for K100,000. Therefore the implicit cost or opportunity cost of using it in the project is K100,000.

(ii) Yes the project is feasible. Mr Kasongo will earn K500,000 from it, which is K400,000 more than he could get if he were to sell the machine.

(c) Schedules for marginal cost (MC) and Average cost (AC)

Output(units)	Total cost(K'000)	MC	AC
0	50	-	-
1	70	20	70
2	100	30	50
3	150	50	50
4	220	70	55

(d) Normative statements are statements of values. This is to do with morality.

For example of normative statement: **The Government should increase minimum wage to reduce poverty.**

SOLUTION FIVE

(a) **Expectational inflation:** regardless of whether the factors that have caused inflation are still persistent or not, there will be a perception of what inflation is likely to be, and so, to protect future income, wages and prices will be raised by the expected amount of future inflation. This can lead to the vicious circle known as wage –price spiral in which inflation becomes a relatively permanent feature, because of people’s expectations that it will occur.

(b) The following are the instruments of monetary policy that the BOZ can use to control and implement measures in the economy:

- Interest rates: using the base rate, BOZ can influence other rates like the rate charged to discount houses, or the rates charged on advances to consumers. These rates move up or down with central bank rates.
- Money supply: if the BOZ wants to reduce the rate of inflation, it has to control (reduce) the money supply, if it sold securities, the central bank receives payment by cheques drawn on commercial banks.
- Special deposits: to reduce the cash basis for credit creation and to contract credit, BOZ can request commercial banks to place specified amounts or to increase the percentage of these specified amounts, which are supposed to be kept in frozen account with the central bank.

(c)

(i) The main institutions of globalization follow the collective will of the most powerful countries and are more concerned about aiding the economic wealth of countries which are already relatively wealthy and powerful.

- (i) IMF, WB and G20 along with powerful multinational organizations dictate economic policy in countries but do not include real representation of these countries within their organizations. This lack of accountability has been called global governance without global government .
- (ii) World poverty is still an issue and many fear that the policies adopted by WB, IMF and others, for example in restricting subsidy in Africa and opening up their markets for western imports that are produced under subsidy, actually makes some nations poorer.
- (iii) There is no enduring political and economic stability in the world and the collapse of one part of the economy, for example in South America , could have disastrous knock on effects for the rest of the world.
- (iv) Not all countries are included in global activity. Instead there is an increasing tendency for groups of countries, usually located in the same region to become involved in each other’s economy, for example the countries in Eurozone.

(d) (i) Following a regular wavelike movement, when the country experiences a combination of low demand, low production, high unemployment, firms making losses and bleak economic prospects, this type of unemployment is called cyclical unemployment

(ii)

- The government can provide a stimulus package, ie funding to affected companies so that economic activities are resuscitated.
- The government can also go into huge capital projects creating jobs in the process. In either way health measures of protective equipment should be followed.

SOLUTION SIX

(a) **The role of financial intermediaries**

- Financial intermediaries serve as middlemen for financial transactions, generally between banks or funds.
- These intermediaries help create efficient markets and lower the cost of doing business.
- Intermediaries can provide leasing services, but do not accept deposits from the public.
- Financial intermediaries offer the benefit of pooling risk, reducing cost, and providing economies of scale, among others.

(b) **Functions of commercial banks**

- **Accepts deposit** – The bank takes deposits in the form of saving, current and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary required of commercial transactions.
- **Provides Loan and Advances** – Another critical function of this bank is to offer loans and advances to the entrepreneurs and businesspeople and collect interest. For every bank, it is the primary source of making profits.
- **Overdraft Facility** – It is an advance given to a customer by keeping the current account to overdraw up to the given limit.
- **Locker Facilities** – Bank provides lockers facility to the customers to keep their valuable belonging or documents safely. Banks charge a minimum of an annual fee for this service.

(c) **limitations in the credit creation process**

- Maintaining excess reserves by the banking system. Even if a single bank in the banking system maintains excess reserves money creation process cannot continue.
- Withdrawals made by the public If public withdraw their deposits, the banking system will face contraction and unable to create credit.
- Sell of securities by the Central Bank When Central bank sells securities banks purchase them transferring money to the Central Bank.
- Increase in SRR by Central bank. IF the central bank increase SRR baking system face contraction and money creation ability is suspended.
- Lack of demand for bank borrowings. When public make limited amount of loans banking system is not able to continue money creation process.

(d) **Equilibrium level of national income**

$$C = 50 + 0.80 (Y - T), I = 200, G = 100$$

(i) $Y = C + I + G$
 $Y = 50 + 0.8(Y-T) + 200 + 100$
 $Y = 350 + 0.8(Y-T)$
 $Y - 0.8Y = 350$
 $Y(1-0.8) = 350$
 $Y = 350/0.2$
Y = 1750

(ii) $Y = 50 + 0.8(Y_d) + 200 + 125$

$$Y = 375/0.2$$

$$\mathbf{Y = 1875}$$

(iii) $2000 = 50 + 0.8(Y_d) + 200 + G$
 $2000 - 0.8(2000) = 50 + 200 + G$
 $400 - 250 = G$

G = 150. G should increase to 150 achieve a target income of 2000.

SOLUTION SEVEN

(a) Reasons for production facilities to be located in particular countries:

- (i) To give access to markets protected by tariffs
- (ii) To reduce transport costs
- (iii) To exploit national or regional differences in demand for goods, and thereby expand sales
- (iv) To take advantage of low labor costs, and thereby reduce production costs.
- (v) To secure supply through backward vertical integration.

(b)

- Tariffs are taxes on imported goods; the effect of a tariff is to raise the price paid for the imported goods by domestic consumers, while leaving the price paid to foreign producers the same or even lower. The difference is transferred to the government sector. This increase in the price will reduce the volume of imports demanded, provided that demand is price elastic.
- A quota is more effective in reducing the volume of imports compared to a tariff because; import quotas are restrictions on the quantity of a product that is allowed to be imported into the country. The quota has a similar effect on consumer welfare to that of import tariffs.

(c) Managed floating exchange rates is a situation where the government intervenes in the market to buy or sell currency in order to achieve an exchange rate target. For example, the government may wish to reduce the exchange rate to make exports more competitive, and they could, for example, achieve a reduction in the exchange rate by selling their own currency on the exchange markets.

(d) **Customs union:** this is when common external tariffs in a free trade are levied on imports from non-member countries.

Common markets: this includes all the features of a customs union plus free movement of the factors of production, including labor and may harmonize economic policy.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 16 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 paper is divided into TWO (2) sections:
Section A: Ten (10) Compulsory multiple choice questions: Five (5) on Information Technology and five (5) on Communication.
Section B: There are three (3) questions on **Information Technology**. Attempt any two (2) questions.
There are also three (3) questions on **Communication**. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions.

QUESTION ONE

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

- 1.1 Use of Enterprise Resource Planning (ERP) software have become a common feature among large organisations.

Which of following is **NOT** a feature of an (ERP) software?

- A. Integrated business components and data to provide a single interface on those components electronically
- B. An application commonly used in medium and large organisations
- C. Software used as an interface between software and hardware components
- D. It is software which is machine independent

(2 marks)

- 1.2 Which of the following is **NOT** an Internet browser?

- A. Google
- B. Google Chrome
- C. Opera Mini
- D. Internet explorer

(2 marks)

- 1.3 Study the following excerpt from excel and answer this question (question 3) and question 1.4

	A	B	C
1	Name	Age	
2	Mwale	18	
3	Tinta	19	
4	Nsama	19	
5	Mubita	?	
6		=COUNT(B2:B5)	
7		=COUNTA(B2:B5)	

What is the answer in cell B6?

- A. 56
- B. 4
- C. 3
- D. Error

(2 marks)

1.4 What is the answer in cell B7?

- A. 56
- B. 4
- C. 3
- D. Error

(2 marks)

1.5 Which menu (tab) in MS Word would use to check spellings and grammar

- A. View
- B. Review
- C. References
- D. Help

(2 marks)

1.6 What does the second S in the mnemonic PASS stands for?

- A. Structure
- B. Short
- C. Simple
- D. Style

(2 marks)

1.7 What factor do management in an organisation need to encourage in order to promote a formal health staff environment

- A. Formal communication
- B. Downward communication.
- C. The grapevine.
- D. Informal communication

(2 marks)

- 1.8 What is the role of the sender in the communication process?
- A. Decode the ideas into message.
 - B. Forward the message
 - C. Interpret the message
 - D. Choose an effective channel of communication for feedback
- (2 marks)
- 1.9 Which one of the following parts of a letter is **NOT** mandatory?
- A. Subject line.
 - B. Circulation Checklist cc.
 - C. Signature.
 - D. Enclosure indication.
- (2 marks)
- 1.10 What is the role of an introduction during public speaking?
- A. To capture the audience's attention.
 - B. To explain the information.
 - C. To provide evidence of research.
 - D. To draw main points from the discussions.
- (2 marks)

[Total: 20 Marks]

SECTION B

This section has two (2) parts:

1. INFORMATION TECHNOLOGY

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

Your new job demands a good understanding of IT networks and other technological terms.

Required:

- (a) Differentiate between an intranet and an extranet. (4 marks)
- (b) URL uniquely identifies a resource on the Internet.
 - (i) What do the acronym URL stand for? (2 marks)
 - (ii) Identify the four (4) parts of the URL lisa@zica.edu.zm (4 marks)
- (c) Backing of information on computer is critical for recovery. Explain the following types of backup.
 - (i) Incremental (3 marks)
 - (ii) Differential (3 marks)
- (d) There have been tremendous improvements in storage media in information technology from tape cartridges to the cloud.

Explain any two (2) advantages of cloud storage over internal disk storage.

(4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Security of computer systems is of great concern to all organisations. This is because computer systems keep organisation's valuable information such as trade secrets.
 - (i) State three (3) ways you can protect information systems from malicious software. (6 marks)
 - (ii) Explain the Denial of Service (DoS) attack (4 marks)

- (b) An operating system acts as an interface between the computer hardware components and the user. Every computer system must have at least one operating system to run other programs

State any five (5) functions of the operating system (5 marks)

- (c) List five (5) primary activities of the value chain model (5 marks)

[Total: 20 Marks]

QUESTION FOUR

Some common features of recent Operating systems include User-friendly interfaces, reliability, web integration, multimedia and Graphical User Interfaces (GUI).

Required:

- (a) Explain each of the following terms:

(i) GUI (3 marks)

(ii) Multimedia (3 marks)

(iii) Icons (3 marks)

- (b) The internet is another form of Computer network. It has quite positively influenced many lives and businesses especially through video conferencing and emails. However, it's different services still have some challenges.

(i) Explain any two (2) disadvantages of Video conferencing. (4 marks)

(iii) State any two (2) features of a Personal Virtual Private network (VPN). (4 marks)

(iv) List any three (3) ways in which malware infects computers in organizations. (3 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

You are scheduled to have a Board Meeting in a week's time at your firm. Unfortunately, one of your family members has tested positive for Covid 19 so you have been advised by health authorities to self-isolate for two (2) weeks. You therefore cannot physically attend the meeting.

Required:

- (a) Write a letter to the organizers of the meeting informing them why you will be unable to attend the meeting. In your letter suggest other ways you can attend the meeting without being physically present. (12 marks)
- (b) Briefly explain three (3) advantages of using videoconferencing over physical meetings. (6 marks)
- (c) State any two (2) roles of a secretary in a meeting. (2 marks)

[Total: 20 Marks]

QUESTION SIX

A report is an oral or written account about any events, facts or course of action.

- (a) Explain the following parts of a report:
 - (i) Acknowledgement
 - (ii) Executive Summary (4 marks)
- (b) Explain any three (3) types of reports used in a business organisation. (6 marks)
- (c) Explain the any five (5) factors that need to be considered when writing a report. (10 marks)

[Total: 20 Marks]

QUESTION SEVEN

A significant part of business management is workplace meetings. Meetings allows people in an organization to collaborate and exchange data, solve problems or settle conflicts, enhance results, develop collaboration and move projects forward.

Required:

- (a) State any five (5) types of meetings that are conducted in most o organizations (5 marks)
- (b) Briefly explain three (3) documents that are used in business meetings. (9 marks)
- (c) State any three (3) differences between a meeting and a conference. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 A

1.3 C

1.4 B

1.5 B

1.6 D

1.7 D

1.8 B

1.9 B

1.10 A

SOLUTION TWO

(a) **INTRANET AND EXTRANET**

An intranet is an internal or private network of an organisation based on internet technology and accessed over the internet. It is meant for the exclusive use of the organisation and is protected from unauthorised access with firewalls and other security systems. Intranets provide services such as email, data storage, and search and retrieval functions. They are employed in disseminating policy manuals and internal directories for the employees, price and product information for the customers, and requirements and specifications for the suppliers. The idea is to have companies setup their own version of the internet but for internal use.

On the other hand, an extranet is a private network that uses internet technology and the public telecommunications system to securely share part of a business's information operations with suppliers, vendors, partners, customers or other businesses. An extranet can be viewed as part of a company's intranet extended to users outside the company.

An extranet can be used in the following scenarios:

Providing a pooled service which a number of business partners can access

Exchange news which is of use to partner companies and clients

Share training or development resources

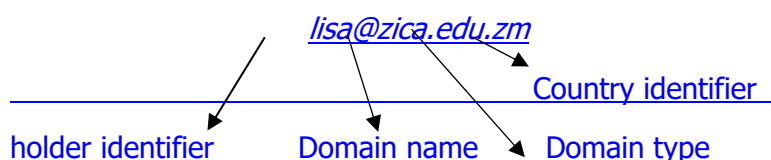
Exchange potentially large volumes of transaction data (using EDI for example)

(b) **PARTS**

(i) **URL**

Uniform Resource Locator

(ii) **URL PARTS**



(c) **INCREMENTAL / DIFFERENTIAL BACKUP**

Backing of information on computer is critical for recovery. Explain the following types of backup

(i) **Incremental**

- An incremental backup is a backup type that only copies data that has been changed or created since the previous backup activity was

conducted. An incremental backup approach is used when the amount of data that has to be protected is too voluminous to do a full backup of that data every day.

(ii) **Differential**

- A differential backup is a cumulative backup of all changes made since the last full backup, i.e., the differences since the last full backup. The advantage to this is the quicker recovery time, requiring only a full backup and the last differential backup to restore the entire data repository.

(d) **THE CLOUD**

Cloud storage involves organizing, archiving, and distributing data as required, in different volumes of virtualized storage consolidated from different physical hardware systems.

Cloud storage **allows you to access a remote hard drive** as if it were your own, and it is entirely focused on storage. In comparison, cloud computing allows you to access the whole computer to run software, make use of the processing power and (indeed) store files.

SOLUTION THREE

(a) SECURITY – PROTECTION AGAINST MALWARE

(i.) State 3 ways you can protect information systems from malicious software.

- Install updated anti-virus software
- Avoid using external storage devices like flash without scanning them
- Avoid downloading content from unsecured websites

(ii.) Denial of service (Dos) attack

- relates to internet websites, bombarded with excessive volumes of traffic at a given time, with the aim of overloading the website.
-

(b) VALUE CHAIN MODEL

- Inbound logistics
- Operations
- Outbound logistics
- Marketing and sales
- Service

(c) FUNCTIONS OF THE OPERATING SYSTEM

- Provides user interface
- Manages I/O
- Manages storage
- Manages files
- Provides security
- Handles interrupts

SOLUTION FOUR

(a) TERMS

(i) GUI

The **graphical user interface** is a form of **user interface** that allows **users** to interact with electronic devices through **graphical** icons and visual indicators such as secondary notation, instead of text-based **user** interfaces, typed command labels or text navigation.

(ii) Multimedia

Computers tend to present focused information through words, spreadsheets, databases or other kinds of formats. The purpose of multimedia is to **combine all of these so that the benefits of each can be used in a desktop environment.**

Multimedia is a **form of communication** that combines different content forms such as text, audio, images, animations, or video into a single presentation, in contrast to traditional mass media, such as printed material or audio recordings. Popular examples of multimedia include video podcasts, audio slideshows, animated shows, and movies. Multimedia can be recorded for playback on computers.

(iii) Icons

An icon, when talked about in computing, is a picture which usually stands for a **computer program, computer file, folder, or an action for a program to do.** Icons are usually small pictures, but not always. Sometimes the user can change what size an icon

(iv) Control unit

A control unit coordinates how data moves around a cpu. The control unit (CU) is a component of a computer's central processing unit (CPU) that **directs operation of the processor.** It tells **the computer's memory, arithmetic/logic unit and input and output devices how to respond to a program's instructions.**

(b)

(i) Explain any two (2) disadvantages of Video conferencing

- No personal interaction. Nothing would replace a personal interaction like a smile or a handshake. ...
- Technical problems. Working with laptops is always associated with technical problems like hardware failure, network connection issues, software issues, etc. ...
- Costly setup. ...
- More working hours. ...
- Delay in response. ...

(ii) features of a Personal Virtual Private network (VPN)

A VPN, or **Virtual Private Network**, allows you to create a **secure connection to another network over the Internet**. VPNs can be used to access region-restricted websites, shield your browsing activity from prying eyes on public Wi-Fi, and more. These days VPNs are really popular.

(iii) **Main benefits of using VPNs:**

- VPNs provide increased privacy while online. When you're in public, you wouldn't walk around with your personal information hanging out. The same ...
- VPNs provide enhanced security while online.
- Some VPNs provide ad and tracker blocking.
- VPNs help you bypass geo restrictions.
- VPNs allow you to bypass ISP bandwidth throttling.

(iv) Four (4) ways in which malware accesses and infects computers

- Spam emails. Malware authors often use tricks to try to convince you to download malicious files. ...
- Infected removable drives. Many worms spread by infecting removable drives such as USB flash drives or external hard drives. ...
- Bundled with other software. ...
- Hacked or compromised webpages. ...

SOLUTION FIVE

(a)

J & M Financial Institution
P.O Box 22
Lusaka

21st December, 2020.

Dear Sir/madam,

Re: Apology for not Attending the Meeting

I regret to inform you that I will not be able to attend the meeting scheduled for the 21st of December, 2020. This is because my child tested positive to Covid-19 after returning from an educational trip in Europe. This has made the Ministry of Health to put us, as a family, on mandatory self-quarantine for two (2) weeks even though none of my other family members has tested positive.

I therefore request to attend the meeting virtually via videoconferencing or we could alternatively meet after the prescribed two weeks has elapsed.

Please accept my apology. It is my sincere hope that my request will be considered because I appreciate how much the meeting means to our organization.

Yours sincerely,

P. Kalumbu

Peter Kalumbu

Finance Manager

J & M Financial Institution.

(b)

- There is no productive time wastage due to travelling to meetings
- It is cheap because members do not have to travel to meetings
- Participants can join the meeting from wherever they are at their own convenience
- In advent of communicable diseases such as Covid 19, it is safe.

(c)

- Assist in the preparation of the agenda
- Ensure that all necessary documents are properly distributed
- Receive apologies
- Take notes during the meetings
- Create minutes

SOLUTION SIX

(a) (i.) Acknowledgements is a part where people who have helped in the production of the report are recognized.

(ii.) Executive summary is a very condensed version of a report which is meant for people who may not have the time to read the full report.

(b)

- Formal reports – a massive complex and highly structured document, presenting and analyzing information ending with a conclusion and recommendations

- Routine reports for internal use – mostly sales reports, produced at regular intervals

- Special reports – only produced in a special case usually meant for planning and decision making. Eg. A report on new accounting software packages innovation.

- Informal report- this is generally used for less complex tasks. It does not require elaborate structuring of main and sub headings. However, it still needs a clear layout to assist the user to understand it.

(c).

- The purpose of the report.
- The user of the report.
- The type of report that will be most useful for the user
- The cost of producing the whole report. How much is required? Any recommendation needed
- When the report is required? Is there a deadline?
- The methods needed to be used to collect information
- The scope or extent of the report. Are there any limitations to your report?

SOLUTION SEVEN

(a)

- AGM
- Board meeting
- Resolution meeting
- Ordinary meeting

(b)

Minutes:

For its participants, minutes are a concrete record of the meeting and a source of data for members who were unable to participate. In certain situations, meeting minutes may serve as a reference point, such as when the results of a meeting influence other organizational collaborative events or programs.

Agenda:

The agenda of a meeting is a list of events that participants plan to undertake during their meeting. It serves several purposes: It provides advance notice to the participants of what will be addressed. It sets specific standards about what needs to happen before a meeting and during it.

Notice:

Notice is a document telling a company's representatives or directors about an upcoming event or meeting. The date, time and place of the meeting and the general nature of the business to be conducted at the meeting are stated in this document.

(c)

Generally speaking, meetings and conferences are all events where people get together to consider a particular subject; usually the difference is one of scale.

- Meetings can be more informal, while conferences are very formal.
- Meetings can often be held in-house while conferences are more often than not are held externally.
- Meetings usually have few people while conferences can involve larger numbers of attendees and people from different businesses.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

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

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

SECTION A – MULTIPLE CHOICE

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

QUESTION ONE

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

1.1 Which of the following costs is a direct cost;

- A. Factory maintenance
- B. Wood for a furniture maker
- C. Brushes and materials used by factory cleaners
- D. Oil for factory machinery

(2 marks)

1.2 The following information relates to the output level in units and corresponding production overhead costs for Grey Ltd for the past 3 months:

	Output (units)	Production overhead costs
January	80,000	K278,000
June	55,000	K208,000
July	120,000	K390,000

Production overheads include both a fixed and variable element. Total fixed production overhead costs are estimated to be:

- A. K70,000
- B. K54,000
- C. K112,000
- D. K154,000

(2 marks)

1.3 In a company that manufactures furniture, which of the following is more likely to be step fixed cost:

- A. Lengths of oak used in production
- B. Factory telephone costs
- C. Machinery depreciation costs

D. Supervisors' salaries

(2 marks)

1.4 In process costing, a normal loss:

- A. Is not an inherent part of the production process
- B. Occurs under efficient operating conditions and is unavoidable
- C. Is less than the expected loss from the process
- D. Is not expected to occur under efficient operating conditions

(2 marks)

1.5 If production volume increases then:

- A. Total variable cost decreases while variable cost per unit is constant
- B. Variable cost per unit is constant while total variable cost increases
- C. Total variable cost remains constant while the variable cost per unit increases
- D. Variable cost per unit decreases while total variable cost is constant

(2 marks)

1.6 AB DAC recorded the following information relating to its production activity:

Month	January	February	March
Machine hours	16,000	18,000	20,000
Production overhead costs	K346,000	K380,000	K414,000

The fixed production overhead cost per month is:

- A. K74,000
- B. K34,000
- C. K68,000
- D. K36,000

(2 marks)

1.7 Extract from company JKL's records for the month are as follows:

	Budget	Actual
Production (in units)	7,000	7,200
Direct labour cost (K'000)	42,000	42,912

What is the total direct labour cost variance?

- A. K288,000 (F)
- B. K288,000 (A)
- C. K1,200,000 (F)
- D. K912,000 (A)

(2 marks)

1.8 Which one of the following is not a common feature of cost accounting but financial accounting?

- A. Cost classification.
- B. Control accounts.
- C. Marginal costing.
- D. Periodical inventory taking. (2 marks)

1.9 Within a company, in which department is a supplier account a suitable cost unit?

- A. Production
- B. Accounts receivables
- C. Accounts payable
- D. Purchases (2 marks)

1.10 Job 123 requires 630 productive labour hours. Idle time is expected to be 10% of the total hours paid for the job. The wage rate is K12 per hour. Material issues to the job is estimated to be valued at K10,000 in total, with production overheads absorbed at a rate of 105% of direct labour cost.

What is the total estimated cost for Job 123 to the nearest kwacha?

- A. K8,732
- B. K27,136
- C. K27,220
- D. K8,820

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this Section.

Attempt any FOUR (4) questions.

QUESTION TWO

KAKA Plc. makes three (3) main products, using broadly the same production methods and equipment for each. The company currently uses labour hours to absorb overheads. Kaka is considering to introduce activity based costing (ABC) system to absorb overheads. Details of the three (3) products for a typical period are:

	Product TA	Product TB	Product TC
Per unit:			
- Labour hours	3	3	2
- Machine hours	1	2	6
- Material cost	K40	K24	K50
- Labour cost	K20	K25	K28
Number of units produced	1,500	2,500	14,000

Production overheads can be analyzed into the following:

	Cost pools	Cost drivers
	K	
Set – ups	235,000	Number of set-ups
Machinery	155,200	Number of machine hours
Materials handling	103,000	Number of material movements
Inspection	206,800	Number of inspections
Total production overheads	700,000	

The following total activity volumes are associated with the product line for the period as a whole:

	Product TA	Product TB	Product TC
Number of inspections	300	360	1,340
Number of set ups	180	330	665
Number of material movements	24	42	176

Required:

- (a) Explain the cost drivers and cost pools. (3 marks)
- (b) Calculate the cost per unit for each product using Absorption method. (5 marks)
- (c) Calculate the cost per unit for each product using ABC principles. (10 marks)
- (d) Provide an explanation for the cost per unit produced by (b) and (c) above. (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) A company located in Mazabuka district produces a wide range of products including a product known as C. The company operates a standard costing system and analysis of variances is made every month. One unit of C requires 0.5 kilograms of material mealie meal at a cost of K2 per kilo as well as 0.5 litres of water at a cost of K1.5 per litre. It takes 2 hours to make one unit of product C at a rate of K2 per hour. Variable costs per hour of work cost K2 whilst the fixed overhead rate per labour hour is set at K2.5. The standard profit per unit of product C is 20% of total standard costs.

Required:

- (i) Prepare a standard cost card for product C (5 marks)
 - (ii) State four (4) types of performance standards (2 marks)
 - (iii) State five (5) uses of a standard costing system (5 marks)
- (b) Budgeted output for January was 100 litres. Actual results for January were such that 180 litres were produced. Mealie meal consumed in production amounted to 50 kilos at a total cost of K320. A total of 110 litres of water was used at a total cost of K275. Labour hours paid for amounted to 80 hours at a cost of K260.

Required:

Calculate the following costs variances:-

- (i) Mealie meal price variance (2 marks)
- (ii) Water price variance (2 marks)
- (iii) Labour rate variance (2 marks)
- (iv) Mealie meal usage variance (2 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) A restaurant in Lusaka's town center recorded the following income and expenditure for a month.

Item	K	K
Income (cash takings)		56,000
Food	18,900	
Drink	6,000	
Bottled water	1,250	
Heating and lighting	1,200	
Maintenance of machinery	750	
Repairs	900	
Wages	15,000	
Depreciation	1,000	
Total cost	<u> </u>	45,000
Profit		<u>11,000</u>

During the month the restaurant served 2,500 meals. The restaurant's cost unit is a meal.

Required:

- (i) Calculate the average cost per meal served and the average income per meal served. (6 marks)
- (ii) State four (4) main features that differentiate output of service industries and the products of manufacturing industries. (4 marks)
- (b) A company operates a production process which makes joint products X and Y, and by-product Z. Production costs for a period total K272,926 incurred in the making of:
1. Product X – 16,000 Kilos at a selling price of K6.10 per kilo.
 2. Product Y – 53,200 Kilos at a selling price of K7.50 per kilo.
 3. Product Z – 2,770 Kilos at a selling price of K1.20 per kilo.
 4. Product Y requires further processing after separation from the other two products. This costs a total of K201,930.
 5. Product Z also requires further processing to make it saleable and this costs K0.4 per kilo.

Required:

Calculate the total profit earned by products X and Y in the period, using the net realizable values (net income) to apportion joint costs. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

DL Limited had an opening inventory of 200 units with a value of K800 on 1 June 2020. The following receipts and issues were recorded during June 2020:

June 10	Receipt	300 units at K2.50 per unit
June 15	Issue	210 units
June 20	Issue	100 units
June 24	Receipt	180 units at K3.50 per unit
June 26	Issue	270 units
June 30	Receipt	50 units at K4.50 per unit

DL Limited sold 580 units at K10 per unit and cash expenses were K3,000.

Required:

(a) Prepare a stores ledger card under the following valuation methods:

- (i) Last in first out (LIFO) method (6 marks)
- (ii) First in First out (FIFO) method (6 marks)
- (iii) Weighted average cost (AVCO) method (5 marks)

(b) Calculate the profit under each of the evaluation methods above. (3 marks)

[Total: 20 Marks]

QUESTION SIX

BM Company is a construction company based in Mansa Town. It has provided you with the following information for the contract number D520 for the period ending 30 June 2020:

	K
Labour on site	810,000
Materials directed to site	640,000
Materials from stores	162,400
Hire and use of plate upkeep account	24,200
Direct expenses	46,000
General overheads	74,200
Materials on hand ,June 30,2020	12,600
Wages accrued on June 30,2020	15,600
Direct expenses accrued on June 30,2020	3,200
Works not certified	33,000
Amount certified by the engineer	2,200,000
Cash received on account	1,760,000

Required:

- (a) Prepare a contract account and a contractee account. (16 marks)
- (b) Determine the cost of work in progress. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA 5: COST ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a)

Cost driver

This is the measure of activity which causes overhead costs. In ABC products consume activities and an activity consumes resources. A cost driver is any factor which causes a change in the cost of the activity.

Cost pool

An activity cost pool is the total of all costs associated with a particular business activity.

Activity costs are itemized for company leaders to use in making financial decisions. Under ABC the areas where overheads were caused is the cost pools.

(b)

Cost per unit using absorption costing principles

Product TA Product TB Product TC

	K/unit	K/unit	K/unit
Direct material cost per unit	40.0	24.0	50.0
Direct labour cost per unit	20.0	25.0	28.0
Overhead cost per unit (K17.50/hour)	<u>52.5</u>	<u>52.5</u>	<u>52.5</u>
Cost per unit	<u>112.5</u>	<u>101.5</u>	<u>113</u>

WORKINGS:

Products: Units hours per unit Total Hours

TA	1,500	3	4,500
TB	2,500	3	7,500
TC	14,000	2	<u>28,000</u>
Total labour hours			<u>40,000</u>

Overhead absorption rate (OAR) = $\frac{K700,000}{40,000 \text{ hours}}$

= **K 17.50 per labour hour**

Cost per unit using activity based costing (ABC) principles

Product TA Product TB Product TC

	K/unit	K/unit	K/unit
Direct material cost per unit	40.0	24.0	50.0

Direct labour cost per unit	20.0	25.0	28.0
Overhead cost per unit	<u>53.251.834.9</u>		
Cost per unit	<u>113.2100.8112.9</u>		

WORKING:

Overhead costs driver		Cost drivers		cost per
	K			K
Set – ups per set up	235,000	1,175	no of Set-ups	200
Machinery mch.hour	155,200	90,500	machine hours	1.7 per
Material movements mat.Mov	103,000	242	material movements	425.6 per
Inspections	<u>206,800</u>	2,000	no of inspections	103.4 per inspection
Total production overhead	<u>700,000</u>			

Overhead costs	Product TA		Product TB		Product TC	
	K		KK			
Set – ups 133,000	36,000		66,000			
Machinery 142,800	2,550		8,500			
Material movements 74,906	10,214		17,875			
Inspections	<u>31,020</u>	<u>37,224</u>	<u>138,556</u>			
Total oveheads	79,784	129,599	489,262			
Number of units produced 14,000	1,500		2,500			
Overhead per unit	53.251.834.9					

(c) **Explanation of the difference between the cost per unit using traditional costing and activity based costing principles.**

Product TA Product TB Product TC

K	KK		
Cost per unit – Traditional	112.5	101.5	113.0
Cost per unit – ABC	<u>113.2</u>	<u>100.8</u>	<u>112.9</u>
Difference	<u>0.7</u>	<u>0.7</u>	<u>0.1</u>

(d) Product TA has the highest cost per unit under ABC. This is because it has the greater number of activities and it is activities that cause costs per ABC.

Product TB has the lower cost per unit under ABC. This is because it has the lowest number of activities and it is activities that cause costs per ABC.

SOLUTION THREE

(a) (i) Standard cost card for product C

		Cost per litre
		K
Mealie meal	0.5 Kilos x K2 per kilo	1.00
Water	0.5 litres x K1.5 per litre	0.75
Labour	2 hours x K2 per hour	4.00
Variable overheads	2 hours x K2 per hour	4.00
Fixed overheads	2 hours x K2.5 per hour	<u>5.00</u>
Standard production cost		14.75
Standard profit	(20% of K14.75)	<u>2.95</u>
Standard selling price		<u>17.70</u>

(ii) Four (4) types of performance standards

- Ideal standards
- Attainable standards
- Current standards
- Basic standards

(iii) Five (5) uses of a standard costing system include:-

- Providing a formal basis for assessment of performance and efficiency.
- Control of costs by establishing standards and analysis of variances.
- Enabling the principles of management by exception to be practiced at detailed operational level.
- Assist in setting budgets.
- Inventory valuation.

(b) (i) Mealie meal price variance

50 kilos should have cost x K2	K
But did cost	100
	<u>320</u>
	<u>220(A)</u>

(ii) Water price variance

110 litres should have cost x K1.5	K
But did cost	165
	<u>275</u>
	<u>110(A)</u>

(iii) Labour rate variance

80 hours should have cost x K2	K
But did cost	160
	<u>260</u>
	<u>100 (A)</u>

(iv) Mealie Meal Usage Variance

180 litres should have used x 0.5 Kilos
But did use
Usage variance in kilos
Valued @ std price per kilo

90 kilos
50 kilos
40 kilos (F)
x K2
K80 (F)

SOLUTION FOUR

(a) (i) Average cost per meal served and average income per meal served

Average cost per meal

Total restaurant expenditure in the month = K45,000

Total meals served in the month = 2,500

Average cost per meal served = $\frac{K45,000}{2,500}$
= **K18**

Average income per meal = $\frac{K56,000}{2,500}$
= **K22.40**

(ii) Four (4) main features that differentiate output of service industries and the products of manufacturing industries include:-

- Intangibility
- Heterogeneity
- Simultaneous production and consumption
- Perishability

(b) Calculation of total profit earned by products X and Y

Net revenue from product Z = K (1.2 – 0.4) = K0.80

Costs to apportion = Joint process costs – net revenue from product Z
= K272,926 – (2,770 x K0.80)
= **K270,710**

	X	Y	Total
	K	K	K
Revenue	97,600	399,000	496,600
Further processing costs	<u>-</u>	<u>(201,930)</u>	<u>(201,930)</u>
Net realisable values	97,600	197,070	294,670
Joint costs (W)	<u>(89,664)</u>	<u>(181,046)</u>	<u>(270,710)</u>
Total profits	<u>7,936</u>	<u>16,024</u>	<u>23,960</u>

Total net realisable values = K97,600 + K197,070 + K294,670

Working

Joint costs apportioned to Product X = $\frac{97,600}{294,670} \times K270,710$
= **K89,664**

$$\begin{aligned} \text{Joint costs apportioned to Product Y} &= \frac{197,070}{294,670} \times \text{K}270,710 \\ &= \underline{\text{K}181,046} \end{aligned}$$

SOLUTION FIVE

(a) i) **Last – in – First – out (LIFO)**

Date	details	Purchases Units price value	Issues price	Balance Units valu
1 June	Opening			200
10 June	Receipts	300 K2.50 750		800 <u>300 750</u>
15 June	Issues		210 K2.50 525	500 1,550
20 June	Issues		90 K2.50 225	<u>(210)(525)</u> 290 1,025
24 June	Receipt		10 K4.00 40	
26 June	Issues	180 K3.50 630	100 265	<u>(100)(265)</u> 190 760 <u>180 630</u>
30 June	Receipt Closing	50 K4.50 225	180 K3.50 630 90 K4.00 <u>360</u> 270 990	370 1,390 <u>(270)(990)</u> 100 400 50 225 <u>150 625</u>

ii) **First – in – First – out (FIFO)**

Date	details	Purchases Units price value	Issues price	Balance Units valu
1 June	Opening			200
10 June	Receipts	300 K2.50 750		800 <u>300 750</u>
15 June	Issues		200 K4.00 800	500 1,550
20 June	Issues		10 K2.50 25 <u>210 825</u>	<u>(210)(825)</u> 290 725
24 June	Receipt	180 K3.50	100 K2.50	<u>(100)(250)</u>
26 June	Issues	630	250	190 475 <u>180 630</u>
30 June	Receipt Closing		190 K2.50 475	370 1,105

		50 225	K4.50	80 <u>280</u> 270 755	K3.50	(270)(755) 100 350 <u>50 225</u> 150 575
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iii) **Weighted average cost (AVCO)**

Date	details	Purchases Units price value	Issues price	Balance Units valu
1 June	Opening			200
10 June	Receipts	300 K2.50 750		800 <u>300 750</u>
15 June	Issues		210 K3.10 651	500 1,550
20 June	Issues			<u>(210)(651)</u>
24 June	Receipt		100 K3.10 310	290 899
26 June	Issues	180 K3.50 630		<u>(100)(310)</u> 190 589
30 June	Receipt Closing		270 K3.29 888	<u>180 630</u> 370 1,219
		50 K4.50 225		<u>(270)(888)</u> 100 331 <u>50 225</u> 150 556

(b) **Profit statement**

	K LIFO K	K FIFO K	K AVCO K
Sales revenue	5,800	5,800	5,800
Opening inventory	800	800	800
Purchases	1,605	1,605	1,605
	2,405	2,405	2,405
Closing inventory	(625)	(575)	(556)
Cost of sales	(1,780)	(1,830)	(1,849)
Gross profit	4,020	3,970	3,951
Cash expense	(3,000)	(3,000)	(3,000)
Net profit	1,020	970	951

SOLUTION SIX

(a)

		Contract account	
		K	
K			
Materials		640,000	Materials c/f
12,600			
Materials from stores		162,400	cost of contract (b/f)
1,763,000			
Wages (810,000 + 15,600)		825,600	
Direct expenses (46,000 + 3,200)		49,200	
Hire charges of plant		24,200	
General overheads		74,200	
		<u>1,775,600</u>	
<u>1,775,600</u>			
Cost of contract b/d	1,763,000		Contractee account
2,200,000			
Profit and loss account	250,667		Work certified
Profit in suspense	219,333		Cost of work not certified
<u>33,000</u>			
		2,233,000	
2,233,000			
Material b/f		12,600	Wages b/d
15,600			
			Direct expense b/d
3,200			
Contractee Account			
		K	
K			
Contract account	2,200,000		Bank
1,760,000			
(value of work certified)			Balance c/d
440,000	_____		_____
		2,200,000	
2,200,000	_____		_____

(b) **Value of work in progress.**

		K	
Cost of work not certified		33,000	
Balance of contractee's account		440,000	
		<u>473,000</u>	
Less; profit in reserve- value of work in progress		219,333	
		<u>253,667</u>	

Value of work - in progress 253,667

Workings

Profit taken to the P & L A/C:

Notional profit = $2200,000 + 33,000 - 1,763,000 = 470,000$

Since more than 75% of contract had been completed, profit to be taken to the credit of P & L A/C is as follows; $\frac{2}{3} \times 470,000 \times \frac{1,760,000}{2,200,000} = 250,667$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

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

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

SECTION A- (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

1.1 It has been said that Judges of a court of law do not create the law but rather just interpret it, state one (1) exception to this rule.

- A. When there are adequate and reliable reports of lower courts
- B. When there are making precedents
- C. When the courts are explaining the rules of natural justice
- D. When judges overrule an objection

(2 marks)

1.2 A casual employee is entitled to many rights except

- A. To be given transport on repatriation
- B. To be paid a wage or a salary
- C. To be given safety clothes if the nature of work demands such
- D. To be given a redundancy package when other employees are declared redundant

(2 marks)

1.3 When judges of the High Court pass judgment, such judgment is binding on lower courts, but does not bind the High Court itself, why is this so?

Precedents to the lower court but not to other High court judges, why?

- A. Judges of the High court have equal power hence are at liberty to dispense with the decision of another judge.
- B. Judges are elderly people no one can tell them what to do
- C. Judges are so learned people such that to rely on another's decision would insult their intelligence.
- D. Judges are quiet and learned they interpret the law like no other.
Which one (s) is and/or are the highest courts in Zambia?

(2 marks)

1.4 The following are requirements for agency of necessity to exist except?

- A. There must be a genuine commercial emergency
- B. It must have been impossible to get fresh instructions from the principal.
- C. The agent must act in his best interest,

D. The agent must act in the best interest of the principal.

(2 marks)

1.5 What is not classified as goods under the Sale of Goods Act of 1893?

- A. Furniture
- B. Electricity
- C. Water
- D. Money

(2 marks)

1.6 Where an employee is engaged under an oral contract of a period less than a week. The employer according to the Zambian Employment Act, must give him notice of termination of employment of up to:

- A. 12 hours notice
- B. One (1) week notice
- C. 24 hours notice
- D. 14 days' notice

(2 marks)

1.7 Which list below contains the four (4) conditions of ratification of an agency relationship by the principal: -

- A. Existence of principal; legal capacity of the principal; Disclosed principal; and agent acting on behalf of the principal.
- B. Principal capable of being ascertained; agent acting on behalf of principal; existence of principal; and legal capacity of principal.
- C. Disclosed principal; principal being capable of being ascertained; agent acting on behalf of principal; and existence of principal.
- D. Legal capacity of the principal; agent acting on behalf of the principal; principal capable of being ascertained; and disclosed principle.

(2 marks)

1.8 The law that manufacturers of food stuffs are liable for injuries caused by their defective products without having to prove fault on their part is an example of

- A. Tort of breach of duty of care

- B. Tort of breach of duty of care
- C. Tort of strict liability
- D. *Res ipsa loquitor* (The facts speak for themselves) (2 marks)

1.9 Which of the following is an example of a judicial way of dissolving a partnership?

- A. Death of a partner
 - B. Mental incapacity of a partner
 - C. Bankruptcy of an ordinary partner
 - D. End of the period for which the partnership was formed
- (2 marks)

1.10 One of the main purposes of an Arbitration Clause in a partnership deed is?

- A. To reduce on the costs of litigation by settling matters outside court
- B. To reduce the cost of litigation by settling matters in fast track courts
- C. To avoid partners breaching their fiduciary duty to each other
- D. To have the matters arbitrated upon by the partners or the courts of law.

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) Explain how the following take effect as sources of law.
- | | |
|-----------------------------|----------|
| (i) The constitution | (1 mark) |
| (ii) Acts of Parliament | (1 mark) |
| (iii) Delegated legislation | (1 mark) |
| (iv) Case law | (1 mark) |
| (v) Customs | (1 mark) |
- (b) Making reference to case, discuss the concept of constitutional supremacy and how it has been given effect in Zambia. (10 marks)
- (c) Distinguish between liability in criminal law and civil law. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Jimaima, the '*Honda Man*' as he is popularly known by the people in his compound, sells motorbikes and motorbike spares. He is trading as 'Honda Yamoto'. Jimaima also repairs motorbikes and runs a motorbike riding school.

One of his loyal customers by the name of Odia asked him on phone which bikes he had and he said he had '2019 model of Honda and Yamaha motorbikes'. Based on that, Odia sent him the money for a 'Honda Motorbike 2019 Model'. However, The 'Honda Man' sent her a '2018 Honda Motorbike' which is essentially the same as the one he told her on phone, except on the fact that the 2018 model had a shorter chassis than the 2019 model. Odia is not happy and has come to you for advice as to whether she should take this matter to court or not.

- (a) In an event that you decided to advise her to sue, do you think she can succeed? (10 marks)
- (b) Last week Monday, Jimaima's Honda Yamoto sold two motorbikes to Evelyn who promised to pick them on Tuesday morning, but did not show up. On Friday, she called that she was on the way and would be at Honda Yamoto by 13:00 hrs. Jimaima told

her that, since Friday was a half day knocking off at 12:00 hours, he would leave them with the security guard at the gate and she would find them there and she agreed. At 15:00 hours, there was a fight on the road near the shop and the guard went to watch the street fight, in the process the bikes were stolen. Evelyn came at 17:00 hrs to get the bikes and was surprised to be told that the bikes had been stolen.

Evelyn now wants her money back for the two stolen motorbikes or be given other motorbikes as replacement, which Jimaima has refused.

Required:

Advise her as to whether she will succeed in her claims or not. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

Ashley Mainza, a business high profile young lady deals in a number of investments in Zambia, and she is well known. One of her investments is the selling of latest Hilus vehicles to the government of Zambia. Ashley is resident in Zambia but domiciled in the United Kingdom most of the times. Lately each time she decides to visit the Minister of Commerce in Zambia to exchange contracts of sale with the Government she sends her young brother Mathew, to sign on her behalf and payment would be processed, one day unknown to her, Mathew visited the Minister to collect a Cheque for K500,000.00 for the purchase of one Hilus vehicle and was given. Mathew then squandered the money on his personal things. After a few months Ashley writes to the Minister of Commerce requesting for payment and to her surprise Mathew collected it, she disputes alleging that she did not send him and vows to sue the Government for the breach of contract.

Required:

- (a) What do we call the type of business relationship that subsisted between Ashley and Mathew (1 mark)
- (b) Explain the kind of agency that was established above. (2 marks)
- (c) Explain four (4) ways of establishing an agency relationship (4 marks)
- (d) (i) outline three (3) ways of terminating a partnership. (3 marks)

- (ii) Explain the concept performance as a means of discharging a contract at common law and under the law of equity. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Describe the nature of a partnership (8 marks)
- (b) Explain bankruptcy. (1 mark)
- (c) What three (3) circumstances would give rise to the court ordering a bankruptcy? (3 marks)
- (d) Define torts of strict liability. (5 marks)
- (e) List three (3) methods of dissolving a partnership. (3 marks)

[Total: 20 Marks]

QUESTION SIX

Ms. Fridah, runs a transport business called Tamanga Buses Ltd, she has properly instructed her employees not to over speed or rather not to drive over 80km/h. One day One Joze, a bus driver for Ms. Fridah, whilst driving decided to drive at 100km/h in order to arrive early at a certain named bus station in Lusaka, to be the first to pick customers as he was informed by one of his conductors that there are 10 shorts (10 would be passengers). In trying to drive fast he negligently collided with Braun Hatonbo's Toyota vits, Braun decides to approach Ms. Fridah for the damage caused to his vehicle. He was told by Ms Fridah that she had instructed her bus drivers on how to drive and that it was not her fault. Braun was told to go wherever he wanted but would not be given a single coin. Braun is confused as he just bought the vehicle.

Required:

- (a) Explain to Ms. Fridah why she has to fix Braun's car (8 marks)
- (b) List three (3) rights of a permanent employee (3 marks)
- (c) Explain the importance of the Sales of Goods Act 1893 (6 marks)

- (d) List three (3) things that must exist for a partnership to subsist from the definition of a partnership. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA6: BUSINESS LAW SUGGESTED SOLUTION

SOLUTION ONE

1.1 B

1.2 D

1.3 A

1.4 C

1.5 D

1.6 C

1.7 B

1.8 C

1.9 B

1.10 B

SOLUTION TWO

(a) (i) The constitution in Zambia is the supreme law of the land. It derives its sources from the people and therefore revered as the grand norm. All other laws in country are bound to constitutional interpretation. Article 1(3) provides that any law inconsistent to the law of the constitution, that other law shall be void to extent of inconsistency.

(ii) Acts of Parliament in Zambia are laws made by the country's parliament. The constitution has conferred powers on the country's legislature to make laws. However, when laws are made by parliament, they are required to conform to the provisions of the constitution otherwise they are declared null and void should they not. Acts of Parliament are usually known as administrative laws.

(iii) Delegated legislation is another source of law in Zambia. Delegated legislation is law made pursuant to Acts of Parliament. When parliament has passed legislation, it further gives power to other institutions pursuant to article 80(i) of the constitution, to make laws. Delegated legislation is made by local authorities (by-laws) and ministers (statutory instruments) and the law they make is supposed to conform to the laws in the enabling Act.

(iv) Case law is equally another source of law in Zambia. Case law also known as precedents is judge made law. This guides society especially in the practice of law on what the law basically is. Case law operates as a source of law in Zambia in that, decisions of judges in fact interpret laws of Acts of Parliament of delegated legislation thereby giving them effect. Case law is therefore as important as source of law in Zambia as the others considered above.

(v) Zambia is divided into two legal systems. The first and oldest form of law in Zambia like most other countries of the world has in fact been customary law. Customary law has existed from the time man existed. These are customs that guide the manner in which a society is required to exist. For example, in Zambia we practice customary and civil law. All customary matters are dealt with in the local courts.

(b) Brief facts in ***Christine Mulundika and 7 others v the Attorney General*** concern the plaintiff and seven others who were arrested and charged under section 7 of the Public Order Act for breaching section 5(4) of the same Act. Section 5(4) of the Act required persons wishing to hold a public rally to obtain a permit from the police. Failure to obtain such permit constituted a criminal offence under section 7 of the Act. A permit was denied to *Christine Mulundika and Seven Others* but decided to hold the

rally anyway. They were arrested and charged under the Act and brought before a magistrate. They however challenged the constitutionality of section 5(4) and 7 of the Act contending they were in violation of articles 20 and 21 of the constitution. The matter was referred to the High Court pursuant to article 28 of the constitution. The High Court ruled in favour of the applicants holding that sections 5(4) and 7 of the Act indeed violated the constitution which guaranteed fundamental rights of freedoms of expression, association and assembly. The principle of law established by the case is that the constitution in Zambia is the supreme law of the land and should any other law be inconsistent with it, that other law is to the extent of the inconsistency to be declared void. Further, the case established that in Zambia freedoms in the constitution are to be protected and given effect where there is evidence of their violation.

(c) In civil cases, especially law of contracts and tort, liability arises mainly through the parties themselves agreeing in cases of contract to enter into a contract with terms and conditions agreed upon by themselves where, a breach entitles the aggrieved party to sue in the courts of law for damages. In tort, liability arises by general imposition of the law. The law imposes a duty of care on every individual to act in a manner that would not cause injury to others. A breach of that duty resulting in damage entitles the aggrieved party to sue in the courts of law.

Criminal liability however arises by operation of the law. In Zambia the Penal Code is the main source of criminal law. The Penal Code has described certain acts and omissions to be criminal and has also prescribed the penalty for them. Liability in criminal law is to the state and the state on behalf of society prosecutes all criminal acts or omissions.

SOLUTION THREE

(a) This question is anchored on **sale by description** provided for under Section 13 of the Sale of Goods Act 1893. A sale by description occurs where words are used to identify the goods sold. When there is a sale by description, *there is an implied condition that the goods must correspond with the description.*

In this case, when Odia called Jimaima on phone, she asked for the motorbikes available for sale and sent her money specifically for the described motorbike '2019 Model, Honda Motorbike'. What Jimaima, 'The Honda Man', did was in breach of the Sale of Goods Act because the goods he sent her were '2018 Model Honda Motorbikes' and not the ones he described to her through the phone. In ***Beale v Taylor (1967)*** a sale of a car which was joined of two different models entitled the buyer to damages in the court of law.

(b) This question is based on the *Transfer of Risk*. The general rule is that risk of accidental loss or destruction passes with ownership. Thus, unless otherwise agreed, the goods remain at the seller's risk until the property in them is transferred to the buyer. However, when the property in them is transferred to the buyer, the goods are at buyer's risk whether delivery has been made or not.

Where delivery has been delayed through the fault of either the seller or buyer, the goods are at the risk of the party at fault in respect of any loss which might not have occurred, but for the fault. Thus in the case at hand, the delivery had been delayed by the fault of the buyer, the goods were ascertained and left with the guard to guard them up to 14:00 hrs when she said would collect them. The fight started much later than the agreed time. Following the case of ***Demby, Hamilton and Co. Ltd v. Barden (1949)*** where the buyer who neglected to collect the goods on time after they were parked for him was held liable to pay the price as the delay in delivering them was his own fault. Therefore, Evelyn cannot recover the money she paid, it was her fault.

SOLUTION FOUR

- (a) An agency relationship
- (b) The agency that was created was that of holding out a person as an agent. This impliedly sends signal to another person that the person being held out is an agent and has similar authority as the principal. This type of agent is also called agency by estoppel.
- (c) An agency relationship may be established in the following ways
- Express appointment, this is the actual appointment of a person by a principal as an agent and coupled with that person accepting the appointment on terms and conditions
 - By holding out, this may be done by presenting a person by action as your agent to another.
 - Agent by necessity, this may happen where a person becomes an agent because of genuine commercial emergency
 - Agency by operation of the law this happens when a person becomes a personal representative of another in situations where the other has died or is insane.
- (d) A partnership may be terminated in the following ways
- Lapse of time, this happens where it was agreed the duration of partnership to be but for a specific period of time once the period lapses the partnership dies
 - Death of one partner, where there was no partnership deed the partnership becomes dissolved once the partner dies
 - Performance, where the purpose for which a partnership was created has been fulfilled the partnership dissolves.
 - Change of the law, where the government passes new law which prohibits certain businesses any partnership affected in such manner dissolves.
- D(ii) Performance is one of the ways of discharging a contract at law. Performance simply relates to the actual completion of the contracted objective. However, the coming of equity changed the position of performance at law. Common law

At common law the case of Powell v cutter is illustrative in this case it was indicated that partial performance is not performance at all. Brief facts the Plaintiff's husband was contracted to work on a voyage for 11 months and to be paid thereafter. Whilst working the Plaintiff's husband died three months before the completion the work the widow

claimed to be paid for what the husband worked for the employers declined stating that on the terms of the agreement performance was not achieved therefore he was not entitled to payment not even for the months he had worked, she sued the employers and the courts ruled in the employer's favor. This is how harsh the common law was as regards performance. However, equity came in to mitigate the harshness of common law. After the case of Powell was decided changed the position, to the one of quantum meruit this means a person was entitled to be paid according to the work done. In some cases it has been concluded that substantial performance should equal full performance depending of the nature of work one was involved in.

- In summation the common law position on performance does not stand, what stands now is what equity remedied and that is performance is also subject to quantum meruit and substantial performance can be full performance at times. .

SOLUTION FIVE

- (a) A partnership is established under the Partnership Act 1890. It requires two or more persons coming together with a common purpose to form a business with intention to profit. Partnerships are unlimited liability companies meaning, the partners in the ship are all liable jointly and severally for the debts and wrongs of the company. A partnership will usually dissolve in event of death of anyone of the partners.
- (b) Bankruptcy is defined as; the state of a person who has been adjudged by a court to be insolvent. Meaning, having more debts than assets.
- (c) Pursuant to section 20 of the Bankruptcy Act, the court may adjudge someone bankrupt in the following events:
- (i) Where the debtor applies to the court that they be declared bankrupt
 - (ii) On the application of the official receiver, and;
 - (iii) On the application of creditors pursuant to section 6(1)(a)(b) of the Bankruptcy Act.
- (d) These are torts where the Plaintiff can recover compensation for loss or damage without having to prove fault or intention on the part of the defendant. For example manufacturers are liable for injuries caused by defective products.
- (e) Three methods of dissolving a partnership are ;
- Death
 - Giving of notice
 - Bankruptcy
 - Illegality

SOLUTION SIX

- (a) The legal issue is to explain to Fridah, the reasons she is liable to fix Braun's car. Vicarious liability is the principal in law that allocates a blame on a third party where the person that caused the fault or negligent act stands in a special relationship with the person who is deemed to be liable. Looking at the facts Fridah had prohibited her drivers to drive the buses at a certain speed unknown to her one of her drivers drove the bus at a very high speed and negligently collided with another. In the case of *Limpus v London General Omnibus*, it was held that ; even if it is strictly prohibited to do work in a certain way, if it was done within the course of employment the employer is liable. From the case what must be noted to apply the principle of vicarious liability is ; was the employ working within the hours of work; was he/she using the company property. If the aforementioned are answered in the affirmative then the employer is liable. In application to the law cited above it therefore appears that as the driver to Fridah was using the company vehicle and negligently collided the employer is liable to fix Mr. Braun's car. It matters not that the employer had prohibited certain acts from being done by the employees. .
- (b) – right to claim gratuity upon completing the contract
- _ Right to two leave days in every month of work
 - _ right to a medical scheme provided for under the company
 - Right to be paid every month
 - Right to a sick or compassionate leave
 -
- (c) The Sale of Goods Act 1893, provides for a smooth running of business and protects both the buyer and the seller. The Act has achieved this through a number of provisions and rules as follows; the Act, has provided for categories of goods and how to treat the goods for example ascertained goods, a sale involving ascertained goods the risk and property in goods passes with the sale however, with unascertained goods the passing of the property and risk in goods depends on those goods being ascertained if there is something that must be done for the goods to be ascertained the property in goods will pass upon the goods being put in that condition. Further every sale by sample the bulk should correspond to the sample. The Act, also provides for the special treatment of conditions in such a contract as the breach a condition entitles the innocent party to repudiate the contract.

- (d) _ there must be a business
 - _ the business must be an undertaking in common
- _ the purpose to do business must be for making profits

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

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

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

SECTION A - COMPULSORY

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

QUESTION ONE

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

1.1 Henri Fayol contributed to management theory by suggesting fourteen (14) principles of management. Which ONE of the following principles requires an employee to receive orders from one (1) superior only?

- A. Unit of direction
- B. Scalar chain
- C. Unit of command
- D. Authority and responsibility

(2 marks)

1.2 Due to the effect of Covid19, management of ROGAMUZU Limited has decided that non-essential employees work from home. Kondwelani, one of the affected employees by the change has resisted as he will lose overtime pay and other allowances. The reason for this resistance to change is

- A. Fear of unknown
- B. Economic self interest
- C. Inertia
- D. Peer pressure

(2 marks)

1.3 Economic factors are some of the factors identified in PESTEL analysis. The following are some of the economic factors **EXCEPT**

- A. Tax policy
- B. Interest rates
- C. Exchange rate
- D. Inflation rate

(2 marks)

1.4 A partnership is a business owned by two (2) or more people. The following are advantages of a partnership over a sole trader **EXCEPT**.....

- A. Shared responsibilities
- B. More capital can be raised

C. Quality decisions can be made

D. Profits are shared

(2 marks)

1.5 Managers are required to have certain skills for them to perform their roles. Which one (1) of the following managerial skills is more important at top level management?

A. Technical skills

B. Social skills

C. Conceptual skills

D. None of the above

(2 marks)

1.6. Job design is one of the ways of motivation. Which one (1) of the following forms of job design involves addition of tasks to the job but the tasks are at the same level?

A. Job rotation

B. Job enrichment

C. Job enlargement

D. All of the above

(2 marks)

1.7 Mintzberg described managerial roles, arguing that management is a disjointed, non-systematic activity. The following are interpersonal roles suggested by Mintzberg **EXCEPT.....**

A. Spokesperson

B. Liaison

C. Leader

D. Figurehead

(2 marks)

1.8. When an Information technology (IT) specialist issues instructions to all departmental managers not to use computers until they are free from viruses, he/she is using

A. Referent power

B. Expert power

C. legitimate power

D. Reward power

(2 marks)

1.9. Which of following is NOT one (1) of the formal internal relationship?

- A. Line relationship
- B. Staff relationship
- C. Social relationship
- D. Lateral relationship

(2 marks)

1.10 Modern leadership requires emotional intelligence (EI).

Which of the following is **NOT** one of the components of emotional intelligence?

- A. Aggressive
- B. Empathy
- C. Social skills
- D. Self-awareness

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section.

Attempt any FOUR (4) questions in this section.

QUESTION TWO

Zambia Development Agency (ZDA) director has called all the SMEs to come up with good business models. Speaking during the launch of youth and technology workshop at government complex, he called upon young entrepreneurs to look through the bright window of business opportunities in Zambia. He told the participants to understand that a business must have a mission statement and goals with clear objectives. This helps the owner of the business to effectively co-ordinate and control the activities.

- (a) What is a mission statement and what are organizational goals? (6 marks)
- (b) Explain what is meant by Objectives must be SMART (10 marks)
- (c) Explain what is meant by "co-ordination" and control in management theory. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Douglas McGregor in his Book "The Human Side of Enterprise" (1966), claims that manager's choice of Leadership style will stem from his theories about how his subordinates behave. He offered two (2) models of behavior which he called theory X and Theory Y.

Required:

- (a) Explain the meaning of theory X and Theory Y according to McGregor (10 marks)
- (b) Using Kurt Lewin's Model, to state any of his theory and the three-phase model that helps managers to break down big changes into more manageable chunks. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Although job interviews are popular methods of selection, they suffer from a number of limitations.

Required:

Explain the following limitations of job interviews

- (i) Halo effect (2 marks)
 - (ii) Contagious bias (2 marks)
 - (b) Briefly explain trait theories of leadership and state any four (4) qualities a leader should have to be effective according to this theory. (6 marks)
 - (c) Outline any five (5) advantages of a matrix structures (10 marks)
- [Total: 20 Marks]**

QUESTION FIVE

- (a) A bureaucracy suggested by Max Weber is a form of structure found in many large-scale organisations.
Required:
Outline any four (4) characteristics of bureaucracy. (8 marks)
 - (b) Briefly differentiate the following:
 - (i) Vision and mission (2 marks)
 - (ii) Stakeholder and shareholder (2 marks)
 - (c) Describe the following components of Emotional Intelligence.
 - (i) Empathy (4 marks)
 - (ii) Self-Awareness (4 marks)
- [Total: 20 Marks]**

QUESTION SIX

- (a) Explain the following as they relate to public sector
 - (i) Statutory bodies (3 marks)
 - (ii) Commercialization (3 marks)
 - (ii) Public sector organization (3 marks)
- (b) Abraham Maslow suggested that human needs are arranged in some form of levels; a hierarchy of importance.
Required:
 - (i) Draw a well labeled diagram of Maslow’s hierarchy of needs. (5 marks)
 - (ii) Explain Esteem needs and state any one (1) way on how manager can help subordinates meet esteem needs. (3 marks)

- (c) Explain the importance of the organization understanding of the management style of a Maslow's hierarchy of needs.

(3 marks)

[Total: 20 Marks]

END OF PAPER

DA 7: PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 B

1.3 A

1.4 D

1.5 C

1.6 C

1.7 A

1.8 B

1.9. C

1.10 A

SOLUTION TWO

(a) What is a mission statement and organizational goals

- i. Mission statement-this is the organizations overriding purpose. It reflects the values and expectations of stakeholders and answers the question 'what business are we in?
- ii. Organizational Goal- Statement of general aim or purpose that supports the mission. It may be qualitative in nature.

(b) Explain what is meant by objectives must be SMART

S=Specific- Narrow and specific

M=measurable-define what evidence will prove that you are making progress

A=Achievable= must be attainable or must be accomplishable

R= Realistic= must be relevant and aligned to the values

T= Time bound= must have a time limit or end time

(c) Explain what is meant by 'co-ordination)

- Co-ordination means to ensure proper workflow of systems and plans to achieve high productivity.
- Control – is the power to influence or direct people's behavior or course of events.

SOLUTION THREE

(a) Explain the meaning of Theory X and Theory Y

- An average employee intrinsically does not like work and tries to escape it whenever possible.
- Since the employee does not want to work, he must be persuaded, compelled, or warned with punishment so as to achieve organizational goals. A close supervision is required on part of managers. The managers adopt a more dictatorial style.

Assumptions of Theory Y

- Employees can perceive their job as relaxing and normal. They exercise their physical and mental efforts in an inherent manner in their jobs.
- Employees may not require only threat, external control and coercion to work, but they can use self-direction and self-control if they are dedicated and sincere to achieve the organizational objectives.

(b) Use the Kurt Lewin's model to explain the three phase change process

Aim of Lewin's theory is change management theory helps account for both the uncertainty and resistance to change that can be experienced at all staff levels within an organization. The following are the steps:

Step 1: Unfreeze

Lewin identifies human behavior, with respect to change, as a quasi-stationary equilibrium state. This state is a mindset, a mental and physical capacity that can be almost absolutely reached, but it is initially situated so that the mind can evolve without actually attaining that capacity.

Step 2: Change

Once you've "unfrozen" the status quo, you may begin to implement your change. Organizational change in particular is notoriously complex, so executing a well-planned change process does not guarantee predictable results. Therefore, you must prepare a variety of change options, from the planned change process to trial-and-error.

Step 3: Refreeze

The purpose of the final step—refreezing—is to sustain the change you’ve enacted. The goal is for the people involved to consider this new state as the new status-quo, so they no longer resist forces that are trying to implement the change. The group norms, activities, strategies, and processes are transformed per the new state.

SOLUTION FOUR

(a) i. Halo effect

This is where interviewers make an initial general judgment about a person based on a single obvious attribute, such as being neatly dressed.

ii. Contagious bias

This is where the interviewer changes the behavior of the applicant by suggestion such as facial expression, wording of a question etc.

(b) Trait theories

These suggest that there are certain personal qualities which a leader should have. They imply that leaders are born and not made. Some personal qualities suggested include the following:

1. Judgment
2. Initiative
3. Integrity
4. Any other acceptable quality

(c) Advantages of matrix structure (any four)

1. Decision making is decentralized hence making use of local knowledge
2. Improved communication
3. Dual career promotion ladder
4. There is skill transfer
5. Reduced load on top management

SOLUTION FIVE

(a) Characteristics of bureaucracy (any four)

1. There should be a hierarchy of authority, from top management down to workers at the bottom.
2. Impersonal and written rules
3. Division of labour and specialization of work.
4. The tasks of the organisation are allocated as official duties among positions.
5. Employment by the organisation is based on technical qualifications and constitutes a lifelong career for the officials

(b) i. A vision is a desired future state while a mission is the organization's purpose.

ii. A stakeholder is any individual or organization with interests in the organization while shareholder is one who has invested in the organization by buying shares. Shareholder is also one of the stakeholders.

(c)i. Empathy

A leader being able to put himself/herself in other people's situation as exhibited by expertise in building and retaining talent, cross-cultural sensitivity and service to clients and customers

ii. Self-Awareness

This involves a leader understanding oneself and demonstration of self-confidence, realistic self-assessment and a sense of humor.

SOLUTION SIX

(a) i. Statutory bodies

These are organizations created by an Act of Parliament. The Act provides for the establishment of the statutory body. Statutory bodies are financed through statutory fees that maybe charged for the services provided while others are funded directly by government.

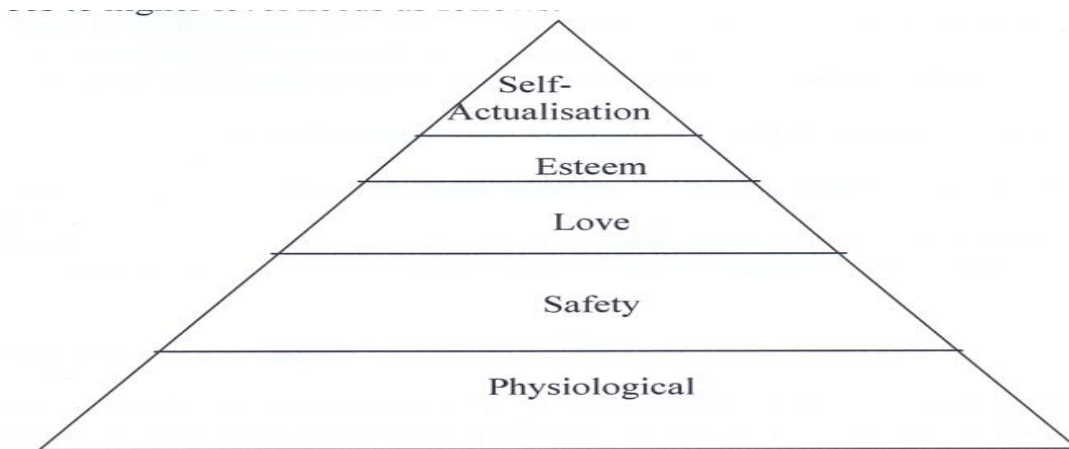
ii) Commercialization

This involves adopting strict commercial principles in the management of the organization to provide public goods and services at a profit as well. Therefore, commercialized entities provide customer service and customer satisfaction at a profit to shareholders at the same time fulfilling government interests.

iii) Public sector organizations

These are organizations which do not generally have profit as their main goals but have political and social purposes owned by the government. They generally exist to provide goods and services to the general public with no profit as their objective.

(b) i.



ii) Esteem Needs

These include the need for things that reflect on self-esteem such as self-respect, autonomy, status, recognition, social recognition, and accomplishment. A manager can help an employee to satisfy these needs by recognizing employee's achievement or good performance, praising an employee, giving employee awards.

(c) Task Management (9,1)

Under this, management has more concern for production and little concern for people. The leader concentrates on task efficiency but shows little concern for the development and morale of subordinates. Management is concerned only with the work and has little interest in people

((iii) Maslow's theory suggests that an employee's beginning emphasis is on lower order needs of physiology and security makes sense. With these needs satisfied, an employee will want higher level needs of esteem and self-actualization met.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

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

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

SECTION A

Both questions in this section are compulsory and must be attempted

QUESTION ONE

On 30 June, 2019 Monde Plc Acquired 75 million ordinary shares in Malamo Plc. The consideration for the acquired shares was made up of the following:

- A share exchange of 1 for every 5 shares in Malamo
- Deferred consideration of 50 ngwee per share acquired to be paid in exactly five (5) years' time.
- Cash consideration of 25 Ngwee per share acquired.

Further, on 1 October, Monde Plc bought 20 million shares in Limpo Plc for K50 million. This payment is included in the financial assets of Monde Plc.

Only the cash considerations paid for shares acquired in Malamo has been included within Monde Plc financial assets.

The market value of one (1) share in Monde Plc and Malamo on 30 June, 2019 was K2 and K1.5 respectively.

The cost of capital for Monde Plc is 10%.

The draft statements of financial position submitted to the group accountant as at 31 December, 2019 for the three (3) companies are given below:

	Monde	Malamo	Limpo
<u>Assets</u>	Km	Km	Km
Non-current assets			
Property, Plant and Equipment	500	200	150
Financial assets	<u>250</u>	—	—
Total non-current assets	750	200	150
Current assets			
Inventory	50	45	13
Trade Receivables	32	21	11
Bank	-	<u>15</u>	<u>9</u>
Total current assets	<u>82</u>	<u>81</u>	<u>33</u>
Total assets	<u>832</u>	<u>281</u>	<u>183</u>
Equity and liabilities			
Equity shares K1 each	400	100	80
Share Premium	151	15	65

Retained earnings	<u>115</u>	<u>65</u>	<u>14</u>
	666	180	159
Non-current liabilities			
12% Loan notes	80	50	10
Current liabilities			
Trade Payables	24	32	9
Taxation	23	19	5
Bank	39	-	-
Total current liabilities	<u>86</u>	<u>51</u>	<u>14</u>
Total Capital and liabilities	<u>832</u>	<u>281</u>	<u>183</u>

The following notes are relevant:

- (i) On the date of acquisition, the carrying amounts of Malamo Plc assets were equal to their fair values with the exception of two (2) items; plant and freehold land whose fair value was K6 million and K4 million more than their carrying amounts respectively. The plant had a remaining useful life of two (2) years on the date of acquisition.
- (ii) The current account balance of Malamo Plc in the books of Monde Plc was K5 million but Malamo Plc only recognized a balance of K3 million. The difference in the current accounts is due to cash in transit which Malamo dispatched on the last day of the financial year.
- (iii) In the post acquisition period of Malamo Plc, Monde sold goods to Malamo Plc at a 20% mark up. At the year end, inventory worth K50 million received from Monde Plc was still in closing inventory of Malamo Plc.
- (iv) The retained earnings of Malamo Plc on 30 June, 2019 was K75 million and the retained earnings of Limpo Plc on 1 October, 2019 was K8 million.
- (v) Investment in Limpo Plc was not impaired on 31 December, 2019.
- (vi) The non-controlling interest in Malamo Plc is to be measured at fair value. The market price of shares of Malamo at 30 June 2019 to be representative of fair value of non controlling interest.
- (vii) All figures should be rounded off to the nearest thousand kwacha.

Required:

Prepare the consolidated statement of financial position for the Monde Plc group as at 31 December, 2019. **[Total: 25 Marks]**

QUESTION TWO

Mochi operates a business centre along the main streets of Kitwe. The business is specialized in the supply of Hardware, software and other accessories and services.

The following trial balance relates to Mochi as at 30 September, 2020:

	K'000	K'000
Revenue		1,030,000
Cost of sales (note ii)	585,800	
Retained earnings at 1 October 2019		22,900
Equity share capital of K0.25 each		150,000
Share premium		16,000
12% loan note issued on 1 October 2018 (note vi)		83,820
Current taxation (note vii)		5,000
Bank		2,900
Trade payables		70,400
Distribution costs	46,200	
Administrative expenses	45,600	
Loan interest and dividend paid (note iv)	73,800	
Trade receivables	86,400	
Inventory 30 September 2020	29,620	
Buildings at cost (note i)	400,000	
Plant and equipment at cost	337,200	
Accumulated depreciation 1 October 2019		
Building		70,000
Plant and Equipment		97,200
Deferred tax (note vii)	3,600	
5% convertible loan note (note v)		60,000
	<u>1,608,220</u>	<u>1,608,220</u>

The following additional information is relevant:

- (i) To reflect a marked increase in buildings prices, Mocha revalued its buildings for the first time on 1 October 2019. The report from independent surveyor showed the market price of buildings to be K363,000,000. The building had an estimated life of 40 years when it was acquired and this has not changed as a result of revaluation. Depreciation on buildings is charged on straight line basis. The revaluation has not yet been recorded in the books. Mochi has a policy of transferring any excess depreciation to retained earnings.
- (ii) On 1 October 2019, Mochi commenced using an item of equipment (used in its business to repair hardware components that were sold under warranty) under a lease agreement, with three annual payments of K58,000,000 each made in arrears. The first payment was made on 30 September 2020 and charged to cost of sales. The present value of future lease payments at 1 October 2019 was K144,237,000. Under the terms of this lease, Mochi has the option to buy the equipment at the end of the lease term. The piece of equipment has an estimated life of six (6) years with no residual value at the end of this period. The rate of interest implicit in the lease is

10%. No other record has been made about the lease by Mochi except recording the lease rental.

- (iii) Owned plant and equipment is depreciated on reducing balance basis at a rate of 20% per annum.

Depreciation on all non current assets is to be charged to cost of sales.

- (iv) Mochi's directors paid dividends of K0.10 per share during the year. No new shares were issued during the year.

- (v) On 1 October 2019, Mochi issued a 5% convertible loan notes at their par value of K60,000,000. The loan notes are redeemable at par on 30 September 2023 or may be converted into 200 shares for every K150 of loan note. An equivalent loan note without the conversion option would have carried an interest rate of 8%. Interest of K3,000,000 has been paid on 30 September 2020.

The present value of K1 payable at the end of the year, based on interest rates of 5% and 8% are:

	5%	8%
End of year:		
1	0.95	0.93
2	0.91	0.86
3	0.86	0.79
4	0.82	0.73

- (vi) Mochi's 12% loan notes were issued on 1 October 2018 at their nominal value of K90,000,000. Issue costs of K7,000,000 were correctly accounted for on 1 October 2018. The loan notes will be repaid at a premium in 2028. Experts have ascertained that the loan notes have an effective rate of interest of 14%.

- (vii) The balance on current tax represents the under/over provision of the tax liability for the year ended 30 September 2019. A provision for income tax for the year ended 30 September 2020 of K25,400,000 is required. At 30 September 2020, Mochi had taxable temporary differences of K30,000,000 requiring a provision for deferred tax. Any deferred tax adjustment should be reported in profit or loss.

The income tax rate of Mochi is 25%.

Required:

- (a) Prepare a statement of profit or loss and other comprehensive income for Mochi, for the year ended 30 September 2020 in a form that satisfies the requirements of IAS 1. (11 marks)

- (b) Prepare a statement of financial position for Mochi as at 30 September 2020.

(14 marks)

[Total: 25 Marks]

SECTION B

Attempt two (2) questions only from this section

QUESTION THREE

Dole Ltd. A pharmaceutical manufacturing company intends to expand its factory facility and is looking to acquire finance from a local commercial bank. Preliminary assessment of Dole Ltd's eligibility for the finance has led to the bank authorities to request for a statement of cash flows for Dole Ltd. for the year ended 30 September 2020.

Below are draft financial statements of Dole Ltd.:

Statement of profit or loss and other comprehensive income for Dole Ltd for the year ended 30 September 2020

	K'000
Revenue	12,300
Cost of sales	<u>(4,100)</u>
Gross profit	8,200
Administrative expenses	(2,220)
Distribution costs	(1,080)
Investment income	<u>500</u>
Operating profit	5,400
Finance cost	<u>(1,800)</u>
Profit before tax	3,600
Income tax	<u>(1,803)</u>
Profit for the year	1,797
Other comprehensive income:	
Revaluation gain	<u>783</u>
Total comprehensive income	<u>2,580</u>

Statement of financial position for Dole Ltd as at 30 September 2020

Non current assets	2020	2019
	K'000	K'000
Property, Plant and Equipment	16,152	14,898
Financial asset equity investment	<u>68</u>	<u>90</u>
Total non current assets	<u>16,220</u>	<u>14,988</u>
Current assets		
Inventories	400	320
Receivables	790	503
Cash and cash equivalents	<u>523</u>	<u>638</u>
Total current assets	<u>1,713</u>	<u>1,461</u>
Total assets	<u>17,933</u>	<u>16,449</u>
Equity and liabilities		
Equity shares of K1 each	5,780	4,820
Share premium	1,860	800
Revaluation reserve	783	-
Retained earnings	<u>6,044</u>	<u>4,806</u>
Shareholders' funds	<u>14,467</u>	<u>10,426</u>

Non current liabilities

10% loan note	1,600	3,000
Lease obligations	360	820
Deferred tax	<u>220</u>	<u>180</u>
Total non current liabilities	<u>2,180</u>	<u>4,000</u>

Current liabilities

Trade payables	280	420
Loan interest payable	356	596
Lease obligations	180	207
Current tax payable	<u>470</u>	<u>800</u>
Total current liabilities	<u>1,286</u>	<u>2,023</u>
Total equity and liabilities	<u>17,933</u>	<u>16,449</u>

The following additional information is relevant:

- (i) Included in Dole's property plant and equipment is a Right Of Use Asset (ROUA) acquired during the year. The initial carrying amount of the ROUA was K0.8 million.

Further, a piece of equipment was sold for K0.2 million at a loss of K0.04 million on 5 August 2020. Depreciation/amortization charge on all items of Property plant and equipment and ROUA totaled K0.46 million. The loss on disposal is included in the statement of profit or loss above.

- (ii) In July 2020, Dole Ltd. made a bonus issue of 400,000 shares to existing shareholders in proportion to their existing holding. The retained earning was used for this purpose.
- (iii) Included in investment income is a loss on revaluation of a financial asset. The balance being dividends received from investments in shares. Dole Ltd only recognizes dividend income upon receipt of dividends in cash.

No acquisition or disposal of financial asset took place during the year ended 30 September 2020. The Financial Asset is designated as a fair value through profit or loss instrument.

- (iv) Dole Ltd paid dividends to its equity holders during the year ending 30 September 2020.

Required:

- (a) Prepare a statement of cash flows for Dole Ltd. for the year ended 30 September 2020 for presentation to its bank for assessment of its eligibility to borrow. (23 marks)
- (b) Briefly explain the meaning of 'cash and cash equivalents' according to IAS 7 statement of cash flows. (2 marks)

[Total: 25 Marks]

QUESTION FOUR

You are a lead consultant in NH associates a global firm of professional accountants and you are currently working on five (5) projects where your esteemed clients have brought financial reporting concerns to your attention for the year ended 30 September 2019:

Vuvuzela Plc

This client is based in the southern part of the African continent and is in the process of winding down operations mainly due to the covid – 19 pandemic. In the most recent board meeting held shortly before the year ended 30 September, 2019, senior managers unanimously agreed to close down the Vuvuzela subsidiary although this decision was not formally communicated with affected stakeholders and so far, no formal plan for the closure has been approved. It is estimated that the company will need to raise close to K5.5 million in order to settle redundancy packages among other obligations. (5 marks)

Brazilion Exploits Plc

Brazilion Exploits Plc constructed a qualifying asset during the year at a cost of K28 million. Throughout the year ended 30 September, 2019, the company utilized funds from the following contracted loans.

10% Loan	K50 million
12% Loan	K200 Million

The construction of the building only began on 1 April 2019 and on that date, Brazilion drew down and incurred K18 million. On 1 July, 2019 the company withdrew the remaining K10 million with which they completed the project on 31 August, 2019 and immediately began to use the asset which was judged to have a useful life of 50 years. (7 marks)

Namste Plc.

Namste entered into two (2) lease contracts as given below:

On 1 April, 2019 the company entered into a twelve (12) months lease agreement valued at K60,000 for a machine with a 10-year useful life. The K60,000 annual payment was made on 1 April, 2019.

On 1 October, 2018 the company entered into a five-year lease agreement for an item of plant with a present value of K400,000. Annual instalments of K95,000 should be paid commencing on 1 October, 2018. The lease has an implicit rate of interest of 12%. There is an option for Namste to buy the asset at the end of the primary lease period. (7 marks)

Polin Plc

Polin Plc specialize in letting out property to institutional clients at competitive market rates. Management and members of staff work from one of the buildings owned by the company in the greater city of Wozo. The company is in the process of implementing IFRSs but they are not sure of how to account for the head office premises and the leased properties.

(4 mark)

Shugi express Plc

Shugi express Plc is in the process of disposing excess non-current assets from its head office in Talawan. The company does not have a qualified accountant and they have sought for your professional opinion on how to measure assets earmarked to be sold in the shortest possible time and the criteria required for an asset to be treated as such. You are aware that such assets have high demand in developing countries across the globe. (2 marks)

Required:

Explain the accounting treatment of the transactions above in accordance with appropriate IFRSs and relevant computational workings. **[Total: 25 Marks]**

QUESTION FIVE

IFRS 9 Financial Instruments prescribes accounting for financial instruments.

Required:

- (a) Explain the *IFRS 9 Financial Instruments* requirements for initial measurement and subsequent measurement of Equity Financial Assets. (6 marks)
- (b) XYZ Ltd. Bought 15,000 shares of a listed company on 1 February 2020 when the share price was K16.5, incurring transaction costs of K30,000. During the year ended 31 December 2020, XYZ received dividends of K4 per share. On 31 December 2020, the market price of each share was K15.9. The investment has been classified as an equity financial asset held for trading.

Required:

Explain and show the effect of the above transactions in the financial statements of XYZ for the year ended 31 December 2020. (6 marks)

- (c) An entity Taonga Ltd. incurred the following costs in connection with the construction of a building for its own use that commenced on 1 April 2020.

	K
Legal fees	5,000
Site preparation cost	12,000
Cost of importing materials net of VAT	200,000
VAT on material imports (recoverable)	10,000
Purchase of Land	350,000
Discounted cost of dismantling building at end of life	50,000
Borrowing costs incurred during construction	27,000
Excess materials spoiled during construction	2,000
General overheads	3,340
Production overheads	4,370
Borrowing costs incurred after 30/9/2020	7,500
Hire charges of construction equipment	4,000

Construction of the building was completed on 30 September 2020 and Taonga Ltd occupied it from 1 November 2020. It was estimated to have a useful life of 40 years.

Required:

- (i) Ascertain the initial and subsequent measurement of Taonga's building as at 31 December 2020. (9 marks)
- (ii) Briefly explain the recognition criteria for tangible non current assets in accordance with *IAS 16 Property, Plant and Equipment*. (4 marks)

[Total: 25 Marks]

END OF PAPER

DA8: FINACIAL REPORTING SUGGESTED SOLUTIONS

SOLUTION ONE

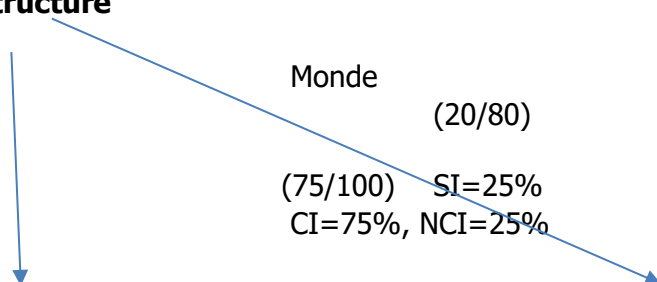
Monde Plc Group statement of financial position for the year ended 30 June, 2019

Assets	K'000
Non-current assets	
Tangible non-current assets (500,000+200,000+4,500+4000) W2	708,500
Financial assets (250,000-50,000-18,750) W2	181,250
Investment in Limpo (W5)	<u>51,500</u>
	941,250
Current assets	
Inventory (50,000+45,000-8,333)	86,667
Receivables (32,000+21,000-3,000-2,000)	48,000
Bank	<u>15,000</u>
Total current assets	<u>149,667</u>
Total assets	<u><u>1,090,917</u></u>
Equity and liabilities	
Equity shares K1 each (400,000+15,000)	415,000
Share premium (151+15)	166,000
Retained earnings (W3)	<u>188,844</u>
Equity attributable to parent	769,844
Non-controlling interest (W4)	<u>34,625</u>
Total equity	<u>804,469</u>
Non-current liabilities	
12% Loan (80,000+50,000)	130,000
Deferred consideration (23,284+1,164)	<u>24,448</u>
Total non current liabilities	<u>154,448</u>
Current liabilities	
Trade payables (24,000+32,000-3,000)	53,000

Taxation (23,000+19,000)	42,000
Bank overdraft (39,000-2,000)	<u>37,000</u>
	<u>132,000</u>
Total equity and liabilities	<u>1,090,917</u>

-

Monde Group Workings
W1 Group Structure



	Malamo	Limpo	
W2 Goodwill	K'000	K'000	
COI			
Share exchange	(100m*75%*(1/5)*K2)	30,000	
Deferred consideration (75%*100,000 (K0.50*1/1.1^5))		23,284	
Cash Consideration (75m*0.25)		18,750	
NCI (100m*25%*K1.5)		<u>37,500</u>	
		109,534	
Less Net assets at acquisition			
Share capital	100,000		
Share Premium	15,000		
Retained earnings	75,000		
FV-Adjustment			
Freehold land	4,000		
Plant and equipment	6,000	<u>(200,000)</u>	
Bargain on consideration		<u>(90,466)</u>	
W3 Group retained earnings	Monde K'000	Malamo K'000	Limpo K'000
As per question	115,000	65,000	14,000
Less Pre-acquisition reserves		<u>(75,000)</u>	<u>(8,000)</u>
Post acquisition profit/loss		(10,000)	6,000
Additional depreciation (6,000/2*6/12)		<u>(1,500)</u>	
Monde in Malamo (K-11*75%)	(8,625)	(11,500)	

Monde in Limpo (K6*25%)	1,500
Unrealised profit (50*20/120)	(8,333)
Unwinding discount (10%*23,284x6/12)	(1,164)
Bargain on consideration	90,466
GFP	<u>188,844</u>

W4 NCI	K'000
NCI (100m*25%*K1.5)	37,500
NCI % of Post acquisition loss (K-11,500*0.25)	(2,875)
GFP	34,625

W5 Investment in Limpo	K'000
Cost (Given)	50,000
Monde in Limpo (K6*25%)	1,500
	<u>51,500</u>

Share exchange Journal

Investment	(100m*75%*(1/5)*K2)	30,000
Equity shares (75*(1/5)*1		15,000
Share premium (15*1)		15,000

W6 PUP

$$20/120 \times 50,000 = 8,333$$

W7 Intra group balance

cancellation

Cash in transit

Dr cash Monde 2,000

Cr receivables Monde 2,000

Cancellation

Dr group payables 3,000

Cr group receivables 3,000

W8 Fair value movement

	At acquisition	Movement	At reporting
Plant	6,000	(1,500)	4000

SOLUTION TWO

(a) **Mochi's statement of profit and loss and other comprehensive income for the year ended 30 September 2020**

	K'000
Revenue	1,030,000
Cost of sales (W7)	<u>(610,840)</u>
Gross profit	419,160
Administrative expenses	(45,600)
Distribution costs	<u>(46,200)</u>
Operating profit	327,360
Finance cost (W8)	<u>(30,457)</u>
Profit before tax	296,903
Income tax (W6)	<u>(31,500)</u>
Profit for the year	265,403
Other comprehensive income:	
Revaluation surplus (33,000-1000) (W5)	<u>32,000</u>
Total comprehensive income	<u><u>297,403</u></u>

(b) **Mochi's statement of financial position as at 30 September 2020**

	K'000
Non current asset	
Property, Plant and Equipment (W5)	544,000
ROUA (W3)	<u>120,197</u>
Total non current assets	<u>664,197</u>
Current assets	
Inventory	86,400
Receivables	<u>29,620</u>
Total current assets	<u>116,020</u>
Total assets	<u><u>780,217</u></u>
Equity and liabilities	
Equity	
Equity shares of K0.25 each	150,000
Share premium	16,000
Revaluation reserve [33,000-1000](W5)	32,000
Equity option of convertible loan note (W2)	6,270
Retained earnings (W9)	<u>229,303</u>
Total equity	<u>433,573</u>
Liabilities	
Non current liabilities	
12% loan notes((W1)	84,755
5% convertible loan note (W2)	55,028
Lease obligation (W3)	52,727
Deferred taxation (W6)	<u>7,500</u>

Total non current liabilities	<u>200,010</u>
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Current liabilities

Trade payables	70,400
Lease obligation [100,661-52,727](W3)	47,937
Current tax payable (W6)	25,400
Bank overdraft	<u>2,900</u>
Total current liabilities	<u>146,634</u>
Total equity and liabilities	<u>780,217</u>

WORKINGS (all figures in workings are represented by K'000 unless otherwise indicated)

1. **12% loan notes**

	Bal b/f	effective interest 14%	nominal interest 12%	bal c/f
Yr end 30/09/19	83,000	11,620	(10,800)	83,820
Yr end 30/09/20	83,820	11,735	(10,800)	84,755

2. **Convertible loan note:**

Step (i) Splitting of the loan note into equity and loan options

PV of the proceed (60,000 x 0.73)	43,800
Pv of nominal interest (5% x 60,000 x 3.31)	9,930
Liability component @ 1 October 2019	53,730
Equity option (proceed – liability)	6,270
Total proceed	60,000

Step (ii) Amortization of liability component

	Bal b/f	effective interest 8%	nominal interest 5%	bal c/f
Yr end 30/09/20	53,730	4,298	(3,000)	53,028
Yr end 30/09/20	55,028	4,402	(3,000)	56,430

3. **Leased equipment**

Lease obligations table

	Bal b/f	interest 10%	lease rental	bal c/f
Ye 30/09/20	144,237	14,424	(58,000)	100,661
Ye 30/09/21	100,661	10,066	(58,000)	52,727

4. **Dividends paid :**

No of shares in issue = K150,000/K0.25 x K0.10 per share = K60,000

5. **Property, plant and equipment**

	Buildings	Owned plant & equipment	leased equipment
Cost b/f @ 1 October 2019	400,000	337,200	144,237
Less accumtd dep'n b/f	<u>(70,000)</u>	<u>(97,000)</u>	<u>-</u>
CA b/f	330,000	240,000	144,237

Revaluation surplus	<u>33,000</u>	<u>-</u>	<u>-</u>
Revalued amount	363,000	240,000	144,237
Depreciation expense	<u>(11,000)</u>	<u>(48,000)</u>	<u>(24,040)</u>
CA c/f @ 30/09/20	<u>352,000</u>	<u>192,000</u>	<u>120,197</u>

Total PPE 544,000 (352,000 + 192,000)
ROUA 120,197

DEPRECIATION CALCULATION

- i) BUILDINGS = As accumulated depreciation brought forward is 70,000, it means 7 years have passed as at 1 October 2019 out of the total 40 years and so remaining life is 33 years. Revaluation took place at the beginning of the year and so buildings to be depreciated over the remaining 33 years as follows:
363,000/33 years = 11,000
- ii) Owned plant and equipment
20% x 240,000 = 48,000
- iii) Leased equipment: as the term of the lease gives the lessee an option to buy the asset at the end of the lease term, it is to be depreciated using useful life of six (6) years as follows:
144,237/6 years = 24,040

6. Income tax:

Current tax
Balance c/f 25,400
Less overprovision b/f (5,000)
= charge to p/l 20,400

Deferred tax
Balance c/f 7,500 (25% x 30,000)
Plus balance b/f 3,600
Charge to P/L 11,100

Total charge 31,500 (20,400+11,100)

7. Cost of sales

Per question 585,800
Less lease rental (58,000)
Add depreciation:
Buildings(W5) 11,000
Owned P&E 48,000
ROUA 24,040
610,840

8. Finance cost

Leased equipment (W3) 14,424
12% loan note (W1) 11,735
5% convertible loan (W2) 4,298
Total 30,457

9. Retained earnings	
Per trial balance	22,900
Profit for the year	265,403
Transfer from revaluation res	1,000
Dividends paid (W4)	<u>(60,000)</u>
Total dividend c/f	<u>229,303</u>

SOLUTION THREE

(a) Dole Ltd Statement of cash flows for the year ended 30 September 2020.

	K'000	K'000
Profit before tax		3,600
Add back: depreciation expense		460
Loss on disposal of PPE		40
Finance cost		1,800
Less: investment income		<u>(500)</u>
		5,400
Increase in inventory (400-320)		(80)
Increase in receivables (790-503)		(287)
Decrease in payables (280-420)		<u>(140)</u>
Cash generated from operation		4,893
Interest paid (W6)		(2,040)
Tax paid (W5)		(2,093)
Dividends paid (W3)		<u>(159)</u>
Net cash inflow from operating activities		601
Cash flows from investing activities:		
Cash paid to acquire PPE (W1)	(371)	
Proceeds from disposal of PPE	200	
Dividends received (W7)	<u>522</u>	351
Cash flows from financing activities:		
Proceeds from shares		
(5,780+1,860)- (4,820+800)-400	1,620	
Loan repayment	1,400	
Lease rentals (W4)	<u>(1,287)</u>	<u>1,067</u>
Decrease in cash and cash equivalent		(115)
Add cash and cash equivalents at start		<u>638</u>
Equals cash and cash equivalent at end		<u><u>523</u></u>

(b) IAS 7 statement of cash flows describes cash and cash equivalents as those comprising cash on hand and demand deposits, including short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

WORKINGS

WORKINGS (ALL AMOUNTS IN THE BELOW WORKINGS HAVE K'000 KNOCKED OFF)

1. Property, plant and equipment at NBV a/c _____			
CA B/F	14,898	disposal	240
ROUA	800	dep'n expense	460
Revaluation surplus	783		
Bank (acquired)	<u>371</u>	CA C/F	<u>16,152</u>
	<u>16,852</u>		<u>16,852</u>

2. Carrying amount of disposed asset			
Proceed			200
Carrying amount (bal fig.)			<u>240</u>
Loss on disposal			<u>40</u>
3. Retained earnings account			
Dividends paid (bal fig.)	159	balance b/f	4,806
Bonus issue	400	profit/loss	1,797
Balance c/d	6,044		
	<u>6,603</u>		<u>6,603</u>
4. Lease obligations account			
		Balance b/f	NC 820
Rentals paid (bal fig)	1,287		C 207
Balance c/f NC	360	PPE (ROUA)	800
C	180		<u>1,827</u>
5. Income tax payable account			
		Balance b/f DT	180
		CT	800
Bank (bal fig)	2,093	profit/loss	1,803
Bal c/d DT	220		
CT	<u>470</u>		
	<u>2,783</u>		<u>2,783</u>
6. Interest payable account			
		Balance b/f	596
Bank (bal fig.)	2,040	profit or loss	1,800
Bal c/f	<u>356</u>		
	<u>2,396</u>		<u>2,396</u>
7. Dividends received from financial asset			
Total investment income		500	
Add fair value loss		<u>22</u>	
Total dividend received		<u>522</u>	

SOLUTION FOUR

Vuvuzela Plc

- Any provision may only be made if a present obligation exists.
- Vuvuzela's intentions to wind down operations is likely to give rise to future obligations such as redundancy pay for all qualifying employees. IAS 37 gives specific guidance on the recognition on restructuring provisions.
- In the context of a restructuring, a detailed, formal and approved plan must exist, but this is not enough, because management may change its mind.
- A provision should only be made if the plan has also been announced to those affected.
- This creates a constructive obligation, because management is now very unlikely to change its mind. The restructuring provision may only include direct expenditure arising from the restructuring, which is both necessarily entailed by the restructuring, and not associated with the ongoing activities of the entity. It should therefore include costs such as redundancies and write-downs on property plant and equipment. Costs associated with retraining or relocating staff, marketing or investment in new systems and distribution networks may not be included in the provisions, because they relate to the future conduct of the business.
- Since, Vuvuzela fails to meet the above conditions, the estimated redundancy package of K5.5 million should be disclosed as a contingent liability in the notes to the financial statements.

Brazilion Exploits

IAS 23 requires that borrowing costs incurred in connection with the construction of a qualifying asset should be capitalised (included in the total cost of the asset) upon satisfying the following rules:

- expenditure for the asset is being incurred
- borrowing costs are being incurred
- activities that are necessary to prepare the asset for its intended use or sale are in progress.
 - The company should capitalise the interest incurred on its borrowing of K,1792,0000 for a period of five months.
 - Management should charge depreciation of K96,000 in respect of the asset
 - The firm should recognise a carrying amount of K29,444 in respect of the asset

Workings

Average interest rate

$$([10\% * 50/250] + [20\% * 200/250])$$

$$0.008 + 0.16 \qquad 16.8\%$$

$$\text{Borrowing costs} \qquad \text{K'000}$$

$$(16.8\% * \text{K}18,000 * 5/12) \qquad 1,260$$

$$(16.8\% * \text{K}10,000 * 2/12) \qquad \underline{280}$$

Total borrowing costs	1,540
Cost of the asset	<u>28,000</u>
Total cost	29,540
Depreciation (29,540/50*(1/12))	<u>(96)</u>
CV as at 30 September 2019	<u>29,444</u>

Namste Plc

Namste Plc. is faced with two broad categories of lease contract arrangements: operating and finance lease. The new standard IFRS 16 discourages the distinction of the two types of leases in order to improve consistency in accounting for lease transactions and to prevent off balance sheet financing among other concerns. Only leases spanning for less than twelve months and those which involve low value items such as phones, laptops etc are to be recognised as short-term leases. The rest of the lease arrangements should give rise to a right of use asset and a corresponding obligation.

The first lease contract falls under operating lease. The company will need to return the asset to the legal owner or indeed renew the lease contract within a period of 12 months. The standard IFRS 16 provides for straight-line accounting treatment for such leases with a corresponding prepayment or accrual depending on the terms of payment.

	K
DR Profit or loss (Rental)	30,000
DR Prepayment	30,000
CR Bank	60,000

The second lease is a finance lease which according to IFRS 16 will give rise to a right or use asset and a corresponding lease obligation.

- Depreciation amounting to K80,000 (400,000/5) should be charged to the profit or loss
- Finance cost amounting to K36,600 [(400,000-95,000)*12%] should also be recognised in the profit or loss.
- The right of use asset should be recognised at K320,000 (400,000-80,000) in the statement of financial position.
- The lease obligation should be split into long term and short-term components
- The long term component of the lease is K 246,000 (341,600-95,000)
- The short-term lease obligation is K95,000

(check working below)

Year	B/f	Instalment	Interest	C/f
	K	K	12%	K
2018-2019	400,000	(95,000)	36,600	341,600

2019-2020	341,600	(95,000)	29,592	276,192
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Polin Plc

The two standards which Polin Plc will need to apply are IAS 16 and IAS 40.

- The head office building should be accounted for using IAS 16 since it is used for administrative purposes.
- Polin Plc will have to decide whether to measure the value of head office at cost or revalued amount. The latter is likely to be used if the business has been in existence for a number of years.
- All depreciation incurred on the head office buildings will have to be charged to the profit or loss and credited to the accumulated depreciation account.
- The leased properties should be accounted for under using IAS 40 investment properties.
- Polin Plc still has a choice of measuring these properties at either cost or fair value.
- If the value model is adopted (which is likely to be the case) all the leased-out properties should be valued at fair value and no depreciation should be charged on these assets.

Shugi Express Plc

IFRS 5 assets held for sale and discontinued operations provides guidance on how firms should account for assets held for sale.

For an asset to qualify to be treated as one which is held for sale the following two conditions should be satisfied:

- a) Available for immediate sale in present condition, subject to usual and customary sales terms, and
- b) Sale is highly probable which means
 - Price for the asset should be reasonable
 - Unlikely that significant changes made to plan
 - Management should be committed to a plan to sell the assets
 - There should be an Active programme to locate buyer
 - Sale should be expected to be completed within one year of classification

Measurement

On classification recognize asset held for sale at the lower of Carrying value or fair value less cost – charge any impairment loss to the profit or loss.

SOLUTION FIVE

(a) IFRS 9 Financial Instruments requirements for initial measurement and subsequent measurement for equity financial assets

- IFRS 9 says that an entity should recognize a financial asset 'when, and only when, the entity becomes party to the contractual provisions of the instrument'
- Financial Assets are initially measured at Fair Value.
- Transaction costs are excluded from the financial asset if the asset is held at FV through profit or loss.
- Investments in equity instruments (such as an investment in the ordinary shares of another entity) are measured at either:
 - (a) fair value through profit or loss, or
 - (b) fair value through other comprehensive income.
- **Fair value through profit or loss.** The normal expectation is that equity instruments will have the designation of fair value through profit or loss.
- **Fair value through other comprehensive income.** It is possible to designate an equity instrument as fair value through other comprehensive income, provided that the following conditions are complied with: (1) the equity instrument must not be held for trading, and (2) there must have been an irrevocable choice for this designation upon initial recognition of the asset.
- Subsequently, equity measurement through profit or loss is to be revalued at the year end with gains or losses recognized in profit or loss.
- If the equity instrument is measured at fair value through other comprehensive income, the transaction costs are not to be expensed but rather capitalized.
- Subsequently, the asset is to be measured at FV at the year end with gains or losses shown to an investment reserve and OCI.
- If FVOCI investment is sold, the investment reserve is transferred to retained earnings.

(b) Explaining and showing the effect of the transactions in the FS

- The K30,000 transaction cost should be expensed in the profit and loss.
- Dividend received of K60,000 (15,000*4) should be credited to the profit and loss.
- The carrying value of the FA as at 31 December 2020 will be K238,500 (15,000*15.9)
- Loss on FA value of K9,000 (15,000*(15.9 – 16.5)) should be charged to the profit or loss.

(c) (i) Initial measurement of Building

Details	K
Legal fees	5,000
Site preparation cost	12,000
Cost of importing material net of VAT	200,000
Purchase of land	350,000
Discounted costs of dismantling building	50,000
Borrowing costs	27,000
Production overheads	4,370
Hire charges	4,000

Total **652,370**

Subsequent measurement can be carried at cost or fair value. Using the cost model, we have

Details	K
Cost	652,370
Depreciation ($652,370/40 * 2/12$)	(2,718)
Carrying Value	649,652

(ii) Recognition criteria for tangible non-current assets in accordance with IAS16 property, plant and equipment.

- IAS 16 defines property, plant and equipment as tangible items that: (a) 'are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) are expected to be used during more than one period'. Tangible items have physical substance.
- **Initial recognition:** An item of property, plant and equipment should be recognized as an asset when: (a) it is probable that the asset's future economic benefits will flow to the entity
(b) the cost of the asset can be measured reliably.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

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 paper is divided into TWO (2) sections:

Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – TWO COMPULSORY QUESTIONS

Attempt both questions in this section

QUESTION ONE

The Board of Directors of Munyati Ltd, based in Bweengwa town, has been informed that the government intends to do a lock down for Southern Province owing to the high number of new cases of COVID-19 pandemic. As the Management Accountant, you have been asked to advise the Board on the effect of the lock down on the Cash flow.

The following data has been made available to you:

Month	1	2	3
Budgeted sales units	4,000	5,000	4,000
Budgeted Production units	6,000	4,000	Nil

The Lock down will commence at the beginning of month 3 and it should be assumed that it will continue for at least four months. Sales at 400 units per week will continue to be made during the period of the lock down until stocks of finished goods are exhausted. Production will stop at the end of month 2. The current stock level of finished goods is 6,000 units. No stocks remain as work in progress.

The selling price of the product is K600 and the budgeted manufacturing cost is made up as follows:

	<u>K</u>
Direct materials	150
Direct Wages	70
Valuable overheads	80
Fixed overheads	<u>180</u>
Total	<u>480</u>

In addition the company operates a full absorption costing system and the fixed overhead absorption rate is based upon a budgeted fixed overhead of K90,000 per month. Included in the total fixed overheads is K7,500 per month for depreciation of equipment.

During the period of lockdown, direct wages and variable overheads would not be incurred and the cash expended on fixed overheads would be reduced by K15,000 per month.

The current stock of raw materials are worth K75,000. It is intended that these stocks should increase to K110,000 by the end of month 1 and then remain at this level during the period of the lock down.

All direct materials are paid for one month after they have been received.

Direct wages are paid one month in arrears. It should be assumed that all relevant overheads are paid for immediately the expense is incurred. All sales are on credit. 70% and 30% of the sales value is received in cash from debtors one month and two months respectively, after the sales have been made.

The current amount outstanding to material suppliers is K80,000 and direct wages accruals amount to K32,000. Both of these will be paid in month 1. The current balance owing from debtors is K312,000 of which K240,000 will be received during month 1 and the remainder during month 2. The current balance of cash at bank and in hand is K10,000.

Required:

- (a) Prepare a cash budget for months 1 to 6 showing the balance of cash at the end of each month together with a suitable analysis of the receipts and payments during each month. (12 marks)
- (b) Explain why the reported profit figure for a period does not normally represent the amount of cash generated in that period. (4 marks)
- (c) Advise the company about possible ways in which it can improve its cash management. (9 marks)

[Total: 25 Marks]

QUESTION TWO

The following data relate to actual output, costs and variances for the four monthly accounting period number 2 of a company that makes only one product. Opening and closing work in progress figures were the same.

Actual production of product ABC	18,000 units
	K'000

Actual costs incurred:

Direct materials purchased and used (150,000 kg)	210
Direct wages for 32,000 hours	136
Variable production overhead	38

Variances:

Direct material price	15 (F)
Direct materials usage	9 (A)
Direct labour rate	8 (A)
Direct labour efficiency	16 (F)
Variable production overhead expenditure	6 (A)
Variable production overhead efficiency	4 (F)
Sales volume variance	10 (A)

Variable production overhead varies with labour hours worked.

Required:

- (a) Present a standard product cost sheet for one (1) unit of product ABC. (15 marks)
- (b) Explain the possible causes of the direct materials usage variance, direct labour rate variance and sales volume variance above. (6 marks)

- (c) Explain why the variances used to reconcile profit in a standard marginal costing system are different from those used in a standard absorption costing system. (4 marks)
- [Total: 25 Marks]**

SECTION B

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

QUESTION THREE

Sonsa Ltd manufactures two components used in production of radios. The two components are X and Y.

The following information relates to the planned activities for the next month:-

Components	X	Y
Selling price	K100.00	K150.00
Direct material cost	K25.00	K32.60
Direct labour hours	5.0 hours	7.50 hours
Production and sales volume (Components)	16,000	8,000

Fixed production overheads per month K480,000

Labour which is paid at a rate of K12 per hour is currently very scarce, while demand for the company's components is readily available.

A customer ABC has offered Sonsa Ltd a contract worth K700,000 for a number of components made to customer's requirement. The estimating team has ascertained the following facts in respect of the work:-

- Labour time for the contract would be 24,000 hours
- Material cost would be K180,000.00.

The components could be purchased from a supplier for K50,000.00 or alternatively, they could be made internally for a material cost of K20,000.00 and additional labour time of 3,000 hours.

Required:

- (a) Explain the importance of opportunity cost in decision making. (3 marks)
- (b) Advise management purely on financial grounds as to whether;
- (i) Make or buy the component (7 marks)
- (ii) Accept or reject the contract (5 marks)
- (c) The budgeted selling price and standard cost details for next year are as follows:

Selling price per component	K240
Variables production cost per component	K86
Fixed production costs	K6,500,000
Fixed selling and distribution costs	K2,304,000
Sales commission	5% of selling price
Sales	180,000 components

Required:

- (i) Calculate the breakeven sales volume and value. (3 marks)
- (ii) Calculate and comment on the margin of safety percentage. (2 marks)
- (iii) The Marketing Manager has suggested that the selling price per component can be increased to K150 if the sales commission is increased to 8% of selling price and a further K100,000 is spent on advertising.

Calculate the revised breakeven sales volume based on the Marketing Manager's suggestion and advise management accordingly. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Extracts from the financial statements of Tumelo Plc for the year ended 31 December are as follows:

	31 December 2020	31 December 2019
	K	K
Sales	6,806,250	6,187,500
Purchases	5,091,610	3,880,000
Cost of sales	4,458,090	4,021,880
Cash at bank	-	155,000
Trade receivables	1,675,600	1,237,500
Inventory:		
Raw material	963,000	617,900
Work-in-progress	623,500	522,500
Finished goods	718,620	531,200
Bank overdraft	362,000	-
Trade payables	867,500	617,000

The Managing Director has expressed concern about the company's management of working capital and feels that the company is overtrading.

Required:

- (a) Calculate the length in days of the company's operating cycle and the current ratio for each of the years ended 31 December 2019 and 31 December 2020. (12 marks)
- (b) Discuss the statement by the Managing Director that the company is overtrading based on your answer in (a). (7 marks)
- (c) Outline the main types of decision for which management accountants can provide information. (6 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) KEKE Ltd produces four (4) products and is planning its production mix for the next period. Estimated cost, sales and production data are shown below:

	A	B	C	D
Selling price/unit	50	70	80	
100				
Materials @ K4 per kg	12	36	20	24
Direct labour @ K2 per hour	6	4	14	10
Maximum demand (units)	3,000	3,000	3,000	
3,000				

Required:

- (i) Explain the term 'Limiting factor' in a production strategy . (2 marks)
- (ii) Advise management on the most appropriate mix if labour hours are limited to 45,000 hours in the period. (5 marks)
- (iii) Advise management on the appropriate mix if material is limited to 55,000 kgs in the period. (6 marks)
- (b) Explain the following modern management techniques:
- (i) Throughput accounting (3 marks)
- (ii) Back flush accounting (3 marks)
- (iii) Target costing (3 marks)
- (iv) Kaizen costing (3 marks)

[Total: 25 Marks]

END OF PAPER

DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTION

SOLUTION ONE

(a)

Workings

Debtors

	Months					
	1	2	3	4	5	6
Units Sold	4,000	5,000	4,000	3,000	-	-
Sales (K'000)	<u>2,400</u>	<u>3,000</u>	<u>2,400</u>	<u>1,800</u>	-	-
Cash receipts:						
(70%)		1,680	2,100	1,680	1,260	-
(30%)			720	900	720	540
Given	240	72	-	-	-	-
Total Receipts (k)	240	1,752	2,820	2,580	1,980	540

Sales in month 4 = opening stock (600 unit) + production in month 1 and 2 (1,000 units) less sales in Month 1 -3 (1,300 units) = 300 units

Creditors

	Months					
	1	2	3	4	5	6
Material consumed @ K150	900,000	600,000	-	-	-	-
Increase in stocks	35,000	-	-	-	-	-
Materials purchased	935,000	600,000	-	-	-	-
Payments to suppliers	80,000	935,000	600,000	-	-	-

Wages

	Months					
	1	2	3	4	5	6
Wages consumed @ K70	420,000	280,000	-	-	-	-
Wages paid	32,000	420,000	280,000	-	-	-

Cash budget for Months for months 1 – 6

	Months					
	1	2	3	4	5	6
Receipts	<u>240,000</u>	<u>1,752,000</u>	<u>2,820,000</u>	<u>2,580,000</u>	<u>1,980,000</u>	<u>540,000</u>
Payments:						
Suppliers	80,000	935,000	600,000	-	-	-
Direct workers	32,000	420,000	280,000			
Variable overheads	480,000	320,000	-	-	-	-
Fixed overheads	<u>82,500</u>	<u>82,500</u>	<u>67,500</u>	<u>67,500</u>	<u>67,500</u>	<u>67,500</u>
Total Payments	<u>674,500</u>	<u>1,757,500</u>	<u>947,500</u>	<u>67,500</u>	<u>67,500</u>	<u>67,500</u>
Net Movements	(434,500)	(5,500)	1,872,500	2,512,500	1,912,500	472,500
Opening balance (month 1 Given)	10,000	(424,500)	(430,000)	1,442,500	3,955,000	5,867,500
Closing balance	(424,500)	(430,000)	1,442,500	3,955,000	5,867,500	6,340,000

- (b) The answer should include a discussion of the matching concept, emphasizing that revenues and expenses may not be attributed to the period when the associated cash inflows occur. Also, some items of expenses do not affect cash outflow (e.g depreciation).
- (c) Possible ways of improving cash management.
- Lease, don't buy
 - Offer discounts for early payment
 - Conduct customers credit check
 - Form a buying cooperative
 - Improve your inventory
 - Send invoices out immediately
 - Use of electronic payments
 - Pay suppliers less
 - Use high –interest Savings Accounts
 - Increase pricing

SOLUTION TWO

(a) Standard product cost for one unit of product ABC

	K
Direct materials (8 kg (w2) at K1.50 (w1) per kg)	12.00
Direct wages (2 hours (w4) at K4 (w3) per hour)	8.00
Variable overhead (2 hours (w4) at K1 (w5) per hour)	<u>2.00</u>
	<u>22.00</u>

Workings:

(W1) Actual quantity of materials purchased at standard price is K225,000 (actual cost plus favourable material price variance).

Therefore standard price = K1.50 (K225,000/150,000kg).

(W2) Material usage variance = 6000kg (K9,000/K1.50 standard price).

Therefore, standard quantity for actual production = 144,000 kg (150,000 – 6,000kg).

Therefore, standard quantity per unit = 8 kg (144,000 kg/18,000 units).

(W3) Actual hours worked at standard rate = K128,000 (K136,000 – K8,000)

Therefore, standard rate per hour = K4 (K128,000/32,000 hours)

(W4) Labour efficiency variance = 4,000 hours (K16,000/K4)

Therefore standard hours for actual production = 36,000 hours (32,000 + 4,000).

Therefore standard hours per unit = 2 hours (36,000 hours/18,000 units)

(W5) Actual hours worked at the standard variable overhead rate is K32,000 (K38,000 actual variable overheads less K6,000 favourable expenditure variance)

Therefore, standard variance overhead rate = K1 (K32,000/ 32,000 hours)

(b)

Materials

- Better quality material than standard, hence less wastage
- Better working practices, due to better trained staff and/or more effective planning and supervision
- Improved storage or packaging, leading to lower processing losses.

Labour

- Higher than usual unemployment,
- High proportion of trainees than expected

Sales Volume Variance

- Marketing failures
- Competition was more effective than expected.
- Product quality may have been lower than customers' expectation

(c) There are two differences between the way that variances are calculated in a marginal costing system and in an absorption costing system.

In marginal costing, fixed costs are not absorbed with product cost and so there are no fixed cost variances to explain any under or over absorption of overheads.

There will, therefore be no fixed overhead volume variance. There will however, be a fixed overhead expenditure variance which is calculated in exactly the same way as absorption costing systems.

Sales volume variance in units will be valued at standard contribution margin and called the sales volume contribution variance. In standard absorption costing standard profit is used instead of standard contribution.

SOLUTION THREE

(a) An opportunity cost is the value which represents the cost of the next best alternative or the benefit forgone by accepting one course of action in preference to others when allocating scarce resources.

If there is only one scarce resource, decisions can be made by ranking alternatives according to their contributions per unit of the scarce resource.

However, in reality, there will be many scarce resources and different alternatives will use alternative combinations of those scarce resources. In these situations, opportunity costs are used to identify the optimum use of those resources.

(b) (i) Since labour is scarce, there is an opportunity cost of labour if the component was made using internal resources as follows:-

	X	Y
Selling price	100.00	150.00
Direct material	(25.00)	(32.60)
Direct labour	(30.00)	(45.00)
Contribution per component	45.00	72.40
Labour hours per component	5.0 hours	7.50 hours
Contribution for direct labour hours	K 9.00	K9.65

Hence making the component will entail reducing the production of product X in order to accommodate the special order resulting in an opportunity cost of K9.00 per direct labour hour.

Relevant Cost of Making the Component:

Direct material	K 20,000
Direct labour (K12 x 1,500 hours)	18,000
Opportunity cost (K18 x 1,500 hours)	27,000
	<hr/>
	65,000
	<hr/>

It is cheaper to buy the component at K50,000.00 than make it at K65,000. Therefore the company should buy and not make the component.

(ii) Contribution from the Contract per Direct Labour Hour

	K	K
Sales revenue		700,000
Direct material	180,000	
Direct labour (12,000 hrs x K12)	144,000	
Component	50,000	
Variable cost		(374,000)
Total contribution		326,000
Total direct labour hours		12,000
Contribution per labour hour		K 27.17

The company should accept the contract since it has a higher contribution per labour hour.

(c) Contribution per Unit

Selling price	K 240.00
Variable production cost	(K86.00)
Sales commission (5% of K240)	(K12.00)
	<hr/>
	K142.00
	<hr/>

Total Fixed Cost

	K
Product cost	6,500,000
Selling and distribution cost	2,304,000
	<hr/>
	8,804,000
	<hr/>

(i) Breakeven Sales Volume = Fixed Cost/ Contribution per Unit

$$= \text{K}8,804,000 / \text{K}142 = 62,000 \text{ components}$$

Breakeven sales value = 62,000 components x K240/component

$$= \text{K}14,880,000$$

(ii) Margin of Safety

$$\text{MoS} = [(180,000 - 62,000) / 180,000] \times 100\% = 65.6\%$$

(i) Revised Contribution per Component

	K
Selling price	250.00
Revised variable cost (43+8%of 250)	63.00
	187.00
Revised total fixed cost (8,804,000 + 100,000)	8,904,000

$$\text{Revised breakeven sales volume} = 8,904,000 / 144 = 61,833 \text{ components}$$

SOLUTION FOUR

(a) Cash operating cycle

	2019	2018
	Days	Days
Trade receivables	$\frac{2,675,600}{6,806,250} \times 365 = 89.86$	$\frac{1,237,500}{6,187,500} \times 365 = 73.00$
Raw material	$\frac{963,000}{4,458,090} \times 365 = 78.84$	$\frac{617,900}{4,021,880} \times 365 = 56.08$
Work-in-progress	$\frac{623,500}{4,458,090} \times 365 = 51.05$	$\frac{522,500}{4,021,880} \times 365 = 47.42$
Finished goods	$\frac{718,620}{4,458,090} \times 365 = 58.84$	$\frac{531,200}{4,021,880} \times 365 = 48.21$
Trade payables	$\frac{867,500}{5,091,610} \times 365 = (62.19)$	$\frac{617,000}{3,880,000} \times 365 = (58.04)$
Cash operating cycle	<u>216.4</u>	<u>166.7</u>

Current ratio calculation

	2019		2018	
	K	K	K	K
Raw material		963,000		617,900
Work-in-progress		623,500		522,500
Finished goods		718,620		531,200
Inventory		2,305,120		1,671,600
Cash		-		155,000
Receivables		<u>1,675,600</u>		<u>1,237,500</u>
		3,980,720		3,064,100
Bank overdraft	362,000		-	
Payables	<u>867,500</u>		<u>617,000</u>	
		<u>1,229,500</u>		<u>617,000</u>
Net current assets		<u>2,751,220</u>		<u>2,447,100</u>
Current ratio		<u>3,980,720</u>		<u>3,064,100</u>
		1,229,500		617,500
		= <u>3.2 : 1</u>		= <u>5.0 : 1</u>

(b) Overtrading is a situation where a growing company runs out of cash because it is all tied up in receivables and inventory.

The cash operating cycle has deteriorated from 167 to 216 days, it is taking 49 days longer to recoup cash from outlay to receipt in 2019 than in 2018. This could be caused by increasing inventory days and receivables days. Receivables days have increased from 73 to 90 days implying that it is taking 17 days longer to collect cash from trade receivables while payables days have just increased marginally by 4 days.

Liquidity ratio has gone down to 3.2 from 5.0 in 2019. In addition, the company is now operating on an overdraft where as in 2018, it had cash at bank. This suggests problems with liquidity.

The apparent liquidity problem comes at a time when sales have increased from K6,187,500 to K6,806,250. This could be a case of overtrading as stated by the managing director.

- (c) Management accountants provide information for various decisions such as;
- Routine planning decisions for example annual budgeting decisions.
 - Short term tactical decisions relating to pricing, activity level, accept/reject orders and product mix.
 - Long term decisions. This involve investments in new equipment or products, closure and strategic or policy decisions.
 - Control decisions which cover monitoring performance of managers, products, departments and divisions.

SOLUTION FIVE

(a)

(i) **Key factor**

This is a factor which is a binding constraint upon the organization preventing indefinite expansion or unlimited profits.

Examples are: Lack of market (sales), unavailability of finance, lack of skilled labour, suppliers of materials or lack of space.

(ii) **If Labour is limited to 45,000 hours**

	A	B	C	D
Sales	50	70	80	100
Less:				
Variable Cost	(18)	(40)	(34)	(34)
Contribution per unit	32	30	46	66
Labour hours	3	2	7	5
Contribution per labour	10.67	15	6.57	13.2
Ranking	3 rd	1 st 4 th 2 nd		

The appropriate mix:

3,000 units of B @ 2 hours = 6,000 Labour hours

3,000 units of D @ 5 hours = 15,000 Labour hours

3,000 units of A @ 3 hours = 9,000 labour hours

2,142 units of C @ 7 hours = 15,000 Labour hours

45,000 Labour hours

(iii) **If material is limited to 55,000 kgs**

	A	B	C	D
Sales	50	70	80	100
Variable Cost	(18)	(40)	(34)	(34)
Contribution per unit	32	30	46	66
Materials kg	3	9	5	6
Contribution per kg of material	10.67	3.33	9.2	11
Ranking	2 nd	4 th 3 rd	1 st	

The appropriate mix:

3,000 units of D @ 6 Kg = 18,000 kg

3,000 units of A @ 3 kg = 9,000 kg

3,000 units of C @ 5 kg = 15,000 kg

1,444 units of B @ 9 kg = 13,000 kg

55,000 kg

(b)

(i) **Throughput accounting**

This is a rate of production of a defined process over a stated period of time. Rates may be expressed in terms of units of products, batches produced, turnover or meaningful measurements.

Throughput return = sales revenue – direct material cost

The aim of throughput accounting is to maximize this measure of throughput. The direct material cost referred to in the above definition relates to all materials purchased during a particular period and not simply to materials used.

(ii) **Back flush accounting**

Back flush accounting is a method of accounting given to the method of keeping cost accounts if back flush costing is used. Back flush costing therefore is defined as a method of costing, associated with a just in time production system (JIT), which applies costs to the output of a process. The cost do not mirror the flow of products through the production process, but are attached to the output produced (finished goods inventory and cost of sales), on the assumption that such back flushed costs are a realistic measure of the actual costs incurred.

It just saves a considerable amount of time as it avoids having to make a number of accounting entries that are required by a traditional system.

The fact that back flush costing is appropriate for organizations trying to keep inventories to the very minimum is in itself the main feature of JIT of reduction in inventories, therefore very much related to each other in this aspect.

Recording of every little increase in inventory value is considered an expensive and non-value added activity that should be eliminated, again the common feature of both back flush accounting and JIT system.

(iii) **Target costing**

Target costing involves setting a target cost by subtracting a desired profit margin from a competitive market price.

Target cost is an estimate of a product cost which is determined by subtracting a desired profit margin from a competitive market price. This target cost may be less than the planned initial product cost but it is expected to be achieved by the time the product reaches the maturity stage of the product life cycle.

(iv) **Kaizen costing**

Kaizen costing focuses on obtaining small incremental cost reductions during the production stage of the product life cycle.

Kaizen costing aims to reduce current costs by using tools such as value analysis and functional analysis.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 17 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 paper is divided into TWO sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 6 of the question paper.
DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

Taxation table for paper DA 10 – Taxation (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%

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% on norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% on gross value
Gemstones	6% on gross value
Precious Metals	6% on 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%

Non- commercial vehicles

Wear and Tear Allowance	20%
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Industrial Buildings:

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

Low Cost Housing (Cost up to K20,000)

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%
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Farming Allowances

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

Presumptive Taxes

Turnover Tax	4%
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Presumptive Tax for Transporters

Seating capacity	Tax per annum 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%

Value Added Tax

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

Customs and Excise

Customs and Excise duties on used motor vehicles

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

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	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642

Hatchbacks

cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642

Station wagons

cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

SUVs

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

Aged 2 to 5 years

Aged over 5 years

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

Customs duty	Excise duty	Customs duty	Excise duty
K	K	K	K

Single cab

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnesbut not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnesbut 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 tonnesbut not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnesbut 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 tonnesbut not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnesbut 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 on New Motor vehicles

Duty rates on:

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

Customs Duty:		
Percentage of Value for Duty Purposes		30%
Minimum Specific Customs Duty		K6,000
Excise Duty:		
Percentage of Value for Duty Purposes for Excise Duty Purposes		
Cylinder capacity of 1500 cc and less		20%
Cylinder Capacity of more than 1500 cc		30%
2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:		
Customs Duty		
Percentage of Value for Duty Purposes		15%
Minimum specific Customs Duty		K6,000
Excise Duty:		
Percentage of Value for Duty Purposes for Excise Duty Purposes		10%
3. Buses/coaches for the transport of more than ten persons		
Customs Duty:		
Percentage of Value for Duty Purposes		15%
Minimum Specific Customs Duty		K6,000
Excise Duty:		
Percentage of Value for Duty Purposes for Excise Duty Purposes		
Seating Capacity of 16 persons and less		25%
Seating Capacity of 16 persons and more		0%
4. Trucks/lorries with gross weight exceeding 20 tonnes		
Customs Duty:		
Percentage of Value for Duty Purposes		15%
Excise Duty:		
Percentage of Value for Duty Purposes for Excise Duty Purposes		0%

SECTION A

Attempt BOTH questions in this section.

QUESTION ONE

Mutanda Farms Ltd, is a Zambian resident company based in the Southern Province. The company is engaged in commercial farming and is registered for Value Added Tax. The Finance Director for Mutanda Ltd attended a workshop recently on Tax planning. The director is now thinking of implementing some tax planning strategies that were covered in the workshop in order to minimise the tax liability of the company.

Below is the summarized statement of profit or loss for the company for year ended 31 December 2021:

MUTANDA FARMS LTD STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

		K'000
Turnover		25,300
Cost of sales		<u>(12,300)</u>
Gross profit		13,000
Operating expenses	(Note 1)	(4,400)
Finance cost		(900)
Investment income	(Note 2)	<u>1,550</u>
Profit before tax		<u>9,250</u>

The following information is relevant:

- (1) Operating expenses include depreciation charges of K274,000, pasture maintenance costs of K330,000, expenditure on destruction of weeds, plants and animal pests detrimental to the land of K460,000, costs associated with the acquisition of new farm land of K94,000, staff salaries of K1,920,000 and fines for breach of labour regulations of K174,000. The balance represents general business expenses, which are all allowable for tax purposes.
- (2) The company earned the following gross investment income in the tax year 2021, which has been included under investment income in the statement of profit or loss shown above, withholding tax has already been paid:

	K'000
Dividends from non-listed Zambian company	540
Dividends from Zambian mining companies	650
Bank deposit interest	90
Interest on Government bonds	270

- (3) The following capital expenditure incurred by the company in the tax year 2021, has not been recorded in the financial statements:

	K'000
Construction of Storage Facilities	600
Purchase of farm tractors	350
Purchase of farm implements and machinery	290
Rose flower plantation development costs	1,040
Expenditure incurred on works for prevention of soil erosion	308
Expenditure incurred on water conservation	350

(4) The following personal to holder motor cars were purchased by the company on 1 January 2021 and provided to the following directors:

	Original Cost K'000	Cylinder Capacity
Managing Director	260	3000cc
Operations Director	200	1900cc

(5) Provisional income tax of K670,000 was paid during the tax year 2021.

Required:

- (a) Distinguish between Tax planning and Tax avoidance. (4 mark)
- (b) Calculate the capital allowances for Mutanda Farm Limited for the tax year 2021. (8 marks)
- (c) Calculate taxable business profit for the tax year 2021. (6 marks)
- (d) Calculate the company income tax payable by Mutanda Farms Limited for the tax year 2021. (5 marks)
- (e) Explain the two (2) circumstances in which a farmer may be allowed to average profits of two (2) different accounting periods. (2 marks)

[Total: 25 Marks]

QUESTION TWO

Kennedy Mazimba had been employed as a Marketing Manager at QFM Plc, a Zambian resident trading company. His annual salary had been K494,400 ,payable monthly to him on the last day of each month. He was also entitled to an educational allowance of 10% of his annual basic salary per annum, a transport allowance of 15% of his annual basic salary per annum and a medical allowance of K2,140 per month.

The company provided him with free residential accommodation in a company owned house. If the house was rented to any other person the company could have charged monthly gross rentals of K10,000. During the year ended 31 December 2021 the company incurred the following expenses in connection with the house:

Gardening expenses	K1,700 per month
Security expenses	K1,000 per month
Utility expenses	K650 per month

In addition to the accommodation, the company had always paid life insurance premiums of K550 per month on his behalf.

On 1 May 2021, he was given a labour day award comprising of a computer valued at K11,000 and cash amounting to K5,000. On 3 May 2021, he was paid K15,000 cash for the purchase of uniforms which only cost K9,000. Kennedy is required to put on these uniforms every Wednesday and Thursday.

On 30 September 2021, he retired from employment to set up his own business. On retirement he was paid the following:

	K
Pension refund	540,000
Repatriation pay	52,000
Leave pay	44,000
Accrued service bonus	51,000

During the year ended 31 December 2021, Kennedy made the following payments:

	K
Children's school fees	14,000
Subscription to the Zambia Institute of Marketing	3,200
Donation to political party	16,000
Donation to an approved public benefit organization	7,600
Income tax deducted under Pay as you earn	152,943

Kennedy has always contributed NAPSA contributions at the rate of 5% of his gross emoluments. During the year to 31 December 2021, the company deducted employee's National Health Insurance Scheme Contributions from his earnings at the rate of 1% of his basic salary and paid employer's National Health Insurance Scheme Contributions at the rate of 1% of his basic salary on his behalf.

During the year ended 31 December 2021, he received the following investment income:

	K
Dividends from KLG Plc a LuSE listed company	4,120
Royalties	35,700
Rental income	82,800
Treasury bills interest	20,400
Bank interest	2,800

The above amounts of investment income represent the actual cash received by Kennedy in each case.

Required:

- (a) Calculate the amount of withholding tax paid on each type of investment income and the total withholding tax. (4 marks)
- (b) Calculate the final amount of income tax payable by Kennedy for the tax year 2021. (18 marks)
- (c) Explain the basis of assessment for employment income. (3 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Value added tax is a tax on the turnover of 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 the basic tax point is determined and the circumstances under which the basic tax point can be changed. (4 marks)
- (ii) Explain any four (4) circumstances under which a registered trader may be deregistered for value added tax purposes. (4 marks)
- (iii) Explain any three (3) advantages, for the trader, of registering for value added tax voluntarily. (3 marks)
- (b) Reverse VAT is the transfer of liability to account for and pay VAT on imported services from the person making the supply to the person receiving the supply.

Required:

- (i) Outline the circumstances under which services will be deemed to have been imported in Zambia (2 marks)
- (ii) State any five (5) examples of such services on which reverse VAT is chargeable. (5 marks)
- (c) Jojo, a supplier of Salaula, is registered for Value Added Tax. During the month of October 2021, he made sales revenue amounting to K145,200. Included in this figure are exempt supplies amounting to 15% of the total sales revenue. The remainder are all standard-rated supplies. The following are the purchases and expenses incurred during the month:

Purchases	K71,200
Standard rated overheads (inclusive of VAT)	K13,200
Standard rated entertainment expenses (inclusive of VAT)	K3,450
Motor van (inclusive of VAT)	K51,200
Telephone bills (inclusive of VAT)	K7,600

15% of the purchases are exempt supplies. The remainder of the purchases are all standard-rated supplies.

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

Required:

Compute the value added tax payable by Jojo for the month of October 2021. You should indicate in your computation using a zero (0) all items on which VAT is neither payable nor recoverable. (7 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) LKJ Plc, a manufacturing company, imported a brand new Toyota Allion Car with a cylinder capacity of 2000 cc on 1 March 2021. The purchase cost of the car was US\$5,100 (free on board). The company paid for freight charges and insurance of US\$1,200 and US\$980 respectively up to the port of Dar-es-lam in Tanzania. Incidental costs incurred to transport the vehicle from the port of Dar-es-lam up to the Nakonde border post amounted to US\$420. Transportation costs incurred from Nakonde up to Lusaka amounted to US\$400.

The vehicle was manufactured in 2019 and for the purposes of calculating import taxes, the Toyota Allion car is classified as a Sedan. LKJ Plc used an exchange rate of K18.20 per US\$1 which it had arranged in a forward contract with a local bank. The exchange rate as quoted by the Bank of Zambia and approved by the Commissioner General was K19.25 per US\$1.

Required:

(i) Explain the role of the customs services division of the Zambia Revenue Authority. (4 marks)

(ii) Calculate the customs value of the vehicle and the total amount of imported taxes paid on the importation of the Toyota Allion Car. (6 marks)

(b) Grace and Mercy are in partnership sharing profits and losses in the ratio 1:2 after allowing for annual partnership salaries of K90,000 for each partner. The partnership has always prepared financial statements to 31 December each year.

On 1 May 2021, Vinnie was admitted to the partnership and with effect from that date the partnership agreement was changed. The new partnership agreement was as follows:

	Grace	Mercy	Vinnie
Annual salaries	K120,000	K138,000	K150,000
Profit/(loss) sharing ratios	3	3	4

For the year ended 31 December 2021, the partnership made a tax adjusted business profit of K576,000. This profit is after all tax adjustments and capital allowances on partnership assets.

The partners use their own personal private motor vehicles which each individual acquired a year ago, for business purposes. The cost of each car and the business use is as follows:

Partner	Business use	Cost
Grace's motor Car	70%	K80,000
Mercy's Car	80%	K110,000
Vinnie's Car	75%	K90,000

No partner had any other income apart from partnership profits.

Required:

Calculate the income tax payable by each partner for the tax year 2021. (15 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) State the two (2) operating divisions of the Authority and briefly describe the main function of each operating division. (4 marks)
- (b) Explain seven (7) methods used to value locally manufactured goods for excise duty purposes. (7 marks)
- (c) Gabriel Pollen, is a Zambian resident businessman who holds various investment portfolios. During the tax year 2021, he received the following amounts of income from his investments:

	K
Dividend from Mopapa Ltd	5,000
Consultancy fees	65,000
Royalties	20,000
Bank deposit interest	2,500

In each one of the above cases, the amounts shown are the actual amounts received by Gabriel. The royalties and dividend income were received from non- mining companies.

Required:

Calculate the amount of income tax payable by Gabriel in the tax year 2021. You should explain how each of the above amounts of investment income received by Gabriel, should be dealt with in the computation of his income tax payable.

(8 marks)

- (d) You have been presented with the following information relating to three companies:

Granad Limited

Granad plc is a company engaged in farming. The company was incorporated in a country known as Guzo land. The company has a branch in Zambia and the Board of directors holds its weekly meetings in Zambia. The Board of directors additionally hold a meeting at least once a year in Guzo land.

Zami Limited

Zami Limited is a manufacturing company which was incorporated in Zambia and has its head office in Zambia. The Board of directors holds its weekly meetings in a country known as Hazz, where all of the branches of the company are located.

Jemima Limited

Jemima Ltd was incorporated in country known as Valleyland. The company has twenty (20) branches. Eleven (11) of these branches are located in Zambia, while two (2) of the branches are located in Eastland, with the remaining two (2) branches being located in another country known as the Democratic Republic of Pola. The company's Board of directors holds its weekly meetings in the Democratic Republic of Pola.

Required:

Explain, giving reasons, whether each one of above companies would be regarded as being resident in Zambia for taxation purposes.

(6 marks)

[Total: 25 Marks]

END OF PAPER

DA 10: TAXATION SUGGESTED SOLUTION

SOLUTION ONE

- (a) Distinction between Tax planning and Tax avoidance

Tax planning can be the minimising or deferring of tax liability by utilising various provisions of the law. In many cases the government provides various deductions and exemptions, which can be used to minimise or reduce a taxpayer's liability.

Tax planning is often achieved by utilising such exemptions and /or reliefs but it can also be achieved by structuring a transaction in a different way.

On the other hand, tax avoidance is a case of a taxpayer taking advantage of loopholes or weakness and mismatches in the tax law to minimise or defer tax liabilities, thereby obtaining a tax advantage that was not originally intended by tax payer.

Tax avoidance is legal and not an offence, but it defeats the intention or purpose of the tax law and therefore, to discourage its practice.

- (b) CAPITAL ALLOWANCE COMPUTATION

	K'000
Capital allowances on farm implements and machinery (K290,000 x 100%)	290
Storage facilities (K600,000 X 100%)	600
Tractors (K350,000 x 100%)	350
Managing Director's car (K260,000 x 20%)	52
Operations Director's car (K200,000 x 20%)	40
Development allowance: (K1,040,000 x 10%)	104
Prevention of soil erosion (K308,000 X 100%)	308
Water conservation (K350,000 X100%)	<u>350</u>
	<u>2,094</u>

(c) MUTANDA FARM LIMITED
COMPUTATION OF TAXABLE PROFITS FOR THE TAX YEAR 2021

	K'000	K'000
Profit before tax		9,250
Add:		
Depreciation	274	
Land acquisition costs	94	
Fines	174	
Personal to holder cars:		
Managing Director 3000cc	40	
Operation Manager 1900cc	30	
		<u>612</u>
		9,862
Less:		
Capital allowances	2,094	
Dividends from mining companies	650	
Dividends from non-listed companies	540	
Bank interest	90	
Interest on Government bonds	<u>270</u>	
		<u>(3,644)</u>
Tax adjusted profit		<u>6,218</u>

(d) Mutanda Farm Limited
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2021

	K'000
Tax on investment income (K90,000 + 270,000) x 35%	126
Tax on farming profits (K6,218 x 10%)	<u>622</u>
	748
Less	
WHT on bank interest (K90,000 x 15%)	(13.5)
WHT on Interest on Government bonds (K270,000 x 15%)	(40.5)
Provisional income tax	<u>(670)</u>
Tax payable	<u>24.00</u>

(e) The following are the circumstances under which the farmer may be allowed to average the farming profits:

- (1) When there is a loss in one consecutive year and a profit in the other consecutive year.
- (2) When the profits for one consecutive year is substantially lower than the profit for the other year

SOLUTION TWO

(a) Withholding tax paid for the tax year 2021

	K
Dividends from KLG Plc	0
Royalties (K35,700 x 15/85)	6,300
Rental income (K82,800 x 10/90)	9,200
Bank interest	0
Treasury bill interest (K20,400 x 15/85)	<u>3,600</u>
Total withholding tax paid	<u>19,100</u>

(b) Kennedy Mazimba

Income tax payable for the tax year 2021

	K	K
Salary (K494,400 x 9/12)		370,800
Education allowance (K370,800 x 10%)		37,080
Transport allowance (K370,800 x 15%)		55,620
Medical allowance (K2,140 x 9)		19,260
Gardening expenses (K1,700 x 9)		15,300
Security expenses (K1,000 x 9)		9,000
Utility expenses (K650 x 9)		5,850
Life insurance premiums (K550 x 9))		4,950
Reimbursement for the cost of the uniforms (K15,000 – K9,000)		6,000
Leave pay		44,000
Accrued service bonus		<u>51,000</u>
		618,860
Investment income		
Royalties (K35,700 x 100/85)		<u>42,000</u>
		660,860
Less:		
Subscription to ZIM	3,200	
Donation to approved public benefit organization	<u>7,600</u>	
		<u>(10,800)</u>
Taxable income		<u>650,060</u>
Computation		
First K48,000 @0%		0
Next K9,600 @25%		2,400
Next K25,200 @30%		7,560
Balance K567,260 @37.5%		<u>212,723</u>
Income tax liability		222,683
Less:		

PAYE	(152,943)
WHT- Royalties (K42,000 x 15%)	<u>(6,300)</u>
Income tax payable	<u><u>63,440</u></u>

(c) The basis of assessment for employment income is the net receipt basis. This means that income from employment is taxed when it is received. Employment income is deemed to have been received on the earlier of:

- (1) The time when the employee becomes entitled to the employment income and;
- (2) The time when the emoluments are actually received by the employee.

SOLUTION THREE

(a) Value added tax

- (i) Tax point is the time when a supply is deemed to have taken place. The basic tax point is the time when goods are made available or services rendered to a customer.

The basic tax point can be changed if:

- (1) The tax invoice is issued before the basic tax point. In this case the tax point is the date when the tax invoice is issued.
 - (2) The tax invoice is issued within fourteen (14) days after the basic tax point; in this case the tax point is the time when the tax invoice is issued
- (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.
- (iii) The following are the advantages of registering for VAT voluntarily:
- (1) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable
 - (2) The impression of a substantial business will be given since it is believed that traders should only register for VAT if the turnover is substantial
 - (3) The business will compete well with other businesses which are registered for VAT in that their cost will not be distorted by being VAT inclusive.

(b) Reverse VAT

- (i) A service will be considered imported if:
- (1) Performed or undertaken in Zambia
 - (2) Utilized in Zambia regardless of where they are performed from.

- (ii) Examples include:
1. Management and other consultancy services
 2. Technical advisory services
 3. Marketing information
 4. Sales promotion
 5. Inland transportation services

(c) JOJO

VAT PAYABLE FOR THE MONTH OF OCTOBER 2021

	K	K
Output VAT		
Exempt sales: $K145,200 \times 15\%$		0
		$\frac{1}{2}$
Standard rated sales ($K145,200 \times 85\% \times 16\%$)		<u>19,747</u>
		19,747
Input VAT		
Exempt purchases	0	
Standard-rated purchases ($K71,200 \times 85\% \times 16\%$)	9,683	
Overheads ($K13,200 \times \frac{4}{29} \times 85\%$)	1,548	
Entertainment expenses	0	
Motor van ($K51,200 \times \frac{4}{29}$)	7,062	
Telephone bills(Irrecoverable)	<u>0</u>	
		<u>(18,293)</u>
VAT payable		<u>1,454</u>

SOLUTION FOUR

(a) LKJ Plc

(i) The following are the roles (functions) of the Customs Services Division of the ZRA:

(1) Collection and management of customs and excise duties and other duties, licencing and control of warehouses and premises for the manufacturing of certain goods.

(2) Regulation and control of imports and exports

(3) Facilitation of trade, travel and movement of goods

(4) Providing statistical data to the Government on imports and exports

(1 mark per valid point up to 4 marks)

(ii) Customs value

	\$
Cost	5,100
Insurance	980
Freight charges	1,200
Incidental costs	<u>420</u>
VDP in US\$	7,700
Exchange rate	<u>K19.25</u>
VDP in ZMW	<u>148,225</u>

Value of the	Import taxes (USED VEHICLE)	
	Vehicle (K)	K
Customs value	148,225	
Customs duty (specific)	16,545	16,545
Excise duty (specific)	<u>21,508</u>	21,508
VDP for VAT purposes	186,278	
VAT @16%	<u>29,804</u>	<u>29,804</u>
Total value of the vehicle	<u>216,082</u>	
Total import taxes		<u>67,857</u>

Value of the	Import taxes (NEW VEHICLE)	
	Vehicle (K)	K
<i>Customs value</i>	<i>148,225</i>	
<i>Customs duty (specific)</i>	<i>44,468</i>	<i>44468</i>
<i>Excise duty (specific)</i>	<i><u>57,808</u></i>	<i>57808</i>
<i>VDP for VAT purposes</i>	<i>186,278</i>	
<i>VAT @16%</i>	<i><u>40,080</u></i>	<i><u>40080</u></i>
<i>Total value of the vehicle</i>	<i><u>290,581</u></i>	
<i>Total import taxes</i>		<i><u><u>142,356</u></u></i>

(b) Grace and Mercy

Income tax payable for the tax year 2021

	Total	Grace	Mercy	Vinnie
Period -1/01/21 to 30/04/21	K	K	K	K
Marks				
Salaries	60,000	30,000	30,000	-
Balance 1:2	<u>132,000</u>	<u>44,000</u>	<u>88,000</u>	-
(K576,000 x 4/12)	<u>192,000</u>	<u>74,000</u>	<u>118,000</u>	-

Period- 1/5/21 to 31/12/21

Salaries	272,000	80,000	92,000	100,000
Balance 3:3:4	<u>112,000</u>	<u>33,600</u>	<u>33,600</u>	<u>44,800</u>
(K576,000 x 8/12)	<u>384,000</u>	<u>113,600</u>	<u>125,600</u>	<u>144,800</u>
Total	576,000	187,600	243,600	144,800
Less:				
Capital allowances				
Grace's car				
(K80,000 x 20% x 70%)	(11,200)	(11,200)		
Mercy's car				
(K110,000 x 20% x 80%)	(17,600)		(17,600)	
Vinnie's car				
(K90,000 x 20% x 75%)	(13,500)			(13,500)
Taxable profits	<u>533,700</u>	<u>176,400</u>	<u>226,000</u>	<u>131,300</u>

Computation

First K48,000 @0%	0	0	0
Next K9,600 @25%	2,400	2,400	2,400
Next K25,200 @30%	7,560	7,560	7,560
Balance K93,600/K143,200/K48,500 @37.5%	<u>35,100</u>	<u>53,700</u>	<u>18,188</u>
Income tax payable	<u>45,060</u>	<u>63,660</u>	<u>28,148</u>

SOLUTION FIVE

(a) The two operating divisions of Zambia Revenue Authority and their main functions are:

(1) Domestic taxes division

This division is responsible for the administration of all the domestic taxes as well as domestic value added tax. Domestic VAT is any VAT on supplies which are made within the republic of Zambia. Excise duty on locally produced goods is also part of the domestic taxes and is therefore administered by the division.

(2) The Customs Services Division

This is the division that has been set up to deal with all the forms of import taxes. The taxes include Customs duty, Import VAT and excise duty on imported goods.

The division has also a responsibility to ensure that dangerous goods are not imported and that international trade is promoted.

(b) The following are the methods which can be used to value locally manufactured goods:

- (1) The price at which a licensed manufacturer or exercisable goods offers the goods for sale on the open market.
- (2) The lowest price at which identical goods in the same quantity are sold within Zambia by another licensed manufacturer in open market.
- (3) The lowest price at which identical goods in different quantities are sold within Zambia by another licensed manufacturer in the open market.
- (4) The lowest price at which similar goods in the same quantities are sold in Zambia by another licensed manufacturer in the open market.
- (5) The lowest price at which similar goods in different quantities are sold in Zambia by another licensed manufacturer in the open market.
- (6) The price which the goods would fetch less profit and other costs beyond the manufacturing level.
- (7) The computed value comprising the cost of production, profit and other costs to the manufacturing level.

(c) GABRIEL
PERSONAL INCOME TAX COMPUTATION FOR 2021

	K
Consultancy fees received (K65,000 X 100/85)	76,471
Gross royalties received (K20,000 X 100/85)	<u>23,529</u>
	100,000
Less tax free	<u>(48,000)</u>
	<u>52,000</u>
<u>Income Tax</u>	
Next 25% x 9,600	2,400
Next 30% X 25,200	7,560
Next 37.5% X 17,200	<u>6,450</u>
	16,410
Less tax already paid	
Withholding Tax:	
Consultancy income (K76,471 X 15%)	(11,471)
Royalties (15% X K23,529)	<u>(3,529)</u>
Final Tax payable	<u>1,410</u>

The following is an explanation and calculation of income tax payable on the investment income for the tax year 2021:

- (1) Withholding tax paid on dividend is computed at the rate of 15% will be a final tax and as such the dividends will not be included in his personal income tax computation.

The amount of the withholding tax will be = $15/85 \times K5,000 = K882$

- (2) The withholding tax on bank deposit interest is 0% and it is a final tax and therefore the bank interest will not be included in his personal income tax computation.

- (3) The consultancy fees and royalties suffers WHT at the rate of 15% which is not final and are therefore included in the personal income tax computation.

(d) **Granad Limited**

Granad limited is resident in Gusoland as this is where the company was incorporated. This is in spite of the fact that the board of directors holds meetings in Zambia regularly.

Zami Limited

Zami Limited will be held to be resident in Zambia as it was incorporated in Zambia regardless of that fact that most of its operations are carried out in Hazz where all of its branches are located.

Jemima Limited

Jemima Limited is resident in Valleyland where it was it was incorporated, in spite of the fact that the board of directors hold weekly meetings in the Democratic Republic of Poland

and the company's major operations are carried on in Zambia, where it has eleven out of its twenty branches.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 17 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 paper is divided into TWO (2) sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A-TWO (2) COMPULSORY QUESTIONS

Attempt **BOTH** questions in this section.

QUESTION ONE

Your firm of chartered accountants is auditor of Chinkuli Ltd. You have been assigned to lead the audit team as Audit Manager in view of the experience you gained while you worked for Chinkuli Ltd as Chief Accountant until you left to join your firm one (1) year ago. Chintu has been engagement partner on this audit for the past ten (10) years and he recently inherited a 20% shares in a company that is in competition with Chinkuli Ltd.

The Head Office of Chinkuli Ltd is located in Lusaka and its manufacturing plant is located in Kitwe. The finance department is located at Head Office and most of the audit work will be done in Lusaka. You intend to attend the inventory count that will be held at the year end at the plant in Kitwe. Chinkuli Ltd informed you that you do not need to worry about costs of stay in Kitwe when you go to witness the inventory count. The company will make available the use of the company's guest house to the audit team during their stay in Kitwe and this will be at no cost to the audit team.

You are planning the audit of the financial statements of Chinkuli Ltd for the year ended 31 December 2020. The audit team is carrying out a risk assessment.

Chinkuli Ltd manufactures paint which it sells to wholesalers on credit. Customers are required to make a one off refundable deposit to qualify to be given credit. In the year under review a total of K1.2 million was received as deposit from new credit customers.

There has been a noted increase in returns of goods from customers with customers complaining about the quality of the paints. The nature of the industry is such that it produces hazardous materials which require to be disposed of in accordance with the law. In the year under review the company was being investigated by the Zambia Environmental Management Agency (ZEMA) for discharging hazardous substances in the stream from which the water utility company draws its water for the supply to the city.

Chinkuli Ltd obtained a bank secured loan of \$1.2 million three (3) years ago. The agreement between the bank and Chinkuli Ltd is that the company should meet the agreed upon performance targets in order to avoid the loan being recalled before the agreed time. The loan is repayable in dollars and the company is facing difficulties meeting its loan obligations because of the decline in sales revenue and depreciation of the local currency. In the year under review the Finance Director resigned before finalizing the financial statements. Management of Chinkuli Ltd requested your firm to second John, who is supposed to lead the audit team on this audit, to assist in the final preparation of the financial statements before the commencement of the audit.

An initial evaluation of the risk assessment carried out by the audit team suggests that the company has a poor control environment and audit risk is considered high unless it can be reduced to acceptable levels. The team is concerned that a poor internal control environment and the lack of a Finance Director may result in the misstatement of the financial statements.

Required:

- (a) Identify and explain six (6) audit risks in the audit of the financial statements of Chinkuli Ltd. (12 marks)
- (b) Explain the audit response if risk is assessed as high and above acceptable levels at the planning stage of the audit of the financial statements of Chinkuli Ltd. (3 marks)
- (c) Identify and explain five (5) ethical issues in the audit of Chinkuli Ltd and suggest suitable safeguards. (10 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Your firm of chartered accountants has been nominated auditor of Natasha Ltd for the year ended 31 December 2020.

The outgoing auditors of Natasha Ltd are Bwalya & Associates and they were removed from being auditors because they modified the opinion for the previous financial statements. Bwalya & Associates have not responded to your letter requesting for any information that should enable you decide whether or not to accept appointment. Bwalya & Associates have not responded because they have not been granted permission to respond by Natasha Ltd.

You are the Audit Manager in your firm and the partner in charge of the office has asked you to finalize the acceptance procedures.

Required:

- (i) Explain the procedure that your firm should take in communicating with Bwalya & Associates as part of the client acceptance. (2 marks)
 - (ii) Explain the procedure that Bwalya & Associates should take in responding to the letter from your firm. (2 marks)
 - (iii) Explain the action that your firm should take arising from the refusal by the management of Natasha Ltd to permit Bwalya & Associates respond to your letter. (1 mark)
- (b) You have been appointed Audit Senior on the audit of the financial statements of Piggott Ltd for the year ended 31 December 2020.

You are at the planning stage of the audit and will soon be embarking on the risk assessment procedures during which you will identify the audit risks and the internal control systems in Piggott Ltd. You plan to perform tests of controls before determining the extent of substantive audit procedures that will be performed.

Among the figures in the statement of financial position of Piggott Ltd are accounts receivables. You have been provided with an age analysis showing the details of the

receivables outstanding at the period end. You plan to circularize the receivables using the positive form of circularization.

Required:

- (i) Explain the objectives of carrying out risk assessment procedures, tests of controls and substantive procedures in an audit of financial statements. (6 marks)
- (ii) Explain any four (4) methods that you can use to obtain sufficient appropriate evidence on the figure of accounts receivables. (6 marks)
- (iii) Explain two (2) financial statement assertions tested through the circularization of accounts receivables. (2 marks)
- (iv) Explain the procedure for the circularization of accounts receivables using a positive method from selection of samples to receipt of responses. (6 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Your firm is auditor of the financial statements of Zambezi Ltd for the year ended 30 March 2021.

Zambezi Ltd is a manufacturing company involved in the manufacturing of paint. The company has significant amounts of raw materials, finished products and work in progress at the period end. An annual inventory count is conducted at the period end and your firm attends the inventory count. The valuation of work in progress is complex and Zambezi Ltd engages a consulting company to value the work in progress at the period end.

You received the copy of the report of the consultants regarding work in progress valuation. You are carrying out audit procedures to determine the value of work in progress in the financial statements and you are considering relying on the work carried out by the consultants engaged by the company.

Required:

- (i) Distinguish between a management expert and an auditor expert. (2 marks)
- (ii) Explain the need for the statutory auditor to seek the services of an auditor expert. (3 marks)
- (iii) Explain three (3) matters that you will consider in relying on the work of a management expert. (3 marks)
- (b) You are Audit Senior in your firm of chartered accountants and you are leading a team of auditors on the audit of the financial statements of Chavuma Ltd for the year ended 31 December 2020.

You are considering assigning Audit Assistants to perform audit procedures on contingent liabilities and provisions contained in draft financial statements of Chavuma Ltd. Chavuma Ltd engaged Chisulo & Co Legal Practitioners as their lawyers and they pay a retainer fee annually.

The following information is provided:

1. Chavuma Ltd guaranteed a loan amounting to K2.5 million on behalf of Kalulu Ltd a company jointly owned with it. This loan is repayable in two years' time and in the event that that Kalulu Ltd fails to repay the loan the lenders will have recourse to claim the amount from Chavuma Ltd.
2. There is a provision of K900,000 recognized in the current year in the financial statements of Chavuma Ltd. The amount relates to a penalty that the company may face as a result of a charge by the environmental agency for damage

caused to the environment for disposing of hazardous substances contrary to the law.

Required:

- (i) Explain the meaning of financial statement assertions and state the relationship between financial statements assertions and audit procedures. (5 marks)
- (ii) Explain the meaning of provisions and state four (4) audit procedures to audit the provisions in the financial statements of Chavuma Ltd. (6 marks)
- (iii) Explain the meaning of contingent liabilities and state four (4) audit procedures to audit contingent liabilities in the financial statements of Chavuma Ltd. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

Njamba Chartered Accountants, an audit firm, has three (3) Partners, four (4) Managers and three (3) Senior Auditors. The firm has a number of audit clients in different sectors with a wide range of fee income and planning work tends to be challenging and time consuming. One of the Senior Auditors thinks planning for recurring audits is a waste of resources.

You are an Audit Manager in Njamba Chartered Accountants. The Engagement Partner responsible for the audit of Lima Ltd has delegated to you the planning work. This is the third year Njamba Chartered Accountants will be providing audit services. The company is successful and provides high quality agricultural and engineering services. The corporate governance structures have always been assessed as excellent.

The Audit Committee Chairperson informed the Engagement Partner that significant misstatements in trade accounts payables were discovered by the internal auditors. The Engagement Partner wants both the audit strategy and audit plan to prioritize the audit work on trade accounts payables. You are aware that direct confirmation is one of the important audit procedures used in many areas of financial statements audits to assist in collecting sufficient appropriate audit evidence but it is rarely used in trade accounts payable. However, the Engagement Partner has advised that it could be possible to use direct confirmation in the audit of Lima Ltd given the level of misstatements.

You instructed one of the new auditors in the team to be alert throughout the audit process to matters which may be included in the Report to Management to avoid delaying the report. The previous year's Report to Management was delayed resulting in the demotion of one audit team member. The new auditor stated that he did not understand the contents of Reports to Management and will require appropriate guidance.

Required:

- (a) Explain five (5) benefits of audit planning. (5 marks)
- (b) Distinguish between the overall audit strategy and the detailed audit plan. (4 marks)

- (c) (i) Explain what is meant by direct confirmation in the audit of trade accounts payables. (2 marks)
- (ii) Discuss the use of direct confirmation in the audit of the trade accounts payables in Lima Ltd. (5 marks)
- (iii) Suggest six (6) audit procedures you should perform to obtain sufficient appropriate evidence in relation to accuracy of trade accounts payables. (6 marks)
- (d) State the main contents of the Report to Management. (3 marks)
- [Total: 25 Marks]**

QUESTION FIVE

Kawama & Sons has is a sole trader selling stationary in town using a rented building. It engaged consultants to assist it strengthen its corporate governance systems.

The consultants advised Kawama & Sons to put in place a Board of Directors that will run its affairs. Some of the recommended committees of the Board of Directors include the nominations committee, remuneration committee and a risk committee. It is expected that some of the board members will be Non-Executive Directors and a few full time Directors. The accounts department is managed by an experienced chartered accountant who was a workmate to one of the members of the audit team.

Your firm has been appointed as auditor of Kawama & Sons and one of the audit procedures that the Engagement Partner is considering to use are substantive analytical procedures. However, some of the Audit Assistants have problems in understanding what factors to consider before substantive analytical procedures could be used.

Kawama and Sons are expecting a lot from the work of external auditors to an extent that they expect external auditors to do much more than just normal accounts examinations and forming an opinion of the financial statements which has resulted into an expectation gap.

It is almost the end of the audit and the audit report will be finalized soon. However, in order to form an opinion, it is important to consider certain factors so that audit risk is reduced and the audit opinion is much more reliable and reasonable.

Required:

- (a) (i) Explain six (6) matters that should be considered by the external auditors before forming an audit opinion. (6 marks)
- (ii) Explain the meaning of the term expectations gap, stating three (3) issues that lead to an expectation gap. (6 marks)
- (b) Explain factors to consider by external auditors when using analytical procedures as substantive procedures. (4 marks)

- (c) Identify from the scenario and explain one (1) ethical threat and suggest how it can be reduced. (2 marks)
- (d) Explain what is meant by the term "Non-executive directors" and state two (2) roles that they can perform in the governance of Kawama & Sons. (3 marks)
- (e) Explain four (4) factors that external auditors can use to determine materiality of a misstatement. (4 marks)

[Total: 25 Marks]

END OF PAPER

D11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Audit risks in Chinkuli Ltd:

1. Sales on credit:

The fact a substantial sum of the sales of Chinkuli Ltd are on credit gives rise to credit risk and that receivables may not be collectable. There is a risk the allowance for receivables may be understated resulting in a misstatement of the receivables figure in the financial statements.

2. Refundable deposit:

There is a risk that the deposits made by credit customers could be accounted for wrongly as revenue instead of payables. This could result in the misstatements of the financial statements.

The total deposits of K1.2 million during the year should be treated as a liability and added to the deposits brought forward from prior years.

3. Customer dissatisfaction:

The customer dissatisfaction evidenced by an increase in goods supplied could result in disagreement in terms of the amounts owing. The receivables may be misstated as a result of these and it could lead to loss of customers which may have implications on the ability of the company as a going concern.

4. Disposal of hazardous substances:

There are penalties for disposing of hazardous materials in the local stream. The matter is still under investigation at the period end and if found guilty the company will be penalized according to the law. There is a risk that provisions will be understated at the period end because of no provisions or inadequate provision being made in the financial statements.

5. Valuation of inventory:

The nature of the goods dealt in is such that could lose its potency and not be used due to obsolescence. Further, the company will have goods received back from customers in stores for which the net realizable value could be less than the cost. There is an audit risk that inventory may be misstated in view of obsolete stocks and damaged or returned goods with a lower net realizable value to cost but wrongly valued at cost.

6. Secured loan and depreciating local currency:

Difficulties that the company is facing in repaying the loan and may result in the lender enforcing the security against which the loan is secured. This could have implications on the ability of the company as a going concern. Further, the depreciating local currency may adversely affect the liquidity of the company further impacting on its ability to continue as a going concern.

7. Loan performance targets:

The agreement between the lender and the company requires the company should meet agreed upon performance targets. This could motivate management to be biased and use creative accounting in order to make sure it meets the agreed upon targets to avoid the loan being prematurely recalled.

8. Decline of sales revenue:

A decline in revenue could have an adverse impact on the ability of the company as a going concern. The appropriateness of the use of the going concern basis of preparing accounts is subject to the company having the ability to continue as a going concern in the near foreseeable future.

9. Resignation of Finance Director:

The resignation of the Finance Director without a suitable replacement before finalization of the financial statements gives rise to a risk of errors in the financial statements. It is possible that material misstatements could occur in the financial statements prepared in the absence of the Finance Director.

(b) Response to risk assessed as high:

If audit risk is assessed high and above acceptable levels the audit firm should not proceed with the audit unless it can reduce audit risk to acceptable levels.

The only way that the auditor can audit risk is by reducing detection risk which is under the control of the auditor. This can be achieved by the auditor increasing the extent of audit procedures performed and by so doing will reduce detection risk which subsequently leads to a reduction in audit risk.

There is nothing the auditor can do to reduce the other two elements of audit risk namely inherent and controls risks which are management's responsibility.

(c) Ethical issued in the audit of Chinkuli Ltd:

1. Employment with assurance client:

The Audit Senior assigned to lead the audit team on the audit of Chinkuli Ltd. , worked for until a year ago , this iis an ethical matter. This gives rise to familiarity and self-review threats.

Safeguard:

A different person who has no previous connection with Chinkuli Ltd should be appointed to lead the audit team.

2. Long association of the engagement partner:

Chintu has been engagement partner on the audit of Chinkuli Ltd for the past ten years. This creates a familiarity threat which will impact on the objectivity of Chintu.

Safeguard:

The firm should have a policy to rotate senior people on the audit team on a regular basis. Guidance provides that the engagement partner should not remain one for a period exceeding seven years.

Chintu should be replaced by a different partner in order to ensure that objectivity is maintained.

3. 20% shares in a competing company:

The fact that the engagement partner has inherited a 20% interest on a company that is in direct competition with Chinkuli Ltd is an ethical issue that will affect the objectivity of the partner. Chintu will be faced with two conflicting interest giving rise to a conflict of interest which auditors should not have if they have to retail their objectivity.

Safeguard:

Chintu should dispose of the shares in the competing company. Alternatively he should not be assigned this audit as engagement partner because he is unlikely to be objective in carrying out the work.

4. Free accommodation during inventory count:

The offer of free accommodation to the audit team is an ethical matter that gives rise to a self-interest threat. This will impact on the objectivity of the audit team that will travel to Kitwe to witness the inventory count.

Safeguard:

The offer for free accommodation should be declined by the audit team. The audit team should meet its own board and lodging costs.

5. Request for secondment of Audit Senior to Chinkuli Ltd:

The request by the management of Chinkuli Ltd that John who was assigned as Audit Senior should be seconded to Chinkuli Ltd to help to finalize the preparation of the financial statements is an ethical issue that will bring rise to a self-review threat.

Safeguard:

The firm should not assign John to assist with the finalization of the financial statements. Management is responsible for the preparation of the financial statements and the firm could do this as a separate engagement and the people assigned should not be part of the audit team.

SOLUTION TWO

(a) (i) **Procedure in communicating with Bwalya & Associates:**

In communicating with the outgoing auditors, there is need to seek permission from the management of Natasha Ltd to communicate with Bwalya & Associates.

If permission is granted, communication will proceed and will write to Bwalya & company.

(ii) **Procedure in responding to courteous letter:**

Before responding to a letter from the nominated auditors, Bwalya & Associates will require to seek for permission of the management of Natasha Ltd to respond to the letter.

If permission is granted, Bwalya & Associates may go ahead and respond to the letter from the nominated auditors.

(iii) **Action in case of refusal to by management of Natasha Ltd to allow Bwalya & Associates to respond:**

In the event that the management of Natasha Ltd does not give permission to Bwalya & Associates to respond to the courteous letter it means that the incoming auditors will not have received communication from the outgoing auditors.

In this case the action of the nominated auditors is that they should decline the appointment to be auditors of Natasha Ltd.

(i) **Objectives of carrying out risk assessment procedures:**

Risk assessment is carried out at the planning stage of the audit by the statutory auditor.

The objective of the risk assessment work is carried out is for the auditor to identify the risk of material misstatements of the financial statements.

Once the audit risks have been identified the auditor needs to respond appropriately by designing suitable audit procedures to obtain sufficient appropriate audit evidence that the financial statements are not misstated as a result of the risks identified.

Objectives of performing tests of control:

The putting in place of internal controls is the responsibility of a client company management.

In a company where internal controls are operating efficiently, the risk of errors and fraud not being detected is low.

Auditors perform tests of controls in order to obtain evidence about the effectiveness of the internal controls. If the results of the tests of control suggest that the internal controls are operating effectively, the auditor may

place reliance on the effectiveness of the controls and limit the extent of the substantive controls.

Objectives of performing substantive procedures:

Substantive tests are performed by the auditor during the substantive stage of the audit. These are tests carried out to test the assertions contained in the figures in the financial statements.

The objective of performing substantive tests is to obtain sufficient appropriate evidence that the figures in the financial statements are not materially misstated.

The results of substantive tests form the basis for the audit opinion.

(ii) **Methods of obtaining evidence on accounts receivables:**

1. **Inquiry** – This method can be used by the auditor to find out about the credit policy of the company and also the determination of allowances for receivables. The auditor needs to know these for him to design suitable audit procedures.
2. **Confirmation** – this is the third party confirmation of receivables where the auditor will write to the selected receivables to confirm their indebtedness to Piggott Ltd as at the period end.
3. **Recalculation** – This method could be used by the auditor to recalculate for example the amount provided for allowances for receivables according to the policy of the company.
4. **Analytical procedures** – This is the use of comparisons of the receivables between the current year and the previous year and the computation of any ratios on receivables such as debtor's days with a view to use them for audit relevance.

(Less marks for simply listing the methods)

(iii) **Rights and obligations:**

Circularization confirms that the receivables are due to the client entity and has the claims to these receivables.

Cut off:

The results of circularization will help confirm the assertion of cut off as sales were accounted for in the correct accounting period or not.

Valuation:

Accuracy:

Confirmation of receivables will give evidence about the accuracy of the amounts included in the receivables total from those who responded.

Completeness:

Confirmation of receivables will test the assertion of completeness. Among the receivables that are circularized are those with nil balances and if they confirm owing any amount the receivables amount would be corrected.

(iv) **Procedure for circularization of accounts receivables:**

1. From the schedule of accounts provided by Piggott Ltd select a sample of receivables to circularize.
2. The list of selected receivables will be given to Piggott Ltd to write to the receivables using the company letter head requesting the receivables to confirm the balances and respond directly to the auditor.
3. The management of Piggott Ltd should give the completed and signed letters to the auditors who will confirm the details in the letters.
4. The auditor will post the letters to the receivables enclosing a pre-addressed and pre stamped envelope.
5. Follow up of responses not received will be made in liaison with the management of Piggott Ltd.

SOLUTION THREE

- (a) (i) **Distinction between management and auditor experts:**
An expert is anyone who has expertise in a field other than audit and financial accounting.

The distinction between a management and auditor expert is with regards who makes the appointment. An expert appointed by management is a management expert. One appointed by the auditor is referred to as an auditor expert.

- (ii) **Need for seeking services of auditor expert:**
The need for the statutory auditor requiring the use of the work of an auditor expert arises from the fact that the auditor may not possess the expertise required to obtain sufficient appropriate audit evidence is testing assertions contained in the financial statements.

The fact that the auditor does not possess the skills to obtain sufficient appropriate evidence does not remove their responsibility for the conclusion and opinion reached. In this case the auditor may engage an expert to perform the work on their behalf and rely on the work of the expert in concluding in that relevant area.

It is important to observe that the auditor is still responsible for the conclusions and opinion reached notwithstanding the fact that they relied on an expert.

- (iii) **Matters to consider in relying in work of a management expert:**

When considering to rely on the work of the management expert the auditor will consider the following:

- The extent to which the management expert is independent of the client company. This is in order to gain confidence that the management expert was objective when performing their work.
- The qualifications and competences that the management expert possesses in the relevant field of expertise.
- Consideration will be made concerning the membership by the expert to the relevant professional body for the field that they belong.
- Consideration of any similar work the expert will have performed in the past.
- The reasonableness of the assumptions made and used by the expert in doing the work.

- (b) (i) **Meaning of financial statement assertions:**
Financial statements assertions are claims that are made by management in the figures and disclosures contained in the financial statements. There are basically two categories of financial statements assertions as follows:
- Assertions about transactions and related disclosures. These relate to the transactions contained in the profit or loss account of the entity and the related disclosures.

- Assertions about account balances contained in the statement of financial position and the related disclosures.

Relationship between financial statement assertions & audit procedures:

The auditor will design audit procedures to perform with the assertions that is being tested in mind. The audit procedures should be appropriate for testing the assertion being tested.

For example, when testing for existence of tangible assets, the **assertion** being existence, the appropriate audit procedure is that of **inspection** of the relevant tangible non-current asset. Confirming ownership, inspecting the relevant supporting documents will not be appropriate to test for existence.

(ii) **The meaning of provisions:**

A provision is a liability of uncertain timing and amount. It will give rise to an outflow of resources in future and the amount can be estimated reliably. Provisions are recognized in the financial statements.

Audit procedures to audit provisions:

1. Obtain schedule detailing make-up of the provisions from management.
2. Cast the schedule for mathematical accuracy.
3. For a sample of provisions review the details of the provision and confirm that they meet the requirements of IAS 37 *Provisions, contingent liabilities and contingent assets*.
4. Obtain written representations from management to support the provisions made.
5. Review subsequent events that provide evidence of conditions at the period end and assess appropriateness of provision made.
6. Review the provisions made in the previous year and compare with the actual outcome to assess management's ability to make provisions.

(iii) **Meaning of contingent liabilities:**

Contingent liabilities are a possible obligation on the company that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not entirely the responsibility of the entity.

Contingent liabilities are not recognized in the financial statements because it is not probable that there will be an outflow of resources and the amount cannot be measured reliably.

Audit procedures to audit contingent liabilities:

1. Enquire from management and others within the organization on their knowledge of contingent liabilities that may exist.
2. Obtain written representations from management that they have disclosed any contingent liabilities if any or that none exist at the period end.

3. Examine minutes of those charged with governance and any correspondence for evidence of the existence of contingent liabilities.
4. Remain alert during the audit and look out for evidence of the existence of contingent liabilities.
5. In the case of contingent liabilities given by management confirm that they meet the criteria for contingent liabilities and that they do not amount to provisions.
- 6.** Review the draft financial statements and confirm the appropriate disclosures of contingent liabilities in accordance with the applicable standard.

SOLUTION FOUR

(a) Need for audit planning:

- Help the auditor devote appropriate attention to important areas of the audit.
- Help the auditor identify and resolve potential problems on a timely basis.
- Help the auditor properly organize and manage the audit so it is performed in an effective manner.
- Assist in the selection of appropriate team members and assignment of work to them
- Facilitate the direction, supervision and review of work.
- Assist in coordination of work done by auditors of components and experts.

(b) Overall audit strategy and audit plan

Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.

Audit plan converts the audit strategy into a more detailed plan and includes the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

(c) (i) Direct confirmation

Direct confirmation in the audit of the trade accounts payable is the process of obtaining a representation of information or of an existing condition directly from the supplier.

(c) (ii) Use of direct confirmation in the audit of trade accounts payables in Lima Ltd

Direct confirmation is rarely used in the audit of trade accounts payable since third party evidence in the form of suppliers' invoices and statements are normally available. Hence, the auditor can test trade accounts payables by examining suppliers' invoices and statements, provided they are reliable and the supplier is independent.

However, it may be possible to undertake direct confirmation of trade accounts payables in Lima Ltd especially if internal controls are weak, suppliers' statements are not available and/or are unreliable. If Lima Ltd has strong internal controls in place to ensure that all liabilities are recorded, the direct confirmation will focus on large balances.

(c) (iii) Audit procedures

- Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year
- Recalculate the mathematical accuracy of a sample of suppliers' invoices to confirm the amounts are correct
- Obtain selected suppliers' statements and reconcile these to the relevant suppliers' accounts
- Compare current year balances for trade accounts payables with the previous year

- Trace selected samples from the trade accounts payables listing to the supporting documentation (purchase orders, minutes authorizing expenditure, suppliers' invoices e.tc.).
- Compare the payables turnover and payables days with the previous year and industry data.

(d) Main contents of the Report to Management

Report to Management can be sent by external auditors after both the interim and final audits. They set out deficiencies in internal control, the implications of those deficiencies on the business and suggested recommendations.

SOLUTION FIVE

(a) (i) The following are matters that should be considered before forming an opinion;

- Whether sufficient audit evidence has been obtained.
- Whether uncorrected misstatements are material.
- Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgment –this includes considering whether the accounting policies are relevant to the entity, and whether they have been presented in an understandable manner.
- Whether the financial statements adequately disclose significant accounting policies selected and applied.
- Whether the accounting policies made by management are reasonable
- Whether the information in the financial statements is relevant, reliable, comparable and understandable.
- Whether the financial statements provide adequate disclosures to allow users to understand the effects of material transactions and events of the financial statements
- Whether the terminology used in the financial statements is appropriate
- The overall presentation, structure and content of the financial statements
- Whether the financial statements adequately refer to described the applicable financial reporting framework.

(ii) The expectation gap is the difference between the actual and the public perception .It can also be defined as the difference between the apparent public perceptions of the responsibilities of auditors on one hand (and therefore the assurance that their involvement provides) and the legal and professional reality on the other.

Issues leading to expectation gap.

- Misunderstanding of the nature of audited financial statements. This includes that the statements of financial position provides fair valuation of the reporting entity , amount in the financial statements are stated precisely and audited financial statements provide guarantee that the entity will continue to exist.
- Misunderstanding as to the type and extent of work undertaken by auditors. It also includes perceptions that the auditors provide absolute assurance that the figures in the financial statements are correct.
- Misunderstanding about the level of assurance that is provided by auditors in instances when there is an unmodified opinion means that no fraud have occurred in the period.

- (b) (i) The following factors should be considered when using Analytical procedures as substantive audit procedures:
- determine the suitability of particular analytical procedures for a given situation
 - evaluate the reliability of data from which the auditor's expectations of recorded amounts or ratios is developed.
 - develop an expectation of recorded amounts or ratios and evaluate whether this is sufficiently precise to identify a misstatement that may cause the financial statements to be materially missed.
 - determine the amounts of any difference that is acceptable without further investigation.
- (c) **Threat:** The Chartered had previously worked with the engagement partner which will pose a threat to the independence and objectivity of the auditor.
- Safeguard:** The affected auditor should be replaced with another who does not have a connection with the chartered accountant.
- (d) Non –executive directors are directors who do not have day-to-day operational responsibility for the company. They are not employees of the company or affiliated with it in any other way.
- There roles can be as follows:
- (i) They can play a role in nominating directors.
 - (ii) Recommending remuneration of executive directors.
- (e) The following are factors that auditors can use to determine materiality of a misstatement:
- (i) The elements in the financial statements which are assets, liabilities, incomes and expenses.
 - (ii) Whether there are items that users of financial statements in which various stakeholders are interested in to focus on.
 - (iii) Nature of the entity, industry and economic environment.
 - (iv) Entity's ownership structure and financing
 - (v) Relative volatility of benchmark

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND COMPANY LAW

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

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

SECTION A - TWO (2) COMPULSORY QUESTIONS.

Attempt both questions.

QUESTION ONE

Perfect Security Limited is a registered security company with six hundred (600) employees providing security services in Zambia. The company structure has two (2) shareholders, and is governed by a seven (7) member Board of Directors. The Chief Executive Officer (CEO) chairs the Board which comprises the Accountant and five (5) independent, unpaid Non-Executive Directors who were appointed by the CEO based on past business relationships. You are one of the independent members of Perfect Security Board. The CEO and Chairman sets the Board agendas, distributes Board papers in advance of meetings and briefs Board members in relation to each agenda item. At each of its quarterly meetings, the board reviews the financial reports of the company in detail and the Accountant answers questions. Other issues that regularly appear as agenda items include bids for prospective companies, results of submitted proposals, and corporate social responsibility activities. There is rarely any discussion of operational matters relating to the company as the CEO believes these are outside the directors' experience, and the Executive Management team is more than capable of managing the delivery of the services. The Chairman feels that the Company is disclosing a lot of information to the public, which could affect its reputation. The Board has no separate Audit Committee but relies on the Annual Management letter from the external auditors to provide assurance that financial controls are operating effectively. The external auditors were appointed by the CEO many years ago. Perfect Security Board believes that the company's corporate governance could be improved by following the principles applicable to listed companies. One of the concerned shareholders approaches you for legal advice on the legal issues highlighted below.

Required:

- (a) In line with the above scenario, explain Corporate Governance. (5 marks)
- (b) With reference to the scenario above, explain how Corporate Governance affects the basic rights of the shareholders. (15 marks)
- (c) Outline the contents of the Directors' Report. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Black Star Ltd is an incorporated company based in Lusaka. Its business model is provision of financial solutions to civil servants and those in formal employment in private companies, by offering short term loans. It has four (4) external auditors two of whom have their terms of office coming to an end at this year's Annual General Meeting and new auditors and directors will be appointed.

- (a) Other than appointment of auditors. Explain any four (4) other businesses to be discussed at Black Star Ltd's Annual General Meeting. (8 marks)

- (b) The company will have to conduct induction training for the two (2) new Directors. Explain three (3) reasons as to why the two (2) Directors would need induction training. (9 marks)

- (c) State two (2) main legal duties of an auditor in a company like Black Ltd. (2 marks)

- (d) The Chairman of Black Ltd is not happy with a certain part of the auditor's report and has told the auditors to change it, which they have compiled. With the aid of case laws, explain the implications of this move. (6 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Mcpherson Mbundu is a young entrepreneur who has been doing business for the past five (5) years. He is an ambitious young man who has a dream of becoming one of the most prominent businessmen in Zambia. However, he is not conversant with the legal framework governing entrepreneurship. He now approaches you for advise as a corporate lawyer on the various business entities that are prevalent in the country.

Required:

- (i) Advise Mr. Mbundu on the various business entities that a person can possible formed in Zambia. (16 marks)
- (ii) Explain to Mcpherson the meaning of a pre-incorporation contract and its effect on a company which is not fully registered. (9 marks)

[Total: 25 Marks]

QUESTION FOUR

Bbwatu Ltd is a small scale business established some eight (8) years ago. The company's core business is manufacturing of an energy drink from maize grit known locally as (Chibwantu). The company management have undergone a lot of seminars to receive training in a corporate governance to enhance their performance. However, Bbwatu Ltd has not been able to compete very well with their major competitor Maheu PLC whose market for the similar product has been rising.

Bbwatu Ltd has borrowed from a number of creditors which the company has failed to pay and the creditors are considering winding up Bbwatu Ltd. A journalist in an interview asked management as to what was making Maheu PLC to keep doing fine, its Managing Director simply answered, 'strict adherence to corporate governance principles/concepts of *independence and transparency* among others'.

Required:

- (a) Other than being wound up by creditors, explain the other type of voluntary winding up which Bbwatu Ltd can use. (4 marks)

- (b) One of the principles of corporate governance which the Directors of Bbwatu Ltd may have been taught during the seminars they attended were *Accountability* and *Integrity*. Explain these principles. (8 marks)
- (c) Under corporate governance, explain in detail the principles/concepts of *'Independence and Transparency'*. (8 marks)
- (d) In an event that Bbwatu Ltd is winding up, explain the effects of winding up on the transfer of shares or stocks. (5 marks)
- [Total: 25 Marks]**

QUESTION FIVE

Mataulo Tumelo is an accountant and entrepreneurship guru who ventures in any kind of business provided it is legal and can give her some money. One day, she came across a story of a young man who made it big through groundnuts and groundnuts products trading. Mataulo Tumelo thought of selling raw groundnuts, peanut butter, peanut oil, and fried groundnuts under a brand name of '*Nyemu Snacks*'. To easily raise capital she decided to register a company called Mataulo Mbalala Ltd and invited some few ordinary and preference shareholders to invest in the business.

Required:

- (a) Explain to Mataulo the distinction between preference shares and ordinary shares. (10 marks)
- (b) Explain to Mataulo as to whether she will need to issue a prospectus or not when inviting 'some few' shareholders to invest in Mataulo Mbalala Ltd. (9 marks)
- (c) Mataulo wants to be both the executive chairperson of the company and Chief Executive Officer (CEO) to ensure that Nyemu Snacks can be a household name in Zambia. Explain the implications, if any, of her performing the duo roles. (6 marks)
- [Total: 25 Marks]**

END OF PAPER

DA 12: GOVERNANCE AND COMPANY LAW SUGGESTED SOLUTION

SOLUTION ONE

(a) Corporate governance is the system by which organizations are directed and controlled.(Cadbury Report). Corporate governance is the system of laws and sound approaches by which misdeeds of corporate officers (directors) are minimized by focusing on the internal and external structures, with a view of mitigating against the consequences of their risks

(b)Corporate governance affects shareholders in three ways:

(i) Basic voting rights

Shareholders are the owners of the company by contributing capital. This gives them power to alter the legal position of the company at the annual general meeting (AGM) through voting. Through the vote, they are able to dismiss and appoint corporate officers of the company (directors and auditors), share profits, convey and transfer shares. Corporate governance requires that to exercise this right effectively, they must obtain relevant information on a timely and regular basis, such as date, location and agenda of the meeting. They must be informed of rules and voting procedure that governs the meetings

(ii) Participation in decision making

Shareholders must be sufficiently informed and have a right to participate in deciding on corporate changes such as amendment of articles of association and authorization of additional shares. They should be allowed to consult on key issues concerning their rights.

(iii) Equitable treatment of shareholders

Shareholders of the same class must be treated equally. Minority shareholders need protection from abusive actions by controlling shareholders through the Majority Rule and Minority Protection. Board members should declare interest and avoid insider trading.

(Or any other correct rights given).

(c) The following are the contents of the Director's Report:

-The amount paid as dividends and the amount proposed to be taken to Reserves

- The nature of the business of the company or its subsidiaries
- The classes of business in which the company has interest
- The principal business of the company and its subsidiaries
- Any changes in activities during the year
- Particulars of important events that have occurred during the year
- Indications of likely future developments
- Indications of research and development activities (Any five)

SOLUTION TWO

(a) Other than the appointment of auditors, **the other four (4) things** that can be discussed at Mwankole Black Stars Ltd's AGM include:

- Declaration of dividends, if any
- Consideration of the accounts, balance sheets and the reports of the directors
- Election of directors in place of those retiring
- Special business, that is any other business,
- Directors' reports, etc

(b) The three reasons as to why the new directors would need induction training (meant to orient the new directors about the company) are:

- To build an understanding of the nature of the company, its business and its markets on issues such as company culture, products, key performance indicators for the company, etc.
- To build a link with the company's people, such as meetings senior management, employees, internal procedures, other branches, etc
- To build an understanding of the company's main relationships, such as auditors, major customers, major suppliers, major shareholders, etc.

(c) The two main legal duties of auditors are:

- Audit the accounts of a the company
- Report to the members of the company on the accounts laid before the company in general meetings.

(d) Auditors are supposed to work independently and give reports according to their findings. They must not allow themselves to be influenced by the directors or any member of the company. In the case of *Re London and General Bank 1895*, it was held that where directors agree to delete or withdraw an unfavourable finding in their report to please the Chairman or any other person, they are guilty of misfeasance and are liable for any losses arising therefrom. Their duty ends at giving a correct view of the company's balance sheet (statement of financial position). In the case at hand, the auditors of Mwankole Black Star Ltd have breached their duty, their act was wrong.

SOLUTION THREE

(a) **Sole proprietorship:** Sole proprietorships are also known as 'one-man companies'. They include businesses such as retail trading, transport business (especially passenger transport), bottle stalls, barbershops, tailoring shops and farms. Although run commercially, a sole proprietorship is normally conducted on a personal basis. It is usually owned by an individual, who operates it with the assistance of family members. Sole proprietorships are easy to form and they are operated very informally. Sole proprietorships must comply with various laws, including tax laws and licensing legislation and must also comply with the Registration of Business Names Act. The most significant disadvantage of a sole proprietorship is that it has no separate existence from its owner. In the event of failure to pay the debts of the business the owner's personal assets are at risk from creditors, that is there is no limited liability. Similarly, the continuance of the business may be placed in jeopardy when the owner dies. It has no perpetual succession.

Partnership: A partnership is a business organisation that is owned and managed by two or more partners that normally share profits and losses equally. Just like sole proprietorship, partnerships are fairly informal and there is no separation of partners from the business (although certain types of partnership allow limited liability). Almost any type of business can be run as a partnership. Zambian law recognizes unincorporated business associations called partnerships. The law governing partnerships in Zambia is the English Partnership Act of 1890. It applies in Zambia by virtue of the English Law (Extent of Application) Act Chapter 11 of the Laws of Zambia. The statutory law on partnerships in the Act is supplemented by judicial decisions and general common law principles. Although it is possible to form a limited partnership in terms of the Limited Partnerships Act of 1907, in practice no such partnerships exist in Zambia. When the limitation of liability is desired, it is preferable for the association to be formed as a limited company under the Companies Act.

Limited company: There is no strict or technical definition of the word 'company'. It may be defined as an association of persons with a common purpose. In *Tennant v Stanley* 1906 Buckley J defined the word 'company' as follows: 'The word company has no strict technical meaning. It involves two ideas namely, first that the association is of persons so numerous as not to be aptly described as a firm and secondly that the consent of all the other members is not required for the transfer of a member's interest.' A company is deemed to come into existence when it is registered under the Act that is when its name is entered into the Companies' register meant for the purpose under the Act and the Registrar of Companies issues a Certificate of Incorporation to it. This certificate is in a prescribed form and states that the company is on, and from the date specified in the certificate, incorporated.

- **Public companies** a public company is always a limited company.
- **Private companies**, which can be: – **Limited by shares** – **Limited by guarantee** – **Unlimited companies**. A limited company is one where the liability of the members is limited. The members are liable to a limited amount. Beyond that limit they cannot be called upon to contribute to the liabilities of the company. Therefore, assuming that

in the event of winding up of a company the assets are not sufficient to pay the liabilities, then the private property of the shareholders cannot be attached or forfeited to pay the company's liabilities. A private company limited by shares or by guarantee is obliged under the Companies Act to include the word 'limited' in its name, while a public limited company must have 'Plc' at the end of its name. Unlimited company- An unlimited company is a company having no limit at all on the liability of its members who are personally liable for the company's debts and liabilities. If, when winding up, the assets are not sufficient to discharge the liabilities then the personal property of the members can be attacked for the purpose of settling the company's obligations. However, there is still privity of contract and separate legal identity. Creditors cannot go after the property of members during the normal business of the company. It is obvious that an unlimited company can never be a public company.

- (b) A pre-incorporation contract is a contract entered into before a company is duly registered. It has no effect on a company which is not yet registered unless the promoter leaves the contract as a draft until the company is formed or if it is to be finalized before incorporation it must contain a clause that personal liability of promoters is to cease if the company, when formed, enters a new contract on identical terms.

SOLUTION FOUR

(a) Other than Creditor's Voluntary winding up, the company can use **Members' Voluntary Winding Up**. This is where the shareholders of a company pass a resolution to wind up the company and appoint a liquidator. To do this, directors of the company will need to make a declaration of solvency confirming that the company will be able to pay all its debts.

(b) The two principles are:

- *Accountability*: - This means an organisation and its directors are answerable in some way for the consequences of their actions. Thus they must act in a manner that will not endanger other stakeholders such as members of the general public, shareholders, environment, employees, and so on. They must take into account the consequences of their actions.
- *Integrity*: - This means straightforward dealing and completeness. It is a high moral character of doing the right thing all the time without being involved in crookedness and being honest all the time. It means directors need to be honest in their financial reports or any other report reflecting a true and fair status of the business.

(c) What he meant in his answer to the the journalist was:

- *Transparency*: - Means being open and clear disclosure of relevant information to shareholders and other stakeholders. It also means not concealing information when it may affect decisions of the company. The company should have a policy of voluntary disclosure.
- *Independence*: - Means that management must act independently, they must not be captured or influenced by others. To adhere to this, companies must have independent non – executive to provide checks and balances.

(d) The effects of winding up on the transfer of the shares or stocks is that there is no transfer of shares or stocks allowed, except made to or with the sanction of the liquidator, or any alteration in the status of the members of the company taking place after the passing of the resolution to winding up are void.

SOLUTION FIVE

(a) The distinction between Preference shares and ordinary shares is that:

Preference shares have the right to payment of a fixed dividend and receive their dividend before any other type of shareholders receives theirs. They have no right to share in the remainder of the profits once they receive their fixed payment of dividend, and do not have voting rights at annual general meetings.

Whilst **Ordinary Shares** receive their dividends after the preference shares and in case of winding up, they receive their repayment of capital after preference shares. They do not have a fixed rate of dividend, it fluctuates according to the available money and they have voting rights at annual general meetings. Ordinary shareholders therefore control the company.

(b) A *prospectus* is an invitation by a company to the public, offering them the opportunity to subscribe or purchase shares or debentures of the company. A company that is inviting about 15 or fewer people, or made to 50 or fewer persons or shareholders, debenture holders or employees does not need to issue a prospectus.

In the case at hand, Mataulo Mbalala Ltd does not need to issue a prospectus as the number of shareholders she wants to invite are 'some few' individuals. Unless the number is above 15 or if to the existing shareholder, employees or debentureholders it must not exceed 50. In her case, she does not to issue a prospectus as the number of new shareholders she wants to invite are 'few'.

(c) The implications of Mataulo being both the executive chairperson chief executive officer that 'she carries the vision of the company most likely it will succeed. He will be answerable to no one and will make decisions without wasting time. However, this is not encouraged as she will have unfettered power over the company which will have negative impact on its performance. There will be conflict of interest, the roles are too involving, she may not be accountable to anyone, which in the end may have negative implications on the company. Thus to avoid these shortfalls, Mataulo must not perform duo roles

END OF SOLUTIONS