



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 1: FINANCIAL ACCOUNTING

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MONDAY 12 DECEMBER 2022

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (Compulsory)

### Attempt all ten (10) multiple choice questions

#### QUESTION ONE

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

1.1 Which one of the following statements correctly describes the contents of the statements of financial position?

- A. A list of all the assets owned and all the liabilities owed by a business.
- B. A record of income generated and expenditure incorrect over a given period.
- C. A record of the amount of cash generated and used by a company in a given period.
- D. A list of ledger balances shown in debit and credit columns.

(2 marks)

1.2 The profit earned by a business in 2021 was K14,500. The owner introduced new capital of K1,600 during the year and withdrew inventory for his private use which had cost K440. If net assets at the beginning of 2021 were K20,340, what were the closing assets value?

- A. K33,680
- B. K36,000
- C. K7,000
- D. K7,880

(2 marks)

1.3 D Mwiinga, a sole trader, has the following transactions:-

- (i) Receipt of cash from R. Sashi in respect of an invoice for inventory sold three (3) weeks ago.
- (ii) Receipt of cash from S Luka for cash sales.

What ledger entries are required to record the above transactions?

- A. Dr Trade Receivables  
Dr Sales  
Cr Cash
- B. Dr Cash  
Cr Sales  
Cr Trade receivables
- C. Dr Cash  
Cr Sales
- D. Dr Sales  
Cr Cash

(2 marks)

1.4 You are given the following information:

• Receivables balances at 1 January 2020	K5,000
• Receivables balance at 31 December 2020	K4,500
• Total receipts during 2020 (including cash sales of K2,500)	K42,500

What are credit sales during 2020?

- A. K40,500
- B. K42,000
- C. K43,000
- D. K39,500

(2 marks)

1.5 Information relating to Lumba company's transactions for the month of October 2021 is shown below:

• Sales (including VAT)	K116,000
• Purchases (Net of VAT)	K80,000

The standard VAT rate is 16%. Lumba Company's VAT Control Account had a zero balance at the beginning of the month and at the end of the month.

What was the total VAT paid to ZRA at the end of October 2021?

- A. K16,000
- B. K12,800
- C. K3,200
- D. K18,560

(2 marks)

1.6 An Asset register showed a carrying value of K67,460 for non-current assets. A non-current Asset costing K15,000 had been sold for K4,000, making a loss on disposal of K1,250. No entries had been made on the assets register for this disposal.

What is the correct balance on the asset register?

- A. K51,210
- B. K62,210
- C. K42,710
- D. K53,710

(2 marks)

- 1.7 R Banda acquired a Lorry on 1 May 2020 at a cost of K60,000. The lorry has an estimated useful life of four (4) years, and an estimated resale value at the end of that time of K12,000. R Banda charges depreciation on straight line basis, with a proportionate charge in the year of acquisition.

What will the depreciation charge for the Lorry be in R Banda's accounting period to 30 September 2020?

- A. K6,000
- B. K5,000
- C. K4,000
- D. K12,000

(2 marks)

- 1.8 A business compiles its financial statements for the year to 31 July each year and pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was increased from K60,000 per year to K72,000 per year as from 1 October 2020.

What figure should appear for rent expense in the business's statement of Profit or Loss for the year at ended 31 July 2021.

- A. K63,000
- B. K70,000
- C. K62,000
- D. K69,000

(2 marks)

- 1.9 On 1 January 2020, the receivables allowance of Saka, a sole trader, was K18,000. During the year to 31 December 2020, debts totaling K14,600 were written off. It was decided that the receivables allowance be K16,000 as at 31 December 2020.

What amount should appear in Saka's statement of profit or loss for receivables expenses for the year ended 31 December 2020?

- A. K30,600
- B. K12,600
- C. K16,600
- D. K48,600

(2 marks)

1.10 The following bank reconciliation statement has been prepared by a trainee accountant:

<b>Details</b>	<b>K</b>
Overdraft per bank statement	38,600
Less unpresented cheques	<u>91,600</u>
	53,000
Add outstanding lodgements after date	<u>166,900</u>
	<u>219,900</u>

What should be the correct balance as per Cash book?

- A. K113,900 sound balance at bank
- B. K219, 900 sound balance at bank as stated.
- C. K36, 700 sound balance at bank.
- D. K36,700 overdrawn

(2 marks)

**[Total: 20 Marks]**

## SECTION B

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

### QUESTION TWO

A Tinara, a sole trader, extracted the following balances from his books for the year ended 31 March 2020.

	<b>Dr</b> <b>K'000</b>	<b>Cr</b> <b>K'000</b>
Revenue		424,000
Purchases	320,500	
Inventory 1 April 2019	54,200	
Bank overdraft		6,000
Cash	3,700	
Carriage inwards	7,000	
Discount Allowed	17,500	
Discount Received		12,800
Returns inwards	8,800	
Returns outwards		9,100
Equipment	32,000	
Motor vehicles	25,500	
Receivables	150,200	
Carriage outwards	20,000	
Loan interest paid	10,000	
Electricity	20,000	
Rates	27,000	
Wages and salaries	80,000	
Payables		10,000
14% Bank loan		140,000
Capital 1 April 2019		177,500
Drawings	12,600	
Allowance for receivables as at 1 April 2019		3,000
Allowance for depreciation as at 1 April 2019:		
• Equipment		1,600
• Motor vehicles		5,000
	<b>789,000</b>	<b>789,000</b>

### Notes

1. Inventory at 31 March 2020 was valued at a cost of K30,100,000, whereas its net realizable value was K20,400,000.
2. Credit sales of K400,000 to a customer were recorded in the ledger accounts on both debit and credit as K600,000. No corrections were made for this error.

3. In the period under review, Tinara's business faced financial challenges. These challenges were mainly brought about as a result of business failure to make sales because of the governments imposed local lockdowns due to Covid-19 pandemic. This resulted in the business only managing to pay part of the loan interest. The other part of the loan interest was accrued at 31 March 2020.
4. Electricity bill amounting to K4,200,000 was accrued at 31 March 2020.
5. Rates shown in the trial balance relate to equipment for an initial 18 months period ended 30 September 2020.
6. Allowance for receivables is to be provided at the rate of 5% on receivables.
7. Provide depreciation on non-current assets for the period as follows:
  - Equipment at 20% per annum using reducing balance method.
  - Motor vehicles have an estimated life of five (5) years with a scrap value of K500,000.

**Required:**

- (a) Prepare Tinara's Statement of profit or loss for the year ended 31 March 2020. (12 marks)
- (b) Prepare Tinara's Statement of financial position as at 31 March 2020. (8 marks)

**[Total: 20]**

**Marks]**

**QUESTION THREE**

- (a) Mwanalushi has been trading as a dress maker for just over twelve (12) months. She has kept no accounting records and is worried that she may need professional help to sort out her financial statements. She approached you and you met to discuss the information you require her to give you.

The information has been provided as below:

1. She started business on 1 October, 2020. When she opened a business bank account and paid in K15,000 from her savings.
2. Within the same month of October, she bought equipment for K12,000 and stock of materials that she needed. This was paid out of the business bank account.
3. A summary of the business bank account for the twelve months ended 30 September, 2021 showed the following:

<b>Bank Account</b>			
	<b>K</b>		<b>K</b>
Capital	15, 000	Equipment	12, 000
Cash banked	81, 000	Stock of materials	5, 400
		Purchase of materials	55, 350
		General expenses	2, 610
		Drawings	18, 600
		Balance	c/d <u>2, 040</u>

96,000 | 96,000

All the sales are on cash basis. Some of the cash is paid into the bank account while the rest is used for cash expenses. Mwanalushi has no idea what the total value of her cash sales for the year is, but she knows she spent K11, 400 on materials and K1,470 on general expenses. Mwanalushi also used the rest of the cash not banked for private bills. She also keeps a cash float of K300.

4. The gross profit margin on all sales is 50%.
5. She estimates all the equipment should last for five (5) years and you agree to depreciate using straight line method.
6. On 30 September, 2021, payables of materials amounted to K4,200.
7. Estimated cost of stock of materials left at year end is K6,600.

**Required:**

- (i) Calculate total purchases, total cost of sales and the sales for the year ended 30 September, 2021. (4 marks)
- (ii) Show the entries that would appear in Mwanalushi's cash account and calculate the total throughout the year. (4 marks)
- (iii) Calculate the net profit for the year ended 30 September, 2021. (3 marks)

(b) An inexperienced bookkeeper has prepared the following receivables ledger control account:

<b>Receivables ledger control A/C</b>			
	<b>K</b>		<b>K</b>
Opening balance	360,000	Credit sales	380,000
Cash from credit receivables	456,000	Irrecoverable receivables	3,000
Sales returns	16,000	Contras against payables	4 800
Cash refund to credit receivables	6,600	Closing balance	459,200
Discount allowed	<u>8,400</u>		
	<u>847,000</u>		<u>847,000</u>

**Required:**

Calculate the correct closing balance. (9 marks)

**[Total: 20 Marks]**



### **QUESTION FOUR**

Nawa and Santu are in partnership sharing Profit and Losses in the ratio 2:1. The following Trial Balance was extracted from their books at the close of business on 31 December 2021.

	K	K
Capital Accounts: Nawa		14,000
Santu		7,500
Drawings: Nawa	14,500	
Santu	7,250	
Bank		1,200
Purchases	41,300	
Sales		86,750
Discount allowed	2,550	
Discount Received		950
Inventory at 1 January 2021	9,350	
Trade Receivables	19,600	
Trade Payables		8,750
Wages and Salaries	10,800	
Rent and Rates	1,950	
Fixtures and Fittings	2,500	
Delivery van	3,500	
Van running Expenses	2,100	
Current Accounts: Nawa		1,350
Santu		1,200
Irrecoverable Receivables	850	
General Expenses	5,450	
	121,700	121,700

### **Additional Information**

1. Inventory at 31 December 2021 was K11,400
2. Rent Prepaid at 31 December 2021 was K150.
3. Wages accrued at 31 December 2021 were K300.
4. Provide for Depreciation as follows:
  - Fixtures and Fittings at 5%
  - Delivery Van at 10%
5. Interest is to be provided as follows:
  - Drawings 6%
  - Capitals 5%.
6. Santu is to be allowed a salary of K1,555.

### **Required:**

- (a) Prepare a statement of Profit or Loss for the year ended 31 December 2021 together with the appropriation section. (15 marks)
- (b) Prepare Partnership current accounts for the year ended 31 December 2021. (5 mark)

**[Total: 20 Marks]**

## **QUESTION FIVE**

Eagle Bicycles Plc extracted a Trial Balance at 31 March 2020 from their ledger balances.

### **TRIAL BALANCE AS AT 31 MARCH 2020**

	<b>Dr K</b>	<b>Cr K</b>
Sales		480,000
Purchases	422,000	
Ordinary shares of K1 each		70,000
Share premium		8,000
6% Loan notes		10,000
Trade Payables		14,800
Trade Receivables	33,000	
Discount Allowed	500	
Discount Received		1,300
Freehold Building at cost	50,000	
Accumulated Depreciation on Buildings		5,000
Fixtures and fittings at cost	64,000	
Accumulated Depreciation on Fixtures		25,600
Inventory at 1 April 2019	42,000	
Returns outwards		8,000
Administration expenses	6,000	
Distribution expense	29,700	
Allowance for irrecoverable Receivables		1,800
Retains Earnings at 1 April 2019		20,200
Bank		2,500
	<u>647,200</u>	<u>647,200</u>

### **ADDITIONAL INFORMATION:**

1. Depreciation is to be provided on cost for the year as follows:
  - Freehold buildings           2%
  - Fixtures and fittings       10%
2. The trade receivables balance in the trial balance includes K1,000 due from B. Daka who has now been declared bankrupt. In the circumstances, it has been decided to write the debt off as irrecoverable. The allowance for irrecoverable receivables at 31 March 2020 is to be 5% of trade receivables after writing off the bad debt.
3. Administration expenses accrued at 31 March 2020 amounted to K300.
4. Inventory in trade at 31 March 2020 was K56,000.
5. Accrue income tax of K15,000 at 31 March 2020

### **Required:**

- (a) Prepare a statement of Profit or Loss for the year ended 31 March 2020. (11 marks)
- (b) Prepare a statement of Financial Position as at 31 March 2020. (9 marks)

**[Total: 20 Marks]**

## **QUESTION SIX**

- (a) J.J. Phiri's Statement of Financial position on 1 January 2020 shows motor vehicles details as follows:

	<b>K</b>
Motor vehicles at cost	151,500
Accumulated depreciation	<u>35,500</u>
	<u>116,000</u>

Vehicles are depreciated on the straight line basis over a five (5) year period. Depreciation is charged pro rata to time in the year of acquisition, but no charge is made in the year of disposal.

During 2020, the following vehicle transactions took place:

- April 1, Purchased by cheque a Lorry at K32,500
- May 1, Purchased by cheque a Tanker at K42,000
- September 1, Purchased by cheque Truck at K30,000
- April 1, sold by cheque a Forklift Truck at K2,250 with original cost of K17,500 on 1 April 2017
- July 1, sold a saloon car for cash at K575 with original cost of K4,750 on July 1 2015.

### **Required:**

Prepare the following Ledger Accounts:

- (i) Motor vehicles Account. (3 marks)
- (ii) Allowance for Depreciation on motor vehicles Account. (9 marks)
- (iii) Motor vehicles Disposal Account for each sold vehicle. (4 marks)
- (b) Shortly before the year end, a business sold a non-current asset for K12,000. The Bookkeeper entered the receipt in the cash book but did not know what else to do and therefore credited a suspense account with that same amount. The non-current asset sold had originally cost K45,000 and had accumulated depreciation charged to it at the date of sale of K31,500.

### **Required:**

Draft a journal to correctly account for this disposal (no narrations required), and also show how the Suspense Account is cleared.

(4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA1 FINANCIAL ACCOUNTING**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

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

## SOLUTION TWO

### a) Tinara's statement of profit and loss account for the year ended 31 March 2020

	K'000	K'000
Revenue (424,000 - 200)	423,800	
Less returns inwards	<u>(8,800)</u>	
Turnover		415,000
<b>Less cost of sales:</b>		
Opening inventory	54,200	
Purchases	320,500	
Add carriage inwards	7,000	
Less returns outwards	<u>(9,100)</u>	
Net purchases	372,600	
Less closing inventory (30,100 - 9,700)	<u>(20,400)</u>	
Cost of sales		<u>(352,200)</u>
Gross profit		62,800
Add gain:		
Discount received		<u>12,800</u>
Total income		<b><u>75,600</u></b>
<b>Less expense:</b>		
Discount allowed	17,500	
Carriage outwards	20,000	
Bank loan interest (10,000 + 9,600)	19,600	
Electricity (20,000 + 4,200)	24,200	
Rates (27,000 - 9,000) w1	18,000	
Wages and Salaries	80,000	
Increase in allowance for receivables: (7,500 - 3,000)	4,500	
Depreciation:		
Equipment (32,000 - 1,600)*0.2	6,080	
Motor vehicles (25,500 - 500)/5 years	<u>5,000</u>	
Total expenses		<u>(194,880)</u>
Net Loss		<b><u>(119,280)</u></b>

Workings for the statement of profit or loss

#### 1. Rates

	K'000
Rates as per trial balance	27,000
Less prepayment (27,000/18 months)*6 months	<u>(9,000)</u>
	<u>18,000</u>

### b) Tinara's statement of financial position as at 31 March 2020

	K' 000	K' 000	K' 000
<b>Non - Current Assets</b>	<b>Cost</b>	<b>Dep.</b>	<b>NBV</b>
Equipment	32,000	7,680	24,320
Motor Vans	<u>25,500</u>	<u>10,000</u>	<u>15,500</u>

	<u>57,500</u>	<u>17,680</u>	39,820
<b>Current Assets</b>			
Closing inventory (30,100 - 9,700)		20,400	
Receivables (150,200 - 200 - 7,500)		142,500	
Cash		3,700	
Rates prepaid		<u>9,000</u>	
			<u>175,600</u>
Total Assets			<b><u>215,420</u></b>
<b>Equity and liabilities</b>			
Financed by:			
Capital		177,500	
Less: Net loss		<u>(119,280)</u>	
		58,220	
Less drawings		<u>(12,600)</u>	
			45,620
<b>Non-Current Liabilities</b>			
14% Bank Loan			140,000
<b>Current Liabilities</b>			
Payables		10,000	
Bank overdraft		6,000	
Bank loan interest accrued		9,600	
Electricity bills accrued		<u>4,200</u>	
			<u>29,800</u>
Total Equity and Liabilities			<b><u>215,420</u></b>

### SOLUTION THREE

(a) (i) **Total Purchases**

	<b>K</b>
Opening inventory	5 400
Payments: Bank	55 350
Cash	11 400
Payables	<u>4 200</u>
	<u>76 350</u>

**Total Cost of Sales**

	<b>K</b>
Purchases (from above)	76 350
Closing inventory	<u>(6 600)</u>
	<u>69 750</u>

**Sales**

	<b>K</b>
Cost of sales (from above)	<u>69 750</u>
Sales at 50% mark-up	<u>139 500</u>

(ii) **Cash Account**

	<b>K</b>	<b>K</b>
Sales from (a)		139 500
Payments: Materials	11 400	
General expenses	1 470	
Bank account	81 000	
Drawings (balance figure)	<u>45 330</u>	
		<u>(139 200)</u>
Float		<u>300</u>

**Drawings**

	<b>K</b>
Bank account	18 600
Cash account (from above)	<u>45 330</u>
Total drawings	<u>63 930</u>

(iii)

	<b>K</b>	<b>K</b>
Sales (from (a))		139 500
Cost of sales (from (a))		<u>69 750</u>
Gross profit		69 750
General expenses (2 610 + 1 470)	4 080	
Depreciation (12 000 x 20%)	<u>2 400</u>	
		<u>6 480</u>
		<u>63 270</u>

(b)

**Receivables Ledger Control Account**

	<b>K</b>		<b>K</b>
Opening balance	360 000	Cash from credit customers	456 000
Credit sales	380 000	Irrecoverable debts written off	3 000
Cash refunds	6 600	Sales returns	16 000
		Discount allowed	8 400
		Contras	4 800
		Closing balance	<u>258 400</u>
	<u>746 600</u>		<u>746 600</u>



## SOLUTION FOUR

4. a. Nawa and Santu's

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

	K	K
Sales		86,750
Opening Inventory	9,350	
Purchases	<u>41,300</u>	
	50,650	
less Closing Inventory	<u>(11,400)</u>	<u>(39,250)</u>
Gross Profit		47,500
Add: Discount Received		<u>950</u>
		48,450
less Discount allowed	2,550	
Wages and salaries (10,800 + 300)	11,100	
Rent and Rates (1,950 – 150)	1,800	
Depreciation on Fixtures (5% x 2,500)	125	
Depreciation of Vans (10% x 3,500)	350	
Van Running Expenses	2,100	
Irrecoverable Receivables	850	
General Expenses	<u>5,450</u>	<u>(24,325)</u>
		24,125
Add Interest on Drawings: Nawa	870	
Santu	<u>435</u>	<u>1,305</u>
		25,430
Less: Interest on Capitals: Nawa	700	
Santu	<u>375</u>	<u>(1,075)</u>
		24,355
Partnership salary – Santu		<u>(1,555)</u>
		22,800
Share of Profit: Nawa	15,200	
Santu	<u>7,600</u>	<u>(22,800)</u>
		-

b.

### Current Accounts

	Nawa	Santu		Nawa	Santu
Drawings	14,500	7,250	Balances b/f	1,350	1,200
Interest on Drawings	870	435	Interest on Capital	700	375
Balances	1,880	3,045	Partnership salary	-	1,555
			Share of Profit	15,200	7,600
	<u>17,250</u>	<u>10,730</u>		<u>17,250</u>	<u>10,730</u>

## SOLUTION FIVE

(a) Eagle Bicycle Plc's

### Statement of Profit or Loss Account for the year ended 31 March 2021

	K	K
Sales		480 000
Opening inventory	42 000	
Purchases (422 000 – 8 000)	<u>414 000</u>	
	456 000	
Closing inventory	(56 000)	<u>(400 000)</u>
Gross profit		80 000
Other income: Discount Received		1 300
Decrease in Allowance for Receivables		<u>200</u>
		81 500
Less: Depreciation (wk1)	7 400	
Loan interest 6% x 10 000	600	
Irrecoverable receivables	1 000	
Discount allowed	500	
Administration expense (6 000 + 300)	6 300	
Distribution expenses	<u>29 700</u>	<u>(45 500)</u>
Profit		36 000
Less Income tax		<u>(15 000)</u>
Profit for the year		<u>21 000</u>

Part 'b'

Eagle Bicycles Plc's

### Statement of Financial Position as at 31 March 2020

	K	K
<u>Non-Current Assets:</u>		
Freehold Buildings (50 000 – 6 000)	44 000	
Fixtures and Fittings (64 000 – 32 000)	<u>32 000</u>	76 000
<u>Current Assets:</u>		
Inventory	56 000	
Trade receivables (32 000 – 1 600)	<u>30 400</u>	86 400
		<u>162 400</u>
<u>Equity and Liabilities:</u>		
Ordinary shares of K1 each	70 000	
Retained earnings (20 200 + 21 000)	41 200	
Share premium	<u>8 000</u>	119 200



## SOLUTION SIX

(a) (i) Motor Vehicles Account

Date	Details	K	Date	Details	K
1 Jan 20	Balance b/f	151 500	1 April 20	Disposal	17 500
1 April 20	Bank	32 500	1 July 20	Disposal	4 750
1 May 20	Bank	42 000	31 Dec 20	Balance c/d	233 750
1 Sept 20	Bank	<u>30 000</u>			
		<u>256 000</u>			<u>256 000</u>

(ii) Allowance for Depreciation on Motor Vehicles Account

Date	Details	K	Date	Details	K
31 Dec 20	Disposal (wk2)	15 250	1 Jan	Balance b/f	35 500
	Balance c/d	<u>58 575</u>		Depreciation (wk1)	<u>38 325</u>
		<u>73 825</u>			<u>73 825</u>

(iii) Motor Vehicle Disposal Account

Date	Details	K	Date	Details	K
April 1	Motor vehicles	17 500	April 1	Depreciation allowance	10 500
July 1	Motor vehicles	4 750	July 1	Depreciation allowance	4 750
		<u>22 250</u>		Profit or Loss – Loss	<u>7 000</u>
					<u>22 250</u>

### Workings for Depreciation:

- Old vehicles  $151\,500 - (17\,500 - 4\,750) = \frac{129\,250}{5 \text{ yrs}} = 25\,850$

April 1 vehicle  $(32\,500 \div 5 \text{ yrs} \times 9/12) = 4\,875$

May 1 vehicle  $(42\,000 \div 5 \text{ yrs}) - 8/12 = 5\,600$

Sept 1 vehicle  $(30\,000 \div 5 \text{ yrs}) \times 4/12 = 2\,000$

$= 38\,325$
- Depreciation on sold vehicles

April 1 vehicle  $(17\,500 \div 5) \times 3 \text{ yrs} = 10\,500$

July 1 vehicle  $(4\,750 \div 5) \times 6 \text{ yrs} = 5\,600$

$15\,250$  (fully Depreciated)

3. Loss on April vehicle Disposal = NBV – Cash  
 = 7 000 – 2 250 = 4 750  
 Profit on July 1 vehicle Disposal = 575 – 0 = 575

(b) (i) Journal entry

- Disposal Account	45 000	
Non-Current Asset		45 000
- Accumulated Depreciation	31 500	
Disposal		31 500
- Suspense	12 000	
Disposal		12 000

(ii) Suspense Account

disposal	12 000	Difference on books	12 000
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**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 2: QUANTITATIVE ANALYSIS

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WEDNESDAY 14 DECEMBER 2022

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

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**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.
10. A mathematical standard formale book must be provided to you. Request for one if not given by the Invigilator.

**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 Mrs Phiri own a supply company. She makes an order of equipment and intends to make payment for the equipment classifications of periodical equal payment to the supplier. The periodical series of payments made is classified as;
- A. Marginal payment
  - B. Effective payment
  - C. Annuity
  - D. Nominal payment
- (2 marks)
- 1.2 The standard deviation for 16, 23, 28, 10, 22, 15, 10 is:
- A. 6.43
  - B. 6.34
  - C. 6.30
  - D. 6.40
- (2 marks)
- 1.3 For a data set the regression equation is  $y = 25 - 0.5x$ . the correlation coefficient for this data
- A. Must be 1
  - B. Must be 0
  - C. Is positive
  - D. Is negative
- (2 marks)

1.4 The average number of cars passing a Monze check point in an hour is 3.  
The probability that at most one car passes the check point in an hour is:

- A. 0.1992
- B. 0.1469.
- C. 0.0498.
- D. 0.1452.

(2 marks)

1.5 If money is divided into the ratio 4 : 5 and the largest part is K65,000. What is the smallest part.

- A. K52,000
- B. K13,000
- C. K60,000
- D. K40,000

(2 marks)

1.6 A contractor estimates the probabilities for the number of days required to complete a certain type of construction project as follows:

<b>Time (days)</b>	1	2	3	4	5
<b>Probability</b>	0.05	0.20	0.35	0.30	0.10

Calculate the expected value for the number of days required to complete the project.

- A. 3
- B. 1.22
- C. 3.2
- D. 1

(2 marks)



1.7 The distribution weight of 4 students is 40 kg, 50 kg, 70 kg and 60 kg.

The mean deviation of the weight is:

- A. 55 kg.
- B. -10 kg.
- C. 10 kg.
- D. 40 kg.

(2

marks)

1.8 Which of the following measures is least affected by outliers?

- A. Median
- B. Range
- C. mean
- D. Coefficient of Skewness

(2 marks)

1.9 If the regression equation is equal to  $\hat{y} = 20.5 - 36.3x$ , then 20.5 is the \_\_\_\_\_ while -36.3 is the \_\_\_\_\_ of the regression line.

- A. Slope, intercept
- B. Slope, regression coefficient
- C. Radius, intercept
- D. Intercept, slope

(2 marks)

1.10 Find the compound interest on K18,550 for two (2) years, compounded annually at 8.5% per annum.

- A. K3,287.52
- B. K3,153.50
- C. K21,703.50
- D. K21,837.52

(2 marks)

**[Total: 20 Marks]**

## SECTION B

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

### QUESTION TWO

- (a) The information below relates to people taking out mortgages. Draw an appropriate pie chart for the all buyers' information.

#### By type of dwelling (%)

Type	All buyers
Bungalow	10
Detached house	19
Semi – detached house	31
Terraced house	30
Purpose built flat	7
Converted flat	3

(8 marks)

- (b) The number of cars arriving per hour at Mutale Car wash during the past 200 hours of operation is observed to be the following:

Number of cars arriving	frequency
3 or less	0
4	20
5	30
6	50
7	60
8	40
9 or more	0

- (i) Set up a probability and cumulative probability distribution for the variable of car arrivals. (4 marks)

- (ii) Establish random number intervals for the variable. (1 mark)
- (iii) Simulate 10 hours of car arrivals per hour. Using the following random numbers; 52378269989633508890 (5 marks)
- (iv) Compute the expected number of car arrivals. (2 marks)
- [Total: 20 Marks]**

**QUESTION THREE**

- (a) Given the following cash flow projections based on a required rate of 12.5%

Year	0	1	2	3	4
Cash flow	(15 000)	40 000	52 500	60 000	67 000

- (i) Calculate the net present value (NPV). (11 marks)
- (ii) Is this a good project for the business to accept? Why or why not? (2 marks)
- (b) A company estimates the net profit on a new product, it is launching, to be K3 million during first year, if it is 'successful', K1 million, if it is 'moderately successful', a loss of K1 million if it is 'unsuccessful'.

The company assigns the following probabilities to first year prospects for the product:

Successful; 0.20, moderately successful 0.35, and unsuccessful 0.45.

**Required:**

- (i) What are the expected value and standard deviation of the first year net profit for the product? (5 marks)
- (ii) What is the expected value of net profit if there is a fixed cost of K0.3 million, whatever the success status is assuming the next profit follows a linear function? (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) A water pump manufacturing company estimates the proportion of pumps sold that have been returned due to malfunction within one year of sale. The results are shown in the table below:

<b>Number of pumps returned (<math>x</math>)</b>	0	1	2	3	4
<b>Probability <math>P(x)</math></b>	0.2	0.09	0.3	0.25	0.16

**Required:**

- (i) Calculate the average number of pumps returned in a year. (3 marks)
- (ii) Calculate the standard deviation of the number of pumps returned in a year. (4 marks)
- (b) A survey was conducted to assess the perception of workers in an organization over the risk of investing in agriculture. The perception was classified as risk and not risk. The table below was formulated from the data collected.

<b>Perception of worker on investment</b>	<b>Male</b>	<b>Female</b>
Risky	46	52
Not Risky	58	44

**Required:**

- (i) What is the probability that the worker will say the investment in agriculture is risky? (3 marks)
- (ii) Given that a worker suggest that the investment is not risky, what is the probability that it is a female worker? (3 marks)
- (iii) What is the proportion of male workers who consider the investment as not risky? (2 marks)
- (c) A sample of five (5) firms showed the following percentage changes in earnings per share in the current year compared with the previous year: 17, 16, 20, 14, 25. Compute:
- (i) the mean, (2 marks)
- (ii) the variance, ( 3 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) Mr Kamela, a dealer in second hand vehicle parts has K15,000 to invest at 9% annual interest compounded monthly. How long will it take for his investment to grow to K80,000? (3 marks)
- (b) An auto manufacturing company wanted to investigate how the price of one of its car models depreciates with age. The research department at the company took a sample of eight (8) cars of this model and collected the following information on the ages (in years) and prices (in hundreds of dollars) of these cars.

<b>Age (X) (in Years)</b>	8	3	6	9	2	5	6	3
<b>Price (Y) (in thousands of Kwacha)</b>	45	210	100	33	267	134	109	235

#### **Required:**

- (i) Draw the scatter diagram of these data. (3 marks)
- (ii) Find the equation of the regression line of Y on X. (8 marks)
- (iii) Estimate the price of an 18-year-old car of this model. (2 marks)
- (iv) Calculate the coefficient of correlation  $r$ . (4 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) The cash flows of two (2) projects of Sheep and Goat rearing in three (3) years are given in the table below:

<b>YEAR</b>	<b>SHEEP PROJECT</b>	<b>GOAT PROJECT</b>
1	100,000	70,000
2	85,000	120,000
3	90,000	140,000

The cost of the capital is 7%. The initial cost of each project is K 250, 000.

**Required:**

Which project is viable?

(12 marks)

(b) The data in the table is for Y depends on X.

<b>X</b>	2	4	3
<b>Y</b>	40	20	20

**Required:**

Calculate Rank correlation coefficient by Spearman's formula.

(8 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 2: QUANTITATIVE ANALYSIS**

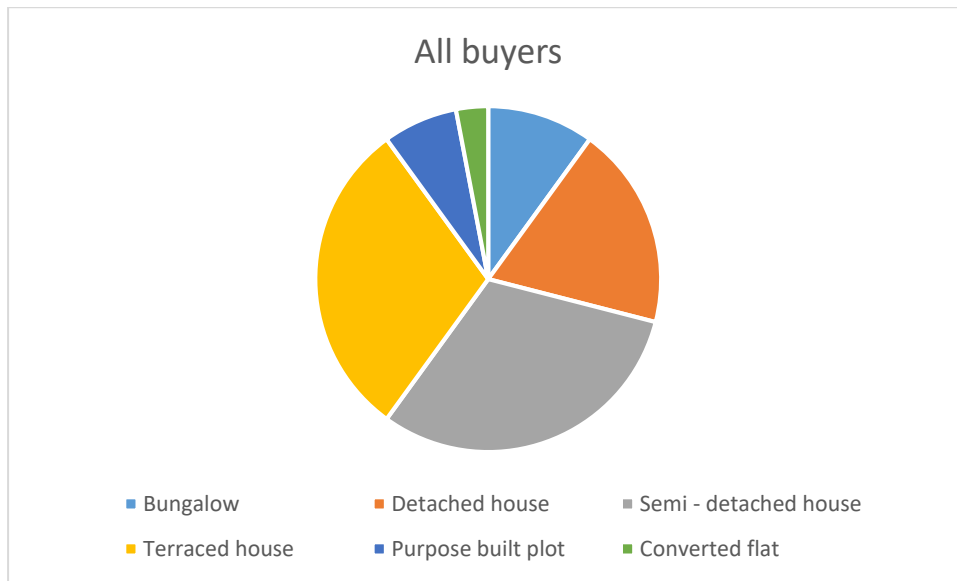
### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

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

## SOLUTION TWO

(a)



The slices of the pie are calculated as follows:

$$360^\circ \times 0.10 = 36^\circ$$

For the rest, the results are shown in the table

Type	All buyers	Slice of a pie
Bungalow	10	36°
Detached house	19	68.4°
Semi – detached	31	111.6°
Terraced house	30	108°
Purpose built plot	7	25.2°
Converted flat	3	10.8°

(b)

(i) and (ii) are shown in the table below

Arriving	Frequency	Probability	Cumulative probability	Random number intervals
3 or less	0	0	0	0
4	20	0.10	0.10	0 – 9
5	30	0.15	0.25	10 – 24
6	50	0.25	0.50	25 – 49
7	60	0.30	0.80	49 – 79
8	40	0.20	1.00	80 – 99
9 or more	0	0	1.00	



(iii)

Radom number	Number of cars arriving
52	7
37	6
82	8
69	7
98	8
96	8
33	6
50	7
88	8
90	8

(iv)

$$E(X) = \sum xP(x) = 0.8 + 1.5 + 4.2 + 3.2 = 9.7$$

### SOLUTION THREE

(a) (i)

$$NPV = -15 + 4(1.125)^{-1} + 5.25(1.125)^{-2} + 6(1.125)^{-3} + 6.7(1.125)^{-4}$$

$$NPV = -15 + 3.556 + 4.148 + 4.214 + 4.183$$

$$NPV = 1.101$$

(ii) Since  $NPV > 0$  the project is good for business to accept

(b)

Let  $X$  be net profit on the new product in the 1<sup>st</sup> year (K'million). Given that

$x$	3	1	-1
$P(x)$	0.2	0.35	0.45

(i) Expected net profit,  $E(X) = \sum xp(x)$

$$E(X) = \sum XP(X) = 3(0.2) + 1(0.35) + (-1)(0.45) = 0.5 \text{ Million}$$

standard deviation =  $\sqrt{\text{variance}}$

$$\text{Var}(X) = E(X^2) - [E(X)]^2$$

$$E(X^2) = 3^2(0.2) + 1^2(0.35) + (-1)^2(0.45) = 2.6$$

Therefore,

$$\text{Var}(X) = 2.6 - (0.5)^2 = 2.35$$

standard deviation =  $\sqrt{\text{variance}} = \sqrt{2.35} \approx 1.53$  million

(ii) If there is a fixed cost of K 0.3 Million, then the expected net profit is:

$$E(X - 0.3) = E(X) - 0.3 = 0.5 - 0.3 = 0.2 \text{ Million}$$

### SOLUTION FOUR

(a) (i) The average  $E(X) = \sum XP(X) = 0(0.2) + 1(0.09) + 2(0.3) + 3(0.25) + 4(0.16) = 2.08$

(ii) the standard deviation  $SD(X) = \sqrt{E(X^2) - [E(X)]^2}$

$$E(X^2) = 0 + 0.09 + 2^2(0.3) + 3^2(0.25) + 4^2(0.16) = 6.1$$

$$SD(X) = \sqrt{6.1 - 2.08^2} = \sqrt{1.77} = 1.33$$

(b)

Perception of worker on investment	Male	Female	TOTAL
Risky	46	52	98
Not Risky	58	44	102
TOTAL	104	96	200

(i)  $P(\text{worker saying investment is risky}) = \frac{(\text{male} + \text{female})/\text{risky}}{\text{total}} = \frac{46+52}{200} = 0.49$

(ii)  $p(\text{not risky}/\text{female}) = \frac{44}{200} = 0.22$

(iii) proportion of male workers who consider the investment as not risky

$$\frac{58}{200} = 0.29$$

(c) (i) the mean is  $\frac{1}{n} \sum x = \frac{1}{5}(17 + 16 + 20 + 14 + 25) = 18.4$

(ii) the variance is

$$\begin{aligned} & \frac{\sum(X - \mu)^2}{N - 1} \\ &= \frac{(17 - 18.4)^2 + (16 - 18.4)^2 + (20 - 18.4)^2 + (14 - 18.4)^2 + (25 - 18.4)^2}{5 - 1} \\ &= \frac{1.96 + 5.76 + 2.56 + 19.36 + 43.56}{4} = 18.3 \end{aligned}$$

## SOLUTION FIVE

Calculate  $t$  when  $P_0 = K15000$ ,  $P_t = K80000$  and  $m = 12$

$$P_0 = K15000 \quad r = \frac{9}{100} = 0.09 \quad t = ? \text{ Compounded monthly implies } m = 12$$

$$P_t = P_0 \left(1 + \frac{r}{m}\right)^{mt}$$

$$80000 = 15000 \left(1 + \frac{0.09}{12}\right)^{(12)(t)} = 15000(1 + 0.0075)^{12t}$$

$$5.333333 = (1.0075)^{12t}$$

$$\ln 5.333333 = 12t \ln 1.0075 \rightarrow t(0.0897) = \ln 5.333333$$

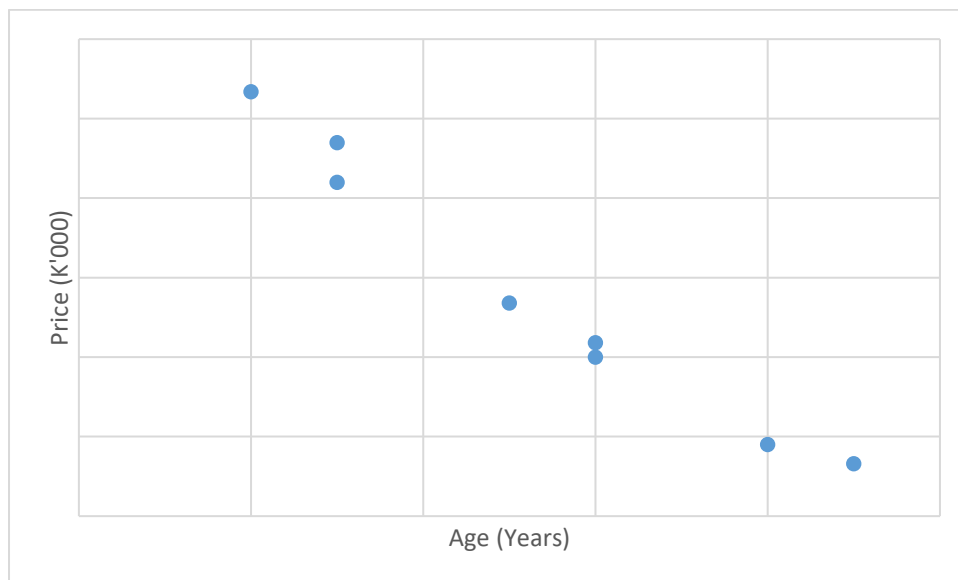
$$t = 18.662$$

$$= 18 \text{ years } 8 \text{ Months approximately.}$$

Hence, it will take 18 years 8 months for the value of the investment to become K80000

(b)

(i) Scatter Plot



(ii)

X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
8	45	360	64	2025
3	210	630	9	44100
6	100	600	36	10000
9	33	297	81	1089
2	267	534	4	71289
5	134	670	25	17956
6	109	654	36	11881
3	235	705	9	55225
<b>42</b>	<b>1133</b>	<b>4450</b>	<b>264</b>	<b>213565</b>

(iii) Therefore,

$$b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} = \frac{8 \times 4450 - 42 \times 1133}{8 \times 264 - (42)^2} = \frac{-11,986}{348} = -34.44 \quad \text{and}$$

$$a = \bar{Y} - b\bar{X} = \frac{1133}{8} + 34.44 \left( \frac{42}{8} \right) = 322.44$$

Hence, the least-squares regression line is

$$y = a + bx = 322.44 - 34.44x$$

$$(iv) \quad r = \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}}$$

$$= \frac{8(4450) - (42)(1133)}{\sqrt{[8(264) - 42^2][8(213565) - 1133^2]}} = 0.99$$

## SOLUTION SIX

(a) SHEEP PROJECT

YR	CASH	DF	DF ( C )	PV
1	100 000	$1.07^{-1} = 0.9346$	$0.9346(100\ 000)$	93460
2	85 000	$1.07^{-2} = 0.8734$	$0.8734(85000)$	74239
3	90 000	$1.07^{-3} = 0.8163$	$0.8163(90000)$	73467
		1mark	1mark	$\sum PV = 241166$

$$\begin{aligned} NPV &= \sum PV - \text{Cost} \\ &= 241\ 166 - 250\ 000 = K - 8834. \quad 1\text{mark} \end{aligned}$$

GOAT PROJECT

YR	CASH	DF	DF(C )	PV
1	70 000	$1.07^{-1} = 0.9346$	$0.9346(70\ 000)$	65422
2	120000	$1.07^{-2} = 0.8734$	$0.8734(120000)$	104808
3	140000	$1.07^{-3} = 0.8163$	$0.8163(140000)$	114282
		1mark	1mark	$\sum PV = 284512$

$$\begin{aligned} NPV &= \sum PV - \text{COST} \\ &= 284512 - 250000 = K\ 34512 \end{aligned}$$

Goat project is viable.

(b)	X	R <sub>x</sub>	Y	R <sub>y</sub>	R <sub>x</sub> - R <sub>y</sub> = d	d <sup>2</sup>
	2	3	40	1	$3 - 1 = 2$	4
	4	1	20	2(2.5)	$1 - 2.5 = -1.5$	2.25
	3	2	20	3(2.5)	$2 - 2.5 = -0.5$	0.25
						$\sum d^2 = 6.5$

$$\begin{aligned} r &= 1 - \frac{6\sum d^2}{n(n^2-1)} = 1 - \frac{6(6.5)}{3(3^2-1)} \\ &= 1 - \frac{39}{3(9-1)} = 1 - \frac{39}{3(8)} = 1 - \frac{39}{24} \\ &= 1 - 1.625 \\ &= -0.625 \end{aligned}$$

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 3: BUSINESS ECONOMICS

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TUESDAY 13 DECEMBER 2022

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

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**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 Economics is the study of.....
- A. How to make money
  - B. How to operate a business
  - C. People making choices because of the problem of scarcity
  - D. The government decision making process
- (2 marks)
- 1.2 Which of the following is the correct sequence in the business cycle?
- A. Boom, Recession, Depression, Recovery
  - B. Recession, Recovery, Boom, Depression
  - C. Boom, Recovery, Recession, Depression
  - D. Recovery, Recession, Depression, Boom
- (2 marks)
- 1.3 To determine whether a good is a normal good or an inferior good, an economist would estimate.....
- A. Price elasticity of demand
  - B. Price elasticity of supply
  - C. Cross elasticity of demand
  - D. Income elasticity of demand
- (2 marks)
- 1.4 Under perfectly competitive market structure, the demand curve for a good of a firm.....
- A. Is identical to the firm's marginal revenue curve
  - B. Intersects the firm's marginal revenue curve at a point where marginal revenue is equal to marginal cost
  - C. Is downward sloping
  - D. Is perfectly inelastic
- (2 marks)



- 1.5 Which one of the following is NOT a monetary policy tool?
- A. Open Market Operations policy
  - B. Government Spending policy
  - C. Discount rate policy
  - D. Required reserve ratio policy
- (2 marks)
- 1.6 Contractionary fiscal policy is deliberate government action to influence aggregate demand and the level of real GDP through.....
- A. Expanding and contracting money supply
  - B. Encouraging businesses to expand or contract investment
  - C. Increasing government spending or reducing taxes
  - D. Decreasing government spending or increasing taxes
- (2 marks)
- 1.7 Which one of the following best describes demand-pull inflation?
- A. Inflation caused by increases in the costs of production
  - B. Inflation caused by too much money chasing too few goods
  - C. Inflation caused in decrease in the costs of production
  - D. Inflation caused by imported goods
- (2 marks)
- 1.8 The type of unemployment which is caused by inadequate aggregate demand is best described as.....unemployment
- A. Frictional
  - B. Cyclical
  - C. Structural
  - D. Seasonal
- (2 marks)
- 1.9 Assuming tea and coffee are substitutes, a decrease in the price of coffee, other things being equal, results in a(an).....
- A. Downward movement along the demand curve for tea
  - B. Rightward shift in the demand curve for tea
  - C. Upward movement along the demand curve for tea
  - D. Leftward shift in the demand curve for tea
- (2 marks)

1.10 Which one of the following are characteristics of perfect competition?

- (i) Large number of sellers of a product
- (ii) Differentiated product
- (iii) Normal profit in the long run
- (iv) Freedom of entry into and exit from the industry

- A. (i), (ii) and (iii) only
- B. (i), (iii) and (iv) only
- C. (ii), (iii) and (iv) only
- D. All of the above

(2 marks)

**[Total: 20 Marks]**

## SECTION B

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

### 1. MICROECONOMICS

Attempt any two (2) questions out of the three (3) questions(from 2-4)

#### QUESTION TWO

- (a) Using clearly labeled graphs, explain how the following changes in demand and supply equilibrium price and quantity:
- (i) Supply increases and demand is constant (4 marks)
  - (ii) Demand increases and supply is constant (4 marks)
- (b) Suppose the cross elasticity of demand for goods A and B is +3.6 and for goods C and D is -5.4. Explain the relationship between:
- (i) A and B (3 marks)
  - (ii) C and D (3 marks)
- (c) The difference between private costs and social costs produce externalities which may either be positive or negative. Outline each of the following:
- (i) Positive externality (3 marks)
  - (ii) Negative externality (3 marks)

**[Total: 20 Marks]**

#### QUESTION THREE

- (a) Define a production possibilities curve (3 marks)
- (b) Suppose an economy can produce the following combination of consumer goods and capital goods when its resources are fully and efficiently employed.

Combination	Consumer goods (million units)	Capital goods (million units)
A	0	38
B	10	36
C	20	32
D	30	27
E	40	20
F	50	0

#### **Required:**

- (i) Sketch a PPC for the economy(Put consumer goods on the horizontal axis and capital on the Y axis) (6 marks)
- (ii) If there is unemployment, where will the economy operate? Indicate such a point on the graph and label it **U** (2 marks)

- (iii) Indicate a point that the economy cannot reach and label it point **I** (2 marks)
- (c) Briefly explain the reason for the shape of the PPC you have drawn in (i) (3 marks)
- (d) Outline any two(2) factors that may cause the PPC to shift outwards to the right

(4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Define the term market structure (2 marks)
- (b) Outline any three (3) reasons why Government would prefer that some industries be monopolies? (6 marks)
- (c) Distinguish the long-run equilibrium position of a monopolist firm from that of a monopolistic firm. Use diagrams to illustrate (12 marks)

**[Total: 20 Marks]**

## 2. MACROECONOMICS

Attempt any two (2) questions out of the three (3) questions from (5-7)

### **QUESTION FIVE**

- (a) Briefly explain the meaning of the following as they relate to national income computation:
- (i) GDP at factor cost (3 marks)
  - (ii) GDP at market price (3 marks)
- (b) Explain any three (3) factors that influence the amount of saving? (6 marks)
- (c) Explain the four (4) phases of a trade cycle? (8 marks)
- [Total: 20 Marks]**

### **QUESTION SIX**

- (a) Distinguish between cyclical and technological unemployment. (4 marks)
- (b) Outline any two (2) negative effects of high unemployment (4 marks)
- (c) Explain the term 'inflationary gap'. (2 marks)
- (d) Give any four (4) anti-inflationary measures for demand-pull inflation (4 marks)
- (e) Describe cost push causes of inflation. (6 marks)
- [Total: 20 Marks]**

### **QUESTION SEVEN**

- (a) Describe the composition of the Balance of Payments in Zambia (6 marks)
- (b) Explain how a country with a persistent balance of payments deficit can:
- (i) Finance the deficit (explain any two (2) ways) (4 marks)
  - (ii) Correct or rectify the deficit (explain any two (2) ways) (4 marks)
- (c) Explain the process of credit creation by banks (6 marks)
- [Total: 20 Marks]**

**END OF PAPER**

## **DA3 BUSINESS ECONOMICS**

### **SUGGESTED SOLUTIONS**

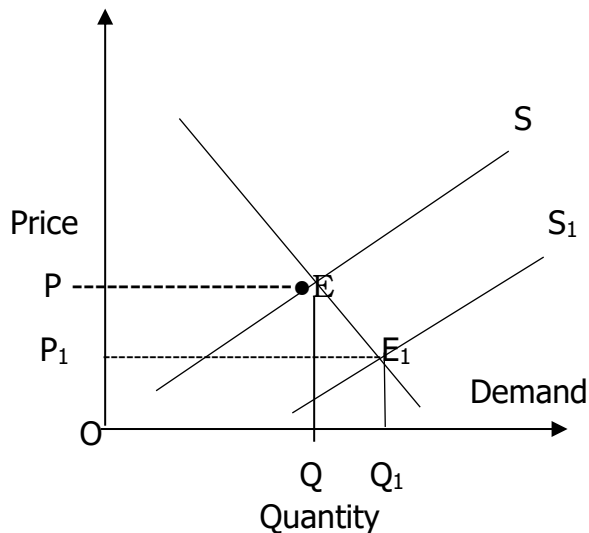
#### **SOLUTION ONE**

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

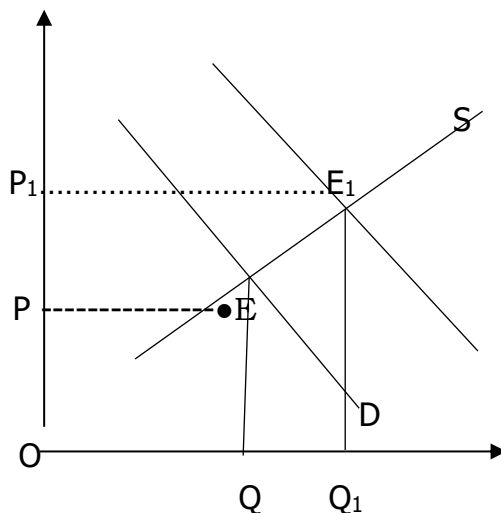
## SOLUTION TWO

(a) Changes in equilibrium price and quantity:

- i) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point  $E(Q,P)$ . An increase in supply shifts the supply curve to the right. The new equilibrium is  $E_1(Q_1,P_e)$ . At this point the equilibrium price has decreased from  $P$  to  $P_1$  while the equilibrium quantity has increased from  $Q$  to  $Q_1$  as shown below:



- ii) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point  $E(Q,P)$ . An increase in supply shifts the supply curve to the right. The new equilibrium is  $E_1(Q_1,P_e)$ . At this point the equilibrium price has increased from  $P$  to  $P_1$  while the equilibrium quantity has increased from  $Q$  to  $Q_1$  as shown below:



## Quantity

(b) Cross elasticities:

- i) Good A and B are substitutes in consumption as the elasticity value is positive
- ii) Goods C and D are complements in consumption as the elasticity is negative

(c) Externalities:

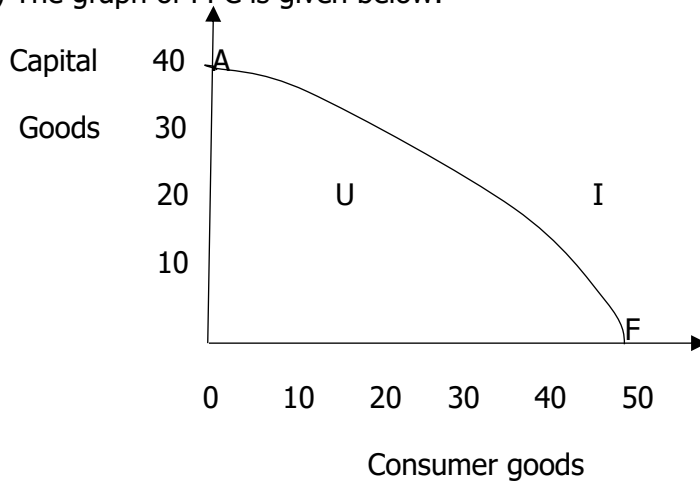
- i) A positive externality is a benefit that falls on a person not directly involved in an activity. Examples are Health care and education
- ii) A negative externality is a cost that falls on a person not directly involved in an activity. For example pollution



### SOLUTION THREE

(a) Production possibilities curve is a hypothetical curve that shows the maximum combinations of two goods an economy can produce in a given period of time with its available resources and technology

(b) The graph of PPC is given below:



i) See graph

ii) See graph

iii) See graph

(c) The shape depicts the law of increasing opportunity costs. This is because to have more of one good, one should give up more of the other good

(d) The following are the factors that can shift the PPC to the right:

- Improvement in technology
- Increase in population
- Increase in education

## SOLUTION FOUR

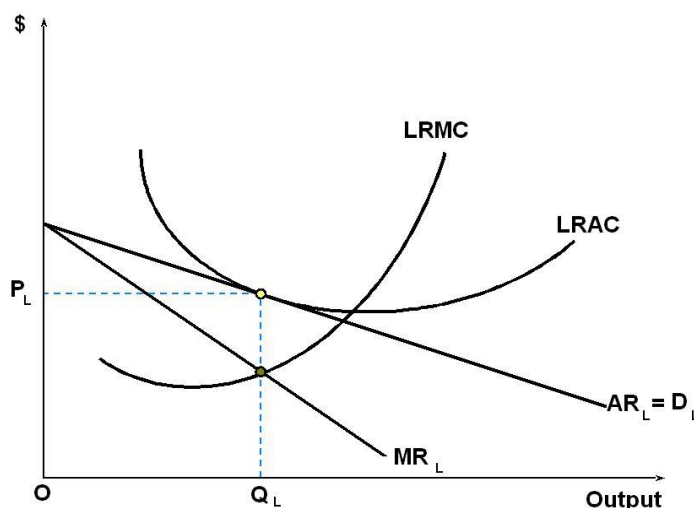
(a) **Market structure** refers to how different industries are classified and differentiated based on their degree and nature of competition for services and goods.

(b) **Arguments for Monopoly**

- To achieve economies of scale as a single firm supplies to the whole market. Large scale production results in a reduction in average costs. The consumer is likely to benefit from efficiencies through lower prices.
- The supernormal profits that monopolists make, enable the firm to be innovative and spend on research and development. Society gains by having new products on the market.
- It is easier for a large firm to raise capital, again this enables the firm to be innovative and spend on research and development.
- Through practicing price discrimination, monopolists ensure that the rich as well as the poor benefit by enjoying the same or a similar product.
- Some monopolies are natural due to high ratio of fixed costs to variable costs there is less contribution, which is less attractive, and as such, there are few competitors.
- Some governments feel that in some cases, production or distribution of, for example, gas, electricity and water can be carried out more efficiently if it is in the hands of a monopolist. Where there is competition, it would be wasteful and result in higher prices to consumers.

(c) **long run equilibrium position**

i) **monopolistic competition**



## LONG RUN EQUILIBRIUM POSITION

The firm still produces where marginal cost and marginal revenue are equal; however, the demand curve (and AR) has shifted as other firms entered the market and increased competition. The firm no longer sells its goods above average cost and can no longer claim an economic profit

A firm making profits in the short run will break even in the long run because demand will decrease and average total cost will increase. This means in the long run, a monopolistically competitive firm will make zero economic profit. This gives the amount of influence over the market; because of brand loyalty, it can raise its prices without losing all of its customers. This means that an individual firm's demand curve is downward sloping, in contrast to perfect competition, which has a perfectly elastic demand schedule.

ii) monopoly

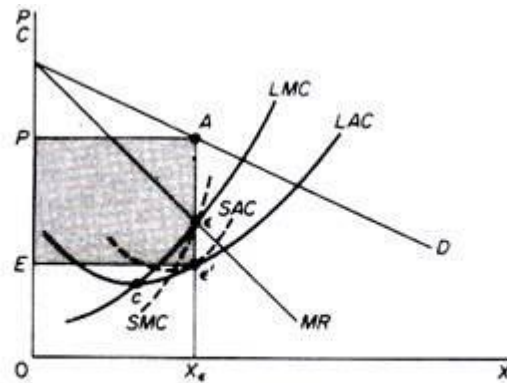


Figure 6.6 Monopolist operating in a large market: his plant is larger than the optimal ( $c$ ) and it is being overutilised (at  $e'$ ).

In the long run the monopolist has the time to expand his plant, or to use his existing plant at any level which will maximize his profit. With entry blocked, however, it is not necessary for the monopolist to reach an optimal scale (that is, to build up his plant until he reaches the minimum point of the LAC). Neither is there any guarantee that he will use his existing plant at optimum capacity. What is certain is that the monopolist will not stay in business if he makes losses in the long run.

## **SOLUTION FIVE**

(a)

- i) GDP at factor cost = GDP at market prices – indirect taxes + subsidies.
- ii) GDP at market prices is the gross values of all resident producers at market prices before adjustment for taxes and subsidies.

(b) Factors influencing savings

- Income: the more the income received the higher the level of savings
- Interest rates : the higher the interest the higher the level of savings
- cost and availability of credit. People will save more if cost of credit rises
- Inflation: Because of higher inflation, nominal interest rates will be high and people will save more.

(c) Business cycle:

- Boom : at this point , demand is high, production high, firm making profit
- Recession: demand begins to decline, production falling
- Slump/depression: demand lowest, production lowest, company making losses
- Recovery: demand begins to pick up, production begins to increase

## SOLUTION SIX

### (a) Cyclical and Technological Unemployment

- Cyclical unemployment is the component of overall unemployment that results directly from cycles of economic upturn and downturn. Unemployment typically rises during [recessions](#) and declines during economic expansions.
- **Technological unemployment** is the loss of jobs caused by technological change. It is a key type of structural unemployment. Technological change typically includes the introduction of labour-saving "mechanical-muscle" machines or more efficient "mechanical-mind" processes (automation), and humans' role in these processes are minimized.

### (b) Negative effects of unemployment

- Labour is a factor of production, and due to unemployment, the Economic resource is not being utilized, this is at a cost, the opportunity cost of goods and services not produced, quality of workforce diminishes as idleness causes labour to be less efficient, this in turn increases the cost of retraining it.
- Government revenue is mostly from taxes, unemployment results in a loss of government revenue, as the unemployed do not pay any tax, in some rich countries they receive state benefits, which means that unemployment is a financial cost to the government.
- Unemployment may lead to social undesirable behaviour like theft, vandalism, riots or general discontent. The mental and physical health of the unemployed tends to deteriorate, the unemployed are more prone to commit suicide. This is considered to be a social cost.

### (c) An **inflationary gap** is a macroeconomic concept that measures the difference between the current level of real gross domestic product (GDP) and the GDP that would exist if an economy was operating at full employment.

### (d) **Anti-Inflationary Measures**

If the prevailing inflation is demand driven, then, measures to reduce aggregate demand should be put in place;

- Increasing direct taxes to reduce consumption expenditure
- Increasing interest rates to reduce investment expenditure respectively.
- Government expenditure should also be reduced. This means that the government must aim for a budget surplus, the excess money should be kept frozen at the central bank.
- Depreciate a country's currency to discourage imports.
- Freeze incomes to reduce aggregate demand.

### (e) **Cost-Push Inflation**

- This inflation is caused by an autonomous increase in the costs of production, considered as cost-push factors.
- These may then cause cost-push inflation. Cost-push factors may be changes in wages, changes in the exchange rate, which change the price of, imported raw materials or perhaps changes in indirect taxation.
- Cost-push inflation occurs when a company's costs rise and to compensate, a firm has to put prices up.

- Cost increases may happen because wages have gone up or because raw material prices have increased. The increase in the costs, with aggregated demand remaining unchanged, causes the aggregate supply curve to shift to the left.

## SOLUTION SEVEN

(a) The following is the composition of the Balance of payment:

- **Current account:** This shows a record of net flow of money from transactions involving the purchase of goods and services, and transfer payments. The current account itself is divided into basically two parts namely, trade in goods and trade in services.
- **Capital account:** This account records all international financial transactions in the country, the external assets and liabilities. In general it records medium and long- term capital inflows and outflows.
- **Official reserves:** This is also called the balancing item. This account is used to ensure that the BoP balances. When the capital and/or current account is in deficit, then the official reserves is positive and vice versa.

(b) i) A deficit can be financed by:

- Borrowing from another country
- Obtaining assistance from the International Monetary Fund (IMF)
- Running down its official reserves
- By selling foreign investments
- Receiving grants from another country

ii) A deficit can be corrected by:

- Allowing the domestic currency to depreciate to promote exports and discourage imports
- Using deflationary measures aimed at reducing aggregate demand in the country
- Erecting barriers to restrict imports

(c) Banks create money when they lend out money using cheques. The initial deposit by the customer multiplies itself with the banking system through the credit multiplier as each bank keeps the required reserves and lends out the excess reserves using cheques.

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

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WEDNESDAY 14 DECEMBER 2022

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

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

- 1.1 Technical and other IT controls are necessary to ensure business continues operating in case of disasters caused by various elements. Which of the below statements can be classified as technical controls?
- A. Authorization, documentation, backup and recovery
  - B. Validation tests, documentation, file checks
  - C. Numbering documents, backup, validation tests
  - D. Comparing output values, documentation and file checks.
- (2 marks)
- 1.2 Which of the following statements best describes application software?
- A. A program which provides an interface between a user and computer
  - B. Set of instructions which undertakes processing of given tasks
  - C. A web program that displays web content
  - D. Global network that connects various computers
- (2 marks)
- 1.3 Which of the following is **NOT** true about peer –to- peer networks?
- A. PC's are reliant on the server for access to network resources
  - B. Each PC is an equal
  - C. The network can be setup using stand PC operating system software
  - D. Generally, this type of network is simpler and has lower costs.
- (2 marks)
- 1.4 Assume that cell C4 contains a formula. Where would you see the formula displayed?
- A. In cell C4
  - B. In the formula bar
  - C. In the name box

D. In the status bar

(2 marks)

1.5 A customer goes shopping but does not pay using cash. Instead, he uses a bank card to make payment. Data input is said to have taken place. This type of input is referred to as ...

- A. MICR
- B. EFTPOS
- C. Smart Card
- D. OCR

(2 marks)

1.6 In the communication cycle decoding \_\_\_\_\_ .

- A. is done by the sender
- B. is done by the receiver
- C. is done by both the sender and the receiver
- D. cannot be done by both the sender and the receiver

(2 marks)

1.7 Which of the following is **NOT** a function of a meeting notice?

- A. To point to a venue
- B. To alert on time
- C. To indicate the date
- D. To guide members in the meeting

(2 marks)

1.8 The chain, circle and wheel are examples of \_\_\_\_\_.

- A. Direction of communication
- B. Mode of communication
- C. Process of communication
- D. Patterns of communication

(2 marks)

1.9 What is the commonest form of visual information presentation in accounts?

- A. Table form
- B. Pie chart form
- C. Graph form
- D. Prose form

(2 marks)

1.10 Which one of the following is **NOT** part of 6x6 rules when using PowerPoint in an oral presentation?

- A. Not writing the whole sentences
- B. Not using more than 6 lines per slide
- C. Not using more than six words per line
- D. Not using more than 6 lines per slide and not more than 6 words per line

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

**This section has two parts:**

- 1. INFORMATION TECHNOLOGY**
- 2. COMMUNICATION**

### **1. INFORMATION TECHNOLOGY**

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

#### **QUESTION TWO**

- (a) Any computer system should provide adequate controls for the security of the data it will be using to process and these controls can be carried out by the user. Besides the procedural and functional controls categorization, controls can also be categorized into four (4) distinct categories. List these four (4) categories. (4 marks)
- (b) Compare and contrast the Bus topology and Star topology, highlighting three (3) major differences between them. (12 marks)
- (c) Spreadsheets are important tools for manipulating numerical information. Briefly describe the meaning and significance of the following facilities of spreadsheet software, Relative and absolute cell references. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION THREE**

- (a) Briefly explain any three (3) moral dimensions of the information age. (6 marks)
- (b) State three (3) advantages a CD-ROM has over a floppy disc as a secondary storage medium. (3 marks)
- (c) Databases store large volumes of information in organisations. They are managed by DBMS.
  - (i) Define a database (2 marks)
  - (ii) Outline three (3) functions of the DBMS. (3 marks)

- (d) State three (3) advantages of using **bespoke** software as compared to **Off-the-shelf** software in a business organization. (6 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) State three (3) major roles of an information system in an organization. (6 marks)
- (b) Outline any four (4) primary activities in Porter's value chain model (8 marks)
- (c) State any six (6) common causes of computer lock-ups. (6 marks)

**[Total: 20 Marks]**

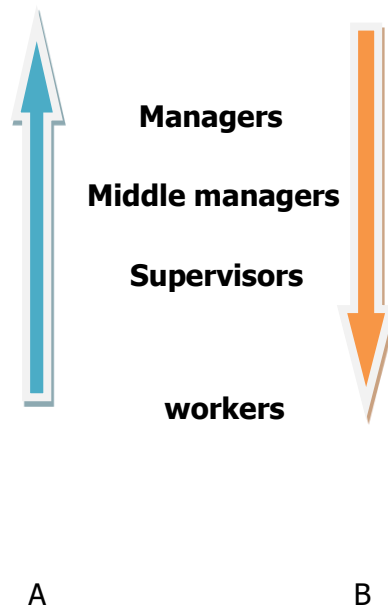
## 2 COMMUNICATIONS

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

### QUESTION FIVE

Communication in a given organisation is essentially made of two (2) types namely internal and external.

- (a) State two (2) reasons Managers should emphasis on effective internal communication in their organisation? (2 marks)
- (b) The diagram below illustrates communication in an organisation. Study it and outline four (4) examples of the nature of information likely to flow in each arrow (A and B). (8 marks)



- (c) State the terms used to refer to information flow in **A** and in **B**. (2 marks)
- (d) Explain three (3) major differences between external and internal communication? (6 marks)
- (e) Apart from the fact that it links the organisation to the outside world, why should Managers take strict interest in external communication? (2 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

It has been observed that some members of staff have poor communication skills. After several complaints from customers against some employees' performance and poor service, the Manager appointed you to investigate this problem and report your findings to him with recommendations on how the matter can be resolved. The following were some of your findings from the investigations: poor English language; poor customer care and lack of courtesy, lack of product knowledge.

#### **Required:**

Write a formal report to the Manager highlighting main findings from your investigations. Your report should include at least four recommendations of what should be done to address the situation. **[Total: 20 Marks]**

### **QUESTION SEVEN**

Written communication makes an important component in the business world. You have junior officers under your supervision who do not impress you in the way they write letters.

#### **Required:**

- (a) State any six (6) forms of written documents commonly used in business apart from a business letter. (6 marks)
- (b) Explain seven (7) outstanding components of a business letter. (14 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

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



## SOLUTION TWO

### (a) Controls which can be applied to each part of the computer system

- Hardware control
- Software control
- Data control
- Administrative control

### (b) Comparison and contrasting of a Bus topology and Star

BUS TOPOLOGY	STAR TOPOLOGY
Each device is connected to a single cable which is known as the backbone	All devices are connected to a central hub
The failure of the network cable will cause the whole network to fail	If the central hub fails, then the whole network fails
It has terminators at both ends of the network	It doesn't have any terminator
It's less expensive to set up compared to star topology	It has a high implementation cost because of the central hub and extra cables required for connection
Data is transmitted slower as compared to a star topology	Data is transmission is faster in a star topology
Data from a sender node to the receiver node is sent directly	Transmission of data between nodes is done through a central hub, then its transmitted to the receiver node
Expansion of network is difficult	Expansion of network is easier
Data collisions occur frequently	Data collisions are less
The signal transmission is unidirectional	The signal transmission is not unidirectional

### (c) Spreadsheets

**Relative and absolute references** – one of the main functions of spreadsheets is to allow formulae to be written into cells that use the contents of other specific cells in those formulas. The normal method of referencing between cells is to use a relative reference. This means that the formula refers to a specific cell, which could be two cells left, and one cell up from the current cell. So cell D3 would have a reference to cell B2 (two columns left and one row up). If that formula is copied to another cell, then the same relative reference is used to determine which cell is to be used in the new formula. So copying the formula to cell E6 will mean that the cell C5 is used in the formula.

In some formulae, one specific cell has to be referred to, so even if the formula is copied, the same absolute cell reference is needed in the new formula. If the absolute reference is required, then \$ are placed before the cell row and column reference.

## **SOLUTION THREE**

### **(a) Moral dimensions of the information age**

- i) **Privacy** – free from surveillance or interference from other individuals or organizations including the state. Having full control of what or how much information about themselves is available to others
- ii) **Property Rights** – social practices that protect private intellectual property which is subject to a variety of protections under legal issues.
  - Copyright law and patent law
- iii) **Accountability and Control** – New technology is challenging existing liability law and social practices for holding individuals and organizations accountable for the creation and sale of new IT and IS products and services
- iv) **System Quality** – individuals and organizations may be held responsible for avoidable and foreseeable consequences, which they have a duty to perceive and correct. Software companies try to debug their products before releasing them to the marketplace.
- v) **Quality of Life** – Negative social costs of introducing information technologies and systems. These are harmful to individuals and societies and are not violations of individual rights, nor are they property crime

### **(b) The advantages of a CD over floppy disk as a storage medium include:**

- i) Larger storage capacity. A CD can hold up to 700MB of data compared to 1.44MB on a standard floppy disk
- ii) A CD tends to be more robust than a floppy disk. The surface can be cleaned with a non-abrasive cleaner; attempting to clean a floppy disk will normally destroy the data on it.
- iii) Data storage on CD tends to be more reliable than floppy disk, with fewer read errors occurring

(c) i) A database is an organised collection of data structured and designed in a way that many that many processing applications can use the same data and update it.

#### **ii) Functions of DBMS**

- Create the database
- Retrieve data from
- Update the database
- Control access to the database
- Provide security to the data in the database.

### **(d) Advantages of Bespoke software**

- The system will meet the specific needs of the organisation
- The organisation will own the software
- The security features are enhanced
- The software can be improved anytime

- Change in requirements is driven by the organisation

## **SOLUTION FOUR**

### **(a) roles of information systems in organizations**

- Support business processes
- Support decision making for managers
- Support in making strategic decisions for competitive advantage

### **(b) Primary activities in the value chain**

- Inbounds logistics: - receiving, warehousing, inventory control
- Operations: - converting raw material into finished products
- Outbound logistics: - activities involved in distributing finished products
- Marketing & sales: - activities that make the product visible to customers
- Services: - After sale service

### **(c) Common causes of computer lock-ups include:**

- Too many programs running at the same time
- Not enough memory to support the running programs
- Corrupt (damaged) or incorrectly installed software
- Power management or screensaver problems
- Improper operating temperatures and humidity levels
- Hardware failure
- Corrupt device drivers
- Virus which has infected the computer

## SOLUTION FIVE

Communication in a given organisation is essentially made of two types of communication namely internal and external communication

(a) Why should managers pay particular attention to communication within their organisation?

- It is because the successes of its day to day operations depend on internal communication
- It helps employees work efficiently in an organisation.
- To resolve conflicts
- To coordinate activities
- To report on work progress
- To boost team spirit among staff

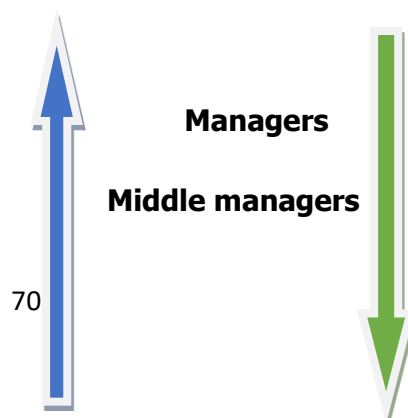
(b) The diagram below illustrates communication in an organisation. Analyze it and outline the kind of information that flow in A and in B

**A** is the upward communication which carries information from junior staff to the senior ones e.g

- Reports
- Complaints
- Suggestions
- Appeals/applications
- To seek permission

**B** is the downward communication flowing from the top most officers to the lowest ranking officers which comprises:

- Instructions
- Reprimands
- Promotion /demotions
- Policies
- decisions



## **Supervisors**

## **workers**

A

B

(c) What terms are used to refer to information flow in A and in B

### **A - Upward communication**

### **B – Downward communication**

(d) Explain three (3) major differences between external and internal communication?

- It differs from internal communication in that it is mainly concerns workers within and has nothing to do with the outsiders whereas the external communication is mainly targeted to the outsiders
- Internal communication happens more frequently compared to external communication.
- The objective of internal communication is to coordinate works in different units and departments of an organisation while external communication is used to build relationships between the organisation and other parties.

(e) Apart from the fact that it links the organisation to the outside world why should managers take strict interest in external communication?

- Apart from the fact that it links the organisation to the outside world, it carries with it the corporate image of the organisation.
- it is good for public relations.

It helps strengthen relationships between the organisation and other parties.

## **SOLUTION SIX**

You are one students' representative in charge of academic affairs in your institution. After several complaints by your fellow students against one Communication Skills lecturer's poor performance, the training manager appoints you to investigate the allegations and to report to him your findings with recommendations to remedy the situation. When you get into this assignment, you find poor English language; poor Communication Skills subject knowledge and poor class attendance as true accusations.

### **TASK**

Highlighting five of the common mistakes in the English language as some of your findings, write a detailed formal report with at least three recommendations of what should be done to address the situation. (20)

NAMUKU INSTITUTE (Any name)

DATE: 10/01/2022

TO: THE TRAINING MANAGER

FROM: SENDER'S POSITION

HEADING: REPORT ON POOR PERFORMANCE

### **TERMS OF REFERENCE/ INTRODUCTION**

This report highlights the causes of poor communication skills that resulted in poor performance among staff in the organisation. It was requested by the manger together with recommendations in order to address the situation.

Recently there has been several complaints by fellow staff against some employee's poor communication skills that affected the output of services and goods in the organisation. It is against this back ground that this report highlights some procedures, findings, conclusions and recommendations to alleviate the problem,

### **Procedures**

Procedures that were to collect information were:

- (a) Interviews
- (b) Questions
- (c) Observations



## Findings:

### (a) Language problem

(i) common mistakes in terms of language that were made by some staff included phrases and words such as:

- discuss about
- can be able to - instead of is able to
- unless if - instead of unless
- admitted in - instead of admitted to
- wrong spellings such as writing - instead of writing

### (b) poor customer service

- Some staff were rude
- Lack of product Knowledge
- Lack of commitment on the job

## Conclusion

From the findings, it can be concluded that some staff had a serious language problem, poor customer service which resulted into poor performance by staff.

## Recommendations:

- (a) The staff should be sent for training in customer care and the need for sensitisation Of the company's products
- (b) The need for strict supervision of staff
- (c) Some staff should be removed from the front office to save the organisation's reputation.

## **Sender signature**

**Monde Mwiinga**

## **SOLUTION SEVEN**

(a) Written documents commonly used in business:

- i) Journals
- ii) Written reports
- iii) Written notices
- iv) Books
- v) News papers
- vii) Minutes
- viii) Written press release
- ix) Memos
- x) Brochures
- xi) Written adverts

(b) Standard elements of a Business letter

- i) It must bear two addresses, starting with the sender's and receiver's address
- ii) Date indicating when it is being written
- iii) The receiver's name must be preceded by the receiver's name or title of the office.
- iv) The salutation a formal greeting expressed by dear sir/ madam
- iv) The subject line summarizing what the message is all about.
- v) The message indicating the contents of the message  
(Introduction, main body and conclusion)
- vi) The complimentary close expressed by the phrase yours faithfully or yours sincerely.
- vii) The signature, name and position of the writer

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA: 5 COST ACCOUNTING

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TUESDAY 13 DECEMBER 2022

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A – MULTIPLE CHOICE**

**Attempt ALL the ten (10) multiple choice questions in this section**

### **QUESTION ONE**

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

- 1.1 In an abnormal gain account, the debit and credit entries shows the following:
- A. Debit shows the units and their value from the process account. The credit entry shows the impact on the income statement.
  - B. Debit shows the units and their value from the process account. The credit entry shows the impact on the scrap account.
  - C. Debit shows the effect on the income statement while the credit entry shows the units and their value from the process account.
  - D. Debit shows the effect on the scrap account while the credit entry shows the units and their value from the process account
- (2 marks)

- 1.2 The labour turnover rate is defined as:
- A. The poor relationship between management and employees.
  - B. A measure of the number of employees leaving or being recruited in a period of time expressed as a percentage of the total labour force.
  - C. A measure of hours actually taken and the hours that should have been taken to make the output.
  - D. A measure of the total labour force expressed as a percentage of number of employees.
- (2 marks)

- 1.3 Which of the following is not a characteristic of a service?
- A. Heterogeneity
  - B. Tangibility
  - C. Simultaneity
  - D. Perishability
- (2 marks)

1.4 When using the first-in-first-out (FIFO) method to value inventory which of the following statement is FALSE?

- A. When prices are increasing, the cost of issues to production calculated using FIFO is higher than that if using LIFO or average cost method.
- B. FIFO makes the same assumptions as the physical flow of materials through an organization.
- C. FIFO is accepted by IFRS as suitable for valuing inventory.
- D. When prices are increasing, closing inventory calculated using FIFO is valued at the highest prices.

(2 marks)

1.5 The following information relates to the output levels in units and corresponding production overhead costs for Chanda Ltd for the past 3 months:

<b>Month</b>	<b>Output (units)</b>	<b>Production overhead costs</b>
January	80,000	K278,000
February	55,000	K208,000
March	120,000	K390,000

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

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

(2 marks)

1.6 The following information is available for contract F3A:

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

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

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

(2 marks)

1.7 A company absorbs overheads on the basis of machine hours. In the month of September 2020 the actual machine hours were 19,325 and the actual overheads incurred were K569,500. There was an under absorption of K13,250. What are the budgeted overheads for the month?

- A. K582,750
- B. K556,250
- C. K588,825
- D. K32,575

(2 marks)

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

- A. Marginal costing
- B. Control accounts
- C. Period stocktaking
- D. Cost classification

(2 marks)

1.9 Extract from company D's records for the last month are as follows:

	<b>Budget</b>	<b>actual</b>
Production (units)	7,000	7,200
Direct material cost (K'000)	42,000	42,912

What is the total direct material cost variance?

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

(2 marks)

1.10 The overhead absorption rate for product KD is K4 per machine hour. Each unit of KD requires 3 machine hours. Inventories of product KD last period were:

Opening inventory	2,400 units
Closing inventory	2,700 units

Compared with the marginal costing profit for the period, the absorption costing profit product KD will be:

- A. K1,200 higher
- B. K3,600 higher
- C. K1,200 lower
- D. K3,600 lower

(2 marks)

**[Total: 20 Marks]**

## SECTION B

There are five (5) questions in this section.

Attempt any FOUR (4) questions.

### QUESTION TWO

Fruit Drink Limited (FDL) manufactures drink knowns fantastic. FDL has selected at random three (3) workers (Joseph, Martha and Nomsa) with the following information relating to each worker for week one in 2021.

<u>Activity</u>	<u>Joseph</u>	<u>Martha</u>	<u>Nomsa</u>
Actual units produced	350 units	600 Units	500 Units
Actual hours worked	60 Hours	45 Hours	48 Hours
Wage rate per hour	K10	K12	K15
Expected work hours	50 Hours	50 Hours	50 Hours
Over time paid @	Time and half	Time and half	Time and half
Bonus rate of time saved @	60 %	60 %	60%
Standard Time per unit	12 minutes	12 Minutes	12 Minutes

#### **Required:**

- (a) Calculate the total pay for each of the employees clearly showing the bonus pay, overtime premium and basic wage figures. (10 marks)
- (b) State two (2) advantages and two (2) disadvantages of implementing a piece work scheme. (4 marks)

The monthly demand for 'fantastic' is 6,250 units. Each product's material is purchased at K8 and annual holding cost for components is 4% of the purchase cost. The cost of making calls for an order is K10 while the transportation cost of an order is K40.

#### **Required:**

- (i) Calculate the economic order quantity (EOQ) for the fantastic (6 marks)

**[Total: 20 Marks]**

### QUESTION THREE

Luwi Ltd operates a standard costing system and you have been given the following information for month 1.

#### **Standard cost card:**

Direct Materials	15Kg @K100 per/Kg	<b>K</b> K1,500
Direct Labour	10 hours @ K80 per/hour	K800
Variable Overheads	5 Hours @ K70 per/hour	K350
Fixed Overheads	3 Hours @ K50 Per/Hour	K150

#### **Standard Cost**

Budgeted Production (units)

**K2,800**

10,000



The actual outcome for month 1 was as follow:

Production		8,500 Units
<b>Standard cost card:</b>		<b>K</b>
Direct Materials usage	148,000kgs	13,500
Direct Labour hours paid	110,000 hours	10,000
Direct Labour hours worked	80,000 hours	
Variable Overheads		6,000
Fixed Overheads		1,600

**Required:**

Calculate the following variances:

- (a) Material price and usage variances (4 marks)
- (b) Labour rate and efficiency variances (4 marks)
- (c) Idle Time Variance (2 marks)
- (d) Variable overhead efficiency and expenditure variances (4 marks)
- (e) Fixed Overhead expenditure, volume efficiency and volume capacity variances.

(6 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Kennedy Mutaba Ltd produces three (3) joint products in two (2) processes. All the units pass through process 1 to process 2. At the end of process 2, the joint products emerge.

The data below relates to the operations for the first quarter of 2020.

	<b>Process 1</b>	<b>Process 2</b>
Direct material (40,000 kg @ K2.50)		K100,000
Direct labour	K60,000	K92,000
Production overheads	K48,000	K118,000
Normal loss as a percentage on inputs	10%	-
Scrap value per unit	K2	-
Output in units	35,000	-

**No loss is expected in process 2.**

There were no openings or closing work-in-progress. The output and the selling prices were as follows:

<b>Joint products</b>	<b>Output (kg)</b>	<b>Selling price (K)</b>
X	10,000	20
Y	16,000	15
Z	9,000	16

**Required:**

- (a) Prepare process 1 account (6 marks)
- (b) Prepare Abnormal loss/gain account (4 marks)
- (c) Determine the profits or losses from each joint product if costs are apportioned using sales value method. (6 marks)
- (d) Explain how the physical units method is different from sales value method in (c) above. (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

P & L is a law firm that is located in woodlands area in Zambia's capital city, Lusaka. The firm charges its clients on an hourly basis. In order to establish the charge per hour, the firm wishes to absorb its overheads into the cost per client/hour. The firm is methodically divided and structured into three front-line cost centres; Civil, Criminal and Property for the purposes of determining unit costs. The following estimates are available for next year:

	<b>Civil</b>	<b>Criminal</b>	<b>Property</b>
No. of junior partners/employees	24	18	8
No. of offices occupied	10	6	4
No. of client hours	28,000	32,000	20,000

	<b>K</b>
Overheads costs	
Salary of senior partner in charge:	
Civil	140,000
Criminal	160,000
Property	120,000
Rates and other occupancy costs	52,000
Employee benefits	100,000
General overheads	40,000

**Required:**

- (a) Calculate a blanket overhead absorption rate per hour for P & L operations next year. (3 marks)
- (b) Using the data given, allocate and apportion the estimated overhead costs to each of the firm's three cost centres, and on the basis of the resulting departmental overhead totals, compute an overhead absorption rate for each cost centre. (8 marks)
- (c) State and explain the three (3) stages involved in accounting for overhead costs. (9 marks)

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

On 4 May 2020, Joseph Construction Company was contracted by Mwenya Paradise Ltd, to construct a leisure park in Lusaka at a construction price of K950,000,000. Work commenced on the contract on 28 July, 2020. Retention money was agreed at 10% of work certified. At the end of the first year, no profits were declared as the contract was considered to be in its infancy.

The following details relate to the contract for the year ended 31 December, 2021.

	<b>K'000</b>
Balances brought forward 1/1/2021	
Materials on site	4,500
Accrued wages	1,250
Plant (cost)	150,000
Cost of work done	158,200
Work certified to 31 December, 2021	160,000
<b>Transactions during the year</b>	
Materials delivered to site:	
Ex-stores	14,600
By suppliers	128,400
Additional plant (cost)	120,000
Subcontractors fees	18,450
Consulting fees	28,000

Inspection fees	500
Salaries and wages	160,000
Head office expenses	1,200
Materials transfers out	15,000
Materials sales (cost K19,800)	22
Plant hire	250
Direct expenses	2,600
Total cash received from contract	580,000
Work certified during the year	660,000
Cost of work uncertified	42,000
Balances carried forward:	
Materials on site	51,000
Wages accrued	2,800

Plants have been purchased for use on the contract. Joseph Construction Company provided for depreciation on plant at  $12\frac{1}{2}$  % per annum on cost.

**Required:**

- (a) Prepare contract account for the year to 31 December 2021, showing clearly the profit (loss) on contract for the year. (11 marks)
- (b) Prepare valuation of work-in-progress (4 marks)
- (c) Prepare an account of Mwenya Paradise Ltd (Contracts) (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA5 COST ACCOUNTING**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

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

## SOLUTION TWO

(a) Total pay per each employee

		K	K	K
		<b>Joseph</b>	<b>Martha</b>	<b>Nomsa</b>
Basic pay	Hours x Rate	600	540	720
Bonus	1 Workings	60	540	468
Overtime Premiums	2	100	30	60
<b>Total Wages</b>		<b>760</b>	<b>1110</b>	<b>1248</b>

### Bonus Pay (Working 1)

	<b>Joseph</b>	<b>Martha</b>	<b>Nomsa</b>
output	350	600	500
time allowed	0.2	0.2	0.2
Time allowed Bonus	70	120	100
Time Taken	60	45	48
Time Saved	10	75	52
% bonus	0.6	0.6	0.6
Hourly Rate	10	12	15
<b>Bonus pay</b>	<b>60</b>	<b>540</b>	<b>468</b>

### Overtime Premium Pay Working 2

	<b>Joseph</b>	<b>Martha</b>	<b>Nomsa</b>
Hours worked	60	45	48
Weekly Hours	40	40	40
O/Time hours	20	5	8
Overtime Rate	5	6	7.5
<b>Bonus pay</b>	<b>100</b>	<b>30</b>	<b>60</b>

(b) Advantages

- (i) The company will only pay for good output
- (ii) Increased output due to motivation of workers wanting to increase output for a high wage
- (iii) Increased output in the same period will also reduce labour cost per unit of production

Disadvantages

- (i) Output may increase at the expense of quality
- (ii) Total labour costs may increase with output

- (iii) Wastage and damage of raw materials may increase due workers wanting to produce more in a short period of time.

(c)  $EOQ = \sqrt{2CoD/Ch}$

Annual Demand:  $6,250 \times 12 = 75,000$  units

Purchase Cost: K8

Holding Costs per unit pa:  $4\% \times K8 = 0.32$

Cost Per Order;  $K10 + 40 = K50$

$$EOQ = \sqrt{2 \times 75,000 \times 50 / 0.32}$$

$$= \sqrt{7,500,000 / 0.32}$$

$$= \sqrt{23,437,500}$$

$$= \underline{\underline{4,841 \text{ Units}}}$$

### SOLUTION THREE

(a)

	KG	Unit Price	Total Cost
Material Price Variance	148,000	100	14,800,000
But did cost			<u>13,500,000</u>
<b>Material Price Variance</b>			<b><u>1,300,000 Favourable</u></b>

	Units	Unit Price	Total Cost
Material Usage Variance	8,500	15	127,500 Kgs
But did cost			<u>148,000 Kgs</u>
<b>Material Usage Variance</b>			<b><u>20,500 Kgs(A)</u></b>
Standard Material Price			<u>K100</u>
			<b><u>2,050,000 (A)</u></b>

(b)

#### Labour Rate Variance

	Std Hours	Unit Price	Total Cost
Labour Rate Variance	110,000	80	8,800,000
But did cost			<u>10,000,000</u>
Labour Rate Variance			<b><u>1,200,000 (A)</u></b>

#### Labour efficiency Variance

	Units	Unit Price	Total Cost
Should have taken	8,500	10	85,000 Hours
But did take			<u>80,000 Hours</u>
<b>Labour Efficiency Variance</b>			<b><u>5,000 Hours(F)</u></b>
Standard labour rate			<u>80</u>
<b>Labour Efficiency Variance</b>			<b><u>400,000 Favourable</u></b>

Hours      std Rate

(c)

Idle Time Variance	30,000	K80	<u>2,400,000</u>	<b>Adverse</b>
--------------------	--------	-----	------------------	----------------



(d)

### Variable Overhead Expenditure Variance

	Std Hours	Unit Price	Total Cost
<b>Standard Hours should cost</b>	<b>80,000</b>	<b>70</b>	<b>5,600,000</b>
But did take			6,000,000
Variable Overhead Expenditure			<b>400,000 (A)</b>

### VOH efficiency Variance

	Units	Unit Price	Total Cost
<b>Should have taken</b>	8,500	5	42,500 Hours
But did take			80,000 Hours
<b>VOH Efficiency Variance</b>			<b>37,500 Hours</b>
Standard VOH rate			K70

**VOH Efficiency Variance** **2,625,000 Adverse**

(e)

### Fixed Overhead Expenditure Variance

	Std Hours	Unit Price	Total Cost
Budgeted Fixed OH	10,000	150	1,500,000
Actual Fixed OH			1,600,000
Fixed Overhead Expenditure			<b>100,000 (A)</b>

### FOH Volume efficiency Variance

	Units	Unit Price	Total Cost
<b>FOH Volume Efficiency Variance</b>	8,500	3	25,500 Hours
But did take			80,000 Hours
FOH Efficiency Variance			<b>54,500 Hours</b>
Standard FOH Absorption rate			K50

**FOH Volume Efficiency Variance** **2,725,000 (A)**

### FOH Volume Capacity Variance

	Units	Unit Price	Total Cost
FOH Volume Capacity Variance			

Budgeted Hours	10,000	3	30,000	Hours
Actual capacity			80,000	Hours
<b>FOH Volume Capacity Variance</b>			<b>50,000</b>	<b>Favourable</b>
Standard FOH Absorption rate			K50	
<b>FOH Volume Capacity Variance</b>			<b>2,500,000</b>	<b>Favourable</b>

## SOLUTION FOUR

(a)

Process 1 a/c							
	Units	Unit cost	K		Units	Unit cost	K
Direct material	40,000	2.50	100,000	Process 2	35,000	5.56	194,444
Direct Labour	-	-	60,000	Normal Loss	4,000	2	8,000
Overheads	-	-	48,000	Abnormal Loss	1,000	5.56	5,556
	<u>40,000</u>		<u>208,000</u>		<u>40,000</u>		<u>208,000</u>
		<u>00</u>			<u>0</u>		

Valuation of Good Output and Abnormal Loss

$$= K \frac{(208,000 - 8,000)}{(35,000 + 1,000) \text{ units}} = K5.56$$

(b)

Abnormal Loss A / C						
Units	Unit cost	K		Units	Unit cost	K
1,000	5.56	5,556	Bank	1,000	2	2,000
			P & L a/c	-	-	3,556
		<u>5,556</u>				<u>5,556</u>

(c)

Process 1 Output of Product				
	X	Y	Z	Total
Units (Kg)	10,000	16,000	9,000	35,000
Sales (K)	200,000	240,000	144,000	584,000
Costs of Processing				
Process 1: Joint costs				(194,444)
Process 2: Joint Costs (92,000 + 118,000)				(210,000)
Joint Costs Apportioned using sales:	(138,508)	(166,210)	(99,726)	(404,444)
Profits	<u>61,492</u>	<u>73,790</u>	<u>44,274</u>	<u>179,556</u>

(d)

The physical units method apportions the joint costs using the physical quantity of output so that products with high physical output quantity end up getting higher proportions of joint costs. The sales value method apportions the joint costs using the sales value of output so that the product with the higher sales value receives a higher proportion of joint costs.

## SOLUTION FIVE

(a) Blanket OAR = Budgeted Overheads/Budgeted No. of client hours  
 = K612, 000/80,000 client hours  
 = **K7.65 per client hour**

(b) Overhead Analysis Sheet

Overhead cost	Total K	Basis	Civil K	Criminal K	Property K
Senior Partner Salary	420,000	Allocation		140,000	160,000
	120,000				
Rates, etc	52,000	No. offices	26,000	15,600	10,400
Employee benefits	100,000	No.J/staff		48,000	36,000
16,000					
General Overheads	<u>40,000</u>	No. client hrs	<u>14,000</u>	<u>16,000</u>	<u>10,000</u>
	<u>612,000</u>			<u>228,000</u>	<u>227,600</u>
	<u>156,400</u>				

Calculation of OAR

Civil = K228,000/28,000 client hours = K8.14 per client hour

Criminal = K227,600/32,000 client hours = K7.11 per client hour

Property = K156,400/20,000 client hours = K7.82 per client hour

(c) Accounting for overhead costs is usually undertaken through the following stages.

### Overhead allocation

This is the process of charging whole cost items to cost centres which can be production or service cost centres.

### Overhead apportionment

This is the process of sharing general overhead costs to various cost centres using suitable basis. Apportionment basis are related to whether the factory is labour or capital intensive. Examples of apportionment basis maybe labour hours, machine hours, volume of output, etc.

### Overhead absorption

Overhead absorption is the process of charging or adding overheads to cost units or products or services that are being costed. This is done using a pre-determined overhead rate which is calculated by dividing the budgeted overheads by budgeted absorption base. The absorption base could be labour hours or machine hours.

## SOLUTION SIX

### (a) Joseph Construction Company

#### Contract account

	<b>K' 000</b>		<b>K'000</b>
Balance b/f: cost of work done	158,200	Material transferred out	15,000
Material on site	4,500	Material sold 19.8	
Plant	150,000	Plant old @87.5% of	
Material issued from stores	14,600	(15,000 +120,000)	
Material from suppliers	128,400	Material c/d	51,000
Plant purchased	120,000	Costs of work done c/d	48,980.20
Sub – contractors fee	18,450		
Consultancy fees	28,000	788,200	
Inspection fees	500	Value of work certified	820,000
salaries and wages	161,550	Cost of work not certified c/d	42,000
Head office expense	1,200		
Direct expenses	2,600	702,000	
	788,250		
Cost of work done b/d	485,980.20		
Contract profit	376,019.80		
Balance b/d	862,000		
Plant	236,250		
Material	51,000		
Cost of work not certified	42,000		

Nb: work certified value = 660, 000 + 160, 000 = K820, 000

### (b) Valuation of work in progress

	K'000
Cost incurred to 31 <sup>st</sup> December 2021	485,980.20
Add: contract profit realized	<u>376,019.80</u>
862,000	
Less: value of work certified paid for	( <u>580,000</u> )
Value of work in progress	<b><u>282,000</u></b>

Or

	K'000
Cost of work not certified	42,000
Add: money retained (820,000 – 580,000)	<u>240,000</u>
Value of work in progress	<b><u>282,000</u></b>

(c) Mwenya Paradise Ltd (contractee)

Contractee account	
K'000	K'000
Contract b/d 820,000	Retention a/c (10% x K 820, 000) 82,000 Cash a/c 580,000 Balance c/d (receivable) 158,000
820,000	820,000

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 6: BUSINESS LAW

---

FRIDAY 16 DECEMBER 2022

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

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## **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 Beatrice gave her husband Zulu, an overdose of his traditional medicine, knowing that if he died, she would inherit all his property since their marriage had no children. Zulu died in his sleep, and the wife claimed all his property. However, the matter was taken to court to prevent her from inheriting. Which of the following rules of statutory interpreting could have been used to prevent Beatrice from benefiting from her crime?

- A. The Golden Rule.
- B. The Literal Rule.
- C. The Mischief Rule
- D. The Context Rule

(2 marks)

1.2 Which of the following is not true about Judicial Precedents?

- A. It is an area in which the judges' role overlaps and the judge is able to make laws.
- B. A judge is compelled to make a decision on a point of law which has never arisen before in any court.
- C. A judge is guided by decisions of other judges in earlier similar cases.
- D. A judge has to abide by the precedent when faced with different facts in a new litigation.

(2 marks)

1.3 Which of the following transactions amounts to a definite offer?

- A. Text message on phone by Bwalya to Chirwa, "lowest price for my Toyota Corolla is 40,000 kwacha".
- B. An advertisement on a tree in Kabwata to anyone interested in renting a 2-bedroomed house in Libala Stage Four B at 2000 kwacha every month.
- C. Reply by Mary to Jane that for a quick sale she was prepared to accept 200 kwacha for her mirror.



D. Request by Lusaka City Council to sitting tenants of Kabwata Flats to fill in application forms for purchase of houses they occupy.

(2 marks)

1.4 The right to sell goods under the Sale of Goods Act, 1893, goes with the ability to transfer title or ownership of the goods to the buyer. Johnny bought an Infinix Hot 8 phone from Davido, but discovered that Davido had stolen the phone from his uncle, who had since reported the matter to the police. Which of the following best explains the status quo between the parties?

A. Title passes to Johnny and the true owner can sue the thief.

B. Davido has a defective title which he can pass to Johnny.

C. Title remains with Davido though possession is with Johnny.

D. Johnny must return the phone to the true owner and sue Davido for a refund.

(2 marks)

1.5 The main difference between a tort and a contract is

A. A tort arises from a duty imposed by law, while duties in a contract are fixed by the parties.

B. A tort is a civil wrong while a contract is a disagreement.

C. A tort is an agreement, while a contract is not.

D. Injury from a tort may be redressed by an action for damages, while an injury from a contract is not.

(2 marks)

1.6 Agency relationship can't be established via.....?

A. Consent

B. Necessity

C. Estoppel

D. Friendship

(2 marks)

1.7 James won a case in the High Court last week and the Court awarded him damages.

What does that mean?

A. Injury one has suffered

- B. A defence given
- C. Compensation
- D. Causation

(2 marks)

1.8 Title to property in the goods sold by a seller who is not the owner of the goods can't transfer by...

- A. Possession
- B. Estoppel
- C. Agency
- D. None of the above

(2 marks)

1.9 What amounts to summary dismissal?

- A. Termination of employment without following procedure.
- B. Termination of an employee's contract due to pregnancy.
- C. Termination of an employee's contract for gross misconduct without notice.
- D. Termination of an employee's contract based on lack of financial capacity to pay.

(2 marks)

1.10 Which of the following rules of interpreting statutes goes to look at the intention of Parliament?

- A. Golden rule
- B. Literal rule
- C. *Noscitur asociis* rule
- D. Mischief rule

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

### **QUESTION TWO**

- (a) Morgy is a well-known business man who loves wild animals particularly that he has done a lot of traveling to different parts of the world just to view nature. Last year, he returned from Senegal where he bought a tiger from his old friend Munigh Sagudon, at a price of \$ 3,000. Morgy brought the tiger to his home land in Zambia and settled at his house in Woodlands Township where he heavily secured the tiger in a cage.

Without him knowing, the tiger escaped from its heavily secured cage which was always locked and went on a hunting spree to the neighboring Chilenje area. It is believed that someone negligently failed to lock the cage after feeding the tiger.

It is reported that the tiger attacked seven (7) marketeers around Chilenje market who had reported earlier that morning for their normal business. The tiger attacked people were left with serious injuries and were hospitalized at the Chilenje Level One Hospital. They were very upset that Morgy had not taken interest in them to even help them with medical bills especially that it was his tiger that attacked them. When contacted, Morgy said that he was not to blame as he did not instruct the tiger to attack them and if they had issues, they should deal with the tiger.

Provoked and astounded by this response, the seven (7) marketeers knowing that you studied Business Law have approached you.

#### **Required:**

- (a) With the aid of examples, explain to the seven (7) marketeers on what elements they need to prove for Morgy to be tortiously liable. (12 marks)
- (b) Assuming Morgy had the right to terminate his contract with Munigh Sagudon, explain to him on any four (4) ways he can terminate. (8 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Msanzi Foods is a partnership business owned by two (2) brothers Chris and Given. Msanzi Foods' core business is provision of food for humans and animals. The firm rears chickens and quails, and manufactures animal feed. In addition, the business sells traditional food stuffs like African polony (chikanda), pumpkin leaves and okra. The firm's partnership deed provides that Given would be in charge of production whilst Chris would be in charge of administration and marketing of the products.

#### **Required:**

- (a) Other than management, explain four contents of the partnership deed. (8 marks)
- (b) Chris decided to order fish for the partnership business without consulting Given. Explain as to whether his decision bind the partnership or not? (10 marks)
- (c) How would Given and Chris share profits and losses in the absence of a provision in that regard in the partnership deed? (2 marks)

**[Total: 20**

#### **Marks]**

### **QUESTION FOUR**

- (a) Making reference to case law, explain the tests for determining an employee for purposes of vicarious liability. (10 marks)
- (b) Explain the common law duties of an employee to their employer. (10 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) Kikumbutso Building Contractors (KBC) has won a contract to build 78 houses at K380,000 per house in Kabwe for Kabwe Municipal Council, which would be rented out to civil servants in the area. The work commences as soon as the council pays a deposit of 20% of the contract price. However due to the devaluation of the kwacha and shortage of manpower, the work stalls at 30% completion, and the contractor applies to court to set the contract aside due to unforeseen circumstances, and also claims payment for work done so far, as the previous payment was used to acquire materials. Kabwe Municipal Council counter-claims damages for breach of contract by the contractor.

#### **Required:**

Applying your knowledge of discharge of contracts, explain if there are any merits in their complaints. (10 marks)

- (b) Two (2) workers were employed by Kafue Sugar PLC as welder and cleaner respectively. The cleaner was given gumboots while a one eyed welder was denied welding goggles because he had one eye. The factory was flooded during a storm and the supervisor ordered all workers to mop the floor and apply saw dust. There was lightning which increased the voltage of the electricity and the one eyed welder was struck in the face and he lost his only good eye. The cleaner who had seen the accident to the one eyed welder ran to assist him but slipped, fell and broke his leg. The one eyed welder lost his only good eye. The lawyer of Kafue Sugar PLC in defence noted that the company had acted reasonably in the circumstances despite the injuries sustained by the two workers. Both workers have approached you since you are knowledgeable in the law of torts, and would like to be advised on the standard of care in the tort of negligence.

**Required:**

With the help of decided cases, if any, explain the standard of care to prove their case. Explain whether the defendants satisfied the requisite standard of care.

(10 marks)

**[Total: 20 Marks]**

**QUESTION SIX**

Judicial Precedent is law made by judges while interpreting statutes. Also known as judge made law. The judge makes statements of law applicable to the legal problems raised by material facts or make by the way statements.

**Required:**

- (a) In light of the aforestated, explain the two types of precedents. (10 marks)

- (b) Identify five (5) advantages of judicial precedent. (10 marks)

**[Total 20 Marks]**

**END OF PAPER**

## **DA6 BUSINESS LAW**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

1.1 A

1.2 D

1.3 C

1.4 D

1.5 A

1.6. D

1.7. C

1.8. A

1.9. C

1.10. D

## **SOLUTION TWO**

The scenario falls under the law of Torts under a theory of strict liability which entails liability without fault. This rule was established in the case of **Rylands V. Fletcher [1868] L.R. 3 H.L. 330**, whose the brief facts are that the defendant employed a contractor to construct a reservoir on his land/ beneath were disused mining shafts filled up with rubbish which the contractor failed to discover. When the reservoir was filled, the water burst through and escaped into Plaintiff's mine which adjoined. The Defendant was held liable for the damage so caused.

Therefore, the 7 Marketers need to prove the following:

- i. The thing must be brought on the land clearly, the starting point is that if the thing in question is already naturally present on the land, then there can be no liability. In the case of *Giles v Walker*, there was no liability for weeds spreading on to neighbouring land. Further, in the case of ***Pontardawe RDC v Moor Gwyn***, there was no liability for the damage caused by the escape of rocks in an earthquake.
- ii. A non-natural use of land. The concept of non-natural use of land was developed and explained in the case of *Rickards v Lothian*, where it was stated that it is not every use of land which brings into play this principle, it must be some special use which brings with it increased danger to others and not merely by ordinary use of land such as is proper for the general benefit of the community.
- iii. The thing must actually escape. It is not the escape itself that must be likely, only that mischief is likely if the thing brought on to land does escape. In the case of *Read v Lyons Co Ltd*, an ammunition inspector was inspecting an ammunition factory and was injured along with a number of employees in which one man died when certain shells exploded. The House of Lords held that the rule of *Ryland V Fletcher* did not apply because there was no escape at all of the relevant kind. An escape in this case is one from a place where the defendant has occupation or control over the land to a place which is outside his occupation or control.
- iv. Damage was caused to the plaintiff's property (or person) as a result of the escape. The thing that escapes must cause mischief or damage to other people.

Therefore, the 7 marketers can prove that:

- 1) Morgy brought onto his land something which was likely to do mischief if it escaped. This he did by bringing the Tiger
- 2) The Morgy made a non-natural use of his land. The Tiger was a non-natural use of the land
- 3) The Tiger in question escaped. The Tiger actually escaped from the cage
- 4) Damage was caused to the 7 marketers as a result of the escape of the Tiger.

All the elements of proving strict liability are available and Morgy can be held liable given the circumstances.

**(a) Assuming Morgy wants to terminate the Contract with Munigh Sagudon, he can use any of the (4) four ways:**

### **(i) Performance**

The general rule is that the parties must carry out precisely what they agreed under their contract. If one of the parties does something less than, or different from, that which he agreed to do, he is not discharged from the contract and, moreover, cannot sue on the contract. If one of the parties only partially carries out his side of the contract, but the other party, exercising a genuine choice, accepts the benefit of the partial performance, the court will infer a promise to pay for the benefit received. A person who is prevented from carrying out his side of the bargain by the other party can bring an action to recover for the work he has done.

### **(ii) Agreement**

The parties may have agreed in their original contract that it should end automatically with the happening of some event or after a fixed period of time. The agreement may have included a term allowing either party to terminate the contract by giving notice. A contract of employment, for example, can be brought to an end by either the employer or employee giving reasonable notice to the other. A contract may be discharged by the execution of a separate agreement. The new agreement will only discharge the old contract if it possesses all the characteristics of a valid contract. In particular, there must be consideration. When neither party has yet performed his side of the contract, there is no difficulty. Both sides, by waiving their rights, are providing something of value which constitutes consideration.

### **(iii) Frustration**

An agreement which is impossible to perform from the outset will be void for mistake. However, the question arises about the position where initially it is perfectly possible to carry out the contract, and then a change in circumstances occurs, making it impossible to carry out the agreement. Formerly, the parties were under an absolute duty to perform their contractual obligations. A person was not excused simply because outside events had made performance impossible.

### **(iv) Breach**

A breach of contract is failure to perform the terms of a contract. A breach of contract may occur in a number of ways. It may be an anticipatory or an actual breach. This is where a party states in advance that he does not intend to carry out his side of the contract or puts himself in a position whereby he will be unable to perform. The injured party may sue immediately for breach of contract or, alternatively, wait for the time for performance to arrive to see whether the other party is prepared to carry out the contract.



### SOLUTION THREE

(a) The four contents of a partnership deed for Msanzi Foods other than management, that is, *the answers must not include Management* – How the partnership is to be managed, share roles of production, administration, etc as this has already been done in the question and excluded by the question). Other contents would be as follows:

*Name of Partnership* – The partnership deed must have the name of the partnership i.e. Msanzi Foods.

*Nature of Business* – Provides for the activities of the partnership i.e. supplying of food stuff.

*Share of Profits and Losses* – They are in business therefore profit is the main motive so they have to provide for that to show how they will share their profits and losses.

*Types of partners*:- It provided for different types of partners i.e. ordinary, limited, dormant, etc.

*Duration of the Partnership*:- The partners may indicate the date of commencement of the partnership and for how long it will last.

*Capital of the Partnership (Firm)*:- The partnership deed must state the capital of the firm and how much each partner will contribute.

*Accounts, bank accounts and drawing of cheques*:- The partnership deed must state where the books of accounts will be kept e.g. that the books of accounts shall be kept at the firm's office or at the residence of the managing partner or partner in charge of finances or any other agreed place.

Further, the agreement must state which bank will have the account of the partnership and who amongst the partners will be the signatories to the account and signing cheques.

*Retirement from the firm*:- There must be a clause that states that any partner must retire by giving notice to that effect.

*Cessation on death or retirement*:- Partners can agree that death/retirement will not automatically end the partnership in order that the firm's goodwill is not lost. Partners can agree that the partnership should continue.

*Arbitration Clause*:- This provision is meant to be used as an avenue for dispute resolution to avoid costly court processes and avoid damaging the reputation of the firm, thus partners agree on how and where disputes would be taken to for resolution

(b) As a partnership has no separate legal identity from its members, every partner in a firm is an agent of the firm as well as all other partners for the purpose of the firm. Thus, a partner who performs an act for the purpose of carrying out the business of the firm binds the firm as well as the other partners.

Thus as agent of the firm, Chris' action binds the firm even though he acted without authority from the other partner, he became an agent by apparent authority, Msanzi Foods (firm) will

be estopped from denying that Chris acted for the partnership. The case of *Freeman and Lockyer v Buchhurst Park Properties (Mangal) Ltd (1964)* where the company was estopped from denying that it allowed one of the directors to act as though he had authority from the company to enter into contracts.

In view of the above, Chris becomes an agent of the firm by estoppel and binds the firm.

(C) In the absence of agreement in the partnership deed, profits and losses would be shared equally. [

## SOLUTION FOUR

- (a) Three tests there are for determining a contract of service as opposed to a contract for services. The control test; the integration test and multi-factor test
- (i) control test here for the courts to determine whether one is engaged in a contract of service or contract for services, they look at the amount of control the employer exerts on the employee so that, if the employer determines what time the employee ought to report and leave work, when the employee is to have break and how much the employee is to be paid for work done, then the employee would be said to be engaged under a contract of service as opposed to a contract for services. *Mersey Docks and Harbour Board v Coggins and Griffiths Ltd* (1946) is instructive here. Here the harbour board lent a crane to the defendants and the operator. The contract of hire indicated that the defendants would be the employers of the operator. However, the defendants did not know how the operator used the crane and did not have any control over him. A checker at the harbour was injured due to the negligence of the operator and sued the defendant. The court held that the plaintiffs exercised control over the operator of the crane and therefore he was their employee and not of the defendants. Identify how many tests there are for determining a contract of service as opposed to a contract for services. Make reference to case law in your answer.
- (ii) The integration test mainly focuses at the degree of integration an employee may be in the business of the employer. So that, the more integrated into the business one may be seen to be, the more the courts are likely to hold them to be employees and not engaged on a contract for services. *Cassidy v Ministry of Health* (1951) is instructive on this matter. Here the plaintiff underwent an operation which was routine on his hand but the operation was done incompetently that the plaintiff's condition became much worse. He sued the health authority both as employer and in its own capacity. The question was however to determine whether the surgeon was an employee so that the health authority is held liable vicariously or not. The court held that there was a relationship of master servant here and that the health authority were masters of people it employed on a routine basis despite the professional nature of their duties.
- (iii) Multi-factor test in this test, the courts will look at the reality of the circumstances and from the relationship of the employee and employer, they will be able to deduce whether one is in fact an employee or not. Therefore whether someone be said to be self-employed and on a contract for services, if he is held to be an employee from the reality of the circumstances, then the courts will construe him/her as such. *Ready Mix Concrete (South East Ltd) v Minister of Pensions and National Insurance* (1968) is instructive. Here when the plaintiff company asked the Minister of Social Security to determine whether one of its workers qualified as an employee for social security purposes, the minister stated that the worker was employed under a contract of service however, on appeal the court of appeal reversing the minister's decision held that he was running a business of his own and was therefore not a servant but a small businessman and hence engaged on a contract for services not contract of service.

(b) (i) First duty of an employee towards the employer under the common law is of competence to do the job for which employed. *Lister v Romford Ice and Cold Storage Ltd* (1957) is instructive here as it is on the duty to use skill and care. Here the court held the driver liable for injuries sustained by a fellow worker due to the negligence of the driver.

(ii) Duty to obey reasonable and lawful instructions. An employee has a duty only to obey lawful instructions from the employer so that if the employer issues unreasonable instructions, the employee may refuse to obey and will not be in breach of that duty. *Morrish v Henlys (Folkestone) Ltd* (1973) is instructive on that where the employee refused the superiors orders to falsify accounts books and the courts held that not to be in breach of the instructions.

(iii) Duty to act faithfully employees have a duty to the employer to act faithfully in their course of dealings with their employers. An employee for instance has a duty not to pass information obtained while in the course of their employment to outsiders and equally not to compete with their employer. *Nova Plastics Ltd v Froggett* (1982) is instructive where the court held that an employee doing something in direct competition with his employers when done in the employee's spare time would equally constitute a breach of duty.

(iv) Duty to use skill and care in discharge of functions engaged to perform. *Lister v Romford Ice and Storage Ltd* (1957) is instructive where the court held an employee lorry driver to be liable for injuries suffered by a fellow worker due to the gross negligence in driving the lorry and was held to be in breach of his implied duty of skill and care.

(v) Duty not to take secret profits from the employers' business. *Boston Deep Sea Fishing Ice Co. Asell* (1888) here a managing director of a company was held to have been properly dismissed for taking money as commission from the company's suppliers for orders he placed with the suppliers.

## SOLUTION FIVE

(a) Kikumbutso may plead that the contract has been frustrated. A contract is frustrated when a frustrating event occurs-this is an unforeseen event which renders it impossible for the parties to perform their obligations, and no one is to blame. It can be concluded here that devaluation of the kwacha and labour shortage were frustrating events. But parties have to be reminded that poor planning cannot be hidden by frustration, and if found that there were no contingency measures, frustration may not succeed. Money deposited before frustration (20 % paid to the contractor) is recoverable minus expenses under the Law reform (Frustrated Contracts Act chapter 73 of the laws of Zambia.

It is also possible if breach is proved, for the council to claim damages, issue injunctions, apply for orders of specific performance and give the council the right to terminate the contract.

(b) The standard of care which is used to establish the tort of negligence is that of a reasonable man, and once the defendant has discharged that duty, he may not be liable: in *Latimer v AEC, 1953*, it was held that the defendant who owned a factory that was flooded during a storm, and he took reasonable steps to dry the floor by mopping and applying saw dust, was not liable for an employee who subsequently fell and got injured because he had discharged his duty of care. But in *Stepney v Borough Council, 1951*, the Council was liable for the loss of the only good eye, when the Council did not supply welding goggles to a one-eyed welder because the Council thought that goggles were for two eyed welders only. Therefore where the worker broke his leg after slipping, the employers had discharged the duty of care to provide a safe working environment, and were not liable to compensate the injured employee. But where they refused to provide welding goggles because the employee had one eye, they were liable to compensate the worker who due to their negligence became totally blind.

- That Mustapha owed the family a duty of care
- He breached this duty by supplying contaminated water
- As a result of the breach, the wife and husband suffered injury: if there is no injury, the couple may not be compensated, as was the case in *Michael Chilufya Sata v Zambia Bottlers, 2001*: the plaintiff alleged that his children fell sick and were treated at private hospital, when they were bought a sprite drink from Mellisa Super Market which was found to contain a dead cockroach. The bottle was never opened and the children did not take the drink. It was held that the plaintiff's children did not suffer any injury and no compensation was payable.

(C) This is a contract of sale by sample.

The conditions that may have been breached by the seller are:

- Implied condition that bulk of the goods shall correspond with the sample

- Implied condition that the buyer shall have reasonable opportunity to compare the bulk with the sample.
- Implied condition that the goods shall be free from any defects which may render them unmerchantable.

## SOLUTION SIX

(a) The two types of precedents are as follows;

1. **Binding precedents**- these are precedents that bind the court to follow them and not stray from them. Examples of binding precedents include; the ratio decidendi, decisions made by higher courts. Ratio decidendi simply means the reason for the decision. *Ratio decidendi* is a legal phrase that translates from Latin to mean "the reason," or the motivation behind a legal decision. *Ratio* includes all of the principles a court relies on – be they moral, political, or social – to justify their reasoning for coming to a decision in a case. A *ratio* is comprised of the legal points made by all the parties to a case. Decisions made by higher courts are binding on the lower courts. For instance, a decision made by the Supreme Court is binding on the Court of Appeal.
2. **Persuasive precedents**-these are principles of law which the courts will either chose to follow or stray from. Examples of persuasive precedents include; obita dicta, decisions made by inferior courts and decisions made by international courts. *Obiter dicta* are additional observations, remarks, and opinions on other issues made by the judge. These often explain the court's rationale in coming to its decision and, while they may offer guidance in similar matters in the future, they are not binding.

In reading a court's decision, *obiter dicta* may be recognized by such words as "introduced by way of analogy," or "by way of illustration." *Obiter dicta* may be as short as a [brief](#) aside or a hypothetical example, or as long as a thorough discussion of relevant law. In either case, the additional information is given to provide context for the judicial opinion. Decisions made by lower courts are persuasive to higher courts. For instance, a decision made by the Court of Appeal is persuasive to the Supreme Court. Decisions made by foreign courts are merely persuasive on the Zambian courts.

(b) The following are the advantages of judicial precedent;

1. Judicial precedent offers the legal system access to consistency and predictability.
2. It also offers the judicial system a certain measure of flexibility.
3. There is always the potential in place to set a new precedent.
4. Judicial precedent helps the court system to save time on future rulings.
5. It creates a system which focuses on fairness.

## END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 7: PRINCIPLES OF MANAGEMENT

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MONDAY 12 DECEMBER 2022

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

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**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

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 The motivation model proposed by B.F Skinner is
- A. Behavior modification
  - B. Behavior reinforcement
  - C. Behavior reshaping
  - D. Both A and B
- (2 marks)
- 1.2 Identify the four (4) main styles of leadership displayed by the manager, which are identified in Tannenbaum and Schmidt's continuum of possible leadership behavior:
- A. Tells, help, joins and leads
  - B. Commands, sells, consults and resists
  - C. Tells, sells, consults and joins
  - D. Commands, helps, joins and leads
- (2 marks)
- 1.3 Which of the following does the term Corporate Social Responsibility relate to?
- A. Ethical conduct
  - B. Environmental practice
  - C. Community investment
  - D. All of the above
- (2 marks)
- 1.4 Which element of the cultural web forms regalia?
- A. Rituals and routines
  - B. Symbols
  - C. Rule breaking
  - D. Rituals and routines
- (2 marks)
- 1.5 What kind of business is best described by these statements? "I own up to risks, responsibilities and enjoy all the earnings in my business."

- A. Sole Proprietorship
- B. Corporation
- C. Partnership
- D. Cooperative

(2 marks)

1.6 The purpose of Job analysis is to investigate a job and analyse the requirements of the Job. State the intermediate products of Job analysis

- A. Job depth and Job Specification
- B. Job design and Job description
- C. Job description and Job Specification
- D. Job Scope and Job depth

(2 marks)

1.7 The principles of management are intended to be applied to all types and sizes of Organisations. Based on your studies, this statement reflects that the principles of management are;

- A. Flexible
- B. General guidelines
- C. Mainly behavioural
- D. Universally applicable

(2 marks)

1.8. From the knowledge of this course DA7, Which organizational relationship gives a greater job satisfaction and results in maximum production?

- A. formal organization.
- B. informal organization.
- C. business or organisation.
- D. strategic organization

(2 marks)

1.9. Which types of leadership remains underexplored through research?

- A. leadership of teams
- B. leadership in organizations
- C. leadership of organizations
- D. leadership at executive level

(2 marks)

1.10. Management is an organ, organs actually can be described and also defined through their Functions. This definition was propounded by?

- A. Henry Fayol
- B. Max Weber
- C. Peter Drucker
- D. Louis Allan

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

**There are Five (5) questions in this section.**

**Attempt any FOUR (4) questions.**

### **QUESTION TWO**

- (a) Most employees complain about the poor performance of Managers which has made them lose the enthusiasm which they had before. Identify Rensis Likert's four (4) distinct management styles and explain their impact on motivation. (8 marks)
- (b) Ineffective recruitment and selection have proved costly to the organizations. Explain the reasons for the following in organizations and the costs that may be incurred as a result.

**Required:**

- (i) Poor selection (6 marks)
- (ii) Poor recruitment (6 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Doing all things and being all things by the Manager will only lead to delays and uninterested employees.

**Required:**

Describe any five (5) advantages of involving employees in what you do as a Manager. (10 marks)

- (b) Emotional intelligence is said to be a better indicator of an individual's leadership qualities than other forms of intelligence.

**Required:**

Describe the five (5) elements exhibited by emotionally intelligent leaders. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

Performance management aims to get better results for the organization and evaluation of individual performance. However, there are some barriers that Managers experience on the whole process.

##### **Required**

- (a) Explain six (6) barriers to effective appraisal system in an organization. (12 marks)
- (b) Despite challenges with the appraisal systems in business organizations, there are also benefits that are appreciated with the system. Explain four (4) benefits of the appraisal system (8 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) "Leadership today is increasingly associated not with command and control but with the concept of teamwork, getting along with others, inspiration and creating a vision with which others can identify".

##### **Required**

- Explain four (4) roles of a Team leader in a modern organisation. (10 marks)
- (b) Outline the findings of The Hawthorne Experiments conducted by Elton Mayo in Chicago between the years 1924-1932. (10 marks)

**[Total 20 Marks]**

#### **QUESTION SIX**

- (a) List the steps in the control process. (4 marks)
- (b) What four (4) factors are closely related to cognitive intelligence? (8 marks)
- (c) Define any four (4) forms of divisional structures. (8 marks)

**[Total 20 Marks]**

**END OF PAPER**

## **DA 7 PRINCIPLES OF MANAGEMENT**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

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

## **SOLUTION TWO**

(a) The following are the management styles by identified by Rensis and their impact on motivation:

i. Exploitative - authoritative style

Senior management have high authority, and decisions are imposed on subordinates, who are threatened so that they are motivated to work. There is little communication and no teamwork.

ii. Benevolent- authoritative style

Leader have authority motivation comes through rewards, however managerial personnel will feel responsible but lower people do not, with no or little communication.

iii. Consultative styles

Superiors have little trust in employees; motivation comes through some involvement and rewards some communication and teamwork.

iv. Participative style

Superiors have trust in their subordinates; motivation using economic rewards based on specific goals that are set together.

(b)

i) The following are reasons for poor selection:

- Badly designed application forms and inappropriate selection techniques
- Untrained interviewers
- Lack of regular monitoring of the selection process
- Poor recruitment

ii) The following are reasons for poor recruitment:

- Lack of detailed check of job requirements before interviews
- Unattractive job e.g. low pay
- Job vacancies are advertised in an unsuitable way-poor adverts
- Corruption

### **SOLUTION THREE**

(a) The following are the five (5) advantages of delegation:

- i. Best use of managerial time
- ii. Limited time of senior managers unless the delegate authority
- iii. A means of training and development of staff
- iv. Teaching of specialist knowledge and skill
- v. Delegation is useful in geographical situations like decentralization
- vi. For sound economic decisions that are brought about through improvement of effectiveness and efficiency
- vii. Motivation of the workforce as they are given chance to actualize themselves.

(b) The following are the five (5) elements that support emotional intelligence in leaders and make them better than others:

- i. Self-awareness - knowing who you are your strengths and weaknesses will help one to know how to deal with self and others and not the other forms of intelligence
- ii. Self- management - having self -control, which is beyond how one, feels but being able to demonstrate trustworthiness, integrity, and acceptance of change being flexible.
- iii. Self-motivation - being a self- starter and feeling good about self-.which motivate you to focus on the good in others.
- iv. Empathy - putting yourself in other people's shoes regardless of your position
- v. Social-skills -knowing how to deal and interact with subordinate with respect and fairness



## SOLUTION FOUR

(a) Six (6) barriers to effective appraisal system in an organization are:

- **Appraisal taken as bureaucracy** – a form filling exercise to just satisfy the HRM department forgetting its underlying purpose such as improving both organizational and individual performance.
- **Appraisal taken as an annual event**- Many targets sets at annual appraisal meetings are usually long forgotten along the way and becomes irrelevant. Feedback and goal adjustment and improvement is usually not done or followed up once an appraisal is done annually
- **Appraisal taken as confrontational** – The are used as some sort of a good sorting out of an employee for a mistake that was made at one time only and the feedback might be exaggerated or subjective.
- **Appraisal may be used as judgement**- the manager acts as a judge and a prosecutor which put a junior staff on the defensive side, instead of both the manager and the subordinate working together to identify strengths and weakness of an individual for a good cause.
- **Appraisal taken as just a mare chat** – the appraisal is taken as a friendly chat without purpose or outcome leaves many supervisors without providing much needed feedback and unresolved issues. This later on breeds great challenges.
- **Appraisal as unfinished business** – Appraisal is usually taken as a way of wrapping up the past year's performance issues without making it a part of a continuous future focused process of performance management.

(b) Four (4) benefits of the appraisal system are:

- Managers can easily identify some of the weaknesses of their subordinates, therefore, a formal appraisal system provides an opportunity to consider training and development in certain areas of the Job.
- It is easy for supervisors to judge a junior staff, however formal appraisal system makes them think carefully and objectively about their opinion.
- To facilitate feedback on subordinate's performance. Appraisals stimulates that feedback.
- Actual performance by an individual can be compared to agreed targets or standards and can easily assist to determine the amount of awards to give an employee.
- It helps to provide a coherent and complete picture of an employee's performance compared to the previous year.

## **SOLUTION FIVE**

(a) The team leader plays the following roles in a team in order to achieve the intended goals:

- i. Team leaders resolve the conflicts arising within the team to ensure that organizational goals are achieved.
- ii. A team leader provides coaching and training to the team members.
- iii. A team leader acts as the liaising officer with other teams, senior managers, customers and suppliers.
- iv. A team leader resolves problems within the team that may arise.

(b) The Hawthorne experiments carried out by Elton Mayo resulted into the following conclusions:

- i. Special attention given to employees by management increases productivity.
- ii. Informal groups-social environment of employees have a positive or negative effect on productivity.
- iii. Employees participation in decision making process improves efficiency among workers.
- iv. Productivity of employees at place of work is influenced by workers self-esteem created by supervisors.
- v. Recognition, security and sense of belonging of workers have a positive effect on productivity.

## **SOLUTION SIX**

(a) The steps in the control process are:

- i. Establish the performance objectives and standards
- ii. Measure the actual performance
- iii. Compare results with objectives and standards
- iv. Take necessary actions.

(b) The following factors that are related to cognitive intelligence:

- i. Knowledge of the business- having the technical competence and understanding of the work by the group so that his dealing and reactions are based on facts.
- ii. Creativity- use of imagination in complex situation in the rapidly changing world
- iii. Insight into other people situation having understanding that requires intuition and common sense.
- iv. Far sightedness-development of a vision and the long run consequences of today's actions. His calls for preparedness towards any eventualities.
- v. Conceptual thinking- being able to understand the influence of the external environment.

(c) The following are the four (4) forms of divisional structures:

- i. product structures- based on groups jobs and activities working on a single product and service
- ii. geographical structures- these are groups jobs and activities being performed in the same location
- iii. customer structure- customers structure groups together jobs and activities that are serving the same customers or clients'
- iv. time structures- jobs and activities grouped together that are performed on the same work shift

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 8: FINANCIAL REPORTING

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MONDAY 12 DECEMBER 2022

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

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**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

Panja Plc. specializes in food production and has a subsidiary and an associate. You are the Financial Accountant and the Financial Manager has given you the statements of profit or loss for the three (3) entities below.

#### **Income statements for the year ended 31 December 2021**

	Panja	Suka	Amuna
	K' 000	K' 000	K' 000
Revenue	150,000	78,000	80,000
Cost of sales	<u>(94,000)</u>	<u>(51,000)</u>	<u>(60,000)</u>
Gross profit	56,000	27,000	20,000
Distribution costs	(7,400)	(3,000)	(4,000)
Administrative expenses	(12,500)	(6,000)	(6,000)
Finance costs	<u>(2,000)</u>	<u>(900)</u>	<u>(500)</u>
Profit before tax	34,100	17,100	9,500
Income tax expense	<u>(10,400)</u>	<u>(3,600)</u>	<u>(3,500)</u>
Profit for the period	<u>23,700</u>	<u>13,500</u>	<u>6,000</u>

<b>Statement of changes in equity extracts</b>	K' 000	K' 000	K' 000
Equity shares K 1 each at 1 January 2021	35,000	24,000	20,000
Retained earnings at 1 January 2021	55,000	69,000	10,000

#### ***Relevant information:***

- (i) On 1 May 2021 Panja acquired 75% of equity shares in Suka. The acquisition was through a share exchange of 2 shares in Panja for every 3 shares in Suka. The market share price of Panja at the date of acquisition was K5.75 per share. Panja also agreed to pay K2.42 per acquired share of Suka on 30 April 2023 when Suka achieves a market share price of K4 per share. The cost of capital of Panja is 10% per annum. Panja has recorded the considerations.
- (ii) Panja acquired 6,000,000 equity shares in Amuna on 1 January 2021. The acquisition was through immediate cash payment of K50,000,000. No fair value adjustments were required on the acquisition of Amuna.
- (iii) The fair value of property, plant and equipment of Suka at the date of acquisition was equal to the carrying amount with the exception of property and equipment. The property and equipment had fair values of K4,000,000 and K2,400,000 respectively in excess of their carrying amounts. The increase in the fair value of the property would create additional depreciation of 5% in the consolidated financial statements in the post-acquisition period to 31 December 2021 and the equipment had a remaining life of four years (straight-line depreciation) at the date of acquisition. The fair values have not been recorded in Suka's financial statements. All depreciation is treated as part of cost of sales. Ignore deferred tax.

- (iv) Panja's policy is to value non-controlling interests using the fair value at the date of acquisition, which was K5 per share acquired.
- (v) An impairment test on the goodwill of Suka conducted on 31 December 2021 concluded that it was impaired by K2,000,000. At the same date the value of the investment in Amuna was impaired by K500,000.
- (vi) From 1 January 2021, Panja sold goods at a selling price of K1,250,000 per month to Suka both before and after its acquisition. Panja was adding 20% mark-up on cost and at 31 December 2021 Suka still held inventory of K3,000,000 (at cost to Suka) of goods bought in the post-acquisition period from Panja.
- (vii) The finance costs of Panja do not include the finance cost on the deferred consideration. All items in the above statements of profit or loss are deemed to accrue evenly over the year.

**Required:**

- (a) Calculate the amount to be reported in the statement of financial position as at 31 December 2021 for:
  - (i) Goodwill (6 marks)
  - (ii) Non-Controlling Interest (2 marks)
  - (iii) Investment in an associate (2 marks)
- (b) Prepare the consolidated statement of profit or loss for the Panja Group for the year ended 31 December 2021 in accordance with the requirements of IFRSs/IASs. (12 marks)
- (c) Explain the meaning of the terms 'control' and 'significant influence' in accordance with IFRS 10 and IAS 28. (3 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

**The summarised trial balance below relates to Zeko Plc as at 30 September 2019**

	K'000	K'000
Revenue (i)		300,900
Cost of sales (ii)	80,000	
Ordinary Share capital K1		150,000
Share Premium		95,000
Revaluation reserve		163,500
Retained losses 1 October 2019	14,800	
Deffered tax asset (iii)	4,800	
Payables		45,000
Distribution costs	34,400	
Administration expenses	51,200	
Loan interest paid	2,000	
Investment income		1,500
Current tax		3,300
Receivables	75,400	
Financial asset: equity (vi)	150,000	
Plant and Equipment at cost	230,000	
Land and buildings (Land K75,000)	275,000	
Accumulated depreciation at 1 October, 2019		
- Plant and equipment		71,100
- Buildings		40,000
10% Loan		7,300
Suspense (vii)		
	<u>917,600</u>	<u>917,600</u>

(i) The revenue amount includes K40 million for a cash sale made by Zeko on behalf of Dala Plc during the year. Zeko receives 10% on the sales made on behalf of Dala Plc. By 30 September 2020, Zeko had only remitted a K20 million (out of the K40 million sales) to Dala Plc and included This amount in the cost of sales.

(ii) Plant and equipment is depreciated at 20% using the reducing balance method and buildings is depreciated at 5% straight line. All depreciation and amortisation is to be charged to cost of sales.

On 30 September 2020 a management expert report indicated that the fair value of land and buildings were K300 million in total. There was no change in the useful economic life of the building and the land value was now K80 million. In Zeko's jurisdiction, revaluations do not have any effects on deffered tax.

- (iii) The balance on current tax in the trial balance represent the over/under provision from the previous financial year. The Directors of Zeko have estimated a current year income tax provision of K37 million and deferred tax liability on this date was assessed at K1.7 million.
- (v) Zeko Plc closing inventory was counted on 4 of October 2020 and was valued at K20 million. Between 30 September and 4 October, Zeko Plc purchased K1.8 million and sold goods worthy K0.5 million. Zeko adds a mark-up of 25%.
- (vi) The financial asset – equity qualifies to be classified as financial instruments measured at FVTPL according to IFRS 9. On 30 September, 2020 experts assessed that the fair value of the financial instruments stood at K155 million.
- (vii) The suspense account represents the bank overdraft balance which was omitted from the books of accounts.

**Required:**

- (a) Prepare for Zeko Plc., the statement of profit or loss and other comprehensive income for the year ended 30 September 2020.
- (b) Prepare Zeko Plc Statement of financial position as at 30 September 2020.

**Round off all figures to the nearest thousand kwacha**



## SECTION B

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

**Attempt any two (2) Questions**

### **QUESTION THREE**

You are the Accountant of Zumba Limited and you are required to deal with the items below.

**Note: The financial year end in each scenario [(a), (b), (c) and (d)] is 31 December 2021.**

- (a) On 1 January 2021, Zumba started the project to develop and produce a new drink. Expenditure of K50,000 per month was incurred until the project was completed on 30 September 2021 and production of the drink commenced on 1 October 2021. It became probable that the project will be successful on 1 April 2021 when Zumba received the test certificate from the regulator. The drink has an estimated life span of 6 years and prorate basis is used by Zumba where applicable.

**Required:**

Explain the accounting treatment of this project for the year under review in accordance with applicable IFRSs/IASs. (6 marks)

- (b) On 1 January 2021, Zumba entered into a 3 year lease of a motor vehicle that had a useful life of five (5) years at that date. Lease payments of K100,000 per year are payable at the end of each year. To obtain the lease, Zumba incurred initial direct costs of K1,320 and received lease incentive of K2,000. The interest rate implicit in the lease is 10%.

**Required:**

Explain the accounting treatment of this lease according to IFRSs/IASs. (6 marks)

- (c) (i) On 1 January 2020, Zumba acquired the equipment at a cost of K400,000, which had a useful life of 5 years at that date and no residual value. Zumba uses straight line depreciation method. The equipment is revalued at the end of each year and the expert confirmed the revaluation at 31 December 2020 as K360,000 and at 31 December 2021 as K200,000. Zumba does not make transfers from revaluation surplus to retained earnings.
- (ii) One of the motor vehicles was involved in an accident on 31 December 2021 and was damaged. At that date it had a carrying value of K400,000 and the expert confirmed that the vehicle had fair value less costs to sell of K350,000 and value in use of K300,000 after an accident. The useful life of the vehicle did not change.

**Required:**

Explain the accounting treatment of each asset in (c) (i) and (c) (ii) (according to IFRSs/IASs. (7 marks)

- (d) On 31 October 2021, there was fire at the warehouse of Zumba and 10 employees were severely injured and have sued for compensation claiming K75,000 each. Zumba's lawyers confirmed that there is 25% probability of employees losing the case. Further, employees are claiming K25,000 each because they believe the company was negligent and Zumba's lawyers confirmed that there is 30% probability of employees winning the case. Zumba has also sued Wako insurance, claiming K1,000,000 as compensation which Wako has disputed and Zumba's lawyers confirmed that there is 40% probability of Zumba winning the case. All court rulings will be in January 2022.

**Required:**

Explain the accounting treatment of each case according to IFRSs/IASs. (6 marks)  
 [Note: Calculations MUST be clearly shown] **[Total: 25 Marks]**

**QUESTION FOUR**

Sando Limited specialises in selling timber to different customers across the country. You are the financial analyst and have been presented with the financial statements below:

**Statement of Comprehensive Income for the year ended 31 December 2021**

	K' 000
Revenue	72,000
Cost of sales	<u>(32,000)</u>
Gross profit	40 000
Distribution costs	(9,600)
Administrative cost	(18,720)
Finance cost	<u>(2,880)</u>
Profit before tax	8,800
Taxation	<u>(2,640)</u>
Profit for the period	<u>6,160</u>
Other comprehensive income	
Revaluation surplus	<u>1,200</u>
Total comprehensive income	<u>7,360</u>

**Statement of Financial Position as at 31 December 2021**

	K' 000
<b>Assets</b>	
<b>Non-Current Assets</b>	
Property, plant and equipment	26,000
Leased assets	<u>10,000</u>
	<u>36,000</u>
<b>Current Assets</b>	
Inventory	7,200
Trade receivables	11,200
Bank	<u>5,440</u>
	<u>23,840</u>
Total assets	<u>59,840</u>

**Equity and Liabilities**

Equity shares of K1.00 each	12,000
Share premium	2,400
Revaluation reserve	1,200
Retained earnings	<u>8,800</u>
Total equity	<u>24,400</u>

**Non-Current Liabilities**

10% loan notes	<u>20,800</u>
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**Current-Liabilities**

Trade payables	12,000
Taxation	<u>2,640</u>
	<u>14,640</u>

Total equity and liabilities	<u>59,840</u>
------------------------------	---------------

**Relevant information:**

Panga Limited is Sando's competitor and its ratios for the year ended 31 December 2021 are shown below for comparisons purposes:

(i) Gross profit margin	47.5%
(ii) Operating profit margin	14.5%
(iii) Return on capital employed	32.5%
(iv) Net assets turnover	1.95 times
(v) Current ratio	1.75
(vi) Trade receivables collection period	50 days
(vii) Trade payables payment period	117 days
(viii) Interest cover	3.1 times
(ix) Gearing (Debt/Debt + equity)	51%
(x) Earnings per share	K0.45

**Required:**

- Calculate the equivalent ratios for the year ending 31 December 2021 for Sando Limited. (10 marks)
- Analyse the financial position and performance of Sando according to the ratios above for the year ending 31 December 2021. (10 marks)
- State five (5) pieces of additional information that would make comparisons between Sando Limited and Panga Limited more meaningful (5 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

- (a) MM Ltd is a family-controlled company which operates a chain of retail outlets specializing in kitchenware with its headquarters in Lusaka.

Branch inventory is purchased by a centralized purchasing function in order to obtain the best terms from suppliers.

A 10% handling charge is applied by Headquarters to the cost of the purchases, and Branches are expected to add 25% to the resulting figure to arrive at normal selling prices, although Branch Managers are authorized to reduce normal prices in special situations. The effect of such reductions must be notified to Headquarters.

On 1 January 2021, a new branch was established in Choma. The following details have been recorded for the year ended 31 December, 2021.

	K
- Purchase cost to Head office of Inventory transferred to Choma	412,000
- Choma Branch sales	459,050
- Inventory transferred from Choma branch to other branches, at normal selling prices	16,500
- Authorized reductions from normal selling prices during the year	11,250

All records in respect of Branch activities are maintained at head office, and the Branch profit margin is dealt with through a branch inventory adjustment account.

#### **Required:**

- (i) Prepare the branch inventory account (maintained at branch selling prices) (5 marks)
- (ii) List four (4) of the possible reasons for the Inventory difference revealed when a physical Inventory count at Choma branch on 31 December 2021 showed Inventory valued at selling prices amounting to K74,250. (4 marks)
- (b) The main business of Lumba Co. is building work. At the end of December 2021, there is an uncompleted contract on the company books, details of which are as follows:

Date commenced	1 January 2020
Expected completion date	31 March 2022
	K
Contract Price	580,000
Costs to 31 December 2021	420,900
Amounts invoiced for work certified to 31 December 2021	420,000
Value of performance obligation satisfied to 31 December 2021	460,000
Cash received to 31 December 2021	388,000
Estimated costs to completion at 31 December 2021	41,200

Lumba calculates satisfaction of performance obligations based on work certified as a percentage of contract price.

**Required:**

Prepare calculations showing the amount to be included in the statement of Profit or Loss and statement of financial position at 31 December 2021 in respect of the above contract. (9 marks)

- (c) Bark Co. enters into a six (6) year lease of a shopping mall on 1 January 2019. Lease payments are K600,000 per annum, payable at the start of each year, commencing on 1 January 2019. The present value of the lease at 1 January 2019 is K3,000,000 excluding the initial instalment. Bark Co. paid direct costs of K40,000 in setting up the lease. There is no transfer of the asset at the end of the lease and no purchase option. The useful life of the asset is seven years and there is no residual value. The interest rate implicit in the lease is 8%.

**Required:**

Show the effect of the lease contract on the financial statements of Bark co for the years ended 31 December 2019, 2020 and 2021. (7 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DAS FINANCIAL REPORTING

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

(a)	K' 000	
(i)	<b>Goodwill at 31.12.2021</b>	
	Panja considerations:	
	Shares [24, 000 x 75%] = 18, 000 x 2/3 = 12, 000 x K5.75	69, 000
	Def consideration 18, 000 shares x K2.42 = 43, 560 x 0.8264	36, 000
	NCI consideration 6, 000 shares x K5	30, 000
	Less Net assets @ acq 1.5.2021 w 2	(103, 900)
	Goodwill @ acq	31, 100
	Less impairment @ 31.12.2021	<u>(2, 000)</u>
	Goodwill at 31.12.2021	<u>29, 100</u>
(ii)	<b>Non – Controlling Interest</b>	
	Consideration	30, 000
	Post acq profit w2	2, 100
	Less goodwill impairment 2, 000 x 25%	<u>(500)</u>
	Non- Controlling Interest at 31.12.2021	<u>31, 600</u>
(iii)	<b>Investment in an associate</b>	
	Consideration	50, 000
	Post acq profit 6, 000 x 30%	1, 800
	Less investment impairment	<u>(500)</u>
	Investment in associate at 31.12.2021	<u>51, 300</u>
(b)	<b>Panja group income statement for the year ended 31 December 2021</b>	
		K' 000
	Sales 150,000 + (78,000 8/12) - 10,000 w3	192, 000
	Cost of sales 94,000 + (51,000 x 8/12) – 10,000 +200 w2 + 400 w2 + 500 w3	<u>(119, 100)</u>
	Gross profit	72, 900
	Distribution costs 7,400 + (3,000 x 8/12)	(9, 400)
	Administrative Exp 12,500 + (6,000 x 8/12)	(16, 500)
	Finance costs 2,000 + (900 x 8/12) + 2,400 w4	(5, 000)
	Other expenses (goodwill impairment)	(2, 000)
	Associate profit (1,800 -500) (iii)	<u>1, 300</u>
	Profit before tax	41, 300
	Tax 10,400 + (3,600 x 8/12)	<u>(12, 800)</u>
	Profit for the year	<u>28,500</u>
	NCI 2,100 – 500	1, 600
	Panja/Parent Balancing fig	<u>26, 900</u>
	Total	<u>28, 500</u>

(c)

Control according to IFRS 10 means the exposure or right to variable returns of the investee and the power to affect the returns from the investee, i.e subsidiary.

Significant influence according to IAS 28 means the power to participate in the financial and operating policy decisions of the investee company, i.e associate.

### Workings

**K' 000**

W1: Group structure

Panja in Suka 75%

NCI = 25% Panja in Amuna  $6,000/20,000 \times 100\% = 30\%$

W2: Net assets of Suka

	@ acq	SOFP Year
end		
Equity shares	24, 000	24, 000
Retained Earnings [69, 000+ (13,500 x 4/12)]	73, 500	82, 500
Property fair value	4, 000	4, 000
Dep on fair value (4, 000 x 5%)	-	(200)
Equipment fair value	2, 400	2, 400
Dep on fair value (2, 400/4yrs x 8/12)	-	(400)
	<u>103, 900</u>	<u>112, 300</u>
Post-acq profit: $112,300 - 103, 900 = 8, 400$		
Panja: $8, 400 \times 75\% = 6, 300$		
NCI: $8, 400 \times 24 = 2, 100$		

### W3: Unrealised Profit and group sales

Sales  $1, 125 \times 8 \text{ months} = 10, 000$

Dr: Sales

Cr: Cost of sales

URP  $3, 000 \times 20/120 = 500$

W4: Finance cost on deferred consideration  $(36, 000 \times 10\%) \times 8/12 = 2, 400$

## SOLUTION TWO

(a)

### Zeko Plc

#### Statement of profit or loss and other comprehensive income for the year ended 30 September 2019

	K'000
Revenue (300,900 - 40,000)	260,900
Cost of Sales (w1)	<u>(83,180)</u>
Gross profit	177,720
Distribution costs	(34,400)
Administration expenses	(51,200)
Commission on agency sales (40,000* 10%)	4,000
Investment income ( 5000 + 1500)	6,500
Finance cost (40,000 * 10%)	<u>(4,000)</u>
Profit before tax	98,620
Tax (W2)	<u>(40,200)</u>
Profit after tax	58,420
Other Comprehensive Income	
Revaluation surplus (W3)	75,000
Total comprehensive income	<u><u>133,420</u></u>



(b)

**Zeko Plc**  
**Statement of financial position as at 30 September**  
**2019**

<b>Assets</b>	<b>K'000</b>	<b>K'000</b>
<b>Non - Current assets</b>		
Property plant and equipment		427,120
Financial asset		<u>155,000</u>
		582,120
<b>Current assets</b>		
Inventory	18,600	
Receivables	75,400	
		<u>94,000</u>
Total assets		<u><u>676,120</u></u>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Ordinary share Capital K1		150,000
Share Premium		95,000
Revaluation reserve (163,500 + 75,000)		238,500
Retained earnings (- 14,800 + 58, 420)		<u>43,620</u>
		527,120
<b>Non-current liabilities</b>		
10% Loan notes		40,000
Deffered tax		<u>1,700</u>
		41,700
<b>Current liabilities</b>		
Payables	45,000	
Tax	37,000	
Bank Overdraft	7,300	
Other payables (40,000- 20,000 - 4000)	16,000	
Accrued interest	2,000	
		<u>107,300</u>
Total assets and liabilities		<u><u>676,120</u></u>

W1) Cost of sales

TB	80,000
Agency Sales	(40,000)
Depreciation	
Plant and Equipment (230,000- 71100) *20%	31,780
Buildings (200,000 *5%)	10,000
Inventory adjustment	
20,000 - (20,000 + (500 * 100/120) - 1800)	<u>1,400</u>
	<u><u>83,180</u></u>

W2) Tax expense K'000

Estimate	37,000
less overprovision	(3,300)
movement in differed tax (4800+1700)	<u>6,500</u>
	<u><u>40,200</u></u>

W3) Property plant and equipment K'000

Land and buildings	
Cost (TB)	275,000
Less Land	<u>(75,000)</u>
	200,000
Depreciation (200,000 * 5%)	(10,000)
Accumulated depreciation	<u>(40,000)</u>
Building CV	150,000
Land	<u>75,000</u>
Property CV	225,000
Surplus	<u>75,000</u>
Revalued amount	<u><u>300,000</u></u>

Plant and equipment	
CV at year start (230,000 - 71,100)	158,900
Depreciation (20% * 158900)	<u>(31,780)</u>
CV	<u><u>127,120</u></u>

Total property and equipment CV	<u><u>427,120</u></u>
---------------------------------	-----------------------

## SOLUTION THREE

### As at 31 December 2021

(a)

In the income statement, K150, 000 development cost not qualifying and K12, 500 amortisation will be reported. In the statement of financial position, carrying amount of 287, 500 will be reported.

Workings

Development cost: 50, 000 @ 3 months = K150, 000

Amortisation: 300, 000 / 6 yrs = 50, 000 x 3/12 = 12, 500

Carrying amount: 300, 000 – 12, 500 = K287, 500

(b)

In the income statement, K82, 667 depreciation and K24, 868 finance cost will be reported. In the statement of financial position, carrying amount of K165, 333, non-current liability of K90, 903 and current liability of K82, 645 will be reported.

Workings

Dep: 248,000 / 3yrs = K82, 667      Carrying amount: 248, 000 – 82, 667 = K165, 333

PV of liability

100, 000 x (0.9091 + 0.8264 + 0.7513) = 248,680 + 1,320 – 2,000 = K248, 000

O/Balance	Interest @10%	payment	C/Balance
248, 680	24, 868	(100, 000)	173, 548
173, 548	17, 355	(100, 000)	90, 903

Current liability: 173,548 – 90,903 = 82,645

(c)

Equipment

In the income statement, depreciation of K90, 000 and an expense of K30, 000 for excess revaluation loss will be reported.

In the statement of financial position, carrying amount of K200, 000 and K40, 000 reversal of previous revaluation surplus (SOCIE) will be reported.

Workings 31.12.2020

Dep: 4800, 000 /5yrs = K80, 000

Carrying amount: 400, 000 – 80, 000 = K320, 000

Revaluation surplus: 360, 000 – 320, 000 = K40, 000

Workings 31.12.2021

Dep: 360, 000 / 4 yrs = 90, 000

Carrying amount: 360, 000 – 90, 000 = K270, 000

Revaluation loss: 200, 000 – 270, 000 = (K70, 000)

Carrying amount = K200, 000

Motor vehicle

In the income statement, impairment of K50, 000 will be reported. In the statement of financial position K350, 000 will be reported.

Workings

Impairment @ 1.1.1.2021  $350, 000 - 400, 000 = K50, 000$

(d)

Provision of K750, 000 (  $10 \times 75,000$ ) will be reported because there is a present obligation as a result of past event (an accident), it is probable (75%) there will be an outflow of future economic benefit to settle the obligation and the cost can be reliably measured (K750, 000).

Contingent liability of K250, 000 ( $10 \times 25,000$ ) will be disclosed by note to the financial statements because it is possible (30%) employees may win the case.

For a claim of K1, 000, 000, no action should be taken because it only possible (40%) that Zumba may win the case. Contingent asset is disclosed by note if it is probable.

## SOLUTION FOUR

### (a) Ratios

	Sando	Panga
Gross profit margin % [GP/Sales]: $40,000/72,000 \times 100\% =$	55.56%	47.5%
Net profit margin % [OP/Sales]: $11,680/72,000 \times 100\% =$	16.22%	14.5%
ROCE % [OP/C- Employed]: $11,680/39,040 \times 100\% =$	29.92%	32.5%
Net Assets Turnover [Sales/ C-Employed]: $72,000/39,040 =$	1.84 times	1.95
Current Ratio [C-Assets/C-Liabilities]: $23,840/14,640 =$	1.63	1.75
Receivables days [Debtors/Sales]: $11,200/72,000 \times 365 =$	57 days	50 day
(vii) Payables days [Creditors/CoS]: $12,000/32,000 \times 365 =$	137 days	117day
(viii) Interest cover [OP/I. Cover]: $11,680/2,880 =$	4.1 times	3.1
(ix) Debt/Debt + Equity %: $20,800/45,200 \times 100\% =$	46%	51%
(x) Earnings per share [PAT/Number of shares]: $6,160/12,000$	K0.51	K0.45

### (b) Comments

#### Profitability

- Gross profit of Sando (55.56%) is more than that of Panga (47.5%), this may be due to Sando having higher sales revenue or reduced purchases prices through trade discounts.
- Net profit margin of Sando (16.22%) is more than that of Panga (14.5%), this may be due to Sando having higher gross profit.
- ROCE of Sando (29.92%) is lower than that of Panga (32.5%), this may be due to a bigger capital employed since it has a higher operating profit.
- Net Assets Turnover of Sando (1.84 times) is lower of Panga (1.95 times), this may also be due to a bigger capital employed since it likely to have higher sales revenue.

#### Liquidity

- Current ratio of Sando (1.63 times) is lower than that of Panga (1.75 times), which may mean Sando has more current liabilities than Panga.
- Receivables days of Sando (57 days) is more than that of Panga (50 days), which may mean Panga is collecting debts early than Sando by 7 days.
- Payables days of Sando (137 days) is more than that of Panga (117 days), which may mean Sando is paying its creditors late than Panga by 20 days, which may upset creditors.

#### Gearing

- Interest cover of Sando (4.1 times) is higher than that of Panga (3.1 times), which may mean Sando may easily attract the debt or finance lenders.
- Gearing of Sando (46%) is lower than that of Panga (51%), which may mean potential investors may find Sando a low risk investment.

#### Investors

- Earnings per share of Sando (K0.51) are higher than that of Panga (K0.45), which may mean Sando may attract potential investors than Panga.

(c) Pieces of information

Possible points include:

- i. Financial statements of Panga [Statement of Comprehensive Income and Statement of financial position]
- ii. Formulae used by Panga to calculate its ratios.
- iii. Accounting policy used by Sando and Panga e.g. on inventory (FIFO or AVCO) and non-current assets measurements (cost model or revaluation model).
- iv. Industry norms because industry key financial indicators/ratios are important.
- v. Trade agreements (e.g. credit terms) of Sando and Panga with their customers and suppliers because these will have an effect on receivables and payables days, etc.
- vi. Interest charged on Panga debt should be known, it may be higher than the 10% charged on Sando's debt.
- vii. Other valid points- marks should be given.

## SOLUTION FIVE

(a) (i) **Branch Inventory Account (at selling price)**

Head office purchases (w1)	K 566,500	Sales	K 459,050
		Goods to other Branches	16,500
		Authorized Reductions	11,250
		Balance	79,700
	566,500	c/d	79,700
	<u>566,500</u>		<u>566,500</u>

**Working for selling price of goods to the branch:**

Purchase by the Head office	412,000
Add 10% Handling charges	<u>41,200</u>
Transfer price	453,200
Add 25% Profit mark-up on transfer price	<u>113,300</u>
Selling Price of Goods Transferred	<u>K566,500</u>

- (ii) Four possible reasons for deficiency: (79,700 – 74,250 = 5,450)
- Thefts by branch employees
  - Thefts by branch customers
  - Cash misappropriated
  - Wastage due to breakages
  - Miscounting of Inventory during branch stock count.

(b) - Level of completion =  $\frac{\text{Value of certified work}}{\text{Contract Price}} \times 100$

$$= \frac{460,000}{580,000} \times 100$$

$$= 79.31\%$$

- Estimated Final Profit:	K
Contract Price	580,000
Less: Costs to date	420,900
Costs to completion	<u>41,200</u>
Estimated Final Profit	<u>(462,100)</u>
	<u>117,900</u>

- Profit recognized = 79.31% x 117,900  
= K93,507

- <u>Statement of Profit or Loss (Extract only)</u>	K
Value of certified work	460,000
Less cost of sales (420,900 + 41,200) x 79.31	366,493
Gross Profit	<u>93,507</u>

- <u>Statement of Financial Position (Extract only)</u>	K
Contract Asset	K
Costs to date	420,900
Attributable Profit	<u>93,507</u>
	514,407
Amount Invoiced	420,000
Contract Asset	<u>94,407</u>

Contract Receivable 420,000 – 388,000 = K32,000

		K
(c) Year 1.	1 January 2019 Balance	3,000,000
	1 <sup>st</sup> Instalment	<u>(600,000)</u>
		2,400,000
	31 December 2019 Interest @ 8%	<u>192,000</u>
	Balance	b/f 2,592,000
Year 2.	1 January 2020 2 <sup>nd</sup> Instalment	<u>(600,000)</u>
		1,992,000
	31 December 2020 Interest @ 8%	<u>159,360</u>
	Balance	b/f 2,151,360
Year 3.	1 January 2021 3 <sup>rd</sup> Instalment	<u>(600,000)</u>
		1,551,360
	31 December 2021 Interest @ 8%	<u>124,109</u>
	Balance	b/f <u>1,675,469</u>

**END OF SOLUTIONS**





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 9: MANAGEMENT ACCOUNTING

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TUESDAY 13 DECEMBER 2022

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

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**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 in charge of making forecasts and preparing budgets. You have been supplied with costs and sales revenue forecasts and details of payments as follows:

#### 1. Forecast of sales revenue and costs for the quarter ending 31 March 2020

	January	February	March
	K	K	K
<b>Direct:</b>			
Material (purchases)	112,000	100,000	135,000
Wages	90,000	80,000	100,000
<b>Overheads:</b>			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

#### 2. Forecast of sales revenue and costs for the quarter ending 30 June 2020.

	April	May	June
	K	K	K
<b>Direct:</b>			
Material (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
<b>Overheads:</b>			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2020 K90,000

#### 3. Other details:

- Period of credit allowed by suppliers averages two months.
- Debenture to the value of K125,000 are being issued in May 2020 and the

amount is expected to be received during the same month.

- A new machine is being installed at the end of March 2020 at a cost of K150,000 and the payment is promised in early May 2020.
- Sales commission of 3% is payable within one month of sales.
- A dividend of K100,000 is to be paid in June 2020.
- There is a delay of one month in the payment of overheads. There is also a delay in payments of wages averaging a quarter of a month.
- Twenty percent (20%) of the receivables pay cash, receiving a cash discount of 4% and 70% of receivables pay within one month and receive a cash discount of 2½ %. The other receivable pay within two months.

**Required:**

- (a) Explain the importance of a cash budget in the context of budgetary control. (5 marks)
- (b) Prepare a cash budget on a monthly basis for the second quarter of the year 2020. (20 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

Matongo manufacturing company produces a variety of products. The cracker is one of the products it makes. This product requires a single operation, and the standard cost for this operation is presented in the following standard cost card:

***Table 1: Standard cost card for product cracker***

	K
Direct materials:	
2 kg of material A at K10 per kg	20
1 kg of material B at K15 per kg	15
Direct Labour – 3 hours at K9 per hour	27
Variable overhead - 3 hours at K2 per direct labour hour	<u>6</u>
Total standard variable cost	68
Standard contribution margin	<u>20</u>
Standard selling price	<u>88</u>

Matongo Limited plans to produce 10,000 units of crackers in the month of June. Annual budgeted fixed production overheads amounted to K1,440,000 and are assumed to be incurred evenly throughout the year. Manufacturing overheads are charged to production on the basis of direct labour hours.

Actual results for June are:

- Actual production and sales for period were 9,000 units were sold for K90 per unit.
- 19,000 kgs costing K11 per kg for material A were used in production whilst 10,100 kgs of material B were used at cost of K14 per kg.
- Actual operating hours amount to 28,500 hours at K9.60 per hour.
- Actual variable overhead costs amounted to K52,000 whilst fixed production overheads were K116,000.

The company uses a marginal costing system for internal profit measurement purposes.

An extract from the operating statement for the month of June indicates the following list of revenue and cost variances.

- Sales margin price K18,000 (F)
- Material A price variance K19,000 (A)
- Material B usage variance K16,500 (A)
- Labour rate efficiency variance K13,500 (A)
- Fixed production overhead volume variance K12,000 (A)

**Required:**

- (a) Prepare a budgeted profit statement based on the above standard costs and an output of 10,000 units of crackers. (8 marks)
- (b) Prepare the actual profit statement for the month of June. (7 marks)
- (c) Suggest two (2) possible causes of variances for each of the variances indicated above. (10 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

**Attempt any TWO (2) questions in this section.**

### **QUESTION THREE**

The Head of Finance & Accounting has been tasked by the Zambia Institute of Chartered Accountants (ZICA) to make a presentation at the forthcoming Virtual Accountants Forum on the topic "Budgeting". This task has unfortunately collided with the external audit that is currently underway such that he is unable to sit down and prepare the presentation slides. He decides to delegate to you the responsibility of preparing the notes on budgeting that he will use to compile the final presentation.

#### **Required:**

Prepare notes on budgeting that will assist the Head of Finance & Accounting to compile the slides for the forthcoming ZICA Virtual Accountants Forum.

- |        |                         |           |
|--------|-------------------------|-----------|
| (i)    | Meaning of budgeting    | (2 marks) |
| (ii)   | Budget period           | (1 mark)  |
| (iii)  | Objectives of budgeting | (3 marks) |
| (iv)   | Budget manual           | (2 marks) |
| (v)    | Budget committee        | (2 marks) |
| (vi)   | Principal budget factor | (2 marks) |
| (vii)  | Fixed budgets           | (2 marks) |
| (viii) | Flexible budgets        | (2 marks) |
| (ix)   | Increment budgets       | (2 marks) |
| (x)    | Zero base budgets       | (2 marks) |
| (xi)   | Cash budget             | (2 marks) |
| (xii)  | Problems in budgeting   | (3 marks) |

**[Total: 25 Marks]**

## **QUESTION FOUR**

Groundnuts Limited summary of the cash budget for the period January to March appears below.

### **Cash budget**

	<b>January</b>	<b>February</b>	<b>March</b>
	K'000	K'000	K'000
Receipts (Note 1)	1,912	1,904	1,744
Payments (Note 2)	4,155	1,322	3,277
Cash flow	(2,243)	582	(1,533)
Opening cash	2,320	(77)	505
Closing cash	(77)	505	1,028

### **Notes**

1. Receipts consist of expected cash from the sale of the company's products as well as accounts receivables which are 75% of the total receipts indicated above. The company's sales policy of credit sales is such that 60% is received in the month of sale, 30% the month after sale whilst 10% is usually expected to be irrecoverable. Of late, customers are taking over 90 days to settle their accounts and rate of default has equally gone to about 40%.
2. Payments include those related to suppliers of inventory of materials used in the manufacture of company products. The maximum usage of the materials in a month is 1,250 kgs whilst the minimum usage is 860 kgs. The maximum lead time is 4 weeks and the minimum lead time is 2 weeks. Safety inventory is set at 400 kgs to cover for any challenges suppliers may face in fulfilling the delivery time.

### **Required:**

- (a) State four (4) classifications of inventory for a typical manufacturing company. (4 marks)
- (b) Calculate the re-order level for the materials. (3 marks)
- (c) State three (3) reasons for holding cash resources. (3 marks)
- (d) Suggest three (3) possible strategies of managing the cash deficit expected in January (3 marks)
- (e) Suggest three (3) possible strategies of dealing with the cash surplus expected in February and March. (3 marks)
- (f) State four (4) ways of undertaking customer's creditworthiness. (4 marks)
- (g) Explain five (5) ways of collecting overdue debts. (5 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

- (a) Chingola Limited is a manufacturer of various components that are used in the repairing, maintenance and servicing of mining equipment and machinery. Health and safety regulations and pressure from the labour unions on the need by the company to scrap the overtime payouts which are not usually paid mean that one (1) of its processes used in making the components can only be operated eight hours a day. The hourly capacity of this process is 1,000 units per hour. The selling price of each component is K200 and the unit material cost is K80. The daily total of all factory costs (conversion costs) is K288,000 excluding materials. Daily production is expected to be 7,200 components.

#### **Required:**

Calculate the following:

- |       |                                  |           |
|-------|----------------------------------|-----------|
| (i)   | Total profit per day             | (2 marks) |
| (ii)  | Return per factory hour          | (3 marks) |
| (iii) | Throughput Accounting (TA) ratio | (3 marks) |
- (b) State five (5) ways of improving the TA ratio (5 marks)
- (c) Management accounting is the provision of useful information to support management in their planning, control and decision making activities. However, in order for information to be useful, it should ideally possess certain features.

#### **Required:**

Explain six (6) features of useful information. (12 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA9 MANAGEMENT ACCOUNTING

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

- a) A cash budget is a quantitative expression of the cash flows (inflows and outflows) of a given business entity for a defined period of time. It is used as a budgetary control measure to basically ensure that the firm's cash requirements are met in a timely manner and the firm's cash flow is healthy.

Importance of a cash budget:

- To reveal in advance point of cash shortages and surplus, so that cash sources and investments can be arranged in advance.
- To ensure the cash flow of a firm is healthy, (there are no shortages)
- To allow management to consider the ways in which surpluses can be put into in advance.
- To enable management formulate organizational policy e.g credit policies when purchasing inputs, payroll policy (when to pay wages and salaries and in what amounts).

- b) Cash budget for 2<sup>nd</sup> Quarter of year 2020

Cash inflow	April	May	
June	K	K	K
Cash from receivables (w1)	402,500	351,995	
349,820			
Debentures issued	-	125,000	-
Total cashinflow	<u>402,500</u>	<u>476,995</u>	
<u>349820</u>			
Cash outflows			
Purchases	100,000	135,000	
90,000			
Purchase of machine	-	150,000	-
Dividends	-	-	100,000
Production overhead	40,000	45,000	36,000
Administration overheads	27,000	22,000	25,000
Selling and distribution overheads	18,000	13,000	11,000
Wages(w2)	79,000	58,500	60,750
Sales commission	<u>13,200</u>	<u>10,500</u>	<u>10,800</u>
Total cash outflow	<u>277,200</u>	<u>434,000</u>	<u>333,500</u>
Net cashflow	125,300	42,995	16,320
Add: opening cash balance	<u>90,000</u>	<u>215,300</u>	
<u>258,295</u>			
Closing cash balance	<u>215,300</u>	<u>258,295</u>	<u>274,615</u>

**Workings:**



**Receivables collection**

		April	May	June
		K	K	K
Sales in:				
February	350,000	35,000	-	-
March	440,000	300,300	44,000	-
April	350,000	67,200	238,875	35,000
May	360,000	-	69,120	245,700
June	360,000	-	-	69,120
		<b><u>402,500</u></b>	<b><u>351,995</u></b>	<b><u>349,820</u></b>

**Wages payment**

		April	May	June
		K	K	K
Month:	Wages			
March	100,000	25,000	-	-
April	72,000	54,000	18,000	-
May	54,000	-	40,500	13,500
June	63,000	-	-	47,250
		<b><u>79,000</u></b>	<b><u>58,500</u></b>	<b><u>60,750</u></b>

## SOLUTION TWO

(a) **Budgeted profit statement based on standard costs and an output of 10,000**

	K	K
Sales revenue (10,000 units @ K88)		880,000
Direct materials:		
A (20,000 kgs x K10)	200,000	
B (10,000 kgs x K15)	150,000	
Direct Labour (30,000 hrs x K9)	270,000	
Variable Overheads (30,000 hrs x K2)	<u>60,000</u>	
		<u>680,000</u>
Contribution		200,000
Fixed Costs (K1, 440,000/12)		<u>120,000</u>
Budgeted profit		<b><u>80,000</u></b>

(b) Actual profit statement for the month of June.

	K	K
Sales revenue (9,000 units @ K90)		810,000
Direct materials:		
A(19,000 kg x K11)	209,000	
B(10,100 kg x K14)	141,400	
Direct labour (28,500 hrs x K9.6)	273,600	
Variable overheads	<u>52,000</u>	
		<u>676,000</u>
Contribution		134,000
Fixed costs		<u>116,000</u>
Profit		<b><u>18,000</u></b>

(c) Suggested possible causes of variances for each of the variances indicated.

*Favourable sales margin price variance*

- Actual price of the product being better than standard price
- Faults in establishing the standard selling price

*Adverse material price variance*

- Actual price of material A being higher than the standard price per kg
- Errors in establishing the standard price per kg
- Careless procurement practices such as failing to optimize the most competitive price

*Adverse material usage variance*

- Wastage of material resources
- Poor quality materials

*Adverse labour efficiency variance*

- Use of unskilled and inexperienced labour force
- Failure to maintain machinery in proper conditions
- Poor production scheduling

*Adverse production volume variance*

- Inefficient labour and production resources
- Operating below expected production capacity

## **SOLUTION THREE**

Notes on budgeting that will assist the Head of Finance & Accounting to compile the slides for the forthcoming ZICA Virtual Accountants Forum.

### *1. Meaning of budgeting*

A budget is a quantified plan of action for a forthcoming accounting period. A budget is a plan of what the organisation is aiming to achieve and what it has set as a target whereas a forecast is an estimate of what is likely to occur in the future.

### *2. Budget period*

A budget period is a period to which the budget relates. It could be a week, month, quarter, bi-annual or annually. Except for capital expenditure budgets, the budget period is commonly the accounting year (subdivided into 12 or 13 control periods).

### *3. Objectives of budgeting*

The objectives of budgets usually include ensuring the achievement of the organization's objectives, compelling planning, communicating ideas and plans, co-ordinating activities, providing a framework for responsibility accounting, establishing a system of control and motivating employees to improve their performance

### *4. Budget manual*

The budget manual is a collection of instructions governing the responsibilities of persons and the procedures, forms and records relating to the preparation and use of budgetary data. A budget manual should be produced so that everyone can refer to it for information and guidance about the budgeting process. The budget manual does not contain the actual budgets for the forthcoming period; it is more of an instruction/information manual about the way budgeting operates in a particular organisation. A budget manual will usually be prepared by the management accountant.

### *5. Budget committee*

The budget committee is the co-ordinating body in the preparation and administration of budgets. The co-ordination and administration of budgets is usually the responsibility of a budget committee (with the managing director as chairman). The budget committee is assisted by a budget officer who is usually an accountant. Every part of the organisation should be represented on the committee, so there should be a representative from sales, production, marketing and so on.

### *6. Principal budget factor*

The principal budget factor is the factor that limits the activity for the budget period. Normally this is the level of sales demand and therefore the sales budget is usually the first budget to be prepared and this leads to the others. However, it could be (for example)

a limit on the availability of raw materials that limits activity. In this case Raw Materials would be the principal budget factor, and this would be the first budget to be prepared.

### *7. Fixed budgets*

This is a budget set prior to the control period and not subsequently changed in response to changes in activity, costs or revenues. Thus, it is not modified for variations in actual activity levels. It is the most commonly used type of budget because it is easy to construct it.

### *8. Flexible budgets*

This is a budget that flexes variable costs from original budgeted levels to the allowances permitted for actual volume achieved while maintaining fixed costs at original budget levels. It is designed to change in response to variations in activity levels by consideration of cost behaviour patterns.

### *9. Increment budgets*

This approach uses prior period figures and adjusts them by an amount to cover inflation and any other known changes. It is the most common approach, it is reasonably quick and for stable companies it tends to be fairly accurate. However, one potential problem is that it can encourage errors and past inefficiencies to be carried forward.

### *10. Zero based budgets*

With zero-based budgeting we do not build upon the prior period values. Instead, we consider each activity on its own merits and draw up the costs and benefits of the different methods of achieving it (and indeed whether or not the activity should continue). The management then decides on the most effective way of performing each activity. ZBB is bottom up by nature and aims to cut wasteful expenditure.

### *11. Cash budget*

A cash budget is an expected cash receipts and payments. It is an essential feature of the budgeting process and will interlink with other budgets (Rodger Storey). It enables cash management to be greatly facilitated and enhanced by identifying in advance periods of cash deficits and surplus as well as the respective actions to be undertaken in each case.

### *12. Problems in budgeting*

Budgets may suffer from problems such as production credible estimates for the future, bureaucratic 'overskill', encouragement of wasteful expenditure as well as behavioural implications

## SOLUTION FOUR

(a) Four classifications of inventory for a typical manufacturing company include the following.

- i. Raw materials
- ii. Work-in- progress
- iii. Finished goods
- iv. Consumables

(b) Calculation of re-order level for the materials.

$$\begin{aligned}\text{Re-order level} &= \text{Maximum usage} \times \text{maximum lead time} \\ &= 1,250 \text{ kgs} \times 4 \text{ weeks} \\ &= 5,000 \text{ kgs}\end{aligned}$$

(c) Three (3) reasons for holding cash resources are as follows.

- i. Ensuring that sufficient funds are available to meet daily business transactions and other commitments; i.e. the transaction motive.
- ii. Ensuring that the business meets expected events. This is the precautionary motive.
- iii. Ensuring the effective use surplus cash by taking advantage of investment opportunities. This is referred to as the speculative motive.

(d) The three possible strategies of managing the cash deficit expected in January include the following.

- i. Arranging for a bank overdraft facility.
- ii. Taking trade credit from suppliers of goods and services.
- iii. Deferring payments to suppliers of goods and services
- iv. Ensuring that trade receivables settle their accounts

(e) The three possible strategies of dealing with cash surplus expected in February and March include the following.

- i. Investing in short-term investments such as treasury bills (TBs), Fixed Deposits Accounts, etc.
- ii. Taking early settlement discounts from suppliers.
- iii. Investing in the business
- iv. Paying down debt such utilities
- v. Pay off dividends or bonus.

(f) Four ways of undertaking customer's creditworthiness include the following.

- i. Running a credit report by engaging major credit reporting agencies such as Credit Rating Bureau (CRB), Trans Union, and Dun & Bradstreet.
- ii. Obtain accounts receivable aging reports.
- iii. Checking references.
- iv. Obtain and analyse the financial statements
- v. Noting clients press statements and comments

(g) Five ways of collecting overdue debts include the following.

- i. Instituting reminders or final demands.
- ii. Chasing payments by telephone
- iii. Making a personal approach by visiting
- iv. Notifying and handing over debt collection to specialist debt person or section.
- v. Instituting or taking legal action.
- vi. Hiring external debt collection agency.

## SOLUTION FIVE

(a) Throughput Accounting calculations

$$\begin{aligned} \text{(i) Total profit per day} &= \text{Throughput contribution} - \text{conversion costs} \\ &= (7,200 (200-80) - 288,000) \\ &= \mathbf{K576,000} \end{aligned}$$

$$\begin{aligned} \text{(ii) Return per factory hour} &= \frac{\text{Sales} - \text{Direct materials costs}}{\text{Usage of bottleneck resource in hours (Factory hours)}} \\ &= \frac{200 - 80}{1/1000} \\ &= 120/0.001 \\ &= \mathbf{K120,000} \end{aligned}$$

$$\begin{aligned} \text{(iii) Throughput accounting ratio} &= \frac{\text{Return per factory hour}}{\text{Total conversion costs per factory hour}} \\ &= \frac{K120,000}{K288,000/8 \text{ hours}} \\ &= K120,000/K36,000 \\ &= \mathbf{3.3} \end{aligned}$$

(b) Five (5) ways of improving the TA ratio include the following.

- Increase the selling price per unit.
- Reduce material costs per unit if possible.
- Reduce the time on the bottleneck process.
- Redesign the bottleneck process.
- Invest in capacity to increase the bottleneck

(c) Management accounting is the provision of useful information to support management in their planning, control and decision making activities. However, in order for information to be useful, it should ideally possess certain features which include the following:-

- i. **Relevance** - *Information* must be relevant to the purpose for which a manager wants to use it. In practice, far too many reports fail to 'keep to the point' and contain irrelevant paragraphs which only annoy the managers reading them.



- ii. **Completeness** - An information user should have all the information they need to do their job properly. If they do not have a complete picture of the situation, they might well make bad decisions.
- iii. **Accuracy**. Information should obviously be accurate because using incorrect information could have serious and damaging consequences. However, information should only be accurate enough for its purpose and there is no need to go into unnecessary detail for pointless accuracy.
- iv. **Clarity** - *Information* must be clear to the user. If the user does not understand it properly they cannot use it properly. Lack of clarity is one of the causes of a breakdown in communication. It is therefore important to choose the most appropriate presentation medium or channel of communication.
- v. **Confidence** - *Information* must be trusted by the managers who are expected to use it. However, not all information is certain. Some information has to be certain, especially operating information, for example, related to a production process.
- vi. **Volume**. There are physical and mental limitations to what a person can read, absorb and understand properly before taking action. An enormous mountain of information, even if it is all relevant, cannot be handled. Reports to management must therefore be **clear** and **concise** and, in many systems, control action works basically on the 'exception' principle.
- vii. **Timing**. Information which is not available until after a decision is made will be useful only for comparisons and longer-term control, and may serve no purpose even then. Information prepared too frequently can be a serious disadvantage. If, for example, a decision is taken at a monthly meeting about a certain aspect of a company's operations, information to make the decision is only required once a month and weekly reports would be a time-consuming waste of effort.
- viii. **Cost**. Information should have some value; otherwise it would not be worth the cost of collecting, distributing and storing it. The benefits obtainable from the information must also exceed the costs of acquiring it, and whenever management is trying to decide whether or not to produce information for a particular purpose (for example whether to computerize an operation or to build a financial planning model) a cost/benefit study ought to be made.

## END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 10: TAXATION

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THURSDAY 15 DECEMBER 2022

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

**Taxation table for paper DA10 – Taxation (2022 Examinations)**

**Income Tax**

<b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
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%
Initial Allowance		10%

**Commercial Buildings**

Wear and Tear Allowance 2%

**Farming Allowances**

Development Allowance 10%

Farm Works Allowance 100%

Farm Improvement Allowance 100%

**Presumptive Taxes****Turnover Tax**

4%

**Rental Income Tax****Annual Rental Income**

K800,000 or below 4%

Above K800,000 12.5%

**Presumptive tax for transporters**

<b>Seating capacity</b>	<b>Tax per annum</b>	<b>Tax per quarter</b>
	K	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%

Rate on realised value of intellectual property 5%

Rate of tax on realised value on a transfer or sale of a mining right 10%

Rate of tax on realised value on a mineral processing licence or an interest in the mineral processing licence; 10%

**Value Added Tax**

Registration threshold K800,000

Standard Value Added Tax Rate (on VAT exclusive turnover) 16%

**Customs and Excise duties on used motor vehicles**

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>2 years old but less than 5 years</b>		<b>Aged 5 years and over</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
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
			<b>2 old years but less than 5 years</b>	<b>Aged 5 years and over</b>
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Sedans</b>				
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
<b>Hatchbacks</b>				
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
<b>Station wagons</b>				
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
<b>SUVs</b>				
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
			<b>2 years old but less than 5 years</b>	<b>Aged 5 years and over</b>
<b>Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):</b>	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Single cab</b>				
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
<b>Double cabs</b>				
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, <b>with spark ignition internal combustion piston engine</b>	33,766	14,632	26,531	11,497
<b>Panel Vans</b>				
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
<b>Trucks</b>				
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, <b>with spark ignition internal combustion piston engine</b>	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:**

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

##### **Customs Duty:**

Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000

##### **Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

- 2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

##### **Customs Duty**

Percentage of Value for Duty Purposes	15%
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	Minimum specific Customs Duty	K6,000
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
<b>3.</b>	<b>Buses/coaches for the transport of more than ten persons</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	<b>Excise Duty:</b>	
	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%
<b>4.</b>	<b>Trucks/lorries with gross weight exceeding 20 tonnes</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

## SECTION A

Attempt BOTH questions in this section.

### QUESTION ONE

Mumbwa Plc is a Zambian resident company engaged in manufacturing. The company listed its shares on the Lusaka Securities Exchange in March 2022 and issued 36% of its shares to indigenous Zambians in July 2022. The following is its statement of profit or loss for the year ended 31 December 2022:

	Notes	K
Revenue		31,200,000
Cost of sales	(1)	<u>(17,300,900)</u>
Gross profit		13,899,100
Selling and distribution expenses	(2)	(2,400,000)
Administration expenses	(3)	(5,200,000)
Other income	(4)	<u>600,000</u>
Profit before tax		6,899,100
Income tax expense	(5)	<u>(1,560,000)</u>
Profit for the year		<u>5,339,100</u>

The following information is relevant

#### **Note 1: Cost of sales**

This includes depreciation of non-current assets of K2,100,300, amortization of intangible assets of K871,000 and profit on disposal of manufacturing plant of K70,000. The balance is made up of revenue allowable expenses.

#### **Note 2: Selling and distribution expenses**

These include:

	K
Gifts of Mumbwa plc calendar's to customers costing K90 each	130,500
Entertaining suppliers	246,000
Advertisements	500,000
Entertaining customers	230,000
Gifts of food hampers to suppliers costing K80 each	48,000
Other revenue allowable expenses	<u>1,245,500</u>
	<u>2,400,000</u>

#### **Note 3: Administrative expenses**

	K
Accountancy and audit fees	210,000
Legal fees in connection with purchase of land	51,000
Entertaining employees	102,000
Penalty for late payment of provisional income tax	52,600
Donation to political party	100,200



Donation to approved public benefit organisations	200,000
Staff canteen expenses	816,000
Other revenue allowable expenses	<u>3,668,200</u>
	<u>5,200,000</u>

Mumbwa Plc is not compelled by law to provide staff canteen facilities to its employees.

#### **Note 4: Other income**

Other income includes dividends from mining companies K152,050, royalties of K318,750 and fixed deposit interest of K129,200. These amounts represent the actual amounts received in each case. Withholding tax had been deducted at source.

#### **Note 5: Income tax expense**

This represents the amount of provisional income tax paid by the company during the year ended 31 December 2022.

#### **Note 6: Implements, plant & machinery**

At 1 January 2022, the company had the following implements, plant and machinery:

	Income Tax Value K	Original Cost K
Manufacturing plant	Nil	300,000
Office equipment	120,000	240,000
Delivery vans	240,000	320,000

The company sold the manufacturing plant during the year for cash proceeds amounting to K110,000 making a profit on disposal referred to in note (1) above.

During the year ended 31 December 2022, the company bought manufacturing equipment at a cost of K600,000, a Toyota Prado car (2,400 cc) at a cost of K400,000 and Toyota Hilux double cab van (2,800 cc) at a cost of K600,000.

The Toyota Prado car and the Toyota Hilux double cab van are used by the Finance Director and Managing Director respectively on a personal-to-holder basis. It has been agreed with the Commissioner General that private use of each Director of each vehicle is 40%.

#### **Required:**

- (a) Calculate the amount of capital allowances claimable by the company for the tax year 2022. (7 marks)
- (b) Calculate the adjusted business profit for the year ended 31 December 2022.

(10 marks)

(c) Calculate the amount of income tax payable by the company for the tax year 2022.

(8 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

Mr Chanda was employed by Mwilaba Limited as an Electrical Technician on 1 January 2020 on a three (3) year contract on the following terms:

- Annual salary: K180,000
- Annual Housing allowance: 20% of the annual basic salary
- Transport allowance: K3,500 per month payable at the end of each month.
- Medical allowance: K2,500 per month

He was also entitled to an educational allowance of K2,250 per term per child. Mr Chanda has two (2) school going children.

On 1 May 2022, he received a labour day award of K20,000 cash and an upright freezer worth K10,500 as the most hard working and punctual employee. In addition, the company paid him a bonus of K12,000 for being the most efficient and innovative employee.

On 31 May 2022, Mr. Chanda decided to resign from employment and received repatriation pay of K24,000 and his commuted leave pay was K18,000.

During his employment in the tax year 2022, the company deducted employee's NAPSA contributions at the rate of 5% of his gross employment earnings and deducted income tax under the Pay As you Earn system amounting to K5,500.

Mr Chanda made the following payment from his employment earnings during the year:

- (1) Water and electricity bills of K800 and K1,200 respectively per month. The company reimbursed him the full cost of these bills at the end of each month.
- (2) Professional subscriptions of K2,000 to the National Electrical Association (NEA) to which he is a member.

Mr. Chanda other income in the tax year included consultancy fees of K8,500 (net) and income from a business he started running immediately after receiving his benefits from Mwilaba Ltd.

Mr Chanda started running a small business repairing electrical domestic appliances on 1 June 2022 and prepared the first accounts to 31 December 2022. He will prepare accounts

annually to 31 December each year. He bought a second hand repair shop at a cost of K250,000, comprising K50,000 for land and K200,000 for the shop building on 1 June 2022. He also bought a second hand Nissan Hard body double cab van at a cost of K90,000 as his utility vehicle. It was agreed with the Commissioner General that the business use of the car in the tax year 2022 was 60%.

For the period ended 31 December 2022, he made a profit before tax of K26,400 from a turnover of K850,000, after charging the following expenses:

- (1) Depreciation of K27,000.
- (2) Motor vehicle running expenses for the Nissan hard body van amounting to K11,250.
- (3) A donation to a political party of K3,000.
- (4) Salary of K3,200 per month for his assistant.
- (5) Cost of a course in advanced electrical engineering amounting to K6,000 for himself.
- (6) A fine for a speeding offence of K1,200 incurred by an employee on a business trip outside Lusaka.
- (7) Cost of K2,500 for entertaining his new clients.

**Required:**

- (a) Explain how the basis period for the profits made by Mr. Chanda for the period ending 31 December 2022, will be determined. (3 marks)
- (b) Compute the final taxable profits from the business for the period ended 31 December 2022. (7 marks)
- (c) Calculate the income tax payable by Mr. Chanda for the tax year 2022. (15 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

### **QUESTION THREE**

(a) Chambeshi Limited imported a brand new Toyota Mark X (1400cc) sedan car, on 1 April 2022, from Japan at a cost of \$6,200. Insurance and freight charges paid for the car in transit to the port of Durban amounted to \$4,600. Port charges at the Port of Durban amounted to \$700. Insurance and transportation costs from the port of Durban to the Kazungula border post amounted to \$300 and \$1,700 respectively. Transportation cost from Kazungula Border to Lusaka was \$500. The exchange rate quoted by the Commissioner General at the border was K16.65 per US\$.

#### **Required:**

- (i) List any four (4) documents that must be presented at the border on the importation of a motor vehicle. (2 marks)
  - (ii) Explain any four (4) methods used to determine the VDP for excise duty purposes on locally manufactured goods. (4 marks)
  - (iii) Calculate the total import taxes paid on the importation of the vehicle. (8 marks)
- (b) Joseph Patson is a VAT registered person who buys and sales a variety of goods within Zambia. All of his sales are standard rated. In relation to his VAT return for the month of February 2022, the following details were given:

- (1) Standard rated total sales amounted to K1,076,000 out of which K1,000,000 were cash sales and K76,000 were sales on credit.
- (2) Joseph decided to write off bad debts amounting to K16,200 on 1 February 2022, which was due for payment on 1 April 2020.
- (3) Standard rated purchases and expenses amounted to K15,800 and this figure is inclusive of an amount of K1,000 for the entertainment of suppliers and K1,500 for his groceries for personal use.
- (4) On the 1 February 2022, Joseph purchased plant and machinery at a cost of K340,000 inclusive of VAT.
- (5) Unless otherwise stated, all of the above figures are exclusive of tax.

#### **Required:**

- (i) Calculate the amount of VAT payable or refundable to Joseph for the month of February 2022. (6 marks)
- (ii) Explain three (3) advantages and two (2) disadvantages of accounting for VAT using the cash accounting scheme. (5 marks)

**[Total: 25 Marks]**

#### **QUESTION FOUR**

- (a) Mr Chipeta is a sole trader engaged in farming. His annual turnover has always exceeded K800,000. His estimated taxable business profit from farming for the year ended 31 December 2022 was K740,000 and provisional income tax was paid on this profit on the appropriate due dates.

During the year ended 31 December 2022, his final taxable farming profit amounted to K760,600. The only other income received by Mr. Chipeta during the year 2022, was royalties amounting to K74,800 (net).

#### **Required:**

- (i) Calculate the amount of provisional income tax paid during the tax year 2022. Your answer should include the due dates for provisional income tax and the amount of tax paid on each due date. (5 marks)
  - (ii) Calculate the final income tax payable by Mr. Chipeta for the tax year 2022. You should state the date when the tax calculated should be paid. (9 marks)
- (b) Mr Ngoshe wishes to commence a public passenger transportation business in April 2022 and he intends to sell his personal assets to raise capital. This being the case, he entered into the following transactions:
- (1) He sold one (1) hectare of farm land which he bought in 2005 at a cost of K20,000. In April 2022, Mr Ngoshe sold the whole piece of land to Mr Mudodoli his best friend for K160,000, being the open market value of the land as determined by the Zambia Revenue Authority valuation department.
  - (2) He sold one of his buildings for K850,000 to ZAMEFA Plc. The building was built in 2012, at a cost of K460,000. The open market value of the building was determined to be K800,000 at the date of the transaction. He incurred K30,000 in changing the ownership of the building.
  - (3) He sold a Prado car for K180,000. The car was acquired in 2010 at a cost of K200,000. The open market value of the car was determined to be K150,000.
  - (4) He sold a three (3) bed roomed house to his son for K4,000. The house was constructed four years ago at a total cost of K250,000. The open market value of the house was determined to be K500,000.
  - (5) He sold 4,000 shares he held in Chembe plc, a company which is listed on the Lusaka Securities Exchange for K10 per share. The shares have a nominal value of K2 each and had an open market value of K10.60 per share on the date of sale. The transaction costs amounted to K2,700.
  - (6) He sold 1,500 equity shares he held in Zamfund Limited, a private limited company, for K17 per share. He acquired the shares at a cost of K9 each three

(3) years ago. The open market value of the shares was determined to be K18 per share on the date of sale.

**Required:**

Explain the property transfer tax implications arising from the sale of personal assets by Mr Ngoshe. Your answer should be supported by a computation of property transfer tax paid, if any, on each transaction. (11 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

(a) The IFAC Ethical Code provides guidance for professional accountants providing taxation services.

**Required:**

- (i) Explain why professional codes of ethics exist for the accountancy profession. (3 marks)
- (ii) Explain the five (5) principles of the codes of ethics applicable to professional accountants providing taxation services. (10 marks)

(b) The Zambia Revenue Authority (ZRA) is responsible for properly assessing and collecting taxes, which include presumptive taxes for transporters.

**Required:**

Explain any three (3) benefits of presumptive taxes for transporters. (6 marks)

(c) Denis commenced business on 1 March 2022, as a retailer of electronic products. His sales revenue averaged K51,766 per month throughout the tax year 2022. The purchases and operating expenses averaged K10,353 and K20,000 respectively per month. The only asset held by Denis was a delivery van which he acquired at a cost of K60,000 in March 2022. Denis uses the Delivery van 40% for private purposes.

**Required:**

- (i) Describe the types of persons liable to pay turnover tax. (3 marks)
- (ii) Calculate the amount of tax paid by Dennis in the tax year 2022. (3 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA10 TAXATION

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

(a) Capital allowances for the tax year 2022

	K	K
Manufacturing plant		
Income Tax Value b/f	Nil	
Disposal proceeds	<u>(110,000)</u>	
Balancing charge		(110,000)
Office equipment		
Income Tax Value b/f	120,000	
Wear & Tear (K240,000 x 25%)	<u>(60,000)</u>	60,000
Income Tax Value c/f	<u>60,000</u>	
Delivery vans		
Income Tax Value b/f	240,000	
Wear & Tear (K320,000 x 25%)	<u>(80,000)</u>	80,000
Income Tax Value c/f	<u>160,000</u>	
Manufacturing equipment		
Cost	600,000	
Wear & Tear (K600,000 x 50%)	<u>(300,000)</u>	300,000
Income Tax Value c/f	<u>300,000</u>	
Toyota Prado car		
Cost	400,000	
Wear & Tear (K400,000 x 20%)	<u>(80,000)</u>	80,000
Income Tax Value	<u>320,000</u>	
Toyota Hilux Double Cab Van		
Cost	600,000	
Wear & Tear (K600,000 x 20%)	<u>(120,000)</u>	<u>120,000</u>
Income Tax Value c/f	<u>480,000</u>	
Total capital allowances		<u>530,000</u>

(b) Adjusted business profit for the year ended 31 December 2022

	K	K
Profit before tax		6,899,100
Add:		
Depreciation	2,100,300	
Amortization	871,000	
Gifts of Mumbwa Plc branded Diaries	246,000	
Entertaining customers	230,000	
Gifts of food hampers	48,000	
Legal fees – acquisition of land	51,000	
Penalty for late payment of tax	52,600	
Donation to political party	100,200	
Staff canteen	816,000	
Personal-to-holder car benefits:		
Finance director's car (2,400cc)	30,000	
Managing director's car (2,800cc)	<u>40,000</u>	
		<u>4,585,100</u>
		11,484,200
Less:		
Dividends	152,050	
Royalties	318,750	
Fixed deposit interest	129,200	
Profit on disposal	70,000	
Capital allowances	<u>530,000</u>	
(a)		<u>(1,200,000)</u>
Adjusted business profit		<u><u>10,284,200</u></u>

(c) Income tax payable for the tax year 2022.

	K
Adjusted business profit	10,284,200
Add:	
Royalties (K318,750 x 100/85)	375,000
Fixed deposit interest (K129,200 x 100/85)	<u>152,000</u>
Total taxable income	<u><u>10,811,200</u></u>



Income tax (K10,811,200 x 23%)	2,486,576
Less:	
Provisional income tax paid	(1,560,000)
WHT- Royalties (K375,000 x 15%)	(56,250)
WHT- Deposit interest (K152,000 x 15%)	<u>(22,800)</u>
Income tax payable	<u>847,526</u>

Income tax rate for the tax year 2022	%
Normal income tax rate	30
Discount for listing of shares on the LuSE	(2)
Discount for issuing more than 1/3 of shares to Zambians	<u>(5)</u>
	<u>23</u>

## SOLUTION TWO

Since the first period of trading is less than 12 months long being seven months long, the normal rules (i.e. the CYB or PYB as applicable) will be used to determine the basis period.

Since the first accounting date of 31 December 2022, falls between 1 April and 31 December 2022, the current year basis of assessment will be used to determine the basis period and hence the basis period will be the seven months ended 31 December 2022 and the profits made in this period will be assessed in the tax year 2022.

(a) CHANDA

### COMPUTATION OF TAXABLE BUSINESS PROFIT FOR THE TAX YEAR 2022

	K	K
Profit before tax		26,400
Add:		
Motor vehicle running expenses	4,500	
Donation to a political party	3,000	
Cost of advanced course to Chokani	6,000	
Entertaining new clients	<u>2,500</u>	
		<u>16,000</u>
		42,400
Less capital allowances on:		
Shop building		
(K250,000 – K50,000) x 2%		(4,000)
Motor car (90,000 x 20% x 60%)		<u>(10,800)</u>
Tax adjusted business profit		<u>27,600</u>

(b) CHANDA

### PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2022

	K	K
Business profits		27,600
Salary (180,000 x 5/12)	75,000	
Housing allowance (75,000 x 20%)	15,000	
Transport allowance (3,500 x 5)	17,500	
Medical allowance (2,500 x 5)	12,500	
Education allowance (1,500 x 3 x 2)	9,000	
Bonus	12,000	
Leave pay	18,000	
Water bills (800 x 5)	4,000	
Electricity bills (1,200 x 5)	<u>6,000</u>	
		<u>169,000</u>
		196,600
<u>Investment income</u>		

Consultancy fees (8,500 x 100/85)	<u>10,000</u>
Total income	206,600
Less exempt income	<u>(54,000)</u>
Taxable income	<u>152,600</u>

Income tax:

25% x 3,600	900
30% x 25,200	7,560
37.5% x 123,800	<u>6,425</u>
	54,885
Less WHT- Consultancy fees (10,000 x 15%)	<u>(1 500)</u>
Income tax payable	<u>53,385</u>

## SOLUTION THREE

(a) Customs and excise duty

(i) **Documents to be presented at border post includes:**

1. Invoice or letter of sale
2. Freight statement
3. Insurance certificate
4. Bill of lading for overseas imports
5. Consignment note

(ii) The following are the methods used to determine the VDP for locally manufactured products:

1. The price at which a licensed manufacturer of excisable goods offers the goods for sale on the open market.
2. The lowest price at which identical goods in the same quantity are sold within Zambia by another licensed manufacturer in the open market.
3. The lowest price at which similar goods in the same quantity are sold within Zambia by another licensed manufacturer in the open market.
4. The lowest price at which identical goods in different quantities are sold within Zambia by another licensed manufacturer in the open market.
5. The lowest price at which similar goods in different quantities are sold within Zambia by another licensed manufacturer in the open market.
6. The price which the goods would fetch, less profit and other costs beyond the manufacturing level.
7. The computed value comprising the cost of production, profit and other costs to the manufacturing level.

(iii) VDP

	\$
Cost	6,200
Insurance/freight	4,600
Port charges Durban	700
Transport cost	300
Delivery to Chirundu	1,700
	13,500
K exchange rate /\$	16.65
VDP	K224,5

Import taxes:

Description	%	Calculated on	Import tax
VDP		224,775	
	30x		
Customs duty	224,775	67,433	67,433
Excise duty	20x292,208	292,208	

VAT		58,442	58,442
Total import taxes		350,650	
	16x350,650		56,104
			181,979

(b) Value Added Tax

(i) Joseph Patson VAT return February 2022

	K	K
Output VAT		
Standard rated sales (K1,076, 000 x 16%)		172,160
Input VAT		
Bad debt relief (16,200 x 16/100)	2,592	
Standard rated purchases and expenses (15,800-1,000-1,500) x 16/100	2,128	
Plant and machinery(340,000 x 16/116)	<u>46,897</u>	<u>-51,617</u>
VAT payable		<u>120,543</u>

(ii) The following are the advantages and disadvantages of accounting for VAT under the cash accounting scheme:

**Advantages**

1. Output VAT is only paid once cash has been received from the customers
2. Bad debts relief occurs automatically since VAT is only accounted for once cash has been received.
3. It is easy to prepare the VAT returns since only the cash book is needed to do this.

**Disadvantages**

1. Input VAT can only be claimed once payment has been made to the suppliers of goods and services.
2. This scheme is not open to all kind of traders. It is restricted to those traders who are in construction sector only.

## SOLUTION FOUR

### (a) Taxation of farming

(i) Provisional income tax paid for the tax year 2022

	K
Estimated profit	<u>740,000</u>
Computation	
First K54,000 @0%	0
Excess	
K686,000 @ 10%	<u>68,600</u>
Provisional income tax	<u>68,600</u>
Provisional income tax per quarter	K68,600/4
	<u><u>K17,150</u></u>

Due dates and the amount paid on each due date

Installments	Quarter ended	Paid not later than	Amount K
1st	31-Mar-22	10-Apr-22	17,150
2nd	30-Jun-22	10-Jul-22	17,150
3rd	30-Sep-22	10-Oct-22	17,150
4th	31-Dec-22	10-Jan-22	17,150

(ii) Income tax payable for the tax year 2022

	K
Taxable farming profits	760,600
Non-farming income	
Royalties (K74,800 x 100/85)	<u>88,000</u>
Total taxable income	<u>848,600</u>
Computation	
Non-farming income	
First K54,000 @0%	0
Next K3,600 @25%	900
Next K25,200 @30%	7,560
Excess K5,200 @37.5%	<u>1,950</u>
	10,410
Farming income: K760,600 x 10%	<u>76,060</u>

Income tax liability	86,470
Less:	
Provisional income tax paid	(68,600)
WHT – Royalties (K88,000 x 15%)	<u>(13,200)</u>
Income tax refund	<u>4,670</u>

The final amount of income tax of K4,670 for the tax year 2022 should be paid not later than 21 June 2023.

(b) Mr Ngoshe

(i) Property transfer tax implications

1. Mr Ngoshe will be required to pay property transfer tax on the sale of his farm at a rate of 5% of the realised value.  $PTT = (105,000 + 55,000) \times 5\% = \mathbf{K8,000}$
2. Mr Ngoshe will be required to pay property transfer tax on the sale of his building at a rate of 5% of the realised value.  $PTT = K850,000 \times 5\% = K42,500$ .
3. Mr Ngoshe will not be required to pay property transfer tax on the sale of Prado because motor vehicles do not qualify as property for property transfer tax purposes.
4. Sale of the house to his son meets the definition of transfers to members of the immediate family with a consideration. Therefore, property transfer tax is chargeable only if there is a consideration received by the transferor. The realised value in this case is the actual consideration received.  $PTT = K4,000 \times 5\% = \mathbf{K200}$
5. Mr Ngoshe will not be required to pay property transfer tax on the sale of his shares in Chembe Plc because transfer of shares listed on the Lusaka Securities Exchange is exempt from PTT.
6. Mr Ngoshe will be required to pay property transfer tax on the sale of his shares in Zamfund Limited at a rate of 5% of the realised value.  $PTT = K18 \times 1,500 \text{ shares} \times 5\% = \mathbf{K1,350}$ .

## **SOLUTION FIVE**

(a) (i) Importance of ethics

1. Professional codes of ethics for the accountancy profession are designed to guide the individual behaviour of professional accountants.
2. Accountants require such an ethical code because they hold positions of trust, and people rely on them and their expertise.
3. The public interest is the key reason why accountancy bodies produce ethical guidance. A professional accountant must accept the responsibility to act in the public interest.
4. The public interest is considered to be the collective wellbeing of the community of people and institutions the professional accountant serves, including clients, lenders, governments, employers, employees, investors, the business and financial community and others who rely on the work of professional accountants.

(ii) The following are the fundamental principles of the code of ethics:

1. Integrity

This principle imposes an obligation on the practitioner to ensure straightforwardness, fair dealing, a commitment not to mislead or deceive and truthfulness. This entails that the member shall be straightforward and honest in all his/her dealings.

A member providing taxation services must not knowingly be associated with reports, returns, communications or other information which might contain materially false, misleading statement or calculation.

2. Objectivity

This principle means that members shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

Members providing tax services shall be impartial and not allow prejudice or bias, conflict of interest or influence of others to override their objective judgement in relation to tax matters.

3. Professional behaviour

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession.

Members shall act in a manner consistent with the good reputation of the institute and the tax profession, refraining from any conducts that might bring the institute and/or tax profession into disrepute.

4. Professional

Competence and due care Members shall maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional services.



This means that members engaged in providing tax services shall maintain professional competence and take due care in the performance of their and should not knowingly obstruct the proper administration of tax law.

#### 5. Confidentiality

Members shall respect the confidentiality of information acquired as a result of professional and business relationships.

They should therefore, not disclose any such tax information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

- (b) The following are the benefits of presumptive taxes:
- (1) The process of dealing with taxes has been simplified.No return filling and records required.
  - (2) The system is cashflow friendly as operators find it fairly easy to pay a whole range of fees on a quarterly basis and no taxes are paid during car breakdown.
  - (3) Paying presemptive tax is straightforward as the results no need to employee professional accountants
  - (4) There is equity in the business as everyone is made to pay since the system is easy to manage.
- (c) (i) Types of persons TT/ Calculation of TT
1. Any person whose annual business earnings are less than K800,000
  2. Any person whose business earnings are subjected to withholding tax where the withholding tax is not the final.
- (ii) Dennis will be required to pay turnover tax for the tax year 2022 because his annual turnover is less than K800,000.

The monthly turnover tax payable:  $K51,766 \times 4\% = K2,071$ .

The total turnover tax payable:  $K51,766 \times 10 \times 4\% = K20,706$ .

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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**LEVEL TWO**

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DA 11: PRINCIPLES OF AUDITING

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THURSDAY 15 DECEMBER 2022

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A

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

### **QUESTION ONE**

Sherry Chartered Accountants have been auditors of Lilayi Plc for the past ten (10) years. The firm has decided to resign from the appointment before the expiry of the current term of office. The main reason for the resignation is that there was a serious disagreement with management in the last audit regarding the accounting treatment of development expenditure incurred.

A new Board of Directors comprising Executive and Non-Executive Directors was recently appointed. The company has had no internal audit department in the past. During the first board meeting, there was a clear division in the board with regards to the setting up of an Internal Audit Department. Half of the board was of the view that the company instead outsources internal audit services with the other half arguing for setting up of an internal audit department.

The Board Chairperson, who is also the Chief Executive Officer of Lilayi Plc further suggested that an Audit Committee be formed. However, a few Executive Board members were opposed to this given the additional resources which will be required to pay the Committee members.

You work for the firm of Chartered Accountants that has been appointed to take over the audit of the financial statements of Lilayi Plc. You are a member of the audit team that has been assigned to this audit and your firm follows a risk based approach to auditing. You are planning the work that should be performed as part of risk assessment in accordance with ISA 315 (Revised) *Identifying and assessing the risks of material misstatements through understanding the entity and its environment* which will, among other matters, require identification of business and audit risks in Lilayi Plc.

#### **Required:**

- (a) Explain the steps that Sherry Chartered Accountants and Lilayi Plc should take with regards to the resignation of Sherry Chartered Accountants as auditors. (5 marks)
- (b)
  - (i) Explain the matter of concern with regards to corporate governance of Lilayi Plc. (2 marks)
  - (ii) Explain four (4) functions of the audit committee that will be formed. (8 marks)
- (c) Explain four (4) advantages to Lilayi Plc of outsourcing the internal audit services. (6 marks)
- (d) Distinguish between business and audit risks and explain why the auditors may be concerned with business risk. (4 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

You work for Chris Chartered Accountants as an Audit Assistant. You have been assigned on the audit of the financial statements of Giraffe Ltd for the year ended 31 December 2021.

At a pre-audit meeting of the audit team, the Audit Senior emphasized the need to keep audit risk at an acceptable level or the audit should not go ahead. He informed the meeting that suitable audit procedures should be performed to test the assertions in the figures contained in the financial statements. The Audit Senior informed the audit team that the team will be required to perform an interim audit starting early July 2021 in order to ensure that the final audit is completed on schedule. Giraffe Ltd has a tight reporting deadline and the date of the Annual General Meeting (AGM) has been set.

The extent of the audit procedures to be performed will depend on the results of the tests of controls that will be performed. There will be need to perform substantive audit procedures for all material amounts in the financial statements. The approach that the audit team is expected to follow is that of extracting sample items for all material transactions and balances to enable errors and omissions to be detected.

You will be responsible for evaluating the internal control systems of Giraffe Ltd. This will involve inquiries of management and other staff in order to understand the systems and the related controls. As part of this work you will be required to record the internal controls systems and the records will form part of the working papers.

The draft financial statements of Giraffe Ltd contain a net figure of K5.6 million for equipment. You have been provided with the schedule showing a breakdown of the net figure analyzed according to cost and accumulated depreciation for each item in the schedule.

### **Required:**

- (a) (i) Explain the meaning of sampling risk. (2 marks)
- (ii) Explain the procedure for selecting samples for tests designed to discover errors and tests to discover omissions. (4 marks)
- (b) (i) Explain five (5) financial statement assertions relating to the figure of equipment in the financial statements of Giraffe Ltd. (5 marks)
- (ii) For each financial statement assertion explained in (b) (i) above, suggest one (1) suitable audit procedure. (5 marks)
- (c) Explain four (4) methods that auditors can use in recording the accounting and controls systems of Giraffe Ltd. (4 marks)
- (d) Explain five (5) typical procedures that may be carried out during the interim audit visit in the audit of the financial statements of Giraffe Ltd. (5 marks)

**[Total: 25 Marks]**

## SECTION B

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

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

### **QUESTION THREE**

Your firm of chartered accountants is the auditor of Gilmore Industries Ltd, and the audit for the financial statements for the year ended 30 September 2021 is about to commence. This is the first time that your firm will be auditing the financial statements of Gilmore Industries Ltd.

You are a Senior Audit Assistant in your firm and the Audit Senior-in-charge of the audit has reminded you of the need to pay particular attention when auditing accounting estimates due to the inherent risks pertaining to accounting estimates.

Gilmore Industries Ltd is in the chemical manufacturing industry. At the end of the financial period, the company has in stock, obsolete inventory. There is an accounts payables section in the finance department whose role is to process payments to suppliers and also reconcile suppliers' accounts on a monthly basis.

Due to time pressure to complete the audit, the Audit Senior advised that no third party confirmation of payables will be performed because it is possible for the audit team to obtain sufficient appropriate audit evidence on the payables from within Gilmore Industries Ltd's internal records.

The Audit Senior is concerned that, at this stage of the audit, there is no evidence that written representations required by ISA 580 *Written representations* have been obtained from the management of Gilmore Industries Ltd.

A review of the draft financial statements of Gilmore Industries Ltd shows, in note (10) of the financial statements, a significant increase in the allowance for receivables in the current year. This arose because of two (2) of Gilmore Industries Ltd's large customers who have gone into liquidation in the current year. Management is of the view that the bulk of the balances from these customers is irrecoverable and hence the increase in the allowance.

#### **Required:**

- (a) (i) Explain the audit risk with regards to the figure of obsolescence in the financial statements of Gilmore Industries Ltd. (4 marks)
- (ii) Explain six (6) audit procedures that should be performed regarding the figure for obsolescence in the financial statements of Gilmore Industries Ltd. (6 marks)
- (b) Describe three (3) types of written representations that the audit team should obtain from management in accordance with ISA 580 *Written representations*. (6 marks)
- (c) Explain, giving an example, the use of the *Key Audit Matters*, *Emphasis of matter* and *Other matter* paragraphs in the auditor's report. (9 marks)

**[Total: 25 Marks]**

#### **QUESTION FOUR**

Your firm of chartered accountants is the auditor of the financial statements of Kilimanjaro Ltd for the year ended 31 December 2021. Phiri who recently joined your firm has been assigned Audit Manager of the audit. He previously worked for Kilimanjaro Ltd as Chief Accountant and he is familiar with the operations of the company. The rest of the audit team on this assignment comprises the Audit Senior who will be leading an audit team for the first time and two (2) Audit Assistants who were recruited one (1) year ago on completion of their degree in Accountancy Studies. Prior to starting the audit, one (1) of the Audit Assistants was seconded to Kilimanjaro Ltd to help finalize the preparation of the financial statements after the sudden resignation of the Financial Accountant three (3) months earlier.

The Chief Executive Officer of Kilimanjaro Ltd has said that he was not pleased with the delay in the completion of the audit the previous year. If the delay will be experienced this year, he will recommend to the Board of Directors that the engagement be terminated.

The Stores Department for Kilimanjaro Ltd is under the supervision of the Stores Manager and two (2) Stores Assistants. The company maintains stock cards for all lines of inventory held which are meant for recording all stock movements. When minimum stock levels are reached, a Purchase Requisition is raised to initiate the process of purchasing more items. The Stores Department is responsible for receiving of goods inwards, storage and issuing of all goods sold.

The Purchasing Department for Kilimanjaro comprises the Purchasing Manager and a Buyer. On receipt of a Purchase Requisition from Stores Department, the buyer sends out enquiries to suppliers and obtains quotations. Based on an evaluation of the quotations, a Purchase Order is raised which forms the basis for the supplier to supply the goods ordered.

Kilimanjaro Ltd has five (5) bank accounts with different banks. Some bank accounts have credit balances while others are overdrawn and have debit balances. The net figure is included in the statement of financial position. At the year-end, the company usually has a material bank balance.

#### **Required:**

- (a) (i) Suggest and explain six (6) internal control activities in the purchases and inventory systems of Kilimanjaro Ltd. (6 marks)
- (ii) For each internal control activity suggested in (a) (i) above, explain one (1) suitable test of control that should be performed. (6 marks)
- (b) Explain four (4) ethical matters in the audit of the financial statements of Kilimanjaro Ltd. (8 marks)
- (c) Explain five (5) audit procedures that should be performed on bank balances in the statement of financial position of Kilimanjaro Ltd. (5 marks)

**[Total: 25 Marks]**

## **QUESTION FIVE**

Moonlight Plc is a manufacturing company. Your firm of Chartered Accountants are the auditors of the financial statements of Moonlight Plc for the year ended 30 September 2021. This will be the first time that your firm of accountants will be auditing the financial statements of Moonlight Plc.

Moonlight Plc is subject to stringent legal regulations particularly with regards to the disposal of waste from production. In the current year, the company has been taken to court by a group of environmental lobbyists for disposing of hazardous substances in the drainage system next to the production factory. As at the end of the year, the matter had not been concluded and management had not made any provisions in the financial statements.

The bulk of the sales of Moonlight Plc are on credit to wholesalers. The age analysis of the receivables at the end of 30 September 2021 shows an increased amount of receivables above three (3) months old.

Moonlight Plc has a computerized payroll system. All staff employees have unique manpower numbers by which they are identified by the system. Manpower numbers are allocated by the Human Resource Department and are electronically approved by the Human Resources Manager before they can be used in the payroll system. The system computes the pay as you earn and other statutory deductions at each month end and other deductions are based on written approved authorization of the Human Resources Manager. The payroll system is programmed such that no net pay above K56,000.00 can be processed per individual per month.

The company undertook significant repairs of ageing equipment and in some cases money was spent on rehabilitation of old equipment. The life span of some equipment was revised as a result of the rehabilitation works.

### **Required:**

- (a) State any three (3) elements of internal control. (3 marks)
- (b) (i) Explain the audit risk model and how the auditor can manage audit risk. (4 marks)
- (ii) Identify and explain five (5) audit risks in the audit of the financial statements of Moonlight Plc. (10 marks)
- (c) (i) Explain the objectives and principles of using test data in an audit of financial statements. (2 marks)
- (ii) Explain three (3) difficulties of using test data in an audit of financial statements. (3 marks)
- (ii) Using details on the payroll of Moonlight Plc, describe how test data could be used in the audit of the financial statements. (3 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 11 PRINCIPLES OF AUDITING

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

**(a) Steps for resigning as auditors of Lilayi Plc:**

1. The firm, Sherry Chartered Accountants, should write and give a notice of resignation to Lilayi Plc. In the notice, a statement of circumstances should be included and if there are such circumstances this must be stated.
2. Lilayi Plc should deposit the notice of resignation to the regulatory authority that is the Registrar in this case.
3. Sherry Chartered Accountants is required to send a statement of circumstances where there is one to the regulatory authority and to everyone who is entitled to receiving a copy of the financial statements.
4. Sherry Chartered Accountants could require that Lilayi Plc calls an extraordinary general meeting at which the circumstances of the resignation could be discussed. Lilayi Plc is required to give 21 days' notice of the meeting called.
5. Sherry Chartered Accountants could request that Lilayi Plc management to circulate a new statement of circumstances to every one entitled to notice of meeting.
6. Sherry Chartered Accountants is entitled to receive all notices with regards to the general meeting at which the term of office would have expired and notice of a general meeting where vacancy caused is to be filled. The auditors can speak at these meeting on any matters that concern them as auditors.

**(b) (i) Corporate governance matter of concern:**

The newly constituted board of directors comprises executive and non-executive directors. The Chief Executive Officer who is an executive director is also the Chairperson of the board of directors. This is contrary to best practice of corporate governance which require that these two roles should be held by two different people.

The role of Chairperson should be given to one of the non-executive directors in order to eliminate the conflict of interest that exists when the position is held by the Chief Executive Director.

**(ii) Functions and roles of the Audit Committee:**

1. The audit committee will help resolve any dispute within the management of the company. For example, if there is a dispute between the Finance and the Chief Executive Officer, the Audit Committee can come in to mediate.
2. The Audit Committee can help in recommending statutory auditor for appointment.
3. The statutory auditors may bring matters of concern that are not resolved with management to the attention of the Audit Committee which will help resolve such matters.
4. The Audit Committee will help in ensuring that the statutory auditors remain independent and objective in the performance of their work.



5. The Audit Committee will enhance the credibility of the financial statements prepared by management. The committee will review the financial statements on behalf of the rest of the board of directors.
6. The very existence of the audit committee creates a climate of discipline and control which is likely to reduce the opportunity for fraud.
7. The committee will enable the non-executive directors to contribute an independent judgment and play a positive role.
8. The Audit Committee can strengthen the role and position of the internal auditors by providing a greater degree of independence from executive management. Where one exists, internal audit will report to the Audit Committee with regards to its work of internal auditing.

**(c) Advantages of outsourcing IA services:**

1. It will be much faster for Lilayi Plc to set up an internal audit department. The outsourcing firm will be able to provide internal audit services as soon as required.
2. It is a cheaper way of setting up an internal audit department because the company will avoid some costs that go with recruiting staff such as pensions etc.
3. Lilayi Plc will benefit from the specialist skills that the outsourcing firm has because that is their specialization and have experience in internal audit.
4. Lilayi Plc will save funds that should have gone into training of staff and other costs of setting up the department.
5. Outsourcing can be used for a short period as Lilayi Plc may wish.
6. The contract for outsourcing the service can be a period that is appropriate or convenient to Lilayi Plc.

**(d) Distinction between audit and business risk:**

Risk can be described as anything that is undesirable by the risk taker. In the context of running a business and audit there are two types of risk as follows:

**Audit risk** – This is the risk that the statutory auditor may issue an inappropriate audit opinion after carrying out an audit. For example, where the auditor should have issued a modified opinion they issue an unmodified opinion and vice-versa.

Audit risk has three components namely inherent risk, control risk and detection risk.

**Business risk** – This is the risk that is caused by any factors that prevent the organization from achieving its objectives. Business risk is the concern of management who should manage such risks by way of identifying them and responding to these risks by putting on measures to mitigate and reduce or eliminate the risks.

For example, the emergence of a successful competitor may be a business risk in that customers may transfer their dealings to the competitor which may force the organization to reduce prices or even force it out of business.

**Why the auditor may be concerned with business risk:**

Although business risk is mainly management's concern, the statutory auditors may be concerned with the business risks that exist. Some business risks have an impact on the financial statements. For example, the emergence of a successful competitor has an implication on the ability of the company continuing as a going concern and this

has implications on the basis of the preparation of the financial statements. If the financial statements are prepared on a wrong basis, then clearly they will not show a true and fair view.

## SOLUTION TWO

(a) (i) **Meaning of sampling risk:**

Sampling risk is the risk that the auditor may give an inappropriate opinion because they have relied on the results of the sample rather than the whole population. Had the auditor performed audit procedures on the whole population the conclusion may have been different.

(ii) **Procedure for selecting samples to discover errors and omissions:**

The auditor is required to perform audit procedures that will help detect errors and omission in the figures contained in the financial statements.

Errors are mistakes contained in the figures in the financial statements whereas omission relate to items not in the financial statements which should have been included in the financial statements.

The directions of selecting sample items for errors and omissions is different as follows:

In order to select items for testing for **errors**, the auditors must select sample items from the recorded transactions and then refer to the supporting documents to check for any errors. For example, in the case of sales invoices, the auditor will select sample invoices from the sales ledger and then examine the documents and test for errors by for example, confirming selling price to the price list and recalculating for arithmetical errors.

The direction of sample selection when intending to test for omissions is from outside the accounting records. This is because if samples are selected from the accounting records then clearly such samples will not have been omitted.

If for example, the auditor wishes to test for any sales invoices that have been omitted, the sample will be from outside the accounting system such as from delivery notes made. The auditor will then trace the delivery notes to the accounting records and any that cannot be traced will have been omitted.

(b) **Financial statement assertions & audit procedures for equipment:**

(ii) Audit procedures for assertions in figure of equipment:

(i) Assertions:	(ii) Audit procedures:
<p><b>1. Existence:</b> This assertion refers to the claim that the assets included in the figure of equipment existed at the period end.</p>	<ul style="list-style-type: none"> <li>○ For selected assets physically inspect the assets to confirm existence.</li> <li>○ Confirm that the company physically inspects equipment in the asset register each year.</li> </ul>
<p><b>2. Rights &amp; obligations:</b> This suggests that Giraffe Ltd has the rights to the equipment included in the financial statements.</p>	<ul style="list-style-type: none"> <li>○ For a sample of equipment included, examine purchase invoices for</li> </ul>

	confirmation that it is in the name of Giraffe Ltd.
<p><b>3. Valuation:</b> This is a claim that the equipment has been appropriately valued in accordance with relevant accounting standard IAS 16 at cost less accumulated depreciation.</p>	<ul style="list-style-type: none"> <li>○ Confirm that equipment has been valued at cost less accumulated depreciation.</li> <li>○ For a sample of equipment, confirm the cost to the supporting documents.</li> <li>○ Re-perform computation of depreciation for a sample of equipment included.</li> </ul>
<p><b>4. Completeness:</b> This is a claim by management that all equipment acquired and disposed of in the year has been recorded in the financial statements.</p>	<ul style="list-style-type: none"> <li>○ For a sample of existing equipment, confirm that it is included in the asset register.</li> <li>○ Confirm that the figure for equipment in the financial statements agrees with the total figure for equipment in the non-current asset register.</li> <li>○ Agree and reconcile the schedule of the make-up of the equipment to balance in the general ledger under equipment.</li> </ul>
<p><b>5. Accuracy:</b> This is a claim that the figure of equipment is correctly stated at cost less accumulated depreciation and that additions and disposals are correctly recorded.</p>	<ul style="list-style-type: none"> <li>○ Cast the schedule of the make-up of the equipment figure for arithmetical accuracy.</li> <li>○ Recalculate depreciation for selected equipment.</li> </ul>
<p><b>6. Presentation:</b> This means that the disclosures in the financial statements are in accordance with the applicable accounting standard IAS 16.</p>	<ul style="list-style-type: none"> <li>○ Review non-current asset disclosures which include equipment in the draft financial statements are in line with criteria in IAS 16.</li> <li>○ Review the draft accounts to ensure that depreciation policies and rates are correctly disclosed.</li> </ul>
<p><b>7. Classification:</b> This is a claim that the amounts included in the figure of equipment correctly relate to equipment and that expenses of a revenue nature are not included and are taken to profit or loss.</p>	<ul style="list-style-type: none"> <li>○ For a sample of equipment included in the figure of equipment, examine the supporting documents and ensure they have been correctly classified as equipment.</li> <li>○ For a sample of amounts included in equipment, examine supporting documents for evidence of any</li> </ul>

	expenses of a revenue nature having been included.
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**(c) Methods of recording accounting & control systems of Giraffe Ltd:**

**1. Narrative notes:**

Narrative notes are used by the auditor to record accounting and controls systems through enquiry and the auditor takes notes of what is being explained and so describes and explains the system in the notes.

**2. Flow charts:**

This is the recording is an accounting and control systems through the use of graphic illustrations of the flow of information through the accounting system. It involves the use of symbols to represent inputs and outputs from the system. Using flowcharts may require some skills.

**3. Questionnaires:**

This is the use of sets of questions for various business cycles particularly to record and explain control systems. The questions are designed in a way that a YES or No answer is given and interpreted to decide on the effectiveness of the controls in a particular cycle.

**4. Checklists:**

These are used as an alternative to questionnaires in evaluating the effectiveness of a control system. In this case instead of questions being asked, statements are made to mark off or tick to indicate whether the statements holds true or not.

**(d) Typical procedures conducted at interim audit:**

1. Risk assessment procedures at the planning stage – The audit team may carry out risk assessment procedures of identifying the risks in the audit of Giraffe Ltd in order for the audit team to plan and design suitable procedures to be conducted.
2. Recording the internal control systems of Giraffe Ltd.
3. Evaluating the design of the internal control systems of Giraffe Ltd.
4. The audit team may perform tests of controls for the period to the interim audit date. This way the audit team will only need to carry out tests of control for the remaining period at the final audit.
5. The audit team may perform substantive tests for transactions for the period to the interim audit date and only perform substantive tests for the remaining period at the final audit stage. Limited work on statement of financial position balances can be done at this stage because the balances at the period end will only be determined then.
6. Identification of issues that may impact work to be done at the final audit stage.

## **SOLUTION THREE**

(a) (i) **Risk with regards to obsolescence figure:**

Obsolescence is an accounting estimate and has an inherent risk of misstatement due to its nature. The risk concerns the valuation of inventory which should be valued at the lower of cost and net realizable value.

The nature of the products that Gilmore Industries Ltd is involved in is such that if it is obsolete then it cannot be used. The value of obsolete inventory is lower than cost and the audit risk is that such inventory could be valued at cost which is likely to be higher than the net realizable value resulting in the financial statements being misstated as a result of an understatement in the provision for inventory obsolescence.

(ii) **Audit procedures for the provision from obsolescence:**

1. Evaluate the procedures in place for the identification of obsolete inventory by Gilmore Ltd.
2. During the attendance of the inventory count, observe if the instructions regarding identification of obsolete inventory are being followed.
3. Evaluate the provision for obsolescence made by management and assess the reasonableness of the assumptions used.
4. Obtain written representations from management regarding the sufficiency of the provision made for obsolescence and the reasonableness of the assumptions used in determining the amount.
5. Evaluate any post year-end sales of obsolete inventory to determine the net realizable value used in valuing the inventory at the period end.
6. Evaluate the adequacy of the disclosures of the estimation uncertainty regarding obsolescence by reviewing the draft financial statements.
7. Review the judgment and decisions of management in making the provision against the provision for obsolescence to identify if there are any indications of management bias.
8. Evaluate the final inventory valuation work and confirm that obsolete inventory has been valued at the lower of cost and net realizable value.

(b) **Written representations:**

1. Representations about management's responsibilities:  
These are written representations in which management acknowledges its responsibilities for:
  - Preparation and presentation of the financial statements in accordance with the applicable financial reporting framework and
  - Acknowledgement that management has provided the auditors with all the relevant information that the auditors require in accordance with the terms of the audit engagement and that all transactions recorded are reflected in the financial statements.
2. Other written representatives:  
Auditors may require written representations to support other evidence that has been obtained. For example, if auditors obtain oral evidence to support certain assertions, they may request for written representations to support this.
3. Representations required by other auditing standards:

There are a number of auditing standards that specifically requires the auditors to obtain written representations from management concerning specific matters. For example, ISA 240 *The auditor's responsibilities relating to fraud in an audit of financial statements* requires the auditors to obtain written representations from management and those charged with governance concerning the knowledge of fraud or suspected fraud that they know about.

**(c) Use of Key Audit Matters paragraph:**

ISA 701 (Revised) *Communicating key audit matters in the independent auditor's report* gives guidance to the auditor in this area.

This is a paragraph in the auditor's report that contains matters of significance that the auditors found and communicated to those charged with governance during the audit. These matters would have been resolved with management and are contained in the financial statements.

In the case at hand, the auditor will using their professional judgment, include significant matters from among the matters that have been communicated to those charged with management of Gilmore Ltd in this paragraph. The auditors will give a brief explanation of the matters and how it was resolved.

**Use of Emphasis of matter paragraph:**

ISA 706 (Revised) *Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* gives guidance in use of the Emphasis of matter paragraph in the auditor's report.

This is a paragraph in the auditor's report that contains matters that are appropriately presented or disclosed in the financial statements and the auditor feels they are significant and need to be highlighted.

The auditors may include the details of the increase in the allowance for receivables in note 10 of the financial statements. In this paragraph the auditor will make reference to the note by management of the matters and state that this is not a modification of the opinion.

**Use of other matter paragraph:**

ISA 706 (Revised) *Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* gives guidance in use of the other matter paragraph in the auditor's report.

This is a paragraph in the auditor's report in which the auditor may wish to bring to the attention of users of the audit report matters that need not be disclosed in the financial statements but the auditor feels they are important and significant to warrant mention in the auditor's report.

In the case of the audit of Gilmore Ltd, the auditors may mention in this paragraph the fact the financial statements for the previous year were audited by different auditors.

## SOLUTION FOUR

(a) **Internal control activities in purchases & inventory control systems & tests of control:**

(i) **Control activity**                      (ii) **Test of control**

1. The stock cards maintained must be pre-numbered in order to prevent fraud through destruction of a card and replacing it with different information.	Review a series of stock cards both used and unused and confirm that they are pre-numbered.
2. Purchase Requisitions should be approved by a responsible official possibly the Stores Manager.	For a sample of Purchase Requisitions raised, examine and confirm that they have been approved by the responsible official.
3. All goods received must be supported by a Goods Received Note (GRN) to confirm receipt and basis for accounting records.	Review a sample of goods purchased and received and confirm that they are supported by a Goods Received Note.
4. All goods received must be checked for quality by a responsible person and this should be evidenced in writing.	For a sample of goods received, confirm by inspecting relevant documents that they were checked for quality and the checking is in writing.
5. All Purchase Orders must be pre-numbered for purpose of accountability.	Review a sample of Purchase Orders raised and those not raised and confirm they are pre-numbered.
6. All Purchase Orders must be approved by the Purchasing manager.	Review a sample of Purchase Orders raised and confirm that they have been approved by the Purchase Manager.

(b) **Ethical matters in the audit of Kilimanjaro Ltd:**

**1. Assignment of Phiri as Audit Manager:**

The assignment of Phiri on the audit of Kilimanjaro Ltd gives rise to a self-review and familiarity threats. Phiri recently held a senior position in Kilimanjaro and he would have been involved in setting up the systems in the company and the determination of some figures contained in the financial statements that will be under audit. Further, Phiri will be familiar with the staff in Kilimanjaro and these matters will impact on his independence and objectivity.



## **2. Composition of audit team:**

The composition of the rest of the audit team is that of individuals who do not have the competences necessary for them to perform an effective audit. It will be the first time that the Audit Senior will be leading an audit team and the Audit Assistants were recently recruited and are new in the firm. The detection risk is high and suitable safeguards will require to be put in place.

## **3. Secondment of Audit Assistant to Kilimanjaro Ltd:**

The secondment of one (1) of the Audit Assistants to Kilimanjaro Ltd and later assign him on the audit of the financial statements of Kilimanjaro Ltd gives rise to a self-review threat. Guidance prohibits one who took on management responsibilities to conduct the audit of the financial statements.

## **4. Threat of termination of audit services by the CEO:**

The threat by CEO of Kilimanjaro Ltd to the audit team that if there will be a delay in finalizing the audit, the company would terminate the appointment is an intimidation threat. This may cause the audit team not to be objective for fear of termination of the appointment.

### **(c) Audit procedures for bank balance:**

- Obtain standard bank confirmations from each bank that Kangaroo Ltd has accounts with.
- Verify the bank balances with replies from confirmations and bank statements.
- Review the draft financial statements of Kilimanjaro Ltd and ensure that disclosures for bank are complete and accurate and according with accounting standards.
- Re-perform arithmetic of the bank reconciliation for accuracy.
- Review the year end bank reconciliation and confirm uncleared items are cleared early in the following year and obtain explanations where necessary.
- Enquire from management whether any accounts are secured on the assets of the company.
- Compare the cash books and bank statements in detail for the last month of the financial year and match the outstanding items at the reconciliation date to the bank statements.
- Inspect the bank paying-in slips for any uncleared (Deposits not credited by the bank) and confirm that they were paid in (deposited) before the year end.
- Where Kilimanjaro Ltd has several bank accounts with the same bank, consider whether there is a right of set off of overdrafts against positive bank balances.

## SOLUTION FIVE

### (a) Elements of internal control:

- The control environment.
- The entity's risk assessment process.
- The information system relevant to financial statements.
- Control activities.
- Monitoring of controls.

### (b) (i) Audit risk model and how can be managed:

The audit risk model comprises three elements as follows:

$\text{Inherent risk} \times \text{Control risk} \times \text{Detection risk} = \text{Audit risk}$

**Inherent risk** is the risk of a misstatement going undetected because of the nature of the business or item. For example, accounting estimates are inherently risk because of the lack of a precise method of determining the amount.

**Control risk** is the risk that the internal controls by management may not function as expected and thereby fail to detect or prevent material misstatements of the figures contained in the financial statements.

**Detection risk** is the risk that despite the auditor performing audit procedures in accordance with auditing standards, they may not detect material misstatements in the figures in the financial statements.

#### How auditor may manage audit risk:

Of the three elements of audit risk, the auditor can control detection risk. The other two elements are management's responsibility and there is little the auditor can do to reduce these elements.

The auditor may be able to reduce audit risk by increasing the level of testing. The more items that are tested the lower the detection risk. Audit risks can therefore be reduced by reducing detection risk since audit risk is the product of the three elements.

### (ii) Audit risks in the audit of the financial statements of Moonlight Plc:

<b>Audit risk:</b>	<b>Explanation:</b>
1. First time audit of Moonlight Plc.	Being the first time that the firm will be auditing the financial statements of Moonlight Plc it is likely that the staff will not have the required experience to conduct the audit. The detection risk that material misstatements may not be detected is high.
2. Opening balances	The previous year audit will have been conducted by different auditors. There is a risk that the opening balances may be misstated and this could result in the current year balances being misstated.

3. Legal regulations	The company is subject to strict legal regulations and in the year under review, the company has been sued for wrongful disposal of hazardous substances. At the period end, the case had not yet been concluded so there is a risk that provisions may be misstated.
4. Uncollectable accounts receivables	The increase in receivables outstanding for more than three (3) months could result in disputed and uncollectable receivables. There is a risk that the provision for receivables may be understated resulting in a misstatement of the receivables figure.
5. Repairs and rehabilitation of equipment	Significant expenditure on repairs and rehabilitation of equipment has occurred in the current year. Expenditure that enhances the operating capability of the equipment requires to be capitalized. There is a risk that expenditure on repairs may be wrongly classified which could result in revenue expenditure being capitalized and vice versa.

(c) (i)

**Objective and principle of using test data:**

Test data is data that is prepared by the auditor with predetermined results and then entered into the application system of the client company and then comparing the results of the processing with the pre-determined results. Test data is used with the objective of testing the controls in a computerized system.

(ii)

**Difficulties of using test data in an audit:**

1. The use of test data on a client computer system could disrupt operations of a real time system.
2. The dummy data processed will need to be reversed after the tests and this may prove difficult to do in real time systems which have controls to prevent reversals of transactions.
3. It is difficult to ensure that the program used in processing the test data is the same one using for actual data.
4. Test data tests the system at a particular point in time and so auditors will be testing controls in the programs being run and the controls which they know about.

(iii)

**Use of test data in audit of payroll:**

The following test data could be appropriate to test the controls in the payroll system of Moonlight Plc.:

1. Test the control over accessing the payroll application by attempting to access the system using auditor determined password. The expected result is that the application will deny access.

2. Attempt to input dummy payroll data with a net pay above K56,000.00 the maximum and confirm whether the system will detect this and not process this.
3. To test the control over man numbers in the system, come up with a list of staff some with approved numbers and others with numbers not approved and not in the series and request access to all. The expected result is that those not approved by the Human Resources Manager should be rejected.

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA: 12 GOVERNANCE AND COMPANY LAW

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FRIDAY 16 DECEMBER 2022

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

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**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 in this section.**

### **QUESTION ONE**

Zambian Energy Drink Company is a business entity incorporated two (2) years ago to manufacture drinks that would help the Human immune system fight diseases like Covid-19. The company management has undergone a lot of workshops to receive training in "**corporate governance**" to enhance their performance which has been the best. It was said that the workshop was a good move as the company's sales improved dramatically in the year 2020.

That notwithstanding, Zambian Energy Drink Company Ltd faced financial challenges in the 2021 year.

Zambian Energy Drink Company legal department has handed the Director a legal opinion and has suggested the following alternatives:

1. The company be dissolved by striking off the register
2. The company be placed under liquidation
3. The Company be placed under business rescue proceedings

Though the company did not finish studying the opinion, there is a rumour that the stakeholders have accessed the copy of the legal opinion on Facebook, an act which is very bad for the company.

The company has decided to call for an urgent meeting to deal with all the issues that the company is going through and the legal opinion given the circumstances.

#### **Required:**

- (a) State any five (5) concepts of corporate governance in relation to the workshop which Zambian Energy Drink Company management attended. (5 marks)
- (b) Explain to the company the role of stakeholder theory and stockholder theory in the above circumstances. (10 marks)
- (c) The legal opinion above also suggested that the company be dissolved by striking off the register, explain this procedure to the company. (5 marks)
- (d) With reference to insider trading, explain the leakage of the legal opinion on Facebook. (5 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

- (a) State any five (5) contents of the articles of association. (5 marks)
- (b) Illustrate any five (5) ways through which lifting of the veil of incorporation can be done. (10 marks)
- (c) List and explain the powers of a liquidator during the winding up of a company. (5 marks)
- (d) Elaborate on the main characteristics of the Greenbury Report of the UK. (5 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

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

### **QUESTION THREE**

Balallow limited was incorporated in 2013 and its main object was to supply sports kits to football teams. The company has been making profits from inception. Challenges came in when Covid 19 restrictions were put in place and football teams could not afford to purchase the kits as there were no games and supporters were in lockdown. Machi, one of the shareholders is of the view that the company must be wound up since Directors are not able to make statutory declarations that the company will be able to pay its debts within twelve (12) months. He has come to your office for advice.

#### **Required;**

- (a) Advise him the best winding up mode in this instance. (2 marks)
- (b) Explain to him the grounds for compulsory winding up. (10 marks)
- (c) Explain to him the advantages of dissolution of a company by striking off the register. (3 marks)
- (d) Suppose they wanted to sale their shares to the public, explain to him the contents of a prospectus. (10 marks)

**[Total: 25 Marks]**

### **QUESTION FOUR**

Betty has formed a Company limited by shares with her two (2) sisters and other shareholders. Betty has sold her other company to the newly formed company for K300,000,000.00. She holds 50% shares, her three (3) sisters own 10% shares each and the rest of shares are shared among three (3) shareholders John, Eddie and Levy who are preferential shareholders. Betty also lent K5,000,000.00 of the debentures loan to the company. The debentures are secured.

#### **Required:**

- (a) Suppose the company was liquidated, explain who would be prioritised in terms of payment and why? (10 marks)
- (b) What is a debenture? (5 marks)
- (c) What is the difference between preferential shares and equitable shares? (10 marks)

**[Total: 25 Marks]**



### **QUESTION FIVE**

Kitwe North Multi-Economic Zone (The Zone) is an ultra-modern shopping center in a high cost residential area. The opening of The Zone brought about so many protests from different stakeholders and members of the community who argued that it disturbed their underground water supply system and contributed to the rapid degeneration of the environment in the recent past. The Zone insists that it has been responsible and accountable to all stakeholders in its operations.

#### **Required:**

- (a) Explain the stakeholder theory. (6 marks)
- (b) Explain to members of the community the corporate governance concept of responsibility and accountability which The Zone was talking about. (10 marks)
- (c) One of the stakeholders, an environmental pressure group called Plant A Plant, has proposed that The Zone be wound up by compulsory winding up so that the place can be used as a park for wildlife. The organization pressure group says it is just and equitable to do so. Explain to the pressure group the procedure for winding up a company by compulsory winding up. (9 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 12 GOVERNANCE AND COMPANY LAW

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

(a)

- i. Fairness-The board of directors should treat all stakeholders fairly and equitably.
- ii. Independence-Each director should independent. There should be no conflict of interest.
- iii. Honesty-The directors must protect the shareholders' interests in the organization, and should give confidence to the shareholders that their interests are being protected.
- iv. Transparency-The directors should disclose material information in a timely and accurate manner.
- v. Accountability-Those who control the business
- vi. Integrity-Moral and ethical issues should be considered when making decisions relevant to the organization.
- vii. Responsibility-The board of directors should ensure the organization complies with the relevant laws where it operates

(b)

#### **The Stockholder theory:**

- i. Once a company limited by shares has been incorporated, it is as a matter of law that no one person can or should own all the shares in the said company and as such, there will be numerous shareholders in any given limited company.  
Suffice to note that the shareholders of a company are not the persons involved in the day to day running of the company's affairs and therefore will appoint a Board of Directors to oversee the everyday running of the company. The question that arises too many times is; to whom do the Directors of the company owe a responsibility and or legal duty to?  
The preceding question in the aforementioned paragraph perhaps may be answered by what is known as; the *Stockholder theory*, this theory is one that focuses on the interests of the Shareholders. The gist of this theory is that it adopts from the principles of Agency and argues that; the Shareholders are the appointing

authority of the Board of Directors and as such, the former are the principal, whereas, the latter are the Agents.

The foregoing being the case, it is argued that only Shareholders would be properly said to have a legitimate claim over the company and its affairs, and that the Directors are legally duty-bound to ensure that the interests of the Shareholders are secured.

In the given situation, the directors have a duty to make sure they make decisions that favor the members at large. It is the director's duty to make sure that no inside information is leaked to the outsiders.

### **Stakeholder theory:**

A company once in motion will have various persons and/or group of persons that can affect and are affected by the company achieving its objectives, these may either be; persons, groups and/or non-human entities, the foregoing is what is known as the *Stakeholder theory*.

The Stakeholder theory hinges on the argument that companies are so big and may sometimes have a huge impact on society and as such the said company must be corporately responsible to a larger group of Stakeholders and not only the Shareholders. The King report presses that; when adopting the Stakeholder principle of corporate governance, the Board of Directors ought to take into account the interests and/or legitimate expectations of all the Stakeholders.

In conclusion, it would appear that a comparison between the *Stockholder theory* and the *Stakeholder theory* is that the former seeks to serve and/or advance the interests of the Shareholders of a company and places the Board of Directors under the shadow of the Shareholder, whereas the latter advocates for a broader approach in the manner in which the Board of Directors makes its decisions, the said Stakeholder theory mandates the Board to be able to look at the interest of all Stakeholders involved in the affairs of the Zambian Energy Drink Company Limited.

(c)

The two procedures for dissolution of a company by striking off:

- Option 1: The Registrar of Companies, if he has any reasonable grounds to believe that the company is not carrying on business or is not in operation or is not complying with the law (e.g. members below two, not preparing annual reports, etc.) will send a post requesting

confirmation. If no response, he will give notice in the government gazette requesting the company to prove that it is in operation within three months from the date of notice or else, it will be dissolved.

- Option 2: Alternatively, a company may, by ordinary resolution, request the Registrar to strike it off the register upon lodging with the Registrar a copy of the resolution, summary accounts, and a statutory declaration showing that it has no debts outstanding/unpaid. The Registrar will publish that notice in the gazette and the company will be dissolved after three months from the day of the notice.

(d) *Insider trading* is the use of inside information (i.e specific information that has not yet been made public, and if made public would have a significant effect on the shares/stock as it is price sensitive information) by the directors to take advantage and buy or sell shares of the company on the market. This is prohibited of directors.

The implications of insider trading on the directors would be being liable to the company and must pay back any secret profit to the company, can be fired, or criminally liable/prosecuted as this undermines the integrity of the capital market.

## SOLUTION TWO

(a) Articles should contain rules on a number of areas, such as:

- Communication with members;
- Powers, responsibilities and liabilities of directors
- Class meetings ;
- Directors' meetings;
- Issue of shares;
- General meetings, calling, conduct and voting ;
- Transfer of shares ;
- Members' rights ;
- Documents and records
- Dividends

(b) The veil of incorporation is an important principle of company law that is another consequence of separate legal personality. It means that the shareholders are protected, to some extent, from the world outside of the company. However, this veil can be lifted in a number of ways:

**By the court-** it is difficult to be precise about the circumstances under which a judge will lift the corporate veil but it is a tactic that a judge could use to counter fraud, sharp practice, oppression and illegality.

**By statute-**For example, if the number of members falls below 2 for more than 6 months the company may be wound up. **To prevent evasion of obligations-** A company may be identified with those who control it, for instance to determine its residence for tax purposes. The courts may also ignore the distinction between a company and its members and managers if the latter use that distinction to evade their existing legal obligations.

**Public interest-**In time of war a company is not permitted to trade with 'enemy aliens'. The courts may draw aside the veil if, despite a company being registered in the home country, it is suspected that it is controlled by aliens: **Daimler Co Ltd v Continental Tyre and Rubber Co (GB) Ltd 1917**. The question of nationality may also arise in peacetime, where it is convenient for a foreign entity to have a home country facade on its operations.

**Evasion of liabilities-**The veil of incorporation may also be lifted where directors ignore the separate legal personality of two companies and transfer assets from one to the other in disregard of their duties in order to avoid an existing liability.

Evasion of taxation Courts may lift the veil of incorporation where it is being used to conceal the nationality of the company.

**Quasi-partnership**- An application to wind up a company on the 'just and equitable' ground may involve the court lifting the veil to reveal the company as a quasi-partnership. This may happen where the company only has a few members, all of whom are actively involved in its affairs. Typically, the individuals have operated contentedly as a company for years but then fall out, and one or more of them seek to remove the others. The courts are willing in such cases to treat the central relationship between the directors as being that of partners, and rule that it would be unfair therefore to allow the company to continue with only some of its original members. This is illustrated by the case of **Ebrahimi v Westbourne Galleries Ltd 1973**.

- (c) The company allows the liquidator to use his discretion in the management of the company's affairs. The liquidator has the power to manage all the affairs of the company; he has to investigate and report if it appears that there is fraud in the company; the liquidator has the power to get hold of the company's assets and dispose them off as well.
- (d) This was published in 1995 by the Greenbury committee and the emphasis was establishing principles for the determination of director's pay. This was to include detailed disclosures to be presented in the annual reports and accounts. The Greenbury report covered more than the Cadbury report as it recommended that the remuneration committee is to determine executive directors' remuneration. Further this committee ought to comprise non-executive directors. The code also recommended that directors' service contracts should be limited to one year.

### **SOLUTION THREE**

(a) The best mode is compulsory winding up

(b) The grounds for compulsory winding up are as follows;

- The company has by special resolution resolved that it be wound up
- The company does not commence its business within 12 months after its incorporation
- The company is unable to pay its debts
- The period fixed by Articles for the duration of the company expires
- The number of members is reduced to below 2
- In the opinion of the court, it is just and equitable that the company should be wound up

(c) These are the advantages;

- It is less costly
- It is less procedural
- It is quicker

(d) The following are the contents of a prospectus;

- Details of the company, such as name, registered office address, and objects.
- Details of signatories to the Memorandum and their shareholding particulars.
- Details of the directors.
- Details of shares offered and the class of the issue as well as voting rights.
- Minimum subscription amount.

## **SOLUTION FOUR**

(a) Betty will be prioritised because she is a debenture holder. Creditors are prioritised over shareholders. Betty is both a shareholder and a debenture holder henceforth, in terms of the K 5000,000.00 loan which she lent to the company, she will be prioritised as she will be categorised under secured creditors. This was demonstrated in the case **SALOMON V SALOMON** Salomon transferred his business of boot making, initially run as a sole proprietorship, to a company (Salomon Ltd.), and incorporated with members comprising of himself and his family. The price for such transfer was paid to Salomon by way of shares, and debentures having a floating charge (security against debt) on the assets of the company. Later, when the company's business failed and it went into liquidation, Salomon's right of recovery (secured through floating charge) against the debentures stood prior to the claims of unsecured creditors, who would, thus, have recovered nothing from the liquidation proceeds.

To avoid such alleged unjust exclusion, the liquidator, on behalf of the unsecured creditors, alleged that the company was a sham, was essentially an agent of Salomon, and therefore, Salomon being the principal, was personally liable for its debt. In other words, the liquidator sought to overlook the separate personality of Salomon Ltd., distinct from its member Salomon, so as to make Salomon personally liable for the company's debt as if he continued to conduct the business as a sole trader.

### **Held**

The Court of Appeal, declaring the company to be a myth, reasoned that Salomon had incorporated the company contrary to the true intent of the then Companies Act, 1862, and that the latter had conducted the business as an agent of Salomon, who should, therefore, be responsible for the debt incurred in the course of such agency.

The House of Lords, however, upon appeal, reversed the above ruling, and unanimously held that, as the company was duly incorporated, it is an independent person with its rights and liabilities appropriate to itself, and that "the motives of those who took part in the promotion of the company are absolutely irrelevant in discussing what those rights and liabilities are". Thus, the legal fiction of "corporate veil" between the company and its owners/controllers was firmly created by the Salomon case.

However, as regards shareholders, John, Eddie and Levie will be prioritised because they are preferential shareholder.



(b) A debenture is a loan agreement in writing between a borrower and a lender that is registered at Companies House. It gives the lender security over the borrower's assets. Typically, a debenture is used by a bank, factoring company or invoice discounter to take security for their loans. A debenture can only be taken on a limited company or limited liability partnership; it can't to be taken over a sole trader or standard partnership.

A director who has advanced or lent money into their own company could take a debenture to secure the loan. A private lender can also take a debenture.

c)

<b>BASIS FOR COMPARISON</b>	<b>EQUITY SHARES</b>	<b>PREFERENCE SHARES</b>
Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating	Fixed
Redemption	No	Yes

<b>BASIS FOR COMPARISON</b>	<b>EQUITY SHARES</b>	<b>PREFERENCE SHARES</b>
Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights. However, in special circumstances, they get voting rights.
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.
Arrears of Dividend	Equity shareholders have no rights to get arrears of the dividend for the previous years.	Preference shareholders generally get the arrears of dividend along with the present year's dividend, if not paid in the last previous year, except in the case of non-cumulative preference shares.

## **SOLUTION FIVE**

(a) *Stakeholder theory*:- A stakeholder is, by definition any entity that stands to be affected by the achievements of the objectives of an organisation. The stakeholder theory brings out the view that companies may in most instances be big corporations and as such must not only be seen to be serving the interests of the shareholders, but also those that stand to be affected by the decisions of the company, the theory therefore presses for the consultation of stakeholders before decision making. It proposes corporate accountability to a broad range of stakeholders' legitimate demands on the company.

(b) *Responsibility* – Good governance demands that management must be able to accept the credit or blame for government decisions. In this regard, it means The Zone must avoid blaming others and be ready to be corrected or accept the blame for their mistakes.

*Accountability* – Good governance demands that management must provide true, unbiased financial information to stakeholders e.g. shareholders, government, community, etc. In this case, The Zone must be accountable for their actions and decisions.

(C) Winding up by the court is also known as compulsory winding up. This happens when the directors of a company are not able to make a declaration that the company will be able to pay its debts within approximately 12 months or where a company has made the declaration but unable to pay debts within stipulated time.

A petition will be made before the court to have the company wound up by the court. The said petition will have to be advertised in the government gazette and a local newspaper for seven (7) clear days. The matter will then be set for trial and after hearing both sides, the court will make an order either to wind up the company or not.

This is how winding up by the court comes up. Thus it will be up to the environmental watch group to prove their allegations justifying the need to wind it up on the grounds of 'just and equitable cause'.

## **END OF SOLUTIONS**