



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 13 JUNE 2022

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 – (COMPUSORY)

Attempt all ten (10) multiple choice questions

QUESTION ONE

There are 10 multiple choice questions in this section. Attempt all of them by selecting your best answer from the options given.

- 1.1 A statement of cash flow is covered under IAS 7. This standard requires the cash flows to be classified and reported under three headings.

Under which heading should profit on sale of equipment be reported?

- A. Cash flows from financing activities
- B. Cash flows from operating activities
- C. Cash flows from administrative activities
- D. Cash flows from investing activities

(2 marks)

- 1.2 The trade receivables for the company's year-end 31 December 2020 was K260,000. The previous allowance for receivables brought forward was K12,500. As a result of rapid changes in the economic environment brought about mainly by Covid 19 pandemic, management agreed to adjust the current period allowance for receivables to 8%.

What is the net trade receivable figure that should be shown in the statement of financial position for the year ended 31 December 2020?

- A. K260,000
- B. K247,500
- C. K239,200
- D. K251,700

(2 marks)

- 1.3 Which of the following statement is not correct about the bonus issues

- A. It leads to an increase in share capital
- B. It does not lead to a raise in any cash
- C. It is treated as an expense in a statement of profit or loss
- D. It does not lead to dilution of control to the existing share holders

(2 marks)

- 1.4 Mutale a Book Keeper was in a hurry to post entries in the books of accounts from source documents as information was required urgently by the accountant. When presenting information to the Accountant, it was discovered that one error was made when picking a figure from source. A receipt for rentals by cheque of K500,000 was recorded in the nominal ledger and cash book as K600,000.

How can the above error be corrected?

- A. Credit rent account with K500,000 and debit bank account with K500,000
- B. Debit rent received account with K100,000 and credit bank account with K100,000
- C. Credit rent received account with K600,000 and debit bank account with K600,000
- D. Credit rent received account with K100,000 and debit bank account with K100,000

(2 marks)

- 1.5 In which ledger are personal accounts of suppliers recorded.

- A. Trade receivable ledger
- B. General ledger
- C. Nominal ledger
- D. Trade payable ledger

(2 marks)

- 1.6 The following information relates to BK Ltd a manufacturing company.

	K
Opening inventory on raw materials	40,500
Carriage inwards on raw materials	1 2,500
Carriage outwards	11,200
Closing work in progress	18,000
Closing inventory on raw materials	44,000
Closing inventory on finished goods	22,000
Royalties	14,100
Factory overheads	10,000
Purchases on raw materials	200,300

Calculate the production cost for BK Ltd Company.

- A. K223,400
- B. K215,400
- C. K209,300
- D. K233,400

(2 marks)

1.7 There are many reasons that cause for the differences between the cash book balance and the bank statement balance. Which of the following is not among them?

- A. Uncredited cheques
- B. Credit transfers
- C. Standing orders
- D. Budget

(2 mark)

1.8 WM Ltd Company had an opening balance for payables of K400,000. Cheques paid to suppliers during the accounting period amounted to K340,000 and discount received was K70, 500. The closing balance for payables stood at K250,600. Calculate the purchases figure?

- A. K261,100
- B. K120,100
- C. K240,100
- D. K920,100

(2 marks)

1.9 Which of the following is not an accounting concept?

- A. Going concern
- B. Realibility
- C. Prudence
- D. Consistency

(2 marks)

1.10 Subscription received by cheque during the year 31 December 2021 was K500,000. Subscription accrued at 31 December 2020 was K60,000. At the end of the year 31 December 2021 subscription accrued amounted to K70,000.

Calculate the amount of subscription that should be charged to a statement of profit or loss.

- A. K510,000
- B. K490,000
- C. K370,000
- D. K500,000

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Below is a list of balances for the partnership among Joy, Emma and Karen at 30 June 2021:

	K	
Advertising	6,280	
Bank	2,800	
Capital – Joy	50,000	
- Emma	30,000	
- Karen	20,000	
Receivables	102,000	
Drawings – Joy	24,000	
- Emma	20,000	
- Karen	20,000	
Electricity	7,720	
Fixtures and fittings at cost	25,000	
Fixtures and fittings – Accumulated Depreciation	10,400	
Tax authority (ZRA)	1,360	
Insurance	5,000	
Machinery at cost	76,000	
Machinery – Accumulated Depreciation	31,400	
Allowance for irrecoverable receivables	2,500	
Purchases	398,000	
Sales	612,000	
Stock at 1 July, 2020	46,800	
Sundry expenses	4,960	
Telephone	4,300	
VAT	2,460	
Wages	86,400	
Payables	66,200	
Current accounts – Joy	2,000	Credit
- Emma	1,080	Credit
- Karen	460	Credit

You have also been given the following information:

- (i) Closing inventory is valued at K48,200.
- (ii) Depreciation to be charged at 20% on cost for machinery and 25% reducing balance for fixtures and fittings.
- (iii) An irrecoverable receivable of K2,600 is to be written off and the allowance for irrecoverable receivable to be maintained at 3%.
- (iv) Electricity costs of K800 are to be accrued and insurance includes a prepayment of K1,400.

- (v) Joy, Emma and Karen share profits equally. Emma has a salary of K8,000 per annum and each partner receives interest on their capital account balance at 5% per annum.

Required:

- (a) Draft a Trial balance from the list of balances. (14 marks)
- (b) Prepare Journal entries to record year-end adjustments (i) to (iv). (6 marks)
- [Total: 20 Marks]**

QUESTION THREE

The following trial Balance has been extracted from the book of Chabu, a Sole trader, at 31 December 2021.

	K	K
Motor vehicles at cost	55,000	
Accumulated Depreciation on motor vehicles		16,290
Inventory at 1 January 2021	18,754	
Cash at Bank	24,067	
Trade Receivables	181,100	
Trade Payables		97,139
Capital		68,781
Sales		445,388
Sales Returns	7,040	
Purchases	278,100	
Purchases Returns		15,350
Discount Received		2,627
Discount allowed	2,900	
Wages	45,426	
Motor Expenses	3,276	
Administration Expenses	10,001	
Selling and Distribution costs	1,911	
Rent and Rates	<u>18,000</u>	
	<u>645,575</u>	<u>645,575</u>

Additional Information

- (i) Inventory on hand at 31 December 2021 was K19,750
- (ii) One vehicle included in the trial balance above with original cost of K5,000 was sold for K3,000 during the year. The carrying value of the sold vehicle was K2,500. This transaction has not been recorded in Chabu's accounting records. The remaining vehicles are to be depreciated at 10% using the reducing balance method.
- (iii) Allowance for receivables should be provided at 5%.
- (iv) Administration expenses owing at 31 December 2021 was K119.
- (v) Rent and Rates are prepaid by K1,750 at 31 December 2021.

Required:

- (a) Prepare a statement of Profit or Loss for the year ended 31 December 2021.
(11½ marks)
- (b) Prepare a statement of Financial Position as at 31 December 2021.
(8½ marks)

[Total: 20 Marks]

QUESTION FOUR

Ndola Kopala, a sole trader, runs a small retail shop where he sells sports equipment. He does not keep proper accounting records. He has provided you with following bank account summary for the year ended 31 December 2021:

Bank Account Summary

	K	K
Balance at Bank on 1 January 2021 (Bank overdraft)		16,250
<u>Receipts</u>		
Cash paid in	280,000	
Cheques from Trade Receivables	230,000	
Investment income	7,500	
Rent received	12,500	
<u>Payments</u>		
Payments to Trade Payables	390,000	
Rent and Rates	32,000	
Stationery	11,000	
Motor vehicles expenses	25,250	
Administration expenses	23,000	

Additional Information:

- (i) Ndola Kopala sells all his sports equipment at cost plus 50%.
- (ii) The investment income was interest on his private investment account.
- (iii) Before paying cash receipts into the bank, Ndola Kopala used some of the cash received to make a number of payments:
 - Wages of shop assistants of K1,750 per week.
 - Drawings of K1,100 per week.
 - Administration expenses of K3,750 per annum.

All other cash is paid into the bank daily.

- (iv) During the year a delivery Van loaded with sports equipment being delivered to credit customers was stolen. The Van was recovered, undamaged, but the sports equipment have not been recovered. The insurance company has agreed to pay for 50% of the cost of the stolen sports equipment, but payment has not yet been received. Ndola Kopala calculated from the copy delivery notes that the selling price value of the sports equipment stolen was K30,000.
- (v) At Independence Day, on 24 October 2021, Ndola Kopala donated sports equipment as presents to a local sports club. The selling price of these sports equipment donated was K2,400.
- (vi) Other balances were as follows:

	1 January K	31 December K
Inventory	61,000	68,750
Trade Receivables	30,000	36,000
Trade Payables	45,000	67,000
Delivery Van at valuation	87,500	62,500
Rates paid in advance	2,500	1,000
Rent receivable	-	1,250
Administration expenses owing	875	1,075

Required:

- (a) Prepare an opening Journal entry to calculate the opening capital figure at 1 January 2021. (3 ½ marks)
- (b) Prepare a statement of profit or loss* for the year ended 31 December 2021. (16½ marks)

* Detailed workings should be shown.

[Total: 20 Marks]

QUESTION FIVE

SPL is a public limited company that was established 20 years ago by Martin who is the major shareholder of the company. The company is into the manufacturing of Solar panels which are sold locally and international. The government has been promoting the manufacturing and sale of environmentally friendly products by giving tax incentives and this has led to an increase in demand for Solar panels. The CEO of the company at a recent board meeting stated that there was need for the company to raise funds either through issue of Ordinary shares or loan notes so as to increase production. He further highlighted that part of the funds will be used for the installation of integrated software that will help integrate the whole accounting system. He nevertheless informed members that he was not sure which of the two sources of funds would be appropriate for the company.

Required:

- (a) Explain to the CEO five (5) features of ordinary shares would help management in financing decision. (10 marks)
- (b) Explain to the CEO three (3) features of loan notes that would help management in financing decision. (6 marks)
- (c) Explain four (4) advantages of integrated accounting system. (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) The following figures relate to the accounts of DDM Limited, a manufacturing business for the year ended 31 December, 2020.

	K
Stocks of raw materials at 1 January, 2020	318,600
Stocks of raw materials at 31 December, 2020	449,700
Stocks of finished goods at 1 January, 2020	426,400
Stocks of finished goods at 31 December, 2020	965,100
Purchases of raw materials	2, 376,600
Sales of finished goods	7, 969,500
Rent and rates	392,200
Manufacturing wages	2, 346,300
Manufacturing power	76,500
Manufacturing heat and light	23,700
Manufacturing Expenses and manufacturing	81,900
Wages and salaries	1, 387,000
Advertising	221,700
Office expenses	78,600
Depreciation of plant and machinery	74,500

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

Required:

- (i) Prepare DDM Limited's manufacturing account. (6 marks)
- (ii) Prepare DDM Limited's statement of Profit or Loss account. (5 marks)
- (b) Chandondo, received the following bank statement on 31 May, 2020:

		Dr K	Cr K	Balance K
1 May	Balances	b/f		33,200
7 May	110119	10,200		23,000
11 May	Cash		51,800	74,800
18 May	Credit transfer investment dividends		60,000	134,800
19 May	110121	34,000		100,000
26, May	Direct debit insurance	7,800		93,000

Cash Book(Bank column only)					
DR			CR		
1 May	balance b/f	33,200	7 May	N. Fendwe	10,200
11 May	Cash	51,800	19 May	A. Bowa	34,000
			30 May	S. Lana	23,500
			30 May	K. Omega	13,600
			31 May	balance c/d	3,700
		85,000			85,000

Chandondo, checked the statement against his cheque counterfoils and found that cheques numbers 110118 issued to S. Lana for K23,500 and cheque number 110120 issued to K. Omega for K13, 600 had not been presented.

Required:

- (i) Prepare the updated cash book. (3 marks)
- (ii) Prepare the bank reconciliation as at 31 May, 2020. (4 marks)
- (c) State two (2) reasons why bank reconciliation statements are important to an organization. (2 marks)

[Total: 20 Marks]

END OF PAPER

DA1 SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 B

1.2 C

1.3 C

1.4 B

1.5 D

1.6 B

1.7 D

1.8 A

1.9 B

1.10 A

SOLUTION TWO

(a)	Trial Balance	
	K	K
Bank	2 800	
Capital - Joy		50 000
- Emma		30 000
- Karen		20 000
Payables		66 200
Current Accounts - Joy		2 000
- Emma		1 080
- Karen		460
Receivables	102 600	
Drawings - Joy	24 000	
- Emma	20 000	
- Karen	20 000	
Electricity	7 720	
Fixtures and fitting at cost	25 000	
Fixtures and fittings accumulated depreciation		10 400
Tax liability (ZRA)		1 360
Insurance	11 280	
Machinery at cost	76 000	
Machinery – Accumulated depreciation		31 400
Allowance for irrecoverable receivables		2 500
Purchases	398 000	
Sales		612 000
Inventory 1 July 2020	46 800	
Sundry expenses	9 260	
VAT payable		2 460
Wages	<u>86 400</u>	
	<u>829 860</u>	<u>829 860</u>

(b)	Journal Entries	
	Dr K	Cr K
(i) Inventory – Statement pf financial position	48 200	
Inventory – Statement of profit or loss		48 200
(ii) Depreciation expense – machinery	15 200	
Accumulated Depreciation – machinery		15 200
Depreciation expense – fixtures and fittings	3 650	
Accumulated depreciation – fixtures and fittings		3 650
(iii) Irrecoverable receivables	2 600	
Receivables		2 600
Irrecoverable receivables (102 600 – 2 600 x 32 – 2500)	500	
Allowance for irrecoverable receivables		500

(iv)	Electricity	800	
	Accruals		800
	Prepayments	1 400	
	Insurance		1 400

SOLUTION THREE

3. a. Chabu's

Statement of Profit or Loss for the year ended 31 December 2021.

	K	K
Sales (445,388 – 7,040)		438,348
Opening Inventory	18,754	
Purchases (278,100 – 15,350)		
	<u>262,750</u>	
less Closing Inventory	281,504	
Gross Profit		<u>(261,754)</u>
Add: Discount Received	<u>(19,750)</u>	176,594
Profit on disposal (3,000 – 2,500)	2,627	
less Depreciation on motor vehicles (10% x (50,000 – 13,790))	500	<u>3,127</u>
Allowance for Receivables (5% x 181,100)	3,621	179,721
Discount allowed	9,055	
Wages	2,900	
Motor vehicle Expenses	45,426	
Administration Expenses (10,001 + 119)	3,276	
Selling and distribution	10,120	
Rent and Rates (18,000 – 1,750)	1,911	
	<u>16,250</u>	<u>(92,559)</u>
		<u>87,162</u>

b. Chabu's

Statement of Financial Position as at 31 December 2021.

	K	K
<u>NON-CURRENT ASSETS</u>		
Motor vehicles (w1)		32,589
<u>Current Assets</u>		
Inventory	19,750	
Cash at Bank (24,067 + 3,000)	27,067	
Trade Receivables (181,100 – 9,055)	172,045	
Prepaid Rent		
	<u>1,750</u>	<u>220,612</u>
Financed by:		
Capital		<u>253,201</u>
Net Profit	68,781	
<u>Current Liabilities</u>	<u>87,162</u>	155,943
Trade Payables		

Accrued Administration	97,139	
	<u>119</u>	<u>97,258</u>
		<u>253,201</u>

i. Working on motor vehicle carrying value.

Cost (55,000 – 5,000)	50,000
Less accumulated Depn (16,290 – 2,500 + (10% x (50,000 – 13,790))	<u>(17,411)</u>
	<u>32,589</u>

SOLUTION FOUR

(a) Ndola Kopala's

Opening Journal

	K	K
Delivery vehicles	87 500	
Inventory	61 000	
Trade Receivables	30 000	
Prepaid rates	2 500	
Bank		16 250
Trade Payables		45 000
Administration expenses		875
∴ Capital		<u>118 875</u>
	<u>181 000</u>	<u>181 000</u>

(b) Ndola Kopala's

Statement of Profit or Loss for the year ended 31 December 2021

	K	K
Sales (wk1)		667 950
Opening inventory	61 000	
Purchases (wk2)	<u>390 400</u>	
	451 400	
Closing inventory	<u>(68 750)</u>	
Cost of sales		<u>(382 650)</u>
Gross profit		285 300
Other income – rent received (12 500 + 1 250)		<u>13 750</u>
		299 050
Less: Depreciation on vehicles (wk5)	25 000	
Rent and rates (wk3)	33 500	
Stationery	11 000	
Inventory loss (50% x 20 000)	10 000	
Motor expenses	25 250	
Administration (wk4)	26 950	
Wages (1,750 x 52 wk5)	<u>91 000</u>	
		<u>(222 700)</u>
Net profit		<u>76 350</u>

Workings

1. Sales figure

Trade Receivables Control Account					
Balance	b/f	30 000	Bank		230 000
∴ Credit sales		<u>236 000</u>	Balance	c/d	<u>36 000</u>
		<u>266 000</u>			<u>266 000</u>

Total sales = Credit sales + cash banked + cash payments

$$= 236\,000 + 280\,000 + 151\,950^*$$

$$= 667\,950$$

Wages	1 750 x 52 wks =	91 000
Drawings	1 100 x 52 wks =	57 200
Administration	=	<u>3 750</u>
		151 950

2. Purchase figure

Trade Payables Control Account					
Bank		390 000	Balance	b/f	45 000
Balance	c/d	<u>67 000</u>	∴ Credit Purchases		<u>412 000</u>
		<u>457 000</u>			<u>457 000</u>

$$\text{Total Net Purchases} = \text{credit purchases} - \text{loss} - \text{donations}$$

$$= 412\,000 - 20\,000 - 1\,600$$

$$= \underline{\text{K}390\,400}$$

3. Rent and Rates Account

Balance	b/f	2 500	Profit or loss		33 500
Bank		<u>32 000</u>	Balances	c/d	<u>1 000</u>
		<u>34 500</u>			<u>34 500</u>

4. Administration Expenses Account

Bank		23 000	Balance	b/f	875
Cash		3 750	∴ profit or Loss		26 950
Balance	c/d	<u>1 075</u>			<u>27 825</u>
		<u>27 825</u>			<u>27 825</u>

5. Depreciation on delivery vehicle = 87 500 – 62 500 = 25 000

SOLUTION FIVE

a) Explanation to the CEO of five (5) features of ordinary shares that would help management in financing decision.

1. These are shares that entitles the holder to be paid dividend last after the preference shareholders have been paid their fixed dividends. In the year in which the company makes more profits, they may be paid a higher dividend
2. Ordinary shares give the ordinary shareholders power or right to vote at an annual general meeting. Because of this right, issue of more ordinary shares leads to dilution of control.
3. In a situation where the company becomes bankrupt and is liquidated, the holders of ordinary shares will be ranked last in the payment of funds.
4. Holders of ordinary shares are considered as true owners of the company. They are sometimes referred to as equity shareholders. Any undistributed reserves belong to them.
5. In the year that the company is not doing fine, dividends may not be paid unlike with loan notes where it is a must to pay interest on a loan.

b) Explanation to the CEO of three (3) features of loan notes that would help management in financing decision.

1. Holders of loan notes are not members of the company but are essentially payables. This implies that if the company raised funds by issue of loan notes, it would incur a long term liability
2. Holders of loan notes are paid a fixed rate of interest. If the company decided to use this source of finance, it would be required to pay interest every financial year the loan notes remain in issue without fail. At the end of the loan period, the principal amount of the loan would be required to be paid-off together with interest.
3. In a situation where the company continuously failed to pay interest on the loan, loan holders could take legal action.
4. Unlike in ordinary shares, loan notes are secured on the company's assets. The company will have to decide which assets can be used as collateral

c) Four (4) advantages of an integrated accounting system.

1. One entry made in the ledger account allows for automatic updates of other books of accounts, upto final accounts.
2. Work is simplified and this relieves the work load of accountants.

3. An individual can specify the type of report they want and this can be generated automatically from all available data.
4. Integrated accounting systems help in producing timely information; thereby enabling the firm to make timely decisions.

SOLUTION SIX

- (a) (i) DDM Limited's Manufacturing Account for the year ended 31 December 2020

	K	K
Raw materials:		
Opening inventory	318 600	
Purchases	<u>2 376 600</u>	
Total inventory available	2 695 200	
Less: closing inventory	<u>(449 700)</u>	
Cost of raw material consumed		2 245 500
Direct labour:		
Manufacturing wages		<u>2 346 300</u>
Prime cost		4 591 800
 Add: Production overheads:		
Rent and rates (392,200 x $\frac{3}{4}$)	294 150	
Manufacturing power	76 500	
Heat and light	23 700	
Expenses and maintenance	81 900	
Wages and salaries (1,387,000 x 50%)	693 500	
Depreciation plant and machinery	<u>74 500</u>	
Total factory overheads		<u>1 244 250</u>
Cost of production		<u>5 836 050</u>

ii) DDM Limited's Statement of profit or loss Account for the year ended 31 December 2020	K	K
Sales		7 969 500
Opening inventory of finished goods	426 400	
Cost of production	<u>5 836 050</u>	
	6 262 450	
Less: closing inventory of finished goods	<u>(965 100)</u>	
		<u>(5 297 350)</u>
Gross profit		2 672 150
Less: Expenses		
Rent ($\frac{1}{4}$)	98 050	
Wages and salaries ($\frac{1}{2}$)	693 500	
Advertising	221 700	
Office expenses	<u>78 600</u>	
Net profit		<u>(1 091 850)</u>
		<u>1 580 300</u>

(b) (i)	Updated Cash Book			
		K		K
Balance b/d		3 700	Direct debit insurance	7 800
Investment dividends		<u>60 000</u>	Balance c/d	<u>55 900</u>
		<u>63 700</u>		<u>63 700</u>

|

(i) Bank Reconciliation Statements:

	K
Cash book balance	55 900
Add unpresented cheques: S. Langa	23 500
K. omega	<u>13 600</u>
Balance as per bank statement	<u>93 000</u>

- (c) Bank reconciliations are important because they enable discovery of errors and omissions as well as working as a control measure between cash book and bank records.

Bank reconciliations also help prevent and detect fraud.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 15 JUNE 2022

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

INSTRUCTIONS TO CANDIDATES

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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 Find the future value of a saving made at a bank with an initial amount of K3,000 over four (4) years at an interest rate of 6% compounded annually.

A. K3,878.71
B. K3,787.43
C. K788
D. K3,740

(2 marks)

- 1.2 The probability of winning the first price in a lottery by a girl is $\frac{2}{25}$. If a total of 8,000 tickets were sold, then how many tickets were girl purchased by the girl?

A. 640
B. 250
C. 800
D. None of the above

(2 marks)

- 1.3 Six (6) employees spent the following hours working on a particular task in a randomly selected week: 39, 34, 24, 31, 35, 42. Calculate the standard deviation of this data.

A. 6.31
B. 6.80
C. 7.80
D. 7.11

(2 marks)

- 1.4 Mr Mwanza formulates a regression model comparing sales of good (Y) and the cost of advertising the goods (X). if the regression model obtained is $Y = 3000 + 12X$ Find the cost of advertising the products if sales obtained amount to K28,000 is spent on advertising.

A. K339,000
B. K336,000
C. K2,583.33
D. K2,083.33

(2 marks)

- 1.5 Mr. James Zulu deposited K 550 in ABC bank for 8 years to obtain simple interest of K220. The rate is:

A. 4%.
B. 5%.
C. 8.5%.
D. 5.5%.

(2 marks)

- 1.6 The amount of money today which is equal to a series of payments in future is called.

A. Future value of annuity
B. Present value of annuity
C. Sinking value of annuity
D. Nominal value of annuity

(2 marks)

- 1.7 In a pie chart, the angles for each sector is calculated by the formula.

A. $\frac{\text{Component part}}{\text{Total}} \times 100$
B. $\frac{\text{Component part}}{\text{Total}} \times \pi$
C. $\frac{\text{Total}}{\text{Component part}} \times 360$
D. $\frac{\text{Component part}}{\text{Total}} \times 360$

(2 marks)

1.8 An investor intends to deposit money in an account that offers 8% annual interest rate to get a future value of K10,000 after five (5) years compounded annually. How much should he deposit?

- A. 10,000
- B. 6,807.83
- C. 1,4690.00
- D. 3,192.65

(2 marks)

1.9 All these are components of time series except:

- A. Seasonal variation.
- B. Trend.
- C. Cyclical variation.
- D. Seasonal index.

(2 marks)

1.10 Suppose a number x is chosen from numbers -4, -3, -2, -1, 0, 1, 2, 3, 4. What will be the probability of $x^2 > 0$?

- A. $\frac{7}{8}$
- B. $\frac{4}{8}$
- C. $\frac{5}{8}$
- D. $\frac{8}{9}$

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) Mutinta borrowed K20,000 from her friend at 18% per annum simple interest. She lent it to Choobe at the same rate but compounded annually. Find her gain after three (3) years? (7 marks)
- (b) By sampling different landscapes in a national park, over a two (2) – year period, the number of black Lechwes per square kilometer was determined. The results were (Black Lechwes per square kilometers)

35, 25, 10, 34, 63, 12, 25, 23, 9, 34, 27, 14.

Required:

Calculate

- (i) Range (2 marks)
- (ii) Sample mean (4 marks)
- (iii) Sample variance (6 marks)
- (iv) Sample standard deviation (1 mark)

[Total: 20 Marks]

QUESTION THREE

- (a) An organization specialized in agri-business value addition wants to select an area for farming purpose. Due to variation in the rainfall pattern, he opts to compare the rainfall quantities the area receives with the subsequent profit values. The rainfall pattern is classified as high, medium and low. The table below shows the three farming blocks Kafubu, Kawambwa and Nampundwe.

	Rain levels		
FARM BLOCK	HIGH	MEDIUM	LOW
KAFUBU	40	80	70

KAWAMBWA	60	50	90
NAMPUNDWE	50	55	100

Required:

Determine the best farming block using:

- (i) Maximax criterion (3 marks)
- (ii) Minimax regret rule (6 marks)

- (b) The average price of a new mobile phone is K550 with a standard deviation of K65. The prices are normally distributed.

Required:

Calculate the probability of a mobile phone with price:

- (i) Not exceeding K620. (3 marks)
- (ii) Between K450 and K650. (4 marks)

- (c) An investment broker has provided all clients with a list of several possible independent investments, each having a probability of 0.7 of yielding a substantial profit. A client decides to purchase four of the investments.

- (i) What is the probability that all four yield a profit? (2 marks)
- (ii) What is the probability that the client's four investments are all not profitable? (2 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The data in the table below is for Y depends on X.

X	5	6	7	8
Y	16	11	18	13

Required:

- (i) Obtain the regression equation. (13 marks)
 - (ii) Estimate Y when $x = 4$. (3 marks)
- (b) Miss Mwena deposited K790 in a bank offering 4% interest compounded annually to obtain amount of K1,124.41.

Required:

Calculate the time.

(4 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The following data give the prices (in thousands of dollars) of seven houses selected from all houses sold last month in a city.

312 257 421 289 526 374 497 510

Calculate the following and interpret correctly:

- (i) Find the median. (3 marks)
 - (ii) The mean (4 marks)
 - (iii) The standard deviation. (5 marks)
- (b) A salesman sells goods by telephone. The probability that any particular call achieves a sale is $\frac{1}{12}$, independently of all other calls. The salesman continues to make calls until one call achieves a sale.
- (i) Name an appropriate distribution with which to model this situation. (1 mark)
Calculate the probability that a call that achieves a sale
 - (ii) Is the fifth call made (3 marks)
 - (iii) Does not occur in the first five calls. (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Calculate the internal rate of return (IRR) of a project which requires an initial outlay of K20 000 and produces a return of K8 000 and K15 000 at the end of years 1 and 2 respectively. (12 marks)
- (b) The number of passengers on a certain regular weekday bus was counted on 20 occasions. For each journey, the number of passengers in excess of 20 was recorded, with the following results.

16, 7, 14, 9, 10, 13, 9, 12, 6, 13, 8, 12, 8, 12, 11, 8, 10, 15, 11, 7.

Required:

Calculate,

- | | | |
|-------|------------------------|-----------|
| (i) | The mode | (2 mark) |
| (ii) | The median | (1 mark) |
| (iii) | The mean | (2 mark) |
| (iv) | The standard deviation | (3 marks) |

[Total: 20 Marks]

END OF PAPER

DA2 SUGGESTED SOLUTIONS

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

SOLUTION TWO

(a) Mutinta : simple interest

Amount = Principle + Interest

$$\begin{aligned} Amount &= P_0(1 + RT) = 20000(1 + 0.18(3)) = 20000(1.54) \\ &= K30800 \end{aligned}$$

Choobe Compound Interest

$$\begin{aligned} A &= P_0(1 + R)^T = 20000(1.18)^3 \\ &= 20000(1.643032) = K32\,860.64 \end{aligned}$$

Her gain is $32\,860.63 - 30800 = K2060.64$

(b)

(i) the range $= 63 - 9 = 54$

(ii) sample mean $\bar{x} = \frac{\sum x}{n} = \frac{311}{12} = 25.92$

(iii) sample variance $S^2 = \frac{\sum x^2 - \frac{(\sum x)^2}{n}}{n-1} = \frac{10535 - \frac{311^2}{12}}{11} = 224.992424242 = 224.99$

(iv) sample standard deviation $= \sqrt{224.9924242} = 14.99974747 \approx 15$

SOLUTION THREE

(a) (i)

	Rain levels			
FARM BLOCK	HIGH	MEDIUM	LOW	MAXIMUM
KAFUBU	40	80	70	80
KAWAMBWA	60	50	90	90
NAMPUNDWE	50	55	100	100

Under the Maximax criteria, Nampundwe must be chosen

(ii)

	Rain levels		
FARM BLOCK	HIGH	MEDIUM	LOW
KAFUBU	40	80	70
KAWAMBWA	60	50	90
NAMPUNDWE	50	55	100
MAXIMUM	60	80	100

Regret table

	Rain levels			
FARM BLOCK	HIGH	MEDIUM	LOW	maximum
KAFUBU	20	0	30	30
KAWAMBWA	0	30	10	30
NAMPUNDWE	10	25	0	25

Under the Minimax regret rule, Nampundwe must be chosen

(b)

$$\begin{aligned}
 \text{(i) } P(X < 620) &= P\left(Z < \frac{620-550}{65}\right) \\
 &= P(Z < 1.08) = 0.8599
 \end{aligned}$$

$$(ii) P(450 < X < 650) = P\left(\frac{450-550}{65} < Z < \frac{650-550}{65}\right)$$

$$= P(-1.54 < Z < 1.54) = 1 - (0.0618 + 0.0618) = 1 - 0.1236 = 0.8764$$

$$(c). \quad (i) P(ALL YIELD PROFIT) = 0.7 \times 0.7 \times 0.7 \times 0.7 = 0.2401$$

$$(ii) P(ALL YIELD A LOSS) = 0.3 \times 0.3 \times 0.3 \times 0.3 = 0.081$$

Alternatively using the Binomial distribution since there are only two possible outcomes and assuming constant probability from one investment to another.

$$n = 4, \quad p = 0.7, q = 0.3$$

$$(i) \quad P(x = 4) = \binom{4}{4}(0.7)^4(0.3)^0 = 0.2401$$

$$(ii) \quad P(x = 0) = \binom{4}{0}(0.7)^0(0.3)^4 = 0.0081$$

QUESTION FOUR

(a) (i) $y = a + bx$

X	X ²	Y	XY
5	25	16	80
6	36	11	66
7	49	18	126
8	64	13	104
$\Sigma x = 26$	$\Sigma x^2 = 174$	$\Sigma y = 58$	$\Sigma xy = 376$

$$b = \frac{n \Sigma xy - (\Sigma x)(\Sigma y)}{n \Sigma x^2 - (\Sigma x)^2} = \frac{4(376) - (26)(58)}{4(174) - (26)^2}$$

$$= \frac{1504 - 1508}{696 - 676}$$

$$= \frac{-4}{20}$$

$$= -0.2$$

$$a = \frac{\Sigma y}{n} - b \frac{\Sigma x}{n} = \frac{58}{4} - (-0.2) \frac{26}{4}$$

$$= 14.5 + 0.2(6.5)$$

$$= 14.5 + 1.3$$

$$= 15.8$$

$$Y = 15.8 - 0.2X$$

(ii) $Y = 15.8 - 0.2(4)$

$$= 15.8 - 0.8$$

$$= 15$$

(b) $P = K790$ $i = 0.04$ $A = K 1124.41$

$$P(1 + i)^n = A$$

$$790(1.04)^n = 1124.41$$

$$(1.04)^n = \frac{1124.41}{790}$$

$$(1.04)^n = 1.4233$$

$$\log (1.04)^n = \log (1.4233)$$

$$n \log (1.04) = \log (1.4233)$$

$$n = \frac{\log(1.4233)}{\log(1.04)}$$

$$n = 8.999 = 9 \text{ years.}$$

QUESTION FIVE

(a)

(i)

312 257 421 289 526 374 497 510

257 289 312 374 421 497 510 526

$$\text{Median} = \frac{374 + 421}{2} = 397.5$$

(ii)

$$\bar{X} = \frac{\sum x_i}{n} = \frac{257 + 289 + 312 + 374 + 421 + 497 + 510 + 526}{8} = \frac{3186}{8} = 398.25$$

(iii)

$$S = \sqrt{\frac{(257 - 398.3)^2 + (289 - 398.3)^2 + (312 - 398.3)^2 + \dots + (510 - 398.3)^2 + (526 - 398.3)^2}{8 - 1}} = 106.23$$

(b)

(i) X is the number of calls until a call achieves a sale

X can be modelled by a geometric distribution, $X \sim \text{Geo}\left(\frac{1}{12}\right)$.

$$P(X \leq x) = (1 - p)^{x-1}p = q^{x-1} \cdot p$$

(ii) $P(X = 5) = q^{5-1} \cdot p = q^4 \cdot p = \left(1 - \frac{1}{12}\right)^4 \cdot \frac{1}{12} = 0.059$

(iii) No success in the first five calls

$$P(X > 5) = q^{5-0} \cdot p^0 = q^5 = \left(1 - \frac{1}{12}\right)^5 = 0.65$$

SOLUTION SIX

(a)

The internal rate of return (IRR) is the interest rate at the point at which Net present value (NPV) is zero.

$$0 = -20\,000 + 8000(1+r)^{-1} + 15\,000(1+r)^{-2}$$

Multiplying both sides by $(1+r)^{-2}$

$$0 = -20\,000(1+r)^2 + 8\,000(1+r) + 15\,000$$

Let $x = (1+r)$,

We have, $0 = -20\,000x^2 + 8\,000x + 15\,000$, and dividing both sides by 1 000 we get
 $0 = -20x^2 + 8x + 15$

Solving the quadratic equation for x ,

$$x = \frac{-8 \pm \sqrt{(-8)^2 - 4(-20)(15)}}{2(-20)} = \frac{-8 \pm 35.55277767}{-40}$$

Therefore = 1.0888 ; since $x = 1 + r = 1.0888$; $r = 0.888$ or 8.888%

(b)

6, 7, 7, 8, 8, 8, 9, 9, 10, 10, 11, 11, 12, 12, 12, 13, 13, 14, 15, 16.

(i) Mode = 8 and 12

(ii) Median = $\frac{10+11}{2} = 10.5$

(iii) Mean $\bar{x} = \frac{211}{20} = 10.55$

(iv) $S^2 = \frac{2377 - \frac{(211)^2}{20}}{19} = 7.944736842$
 $s = \sqrt{7.944736842} \approx 2.82$

END OF SILUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 14 JUNE 2022

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 Point X is inside the production possibility curve. Point X is called ...

- A. A point of efficiency
- B. A point of minimization
- C. A point of inefficiency
- D. A point of sustainability

(2 marks)

1.2is not a benefit of privatization

- A. Improves efficiency
- B. Attracts investments
- C. Encourages competition
- D. Concentrates economic powers

(2 marks)

1.3 If demand is elastic, an increase in price will result in:

- A. A reduction in revenue
- B. An increase in revenue
- C. An increase in quantity demanded
- D. An increase in the volume of production

(2 marks)

1.4 When the minimum price is above the equilibrium price, the quantity supplied is greater than the quantity demanded. The difference in quantity is called.....

- A. A shortage
- B. An excess demand
- C. A surplus
- D. A rationing

(2 marks)

- 1.5 Which of the following would normally result from an increase (appreciation) in a country's exchange rate?
- A. An increase in the country's rate of inflation
 - B. A fall in the volume of exports
 - C. An improvement in the balance of payment
 - D. A fall in the volume of imports
- (2 marks)
- 1.6 Which formula is correct for calculating Marginal Product (MP):
- A. $MP = TP_{n+1} - TP_n$
 - B. $MP = MR - MC$
 - C. $MP = TP - TC$
 - D. $MP = TP_n - TP$
- (2 marks)
- 1.7 Insert the correct missing word in the following definition. Acceleration principle is the theory that investment changes disproportionately in response to change in.....
- A. Input
 - B. Income
 - C. Output
 - D. Money
- (2 marks)
- 1.8 Which formula is correct when calculating the national income.
- A. National income = GDP + capital consumption
 - B. National income = GDP - government expenditure
 - C. National income = GNP - capital consumption
 - D. National income = GNP + consumer expenditure
- (2 marks)
- 1.9 If the banking system has broad money supply K2,550 billion, liquid reserves of K562.50 billion, calculate the reserve ratio.
- A. 15%
 - B. 22%
 - C. 12%
 - D. 10%
- (2 marks)

1.10 Which fiscal policy instrument would you use to reduce the level of inflation.

- A. Reduce tax levels
- B. Reduce interest rates levels
- C. Reduce the volume of money supply
- D. Reduce government expenditure.

(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 three (3).

QUESTION TWO

- (a) Suppose that the market demand function and the market supply function of a perfectly competitive industry are given by:

Demand function: $Q_d = 4,750 - 50P$

Supply function : $Q_s = 1,750 + 50P$

Where P is the price in kwacha

- (i) Find the market equilibrium price and quantity (4 marks)
- (ii) Determine the price elasticity of demand and supply (6 marks)
- (iii) State the law of demand (2 marks)

- (b) Distinguish between public goods and merit goods and giving an example of each of the four distinctions outlined. (8 marks)

[Total: 20 Marks]

QUESTION THREE

Two (2) manufacturing firms in the same industry, producing similar products are considering merger.

Required:

- (a) Name the type of integration and give two (2) advantages (5 marks)
- (b) Outline any four (4) features of a private limited company (4 marks)
- (c) Given the following information about the firm's output, complete the table for Average product and Marginal product. (7 marks)

No. of Workers	Total Product	Average Product	Marginal Product
0	0		
1	22		
2	42		
3	58		
4	66		
5	67		
6	67		

(7 marks)

- (d) Give any two (2) sources of diseconomies of scale the firm is likely to face.

(4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Using an appropriate diagram, explain how a perfectly competitive firm maximizes profit in the long run. (6 marks)
- (b) Explain any three (3) key characteristics of a monopolistic industry. (6 marks)
- (c) Write short notes on each of the following microeconomic concepts:
- (i) Microeconomics (2 marks)
 - (ii) Market surplus (2 marks)
 - (iii) Normal profit (2 marks)
 - (iv) Kinked demand curve (2 marks)

[Total: 20 Marks]

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

QUESTION FIVE

- (a) Zambia is a member of the World Trade Organization aimed at encouraging fair trade among member countries. Despite numerous advantages of free international trade, many countries including Zambia still practice protectionism.

Briefly explain the following arguments in support of restricting imports:

- (i) Infant industry argument (3 marks)
 - (ii) Anti-dumping argument (3 marks)
 - (iii) National interest argument (3 marks)
- (b) Below is an algebraic representation of the consumption function $C = a + bY_d$. State and explain what the following symbols in the equation stand for:
- (i) a (2 marks)
 - (ii) b (2 marks)

- (iii) Y_d (2 marks)
- (c) Discuss the effects on the macro-economy of an increase in government spending.

(5 marks)

[Total: 20 Marks]

QUESTION SIX

Zambia has experienced high rate of unemployment, especially the youths.

- (a) Define unemployment rate (3 marks)
- (b) State the formula for calculating unemployment (3 marks)
- (c) Outline any four (4) types of unemployment (8 marks)
- (d) Explain what is meant by a 'flexible exchange rate' system (6 marks)

[Total 20 Marks]

QUESTION SEVEN

- (a) Suppose you are given the following information about country X

ZMK `million

Wages and salaries	350
Mixed Incomes	38
Net income from abroad	15
Gross profit/rent and interest of firms, government and other institutions	150
Taxes on products	71
Subsidies on products	3
Depreciation	65

Required:

Calculate

- (i) Gross Domestic Product at market prices (1 mark)
- (ii) Gross National income at market prices (1 mark)
- (b) Explain the uses of national income statistics. (3 marks)
- (c) Illustrate with a diagram the five sector circular flow model of national income.

(15 marks)

[Total: 20 Marks]

END OF PAPER

DA 3 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i) At equilibrium $Q_d = Q_s$

$$4,750 - 50P = 1,750 + 50P$$

$$3,000 = 100P$$

$$P = K30 \text{ and } Q = 4750 - 50P$$

$$Q = 4750 - 50(30)$$

$$Q = 3250$$

(ii) Elasticity of demand will be: $\varepsilon_p = \frac{dQ_d}{dP} \left(\frac{P}{Q} \right)$

$$\frac{dQ_d}{dP} = -50 \text{ therefore } \varepsilon_p = -50 \left(\frac{30}{3200} \right) = 0.4686$$

Elasticity of supply will be : $\varepsilon_p = \frac{dQ_s}{dP} \left(\frac{P}{Q} \right)$ but $\frac{dQ_s}{dP} = 50$

$$\varepsilon_p = 50 \left(\frac{30}{3200} \right) = 0.4686$$

Demand and supply schedules:

Price (K)	Quantity demanded (Q_d)	Quantity supplied (Q_s)
50	2,250	4,250
40	2,750	3,750
30	3,250	3,250
20	3,750	2,750
10	4,250	2,250

(iii) Law of demand states that the higher the price the lower the quantity demanded and vice versa

(b) Public goods

- These are goods whose consumption by one individual or group does not significantly reduce the availability for others.
- There is non-excludability in consumption
- Individuals consuming the good have no incentive to pay for the good
- Example of public goods is national defence and street lighting

Merit goods

- These are goods worth providing for everyone irrespective of whether everyone can afford to pay for it or not.
- The consumption of these goods are of long-term public interest
- These are goods that cannot be otherwise be provided by the private sector as they are not profitable
- Example: Health care and Education

SOLUTION THREE

- (a) The type of integration is **Horizontal**. It occurs when firms that are producing the same type of product, and are at the same stage of the production process, join together.

The reasons/ advantages for horizontal integration would be for firms to:

- Obtain economies of scale
- Increase market share
- Fight off imports
- Pool technology

(b) **Private limited company features**

- **Formally registered.** Businesses are registered as formal legal entities and must have important documents such as articles of association and taxation.
- **Separate legal entity.** This business organization has a separate legal identity from its owner. The company's finances are separate from the owner's personal finances. Likewise, legal disputes or corporate debt problems are not the responsibility of the owner as a person.
- **Owner.** They are known as shareholders. The company has at least one shareholder. They may be individuals, trusts, associations, or other companies.
- **Limited liability.** Shareholders have limited liability. The company's debt is not their personal responsibility. Thus, when a company goes bankrupt or fails to pay its debts, shareholders have limited liability. Shareholders' personal assets cannot be taken to pay off debts. They simply lost the capital they had invested in the business.
- **Ownership.** The owner's interest in the company is equal to the number of shares they own. If companies distribute dividends, they receive a percentage of their shareholding.
- **Operation.** Shareholders appoint the Board of Directors to operate the business and act in their best interests. The Board of Directors is responsible for business operations and makes all business decisions. And, sometimes, shareholders also serve as directors.

(c) **complete the table**

No. of Workers	Total Product	Average Product	Marginal Product
0	0	-	-
1	22	22	22
2	42	21	20
3	58	19.3	16
4	66	16.5	8
5	67	13.4	1
6	67	11.2	0

(d) **Diseconomies of scale**

Internal diseconomies of scale

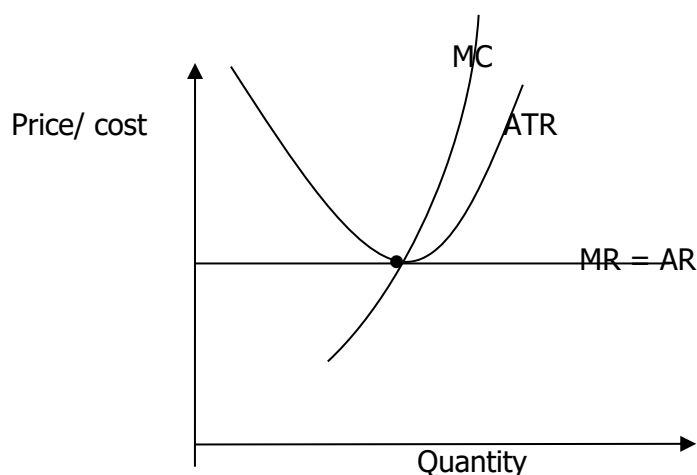
- Managerial diseconomies occur, as large firms are difficult to manage in relation to effective control and coordination.
- Labour relations affected, workers cease to feel that they belong: moral and motivation fall.
- As the firm increases in size management may become complacent since it is less vulnerable to competition from other firms. These complacency leads to inefficiency termed "X" inefficiency.
- Decisions are not taken quickly
- Technical diseconomies occur, as the technical size of the plant may create large administrative overheads.
- Trading diseconomies, which is mass standardized production verses individualism.
- External Diseconomies of Scale

As the firm and industry grows it may be hampered by shortage of various types, for example,

- Local labour and raw materials become scarce and firms have to offer higher wages to attract new workers or buy raw materials at high costs.
- Land, factories become scarce, and rents begin to rise. Roads become congested and so transport costs begin to rise.
- Lack of markets for the firms' output.

SOLUTION FOUR

- a) In the long-run, a perfectly competitive firm maximizes profit by setting output, Q_c , so that price, P , (equal to marginal revenue, MR) and equal to average revenue, AR) is equal to marginal cost. At this point, marginal cost is equal to average cost, hence marginal revenue equals average cost and profit is zero. This is illustrated in the diagram below.



- b) The following are the characteristics of a monopolistic industry.
- There are a large number of firms
 - The product is usually differentiated
 - There are no barriers to entry(freedom of entry and exit)
 - The firm has minimal degree of market power
 - The firm faces a down – ward sloping demand curve
- c) Microeconomic concepts:
- i) Microeconomics is the branch of economics that studies decision making by a single individual, household, firm, industry, or level of government
 - ii) Surplus is a market condition existing at any price where the quantity supplied is greater than the quantity demanded
 - iii) Normal profits: This is the minimum profit necessary to keep the firm in operation. A firm that earns normal profits earns total revenue equal to its total opportunity cost
 - iv) Kinked demand curve is a demand curve facing an oligopolist that assumes that rivals will match a price decrease, but ignore a price increase

SOLUTION FIVE

- (a) Arguments in support of restricting imports:
- (i) An infant industry is a young industry that may need temporary protection from competition from established industries of other countries to develop an acquired comparative advantage
 - (ii) Anti-dumping laws block imports that are sold below the cost of production by imposing tariffs that increase the price of these imports to reflect the cost of production
 - (iii) National interest argument states that countries should not be heavily dependent on imports from other countries of certain key products that have national security applications
- (b) The symbols from the consumption function stand for:
- (i) **a** represents autonomous consumption. This is the consumption expenditure when the level of disposable income is zero
 - (ii) **b** represents the marginal propensity to consume. It is the rate of change of consumption expenditure as disposable income changes
 - (iii) **Y_d** represents disposable income. This is personal income less personal taxes
- (c) An increase in government spending is an example of fiscal policy which involves attempts to influence aggregate demand by altering government expenditures and revenue. Generally, an increase in government spending would be expansionary. That is, it would have an effect of increasing the level of national income. The precise extent to which a given increase in government spending increases national income will be determined by the value of the multiplier. However, an increase in government spending may have undesirable consequences for inflation. If the economy was at or near full employment when the increase in expenditure occurred, this will have a proportionately bigger effect on inflation than on employment and output.

SOLUTION SIX

(a) Unemployment rate is defined as the percentage of people in the labour force who are without jobs and are actively seeking jobs

(b) Unemployment rate = $\frac{\text{Unemployed}}{\text{Labour force}} \times 100$

(c) Types of unemployment:

- Frictional unemployment: This is unemployment caused by the normal search time required by workers with marketable skills who are changing jobs; initially entering the labour force, re-entering the labour force, or seasonally unemployed
- Structural unemployment: This is unemployment caused by a mismatch of the skills of workers out of work and the skills required for existing job opportunities
- Cyclical unemployment: This is unemployment caused by the lack of jobs during a recession
- Seasonal unemployment: This is unemployment caused by changes in seasons, particularly for seasonally adjusted jobs
- Technological unemployment: This is unemployment caused by changes in technology and the workers lacking the new required skills lose their jobs

(d) A flexible exchange rate system is an exchange rate system where the market forces of demand and supply determine the exchange rate. The exchange rate is allowed to freely appreciate or depreciate in line with market forces of demand and supply

SOLUTION SEVEN

(a)

(i) **GDP at market prices** = Wages and salaries + Profits + Mixed incomes + Taxes on

$$\begin{aligned} & \text{products} - \text{subsidies on products} \\ & = 350 + 150 + 38 + 71 - 3 = \mathbf{606} \end{aligned}$$

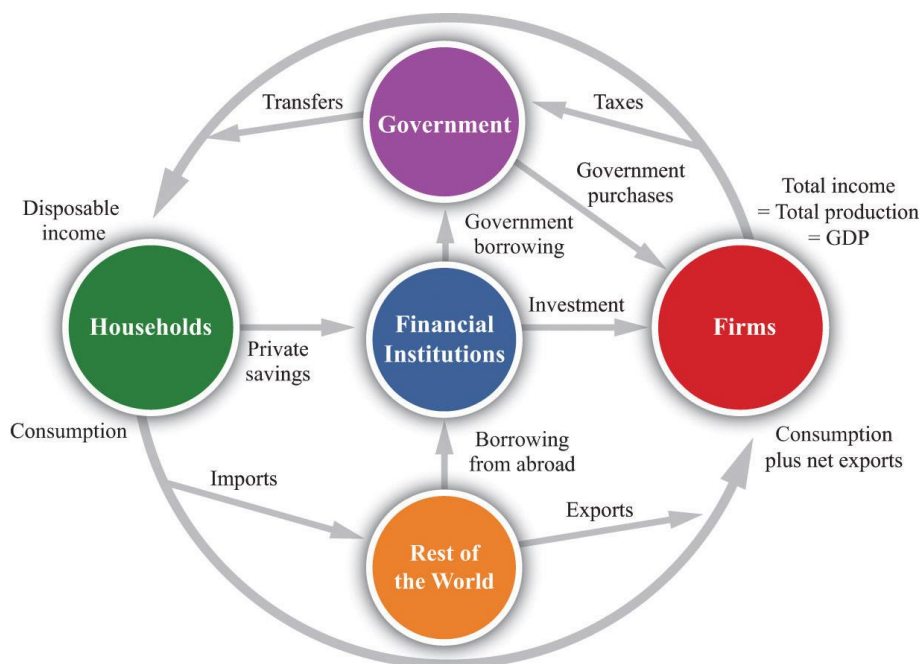
(ii) **GNY at market prices** = GDP at market prices + Net income from abroad
 $= 606 + 15 = \mathbf{621}$

(b) USES OF NATIONAL INCOME FIGURES

- The main use is to assess the performance of an economy over a year. It is used as an indicator of a growing or a contracting economy, Economic growth or lack of it is assessed using the national income figures.
- The figures are used to indicate the overall standard of living, especially after dividing by the total population in a country to calculate the per capital income.
- This enables comparisons to be made between different countries. To ascertain which are rich and which ones are poor countries. - To assist the government in managing the economy, using Keynesian demand management.
- The trade or Economic cycles depend on the national income figures. The figures are also used to estimate future movements.

(c) Circular flow of income

The circular flow of income describes how money moves between the different sectors in the economy. The expenditure of one sector is the income of another sector.



The Five Sector Model

- The five sector model of the circular flow of income is a more realistic representation of the economy. In the circular flow model, the inter-dependent entities of producer and consumer are referred to as "[firms](#)" and "households" respectively and provide each other with factors in order to facilitate the flow of income.
- Firms provide consumers with goods and services in exchange for consumer expenditure and "[factors of production](#)" from households. More complete and realistic circular flow models are more complex.
- The Financial Sector consists of banks and non-bank intermediaries who engage in the borrowing (savings from households) and lending of money. In terms of the circular flow of income model the leakage that financial institutions provide in the economy is the option for households to save their money.
- The Government Sector consists of the economic activities of governments. The leakage that the Government sector provides is through the collection of revenue through Taxes (T) that is provided by households and firms to the government. The injection provided by the government sector is Government spending (G) that provides collective services and welfare payments to the community.
- The overseas sector transforms the model from a closed economy to an open economy. The main leakage from this sector are imports (M), which represent spending by residents into the rest of the world. The main injection provided by this sector is the exports of goods and services which generate income for the exporters from overseas residents.

In terms of the **five- sector circular flow of income model** the state of equilibrium occurs when the total leakages are equal to the total injections that occur in the economy. This can be shown as:

Savings + Taxes + Imports = Investment + Government Spending + Exports

OR

$$S + T + M = I + G + X.$$

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 15 JUNE 2022

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 one correct answer you have chosen in your booklet. Marks allocated are indicated against each question.

- 1.1 You have been contributing to a village banking initiative with your colleagues. As financial analyst for the initiative you are tasked to show who has contributed the least and the most, in the spreadsheet below:

	A	B
1	Member	Contribution K
2	Maria	25
3	Yusufu	12
4	Abraham	10
5	Peter	16
6	Luka	22

Which are the best two (2) formulas you would use to determine the highest and lowest contributors in MS Excel?

- A. =MAX(B2:B6), =MIN(B2:B6)
- B. =COUNTA(B2:B7), =COUNT(B2:B7),
- C. =SUM(B2:B7), =SUMIF(B2:B7,"=25")
- D. =LARGE(B2:B7,4), =SMALL(B2:B7,4)

(2 marks)

- 1.2 In Accounting Information systems, which one below best describes the term "ETHICS"

- A. Knowledge provided by an information system application for management decision making.
- B. Principles based on right or wrong that can be used by an individual to decide.
- C. Set of guidelines produced by management for employees to make references during computer operation.
- D. Are qualities of good information used for decision making.

(2 marks)

- 1.3 Which of the following is the least powerful computer.
- A. Laptop
 - B. File servers
 - C. Super computer
 - D. Enterprise servers
- (2 marks)
- 1.4 Which one of the following is **NOT** a characteristic of computer packages as compared to Tailor- made software?
- A. Cheaper
 - B. Will carry out precisely the procession you need
 - C. More reliable/less likely to contain bugs
 - D. Instantly available.
- (2 marks)
- 1.5 A security tool used to protect a network from external intruders is called ...
- A. A firewall
 - B. An anti-virus
 - C. An algorithm
 - D. A digital certificate.
- (2 marks)
- 1.6 State one listening technique used in conversations.
- A. Paying attention to the impact of sound waves on your eyes.
 - B. Make assumptions about messages
 - C. Offering feedback to speakers at any time.
 - D. Being sensitive to the tone being used.
- (2 marks)
- 1.7 An attribute of _____ is carefully selecting words, symbols, diagrams, and numbers to accurately convey what you mean.
- A. Encoding
 - B. Decoding
 - C. Graphs
 - D. Medium
- (2 marks)
- 1.8 Which of the following is a role of members in a meeting?
- A. Assist preparing the agenda.
 - B. Prepare for items on the agenda.
 - C. Take notes during meetings
 - D. Issue apologies
- (2 marks)

1.9 A _____ question might be something like, 'That member of staff is always Late, isn't he?'

- A. Leading
- B. Open
- C. Closed
- D. Funneling

(2 marks)

1.10 Emails are extremely versatile. What does the term versatile mean?

- A. It has huge advantage of speed.
- B. It can have other documents attached.
- C. It can be used to send all sorts of messages.
- D. It provides the sender with assurance that the message was received.

(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

Your company is in the process of setting up a computer network in order to facilitate communication within and outside the organization. You must advise management on which network topology would be the best for the organization.

- (a) The network topologies to be implemented by the organization can be classified into two, namely physical and Logical.

Required:

- (i) Distinguish between physical and logical network topology. (4 marks)
- (ii) State four (4) network topologies that your organization could use. (4 marks)
- (b) Briefly explain two (2) types of main memory and explain their functions. (6 marks)
- (c) State three (3) disadvantages of real-time systems. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Keyboard shortcuts are keys or combinations of keys that provide an alternative way to do something that you would typically do with a mouse.

Write the keyboard short cut for the following

- (i) Copy (1 mark)
- (ii) Save (1 mark)
- (iii) Undo (1 mark)
- (iv) Insert a superscript (1 mark)
- (b) In an organization, if security controls are not in place or they are configured improperly, the process of establishing the interconnection could expose the Information Technology (IT) system to be accessed by unauthorized personnel. Write short notes on the following security controls. In your notes ensure you highlight what the security control is and what is used to achieve it.

- (i) Intrusion Detection. (4 marks)
- (ii) Identification and Authentication. (4 marks)
- (c) Outline any four (4) advantages an organizational accounting system can derive from using a database. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

Any business wants to maximise profits by pricing their goods and services at the right level. Traditionally for many businesses, price management has been conducted using Excel spreadsheets to calculate optimum prices and to convey these prices to all concerned in the sales process.

Required:

- (a) State any five (5) disadvantages of using spread-sheets? (5 marks)
- (b) Outline four (4) security concerns organization face when using social networks. (8 marks)
- (c) List five (5) Principles of data quality. (5 marks)
- (d) Give two (2) examples of Knowledge Work Systems (KWS). (2 marks)

[Total: 20 Marks]

2. COMMUNICATIONS

Attempt any two (2) from questions FIVE, SIX and SEVEN

QUESTION FIVE

You recently purchased one-week internet bundles from your service provider to assist you in studying for exams. The internet connection, unfortunately, has been extremely poor. You called customer service center several times for assistance, but the problem was not resolved. As a result you lost money.

Required:

- (a) Write a letter of complaint to the manager of your service provider. In your letter explain the problem and how you would like the company to resolve it. (14 marks)
- (b) Outline three (3) reasons a letter would be appropriate in this case. (6 marks)

[Total: 20 Marks]

QUESTION SIX

Due to loss of business caused by the Covid-19 pandemic, your company has been forced to downsize. One of the measures taken by management is to close all branches across the country apart from the head office in Lusaka.

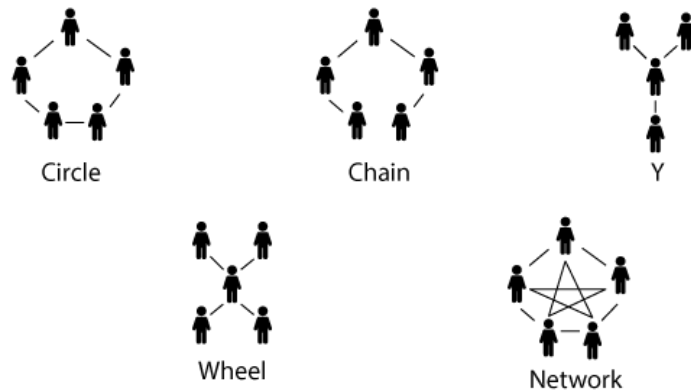
Required:

- (a) Write a notice informing the general public about this new development. (10 marks)
- (b) Briefly explain the following business documents:
 - (i) Memo (2 marks)
 - (ii) Agenda (2 marks)
 - (iii) Minutes (2 marks)
 - (iv) Meeting notice (2 marks)
 - (v) Chairperson's agenda (2 marks)

[Total: 20 Marks]

QUESTION SEVEN

Harold J. Leavitt proposed communication patterns in 1950 as structures in which communication may flow in an organization as shown in the diagram below:



Required:

- (a) Explain the following communication patterns
- (i) Circle (2 marks)
 - (ii) Chain (2 marks)
 - (iii) Y (2 marks)
 - (iv) Wheel (2 marks)
 - (v) Network (2 marks)
- (b) What is the difference between communication patterns and direction of communication? (4 marks)
- (c) Explain the following directions of communication:
- (i) Vertical communication (2 marks)
 - (ii) Lateral communication (2 marks)
 - (iii) Diagonal communication (2 marks)

[Total: 20 Marks]

END OF PAPER

DA4 SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 A

1.2 B

1.3 A

1.4 B

1.5 A

1.6 C.

1.7 A.

1.8 B.

1.9 C.

1.10 C.

SOLUTION TWO

(a)

(i) Physical and Logical network topology distinguished

- Physical network topology entails the physical layout of devices of the network which can be seen or touched, in this case, cables, switches, servers, hubs, routers whilst
- logical network topology is software based and it shows the layout appearance to the devices connected to it.

(ii) network topologies

- star
- ring
- bus
- tree
- Hybrid
- Mesh

(b) Two types of main memory and their functions

- **RAM** type of main memory is called random access, which is volatile, any information stored on it without saving disappears

ROM this memory is read only memory, the information stored is permanent and cannot be erased

(c) Disadvantages of real-time systems

- The system is highly expensive
- High security is required
- Redundancy required to avoid system down time
- System failure could cause serious problems

SOLUTION THREE

(a) Keyboard short cuts

- (i) Copy = Ctrl + C
- (ii) Save = Ctrl + S
- (iii) Undo = Ctrl + Z
- (iv) Superscript = Ctrl + Shift +

(b)

(i) **Intrusion Detection:**

An intrusion detection system (IDS) detects security breaches by looking for anomalies in normal activities, by looking for patterns of activity that are associated with intrusions or insider misuse, or both. One or both organizations should implement an IDS (or configure existing IDSs) to detect undesirable or malicious activity that could affect the interconnection or data that pass over it. A combination of network-based and host-based IDSs may be used, if appropriate. Configure alert mechanisms to notify system administrators or security officers when intrusions or unusual activities are detected.

(ii) **Identification and Authentication:**

Identification and authentication is used to prevent unauthorized personnel from entering an IT system. Implement strong mechanisms to identify and authenticate users to ensure that they are authorized to access the interconnection. Mechanisms that may be used include user identification and passwords, digital certificates, authentication tokens, biometrics, and smart cards. If passwords are used, they should be at least eight characters long, have a mixture of alphabetic and numeric characters, and be changed at predetermined intervals. Master password files should be encrypted and protected from unauthorized access.

(c) **Advantages of using database**

- Less duplication: data is only put once on the file. Data is held once and is not duplicated in different files in different application systems.
- Less processing: by minimizing data redundancy, storage space in the system files is reduced and storage space is used more efficiently.

- Updating is easier and data is equally up to date for all applications.
- Data consistency: all users access the same data and therefore inconsistencies between data in different application systems do not exist.
- Improving access to data: database systems are designed to allow many different users access to the shared files and to quickly search for and find data.
- Data can be used by many different users for different applications and in different ways. The data on file is independent of the application programs.
- More formal control of the data: the database administrator ensures that data is properly backed up and access is properly controlled.

SOLUTION FOUR

(a) Disadvantages of using spread-sheets

- A spread-sheet is only as good as its original design, garbage in – garbage out!
- Errors in source data will reflect in the output
- Challenge of preventing information in different formats to cater for different types of users
- Research shows that high proportion of large models contain critical errors
- Not suitable to use with large volumes of data
- Not suitable for large number of users who are spread in different functional areas of the organization who need to share the same data
- Data redundancy in spreadsheets
- Data integrity is difficult to activate

(b) four (4) security concerns organization face when using social networks

1. Confidential information could be compromised. The information can deliberately be made public in order to destroy the company's reputation
2. Potential hackers may use social networks of an entry point to organisation network
3. Identity theft
4. Reputational damage

(c) Principles of quality

- Relevance
 - Timeliness
 - Accuracy
 - Coherence
 - Interpretability
 - Accessibility or Availability
- The ACCURATE acronym.

(d) Examples of Knowledge Work Systems (KWS)

- Computer Aided Design
- Computer Aided Manufacturing
- Expert System

SOLUTION FIVE

(a)

Nina Investment Limited
P.O Box 5000
Lusaka

Any date during examination time

The Manager
MTN Zambia
Plot No. 2, Eastpark,
Private Bag 15
Lusaka
Dear Sir/madam,

Re: Complaint Letter for Poor Internet Services

I am writing to express my disappointment with your company's lackluster internet service.

On May 12, 2022, I purchased internet bundles worth K150.00 at your Eastpark office, as shown on the attached receipt. Unfortunately, the network you provided was not working properly. There was always a fluctuation, which resulted in the internet going down.

Because I am a student who relies on the internet to attend online classes, study, and prepare for exams, I am unable to work. I have complained about this numerous times to the call center, but the problem has not been resolved.

Please resolve my issue as soon as possible or refund my money so that I can engage other internet service providers who provide good services.

Yours faithfully,

Sign

Koko Mumba

(b) –It establishes a permanent record of evidence.

- It allows the recipient enough time to think, act, and react.
- It has the potential to be used as a legal document.
- It can be sent to a large number of people at once.

SOLUTION SIX

(a) Notice

Skyflights Limited

NOTICE

Date: Any date during examination time

NOTICE OF RELOCATION

This serves is to inform our esteemed customers that our business will begin on (any date during examination time)

at the new location listed below. Due to the terrible Covid-19 pandemic, our company has been experiencing operational difficulties. To address these issues, management has decided to close all branches across the country and focus solely on the Lusaka headquarters.

Skyflights HQ

Plot No. 2222, Crossview Avenue, Woodlands.

PO Box 12

Lusaka.

The closure of other branches allows us to better serve our loyal customers and collaborate with our important business partners. At our head office, we look forward to continuing to serve your needs and collaborating with you.

Please do not hesitate to contact us if you have any questions.

Signature:

Name and position

Date

(b) Business Documents

- Memo: is a type of document that is used to communicate with other members of the same company. Memos (or memoranda) are typically used for one-page or less messages, but informal reports of several pages can also be written in this format.
- Agenda: is a list of meeting activities in the order in which they will be taken up.

- Minutes: are a written record of the discussion and decisions made during the meeting.
- Meeting notice is an announcement and invitation to attend a meeting.
- Chairperson's agenda: this is basically meant for the chairperson, serving as a remind to mention few things during the meeting.
- Or a document on which the chairperson make notations of time to spend on items; points to remember and names of members to help during the meeting.

SOLUTION SEVEN

(a) Communication Patterns

- (i) Circle: There is a leader in the circle pattern, and all members of the group are arranged in a hierarchy. The group member who presents the network to the leader can communicate with him or her. The leader is unable to communicate with those at the bottom of the hierarchy.

Members are only in direct contact with their immediate subordinate and information flows in a hierarchy to and from.

- (ii) Chain: The chain pattern resembles a circle and follows a few command chains. The leader's message is delivered to the last person in this pattern. It's a one-way communication system. Information flows in one direction from the leader to the bottom most members.
- (iii) Y: The group is divided into three sections, and the members can only communicate with the leader. Because three different groups are grouped together, this pattern is a little more complicated. According to Levitt, each of these three groups is led by a single figure. Each subgroup consists of three people. All members have direct contact with the leader at the Centre.
- (iv) Wheel: In this pattern, the team leader is in the middle, and all other members are on the same structural level. Here, all members have direct access to the leader. One disadvantage of this group is that members are unable to communicate with one another, and in some cases, other members are unaware of who is present at their level.
- (v) Network: All members of the group communicate with one another and share information through the network. This network is essential for group communication and collaboration. All members of the group have access to this network communication channel. Without hesitation, the members communicate with one another.

(vi) Communication Patterns vs Direction of Communication

- Directions of communication are a number of directions in which communication messages can move. These can either be up and downwards, left to right or diagonal. Communications patterns, on the other hand, shows how communication flows within a group. It is a part of group communication such as the Y, circle or wheel and network structures.

(vii) Direction of Communication

- Vertical: Communication between managers and their superiors and subordinates that flows up and down the organization, usually along the chain of command or formal reporting lines.
- Lateral: This type of communication can be observed between people who work at the same level or under the same executive.
- Diagonal: This is when people working at the same level interact with those working at a higher or lower level of the organization's hierarchy and across the boundaries of their reporting relationships.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA5: COST ACCOUNTING

TUESDAY 14 JUNE 2022

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 correct answer. Write the LETTER of the correct answer you have chosen in the answer booklet. Marks allocated are indicated against each question.

1.1 Factory cost of a product is ...

- A. All costs incurred in running a business
- B. All costs incurred in manufacturing and selling a product
- C. The total cost of manufacturing a product
- D. Indirect costs incurred in the factory

(2 marks)

1.2 Kalewa Manufacturing Ltd uses an overhead absorption rate based on labour hours. Budgeted factory overhead for 2022 amounted to K1,008,000, but actual factory overheads incurred was K1,033,200. During 2022, the company recovered K999,600 of factory overhead on 166,600 actual labour hours.

What was the company's budgeted annual level of labour hours?

- A. 162,581
- B. 166,600
- C. 168,000
- D. 172,200

(2 marks)

1.3 Which of the following best describes activity based costing?

- (i) Activities Based Costing relates support overheads to products not by production volume but by a number of specific factors known as cost drivers.
- (ii) Activity based costing splits costs between short-term and long-term variable costs
- (iii) The benefits of using Activity Based Costing outweigh the costs of implementing and applying the system.

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

(2 marks)

- 1.4 Nkisu Limited has the following budget and actual data in its costing records.

Budgeted fixed overhead cost – K100, 000,000

Budgeted production (units) – 20,000,000

Actual fixed overhead costs – K110, 000,000

Actual production (units) – 19,500,000

The fixed overhead volume variance is

- A. K500,000 (A)
- B. K2,500,000 (A)
- C. K10,000,000 (A)
- D. K17,500,000 (A)

(2 marks)

- 1.5 In an interlocking cost accounting system, the absorption of overheads into production would be reflected by the following entries:

- A. Debit Production overhead control account; Credit Work in progress account
- B. Debit Finished goods control account, Credit Work in progress account
- C. Debit Work in progress account, Credit Production overhead account
- D. Debit Work in progress control account, Credit Cost ledger control account

(2 marks)

- 1.6 Zuze Limited makes and sells children's car seats. Each car seat is sold for K2,000, and during the quarter just ended, the company's absorption costing system reported a net profit of K700, 000. The marginal costing profit for the same quarter was K670,000. The following statements relates to the quarter just ended:

- I Production exceeds sales
- II Sales exceeds production
- III Absorption costing inventory values exceeded marginal costing.

Which of the statement above is correct?

- A. I only
- B. II only
- C. I and III
- D. II and III

(2 marks)

Use the following data for Question 1.7 and Question 1.8

A firm makes special products to customer's orders and uses job costing in establishing the quotations to its clients. Cost information for a period is as follows.

Job No.3030

K

Direct Materials	59,960
Direct Labour	46,840
Hire of crane & Excavator	15,000
Budgeted overheads	800,000

Overheads are absorbed on the basis of labour hours which were estimated to be 100,000 hours. The production department has estimated that it takes 18,000 labour hours to perform this job. It is the firm's policy to make a profit of 25% on cost for each job it undertakes for its clients.

1.7 Calculate the production overhead that will be added to Job No.3030

- A. K144,000
- B. K800,000
- C. K121,800
- D. K265,800

(2 marks)

1.8 What is the selling price of Job No. 3030

- A. K921,800
- B. K66,450
- C. K188250
- D. K332,250

(2 marks)

1.9 The output of a process consists of two joint products, X and Y, and a by-product. Product Y could go through a further process in order to increase its sales value. To assist management in making the decision whether to carry out further processing, which ONE of the following is relevant?

- A. The share of the total processing cost which has been allocated to product Y.
- B. The sales value of product X and the by-product.
- C. The physical quantities of all three products at separation point.
- D. The cost of further processing product Y and the increase in sales value that will result.

(2 marks)

- 1.10 A sewage treatment plant adds a series of chemicals to raw sewage. Budgeted, standard and actual data in respect of one of these chemicals for the month of June was:

Actual price per kg – K15

Standard price per kg – K16

Actual quantity purchased – 19,200 kgs

Actual quantity used – 18,400 kgs

Standard usage – 0.4 kg per 50 litres of untreated sewage

Budgeted output of untreated sewage – 2,000,000 litres

Actual output of untreated sewage – 2,206,250 litres

What is the sewage treatment plant material price variance for June?

- A. K16,480 (F)
- B. K17,000 (F)
- C. K18,400 (F)
- D. K19,200 (F)

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

Door Designs Limited (DD Ltd) manufactures high quality Mukwa doors from Mukwa wood. The company is based in Kitwe and was founded in 2020. Previously the company experienced strong growth and made significant profits but this changed during the recent recession when the company almost went out of business. In the past two years, DD Ltd has seen an increase in its business and based on the company's prior experience, the directors are keen to ensure that costs are tightly controlled. The company operates a standard absorption costing system.

The following details relating to the most recent financial period are available:

Standard cost card for one Mukwa door:

Direct materials:	K
Mukwa wood: 1.75 square metres @ K22 per square metre	38.50
Direct labour 0.75 hours @ K20 per hour	15.00
Variable production overhead 0.75 hours @ K4.60 per hour	3.45
Fixed production overhead 0.75 hours @ K6.8 per hour	5.10
Total	<u>62.05</u>

The company budgeted to produce 10,000 mukwa doors during the period.

Actual results from the production of 9,500 mukwa doors

Direct materials:	K
Mukwa wood (17,100 square metres)	375,345
Direct labour (6,650 hours)	139,650
Variable overhead	29,925
Fixed overhead	50,100

Required:

- (a) Calculate the following variances:
- (i) Material price and usage variances. (4 marks)
 - (ii) Labour rate and efficiency variances. (4 marks)
 - (iii) Variable production overhead expenditure and efficiency variances. (4 marks)
 - (iv) Fixed overhead expenditure and volume variances. (4 marks)
- (b) Outline two (2) possible reasons to explain the direct labour variances that you have calculated in (a) above. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Pollen Limited makes footwear for various sports activities. It operates a labour bonus payment system in its factory with bonus being paid at 75% of the base rate for all standard hours saved.

The following is a summary of the labour information for month 6 for three employees:-

	Bob	Marley	Dube
Work issued and completed (units)	80	200	500
Standard time allowed	40 mins/pair	15 mins/pair	7 mins/pair
Basic hour rate	K950	K990	K970
Total hours worked	53	54	52
Hours spent on indirect work	10	-	7

The basic working week is 40 hours; the first three (3) hours overtime is paid at time plus one third and the remainder at time plus one half.

Required:

- (a) Compute the individual employee's gross wages payable. (12 marks)
- (b) Explain the difference between time based and output based remuneration methods. (2 marks)
- (c) State six (6) reasons for labour turnover. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

Mukwa Company orders desks from various SME in Lusaka and sells these desks to school in Eastern Province. On 1 February, there were 250 desks in the store room valued at K4,750. During the month, Mukwa company had the following transactions:

Date in February	Activity	Units	Value (K)
5	Purchase	500	10,000
10	Purchase	200	4,400
15	Purchase	600	13,800
20	Sales	900	10,000
25	Sales	500	13,000
28	Closing Inventory	150	

Required:

- (a) Calculate the following;
 - (i) First In First Out (FIFO) (6 marks)
 - (ii) Last In First Out (LIFO) (6 marks)

Mukwa Company also produces desks which it sells to Lusaka province because of high quality demands. The following information relates to Mukwa production.

Opening balance of raw materials	K12,000
Raw materials purchase on credit	K80,000
Raw materials send to production	K73,000
Raw materials sent to Maintenance	K8,000
Raw materials returned to supplier	K 2,000

Required:

- (b) Prepare Raw Materials Inventory control account and clearly show the closing raw material balance. (6 marks)
- (c) Explain the integrated system of book-keeping. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

Sabina Limited processes its products at three (3) separate stages. Details of production for the month ending 31 January 2022 were as follows.

Process	Raw Materials	Labour Costs	Overheads	Normal loss	Actual output
	K	K	K	%	kg
Primary	65,000 @ K1.2 per kg	68,760	38,880	10	55,000
Secondary		86,400	49,200	5	53,000
Finishing		99,360	61,920	5	48,000

During the month K75,600 worth of materials were used in the secondary process. The nature of the processes requires equipment to be cleaned at the end of each month. Thus, there is no opening or closing inventory of the product in the process. Losses from the finishing process are sold at K2 per kg.

Required:

Prepare the following accounts for Sabina Limited

- (a) Primary process account (5 marks)
- (b) Secondary process account (5 marks)
- (c) Finishing process account (5 marks)
- (d) Abnormal gain account (2 marks)
- (e) Abnormal loss (3 marks)

[Total: 20 Marks]

QUESTION SIX

KTC manufacturing limited company has three (3) production departments, A, B and C and two (2) service departments X and Y.

Below is the overheads budget for 2022:

	Total cost (K'000)	A (K'000)	B (K'000)	C (K'000)	X (K'000)	Y (K'000)
Indirect materials		100	200	400	200	100
Indirect wages		500	200	800	100	200
Factory rent	400					
Power	250					
Depreciation	100					
Other overheads	900					
Additional information						
Area (square meters)		500	250	500	250	500
Capital value of the asset (in Kwacha)		20	40	20	10	10
Machine hours		1,000	2,000	4,000	1000	1,000
Horse power of machines		50	40	20	15	25

A technical assessment of expenses of service departments to production centres is given below:

	A	B	C	X	Y
Service department X (%)	45	15	30	-	10
Service department Y (%)	60	35	-	5	-

Required:

- Prepare a statement showing the distribution of overheads to various departments. (7 marks)
- Prepare a statement showing the re-distribution of service departments' expenses to production departments. (6 marks)
- Calculate the machine hour rates for the departments A,B and C. (3 marks)
- Outline advantages and disadvantages of using machine hour rates to absorb overheads. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA5 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i) Material price variance

K	
17,100 square metres should have cost x K22	376,200
But did cost	<u>375,345</u>

855 (F)

Material usage variance

9,500 doors should have used x 1.75 sq metre	16,625
But did use	<u>17,100</u>
	475 (A)
	X K 22
	<u>K 10,450 (A)</u>

(ii) Labour rate variance

K	
6,650 hours should have cost x K20/hours	133,000
But did cost	<u>139,650</u>
	<u>6,650 (A)</u>

Labour efficiency variance

9,500 doors should have taken x 0.75 hours	7,125 hours
But did take	<u>6,650 hours</u>
	475 hours (F)
	X K 20
	<u>K 9,500 (F)</u>

(iii) Variable production overhead expenditure variance K

6,650 hours should have costed x K4.6/hours	30,590
But did cost	<u>29,925</u>
	<u>665 (F)</u>

Variable production overhead efficiency variance

9,500 doors should have taken taken x 0.75 hours	7,125 hours
But did take	<u>6,650 hours</u>
	475 hours (F)
	X K 4.60
	<u>K 2,185 (F)</u>

Fixed prod overhead expenditure variance

K	
10,000 doors should have taken taken x K 5.10 /door	51,000
But did cost	<u>50,100</u>
	<u>900 (F)</u>

Fixed prod overhead volume variance

Budgeted production volume	10, 000 doors
Actual production volume	<u>9,500 doors</u>
	500 doors (A)
	<u>X K5.10</u>
	<u>K 2,550 (A)</u>

(b) Reasons to explain the direct labour variance**Rate variance (K 6,650 A)**

- ❖ When establishing the standard labour rate the company may be excluded the effect of a pay increase
- ❖ It may have been different to get staff and the company may have had to pay a higher rate to attract workers
- ❖ Any other relevant point

Efficiency variance (K 9,500 F)

- ❖ The company paid a higher wage rate so perhaps they attracted better experienced staff who were more efficient
- ❖ The company may have changed the production process/factory layout that enabled staff to work more efficiently
- ❖ Any other relevant point

SOLUTION THREE

(a) Computation of employee's gross wages payable

Bob	Marley	Dube	K	K	K
Basic pay			50,350	53,460	50,440
Overtime (W2)			18,050	20,295	16,974
Bonus (W1)			-	-	4,365
			<u>68,400</u>	<u>73,755</u>	<u>71,779</u>
Indirect wages			9,500	-	6,790
Gross wages			<u>77,900</u>	<u>73,755</u>	<u>78,569</u>

Workings

1. Bonus

Bob	Marley	Dube			
Standard time (hrs)			53	50	58
Actual time (hrs)			<u>53</u>	<u>54</u>	<u>52</u>
Time saved (hrs)			-	-	6
75% of normal rate			<u>K712.50</u>	<u>K742.50</u>	<u>K727.50</u>
Bonus paid			-	-	K4,365

2. Overtime

Bob	Marley	Dube			
Hours of overtime			13	14	12
			K	K	K
Rate 1 (1 st 3 hours)	1,266.67	3,800	1,320	3,960	1,293
Rate 2 (Remainder)	1,425	14,250	1,485	16,335	1,455
		<u>18,050</u>	<u>20,295</u>	<u>16,974</u>	

(b) The difference between time based and output based remuneration methods is that time payments is a remuneration method which considers the time an employee takes to execute the task. It is given by the rate of pay multiplied by the hours worked. On the other hand, output based payments relate to the piece of work such as units of output produced rather than the time it takes to produce the output. Wages are thus calculated by multiplying a rate by output.

(c) Labour turnover is equal to the number of employees leaving an organization. The reasons for labour turnover usually include:-

- Change of locality
- Death or retirement of a worker
- Transport or housing problems in the firm's locality
- Misconduct of workers
- Sickness, accidents, etc of workers
- Domestic issues such as marriage
- Better conditions of service such basic pay and other fringe benefits.

SOLUTION FOUR

(i) FIFO METHOD FOR THE MONTH OF FEBRUARY

DATE	DESCRIPTION	QTY	UNIT PRICE	TOTAL	DATE	DESCRIPTION	QTY	UNIT PRICE	TOTAL
1	BALANCE BF	250	19	4,750	20	SALES/ISSUES	250	19	4,750
5	PURCHASES/RECEIPTS	500	20	10,000			500	20	10,000
11	PURCHASES/RECEIPTS	200	22	4,400			150	22	3,300
15	PURCHASES/RECEIPTS	600	23	13,800		TOTAL	900		18,050
									-
	BALANCES	50	22	1,100	25	SALES/ISSUES	50	22	1,100
	BALANCE	600	23	13,800			450	23	10,350
				-		TOTAL	500		11,450
31	CLOSING BALANCE	150	23	3,450					-

(ii) LIFO METHOD FOR THE MONTH OF FEBRUARY

DATE	DESCRIPTION	QTY	UNIT PRICE	TOTAL	DATE	DESCRIPTION	QTY	UNIT PRICE	TOTAL
1	BALANCE BF	250	19	4,750	20	SALES/ISSUES	600	23	13,800
5	PURCHASES/RECEIPTS	500	20	10,000			200	22	4,400
11	PURCHASES/RECEIPTS	200	22	4,400			100	20	2,000
15	PURCHASES/RECEIPTS	600	23	13,800		TOTAL	900		20,200
									-
15	PURCHASES/RECEIPTS	250	19	4,750	25	SALES/ISSUES	400	20	8,000
20	PURCHASES/RECEIPTS	400	20	8,000			100	19	1,900
						TOTAL	500		9,900
31	BALANCES	150	19	2,850					-

(b) Raw Materials Inventory Control Account

Balance B/d	12,000	Work in Process	73,000
Accounts Payable	80,000	Production Overhead control	8,000
		Accounts Payable	2,000

		Balance C/d	9,000
Balance B/d	<u>92,000</u>		<u>92,000</u>
	9,000		

The balance of raw materials at the end of the period is K9,000

(c) ***integrated systems*** combine both financial and cost accounts in one system of ledger accounts.

SOLUTION FIVE

(a) Primary process account

Dr			Cr		
Details	Kg	K	Details	Kg	K
Materials	65,000	78,000	Normal loss	6,500	-
Labour		68,760	Transfer to Secondary process	55,000	174,533
Overheads		38,880	Abnormal loss	3,500	11,107
	65,000	185,640		65,000	185,640

Cost per unit = $K185,640 / 58,500 = K3.1733$

(b) Secondary process account

Dr			Cr		
Details	Kg	K	Details	Kg	K
Transfers from primary account	55,000	174,533	Normal loss	2,750	-
Added Materials		75,600	Transfer to finishing process	53,000	391,270
Labour		86,400			
Overheads		49,200			
Abnormal gain	750	5,537			
	55,750	391,270		55,750	391,270

Cost per unit = $K385,733 / 52,250 = K7.3825$

(c) Finishing process account

Cr			Dr		
Details	Kgs	K	Details	Kgs	K
Transfer from the secondary process	53,000	391,270	Normal loss	2,650	5,300
Labour		99,360	Transfer to finished goods	48,000	521,708
Overheads		61,920	Abnormal loss	2,350	25,542
	53,000	552,550		53,000	552,550

Cost per unit = $K552,550 - 5,300 / 50,350 = K10.8689$

(d)

Abnormal gain account

Cr

Details	Kg	K	Details	Kg	K
Transfer to profit & loss	750	5,537	Secondary process account	750	5,537

(e) Dr

Abnormal loss account

Cr

Details	Kg	K	Details	Kg	Details
Primary process account	3,500	11,107	cash	2,350	4,700
Finishing process account	2,350	25,542	Profit & Loss	3,500	31,949
	5,850	36,649		5,850	36,649

SOLUTION SIX

(a) Overhead distribution summary

	Basis	Total K	A	B	C	X	Y
Indirect material	Allocation	1,000,000	100,000	200,000	400,000	200,000	100,000
Indirect wages	Allocation	1,800,000	500,000	200,000	800,000	100,000	200,000
Factory rent	Area	400,000	100,000	50,000	110,000	50,000	100,000
Power	H.P. machine hours	250,000	83,333	66,667	33,333	25,000	41,667
Depreciation	Capital value	100,000	20,000	40,000	20,000	10,000	10,000
Other overheads	Machine hours	900,000	100,000	200,000	400,000	100,000	100,000
		4,450,000	903,333	756,667	1,753,333	485,000	551,667

(b) Re-distribution of service department expenses

	A	B	C	X	Y
Total O/h	903,333	756,667	1,800,000	485,000	551,667
Dept. X O/h apportioned in the ratios 45,15,30 & 10)	218,250	72,750	145,500	(485,000)	48,500
Dept. Y O/h apportioned in the ratios (60,35 & 5)	360,100	210,058	-	30,008	(600,167)
Dept. X O/h apportioned in the ratios 45,15,30 & 10)	13,504	4,501	9,002	(30,008)	3,001
Dept. Y O/h apportioned in the ratios (60,35 & 5)	1,801	1,050	-	150	(3,001)
Dept. X O/h apportioned in the ratios 45,15,30 & 10)	68	23	45	(150)	15
Dept. Y O/h apportioned in 60:35:5	9	5.25	-	0.75	(15)
	1,497,065	1,045,054	1,907,880	-	-

(c) **Machine hour rates**

	Dept. A	Dept. B	Dept. C
Total O/H (a)	1,497,065	1,045,054	1,907,880
Machine hours (b)	1,000	2,000	4,000
Machine hour rate (a/b)	K1,497/hour	K522.53/hour	K476.97/hour

(d)

Advantages

1. It helps to compare the relative efficiencies and cost of operating different machines.
2. It brings to light the existence and extent of idle time of machines.
3. It enables the management to decide how far the use of machine work is preferable to manual work.
4. It is most scientific, practical and accurate method of recovery of manufacturing overheads.
5. Cost reports prepared with the help of such rate are dependable and can help the management in decision-making.
6. It provides useful data for estimating cost of production, setting standards and for fixing selling prices for quotations.
7. It provides ready method for measuring the cost of idle machines if separate rates for fixed and variable overhead rates are calculated. When hourly rate is fixed on the basis of anticipated running hours of the machine, there is under-absorption of fixed overhead expenses if actual running hours are less than the estimated.

Disadvantages:

1. It involves additional work in assessing the working hours of machines and thus it is a costly method.
2. It does not take into account expenses that are not proportional to the working hours of machines.
3. It gives inaccurate results if manual labour is equally important.
4. It is difficult to estimate the machine hours especially when production programme is not available in advance.
5. Blanket rate cannot be used and it makes the method more costly.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 17 JUNE 2022

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A- (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

Each of the following 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 statements is true about civil liability?
- A. The purpose of a civil suit is to punish the defendant.
 - B. A civil suit can be withdrawn from the court at any time.
 - C. Burden of proof in a civil suit is beyond reasonable doubt.
 - D. An unsuccessful civil suit results into discharge of the plaintiff.
- (2 marks)
- 1.2 Which of the following events does not result in termination of an offer?
- A. Breach.
 - B. Counter-offer.
 - C. Acceptance.
 - D. Lapse of time.
- (2 marks)
- 1.3 Agency can be summarised in a Latin maxim as "*qui facit per alium facit per se*", which substantially means
- A. A contractual relationship between the Agent and the Third Party.
 - B. Delegation of authority by the Principal to the Agent.
 - C. Power to alter the legal position of the Agent.
 - D. A link between the Principal and Third Party at no fee.
- (2 marks)
- 1.4 Boyd is a 20 year old young man who was requested by his uncle, Shaka, to deliver 100 litres of Chibuku to a tarven using his (Boyd's) bicycle, on the understanding that he would pay Boyd's school fees. The uncle never paid. Boyd has sued the uncle for the unpaid fee. To avoid this liability, the uncle can argue that.....?
- A. There was no contract as Boyd lacked capacity to contract.
 - B. The contract was not supported by adequate consideration.
 - C. There was no intention to create legal relations.
 - D. The agreement was voidable as it was tainted by undue influence.
- (2 marks)

1.5 David Kachasu, employed as a conductor in Power Tools Buses, swerved into Luke Kapata's Toyota Ipsum in a botched attempt at overtaking. What remedies can Kapata pursue in court for the loss or damage suffered in the accident?

- A. Sue David for damages under the tort of negligence.
- B. Sue Power Tools for damages under vicarious liability.
- C. Sue David for breaching his employer's contract.
- D. Sue David and his employers for dangerous driving.

(2 marks)

1.6 At what stage is a bill debated in Parliament?

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

(2 marks)

1.7 Mwangilwa is a 19 year old teenager and would like to enter into a contract of cleaning shoes with Zamshu Ltd. How will the Law treat Mwangilwa?

- A. As a minor
- B. As a child
- C. As an adult
- D. None of the above

(2 marks)

1.8 is term subsidiary to the main purpose of the contract.

- A. Warranty
- B. Condition
- C. Express term
- D. Implied term

(2 marks)

1.9 On the 31 of January 2022, John went to Mary's house and told her to sign a contract for the sale of her chickens to him, failure to which she would not have peace. Mary agreed and signed the contract. Such a contract would later be at the option of Mary.

- A. Voidable
- B. Void
- C. Against public policy
- D. None of the above

(2 marks)

1.10 Which of the following is **not** one of the remedies available to the buyer for breach of contract by the seller?

- A. The right to reject the goods
- B. Recovery of the price
- C. An action for the price when goods have passed to the buyer.
- D. Recovery of the price where consideration has failed entirely.

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

ZAMSURE is a new Insurance company that wishes to capture market by introducing new products. It therefore advertises its latest product daily shortly before the 19 hours Zambezi television news. It has introduced a new insurance policy that refunds 40 % of the Third-party car insurance premium to its customers who finish the year without being involved in any accident. Many customers join this policy, and are rewarded each year. However, John Baptist (JB) has spent three years on the queue waiting to be refunded as the company, overwhelmed by the claims, was unable to clear arrears. The General Manager explains to JB that nonetheless, JB did not submit his claims for the refund. He is shown very small letters at the back of his insurance cover booklet which explain the matter, that to access the refund, customers must fill in and submit to the head office an application form in the month of November of each year. Failure to do so results in automatic forfeiture of the refund. In anger, JB tears the current insurance cover forms which had run to the end of June 2021, and asks for the balance of the premium which was running up to December 2021. The General Manager tells him that in absence of any evidence of the insurance contract, he may not be reimbursed with any money. JB insists that there is a contract to honour.

- (a) Identify two (2) contracts in this scenario, and with factual evidence, discuss the validity of these contracts. (10 marks)
- (b) Explain if the small letters at the back of the insurance cover booklet are admissible in law and whether the General Manager can rely on them to withhold JB's refund. (5 marks)
- (c) Explain if there is any legal consequence of JB tearing the contract (5 marks)

[Total: 20 Marks]

QUESTION THREE

Distinguish between each of the following:

- (a) Ratio decidendi and Obiter dicta. (4 marks)
- (b) Criminal law and Civil law (4 marks)
- (c) Public law and Private law (4 marks)
- (d) Tort remedies of Nominal damages and exemplary damages. (4 marks)
- (e) Interim injunction and prohibitory injunction. (4 marks)

[Total 20 marks]

QUESTION FOUR

- (a) In accordance with provisions under section 1(1) of the Partnership Act 1890 discuss what constitute a partnership. (6 Marks)
- (b) Explain liabilities and duties that accrue under the partnership agreement? (8 Marks)
- (c) Explain how a partnership winds up under the Partnership Act. (6 Marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Malawo is an agent of Muntanga. Discuss any three (3) ways in which an agency relationship as theirs can be created. (12 Marks)
- (b) Elina was employed by ZR Company Ltd to drill holes in a rock, near a crane, operated by Mwale and Greenwell also employed by the ZR Company Ltd. The crane lifted stones and at times swung them over Elina's head without warning. Elina was fully aware of the danger she was exposed to by working near the crane. One time, a stone fell off the crane and injured her. She sued the company but the company pleaded several defences including *volenti non fit injuria* and *contributory negligence*. Not knowing the response to the said defences, Elina applied to adjourn the matter to seek for legal representation. She is in your office and needs your guidance.

Required:

With reference to the above facts, explain the effect of the two (2) defences to Elina. (8 Marks)

[Total 20 Marks]

QUESTION SIX

- (a) Mabvuto went to buy a phone from Big Buy General Dealers which was displayed on the shelf. When he reached the shop he was shown the phone he wanted to buy which he liked after looking at the features. Since he was in a hurry for another meeting, he just paid for it and told them to send the phone to his office.

That day, he did not go to his office as he was delayed at the meeting. The following day he found the phone delivered at his office. When he opened the box, he noticed that the phone in the box was different from the phone at the point of sale at the shop. In fact, he discovered that the phone was defective and the internal part was rusty.

Mabvuto wants to sue Big Buy General Dealers for selling him a defective phone.

Required:

- (i) Using the rules under the Sale of Goods Act, advise Mabvuto on the prospects of his success. (8 marks)
 - (ii) Explain any two (2) remedies available to Mabvuto (4 marks)
- (b) Makasa is driver at Vikumbe Transport Company who has been working for the past 10 years. Makasa in need of fuel before his long journey to Nakonde, decided to refuel his Bus at BP filling station where he was delayed due to queues caused by fuel shortages. Consequently, his journey was delayed by 4 hours and Makasa ran out of patience. Makasa picked up a quarrel with Lillian, one of the fuel attendant who instead of attending to the customers, she was busy texting her boyfriend on Facebook. Lillian was upset with the words used against her by Makasa and she decided to punch Makasa who sustained a bruise on his left forehead. Makasa is in your office and needs your urgent help.

Required:

Explain to Makasa on the liability of Lillian and BP (8 marks)

[Total: 20 Marks]

END OF PAPER

DA6 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) The two contracts are: Third –party insurance contract, advertised on TV, and the Refund contract conditioned on meeting criteria (no accident and submitting a claim). First contract is Valid (complete): who makes the offer and who accepts? Generally, an advert on any medium is an invitation to treat, but if it involves a unilateral contract, advert is a definite offer (refer to *Carlill v Carbolic Smokeball*). A unilateral contract involves exchange of a promise for an act, for example in *Carlill*, promise of compensation required one to perform the act of inhaling the smokeball. In the current scenario, one has to avoid accidents to be entitled to the refund. That's why the advert is not an ITT but a definite offer incorporating the two contracts. Response by JB is acceptance of the offer, validates the contracts. Failure by JB to submit a claim for refund, renders this contract incomplete, whereas the other formal insurance policy is complete.
- (b) The small letters at the back constitute exclusion/exemption clauses –additional terms by one party seeking to limit or exclude liability. The General Manager may or may not rely on them to avoid liability if they have been incorporated or not incorporated into the main contract. He must seek the consent of JB to maintain the spirit of agreement, or they may be incorporated by notice, signature or custom.
- (c) Tearing a written agreement has no legal consequence, as there may be other copies. An agreement may be oral or written, though an oral contract is difficult to evidence in court.

SOLUTION THREE

(a) *Ratio Decidendi* means the reason for deciding in such a way, or the basis of the decision. It is made up of the statements of the law applicable to the legal problems raised by the material facts and are used as a basis for the judge's decision. On the other hand *Obiter dicta* means something said by the way. These do not form part of the ratio decidendi and not binding on future cases, but merely persuasive. An obiter dicta does not form the basis of the decision and may not be based on the material facts of the case.

(b) *Criminal law* is a branch of law which governs the relationship between the State and its citizens as regards offences. It regulates offences, and any citizen who commits a crime offends the State, which represents the whole of society. All offences are strictly written and provide the punishment for the offence e.g. theft, murder, etc. On the other hand *Civil law* regulates the interaction between citizens in society only i.e. between private citizens only like John and Mary's relationship. Civil law includes all non-criminal laws such as tort law, contract law, commercial law, family law, etc

(c) Public law is the law that generally relations between States and the relations between citizens and their State. Examples of public law are Constitutional law (deals of governing the citizens by the State), Criminal law (State and citizens who come in conflict with the law, International law (relationships between States), etc. On the other hand *Private law* only governs the relationship between citizens within society, i.e. citizens amongst themselves. This is same as civil law and includes branches of law like contract law, family law, tort law, etc. Private here means between individuals.

(d) *Tort remedies of nominal damages and exemplary damages:- Tort remedies of nominal damages* are those damages, (i.e. payments of money by the defendant to the plaintiff for the injuries suffered at the hands of the defendant) that are actionable per se. These are damages that can be awarded where the plaintiff does not need to show that he has suffered loss, but that the defendant acted in a wrong way. For example trespass to land may not cause any injury to the owner of the land, but will just need to prove that the defendant trespassed on his land. On the other hand *exemplary damages* are designed to punish the defendant. They are only available in certain special circumstances where there is arbitrary action by the defendant, e.g. assault which removes someone's eye will be punished more than a mere insult or a simple slap.

(e) *Interim injunction* is a temporary order which can be granted pending a full trial of the action. On the other hand a *prohibitory injunction* will stop/prohibit the defendant from committing a tort. All injunctions direct the person to whom it is directed to cease committing a tort.

SOLUTION FOUR

(a) three elements must exist for a partnership to be considered thus:

(i)The first is that the relationship is between persons. Therefore, a sole trader cannot be qualified as a partnership as the first pre-requisite is that there must be more than one person in the business for it to be considered a partnership.

(ii)It is another important element of the existence of a partnership that the business is carried on in common. Therefore, where two or more persons purport to form a partnership but of different business agendas, such cannot be considered a partnership for purposes of section 1(1) Partnership Act. Therefore, it would be qualified to a partnership where two persons with different professions one a lawyer and another a medical doctor or accountant forming a firm and call it a partnership when their trades are not in common.

(iii)The last element for a partnership to exist is that it must be with a view to profit. Therefore, where a purported partnership is established and its main aim of that of charity work or being an NGO or any non profit making organization then such would not qualify to be called a partnership. It does not however mean that when a partnership is not making a profit because business may not be good then it ceases to be a partnership but that the intention of the partners should have as one of the main reasons, to make a profit in the course of business.

(b) Three duties of partners arising under a partnership include:

(i)Fiduciary duty this is a relationship of utmost good faith between the partners. This duty normally arises when the partners are negotiating a partnership agreement. This reciprocal fiduciary relationship between the partners continues after dissolution of the partnership and until liquidation of the partnership takes place. For the continued existence of the partnership, the relationship of utmost good faith is very important and where the fiduciary relationship is irretrievably destroyed the court may dissolve the partnership on application by any of the partners.

(ii)Duty to contribute to the partnership is one of the essentials ones. Where a partner has not made their part of the contribution to the partnership, the co-partners are entitled to claim that a partner delivers his contribution to the partnership as promised. Where therefore a partner promises to contribute assets to the partnership and fails to do so, he will become liable to deliver to the partnership any fruits which the assets would derive effective the date on which the duty to deliver the asset had arisen.

(iii)Management of the partnership is another duty that partners owed to one another. Each partner has a duty to participate in the management of the partnership and to perform any management functions on behalf of the partnership. However, in some partnerships partners are entitled to restrict management powers amongst themselves and may agree that certain partners will possess no

management powers at the same time they can entrust their management powers to one partner called the managing partner.

(C) The three instances in which a partnership would wind up are:

(i) A resolution by the partners to dissolve as provided under section 32 of the Act

(ii) A partnership can dissolve where there is a bankruptcy, death or charge as provided under section 33 of the Act and;

(iii) A partnership would be dissolved where it operates illegally as provided under 34 of the Act.

SOLUTION FIVE

(a) An agency relationship may be formed in a number of ways as follows:

- i. Consent
- ii. Necessity
- iii. Estoppel or 'holding out'
- iv. Ratification by the principal

Agency by consent

Consent may be express or implied. When an agent is authorised by his principal to carry out a certain task or act in a certain capacity, he is said to have **actual authority**. Usually, an agent is **expressly appointed** by the principal to undertake certain transactions. Very often the appointment is oral, but the informality of the appointment does not make any difference to the fact that agency is created.

In **commercial transactions**, it is usual to appoint an agent **in writing**, so that the terms and extent of the relationship are set down to avoid misunderstanding. As noted above, this is not essential.

Two persons may, by their relationship or their conduct to each other, **imply** an agreement between them that one is the agent of the other. For example, an employee's duties may include making contracts for his employer, say by ordering goods on his account. The employee is, by implied agreement, the agent of the employer for this purpose. An agent authorised in this way is said to have **implied authority**.

Agency by necessity

Agency may arise by operation of law in situations of pressing need or emergency. A person may be faced with an emergency in which the property or interests of another person are in imminent jeopardy. It then becomes necessary, in order to preserve the property or interests, to act for that person without his authority.

The principle of agency of necessity is of restricted application. Its origins can be found in mercantile law, and in shipping law in particular.

Agency by estoppel (or 'holding out')

Agency by estoppel arises when the words or conduct of the principal **give to a third party** the **impression** that the agent's authority is greater than it really is and the third party, as a result, acts upon this. This introduces the concept of ostensible, or **apparent authority**.

For example, if Paul leads Tina to believe that Adam is Paul's agent, and Tina deals with Adam on that basis, Paul is bound by the contract with Tina which Adam has made on his behalf. This situation may arise in the following circumstances.

- When Adam, who dealt with Tina as Paul's authorised agent, continues to do so after his authority as agent of Paul has been terminated but Tina is unaware of it.
- When Adam, to Paul's knowledge, enters into transactions with Tina as if Adam were Paul's agent and Paul fails to inform Tina that Adam is not Paul's agent.
- When Adam, who dealt with Tina as Paul's authorised agent, acts beyond the scope of the authority actually conferred upon him by Paul but Tina is unaware of any restriction on his authority.
- Agency by estoppel can only arise where the **conduct** of the **apparent principal** creates it. Agency does not arise by estoppel if it is the 'agent' who 'holds himself out' as agent, not the 'principal' **Armagas Ltd v Mundogas SA, The Ocean Frost (1986)**.

An agent purported to conclude an agreement leasing a ship back from its buyer (the principal) for a period of three years, claiming that he had obtained specific authority for the transaction. The agent was appointed as the principal's chartering manager, however, the agent actually only had authority to conclude an agreement which lasted for one year.

Held: Agency of estoppel had not arisen as it was the conduct of the agent, not the principal, that created the apparent authority. The principal was not bound by the agreement.

Agency by ratification by the principal

In certain circumstances, the relationship of principal and agent can be created or extended with **retrospective effect**. If A makes a contract on behalf of P at a time when A has no authority from P, the contract may later be ratified by P and then has retrospective effect to the time when A made the contract.

Ratification only validates past acts of the purported agent. It gives no authority for the future:

Method of ratification

Ratification may be express or implied. Express ratification is usually fairly clear-cut. Implied ratification must be deduced from the conduct of the 'principal' and from the circumstances of the case. In particular, the principal **may only ratify if the following conditions are satisfied**.

- He does so within a **reasonable time** after the agent has made the contract for him.
- He ratifies the **whole contract** and not merely parts of it. Otherwise the effect would be that a new contract would exist which the third party had not intended to enter into.
- He is either **fully informed** of the terms of the contract **or** is **prepared to ratify whatever** the agent may have **agreed** to on his behalf.

- He **communicates a sufficiently clear intention of ratifying**, either by express words or by conduct such as refusing to return goods purchased for him by an agent who lacked authority, or starting legal proceedings to enforce the contract with a third party which the agent entered into on his behalf. Mere passive inactivity does not amount to ratification.

There are four conditions of ratification:

- 1 Existence of principal
- 2 Legal capacity of the principal
- 3 best interest of the principal
- 4 Agent acting on behalf of principal

(b)

The two defences can be explained to Elina as follows:

Volenti non fit Injuria

Volenti non fit Injuria entails that a person who volunteers or consents to risk may not succeed in claiming compensation when they suffer injury in the course of events they volunteered/consented to. In this case, the company is saying that Elina volunteered to work under the railway company hence he can't be compensated for the harm done.

However, this is a wrong defence in this aspect as there is no voluntariness on Elina's side. In fact, if Elina could have refused to work he was going to be fired. Therefore, this defence cannot apply in this circumstance.

Contributory Negligence

Where any person suffers damage as the result partly of his own fault and partly of the fault of any other person or persons, a claim in respect of that damage shall not be defendant by reason of the fault of the person suffering the damage, but the damages recoverable in respect thereof shall be reduced to such extent as the court thinks and equitable having regard to the claimant's share in the responsibility of the damage.

Thus, this defence entails that once a person or entity is found negligence, they can also counter defence by alleging contributory negligence so that the blame is apportioned.

In the given circumstance, the company is saying that if they are found liable then they will plead that Elina contributed to his harm. Again, this defence may not work here because Eddie was performing his work properly without any negligence hence the defence can't stand.

SOLUTION SIX

(a) (i) The sale relates to a sale by sample. Under this sale there is an implied condition under the sale of goods. A sample is a simple specimen, a model or pattern or likeness. Sale by sample is an implied condition under the Sale of Goods Act of 1893 breach of which entitles the innocent party to repudiation and a claim for damages. Section 15 deals with sale by sample. It provides that there is an implied condition that the bulk shall correspond with the sample in quality; there is an implied condition that the buyer shall have a reasonable opportunity of comparing the bulk with the sample and there is an implied condition that the goods shall be free from any defect, rendering them unmerchantable which would not be apparent on reasonable examination of the sample. Therefore, Musa can sue the seller and he will succeed.

From the above, Mabvuto can sue successfully as the sample he saw was different from what was delivered at his office and offends the provisions of the Sale of Goods Act.

(ii) Mabvuto can use any of the following remedies:

(1) The right to reject the goods

If the seller is in breach of a condition of the contract, the buyer may reject the goods unless he has lost his right to do so by accepting the goods or part of them. In addition, he may claim damages.

(2) Recovery of the price

If the buyer has paid the price and the consideration has failed entirely, for example if the seller has no title or delivers goods which the buyer is entitled to reject, the buyer may sue to recover the price.

(3) Damages for breach of condition or warranty

If there is breach of warranty by the seller, or if the buyer is obliged (or prefers) to treat a breach of condition as a breach of warranty (that is, a claim for damages), the buyer may either reduce the amount paid to the seller by an allowance for the breach of warranty or sue for damages for breach of warranty. The amount of damages is determined on principles similar to those of the seller's claim against the buyer.

(4) Specific performance

In an action for breach of contract to deliver specific or ascertained goods, the court may order specific performance or delivery of the goods. But it will only do so if damages would be an inadequate remedy.

(b) This is an issue emanating from employment law under vicarious liability. It is a settled practice at law that under an employment contract, any person is to sue the employer even if it is the employee who has done the wrong within his course of work. The filling station will be vicariously liable for the tort committed by Joel during the course of employment. For vicarious liability to be operative, the elements that must be present are that there is an employer-employee relationship, the employee must be acting within the course of employment and the wrongful act must be done within the course of employment. In *Limpus v London General Omnibus Co* (1862). The driver of an omnibus intentionally drove across in front of another omnibus and caused it to overturn. The bus company resisted liability on the ground that it had forbidden its drivers to obstruct other buses. Held: the driver was nonetheless acting in the course of his employment.

Therefore, since Lillian was employed by BP filling station an employer/employee relationship exists and as above Makasa can sue successfully.

On the other hand, there is also argument that Lillian can be sued in her personal capacity because punching Makasa is not an act within the course of employment and authorized by BP filling station. In *Warrant v Henleys* (1948), petrol pump attendant became involved in a quarrel with a customer over payment for petrol and hit him. Held: the employer was not liable since the assault was not within the scope of the employment.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 13 JUNE 2022

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

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

SECTION A – COMPULSORY

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 Which of the following methods of production will be adopted by the assembling bicycles in large quantities

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

(2 marks)

1.2 is an advantage of the Flat span of control.

- A. It creates a large management structure
- B. Decision making is usually quicker
- C. It creates many opportunities for managers in the ranks
- D. Management are in control

(2 marks)

1.3 Which of the following is **NOT** the key role of a Manager in organizing work?

- A. Work planning
- B. Resource allocation
- C. Working hard
- D. Project management

(2 marks)

1.4 Which of the following is **NOT** an advantage of a functional structure (bureaucracy)

- A. Economies of scale are realized
- B. People care more of their own interest.
- C. Benefits of work specialization.
- D. monitoring of the environment is more effect

(2 marks)

- 1.5 Robert Blake and Jane Mouton carried out a research (the Ohio State Leadership Studies) into managerial behavior and observed two basic dimensions of leadership.

Which of these are correct dimensions :

- A. Concern for people and Concern for safety
- B. Concern for people and Concern for Production
- C. Concern for Production and Concern for Profits
- D. Concern for Profits and Concern for Good Leadership

(2 marks)

- 1.6 Maslow and Herzberg are two examples oftheories of motivation

- A. Expectancy
- B. Content
- C. Process
- D. Equity

(2 marks)

- 1.7 Which one of the following is **NOT** a basic function of the management process?

- A. Controlling
- B. Organizing
- C. Working
- D. Leading

(2 marks)

- 1.8is not one of the eight steps in the decision-making process

- A. Identifying the problem
- B. Analyzing alternative solutions
- C. Implementing the decision
- D. Delegating the decision making

(2 marks)

- 1.9 Functional managers are responsible.....

- A. For a single area of activity
- B. To the upper level of management and staff
- C. For complex organizational sub-units
- D. For obtaining copyrights and patents for newly developed processes and equipment.

(2 marks)

1.10 Positive motivation makes people willing to do their work in the best way they can and improve their.....

- A. Productivity
- B. Personality
- C. Performance
- D. All of the above

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

There are many ways in which organizations can be described. There are organizations that are established to make profits and others that do not make profits but offer a service. Some of these are owned by individuals and some of them are owned by groups of people.

Required:

- (a) State any five (5) types of business organizations. (10 marks)
- (b) State any five (5) stakeholders of an organization. (10 marks)

[Total: 20 Marks]

QUESTION THREE

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

Required:

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

[Total: 20 Marks]

QUESTION FOUR

- (a) Explain how the micro-environment of a business can be assessed using the SWOT analysis tool. (10 marks)
- (b) Discuss the functional organizational structure, its advantages and disadvantages. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

Training offers significant benefits for both employers and employees in most organizations. It can be done using two (2) common methods.

Required:

- (a) State two (2) methods that are commonly used by organizations in order to achieve effective training among employees. (2 marks)
- (b) Explain four (4) methods that are used to achieve on the job training. (8 marks)
- (c) Explain five (5) purposes of induction training in an organization. (10 marks)

[Total 20 Marks]

QUESTION SIX

- (a) It is very common to find people that complain about lack of satisfaction in the jobs they do. Suggest six (6) psychological requirements to their managers that may help them experience the job satisfaction they seek. (12 marks)
- (b) Define the following....
 - (i) Strategic plan
 - (ii) Corporate strategy
 - (iii) Business Strategy
 - (iv) Operational Strategy

(8 marks)

[Total: 20 Marks]

END OF PAPER

DA7 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) Describe five (5) types of business organizations.
 - i. Sole traders
 - ii. Partnerships
 - iii. Limited companies
 - iv. Private limited company
 - v. Public limited company
- (b) Describe any five (5) stakeholders of an organization.
 - i. Employees
 - ii. Banks
 - iii. Government
 - iv. Pressure groups
 - v. Customers

SOLUTION THREE

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

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

SOLUTION FOUR

(a) **SWOT** Analysis is a tool used to study an organization in its environmental setting and therefore used as a basis for decision making and problem solving. The acronym SWOT stand for Strengths, Weaknesses, Opportunities and Threats. These will be assessed before an organisation makes decisions pertaining to its operations.

i. **Strengths:** These are positive aspects which gives the organisation a market advantage over other competitors. Examples managerial expertise, skilled workers, strong financial position, advanced technology, strong brand name, etc.

ii. **Weaknesses:** These are negative aspects of the organisation that makes it to compete unfavourably. Weaknesses limits the effectiveness of the organisation in terms of performance. Examples organizations weaknesses are unskilled workers, obsolete technology, high number of customer complaints and high cost of operations/production.

iii. **Opportunities:** these are favourable conditions arising from the external business environment. The organisation must take advantage of the favourable conditions in order to make decisions that will maximize on revenue.

iv. **Threats:** These are unfavorable situation developing from the external business environment that endangers the operations of organisation. Examples of threats are change in law, new entrants in the industry and changes in demographic factors.

(b) This is a type of organizational structure in which positions are grouped according to the area of specialization. In other words positions are based on similarity of expertise, skills and work activities. This type of structure may have the following departments Production, Marketing, Accounts, Human Resource and Procurement.

Advantages

- i. It encourages development of expertise in the area of specialization.
- ii. Economies of scale can achieved due to efficiency because of specialization.
- iii. There is effective coordination of activities because of specialization.
- iv. Each department can monitor and respond to any changes in the business environment according to area of specialization.

Disadvantages

- i. Each department may focus more on its interests than the overall goals.
- ii. Functional conflicts may arise due limitation of resources, one department perceiving to be more important than others.
- iii. When the organisation becomes very large communication and decision making may be delayed because of inefficiency.

SOLUTION FIVE

- (a) Two (2) methods that are commonly used by organizations in order to achieve effective training among employees.
- On the job training and off the job training
- (b) Four (4) methods that are used to achieve on the job training
- Job rotation**, the trainee is given several jobs in succession so that he/she gains some experiences on various work activities
 - Assistant to positions** – work may be delegated to an employee in cases where they are appointed as assistant to a particular job position. This allows them to gain experience of a new demanding role
 - **Demonstration / instruction** – showing the trainee how to do the job and let them do it. The trainee has to imitate the instructor and ask questions on the job.
 - **Temporal promotion** – An individual is promoted into a superior's position while he/she is not available. This gives the junior officer an experience of a new demanding role
 - **Committee** – Trainee is included in a committee in order to obtain an understanding of interdepartmental relationships.
 - Project work** – This assists trainees to be exposed to other activities of the organization.
 - Action learning** – Trainee is subjected to a group in a real life problem solving situation where an advisor facilitates and helps members of the group to identify how their interpersonal and problem solving skills are affecting the process.
- (c) Five (5) purposes of induction training in an organization are:
- Helping new employees to find their bearing.
 - Assisting with the socialization process of new staff into the organizational culture and norms and beliefs.
 - Identifying the skills gap, ongoing training and development needs of staff.
 - Avoiding disorientation, frustration and disappointment of new staff. – avoiding initial problems at the 'induction crisis' stage of the employment life cycle.
 - Supporting new staff in beginning performance.

SOLUTION SIX

- a) The following are the psychological requirements that can help in job satisfaction:
 - i. One should have strong understanding of what the job entails and receive feedback on their performance because they feel used.
 - ii. The work should be demanding and provide some variety to help her avoid monotony.
 - iii. One should be given chance to participate in decision making.
 - iv. The organization must give her social support and recognition so that she feels appreciated.
 - v. One must be made to understand that her contributions are appreciated and adding value to the organization.
 - vi. The job must give her hope for the future.

- b) The following are the definitions of the corporate, business and operational strategies:
 - i. Strategic Plan- This is a long plan for the organisation which includes Corporate, Business and Operational plans.
 - ii. Corporate strategy- is concerned with the overall purpose and scope of the organization and how value will be added to each and every business unit of the organization.
 - iii. Business strategy- is about how to compete successfully in a particular market.
 - iv. Operational strategy- is concerned with how the components parts of an organization coordinate in order to implement the plans and get the desired results.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 13 JUNE 2022

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

You are the Financial Accountant of Manga Limited and the Finance Manager has given you the trial balance below.

The Trial Balance of Manga as at 31 December 2021

K' 000	K' 000	
Revenue (note (i))		854, 000
Cost of sales	547, 200	
Distribution costs	50, 000	
Administrative expenses (note (ii))	76, 000	
Loan note interest paid (note (ii))	8, 000	
Equity shares of K1 each		240, 000
8% loan note (note (ii))		100, 000
Retained earnings at 1 January 2021		74, 000
Property at cost (note (iv))	200, 000	
Plant and equipment at cost (note (iv))	334, 800	
Accumulated depreciation at 1 January 2021:		
Property		32, 000
Plant and equipment		134,800
Investment property (note (iii))	68, 000	
Inventory at 31 December 2021 (v)	99, 200	
Trade receivables	114, 000	
Bank	86, 400	
Current tax (note (vi))	4, 400	
Deferred tax (note (vi))		5, 800
Trade payables		147, 400
<hr/>	<hr/>	<hr/>
1,588,000	1,588,000	

The following notes are relevant:

- (i) On 1 January 2021, Manga entered into a contract to provide office cleaning services for 3 years. Manga estimated the cost of office cleaning services to be K2,400,000 per annum and Manga charges 20% gross profit margin on these services. K7,500,000 paid for this service has been included in revenue. The service performance obligation will be satisfied over time. Ignore discounting.
- (ii) Manga issued a K100, 000, 000 8% loan note on 1 January 2021. Issue costs were K4,000, 000 and these have been included in administrative expenses. The loan will be redeemed on 31 December 2023 at a premium which gives an effective interest rate on the loan of 9.6%.
- (iii) The investment property had a fair value of K72,800,000 as at 31 December 2021 according to the property valuation report and no investment property was acquired or sold during the year ended 31 December 2021.

- (iv) Manga revalued its property on 1 January 2021. An independent valuer confirmed the value of the property as K240,000,000 and the directors accepted this valuation. The property had a remaining life of 15 years at the date of its revaluation. Manga does not make transfers from the revaluation reserve to retained earnings. Plant and equipment is depreciated at 25% per annum using the reducing balance method. No depreciation has yet been charged on any non-current asset for the year ended 31 December 2021. All depreciation is charged to cost of sales.
- (v) On 31 December 2021, the closing inventory was counted and valued at its cost of K99, 200, 000. Some items included in inventory costing K15,800,000 had been damaged in a flood (on 25 December 2021) and are expected to be sold by the agent at K12,000,000 and the agent will get 10% as sales commission.
- (vi) On 31 December 2021, it was discovered that K6, 400, 000 received from the cash sale was fraudulently treated as a credit sales during the year. This is not recoverable because the sales are not insured.
- (vii) The balance on current tax in the trial balance represents the under/over provision of the tax liability. A provision for income tax for the year ended 31 December 2021 of K29,600,000 is required. At 31 December 2021, Manga had taxable temporary differences of K20,000,000, requiring a provision for deferred tax at 25%. *Ignore deferred tax on the revaluation.*

Required:

- (a) Prepare the statement of profit or loss and other comprehensive income for the year ended 31 December 2021 in accordance with IFRSs/IASs requirements. (12 marks)
- (b) Prepare the statement of financial position as at 31 December 2021 in accordance with IFRSs/IASs requirements. (13 marks)

[Total: 25 Marks]

QUESTION TWO

On 1 April 2020, Malasa Plc acquired 7 million K1 ordinary shares in Nsamba Plc a competitor company as part of its long-term expansion strategy. The consideration paid by Malasa Plc is made of:

- cash payment of K2 for each ordinary share acquired in Nsamba limited
- a share exchange of one for every five shares acquired in Nsamba Plc
- a contingent consideration of K1 per share payable in two years if Nsamba Plc meets expected financial targets

On 1 April 2020, the market price for Malasa Plc and Nsamba Plc stood at K3 and K2 respectively. The group cost of capital is 10%.

On 1 October, Malasa Plc acquired 1 million shares in Mubanga Plc through a cash consideration of K2 per share. Mubanga Plc was incorporated on 1 January 2020.

The two companies summarised statements of profit or loss for the year ended 31 December 2020, are given below:

	Malasa Plc K'000	Nsamba Plc K'000	Mubanga Plc K'000
Revenue	120,000	70,500	65,300
Cost of sales	<u>(55,000)</u>	<u>(25,000)</u>	<u>(24,600)</u>
Gross profit	65,000	45,500	40,700
Distribution costs	(5,000)	(3,500)	(21,800)
Administration expenses	<u>(4,200)</u>	<u>(3,100)</u>	<u>(20,900)</u>
Operating profit	55,800	38,900	(2,000)
Finance cost	-	400	-
Investment income	150	-	-
Profit before tax	55,950	39,300	(2,000)
Tax	<u>(17,000)</u>	<u>(12,500)</u>	-
Profit for the year	38,950	26,800	(2,000)
Other comprehensive income	2,500	-	-
Total comprehensive income	<u>41,450</u>	<u>26,800</u>	<u>(2,000)</u>
Balances as at 1 January 2020			
Share Capital K1 each	15,000	10,000	4,000
Revaluation reserve	3,000	-	-
Retained earnings / (Losses)	<u>7,100</u>	<u>4,500</u>	-
	<u>25,100</u>	<u>14,500</u>	<u>4,000</u>
Dividends Paid	-	200	400

The following notes are relevant:

- (i) The carrying amounts of Nsamba Plc's non- current assets were equal to their fair value with exception of a Patent valued at K1.8 million which was superseded with a different patent at the date of acquisition, forcing the government to repeal the Patent legislation.
- (ii) Malasa Plc did not declare any dividend during the financial year but did receive its full share of dividends from Nsamba Plc.
- (iii) Recognised goodwill in Nsamba Plc should be fully impaired following an adverse impairment review report issued on 31 December 2020, the investment in Mubanga has been impaired by K0.3 million.
- (iv) In the post-acquisition period, Malasa Plc sold goods worth K10 million at a mark - up of 20% to Nsamba Plc. A quarter of these goods were still held by Nsamba Plc at 31 December, 2020.

- (v) Non- controlling interest is to be fair valued according to group policy.
- (vi) Despite registering a loss in the first year of operations Mubanga Plc declared a dividend during the year.

Required:

- (a) Calculate goodwill in Nsamba Plc, for inclusion in the consolidated statement of financial Position. (6 marks)
- (b) Calculate the value of the investment in Mubanga Plc as at 31 December, 2020. (4 marks)
- (c) Prepare the consolidated statement of profit or loss and other comprehensive income for the Malasa Plc Group (15 marks)

[Total: 25 Marks]

SECTION B

Attempt Any Two (2) Questions from this section.

QUESTION THREE

Details of Zambezi Resources Plc's draft financial statements, together with other relevant information are shown below:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2021

	K'Million
Revenue	946
Cost of Sales	(458)
Gross Profit	488
Distribution costs	(152)
Administrative expenses	(96)
Finance income	12
Finance costs	(34)
Profit before tax	218
Income tax expense	(94)
Profit after tax	<u>124</u>
Dividends paid in the period	64

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	2021 K'million	2020 K'million
<i>Non-current assets</i>		
Property, plant and equipment	654	528
<i>Current assets</i>		
Inventories	246	352
Trade receivables	190	174
Short term investments	130	60
Cash at bank and in hand	58	0
	<u>624</u>	<u>586</u>
	<u>1,278</u>	<u>1,114</u>
<i>Equity</i>		
Share capital of K1 per share	400	240
Share premium	60	0
Revaluation surplus	132	194
Retained earnings	<u>142</u>	<u>82</u>
	<u>734</u>	<u>516</u>
<i>Non-current liabilities</i>		
10% debentures	200	300
<i>Non-current liabilities</i>	<u>344</u>	<u>298</u>
	<u>734</u>	<u>516</u>
	<u>1,278</u>	<u>1,114</u>

The following notes are also relevant:

1. During the year to 31 March 2021, items of Property, plant and equipment which originally cost K80 million were disposed of at a loss of K12 million. These items had a carrying value of K56 million at the date of disposal.
2. The short term investments meet the definition of cash and cash equivalents per IAS 7: Statement of cash flows.
3. Current liabilities at 31 March consist of the following:

	2021	2020
	K'm	K'm
Bank overdraft	0	44
Trade payables	252	140
Interest payable	14	6
Income tax payable	<u>78</u>	<u>108</u>
	<u>344</u>	<u>298</u>

4. On 1 August 2020, K100 million 10% debentures were converted into K100 million K1 equity shares.
5. The depreciation charge for the current year included in the Profit or loss was K86 million.

Required:

- (a) Prepare a Statement of cash flows for Zambezi Resources Plc for the year ended 31 March 2021 using the indirect method.
(20 marks)
- (b) With specific reference to IAS 7: Statement of cash flows, state examples of material non-cash transactions that need to be disclosed in the financial statements and explain why such disclosure is important.
(5 marks)

[Total: 25 Marks]

QUESTION FOUR

Moonlight Chartered Accountants has received four inquiries from different clients who are not sure about how to apply IFRS provisions to the transactions listed below. You are one of the trusted associates of Moonlight Chartered Accountants and your supervisor wants you to attend to the clients as soon as possible.

The financial year for all the clients ends on 31 December 2020.

Client one - Siliza Financial Services Limited

On 31 December 2020, following an extra- ordinary shareholders resolution, Siliza Financial Services Limited issued 100,000 convertible bonds in a bid to raise project funds. Each bond will be redeemed in three years' time at its par value of K200 per bond. Alternatively, each bond can be converted into 105 K1 shares at maturity date. The bonds carry annual interest payable in arrears of 6%. The obtaining market interest rate for a similar three-year bond without conversion rights is 9%.

The discount factors below are relevant to the above:

	Simple	Cumulative
6%	0.840	2.676
9%	0.772	2.531

(7 marks)

Client Two - First brand Plc

First Brand Plc has incurred significant costs in training members of staff in meeting expected performance targets. Further, the company has invested heavily in marketing and advertising and the directors feel that it is time to capitalise the costs incurred to date as failure to do so will greatly understate company value and mislead users reading publicly available information on the stock markets.

In the year ended 31 December, 2020 , the company spent K3 million and K5 million in training and marketing respectively.

(6 marks)

Client Three - Explora Constructions Limited

On 25 December 2020, Explora constructions Limited received a legal notice from one of its clients Elegant Properties, demanding for damages and compensation in relation to a building which according to the client collapsed due to poor workmanship. However, initial investigations indicate that the incidence took place during a savanna tropical storm. The client is demanding for compensation amounting to K7 million failure to which Explora will face legal consequences.

On completion of the mentioned building, Explora received two favourable inspection reports from the local council and a private inspector. Explora has no written policy that implies that it will pay clients whose assets are damaged by storms and there is no specific government regulation which mandates construction firms to refund clients whose assets are affected by storms.

All the insurance contracts to which Explora is party do not include cover from damages resulting from storms.

The legal representatives of explora Plc have advised that the chances of explore losing the case is possible but unlikely.

(6 marks)

Client four: Umodzi Corporative

Umodzi Corporative is in the process of preparing the first set of IFRSs compliant financial statements. Owing to the nature of operations, Umodzi Corporative wishes to know the difference if any between property plant and equipment and bearer plants under the

relevant IFRS as far as Recognition and Initial measurement is concerned.

The committee is aware that IAS 41 provides the broad principles of accounting for biological assets and agriculture produce.

(6 marks)

Required:

Write brief explanatory notes with associated calculations where necessary, indicating how the above transactions should be treated in the financial statements in accordance with relevant IFRSs.

[Total: 25 Marks]

QUESTION FIVE

Zambia Institute of Chartered Accountant (ZICA) hosted a workshop on the revision of the Conceptual Framework for Financial Reporting. The keynote speakers provided the definition, background, the objectives, criticisms and required revisions to the Conceptual Framework for Financial Reporting. A conceptual framework is a set of theoretical principles and concepts that underlie the preparation and presentation of financial statements. The framework for the Presentation and Preparation of Financial Statements was first issued in 1989. In 2004 the Board and the US Financial Accounting Standards Board (FASB) started a joint project to revise their respective frameworks. As a result of this project the Board issued the Conceptual Framework for Financial Reporting in 2010. Most of the text from the 1989 framework was simply rolled over but two chapters were revised. These covered: (1) the objective of financial reporting; (2) the qualitative characteristics of useful financial information. The Board and the FASB subsequently suspended work on this joint project. Several criticisms emerged of the 2010 Conceptual Framework. As a result of criticism, the Conceptual Framework was identified as a priority project so, in 2012, the Board restarted this project without the FASB. A Discussion Paper outlining the Board's thinking was published in 2013 and an Exposure Draft of the proposed amendments was published in 2015. Feedback from these documents informed the revised Conceptual Framework, which was published in 2018.

You are a trainee accountant for Zamselufu Ltd and you have just returned from the workshop that was organized by ZICA. Having reviewed your notes from the recent workshop, you got interested in the issue of qualitative characteristics of financial information and the revised March 2018 Conceptual Framework for Financial Reporting.

Required:

- (a) Discuss why it is beneficial to develop an agreed conceptual framework and the extent to which an agreed conceptual framework can be used to resolve practical accounting issues.

(7 marks)

- (b) Outline three key criticisms that were among the several criticisms that emerged from the 2010 Conceptual Framework.

(3 marks)

- (c) Your supervisor has asked you to prepare briefing notes about salient qualitative features of financial information for presentation at the workshop clearly categorizing them as fundamental and enhancing features. The notes should evaluate each of the six (6) characteristics and provide specific practical examples on how each one relates to financial statements.

(15 marks)

[Total: 25 Marks]

END OF PAPER

DA8 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Manga Statement of Comprehensive Income for the year ended 31 December 2021 **K' 000**

Sales	854, 000 – 4, 500 w1	849, 500
Cost of sales	547, 200 + 16, 000 w4 + 50, 000 w4	<u>(613, 200)</u>
Gross profit		236, 300
Administrative expenses	76,000 +5, 000 w5 + 6, 400 w6 - 4, 000 w2	(83, 400)
Distribution costs		<u>(50, 000)</u>
Operating Profit		102, 900
Finance cost w2		(9, 216)
Gain on investment property w3		<u>4, 800</u>
Profit before tax		98, 484
Tax w7		<u>(33, 200)</u>
Profit for the year		<u>65, 284</u>
Other Comprehensive Income		
Revaluation surplus		<u>72, 000</u>
Total Comprehensive Income for the year		<u>137, 284</u>

(b) Manga Statement of Financial Position as at 31 December 2021

Assets	[6 marks maximum]	K' 000
Non-current assets		
Property, Plant and Equipment	224, 000 w4 +150, 000 w4	374, 000
Investment Property w3		<u>72, 800</u>
		<u>446, 800</u>
Current assets		
Inventory	99, 200 – 5, 000 w5	94, 200
Receivables	114, 000 – 6, 400 w6	107, 600
Bank		<u>86, 400</u>
		<u>288, 200</u>
Total assets		<u>735, 000</u>
Equity shares		240, 000
Retained Earnings	74, 000 + 65, 284	139, 284
Equity reserves – revaluation surplus w3		<u>72, 000</u>
		<u>451, 284</u>
Non-current liabilities		
8% Loan notes		97, 216
Deferred tax w7		5, 000
Deferred income w1		<u>1, 500</u>
		<u>103, 716</u>
Current liabilities		
Payables		147, 400
Tax provision		29, 600
Deferred income		<u>3, 000</u>
		<u>180, 000</u>
Total equity and liabilities		<u>735, 000</u>

Workings K' 000

W1: Sales per year : $2,400 / 0.80\% = 3,000$ Recorded 7,500
Dr: Sales 4,500 Cr: C. liability 3,000 Cr: Non- liability 1,500

W2: Financial liability: $[100,000 - 4,000 \text{ Dr}] = 96,000$ Admin Exp 4,000 Cr

O/Balance	Eff Rate @9.6%	Coupon Rate 8%	C/Balance
96,000	9,216	(8,000)	97,216
P/L = 9,216	SOFP = 97,216		

W3: Investment property gain

$72,800 - 68,000 = 4,800 \text{ P/L}$ SOFP = 72,800

W4: Property Plant and Equipment

Property

N.B.V: $200,000 - 32,000 = 168,000$ Revaluation = 240,000

Revaluation Surplus: $240,000 - 168,000 = 72,000 \text{ OCI}$

Dep: $240,000 / 15 \text{ yrs} = 16,000 \text{ P/L}$ N.B.V: $240,000 - 16,000 = 224,000 \text{ SOFP}$

Plant and Equipment

Dep: $[334,000 - 134,800] = 200,000 @25\% = 50,000 \text{ P/L}$

N.B.V: $200,000 - 50,000 = 150,000 \text{ SOFP}$

W5: Inventory $15,800 - [12,000 @90\%] = 5,000 \text{ Cr}$ Admin Exp 5,000 Cr

W6: Receivables 6,400 Cr Admin Exp 6,400 Dr

W7:

Tax in T/Balance	4,400	
Tax estimate	29,600	
Def tax $5,800 - [(20,000 @25\%) = 5,000]$	<u>(800)</u>	
P/L Amount	<u>33,200</u>	SOFP = 5,000

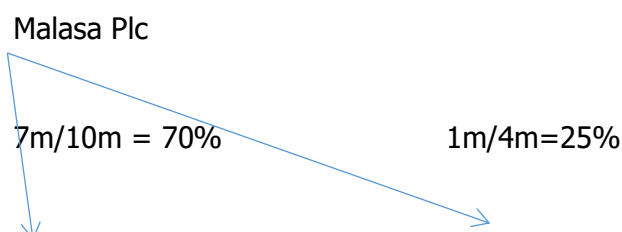
SOLUTION TWO

Malasa Group

Statement of profit or loss and other comprehensive income for the year ended 31 December, 2020

	K'000
Revenue ($120,000 + 70,500 \times (9/12)$) - 10,000	162,875
Cost of sales (W1)	<u>(65,967)</u>
Gross profit	96,908
Distribution costs (5000+ 3500* (9/12))	(7,625)
Administration expenses (4200 + 3100 * (9/12) + 10,585)	(17,110)
share of Associates losses [(2000)*3/12 * 25%]+300 Imp los]	(425)
Investment income - dividend from Nsamba (200*75%)	-
Finance cost [(9/12x400)+(10%X5,785)x9/12]	<u>(734)</u>
Profit before tax	71,014
Tax (17000 + 12500*(9/12))	<u>(26,375)</u>
Group profit for the year	44,639
Other Comprehensive income	<u>2,500</u>
Total comprehensive income	<u>47,139</u>
Profit attributed to Malasa (balancing figure)	44,284
Non- controlling profit ((26,800 * 9/12) – 10,585) * 30%	<u>2,855</u>
	<u>47,139</u>

Group Structure



Nsamba

Mubanga

Goodwill in Nsamba Plc		K'000
Cost of Investment		
Cash Consideration (7m * K2)		14,000
Share Exchange (7m*1/5 * K3)		4,200
Contingent consideration (7 * K1)* (1.1)^-2		5,785
Non - controlling Interest (10m *30% * K2)		6,000
		<u>29,985</u>
Less Net assets at acquisition		
Share capital	10,000	
Share premium	-	
Retained earnings	4,500	
First three months profits (26800 * 3/12)	6,700	
FV adjustment	(1,800)	<u>(19,400)</u>
Goodwill		10,585
Impairment		<u>(10,585)</u>
Goodwill		<u>-</u>

W1 Cost of sales	K'000
Malasa	55,000
Nsamba (25,000*9/12)	18,750
Intergroup	(10,000)
Add : Unrealised profit	417
Add : impairment of patent	1,800
	<u>65,967</u>

W2 Carrying Amount of Investment in Mubanga

Cost (K2 x 1million shares)	2,000
Malasa share of loss (25%*[3/12*2000)	(125)
Less dividends received (25% * 400)	(100)
Less impairment loss	(300)
Carrying amount	1,475

SOLUTION THREE

(a) ZAMBEZI RESOURCES PLC: STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 MARCH 2021

	K'Million	K'Million
<i>Cash flow from operating activities</i>		
Profit before taxation	218	
Adjusted for –		
Loss on disposal	12	
Depreciation	86	
Interest income	(12)	
Interest expense	<u>34</u>	
338		
Decrease in inventories (246-352)	106	
Increase in trade receivables (190-174)	(16)	
Increase in trade payables (252-140)	<u>112</u>	
Cash generated from operating activities	540	
Interest paid (W2)	(26)	
Income taxes paid (W3)	<u>(124)</u>	
<i>Net cash used from operating activities</i>		390
<i>Cash flow from investing activities</i>		
Purchase of property, plant and equipment (W1)	(330)	
Proceeds from sale of property, plant and equipment (56-12)	44	
Interest received	12	
<i>Net cash used in investing activities</i>		(274)
<i>Cash flow from financing activities</i>		
Proceeds from issuance of share capital (W4)	120	
Dividends paid	(64)	
<i>Net cash from financing activities</i>		<u>56</u>
<i>Net increase in cash and cash equivalents</i>		172
<i>Cash and cash equivalents at beginning of the year</i>		<u>16</u>
<i>Cash and cash equivalents at end of the year</i>		<u>188</u>

Workings:

- Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT ACCOUNT			
	K'm		K'm
Balance b/d (NBV)	528	Revaluation surplus	62
		Depreciation	86
		Disposal	56
Additions (balancing figure)	<u>330</u>	Balance c/d (NBV)	<u>654</u>
	<u>858</u>		<u>858</u>

2. Interest paid

INTEREST PAYABLE ACCOUNT			
	K'm		K'm
Bank	26	Balance b/d	6
Balance c/d	<u>14</u>	Profit or loss	<u>34</u>
	<u>40</u>		<u>40</u>

3. Income taxes paid

INCOME TAXES PAYABLE ACCOUNT			
	K'm		K'm
Bank	124	Balance b/d	108
Balance c/d	<u>78</u>	Profit or loss	<u>94</u>
	<u>202</u>		<u>202</u>

4. *Issue of shares* K'm

Share capital plus premium at end	460
Share capital at start	<u>(240)</u>
Increase during the year	220
Debentures converted into shares	<u>(100)</u>
Shares issued for cash	<u>120</u>

(b) Examples of material non-cash transactions requiring disclosure in the Statement of cash flows by IAS 7, may include:

- Bonus issues of shares that usually funded from reserves
- Acquisition of non-current assets by way of a lease or financing agreement
- Conversion of debt to equity (e.g. the exercise of an option within convertible loan notes to convert to equity shares).

The purpose of financial statements is not only to provide a summary of the current position and historic performance of an organisation, but also to aid users to assess the future prospects of a company (and so make appropriate business decisions to invest, sell shares, lend money and so on).

Disclosure of non-cash transactions helps users assess future performance of the organization as the impact of such transactions on future profits and cash flows can be considered.

For example, bonus share issue may result in an increased total dividend in future years. Similarly, acquisition of current assets would be expected to have a positive effect on a company, resulting in increased revenues and cash inflows. On the other hand, conversion

of debt into equity will result in a decrease in interest charges, but a probable increase in dividends paid.

SOLUTION FOUR

Client one - Siliza Financial Services Limited

The financial instrument in the question is a compound instrument which requires split accounting in accordance with IAS 32 classification of financial instruments.

On 31 December 2020 Siliza financial services limited will recognise a non-current liability of K18.477 million. The company will also increase its equity by K1.523 million.

The notional interest of 6% charged on the loan indicates a reduced risk of borrowing and the since loan note holders can convert their investment in debt into a known number of shares in three years.

W1) Split Accounting

PV of principle ($100,000 * K200 * 0.772$)

PV of Interest ($K20 \text{ million} * 6\% * 2.531$)

PV of Debt

Equity (bal. fig)

Cash

Client Two - First brand Plc

According to IAS 38 Intangible assets, training costs are generally to be treated as a period expense. First Brand Plc holds no control over the employees and their future intentions. Besides, an employees contribution to the company cannot be measured in isolation of team efforts. In other words employee value depends on their continued willingness to associate with the business. Therefore, the K3 million training cost should be recognised as an expense in the statement of profit or loss and not as an intangible asset.

Similarly, marketing costs may not give rise to an intangible asset because First Brand Plc has no control over the response of customers to its commercial publicity activities. The benefits arising from the marketing campaign may not be reliably quantified. Consequently, the K5 million spent on marketing activities or programs is to be written off in the statement of profit or loss.

Client Three - Explora Constructions Limited

IAS 37, Provisions , contingent assets and contingent liabilities provides guidelines on how and when to recognise provisional liabilities. The standard clearly states that a provision should not be sanctioned where there is no past obligating event which might be legal or constructive in nature.

From the information provided, it appears as if government license requirements and Explora's own

written policies do not provide for losses arising out the storm.

Unless it can be established by the courts of law that there was negligence in the way the affected building was built, there is no ground for a provision in this case. The company should however disclose the matter in the notes to the financial statements as the amount involved K7 million is material. The legal advice provided thus far and the mention of two positive inspection reports makes it possible but unlikely for the company to lose this case.

Client four - Umodzi Corporative

According to IAS 41 Agriculture, a bearer plant is one which produces fruits and includes tea bushes, grape vine and rubber trees. These plants resemble property plant and equipment in several ways. The plant is not held for sale but is kept primarily for the production of agriculture produce. Bearer Plants should be accounted for according to IAS 16 using accumulated costs until maturity and then subjected to depreciation or impairment. The agriculture produce from a bearer plant will be accounted for using either IAS 2 or IAS 41.

A bearer plant should be initially recognised upon meeting the recognition criteria of an asset (Reliable measurement and probable flow of economic benefits). Initially, the plant should be measured at cost and subsequently measured at either cost or fair value.

Property plant and equipment in the agriculture sector includes agriculture land and buildings and other assets used in the management of the business. Such assets will be used in the production and supply of agriculture produce. In general terms, property plant and equipment is recognised if it meets the definition of asset. According to IAS 16, property plant and equipment is first recognised at cost and subsequently recognised at either cost or fair value.

SOLUTION FIVE

Benefits of developing an agreed conceptual framework and the extent to which an agreed conceptual framework can be used to resolve practical accounting issues

(a)

Benefits of developing an agreed conceptual framework
The financial reporting process is concerned with providing information that is useful in the business and economic decision-making process. Therefore, a conceptual framework will form the theoretical basis for determining which transactions should be accounted for, how they should be measured and how they should be communicated to the user. Although it is theoretical in nature, a conceptual framework for financial reporting has highly practical final aims.
The danger of not having a conceptual framework is demonstrated in the way some countries' standards have developed over recent years; standards tend to be produced in a haphazard and fire-fighting approach. Where an agreed framework exists, the standard-setting body builds the accounting rules on the foundation of sound, agreed basic principles.
The lack of a conceptual framework also means that fundamental principles are tackled more than once in different standards, which can produce contradictions and inconsistencies in accounting standards. This leads to ambiguity and it affects the true and fair concept of financial reporting.
Without a conceptual framework, there is a risk that a financial reporting environment becomes governed by specific rules rather than general principles. A rules-based approach is much more open to manipulation than a principles-based one. For example, a rule requiring an accounting treatment based on a transaction reaching a percentage threshold, might encourage unscrupulous directors to set up a transaction in such a way to deliberately to achieve a certain accounting effect (eg keep finance off the statement of financial position).
A conceptual framework can also bolster standard setters against political pressure from various 'lobby groups' and interested parties. Such pressure would only prevail if it was acceptable under the conceptual framework.
How conceptual framework can be used to resolve practical accounting issues
A framework cannot provide all the answers for standard setters. It can provide principles which can be used when deciding between alternatives and can narrow the range of alternatives that can be considered. The IASB intends to use the principles laid out in the Conceptual Framework as the basis for all future IFRSs, which should help to eliminate inconsistencies between standards going forward.
However, a conceptual framework is unlikely, on past form, to provide all the answers to practical accounting problems. There are a number of reasons for this: (1) Financial statements are intended for a variety of users, and it is not certain that a single conceptual framework can be devised which will suit all users; (2) Given the diversity of user requirements, there may be a need for a variety of accounting standards, each produced for a different purpose (and with different concepts as a

basis); (3) It is not clear that a conceptual framework makes the task of preparing and then implementing standards any easier than without a framework.

(b) Three (3) key criticisms that were among the several criticisms that emerged from the 2010 Conceptual Framework.

Criticism
It did not cover certain areas, such as derecognition, and presentation and disclosure
Guidance in some areas was unclear, such as with regards to measurement uncertainty
Some aspects were out of date, such as recognition criteria for assets and liabilities

(c) Qualitative features of financial information categorized into fundamental and enhancing characteristics

Characteristics	Brief description
Relevance (Fundamental)	It is one of the fundamental qualitative characteristics of financial information. It states that financial information is relevant when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming as well as correcting their past evaluations. Relevance of financial information can be affected by its nature and materiality (the threshold quality of information). According to the conceptual framework, information is material if its omission or misstatement could influence the decisions of users.
Faithful representation (Fundamental)	It is another fundamental qualitative characteristic that requires financial transactions to be presented according to their substance and economic reality and not merely according to their legal form. Faithful representation further requires information that faithfully represent the performance and position of an entity to be complete, neutral and free from error.
Comparability (Enhancing)	It is one of the enhancing qualitative characteristics that require financial information to be comparable, that is, financial information over a period of

	time should be treated in a consistent manner from one accounting period to another and from one entity to another for example, use of same accounting policy enhances comparability. Note that it is acceptable however to change a policy if the alternative policy enhances more relevance and reliability of financial information.
Understandability (Enhancing)	It is another one of the enhancing qualitative characteristics. It states that information needs to be readily understandable by users. Information that may be relevant to decision making should not be excluded on grounds that it may be too difficult for certain users to understand. Understandability depends on the way information is presented and capabilities of users. It is assumed that users have reasonable knowledge of the business and its economic activities and are willing to study the information provided with reasonable diligence.
Timeliness (Enhancing)	Having information available to decision makers in time to be capable of influencing their decisions. Older information is less useful. For information to be meaningful, it should be provided at the time it is required so that timely decisions could be made. Accounts are usually published soon after the year end.
Verifiability (Enhancing)	Knowledgeable users should be able to agree that a particular depiction of a transaction offers a faithful representation. Can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation. Indirect verification means checking the inputs using the same methodology.
Evaluation of qualitative characteristics of financial information	
Information may become irrelevant if there is a delay in reporting it. There is a balance between timeliness and the provision of reliable information. Information may be reported on a timely basis when not all aspects of the transaction are known, thus compromising reliability. If every detail of a transaction is known, it may be too late to publish the information because it has become irrelevant. The overriding consideration is how best to satisfy the economic decision-making needs of the users. Balance between benefits and cost. This is a pervasive constraint, not a qualitative	

characteristic. When information is provided, its benefits must exceed the costs of obtaining and presenting it. This is a subjective area and there are other difficulties: others than the intended users may gain a benefit; also, the cost may be paid by someone other than the users. It is therefore difficult to apply a cost-benefit analysis, but preparers and users should be aware of the constraint. Balance between qualitative characteristics. A tradeoff between qualitative characteristics is often necessary, the aim being to achieve an appropriate balance to meet the objective of financial statements. It is a matter for professional judgement as to the relative importance of these characteristics in each case.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

TUESDAY 14 JUNE 2022

DA 9: MANAGEMENT ACCOUNTING

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

There are three (3) questions in this section.

Attempt Both Questions in this section.

QUESTION ONE

Saving Lives (SL) is a private hospital faced with a potential shortage of operating theatre hours next year. The hospital has four (4) operating suites, each of which is capable of undertaking all types of surgical procedure and has a maximum workload of 16 hours per day, 365 days per year. The maximum annual workload effectively amounts to the expected theatre hours available to perform the surgical operations. Estimates relating to each main category of surgical procedure for next year are as follows:

	General	Orthopedic	Renal	Coronary
Anticipated No. of procedures	500	400	600	200
Revenue & cost per procedure				
	K	K	K	K
Sales revenue	<u>558</u>	<u>600760</u>		<u>1,302</u>
Direct labour	180	200	220	360
Surgical and medical supplies	102	120	160	180
Variable theatre costs	60	75	120	170
Apportioned general overheads	<u>200</u>	<u>140120</u>		<u>200</u>
Total costs	<u>542</u>	<u>535 620</u>		<u>910</u>
Profit	<u>16</u>	<u>65 140</u>	<u>392</u>	

Notes

1. Direct labour costs relate to the hospital's permanent medical and auxiliary staff.
2. Surgical and medical supplies' costs are only incurred if a procedure takes place.
3. Variable theatre costs are incurred at a rate of K25 per theatre hour.
4. Theatre hours for the four (4) categories of surgery are based on average procedure times under each heading.
5. Apportioned general overheads are all fixed costs.

Management of Saving Lives (SL) private hospital wishes to maximize profit for each surgical operation it undertakes.

Required:

- (a) Determine the shortfall in theatre hours (5 marks)
- (b) Calculate the contribution for each surgical procedure (4 marks)
- (c) Calculate the contribution per each theatre hour. (4 marks)
- (d) Provide a ranking for each surgical procedure (2 marks)
- (e) Prepare an optimal plan for surgical procedures for the next year (6 marks)
- (f) State Four (4) general qualitative factors that may be considered in short-term decision making. (4 marks)

[Total: 25 Marks]

QUESTION TWO

Read It (RI) Limited is a media house located at Premium Plaza in Ndola that provides electronic news bulletin to registered clients across the Copperbelt Province. The clients pay a fee per downloading session for each occasion spent transferring information from RI's computer systems to their own. The following information relates to the month of December 2021.

Downloading

Budgeted number of downloading sessions	15,000
Actual number of downloading sessions	13,100

Standard operating costs per client downloading session

	K
Systems operators' time (10 minutes @K12 per hour)	2.00
Variable overhead	3.00
Fixed overhead	<u>1.00</u>
	<u>6.00</u>

An upgrade of the system used by RI Limited in November ensured that the operators' time reduced to 5 minutes whilst the price per hour was revised to K25.

Budgeted and actual costs

Systems operators:	actual – 1,800 hours costing K25,200
Variable overhead:	actual – K42,000
Fixed overhead:	actual – K13,000
	Budgeted – K15,000

Required:

- (a) Calculate the following variances:
- (i) Labour rate variance; (2 marks)
 - (ii) Labour efficiency variance; (3 marks)
 - (iii) Variable overhead expenditure variance; (2 marks)
 - (iv) Fixed overhead volume variance; (3 marks)
- (b) Calculate the labour rate into planning and operational variances. (6 marks)
- (c) Calculate the labour efficiency variance into planning and operational variances. (6 marks)
- (d) Explain the meaning of the fixed overhead volume variance. (3 marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions in this section.

Attempt any **TWO** questions in this section

QUESTION THREE

Special Ceilings Installations Ltd (SCI) is a small company that specializes in the installations of ceiling boards. The following is the company's estimated profit statement for next year, prepared using marginal costing principles.

Table 2: Marginal Costing profit statement

	K	K
Sales revenue		840,000
Less variable costs:		
Materials	214,200	
Labour	<u>294,000</u>	<u>(508,200)</u>
Contribution		331,800
Less Fixed Costs:		
Administration	84,000	
Selling & distribution	<u>105,000</u>	<u>189,000</u>
Profit		<u>142,800</u>

Two (2) suggestions have been made in an attempt to improve profit next year.

1. Managing Director's suggestion – The Managing Director has suggested that cheaper materials could be used, which will reduce the total material cost to K168,000. However, this will mean additional fixed costs of K50,400 to cover inspection of the cheaper materials.
2. Sales Director's suggestion - The Sales Director has suggested an intensive advertising campaign. She estimates that this will increase sales volume by 20% over the estimated amount above. Variable costs will be unaffected in the same way sales by this option, but extra fixed costs of K94,500 will be incurred in order to cover the advertising campaign.

Required:

- (a) For each of the original estimates, the managing director's suggestion and Sales Director's suggestion, calculate:
 - (i) The company's breakeven point; and (8 marks)
 - (ii) The margin of safety as a percentage of estimated sales (7 marks)
- (b) Explain whether SCI should adopt the original plan, or amend it in line with either the Managing Director's or Sales Director's suggestion on the basis financial grounds. (5marks)
- (c) (i) State three (3) advantages of Break Even Analysis. (3 marks)

(ii) Define margin of safety.

(2 marks)

[Total: 25 Marks]

QUESTION FOUR

Scooby-Doo has a plant which manufactures three (3) types of fruit juice, namely Mango, Guava and Lemonade. The business is preparing its budgets for the coming quarter. The selling prices are K60, K110, and K90 for a 2.5 litres of Mango, Guava and Lemonade fruit juices respectively. The marketing department has estimated the sales volume of each fruit juice as follows:

Mango	8,000Litres
Guava	12,000Litres
Lemonade	10,000Litres

The standard cost to make one litre of each fruit juice is given as follows:

	Mango	Guava	Lemonade
Related Fruits (kgs)	2.00	3.00	2.50
Extras like carrots, cucumber, etc (kgs)	3.00	4.00	1.50
Labour hours – Cutting & Blending Dept	0.75	1.25	2.00
Labour hours – Packaging Dept	1.50	2.00	2.50
Machine hours – Cutting & Blending Dept	1.00	1.50	2.50
Machine hours – Packaging Dept	2.00	2.00	3.00

The costs of related fruits are set at K3 per kg whilst those of extras like carrots, cucumbers; etc is set at K2 per kg. These fruits are ordered from local farms. Labour rate per hour in the cutting and blending department is K4 while the labour rate in the packaging department is K3 per hour. Production overheads estimated to be K415,000 in the cutting and blending department whilst in the packaging department, they anticipated to be K567,200 in next quarter. Overheads in the cutting and blending department are absorbed on a labour hour basis and in the packaging department on a machine hour basis. Administration overheads are K350,950 and are to be absorbed on the basis of labour costs.

Opening and closing inventories are budgeted as follows:

	Mango Litres	Guava Litres	Lemonade Litres	R/fruits Kgs	Extras Kgs
Opening inventory	1,000	1,200	1,500	5,000	7,500
Closing inventory	1,200	1,000	1,800	8,000	10,000

Required:

Prepare the following budgets:

- (a) Sales budgets in revenue; (3 marks)
- (b) Production budget in litres for each fruit juice; (3 marks)
- (c) Material purchases budget in litres and costs (5 marks)
- (d) Departmental labour costs budgets; (6 marks)
- (e) Overheads absorption rates for each department; (3 marks)
- (f) Standard costs and profit for each Guava and Lemonade fruit juice. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

Chipokapoka Excellence Service Limited (CES) is a recently established company that offers secretarial and business consultation services. Its target market is both the individuals and corporate clients. The managing director, Sarah Msoni, plans to expand the business in a period of two years by increasing revenue. Sarah intends to put in place viable working capital strategies to meet the company's objectives. She is trying to formulate an effective credit control policy. She has asked you to write brief notes on working capital management.

Required:

Prepare brief notes that include the following:

- (a) Explain the term overtrading including its symptoms. (5 marks)
- (b) Identify and explain three (3) approaches to investment in working capital. (15 marks)
- (c) Explain five (5) factors that could be considered in the credit control policy. (5 marks)

[Total: 25 Marks]

END OF PAPER

DA9 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Determination the shortfall in theatre hours

Theatre hours required	Hours
General (500 x 2.4 hours)	1,200
Orthopedic (400 x 3 hours)	1,200
Renal (600 x 4.8 hours)	2,880
Coronary (200 x 6.8 hours)	<u>1,360</u>
	6,640
Less available hours (365 days x 16 hours)	<u>(5,840)</u>
Shortfall in theatre hours	<u>800</u>

(b) Contribution for each surgical procedure

	General K	Orthopedic K	Renal K	Coronary K
Sales value	558	600	760	1,302
Less variable costs	<u>342</u>	<u>395</u>	<u>500</u>	<u>710</u>
Contribution	<u>216</u>	<u>205</u>	<u>260</u>	<u>592</u>

(c) Contribution per each theatre hour

	General	Orthopedic	Renal	Coronary
Contribution/procedure	K216	K205	K260	K592
Hours/surgical procedure	<u>2.4</u>	<u>3</u>	<u>4.8</u>	<u>6.8</u>
	<u>K90</u>	<u>K68.33</u>	<u>K54.17</u>	<u>K87.06</u>

(d) Ranking for each surgical procedure

	General	Orthopedic	Renal	Coronary
Rankings	1	3	4	2

(e) Optimum plan for surgical procedures for the next year

	Theatre Hours
General (500 x 2.4 hours)	1,200
Coronary (200 x 6.8 hours)	1,360
Orthopedic (400 x 3hours)	1,200
Renal (433 x 4.8 hours)	<u>2,080</u>
	<u>5,840</u>
Profit statement	K

General (500 x K216))	108,000
Coronary (200 x K592)	118,400
Orthopedic (400 x K205)	82,000
Renal (433 x K260)	<u>112,580</u>
Total contribution	420,980
Less fixed costs	<u>(268,000)</u>
Profit	<u>152,980</u>

(f) Decision must not only be based on qualitative information but also on non-financial factors which include:-

- Use of spare capacity
- Consideration of labour morale in shut down decisions.
- Quality of products or services for make or buy decisions
- Timely delivery of product/services in make or buy decisions
- Fluctuations in economic variables such as demand, exchange rates, inflation, etc
- Legal matters related to suppliers of raw

SOLUTION TWO

(a) Calculation of variances

(i) Labour Rate Variance

	K
1,800 hours should have cost x K12	21,600
But did cost	<u>25,200</u>
	<u>3,600</u>(A)

(ii) Labour Efficiency Variance

13,100 sessions should have taken x (10/60)hrs	2,183.33
hrs	
But did take	<u>1,800.00</u>
hrs	
Efficiency variance in hours	383.33hrs
(F)	
Valued at standard OAR/hour	<u>x K12</u>
	<u>K4, 600</u>
(F)	

(iii) Variable Overhead Expenditure Variance

	K
Variable Overhead Expenditure Variance	
13,100 sessions should have cost x K3	39,300
But did cost	<u>42,000</u>
	<u>2,700</u>(A)

(iv) Fixed Overhead Volume Variance

Budgeted downloading sessions	15,000
Actual downloading sessions	<u>13,100</u>
Volume variance in sessions	1,900 (A)
Valued @ standard rate per hour	<u>x K1</u>
Volume Variance	<u>1,900</u> (A)

(iii) Analysis of Labour rate variance into planning and operational variances

Labour rate planning variance

	K
1,800 hours should have cost x K12	21,600
But did cost (1,800 x K25)	<u>45,000</u>
	<u>23,400</u> (A)

Labour rate operating variance

	K
1,800 hours should have cost x K25	45,000
But did cost (1,800 hours x K14)	<u>25,200</u>
	<u>19,800</u>

(F)

- (iv) Analyse the labour efficiency variance into planning and operational variances

(b) Labour efficiency planning variance

13,100 sessions should have x (10/60) hours	2,183.33 hours
But did take (13,100 sessions x (5/60) hours	<u>1,091.66</u> hours
Efficiency planning variance in hours	1,091.67 hours (F)
Valued at standard rate/hour	<u>x K12</u>
	<u>K13, 100</u> (F)

(c) Labour efficiency operational variance

13,100 sessions should have taken (5/60) hours	1,091.67 hours
But did take	<u>1,800.00</u> hours
Efficiency operational variance in hours	708.33 hours
(A)	
Valued at standard rate/hour	<u>x K12</u>
	<u>K8,500</u> (A)

- (d) The fixed overhead volume variance, which exists only in an absorption costing system, indicates the extent to which the total variance for fixed overhead (under or over absorption) arises due to differences between budgeted and actual volume of output.

This variance maybe significant in assessing the effectiveness with which productive assets are utilized and the recovery of fixed overheads, but it has no relevance to cost control, which is monitored via the expenditure variance.

SOLUTION THREE

(a) (i) Breakeven point

Original estimates:

$$\begin{aligned}\text{Contribution sales ratio} &= \text{Total contribution/Total sales} \\ &= \text{K331,800/K840,000} \\ &= 0.395\end{aligned}$$

$$\begin{aligned}\text{Breakeven point} &= \text{Fixed costs/ CS ratio} \\ &= \text{K189,000/0.395} \\ &= \text{K478,481.01}\end{aligned}$$

Managing director's suggestion

$$\begin{aligned}\text{Revised CS Ratio} &= \text{K378,00/K840,000} \\ &= 0.45\end{aligned}$$

$$\begin{aligned}\text{Revised Fixed cost} &= \text{K189,000 + K50,400} = \text{K239,400}\end{aligned}$$

$$\begin{aligned}\text{Breakeven point} &= \text{Fixed costs/CS ratio} \\ &= \text{K239,400/0.45} \\ &= \text{K532,000}\end{aligned}$$

Sales directors' suggestion

$$\begin{aligned}\text{Revised CS Ratio} &= \text{K331,800/K840,000} \\ &= 0.395\end{aligned}$$

$$\begin{aligned}\text{Revised Fixed cost} &= \text{K189,000 + K94,500} = \text{K283,500}\end{aligned}$$

$$\begin{aligned}\text{Breakeven point} &= \text{K283,500/0.395} \\ &= \text{K717,721.52}\end{aligned}$$

(a) (ii) Margin of safety

Original estimates

$$\text{Margin of safety} = \frac{\text{Budgeted sales} - \text{Breakeven sales} \times 100}{\text{Budgeted sales}}$$

$$\text{MOS} = \frac{\text{K840,000} - \text{K478,481.01} \times 100}{\text{K840,000}}$$

$$\text{MOS} = 43\%$$

Managing director's suggestion

$$\begin{aligned} \text{MOS} &= \frac{\text{K}840,000 - \text{K}532,000}{\text{K}840,000} \times 100 \\ \text{MOS} &= 36.7\% \end{aligned}$$

Sales director's suggestion

$$\begin{aligned} \text{Revised sales revenue} &= \text{K}840,000 \times 1.2 = \text{K}1,008,000 \\ \text{MOS} &= \frac{\text{K}1,008,000 - \text{K}717,721}{\text{K}1,008,000} \times 100 \\ \text{MOS} &= 29\% \end{aligned}$$

(b) Summary of the indicators calculated in (a) above are given below.

Measure	Original estimates	Managing Director's suggestion	Sales director's suggestion
Breakeven point	K478,481.01	K532,000	K717,721
Margin of safety	43%	36.7%	29%

On purely financial grounds the original estimates are best! This is because the breakeven point is lowest which makes it easier to achieve, and the margin of safety is the highest, which means that profit under this option is less vulnerable to a drop in demand than under the other two options.

(c)

(i) **Advantages of breakeven:**

- Graphical representation of cost and revenue can be more easily understood by non-financial managers
- A breakeven model enables the determination of profit or loss at any level of activity within the range for which the model is valid, and the contribution to sales ratio can indicate relative profitability for different products.
- Highlighting the breakeven point and the margin of safety gives managers some indication of the level of risk involved, and as such is an aid to production and sales.

(ii) **Margin of safety defined:**

The margin of safety is a measure by which the budgeted volume of sales is compared with the volume of sales required by breakeven. It is the difference in units between the budgeted sales volume and the breakeven sales volume.

SOLUTION FOUR

Preparation of budgets:

(a) Sales budgets in revenue

	Mango	Guava	Lemonade
Litres	8,000	12,000	10,000
Sales price/2 .5 Litres	<u>K24</u>	<u>K44</u>	<u>K36</u>
Sales value	<u>K192, 000</u>	<u>K528,000</u>	<u>K360, 000</u>

(b) Production budget in litres for each fruit juice

	Mango	Guava	Lemonade
	<i>Litres</i>	<i>Litres</i>	<i>Litres</i>
Sales in litres	8,000	12,000	10,000
Closing inventory	1,200	1,000	1,800
Opening inventory	<u>(1,000)</u>	<u>(1,200)</u>	<u>(1,500)</u>
Production litres	<u>8,200</u>	<u>11,800</u>	<u>10,300</u>

(c) Material purchases budget in litres and costs

	<i>Related Fruits</i>	<i>Extras</i>
Mango: 8,200 x 2; 8,200 x 3	16,400	24,600
Guava: 11,800 x 3; 11,800 x 4	35,400	47,200
Lemonade: 10,300 x 2.5; 10,300 x 1.5	<u>25,750</u>	<u>15,450</u>
	77,550	87,250
Closing inventory	8,000	10,000
Opening inventory	<u>(5,000)</u>	<u>(7,500)</u>
Purchases	<u>80,550 kgs</u>	<u>89,750 kgs</u>
Cost of purchases(K3;K2)	<u>K241,650</u>	<u>K179,500</u>

(d) Departmental labour costs budgets

	Mango	Guava
	Lemonade	
Production in litres	<u>8,200</u>	<u>11,800</u>
<u>10,300</u>		
Hours:		
Cutting & Blending Dept (0.75; 1.25; 2.00)	6,150	14,750
20,600		

Packaging Dept (1.50; 2.00; 2.50)	12,300	23,600
25,750		
Costs:	K	K
Cutting & Blending Dept @ K4	24,600	59,000
82,400		
Packaging Dept @ K3	<u>36,900</u>	<u>70,800</u>
<u>77,250</u>		
Total Labour Costs	<u>61,500</u>	<u>129,800</u>
	<u>159,650</u>	

(e) **Overheads absorption rates for each department**

Overhead Absorption Rates = Budgeted Overheads/Budgeted Absorption Base

Cutting & Blending Dept =
$$\frac{\text{K415, 000}}{(6,150 + 14,750 + 20,600) \text{ Labour hours}}$$

= K10 per labour hour

Packaging =
$$\frac{\text{K567, 200}}{(8,200 \times 2 \text{hrs} + 11,800 \times 2 \text{hrs} + 10,300 \times 3 \text{hrs}) \text{ Machine hrs}}$$

= K8 per machine hour

(f) **Standard costs and profit for each Guava & Lemonade fruit juice**

	Guava	Lemonade
	K	K
Budgeted selling price	<u>44.00</u>	<u>36.00</u>
Standard costs:		
Materials: Related fruits	9.00	7.50
Extras	8.00	3.00
Labour: Cutting & Blending	5.00	8.00
Packaging	6.00	7.50
Overheads: Cutting & Blending	12.50	20.00
Packaging	<u>16.00</u>	<u>24.00</u>
Total standard costs	56.50	70.00
Administration costs	<u>1.00</u>	<u>1.00</u>
Standard profit /(Loss)	<u>(13.50)</u>	<u>(35.00)</u>

Administration costs = K350,950/K350,950 = K1/K

SOLUTION FIVE

(a) Overtrading

Overtrading is when a business is doing too much quickly with little long-term capital. This may lead into serious trouble because of liquidity problems. Such liquidity problems stem from the fact a firm does not have enough capital to provide the cash to pay its debts as they fall due.

The following are the symptoms of overtrading:

- (i) Rapid increase in sales revenue.
- (ii) Rapid increase in the volume of current assets.
- (iii) Little or no increase in equity capital
- (iv) Some debt ratios and liquidity ratios change dramatically.

(b) Three (3) approaches to investment in working capital

(i) Conservative

This approach aims to reduce the risk of system breakdown by holding high levels of working capital.

Customers are allowed generous payment terms to stimulate demand. Suppliers are paid promptly to ensure their goodwill. However, the cumulative effect on these policies can be that the firm carries a high burden of unproductive assets, resulting in a financing cost that can destroy profitability.

(ii) Aggressive

This approach aims to reduce financing costs and increase profitability by cutting inventories, speeding up collections from customers and delaying payments to suppliers. The potential disadvantage of this policy is an increase in the chances of system breakdown through running out of inventory or loss of goodwill with customers and suppliers.

(iii) Moderate

This is a middle way approach between the conservative and aggressive approaches. These characteristics are useful for comparing and analyzing the different ways that individual organisations deal with working capital and trade-off between risk and return.

(c) Credit control policy

- (i) Administrative costs of debt collection
- (ii) The procedures for controlling credit to individual customers and for debt collection.
- (iii) The amount of extra capital required to finance an extension of total credit
- (iv) Cost of additional finance required for any increase in the volume of accounts receivable.
- (v) Ant savings or additional expenses in operating the credit policy.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 16 JUNE 2022

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

INSTRUCTIONS TO CANDIDATES

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

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

TAXATION TABLE

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
On income from mineral processing	30%
On income from mining operations	30%
On income from manufacture of products made out of copper cathodes	15%

Capital Allowances

Implements, plant and machinery and commercial vehicles:

Wear and Tear Allowance – Standard wear and tear allowance	25%
Used in manufacturing and leasing	50%
Used in farming and agro-processing	100%
Used in mining operations	20%

Non- commercial vehicles

Wear and Tear Allowance	20%
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Industrial Buildings:

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

Low Cost Housing

(Cost up to K20,000)

Wear and Tear Allowance	10%
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Initial Allowance	10%
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Commercial Buildings

Wear and Tear Allowance	2%
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Farming Allowances

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

Turnover Tax	4%
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Rental Income Tax

Annual Rental Income

K800,000 or below	4%
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Above K800,000	12.5%
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Presumptive tax for transporters

Seating capacity	Tax per annum K	Tax per quarter K
Less than 12 passengers and taxis	1,080	270
From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, land and buildings and shares	5%
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Rate on realised value of intellectual property	5%
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Rate of tax on realised value on a transfer or sale of a mining right	10%
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Rate of tax on realised value on a mineral processing licence or an interest in the mineral processing licence;	10%
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Value Added Tax

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

	Aged 2 to 5 years	Aged 5 years and over	
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Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars

Customs duty	Excise duty	Customs duty	Excise duty
K	K	K	K

Sedans

cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642

Hatchbacks

cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642

Station wagons

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

SUVs

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

	Aged 2 to 5 years	Aged 5 years and over	
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Motor vehicles for the transport of goods –with compression-ignition internal combustion piston engine (diesel or semi-

Customs duty	Excise duty	Customs duty	Excise duty
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diesel):

	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	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, with spark ignition internal combustion piston engine	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
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	19,462	0
GVW exceeding 20 tonnes, with spark ignition internal combustion piston engine	37,086	28,432	13,907	10,662
Surtax				
On all motor vehicles aged more than five (5) years from year of manufacture				K2,000

Customs and Excise on New Motor vehicles

Duty rates on:

- 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

Kenki Plc has been operating in Zambia for more than twenty (20) years now manufacturing a variety of high caliber kitchen ware and the following is its extract of the statement of profit or loss for the year ended 31 December 2022:

	Note	K	K
Gross profit			9,750,000
Other income:			
Profit on sale of motor car		7,000	
Dividends (Gross)		380,000	
Bank interest(gross)		<u>65,000</u>	
Sub-total			
Total income			<u>452,000</u>
Expenses:			10,202,000
Depreciation		510,000	
Loss disposal furniture		31,000	
Allowance for receivables	(1)	410,000	
Premium paid	(2)	150,000	
Entertainment expenses	(3)	250,000	
Legal fees	(4)	650,000	
Donations	(5)	1,400,000	
General operating expenses	(6)	<u>6,200,000</u>	
Total expenses			<u>(9,601,000)</u>
Profit(loss) before tax			<u>601,000</u>

The following additional information is available:

Note 1: Allowance for Receivables

	K		K
Trade debts written off	220,000	Balances b/f:	
Loans to suppliers written off	70,000	- Specific provision	160,000
Loans to employees written off	130,000	- General provision	210,000
Balances c/d		Trade debts recovered	115,000
Specific provision	115,000	Supplier's loans previously	
General Provision	390,000	written off now recovered	30,000
		Profit or loss	<u>410,000</u>
	<u>925,000</u>		<u>925,000</u>

Note 2: Premium paid

The company obtained a right for the use of a trade mark on 1 January 2022 and paid a premium of K150,000 as consideration for the grant of the right. The right will be exploited by the company over a 40-year period.

Note 3: Entertainment expenses

These comprise the following:

	K
Entertaining suppliers	187,000
Gifts to customers of food and drinks costing K50 per customer	<u>63,000</u>
	<u>250,000</u>

Note 4: Legal Fees

Legal fees include:

	K
Fees for renewal of leases of land	45,000
Fees in connection with acquisition assets	65,000
Legal fees in connection with debt collection	<u>540,000</u>
	<u>650,000</u>

Note 5: Donations

Donations include donations to political parties of K900,000 and donations to approved public benefit organisations of K500,000.

Note 6: General operating expenses

These consist of the following:

	K
Salaries and wages	3,805,500
Advertising and marketing	65,000
Insurance of business assets	50,000
Audit and accountancy expenses	160,000
VAT penalties	19,500
General allowable business expenses	<u>2,100,000</u>
	<u>6,200,000</u>

Note 7: Directors' accommodation

The company provided free residential accommodation to the following directors throughout the tax year 2022:

	Director's taxable emoluments	Market value of house
	K	K
Managing Director	920,000	4,700,000
Human Resources Director	810,000	3,200,500

Note 8: Provisional Income Tax

The amount of company income tax paid under the provisional income tax system for the tax year 2022 was K185,000.

Note 9: Buildings

The company constructed a building during the tax year 2022, which was brought into use on 1 July 2022. The construction cost of the building which amounted to K2,600,000 was made up of the following items:

	K
Land	590,000
Staff canteen	290,000
Factory	920,000
Administration offices	<u>800,000</u>
	<u>2,600,000</u>

Note 10: Implements, plant and machinery

At 1 January 2022, implements, plant and machinery qualifying for capital allowances included manufacturing equipment with an income tax value of K300,000 (acquired at a cost K600,000), office furniture with an income Tax value of K75,000 (acquired at a cost of K150,000) and a motor car with an income tax value of K20,000 (acquired at cost K100,000).

Transactions in the year ended 31 December 2022 were as follows:

Date	Disposals	Proceeds K
10 March 2022	Office furniture	60,000
20 April 2022	Motor car	40,000

Date	Purchases	Cost K
25 March 2022	Toyota Fortuner car (3000cc)	400,000
30 June 2022	Delivery truck	750,000
30 June 2022	New manufacturing plant	1,500,000

The Toyota Fortuner car is used on a person to holder basis by the Managing Director whose private use of the car is 30%.

Required:

- (a) Prepare a computation of the company's capital allowances for the tax year 2022 in respect of:
 - (i) Buildings (5 Marks)
 - (ii) Implements plant and machinery (6 Marks)
- (b) Calculate the tax adjusted business profit for Kenki plc for the tax year 2022. (12 Marks)

- (c) Calculate the Company income tax payable by Kenki plc for the tax year 2022.

(2 Marks)

[Total: 25 Marks]

QUESTION TWO

Temwa runs a farming business and prepares accounts to 31 December each year. In January 2022, she estimated the taxable farming profit from her farming business for the year ending 31 December 2022 to be K1,385,000 from an estimated turnover of K2,420,000. However, in February 2022, following poor sales arising from the impact of the Corona Virus pandemic (COVID-19) Temwa revised the provisional taxable profit to only K855,000 from a revised estimated turnover of K1,873,500.

The actual net profit from the business as per accounts for the year ended 31 December 2022, was K620,250. This profit figure was arrived at after taking into account the following items:

- (1) The investment income comprising dividend income of K15,300, building society savings account interest of K2,600 and copyright royalties of K34,000. These were the actual amounts received by Temwa in each case.
- (2) Wages and salaries amounting to K2,350,000. These included Temwa's salary of K40,000 per month. Also included in wages and salaries is Temwa's son's annual salary. Temwa's son works as a full-time employee in the business and is entitled to a monthly salary of K25,000. Other farm employees doing similar work generally earn monthly salaries of K18,000. The remaining balance relates to salaries and wages paid to employees of the business.
- (3) Repair and maintenance costs, which included maintenance costs incurred to comply with COVID-19 health guidelines of K28,000, repairs of storage facilities for farm produce amounting to K12,000, Repair and maintenance work on farm dwellings for farm employees of K8,600 and repairs of K20,000 on a second-hand farm tractor, which was acquired on 22 September 2022. The repairs were made to put the tractor into a usable state. The remaining balance of K22,000 relate to repairs of farm implements.
- (4) General expenses of which included:

	K
Depreciation of assets	64,000
Decrease in general provision for bad debts of	(3,300)
Increase in specific provision for bad debts of	1,800
Loss on disposal of farm implements	1,600
Motoring expenses	16,500
Miscellaneous allowable business expenses	<u>9,400</u>
	<u>90,000</u>

It has been agreed with the Commissioner General that 30% of the motoring expenses are for private purposes.

Additional information

- (i) During the year Temwa withdrew some farm produce from the business, which she gave to her friends and relatives. The goods had a cost of K30,000. She makes a margin of 25% on all sales of these types of goods. The cost of the drawn goods was reimbursed.

- (ii) Temwa incurred the following expenditure during the year ended 31 December 2022, which was not recorded in her statement of profit or loss.

	K
Expenditure on development of banana plantation	65,000
Construction of a Cow shed	80,000
Purchase of a cow milking machine	25,000
Construction of new farm dwelling for employees costing K50,000 each	150,000

- (iii) At 1 January 2022, the only asset qualifying for capital allowances was a delivery van with an income tax value of K135,000 and an original cost of K180,000. It has been agreed with the Commissioner General that Temwa uses the van 30% for private purposes.

On 22 September 2022, Temwa purchased a second-hand Tractor at a price of K130,000 (referred to in note (3) above) and sold some farm implements for K46,400. The farm implements had an income tax value of nil at 1 January 2022, whilst the original cost was K40,000.

Required:

- (a) Calculate the amount of provisional income tax paid by Temwa in respect of the tax year 2022 and state the due dates and amounts paid on each due date.
(4 Marks)
- (b) Compute the maximum amount of capital allowances claimable by Temwa in the tax year 2022.
(7 Marks)
- (c) Calculate Temwa's actual taxable farming profit for the tax year 2022.
(9 Marks)
- (d) Calculate the final amount of income tax payable by Temwa for the tax year 2022.
(5 Marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions in this Section.

Attempt any **TWO (2)** questions.

QUESTION THREE

- (a) Turnover tax is a direct tax levied on businesses and individuals whose annual turnover is K800,000 or below.

Required:

- (b) Describe six (6) persons who are not liable to turnover tax. (6 marks)

Jack Jones is a VAT registered trader. During the month of March of 2022, he made sales amounting to K750, 000 to VAT registered customers. 5% of these sales were exempt supplies, 10% of the sales were zero rated and the rest were standard rated.

During the month, Jack Jones purchased standard rated goods worth K250,000 (VAT inclusive) and a motor car at a cost of K120,000 (VAT inclusive). The motor car was used to make taxable and exempt supplies in proportion to the sales.

He also incurred the following expenditure, which cannot be attributed directly to either taxable rated or exempt supplies:

- (1) Purchased diesel at a cost of K4,500 and Petrol at K1,500
- (2) Telephone costs amounting to K2,500
- (3) Entertainment expenses for customers of K1,200
- (4) Other standard rated overheads amounting to K15,200 (VAT inclusive)

On 1 March 2022, Jack Jones wrote off a bad debt of K3,200 which was due for payment on 30 June 2020.

Unless otherwise stated, all of the above figures are VAT exclusive.

Required:

- (i) Calculate the amount of VAT payable by Jack Jones for the month of March 2022. You should indicate by using a zero all the items on which VAT is not chargeable or irrecoverable. (12 marks)
- (ii) Explain seven (7) conditions Jack Jones needs to meet in order to claim input VAT on his expenditure. (7 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Explain the four (4) sources of Tax Law and regulations in Zambia. (8 marks)
- (b) George Wabwino was employed as the Operations Manager at Zikomo Limited, under a three (3) year fixed term contract which commenced on 1 January 2022. He was however retrenched on 30 November 2022, following the financial difficulties the company faced arising from the effects of the Corona Virus Pandemic. After being retrenched, he took up a part-time lecturing job at a local college.

During the period of employment with Zikomo Ltd in the tax year 2022, his was entitled to the following benefits:

	K
Salary per annum	300,000
Housing allowance per month	3,500
Electricity allowance per month	1,800
General purpose allowance per year	15,000
Commuted car allowance per month	3,500

On 1 May 2022, he received K21,000 cash as a labour day award. Upon his retrenchment, he received salary in lieu of notice amounting to K28,000 and a general purpose bonus amounting to K61,000. He also had accumulated 120 days of leave which were commuted at K250 per day.

For the tax year 2022 George made the following payments:

	K
Insurance premiums	6,200
National Health Insurance Scheme Contributions	2,750
PAYE	142,800
Professional subscriptions	3,500
Mortgage loan repayment	15,000

Employee's NAPSA contribution amounting to 5% of his employment earnings per month were deducted from his gross pay in the tax year 2022.

During the tax year 2022, he also received the following income:

	K
Bank deposit interest	4,250
Dividends from a LuSE listed company	21,000
Royalties	15,000
Salary from part-time lecturing job	85,000

The amounts of investments income shown above were the actual amounts received by George.

Required:

Calculate the total income tax payable by George for the tax year 2022.

(17 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Property Transfer Tax (PTT) is governed by the Property Transfer Tax Act, CAP 340 of the laws of Zambia, which provides that whenever property is transferred, PTT should be charged and collected from the person transferring the property.

Required

State the five (5) categories of properties on which Property Transfer Tax is chargeable under the Act.

(5 Marks)

- (b) Any person carrying on farming operations is permitted to claim accelerated capital allowances on expenditure that qualifies as farm works.

Required:

Explain the meaning of farm works and give three examples of expenditure that qualifies as expenditure on farm works.

(5 Marks)

- (c) Maposa is an established sole trader dealing in general merchandise. He has always prepared his final accounts to 31 December each year. For the year ended 31 December 2022 the summarized statement of profit or loss was as follows:

	Notes	K	K
Gross profit			1,980,000
Less expenses:			
Depreciation		10,200	
Professional fees	(1)	160,840	
Repairs and maintenance	(2)	342,275	
Entertainment expenses	(3)	191,202	
Motor car running expenses	(4)	41,850	
Other operating expenses	(5)	<u>272,800</u>	
			<u>(1,019,167)</u>
Other income:			960,833
Royalties received	(6)	4,000	
Profit on disposal of plant		<u>40,000</u>	
			<u>44,000</u>
Net profit			<u><u>1,004,833</u></u>

The following additional information is available:

Note 1: Professional fees

	K
Legal fees for the recovery of bad debts relating to trade debts	8,042
Legal fees for the recovery of a loan relating to former employees	5,300
Accountancy and audit fees	97,498
Legal fees for issuing share capital	15,000
Penalties for non-compliance with safety regulations	<u>35,000</u>
	<u>160,840</u>

Note 2: Repairs and Maintenance

	K
Extension of the shop building	293,500
Repainting the main shop which was dirty	15,000
Other allowable repairs	<u>33,775</u>
	<u>342,275</u>

Note 3: Entertainment expenses:

	K
Employees Christmas party	35,000
Entertaining Suppliers	60,000
Entertaining Customers	45,000
Gift vouchers for employees	<u>51,202</u>
	<u>191,202</u>

Note 4: Motor car running expenses

These expenses were incurred in connection with Maposa's private motor vehicle which he uses partly for business purposes. It has been agreed with the Commissioner General that Maposa has 35% business use of the vehicle.

Note 5: Other operating Expenses:

	K
Trade debts written off	18,000
Loan to former employee written off	18,600
Increase in general provision for bad debts	25,000
Donation to a political Party	15,000
Donation to an approved charity	28,500
Allowable operating expenses	<u>167,700</u>
	<u>272,800</u>

Note 6: Royalties

The gross amount of royalties received is shown, withholding tax has been source.

Note 7: Capital allowances

Capital allowances have been agreed at K105,000

Required:

- (i) Calculate for Maposa the taxable business profit for the year ended 31 December 2022.
(9 marks)
- (ii) Calculate the income tax payable by Maposa for the tax year 2022.
(6 marks)

[Total: 25 Marks]

END OF PAPER

DA10 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) CAPITAL ALLOWANCES ON BUILDINGS :

	K
Total cost	2,600,000
Less cost of land	<u>(590,000)</u>
Qualifying cost	<u>2,010,000</u>

The cost of the administration building of K800,000 **exceeds** 10% of the qualifying cost and as such will be classified as a **commercial building** and not an industrial building

COMPUTATION OF CAPITAL ALLOWANCES

	K
<u>Staff Canteen</u>	
Initial allowance (K290,000 x 10%)	29,000
Investment allowance (K290,000 x 10%)	29,000
Wear and tear allowance (K290,000 x 5%)	14,500
<u>Factory</u>	
Initial allowance (K920,000 x 10%)	92,000
Investment allowance (K920,000 x 10%)	92,000
Wear and tear allowance (K920,000 x 5%)	46,000
<u>Administration building</u>	
K800,000 x 2%	<u>16,000</u>
	<u>318,500</u>

(ii) COMPUTATION OF CAPITAL ALLOWANCES ON IMPLEMENTS PLANT AND MACHINERY:

Asset	Allowance	Calculation	Amount K
Manufacturing equipment	Wear and tear	K600,000X 50%	300,000
Office furniture	Balancing allowance	K75,000-K60,000	15,000
Motor car	Balancing charge	K20,000-K40,000	(20,000)
Toyota Fortuner	Wear and tear	K400,000x 20%	80,000
Delivery truck	Wear and tear	K750,000x 25%	187,500
Manufacturing plant	Wear and tear	K1,500,000x.50	<u>750,000</u>
Total NET allowances			<u>1,312,500</u>

(b)

COMPUTATION OF TAXABLE PROFIT FOR THE TAX YEAR 2022:

Details	K	K
Profit before taxation		601,000

Add:

Depreciation	510,000	
Loss on sale of furniture	31,000	
Increase in general provision	180,000	
Loans to suppliers written off	70,000	
Loans to employees written off	130,000	
Premium (K150,000X39/40)	146,250	
Entertaining suppliers	187,000	
Gifts to customers	63,000	
Legal fees acquisition of fixed assets	65,000	
Political donations	900,000	
VAT penalties	19,500	
Accommodation benefits:		
-Managing Director (K920,000 x30%)	276,000	
-Human Resources Director		
(K810,000 x 30%)	243,000	
Personal to holder car benefit	<u>40,000</u>	2,860,750

Less:

Profit on sale of motor car	7,000	
Dividends	380,000	
Bank interest	65,000	
Supplier's loans recovered	30,000	
Capital allowances on plant and machinery	1,312,500	
Capital allowances on buildings	<u>318,500</u>	<u>(2,113,000)</u>

Tax adjusted profits before tax	<u>1,348,750</u>
---------------------------------	------------------

(c)

Computation of company income tax payable:

Details	Calculation	K
Company income tax	$K1,348,750 \times 30\%$	404,625
Less tax already paid:		
Provisional income tax		(185,000)
WHT on bank interest	$K65,000 \times 15\%$	<u>(9,750)</u>
Income tax payable		<u>209,875</u>

SOLUTION TWO

(a) TEMWA'S

Details	K
Estimated taxable profit	855,000
Provisional income tax:	
First K54,000	0
Excess(855,000-54,000)x10%	80,100
Provisional income tax	80,100
Provisional tax per quarter	20,025

The relevant due dates and amounts paid are as follows:

Instalment	Quarter ended	Due Date	Amount Paid K
1 st	31/3/22	10/4/22	20,025
2 nd	30/6/22	10/7/22	20,025
3 rd	30/9/22	10/10/22	20,025
4 th	31/12/22	10/1/23	<u>20,025</u>
		Total	<u>80,100</u>

(b) COMPUTATION OF CAPITAL ALLOWANCES

	K	K
<u>Banana plantation</u>		
Development allowance (K65,000 x 10%)		6,500
<u>Cow shed</u>		
Farm improvement allowance (K80,000 x 100%)		80,000
<u>Cow milking machine</u>		
Wear & tear allowance (K25,000 x 100%)		25,000
<u>Farm Dwellings</u>		
Farm improvement allowance (Restricted to		60,000

K20,000 x 3)		
<u>Delivery van</u>		
Wear & tear allowance		
(K180,000 x 25%) x 70%		31,500
<u>Tractor</u>		
Wear & tear allowance		
(K130,000 + K20,000 = K150,000 x 100%) x		150,000
<u>Farm implements</u>		
ITV b/f	0	
Proceeds K46,400 (restricted to cost)	<u>40,000</u>	
Balancing charge	<u>40,000</u>	(40,000)
		<u>313,000</u>

(c) COMPUTATION OF ACTUAL TAXABLE PROFIT

		K
Net Profit as per		620,250
Add:		
Temwa's salary (K40,000 x 12)	480,000	
Temwa's Son's excessive salary		
(K25,000 - K18,000) x 12	84,000	
Repairs of tractor	20,000	
Depreciation	64,000	
Loss on disposal of farm implements	1,600	
Motoring expenses (K16,500 x 30%)	4950	
Goods for personal use(25/75 x K30,000)	<u>10,000</u>	
		<u>664,550</u>
		1,284,800
Less		
Dividends	15,300	
Building society interest	2,600	
Copyright royalties	34,000	
Decrease in general provision of bad debts	3,300	
Capital allowances (W)	<u>313,000</u>	
		<u>(368,200)</u>
Final Taxable Profits		<u>916,600</u>

(d) TEMWA
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2022

	Total	Non-farming income	Farming income
	K	K	K
Farming Profits	916,600		916,600
Investment Income:			
Copyright royalties (K34,000 x 100/85)	<u>40,000</u>	<u>40,000</u>	
Taxable income	956,600	40,000	916,600
Less tax- free income	<u>(54,000)</u>	<u>(40,000)</u>	<u>(14,000)</u>
	<u>902,600</u>	<u>0</u>	<u>902,600</u>
Income Tax on farming profits:			
K902,600 x 10%			90,260
Less tax already paid			
Provisional income tax			(80,100)
WHT on royalties (K40,000 x 15%)			<u>(6,000)</u>
			<u>4,160</u>

SOLUTION THREE

(a) Persons who are not liable to turnover tax.

- Any person in carrying on a business where the annual turnover is over K800,000
- Any individual or partnership carrying on a business of public service vehicle for the carriage of persons.
- Income of partners arising from the partnership whether or not such income is above or below K800,000.
- Any person on whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
- Any person running a business where the annual turnover is not over K800,000 but is voluntarily registered for Value Added Tax.
- Any person who is involved in mining operations as provided under the Mines and minerals development act.

(b) (i) Calculation of VAT payable/ refundable to Jack Jones for the month of March 2022

	K	K
<u>OUTPUT VAT</u>		
Exempt		0
Zero rated ($K750,000 \times 10\% \times 0\%$)		0
Standard rated ($K750,000 \times 85\% \times 16\%$)		<u>102,000</u>
Total output tax		<u>102,000</u>
<u>INPUT VAT</u>		
Goods purchased ($K250,000 \times 4/29$)		34,483
Overheads ($K15,200 \times 4/29 \times 95\%$)		1,992
Diesel		0
Petrol		0
Entertainment		0
Telephone		0
Purchased Motor vehicle		0
Bad Debts write-off ($K3,200 \times 16\%$)		<u>512</u>
Total input tax		<u>36,937</u>
VAT payable		<u>65,013</u>

(ii) Conditions needed for Jack Jones needed to claim input VAT:

- At the time the supply was made, the trader the trader was a registered trader for VAT purposes.
- The supply must have been made to the taxable person making the claim.
- The supply must be supported by evidence. The evidence is normally in the form of the tax invoice.

- The person making the claim must use the goods or services for business. Personal expenses do not qualify for relief.
- The amount available for recovery is that which is accurately calculated. The tax must be the amount that accurately relates to the supply.
- All taxable supplies must be made through Points of Sales machines.
- The VAT should not be that which is irrecoverable.

SOLUTION FOUR

(a) The sources of tax law include:

- (1) **Statutes or Acts of parliament** - Statutes are laws enacted by parliament. Statutes make it legal for taxes to be levied.
- (2) **Statutory instruments** - These are form of delegated registration issued by a government minister. They have the same effect as statutes.
- (3) **Case Law** – Judges use past decided cases in taxation in the interpretation of particular statutes which relates to the specific circumstances of a case.
- (4) **Practice notes** – These are issued by the Zambia Revenue Authority to indicate the ZRA's interpretation of statute. They have no legal effect.

(b)

GEORGE WABWINO'S	
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2022	
Earned Income	K
Salary ($300,000 \times 11/12$)	275,000
Housing allowance ($3,500 \times 11$)	38,500
General purpose allowance ($15,000 \times 11/12$)	13,750
Commuted car allowance ($3,500 \times 11$)	38,500
Electricity allowance ($1,800 \times 11$)	19,800
General purpose bonus	61,000
Leave pay ($120 \times K250$)	30,000
Tuition Fees	85,000
Total	561,550
Investment Income:	
Royalties received ($15,000 \times 100/85$)	<u>17,647</u>
	579,197
Less allowable deductions:	
Professional subscriptions	<u>(3,500)</u>
Assessable Income	<u>575,697</u>

Tax Computation:

Income	Tax rate	Tax	Marks
First K54,000	0%	Nil	
Next K3,600	25%	900	
Next K25,200	30%	7,560	
Balance K492,897	37.5%	<u>184,836</u>	
Income tax		193,296	

liability	
Less:	
PAYE	(142,800)
WHT on Royalties	
K17,647 x 15%	<u>(2,647)</u>
Final income tax payable	<u>47,849</u>

SOLUTION FIVE

(a) Categories of properties where property transfer tax is chargeable.

- Any land in Zambia including any building on that land
- Any building structure or improvements thereon.
- Any share (and equivalent rights) issued by a company in Zambia that is not listed on the Lusaka securities Exchange (LuSe) listed shares are exempt from PTT.
- Any mining right or an intent in mining right.
- Intellectual property such as trademarks, patents and brands.

(b) Farm works are all works carried out on a farm. They do not include farm improvements or industrial or commercial buildings.

Examples farm works qualifying expenditure:

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

(i) Calculating for Maposa's the taxable business profit for the year ended 31st December 2022

	K	K
Net profit	1,004,833	
Add:		
Depreciation	10,200	
Legal fees –share capital issue	15,000	
Penalties for non- compliance	35,000	
Legal fees-former employee	5,300	
Extension of shop building	293,500	
Entertaining suppliers	60,000	
Entertaining customers	45,000	
Motor vehicle running costs (K41,850x 65%)	27,203	
Increase in general provision	25,000	
Loan to former employee written off	18,600	
Donation to political party	<u>15,000</u>	
	549,803	
	1,554,636	
Less:		
Royalties	4,000	
Profit on disposal	40,000	
Capital allowances	<u>105,000</u>	

	<u>(149,000)</u>
Adjusted business profit	<u>1,405,636</u>

(ii) Calculating the income tax payable by Maposa for 2022.

	K
	K
Adjusted business profit	1,405,636
Add:	
Royalties	<u>4,000</u>
Taxable business profit	<u>1,409,636</u>
Tax computation:	
First K54,000 x 0%	0
Next K3,600 x 25%	900
Next K25,200 x 30%	7,560
Balance K1,326,836 x 37.5%	<u>497,564</u>
Income tax liability	506,024
Less:	
WHT- Royalties (K4000 x 15%)	<u>(600)</u>
Income tax payable	<u>505,424</u>

END OF SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 16 JUNE 2022

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

There are TWO (2) questions in this section BOTH questions must be attempted.

QUESTION ONE

Bentos Limited is a company that manufactures handmade expensive jewellery for higher income customers and celebrities. Some of the jewellery is sold in up market stores, and luxury resorts. The crafting of custom made jewellery only begins when a customer sends a picture of the engraving they want to appear on the jewellery.

Your Firm, Chello & Co, has been appointed auditor for Bentos Limited. The audit is at planning stage.

The business is managed by Tembo who is the director of the company and his nephew. Tembo is a teacher by profession with no prior experience in the jewellery business. Most of the jewellery crafting is sub-contracted to trained jewellery craftsmen while finishing and polishing and engraving of the customer's preferred picture on to the jewellery is done by Bentos Limited.

Tembo works on part time and spends most of the time supervising his private schools and other business ventures and only visits the jewellery shop once a week to look at financial statements prepared by the accounting department comprising four (4) members of staff. The company does not have a Finance Director. Its credit policy requires customers to pay 60% up front and the final payment is made upon the delivery of the jewellery.

Bentos Limited counts its inventory after the year end. In order to reduce on paper work, the company uses standard cost that was computed three (3) years ago to value its inventory. Due to an increase in demand for its handmade jewellery, the company rushed in acquiring an old building to be used as show room. This showroom needed a lot of repairs and refurbishment. A significant amount of money was spent in the current year on repairs and refurbishment in order to bring the showroom to an acceptable standard.

The refurbishment was financed through a loan repayable within a year. One of the conditions of the loan was that Bentos Limited should report a profit after tax of 25% on investment quarterly. Further the company was not expected to dispose of any non-current assets without written consent from the bank.

Bentos Limited recently acquired a computerised accounting package which is custom made and is expected to reduce errors and produce financial statements on a timely basis.

In order to document their understanding of internal controls, the auditors used Internal Control Questionnaires (ICQs) and Internal Control Evaluation Questionnaires (ICEQs) to record the internal control systems. Despite the advantages of using ICQ and ICEQs, there are disadvantages that can be experienced when using ICQs and ICEQs which your firm should be aware of.

Required:

- (a) Identify and explain five (5) audit risks in relation to the audit of Bentos Limited.
(10 Marks)
- (b) Describe a suitable audit response for each risk identified to reduce it to acceptable level.
(5 Marks)
- (c) Explain the meaning of Information Technology audits and state one (1) example of internal control in the acquired computerised accounting package.
(2 marks)
- (d) Explain briefly two (2) disadvantages of using ICQs and ICEQ.
(4 Marks)
- (e) State four (4) examples of information that the auditor requires to gain an understanding of during risk assessment at the planning stage of an audit.
(4 Marks)

[Total: 25 Marks]

QUESTION TWO

Shinta Supermarket (Shinta) operates supermarkets which are open every day from 08 hours up to 20 hours. The company's year-end is 31 December 2021. You are the audit supervisor of Mpanga Co. (Mpanga) reviewing the internal controls documentation in relation to the operations of Shinta in preparation for a review engagement, which will involve visiting a number of the supermarkets as well as the Head Office. The company has no internal audit (IA) department, however, its audit committee has recommended the establishment of internal audit department and the board has approved this.

The stocks are purchased by the Procurement Officer who is given money in advance so that stock cannot run out in supermarkets. The Procurement Officer procures goods from varied suppliers and each supplier delivers the goods to Head Office stores for distribution to respective supermarkets. Stores employees count goods received and prepare Goods Received Notes (GRNs). There are no independent checks on receipt of goods for quality and quality of goods received.

Each supermarket has four (4) cash tills to receive payments from customers. All customers pay cash and money is placed in the till by the cashier operating the till. Since cashiers operate at different tills on different days the tills have the same till password which is changed every week for security reasons. At the end of the day, the tills are closed down by the Supermarket Manager who remains to count cash and reconcile the cash with tills cash registers; any difference is discussed and investigated the following day.

At the end of each month, each supermarket is closed for stock-take. The Supermarket Manager uses Head Office stores clerks to help him count stock at the month-end. No supermarket employee is allowed to count stock and the Supermarket Managers prepare stock-take reports and submit them to Head Office within two (2) days after stock-take.

Daily cash is kept in lockable safe in the Supermarket Manager's office and only the Supermarket Manager has keys to the safe. Bank statements are reconciled to cash books every two (2) months by the Financial Accountant since internal reconciliations are done daily by each supermarket.

Required:

- (a) Explain the differences between a 'Review Engagement' and an 'External Audit engagement'. (2 Marks)
- (b) Explain four (4) benefits of establishing an internal audit department to Shinta. (4 Marks)
- (c) Identify five (5) weaknesses in the internal controls of Shinta; explain their consequences and provide a recommendation to address each of these weaknesses. (15 Marks)
- (d) Describe four (4) substantive procedures that should be performed to obtain sufficient appropriate evidence in relation to the bank balance. (4 Marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

- (a) Makoko Co (Makoko) is your audit client that specialises in manufacturing cleaning chemicals and sells its products to a range of customers. The company's year-end is 31 December 2021. You are the Audit Senior on the audit of the financial statements of Makoko Co.

During the year, 70% of the company's major customers switched to cheaper competitors and this adversely affected the revenue of Makoko Co. The credit payments period has significantly increased from 30 days to 125 days, forcing major suppliers terminating credit terms and putting Makoko on cash on delivery terms.

Ten (10) suppliers have taken legal action against Makoko to recover the money owed to them. Makoko has produced a cash flow forecast to 31 December 2022, which shows positive cash position. The bank has cancelled its overdraft facility on account of poor liquidity of Makoko Co. which has breached the overdraft conditions in the last three (3) months.

Following the introduction of a new environmental law Makoko stopped manufacturing two (2) of its major products and it does not have funds to develop new environmentally friendly products. Due to uncertainty senior management staff have left and joined its competitors.

Required:

- (i) Explain five (5) potential indicators that Makoko Co is not a going concern.
(5 Marks)
- (ii) Describe five (5) audit procedures you should perform in assessing whether or not Makoko Co is a going concern.
(5 Marks)

(b) During the audit you will audit revenue, payroll and receivables because these have material balances and are risky areas.

Required:

- (i) Explain five (5) financial statement assertions relevant to the audit of revenue.
(5 marks)
- (ii) Describe five (5) audit procedures you should perform in relation to payroll expense to obtain sufficient appropriate evidence.
(5 marks)
- (iii) Describe five (5) audit procedures you should perform in relation to receivables balance to obtain sufficient appropriate evidence.
(5 Marks)

[Total: 25 Marks]

QUESTION FOUR

(a) You are an Audit Senior of Wamaka Co (Wamaka) and you are part of the team to audit Manda Co (Manda), a listed company specialising in insurance. The Engagement Partner for this audit has not changed for ten years.

It has been discovered that the Engagement Partner's wife has 5% equity shares in Manda. Manda did not pay the taxation liability last year so it has been sued by the tax authority and your firm has been requested to represent Manda in this case as tax experts.

The Finance Director of Manda resigned recently and to speed up the financial statements preparation and audit efficiency, your firm has been requested to prepare the financial statements as a non-audit service. The audit team has been offered significant insurance discount since Manda needs to increase its customer base.

Due to financial problems Manda is yet to pay the previous year's audit fee. It has been discovered that the Audit Manager has been short-listed for the position of Finance Director because of his vast experience in the insurance industry. The valuer who performed revaluation of all properties of Manda is a close friend of the Chief Executive Officer of Manda.

Required:

- (i) Identify and explain five (5) ethical threats which may affect the independence of Wamaka audit of Manda; and (5 Marks)
 - (ii) For each threat explain how it might be reduced to an acceptable level. (5 Marks)
 - (iii) Describe five (5) substantive procedures that should be performed in relation the revaluation of properties to obtain sufficient appropriate evidence. (5 Marks)
- (b) The Engagement Partner informed the audit team that it is very important to communicate with those charged with governance. Further, he emphasised the importance of sampling and obtaining reliable audit evidence during audits.

Required:

- (i) Explain four (4) matters that are communicated to those charged with governance. (5 Marks)
- (ii) Explain the meaning of random sampling and state two (2) advantages of random sampling in auditing. (2 Marks)
- (iii) Identify and explain three (3) factors which influence the reliability of audit evidence. (3 Marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) You are an Audit Senior in Mwenzo, a Firm of Chartered Accountants and have been tasked to review the current audit files before finalising the audit. The following extracts contain draft opinions that were given in relation to misstatements from four (4) of your firm's clients.

Antelope Ltd:

Antelope Ltd is a private company in the food and beverage industry. The sales revenue was understated by K12,000. Its annual sales amounted to K270,000. The matter was assessed as material but not pervasive. The draft opinion suggested an adverse opinion.

Zebra Micro-Fin (Z) Ltd:

Zebra Micro-Fin (Z) Ltd is a Micro-lending institution. A purchase invoice relating to a computer costing K7,000 which was bought during the year was omitted from the books of accounts but later discovered during the audit. The matter was considered both material and pervasive. The total value of net assets for the year ended 31 December 2021 was K240,000. The draft opinion suggested a disclaimer of opinion.

Ostrich Ltd:

Ostrich Ltd is a company that Manages twenty-five (25) grain storage facilities on behalf of the Government. The management at Ostrich Ltd refused the auditors to conduct audits in all the storage facilities stating there were very little accounting activities at the remaining eighteen (18) storage facilities but only allowed them to collect audit evidence from seven (7) storage facilities. The matter was considered material and pervasive due to insufficient audit evidence. The draft opinion suggested a qualified opinion.

Lion Enterprises Ltd:

Lion Enterprises Limited prepared all its financial statements that included Profit or Loss, Statement of financial position, Statement of cash flows and changes in equity, in accordance with International Financial Reporting Standards.

The draft opinion suggested an unmodified audit opinion.

Required:

Comment on whether the draft audit opinions given in respect of each of the four (4) clients were appropriate or not, and recommend, where possible, an appropriate audit opinion.

(12 Marks)

(b) Reedbuck Company Limited (Reedbuck) is a Small-medium Enterprise in the construction sector. It has five (5) directors. The Board of Directors consists of Jeremy who is the founder member of the company and four (4) others drawn from within the company. Jeremy is the Managing Director as well as Board Chairman. He is the only qualified person from the Engineering Institute. Currently there is no director with financial background. Recently, Jeremy attended a workshop at the invitation of the Institute of Directors. The purpose of the workshop was to share new ideas relating to good Corporate Governance.

On returning from the workshop, Jeremy organized an in-house training for other directors and proposed some changes to the board structure. Among the proposals made, was the inclusion of Non-Executive Directors (NEDs) on the board and the need for separating the

roles of senior directors. However, the proposal was not accepted by the other directors who felt the company is small; stating that the roles of NEDs will be conflicting with those of full time directors .The other proposal was the establishment of an audit committee on the board. This proposal was equally turned down as the other directors felt that there was no need for such a committee as it will just increase the cost of operations.

You have been assigned to lead a team of auditors to plan the audit of Reedbuck Company Ltd. Among the matters discussed in the pre-audit team meeting is the need and importance of documenting all work as required by ISA 230 *Audit documentation*.

Required:

- (i) Identify two (2) weaknesses in the governance system of Reedbuck Company Limited and explain how to overcome the weaknesses identified. (4 Marks)
- (ii) Explain five (5) challenges that Reedbuck Company Limited will face when developing governance structures and systems of internal controls. (5 Marks)
- (iii) Explain any four (4) benefits of audit documentation. (4 Marks)

[Total: 25 Marks]

END OF PAPER

DA11 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Audit risk	Explanation	(b) Audit response
1.Chello & Co. as new auditors.	Chello & Co .has just been appointed as auditors of Bentos. There is possibility of the company not having sufficient knowledge of Bentos operations. This will increase detection risk as the audit form will not be able to identify significant transactions that have a bearing on the financial statements,	External auditors should adopt procedures that consider how opening balances are brought forward. Review previous working papers and consider performing additional procedures on opening balances
2.Director working on part-time(Mr. Tembo).	This will result in the internal controls being weak as there will be no adequate oversight.	There is a need for the Managing Director to get involved and appoint a Finance Director to direct the accounts department with regards to financial statements.
3.Customer advance payment.	This could result in an increase in sales revenue when deliveries are not yet made.	Discuss with management at what time the entity recognises its revenue, Examine deposit documents and posting to the ledger to verify whether advance payments are included in the sales revenue.
4.Delays by Bentos contractors to complete crafting jewelry.	The incomplete work is work in progress and should be appropriately valued as such and included in closing inventory as WIP.	Auditors should obtain records regarding work in progress in order to ensure that these are accounted for in the inventory at the end of the year
5.Using old standard cost to value inventory.	The valuation of inventory will make the inventory value to be misstated.	Collect a sample of values for material in order to compare actual prices on invoices. Evaluate any potential differences and assess any impact on the value of inventory in the financial statements.
6.Repairs and refurbishing of the recently acquired showroom.	This will result in the misclassification of expenditure as either revenue or capital	Obtain the total cost of the refurbishment and examine the breakdown to consider whether appropriate

	expenditure.	classification has been done.

- (c) An information technology audit is a type of audit in which the auditor verifies whether computer embedded controls are working effectively as designed by the system developers.

Example of controls being tested are password control, E-business activities, networks, desk-top audit, operational system, data management system and systems development processes.

(d)

- (i) The following are the disadvantages of using ICQs

- ICQs need to be drafted properly in order for them to be properly understood by the users who are auditors. If they are not drafted properly, there is a chance of being misinterpreted.
- In companies that are big and complex, there is a possibility of recording all internal controls regardless of how important they can be. It is therefore possible that even internal control of little use can be recorded.
- Most of the business activities are predictable. However there are certain instances that transaction that are one-off happen and they are not expected. It would be very difficult to plan and flowchart for such enforceable future event.

(ii) Disadvantages of ICEQs are:

- Not all transactions are of value and significant in nature. Using ICEQs, it will be difficult to tell the relative importance of internals from the answers. This is because some of the answers are in form of either 'NO' or 'YES'. The degree of significance of one NO maybe not be distinguished from another NO and vice-versa.
- Not all clients would like to give out accurate information. Most of them would like to be seen to be doing something concerning internal controls. Therefore, there is a possibility of them giving the auditor volumes of controls more than what is actually obtaining in the company.

- (e) Information auditors need to gain an understanding of during risk assessment:

- Industry data relating to the entity
- The product manufactured by the client
- The accounting system being used by the entity
- Internal controls
- Nature of the entity and its operations
- Company objectives and strategies
- Laws and regulations relating to the industry

SOLUTION TWO

- (a) Differences between a review engagement and assurance engagement:
The characteristics of a review and assurance engagements are as follows;

Review engagement:

- Results in a lower level of assurance.
- Usually involved inquires and analytical reviews.
- An example could be a review of interim financial statements.
- Opinion is in a negative form and enables the auditor to state whether anything has come to their attention to suggest that the financial statements do not show a true and fair view.

A reasonable assurance engagement:

- Is a high level of assurance
- Involves substantial amount of audit work by the auditors.
- An example is the audit of historical financial statements.
- Opinion is in a positive form with the auditor expressly stating whether or not the financial statements show a true and fair view.

- (b) Benefits of internal audit department to Sanga[1 mark per point. Can help Sanga to:

- (i) Identify and detect possible frauds through reviews and internal audits.
- (ii) Protect its assets and other resources by evaluating internal controls.
- (iii) Improve operational efficiency through review of operations.
- (iv) Review compliance with relevant laws and regulations.
- (v) Identify, evaluate and manage financial, operational and compliance risks.
- (vi) Examine financial and operations information to provide reliable information.
- (vii) Perform value for money audits, IT audits and other special audits.

- (c) Weaknesses, consequences and recommendations

Weaknesses and consequences	Recommendations
1.No internal audit department Errors and deliberate frauds may be committed and go undetected and the company may lose money especially that this is a cash business.	If it will take time to establish the internal audit department, management may consider outsourcing the function to curb frauds which common in cash business.
2.Quality of goods Stores employees are not checking the quality of goods received so poor quality goods may be received. Expired goods may also be ordered and the company may lose revenue and money if these goods are not sold.	Stores employees must always check both the quantity and quality of goods received and they should only accept goods which were ordered by the company and that meet the order specifications. Goods not meeting order specifications must be returned.
3.Same till code Cashiers may be stealing cash from other tills using the common till code. In case of theft it would be difficult to hold cashiers	Each cashier must have a unique till code and cashiers must be told not to share the code. Cashier must be prompted by the system to change the till code regularly for

accountable and the company may lose money	security reasons.
4.Cash counting and reconciliation The supermarket manager counts and reconciles the cash with the till cash registers alone. He may steal the money and accuse the cashier for shortages. Even if the shortages may be small in the long term, the company may lose material amount.	The cashier and the supermarket manager must count and reconcile cash with the till cash registers together and investigate any shortage together at the end of the day to avoid theft or frauds.
5.Stock-take Stores clerks are counting stock. Errors are likely to occur because these may not understand the nature of stock and are not likely to have stock-take skills and experience. The supermarket manager may not report stock shortages in his supermarket.	Skilled and experienced employees from other supermarkets may be used to count stock and an independent senior officer should manage the stock-take not the supermarket manager so that shortages; slow moving, damaged and expired goods can identified and reported.
6.Keys to the safe No other person has keys to the safe where cash is kept. The supermarket manager may open and steal the money or may be using money for personal gain before banking. If the supermarket manager steals the money the company may lose the cash.	Additional safe/vault custodian must be appointed and the keys should be shared to reduce the possibility of money been stolen by the supermarket manager. Normally safes have dual (top and down) keys which are unique, these must be shared by different authorised custodians.
7.Reconciliations Cash books and bank reconciliation statements are done every 2 months by the financial accountant. Errors and frauds committed can only be detected after 2 months. The perpetrators' may conceal or destroy evidence and the company may lose money.	Cash books and bank reconciliation statements should be done and reviewed by someone senior such as finance manager every month to detect error and frauds early. The preparer and the reviewer should sign reconciliations done.

(d) Substantive procedures on bank balance [1 mark per procedure. 4 marks maximum]

- (i) Obtain the bank confirmation letter from the company's bank to verify accuracy of the updated cash book balance.
- (ii) Agree the balance on the bank reconciliation statement to the year-end updated cash book balance.
- (iii) Agree balances on the bank confirmation letter to year-end updated cash book and bank reconciliation balances as well as trial balance.
- (iv) Trace outstanding lodgements/receipts at the year-end to after year-end bank statements to verify whether they have cleared.
- (v) Trace outstanding or unpresented cheques at the year-end to after year-end bank statements to verify whether they have cleared.
- (vi) Recalculate the balance on the bank reconciliation statement to verify accuracy.
- (vii) Enquire from responsible officers the items in the cash books but not on the bank statements and vice versa.
- (viii) Review cash book and bank statements for unusual items.

SOLUTION THREE

(a)

(i) Potential indicators of going concern problems

1. 70% customerS switched to competitors

This will probably reduce the revenue of Makoko, especially that customers are switching to cheaper competitors, and more customers are likely to switch as well.

2. Failure to pay supplier on time

Makoko is now taking over 4 months to pay suppliers and has been put on cash on delivery terms. This may result in there being no essential materials for continued production.

3. Termination of credit terms

Makoko does not have funds to buy cash purchases so it will lose customers orders and this will affect its revenue and cash position.

4. Legal action

10 main suppliers have sued Makoko for the money they are owed. If they win their cases, Makoko will have to pay them with damages and it seems no to have money to settle such obligations.

5. Bank credit facility

The bank terminated overdraft facility because the poor liquidity position os Makoko . This may result in the company accessing short term financing which may have implication on the ability of the company as a going concern.

6. New law

Makoko will not be manufacturing two of its major products so it revenue will be negatively affected and it will be unable to replace these with new ones due to lack of funds.

7. Failure to finance new products

Failure to fund new products means Makoko does not have exit strategy, following the introduction of new law that prohibits 2 of Makoko major products.

8. Senior management employees leaving

Senior management employees resigning and joining competitors is a source of worry as these have more information about the going concern of Makoko.

(ii) Audit procedures on going concern of Makoko

1. Discuss with management the basis for using going concern in the light of above indicators.
2. Review the cash flow forecast and review the cash in and outflows. Assess the assumptions for reasonableness
3. Discuss with the directors whether they have contacted any banks for finance after termination of credit facility by the bank.
4. Review post year-end correspondence with suppliers to identify if any others have threatened legal action or refused to supply goods.
5. Discuss with management whether the level of sales from its existing customers has increased or if any new customers have been obtained.
6. Enquire of the lawyers of Makoko as to the existence of any additional litigation and request their assessment of the likely amounts payable to the suppliers.
7. Evaluate management's plans for future actions, including their contingency plans.
8. Review the post year-end board minutes to identify any other issues which might indicate further financial difficulties for the company.

9. Review post year-end management accounts to assess if they are in line with cash flow forecast.
10. Obtain a written representation confirming the directors' view that Makoko is a going concern.

(b)

(i) Revenues financial statements assertions

1. Completeness
All revenues that should have been recorded have actually been recorded.
2. Occurrence
Revenue that should have been recorded, have actually occurred and relate to the entity.
3. Cut-off
All revenue should be recorded in correct accounting period.
4. Accuracy
Revenue should be recorded correctly.
5. Classification
Revenue should be classified correctly and according to applicable IFRSs/IASs.
6. Presentation and disclosure
Revenue should be properly presented and sufficiently disclosed.

(ii) Payroll substantive procedures

1. Agree the total payroll expense per the payroll system to the trial balance and investigate significant differences.
2. For a sample recalculate the gross pay and net pay to verify completeness and accuracy.
3. For a sample recalculate the deductions to verify completeness and accuracy.
4. Compare the total payroll expense to prior year and investigate significant difference.
5. Cast the payroll total to verify accuracy.
6. Agree the total net pay per payroll records to cash book and bank transfer payments list.
7. For a sample of joiners and leavers, recalculate their first and last pay to verify accuracy.
8. For a sample of weekly overtime sheets trace overtime payment to payroll records and to verify completeness and accuracy

(iii) Receivables substantive procedures

1. For a sample, perform a positive trade receivables confirmation. For non-replies a reminder letter should be sent as a follow-up.
2. For a sample of after year-end credit notes, review them to identify that any credit notes relating to before year end are not included in receivables.
3. Review the receivables ledger and age analysis and discuss with management whether credit balances need reclassification.
4. Inspect the aged receivables report to identify any slow moving balances, and discuss with the credit control manager the need for a provision.

5. For a sample of year-end receivables balances , agree back to goods delivery notes and sales orders to verify existence
6. Review reconciliations sales ledger control account to sales ledger list of balances to verify completeness and accuracy
7. Calculate receivables' days and compare this to prior year and investigate significant differences.
8. Review the board minutes to assess whether there are any material disputed receivables.
9. Review after year receipts and verify whether the pre-year end receivables balances have been adjusted.

SOLUTION FOUR

(a) Threats to auditors' independence/objectivity

Threats	Response
<p>Familiarity threat The Engagement Partner has been partner for the same client for 10 years. This creates familiarity threat and financial statements material misstatements may not be reported.</p>	<p>The Engagement Partner should be removed and someone independent and senior (qualified and experienced) should be appointed as Engagement Partner.</p>
<p>Self-interest threat The engagement partner's wife has 5% equity shares in Manda. This creates self-interest threat and the Engagement Partner may not report material financial statements misstatements to protect the interest of the wife.</p>	<p>To remove the threat the Engagement Partner should be told to tell the wife to sell the shares held in Manda or the engagement partner should be removed from the assignment.</p>
<p>Advocacy threat Representing Manda in the taxation case in court creates advocacy threat. Non-audit services are not prohibited but appropriate safeguards should be in place.</p>	<p>This may be dealt with by using separate teams, one for audit and the other one for tax assignment. However, if the risk remains high, the firm should choose the task not to undertake between audit and tax services.</p>
<p>Self-review threat Preparing financial statements for Manda creates self-review threat because auditors may end up reviewing their own work when auditing the financial statements so material misstatements may not be reported.</p>	<p>Manda is a listed entity so auditors are not allowed to prepare its financial statements. The auditors should decline to do this.</p>
<p>Intimidation threat The audit team members have been given significant insurance discount. This is likely to create intimidation threat because auditors may also try to pay back by not reporting material misstatements in financial statements.</p>	<p>The offer is significant so the audit team members should not accept the offer. Offers must be insignificant for them to be acceptable.</p>
<p>Intimidation threat Manda has not paid last year's audit fee yet. This creates intimidation threat because auditors may not report material misstatements so that Manda pays the outstanding fee quickly.</p>	<p>Auditors should communicate with those charged with governance that the audit fee must be paid before commencement of the current audit.</p>
<p>Self-interest threat The Audit Manager wants to join Manda as Finance Director so has self-interest. He is not likely to report material misstatements in the financial statements to impress the potential</p>	<p>He must be removed from the audit team and someone independent with the necessary skills and experience should be appointed as Audit Manager and work already done by this audit manager should be carefully reviewed.</p>

employer and get the job.	
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(iii) Substantive procedures on revalued property.

1. Obtain a schedule of all PPE revalued during the year and cast/review it to confirm completeness and accuracy of the revaluation adjustment.
2. Consider the competence and capability of the valuer, enquire his qualification, membership of a professional body and experience in valuing these types of assets.
3. Recalculate the total revaluation adjustment and agree correctly recorded in the revaluation surplus.
4. Recalculate the depreciation charge for the year to ensure that for the assets revalued during the year, the depreciation was based on the correct valuation.
5. Agree the revalued amounts to the valuation statement provided by the valuer.
6. Review the valuation report and consider if all assets in the same category have been revalued in line with IAS 16 Property, Plant and Equipment.
7. Agree the revalued amounts for these assets are included correctly in the non-current assets register.
8. Review the financial statements disclosures relating to the revaluation to ensure they comply with IAS 1
9. Discuss with management whether the valuer is independent of the firm since he has close family relationship that could have had an impact on his independence.

(b) (i) Matters communicated with those charged with governance

1. Audit overall strategy and audit plan (scope, nature and timing).
2. Auditors' ethical issues regarding independence/objectivity.
3. Significant internal control weaknesses identified during audit.
4. Key recommendations regarding significant internal control weaknesses identified.
5. Material changes in accounting policies which are likely to affect financial statements.
6. Disagreements with management regarding accounting treatment or disclosure.
7. The form of modification expected to the audit opinion, if any.
8. Material events or circumstances that may cast doubt about going concern status of the entity.

(ii) Random sampling

- All items in the population have the same chance of being selected. E.g. by use of random number tables or random number generators

Advantages of random sampling

1. It gives all items in the population equal chance of being selected.
2. It saves time, effort and money.

(iii) Factors that influence reliability of audit evidence

1. External evidence is more reliable than internal evidence.

2. Evidence collected by auditors is better than that obtained from the entity.
3. Written evidence is more reliable than oral or spoken.
4. Original evidence is better than photocopies.
5. Entity evidence is more reliable when controls are effective.

SOLUTION FIVE

(a)

Client	Appropriateness of draft audit opinion	Recommended audit opinion
Client 1- Antelope	The adverse opinion that had been expressed was inappropriate. This is due to the fact that an adverse opinion can only be used when the matter is both material and pervasive.	The appropriate audit opinion in this case should be a qualified (except for) opinion as the matter is material but not pervasive.
Client 2- Zebra	A disclaimer of opinion that had been given was inappropriate. This is due to the fact that the matter is material and not pervasive. Disclaimer opinion can only be given when the matter is both material and pervasive due to insufficient audit evidence.	The appropriate audit opinion is a qualified (except for) opinion as the matter is both material and pervasive.
Client 3- Ostrich	A qualified opinion that has been given is not appropriate. This is due to the fact that there's insufficient audit evidence and the matter is both pervasive and material.	The appropriate audit opinion should have been a disclaimer in the given situation.
Client 4- Lion	Unmodified opinion that has been given is appropriate. Unmodified audit opinion is given when the financial statement shows a true and fair view, in all material respect in accordance with acceptable reporting framework.	Unmodified audit opinion that was given was appropriate audit opinion and no other recommendation was required.

(b) (i)

Weakness identified	Explanation of how to overcome the weakness
Good Corporate governance requires the separation of roles especially that of the managing or Chief Executive Directors and the chairman. This guarantees accountability and transparency as well. This is not the case as Jeremy is both a managing director and a chairman.	There is a need for Jeremy to relinquish one position in order to allow for accountability and effective operations and Board level. He cannot be the chairman and CEO. There is a possibility of him intimidating other Board members and rubber stamping of his decisions
There are no NEDs on the Board of Directors. This will lead to lack of independence and objectivity in the manner board's decisions is being made. Therefore checks and balances	The other board members should allow for an inclusion of NEDs on the Board. This will enhance variety and exchange of different ideas and independence / integrity of board members.

will be lacking and this may lead to poor and biased decisions at board level that may not be in the interest of shareholders.	
Lack of audit committee.	Consider instituting an audit committee.

(ii) The following are the challenges that Reedbuck Company Limited will face when developing governance structures and systems of internal controls:

- Reedbuck is a small company which is experiencing financial difficulties. It will be difficult for the company to have enough financial resources to hire qualified accounting personnel in order to effect proper segregation of duties with regards to accounting.
- Jeremy is likely to dominate most of activities and can override internal controls.
- The size of management at Reedbuck is small which entails that they will have a lot of responsibility which can make them spend less time on accounting and financial reporting.
- The company has no directors with knowledge of accounting and reporting. This will compromise the integrity of the accounting department in as far as effective internal controls and financial reporting is concerned.
- They need other committees in place such as the audit committee.
- Separate the roles of the CEO and the Chairperson.

(iii) Audit documentation is necessary for the following reasons:

- It provides evidence of the auditor's basis for a conclusion about the achievement of overall objectives.
- It provides evidence that the audit work was planned and performed in accordance with the ISAs and other legal and regulatory requirements.
- It assists the engagement team to plan and perform the audit.
- It assists team members responsible for the supervision to direct, supervise and review audit work.
- It enables the team to be accountable for its work.
- It allows a record of matters of continuing significance to be retained.
- It enables the conduct of quality control reviews and inspection (both internal and external).

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12 GOVERNANCE AND COMPANY LAW

FRIDAY 17 JUNE 2022

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A - TWO (2) COMPULSORY QUESTIONS.

Attempt both questions

QUESTION ONE

Mulenga has just completed his entrepreneurship program from Mapalo College. He is desirous of running a business which he will completely own and have direct control as the founder. He informs you that he can't afford to trust anyone with his business. He would like to know the best mode of a business association which will sit well with his desire.

Required:

- (a) Advise him on the best business for his desire. (2 marks)
- (b) Explain in detail any four (4) the major disadvantages of his business model. (8 marks)
- (c) Explain the attributes of the business association he desires. (5 marks)

In relation to administration of companies and good corporate governance:

- (d) Explain to him the concepts of good corporate governance. (5 marks)
- (e) Explain to Mapalo the distinction between Paid up capital and Unpaid Capital. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Jiliz Breweries Plc is a successful company selling traditional beer with a touch of modernity. The company's board has been praised in the recent past for being an effective board making the company post huge profits, good corporate – social responsibility and paying workers on time.

Required:

- (a) State five (5) strengths of an effective board such as the one for Jiliz Breweries Plc. (5 marks)
- (b) The board has called for a meeting to be held 21 days from today. The only item on the agenda is appointment of non-executive Directors for Jiliz Breweries Plc. Explain to the board the role of non-executive Directors in a company. (10 marks)
- (c) One of the board members suggested that they include on the agenda an item proposing the changing of the company's share structure from being limited by shares to being limited by guarantee.

Explain to the board the implications of changing Jiliz Breweries Plc's share structure from being limited by shares to being limited by guarantee. (10 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Sandy has been appointed Director of Beautiful Souls Limited a public company in Zambia. Sandy is so excited about her new position and she endeavours to do her best. She wants to learn more about her position, other key positions and the company in general.

Required

- (a) Explain to Sandy any five (5) duties of a Chief Executive Officer (10 marks)
- (b) Identify five (5) attributes of a director (5 marks)
- (c) Explain to Sandy the importance of Annual General Meetings and the business conducted at such meetings. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

"Bally is fixing things" is a motto that a lot of Zambians have heard since the incumbent President Hakainde Hichilema was elected on the 12 day of August 2021. In a bid to work with this motto, Wabepafye Chanda, a Permanent Secretary under the Ministry of Citizenry and Culture appeared before the Public Accounts Committee last week and failed to give good response to all the questions arising from the last audit. The Permanent Secretary was given 3 weeks to put his house in order and report back to give a profound response to the queries. PS Wabepafye Chanda has come to you and explains that he has no idea of the audit quarries despite the fact that under his Ministry, Mary Banda heads such an Audit Committee.

Required:

- (a) State the any (5) five functions of the Audit Committee. (10 marks)
- (b) Explain what a debenture and debenture stock is. (5 marks)
- (c) In corporate finance, explain what fixed charge and floating charge is. (7 marks)
- (d) Explain what a dividend is and the principle that guide payment of dividends. (3 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Making reference to decided cases and statutes, explain what incorporation is and what its effects are. (5 marks)
 - (b) Explain what a partnership is and how it is different from an incorporated company. (5 marks)
 - (c) Define what bankruptcy is. (2 marks)
 - (d) Explain at least three (3) ways that would give rise to the court making a bankruptcy order. (3 marks)
 - (e) Who is a receiver and what power do they have in bankruptcy? (6 marks)
 - (f) With reference to the Bankruptcy Act Cap 82, explain what a 'statement of affairs' is. (4 marks)
- [Total: 25marks]**

END OF PAPER

DA12 SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The best business association which he will own and have control over is sole proprietorship/ trader

(b) **The following are the disadvantages of sole proprietorship;**

- No liability protection. ...
- Financing and business credit is harder to procure. ...
- Selling is a challenge. ...
- Unlimited liability. ...
- Raising capital can be challenging. ...
- Lack of financial control and difficulty tracking expenses.

(c) **Below are the attributes of sole proprietorship;**

- Sole Ownership. A single person is an owner of this type of business. ...
- Unlimited Liability.
- Limited Work Area.
- Sole Right on Capital.
- Sole Management.
- No Legal Formalities.
- Free to Select his Business.
- Willful Commencement and Closure.

(d) **The basic concepts of corporate governance are**

- Accountability
- Transparency
- fairness
- Responsibility.
- Honesty

(e) The amount of share capital shareholders owe, but have not paid, is referred to as called-up capital. Any amount of money that has already been paid by investors in exchange for shares of stock is paid-up capital.

SOLUTION TWO

(a) The strengths of an effective board are:

- Clear strategy aligned to capabilities
- Vigorous implementation of strategy
- Key performance drivers monitored
- Effective risk management
- Focus on views of stock market investors and other stakeholders
- Regular evaluation of board performance

(b) *Role of non – executive directors in a company*:- Non – executive directors are directors that are meant to provide checks and balances to the board to ensure that decisions are done on merit. The role of non – executive directors include:

- *Strategy*:- They contribute to, and challenge the direction of the company's strategy in the boardroom.
- *Scrutiny*:- They scrutinize the performance of executive management in meeting goals and objectives and monitor the reporting of performance. They represent the shareholders' interests by ensuring that the board does not make decisions that may result in losses to the shareholders and the company.
- *Risk*:- They ensure that the company employs robust risk management systems to avoid unreasonable risks by the directors which may result in losses.
- *People*:- Non-executive directors also deal with the conditions of service for the chairman and other directors, thus they determine the appropriate remuneration packages for the senior managers.
- *External experience*:- They bring in external experience and knowledge which executive directors do not possess. They are outsiders, i.e. may be working somewhere else, so they bring in new knowledge.
- *Wider perspective*:- They provide a wider perspective than executive directors who may be more involved in detailed operations.
- *Increased Confidence*:- They provide some confidence in the company and the board to outsiders, such as investors.
- *Independence*:- They help the board refine its decisions through the element of independence they bring in.

(c) A company which is limited by shares is a limited liability company who members' liability is limited to the amount of share capital invested in the business i.e. up to their unpaid amount of capital (if any). The purpose of such businesses is profit making.

On the other hand, a company which is limited by guarantee is one where members' liability is limited to the amount of money they have guaranteed/agreed/pledged to pay in an event that is wound up and has some unpaid debts. These companies have no share capital.

According to Section 19(5) of the Companies Act, such companies are prohibited from carrying on business for purposes of making a profit for members or anyone concerned with their promotion or management.

Thus the **implications** of the board's decision to change from a company limited by shares to one limited by guarantee is that Jiliz Breweries will cease to be a profit making company by law. Further, a company limited by guarantee can never be a public company, which will restrict their growth as they will not be able to raise capital on the stock exchange. This will not be a good decision for the company as it is a profit making organisation not a charitable organisation depending on donations from well-wishers.

SOLUTION THREE

(a) The following are the duties of a CEO

1. Develop strategic objectives and direction

Carrying the weight of the company on their shoulders, the CEO is responsible for devising new strategic plans and policies to bring their visions to reality. By setting out clear aims and objectives, the CEO helps employees and the BoD to better understand upcoming expectations for business growth, both in the short and long-run.

2. Implement proposed plans

CEOs direct and oversee the business's overall strategic direction, developing high-quality business strategies and plans that align with both their short-term and long-term objectives. It's their duty to communicate their approach across the company so as to ensure that its operations are working in accordance with its overarching strategy, with the end goal of maximizing profits, increasing shareholder value, and improving market position.

3. Budgeting and forecasting

A yearly budget has to first be set by the CEO to allocate capital in consideration of factors like net income, cash flow, and the valuation they wish to achieve. With the help of the CFO, CEOs then consider variables such as industry fluctuations in calculating potential expenses, revenue, and profitability for the upcoming year. Only then is the burden lifted, with the CFO managing cash flow and performing fiscal and financial analysis throughout the year.

4. Public relations

The public naturally associates the CEO as being the face of the company, making them an almost obligatory marketing tool. As the business's primary representative, the CEO is largely expected to exemplify model behavior, with their public values and actions, both good and bad, having a great impact on the reputation of the company.

5. Communicating with the Board of Directors

The board can easily become one of two things – a CEO's greatest ally or the cause of his/her demise. Just as expectations must be communicated to employees, the board should be kept informed of important – and sometimes difficult – business decisions through regular board meetings. Communication between the board and the CEO is of the utmost importance, with transparency being key.

6. Tracking company performance

An executive understanding of the company's performance, relative to other competitors, is a key part of the CEO's role. Actionable insights can be derived from revenue growth, gross profit margins, and cumulative sales. These can then be used to shape further key performance indicators (KPI) to guide necessary adjustments and help the company meeting its new targets. In addition, monitoring the market – whether that involves potential acquisitions or significant regulatory developments in the industry – is crucial to helping the company withstand outside forces and progress towards its long-term goals.

7. Establishing working culture

From interns to managers to senior executives, everyone looks up to the CEO to a certain extent. Creating a healthy working culture means leading by example. By exhibiting the same working attitudes you expect of others, CEOs will gain respect and serve as better motivation for employees to reciprocate and do the same for them. A positive working environment should sit in line with company values, visions, and goals. With a productive working culture – and a clear set of company values, CEOs are able to better drive consistent, high levels of performance across the whole company.

(b) A director should have the following attributes

Skill, knowledge, experience, vision and mission, strategic thinking, good judgment

The company's annual general meeting is an important event. The meeting must be held within 3 months of each financial year. It is important for a company to hold an AGM because its where important issues of the company are discussed and done such as;

- Appointment of auditors and fixing of their remuneration
- Declaration of a dividend if any
- Consideration of the accounts, balance sheets and reports of directors and auditors
- Election of directors in place of those retiring

- Special business.
- (c) It's important also for a newly incorporated company to hold an AGM at least within 18 months of its incorporation. If default is made in holding the AGM, the registrar may, on the application of any member call, or direct the calling of a general meeting and give such directions as he thinks fit including direction that one member of the company present in person or by proxy shall be deemed to constitute a meeting.

SOLUTION FOUR

(a) The roles of the audit committee are the following:

1. The review of internal audit- they should look at the objectivity, technical knowledge and professional standards of the internal auditors.
2. The review of financial statements and systems - they should review both the quarterly and annual accounts. -
3. Liaison with external auditors- they appoint and remove external auditors and should help external auditors resolve any problems they may encounter.
4. Review of internal control-they should play a significant role in reviewing the adequacy of internal controls.
5. Review of risk management-they must ensure that there is a formal policy in place and review the arrangements for risk management.

(b) Investigation- they will be involved in implementing and reviewing the results of one-off investigations.

(c)

Explain what a debenture and debenture stock is – A debenture is a term in Latin meaning owing. It is a document of a deed form which is evidence of a loan to a company. The debenture allows a charge on the debtor company and its assets in favour of the lender thereby giving the lender the right to appoint a receiver in the event of a default on the loan. Like a debenture, a debenture stock is evidence of owing where the loan is obtained from the public. The subscribers to the debenture stock are issued a stock certificate as evidence of the debtor's indebtedness to the subscribers. Both are evidence of indebtedness only that one may be from the private market whereas the other is from the public.

(d) In corporate finance, explain what fixed charge and floating charge is – A fixed charge is a form of charge on a company for the protection of secured creditors. It specifies the assets of a company attached to the charge which gives the holder the right to enforce the charge on the specified assets. An example of a fixed charge is a mortgage where the mortgaged property is specifically attached to the loan whereupon default, the creditor has the right to enforce a foreclosure on the loan and recover the loan amount. Conversely, a floating charge does not have any specific assets attached to it. A floating charge therefore applies to future and current assets as opposed to just fixed assets.

(e) Explain what a dividend is and the principle that guide payment of dividends – A dividend is a payment made to a shareholder in a company as payment for the investment made in the company. The principle that guide the payment of dividends is that it is paid from the profits of the company entailing deductions of what the company owes have been made and what remains is payable to the shareholders as dividends proportionate to the shareholding value in the company.

SOLUTION FIVE

(a) Incorporation of a company is where two or more people apply through the prescribed forms Company's Act of 2017 to have their company registered by the Registrar of Companies at PACRA. The Act prescribes forms to be completed by applicant and stipulates the documents to be lodged together with the application. Upon approval by the registrar, the company then stands registered and is born as an artificial person. Effects of incorporation are that the company stands alone from its sponsors and has legal capacity to sue or be sued in its own name. Upon incorporation, the company is liable for its debts and sponsors cannot be answerable for the company's debts. ***Salomon v Salomon*** is instructive on this. In the case the court held that once incorporated, a company becomes a separate legal personality and can be held liable for its actions and not the sponsors. Even where the company is a sole trader as long as it is incorporated the sole owner cannot be held liable for the acts of the company.

(b) A partnership is established under the Partnership Act 1890. It requires two or more persons coming together with a common purpose to form a business with intention to profit. Partnerships are unlimited liability companies meaning, the partners in the ship are all liable jointly and severally for the debts and wrongs of the company. A partnership will usually dissolve in event of death of anyone of the partners. Conversely, an incorporated company is registered under the Company's Act. It has limited liability characteristics meaning, sponsors cannot be held liable for the debts and wrongs of the company but the company itself. A company evolves into an artificial person able to sue and be sued in its own capacity.

Bankruptcy is defined as; the state of a person who has been adjudged by a court to be insolvent. Meaning, having more debts than assets.

(c) Pursuant to section 20 of the Bankruptcy Act, the court may adjudge someone bankrupt in the following events:

- (i) Where the debtor applies to the court that they be declared bankrupt
- (ii) On the application of the official receiver, and;

(d) On the application of creditors pursuant to section 6(1)(a)(b) of the Bankruptcy Act.

(e) A receiver is a person appointed by the court to protect property during the course of liquidation. A receiver is appointed to take into account interests of creditors in liquidation. The powers of the receiver include:

- (i) Power over all the assets of the company in liquidation
- (ii) Power to appoint or terminate the appointment of a special manager of the debtor's estate or business in the interest of the creditors according to section 12(1) of the Act
- (iii) Power to appoint a duty official receiver
- (iv) Power to administer oaths.

(f) A statement of affairs is a document required to be made by the debtor pursuant to section 16 of the Act. The statement of affairs shows the assets and liabilities and the details of the debtor's creditors. In the case of a company, a company in

liquidation is required to prepare a statement of affairs by the date of winding up which should indicate the assets, debts and liabilities. Names and addresses of creditors, securities held by each of the creditors, dates on which securities were given and any other information as requested by the liquidator. Per section 287 of the Company's Act.

END OF SOLUTIONS