



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 13 DECEMBER 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 Making an allowance for Receivables is an example of which concept

- A. Going concern
- B. Fair presentation
- C. Accruals
- D. Materiality

(2 marks)

1.2 What is the double entry to record a credit sale of K200?

- A. Debit sales K250, Credit receivables K200.
- B. Debit cash K200, Credit sales K200
- C. Debit Trade receivables K200, Credit sales K200
- D. Debit sales K200, Credit cash K200

(2 marks)

1.3 Aka, a sole trader has the following opening balances in his ledger accounts:

	K
Fixtures	10,000
Trade receivables	4,000
Cash in Hand	2,000
Bank overdraft	4,000
8% loan notes	3,000

What is the capital figure?

- A. K9,000
- B. K12,000
- C. K20,000
- D. K16,000

(2 marks)

- 1.4 In a period, sales are K280,000, Purchases K150,000, other expenses K50,000 and Drawings are K30,000. What is the figure for net profit for the year to be transferred to the capital account?

A. K130,000
 B. K80,000
 C. K50,000
 D. K30,000

(2 marks)

- 1.5 A company's motor vehicles at cost account at 30 June 2019 is as follows:

<u>Motor Vehicles at Cost Account</u>					
		K			K
Balance	b/d	71,600	Disposal		24,000
Additions		<u>25,900</u>	Balance	c/d	<u>73,500</u>
		<u>97,500</u>			<u>97,500</u>

What opening balance should be included in the following periods trial balance for motor vehicles – Cost at 1 July 2019?

A. K73,500 DR
 B. K97,500 DR
 C. K73,500 CR
 D. K97,500 CR

(2 marks)

- 1.6 An item of inventory was purchased for K150. However, due to a fall in demand, its selling price will be only K120. In addition, further costs will be incurred prior to sale of K15. What is the value of this inventory item in closing inventory?

A. K105
 B. K120
 C. K150
 D. K135

(2 marks)

- 1.7 A non-current asset with a cost of K20 000 and accumulated Depreciation of K15,000 is disposed at K7,000. Which of the following will the statement of profit or loss include?

A. A loss on disposal of K2,000
 B. A profit on disposal of K2,000
 C. A profit on disposal of K7,000
 D. A loss on disposal of K7,000

(2 marks)

- 1.8 A company values its inventory using the First-In-First-Out (FIFO) method. At 1 January 2020 the company had 800 units inventory valued at K6,000.

During the year ended 31 December 2020, the following took place:

1 February	Purchased	500 units to K8.00 each
1 May	Sold	600 units
1 August	Purchased	450 units at K6.9 each
15 November	Sold	600 units

What is the value of the company's closing inventory at 31 December 2020?

- A. K3,105
- B. K4,400
- C. K4,125
- D. K3,905

(2 marks)

- 1.9 A company receives rent from a large number of properties. The total received in the year ended 31 December was K120,300.

The following were the amounts of rent in advance and in arrears at 1 January 2020 and 31 December 2020:

	1 January 2020	31 December 2020
	K	K
Rent received in advance	7,175	7,800
Rent in arrears	5,300	4,600

What amount of rental income should appear in the company's statement of profit or loss for the year ended 31 December 2020?

- A. K115,225
- B. K118,975
- C. K121,625
- D. K125,375

(2 marks)

- 1.10 A suspense account was opened when a trial balance failed to agree. The following errors were later discovered.

- (i) An electricity bill of K840 had been recorded in the expense account as K480.
- (ii) A sales invoice to a customer for K100 had been credited to trade Receivables Control Account.
- (iii) Interest received of K140 had been entered in the bank account only.

What was the original balance on the Suspense Account?

- A. K420 Dr
- B. K420 Cr
- C. K320 Dr
- D. K320 Cr

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

The following trial balance has been extracted from the books of Mana Plc at 31 December 2020:

	K'	K'
Ordinary shares of K1 each		100,000
Share premium		2,000
5% loan		32,000
Land at cost	68,800	
Buildings at cost	76,000	
Accumulated Depreciation on buildings at 1 January 2020		12,000
Plant at cost	44,000	
Accumulated Depreciation on Plant at 1 January 2020		20,000
Revenue		162,784
Purchases	87,712	
Bank		12,000
Retained Earnings at 1 January 2020		4,000
Allowance for receivables		1,632
Cash in hand	464	
Inventories at 1 January 2020	28,496	
Administration expenses	7,672	
Selling and distribution	19,792	
Trade payables		12,600
Trade Receivables	25,280	
Loan interest	<u>800</u>	
	<u>359,016</u>	<u>359,016</u>

Additional Information

- (i) Inventory on hand at 31 December 2020 was K31,092
- (ii) Selling and Distribution costs owing is K360
- (iii) Allowance for receivables is to be adjusted to 5% of trade receivables.
- (iv) Depreciation is to be provided at 10% on cost of Buildings, and at 20% on the written down value of Plant. All depreciation must be charged to cost of sales.
- (v) Provision for income tax of K12, 800 is to be made.

You are required to prepare the following:

- (a) Statement of Profit and Loss for the year ended 31 December 2020 for Mana Plc. (9 marks)
- (b) Statement of Financial Position as at 31 December 2020 for Mana Plc. (11 marks)

[Total: 20 Marks]

QUESTION THREE

The DCM Tennis club was formed on 1 January 2019 and has the following receipts and payments account for the 6 months ended 30 June 2019:

	K		K
Receipts:		Payments:	
Annual Subscriptions	37,800	Purchase of equipment	12,240
Tournament fees	1,395	Wages	13,560
Bank interest	129	Rent and rates	1,908
Sale of club ties	1,119	Heating and lighting	2,022
Life membership fees	12,600	Postage and stationery	123
		Court maintenance	3,000
		Tournament prizes	396
		Purchases of club ties	1,350
		Balance c/d	<u>18,444</u>
	<u>53,043</u>		<u>53,043</u>

Additional Information:

- (i) The annual subscription fee is K900 per member. On 30 June there were still five members who had not paid their annual subscription, but this money was received on 5 July 2019.
- (ii) The equipment was purchased on 1 January 2019 and is expected to be used by the club for five (5) years, after which time it will need to be replaced. It's estimated scrap value at that time is K150.
- (iii) During the 6 months, the club purchased 100 ties printed with it's own design. Forty of these ties remained unsold at 30 June 2019.
- (iv) The club had paid business rates in advance on 30 June 2019 of K204.
- (v) The club Treasurer estimates that the following amounts should be accrued for expenses:

	K
Wages	120
Postage and stationery	36
Heating and lighting	159

- (vi) The life membership fees received relates to payments made by four (4) families. The scheme allows families to pay K3,150 which entitles them to membership for life without further payment it has been agreed that such receipts would be credited to income and expenditure in equal instalments over ten (10) years.

Required:

(a) Prepare the clubs income and expenditure account for the six (6) months ended 30 June 2019. (12 marks)

(b) Prepare the club's statement of Financial position as at 30 June 2019. (8 marks)

[Total 20 Marks]

QUESTION FOUR

Davis has completed his financial statements for the year ended 31 December 2020, which showed a profit of K406,040, when he discovered that no bank reconciliation statement had been prepared for that date.

When checking the cash book against the bank statement and carrying out other checks, he found the following:

1. A cheque payment for K5,000 had been entered in the cash book but had not yet been presented.
2. Cheques from customers totaling K14,450 entered in the cash book on 31 December 2020 were only credited by the bank on 2 January 2021.
3. Bank charges of K1,600 appear in the bank statement on 31 December 2020 but have not been recorded by Davis.
4. A cheque for K64,500 drawn by Davis to pay for a new item of Plant had been mistakenly entered in the cash book and plant asset account as K14,500. Depreciation of K1,450 had been charged in the statement of Profit or loss account for this plant.
5. A cheque for K4,900 from a credit customer paid on 26 December 2020 was dishonoured after 31 December 2020 and Davis decided that the debt should to be written off as the customer was now untraceable.
6. A cheque for K12,000 in payment for some motor repairs had been mistakenly entered in the cash book as a debit and posted to the credit of motor vehicles account. Depreciation at 25% per annum (straight line) is charged on motor vehicles with a full year's charge calculated on the balance at the end of each year.
7. Davis had instructed his bank to credit the interest of K800 on the deposit account maintained for surplus business funds to the current account. This the bank had done on 28 December 2020. Davis had made an entry on the payment side of the cash book for this K800 and had posted it to the debit of interest payable account.
8. Davis had mistakenly paid and accounted for K4,350 for repairs to his own house with a cheque drawn on the business account. The entry in the cash book had been debited to repairs on the premises account.

9. Davis had also mistakenly paid K2,700 to Phiri, a trade supplier, to clear his balance in the purchase ledger, using a cheque drawn on Davis' personal bank account. No entries have yet been made for this transaction.

The cash book showed a debit balance of K24,450 before any correcting entries had been made. The balance on the bank statement is to be derived from your answer.

Required:

- (a) Prepare an adjusted cash book showing the revised balance which should appear in Davis' statement of financial position at 31 December 2020. (8 marks)
- (b) Prepare a bank reconciliation statement as at 31 December 2020. (4 marks)
- (c) Draw up a statement showing the effect on his profit of the adjustments necessary to correct the errors found. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

Banda and Daka are the owners of BD Printers, Partnership business that sells Printers.

You are employed as an accounting technician at BD Printers. One of your tasks is the preparation of the final accounts for BD Printers.

Banda and Daka share the profits or losses of the Partnership equally. The Financial year end is 31 December 2020.

	Dr K	Cr K
Administration Expenses	140,800	
Bank	52,660	
Capital Accounts – Banda		80,000
– Daka		80,000
Current Accounts – Banda	60,200	
– Daka	41,400	
Cash in hand	240	
Depreciation charge for the year	21,000	
Inventory on 1 January 2020	38,000	
Allowance for Irrecoverable receivables		1,000
Purchases	317,000	
Trade Payables		50,000
Trade Receivables	61,400	
Rent	22,000	
Sales		718,000
Selling and Distribution expenses	111,300	
Motor vehicles at cost	112,000	

Accumulated Depreciation	<u> </u>	<u>49,000</u>
	<u>978,000</u>	<u>978,000</u>

Additional Information

- (i) Closing Inventory at 31 December 2020 was K48,000
- (ii) Administration Expenses for K3,000 need to be accrued.
- (iii) A cheque for K100 paid from the bank for office cash had been debited to selling expenses. The credit entry is correct.
- (iv) The allowance for receivables needs to be increased to K1,600
- (vi) Included in motor vehicles at cost is a vehicle that has been disposed off during the year.
 - The original cost of the vehicle was K24,000
 - The accumulated depreciation on the vehicles was K10,500.
 - The vehicle was sold for K10,000. This amount was credited to sales account and debited to the Bank Account. Make all the necessary adjustments to deal with disposal. You do not need to adjust the depreciation charge for the year.

You are required to Prepare the following:

- (a) Statement of Profit or Loss Account for BD Printers for the year ended 31 December 2020. (8 marks)
- (d) Statements of Financial position for BD Printers as at 31 December 2020. (12 marks)

[Total: 20 Marks]

QUESTION SIX

The following relates to Singoma's departmental Stores:

	01 July 2018		30 June 2019
	K	K	K
<u>Inventory:</u>			
Carpet department	80,000		95,000
White goods department	190,000		175,000
Music department	160,000		220,000
<u>Sales for the year:</u>			
Carpet department		310,000	
White goods department		700,000	
Music department		550,000	
<u>Purchases for the year:</u>			
Carpet department		240,000	
White goods department		560,000	
Music department		290,000	

Required:

- (a) Prepare for Singoma, a Departmental Trading account as at 30 June 2019.
(15 marks)
- (e) What are the stated objectives of the International Accounting Standards Board?
(5 marks)

[Total: 20 Marks]

END OF PAPER

DA1 FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

Workings

wk 1. Depreciation Expenses

Buildings 10% x 76 000	= 7 600
Plant 20% x (44 000 – 20 000)	= 4 800
	<u>12 400</u>

wk 2. Cost of Sales

Opening Inventory	= 28 496
Purchases	= <u>87 712</u>
	116 208
Less closing inventory	<u>(31 092)</u>
	85 116
Add Depreciation	<u>12 400</u>
	<u>97 516</u>

wk 3. Finance Cost

Debenture interest 5% x 320 000 = 1 600 (paid 800 owing 800)

wk 4. Allowance for irrecoverables

Existing	1 632
Required (5% x 25 280)	<u>1 264</u>
Decrease in allowance	<u>368</u>

wk 5. Non-current Assets

	Cost	Accum'd Depn	NBV
	K'	K'	K'
Land	68 800	-	68 800
Buildings	76 000	19 600	56 400
Plant	44 000	24 800	<u>19 200</u>
			<u>144 400</u>

(a) Mana Ltd's
Statement of profit or loss for the year ended 31 December 2020

	K'	K'
Revenue		162 784
Cost of sales (wk2)		(97 516)
Gross profit		65 268
Decrease in allowance for irrecoverable (wk4)		<u>368</u>
		65 636
Administration expenses	7 672	
Selling and distribution (19 792 + 360)	<u>20 152</u>	(27 824)
Operating profit		37 812
Finance cost (wk3)		(1 600)
Profit before tax		36 212
Income tax		(12 800)
Profit for the year		<u>23 412</u>

(b) Mana Ltd's
Statement of Financial position as at 31 December 2020

	K'	K'
<u>Non-current Assets</u>		
Land	68 800	
Buildings (wk5)	56 400	
Plant (wk5)	<u>19 200</u>	<u>144 400</u>
<u>Current Assets</u>		
Inventory	31 092	
Trade Receivables (25 280 – 1 264)	24 016	
Cash	<u>464</u>	<u>55 572</u>
Total Assets		<u>199 972</u>
<u>Equity and Liabilities</u>		
Ordinary shares of K1 each	100 000	
Share premium	2 000	
Retained earnings (4 000 + 23 412)	<u>27 412</u>	129 412
<u>Non-current Liability</u>		
5% Debenture loan stock		32 000
<u>Current Liabilities</u>		
Trade payables	12 600	
Bank overdraft	12 000	
Income tax	12 800	
Accrued selling and distribution expenses	360	
Debenture interest owing	800	<u>38 560</u>
		<u>199 972</u>

SOLUTION THREE

DCM Tennis club

Income and Expenditure accounts for the six months ended 30 June 2019.

	K	K
Income:		
Subscriptions (w1)		21,150
Net income from tournaments (1,395 – 396)		999
Bank interest received		129
Net income from sale of club ties (w2)		309
Life membership fees (w3)		<u>630</u>
		23,217
Expenditure:		
Depreciation of equipment (w4)	1,209	
Wages (13,560 + 120)	13,680	
Rent and business rates (1,908 – 204)	1,704	
Heat and lighting (2,022 + 159)	2,181	
Postage and stationery (123 + 36)	159	
Court maintenance	<u>3,000</u>	
		<u>21,933</u>
		<u>1,284</u>

DCM Tennis club

Statement of financial position as at 30 June 2019

	K	K
Assets:		
Non-current assets:		
Equipment at cost	12,240	
Depreciation	<u>1,209</u>	
		11,031
Current Assets:		
Inventory of ties (w2)	540	
Prepaid business rates	204	
Subscription owing (w1)	2,250	
Bank	<u>18,444</u>	
		<u>21,438</u>
Total assets		<u>32,469</u>
Liabilities and funds		
Funds:		
Accumulated funds	1,284	
Life membership fund (12,600 – 630)	<u>11,970</u>	
		13,254
Current liabilities:		
Subscriptions in advance	18,900	
Accrual expenses	<u>315</u>	

	<u>19,215</u>
Total liabilities and funds	<u>32,469</u>

Workings

1.		K
	Subscriptions income	
	Subscription for six months($37800/2$)	18,900
	Plus subscription outstanding ($5 \times K450$)	<u>2,250</u>
		<u>21,150</u>
2.		K
	Sale of club ties	1,119
	Purchase of ties	1,350
	Less closing inventory ($40/100 \times 1,350$)	(540)
		<u>(810)</u>
	Net income from ties	<u>309</u>
3.		K
	Life membership fees	
	Fees received ($4 \times 3,150$)	12,600
	One year instalment ($\div 10$)	1,260
	\therefore income for 6 months	630
4.		K
	Depreciation	
	Purchase cost of equipment	12,240
	Estimated scrap value	<u>(150)</u>
		<u>12,090</u>
	Annual depreciation ($12090/5$ Years)	2,418
	Charge for six months($2418/2$)	1,209

SOLUTION FOUR

		<u>Adjusted Cash Book</u>			
		K'		K'	
	Balance b/f	24 450	3	Bank charges	1 600
7	Interest receivables(800*2)	1 600	4	Plant (64 500 – 14 500)	50 000
	Adjusted balance	54 450	5	Irrecoverable receivables	4 900
			6	- Motor repairs	12 000
				- Motor vehicles	<u>12 000</u>
		<u>80 500</u>			<u>80 500</u>

		<u>Bank Reconciliation Statement</u>	
		K'	
Adjusted cash book balance (O/D)		(54 450)	
Add: Dishonored cheque w/off		4 900	
Unpresented cheques		5 000	
Less: uncleared cheque (2)		<u>(14 450)</u>	
Balance as per Bank statement		<u>59 000</u>	

		<u>Net Profit Adjustment Statement</u>	
		K'	K'
Original Profit figure			406 040
Add: 1 Deposit Interest		1 600	
Private home repairs to drawings		<u>4 350</u>	<u>5 950</u>
			411 990
Less: Bank charges		1 600	
Additional Depreciation (10% x 50 000)		5 000	
Motor repairs Depreciation (25% x 12 000)		3 000	
Motor repairs		12 000	
Irrecoverable receivables		<u>4 900</u>	<u>(26 500)</u>
Adjusted Net Profit			<u>385 490</u>

SOLUTION FIVE

(a) BD Printers'

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

	K	K
Sales (718 000 – 10 000)		708 000
Opening inventory	38 000	
Purchases	<u>317 000</u>	
	355 000	
Less closing inventory	(48 000)	<u>(307 000)</u>
Gross profit		401 000
Less Expenses:		
Loss on disposal (working 1)	3 500	
Depreciation charge	21 000	
Increase in Allowance for irrecoverable	600	
Rent	22 000	
Administration expenses (140 800 + 3 000)	143 800	
Selling expenses (111 300 – 100)	<u>111 200</u>	<u>302 100</u>
Profit for the year		<u>98 900</u>

Workings

- (i) Loss on Disposal = cost – (Accum'd Depn + Proceeds)
= 24 000 – (10 500 + 10 000)
= K3 500
- (ii) Accumulated depreciation = 49 000 – 10 500
= K38 500
- (iii) Share of Residual Profit – Banda $\frac{1}{2} \times 98\,900 = K49\,450$
Daka $\frac{1}{2} \times 98\,900 = K49\,450$
- (iv) Current Account balances:
Banda $49\,450 - 60\,200 = (10\,750)$
Daka $49\,450 - 41\,400 = \underline{8\,050}$
(2 700)

(b) BD Printers'

Statement of Financial Position as at 31 December 2020

	K	K
<u>Non-current Asset</u>		
Motor vehicles (112 000 – (24 000 + 38 500)) ^{Wk2}		49 500
<u>Current Assets</u>		
Inventory	48 000	
Trade Receivables (61 400 – 1 600)	59 800	
Bank	52 660	

Cash in hand (240 + 100)	<u>340</u>	<u>160 800</u>
		<u>210 300</u>
<u>Financed By</u>		
Capital Accounts – Banda Daka	80 000 <u>80 000</u>	160 000
	(10 750)	
Current Accounts (Wk iv) – Banda Daka	<u>8 050</u>	(2 700)
<u>Current Liabilities</u>		
Trade payables	50 000	
Accrued selling expenses	<u>3 000</u>	<u>53 000</u>
		<u>210 300</u>

SOLUTION SIX

(a) Singoma's Department Stores

Department Trading Account for the year ending 30 June 2019

Departments	Carpet		White Goods		Music	
	K	K	K	K	K	K
Sales		310 000		700 000		550 000
Less: cost of goods sold:						
Opening inventory	80 000		190 000		160 000	
Add. Purchases	<u>240 000</u>		<u>560 000</u>		<u>290 000</u>	
	320 000		750 000		450 000	
Less: closing inventory	<u>(95 000)</u>		<u>(175 000)</u>		<u>(220 000)</u>	
		<u>225 000</u>		<u>575 000</u>		<u>230 000</u>
		<u>000</u>		<u>000</u>		<u>000</u>
Gross profit		<u>85 000</u>		<u>125 000</u>		<u>320 000</u>
				<u>000</u>		<u>000</u>

- (b) (i) To promote the use and rigorous application of standards.
- (ii) To bring about convergence of national accounting standards and international Financial reporting standards to high quality solutions.
- (iii) To develop in the public interest, a single set of high quality, understandable and Enforceable global Accounting Standards

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 15 DECEMBER 2021

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

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SECTION A – (Compulsory)

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QUESTION ONE

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- 1.1 In the two units of a company, the employees in unit one are 600 and monthly salary is K2,500, the employees in unit two are 750 and the monthly salary is K3,500 then the combined arithmetic mean is:

A. K4,444.44
B. K3,000.00
C. K3,500.00
D. K3,055.56

(2 marks)

- 1.2 If $P(A \cap B) = 0.75$ and $P(B) = 0.95$, then $P(A|B)$ is equal to:

A. $\frac{1}{3}$
B. $\frac{19}{20}$
C. $\frac{15}{19}$
D. $\frac{2}{3}$

(2 marks)

- 1.3 Correlation indicates relationship between two variables. There are various methods of measuring correlation. The table below is for four students who sat for tests in Physics and Chemistry with their results shown:

PHYSICS	50	80	60	70
CHEMISTRY	60	70	80	50

The rank correlation coefficient is:

A. 0.2
B. 0.8
C. 0
D. -0.2

(2 marks)

- 1.4 The production values vary periodically. The principle that can explain this trend is:

A. Moving average
B. Geometric series
C. Time series
D. Forecasting process

(2 marks)

- 1.5 When comparing an annuity due with an ordinary annuity with the same payment and duration, the annuity due will always have a..... present value and will always have a future value.
- A. higher, higher
 - B. higher, lower
 - C. lower, higher
 - D. lower, lower
- (2 marks)
- 1.6 The first step in formulating a linear programming problem is:
- A. Identify any upper or lower bound on the decision variables.
 - B. Identify decision variables
 - C. Understand the problem
 - D. State the constraints as linear combinations of the decision variables
- (2 marks)
- 1.7 A 5 – year ordinary annuity has a present value of K2 000. If the interest rate is 6.5%, the amount of each annuity is closest to which of the following:
- A. K274.02
 - B. K2,740.20
 - C. K481.27
 - D. K4,812.70
- (2 marks)
- 1.8 What does the term (outlier) mean?
- A. A score that is left out of the analysis because of missing data.
 - B. A type of variable that cannot be quantified.
 - C. The arithmetic mean
 - D. An extreme value at either end of a distribution.
- (2 marks)
- 1.9 The mean of six (6) numbers 2, 3, 5, 6, 8, 9 is 5.5. Calculate the standard deviation.
- A. 3.02
 - B. 3.76
 - C. 2.50
 - D. 2.74
- (2 marks)

1.10 Probability distribution consists of variables with their respective probability values. The probability value calculated using both mean and standard deviation is:

- A. Poisson probability
- B. Simple probability.
- C. Binomial probability.
- D. Normal probability.

(2 marks)

[Total: 20 Marks]

SECTION B

Attempt any **FOUR (4)** questions in this section.

QUESTION TWO

(a) A Dentist schedules all her patients for 30 minutes appointments. Some of the patients take more or less than 30 minutes depending on the type of dental work, their probabilities and the time needed to complete the work.

Category	Time Required (Minutes)	Probability of Category
Filling	45	0.40
Crown	60	0.15
Cleaning	15	0.15
Extraction	45	0.10
Checkup	15	0.20

Required:

Simulate the Dentist's clinic for four (4) hours and determine the average waiting time for the patients as well as the idleness of the Doctor. Assume that all the patients show up at the clinic at exactly their scheduled arrival times, starting at 08:00 hours.

Use the following random numbers for handling the above problem:

40, 82, 11, 34, 25, 66, 17 and 79

(8 marks)

(b) Mr. Sianga is a gambler at a horse race. He is considering placing a bet on a specific horse. There are four possible alternatives and four states of nature with the following payoffs:

Strategies	States of Nature			
	A wins	B wins	C wins	All lose
Bet A	7	-2	-2	-2
Bet B	3	3	-2	-2
Bet C	2	2	2	-2
Do not bet	0	0	0	0

Required:

(i) What is the maximum strategy? (2 marks)

(ii) What strategy should be selected as per Hurwicz criterion with $\alpha = 0.5$?

(2 marks)

- (iii) What is the best strategy by Savage criterion? (2 marks)
 (iv) What is the best strategy by Laplace criterion? (2 marks)

(c) Define the following terms as used in time series analysis.

- (i) Secular trend (1 mark)
 (ii) Seasonal variations (1 mark)
 (iii) Cyclical variations (1 mark)
 (iv) Irregular variations (1 mark)

[Total: 20 Marks]

QUESTION THREE

- (a) There is a screening test for prostate cancer that looks at the level of PSA (Prostate – Specific antigen) in the blood. There are number of reasons besides prostate cancer that a man can have elevated PSA levels. In addition, many types of prostate cancer develop so slowly that they are never a problem. Unfortunately, there is currently no test to distinguish the different types and using the test is controversial because it is hard to quantify the accuracy rates and the harm done by false positives.

For this problem we'll call a positive test a true positive if it catches a dangerous type of prostate cancer. We'll assume the following numbers:

Rate of prostate cancer among men over 50 = 0.002

True positive rate for the test = 0.95

False positive rate for the test = 0.03

Let T be the event a man has a positive test and let D be the event a man has a dangerous type of the disease.

Required:

Find

- (i) $P(D|T)$ (4 marks)
 (ii) $P(D|T^c)$ (4 marks)

- (b) A second car dealer has ten (10) cars for sale. She decides to investigate the link between the age of the cars, x years, and the distance, y thousand kilometers. The data collected from the cars are shown in the table below:

Age, x years	3	3.5	4	5	5.5	5.5	6	4	7	7.5
Distance, y (thousand)	23	35	34	38	41	46	50	31	59	59

You may assume that $\sum x = 51$, $\sum y = 416$, $\sum x^2 = 280$, $\sum xy = 2275.5$

Required:

- (i) Find S_{xx} and S_{xy} (2 marks)

$$\text{Where } S_{xx} = \sum x^2 - \frac{(\sum x)^2}{n}, S_{xy} = \sum xy - \frac{\sum x \sum y}{n}$$

- (ii) Find the equation of the least square regression line in the form $y = a + bx$. (6 marks)
- (iii) Give a practical interpretation of the slope b . (2 marks)
- (iv) Using your answer to part (b), find the distance predicted by the regression line for a seven (7) -year-old car. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The Mulenga family buys a house for K250,000 with a down payment of K50,000. They take out a 30 – year mortgage for K200,000 at an annual interest rate of 12.5%.

Required:

- (i) Find the amount of the monthly payment needed to amortize this loan. (5 marks)
- (ii) Find the amount of interest paid when the loan is amortized over 30 years. (2 marks)
- (iii) Find the part of the first payment that is interest and the part that is applied to reducing the debt. (4 marks)

- (b) In a large restaurant an average of 4 out of every 5 customers ask for water with their meal. A random sample of twelve customers is selected.

Required:

Find the probability that:

- (i) Exactly eight (8) ask for water with their meal (3 marks)
- (ii) At most eleven (11) ask for water with their meal (3 marks)
- (iii) At least one will ask for water with their meal (3 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) A study of drug offenders who have been treated for drug abuse suggests that the likelihood of conviction within a two (2)-year period after treatment may depend on the offender's education. The proportions of the total number of cases that fall into four education/conviction categories are shown in the table below.

Education	Convicted	Not Convicted	Total
10 years or more	0.10	0.30	0.40
9 years or less	0.27	0.33	0.60
Total	0.37	0.63	1.00

Suppose a single offender is selected from the treatment program. Here are the events of interest:

A: The offender has ten (10) or more years of education

B: The offender is convicted within two (2) years after completion of treatment

Required:

Find the appropriate probabilities for these events:

- (i) $P(A')$ (1 marks)
- (ii) $P(A \cup B)$ (2 marks)
- (iii) $P(A \cup B)'$ (2 marks)
- (iv) $P(A|B)$ (2 marks)

(b) Sweets are packed into bags with a nominal mass of 75g. Ten (10) bags are picked at random from the production line and weighed. Their masses in grams are:

76, 74.2, 75.1, 73.7, 72, 74.3, 75.4, 74, 73.1, 72.8

Required:

- (i) Find the mean mass and the standard deviation. (5 marks)
- (ii) It was later discovered that the scales were reading 3.2g below the correct weight. What was the correct mean mass and the correct standard deviation? (6 marks)
- (iii) Compare your answer to (a) and (b) and comment. (2 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Donava company production figures during 1988 and 1989 are shown in the table below:

YEAR	QUARTER			
	1	2	3	4
1988	50	60	40	80
1989	40	70	50	60

Required:

Calculate four quarter moving average trend values. (10 marks)

(b) The average weight of bags of maize is 55kg with standard deviation of 4kg. Weights are normally distributed.

Required:

Calculate the probability of a bag with weight more than 50.64 kg (5 marks)

(c) The Payoff table of selling items; shirts, trouser and skipper including selling Points; 1, 2 and 3 are given below:

		SELLING POINTS		
		1	2	3
ITEMS	SHIRT	500	600	700
	TROUSER	800	1000	900
	SKIPPER	1200	600	1000

Required:

Determine the Maximini item. (5 marks)

[Total: 20 Marks]

END OF PAPER

DA2: QUANTITATIVE ANALYSIS SUGGESTED SOLUTION

SOLUTION ONE

1.1 D; Combined arithmetic mean $\frac{600(2500)+750(3500)}{600+750} = \frac{4125000}{1350} \approx 3055.5556$

$$\approx K3\ 055.56$$

1.2 C; $P(A|B) = \frac{P(A \cap B)}{P(B)} = \frac{0.75}{0.95} = \frac{15}{19}$

1.3 C

X	R _x	Y	R _y	R _x - R _y = d	d ²
50	4	60	3	4 - 3 = 1	1
80	1	70	2	1 - 2 = -1	1
60	3	80	1	3 - 1 = 2	4
70	2	50	4	2 - 4 = -2	+ 4
					$\sum d^2 = 10$

$$\begin{aligned}
 R &= 1 - \frac{6 \sum d^2}{n(n^2 - 1)} \\
 &= 1 - \frac{6(10)}{4(4^2 - 1)} \\
 &= 1 - \frac{60}{4(16 - 1)} \\
 &= 1 - \frac{60}{4(15)} \\
 &= 1 - \frac{60}{60} \\
 &= 1 - 1 \\
 &= 0
 \end{aligned}$$

1.4 C

1.5 A

1.6 B

1.7 C; $A = R \left[\frac{1 - (1+r)^{-n}}{r} \right], 200 = R \left[\frac{1 - (1.065)^{-5}}{0.065} \right], 130 = R(0.270119163)$

$$R = 481.2690752 \approx K481.27$$

1.8 D

1.9 D

$$\begin{aligned}
 S &= \sqrt{\frac{(2-5.5)^2 + (3-5.5)^2 + (5-5.5)^2 + (6-5.5)^2 + (8-5.5)^2 + (9-5.5)^2}{6-1}} \\
 &= \sqrt{\frac{37.5}{5}} \\
 &= 2.74
 \end{aligned}$$

1.10 D**SOLUTION TWO**

- (a) The time taken by the dentist to treat the eight patients arriving in four hours at the clinic is calculated in the table below.

Table 1

Category	Time (minutes)	Probability	Cumulative Probability	Random no. Interval	Random no. Fitted
Filling	45	0.40	0.40	00 – 39	11(3), 34(4), 25(5), 17(7)
Crown	60	0.15	0.55	40 – 54	40(1)
Cleaning	15	0.15	0.70	55 – 69	66(6)
Extraction	45	0.10	0.80	70 – 79	79(8)
Checkup	15	0.20	1.00	80 – 99	82(2)

Thus, the times taken by the dentist to treat the eight patients are 60, 15, 45, 45, 45, 15, 45 and 45 minutes respectively.

Let us simulate the dentist's clinic (for eight patients) starting at 08:00 hours.

Table 2

Patient no.	Arrival time	Dentist's Treatment		Waiting time on the part of the patient	Idle time for the dentist
		Starts	Ends		
1	8:00	8:00	9:00	-	-
2	8:30	9:00	9:15	30	-
3	9:00	9:15	10:00	15	-
4	9:30	10:00	10:45	30	-
5	10:00	10:45	11:30	45	-

6	10:30	11:30	11:45	60	-
7	11:00	11:45	12:30	45	-
8	11:00	12:30	13:15	60	-

$$\begin{aligned}\text{Average waiting time for the patients} &= \frac{30 + 15 + 30 + 45 + 60 + 45 + 60}{8} \\ &= \frac{285}{8} \\ &= 35.625 \text{ minutes}\end{aligned}$$

Average idleness of the dentists = Nil

(b)

i.

Strategies	States of Nature				Minimum of row
	A wins	B wins	C wins	All lose	
Bet A	7	-2	-2	-2	-2
Bet B	3	3	-2	-2	-2
Bet C	2	2	2	-2	-2
Do not bet	0	0	0	0	0

The maximum payoff to Mr. Sianga as obtained from the table above is 0 corresponding to the strategy 'Do not bet'.

ii.

Strategies	States of Nature				Maximum of row	Minimum of row	$P = \alpha \cdot \max + (1 - \alpha) \min$
	A wins	B wins	C wins	All lose			
Bet A	7	-2	-2	-2	7	-2	2.5
Bet B	3	3	-2	-2	3	-2	0.5
Bet C	2	2	2	-2	2	-2	0
Do not bet	0	0	0	0	0	0	0

The Hurwicz payoff to Mr. Sianga as obtained from the table above is 2.5 corresponding to the strategy 'Bet A'.

iii.

Strategies	States of Nature				Maximum of row
	A wins	B wins	C wins	All lose	
Bet A	0	5	4	2	5
Bet B	4	0	4	2	4
Bet C	5	1	0	2	5
Do not bet	7	3	2	0	7

The Savage payoff to Mr. Sianga as obtained from the table above is 4, corresponding to the strategy 'Bet B'.

iv.

Strategies	States of Nature				Expected Payoff
	A wins	B wins	C wins	All lose	
Bet A	7	-2	-2	-2	0.25
Bet B	3	3	-2	-2	0.50
Bet C	2	2	2	-2	1.00
Do not bet	0	0	0	0	0.00

The Laplace payoff to Mr. Sianga as obtained from the table above is 1.00 corresponding to the strategy 'Bet C'.

(c)

- i. Secular trend is the basic tendency of steady movements in a set of observations to move in an upward or downward or constant direction over a fairly long period of time.
- ii. Seasonal variations are the regular periodic changes which take place within a period of less than a year and may take place daily, weekly, monthly or quarterly.
- iii. Cyclical variations, which are also generally termed as business cycles, are the periodic movements in the time series around the trend line.
- iv. These are irregular variations which occur on account of random external events.

SOLUTION THREE

(a) Let $P(D) = 0.0002$, $P(\bar{D}) = 0.9998$, $P(T|D) = 0.95$ and $P(\bar{T}|D) = 0.05$. Also given $P(T|\bar{D}) = 0.03$ and $P(\bar{T}|\bar{D}) = 0.97$

$$(i) \quad P(D|T) = \frac{P(D \cap T)}{P(T)}$$

$$P(T) = P(D \cap T) + P(\bar{D} \cap T)$$

$$P(D \cap T) = P(D)P(T|D) = (0.0002)(0.95) = 0.00019,$$

$$P(\bar{D} \cap T) = P(\bar{D})P(T|\bar{D}) = (0.9998)(0.03) = 0.029994. \text{ Therefore,}$$

$$P(T) = 0.00019 + 0.029994 = 0.030184$$

$$\text{Hence, } P(D|T) = \frac{0.00019}{0.030184} \approx 0.00629$$

$$(ii) \quad P(D|\bar{T}) = \frac{P(D \cap \bar{T})}{P(\bar{T})}$$

$$P(D \cap \bar{T}) = P(D)P(\bar{T}|D) = (0.0002)(0.05) = 0.00001$$

$$P(\bar{T}) = 1 - P(T) = 1 - 0.030184 = 0.969816$$

$$\text{Therefore, } P(D|\bar{T}) = \frac{0.00001}{0.969816} \approx 0.0000103$$

$$(i) \quad S_{xx} = 280 - \frac{(51)^2}{10} = 280 - 260.1 = 19.9, \quad S_{xy} = 2275.5 - \frac{(51)(416)}{10} \\ = 2275.5 - 2121.6 = 153.9$$

$$(ii) \quad b = \frac{S_{xy}}{S_{xx}} = \frac{153.9}{19.9} \approx 7.73, \quad a = \bar{y} - b\bar{x} = 41.6 - 39.44 =$$

2.16

$$y = 2.16 + 7.73x$$

(iii) the distance covered by the car for year is 7.73 Km (Thousand) or 7730 Km per year.

SOLUTION FOUR

- (a) (i) Here $a = 200\,000$ and the monthly interest rate is $\frac{12.5\%}{12} = \frac{.125}{12} = 0.010416666\ldots$. The number of monthly payments is $(12)(30) = 360$.

$$\text{Therefore } R = \frac{ar}{1-(1+r)^{-n}} = \frac{200\,000\left(\frac{0.125}{12}\right)}{1-\left(1+\frac{0.125}{12}\right)^{-360}} \approx 2134.515525$$

Monthly payments of K2 134.52 are required to be amortize the loan.

- (ii) the family makes 360 payments of K2 134.52 each, for a total of $(360)(2134.52) = K768\,427.20$, the total interest paid is

$$K768\,427.20 - 200\,000 = K568\,427.20$$

- (iv) During the first month, the entire 200 000 is owed. Interest on this amount for 1 month is found by the formula for simple interest, with, r , annual interest rate and, t , time in years.

$$I = Prt = 200\,000\left(\frac{0.125}{12}\right) \approx K2\,083.33$$

At the end of the month, a payment of K2 134.52 is made K2 083.33 of this is interest, a total of

$K2\,134.52 - K2\,083.33 = K51.19$ is applied to the reduction of the original debt.

This is the binomial distribution problem with $n = 12, p = \frac{4}{5} = 0.8$

$$(i) \quad P(x = 8) = \binom{12}{8}(0.8)^8(0.2)^4 = 495(0.167772)(0.00016) \approx 0.1329$$

$$(ii) \quad P(x \leq 11) = 1 - P(x = 12) = 1 - \binom{12}{12}(0.8)^{12} \approx 0.9313$$

$$(iii) \quad P(x \geq 1) = 1 - P(\text{none}) = 1 - \binom{12}{0}(0.2)^{12} \approx 0.999999995$$

SOLUTION FIVE

i. $P(A') = \frac{n(F)}{n(S)} = \frac{0.6}{1} = 0.6$

ii . $P(A \cup B) = P(A) + P(B) - P(A \cap B) = 0.4 + 0.37 - 0.1 = 0.67$

iii. $P(A \cup B)' = P(A' \cap B') = 0.33$

iv. $P(A|B) = \frac{P(A \cap B)}{P(B)} = \frac{0.1}{0.37} = 0.27$

(b)

76, 74.2, 75.1, 73.7, 72, 74.3, 75.4, 74, 73.1, 72.8

$$\bar{X} = \frac{\sum x_i}{n} = \frac{76 + 74.2 + 75.1 + 73.7 + 72 + 74.3 + 75.4 + 74 + 73.1 + 72.8}{10} = \frac{740.6}{10} = 74.06 .$$

$$S = \sqrt{\frac{(76 - 74.06)^2 + (74.2 - 74.06)^2 + (75.1 - 74.06)^2 + (73.7 - 74.06)^2 + \dots + (73.1 - 74.06)^2 + (72.8 - 74.06)^2}{10 - 1}} \\ = 1.17$$

The correct readings are:

79.2, 77.4, 78.3, 76.9, 75.2, 77.5, 78.6, 77.2, 76.3, 76

$$\bar{X} = \frac{\sum x_i}{n} = \frac{79.2 + 77.4 + 78.3 + 76.9 + 75.2 + 77.5 + 78.6 + 77.2 + 76.3 + 76}{10} = \frac{772.6}{10} = 77.26 .$$

$$S = \sqrt{\frac{(79.2 - 77.26)^2 + (77.4 - 77.26)^2 + (78.3 - 77.26)^2 + (76.9 - 77.26)^2 + \dots + (76.3 - 77.26)^2 + (76 - 77.26)^2}{10 - 1}} \\ = 1.17$$

iii.

Notice that:

$$77.26 - 74.04 = 3.2 \text{ that is, } \text{correct mean} - \text{original mean} = 3.2$$

So $\text{correct mean} = \text{original mean} + 3.2$: $\text{correct s.d} = \text{original s.d}$

If each reading is increased by 3.2, then the mean is increased by 3.2. the standard deviation, however, remains the same.

SOLUTION SIX

(a)	YEAR	Q	UNITS	MAT	MA	CA(T)
1988	1	50				
	2	60				
	3	40	230	57.5		
	4	80	220	55	56.25	
			230	57.5		
1989	1	40			58.75	
	2	70	240	60		
			220	55	57.5	
	3	50				
	4	60				
(b)	$ \begin{aligned} P(x \geq 50.64) &= 0.5 + P(50.64 < x < 55) \\ &= 0.5 + \frac{50.64 - 55}{4} \\ &= 0.5 + \frac{-4.36}{4} \\ &= 0.5 + (-1.09) \\ &= 0.5 + 0.3621 \\ &= 0.8621 \end{aligned} $					
(c)	ITEMS					
		SHIRT	TROUSER	SKIPPER		
	MINI	500	800	600		
	MAXI		800			

Maximini item is Trouser.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 14 DECEMBER 2021

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A - (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one (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 Which of the following causes a leftward shift in the demand for ear piercings?
- A. A discovery that ear piercing can lead to infections
 - B. Lower price of ear rings
 - C. Higher incomes among young people
 - D. Higher wages for ear piercers
- (2 marks)
- 1.2 The promoter of a theatre club discounted the price of admission by 30 per cent, which resulted in average attendances rising by 50 per cent. Based on this data, it could be concluded that there is an
- A. Elastic demand.
 - B. Inelastic demand.
 - C. Elastic supply.
 - D. Inelastic supply.
- (2 marks)
- 1.3 Suppose a firm sells its product that generated revenue lower than the opportunity cost of the inputs used to produce it. Which is true?
- A. The firm will earn accounting and economic profits.
 - B. The firm will face accounting and economic losses.
 - C. The firm will face an accounting loss, but earn economic profits.
 - D. The firm may earn accounting profits, but will face economic losses.
- (2 marks)
- 1.4 The marginal product of labor curve shows the change in total product resulting from a:
- A. One-unit increase in the quantity of a particular resource used, letting other resources vary.
 - B. One-unit increase in the quantity of a particular resource used, holding constant other resources.
 - C. Change in the cost of a variable resource.
 - D. Change in the cost of a fixed resource.
- (2 marks)
- 1.5 Which one of the following characteristics is not shared by the market structures of perfect competition and monopolistic competition?
- A. A large number of buyers
 - B. A large number of sellers
 - C. Low barriers to entry

- D. Homogeneous products (2 marks)
- 1.6 "The marginal propensity to consume" refers to the additional
- A. Saving that occurs out of an additional kwacha of disposable income.
 - B. Consumption that occurs out of an additional kwacha of disposable income.
 - C. Consumption that occurs out of an additional kwacha of investment.
 - D. Consumption that occurs over time. (2 marks)
- 1.7 Suppose $S = -200 + 0.1Y$, and $I = 400$. Equilibrium income is
- A. 200.
 - B. 400.
 - C. 4000.
 - D. 6000. (2 marks)
- 1.8 Inflation imposes especially large burdens on people who:
- A. Receive social security benefits.
 - B. Owe huge fixed interest rate mortgages on their houses.
 - C. Work under union contracts with cost of living adjustments built in.
 - D. Rely on fixed kwacha assets for their retirement. (2 marks)
- 1.9 An increase in net exports would eventually cause all of the following to happen except:
- A. Increase equilibrium output (assuming aggregate supply is upward sloping.)
 - B. Shift Aggregate Demand to the right.
 - C. Shift the demand for money curve to the right.
 - D. Increase the money supply. (2 marks)
- 1.10 If technological advances,
- A. More output can be obtained from the same inputs.
 - B. More inputs are needed to produce the same output.
 - C. Less output can be obtained from the same inputs.
 - D. Less output can be produced even with more inputs. (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) A manufacturing firm in Lusaka produces homogeneous products with no influence on going price has the following cost structure:

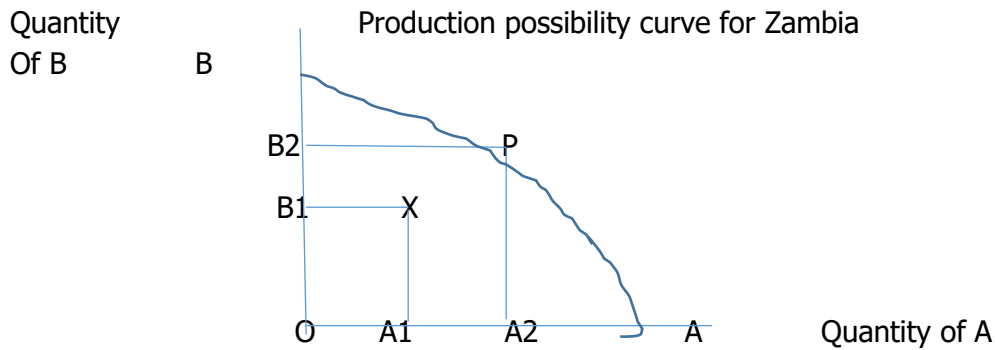
Number of Units	Variable cost	Total cost	Marginal cost (MC)	Average total cost (ATC)	Average Variable cost (AVC)	Average fixed cost (AFC)
(Output)	(K)	(K)	(K)	(K)	(K)	(K)
0	0	30				
1	10	40				
2	25	55				
3	45	75				
4	70	100				
5	100	130				
6	135	165				
7	175	205				

Required:

- (i) Find the value for fixed cost (1 mark)
 - (ii) Complete the above table to find values for MC, ATC, AVC and ATC (8 marks)
 - (iii) If the firm's product is sold at K30, how many units should firm sell in order to maximize profits (2 marks)
 - (iii) What is the maximum achievable profit? (2 marks)
 - (iv) Find the Total Revenue at a point where profits will be maximized? (2 marks)
- (b) State any five (5) characteristics of a planned economic system (5 marks)

[Total: 20 Marks]

QUESTION THREE



Required:

- (a) Explain what occurs if Zambia operates at:
- P
 - Comment on the situation where Zambia operates at point X? (6 marks)
- (b) Give two (2) reasons why the government might impose a maximum price at which commodities are sold? (4 marks)
- (c) (i) Explain the meaning of market failure? (2 marks)
- To prevent fluctuations in the price of primary products (raw materials), some suppliers have formed cartels and developed a system of **buffer stocks**. Elaborate on how this system works. (4 marks)
- (d) Briefly explain Baumol's sales maximization model? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Illustrate with diagrams the short-run and long-run equilibrium positions of a firm operating under conditions of monopolistic competition. (8 marks)
- (b) Outline any two (2) reasons why monopolistic competition is wasteful. (4 marks)
- (c) Outline any four (4) factors that may account for economies of scales (8 marks)

[Total: 20 Marks]

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

QUESTION FIVE

- (a) Define the following terms used in National Income Accounting:
- (i) GDP at market prices. (2 marks)
 - (ii) GDP at factor costs. (2 marks)
- (b) Outline any three (3) economic activities that GDP does not measure (6 marks)
- (c) Consider a closed economy with the following:
Consumption function $C = 500 + 0.75(Y - T)$,
where C is consumption, Y is income, and T is taxes.
If government spending is $G = 50$, investment is $I = 90$ and taxes are $T = 60$, find the equilibrium level of output. (6 marks)
- (d) Explain the accelerator theory of investment (2 marks)
- (e) Outline any two (2) limitations of the above theory (2 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Commercial banks provide a wide range of other commercial services aside from their core functions.

List any three (3) of the other (non-core) functions of a commercial bank?

(6 marks)

- (b) State any two (2) reasons for this computation of the national income. (4 marks)
- (c) Give any three (3) arguments that a country like Zambia would advance against protectionism? (6 marks)
- (d) How would the government use fiscal policy to reduce the level of youth unemployment in Zambia? (4 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Outline any five (5) benefits of international trade. (5 marks)
- (b) Describe any four (4) methods that can be used as barriers to trade. (8 marks)
- (c) Suppose you are given the following exchange rates as:

$$\$/\text{£} = 1.60, \text{¥}/\$ = 100, \text{and } \text{¥}/\text{£} = 160$$

- (i) Calculate the following exchange rates: $\text{£}/\text{\$}$, $\text{\$/¥}$, and $\text{£}/\text{¥}$ (3 marks)
- (ii) Describe the flexible exchange rate regime. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA 3: BUSINESS ECONOMICS SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

a) (i) Fixed Cost is **K30** i.e. $TC - VC$

(ii)

Number of Units	Variable cost	Total cost	Marginal cost	Average total cost	Average Variable cost	Average fixed cost
(Output)	(K)	(K)	(K)	(K)	(K)	(K)
0	0	30	-	-	-	-
1	10	40	10	40	10	30
2	25	55	15	27.5	12.5	15
3	45	75	20	25	15	10
4	70	100	25	25	17.5	7.5
5	100	130	30	26	20	6
6	135	165	35	27.5	22.5	5
7	175	205	40	29.3	25	4.3

- (iii) **5** units. Profit is maximized at point where $MC = MR = P$. The firm is operating under perfect competition as the selling price is fixed at **K30**
- (iv) The maximum profit is $TR - TC = K150 - K130 = \mathbf{K30}$
- (v) Total Revenue = PQ i.e. 5 units \times K30 = **K150**

b) The following are the characteristics of planned economic system:

- Productive resources are owned by the state
- What to produce and how to produce are determined by planners' preferences
- Output is distributed according to policy and administrative decision and not ability to pay
- Future direction of the economy is planned in advance over many years

- Prices of products are determined by the state
- The aim of production is social welfare rather making profit

SOLUTION THREE

(a) At point **X** Zambia is **underutilizing** the resources to produce B1 units of B and A1 units of A. The economy is **not running to full capacity**. There is **wastage of resources**. There is **inefficiency**.

(b) Price ceiling or maximum price is the price below the equilibrium price. The resulting effect is that we have a shortage on the market.

The government introduces a price ceiling to:

- Prevent an unfair allocation of resources, the goods that are available
- To protect the consumer, now that rationing is in place so that the consumer can afford to buy.
- To control inflation

(c)

(i) **Market failure** occurs when a free market mechanism fails to produce the most efficient allocation of scarce resources. Human wants and needs are not being met as efficiently as they could be.

(ii) **Buffer stocks:** A system used by suppliers to intervene in the markets and control the open market price at a relatively constant price.

- If there are large surpluses of supply over demand which threaten to depress prices, the cartel will buy up the surplus- thereby creating artificial demand and hold up price.
- If there is shortage of natural supply onto the market and such that prices are likely to rise, the suppliers can release some of their buffer stock onto the market to stabilize the market price.
- In this way we conclude that the buffer stock system is an example of a market intervention which helps to stabilize price for both consumers and suppliers.

(d) Baumol's sales maximization model assumes that the firm acts to maximize sales revenue rather than profits. The management of the firm might opt for sales revenue maximization in order to maintain or increase its market share, ensure survival, and discourage competition. Managers benefit personally because of prestige, of running a large and successful company.

SOLUTION FOUR

a) Short run and long run

The pricing and output determination in the short run is similar to that of a monopolist, since firms have some market power because of product differentiation.

Individual firms under monopolistic competition maximize profits where $MC = MR$. At this level of output, the AR is greater than the AC, therefore the firm makes supernormal profits just like monopolies.

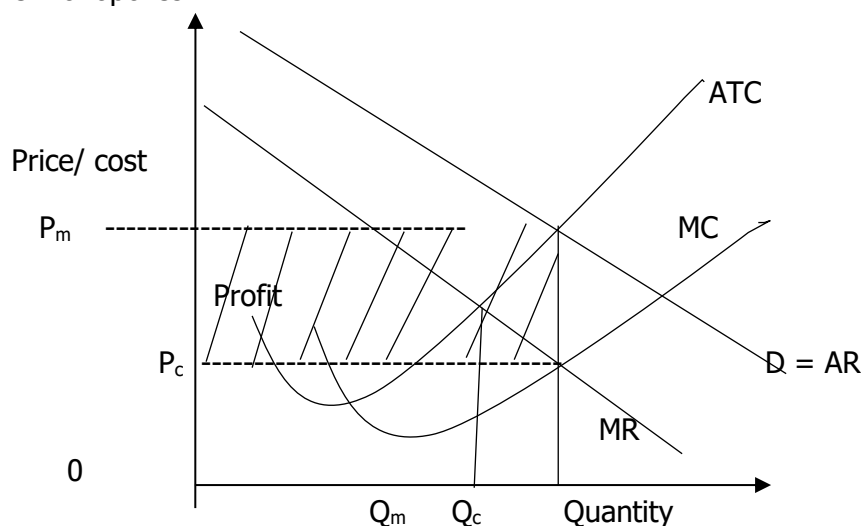


Figure short-run equilibrium position

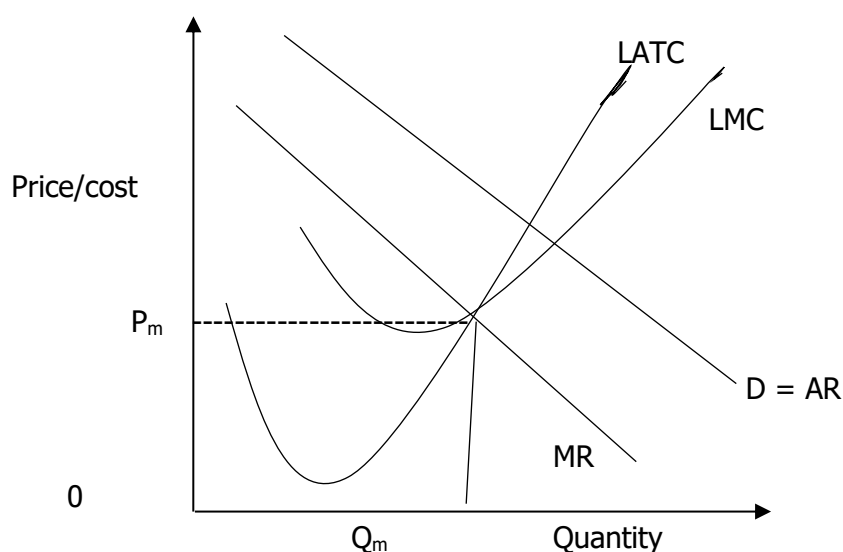


Figure: Long-run equilibrium $MR = MC = ATC$

The supernormal profits attract new entrants into the market, since there are no entry barriers. Rival firms produce products that are similar, but somewhat differentiated. This causes the short run demand curve for an individual firm to be pushed to the left, as the supernormal profits are competed away. Individual firms as usual, maximize profits where $MC = MR$, in the long run the AR is also equal to the AC and therefore the firm only makes normal profits.

b) It can be argued that this market structure is not really in the best interest of either consumers or business firms, 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 still 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 versions of the same product.
- c) Economies of scale
- **Labour Economies:** Labour economies result from greater opportunities for the division of labour which increase with the skills of the workforce, save time and allow greater mechanization. The automated assembly line in modern motor vehicle assembly is an extreme example of this.
 - **Technical Economies:** Technical economies result chiefly from the use of specialized capital equipment. Large firms are able to make use of equipment that could not be fully employed by smaller operations, and large firms are also able to support reserve machines to avoid disruption following breakdown.
 - **Marketing Economies:** Very great economies are available from large-scale advertising. A television commercial using top stars is very expensive to make, but the cost per potential customer is very low if essentially the same film can be shown in several different countries. Large firms can also afford to keep very skilled marketing specialists fully employed.
 - **Financial Economies:** Large firms are able to obtain finance from markets that are denied to small firms, and multinationals can raise money in many different countries. Nevertheless, although financial economies still exist, we do have to recognize that finance markets have, in recent years, become more responsive to the needs of smaller enterprises.
 - **Managerial Economies:** Managerial economies arise from the employment of specialized managers and managerial techniques.

SOLUTION FIVE

- a) GDP
- i) The value of GDP measured by adding the total expenditure (quantity multiplied by average market prices) is GDP at market prices.
 - ii) GDP at market prices minus indirect taxes + subsidies = GDP at factor cost.
- b) Omissions from GDP
- **Underground/black economy:** Some production is hidden from government authorities either because it is illegal (drugs) or because those involved want to avoid taxes (hair dressers who operate in the comfort of their homes).
 - **Non-marketed activities:** GDP does not include nonmarket production, such as goods and services that are produced but not sold in the market place. Household cleaning, lawn mowing, sewing and typing that people do themselves, rather than hiring someone else, are excluded from GDP.
 - **Economic bads:** The positive value of economic activity is included in GDP, however, the negative externalities from such activity is not deducted from GDP. For example, the value of copper is included in GDP, but the emissions from the mines which pollute the air is not deducted from GDP.
- c) $C = 500 + 0.75(Y - T)$, where C is consumption, Y is income, and T is taxes.

If government spending is $G = 50$, investment is $I = 90$ and taxes are $T = 60$.

Find the equilibrium level of output.

$$C = 500 + 0.75(Y - T)$$

$$Y = C + I + G$$

$$Y = 500 + 0.75(Y - 60) + 90 + 50$$

$$Y = 500 + 0.75Y - 45 + 90 + 50$$

$$Y - 0.75Y = 500 - 45 + 90 + 50$$

$$Y(1 - 0.75) = 595$$

$$Y = 595 / 0.25$$

$$Y = \mathbf{K2,380}$$

Equilibrium level of output is K2,380

- d) Accelerator theory: According to this theory, the level of current net investment is related to changes in GDP. The demand for capital goods, such as machinery and factories, is derived from the demand for the goods that the capital equipment is designed to produce.
- e) Limitations
 - It assumes that firms faced with increased demand for their product will immediately attempt to increase their capital stocks. This assumes that there is no excess capacity. This is unrealistic, because it is more likely that firms will meet some of the increased demand by utilizing some of their already existing capital equipment.
 - It fails to take into account business expectations. If businesses regard the increase in demand as temporary, they may not respond to it.

SOLUTION SIX

(a) The following are the other commercial services aside from their core functions:

- Advising and assisting companies, for example in a taking over and assisting companies to issue shares on the stock market.
- Providing assistance to exporters and importers
- Leasing
- Debt factoring services
- Executorship and trustee services
- Acting as insurance brokers for insurance companies by selling some insurance policies
- Selling pensions
- Share registration and share dealing services
- Unit trust business
- Giving investment advice

(b) Reasons for computing the national income:

- It measures the standard of living in a country (as national income per head)
- It allows comparisons between the wealth of different countries
- It makes it possible to measure the improvement (or deterioration) in national wealth and the standard of living
- It assists central government in its economic planning

(c) Arguments against protectionism

- Protectionism reduces the volume of world trade.
- Protectionism is likely to raise costs to .

- Domestic producers will face reduced demand
- Because firms are protected from competition, they will not strive for Innovation and costs reduction. In this way, protectionism will encourage inefficiency.

(d)Fiscal policy that government would use to reduce the level of youth unemployment

- Reduce corporate tax so that companies may have more resources to inject in capital projects thereby creating more jobs targeting the youth.
- Government coming up with stimulus programs to help companies struggling to produce, companies that are retrenching so that they can re-employ targeting the youth.

SOLUTION SEVEN

a) Benefits of international Trade

- Greater Variety of Goods Available for Consumption:
- Efficient Allocation and Better Utilization of Resources:
- Promotes Efficiency in Production:
- More Employment:
- Utilization of Surplus Produce:
- Fosters Peace and Goodwill:
- Consumption at Cheaper Cost

b) Methods for protectionism

1. Tariffs

The taxes or duties imposed on imports are known as tariffs. Tariffs increase the price of imported goods in the domestic market, which, consequently, reduces the demand for them.

2. Quotas

Quotas are restrictions on the volume of imports for a particular good or service over a period of time. Quotas are known as a "non-tariff trade barrier." A constraint on the supply causes an increase in the prices of imported goods, reducing the demand in the domestic market.

3. Subsidies

Subsidies are negative taxes or tax credits that are given to domestic producers by the government. They create a discrepancy between the price faced by consumers and the price faced by producers.

4. Standardization

The government of a country may require all foreign products to adhere to certain guidelines. For instance, the UK Government may demand that all imported shoes include a certain proportion of leather. Standardization measures tend to reduce foreign products in the market.

5. Exchange controls

The government could limit the amount of foreign currency available for paying for imports. These are not allowed amongst member states of the European Union (EU), for example, and have become more difficult to sustain in a world of highly mobile capital.

6. Voluntary export restraints (VER's)

Some quotas are voluntarily agreed between countries.

a) Calculate the exchange rate given the following;

i) $\$/\text{£} = 1.60$, $\text{¥}/\$ = 100$, and $\text{¥}/\text{£} = 160$

$$\text{£}/\$ = 1/1.6 = 0.625$$

$$\$/\text{¥} = 1/100 = 0.01$$

$$\text{£}/\text{¥} = 1/160 = 0.00625$$

ii) Flexible Exchange Rate

A flexible exchange rate, or fluctuating exchange rate, is a type of exchange rate regime wherein a currency's value is allowed to fluctuate according to the foreign exchange market. A currency that uses a floating exchange rate is known as a floating currency. The dollar is an example of a flexible currency.

Many economists believe flexible exchange rates are the best possible exchange rate regime because these regimes automatically adjust to economic circumstances. These regimes enable a country to dampen the impact of shocks and foreign business cycles, and to preempt the possibility of having a balance of payments crisis. However, they also engender unpredictability as the result of their dynamism.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 15 DECEMBER 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. 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 (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions

QUESTION ONE

Each of the following questions has only one (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 Which of the following information systems is used by middle level managers?
- A. Expert systems
 - B. Enterprise systems
 - C. MIS
 - D. TPS
- (2 marks)

- 1.2 _____ is an extremely fast memory chip.
- A. ROM
 - B. RAM
 - C. Cache
 - D. BIOS
- (2 marks)

- 1.3 In the table below find control number and description:

1	Application access rights and levels
2	Validation Checks and output controls
3	Procedure controls and separation of duties
4	organisation environmental controls

Select the best choice which matches the description number and the controls:

- A. 1- General Controls, 3 – Application Controls, 2 – General Controls, 4 – Application Controls
 - B. 1– Application Controls, 4 – General Controls, 2 – Application Controls, 3 – General Controls
 - C. 2– General controls 3- Application controls 4- General Controls, 1- Application Controls
 - D. 4- Application controls, 3- Application control , 2- General controls, 1- General controls
- (2 marks)

- 1.4 Which of the following statement best describes a botnet?
- A. Type of software used to test bugs in the software
 - B. A malicious software found on the internet
 - C. Computer devices connected to the internet used to control other computers on the internet
 - D. Operating system software which controls computer hardware (2 marks)
- 1.5 Which one is **NOT** a key data quality principle?
- A. Relevance
 - B. Timeliness
 - C. Accuracy
 - D. Independent (2 marks)
- 1.6 Which one of the following is an open question?
- A. How much do you get paid?
 - B. Are your businesses viable?
 - C. Tell me about the nature of your business.
 - D. Please tell me how you produced that report. (2 marks)
- 1.7 Which of the following is the role of a secretary of a business meeting?
- A. To participate during a meeting.
 - B. To distribute meeting documents before the meeting.
 - C. To approve minutes of a meeting.
 - D. To preserve order and harmony during a meeting (2 marks)
- 1.8 Correctness is one of the 7C's of effective communication. What does the term correctness mean?
- A. Avoiding any ambiguous words.
 - B. Friendly and politeness.
 - C. Accuracy.
 - D. Emphasize on very few points at a time. (2 marks)
- 1.9 Which of the following is not part of the communication process?
- A. Feedback.
 - B. Response.
 - C. Listening.
 - D. Channel. (2 marks)

1.10 State one of the characteristics of visual communication

- A. Sight.
- B. Medium.
- C. Sense of touch.
- D. Lineal interpretation

(2 marks)

[Total: 20 marks]

SECTION B

This section has two parts:

1. INFORMATION TECHNOLOGY

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

- (a) As an Accountant you need to be proficient in spreadsheets. Explain the following features of excel with an example.
- (i) Cell reference (3 marks)
 - (ii) Function (3 marks)
 - (iii) Merge and centre (3 marks)
- (b) Differentiate legal issues from ethical issues. (4 marks)
- (c) Information is derived from raw data. This raw data should be of quality in order to produce quality information for decision making.

Explain the differences between data and information (4 Marks)

- (d) Explain the following functions with an example SumIF, =sumif(A1:A3,">3") (3 marks)

[TOTAL: 20 marks]

QUESTION THREE

- (a) A data house contains data from a range of sources, internally & externally
- Give any three (3) advantages of data warehousing (6 marks)
- (b) Information system uses the resources of people, hardware, software, data and networks to perform input, processing, output, storage and control activities
- Explain the following types of Information Systems below:
- (i) Management Information Systems (MIS) (2 marks)
 - (ii) Decision Support Systems (DSS) (2 marks)
 - (iii) Knowledge Work Systems (KWS) (2 marks)
- (c) List any four (4) automatic input devices (4 marks)
- (d) Distinguish between a Command driven and Menu based operating system giving an example of each. (4 marks)

[Total: 20 marks]

QUESTION FOUR

- (a) Data is used to create information and it's important to control and maintain it in order to obtain the best possible information from a system

Describe the following controls giving appropriate examples;

- (i) Hardware controls (3 marks)
 - (ii) Data controls (3 marks)
 - (iii) Administrative controls (3 marks)
- (b) Describe the structure of a client-server network (6 marks)
- (c) Explain the WYSIWYG feature of Microsoft Office (2 marks)
- (d) List any three (3) the primary activities of the value chain model (3 marks)

[Total: 20 marks]

2. COMMUNICATION

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

QUESTION FIVE

In an organization, there are formal and informal channels of communication. These channels of communication are set up by a company to relay messages that affect its employees' work-related activities. In an organization, they may follow the authority chain and include things such as messages from leaders, important information from the human resources department, or even articles that praise an employee for excellent work. Sometimes communication can be with other organizations.

Required:

- (a) Explain the three (3) channels of communication in an organization. (9 marks)
- (b) Using brief explanations complete the diagram below showing the relationship between internal, external, informal and formal communication.

	Internal Communication	External Communication
Formal		
Informal		

(8 marks)

- (c) State any three (3) barriers to communication. (3 marks)

[Total: 20 marks]

QUESTION SIX

Social media is the most popular form of communication today; most organizations have incorporated it in their formal communication system.

Required:

- (a) What is formal communication? (2 marks)
- (b) State any three (3) social media platforms that can be incorporated in the formal channels of communication of an organization. (3 marks)
- (c) Explain any five (5) advantages of incorporating social media into the formal communication system of an organization. (10 marks)
- (d) State any five (5) challenges that are likely to occur when social media is incorporated in the formal communication system. (5 marks)

[Total: 20 marks]

QUESTION SEVEN

- (a) State any two (2) reasons why note making is very important. (4 marks)
- (b) Mary always forgets information obtained each time a lecture is held. Advise Mary on any five (5) note making techniques in order for her to be effective in that area. (10 marks)
- (c) Explain the three (3) types of questions that Mary can use during a business discussion. (6 marks)

[Total: 20 marks]

END OF PAPER

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Explain the following:

(i) Social media

Social media is computer-based technology that facilitates the sharing of ideas, thoughts, and information through the building of virtual **networks** and communities. By design, **social media** is internet-based and gives users quick electronic communication of content

(ii) World Wide Web

WWW is a service that runs on the internet offering access to vast documents of information connected via hyperlinks. The web operates on the client server format.

(iii) Denial of Service Attack

DoS attack is an attack on the information system that denies legitimate users of the system access to the information. This can happen when the system is taken over by cyber criminals who flood the system with requests that it fails to process legitimate requests and thus denying access

(b) Differentiate legal issues from ethical issues.

- **Legal** standards are those standards that are set forth in governmental **laws**. **Ethical** standards are based on the human principles of right and wrong. The differences between them are these: **Legal** standards are based on written law, while **ethical**

(c) Data is unprocessed facts, data is in its raw form whilst Information is data which has undergone processing and makes sense to the user

(d) SumIF,

=sumif(A1:A3,">3")

Shows the sum of all the cells in the range A1 to A3 that contain values greater than 3. All values less than 3 are skipped.

SOLUTION THREE

a) Give three (3) advantages of data warehousing

- Delivers Business Intelligence
- Provides competitive advantages
- Improves the decision-making process
- Enables data mining

b) Types of Information Systems

- o Management Information Systems (MIS)

- These are computer based or manual systems that convert data from mainly internal sources into information that can be used to support decision making (eg summary reports). These support middle management.
 - Decision Support Systems (DSS)
 - These are systems that seek to provide managers with direct assistance in their work, especially decision making. They combine data and analytical models or data analysis tools to support semi-structured and unstructured decision making. These support middle management.
 - Knowledge Work Systems (KWS)
 - These are information systems that facilitate the creation and integration of new knowledge into an organisation. These support highly skilled knowledge workers.
- c) List four (4) automatic input devices
- Scanner
 - Microphone
 - MICR
 - Smart Card
 - EPOS
 - EFTPOS etc
- d)
- Command driven Operating Systems require the user to type specific commands in order to interact with the operating systems. An example of command driven OS is MSDOS
 - Menu driven Operating system uses a list of options from which the user can select what they to do. Eg Windows OS

SOLUTION FOUR

- a) Describe the following controls giving appropriate examples
- (iv) Hardware controls**

These are for ensuring the safety and security of hardware from accidental or malicious damage.

Examples include locking the server room, keeping wiring securely tied.

(v) **Data controls**

Ensuring that all data input has been authorised and has been input completely and accurately. Backups should be taken regularly to guard against data loss. For example, keeping all data storage devices secure and scanning viruses.

(vi) **Administrative controls**

Ensuring access and manipulations are all monitored. For example, ensuring that passwords are changed regularly and that employees have the correct access rights.

b) Operation of a client-server network

- A client server network is where devices play one of the two roles of a server or a client.
- A server provides common services to other computers on the network called clients. Clients request for services from the server.
- The server computer usually has more processing power than client computers.

c) Explain the WYSIWYG feature of Microsoft Office

- What You See Is What You Get is feature that makes the user see exactly how the document will appear when it is printed

SOLUTION FIVE

(a) Direction of Communication

Lateral or horizontal:

It is possible to see this form of contact between people operating at the same level or working under the same executive. A clear example of lateral communication is provided by functional managers employed at the same level, in separate departments, by their communication. Maintaining the collaboration and evaluation tasks allocated to different subordinates is the primary use of this dimension of communication.

Diagonal:

Diagonal or cross-cutting coordination takes place when individuals employed at the same level collaborate with others employed at a higher or lower organizational hierarchy level and through the limits of their reporting relationships.

Vertical:

Vertical communication is a type of flow of knowledge between organizational members who are at various levels of their hierarchy. It can be used in both downward and upward directions.

(b)

	Internal Communication	External Communication
Formal	Planned communication following the company's chain of command with the people inside the organisation.	Planned communication with people outside the organisation.
Informal	Causal communications among employees that do not follow the company's chain of command.	Casual communications with outsiders.

(c)

- Status
- Emotions
- Inappropriate language
- Wrong medium
- Information overload

SOLUTION SIX

- a. Formal communication is the type of communication that flows through official channels following organizational chain of command.
- b. WhatsApp, Facebook, LinkedIn
- c. Advantages
 - Social media is cost effective. It is a cheaper way of advertising.
 - It provides an easy platform to interact with clients
 - It is very fast. Information can easily go viral in minutes.
 - Feedback is almost instant as customers can respond in real time.
 - It is easy to target the message to a specific audience.
 - It is simple to generate.
- d. Challenges
 - Once wrong or undesired information goes viral, it is difficult to repair the damage.
 - It can easily be abused.
 - It only works with internet.
 - Data bundles can be expensive for the target audience.
 - It is difficult to control.
 - There is lack of emotional connection between the sender and the receiver.

SOLUTION SEVEN

- (a) Note making is important because:
 - They provide a useful record of the source of information
 - Helps in understanding.
 - Helps in material organization
 - Provides a written record for future reference
 - Helps in writing. (in flow of ideas)
 - Helps in memory. The act of writing helps in motor memory
- (b) Note making techniques
 - Use both your own personal abbreviations and common abbreviations.
 - Avoid writing detailed information
 - Write in bullet form or use short sentences.
 - Use linear, bullet or spider diagrams for your notes
 - Write important points only.
 - Do not spend a lot of time writing, you may miss out what is important
 - Leave space between each line that you may want to complete it later.
 - Organize your notes; classify them per subject or topic.
 - Listen very carefully.
 - Ensure that your notes are neatly done. No matter how busy you are, you must strive to be as smart as possible with your work.
 - Ask for clarification from the presenter/lecturer where you are not clear.
 - Review your notes while the presentation or talk is still fresh and add what you might have left out.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA: 5 COST ACCOUNTING

TUESDAY 14 DECEMBER 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 the 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 Job DA98 requires 380 active labour hours to complete. It is expected that there will be five per cent idle time. The wage rate is K60 per hour. The labour cost of job DA98 is:
- A. K21,660
 - B. K22,800
 - C. K23,940
 - D. K24,000
- (2 marks)
- 1.2 Which of the following costing methods is most likely to be used by a company involved in the construction of road and rail bridges?
- A. Batch costing
 - B. Contract costing
 - C. Job costing
 - D. Process
- (2 marks)
- 1.3 Which of the following is **not** a cause of stock out costs?
- A. Loss of customer goodwill
 - B. Extra costs of urgent, small quantity, replenishment orders
 - C. Interest on stock held
 - D. Labour frustration over stoppages
- (2 marks)
- 1.4 For which of the following reasons is activity based costing regarded as an improvement on traditional absorption costing?
- (i) Recognizes the factors which drive costs
 - (ii) Addresses all overheads
 - (iii) Recognizes the complexity of the production process
 - (iv) Improves the quality of the costing process
- A. (i),(iii) and (iv)
 - B. (i),(ii) and (iv)
 - C. (ii) and (iv) only
 - D. All of the above
- (2 marks)

- 1.5 Which of the following is a feature of job costing?
- A. Production is carried out in accordance with the wishes of the customer
 - B. Associated with continuous production of large volumes of low cost items
 - C. Establishes the cost of services rendered
 - D. Costs are charged over the units produced in a period (2 marks)
- 1.6 Chemicals process has a normal wastage of 10% of input. In a period, 2,500 kgs of material were input and there was an abnormal loss of 75 kgs.
- What quantity of good production was achieved?
- A. 2,175 kgs
 - B. 2,250 kgs
 - C. 2,325 kgs
 - D. 2,425 kgs (2 marks)
- 1.7 What is the name given to a system of stocktaking, where a stock count is made each day of items in store, and the count is checked against stock records, so that every item in store is checked at least once a year?
- A. Continuous stock taking
 - B. Perpetual inventory
 - C. ABC inventory analysis
 - D. Annual stock accounting (2 marks)
- 1.8 There are 27,500 units of part number D54 on order with the suppliers and 16,250 units outstanding on existing customer's orders.
- If the free inventory is 13,000 units, what is the physical inventory?
- A. 1,750 units
 - B. 3,250 units
 - C. 14,000 units
 - D. 29,250 units (2 marks)
- 1.9 The following items may be used in costing batches.
- (i) Actual material cost
 - (ii) Actual manufacturing overheads
 - (iii) Absorbed manufacturing overheads
 - (iv) Actual labour cost
- Which of the above are contained in a typical batch cost?
- A. (i),(ii) and (iv) only
 - B. (i) and (iv) only
 - C. (i),(iii) and (iv) only

D. All four of them

(2 marks)

1.10 Which of the following statement is/are correct?

- (i) A by-product is a product produced at the same time as other products which has a relatively low volume compared with other products.
- (ii) Since a by-product is a saleable item it should be separately costed in the process account, and should absorb some of the process costs.
- (iii) Costs incurred prior to the point of separation are known as common or joint costs.

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

(2 marks)

[Total 20 marks]

SECTION B

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

QUESTION TWO

Sindolo Ltd produces a single product whose standard unit cost is as follows:

	K
Direct material: 2kg @K5 per kg	10
Direct labour: 3hrs @K4 per hour	12
Variable overheads: 3 hours@K3 per hour	9
	K

The total budgeted fixed production overheads for the period were K15,000 and the total budgeted production was 2,500 units.

During the period ended 31 December 2020, the following transactions occurred:

- (i) 2,000 units of the product were produced and sold.
- (ii) 3,800 kgs of materials were consumed at a cost of K20,000
- (iii) The 2,000 units of the product took 5,900 hours. Actual labour hours paid for were 6,120 hours and the total labour cost was K25,092
- (iv) Variable production overheads amounted to K17,200
- (v) Fixed production overheads amounted to K15,400

Required:

- (a) Calculate the following variances
 - (i) Material price and usage variances (4 marks)
 - (ii) Labour rate, idle time and efficiency variances (6 marks)
 - (iii) Variable production overheads expenditure and efficiency variances (4 marks)
 - (iv) Fixed production production overheads expenditure and volume variances (4 marks)
- (b) Briefly describe one (1) objective of standard costing. (2 marks)

[Total 20 marks]

QUESTION THREE

Mutinta Ltd produces a single product from two processes. The output from process 1 is the input to process 2 and the output from process 2 is transferred to finished goods store. The following information relates to the period ended 31 December 2020:

	Process 1	Process 2
Material input: Quantity (kg)	2,000	To be ascertained
Cost (K'000)	6,000	To be ascertained
Conversion costs (K'000)	8,000	K12,000
Completed units (kg)	1,500	1,400

The following additional information has been provided:

1. There was no opening work in progress in either process.
2. There was no closing work in progress in either process.
3. There are normal losses of 10% of input in both processes 1 and 2.
4. Normal loss has a scrap value of K100 per unit in process 1 while the process 2 normal loss has no scrap value.

Required:

Prepare the following process accounts for the period ended 31 December 2020:

- | | | |
|-------|--------------------|-----------|
| (i) | Process 1 | (7 marks) |
| (ii) | Process 2 | (7 marks) |
| (iii) | Scrap | (2 marks) |
| (iv) | Abnormal loss/gain | (4 marks) |
- [Total 20 marks]**

QUESTION FOUR

Robert Ltd has the following data for November and December 2020.

Basic production standard cost and selling price per unit of product is:

	K
Direct materials	13
Direct labour	15
Variable production overheads	<u>2</u>
Total variable production cost per unit	<u>30</u>
Unit selling price	<u>50</u>

Fixed production overheads based on the normal activity of 150,000 units per month were K1,500,000.

Other expenses per month were:

Fixed selling and administration overheads: K650,000
Sales commission: 5% of sales value

Production and sales units are as follows:

	November	December
Production Units	170,000	140,000
Sales Units	140,000	160,000

Actual fixed production overheads for each month were the same as the budgeted amount.

Required:

- (a) Prepare a profit statement for each of the months November and December 2020 using:
 - (i) Absorption costing (8 marks)
 - (ii) Marginal costing (8 marks)
- (b) Prepare a reconciliation of the differences in net profit reported under the two systems for each of the two months. (4 marks)

[Total 20 marks]

QUESTION FIVE

During the next year Fidelity Ltd is planning to launch a new product and budgets to use 56,250 units of a special material. The material will be used during the year at an even rate. Fidelity Ltd has decided he is going to place orders for 1,125 units at regular intervals during the year.

The costs associated with the material are as follows:

1. Purchase price K3.5 per unit.
2. Ordering costs K10 per order.
3. Holding costs K0.50 per unit per year.

Required:

- (a) Calculate the ordering and holding costs based on the suggested order of 1,125 units per order. (4 marks)
- (b)
 - (i) Explain what you understand by the term "Economic Order Quantity"(EOQ) (1 mark)
 - (ii) Calculate the EOQ (3 marks)
 - (iii) Calculate the number of orders to be placed. (2 marks)
- (c) Calculate the difference in the ordering and holding costs between the order quantities suggested in part (a) and part (b). (4 marks)

- (d) The supplier is keen to encourage Fidelity Ltd to order in bulk and has offered a discount of 5% on all purchases for an order quantity of 5,625 units. Advise whether or not this discount is financially beneficial to Fidelity Ltd.

In answering part (d), assume the order quantity prior to the discount offer is 1,500 units per order. (6 marks)

[Total 20 marks]

QUESTION SIX

Companies wishing to introduce bonus schemes can choose either individual bonus schemes or group bonus schemes.

Required:

- (a) In connection with individual bonus schemes:
- (i) Explain what is meant by an individual bonus scheme. (2 mark)
 - (ii) Briefly describe three (3) main characteristics of individual bonus schemes. (3 marks)
 - (iii) State when individual bonus schemes would not be appropriate. (2 marks)
 - (iv) State three (3) factors that would make individual bonus schemes to be successful. (6 marks)

Financial accounts are usually unsatisfactory for preparing cost information. Consequently, most organisations maintain some form of cost accounting system. Financial accounting systems and management accounting systems provide information to different users of information.

Required:

- (b) (i) Distinguish between an integrated cost accounting system and an interlocking costing accounting system. (2 marks)
- (ii) Describe five (5) differences between financial accounting and management accounting. (5 marks)

[Total 20 marks]

END OF PAPER

DA5 COST ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a)

(i) Material price variance

3,800 kg should have cost @ K5 per kg	K
But did cost	19,000
	<u>20,000</u>
	<u>1,000(A)</u>
2,000 units should have used @ 2kg	4,000 Kg
But did use	<u>3,800 Kg</u>
	<u>200(F)</u>
	@ K5
	<u>K1,000 (F)</u>

(ii) Labour rate variance

6,120 hours should have cost @ K4 per hour	K
But did cost	24,480
	<u>25,092</u>
	<u>612 (A)</u>

Idle time variance

$$\text{Idle time variance} = (6,120 \text{ hours} - 5,900 \text{ hours}) = 220 \text{ hrs @ K4 per hour} \\ = \mathbf{\underline{K880}} \\ \mathbf{(A)}$$

Labour efficiency variance

2,000 units should have taken @ 3 hours	6,000 hours
But did take	<u>5,900 hours</u>
	<u>100 hours(F)</u>
	@K4
	<u>K400 (F)</u>

(iii) Variable production overhead expenditure variance

5,900 hours should have cost @ K3 per hour	K
But did cost	= <u>17,700</u>
	<u>17,200</u>
	<u>500 (F)</u>

Variable production overhead efficiency variance

$$100 \text{ hrs(F) @ K3 per hour} = \mathbf{\underline{K300 (F)}}$$

(iv) Fixed production overhead expenditure variance

	<u>K</u>
2,500 units should have cost @K6 per unit	= 5,000
But did cost	= <u>15,400</u>
	<u>400 (A)</u>

Fixed production overhead volume variance

	<u>Units</u>
Budgeted production volume	2,500 units
Actual production volume	<u>2,000 units</u>
	<u>500 units</u>
	<u>@K6</u>
	<u>K3,000 (A)</u>

Working

Fixed production cost per unit = K15,000/2,500 units = **K6 per unit.**

(b) Objectives of standard costing

- (i) To provide a basis of inventory valuation. Standard costs are an alternative to the use of absorption costing or marginal costing for the purpose of valuation of finished goods.
- (ii) To provide a basis for preparing budgets. The standard costs are first established and they are then used in preparing budgets.
- (iii) To provide a basis for evaluation of performance. Managerial and departmental performance may be evaluated using variance analysis.

SOLUTION THREE

(i) Process 1 account

	Units	K'000		Units	K'000
Material	2,000	6,000	Process 2	1,500	11,650
Conversion Costs		8,000	Normal loss	200	20
			Abnormal loss	300	2,330
	<u>2,000</u>	<u>14,000</u>		<u>2,000</u>	<u>14,000</u>

Workings

$$\begin{aligned} \text{W1. Cost per unit} &= \frac{\text{K14,000,000} - \text{K20,000}}{1,800 \text{ units}} \\ &= \mathbf{\underline{\underline{K7,766.67}}} \end{aligned}$$

W2. Valuations

$$\text{Completed units} = 7,766.67 \times 1,500 = \mathbf{\underline{\underline{K11,650,000}}}$$

$$\text{Abnormal loss} = 7,766.6666666667 \times 300 = \mathbf{\underline{\underline{K2,330,000}}}$$

(ii) Process 2 account

	Units	K'000		Units	K'000
Material	1,500	11,650	Process 2(W.2)	1,400	24,526
Conversion Costs		12,000	Normal loss	150	0
Abnormal gain(w.2)	<u>50</u>	<u>876</u>			
	<u>1,550</u>	<u>24,526</u>		<u>1,550</u>	<u>24,526</u>

Workings

$$\begin{aligned} \text{W1. Cost per units} &= \frac{\text{K11,650,000} + \text{K12,000,000}}{1,350 \text{ units}} \\ &= \mathbf{\underline{\underline{K17,518.52}}} \end{aligned}$$

W2. Valuation

$$\text{Completed units} = 1,400 \times \text{K17,518.52} = \mathbf{\underline{\underline{K24,525,928}}}$$

$$\text{Abnormal gain} = 50 \times \text{K17,518.52} = \mathbf{\underline{\underline{K875,926}}}$$

(iii) Scrap Account

	K'000		K'000
Process 1 A/c	20	Bank/cash	50

Abnormal loss/gain	<u>30</u>		
	<u>50</u>		<u>50</u>

(iv) **Abnormal Loss/ Gain Account**

	Units	K'000		Units	K'000
Process 1	300	2,330	Process 2	50	876
			Scrap A/c	250	30
			Income Statement		1,424
	<u>300</u>	<u>2,330</u>		<u>300</u>	<u>2,330</u>

SOLUTION FOUR

(a)

(i) Profit Statement Using Absorption Costing

	<u>November</u>		<u>December</u>	
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Sales revenue		<u>7,000</u>		<u>8,000</u>
Opening inventory	<u>0</u>		1,200	
Production cost	<u>6,800</u>		<u>5,600</u>	
	6,800		6,800	
Closing inventory	<u>(1,200)</u>		<u>(400)</u>	
Cost of sales		<u>5,600</u>		<u>6,400</u>
<u>Gross Profit</u>		1,400		1,600
Over/ (under) absorption		<u>200</u>		<u>(100)</u>
		1,600		1,500
Less: non production costs				
- Fixed selling and administration cost	650		<u>650</u>	
- Sales commission	<u>350</u>		<u>400</u>	
		<u>1,000</u>		<u>1,050</u>
Net profit		<u>600</u>		<u>450</u>

a)

(ii) Profit Statement Using Marginal Costing

	<u>November</u>		<u>December</u>	
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Sales revenue		<u>7,000</u>		<u>8,000</u>
Opening inventory	<u>0</u>		900	
Production cost	<u>5,100</u>		<u>4,200</u>	
	5,100		5,100	
Closing inventory	<u>(900)</u>		<u>(400)</u>	
Variable Cost of sales	<u>4,200</u>		<u>4,800</u>	
Sales commission	<u>350</u>		<u>400</u>	
		<u>(4,550)</u>		<u>(5,200)</u>
Contribution		2,450		<u>2,800</u>
Less: Fixed costs				
- Fixed selling and administration cost	650		<u>650</u>	
- Sales commission	<u>1,500</u>		<u>1,500</u>	
		<u>(2,150)</u>		<u>(2,150)</u>
Net profit		<u>300</u>		<u>650</u>

(b) Reconciliation statement

	<u>Nov</u> <u>K'000</u>	<u>Dec</u> <u>K'000</u>
Absorption costing profit	<u>600</u>	<u>450</u>
(Increase)/Decrease in inventory at fixed cost per unit	<u>(300)</u>	<u>200</u>
Marginal costing profit	<u>300</u>	<u>650</u>

Workings

Increase in inventory = 30,000 units X K 10 = K300,000

Decrease in inventory = (30,000 units – 10,000 units) = 20,000 units X K10
=K200,000

SOLUTION FIVE

(a) Order cost

$$\text{Order cost} = K10 \times 56,250 / 1,125 \text{ [D/QXC]} = K500$$

Holding cost

$$\text{Holding cost} = K0.5 \times 1,125 / 2 \text{ [Q/2XH]} = K281.25$$

K781.25

(b) (i) The EOQ is the order quantity that minimizes ordering and holding costs

(ii) Economic order quantity

$$\text{EOQ} = \sqrt{(2 \times C_o \times D / H)}$$

$$\text{EOQ} = \sqrt{\frac{2 \times K10 \times 56,250}{K0.5}}$$

= 1,500 units

(iii) Number of orders

$$D/Q = 56,250 / 1,500 = 37.50 \text{ or } \textbf{37 orders.}$$

(c) **Advice Whether Discount Is Financially Beneficial To F Ltd**

	Part(b) Inventory Costs	Part(a) Inventory Costs	Difference
	K	K	K
Ordering Costs	375.00	500.00	125.00
Holding Costs	375.00	281.25	93.75
Net Total	<u>K750.00</u>	<u>K781.25</u>	<u>31.25</u>

(d) **Existing Costs**

	K
Material 56,250 X K3.50	196,875.00
Ordering	375.00
Holding	<u>375.00</u>
	<u>197,625.00</u>

REVISED COSTS

	K
Material K196,875 X 95%	187,031.25
Order (56,250 /5,625) X K10	100.00
Holding (5,625/2) X K0.50	<u>1,406.25</u>
	<u>188,537.50</u>

Therefore, the availing of the discount is financially worthwhile. There is a saving of K9,087.50

QUESTION SIX

(a) The following apply to individual bonus schemes:

- (i) An individual bonus scheme is a remuneration scheme whereby individual employees qualify for a bonus on top of their basic wage, with each bonus being calculated separately.
- (ii) Three (3) characteristics of individual bonus schemes are:
 1. Each individual can earn a bonus by working at above the target standard of performance.
 2. The individual earns the greater bonus if the level of efficiency is greater.
 3. The bonus is unique to each individual. It is not a share of the total bonus for the company as a whole.
- (iii) An individual bonus scheme would not be appropriate in cases where employees work as a team with no opportunity of measuring individual employee's effort.
- (iv) Individual bonus schemes would be successful if the following factors apply:
 1. Each individual should be rewarded for the work that the individual has actually done.
 2. Work should be fairly routine so that standard times can be set for jobs.
 3. The bonus should be paid soon after the work has been done so as to provide the individual with the incentive to try harder.

(b) (i) With an integrated costing accounting system, the cost and financial accounting systems are combined in one set of accounts whereas the cost and financial accounts are maintained separately with an interlocking accounting system.

(ii) Differences between financial accounts and management accounts are as follows:

	Financial accounting	Management accounting
1.	By law, limited liability companies must prepare financial accounts.	There is no legal requirement to prepare management accounts.
2.	The format of published accounts is regulated by law, such as the IAS, IFRS and company law.	The format is not regulated by law. Each organization can devise its own management accounting system and format of reports
3.	Focuses on the business as a whole, aggregating revenues and costs from different activities.	Focuses on specific areas of the business, e.g. ascertaining the cost and profit of a product or measuring the economic performance of a division.
4	Financial accounting reports what has happened in the past in an organization.	Management accounting is concerned with both past and future information.

5	Financial information is generally of monetary nature.	Management accounting is concerned with both monetary and non-monetary information.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 17 DECEMBER 2021

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

INSTRUCTIONS TO CANDIDATES

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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. Which stage of law making is a bill debated in detail in parliament?

- A. Third reading
- B. Committee stage
- C. Second reading
- D. Report stage

(2 marks)

1.2. Mukuni put up a poster with the words '*Brand new Ford Ranger, orange in colour, 2021 model, for sale at K1,200,000 Cash*'. Mukuni's action is known as:

- A. An advertisement
- B. An offer to sell
- C. A contract for sale of motorvehicle
- D. An invitation to treat

(2 marks)

1.3. One of the rules governing consideration is that, 'Consideration must be sufficient'. This means that:

- A. It needs not be adequate
- B. Must be equal in value to the consideration received
- C. Must be capable in law of being regarded as consideration by courts
- D. Must not be illegal

(2 marks)

1.4. A contract of sale is

- A. Where ownership of goods is transferred from the seller to the buyer immediately from the seller to the buyer for money consideration called the price.
- B. Where ownership of the goods is subject to some condition to be fulfilled.
- C. Where ownership of the goods is to be transferred at a future time.
- D. Where ownership will be transferred upon payment by cheque or cash.

(2 marks)

1.5 Rita's car was stolen by Webster who sold it to Toyota Zambia the car dealers. Toyota Zambia sold it to Lipo. According to Section 25 of the Sale of Goods Act 1893 on transfer of title...

- A. Title passed to Lipo when Toyota Zambia sold the car to her.
- B. Lipo had not acquired a good title to the car as the transaction was not a contract of sale within the meaning of the law.
- C. Toyota Zambia became the owners as they bought the car without defects from Webster.
- D. Webster acquired good title the moment Rita knew that it was him who stole the car.

(2 marks)

1.6 The maximum number of partners in a partnership must be?

- A. 10
- B. 60
- C. 100
- D. 20

(2 marks)

1.7 What is referred to as damage under negligence in the law of Tort..?

- A. Compensation
- B. Damages
- C. Injury or loss
- D. Proximate cause

(2 marks)

1.8 What is the effect of a counter offer?

- A. It transforms an offer into an invitation to treat
- B. It results into acceptance of an offer
- C. It revokes an offer
- D. It amends the invitation to treat

(2 marks)

1.9 What amounts to summary dismissal?

- A. Wrongful dismissal
- B. Unfair dismissal
- C. Termination of an employee's contract as a result of gross misconduct without notice
- D. Termination of an employee's contract based on lack of financial capacity to pay.

(2 marks)

1.10 The grammatical and ordinary sense of words is to be adhered to, unless that would lead to some absurdity with the rest of the instrument leading to the infringing of the intention of the legislature, which rule of interpretation says this?

- A. Literal rule
- B. Mischief rule
- C. Golden rule
- D. Golden and literal rule.

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Magistrate Kalele the Senior Magistrate of Monze town had gone to have her lunch at NKFZ Gardens right there in Mongu, she pressed an order for chicken and mushroom soup. The waiters brought her meal and she enjoyed as she was about to finish her meal she discovered that the Mushroom soup contained a dead smashed cockroach. She immediately vomited and lost her appetite. After being treated by her doctors at SFH, she was advised that she needs not to worry as there was nothing much wrong with her healthy. She quickly instructed her lawyers to sue the restaurant.

Required:

- (a) What type of a tort was committed in the above scenario? (1 mark)
- (b) Explain to the magistrate, if she elects to sue why the court would award her a small amount of damages. (4 marks)
- (c) List elements for this kind of negligence. (3 marks)
- (d) (i) Identify and explain four (4) duties of partners in a partnership agreement. (8 marks)
- (ii) List four (4) indigenous sources of law in Zambia. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Owen Mukando rears quails. He supplies both quail eggs and quail meat to a wide market base in his hometown of Sinda. To expand his business, he recently bought a new plot measuring 100 metres x 100 metres from Chokani Mwanza and signed a contract of sale in regard to the said piece of land and was witnessed by Luciano Mumba. He paid for it in full and obtained all the documents in respect of the said piece of land.

The only supermarket in the area, Sinda Shoppist Ltd has also entered into a contract with Owen to be supplying them with both quails and eggs every week valued at K20,000. That would include quails for K15,000 and the rest eggs.

Required:

- (a) Explain the distinctions between the requirements of the two contracts that Owen signed with Chokani Mwanza and the one he signed with Sinda Shoppist Ltd. (6 marks)
- (b) Last Sunday, Makani sent a WhatsApp message to Owen requesting him to supply 300 quails at K6,000. Owen refused and replied, 'At least K8,000 I can supply them to you'. Makani then said, 'Ok, will send the money tomorrow', to which Owen replied 'Cheers'

and Thanks'. The following day, before Makani could pay, Sinda Shoppist Ltd came to Owen to order quails worth K15,000 and offered to buy additional 300 quails which were reserved for Makani at K9,000. This has angered Makani and exchanged bitter words with Owen.

Explain as to whether there was a binding contract between Owen and Makani.

(10 marks)

- (c) In their argument, Makani stated that, '*300 quails at K8,000*' was a condition of a contract. What did he mean by a condition of a contract? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Explain the tests applied by the courts to distinguish between an employment contract and a contract for services. (10 marks)

- (b) Outline the any five (5) circumstances in which uncertainty of inclusion of exclusion clauses in a contract may arise. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

Ringson and Chigati entered into a partnership business whose aim was installation of aluminium windows. They named their partnership as Kafue Modern Aluminium Installations. In their well – drawn up partnership deed, they have spelt out how profits and losses are to be shared, the amount of capital each is to contribute, and that Chigati was to be a salaried partner, whilst Ringson was a general partner.

Required:

- (a) Explain as to why Ringson and Chigati prepared a partnership deed. (7 marks)
(b) Ringson is an agent of the partnership. Explain the meaning of agency. (3 marks)
(b) What are the implications of 'Ringson being a general partner'? (10 marks)

[Total: 20 Marks]

QUESTION SIX

The Sale of Goods Act has a number of implied terms and conditions; these are provided for the smooth running of trade.

Required:

- (a) Highlight any four (4) implied terms in the Sale of Goods Act of 1893. (4 marks)
(b) List any four (4) types of torts. (4 marks)
(c) Outline ways by which a custom can be valid at law. (8 marks)
(d) Define an invitation to treaty and give an example. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA6 – BUSINESS LAW SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Negligence

(b) The legal issue is why the Magistrate is likely to receive minimal damages. Negligence is failure to take a reasonable step like a reasonable prudent man would do. In any case of negligence the court always looks to the elements of negligence in the scenario at hand, though the Magistrate suffered after she ate the soup that contained a dead smashed cockroach, the court will still look at the elements. In the case of Michael Chilufya Sata v Zambian Bottlers, it was indicated that the elements of negligence are duty of care, breach of that duty and damage suffered. The court put emphasis on damage suffered that is the damage is too remote a consequence to be awarded for the complainant may get little or no damage. Looking at the facts the doctors to the Magistrate stated in their report that though she swallowed the soup, there was nothing serious that affected her health. In application to the law cited above it appears that because of lack of serious injury the court may award little damages to the Magistrate.

(c) The following are the elements of negligence

- Duty of care
- Breach of duty of care
- Resultant damage

d) (i) Duty to participate in the management of the partnership business

- Duty to share losses
- To account for private profits
- To account for profits from a competing business
- To hold and use property of the firm
- To attend to his duties diligently
- Not to assign rights.

d (ii) a source is an origin of a thing. The following are sources of law in Zambia

- The Constitution of Zambia
- African customary law
- Judicial Precedent
- Parliamentary legislation.

SOLUTION THREE

(a) Owen signed two types of contracts, one for the sale of land and the other for the supply of quails and eggs. The first contract signed between Owen and Chokani for the sale of land is a **specialty contract**, whilst the other one which he signed with Sinda Shoppist Ltd is a **simple contract**. The distinction between the two is that a **specialty contract** is a formal contract, also known as a **deed** and the requires that such contracts must be in writing, signed, sealed and delivered. The signature of the parties (Owen and Chokani) must be witnessed and attested. On the other side, a **simple contract** (Owen and Sinda Shoppist Ltd) can either be in writing or oral or may just be implied from conduct. They are informal contracts.

(b) Makani's first message was a request for the *supply of information*, which is generally not binding unless accepted (**Harvey v Facey (1893)**), unless accepted. Following Owen's 'Ok, cheers' after the offer of K8, 000, it means the offer has been accepted. This turns the supply of information turn into a binding contract [**Bigg v Boyd – Gibbons (1971)**] where a statement from the vendor at price slightly higher than the initial offer was accepted by the buyer, but seller did not honour the agreement. He was bound by the same. Thus Makani's offer of K8, 000 was accepted, when Owen replied, 'Ok, cheers'. The parties have a binding contract and Owen shouldn't have sold the quails to Sinda Shoppist Ltd even if their price was higher.

(c) A condition is a vital term, going to the root of the contract. Its breach will destroy the basis of the agreement. Breach of a condition entitles the injured party to decide to treat the contract as discharged and to claim damages. In the case at hand, the number of quails (300) was a condition which goes to the root of the contract. Thus Makani was right in saying that it was a condition of the contract, changing the numbers entails discharge of a contract.

SOLUTION FOUR

(a) In order to distinguish between a contract of service and contract for services, the courts have come up with the following tests;

The Control test- here the courts will consider whether the employer has control over the way in which the employee performs his duties. If the employee is told what to do, when to do it, where to do it how to do it then that person is likely to be under a contract of employment. This was illustrated in *Mersey Docks V Coggins & Griffiths* (1984) where the courts held that the issue must be settled on the facts and not on the terms of contract. The Stevedores could only be treated as employers of the driver if they could control in detail how he did his work.

The Integration test – here the court considers whether, if the employee is so skilled that he cannot be controlled in the performance of his duties, he was nonetheless integrated into the employers' organisation. In *Cassidy V Ministry of Health*, the court held that in such cases, the proper test was whether the employer appointed the employee, selected him for the task and so integrated him into the organization.

The Multiple Test- the court considers whether the employee was working on his own account. It requires a lot of factors to be considered such as, did the employer have the right to hire and fire, are the employees being paid remuneration, do they go on leave *inter alia*.

(b) The following are the circumstances in which uncertainty can arise:

- The document containing notice to the clause is not integrated in the contract
- The document is not signed
- The terms are not forwarded before the contract is made
- Where onerous terms are not highlighted.

SOLUTION FIVE

- (a) A *partnership deed* or *agreement* governs a partnership business. It is important to have a partnership deed, though not legally necessary to have one for the following reasons: It lays down the details as to how the partnership would run such as amount of capital, management of the partnership, how the partners are to relate to each other, sharing of profits, etc. A partnership deed will reduce confusion in the running of a partnership.
- (b) An agency relationship is a relationship where an agent acts on behalf of another known as the principal. Once an agent acts on behalf of the principal, he or she binds the principal.
- (c) A *General Partner* is one who has no specific role in a partnership business and is the usual (most common) type of partners. He has the right to take part in the management of the business, usually oversees the day to day running of the business, can legally bind the business and is personally liable for debts of the business, unless the partnership agreement states to the contrary. Thus, the implications of Ringson being a general partner are that, he will take part in the management of the partnership; he will bind the partnership, etc. unless there is a provision in the partnership deed to the contrary.

SOLUTION SIX

(a) The following are implied terms in a contract of Sale of Goods Act

- Implied term as to title
- Implied term as to satisfactory of quality
- Sale by sample
- Sale by description

(b) -Tort of negligence

- Animal liability
- Defamation
- Strict liability
- Tort of nuisance

(c) The following are ways by which a custom may be valid at law:

- Uniformity, for a custom to be valid it must operate without changing throughout time. A custom that changes with time lacks consistence and is deemed to be misleading hence cannot be law.
- Conformity with written law, for a custom to be recognized by the law it must not be repugnant with any written law or any rule of natural justice.
- Reasonableness, for a custom to be recognized at law must be something that is morally accepted and not causing injustice to the law. For example, a custom that requires a woman to be cleansed after the death of her husband was rejected for being unreasonable at law.
- Conformity, for a custom to be valid it must operate without ceasing at any point in its application.

(d) an invitation to treat is a willful act by the offeror to give the offeree the opportunity to make an offer on the conditions and terms of the offeror. For example, where ShopRite makes an advert in the paper for the sale of a micro wave at k1950.99, at Christmas festival. This offer is valid but for a limited time, this also means that Shoprite reserves the right to change the terms in that period.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 13 DECEMBER 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

QUESTION ONE

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

Each of the following questions has only one (1) correct answer. Write the letter of the correct answer you have chosen in your answer booklet. Each question is allocated two (2) marks.

- 1.1 Which of the following does **NOT** qualify for a sole trader.
A. Accountable to shareholders
B. Get all the profits
C. Gets a salary
D. Pays tax to ZRA
(2 marks)
- 1.2 Contingency management is based on belief that
A. There is no one best way of managing and leading
B. There is always one best way of managing and leading
C. There is always one good employee in every organization
D. Every manager can be the best if given the right human resource.
(2 marks)
- 1.3 The term 'Best Fit' in management refers:
A. Making the best decisions
B. Placing the best people in the right positions
C. Ordering the best inputs to produce the best product
D. Conducting staff the appraisal every year.
(2 marks)
- 1.4 Which of the following people made a significant contribution to Human resources management and advocated that people have feelings which can affect their work attitudes.
A. Fredrick W Taylor
B. Abraham Maslow
C. Elton Mayo
D. All of them
(2 marks)
- 1.5 The process of converting private owned organizations to Government owned.
A. Democratization
B. Nationalization
C. Privatization
D. Public Private Partnerships
(2 marks)
- 1.6 Strategic marketing involves knowing how to mix and use the marketing tools. Which of the following marketing tools is a revenue tool?

- A. Product
- B. Place
- C. Price
- D. Promotion

(2 marks)

1.7made a positive contribution towards management motivation.

- A. F.W. Taylor motivation theory
- B. Abraham Maslow motivation theory
- C. McClelland's motivation theory
- D. Herzberg's motivation theory

(2 marks)

1.8 Which one of the following is **NOT** one of the ways public sector organizations raise money?

- A. Raising taxes
- B. Making charges for their goods and services
- C. Borrowing
- D. Receiving subsidies.

(2 marks)

1.9 The following is an advantage of Performance appraisal.

- A. Promotes formation of trade Unions
- B. Promotes relationship with management
- C. Promotes sharing of profits between managers and employees
- D. Employees get to know their salaries

(2 marks)

1.10 Which of the following is an advantage of Virtual offices?

- A. Good for internet users
- B. Good to work away from the office
- C. Customers cannot see the product physically
- D. Provides limited time to work

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Henri Fayol has been regarded by many as the father of modern operational management theory, and his ideas have become a fundamental part of modern management concept.

Required:

- (a) Explain the Henri Fayol's five (5) functions of management? (15 marks)
- (b) Define the term "Esprit de corps" according to Henri Fayol. (5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) The process of implementing planned change is meant to modify behaviour and reduce resistance.

Required:

Identify and explain the three (3) stages in change management model suggested by Kurt Lewin. (9 marks)

- (b) Briefly explain delegation and state any three (3) benefits of effective delegation. (5 marks)
- (c) Limited liability is one of the advantages of forming a company. Briefly explain the meaning of limited liability and state any other four (4) advantages of a company form of business ownership. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) SWOT analysis is a strategic management tool that is used to identify internal and external factors that will affect the business.

Required:

With a relevant example, briefly explain the following as they relate to SWOT analysis:

- (i) Strengths (3 marks)
- (ii) Weaknesses (3 marks)
- (iii) Opportunities (3 marks)
- (iv) Threats (3 marks)

- (b) Explain each of the following style of leadership

- (i) Autocratic style (2 marks)
 - (ii) Democratic style (2 marks)
 - (c) State any four (4) reasons for individual resistance to change. (4 marks)
- [Total: 20 Marks]**

QUESTION FIVE

Workers are generally motivated by both internal and external factors. Internal factors include an individual worker's own personal thought processes and experiences. External factors are those, such as the organizational culture, that either inspire workers to be productive through the use of rewards or by instilling a sense of fear in workers.

Required:

- (a) Use the Maslow's Needs theory to explain how employees can be motivated at each stage. (10 marks)
 - (b) Explain some of the external forces that influence organizational culture. (10 marks)
- [Total: 20 Marks]**

QUESTION SIX

There has been a strong legalization that most of the companies that were privatized like the mines are either closed or limping with marginal profits. However, with some exceptional; some have been good examples of private companies.

Required:

- (a) Explain five (5) advantages of nationalization. (10 marks)
 - (b) Show three (3) differences between the Private limited company and Public limited companies. (6 marks)
 - (c) Explain the two (2) objectives of Community non-profit making organizations. (4 marks)
- [Total: 20 Marks]**

END OF PAPER

DA7: PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Explain the Heri Fayols five functions of management

- Planning: This is the first and most important function of management. According to Fayol, every company needs a good plan of action. However, a critical thing related to planning is the involvement of the entire organization.
- Organizing: Organizations cannot survive unless they are properly organized. It also helps at coordination of tasks between various levels and departments.
- Commanding: Commanding is an essential management function. The management should give clear commands to its workforce so it can produce the desired output
- Controlling: Control or monitoring ensures that everything is running as per the plan. Evaluation is a very important component of this function. Managers should evaluate employee performance regularly to ensure adherence to the plan.
- Co-ordinating: Leadership must focus on coordination to ensure proper workflow, employee motivation as well as high productivity. All these things can be achieved through coordination.
-

(b) Define the term "Esprit de corps" according to Fayol

This principle implies that union is strength and an extension of the principle of unity of command.

SOLUTION THREE

(a)

1. Unfreeze

This is the process of getting people to recognize that change is not only necessary but desirable. Individuals are made to feel dissatisfied with the current state of affairs and then persuaded that the planned change will bring desirable improvements.

2. Change or Movement

This involves making the change and move from the old way of doing things to the new way. Change or movement is done after unfreezing is complete and there must be continuing support for the change.

3. Refreeze

This stage involves making change stick to prevent people from going back to the old ways of doing things. This is done by providing rewards such as pay rise, bonuses, allowances, promotion etc.

(b) Delegation

This means handing authority down from a higher level of management to a lower level of management in the organization.

Some of the benefits of delegation include the following:

1. It gives more time to superiors to concentrate on their managerial functions
2. It motivates subordinates
3. Delegation is a form of training which prepares subordinates for challenging managerial tasks
4. It enables decisions to be made which consider local situation and improves efficiency
5. Any other acceptable benefit

(c) Limited liability

This means the liability of shareholders is restricted to only the capital invested hence not personally liable to the debts of a company.

Other advantages of a limited company

1. It has perpetual existence separate from the owners
2. It can raise more capital through issue of shares
3. It has more borrowing capacity
4. It can employ diverse skills
5. Any other acceptable advantage

SOLUTION FOUR

(a)

(i) **Strengths**

These are favourable factors in the internal environment. That is, areas where the business is doing well internally. Eg adequate financial resources, skilled workforce, latest technology etc

(ii) **Weaknesses**

They are negative factors in the internal environment. eg use of unskilled labour, poor credit control, lack of financial resources, outdated equipment etc.

(iii) **Opportunities**

They are positive factors in the external environment which can be exploited. Eg lack of competition, favourable regulations, political stability etc.

(iv) **Threats**

Unfavourable factors in the external environment. That is factors that can affect the firm negatively, eg entry of new competitors, unfavourable regulations etc.

(b)

(i) **Autocratic style**

Under this style of leadership, a leader makes all the decisions and expects subordinates to follow without question. He/ she centralises authority, dictates work methods, makes unilateral decisions and limits employee participation.

(ii) **Democratic style**

In this leadership style, decisions are made through consensus. The leader involves employees in decision making, delegates' authority, encourages participation in deciding work methods and goals, and uses feedback as an opportunity to coach employees

(c) Reasons for individual resistance to change

1. Fear of unknown
2. Inertia
3. Self interest
4. Misunderstanding
5. Any other acceptable reason

SOLUTION FIVE

- (a) Use the Maslow's Needs theory to explain how employees can be motivated at each stage.
- (i) Physiological Needs. These include needs for satisfaction of hunger and thirst, need for sleep, sensory pleasures, activities, material behaviour and sex desire.
 - (ii) Safety Needs. These include safety and security, freedom from pain or threat of physical attack, protection from danger or deprivation and the need for predictability and orderliness.
 - (iii) Love or Social Needs. These include needs for affection, sense of belonging, social activities, friendship, and giving and receiving of love.
 - (iv) Esteem or Ego Needs. These include self-respect and esteem of others. Self-respect involves the desire for confidence, strength, independence and freedom and achievement. Esteem of others means reputation or prestige, status, recognition, attention and appreciation.
 - (v) Self-Actualisation Needs. This is the development and realisation of one's full potential. Maslow regards this as what humans can be, they must be, becoming everything that one is capable of becoming.
- (b) Explain some of the external forces that can influence organizational culture
- (i) Customer Pressure. Customers may be leaving and reporting that they are unhappy with how they are treated, unhappy with some services and this can prompt the change in working culture.
 - (ii) Ownership Change. An organization may be purchased by an outside company or individual. Often that new owner will want to use a new ways of running the organization that has worked for it in other businesses.

- (iii) Competition. Sales may have declined because of competition from a similar company that has always been an opponent in the marketplace, or competition from a new company with a different way of winning customers.
- (iv) Technology. Technology can bring positive change to an organization, by boosting efficiencies or making new products possible. It can also endanger an organization that is dependent on the old way of doing things.
- (v) Industry Regulation. The industry that the organization is a part of may be subject to new regulation, or may simply have existing regulations changed. The new rules might only affect a part of the organization, but it is possible that every aspect of the way the business operates will have to change to comply.
- (vi) Catastrophic Events. A catastrophic event can wipe out a business immediately, but if that business continues to operate in the wake of some disaster it will likely need to change. It may have a decreased work force, fewer customers, damaged equipment or customers with different needs.

SOLUTION SIX

(a) Explain five (5) advantages of Nationalization

Nationalization is the process of taking privately-controlled companies, industries, or assets and putting them under the control of the government.

- (i) It creates public interest
- (ii) It provides workers' rights in those companies
- (iii) It creates a natural monopoly
- (iv) Helps to regulate market prices
- (v) Provides more jobs

(b) Explain two (2) ways in which public sector organizations differ from public limited companies.

- (i) Private Ltd have private ownership while public limited companies have public ownership.
- (ii) Private Ltd do not disclose profits to the public while Public Limited are mandated to disclose their profits to the public.
- (iii) Public limited companies have no shares at the stock market

(c) Explain two (2) the objectives of Community non- profit organizations

- (i) Established to provide services to the community and do not seek to make a profit
- (ii) May be funded by members or by donations
- (iii) Tend to be democratic with elected officials, who may also act as managers of the organizations

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 8: FINANCIAL REPORTING

MONDAY 13 DECEMBER 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

Both questions in this section are compulsory and must be attempted.

QUESTION ONE

On 1 April 2020 Mlulu acquired 75% of Kawizi's equity shares, when Kawizi's retained earnings were K164 million. Mlulu paid K240 million cash, and promised to pay K16 million on 1 April 2023. The cash consideration has been recorded, but no entries have been made in respect of the deferred consideration. Mlulu has a cost of capital of 8%.

On 1 January 2021, Mlulu also acquired 14 million of the 56 million equity shares of Bwazi paying K4 cash per acquired share. This consideration has been recorded by Mlulu. Bwazi made a profit of K40 million for the year ended 31 March 2021.

The statements of financial position for both companies at 31 March 2021 are below:

	<i>Mlulu</i>	<i>Kawizi</i>	<i>Bwazi</i>
	K000	K000	K'000
Non-current assets:			
Property, plant and equipment	690,000	210,000	203,000
Investments	<u>346,000</u>	<u>72,000</u>	<u>nil</u>
Total non current assets	<u>1,036,000</u>	<u>282,000</u>	<u>203,000</u>
Current assets:			
Inventories	86,000	34,640	26,500
Trade receivables	64,800	76,000	24,800
Bank	<u>37,200</u>	<u>20,000</u>	<u>15,680</u>
	<u>188,000</u>	<u>130,640</u>	<u>66,980</u>
Total assets	<u>1,224,000</u>	<u>412,640</u>	<u>269,980</u>
Equity and liabilities			
Equity			
Equity shares of K1 each	340,000	30,000	56,000
Retained earnings	<u>675,300</u>	<u>212,000</u>	<u>77,000</u>
Total equity	<u>1,015,300</u>	<u>242,000</u>	<u>133,000</u>
Current liabilities:			
Trade payables	132,500	115,300	72,000
Current tax payable	<u>76,200</u>	<u>55,340</u>	<u>64,980</u>
Total current liabilities	<u>208,700</u>	<u>170,640</u>	<u>136,980</u>
Total equity and liabilities	<u>1,224,000</u>	<u>412,640</u>	<u>269,980</u>

The following information is relevant:

- (i) The fair values of the net assets of Kawizi were equal to their carrying amounts with the exception of an item of plant, which had a fair value of K8 million in excess of its carrying amount. At the date of acquisition, the plant was deemed to have a remaining useful life of 20 years.
- (ii) The remaining investments in Mlulu and those in Kawizi are investments which are carried at fair value through profit or loss. The value at which they are stated in the draft statements of financial position is the fair value at 1 April 2020. These investments were valued at K56 million and K72 million in Mlulu and Kawizi respectively at 31 March 2021.
- (iii) During the year, Mlulu traded with both Kawizi and Bwazi. Trade payables in Mlulu to Kawizi were K14 million and trade payables in Mlulu to Bwazi were K10 million. Kawizi's receivable balance differed from the trade payables in Mlulu due to a K4 million payment from Mlulu not being received by Kawizi until 8 April 2021. Bwazi's receivable balance agreed with the K10 million payable recorded by Mlulu.
- (iv) As a result of these intra group trading activities, Mlulu had in its inventory goods bought from Kawizi amounting to K2.8 million. Kawizi had applied a margin of 25% on these sales. Additionally, 60% of the goods bought by Mlulu from Bwazi had been sold to third parties by 31 March 2021. The goods cost Bwazi K16 million to buy and Bwazi applied a markup of 20% to sell the goods to Mlulu.
- (v) Impairment tests were carried out on 31 March 2021 which concluded that consolidated goodwill was impaired by 10% and the value of investment in Bwazi was not impaired.
- (vi) Mlulu measures the non-controlling interest at fair value at the date of acquisition. At the date of acquisition, the non-controlling interest had a fair value of K33.75 million.

Required:

Prepare the consolidated statement of financial position for Mlulu group for the year ended 31 March 2021.

[Total: 25 Marks]

QUESTION TWO

Chiseka Ltd is a beverage manufacturer for a drink called Yo-Yo Cool. As financial accountant for the company, the Chief Finance Officer has asked you to prepare financial statements for the company for the current year under review. The financial statements are scheduled for approval by directors on 31 May 2021.

The following Trial Balance relates to Chiseka Ltd as at 31 March 2021.

	K'000	K'000
Land and Buildings at cost – 1 April 2020:		
(Land cost K12.5m, Building cost K250m) (note (iii))	262,500	
Accumulated depreciation Buildings at 1 April 2020		25,000
6% convertible Loan note (note (ii))		90,000
Administrative expenses	34,750	
Bank	58,250	
Cost of sales	106,750	
Distribution costs	25,875	
Equity shares of K1 each, fully paid at 31 March 2021 (note (iv))		225,000
Share premium at 31 March 2021 (note (iv))		113,650
Deferred tax at 1 April, 2020 (note (vi))		15,000
Interest and equity dividends paid (note (vii))	35,000	
Inventory at 31 March 2021 (note (v))	41,500	
Equipment at cost 31 March 2020 (note (iii))	180,000	
Accumulated depreciation on equipment at 1 April 2020 (note (iii))		42,188
Retained earnings at 31 March 2020		33,537
Revenue (note (i))		290,750
Trade receivables	106,250	
Current tax (note (vi))		3,750
Trade payables		<u>12,000</u>
	<u>850,875</u>	<u>850,875</u>

Additional information provided is as follows:

- (i) Included in Revenue is K22.5 million cash sales made by Chiseka Ltd while acting as an agent for Quench-Yo. The agency agreement provides for a 12% of the sales as commission to Chiseka Ltd. By 31 March 2021, Chiseka Ltd had remitted to Quench-Yo K19.8 million included in cost of sales.
- (ii) On 1 April 2020, Chiseka Ltd issued a 6% K90 million convertible loan note at par. Interest is payable annually in arrears on 31 March each year. The loan note is redeemable at par or convertible into equity shares at the option of the loan note holders before or on 31 March 2023. The interest on an equivalent loan note without the conversion rights would be 8% per annum.

The present values of K1 receivable at the end of each year, based on discount rates of 6% and 8% are:

		6%	8%
End of year:	1	0.94	0.93
	2	0.89	0.86
	3	0.84	0.79

- (iii) To reflect marked increase in property prices, Chiseka Ltd decided to revalue the land and buildings for the first time on 1 April 2020. The directors of Chiseka Ltd accepted a report of an independent surveyor who valued the land and building at K340 million (land K20 million and Buildings K320 million). The buildings were being depreciated over 50 years since acquisition and their economic useful life has not changed as a result of the revaluation.

Equipment is depreciated at 12.5% per annum based on the reducing balance method.

All depreciation of tangible non current assets is to be charged to cost of sales. No depreciation has yet been charged on non current assets for the year ended 31 March 2021.

- (iv) On 1 January 2021, Chiseka Ltd made a fully subscribed for rights issue of equity shares of 50 million shares at K1.90. The issue has been recorded in the above trial balance.
- (v) On 10 May 2021, the internal auditor at Chiseka Ltd discovered that inventory at 31 March 2021 was understated by K0.5 million.
- (vi) The balance on current tax represents the overprovision of tax liability for the year ended 31 March 2020. A provision for income tax for the year ended 31 March 2021 of K6 million is required. At 31 March 2021, Chiseka had taxable temporary differences

of K55 million, requiring a provision for deferred tax. Any deferred tax adjustment should be reported in the statement of profit or loss. Chiseka Ltd's income tax rate is 35%.

- (vii) On 30 September 2020, Chiseka Ltd paid interim dividends included in the trial balance above, At 31 March 2021, Chiseka Ltd declared that further dividends to be paid at a rate of K0.12 per share for all shares in issue at the same date.

Required:

- (a) Prepare a statement of profit or loss and other comprehensive income for Chiseka Ltd for the year ended 31 March 2021. (12 marks)
- (b) Prepare Chiseka Ltd.'s statement of changes in equity for the year ended 31 March 2021. (3 marks)
- (c) Prepare a statement of financial position for Chiseka Ltd as at 31 March 2021. (10 marks)

[Total : 25 Marks]

SECTION B

Attempt two (2) questions only from this section.

QUESTION THREE

Below are the statements of financial position of Kanthu, a Public listed manufacturing company as at 30 June 2021 and 30 June 2020, together with the statement of profit or loss and other comprehensive income for the year ended 30 June 2021.

Statements of financial position for Kanthu as at:

	30 June 2021	30 June 2020
	K'000	K'000
Non current assets		
Property, plant and equipment	96,750	101,587
Deferred Development expenditure	<u>4,500</u>	<u>0</u>
Total non current assets	<u>101,250</u>	<u>101,587</u>
Current assets		
Inventory	11,812	10,125
Trade account receivables	7,087	6,075
Cash and cash equivalents	<u>2,094</u>	<u>1,013</u>
Total current assets	<u>20,993</u>	<u>17,213</u>
Total assets	<u>122,243</u>	<u>118,800</u>
Equity and liabilities		
K0.50 ordinary shares	40,500	20,250
Share premium	16,875	6,750
Revaluation reserve	20,250	19,500
Retained earnings	<u>11,483</u>	<u>7,500</u>
Total shareholders' funds	<u>89,108</u>	<u>54,000</u>
Non current liabilities		
Loan notes	16,200	47,250
Deferred tax	<u>3,645</u>	<u>3,038</u>
Total non current liabilities	<u>19,845</u>	<u>50,288</u>
Current liabilities		
Trade and other payables	7,155	9,450
Current tax payable	6,135	5,062
Total current liabilities	<u>13,290</u>	<u>14,512</u>

Total equity and liabilities	<u>122,243</u>	<u>118,800</u>
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Statement of profit or loss for the year ended 30 June 2021

	K'000
Revenue	108,000
Cost of sales	<u>(67,500)</u>
Gross profit	40,500
Administrative expenses	(13,500)
Distribution costs	<u>(8,100)</u>
Operating profit	18,900
Finance cost	<u>(4,050)</u>
Profit before tax	14,850
Income tax expense	<u>(6,744)</u>
Profit for the year	<u>8,106</u>

The following information is to be taken into account:

- (i) On 31 March 2021, Kanthu issued 6,000,000 bonus shares, followed by a rights issue, utilizing the share premium reserve for the bonus issue.
- (ii) During the year, Kanthu sold plant for K405,000 which had a carrying amount of K236,250. The profit on this sale has been included in operating profit for the year ended 30 June 2021.
- (iii) The trade and other payables balance includes interest payable of K2,227,500 and K4,050,000 at 30 June 2021 and 30 June 2020 respectively. The balance for year ended 30 June 2021 also includes an amount of K600,000 for provision for a legal claim made against Kanthu by one of its suppliers during the year to 30 June 2021. The amount provided has been included in cost of sales for the year ended 30 June 2021.
- (iv) Development expenditure was amortized by K640 during the year ended 30 June 2021 and the amount is included in cost of sales for the year under review.
- (iv) Depreciation expense for the current year amounts to K7,492,500. This has been included in cost of sales.

Required:

- (a) Prepare Kanthu's statement of cash flows for the year ended 30 June, 2021 in accordance with *IAS 7 Statement of Cash Flows* using the indirect method.
(20 marks)
- (b) Briefly explain why profit earned by an entity does not equal the change in bank/cash balances.
(5 marks)

[Total: 25 Marks]

QUESTION FOUR

Magnet Ltd is a manufacturing entity with an accounting period that runs from 1 April through to 31 March every year. The following transactions have arisen in the year to 31 March 2021 for which Magnet requires advice from you on the correct accounting treatment:

Transaction one

Magnet Ltd received a grant of K12 million towards the purchase of a depreciating asset whose cost was K24 million. The grant was received on 1 April 2020 and the asset acquired on the same day. Magnet Ltd wish to treat the government grant income as a deferred credit. The useful life of the asset is twelve (12) years.

Required:

- (i) Briefly distinguish between revenue grant and a capital grant as prescribed by *IAS 20 Accounting for Government Grants and Disclosure of Government assistance*.
(4 marks)
- (ii) Explain the appropriate accounting treatment of the grant money to Magnet Ltd clearly stating amounts to be recognized in the financial statements for the year ended 31 March 2021.
(7 marks)

Transaction two

Magnet Ltd company planned to expand its manufacturing facility and so on 1 April 2020, it issued 4% loan notes with a nominal value of K40 million. The loan notes were issued at a discount of 2.5% and K1.068 million of issue costs were incurred. The loan notes would be repayable at a premium of 10% after five (5) years. The effective rate of interest is 7%.

Required:

Explain the appropriate accounting treatment of the loan notes to Magnet Ltd clearly stating amounts to be recognized in the financial statements for the year ended 31 March 2021.
(6 marks)

Transaction three

Magnet Ltd has a cash generating unit (CGU) consisting of the following assets at 31 March 2021:

	K'000
Goodwill	2,500
Buildings	7,150
Plant and machinery	7,450
Inventory	1,850
Receivables	<u>2,470</u>
Total	<u>21,420</u>

An impairment review was carried out on 31 March 2021 which reviewed that the recoverable amount of the cash generating unit was estimated at K11,400,000. The building went on fire and was severely damaged and is currently out of use. However, some fittings have been assessed to have a recoverable amount of K800,000.

Required:

- (i) Explain the accounting treatment of impairment loss of a Cash generating unit in line with the requirements of IAS 36 Impairment of Assets. (3 marks)
- (ii) Compute the amounts at which Magnet Ltd's assets in the cash generating unit will be recognized after the impairment review at 31 March, 2021.

(5 marks)

[Total: 25 Marks]

QUESTION FIVE

The IASB conceptual framework for financial reporting is a frame of reference for financial reporting. It requires among other things that financial statements are prepared based on an underlying assumption, meeting appropriate qualitative characteristics.

Required:

- (a) State the main objective of general purpose financial reporting. (2 marks)
- (b) Briefly describe the five (5) main elements of financial statements. (10 marks)
- (c) Explain the underlying assumption in the preparation of financial statements.

(4 marks)

(d) Briefly explain the following qualitative characteristics of financial information:

- (i) Faithful representation
- (ii) Relevance
- (iii) Comparability
- (iv) Verifiability

(9 marks)

[Total: 25 Marks]

END OF PAPER

DA8 FINANCIAL REPORTING SUGGESTED SOLUTIONS

SOLUTION ONE

Mlulu Group

Consolidated statement of financial position as at 31 March 2021

Non current assets:	K'000
Goodwill (W1)	76,006
Property, Plant and Equipment (690,000 + 210,000 + 7,600 W3)	907,600
Financial assets (56,000 (W12) + 72,000	128,000
Carrying amount of Investment in Bwazi (W 10)	58,500
Total non current assets	<u>1,170,106</u>
Current assets:	
Inventories (86,000 + 34,640 – 700 W8 – 320 W8)	119,620
Trade receivables (64,800 + 76,000 – 4,000 W9 – 14,000 W9)	122,800
Bank (37,200 + 20,000 + 4,000)	61,200
Total Current assets	<u>303,620</u>
Total assets	<u>1,473,726</u>
Equity and liabilities:	
Equity shares of K1 each	340,000
Retained earnings (W5)	<u>711,305</u>
Total equity	<u>1,051,305</u>
Non controlling interest (W11)	<u>43,364</u>
	<u>1,094,669</u>
Non current liabilities:	
Deferred consideration (W7)	13,717
Current liabilities:	
Trade payables (K132,500 + 115,300 – 14,000W9)	233,800
Current tax payable (76,200 + 55,340)	<u>131,540</u>
Total current liabilities	<u>365,340</u>
Total equity and liabilities	<u>1,473,726</u>

WORKINGS

1. Group structure

Mlulu in Kawizi -----75% at 1 April 2020 (acquisition 1 year ago)

Mlulu in Bwazi -----25% (14 million shares/56 million shares x 100) at 1 January 2021 (acquisition 3 months ago).

2. Goodwill on acquisition of Kawizi

	K'000	K'000
Consideration: cash		240,000
Deferred (K16 m x 1/1.08 ³)		12,701
Non controlling interest at acquisition		<u>33,750</u>
		286,451
Less net assets at acquisition:		
Share capital	30,000	
Pre acquisition retained earnings	164,000	
FV adjustment	<u>8,000</u>	(202,000)
Gross goodwill		84,451
Less impairment loss (10% * 84,451)		<u>(8,445)</u>
Net goodwill		<u>76,006</u>

3. Fair value adjustments: at acquisition movement at reporting

	K'000	K'000	K'000
Plant	8,000	*(400)	7,600

*Depreciation = 8,000/20 = 400 x 1 year ago

4. Net assets of Kawizi:

	@ acquisition K'000	@reporting K'000	movement K'000
Share capital	30,000	30,000	-
Retained earnings	164,000	212,000	48,000
Fair value adjustment	8,000	7,600	(400)
PUP	=	<u>(700)</u>	<u>(700)</u>
	<u>202,000</u>	<u>248,900</u>	<u>46,900</u>

5. Group retained earnings

	Mlulu K'000	Kawizi K'000	Bwazi K'000
Per question	675,300	212,000	77,000
Less pre-acquisition retained earn.		<u>(164,000)</u>	<u>(67,000)</u>
Unadjusted post acq. R.E		48,000	10,000
Fair value additional depreciation(w3)		(400)	
Unwinding of discount (w7)	(1,016)		
PUP (W8)	(320)	<u>(700)</u>	
		46,900	

M's share of K (75%*46,900)	35,175
M's share of B (25% * 10,000)	2,500
FV Gain of financial asset	6,000
Group share of imp. Loss:	
(75% * 8,445)	<u>(6,334)</u>
	<u>711,305</u>

ALTERNATIVELY

K'000

Mlulu	675,300
Mlulu's share of Kawizi (75% * 46,900)	35,175
Mlulu's share of Bwazi (25% * 10,000)	2,500
Unwinding of discount (W7)	(1,016)
PUP associate (W8)	(320)
FV gain of financial asset	6,000
Mlulu share of Impairment loss (75% * 8445)	<u>(6,334)</u>
	<u>711,305</u>

6. Bwazi's profit line

	1 April 2020	1 Jan 2021	31 Mar
2021			
Retained earnings	37,000	(9/12*40,000 = 30,000)	3/12*40000=10,000
			77,000

Profit for the year \longrightarrow 40,000 \longleftarrow

As profit for the year to 31 March 2021 is K40 million, it means profit for last three months (post acquisition profit) is K10 million (3/12 x K40 million leaving us with pre-acquisition retained earnings of K67 million (K77 million – K10 million).

7. Unwinding of discount/liability at reporting date.

K'000

Deferred consideration at acquisition date (W2)	12,701
Add unwinding of discount (8%*12,701)	<u>1,016</u>
Deferred consideration at reporting date	<u>13,717</u>

8. Provision for unrealized profit (PUP)

- i) Sales from Kawizi to Mlulu (K'000)
 $25/100 \times 2,800 = 700$
- ii) Sales from Bwazi to Mlulu (K'000)
 $40\% \times 16,000 \times 20/100 \times 25\% = 320$
- | | | |
|----------------------------|-----|-----|
| Dr group retained earnings | 320 | |
| Cr group inventory | | 320 |

9. Intra group balance cancellations:

- i) Cash in transit:
Dr cash (Kawizi) K4,000
Cr Receivables (Kawizi) K4,000
- ii) Cancellation:
Dr group payables 14,000
Cr group receivables 14,000

10. Carrying amount of investment in Bwazi: K'000

Cost of investment (K4 x 14 m shares)	56,000
Add Mlulu's share of profit in Bwazi (25% x 10,000)	<u>2,500</u>
	58,500

11.Non controlling interest at reporting:

NCI at acquisition	33,750
NCI share of post acq. retained earnings (25% x 46,900)	11,725
NCI share of impairment loss (25% x K8,445)	<u>(2,111)</u>
NCI at reporting	43,364

12. Other investments of Mlulu-Financial asset K'000

Total investment value per question	346,000
Less investment in Kawizi (cash)	(240,000)
Less investment in Bwazi (K4 x 14 m shares)	<u>(56,000)</u>
FV of Financial asset investment @ 1 April 2020	50,000
FV gain of Financial asset (bal fig)	<u>6,000</u>
FV of Financial asset at 31 March 2021	56,000

SOLUTION TWO

(a) Chiseka Ltd's

Statement of profit or loss for the year ended 31 March 2021

	K'000
Revenue (W2) (290750 – 19800)	270,950
Cost of sales (W9)	<u>(110,788)</u>
Gross profit	160,162
Administrative expenses	(34,750)
Distribution costs	<u>(25,875)</u>
Operating profit	99,537
Finance cost (W3)	<u>(6,803)</u>
Profit before tax	92,734
Income tax (W8)	<u>(6,500)</u>
Profit for the year	86,234
Other Comprehensive Income:	
Revaluation surplus (W1)	<u>102,500</u>
Total Comprehensive Income	<u>188,734</u>

(b) Chiseka Ltd's

Statement of Changes in Equity for the year ended 31 March 2021.

	Equity shares K'000	Share premium K'000	Equity option K'000	Revaluation reserve K'000	Retained earnings K'000
Balances b/f (W5)	175,000	68,650	-	-	33,537
Total comp. income	-	-	-	102,500	86,234
Dividends payable	-	-	-	-	(56,600)
New share issue (W5)	50,000	45,000	-	-	-
Convertible loan (W3)	-	-	<u>4,968</u>	-	-
Balances c/f	<u>225,000</u>	<u>113,650</u>	<u>4,968</u>	<u>102,500</u>	<u>63,171</u>

(c) Chiseka Ltd's**Statement of financial position as at 31 March 2021.**

<i>Non current assets:</i>	<i>K'000</i>
Property, Plant and Equipment (W1)	453,474
<i>Current assets:</i>	
Inventory (41,500+500)	42,000
Trade Receivables	106,250
Bank	<u>58,250</u>
Total current assets	<u>206,500</u>
Total assets	<u>659,974</u>
<i>Equity and liabilities:</i>	
Equity shares of K1 each	225,000
Share premium	113,650
Revaluation reserve	102,500
Retained earnings	63,171
Equity option of convertible loan (W3)	<u>4,968</u>
Total equity	<u>509,289</u>
<i>Non current liabilities:</i>	
6% convertible loan (W4)	86,435
Deferred tax (W8)	<u>19,250</u>
Total non current liabilities	<u>105,685</u>
<i>Current liabilities:</i>	
Trade payables	12,000
Current tax payable (W8)	6,000
Dividends payable (W6)	<u>27,000</u>
Total current liabilities	<u>45,000</u>
Total equity and liabilities	<u>659,974</u>

WORKINGS (all amounts have three zeros knocked off.**1. Property, Plant and Equipment (K'000)**

	Land K'000	Buildings K'000	Equipment K'000	Total K'000
Cost/valuation b/f	12,500	250,000	180,000	442,500
Less accmtd dep'n		<u>(25,000)</u>	<u>(42,188)</u>	<u>(67,188)</u>
CA b/f at 1/4/20	12,500	225,000	137,812	375,312
Revaluation surplus	<u>7,500</u>	<u>95,000</u>		<u>102,500</u>
Revalued/CA c/f	20,000	320,000	137,812	477,812
Depreciation expense:				
Building	-	(7,111)		(7,111)
(320,000/45)				
Equipment			<u>(17,227)</u>	<u>(17,227)</u>
(12.5%x 137,812)				
Carrying amount c/f	<u>20,000</u>	<u>312,889</u>	<u>120,585</u>	<u>453,474</u>

2. Revenue

Commission = $12\% \times 22,500 = 2,700$

Amount to be deducted from revenue and cost of sales 19,800 (22,500-2,700) as follows:

Dr Revenue	19,800	
Cr cost of sales		19,800

3. Convertible loan notes

Present value of proceeds ($90,000 \times 0.79$)	71,100
Present value of interest paid ($6\% \times 90,000 \times 2.58$)	13,932
Liability component at 1 April 2020	85,032
Equity component (balance)	<u>4,968</u>
Total proceed	<u>90,000</u>

Interest on liability component:

$$0.08 \times 85,032 = 6,803$$

4. Carrying Amount of Liability Component:

Initial Amount recognized	85,032
Effective interest	6,803
Coupon rate paid	<u>(5,400)</u>
Closing Balance	<u>86,435</u>

5. New share issue

50 m shares \times K1 = 50,000 to equity share capital

50 m share \times K0.90 = 45,000 to share premium.

6. Dividends payable

From trial balance (35,000-coupon paid (W3) 5,400)	29,600
Plus declared dividends ($K0.12 \times 225,000$)	<u>27,000</u>
Total dividends payable	<u>56,600</u>

7. Inventory understatement

Dr Inventory	500	
Cr cost of sales		500

8. Income taxes:

Current tax payable c/f	6,000
Add deferred tax c/f ($35\% \times 55,000$)	19,250
Less current tax b/f	(3,750)
Less deferred tax b/f	<u>(15,000)</u>
Profit and loss charge	<u>6,500</u>

9. Cost of sales

Per trial balance	106,750
Depreciation expense: buildings(w1)	7,111
Equipment(w1)	17,227
Less inventory understatement (w6)	(500)
Agency sales cost reversal (w2)	<u>(19,800)</u>
	<u>110,788</u>

SOLUTION THREE

(a) Kanthu statement of cash flows for the year ended 30 June 2021

Cash flows from operating activities	K'000	K'000
Profit before tax		14,850
Add back:		
Depreciation expense		7,492.5
Amortization of development expenditure		640
Provision for legal claims		600
Finance cost		4,050
Less profit on disposal (405-236.25)		<u>(168.75)</u>
Cash generated from operations before working capital adjustments		27,463.75
Increase in inventories (11,812-10,125)		(1,687)
Increase in receivables (7,087-6,075)		(1,012)
Decrease in payables (5,400 – 4,327.5)		<u>(1,072.5)</u>
Cash generated from operations		23,692.25
Interest paid (W1)		(5,872.5)
Tax paid (W2)		<u>(5,064)</u>
Net cash inflow from operating activities		12,755.75

Cash flows from investing activities:

Cash paid to acquire PPE (W3)	(2,141.75)	
Cash spent on development (4,500+640)	(5,140)	
Proceeds from sale of PPE	<u>405</u>	
Net cash outflow on investing activities		(6,876.75)

Cash flows from financing activities:

Proceed from sale of shares([40,500+16,875]-20,250+6,750])	30,375	
Loans repaid (47,250-16,200)	(31,050)	
Dividends paid (W4)	<u>(4,123)</u>	
Net cash outflow on financing activities		<u>(4,798)</u>
Net increase in cash and cash equivalents		1,081
Cash and cash equivalents at start		<u>1,013</u>
Cash and cash equivalents at the end		<u><u>2,094</u></u>

Workings:

W1 *Interest paid*

Charge to SPL	4,050
Opening balance	4,050
Closing Balance	<u>(2227.5)</u>
Cash paid	<u><u>5,872.5</u></u>

ALTERNATIVE WORKING

	K'000		K'000
Balance b/f	101,587	disposal	236.2
Revaluation increase	750	Depreciation expense	7,492.5
Bank (bal figure)	2,141.7	Balance c/f	96,750
	104,478.7		104,478.7
Balance c/f	96,750		

W2 Taxation paid

Charge to SPL	6,744
Opening balance	5,062
Deferred Tax(3,645-3,038)	(607)
Closing Balance	<u>(6,135)</u>
Cash paid	<u>5,064</u>

ALTERNATIVE WORKING

Taxation payable account

	K'000		K'000
Bank (bal fig)	5,064	Balances b/f: current tax	5,062
		Deferred tax	3,038
Balance c/f:current tax	6,135	Profit and loss	
Deferred tax	<u>3,645</u>		<u>6,744</u>
	<u>14,844</u>		<u>14,844</u>
		Balance c/f:current tax	6,135
		Deferred tax	3,645

W3 Purchase of Non current Assets

Closing balance on NCA	96,750
Depreciation	7,492.5
Transfer to Disposal	236.25
Opening balance	(101,587)
Revaluation (20,250-19,500)	<u>(750)</u>
Cash paid	<u>2,141.75</u>

ALTERNATIVE WORKING

PPE @ carrying amount account

	K'000		K'000
Balance b/f	101,587	Disposal	236.2
Revaluation increase	750	Depreciation expense	7,492.5
Bank (bal figure)	<u>2,141.7</u>	Balance c/f	<u>96,750</u>
	<u>104,478.7</u>		<u>104,478.7</u>
Balance b/d	96,750		

W4 Dividend paid (Retain Earn)

Charge to SPL	8,106
Opening balance	7,500
Closing Balance	<u>(11,483)</u>
Cash paid	<u>4,123</u>

Retained earnings account

	K'000		K'000
Bank (bal fig)	4,123	Balance b/f	7,500
Balance c/f	<u>11,483</u>	Profit for the year	<u>8,106</u>
	<u>15,606</u>		<u>15,606</u>
		Balance b/d	11,483

W5 movement in trade payables

	2021	2020
Balances b/f	7,155	9,450
Less interest accrued	(2,227.5)	(4,050)
Less legal provision	<u>(600)</u>	<u>-</u>
Trade payables	<u>4,327.5</u>	<u>5,400</u>

(b) Reasons include:

- (i) Profit is calculated on accruals basis, that is, income is recognized when it is earned, and not when cash is received, and expenses are recognized when they are incurred and not when cash is paid. Bank and cash balances change when monies are received or paid out.
- (ii) Calculation of profit includes some items that do not affect cash/bank balances at all. For example, profit for the year is determined after deducting depreciation expense which involves no movement in cash at all. Secondly, when non current asset is disposed, profit or loss on disposal is included in determination of profit but proceed on disposal(different from profit or loss) is included in cash/bank balances.
- (iii) Bank/cash balances are affected by some items that do not affect profit, such as the purchase of a non current asset. Cash/bank balances will reduce whereas no change in profit by purchase amount except when asset is depreciated. Sale of shares to raise capital is another example. Changes bank/cash balances but not profit.

SOLUTION FOUR

Transaction One

- (i) A revenue grant is one whose benefits are enjoyed and restricted to one accounting period. Usually the grant is intended to fund some operational activities such as training or redundancy termination package for employees when there is a reorganization of an entity that the governments would like to support.

A capital grant is one whose benefits are enjoyed over a number of accounting periods, and is intended to finance a non current asset.

An entity will receive the grant only if it complies with the conditions attached to such government assistance.

- (ii) There are two approaches to accounting for government grants according to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*:

The amount received as grant (debited to cash account) is credited to the asset account, thereby reducing the cost on which annual depreciation is calculated. Effectively the charge to the statement of Profit or loss for depreciation is reduced.

Alternatively, as is required by Magnet Ltd, the amount received as grant is treated as deferred income, reported as part of equity. The standard requires that the grant be amortised at the rate the corresponding non current asset is depreciated (over the life of the asset). The required entries would therefore be:

Working 1

Annual depreciation = K 24m/12yrs = K 2m

Carrying amount of the Asset in the SFP = k 24M – K 2m = K 22m

Annual amortization of the grant = K 12m / 12yrs = K 1m

Carrying amount of the grant in the SFP = K 12 - K 1m = K 11m

Statement of profit or loss extract

Depreciation	(2m)	
Amortised grant	<u>1m</u>	Net expense <u>K 1m</u>

Statement of financial position extract

Non current assets

PPE (24-2) (W1)	22
-----------------	----

Non current liabilities

Deferred income (W1)	10
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Current liabilities

Deferred income (W1)	1
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Transaction Two

The loan note is being issued at a discount, and so the proceeds would immediately be reduced by the discount and the issue costs. Therefore, the amount to begin the Loan Note account on initial measurement would be:

4% Loan Note:

	K000	
Cash proceeds ($0.975 \times 40,000$)	39,000	
Issue costs	<u>(1,068)</u>	
Net cash outflow on investing activities		37,932

On subsequent measurement at the end of the year, the carrying amount of the loan note would be (reported under Non current liabilities):

4% Loan Note:

Initial Amount as above	37,932	
Interest at effective rate ($0.07 \times 37,932$)	2655	
Interest paid at coupon rate ($0.04 \times 40,000$)	<u>(1,600)</u>	
Net cash outflow on investing activities		38,987

Transaction Three

- i) IAS 36 Impairment of assets requires that Impairment loss of a CGU is allocated in the following order:

First to the asset specifically impaired. In this case, the building whose recoverable amount through its fittings is K800,000. This means that the building to be allocated impairment of K6,350,000 first and secondly to goodwill. The entire goodwill of K2,500,000 to be written off. Thirdly, the balance of the impairment loss would be allocated to the remaining assets other than those at their fair values, in the proportion of the carrying amounts before the impairment loss. In this case, taking the inventory and receivables are at their fair values, the entire balance of impairment loss will be allocated to plant and machinery amounting to K1,170,000 as inventory and receivables in context of IAS 36 are not subject to impairment. See below table.

(ii)

ASSET	CARRYING AMOUNT	IMPAIRMENT LOSS	RECOVERABLE AMOUNT
	K'000	K'000	K'000
Goodwill	2,500	(2,500)	0
Buildings	7,150	(6,350)	800
Plant and machinery	7,450	(1,170)	6,280
Inventory	1,850	-	1,850
receivables	2,470	-	2,470
	21,420	10,020	11,400

Total Impairment loss:	K'000
Carrying amount =	21,420
Recoverable amount =	<u>11,400</u>
	10,020
To asset specifically impaired:	(6,350) [7,150-800]
To goodwill	<u>(2,500)</u>
Balance of impairment loss	1,170
To remaining asset	(1,170) (7,450/7,450 x 1,170)

SOLUTION FIVE

- (a) The main objective of financial reporting is to provide information about the reporting entity that is useful to a wide range of users so it may help them make economic decisions. The information provided is about the financial position (found in statement of financial position) and about the financial performance (found in statement of profit or loss).
- (b) Five main elements of financial statements include:
- **Assets**- an asset is a resource controlled by an entity as a result of a past event and from which future economic benefits are expected to flow to the entity.
 - **Liabilities** – a liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.
 - **Equity** – is the residual interest in the assets of an entity after deducting its liabilities
 - **Income** - Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
 - **Expenses** – decreases in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants
- (c) The underlying assumption in the preparation of financial statements is the going concern assumption. This means that the entity is viewed as continuing in operation for the foreseeable future. Application of the assumption enables financial statements to be prepared without the need to account for realizable or break-up values of assets and liabilities, which would result in preparation of financial statements with limited value to users. Practical examples on application of the concept are on depreciation of non current assets and accruals and prepayments.

It is assumed the reporting entity has neither the intention nor the necessity of liquidation nor the need to cease trading

- (d)
- (i) Faithful representation entails that financial information will represent faithfully what it purports to represent if it is accounted for in accordance with the substance and economic reality and not in accordance with legal form. Faithfully represented financial information would usually possess the following characteristics:
- **Completeness** – it must contain all necessary descriptions and explanations
 - **Neutrality** – must be free from bias. Financial information is not neutrally prepared if by the selection or presentation of information, it influences the making of decision or judgement
 - **Free from error** – financial information must be free from error within the bounds of materiality. Free from error does not mean perfectly accurate in all respects.

- (ii) Relevance entails capable of influencing the economic decisions made by the user. This happens when users can use the financial information to evaluate past, present or future events or confirming or correcting their past evaluations.
The relevance of information can be affected by its nature and materiality. Materiality is hence a threshold quality of relevance.
- (iii) Comparability enables users to identify similarities in, and differences among items. For example, two periods of financial results or comparing companies within the same industry. In order to do meaningful comparison, the bases of the preparation of the financial statements should have some degree of consistency. In addition, the use of similar accounting policies in the preparation of financial statements makes them comparable and availability of corresponding information for preceding periods enable comparison.
- (iv) Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement that a particular depiction is a faithful representation. Information can be verified by formular, observation, inventory count, physical inspection etc. all financial information that is capable of verification is deemed more reliable than that not capable of verification.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 14 DECEMBER 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

You have recently been appointed as the management accountant to Mwabonwa Ltd, a small company manufacturing and selling a single product.

The company is in the process of preparing budgets for 2021 and quarterly sales forecasts have been estimated as follows:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Forecast sales units	600	450	900	675

Sales demand is forecast to be 720 units in the first quarter of 2021

Budgeted selling price for each unit is K250 which is forecast to increase by 4% per quarter from the third quarter of 2021.

It is Mwabonwa Ltd's policy to hold inventory of finished goods at the end of each quarter equal to 20% of the following quarter's sales demand and inventory of raw material equal to 25% of the following quarter's raw material production requirement. The inventory at the beginning of the budget period is expected to meet this policy.

Final production output is tested for quality at the end of the production process and it is usual for 5% of those tested to be defective and hence cannot be sold.

Standard production cost per unit for material and direct labour is as follows:

K		
Direct material	@ K10 per kg	20
Direct labour	@ K20 per hour	80

Due to the free fall of the Kwacha, material price per kg is expected to increase by 10% per quarter from second quarter in 2021. Direct labour cost will be inflated by 4% per quarter from second quarter in 2021.

Direct labour is paid on an hourly rate based on attendance. However, 20% of attendance time is considered to be idle time and has not been included in the unit direct labour time shown above.

Required:

- (a) Prepare the following budgets for 2021:
- (i) Sales budget in quantity and value for each quarter (2 marks)
 - (ii) Production budget in quantity for each quarter (4 marks)
 - (iii) Labour requirements budget in hours and value for each quarter (4 marks)
 - (iv) Raw material usage budget in quantity for each quarter. (2 marks)
 - (v) Raw material purchases budget in quantity and value for the first three quarters. (6 marks)
- (b) The role of the Management Accountant in an organization is to provide information so that management can reach an informed decision.
- Outline the decision-making process in an organization. (7 marks)

[Total: 25 marks]

QUESTION TWO

DAKA has developed a new range of high quality affordable sandals for beachwear. The sandals are based on an innovative design that protects feet from the effects of sun, salt and sand. The company has already received some sales orders for the sandals and production is due to commence next month. The management accountant has prepared the following projections for the trading year ahead:

	K	K
Production and sales 100,000 pairs of sandals		2,750,000
Direct material cost	619,000	
Direct Labour cost (Note 1)	411,000	
Production overheads (Note 2)	<u>236,000</u>	
Cost of sales		<u>(1,266,000)</u>
Gross profit		1,484,000
Administration expenses (Note 2)	336,500	
Selling and distribution expenses (Note 2)	<u>145,000</u>	
		<u>(481,500)</u>
Profit		<u>1,002,500</u>

Notes:

1. It is assumed that the company will pay workers based on a fixed time basis i.e. hours worked regardless of output achieved.
2. The production, administration, and selling and distribution costs have been analysed and the cost behaviour is shown below:

	Fixed element	Variable element
Production overheads	25%	75%
Administration expenses	100%	N/A
Selling and distribution expenses	80%	20%

Required:

- (a) Calculate the breakeven point in units (pairs of sandals) and revenue. (6 marks)
- (b) Calculate the margin of safety in units (pairs of sandals) and revenue. (3 marks)
- (c) Calculate the number of pairs of sandals DAKA must sell to make profit of K1,500,000? (3 marks)
- (d) During the monthly management meeting, the Chief Executive Officer expressed concerns with the approach in pricing. He specifically mentioned that DAKA should consider costs, markets, price sensitivity, competitors, quality and inflation when setting prices for sandals.

DAKA has used market research to determine that if a price of K27.50 is charged for a pair of sandals, demand will be 10,000 pairs. It has also been established that demand will rise or fall by 100 pairs of sandals for every K1 increase or decrease in price. The variable cost of a pair of sandals is K7.96.

Required:

- (i) Explain the six (6) factors mentioned above in relation to pricing. (6 marks)
 - (ii) Calculate the profit maximising price. (5 marks)
 - (iii) Explain two (2) effective ways of applying price discrimination. (2 marks)
- [Total: 25 marks]**

SECTION B

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

QUESTION THREE

Etopia Limited has grown steadily over the last five (5) years due to the phenomenal success of its innovative product, the 'plantform' which is a unique stand for house plants that is produced using carefully sectioned pieces of pine wood slotted together to form a flat, stable and decorative base. Etopia Limited uses an absorption costing system to report profits and value production. The company is currently reviewing its operating results for the year ended 31 March 2020. However, the Management Accountant is unwell and the Managing Director has asked for your assistance with this task. The following information is available:

1. In 2019, when the budget was prepared, it was expected that 'plantforms' would be sold for K8.75 each. The budget was finalized based on production and sales of 45,000 'plantforms'.
2. The actual results for the year to 31 March 2020 are shown below:

Number of 'plantforms' produced and sold	46,200
Total sales value	K398,475
Direct materials: 16,170 metres of pine wood used	K147,956
Direct labour: 13,860 hours	K83,160
Variable production overheads	K10,742
Fixed production overheads	K39,475

3. Each 'plantform' produced requires 0.3 metres of pine wood and when the budget was prepared the company had an agreement with a Zambian supplier to purchase the wood at K9.25 per metre.
4. The company has excellent skilled workers, such that crafting the 'plantform' requires only 0.25 direct hours, including cutting, shaping and assembling of the wood. The budgeted direct labour rate was set at K5.8 per hour.
5. Budgeted variable production overheads was calculated at K0.80 per labour hour.
6. The company had budgeted fixed production overhead for the year to 31 March 2020 to be K38,250.

Required:

- (a) Prepare the standard cost card for one 'Plantform'. (3 marks)
- (b) Calculate all the relevant variances. (18 marks)
- (c) Prepare a statement reconciling the profit that was originally budgeted to actual profit achieved. (4 marks)

[Total: 25 marks]

QUESTION FOUR

Mrs Kayawe has taken out a lease of a shop for a down payment of K50,000 at Chilenje Market to sell designer clothes for ladies. Additionally the rent under the lease amounts to K50,000 per annum. If the lease is cancelled the initial payment of K50,000 is forfeit. Mrs Kayawe plans to use the shop for the sale of clothing and has estimated operations for the next twelve (12) months as follows:

	K	K
Sales		1,150,000
Cost of goods sold	500,000	
Wages and Wages related costs	120,000	
Rent including the down payment	100,000	
Rates, healthy and insurance	130,000	
Audit, legal and general expenses	<u>20,000</u>	
		<u>870,000</u>
Net profit before tax		<u>280,000</u>

In the figures no provision has been made for the cost of Mrs Kayawe but it is estimated that one half of her time will be devoted to the business. She is undecided whether to continue with her plans, because she knows that she can sublet the shop for a monthly rent of K5,500 if she does not use the shop herself.

Required:

- (a) (i) Identify and Explain the Sunk and Opportunity costs in the situation depicted above. (4 marks)
- (ii) State the decision Mrs Kayawe should make according to the information given. (Support your conclusion with a financial statement). (7 marks)
- (b) Explain the six (6) major issues to be considered when assessing the creditworthiness of a customer. (6 marks)
- Explain three (3) main aspects of factoring and five (5) benefits of factoring. (8 marks)

[Total: 25 marks]

QUESTION FIVE

- (a) Byepi Supermarkets has three (3) branches in North-western province of Zambia specifically located in Solwezi, Mufumbwe and Kasempa. The budget which was prepared at head office in Chingola for the forthcoming year is as follows.

	Solwezi Branch	Mufumbwe Branch	Kasempa Branch	Total
	K'000	K'000	K'000	K'000
Sales revenue	<u>34,000</u>	<u>25,500</u>	<u>23,800</u>	<u>83,300</u>
Direct materials	8,500	10,200	6,800	25,500
Direct labour	6,800	13,600	10,200	30,600
Variable overheads	<u>1,700</u>	<u>3,400</u>	<u>2,550</u>	<u>7,650</u>
Total variable Costs	17,000	27,200	19,550	63,750
Contribution	17,000	(1,700)	4,250	19,550
Fixed Costs	<u>10,200</u>	<u>6,800</u>	<u>6,800</u>	<u>23,800</u>
Profit/ (loss)	<u>6,800</u>	<u>(8,500)</u>	<u>(2,550)</u>	<u>(4,250)</u>

Required:

- (i) Determine whether operations of any branch should cease or close. (6 marks)
- (ii) Explain five (5) qualitative factors that must be considered in the decision to cease or close operations of a branch. (10 marks)
- (iii) Explain the difference between quantitative and qualitative factors. (4 marks)
- (b) A small and medium company in Lusaka's Matero compound is about to launch a new product. Total lifetime sales are expected to be 48,000 units. K3,250,000 has been incurred on design and development. Promotional costs over the products life are expected to be K2,000,000. De-commissioning of the machine will cost K250,000 at the end of the product's life. Production of the product is expected to cost an average of K150 per unit.

Required:

Calculate the life cycle cost per unit over the product's life. (5 marks)

[Total: 25 marks]

END OF PAPER

DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Functional Budgets

(i) Sales budget

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales forecasts	600	450	900	675
X Selling price (K)	<u>250</u>	<u>250</u>	<u>260</u>	<u>270.4</u>
Sales revenue (K)	<u>150,000</u>	<u>112,500</u>	<u>234,000</u>	<u>182,520</u>

(ii) Production budget

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales units	600	450	900	675
Closing inventory	90	180	135	144
Opening inventory	<u>(120)</u>	<u>(90)</u>	<u>(180)</u>	<u>(135)</u>
Good Production (GP)	570	540	855	684
Faulty units (GP x 5/95)	<u>30</u>	<u>28</u>	<u>45</u>	<u>36</u>
Production units	<u>600</u>	<u>568</u>	<u>900</u>	<u>720</u>

(iii) Direct labour budget

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Production units	600	568	900	720
Labour hours per unit	<u>x 4</u>	<u>x 4</u>	<u>x 4</u>	<u>x 4</u>
Labour hour usage	2,400	2,272	3,600	2,880
Idle time (usage x 20/80)	<u>600</u>	<u>568</u>	<u>900</u>	<u>720</u>
Labour hour requirement	3,000	2,840	4,500	3,600
X labour cost per hour (K)	<u>20.00</u>	<u>20.80</u>	<u>21.63</u>	<u>22.50</u>
Cost of labour (K)	<u>60,000</u>	<u>59,072</u>	<u>97,335</u>	<u>81,000</u>

(iv) Raw material usage budget

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Production units	600	568	900	720
Material usage per unit	<u>x 2</u>	<u>x 2</u>	<u>x 2</u>	<u>x 2</u>
Raw material usage (kg)	<u>1,200</u>	<u>1,136</u>	<u>1,800</u>	<u>1,440</u>

(v) Raw material purchases budget

	Quarter 1	Quarter 2	Quarter 3
Raw material usage (kg)	1,200	1,136	1,800
Closing inventory; (25% of next quarter's material usage)	284	450	360
Opening inventory	<u>(300)</u>	<u>(284)</u>	<u>(450)</u>
Raw material purchases	1,184	1,302	1,710
X material price per kg (K)	<u>10.00</u>	<u>11.00</u>	<u>12.10</u>
Cost of material purchases (K)	<u>11,840</u>	<u>14,322</u>	<u>20,691</u>

(b) Decision – making process

Step 1: Identify goals, objectives or problems.

Step 2: Identify alternative solutions or opportunities which might contribute towards achieving them.

Step 3: Collect and analyse relevant data about each alternative.

Step 4: Make the choice or decision. State the expected outcome and check that the expected outcome is in keeping with the overall goals or objectives.

Step 5: Implement the decision.

Step 6: Obtain data about actual results.

Step 7: Compare actual results with the expected outcome. Evaluate achievements.

SOLUTION TWO

(a) **Breakeven point in sales units (pairs of sandals) and revenue.**

Workings

Sales in units		100,000
	Per unit	Total
	K	K
	<u>27.50</u>	<u>2,750,000</u>

Variable costs

Direct materials	6.19	619,000
Variable production overhead (75% of total)	1.77	177,000
Variable selling and distribution expenses 20%	<u>0.29</u>	<u>29,000</u>
Total variable costs	<u>8.25</u>	<u>825,000</u>
Contribution	19.25	1,925,000

Fixed costs

Direct labour	411,000
Fixed production overhead (25% of total)	59,000
Administration expenses	336,500
Fixed selling and distribution expenses (80% of total)	<u>116,000</u>
Total fixed costs	<u>922,500</u>

Profit
1,002,500

Breakeven point in units.

$$\begin{aligned}\text{Breakeven point in units} &= \text{K}922,500 / \text{K}19.25 \\ &= \textbf{47,922 units}\end{aligned}$$

Breakeven point in sales revenue.

$$\begin{aligned}\text{Breakeven point in revenue} &= 47,922 \text{ units} \times \text{K}27.50 \\ &= \textbf{K1,317,857}\end{aligned}$$

(b) **Margin of safety in units (pairs of sandals) and revenue**

Margin of safety in units = 100,000 units – 47,922 units

= **52,078 units**

Margin of safety in sales revenue = K2,750,000 – K 1,317,857

= **K 1,432,143**

(c) **How many pairs of sandals (units) must be sold to make a profit K1,500,000**

Target profit in units = Total fixed costs + Target profit

Contribution per unit

= K922,500 + K1,500,000

K19.25

= **125,844 Pairs of sandals**

(d) (i) Six factors of pricing

- **Costs:** In the long-run all costs must be covered by the sales revenue which is affected by price.
- **Markets:** The price that an organisation can charge for its products will be determined to a greater or lesser degree by market in which it operates.
- **Price sensitivity:** This will vary amongst purchasers. Those that can pass on the cost of purchases will be the least sensitive and will therefore respond more to other elements of perceived value.
- **Competitors:** An organisation, in setting prices, sends out signals. Competitors are likely to react to these signals in some way.
- **Quality:** In the absence of other information, customers tend to judge quality by price. Thus a price change may send signals to customers concerning the quality of the product. A price rise may indicate improvements in quality, a price reduction may signal reduced quality.
- **Inflation:** In periods of inflation the organisation may need to change prices to reflect increases in the prices of supplies and so on. Such changes may be needed to keep relative (real) prices unchanged.

(ii) **Profit maximisation price**

b = Change in price/ Change in quantity = K1/100 = 0.01

a = K27.50 + ((10,000/100) x K1) = K127.50

MR = 127.50 – (2 x 0.01) Q = 127.50 – 0.02Q

MC = MR: 7.96 = 127.50 – 0.02Q

$$Q = 5,977 \text{ pairs}$$

$$P = a - bQ$$

$$P = 127.50 - 0.01 (5,977) = \underline{K67.73}$$

(iii) Price discrimination

- The market must be segmentable in price terms, and different sectors must show different intensities of demand.
- There must be little or no chance of black market developing (this would allow those in the lower priced segment to resell to those in the higher priced segment).
- There must be little or no chance that competitors can and will undercut the firm's prices in the higher priced (and/or most profitable) market segments.
- The cost of segmenting and administering the arrangements should not exceed the extra revenue derived from the price discrimination strategy.

SOLUTION THREE

(a) Standard cost card for ONE 'Plantform'

	K
Direct materials: 0.3m pine wood @ K18.50/mtr	5.55
Direct labour: 0.25 hrs @K11.60 per hour	2.90
Variable production overheads: 0.25 hrs @ K1.60 per hour	0.40
Fixed production overheads: (K76, 500,000/45,000 units)	<u>1.70</u>
	<u>10.55</u>

(b) VARIANCES

Direct material price variance

$$(SP - AP) \times AQ \\ = (K18.50 - (K295,911/16,170)) \times 16,170 = \quad \quad \quad \mathbf{\underline{\underline{K3,234 (F)}}}$$

Direct material usage variance

$$(SQ - AQ) \times SP \\ = ((0.3 \times 46,200) - 16,170) \times K18.50 = \quad \quad \quad \mathbf{\underline{\underline{K42,735 (A)}}}$$

Direct labour rate variance

$$(SR - AR) \times AH \\ = (K11.60 - (K166,320/13,860)) \times 13,860 = \quad \quad \quad \mathbf{\underline{\underline{K5,544 (A)}}}$$

Direct labour efficiency variance

$$(SH - AH) \times SR \\ ((0.25 \times 46,200) - 13,860) \times K11.60 = \quad \quad \quad \mathbf{\underline{\underline{K26,796}}}$$

(A)

Variable overhead expenditure variance

$$(SR - AR) \times AH \\ = (K1.60 - (K21,483/13,860)) \times 13,860 = \quad \quad \quad \mathbf{\underline{\underline{K693 (F)}}}$$

Variable overhead efficiency variance

$$(SH - AH) \times SR \\ ((0.25 \times 45,200) - 13,860) \times K1.60 \quad \quad \quad \mathbf{\underline{\underline{K3,696 (A)}}}$$

Fixed production overhead expenditure variance

$$(BFO - AFO) \\ = (K76,500 - K78,950) = \quad \quad \quad \mathbf{\underline{\underline{K2,450}}}$$

(A)

Fixed production overhead volume variance

$$(AP - BP) \times SR \\ = (46,200 - 45,000) \times K1.70 = \quad \quad \quad \mathbf{\underline{\underline{2,040 F}}}$$

Sales price variance

$$(AP - SP) \times AV \\ = ((K796,950/46,200) - K17.50) \times 46,200 = \quad \quad \quad \mathbf{\underline{\underline{K11,500 (A)}}}$$

Sales volume variance

$$(AV - BV) \times SM \\ = (46,200 - 45,000) \times K6.95^{**} = \quad \quad \quad \mathbf{\underline{\underline{K8,340 (F)}}}$$

** Standard profit margin = K17.50 - K10.55 = K6.95

(c) **Reconciliation statement of budgeted profit and actual profit**

Budgeted profit (45,000 x K6.95)			312,750
Sales price variance			11,550 (A)
Sales volume profit variance			<u>8,340 (F)</u>
309,540			
(F) (A)			
<u>Cost variances</u>	K	K	
Direct material price	3,234	-	
Direct material usage	-	42,735	
Direct labour rate	-	5,544	
Direct labour efficiency	-	26,796	
Variable overhead expenditure	693	-	
Variable overhead efficiency	-	3,696	
Fixed production overhead expenditure	-	2,450	
Fixed production volume	<u>2,040</u>	-	
	<u>5,967</u>	<u>81,221</u>	<u>75,254 (A)</u>
Actual profit			<u>234,286</u>

SOLUTION FOUR

- (a) Sunk costs are the cost of resources already acquired where the total will be unaffected by the choice between various alternatives. They are costs that have been created by a decision made in the past and that cannot be changed by any decision that will be made in the future. The down payment of K50,000 represents a sunk cost

Opportunity cost is a cost that measures the opportunity that is lost or sacrificed when the choice of one course of action requires that an alternative course of action be given up. For example, the lost profit from subletting the shop of K16,000 Per annum $((K5,500 \times K12) - K50,000)$ is an example of an opportunity cost. Note that only the K50,000 additional rental is included in the opportunity cost calculation.

The relevant information for running the shop is:

	K
Net sales	1,000,000
Costs (K870,000 – K50,000 sunk cost)	<u>820,000</u>
	180,000
Less opportunity cost from subletting	<u>16,000</u>
Profit	<u>164,000</u>

The above indicates that K164,000 additional profit will be obtained from using the shop for the sale of clothing. It is assumed that Mrs Kayawe will not suffer any other loss of income if she devotes half her time to running the shop.

(b) Assessing creditworthiness

- New customers should give two good references, including one from the bank, before being granted credit.
- Credit ratings might be checked through a credit rating agency.
- A new customer's credit limit should be fixed at a low level and only increased if his payment record subsequently warrants it.
- A file should be maintained of any available financial information about the customer.
- Press comments may give information about what a company is currently doing.
- The company could send a member of staff to visit the company concerned, to get a first-hand impression of the company and its prospects.

(c) Factoring

Aspects:

- Administration of the client's invoicing, sales accounting and debt collection service.
- Credit protection for the client's debts, whereby the factor takes over the risk of loss from bad debts and so insures the client against such losses.
- Making payments to the client in advance of collecting the debts.

Benefits:

- Prompt payments to the suppliers hence enjoying discounts.
- Optimum inventory levels can be maintained.
- Growth can be financed through sales rather than by injecting fresh external capital.
- The business gets finance linked to its volume of sales.
- Manager of the business do not have to spend their time on the problems of slow paying accounts receivable.
- The business does not incur the costs of running its own sales ledger department, and can use the expertise of debtor management that the factor has.

SOLUTION FIVE

(a) (i) Determining whether operations of any branch should cease or continue

- Operations of the Mufumbwe branch should cease, because revenue does not cover variable costs and the contribution is negative of K1.7 million.
- Kasempa branch makes a positive contribution, but fails to cover fixed costs. Thus, if fixed costs of K4.25 million or more (ie equal to or greater than the contribution earned) could be saved by ceasing to operate the Kasempa branch, the branch should be closed down.
- If the saving in fixed costs from shutdown of Kasempa branch is less than K4.25 million it will remain profitable to continue operating the branch until a more profitable use arises for the branch resources.

(ii) Five (5) quantitative factors that must be considered in any decision to cease or close operations of a branch include:-

- **Strategic Fit** - Does the branch have any strategic significance to the business that outweighs any short-term of losses associated with the closure?
- **Customer relations** - Discontinuing branch operations may cause an adverse reaction from customers
- **Supplier relations**- relationship with suppliers may suffer if a branch is closed, causing loss of goodwill.
- **Employee relations**-shutting down a branch may cause redundancies, which may damage staff morale
- **Loss leader**-certain branches may not be profitable on their own but may help generate sales for other branches that are more profitable.
- **Timing of shutdown**-if a shutdown is inevitable, the timing should be considered carefully to minimize the potential losses and impact on the business as a whole.

(iii) A decision a choice between competing alternatives. Decisions maybe made in the short-term or long-term. In order for business decisions to be made information which could be quantitative or qualitative is required. The Quantitative factors are outcomes that can be measured in numerical and financial terms such as values, numbers, litres, etc whilst qualitative factors are outcomes that are difficult to measure accurately in numerical terms, such as satisfaction, morale, etc. qualitative factors are just as important as quantitative factors in decision making scenarios such as make or buy, deleting a product from range offered by the business, or closing a division or branch of a business.

(b) Calculation of life cycle cost per unit

Design and development costs (K)	3,250,000
Promotional costs (K)	2,000,000
De-commissioning costs (K)	<u>250,000</u>
Total costs (K)	<u>5,500,000</u>
Number of units	<u>48,000</u>
Cost per unit (K)	114.58
Production cost per unit (K)	<u>150.00</u>
Life cost per unit (K)	<u>264.58</u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 16 DECEMBER 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 K	Excise duty K	Customs duty K	Excise duty K
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

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

Station wagons

cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

SUVs

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

Motor vehicles for the transport of goods –with compression-ignitioninternal combustion piston engine (diesel or semi-diesel):	Aged 2 to 5 years		Aged over 5 years	
	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,274	0	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	30,697	13,302	24,119	10,452
Panel Vans				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 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 tonnes but not exceeding 10.0 tonnes	24,724	18,955	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,461	0
GVW exceeding 20 tonnes, with spark ignition internal combustion piston engine		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

Tondolo Tumfwe is a computer expert who has been working for a renowned mining firm for many years.

The mining firm was experiencing operational challenges due to the Corona Virus Pandemic (Covid-19) and this led the company to restructure its operations to reduce costs. Tondolo Tumfwe was therefore retrenched as part of the restructuring of the company on 31 December 2020. Upon his retrenchment, Tondolo Tumfwe was paid all his retrenchment benefits on 31 December 2020.

After being unemployed for a few months, Tondolo decided to seek for employment with another company. He was formally engaged by TDK Ltd, a company specialized in computer provision effective 1 April, 2021.

Tondolo's contract of employment with TDK provided for the following emoluments:

Annual salary	K300,000
Monthly entertainment allowance	K3,500
Monthly utility allowance	K2,500
Annual transport allowance of	5% of basic salary
Annual housing allowance of	30% of basic salary

During the course of the year he received a refund of medical bills he incurred when he fell ill, amounting to K7,500.

He made NAPSA contributions of 5% of his basic pay, insurance premiums of K4,500, school children educational fees totaling K15,000 and professional fees relevant to the duties of his employment of K2,500. PAYE deducted from his emoluments was K35,200.

During the course of the 2021 financial year, he invested the monies he received from his previous employers. Tondolo received bank deposit interest of K6,500 (gross) and royalties of K31,500 (net) from his investments during the year. Withholding tax had been deducted at source were applicable.

Required:

- (a) State any three (3) payments that are made to an employee who is declared redundant and explain the tax treatment of each payment for the employee. (3 marks)
- (b) Calculate the income Tax payable by Tondolo for the Tax year 2021. (10 marks)

(c) Tondolo has intentions of venturing into farming and has approached you as a tax consultant for advice.

(i) Explain to him the meaning of farm improvements and farm works. (4 marks)

(ii) State any four (4) type of expenditure that will qualify for a farm improvement allowance. (4 marks)

(iii) State any four (4) type of expenditure that will qualify for a farm works allowance. (4 marks)

[Total: 25 marks]

QUESTION TWO

Kulima Plc is a Zambian resident company engaged in farming. The company was listed on the Lusaka Securities Exchange on 1 February 2021, when 48% of its shares were issued to indigenous Zambians. The company's statement of profit or loss for the year ended 31 December 2021 is as follows:

	K
Sales revenue	1,750,200
Cost of sales (note 1)	<u>(810,100)</u>
Gross profit	940,100
Distribution and selling costs (note 2)	(172,300)
Administration expenses (note 3)	<u>(346,100)</u>
Profit from operations	421,700
Investment income (note 4)	<u>361,800</u>
Profit before tax	783,500
Income tax expense (note 5)	<u>(42,600)</u>
Profit for the year	<u>740,900</u>

The following information is also available:

Note 1: Cost of sales

This includes depreciation charges amounting to K193,260 and a loss on disposal of an old Tractor of K42,100 (see note 6 below). The balance is made up of revenue allowable expenses.

Note 2: Distribution and selling costs

	K
Gifts of Kulima plc calendars each costing K95 each	23,750
Advertising expenses (newspaper & TV)	29,400
Entertaining customers	71,350
Repairs of tractors	<u>47,800</u>
	<u>172,300</u>

Note 3: Administration expenses comprise of:

	K
Wages & salaries	191,300
Share issue costs	107,400
Penalty for late payment of provisional income tax	31,600
Trade debts written off	21,100
Increase in general provision for bad debts	12,600
Accountancy and audit fees	41,200
Loan to former employees previously written off now recovered	<u>(59,100)</u>
	<u>346,100</u>

Note 4: Investment income

Investment income comprise rental income of K85,000 (gross), royalties of K81,200 (gross), dividends of K62,800 (gross) and bank interest of K132,800 (gross). Withholding tax has already been deducted at source in each case.

Note 5: Income tax expense

Provisional income tax paid by the company during the tax year 2021 amounted to K42,600.

Note 6: Implements, farm works and machinery

The company had the following capital assets on 1 January 2021:

	Income tax value	Original cost
	K	K
Old Tractor	Nil	65,000
Storage building for farm produce	Nil	180,000
Toyota Camry car (2000 cc)	78,000	130,000

During the tax year 2021 the following capital transactions took place:

	Cost/(proceeds)
	K
Disposal of tractor (see also note 1 above)	(30,000)
Purchase of new tractors	250,000
Purchase of Light truck	140,000
Purchase of Motor van	125,000
Construction of farm Dwellings (K30,000 each)	60,000
Fencing	20,000
Borehole	25,000

The Toyota Camry car is used as a personal-to-holder car by the Managing Director.

Required:

- (a) Calculate the maximum capital allowances claimable by the company for the tax year 2021. (10 marks)
- (b) Calculate the taxable business profit for the tax year 2021. (8 marks)
- (c) Calculate the income tax payable for the tax year 2021. (7 marks)

[Total: 25 marks]

SECTION B

There are THREE (3) questions in this Section.

Attempt any TWO (2) questions.

QUESTION THREE

(a) Explain any five (5) qualities of a good tax system. (5 marks)

(b) John and James are in partnership sharing profits and losses in the ratio of 3:2 after allowing for annual salaries of K144,000 and K120,000 respectively. Peter a close friend of theirs joined the partnership on 1 June 2021. The partnership agreement was changed immediately upon Peter's admission. The profit and losses were to be shared among John, James and Peter in the ratio of 3:2:1 respectively. The annual salaries were adjusted to K96,000, K72,000 and K48,000 for John, James and Peter respectively.

John and James own and use their own personal private motor cars which were acquired a year ago by each individual at a cost of K80,000 and K70,000 respectively. The business use of these motor cars by each individual has been agreed with the Commissioner General to be 25%.

The taxable profits for the year ended 31 December 2021, before capital allowances was K1,050,000.

Business assets owned by the partnership qualifying for capital allowances, which were acquired a year ago, by the businessman, included office equipment, with a cost of K150,000 and a Toyota Prado costing K350,000.

Required:

(i) Calculate the Partnership's final adjusted taxable business profits for the tax year 2021. (3 marks)

(ii) Show the allocation of taxable profits to each partner and calculate the amount of profits on which each partner will be assessed for the tax year 2021. (11 marks)

(iii) Calculate each partner's income tax payable for the tax year 2021. (6 marks)

[Total: 25 marks]

QUESTION FOUR

- (a) Briefly explain how the independent taxation system operates in Zambia. (3 marks)
- (b) Mr Ngoshe, imported a second hand, 3000 cc BMW Sedan car on 30 June 2021. The car was manufactured in Japan in January 2018. The cost of the car was \$6,720. Mr Ngoshe incurred insurance costs of \$1,220, transportation costs of \$1,840 and other incidental costs of \$640 up to the Nakonde border post. Other incidental costs incurred in transporting the car from Nakonde to Lusaka amounted to \$3,700. At the date of entry into Zambia, the exchange rate provided by the Bank of Zambia and approved by the Commissioner General was K20.50 per US\$1, while the one approved by a local Bureau De Change was K20.60 per US\$1.

Required:

Calculate the total import taxes paid by Mr. Ngoshe on the importation of the car.

(7 marks)

- (c) Muzole Limited is a VAT registered company that has provided the following information in respect of the month ended 31 December 2021:
- (1) Sales invoices amounting to K76,000 were issued to customers in respect of standard rated supplies.
 - (2) The company offers its customers a discount of 5% for prompt payment, which is taken up by all customers. Zero rated and exempt sales were K24,000 and K20,000 respectively.
 - (3) Purchases totalled K55,000 comprising standard rated purchases of K44,000, and exempt purchases of K11,000. 60% of total purchases were bought from VAT registered traders while 40% were bought from non-VAT registered suppliers.
 - (4) Standard rated expenditure included the following:
 - (i) Purchases amounting to K44,000
 - (ii) Expenditure on entertaining customers of K9,280
 - (iii) Expenditure on entertaining employees amounting to K9,200 (VAT inclusive)
 - (iv) Telephone bills amounting to K11,600 (VAT inclusive).
 - (5) Bad debts amounting to K8,500 were written off on 30 October 2021. The figure consists of two invoices of K4,250 each in respect of which payment was due on 1 April 2018 and 30 November 2020.
 - (6) Unless specifically stated otherwise all of the above figures are exclusive of VAT.

Required:

- (i) Calculate the amount of VAT payable by Muzole Limited for the month of December 2021. (Indicate by using a Zero (0) all items on which VAT is not chargeable or recoverable) (9 marks)
- (ii) Explain Three (3) advantages and Three (3) disadvantages of a VAT registered supplier. (6 marks)

[Total: 25 marks]

QUESTION FIVE

- (a) The Commissioner General is appointed by the Republican President as the Chief Executive Officer of the Zambia Revenue Authority (ZRA).

Required:

State four (4) powers of the Commissioner General. (4 marks)

- (b) Maggie Chikwekwe started a business on 1 January 2021 supplying stationery materials. She expected the turnover to be K56,100 per month. Purchases and expenses were expected to be K23,000 per month and K16,000 per month respectively.

Required:

Explain, giving reasons, the type of tax Maggie was required to pay during the year and compute the amount of tax that she should have paid for the tax year 2021. (4 marks)

- (c) Chonco was recently retrenched as a banker in Lusaka where he worked for a multinational bank. He quickly readjusted his lifestyle and commenced a business in January 2021, running a retail trade. The business shop was set up in the newly created Sibuyunji district.

He started renting a two storey building that comprised a shop down stairs and a flat upstairs which he was using as his personal accommodation. Chonco will prepare his financial statements to 31 December each year and has estimated that his annual turnover from the business will exceed K800,000.

For the year ended 31 December 2021, the summarised statement of profit and loss was as follows:

	Note	K	K
Gross profit			551,050
<i>Less expenses:</i>			
Wages and salaries	(1)	138,000	
Rent and rates	(2)	30,500	
Depreciation		5,000	
Professional and legal fees	(3)	25,500	
Entertainment expenditure	(4)	6,000	
Repairs and maintenance	(5)	7,300	
Motor vehicle running costs	(6)	1,500	
Other operating expenses	(7)	<u>2,100</u>	
			(215,900)
			335,150
Other income:			
Royalties received	(8)		<u>2,550</u>
Net profit			<u>337,700</u>

The following additional information is provided:

Note 1: Wages and Salaries

These include:

	K
Salaries of three employees (each being paid a monthly salary of K1,500)	54,000
Salary for Chonco's son (who is paid a monthly salary of K2,000 and performs the same duties as the above three employees)	24,000
Chonco's salary (who draws a monthly salary of K5,000)	<u>60,000</u>
	<u>138,000</u>

Note 2: Rent and rates

It has been agreed with the commissioner general that 15% of the rent and rates relate to Chonco's living accommodation.

Note 3: Professional and legal fees

The professional fees were as follows:

	K
Legal fees in connection with defending title to business assets	2,500
Legal costs for advice in relation to the business taxation liability	1,500
Traffic fines in relation to over speeding by Chonco	450
Accountancy and audit fees	19,550
Legal fees- court case for recovery of loan from former employee	<u>1,500</u>
	<u>25,500</u>

Note 4: Entertainment

These include:

	K
Employees Christmas party	3,500
Entertaining suppliers and customers	<u>2,500</u>
	<u>6,000</u>

Note 5: Repairs and Maintenance

These include:

	K
Painting of the shop walls	1,200
Purchase of new refrigerator	4,200
Erecting a new storage room	<u>1,900</u>
	<u>7,300</u>

Note 6: Motor Vehicle running costs

These expenses were incurred in connection with Chonco's private car which he uses partly for business purposes. It has been agreed with the commissioner General that Chonco has 25% business use of the car.

Note 7: Other operating expenses

These include:

	K
Misappropriation of goods by Choco's wife	200
Misappropriation of goods by employees	150
Trade debts written off	350
Increase in general provision	260
Donation to a political party	400
Donation to an approved charity	350
Revenue allowable expenses	<u>390</u>
	<u>2,100</u>

Note 8: Royalties received

The amount shown is the actual amount of the royalties received by Chonco.

Note 9: Drawings

Chonco had taken goods for personal use and these goods whose cost was K375 were not recorded at all. Chonco makes a margin of 25% on all of his sales.

Note 10: Capital allowances

It has been agreed with the Commissioner General that capital allowances on business assets for the tax year 2021 were K160,000.

Required:

- (i) Calculate for Chonco, the taxable business profit for the year ended 31 December, 2021. (11 marks)
- (ii) Calculate the income tax payable by Chonco for the tax year 2021. (6 marks)

[Total: 25 marks]

END OF PAPER

DA10: SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The treatment of payments made to an employee who retires or declared redundant are as follows:

- The final salary, salary in lieu of notice, leave pay and accrued bonus are taxable under the normal PAYE system at the time when they are received by the employee
- Repatriation pay, severance pay and compensation for loss of office are all exempt from tax, being pension benefits
- The refund of employee's contribution as well as the refunded employers pension contribution under defined pension scheme are also both exempt from income tax

(b) TONDOLO TUMFWE

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2021

	K	K
<u>Emoluments from employment</u>		
Salary (K300,000 x 9/12)	225,000	
Maintenance allowance (K3,500 x 9)	31,500	
Utility allowance (K2,500x9)	22,500	
Transport allowance (K225,000 x 5%)	11,250	
Housing allowance (K225,000x30%)	<u>67,500</u>	
		357,750
<u>Investment income</u>		
Royalties (K31,500 x100/85)		<u>37,059</u>
		394,809
Less:		
Professional Subscription		<u>(2,500)</u>
Taxable income		<u>392,309</u>
<u>Income Tax</u>		
First K48,000 @0%		0
Next K9,600 @25%		2,400
Next K25,200@30%		7,560
Balance K309,509@37.5%		<u>116,066</u>
		126,026
Less tax already paid		
PAYE		(35,200)
WHT		<u>(5,559)</u>
Income Tax Payable		<u>85,267</u>

(c) (i) Meaning of farm improvement

Farm improvement is any permanent work including a farm dwelling and fencing appropriate to farming and any building constructed for and used for the welfare of

employees in relation to farming land owned or occupied by the farmer claiming the allowance for ascertaining their profit

Meaning of farm works

Farm works are all works which are carried out on the farm. they do not include any farm improvements or industrial or commercial buildings

(ii) expenditure that will qualify for farm improvement allowance

- Expenditure on construction of barns and other storage buildings
- Expenditure on the construction of farm dwellings
- Expenditure on incurred on fencing
- Expenditure on construction of buildings for the welfare of employees

(iii) expenditure that will qualify for farm works allowance

- Expenditure incurred on works for the prevention of soil erosion
- Expenditure incurred on carrying on out aerial or geographical survey
- Wells
- Boreholes stumping and clearing
- Expenditure incurred on water conservation

SOLUTION TWO

(a) KULIMA PLC

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2021.

	Cost/ITV K	Capital allowances K
<u>Old Tractor</u>		
ITV b/f	NIL	
Disposal proceeds	<u>(30,000)</u>	
Balancing charge	<u>(30,000)</u>	(30,000)
<u>Storage building</u>		
ITV b/f	Nil	
Wear & Tear allowance @20%	<u>Nil</u>	Nil
ITV c/f	<u>Nil</u>	
<u>Toyota Camry Car</u>		
ITV b/f	78,000	
Wear & Tear allowance @20%	<u>(26,000)</u>	26,000
ITV c/f	<u>36,000</u>	
<u>New Tractors</u>		
Cost	250,000	
Wear & tear @100%	<u>250, 000</u>	250,000
<u>Light Truck</u>		
Cost	140,000	
Wear & Tear allowance@25%	<u>(35,000)</u>	35,000
ITV c/f	<u>105,000</u>	
<u>Motor van</u>	125,000	
Cost		
Wear & tear @25%	(31,250)	31,250
<u>Farm Dwellings</u>		40,000
Farm improvements (Restricted to K20,000 x 100%)		
		20,000
<u>Fencing</u>		
Farm improvement (Restricted to K20,000 x 100%)		

<u>Borehole</u>	<u>25,000</u>
Farm improvement (K25,000 x 100%)	
Total capital allowances	<u><u>397,250</u></u>

(b) KULIMA PLC

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2021

	K	K
Net profit before tax		783,500
Add:		
Depreciation	193,260	
Loss on sale of tractor	42,100	
Entertaining customers	71,350	
Penalty for late payment of provisional tax	31,600	
Increase in general provision	12,600	
Share issue costs	107,400	
Personal-to-holder cars: Toyota Camry	<u>30,000</u>	
		<u>488,310</u>
		944,620
Less:		
Rental income	85,000	
Royalties	81,200	
Dividends	62,800	
Bank interest	132,800	
Loan to former employee previously written off now recovered	59,100	
Capital allowances (a)	<u>397,250</u>	
		<u>(818,150)</u>
Adjusted farming profit		<u><u>126,470</u></u>

(c) KULIMA PLC

COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2021

	K
Adjusted farming profit	126,470
Investment income:	
Royalties	81,200
Bank interest	<u>132,800</u>
Total taxable income	<u><u>214,000</u></u>

Taxable income	<u>340,470</u>
Non-farming income: K214,000 x 28%	59,920
Farming income tax: K126,470 x 3%	<u>3,794</u>
Income tax liability	63,714
Less	
Provision income tax	(42,600)
WHT- Royalties: K81,200 x 15%	(11,475)
WHT- Bank interest: K132,800 x15%	<u>(7,500)</u>
Income tax payable	<u><u>2,139</u></u>

Kulima plc will be entitled to a 2% discount for listing its shares on the Lusaka Stock Exchange and a further 5% for issuing more than 1/3 of its shares to indigenous Zambians.

SOLUTION THREE

(a) Qualities of a good tax system:

- Taxation should bear as lightly as possible on production. taxes
Should not be too high that they make production expensive
- Taxes should be easy and cheap to collect and fall directly on the ultimate payer. Resources devolved to tax collection are wasted if the amounts collected are low
- Taxes should be certain. If taxes are complex they can be subverted and evaded
- Taxes should bear equally so as to give no individual an advantage. This means taxes should be levied on the ability to pay. If taxes are not based on this principle, then persons in the low income group will find taxes to be more burdensome than those in high income groups
- A tax should be compatible with foreign tax system. In Zambia taxes should be compatible with systems of the SADC and COMESA states
- Tax should automatically adjust to changes in the rate of inflation. As inflation rises or falls the tax system should automatically adjust accordingly.

(b) (i) PARTNERSHIP'S

COMPUTATION ADJUSTED TAXABLE BUSINESS PROFITS

	K
Business profits before capital Allowances	1,050,000
Less capital allowances:	
Office equipment, K150,000 x 25%	(37,500)
Prado motor car K350,000 x 20%	<u>(70,000)</u>
Final adjustable taxable profit	<u>942,500</u>

1

(ii) ALLOCATION OF TAXABLE PROFITS

	John	James	Peter	Total
<u>5 months:</u>	K	K	K	
-Salaries	60,000	50,000	Nil	110,000
-Residual(3:2)	<u>169,625</u>	<u>113,083</u>	<u>Nil</u>	<u>282,708</u>
	<u>229,625</u>	<u>163,083</u>	<u>Nil</u>	<u>392,708</u>
<u>7 months:</u>				
-Salaries	56,000	42,000	28,000	126,000
-Residual(3:2:1)	<u>211,896</u>	<u>141,264</u>	<u>70,632</u>	<u>423,792</u>
	<u>267,896</u>	<u>183,264</u>	<u>98,632</u>	<u>549,792</u>
Total Allocations	497,521	346,347	98,632	942,500
Less:			=	
Capital allowances	<u>(12,000)</u>	<u>(10,500)</u>		
	<u>485,521</u>	<u>335,847</u>	<u>98,632</u>	

Allocation of profits for the tax year 2021:

- 5 months $5/12 \times K942,500 = K392,708$
- 7 months $7/12 \times K942,500 = K549,792$

(iii) COMPUTATION OF INCOME TAX PAYABLE BY EACH PARTNER

	John K	James K	Peter K
<u>Income Tax</u>			
K48,000 x 0%	0	0	0
K9,600 x 25%	2,400	2,400	2,400
K25,200 x 30%	7,560	7,560	7,560
K402,721/K253,047/K15,832x 37.5%	<u>151,020</u>	<u>94,893</u>	<u>5,937</u>
	<u>165,060</u>	<u>104,853</u>	<u>15,897</u>

SOLUTION FOUR

(a) Operation of the independent taxation system in Zambia.

- This is a system of taxation whereby married couples are not taxed as a single individual.
- Under this system, each spouse is taxed individually. This means that the husband is fully responsible for his tax affairs and the wife is fully responsible for her own tax affairs.
- As a result, married couples should not be treated as a single Individual for the purposes of Zambian income tax.

(b) COMPUTATION OF IMPORT TAXES PAID MR. NGOSHE

<u>Value for duty purposes</u>	\$
Cost	6,720
Insurance	1,220
Freight charges	1,840
Other incidental costs	<u>640</u>
	10,420
Exchange rate	<u>K20.50</u>
VDP in Zambian kwacha	<u>213,610</u>

	Value of the vehicle K	Import taxes K
Value for customs duty	213,610	
Customs duty	<u>12,032</u>	12,032
	225,642	
Excise duty	<u>15,642</u>	15,642
	241,284	
Import VAT (16% x K241,284)	<u>38,605</u>	<u>38,605</u>
	<u>279,889</u>	
Total import taxes		<u>66,279</u>

(c) (i) COMPUTATION VAT PAYABLE BY MUZOLE LIMITED – DECEMBER 2020

<u>Output VAT</u>	K	K
Exempt sales		0
Zero-rated sales		0
Standard rated sales (K76,000 x 16%)		<u>12,160</u>
		12,160
Less: Input VAT		
Purchases (K44,000 x 60%) x 16%	4,224	
Exempt purchases	0	
Entertaining customers	0	
Petrol	0	
Diesel	0	
Bad debts(4,250 x 16%)	<u>680</u>	
		<u>(4,904)</u>
VAT Payable		<u>7,256</u>

(ii) The following are the advantages and disadvantages of VAT registration:

Advantages

- (1) The trader will be able to claim input VAT on purchases and expenses.
- (2) The impression of a substantial business will be given since it is believed that only businesses with an annual turnover of more than K800,000 register for VAT.
- (3) The trader will be able to compete with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

Disadvantages

- (1) VAT registration results in increased administration costs.
- (2) Non-registered customers who get supplies from the trader will have an increased cost.
- (3) Penalties will be charged if the trader fails to pay VAT or submit the VAT returns.

SOLUTION FIVE

(a) The following are the powers of the Commissioner General:

- (1) Powers to request a return to be submitted at anytime
- (2) Powers to request accounts and documents to be submitted for examination
- (3) Powers to examine any person for the purpose of obtaining information
- (4) Powers to search and seize money, documents and property.

(1 mark per valid point up to 4 marks)

(b) Maggie's turnover was expected to be K56,100 per month which would give an annual turnover of K673,200 (K56,100 x 12).

Since the annual turnover is less than K800,000, Maggie will be required to pay turnover tax which is calculated at a rate of 4% of the gross turnover.

The turnover tax payable for the tax year 2021 is; $K673,200 \times 4\% = K26,928$.

This tax should have been paid on a monthly basis totaling K2,244 (K56,100 x 4%).

This tax is due on the 14th day of the month following the month to which the tax relates.

All expenses incurred wholly and exclusively for business purposes would not be deductible for the purposes of computing the taxable amount on which turnover tax is to be computed because it calculated on gross turnover.

(c) (i) Chonco

Computation of taxable business profit for the tax year ended 2021

	K	K
Net profit		337,700
Add disallowables		
Difference in Son's salary (2000-1500) x12	6,000	
Chonco salary	60,000	
Rent and rates (15% x30,500)	4,575	
Depreciation	5,000	
Traffic fine	450	
Legal fees recovery of loan from former employee	1,500	
Entertaining suppliers and customers	2,500	
Purchase of a new refrigerator	4,200	
Erection of new storage room	1,900	
Private use of car 75% x1,500	1,125	

Loan to former employee written off	100	
Increase in general provision	260	
Donation to a political party	400	
Goods for personal use(100/75 x K375)	500	
Misappropriation by Mrs. Chonco	<u>200</u>	
		<u>88,610</u>
		426,310
Less		
Royalties	2,550	
Capital allowances	<u>160,000</u>	
		<u>(162,550)</u>
Adjusted business profit		<u><u>263,760</u></u>

(ii) CHONCO

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2021

Adjusted business profits	263,750
Royalties	<u>3,000</u>
Total taxable profits	<u><u>226,760</u></u>
First K48,000 @ 0%	0
Next K9,600@25%	2,400
Next K25,200@30%	7,560
K183,960 @37.5%	<u>68,985</u>
Income tax liability	78,945 ½
Less:	
WHT Royalties (3000x15%)	<u>(450)</u>
Income tax payable	<u><u>78,495</u></u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 16 DECEMBER 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 COMPULSORY QUESTIONS

Attempt **BOTH** questions in this section.

QUESTION ONE

It is 1 July 2021. You work in the audit department of Jaulani & Co. Sakala Ltd is an audit client of your firm and the audit for the financial year ended 31 December 2020 is in the completion stage. The company installs and maintains security systems for businesses and residential customers.

Materiality for the audit of Sakala Ltd financial statements has been set at K400,000. You are reviewing the audit working papers, and you have gathered the following information:

Fraud

The Finance Director informed the audit team that during the year, a fraud was carried out by a manager, Bwalya Kabwe, in the procurement department. The manager raised fictitious supplier invoices and paid the invoiced amounts into his personal bank account. When questioned by the Finance Director, Bwalya Kabwe confessed that he had stolen K40,000 from the company. The Finance Director asked the audit team not to perform any procedures in relation to the fraud, as the amount is immaterial. He also stated that the financial statements would not be adjusted in relation to the fraud.

The only audit evidence on file is a written representation from the Finance Director acknowledging the existence of the fraud, and a list of the fictitious invoices which had been raised by the manager, provided by the Finance Director. The audit team concluded that the fraud was immaterial and no further work was needed.

Development costs

In August 2020, the company commenced development of a new security system and incurred expenditure of K600,000 up to the financial year-end, which was capitalised as an intangible non-current asset. The only audit evidence obtained in relation to this balance is as follows:

1. Agreement of a sample of the costs included in the K600,000 capitalised to supporting documentation.
2. Cash flow projection for the project, which indicates that a positive cash flow will be generated by 2023. The projection has been arithmetically checked.
3. A written representation from management stating that management considers that the development of this new product will be successful.

You are aware that when the Finance Director was asked about the cash flow projection which he prepared, he was reluctant to answer questions, simply saying that 'the assumptions underlying the projection have been agreed to assumptions contained in the business plan. He provided a spread sheet showing the projection but the underlying information could not be accessed as the file was password protected and the Finance Director could not provide the password to the audit team.

Trade receivables

Trade receivables recognised in current assets include a balance of K500, 000 relating to Ham Co. Audit procedures indicate that at 31 December 2020, the balance was more than six (6) months overdue. In relation to this balance, the following procedures were performed:

1. Agreement of the balance to invoices and original customer order.

2. Discussion with the Credit Controller who stated that 'we are in discussions with Ham Co and we are confident that some or the entire amount due will be paid. We have always allowed this customer extended credit terms and has eventually paid'.

Ham Co was included in the trade receivables direct confirmation audit procedure but no reply was received.

The audit is almost complete and the Audit Senior concluded that a qualified opinion is appropriate and he drafted the following audit report.

Auditor's report

To: The management of Sakala Ltd

Opinion and basis for opinion

Audit procedures indicate that trade receivables are overstated by K500,000. For this reason, we consider that the financial statements are likely to be materially misstated and do not fairly present the financial position and performance of the company for the year ended 31 December 2020.

Emphasis of matter

There are two matters to which we draw your attention:

1. A fraud was discovered, as a result of which we have determined that K40,000 was stolen from the company. This does not impact the financial statements but we wish to highlight the illegal activity which took place during the year.
2. The Finance Director obstructed our audit by refusing to allow access to audit evidence. He refused to adjust the financial statements in relation to the material misstatement of trade receivables, which led to the qualified audit opinion being issued.

Required:

- (a) (i) Discuss the implications of the fraud for the completion of the audit, and the actions to be taken by the auditor. (6 marks)
- (ii) Comment on the sufficiency and appropriateness of the audit evidence obtained with regards development costs and trade receivables. (4 marks)
- (iii) Recommend the actions to be taken by the auditor, including the further evidence which should be obtained with regards development costs and trade receivables. (7 marks)
- (b) Critically appraise the extract from the proposed auditor's report of Sakala Ltd for the year ended 31 December 2020 and make suggestions where necessary. (8 marks)

[Total 25 marks]

QUESTION TWO

Chongo incorporated his company, Galaxy General Dealers Ltd, in 2019. It provides various health services to the public and private sectors. In 2020, he expects his sales to double and his client base to increase by 50%. Evidence of good service included accessibility at all times to a qualified pharmacist, Dr. Patrick Mwanza, good advice, excellent physical and IT infrastructure.

Chongo is worried about the poor internal controls in the company, especially with respect to the credit sales system. He is convinced that a lot of goods are being stolen. Your firm, Vee Mulenga Accountants, has been appointed to offer audit services for the year ended 31 March 2021.

The sales system operates as follows:

1. All new customers are subject to credit checks before orders are accepted.
2. Existing customers are not subject to credit checks on making orders.
3. All orders are approved by the Sales and Marketing Manager.
4. Orders are signed by a general worker in stores.
5. Sequentially numbered Goods Dispatch Notes (GDNs) are raised and a copy is matched to the respective orders and filed. A copy of the Goods Dispatch Note (GDN) is sent to accounts.
6. Customers do not sign on the Good Dispatch Note (GDN).
7. An invoice is raised and a copy is sent to accounts and an accounts clerk matches it to the Goods Dispatch Note.
8. The Accounts Supervisor agrees cash receipt back to the invoice.
9. Customer statements are sent out on a monthly basis.
10. Reviews of the receivables ledger for credit customers is required to be carried out on a monthly basis but these reviews are not evidenced in writing.

Required:

- (a) Explain the control objectives for any six (6) controls in the scenario. (12 marks)
- (b) Explain six (6) tests of controls that can be carried out for any of the controls in the scenario. (6 marks)
- (c) (i) State three (3) limitations of internal controls. (3 marks)
- (ii) Identify and explain four (4) control deficiencies in the sales system of Galax General Dealers Ltd. (4 marks)

[Total 25 marks]

SECTION B

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

QUESTION THREE

(a) The International Ethics Standards Board for Accountants (IESBA) code sets out the fundamental principles of professional ethics and gives examples of how these may be breached.

Required:

State the five (5) threats contained in the Code of Ethics and Conduct and for each threat give one (1) example of a circumstance that may create the threat.

(5 marks)

(b) You are the Audit Manager of Peter & Co and you are planning the audit of Global Manufacturing Co, a listed company, which has been an audit client for four years and specialises in manufacturing luxury mobile phones.

During the planning stage of the audit you have obtained the following information:

The employees of Global Manufacturing Co are entitled to purchase mobile phones at a discount of 10% which is not given to other customers. The audit team has in previous years been offered the same level of discount as that offered to staff.

During the year, the Financial Controller of Global Manufacturing Co. fell ill and was unable to work. Peter & Co seconded a Senior Auditor to cover the Financial Controller for a period of three months. The Engagement Partner recommended that the same Senior Auditor be assigned to the audit of the financial statements of Global Manufacturing Co because he has good knowledge of the client. The fee income derived from Global Manufacturing Co. was boosted by this engagement and along with the audit and tax fee accounted for 16% of the firm's total income.

From a review of the correspondence files you note that the Engagement Partner and the Finance Director have known each other socially for many years and recently went on holiday together with their families. As a result of this friendship the Engagement Partner has not spoken to the client about the outstanding fee for the previous year which has remained unpaid to-date. The Engagement Partner stressed the need that the audit team should use professional judgement and observe professional scepticism during the audit of Global Manufacturing Co in view of the absence of a Financial Controller before the secondment of the Senior Auditor.

Required

(i) Identify and explain five (5) ethical threats which may affect the independence of Peter & Co's audit of Global Manufacturing Co. (5 marks)

(ii) For each threat identified in (i) suggest a suitable safeguard.

(5 marks)

(c) Explain four (4) matters that the audit firm should consider prior to accepting a new audit engagement. (4 marks)

(d) Define *professional judgement* and describe two (2) areas where professional judgement is applied when planning an audit of financial statements. (3 marks)

(e) Define *professional scepticism* and state the importance of observing it throughout the audit. (3 marks)

[Total 25 marks]

QUESTION FOUR

You are the Audit Senior of Patra & Co and are planning the audit of Chama Consulting Ltd for the year ended 31 December 2020. The company produces printers and has been a client of your firm for two years. The Audit Manager has already had a planning meeting with the Finance Director. He provided you with the following notes of his meeting and financial statement extracts.

Chama Consulting Ltd.'s management was disappointed with the 2019 results and so in 2020 undertook a number of strategies to improve the trading results. This included the introduction of a generous sales-related bonus scheme for its salesmen and a high profile advertising campaign. In addition, as market conditions are difficult for their customers, the company extended the credit period given to its customers.

The Finance Director of Chama Consulting Ltd reviewed the inventory valuation policy and included additional overheads incurred this year as he considers them to be production related.

The Finance Director calculated a few key ratios for Chama Consulting Ltd. The gross profit margin increased from 44.4% to 52.2% and receivables days increased from 61 days to 71 days. He is happy with the 2020 results and feels that they are a good reflection of the improved trading levels.

Financial statement extracts for year ended 31 December 2020:

		DRAFT	ACTUAL
2020	2019		
		Km	Km
Revenue		23.0	18.0
Cost of sales		(11.0)	(10.0)
Gross profit		12.0	8.0
Operating expenses		(7.5)	(4.0)
Profit before interest and taxation		<u>4.5</u>	<u>4.0</u>
Inventory		2.1	1.6
Receivables		4.5	3.0
Cash		2.3	–
Trade payables		1.6	1.2
Overdraft		-	0.9

Required:

- (a) (i) Calculate an additional three (3) ratios each, for both years, which will assist the audit senior in planning the audit. (3 marks)
- (ii) Identify and explain six (6) audit risks and for each risk suggest a suitable audit response. (12 marks)
- (iii) Describe the procedures that the auditor of Patra & Co should perform in assessing whether or not the company is a going concern. (5 marks)
- (b) Explain three (3) factors that should be considered by an external auditor before placing reliance on the work performed by a company's internal audit department. (3 marks)
- (c) Discuss the importance of assessing risks at the planning stage of an audit. (2 marks)

[Total 25 marks]

QUESTION FIVE

- (a) One of the main duties of the Internal Audit department is to perform value for money audits.

Required:

Explain the purpose and meaning of value for money (VFM) audits conducted by Internal Audit. (5 marks)

- (b) You have been assigned to lead the audit team on the audit of the financial statements of one of your firm's clients. The audit team comprises newly recruited Audit Assistants who have no auditing experience.

You have called for a pre-audit meeting with the rest of the audit team at which you wish to discuss, among other issues' planning the audit before embarking on the actual work, the importance of ensuring that all work that is performed is documented and explaining the two main types of files maintained and the related documentation.

Required:

- (i) State four (4) benefits of the auditor planning the audit of the financial statements of a client. (2 marks)
- (ii) Explain the importance of documenting the audit work conducted by auditors. (2 marks)
- (iii) Explain the two (2) types of audit files maintained by auditors and give an example of the information contained therein. (4 marks)

- (c) You are the Audit Senior on one of the audits of your audit firm. You are about to finalize the audit for the year under review and you are about to carry out substantive tests on the accounts payables.

Your client gave you a schedule of the accounts payables as at the period end and the total of the schedule agrees with the accounts payables control account balance. In view of the fact that the client does not reconcile supplier accounts on a regular basis, you decided that you would carry out a circularization of the payables as one of your audit procedures.

On analysing the results of your circularization, you are concerned that you did not receive any response from one supplier whose balance is material to the financial statements. There are no supplier statements available for you to use but an examination of the supplier files indicates that there have been disputes on certain invoices in the past. In most cases the supplier claimed higher amounts than those in your client's records. At the end of the audit no confirmation of the balance was available but you are of the view that the amount owing needed to be increased by a material amount but the client refused to increase the liability.

Required:

- (i) List four (4) types of account balances from the schedule of payables that will be included in the sample for circularization. (2 marks)
- (ii) Explain four (4) audit procedures that should be undertaken to audit the figure of accounts payables in the financial statements of your client. (4 marks)
- (iii) Explain four (4) audit procedures you will take regarding the disputed supplier balance and state the effect on the audit opinion if the issue remains unresolved. (6 marks)

[Total 25 marks]

END OF PAPER

DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Fraud

If the full extent of the fraud is K40, 000, then the audit team is correct to determine that the fraud is immaterial to the financial statements. However, without performing further procedures it is not possible to reach that conclusion. There is no auditor-generated evidence to support the assertion that K40, 000 is the total amount of stolen funds. Relying solely on a conversation between the Finance Director and the manager who carried out the fraud and a list of invoices provided by the Finance Director is not acceptable as this evidence is not sufficiently reliable.

Indeed, the Finance Director could be involved with the fraud, and is attempting to deceive the auditor and minimise the suspected scale of the fraud in order to deter further procedures being carried out, or investigation or actions being taken. The auditor should approach the comments made by the Finance Director with an attitude of professional scepticism, especially given that he has asked the audit team not to investigate further, which raises suspicion that he may be covering up the fact that the fraud was on a larger scale than has been made known to the auditor.

There are two courses of action for the auditor as follows:

Firstly, further independent investigations should be carried out in order for the auditor to obtain sufficient and appropriate evidence relating to the amount of the fraud. This is particularly important given that the Finance Director seems unwilling to make any adjustment to the financial statements. If the fraud is actually more financially significant, the financial statements could be materially misstated, but without further audit evidence, the auditor cannot determine whether this is the case.

Secondly, the auditor should consider whether reporting is necessary. ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* requires that when fraud has taken place, auditors shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. Given that the Finance Director alerted the auditor of the fraud, it seems likely that management and those charged with governance are already aware of the fraud. However, the auditor should consider whether a formal, written communication is needed.

In addition to reporting to management and those charged with governance, ISA 240 requires that the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. The auditor's duty to maintain the confidentiality of client information makes such reporting potentially difficult, and the auditor may wish to take legal advice before reporting externally.

(ii) & (iii)

Development costs

Sufficient appropriate evidence:

Given that the development costs are material to the financial statements, more audit work should have been carried out to determine whether it is acceptable that all, or some, of the K600, 000 should have been capitalised. There is a risk that research costs, which must be expensed, have not been distinguished from development costs, which can only be capitalised when required criteria has been met. Currently, there is no sufficient, appropriate audit evidence to conclude that the accounting treatment is appropriate, and intangible assets could be materially misstated.

Agreement of amounts to invoices provides evidence of the value of expenditure, but does not provide sufficient, appropriate evidence as to the nature of the expenditure, i.e. the procedure is not necessarily an evaluation of whether it is capital or revenue expenditure.

Performing an arithmetic check on a spread sheet does provide some evidence over the accuracy of the calculations but does not provide sufficient, appropriate evidence on the validity of the projections, and in particular, there is no evidence that the assumptions are sound. Given that the Finance Director has not allowed the audit team access to information supporting the spread sheet and has refused to answer questions, he may have something to hide, and the audit of the projection should be approached with a high degree of professional scepticism. The assumptions may not be sound and may contradict other audit evidence.

The attitude and actions of the Finance Director, which indicate a lack of integrity, should be discussed with the audit committee, as the committee should be in a position to discuss the situation with him, with the objective of making all necessary information available to the audit team.

Finally, there appears to be over-reliance on a written representation from management. ISA 580 *Written Representations* states that written representations should be used to support other audit evidence and are not sufficient evidence on their own. In this situation, it appears that the representation is the only evidence which has been sought in regard to the likely success of the new product development which is inappropriate.

Action and further evidence to be obtained:

Further evidence should be obtained to distinguish between research costs and development costs, and to support whether the development costs meet the recognition criteria in IAS 38 Intangible Assets, and to confirm whether all of the K600,000 should be capitalised. Further evidence should be obtained, including:

- A discussion with the project manager to obtain their view on the likely launch date for the new product, anticipated level of demand, any problems foreseen with completion of the project.
- A further review of a sample of the costs included in the K600, 000, including evaluation of whether the costs are capital or revenue in nature.
- For the sample of costs, review purchase invoices and ensure they are in the name of the company to confirm the rights and obligations assertion of the capitalised costs.

- Results of any market research to support the assertion that the new product will generate future economic benefit.
- A discussion with management to identify how they have incurred development costs without carrying out any research first.
- Assuming that the Group finance director makes the supporting documentation, including assumptions, available to the audit team, the assumptions should be reviewed for reasonableness, with the auditor considering whether they are in line with business understanding and with other audit evidence obtained.

Trade receivables

Sufficient appropriate evidence:

The trade receivable is material to the financial statements and currently there is no sufficient, appropriate audit evidence to determine whether the amount should remain recognised within current assets. The financial statements could be materially misstated if any necessary reduction in value is not recognised.

Agreeing the balance to invoices and order forms may provide evidence of existence but it does not provide evidence on the recoverability of the balance. Including the balance owed by Ham Co in the direct confirmation sample was appropriate given the materiality of the amount involved, but again this would not indicate the recoverability of the balance, even if Ham Co had replied, so additional procedures would have always been required. Therefore, there does not appear to be appropriate audit evidence to confirm the valuation of the trade receivable.

Action and further evidence to be obtained:

Discussing the situation with the Credit Controller will provide some relevant background information, but on its own it is not sufficiently robust evidence to support the continued recognition of the balance. Further evidence should be obtained including:

- Any written correspondence between the company and Ham Co indicating the measures which the company has taken to attempt to recover the debt, and the response from Hamlyn Co.
- Search public registers for evidence of whether Ham Co has been placed in administration or receivership (e.g. Companies House or equivalent), this will indicate the need for an impairment review if it is listed.
- Review of post year-end cash receipts for any amounts received from Ham Co.

(b) Critique of auditor's report

Opinion and basis for opinion:

The report should not have the opinion and basis for opinion combined in one paragraph. The report should start with the opinion paragraph, which is then followed by the basis for opinion.

In addition to separating out the paragraphs, they should be given appropriate headings. According to ISA 705 *Modifications to the Opinion in the Independent Auditor's Report*, when the opinion is modified, the heading should be used to denote the type of modification which is being made to the opinion – in this case of a Qualified opinion, the *basis for opinion paragraph* should be headed '**Basis for qualified opinion**'.

Content of Opinion and Basis for Opinion paragraph:

The qualified opinion paragraph should be worded differently. According to ISA 705, when the opinion is modified the following wording should be used 'except for the effects of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) ...'.

The draft opinion paragraph uses different wording – in particular, using the phrase 'the financial statements are likely to be materially misstated' does not indicate that a firm conclusion has been reached, and could give users of the report some doubt as to the credibility of the auditor's opinion.

Basis for qualified opinion

This paragraph should contain further information on the reasons for the modification including a description and quantification of the financial effects of the material misstatement. In this case, the paragraph should refer to the overstatement of trade receivables of K450, 000, and the overstatement of profit by the same amount. Currently, the paragraph refers to an overstatement of K500, 000, which contradicts the conclusion based on audit evidence.

Emphasis of matter paragraph

According to ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, an emphasis of matter (EOM) paragraph is used when the auditor considers it necessary to draw users' attention to a matter which is of such importance that it is fundamental to users' understanding of the financial statements. The matter discussed in the EOM paragraph must be properly presented and disclosed in the financial statements.

The draft auditor's report includes an EOM which is being used to discuss two matters, neither of which is appropriate for inclusion in an EOM. First, the EOM describes the fraud which has taken place during the year.

Second, the EOM refers to the difficulties encountered in the audit of trade receivables due to the Finance Director refusing to allow full access to necessary sources of evidence. This matter should not be reported to shareholders in the auditor's report. The appropriate method of reporting is to those charged with governance of the company, as required by ISA 260 *Communication with Those Charged with Governance*. ISA 260 requires the auditor to communicate to those charged with governance regarding a range of matters, including significant difficulties, if any, encountered during the audit.

Related to this, stating that it is the Finance Director personally who is responsible for the material misstatement and hence the modification of the auditor's opinion is not professional

and could raise further legal problems, for example, the Finance Director could accuse the audit firm of making false statements or defamation of character.

SOLUTION TWO

(a) Control objectives for the controls in sales system of Chongo Ltd.

Control	Control Objective
1. All new customers are subject to credit checks before orders are accepted.	Goods and services are only supplied to customers with good credit ratings. This reduces the possibility of irrecoverable debts.
2. All orders are approved by the Marketing Manager.	Goods and services are provided at authorised prices and on authorised terms. This minimises the risk of fraudulent activities e.g. accepting orders from customers with overdue debts and getting a bribe.
3. Sequentially numbered goods dispatch notes (GDNs) are raised and a copy is matched to the respective orders and filed. A copy of the GDN is sent to accounts.	All revenue relating to goods dispatched is recorded. This ensures the completeness of revenue.
4. An invoice is raised and a copy is sent to accounts and an accounts clerk matches this to the GDN.	Transactions have been recorded in the correct period. This minimises cut-off problems.
5. The Accounts Supervisor agrees cash receipt back to the invoice.	Cash receipts are recorded at the correct amounts. This verifies accuracy of documents and guards against teeming and lading fraud.
6. Customer statements sent out on a monthly basis.	Recorded sales transactions represent goods dispatched. This addresses any customer queries and complaints on a timely basis.
7. The receivables ledger for credit customers is reviewed on a monthly basis.	To ensure that any errors and omissions are promptly detected and corrected.

(b) Tests of control for controls in sales system of Chongo Ltd:

Controls	Tests of control
1. All new customers are subject to credit checks before orders are accepted.	Review a sample of approved credit facilities for new customers and ensure procedures followed.
2. All orders are approved by the Marketing Manager.	Inspect a sample of orders for evidence of approval by the Marketing Manager e.g. signature.
3. Sequentially numbered goods dispatch notes (GDNs) are raised and a copy is matched to the respective orders and filed. A copy of the GDN is sent to accounts.	Review a sample of GDNs and confirm are sequentially numbered.
4. An invoice is raised and a copy is sent to accounts and an accounts clerk matches this to the GDN.	Review a sample of processed invoices and confirm that they are appropriately matched to the GDN.
5. The Accounts Supervisor agrees cash receipt back to the invoice.	Review a sample of reconciliations done by the Accounts Supervisor.
6. Customer statements sent out on a monthly basis.	Review Chongo Ltd.'s procedures for sending out monthly statements and examine evidence of dispatch of statements.
7. Receivables ledger for credit customers is reviewed on a monthly basis.	Examine the review of the receivables ledger for selected months and confirm evidenced in writing.

(c) (i) Limitations of internal controls:

- The costs of control may be outweighing their benefits
- The potential for human error
- Collusion between employees
- The possibility of controls being by-passed or overridden by management
- Controls being designed to cope with routine and not non-routine transactions.

(ii) Sales system control deficiencies for Chongo Ltd

Control deficiency	Explanation
1. Existing customers are not subject to credit checks.	There is a possibility that existing customers credit standing could deteriorate. This can be caused by a number of factors, some of which may be beyond the customer's control e.g. loss of business to a major competitor. Hence, periodic credit checks should be carried out for existing customers to ensure appropriate decisions are made on a timely basis.
2. Orders are signed by inventory general worker.	The inventory general worker is too junior to sign on orders. A senior person should be responsible for this task. An inventory general worker can easily be bribed, resulting in huge losses to Chongo Ltd.
3. Customers do not sign on the GDN. It may be difficult to resolve future disputes	It may be difficult to resolve future disputes regarding dispatches. In addition, this could encourage fraudulent activities by the drivers' e.g. short deliveries.
4. Receivable ledger for credit customers is reviewed on a monthly basis but the reviews are not evidenced in writing.	This could result in customers getting goods beyond their approved credit limits only to be discovered after the month-end. The risk of irrecoverable debts could be increased. The review must be done daily to minimise the stated risk. Further, reviews may not be carried out as required.

SOLUTION THREE

(a) Ethical threats and examples

Compliance with the fundamental principles of professional ethics may potentially be threatened by a wide range of different circumstances. The threats to fundamental principles and related examples are as follows:

Threat category	Example
Self interest	A financial interest in a client's affairs where an audit firm owns shares in the client company.
Self-Review	A firm prepares accounting records and financial statements and then audits the same client.
Advocacy	Acting as an advocate on behalf of an assurance client in litigation
Familiarity	Senior members of staff at an audit firm with a long association with a client.
Intimidation	Client threatens to sue the audit firm for previous work done.

(b)

(i) Ethical threat rising	(ii) How threat may be avoided
The audit team have previously been offered a 10% discount on luxury phones from Global Manufacturing Co which will potentially have a high value. As only goods with a trivial and inconsequential value can be received, if the same discount is again offered, it will constitute a self-interest threat.	The offer for the discount should be declined if the value is significant.
An audit senior was seconded to Global Manufacturing Co to cover the financial controller's role for three months during the year. The audit senior probably prepared a significant proportion of the records to be audited; this creates a self-review threat as he will review his own work during the audit.	Only if it turns out that the senior was only involved on areas unrelated to the financial statements being audited should be allowed to remain on the audit team, otherwise he should be removed from the assignment to avoid the threat to independence.
The fee income from Global Manufacturing Co. is 16% of Patra & Co's total fees. If, after accounting for non-recurring fees such as the secondment, it remains at this percentage of total fees on a recurring basis there is likely to be	The firm should consider whether the further work should be accepted and also consider appointing an external quality control reviewer. Going forward, the firm needs to assess the recurring fee position for Global Manufacturing Co. and

a self-interest threat because of undue dependence on this client. Where recurring fees exceed 15% for listed companies, objectivity is impaired to such an extent that mandatory safeguards are needed according to the Code of ethics and conduct.	consider refusing further offers of work where this will take them over the 15% threshold. If the threshold is breached for two consecutive years the threat can be mitigated by applying the mandatory safeguards of disclosing the position to the board and arranging an independent pre-issuance or post-issuance engagement review.
The Engagement Partner and Finance Director of Global Manufacturing Co. have been on holiday together and appear to have a longstanding close relationship. This results in familiarity and self-interest threats. Both are senior in their respective organisation and any onlooker would perceive independence to be threatened.	Ideally the partner should be rotated off the audit and replaced with another partner.
The overdue fees (20% of the total fee) may be perceived as a loan which is prohibited and may also create a self-interest threat. This is because Patra & Co may be less robust than they should be when it disagrees with management out of fear they may not recover the fees.	The reasons for non-payment should be determined, and if possible an agreement reached whereby Global Manufacturing Co. repays the fees prior to the commencement of any further audit work.

(c) Steps prior to accepting a new audit engagement

- (i) Ensure that there are no independence or other ethical problems likely to cause conflict with the Code of ethics and other applicable ethical guidelines.
- (ii) Ensure the firm is professionally qualified to act, considering whether the firm may be disqualified on legal or ethical grounds.
- (iii) Ensure the firm's existing resources are adequate, including consideration of available time, staff and technical expertise
- (iv) Communicate with present auditors having obtained the client's permission and enquire whether there are reasons/circumstances behind the change which the new auditors ought to know.
- (v) Obtain references and inquiries of directors if they are not personally known.

(d) Professional judgement

Professional judgement is the application of relevant training, knowledge and experience in making informed decisions about the appropriate courses of action in the circumstances of the audit engagement. The auditor must exercise professional judgement when planning an audit of financial statements.

Areas in which professional judgement used:

Professional judgement will be required in many areas when planning. For example, the determination of materiality for the financial statements as a whole and performance materiality levels will require professional judgement.

Professional judgement will also be required when deciding on the nature, timing and extent of audit procedures.

(e) Professional scepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses from management and those charged with governance.

It is important that professional scepticism is maintained throughout the audit to reduce the risks of overlooking unusual transactions, of over-generalising when drawing conclusions, and of using inappropriate assumptions in determining the nature, timing and extent of audit procedures and evaluating the results of them.

SOLUTION FOUR

(a) (i) Additional ratios

		2019	2020
Operating margin	PBT/Revenue	$4.5/23 = 19.6\%$	$4/18 = 22.2\%$
Inventory days	Inventory/COSx365 days	$2.1/11 \times 365 = 70 \text{ days}$	$1.6/10 \times 365 = 58 \text{ days}$
Payables days	Payables/COSx365 days	$1.6/11 \times 365 = 53 \text{ days}$	$1.2/10 \times 365 = 44 \text{ days}$
Current ratio	Current assets/current liabilities	$6.6/2.5 = 2.6$	$6.9/1.2 = 5.8$
Quick ratio	Current assets - Inventory/Current Liabilities	$(6.6 - 2.1)/2.5 = 1.8$	$(6.9 - 1.6)/1.2 = 4.4$

(a) (ii) Audit risks and responses

Audit risk	Audit response
Management were disappointed with the 2019 results and are under pressure to improve the trading results in 2020. There is a risk that management have a greater incentive to manipulate the results by adopting a more aggressive approach in relation to accounting estimates (i.e. provisions).	The audit team will need to remain alert to the risk of creative accounting throughout the audit. It is important that they exercise professional scepticism and evaluate any assumptions made by management in auditing accounting estimates. Current year balances should be compared to the prior year to highlight any unusual trends.
A generous sales-related bonus scheme has been introduced for the company's salesmen. This increases the risk of misstatements arising from sales cut-off as the sales staff seek to maximise their bonus.	Increased sales cut-off testing will be required. Post year-end sales returns should be reviewed, as they may provide evidence of incorrect cut-off.
Revenue has grown by 28%, while cost of sales has only increased by 10%. The gross profit margin has increased significantly. Although the bonus scheme and the advertising campaign may explain the growth in revenue, the fact that the cost of sales has seen a corresponding increase need to be investigated.	Inquiries should be made of management regarding the reason why cost of sales has not increased in line with sales. Substantive procedures should be performed on an increased sample of costs, with an aim to identify any costs omitted or misclassified.
Although the gross margin has increased from 44.4% to 52.2%, the operating margin has decreased from 22.2% to 19.6%. This trend is unusual. While the bonus scheme and advertising campaign could account for some of the increase in operating expenses, there is a possibility that costs may have been misclassified from cost of sales to operating expenses.	The classification of costs between cost of sales and operating expenses will be compared with the prior year to ensure consistency. A detailed breakdown of operating expenses and cost of sales should be reviewed for evidence of misclassification The main components of costs of sales and operating expenses should be identified and compared to the prior year. Any unusual trends (for example, significant costs in the prior year not present in the current year,

	and vice versa) should be discussed with management.
The inventory valuation policy has been changed, with additional overheads to be included within inventory. Inventory days have increased from 58 to 70 days. There is a risk that inventory is overvalued.	The change in the inventory valuation policy should be discussed with management. The additional overheads included should be reviewed, to confirm that they are related to production. Detailed cost and net realisable value testing should be performed and the aged inventory report should be reviewed to assess whether a write-down is required.
Receivables days have increased from 61 to 71 days and management have extended the credit period given to customers. This leads to an increased risk of unrecoverable receivables.	Extended post year end cash receipts testing and a review of the aged receivables ledger should be performed to assess the need for any write-offs or provision.

(iii) Going Concern procedures

- Obtain Patra & Co's cash flow forecast and review the cash payments and receipts. Assess the assumptions for reasonableness and discuss the findings with management to understand if the company will have sufficient cash flows.
- Review any current agreements with the bank to determine whether any covenants in relation to the overdraft have been breached.
- Read minutes of the meetings of shareholders, the board of directors and important committees for reference to financing difficulties and for evidence of any future financing plans.
- Review the company's post year-end sales and order book to assess the levels of trade. Evaluate whether the revenue figures in the cash flow forecast are reasonable.
- Review post year-end correspondence with suppliers to identify any restriction in credit that may not be reflected in the cash flow forecasts.
- Inquire of the lawyers of Patra & Co as to the existence of litigation and claims.
- Perform audit tests in relation to subsequent events to identify any items that might indicate or mitigate the risk of going concern not being appropriate.
- Review post year end management accounts to assess if it is in line with cash flow forecast.
- Consider whether any additional disclosures as required by IAS 1 *Presentation of financial statements* in relation to material uncertainties over going concern should be made in the financial statements.
- Confirm the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assess the financial ability of such parties to provide additional funds.
- Consider Patra & Co's position concerning any unfulfilled customer orders.
- Obtain a written representation confirming the director's view that Chama Consulting Ltd. is a going concern.

(b) Factors to consider – Reliance on work performed by internal audit

The following important criteria will be considered by the external auditors when determining if the work of internal auditors is likely to be adequate.

Extent to which its objectivity is supported

The auditor must consider the extent to which the internal audit function's objectivity is supported by its organisational status, relevant policies and procedures. Considerations include to whom internal audit reports, any conflicting responsibilities, any constraints or restrictions, whether those charged with governance oversee employment decisions regarding internal auditors and whether management acts on recommendations made.

Level of technical competence

The auditor must consider whether internal auditors are members of relevant professional bodies, have adequate technical training and proficiency and whether there are established policies for hiring and training.

Whether a systematic and disciplined approach is taken

The auditor must also consider whether internal audit activities are systematically and properly planned, supervised, reviewed and documented; and whether suitable audit manuals, work programs and internal audit documentation exist. The auditor must also consider whether the function has appropriate quality control procedures in place.

(c) Importance of assessing risks at the planning stage

ISA 315 says that the auditor shall identify and assess the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions and related disclosures, and account balances and related disclosures.

It is very important that auditors carry out this risk assessment at the planning stage because:

- It helps the auditor gain an understanding of the entity for audit purposes.
- It helps the auditor focus on the most important areas of the financial statements (where material misstatements are more likely), therefore increasing efficiency.
- The risk assessment will form the basis of the audit strategy and the more detailed audit plan.
- Once the risks have been assessed, audit team members of sufficient skill and experience can be allocated to maximise the chance of those risks being addressed.

SOLUTION FIVE

(a) Purpose of a value for money (VFM) audit

VFM focuses on the best combination of services for the lowest level of resources. The purpose of a VFM audit is to examine the economy, efficiency and effectiveness of the activity or process in question.

- **Economy:** Attaining the appropriate quantity and quality of physical, human and financial resources (inputs) at lowest cost.
- **Efficiency:** The relationship between goods or services produced (outputs) and the resources used to produce them.
- **Effectiveness:** Concerned with how well an activity is achieving its policy objectives or other intended effects

(b) Audit evidence and audit planning:

(i) Benefits of audit planning:

- Enables the carrying out of efficient audits.
- Enables the auditor to allocate resources appropriately.
- Enables the auditors identify risk areas and pay more attention to such areas so as to reduce the risk of undetected material misstatements.
- Enables the audit to be conducted in a methodical manner.
- Enables auditors to compare actual performance of the audit with the original plan.

(ii) Why auditors document evidence:

- Audit documentation forms the basis of the audit opinion.
- It is the evidence of the effectiveness of the audit and how it has been carried out.
- In case of litigation documented audit evidence can be used in defence.
- Documentation of evidence facilitates reviews of work to be carried out.
- Documented evidence is a useful source of information for future audits.

(iii) Types of audit files:

Permanent files:

This contains information that is of a long term nature and will be referred to by the auditor over a long period. For example, the engagement letter is contained in the permanent file.

Current files:

Contains evidence of work relating to the current audit. For example, audit work performed on specific financial statement assertions such as the current year inventory count.

(c) Sampling and audit procedures:

(i) Types of account balances to include in list for circularization:

- Accounts with debit balances.
- Accounts with nil balances.

- Accounts with round sum payments made by the company.
- Accounts with disputed balances.
- Accounts with long overdue balances

(ii) Audit procedures to test accounts payables:

- Obtain the list of payables at the period end from the client and cast the list.
- Reconcile the total on the list of payables to the balance in the payables control account.
- Perform analytical procedures on trade payables, comparing the balance to the prior year balance and investigate any significant fluctuations.
- For a sample of suppliers, trace the amounts to the supporting supplier statements.
- Consider circularizing payables if there is no other effective way of confirming the balances.
- Test cut-off by taking a sample of GRNs either side of the year end and verifying that amounts are included on the payables ledger for goods received before the period end.
- Review disclosure of payables in the draft financial statements. To ensure that payables have been disclosed appropriately in the statement of financial position and notes as either current or long term liabilities.

(iii) Audit procedures-disputed accounts payables balance:

- Discuss this matter with management and establish their reasons for the amount they have recognized.
- Review previous year payments to this major supplier compared to the balance in the previous year financial statements. Was there any dispute and if so how was it resolved.
- Request the client to contact the supplier in order to obtain a response to the confirmation letter.
- Use alternative audit procedures such as tracing the major transactions with this supplier to supporting documentation.
- Obtain management representations relating to the figure for this supplier.

Impact on audit opinion:

The question states that the matter is material to the financial statements. If there is a disagreement that is not resolved the auditor should consider modifying the audit report. The form of modification that will be made will depend on the materiality and pervasiveness of the disputed figure to the financial statements.

If the amount is material as is the case but it is not considered pervasive to the financial statements, then a qualified audit opinion will be appropriate in line with the provisions of ISA 705.

If on the other hand the amount is considered material and pervasive to the financial statements, then an adverse report would be appropriate.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 17 DECEMBER 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 all questions

QUESTION ONE

Dr. Daka & Honorable Chrispin are Directors of KC Mule Ltd. The company is in the business of manufacturing computers and they recently placed an advertisement in a computer trade magazine stating that they would supply a particular type of their latest computer which sings and type audio voices for K7,500. The advert also stated that they would consider a reduction in the price for substantial orders. Following the advert, they received two (2) enquiries, one from Game Stores and the other from Home Corp. Each business requested their terms of supply for 500 computers. Doctor Daka replied to both offering to supply the required computers at a cost of K7,000 each.

They both responded to the company stating that they accepted the offer but that they would only pay K6,500 per computer. Honorable Chrispin wrote back to Game stores stating that they would supply the computers but only at the original price of K7,500. When Chanda's letter arrived, the purchasing director of Game stores did not notice the alteration of the price and ordered the 500 computers from the company, which they promised to deliver. Dr. Daka also wrote back to Home Corp, but they responded by saying that they could only pay K4,500 per computer. Dr. Daka once again wrote to say that such a price was not satisfactory. Home Corp finally sent an order for 1000 computers at the original price of K7,000. Dr. Daka delivered the computers, he however increased the price to K8,000 per computer and pocketed the difference. He went ahead and altered Articles of the company to empower himself to change prices and increase the companies borrowing power. Chanda discovers the crookedness of the Doctor and has threatened legal action against Dr. Daka. The suit on the company does not settle well with Honorable Chrispin, he submits that whatever his colleague did was irregular as this was restricted by law.

Required:

- (a) Explain circumstances under which alteration of Articles of Association is restricted at law. (10 marks)
- (b) Dr. Daka has argued that since the company is a separate entity he is a free man, Chanda has heard that a corporate veil can be lifted to deal with Dr. Daka, explain to him two (2) ways this can be done. (6 marks)
- (c) One of the Shareholders has decided that this company be wound up, explain to him at least 3 ways this can be done. (9 marks)

[Total 25 Marks]

QUESTION TWO

Mpamvu Energy Drink Ltd is a small scale business established some twelve (12) years ago. The company's core business is manufacturing of an energy drink from maize grit known locally as (Maseke). The company management have undergone a lot of seminars to receive training in a corporate governance to enhance their performance. However, Mpamvu Energy Drink Ltd has not been able to compete very well with their major competitor Super shake PLC whose market for the similar product has been rising. Mpamvu Energy Drink Ltd has tried to alter its share capital and at some point reduced its share capital, but to no avail.

Mpamvu Drink Energy Ltd has borrowed from a number of creditors using several debentures which the company has failed to pay and the creditors are considering winding up Mpamvu Drink Energy 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) From the above scenario, explain debentures and debenture stock. (6 marks)
- (b) In the event that one desires to alter share capital, explain the requisite procedure to be undertaken (10 marks)
- (c) Explain the powers of court in reduction the share capital of Mpamvu Drink Energy Ltd. (5 marks)
- (d) Define Share Capital for the company's understanding. (4 marks)

[Total 25 Marks]

SECTION B

There are **THREE (3)** questions in this section.

Attempt any **TWO (2)** questions.

QUESTION THREE

On 6 December Malambo won Bola Bet at Bet Zambia.com and was awarded 200,000 Kwacha. He decided to form a business whereby by a letter dated 6 January 2020 he appointed himself as Board Chairman and CEO, his wife as Managing Director and Chief accountant. The company has grown and boasts of over 300 workers. Malambo and his wife however did not do anything to expand the organisation chart of the company as they deem it to be their family business. The company also has some paid up capital with a small figure of reserve capital, just in case. On 8 March 2020, Malambo attended a meeting and as business tycoon, he was challenged to present a paper on corporate governance concepts before delegates the following day and now he needs your help.

Required:

- (a) Explain to Malambo any five (5) corporate governance concepts. (10 marks)
- (b) Explain to Malambo the five (5) duties an agent owes to Directors and other Stakeholders in the day to day running of business. 10 marks)
- (c) Distinguish paid up capital from reserve capital. (5 marks)

[Total 25 Marks]

QUESTION FOUR

Mr. Madodo, a Chairman of the board is in deep thought about the corporate governance and he asserts that the governance structure of a company is one that remains unfamiliar to all, particularly those lacking the requisite knowledge in this respect, experience and practice has demonstrated that whenever called upon to summon our faculties to the governance structures of these metaphysical being called; Companies, the inclination usually is to think firstly of the Directors of the Company.

What is of interest to note is that the governance structure of a company consists of; the Chairperson of the Board, the Chief Executive Officer, the Directors of the Board (*be it Associate Directors, Executive of non-executive Directors*) and not forgetting the professional cadre of Managers that run the day to day activities of a company, all these play specific, yet distinctive roles in the company, all aimed at the success of the company.

Required:

- (a) From the above statement, explain to Mr. Madodo on the eight (8) roles played by the Chairman of the Board. (20 marks)
- (b) Given the corporate structure above, state the five (5) pointers to be used as a criterion for the appraisal of individual Directors. (5 marks)

[Total 25 Marks]

QUESTION FIVE

Covid 19 Banda has been appointed Director General at Masauso Limited Company at the last AGM held at Pamodzi Hotel in Lusaka. At the same meeting, Marvelous was appointed as the Chief Executive Officer of the Company. Covid 19 is excited about his new role and would like to know more about this so that he does not mess up his newly earned status.

Required:

- (a) State any five (5) key attributes of a good company Director to Covid 19. (5 marks)
- (b) Explain to Marvelous the five (5) duties of a Chief Executive officer (10 marks)
- (c) Describe to the two (2) officers the importance of an Annual General Meeting and the business conducted at such a meeting. (10 marks)

[Total 25 Marks]

END OF PAPER

DA12 GOVERNANCE AND COMPANY LAW SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) Any company has statutory power to alter its articles by special resolution. The Alteration will be valid and binding on all members of the company. A company may, unless its articles provide otherwise, by special resolution alter its share capital as stated in the certificate of share capital by;
- Increasing its share capital by issuing new shares of such an amount as it considers expedient
 - Consolidate and divide all of its share capital into shares of larger amounts than its existing shares
 - Convert all or any of its paid up shares into stock and re-converting that stock into paid up shares
 - Subdividing shares
 - Cancelling non allotted shares
 - Lodge with the registrar within 30 days' notice of such alteration

HOWEVER, a company may be restricted to alter Articles if;

- The alteration conflicts with the Act
- The court deems so as to protect minority shareholders
- Alter to increase liability without consent
- Alteration which varies rights attached to a class of shares
- If the Alteration is malafide

(b) 2 ways of lifting corporate veil

- By the judiciary- The courts may lift the veil to counter fraud, sharp practice, oppression and illegality
(3 marks)
- By Statute- This can be done if the number of the members falls below two for more than six months. This is done to avoid evasion of obligations.

(c) The three are:

- (i) Winding up by the court,
- (ii) Members voluntary winding up and
- (iii) Creditors voluntary winding up

(i) **Compulsory liquidation (by court order)**

One needs to petition the court for Compulsory liquidation. This process starts with an application to the court alleging that one or more of the required grounds exist. The application may be brought by the company or a majority of its directors, or by the Registrar of Companies, or by a creditor. Applications by creditors are by far the most important and common. In this case, the company is in debt and is now trading in drugs and beyond its object clause.

- The company is now indulging on illegality
- The Company is unable to pay its debt
- It is just and equitable that the company be wound up

(ii) **Voluntary liquidation (by shareholders' resolution)**

Voluntary liquidation refers to the process whereby the shareholders appoint a liquidator, who is then answerable to the creditors or shareholders. It is not necessary to make any application to the court for this; however, the liquidator may apply to the court for directions and the court has power to remove a liquidator.

A voluntary liquidation may also be commenced by the board of directors if an event specified in the company's constitution has occurred.

Voluntary liquidation may be in one of two forms, depending on whether or not the company is solvent. If the company is solvent the shareholders can supervise the liquidation. However, if the company is insolvent, the creditors may take control of the liquidation process by applying to the court. The court will require proof of solvency or insolvency to determine this matter.

(iii) **Members voluntary winding up**

A members' voluntary winding up is possible only when the company is solvent and is able to pay its debts in full. In this case, it is not necessary for the members to consult the creditors or to call their meeting. A Declaration of Solvency should be made by the Directors.

SOLUTION TWO

(a) Regular **debentures** act as loans against the company, which make the owner of the **debenture** a creditor with preferred status in case of liquidation. **Debenture stocks** are an equity security, not a loan. This means **debenture stockholders** are put in position behind **debentures** and all other forms of debt for liquidation purposes.

(b) A company may, unless its articles prohibit, alter its share capital by doing the following:

- Passing a special resolution to alter share capital
- Increase its share capital by new shares of such an amount as it thinks expedient
- Consolidate and divide its shares into stock
- Subdivide its shares
- Cancel shares

When done with any of the above, a company shall within one month after so doing, lodge with the registrar of companies:

- A notice in the prescribed form specifying as the case may be, altered shares
- A copy of the resolution authorizing the alteration

(c). Powers of court in reduction of share capital;

- * Check whether all creditors consented to reduction of share capital
- * Check whether the creditor's claims have been discharged
- * Check whether the Creditor's claim has been secured

Make an order confirming the reduction on such terms and conditions it thinks fit.

(d) Share capital is the money a company raises by issuing common or preferred stock. The amount of share capital or equity financing a company has can change over time with additional public offerings.

SOLUTION THREE

(a) 7 Key Corporate Governance Concepts

- Fairness. The board of directors should treat all stakeholders fairly and equitably.
- Independence. Each director should be independent. There should be no conflict of interest.
- Honesty. The directors must protect the shareholders' interests in the organisation, and should give confidence to the shareholders that their interests are being protected.
- Transparency. The directors should disclose material information in a timely and accurate manner.
- Accountability. Those who control the business
- Integrity. Moral and ethical issues should be considered when making decisions relevant to the organisation.
- Responsibility. The board of directors should ensure the organisation complies with the relevant laws where it operates.

(b) An agent's primary duties are:

- act on behalf of and be subject to the control of the principal;
- act within the scope of authority or power delegated by the principal;
- discharge his/her duties with appropriate care and diligence; and
- avoid conflict between his/her personal interests

Other duties of an agent include:

- not to acquire any material benefit from a third party in connection with transactions conducted or through the use of his/her positions as an agent
- to act with the care, competence, and diligence normally exercised by agents in similar circumstances
- to take action only within the scope of the his/her actual authority

- to comply with all lawful instructions received from the principal and persons designated by the principal concerning agent's actions on behalf of the principal
- to act reasonably and to refrain from conduct that is likely to damage the principal's enterprise

(c) Paid up capital represents the money that the company has not borrowed. Also, it is the total amount of money that the company receives from shareholders in exchange for shares of stock. Whereas Reserve capital is one which the company may resolve to call up only on liquidation.

SOLUTION FOUR

- (a) The Chairman of the Board of each and every company being the person at the helm of the corporate governance structure of the entity has roles assigned to him/her to be undertaken in the performance of his duties as Chairman. The following are the roles played by the Chairman of the Board of a company.

1. The Chairman of the Board must encourage active engagement by all Members of the Board.

The Chairman of the Board of each and every company must adopt an 'all inclusive' attitude in the performance of his/her duties, this may, for instance be achieved by ensuring that Directors, executive or otherwise contribute positively towards any debate affecting the performance of the company.

2. The Chairman must ensure that the Board receives accurate and timely information.

The timely and prompt receipt of information will aid the Board in many ways than one, one of the ways would be that this would ensure that the Board makes sound decisions and monitors the company effectively.

3. The Chairman must facilitate for Board Appraisals.

The core purpose of the Board is to ensure the success of the company, one of the ways in which this may be achieved is by the effective evaluation of the individual performance of all the Members of the Board, this must be made possible by the Chairman of the Board at least once every year.

4. The Chairman of the Board must apportion ample time for the discussion of controversial matter.

All controversial matters affecting the company must be accorded enough time for discussion by the Chairman of the Board in order to avoid certain problems such as unrealistic deadlines.

5. The Board Chairperson must take the lead in Board development.

The Board Chairperson must ensure that matters touching on the developmental needs of the Board are prioritized at all times, this can be met by, for example ensuring that the induction program for new Directors is not only comprehensive and formal, but also tailored.

6. The Chairperson is also responsible for the reporting and signing off of accounts.

In certain instances, the Chairperson of the Board will also be responsible for the signing off of accounts.

7. The Chairperson must run the Board and set its agenda.

The Chairperson at the top of the governance structure must ensure that he takes a leading role in the affairs of the company through Board meetings, he must also ensure the Board focuses on the strategic matters set.

8. The Chairperson of the Board must ensure the effective communication with Shareholders.

The Chairperson of a company being the leader and face of the company as far as the public is concerned must ensure that the Shareholders and/or those that have invested into the company are kept well informed, *viz-a-viz* their investment.

(b) The performance of each and every Member of the Board of Directors must be thoroughly assessed and an appraisal generated therefrom, this will ensure that the Company is getting the most out of those through whom it acts. The following is a list of the criterion to be used when assessing the performance of individual Members of the Board.

1. Independence.
2. Preparedness.
3. Practice.
4. Committee work.
- 5. Development of Organization.**

SOLUTION FIVE

(a) Key attributes for Directors;

- Skill and competence
- Good time management skills
- Honesty and integrity
- Experience in Industry
- The ability to focus on material issues and not "sweat the small things".
- The ability to see the "big picture".
- The ability to deal with pressure from external sources.
- The ability to influence effectively at the board table.
- The ability to respect alternative viewpoints.

(b) Role of Chief executive officer

- Business strategy and management
- Investment and financing
- Risk management
- Board committees
- Team Building

(c) General meetings are important and failure to hold one attracts a fine. This is where company resolutions are arrived at and below is the business transacted there;

- Appointment of auditors and fixing of their remuneration
- Declaration of dividends
- Consideration of accounts ,balance sheets and reports of directors
- Election of directors
- Special business

END OF SOLUTIONS