TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 12 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. **Cell Phones** are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

7. All workings must be done in the answer booklet.

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions

QUESTION ONE

(a) A Marketing Plan serves to document how a business strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point.

Required:

(i) What is the main purpose of the Marketing Plan? (2 marks)

(ii) Give four (4) benefits of Marketing Planning. (4 marks)

(b) SWOT Analysis is an evaluation of an organization's Strengths (S), Weaknesses (W), Opportunities (O) and Threats (T).

Required:

Explain what each of these terms are, and give an example of each. (12 marks)

(c) Distinguish between Top-down Planning and Bottom-up Planning. (2 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Define five (5) functions of management as postulated by Henry Fayol. (10 marks)

(b) Political factor underlines the key component of external environment analysis.

Required:

Identify other factors in the analysis of the external environment of the company.

(10 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Define a strategic Business plan (5 marks)

(b) Explain the following levels of business strategy;

(i) Corporate Strategy (5 marks)

(ii) Business Strategy (5 marks)

(iii) Operational Strategy (5 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) (i) What is meant by the term 'Transformational Leader'? (2 marks)

(ii) Outline four (4) characteristics associated with transformational leaders.

(8 marks)

(b) Effective delegation should lead to optimum use of human resources and improved organizational performance.

Required:

Discuss five (5) benefits of delegation. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Draw a diagram representing the communication process. (4 marks)

(b) Discuss four (4) reasons why communication is needed. (4 marks)

(c) Distinguish between "Effective" and "Efficient" communication. (4 marks)

(d) Describe four (4) major barriers to effective communication. (8 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) The Main purpose of the Marketing Plans to integrate Marketing activities-Planning Implementation, measurement and Control. If integration does not take place, the is unlikely to succeed.

(ii) Any four (4) benefits of Marketing Planning:

- Greater understanding of customers will be achieved
- Decision-making will be improved
- Motivation levels will be higher because of involvement
- Less risk is attached to actions
- Diverse activities can be coordinated
- There is less likelihood for crisis management
- Measurement and control will be improved
- Corrective actions can be taken very quickly

(b) Elements of S.W.O.T Analysis:

(i) Strengths are what the company does better than the competitors; for example, having quality staff. Location could also be a strength; as well as moving closer to major markets. Other strengths may include: design capabilities, more finances, higher production capability; possessing superior marketing skills; owning a scare resources; having a popular brand

(ii) Weaknesses include internal limitations and negative situational factors that may interfere with the business performance. For example; poor working culture and systems; limited product offering; poor marketing skills; using obsolete technology.

(iii) Opportunities are favorable factors or trends in the external environment that the business may be exploited to gain a competitive advantage. Examples include: a competitor leaving the market; favorable economy; favorable government pronouncement; new demand for product.

(iv) Threats are current and emerging external factors that may challenge the company’s performance. They may come in visible form, e.g. increased competition, new products and processes; and in less obvious forms such as unfavorable action by governments (local and national).

(c) Distinguish between Top-down Planning and Bottom-up Planning

- **Top-down planning** is the type of planning in which the top management sets the objectives and plans for the lower levels.
- **Bottom-up planning** this is the type of planning in which each business department puts forward what they think is the best they can do, then the top management sorts out what the whole business can achieve. Top management will set objectives based on the profit which they think will satisfy the shareholders and the departmental managers and will suggest what they can achieve if they continue as at present, or if they had new technology. The planning process is usually one of iteration- that is ideas bounce up and down the management structure until all levels are satisfied that they have a workable achievable marketing plan.

SOLUTION TWO

(a) Define Five (5) functions of management as postulated by Henry Fayol.

(i) Planning: Planning is the first and foremost function of the management process. It is the thinking process to determine the proposed course of action, what, how, when, where and who has to perform the work or things to be done.

(ii) Controlling: Control is that process which keeps the whole system in check so that it moves as per the pre designated parameters or verifying the total movement of the business enterprise as per the plan and adopting corrective measures thereon for any deviation.

(iii) Commanding: Commanding is primarily concerned with supervision, regulation, inspiration, inspection and guidance of the activities of the employees in such a manner so as to achieve the pre-determined goals of the organization smoothly.

(iv) Organizing: Organization as a process institutes the harmonious adjustment between the different factors of production as land, labor, capital of the business enterprise, so that ultimate goal is achieved.

(v) Co-ordinating: Coordination is an understood agreement to achieve predetermined goal of business enterprise utilizing all the factors of production. This lubricates all the concerned activities towards facilitation of work and achieving the desired result. "All these elements will be dealt in with detail in the fore coming posts."

(b) Political factor underlines the key component of external environment analysis. Identify other factors in the analysis of the external environment of the company.

(i) Economic factors

(ii) Social Factors

(iii) Technological factors

(iv) Environmental factors

(v) Legal factors

SOLUTION THREE

(a) Define a strategic Business plan

This is a business plan that sets the long term objectives of the business, and the strategies and policies that will follow in order to archive those objectives

(b) Explain the following levels of business strategy

(i) Corporate Strategy

(ii) Business Strategy

(iii) Operational Strategy

- **-Corporate strategy**

  Corporate strategy is concerned with the overall purpose and scope of the organization and how value will be added to the different parts (business units) of the organization. A corporate strategy is a long-term plan that outlines clear goals for a company. While the objective of each goal may differ, the ultimate purpose of a corporate strategy is to improve the company. A company's corporate strategy may be to focus on sales, growth or leadership. Another purpose of corporate strategy is to create company value and to motivate employees to work toward that value or set of goals.

- **-Business-level strategy**

  Refers to the combined set of moves and actions taken by the firm, with an aim of offering value to the customers and developing a competitive advantage. It determines the market position of the enterprise, in relation to its rivals.

  Strategies at this level are concerned with meeting competition, defending market share while making a profit. A firm is said to have a competitive advantage if it can attract the target customers, as well as survive the competitive forces better, as compared to the rivals. **Michael Porter** propounded three business-level strategies in the year **1998**, which are: Cost Leadership, Differentiation, and Focus.

- **Operational strategy**

  Operations or operational strategy refers to a system of decisions that shapes all long-term operational capabilities and their offering to the overall achievement of a strategy. Quite simply, it’s a series of decisions that can help an organization implement competitive and sustainable business strategies. It supports linking long and short-term operational-level decisions with corporate strategy. From a strategic viewpoint, this allows organizations to make key operations decisions and maintain consistency with its overall objectives. Effective strategies enable operations management professionals to optimize the use of people, processes, technology and resources.

SOLUTION FOUR

(a) (i) **What is meant by the term 'Transformational Leader'?**

Transformational leadership is a leadership style that can inspire positive changes in those who follow. Transformational leaders are generally energetic, enthusiastic, and passionate. Not only are these leaders concerned and involved in the process, but they are also focused on helping every member of the group succeed. The primary goals of transformational leadership are to inspire growth, promote loyalty, and instill confidence in group members.

(ii) **Outline Four (4) characteristics associated with transformational leaders**

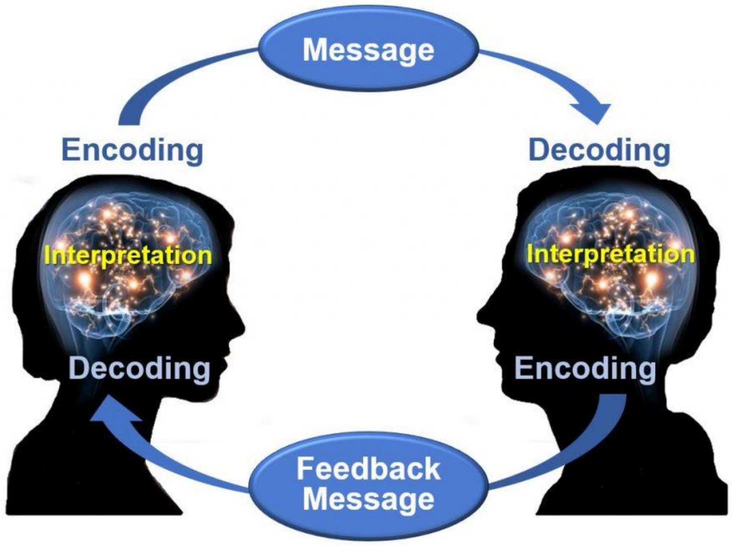
- Able to encourage others to communicate and participate
- Active listening skills
- Adaptability
- Authenticity and genuineness
- Creativity
- Emotionally intelligent
- Inspirational
- Open-mindedness
- Proactive problem-solvers
- Self-awareness
- Supportive
- Willingness to take responsibility
- Willingness to take well-informed risks

(b) **Effective delegation should lead to optimum use of human resources and improved organizational performance. The benefits of delegation are similar to the benefits of decentralization.**

- **Reduced workload –** When managers can trust their team members, they can enjoy more time off knowing that the projects are in good hands.
- **-Reduced stress –** Looming deadlines can bring on anxiety. With skilled team members, managers can breathe easier as project milestones approach.
- **-More time for higher job priorities –** As a manager your ultimate job is sourcing your projects to keep everything moving. Also as a manager, there are administrative and other tasks that only you can handle. Set more time for these things by delegating project work.
- **-More skilled and versatile team –** A manager is only as strong as their team. Meeting the needs of your staff provides skill building and personal performance goals that benefit everyone.
- **-Greater productivity from team –** A team with various skills can add tasks seamlessly without a lot of instruction. The more you invest in your team, the more they will produce for you and the company.
- **-Talent pool for promotion –** No one is trying to take your job, but everyone wants to move forward in their career. Here is the proving ground for cultivating new leaders.
- **-Higher employee morale –** Employees who feel respected and trusted work harder and more efficiently.
- **-Higher employee retention –** It is an investment in the workforce to train and mentor your team members. The last thing you want is for them to take your instruction and leave. Value them and they will feel vested in the company and look for opportunities in house instead of elsewhere.

SOLUTION FIVE

(a) Draw a diagram representing the communication process.



(b) Discuss four (4) purposes why we need communication.

(i) **To influence**: to persuade others to work hard to do the things that support the organizational objectives. For example the supervisor's job is to ensure that employees implement the operational plans and support the organizational objectives.

(ii) **To inform**: to make sure that others have important information for decision-making and job performance. For example the role of support staff is to ensure that they turn data into information to assist the decision-making process of managers.

(iii) **To control**: to provide clear objectives and monitor progress towards their accomplishment. Superiors must set clear and achievable goals for their subordinates and steer operations towards goal attainment.

(iv) **To inspire**: to display values, model positive attitudes and build commitment to organizational culture. Leaders must lead by example and constantly motivate subordinates.

(c) Distinguish between "Effective" and "Efficient" communication.

- **Effective communication** is about making what you want to say, what you actually say, and what the audience interprets consistent. It occurs when the intended message of the sender and the interpreted meaning of the receiver are one and the same.

- **Efficient communication** occurs at minimum cost in terms of resources expended. Time in particular is an important resource in the communication process.

(d) Describe four major barriers to effective communication.

(i) Poor use of communication channels.

(ii) Semantic problems

(iii) Absence of feedback

(iv) Physical distractions

(v) Status effects

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 14 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

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2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

10. A mathematical standard formulae 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.

Attempt all five (5) questions.

QUESTION ONE

(a) Define the term 'Free Trade Area' as applied to Regional Economic Integration. (3 marks)

(b) Annually, the Zambian Minister of finance presents a National Budget to parliament. The Budget covers planned public expenditures and planned public revenues for the subsequent financial year. Explain any four (4) sources of Zambia's Public Revenue that appears in the national Budget (8 marks)

(c) Monetary policy is the central bank policy designed to control money supply, credit creation, interest rates and exchange rates so as to achieve the country's economic objectives. Discuss how each of the following traditional methods of controlling money supply is used:

Required:

(i) Open Market Operations (3 marks)

(ii) Reserve ratio (3 marks)

(iii) Discount rate (3 marks)

[Total: 20 Marks]

QUESTION TWO

(a) List any three (3) advantages and any three (3) disadvantages of international trade (6 marks)

(b) Outline any three (3) terms of payment in international trade. (6 marks)

(c) Explain the following:

(i) Devaluation and depreciation (4 marks)

(ii) Spot rate and forward rate (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) The table below shows the age of cars, x of a certain make and annual maintenance costs, y .

Age of Cars, x	2	4	6	7	8	10	12
Maintenance costs (K), y	160	150	180	190	170	210	200

Required:

(i) Obtain the regression equation for costs related to age (10 marks)

(ii) Calculate the coefficient of correlation (4 marks)

(iii) Estimate the cost when the age of the cars is five (5) years (2 marks)

(b) A fund of K7,250, compounded continuously at a rate of 5.5% will be received in 30 months. How much would it be if it were to be cashed today? (4 marks)

[Total: 20 Marks]

<u>QUESTION FOUR</u>

(a) A construction company embarks on two projects, Project A and Project B. The net cash flow for the two (2) projects A and B, is as follows

Year	0	1	2	3	4
Project A	-10000	-3000	4000	6000	8000
Project B	-5000	-2000	1000	3000	5000

Required:

Use the net present value criterion to decide which project is the most profitable if a discount rate of 7% is used. (9 marks)

(b) A newsagent by the name of Mr Kamela stocks twelve (12) copies of magazine each week. He has regular orders for nine copies, and the number of additional copies sold varies from week to week. The newsagent uses previous sales data to estimate the probability for each possible total number of copies sold, as follows:

Number of copies	9	10	11	12
Probability	0.2	0.35	0.3	0.15

Required:

(i) Calculate an estimate of the mean number of copies that Mr Kamela sells in a week. (3 marks)

(ii) Mr Kamela buys the magazines at K8.5 and sales them at K14.5 each. Any copies not sold are destroyed.
Find the profit on these magazines in a week when he sales eleven (11) copies. (1 mark)

(iii) Construct the probability distribution table for Mr Kamela's weekly profit from the sales of these magazines. Hence or otherwise, calculate an estimate of his mean weekly profit. (7 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Batteries for transistor radio have a mean life under normal usage of 160 hours, with a standard deviation of 30 hours. Assuming the battery life follows a normal distribution:

(i) Calculate the probability of batteries which have a life above 75 hours. (3 marks)

(ii) Calculate the probability of batteries which have a life of at most 135 hours. (3 marks)

(iii) Calculate the percentage of batteries which have a life between 150 hours and 180 hours. (5 marks)

(b) If K80,000 invested for eight (8) years is projected to accumulate to K120,000, what interest rate is used to derive this forecast? (4 marks)

(c) Four (4) years after purchase, a university industrial printing machine has a scrap value of K6,000. The depreciation rate is 24%. Calculate the value of the printing machine when it was bought four (4) years ago. (5 marks)

[Total: 20 Marks]

END OF PAPER

C2: ECONOMICS & FINANCIAL MATHEMATICS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) A **Free Trade Area** is an arrangement by member countries where they agree not only to eliminate customs tariffs but working on the eventual elimination of quantitative restrictions and other non-tariff barriers among them. The aim being to promote trade among member countries.

(b) The structure of the Zambian public revenue include:

(i) External Financing:
(ii) Company Income tax: Levied on the profit of a corporation
(iii) Pay As You Earn: Tax paid as a share of wages earned and is usually deducted at source
(iv) Mining Tax: Levied on firms in the mining sector
(v) Value Added tax: Levied only on the value added at each stage
(vi) Customs, Excise and Trade taxes: levied on imports, sale of certain goods and on final goods respectively
(vii) Grants
(viii) Domestic Borrowing
(ix) Non-Tax revenue

(c) Methods for controlling money supply:

(i) **Open Market Operations**: This is the conveying and selling of government securities on the operation market. To increase money supply the government will sell securities on the open market. To reduce money supply the government will sell securities on the open market. The buying or selling of securities also has a direct impact on market interest rates.
(ii) **Reserve ratio**: the required reserves is the fraction of the deposits that every deposit accepting institutions is required to keep with Central Bank in order for to meet it legal obligations. To increase money supply the Central Bank will reduce the required reserves ratio. This encourages commercial bank lending leading to increase in money supply. To reduce money supply the Central Bank will raise the required ratio and this will discourage commercial bank lending.
(iii) **Discount rate**: the discount rate is the interest rate that the Central Bank charges to commercial banks that borrow from it. To increase money supply the Central Bank will reduce the discount rate. This increases the reserves of commercial banks which allows to step up their lending. To reduce money supply the Central Banks will increase the discount rate. This discourages commercial bank lending as lending rates rise.

SOLUTION TWO

(a) **Advantages of free trade**

(i) Enabling countries to specialise and increase production bearing in mind that the surplus can be exported.
(ii) Countries export surpluses and import what they lack.
(iii) Access to the world market, therefore enabling countries to benefit from economies of scale.
(iv) Allowing countries to develop their industries as a result of free movement of capital.
- Promoting beneficial political links and closer cooperation between countries.
(v) Increasing efficiency due to competition from imports and limiting the creation of monopolies.
(vi) The efficient use of resources also leads to lower costs of production which in turn leads to the reduction in the prices of goods and services.
(vii) Provision of goods that were previously unavailable, a wider choice of goods to consumers.

Disadvantages of Free Trade

(i) It leads to unemployment especially in cases where imported goods are subsidised by the countries of their origin.
(ii) It has negative effects on new industries.
(iii) Dumping of imports on the local market leads to unfair competition.
(iv) It may lead to the importation of undesirable products.
(v) The government will lose revenue because it can no longer impose taxes on imports.

(b) **Terms of payment**

Advance Payment (cash with order)

(i) The importer pays the exporter before the goods are dispatched.
(ii) It is the most secure method on the side of the exporter.
(iii) It depends on the trust of buyer that the seller will deliver the goods
(iv) The risks inherent in the method are to the importer.

Open Account Method

This is an arrangement where the exporter dispatches the goods, documents of title and invoices to the importer before receiving the payment. Risks apply to the exporter on open account.

Collection Method

This is an arrangement where the exporter dispatches the goods to the importer, but the documents of title are sent through a banking system. The exporter ships the goods and obtains document of title, and sends the document of title to his bank with appropriate instructions. The bank sends the title to the importer's bank with instructions that documents be released on payment.

Documentary credits

This is the guarantee of payment by the importer's bank on condition that the exporter presents specified documents within a stipulated period and conforms to the terms of the letter of credit. In this case, the exporter ships the goods by relying on the reputation of the importer's bank.

(c)

(i) **Devaluation** is the deliberate downward adjustment of the value of a country's money relative to another currency, group of currencies, or currency standard in a fixed exchange rate regime.

Depreciation is the automatic downward adjustment of the value of a country's money relative to another currency, group of currencies, or currency standard in a flexible exchange rate regime.

(ii) **The spot rate** (also called the "spot price") refers to the exchange rate offered on the market for an immediate conversion and delivery (within 2 days) of your currencies.

The forward rate is the exchange rate offered on the futures market when a participant agrees to buy or sell a currency at a given exchange rate, but at a later date.

SOLUTION THREE

(a)

x	y	x^2	y^2	xy
2	160	4	25,600	320
4	150	16	22,500	600
6	180	36	32,400	1,080
7	190	49	36,100	1,330
8	170	64	28,900	1,360
10	210	100	44,100	2,100
12	200	144	40,000	2,400
$\sum x = 49$	$\sum y = 1,260$	$\sum x^2 = 413$	$\sum y^2 = 229,600$	$\sum xy = 9,190$

$\bar{x} = \frac{\sum x}{n} = \frac{49}{7} = 7$: $\qquad \bar{y} = \frac{\sum y}{n} = \frac{1,260}{7} = 180$

$$SS_{xx} = \sum x^2 - \frac{\left(\sum x\right)^2}{n} = 413 - \frac{49^2}{7} = 70$$

$$SS_{xy} = \sum xy - \frac{\left(\sum x\right)\left(\sum y\right)}{n} = 9,190 - \frac{(49)(1,260)}{7} = 370$$

$$SS_{yy} = \sum y^2 - \frac{\left(\sum y\right)^2}{n} = 229,600 - \frac{1,260^2}{7} = 2,800$$

(i) $\hat{y} = \hat{\beta}_0 + \hat{\beta}_1 x$

$$\hat{\beta}_1 = \frac{SS_{xy}}{SS_{xx}} = \frac{370}{70} = 5.29$$

$$\hat{\beta}_0 = \bar{y} - \hat{\beta}_1\bar{x} = 180 - (5.29)(7)$$
$$= 180 - 37.03$$
$$= 142.97$$

Therefore, the regression equation is

$$y = 142.97 + 5.29x$$

(ii) The coefficient of correlation is

$$r = \frac{SS_{xy}}{\sqrt{SS_{xx}SS_{yy}}} = \frac{370}{\sqrt{(70)(2800)}} = 0.84$$

(iii) $y = 142.97 + 5.29x$

$$= 142.97 + 5.29(5)$$
$$= 142.97 + 26.45$$
$$= \text{K}169.42$$

(b) $S(t) = Pert$

7250=5.21P

P=K1,392.36

SOLUTION FOUR

(a)
Note: When future values are brought back to present values at a given rate of interest, the interest rate is referred to as the discount rate.

Consider $r = 7\%$

$$PV_A = -3000(1.07)^{-1} + 4000(1.07)^{-2} + 6000(1.07)^{-3} + 8000(1.07)^{-4}$$
$$= -2803.74 + 3493.75 + 4897.79 + 6103.16 = 11,690.96$$

Thus the NPV is: $11{,}690.96 - 10{,}000 = 1,690.96$

$$PV_B = -2000(1.07)^{-1} + 1000(1.07)^{-2} + 3000(1.07)^{-3} + 5000(1.07)^{-4}$$
$$= -1869.16 + 873.44 + 2448.89 + 3814.48 = 5267.65$$

Therefore, the total present value over the four years is 5267.65

Thus the NPV is

$$5267.65 - 5000 = 267.65$$

Thus, at 7% project A is more profitable than project B.

(b)

Let X be the number of sales Mr Kamela sales in a week.

$$E(X) = \sum x.P(X = x)$$
$$E(X) = 9 \times 0.2 + 10 \times 0.35 + 11 \times 0.30 + 12 \times 0.15$$
$$= 10.4$$

An estimate of the mean number sold in a week is 10.4

(ii)

When he sells 11 copies, the profit is:

$$= 11 \times K14.5 - 12 \times K8.5 = K57.5$$

(iii)

When he sells 9 copies, the profit is:

$$= 9 \times K14.5 - 12 \times K8.5 = K28.5$$

When he sells 10 copies, the profit is:

$$= 10 \times K14.5 - 12 \times K8.5 = K43$$

When he sells 12 copies, the profit is:

$$= 12 \times K14.5 - 12 \times K8.5 = K72$$

Let Ky be the weekly profit. The probability distribution of Y is:

Weekly profits	28.5	43	57.5	72
Probability	0.2	0.35	0.3	0.15

$$E(Y) = 28.5 \times 0.2 + 43 \times 0.35 + 57.5 \times 0.30 + 72 \times 0.15$$
$$= K48.8$$

An estimate of the mean number sold in a week is K48.8.

SOLUTION FIVE

(a)

(i) $\mu = 160 \qquad \sigma = 30$

let x be the battery life.

$$P(X > 75) = P\left(z > \frac{75 - \mu}{\sigma}\right)$$
$$= P\left(z > \frac{75 - 160}{30}\right)$$
$$= P(Z > -2.83)$$
$$= P(Z < 2.83)$$
$$\approx 0.998$$

(ii)

$$P(X \leq 75) = P\left(z \leq \frac{135 - \mu}{\sigma}\right)$$
$$= P\left(z \leq \frac{135 - 160}{30}\right)$$
$$= P(Z \leq -0.83)$$
$$= P(Z > 0.83)$$
$$= 1 - P(Z < 0.83)$$
$$= 1 - 0.7967$$
$$= 0.2033$$

iii.

$$P(150 \leq X \leq 180) = P\left(\frac{150-160}{30} \leq Z \leq \frac{180-160}{30}\right)$$
$$= P(-0.33 \leq Z \leq 0.67)$$
$$= P(Z \leq 0.67) - P(Z \leq -0.33)$$
$$= 0.7486 - (1 - 0.6293)$$
$$= 0.3782$$

(b) $S = P\left(1 + \frac{r}{100}\right)^t \qquad where\ S = 120000, \qquad P = 80000, \qquad t = 8$

$$120000 = 80000\left(1 + \frac{r}{100}\right)^3$$
$$\left(1 + \frac{r}{100}\right)^8 = \frac{120000}{80000}$$
$$1 + \frac{r}{100} = (1.5)^{\frac{1}{8}}$$
$$\frac{r}{100} = 1.052 - 1$$
$$r = 100(0.052) = 5.2\%$$

(c) $A_t = A_0(1-i)^t$ $\quad\quad$ $where\ A_t = 6000, \quad i = \frac{24}{100}, \quad t = 4$

$$6000 = A_0(1-0.24)^4$$

$$A_0 = \frac{6000}{(1-0.24)^4}$$

$$A_0 = \frac{6000}{0.33362176}$$

$$K17{,}984$$

The original value of the printing machine four years ago was K17, 984.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 12 JUNE 2023

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

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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 PAPTER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR

Attempt all FIVE (5) questions

QUESTION ONE

The following trial balance was extracted from the books of D. Kavoto, a retailer on 31 December 2021.

Trial balance of D. Kavoto as at 31 December 2021.

	Dr K'000	Cr K'000
Business premises	28,800	
Fixtures and fittings	4,200	
Cash	3,336	
Receivables and payables	1,440	7,020
Inventory 1 January 2021	11,820	
Purchases and sales	34,404	67,320
Returns inward and outwards	3,372	300
Carriage inwards	480	
Carriage outwards	240	
Rates	960	
Discounts allowed and received	144	216
Salaries and wages	5,400	
Printing and stationery	804	
Irrecoverable debts	444	
Telephone and postage	1,080	
Insurance	252	
Capital: 1 January 2021		30,120
Drawings	7,800	
	104,976	104,976

Additional information:

(i) Inventory at 31 December 2021 was K6,192,000.

(ii) Rates paid in advance at the end of December 2021 amounted to K240,000.

(iii) Printing and stationery due at 31 December 2021 was K54,000.

(iv) Depreciation for Business premises is 5% per annum.

(v) Fixtures of fitting are depreciated at 20%.

Required:

(a) Prepare D. Kavoto's statement of profit or loss for the year ended 31 December 2021. (10½ marks)

(b) Prepare the statement of financial position as at 31 December 2021 for D Kavoto. (6½ marks)

(c) A machine costing K6,000 was purchased on 1 January 2019. It is depreciated using the reducing balance method at 12.5% each year.

Required:

Prepare the allowance for deprecation on machinery as at 31 December 2021. (3 marks)

[Total: 20 Marks]

QUESTION TWO

The following information has been extracted from the books of DM Ltd for the year ended 31 December 2022.

Statement of profit or loss (extract) account

	2022	2021
	K	K
Profit before tax	102,000	47,500
Income tax	26,000	16,000
Profit after tax	76,000	31,500

Statement of financial position as at 31 December 2022

	2022	2021
Non-current assets:	K	K
Plant, machinery and equipment at cost	119,500	88,000
Allowance for Depreciation	(53,750)	(47,500)
	65,750	40,500
Current assets:		
Inventory	45,000	10,000
Trade Receivables	135,500	44,500
Bank	-	3,000
	180,500	57,500
Total Assets	246,250	98,000
Equity and liabilities:		
Ordinary shares of K1 each	30,000	30,000
Retained Earnings	50,500	15,000
	80,500	45,000
Non-current liability:		
15% loan notes	3,750	3,000
Current liabilities:		
Trade Payables	55,000	34,000
Taxation	26,000	16,000
Bank overdraft		-
	81,000	50,000
	162,000	50,000
Total Equity and Liabilities	246,250	98,000

Additional information:

During the year to 31 December 2022, non-current assets originally costing K27,500 were sold for K5,000. The accumulated depreciation on these assets as at 31 December 2021 was K19,000.

Required:

Using the indirect method under IAS 7, prepare a statement of cash flows for the year ended 31 December 2022. **[Total: 20 Marks]**

QUESTION THREE

The financial statements for two (2) very similar privately owned companies in Siavonga are given below:

Statement of Financial Position

	AC Limited		BD Limited	
	K'000	**K'000**	**K'000**	**K'000**
Non-Current Assets:				
Buildings of cost	900		1,320	
Less Accumulated Depreciation	(765)		(660)	
		135		660
Equipment at cost	420		540	
Less Accumulated Depreciation	(357)		(270)	
		63		270
		198		930
Current Assets:				
Inventories	600		720	
Receivables	615		420	
Bank	12		6	
		1,227		1,146
Total Assets:		1,425		2,076
Financed by:				
Capital		720		1,290
Add: Net profit		180		270
		900		1,560
Less: Drawings		(210)		(240)
		690		1,320
Current liabilities:				
Payables		735		756
		1,425		2,076

Statement of profit or loss:

Revenue		5,400		8,100
Less: Cost of sales:				
Opening inventory	900		840	
Purchases	3,900		6,750	
	4,800		7,590	
Closing inventory	(600)		(720)	
		(4,200)		(6,870)
Gross profit		1,200		1,230
Depreciation	66		120	
Other expenses	954		840	
		(1,020)		(960)

Net profit	180	270

Required:

Calculate the following ratios:

(i) Gross profit margin. (2 marks)

(ii) Net profit margin. (2 marks)

(iii) Expenses as a % of revenue. (2 marks)

(iv) Inventory turnover. (2 marks)

(v) Return on capital employed (use average capital). (2 marks)

(vi) Current ratio. (2 marks)

(vii) Acid test ratio. (2 marks)

(viii) Accounts receivables months. (2 marks)

(ix) Accounts payables months. (2 marks)

(x) Asset turnover. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

Dunny and Daisy are in Partnership. They share profits/losses in the ratio: Dunny 60%, and Daisy 40%. The following Trial Balance was extracted as at 31 December 2022.

	Dr. K	Cr. K
Capital Accounts: Dunny		250,000
Daisy		100,000
Current Accounts: Dunny		36,910
Daisy		35,045
Drawings: Dunny	87,500	
Daisy	80,000	
Sales		902,000
Purchases	683,400	
Salaries	137,000	
Office Expenses	10,650	
Discount allowed	1,560	
Office Equipment at cost	46,000	
Motor vehicles at cost	107,000	
Allowance for Depreciation at 1 Jan. 2022:		
- Office equipment		18,000
- Motor vehicles		64,000
Inventory at 1 January 2022	192,050	
Trade Receivables	209,700	
Trade Payables		161,080
Bank	10,590	
Cash	1,585	

	1,567,035	1,567,035

Additional information.

1. Inventory at 31 December 2022 was K206,560.
2. Office expenses owing is K1,200
3. Provide for Depreciation as follows:
   - Motor vehicles at 20% using reducing balance basis.
   - Office equipment at 10% straight line method.
4. Charge interest on capitals and drawings at 5%.

Required:

(a) Prepare a statement of profit or loss account and appropriation account section for the year ended 31 December 2022. (12 marks)

(b) Prepare a statement of financial position as at 31 December 2022. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

ABC International is closing its books for the month ended 30 April 2021. ABC's business controller must prepare a bank reconciliation based on the following:

(i) The bank statement contains an ending balance of K300,000 on 30 April 2021, whereas the company's ledger shows an end balance of K260,900.

(ii) The bank statement contains K100 bank charges.

(iii) The bank statement contains interest income of K20.

(iv) ABC issued cheques of K50,000 that have not yet been cleared by the bank.

(v) ABC deposited K20,000 but this did not appear on the bank statement.

(vi) A cheque for K470 that was issued out to a supplier was recorded as K370 in the payments journal.

(vii) Cash of K9,800 was deposited directly into the bank.

(viii) A cheque for K520 was deposited by the company but was dishonored.

Required:

(a) Prepare the updated cash book and the bank reconciliation. (10 marks)

(b) (i) What is the difference between paper based accounting and computerized accounting. (2 marks)

(ii) State four (4) disadvantages of a computerized accounting system. (8 marks)

[Total: 20 Marks]

END OF PAPER

C3 ACCOUNTANCY FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **D. Kavoto Statement of Profit or Loss for the year ended 31 December 2021**

	K'000	K'000
Sales		67,320
Less: returns		(3,372)
		63,948
Cost of sales:		
Opening inventory	11,820	
Purchases	34,404	
Less: returns outwards	(300)	
Add: Carriage inwards	480	
Less: closing inventory	(6,192)	
		(40,212)
Gross profit		23,736
Add: Discount received		216
		23,952
Less Expenses:		
Carriage outwards	240	
Rates (960 – 240)	720	
Discount allowed	144	
Salaries and wages	5,400	
Printing and stationery (804 + 54)	858	
Bad debts	444	
Telephone and postage	1,080	
Insurance	252	
Depreciation: - Premises (28,800 x 5%)	1,440	
- Fixtures and fittings (4,200 x 20%)	840	
		(11,418)
Net profit		**12,534**

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

	K'000	K'000	K'000
Non-Current Assets:			
Premises	28,800	1,440	27,360
Fixtures and fittings	4,200	840	3,360
			30,720
Current Assets:			
Closing inventory	6,192		
Receivables	1,440		
Bank	3,336		
Rates prepaid	240		11,208
			41,928
Equity and liabilities:			
Capital	30,120		
Add: Net profit	12,534		
Less: Drawings	(7,800)		
			34,854
Current liabilities:			
Payables	7,020		
Printing and stationery account	54		7,074
			41,928

(c) **Allowance for Dep'n on machinery Account**

		K'000			K'000
			1 Jan 2021	Balance B/f	1,406
30 Dec 2021	Balance C/d	1,980	31 December 2021	P & L	574
		1,980			1,980

SOLUTION TWO

DM Plc's
Statements of Cash flows for the year ended 31 December 2022

Cash flows from Operating Activities	K	K
Profit before tax		102,000
Adjust for: Depreciation (w2)	25,250	
Loss on Disposal (w3)	3,500	28,750
Movements in working capital		
Increase in Inventory (45,000 – 10,000)	(35,000)	
Increase in Receivables (135,500 – 44,500)	(91,000)	
Increase in Payables (55,000 – 34,000)	21,000	(105,000)
Net cash inflow from operating activities		25,750
Cash generated from other transactions		
Taxations		(16,000)
Cash flows from Investing Activities		
Payments to acquire NCA (w1)	(59,000)	
Proceeds from sale of NCA	5,000	
Net Cash out flows from Investing Activities		(54,000)
Cash flows from financing Activities		
Issue of Loan notes (3,750 – 3,000)	750	
Dividends paid (w4)	(40,500)	
Net cash outflows from financing Activities		(39,750)
Net decrease in cash and cash equivalents		(84,000)
Opening Balance		3,000
Closing Balance		(81,000)

W1 **PPE Account.**

	K		**K**
Balance b/d	88,000	Disposal account	27,500
Additions	59,000	Balances c/d	119,500
	147,000		147,000

W2 **Depreciation Exp A/C.**

	K		K
Disposal	19,000	Balances b/d	47,500
Bal c/d	53,570	P & Loss	25,250
	72,750		72,750

W3 Loss on disposal

	K
Cost	27,500
Dep	(19,000)
NBV	8,500
Proceeds	5,000
Loss on disposal	3,500

W4 Dividends paid.

	K		K
Dividends paid	40,500	Balance b/d	15,000
Bal c/d	50,500	P & Loss	76,000
	91,000		91,000

SOLUTION THREE

		AC Ltd	BD Ltd
(i)	Gross profit margin = $\frac{\text{Gross profit x 100\%}}{\text{Revenue}}$	= $\frac{1,200}{5,400}$ x 100% = 22%	= $\frac{1,230}{8,100}$ x 100% = 15.2%
(ii)	Net profit margin = $\frac{\text{Net profit x 100\%}}{\text{Revenue}}$	= $\frac{180}{5,400}$ x 100% = 3.3%	= $\frac{270}{8,100}$ x 100% = 3,3%
(iii)	Operating Expense as a percentage % of revenue= $\frac{\text{Expenses x 100\%}}{\text{Revenue}}$	= $\frac{1,020}{5,400}$ x 100% = 18.9%	= $\frac{960}{8,100}$ x 100% = 11.9%
(iv)	Inventory turnover = $\frac{\text{Cost of Sales}}{\text{Average inventory}}$	= $\frac{4,200}{750}$ = 5.6 times	= $\frac{6,870}{780}$ = 8.8 times
(v)	ROCE = $\frac{\text{Net profit x 100\%}}{\text{Average Capital}}$	= $\frac{180}{(720 + 690)/2}$ = $\frac{180 \times 100}{705}$ = 26%	= $\frac{270}{(1,290 + 1,320)/2}$ $\frac{270 \times 100}{1,305}$ = 21%
(vi)	Current ratio = $\frac{\text{Current assets}}{\text{Current Liabilities}}$	= $\frac{1,227}{735}$ = 1.67:1	= $\frac{1,146}{756}$ = 1.52:1

(vii)	Acid Test ratio = $\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$	$= \frac{627}{735}$	$= \frac{426}{756}$
		= 0.85:1	= 0.56:1
(viii)i	Accounts receivables months = $\frac{\text{Receivables}}{\text{Revenue}}$ x 12	$= \frac{615 \times 12}{5,400}$	$= \frac{426 \times 12}{8,100}$
		= 1.37 months	= 0.63 months
(ix)	Accounts payables = $\frac{\text{Payables}}{\text{Purchase}}$ x 12	$= \frac{735 \times 12}{3,900}$	$= \frac{756 \times 12}{6,750}$
		= 2.26 months	= 1.34 months
(x)	Assets turnover = $\frac{\text{Revenue}}{\text{Total assets – Current liabilities}}$	$= \frac{5,400}{690}$	$= \frac{8,100}{1,320}$
		= 7.82 times	= 6.14 times

SOLUTION FOUR

(a) **Dunny and Daisy's**
Statement of Profit or Loss account for the year ended 31 December 2022

	K	K
Sales		902,000
Opening Inventory	192,050	
Purchases		
	683,400	
Less Closing Inventory	875,450	
Cost of goods sold		
	(206,560)	(668,890)
		233,110
less: Allowance for Depreciation:		
- motor vehicles (w1)		
- office equipment (w1)		
Salaries	8,600	
Office expenses (10,650 + 1,200)	4,600	
Discount allowed	137,000	
Net Profit	11,850	
Add interest on drawings – Dunny	1,560	(163,610)
Daisy		69,500
	4,375	
less interest on capitals – Dunny	4,000	
Daisy		8,375
	12,500	77,875
Share of Profits – Dunny 60% x 60,375	5,000	
Daisy 40% x 60,375		
	36,225	(17,500)
	24,150	60,375
		(60,375)
		-

Workings

1. Depn on motor vehicles 20% x (107,000 – 64,000) = K8,600
Depn on office equipment 10% x 46,000 = K4,600

2. Interest on capitals – Dunny 5% x 250,000 = 12,500
Daisy 5% x 100,000 = 5,000

3. Interest on drawings - Dunny 5% x 87,500 = 4,375
Daisy 5% x 80,000 = 4,000

4.

5. Current accounts

	Dunny	Daisy		Dunny	Daisy
Drawings	87,500	80,000	Balances b/f	36,910	35,045
Interest on Drawings	4,375	4,000	Interest on capitals	12,500	5,000
			Share of residual	36,225	24,150
	91,875	84,000	Balances c/d	6,240	19,805
				91,875	84,000

(b) Dunny and Daisy's
Statement of Financial Position as at 31 December 2022.

	Cost	Accumulated Depn	NBV
NON-CURRENT ASSETS	K	K	K
Motor vehicles			
	107,000	72,600	34,400
Office Equipment			
		22,600	
	46,000	95,200	23,400
CURRENT ASSETS			
	153,000		
Inventory			
		206,560	57,800
Trade Receivables		209,700	
Bank		10,590	
Cash		1,585	
Current accounts: Dunny			
Daisy			
	6,240	26,045	
Total Assets			
Represented by:			
	19,805		
Capital accounts: Dunny		250,000	454,480
Daisy		100,000	
			512,280
CURRENT LIABILITIES			
Trade Payables		161,080	
Accrued office expenses		1,200	350,000
			162,280
			512,280

SOLUTION FIVE

(a)

Adjusted cash book

	K		K
Balance b/f	260,900	Bank charges	100
Interest Income	20	Income statement	100
Cash received	9,800	Dishonored cheque	520
		Balance c/d	270,000
Balance c/d	270,720		270,720

Bank reconciliation statement

	K
Bank balance	300,000
Less: Uncleared cheques	(50,000)
Add: Deposit in transit	20,000
	270,000

(b) (i) Computerized accounting system is a software that helps in performing and managing business transactions; reports in a more efficient and effective way.

(ii) 1. **High cost of installation:**

The cost of the computer and is accessories are costly. Computer hardware requires lots of maintenance, repair and software needs subscriptions fees. Also some old systems ought to be outdated.

2. **Training costs:**

Operating a computer is not easy. A person needs to be well trained and skilled to use a computer. Knowledge of accounting software is also necessary.

3. **Time-consuming:**

Once there is easy any default in the system it takes a lot of time and effort to restore the system. Sometimes computers work slow due to either and require air-conditioned room to work properly.

4. **Maybe hacked:**

It is easy to hack someone's security system. Viruses and malware can be entered into the system by hackers that cause danger to data.

5. **Health issues:**

It puts a lot of strain on the eyes. Also excessive use of computers leads to muscular pain which results in inefficiency and higher health expenses to the employees.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

TUESDAY 13 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.

4. Do **NOT** write in pencil (except for graphs and diagrams).

5. Cell Phones are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

7. All workings must be done in the answer booklet.

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.

10. A taxation table is provided on pages 2 and 3 of this paper.

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

1.	**Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	30%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

ATTEMPT ALL FIVE (5) QUESTIONS

QUESTION ONE

Company XCel Plc is a Zambian registered manufacturing company preparing accounts to 31 December every year. For the year ended 31 December 2023, the company made a profit before tax of K6,830,750. This profit figure was arrived after taking into account the following items:

(1) Investment income which included dividend income of K115,850 (gross) from non-mining private limited companies and fixed deposit interest of K120,700 (net).

(2) Depreciation charges of K99,700.

(3) Entertainment expenses which included the following:

	K
200 Gifts to customers of food and drinks	30,800
Entertaining suppliers	56,400
Entertainment expenditure for members of staff	99,850
Total	187,050

(4) Legal and accountancy fees which comprised the following:

	K
Fees for audit and taxation services	165,300
Legal fees in connection with acquisition of land	263,120
Fees in connection with recovery of loans from former employees	29,200
Total	457,620

(5) General operating expenses which included the following included

	K
Salaries and wages	450,650
Penalty for late payment of provisional income tax	129,430
Trade debts written off	54,600
Loans to former employees written off	75,140
Sundry allowable expenses	2,840,600
Total	3,550,420

Additional information

The following additional information is available:

(i) At 1 January 2023, the company had an unrelieved tax loss brought forward of K788,400 which was suffered in the previous tax year.

(ii) Provisional income tax paid in the tax year 2023 was K450,900.

(iii) During July 2023, the company acquired a second hand building which was brought into use on 1 August 2023. The cost of the building was made up of the following items:

	K
Land	120,000
Administration buildings	450,000
Manufacturing building	4,405,000
Total cost	4,975,000

(iv) At 1 January 2023, the company held the following implements plant and machinery:

Asset	**Original cost**	**Income Tax value b/f**
	K	K
Toyota venture car	500,000	200,000
Furniture and fittings	985,000	246,250
Ford delivery van	620,000	Nil
Nissan Navarra Double cab van (3,500cc)	760,000	608,000
Toyota Corolla pool car (1,500cc)	65,000	39,000

The Nissan Navarra Double cab van is used by the Chief Executive Officer on a personal to holder basis. The Zambia Revenue Authority (ZRA) agreed that private use of the of the vehicle was 75% in the tax year 2023.

Required:

(a) Calculate the maximum amount of capital allowances claimable by Company Xcel plc in respect of its

(i) Buildings (4 marks)

(ii) Implements, plant and machinery for the tax year 2023. (5 marks)

(b) Calculate the final tax adjusted business profit for XCel plc for tax year 2023. (7 marks)

(c) Compute the company income tax payable by Xcel plc for the tax year 2023. (4 marks)

[Total: 20 marks]

QUESTION TWO

(a) Explain the meaning of the term emoluments from employment as it relates to the taxation of employment income. (2 marks)

(b) Explain the basis of assessment for emoluments from employment. (3 marks)

(c) Mwika Mwila had been employed by Chalo Limited as a Mechanical Engineer at an annual basic salary of K144,000 on a three (3) year renewable contract which commenced on 1

September 2020. His contract of employment expired on 31 October 2023, and he opted not to renew it.

On the expiry of his contract, he received a gratuity of 30% of his cumulative annual salary earned for the three (3) year period. He was also paid severance and repatriation pay of K28,000 and K35,000 respectively.

During his period of employment in the tax year 2023, he was entitled to the following emoluments payable at the end of each month:

Housing allowance	25% of his annual basic salary
Transport allowance	K1,800 per month
Medical allowance	15% of annual basic salary
Education allowance per child	20% of annual basic salary

Mwika has three (3) school going children in Lusaka.

On 1 May 2023, Mwika received a Labour Day award as the most innovative employee comprising of the following items:

	K
Cash	5,000
Tool box	3,600
Motor bike	6,700

During the year, he also received a cash bonus of K8,500 from the company as the most hardworking and honest employee.

The following payments and deductions were made from his gross emoluments in the tax year 2023:

	K
School fees for children	9,200
Pay As You Earn (PAYE)	47,500
NAPSA contributions	16,004
National Health Insurance Management Authority (NHIMA) Contributions	1,440
Donation to Public Benefit Organisation	2,250
Subscriptions to Engineers Association of Zambia	1,600
Subscriptions to Squash club	1,900

Required:

(i) Compute the amount of gratuity Mwika received on the expiry of his contract and explain its tax treatment. (2 marks)

(ii) Calculate the amount of income tax payable by Mwika Mwila for the tax year 2023. (10 marks)

(iii) State the due date for the payment of income tax deducted from emoluments by the employer, under the Pay As You Earn system and explain the tax consequences of the late payment of the tax. (3 marks)

[Total: 20 Marks]

QUESTION THREE

(a) A good tax system should have certain qualities for it to raise sufficient revenue to finance government expenditure.

Required:

Explain seven (7) qualities of a good tax system. (7 marks)

(b) Explain any three (3) sources of tax law and regulations in Zambia. (6 marks)

(c) Jane Nayame commenced trading on 1 January 2021 and prepared the first accounts for the three-month period to 31 March 2021 and continued to prepare accounts for years ending on 31 March thereafter.

The trading results as adjusted for tax purposes for the first three accounting periods have been as follows:

Period	**Taxable Profit**
	K
Three-month period ended 31 March 2021	63,500
Year ended 31 March 2022	195,000
Year ended 31 March 2023	241,000

Required:

(i) Explain how the basis periods for each of the above three accounting periods will be determined. (4 marks)

(ii) Show the income tax assessments for each of the relevant tax years. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

Manuel is an enterprising sole trader based in Lusaka. He deals mostly with hardware and general trading and prepares his financial statements as at 31 December, each year.

The statement of profit or loss for the year ended 31 December 2023 is as follows.

			K	**K**
Gross profit				1,950,150
Less expenses:				
Depreciation		20,600		
Rent and rates	(Note 1)	115.000		
Utility expenses	(Note 2)	68,400		
Repairs and renewals	(Note 3)	31,760		
Legal expenses	(Note 4)	56,600		

Salaries and wages	(Note 5)	78,200	
Bad debts	(Note 6)	36,600	
Entertainment expenses	(Note 7)	119,200	
Miscellaneous expenses	(Note 8)	227,000	
			(753,360)
Net profit			1,196,790

The following additional information is available:

Note 1: Rent and rates

One third (1/3) of the expenditure for rent and rates relates to the house occupied by Manuel and his family.

Note 2: Utility expenses

These included:

	K
Water bills for business premises	24,800
Electricity for business premises	21,000
Water & electricity for Manuel's residence	22,600
	68,400

Note 3: Repairs and renewals

This includes K20,900 incurred to buy a new engine block for a second hand motor car. These repairs were necessary in order to put the car into a usable state. The remaining balance was incurred to remedy normal wear and tear of capital assets used for business purposes.

Note 4: Legal expenses

These comprised:

	K
Legal fees in connection with acquisition of land	27,200
Legal fees in connection with recovery of loans of former employee	29,400
	56,600

Note 5: Salaries and wages

These included:

	K
Manuel's nominal salary	34,400
Employee's salaries	43,800
	78,200

Note 6: Bad debts

These included the following:

	K
Trade debts written off	42,000
Decrease in specific provision for bad debts	(17,600)
Increase in general provision for bad debts	22,600
Loan to former employee written off	34,400
Trade debts previously written off now recovered	(24,400)
Loans to former employee previously written off now recovered	(20,400)
	36,600

Note 7: Entertainment expenses

These included:

	K
Entertaining employees	34,800
Gifts of shopping vouchers to customers worth (K200 each)	23,200
Entertaining suppliers	27,800
Entertaining clients	33,400
	119,200

Note 8: Miscellaneous expenses

These included:

	K
Interest on overdue tax	69,200
Leasing and hire charges for assets used in the business	74,800
Travelling from home to place of trade	83,000
	227,000

Note 9: Capital allowances

Capital allowances have been agreed to be K200,000.

Required:

(a) Explain any four (4) badges of trade that are used to determine whether a person is carrying on a trade. (8 marks)

(b) Calculate the tax adjusted business profit for Manuel for tax year 2023. (9 marks)

(c) Calculate the final income tax payable by Manuel for the tax year 2023. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

According to the Property Transfer Tax Act, CAP 340 of the laws of Zambia, Property Transfer Tax (PTT) is charged upon and collected from, the person transferring property.

Required:

(a) Explain the meaning of an immediate family member and state how transfers made to immediate family members are treated for Property Transfer Tax Purposes. (3 marks)

(b) Explain how the realized value of each of the following categories of property is determined:

(i) Land (2 marks)

(ii) Intellectual Property (2 marks)

(iii) Shares in a company that is not listed on the Lusaka Securities Exchange. (2 marks)

(c) State three (3) documents required for the transfer of shares which qualify under the property tax regime. (3 marks)

(d) State any five (5) documents which are required to support an objection to the values of property and PTT assessed by the ZRA. (5 marks)

(e) Describe any three (3) exempt transactions under the PTT Act (3 marks)

[Total: 20 Marks]

END OF PAPER

C4 DIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) DETERMINATION OF QUALIFYING COST

	K
Total cost	4,975,000
Less cost of land	(120,000)
Construction cost	4,855,000

10% of K4,855,000=K485,500

The cost of K450,000 for the administration offices does not exceed K485,500 and therefore will be classified as an industrial building.

COMPUTATION OF CAPITAL ALLOWANCES ON BUILDINGS

Asset	Capital allowance K
Administration offices	
(Wear & tear	
(5% x K450,000)	22,500
Manufacturing building	
Wear and tear allowance	
(K4,405,000 x 5%)	220,250
	242,750

(ii) CAPITAL ALLOWANCES COMPUTATION TAX YEAR 2023

	K
Toyota venture car	
Wear & tear allowance	
(K500,000 x 20%)	100,000
Furniture & fittings	
Wear & tear allowance	
(K985,000 x 25%)	246,250
Ford delivery van	
Wear & tear allowance	
(K620,000 x 25%)	155,000
Nissan Navarra Double cab van	
Wear & tear allowance	
(K760,000 x 20%)	152,000

Toyota Corolla	
Wear & tear allowance	
(K65,000 x 20%)	13,000
	666,250

(b) TAX ADJUSTED BUSINESS PROFIT TAX YEAR 2023:

	K	K
Profit before tax		6,830,750
Add:		
Depreciation	99,700	
Gifts of food	30,800	
Entertainment of suppliers	56,400	
Legal fees –land	263,120	
Legal fees loan recovery	29,200	
Penalty- late payment	129,430	
Loan to former employees written off	75,140	
Car benefit (3,500 cc car)	48,000	
		731,790
		7,562,540
Less:		
Capital allowances (K666,250 + K242,750)	909,000	
Gross dividends	115,850	
Fixed deposit interest	120,700	
		(1,145,550)
Adjusted business profit		6,416,990
Loss relief		(788,400)
Final taxable business profit		5,628,590

(c) XCEL PLC
COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 20203

	K
Taxable profits	5,628,590
Fixed deposit interest (K120,700 x100/85)	142,000
	5,770,590
Company income tax	
(K5,770,590 x30%	1,731,177
Less	
WHT on fixed deposit interest	
K142,000 x 15%)	21300
Provisional income tax paid	450,900
	1,258,977

SOLUTION TWO

(a) Emoluments include all salaries, wages, fees, bonuses, commissions, overtime pay, leave pay, gratuity, allowances and all payments which an individual receives as a result of being employed or being a holder of an office.

(b) The basis of assessment for emoluments from employment is the actual receipts basis. This means that emoluments are chargeable to income tax in the tax year when they are received by the employee.

However, due to differences between the time when payments are actually made and when payments become due, the emoluments are deemed to have been received on the earlier of:

(1) Time when they are actually paid, and
(2) The time when the employee becomes entitled to the emoluments

(c) (i) Gratuity

The amount of the gratuity is:

(K144,000 x 3) x 30% = K129,600

Tax Treatment

The whole gratuity is exempt from income tax being a pension benefit.

(ii) MWIKA MWILA
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	K	K
Earned income		
Basic salary (K144,000 X 10/12)		120,000
Housing allowance (K120,000 X 25%)		30,000
Transport allowance (K1,800 X 10)		18,000
Education allowance (K120,000 X 20% X 3)		72,000
Medical allowance (K120,000 X 15%		18,000
Bonus		8,500
		266,500
Less allowable deductions		
Donation to public benefit organisation	2,250	
Subscriptions to EAZ	1,600	
		(3,850)
Taxable income		262,650
Income tax		
First K57,600 X 0%		0
Next K24,000 X 20%		4,800
Next K25,200 X 30%		7,560

Balance K155,850 X 37.5%	58,444
	70,804
Less: PAYE	(47,500)
Income tax payable	23,304

(iii) The due date is the 10th day following the end of the month in which the emoluments were received.

When income tax deducted under the PAYE system is paid late, the consequences are:

(1) A penalty at the rate of 5% of the unpaid tax is chargeable per month or part thereof, and

(2) Interest on overdue tax is charged at the Bank of Zambia discount rate plus 2% per year. This interest covers the period from the due date to the date when the tax is actually paid.

SOLUTION THREE

(a) The qualities of a good tax system as proposed by Adam Smith includes the following:

(1) Taxation should bear as lightly as possible on production. Taxes should not be so high that they make production very expensive.
(2) Taxes should be easy and cheap to collect, and fall directly on the ultimate payer.
(3) Taxes should be certain. If tax rules are complex, they can be subverted and evaded. The tax rules should therefore be easy to understand.
(4) Taxes should bear equality so as to give no individual an advantage. This simply means that taxes should be levied on the basis of ability to pay.
(5) A tax must not hinder efficiency. Where it is not possible to achieve this, the tax should involve the least loss of efficiency.
(6) A tax should be compatible with the relevant foreign tax systems. In the case of Zambia, the tax system should be compatible with the tax system of the SADC and COMESA member states.

(7) The tax should automatically adjust to changes in the rate of inflation. As inflation keeps on rising and falling, the tax system should automatically adjust to such rises and falls.

(b) The sources of tax law include:

(1) **Statutes or Acts of parliament -** Statutes are laws enacted by parliament. Statutes make it legal for taxes to be levied.

(2) **Statutory instruments** - These are form of delegated registration issued by a government minister. They have the same effect as statutes.

(3) **Case Law** – Judges use past decided cases in taxation in the interpretation of particular statutes which relates to the specific circumstances of a case.

(4) **Practice notes** – These are issued by the Zambia Revenue Authority to indicate the ZRA's interpretation of statute. They have no legal effect.

(c) (i) Since the first period of trading is less than twelve months long, the normal rules will be used to determine the basis period for the period.

Specifically, the preceding year basis of assessment will be used as the first accounting date of 31 March 2021 falls between 1 January and 31 March inclusive.

This means that the profit made in the 3 months to 31 March 2021 will be assessed in preceding tax year being the tax year 2020.

Profits made in the following two accounting years of ended 31 March 2022 and 31 March 2023, will be assessed in the tax years 2021 and 2022 respectively.

(ii) The income tax assessment for the three period s will be as follows:

Tax year	Basis period	Taxable profits
		K
2020	P/E 31.03.2021	63,500
2021	Y/E 31.03. 2022	195,000
2022	Y/E 31.03.2023	241,000

SOLUTION FOUR

(a) The following are the factors that could be used to establish whether an individual is in business:

(1) The subject matter of realisation

Some assets are normally held as trading stock while others are not. If the asset that has been sold is one which is normally held as trading stock the presumption that challah is conducting business will be greater.
On the other hand, if an asset that has been sold is one which is not normally a trading stock it is likely that the transaction may not be interpreted as trading.

(2) The length of the period of ownership

Guidance has been provided that trading stock is not normally held for a long period of time. As a result, if a Chellah disposes of an asset that they held for a long period of time it will be quite difficult to determine whether the asset had been held as trading stock. Assets held for long periods of time are normally investments.

(3) The frequency of similar transactions If the frequency of similar transactions is high, chances of classifying a Chellah as a trader are high.

(4) Supplementary work and marketing

If an asset is acquired when it is in a poor state and supplementary work is carried out to improve the asset by making it more marketable, then such an asset when sold will give rise to trading profit. The argument is that supplementary work is performed so that the assets could be sold at a higher price than its value just acquired.

(5) Circumstances giving rise to realisation

An asset which has been sold will not always give rise to taxable profits. The circumstances that led Chellah to the sale are also considered. If a taxpayer disposes of an asset in order to raise money to help solve a financial problem it will be difficult to establish whether the asset was trading stock.

(6) The taxpayer's intention

The officer should question Chellah's intention. However, intention to make a profit may not constitute trading. As such it has to be established as to whether a taxpayer sold an asset because the intention was to trade.

(b) Calculation of Adjusted business tax profit for tax year 2023:

	K	K
Net profit as per accounts		1,196,790
Add:		
Depreciation	20,600	
Rent & rates (1/3 x K115, 000)	38,333	
Water and electricity private residence	22,600	
Purchase of a capital asset, engine block	20,900	
Legal fees-acquisition of land	27,200	

Manuel's nominal	34,400	
Recovery of loan, former employee	29,400	
Increase in general provision	22,600	
Loan to former employee now written off	34,400	
Gift of vouchers to employees	23,200	
Entertaining suppliers	27,800	
Entertaining clients	33,400	
Interest on overdue tax	69,200	
Travelling from home to place of work	83,000	
		487,033
		1,683,823
Less:		
Capital allowances	200,000	
Loans recovered	20,400	
		(220,400)
Adjusted business profit		1,463,423

(c) MANUEL

COMPUTATION OF INCOME TAX PAYABLE FOR TAX YEAR 2023

	K
First K57, 600@ 0%	0
Next K24, 000 @ 20%	4,800
Next K25, 200 @ 30%	7,560
Balance of K1, 356,623 @ 37.5%	508,734
Tax Payable	521,094

SOLUTION FIVE

(a) An immediate family member includes spouse, own blood child, step child and duly adopted child.

Where a person transfers property to a member of the immediate family, the realized value of such property is the actual price received by the transferor, if any.

(b) (i) Realized value of land

This is taken as the higher of

(1) The agreed contract price

(2) The open market value of the land as determined by the Co

(ii) Shares in a private limited company

The realized value of shares is taken as the higher of:

(1) The nominal value of the shares

(2) The open market value of the shares as determined by the Commissioner General.

(iii) Intellectual property

The realized value of intellectual property is taken as the higher of:

(1) Actual amount realized from the sale of the property

(2) Value of the intellectual property determined by the Commissioner General

(c)	Documents which are required for transfer of shares which qualify under the property tax regime	• Share transfer form 27; • Latest financial statements of the company in which the shares are held; • Shareholders' resolutions.
(d)	List of documents which are required to support an objection to values and the PTT tax paid	1) Original Tax Receipt voucher; 2) Original Tax Clearance Certificate; 3) Original PTT Return; 4) Any proof that the transaction did not take place, (e.g. Confirmation from Registrars at the Ministry of Lands or Local Authorities, though confirmation will not be restricted to this); 5) Formal letter of sale from the vendor, or their legal representatives.

(e)	Three (3) exempt transactions under the PTT Act	The transactions as a result of the sale or other disposal of any stock or share listed on the **Lusaka Securities Exchange,** Contribution towards the equity for a company by a shareholder of a company incorporated under the Companies Act. A transfer is occasioned by death of the transferor to a member of the immediate family.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 15 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use this time to carefully study the examination paper so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of Twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere in your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. Cell Phones are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on page 2,3 and 4.

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FIVE (5) questions

QUESTION ONE

(a) Explain any five (5) arguments in support of and two (2) arguments against the introduction of Value Added Tax (VAT) in Zambia. (7 marks)

(b) Explain six (6) circumstances in which a business will be required to de-register for VAT. (6 marks)

(c) Machipisa Plc is a Zambian resident company which is registered for Value Added Tax (VAT). The company is in the process of completing its VAT return for the month of March 2023.

The following information is available:

(1) Total sales for the month were K12,800,000. The sales figure includes exempt sales which accounted for 10% of the total sales, whilst zero-rated supplies accounted for 15% of the total sales. The balance of the sales are all standard rated supplies. The company offered its customers a 5% discount for prompt payment on all standard rated sales which was taken up by all customers.

(2) On 15 March 2023, Machipisa Ltd received an advance deposit of K45,000 in respect of a contract that is due to be completed during April 2023. The total value of the contract was K100,000.

(3) Total purchases for the quarter amounted to K6,732,000. Included in this figure were Zero-rated purchases accounting for 20% of the purchases. The remainder consisted of standard rated purchases. Included in the standard rated purchases were purchases amounting to K1,500,000 which obtained from suppliers who are not registered for VAT purposes.

(4) Standard rated expenses amounted to K748,000. This includes K42,000 for entertaining potential customers. Both figures are VAT inclusive.

(5) On 31 March 2023 the company wrote off standard rated invoices valued at K120,000 due from customers as bad debts. This figure comprised three invoices of K40,000 each that were due for payment on 31 August 2021, 30 September 2021 and 31 December 2021 respectively.

(6) Unless stated otherwise all of the above figures are exclusive of VAT.

Required:

Calculate the amount of VAT payable by Machipisa Plc for the quarter ended 31 March 2023. Indicate using a Zero (0) in your computation all items on which VAT is not chargeable or claimable. (7 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Explain the nature and purpose of the duty drawback system. (4 marks)

(b) A bonded warehouse is a building, an installation or an area licensed under the Customs and Excise Act in which goods may stored without payment of duty. The Commissioner General may determine what kind of goods may be stored in a bonded warehouse. It can be registered by any one in Zambia provided they follow the laid down regulations.

Required:

(i) Explain four (4) conditions which should be met as required by the Station Manager in order for the bonded warehouse to be approved and licensed. (4 marks)

(ii) State three (3) the advantages of a bonded warehouse. (3 marks)

(iii) State the length of time goods may be stored in a bonded warehouse. (2 marks)

(c)(i) Zambia has signed a number of protocols such as the SADC protocol which came into effect since the year 2000. Under this Agreement, Member states have agreed to a gradual reduction of duty rates over a period of time with the aim of eliminating these duties completely to facilitate free trade.

Required:

Briefly explain the meaning of overlapping membership and state one disadvantage of associated with overlapping membership. (3 marks)

(c)(ii) Zambia is a member of the Preferential Trade Area (PTA) for Eastern and Southern Africa which was established in 1981.

Required:

Briefly explain four (4) objectives of the PTA. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain four (4) other functions of the Customs and Excise Division of the ZRA besides revenue collection. (8 marks)

(b) MM Motors Limited is a company involved in buying and selling cars imported from Japan. The company is based in Lusaka and supplies various types of motor vehicles across the country. In the year 2023, the company imported the following vehicles:

(1) The company bought a brand new Toyota Fortuner SUV from a motor vehicle dealership in Japan, for the Chief Accountant as a personal to holder car. The vehicle was manufactured in June 2022 and has an engine capacity of 3,400cc. The purchase price of the car was US$35,700 (Free on Board). Freight charges amounting to US$3,200 and insurance costs amounting to US$4,500 were incurred in transit to the port of Dar es salaam. Other incidental costs amounted to US$1,400 up to the Nakonde Boarder Post. The company incurred K23,500 on

transport costs from Nakonde to Lusaka. The vehicle was locally insured at a cost of K15,250 for the whole year. The motor car was acquired in April 2023 and arrived at the Nakonde border post in Februray 2023. The exchange rate approved by the Commissioner General on that date was K17.45 per US$1. However, the company paid for the car through its bank at an exchange rate of K18.40 per US$1.

(2) The company bought a second hand fifty-five (55) seater Marcopolo bus requested for by one of the Secondary Schools in Chilanga for the transportation of pupils to and from school. The purchase price of the bus was $80,900. The company paid shipping costs of $3,600 and insurance charges of $5,300 from Japan to the port of Dar es Salaam. Other incidental costs amounted to $2,200 from the port of Dar es Salaam to the Nakonde border post. The company incurred further costs of K10,500 from Nakonde to Chilanga. The bus arrived at the Nakonde border post on 10 May 2023 when the exchange rate as approved by the Commissioner General was K18.70 per US$1. However, the company paid for the car through its bank at an exchange rate of K18.30 per US$1.

Required:

Calculate the total import duties paid by MM Motors Limited on each motor vehicle imported. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The Zambia Revenue Authority (ZRA) gives new and returning residents tax rebates when they come to take up residency in Zambia. The would be resident is allowed to bring household and personal effects including one motor vehicle of a deceased person imported by a duly appointed administrator of the estate of the deceased.

Required:

Explain the conditions that must be met by the administrator to qualify for a waiver of import duty on the importation of goods left behind by a deceased person into Zambia (4 marks)

(c) One of the methods of purchasing an asset is through a lease arrangement. A lease is a contractual arrangement calling for the lessee to pay the lessor rentals for use of an asset.

Required:

Explain how the tax point of lease rentals is determined. (3 marks)

(c) Describe how the tax point for the following supplies is determined:

(i) Goods on sale or return (2 marks)
(ii) Sales under hire purchase (2 marks)
(iii) Staged payments (2 marks)

(d) Explain seven (7) conditions that must be met for a trader to recover any input VAT incurred on expenditure. (7 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The Customs and Excise division, is one of the divisions of the Zambia Revenue Authority. One of its functions is to regulate the importation and exportation of goods.

Required:

(i) Explain the meaning of the term 'Smuggling'. (2 marks)

(ii) State any four (4) types of goods which are prohibited from importation into Zambia. (4 marks)

(b) VAT registration is beneficial to the registered supplier, however the VAT registration goes with responsibilities and obligations on the part of the VAT supplier.

Required:

(i) Explain any six (6) obligations of a VAT registered supplier. (6 marks)

(ii) State any four (4) items on which input VAT is irrecoverable. (4 marks)

(iii) Explain four (4) conditions which must be met for a trader to successfully claim bad debt relief. (4 marks)

[Total: 20 Marks]

END OF PAPER

C5 INDIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are arguments in support of Value Added Tax:

(1) It is invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weakness.

(2) VAT has a self-policing nature thereby enhances compliance. This is re-enforced by strong penalties and effective control policies.

(3) It gives the potential for a stronger home manufacturing industry and more competitive export prices.

(4) The input credit mechanism gives registered businesses back much of the tax they pay on purchases and expenses used for making taxable supplies.

(5) A wider tax base has resulted in less distortion of trade and a greater sharing of costs of collecting it at various stages of the value chain and remitting it to the government.

(6) It is internationally proven in developed and developing economies.

(7) VAT is less complex than sales tax. There are just two rates of VAT.

The following are arguments against Value Added Tax (VAT):

(1) VAT is regressive like other indirect taxes.

(2) Small businesses find it difficult to maintain records required for VAT.

(b) The following matters can cause the cancellation of VAT:

(1) Where there is a change in the legal status of an entity (e.g. a partnership is dissolved.

(2) If the business ceases trading permanently

(3) If the business is sold

(4) If you registered as an intended trader and your intention to make supplies ceases.

(5) If the ZRA is satisfied that the trader is no longer making taxable supplies nor intending to make taxable supplies.

(6) If the trader submits nil returns for 12 consecutive standard periods.

(7) where a trader voluntarily applies for deregistration as a result of the VAT exclusive turnover falling below the registration threshold.

(b) MACHIPISA PLC

COMPUTATION OF VAT PAYABLE FOR THE QUAETER ENDED 31 MARCH 2023

	K	K
OUTPUT TAX		
Standard rated sales		
(K12,800,000 -K1,280,000 -K1,920,000) x 16%		1,536,000
Deposit (K45,000 X 16%)		7,200
Zero rated sales (K1,920,000 X 0%)		0
		1,543,200
INPUT TAX		
Standard rated purchases		
(K6,732,000 – K1,346.4 – 1,500) x 16%	621,696	
Standard rated expenses (K748,000 - K42,000) X 4/29 x 90%	87,641	
Bad debts (K40,000 X 2) X 16%	12,800	
		(722,137)
VAT payable		821,063

NOTES:

(1) Under VAT regulations, where a ***cash discount*** is offered to customers the value of the supply for VAT purposes is the ***undiscounted price***. However, where a **trade discount** is offered to customers, then the value of the supply for VAT purposes is the discounted price.

(2) The recoverable non attributable input VAT on the overheads will be restricted to 90% as 10% of total sales are exempt.

SOLUTION TWO

(a) The Duty Drawback System is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export.

The purpose of the duty drawback system is to avoid double taxation. The government pays back the direct and implied taxes through ZRA.

(b) (i) The following are the conditions required for the approval of the Bonded warehouse:

(1) The warehouse must be conveniently situated within 20km from the controlling station.

(2) The warehouse must be secure and separate from retail outlets.

(3) The doors must be strong (grilled doors are recommended) and have provision for a Customs lock.

(4) Access into the warehouse should be restricted.

(ii) Advantages of a bonded warehouse:

(1) Goods can be stored without payment of duty, thus giving the importer enough time to secure funds.

(2) Some goods may sell slowly due to fluctuating demand, hence duty can be paid according to demand.

(3) Constant supply of raw materials can be assured in manufacturing industry by importing in bulk and payments being made according to production demands.

(iii) The maximum period goods may remain in the bonded warehouse at present is:

(1) Two years for those goods on which duty and import VAT exceeds K180.

(2) One year for those goods on which duty and import VAT does not exceed K180.

(c) Overlapping membership means having dual membership for example, Zambia belongs to both SADC and COMESA. These organisations may have different rules and tariffs and thereby in some instances countries with dual membership must observe these two different sets of rules.

The main disadvantage of dual membership is that it is costly and efforts should be made to merge these organisations.

(d) The following are the objectives of PTA:

(1) To promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs

(2) To raise the standards of living of the people of the region by fostering closer relations among Member States.

(3) To create a common market in order to allow the free movement of goods, capital and labour within the sub-region.

(4) To contribute to the progress and development of all other African countries.

SOLUTION THREE

(a) The other functions of the Customs and Excise Division besides revenue collection includes:

(1) **Protecting local industry**

The Division is responsible for protecting Zambian industry from unfair competition using various means under Customs and Excise Act, e.g. leving protective duties to discourage excessive importation of targeted goods, offering rebate of duty on raw materials used in the manufacture of certain goods specified in the Act and exercising alternative duty rates such that a higher amount is levied.

(2) **Prevention of smuggling**

Smuggling takes place when goods are imported or exported without being cleared by Customs so that trade taxes are not charged on them. Goods smuggled present unfair competition to those that are subjected to Customs and Excise duties. Protecting exportation of certain goods without an export permit.

(3) **Providing trade data and statistics**

ZRA is obliged to provide trade data to the Government via certain agencies such as the Bank of Zambia, Central Statistical Office. The information is used for various purposes including planning and policy formulation.

(4) **Other functions**

The Division is also charged with other functions such as protecting the public by seizing harmful/dangerous goods such as narcotic and psychotropic substances, pornographic materials; protecting plant and animal life by ensuring compliance with the laws of the Republic.

(b) **TOYOTA FORTUNER**
COMPUTATION OF VALUE FOR DUTY PURPOSES (VDP)

	$
Purchase price	35,700
Shipping costs	3,200
Insurance charges	4,500
Incidental costs	1,400
CIF	44,800
VDP (K44,700 x K17.45)	K781,760

	Value	Taxes
	K	K
VDP	781,760	
Customs duty 30% x K781,528	234,528	234,528
	1,016,288	
Excise duty 30 % x K1,016,280	304,886	304,886
	1,321,174	
VAT 16% x K1,321,164	211,387	211,387
	1,532,561	

Total import taxes paid	750,801

MARCOPOLO BUS
COMPUTATION OF VALUE FOR DUTY PURPOSES (VDP)

	$
Purchase price	80,900
Shipping costs	3,600
Insurance charges	5,300
Incidental costs	2,200
CIF	92,000
VDP ($92,000 X K18.70)	1,720,400

	Value K	Taxes K
VDP	1,720,400	
Customs duty	43,248	43,248
	1,763,648	
Excise duty	0	0
	1,763,648	
VAT 16% x K1,763,648	282,184	282,184
Surtax		2,000
	2,045,832	
Total import taxes paid		327,432

SOLUTION FOUR

(a) Conditions required for a tax waiver:

(i) The deceased person was a Zambian citizen by decent or naturalization
(ii) The death of the deceased person was certified by a duly qualified medical Practitioner
(iii) The household goods were the property of the deceased before the date of death
(iv) The household and personal effects were imported by the administrator at the time of arrival of the remains in Zambia or if there is a delay between the arrival of the goods or were buried or cremated outside Zambia.

(b) The tax point under lease Rentals is:

(i) The time when lease rental payment is received from the lessee
(ii) The time the lessor issues a tax invoice
(iii) The time the leasing services are rendered which is at the expiry of the lease

(c) (i) **Goods on sale or return**

The tax point for these goods is the earliest of:

- the time when the sale is adopted by the customer,
- the date of the tax invoice being issued and
- payment being made

(ii) **Sales under hire purchase**

The time of supply for the full value of the goods is determined on the basis of the normal rules.

This time will be one of the following: when goods are collected, when goods are delivered, when goods are made available to the customer, when payment is made or when the tax invoice is issued.

(ii) **Staged payments and part payments**

The tax point is the time of receipt of the staged payment or the part payment.

(d) Conditions for recovery of input VAT

(1) At the time the supply was made, the trader was a registered trader for VAT purposes.
(2) The supply must have been made to the taxable person making the claim.
(3) The supply must be supported by evidence. The evidence is normally in the form of the tax invoice.
(4) The person making the claim must use the goods or services for business. Personal expenses do not qualify for relief.
(5) The amount available for recovery is that which is accurately calculated.
(6) The tax must be the amount that accurately relates to the supply.
(7) The VAT should not be that which is irrecoverable.

SOLUTION FIVE

(a) (i) Smuggling is when goods are imported or exported without being cleared by customs so that trade taxes are not charged on them.

This is Tax evasion and is illegal

(ii) The following are some of the items prohibited from importation:

(1) Base or counterfeit coins
(2) Any goods which are indecent, obscene or objectionable
(3) Any goods which may tend to corrupt the morals of the inhabitants, or any class of the inhabitants of Zambia
(4) Any goods whose importation is prohibited by, or under the authority of any law

(b) (i) Obligations of a VAT registered supplier

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

(ii) Irrecoverable input VAT

(1) Business entertainment
(2) Motor cars
(3) Expenses incurred on the domestic accommodation for directors
(4) Telephone bills.

(iii) Bad debt relief is given where

(1) A supply has been made for consideration in money or by barter.
(2) Output VAT has been accounted for and paid by the supplier
(3) The whole or part of the debt has been written off as bad in the records of the supplier
(4) At least 18 months have elapsed since time when payment was due.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: LAW FOR TAX PRACTITIONERS

FRIDAY 16 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions

QUESTION ONE

(a) Write brief notes on each of the following:

(i) Cheque (2 marks)

(ii) Promissory notes (2 marks)

(iii) 'Ambiguity Rule' in the negotiation of cheques (2 marks)

(iv) Agency by Estoppel (2 marks)

(v) Agent's duty of personal performance (2 marks)

(b) Mwandabanyama is an agent for Rita Motors Ltd. He buys cars, busses and any other property that his Principal – Rita Motors Ltd authorises him to buy. All major contracts have to be ratified by Rita Motors Ltd before they are effected.

Kitwe Nakadoli Luxury Cars Ltd offered to sell a seventy-two (72) seater luxury bus to Mwandabanyama, who identified himself as Rita Motors Ltd's agent. Mwandabanyama accepted the offer 'subject to the approval by his principal's management'. It took the management two (2) months to sit and approve the purchase of the bus from the date Mwandabanyama was given the offer. Meanwhile, seven (7) days before Rita Motors Ltd's Management's meeting to approve the deal, Kitwe Nakadoli Luxury Cars Ltd revoked the offer.

Required:

Rita Motors Ltd have decided to sue Kitwe Nakadoli Luxury Cars Ltd for breach of contract and have come to you for advice on the way forward. With the aid of decided cases, **Advise** Rita Motors Ltd on the prospects of their success. (6 marks)

(c) Distinguish a sleeping partner from a nominal partner. (4 marks)

[Total: 20 Marks]

QUESTION TWO

(a) The Zambian Legal system has many sources of law. With reference to these Sources of Law, Explain each of the following:

(i) The Constitution of Zambia (3 marks)

(ii) Judicial Precedents (Case Law) (3 marks)

(iii) Custom (African Customary Law) (3 marks)

(b) Write brief notes on the following;

(i) The jurisdiction of the Supreme Court of Zambia (2 marks)

(ii)The Jurisdiction of the High Court of Zambia (2 marks)

(iii) The Doctrine of *Res Judicata* (2 marks)

(c) Define a contract of sale and in doing so, identify the four (4) main elements of this contract. (5 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain the circumstances under which the Supreme Court may depart from its previous decisions. (3 marks)

(b) Explain briefly, the objectives of the Law of tort. (5 marks)

(c) Explain the mirror image rule in contract Law (3 marks)

(d) Distinguish executory consideration from executed consideration**.** (5 marks)

(e) The defence of **non-est factum** , meaning **"it is not my deed"** may be successfully pleaded in contract law. Explain the three (3) elements required for this defence to succeed at law. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Distinguish Tort Law from Criminal Law. (4 marks)

(b) Describe the nature of a company. (2 marks)

(c) Bbalo is the Chief Executive Officer of Nabukowa Farms Ltd. The farm grows and processes tomato and green pepper. The past five (5) years have been disastrous to the farming business due to poor market price of tomatoes among other things. The losses incurred in the past five (5) years have forced shareholders to pass a resolution to sell off the farm and the buyers have just been found. Bbalo prepared the financial statements which showed that the company was 'increasingly profitable every year', and based on this statement, Mulunduma Juice Processers Ltd bought Nabukowa Farms Ltd.

After growing and selling the produce for three seasons, Mulunduma Juice Processors Ltd have suffered huge losses and have realized Bbalo, chief executive of Nabukowa Farms Ltd, then, gave false information when selling the farm.

Required:

Mulunduma Juicer Processors Ltd have come to you, saying 'Bbalo owed them a duty of care and he breached that duty'. Explain to them the three (3) conditions that must be met to prove duty of care in this case. (6 marks)

(d) An insurance contract is that of Utmost Good Faith '*uberrimae fidei* ' and the insured is not allowed to make a profit. In view of the above, explain;

(i) Utmost good faith (4 marks)

(ii) 'The insured must not make a profit out of insurance principle' (4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Write brief notes on the following:

(i) Hire purchase (4 marks)

(ii) Finance lease (4 marks)

(b) Distinguish wrongful dismissal from unfair dismissal (6 marks)

(c) Outline the priority of preferential payments of ***all unsecured debts*** of a company under bankruptcy law. (6 marks)

[Total: 20 Marks]

END OF PAPER

C6: LAW FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Write brief notes on each of the following:

(i) *Cheque:-* This is a negotiable instrument in writing from one person to another ordering the other party to pay on demand. It is an unconditional order in writing

(ii) *Promissory Note:-* This is a promise to pay a sum of money and may be used as a form of security for a loan.

Or A promissory note is ‘ an unconditional promise made in writing by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer’.

(iii) *The Ambiguity* Rule in the negotiation of cheques means that, whilst it is the duty of the banker to honour his customer’s cheques, such cheques must be regular, properly drawn by the customer and un ambiguous so as not to be misleading to the drawee/ acceptor or not to be used to facilitate fraud.

(iii) *Agency By Estoppel:-* This is an agency by implication or conduct whereby a principal whose conduct made third parties to believe that a particular person has been appointed his agent, such a principal would be stopped from denying the existence of such authority.

(iv) *An Agent’s Duty of Personal Performance* means to carry out his duties personally (without engaging another person) unless there is express or implied authority by the principal to delegate.

(b) (i) Advice to Rita Motors Ltd would be as follows:

The agency relationship between Mwandabanyama and Rita Motors Ltd is an agency by ratification. An agency by ratification occurs where the principal approves a contract, the principal must approve it for it to be valid. The agent must have been contracted on behalf of the a principal who has been identified at the time of the contract. In the case of ***Watson v. Davies (1931) ICU 455*** – An agent entered into a contract with a third party for the purchase of property. The offer was subject to the approval by a Board of the Charity (management), the agent acted for. Before the approval, the third party revoked the offer. It was held that, ’an acceptance of the offer that is subject to approval by the principal was a nullity until ratified. There was no binding contract for the Board of the Charity (or Principal)l to sue’.

Thus in this case, Rita Motors Ltd would not succeed in their legal action against Kitwe Nakadoli Cars Ltd as the revocation of the offer was done before ratification, that is, seven (7) days earlier than Rita Motors Ltd’s ratification. This means that, there was no binding contract from the time of the offer until ratification, which should have been done before revocation.

(c) A ***Sleeping Partner*** is also known as a *Dormant Partner*. He does not take an active role or takes no part in the management of a partnership even though he has contributed towards the capital for a share in profits and losses. On the other hand, a ***Nominal***

Partner is a partner by name only. He may have retired, but his name has not yet been removed from the partnership letterheads and documents (Stationery and Notice).

SOLUTION TWO

(a) How each of the following is a source of law in Zambia

(i) *The Constitution of Zambia:-* The Constitution of Zambia is the most important law in the land and binds all persons in Zambia, as well as all organs of the State. It is a source of law in that all other laws must come from the constitution, i.e they must not be contrary to the Constitution in that if they did, to the extent of those other laws' contradiction, they are void.

(ii) *Judicial Precedents (Case Law):-* This is law resulting from decisions made by judges in the superior courts of law when deciding on cases. Decisions by Superior Courts' judges are binding on all lower courts and will have to be followed when dealing with similar cases in future. It becomes a Source of Law in that, the legal principles declared by a superior judge in a case become law to be followed by lower courts in arriving at decisions, until such decisions or legal principles are overruled by the higher courts or legislation.

(iii) *Custom (African Customary Law):-* A Custom is a set of rules, norms and values which are developed by the way or type of life of a people in a particular community or area. It is normally not written and traditional in nature, applicable to a particular tribe, village, or area. Customary law is a source of law in that where there is no legislation or law passed by parliament or, judicial precedence, the custom of the community fills the gap and it is binding. This is the law usually used in local courts.

(b)

(i) *The Supreme Court of Zambia:-* It is one of the highest courts of the land (before the amendment of the Constitution in January 2016, that brought about the Constitutional Court, which is equivalent to the Supreme Court). The Supreme Court is a court of final appeal, i.e its decisions are final and cannot be appealed anywhere else. Decisions of the Supreme Court are binding on all the lower courts (except the Constitutional Court on which they are simply persuasive).

(ii) *The High Court of Zambia:-* This was the second highest court in the country (until the Amended Constitution of 2016 brought in the Court of Appeal, which is now the second highest court in Zambia, making the High Court the third highest court). As a third court in the hierarchy, the High Court has original jurisdiction on a number of civil and criminal matters and has appellate jurisdiction from the Subordinate Courts and Local Courts. High Court decisions are binding on itself and all courts below it. It supervises all courts below it.

(iii) Doctrine of Res Judicata:- This is a rule or doctrine which states that, a final judgment on merit by a court of competent jurisdiction, is conclusive between the parties to a suit as to all matters that were litigated or that could have been litigated in that suit.

This means that, if the reasons or merits upon which a decision was arrived at are good, such a decision will be followed in future cases of similar nature and it will be conclusive on all matters similar to it until overruled.

(c)

Section 2(1) of the Sale of Goods Act of 1893 defines a contract of sale of goods as a contract by which the seller transfers or agrees to transfer the property in the goods to the buyer for money consideration called the price.

-The four main elements of a contract of sale are offer; acceptance; consideration and intention to create legal relations.

SOLUTION THREE

(a) The Supreme court can overrule a judgment PER INCURIAM -A decision which is reached *per incuriam* is one reached by carelessness or mistake, and can be avoided. In *Morelle v Wakeling* [1955] 2 QB 379 Lord Evershed MR stated that "the only case in which decisions should be held to have been given per incuriam are those of decisions given in ignorance or forgetfulness of some inconsistent statutory provision or of some authority binding on the court concerned".

(b) The primary aims of tort law are to provide relief to injured parties for harms caused by others, to impose liability on parties responsible for the harm, and to deter others from committing harmful acts.

(c) In the law of contracts, the mirror image rule, also referred to as an unequivocal and absolute acceptance requirement, states that **an offer must be accepted exactly with no modifications**. The offeror is the master of one's own offer.

(d) **Executed consideration takes the form of performing an act rather than a promise of performance.** Executory consideration consists of a promise to do something.

(e) To establish a plea of *non est factum*:

- The person raising the plea (the proponent) must have signed the document believing it to have a particular character or effect.
- The document actually signed must be radically different in character or effect from what the proponent thought they were signing.
- The proponent's mistaken belief must have resulted from an erroneous explanation or description of the document provided to them by someone else.
- The proponent must be able to show that they acted with all reasonable care in the circumstances despite the mistake.
- If the proponent's mistaken belief arises because they relied on a trusted adviser like a lawyer, and they did not take steps to read and understand the document before they signed it, the plea will not be available.

SOLUTION FOUR

(a) The distinction between Tort Law and Criminal Law is:

Criminal Law is a branch of law that deals with wrongs against the public/State the sanction of which involves punishment. A crime is between the criminal and the State. Whilst Tort Law is a civil wrong, and normally between individuals, whose remedy is compensation.

(b) A company is an artificial legal person formed under the company's Act which acquires an identity separate and distinct from its owners.

(c) Three conditions that must be met to prove duty of care:

- *The harm to the claimant must have been foreseeable* – In this case, Bbalo should have foreseen the consequences of his falsified accounts.
- *There must be a 'proximity of relationship' between the claimant and the defendant* – The false information from Bbalo should be the direct cause of the injury which the buyer of the farm suffered.
- *It must be just and reasonable for the court to impose a duty of care* – It could be reasonable for the court to impose the duty of care to Bbalo because as a professional a higher duty of care is required of her.

(d) (i) *Utmost Good Faith* – This means it is a contract "uberrimae fidei" or utmost good faith where the parties must disclose all material information relating to a contract before it is made. Failure to disclose the other party will be discharged from the contractual obligations. The parties owe each other a mutual duty of utmost good faith to disclose all material facts affecting the contract.

(ii) '*The insured must not make a profit out of insurance*' – This means that when the inured enters into an insurance contract, he does so to be compensated back to his original position before the loss occurred. He must not make any profit out of insurance and in an event that he did, he should account it back to the insurer (pay it back to the insurer).

SOLUTION FIVE

(a) (i) *Hire Purchase:-* This is a form of buying goods on credit whereby the hirer (buyer) obtains immediate use of the goods on hire but does not become the true owner until all installments are paid in full. if the buyer (hirer) defaults payment, he loses the already paid installments and the seller repossesses the goods. There is an option of buying the goods at the end of the hire contract. Maintenance of the asset is usually done by the seller (hiree).

(ii) *Finance Lease:-* A finance lease involves the lease of an asset, such as machinery, to a commercial customer under an agreement which is non-cancellable or only cancellable on payment of a financial penalty. The agreement allows the lessor (leasing company that grants the lease) to recover all or the major part of the capital cost of the asset plus profits. The lessee (the customer) has the duty to repair and maintain the asset, including insurance expenses. There is no option of buying the asset, and at the end of the lease, the lessee has an option of continuing to use the asset at a reduced rental fee.

(b) ***Wrongful Dismissal*** is where an employee is dismissed without following the laid down procedure (e.g. where notice period of dismissal is not given as required by contract) and does not include the reason for dismissal. The procedure before dismissal has to be in conformity with the disciplinary code as agreed in the contract of employment or with a Trade Union. If it is not followed, then that dismissal of an employee amounts to wrongful dismissal.

On the other hand, ***Unfair Dismissal*** is dismissal based on unfair reasons. Unfair dismissal is based on the Statute, e.g. the Industrial and Labour Relations Act. Dismissal is unfair if the employee is dismissed for any of the following reasons: Taking part in the formation of a union, belonging to a union, based on sex, tribe, race, religion, political opinion or affiliation, etc (as per Sections 5 and 108 of the Industrial and Labour Relations Act of the Laws of Zambia).

(c) The preferential payments of all unsecured debts in a bankruptcy is as follows:

1. **First** – Costs and expenses of the winding up including taxes and which shall include the remuneration of the liquidator and costs of any audit carried out.

2. **Secondly** – Preferential debts, that is all amounts due to:

    (i) Wages or salaries earned by way of commission;

    (ii) Accrued leave to employees;

    (iii) Accrued paid absence leave;

    (iv) Recruitment expenses reimbursable under a contract of employment;

    (v) Three months salary or wages as severance pay to employees.

    (vi) Amounts due in respect of workers' compensation and pension contributions.

3. **Thirdly** – Any tax, duty or rates payable in respect of the period prior to the commencement of the winding up but which have become due after that date and all arrears of government rents.

4. **Fourthly** – All rates due to the local authority that are due within the period of three years prior to the start of the winding up.

5. **Fifthly** – Any surplus (if any) would be used for deferred debts, that is, dividends declared but not paid and interest accrued on debts since liquidation.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 14 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **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.

Answer all FOUR (4) questions.

QUESTION ONE

(a) State two (2) advantages of using an expert system. (4 marks)

(b) A good information system should impact every aspect of the organization. One of the ways to implement a system in an organization is to acquire and already developed system. There are countless solutions available, so it's crucial that you make the right choice that fits your organization.

Required:

Outline the four (4) phases of the selection process that is recommended to be undertaken in arriving at the right system that meets the needs of the organization. (12 marks)

(c) Different types of systems or information technology-based solutions can be developed within an organization such as a bank. One functional area that is beneficiary of such solutions is accounting through implementation of Accounting Information Systems (AIS). AIS include features that reflect up-to-date performance of the organization in financial terms.

Required:

Outline any three (3) components of AIS that are used to measure performance of an organization. (6 marks)

(d) List three (3) software tests that these vendors should do that you would expect to be part of as an end user of the system. (3 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Quality Management is one of the important aspects of project management.
State the four (4) key components of quality management. (8 marks)

(b) Expert systems play an important role in a knowledge management system.

(i) Define an expert system. (2 marks)

(ii) Explain of an expert system. (2 marks)

(c) Data mining is the process of selecting, exploring, and modelling large amounts of data to discover previously unknown relationships that can support decision making. Data-mining software searches through large amounts of data for meaningful patterns of information.
State three (3) objectives of data mining. (3 marks)

(d) Outline five (5) points management and systems analysts must consider in order to overcome human problems with systems design and implementation. (10 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Electronic commerce comes in different categories. The most common ones are Business-to-Business (B2B), Business-to-Consumer (B2C) and Consumer-to-Consumer and C2C.

Required:

Discuss three (3) areas an organisation can use Business-to-Business model of electronic commerce. (9 marks)

(b) Outline one (1) Information system found at each level of management in an organization. (6 marks)

(c) Identify four (4) conditions that need to be met in order for an organization to use an expert system. (4 marks)

(d) Outline three (3) software elements contained in decision support systems and their use. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Technology can be used in organisations to improve operational efficiency.

Explain three (3) areas of operations where Information Technology can be applied to improve efficiency. (9 marks)

(b) Outline the following terms in relation to Information System delivery.

(i) Interoperability (2 marks)

(ii) Legacy system (2 marks)

(c) When we design a new information system for an organization, it is as a result of a need to redesigning the organization in some way. System builders must understand how a system will affect specific business processes and the organization as a whole. Generally, there are four (4) kinds of structural organizational change that are enabled by information technology namely; automation, rationalization, business process redesign and, paradigm shifts.

Required:

(i) Briefly explain what each of these entails and give a practical example for organizations within the accounting and finance sector to elaborate the changes. (8 marks)

(ii) Differentiate an intranet from an extranet. (4 marks)

[Total: 25 Marks]

END OF PAPER

D1 BUSINESS INFORMATION MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

- The organisation has a documented pool of knowledge
- The information is reusable even after the expert is gone

(b)

(i) **Requirements and Research**

Requirements are what your business needs from a software solution. These criteria will help you decide whether a system is a right fit for your business

- Requirements Gathering: Identify what needs you have as a business first
- Preliminary Research: Scrutinize amongst the providers of such solutions and identify those that are into providing solutions you are looking for.

(ii) **Vendor Comparison and Sourcing**

During this phase, you compare amongst the likely providers those that best meet your need

- Informal Inquiries: you gather information about the vendors including experience in developing such systems, past clients…etc. and shortlist.
- Requests for Information (RFI) and other requests such as quotes and proposals: Invite the shortlisted vendors to submit their documents

(iii) **Technical Validation**

Comprehensive scorecards accurately and thoroughly evaluate the systems, providing a detailed breakdown of every function and capability

- Technical Evaluation Scorecards
- Demos, proof of concept, and more

(iv) **Financial Due Diligence**

Evaluate the capabilities and cost of a system against your business processes and needs, your organization's budget, and the projected savings to ensure the system will benefit your business and that it is financially viable at this time

- Evaluating Potentially hidden Expenses
- Contract Negotiation and Close

(c)

Any of the following four components can be mentioned.

- Cost Accounting
- Sales Information from TPS
- Accounts Payable and accounts receivable
- Financial reports

(d)

User acceptance tests

System tests

Integration test

SOLUTION TWO

(a)

- Quality planning
- Quality assurance
- Quality control
- Quality Improvement

(b)

An expert system is a system that models human knowledge as a set of rules that collectively are called the knowledge base.

Expert systems are an intelligent technique for capturing tacit knowledge in a very specific and limited domain of human expertise.

These systems capture the knowledge of skilled employees in the form of a set of rules in a software system that can be used by others in the organization. The set of rules in the expert system adds to the memory, or stored learning, of the firm.

(c)

Data mining has four main objectives:

- **Sequence or path analysis**: Finding patterns where one event leads to another, later event.
- **Classification**: Finding whether certain facts fall into predefined groups.
- **Clustering**: Finding groups of related facts not previously known.
- **Forecasting**: Discovering patterns in data that can lead to reasonable predictions.

(d)

Keeping staff informed: employees should be kept fully informed about plans to install new system, progression and how new system will affect what people do.

Explanations: 'change for the better' should be explained to staff

Participation: user department employees should be encouraged to participate fully in design of system, when the system is tailor made.

Nature of work: staff should be informed that they will be spared boring, mundane work because of automating such work.

Training: training programme should be planned in advance of new systems being introduced.

Skills: employees should be told that they will be able to learn new skills which will make them more attractive candidates for internal promotion and external labour market.

Planning: change should be planned and managed.

Offices expert: member of staff should be appointed as the office expert or guru in the system to which other members of staff can go to ask for help or advice.

The analyst: when systems are developed inhouse the system analyst should produce changes gradually, build good personal relationship with people they have to work with, persuade management to give sound guarantees for the future, work towards getting employees to accept change and be willing to listen to and act on criticism of system under design.

Familiarization: system should not be introduced in a rush

Confidence: confidence between the systems analyst and operational staff should be built up over time.

Management support: the systems analyst should have full and clearly expressed support of senior management.

SOLUTION THREE

(a)

B2B model of e-commerce enable business organisations to do business amongst themselves electronically. They can use the model in the following areas:

Supplier management: electronic applications can be used to management procurement activities and therefore reducing processing costs and cycles times.

Inventory management: electronic applications can help in monitoring documents movement among organisations and can therefore monitor inventory movement electronically.

Distribution management: electronic applications make the transmission of shipping documents a lot easier and faster

Payment management: organisations can use electronic payment systems

(b)

Operational level of the organisation use Transaction Processing System (TPS) which are used the record daily activities like daily sale

Tactical level uses either Management Information Systems (MIS) or Decision Support System (DSS). MIS takes information from TPS and summaries it to summary reports while DSS uses information from TPS and MIS to help manager make proper decisions.

Senior managers uses Executive Information System get which the information from both internal and external sources to help make decisions that affect the entire organisation.

(c)

Expert systems

The problem is reasonably well defined

The expert can define some rules by which the problem can be solved

The problem cannot be solved by conventional transaction processing or data handling

The expert could be released to more difficult problems in the case of certain types of work

The investment in an expert system is cost justified

(d)

Decision support systems

Language subsystem: used by manager to communicate interactively with the decision support system

Problem processing subsystem: provides analytical techniques and presentation capabilities

Knowledge subsystem: holds internal data and can access any needed external data.

SOLUTION FOUR

(a)

(i) IT can be used to automate and improve physical tasks in operations
(ii) IT can be used in process control such as controlling the production process
(iii) IT can be used in robotics to automate certain processes
(iv) IT can be used in Computer Aided Manufacturing
(v) IT can be used in Computer Aided Design

(b)

(i) Interoperability: the system should be able work with other systems to share and exchange information regardless of the technology platform.

(ii) Legacy system: A **legacy system** is an old or out-dated system, technology or software application that continues to be used by an organization because it still performs the functions it was initially intended to do. Legacy systems are often essential within an organization and they cannot easily be replaced. New systems should be able to work with legacy systems.

(c)

(i) The most common form of IT-enabled organizational change is **automation**. The first applications of information technology involved assisting employees with performing their tasks more efficiently and effectively. Calculating pay checks and payroll registers, giving bank tellers instant access to customer deposit records, and developing a nationwide reservation network for airline ticket agents are all examples of early automation.

A deeper form of organizational change—one that follows quickly from early automation—is **rationalization** of procedures. Automation frequently reveals new bottlenecks in production and makes the existing arrangement of procedures and structures painfully cumbersome. Rationalization of procedures is the streamlining of standard operating procedures. For example, an organization in the money transfer such as MoneyGram's system for handling global money transfers is effective not only because it uses computer technology but also because the company simplified its business processes for back-office operations. Fewer manual steps are required.

A more powerful type of organizational change is **business process redesign**, in which business processes are analysed, simplified, and redesigned. Business process redesign reorganizes workflows, combining steps to cut waste and eliminate repetitive, paper-intensive tasks. (Sometimes the new design eliminates jobs as well.) It is much more ambitious than rationalization of procedures, requiring a new vision of how the process is to be organized. A company can redesign its accounts payable process so that the purchasing department enters a purchase order into an online database that can be checked by the receiving department when the ordered items arrive.

New information systems **can ultimately affect the design of the entire organization by transforming how the organization carries out its business or even the nature of the business**. An accounting firm can create an accounting package such as a payroll system that they can sale to clients in addition to the accounting services they provide. This more radical form of business change is called a paradigm shift. **A paradigm shift involves rethinking the nature of the business and the nature of the organization**. In many instances, firms seeking paradigm shifts and pursuing reengineering strategies achieve stunning, order-of- magnitude increases in their returns on investment (or productivity)

(ii) Intranet is set up by the companies themselves and localized within using a combination of the company's own networked computers and internet technology while the extranet is a network connecting two or more trading partners using standard internet protocol.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY 16 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **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. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. Formulae, Present Value, and Annuity tables are provided at the end of this question paper.

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

Attempt all FOUR (4) Questions.

QUESTION ONE

A company that packages milk, Farm Fresh Plc. has the following budgeted income statement for the 2023 financial year:

Description	**K' million**
Sales	100
Raw Materials (vegetable oil)	(60)
Other costs	(20)
Net Profit	20

Financial goals from its corporate plans are summarized as follows:

S/n	**Objective**	**Action**	**Performance Measure**
(i)	To reduce inventory costs	Introduce a Just - I n – Time (JIT) inventory management system	Inventory days – 35 days
(ii)	To reduce bad debts	Formulate a credit control policy	Receivable days – 40 days
(iii)	To improve liquidity	Reduce cash operating cycle	Payable days – 45 days

Monthly demand for raw vegetable oil is 13,000 tons. The purchase price is K1, 000 per ton and the company's cost of finance is 15% per annum. Warehouse storage costs per ton per annum are K300. The supplier charges K3,000 per order for delivery.

Required:

(a) Explain three (3) factors that affect the length of the cash operating cycle and compute the expected values for inventory, receivables, payables and working capital. Assume there are 365 days in a year. (7 marks)

(b) Determine the company's Economic Order Quantity (EOQ). (3 marks)

(c) Explain three (3) objectives of Just – In - Time (JIT) technique and how it may be achieved. (6 marks)

(d) State two (2) demerits of making sales on credit and three (3) factors Farm Fresh Plc. should consider when formulating its credit control policy. (4 marks)

(e) Discuss two (2) roles financial intermediaries can play in providing Farm Fresh with short-term finance. (5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) One of the many methods available for use by finance and project professionals, in investment appraisal, is the Payback method. However, stakeholders have often raised questions on the usefulness of this method due to a number of limitations inherent in using it.

Required:

Explain four (4) limitations of using the Payback method in investment appraisals. (5 marks)

(b) Up Energy Ltd uses the Accounting Rate of Return (ARR) as the basis of evaluating projects for investment of its scarce financial resources. It uses its predetermined expected return on capital as the basis for the choice of investment projects. The company's Finance team has provided the information below regarding various projects and their initial investments and net cash flows. The hurdle rate or target Accounting Rate of Return for Up Energy Ltd is 25%.

Project	**A**	**B**	**C**
Initial Investment (K)	1,000,000	1,600,000	2,000,000
Net Cash flows (K)			
Year 1	600,000	700,000	800,000
Year 2	500,000	600,000	600,000
Year 3	400,000	500,000	500,000
Year 4	300,000	500,000	400,000
Year 5		400,000	

Required:

(i) Calculate the Accounting Rate of Return for each project based on average investment basis. (7 marks)

(ii) Given the target return of 25%, advice Up Energy Ltd which projects should be undertaken. (3 marks)

(c) Existing shareholders have some advantages available to them than potential shareholders interested in buying shares from the company. Some of those advantages are pre-emptive rights and rights issue.

Required:

(i) Explain the meaning of Pre-emptive rights. (2 marks)
(ii) Explain the meaning of a bond issue and an equity issue. (2 marks)
(iii) Discuss the benefits and limitations of a rights issue, a placing and an issue of bonds as a means of financing the projects. (6 marks)

[Total: 25 Marks]

QUESTION THREE

Kifolia Plc. engaged a local financial expert, Mrs. Buleta Zibaa, to work closely with the Chief Financial Officer of Kifolia Plc. The specific terms of reference involved the provision of information relating to Kifolia Plc. which was a listed company on the Stock Exchange in one of the European Countries. The following information provided relates to Kifolia Plc. as at 31 December, 2021:

Number of Ordinary Shares in issue	150 million
Current ex-dividend share price	K3.20
Book Value of five year redeemable 30% Loan notes	K200 million
Market price of five (5) year redeemable 30% Loan notes per K100	K110.00
Book value of 10% five (5) year bank loan	K100 million
Annual taxation rate on profits	30%

Kifolia Plc. declared and paid dividend to the ordinary shareholders as at 31 December 2021 of K0.50 per share. The dividend payable in the year ending 31 December 2022 is estimated at K0.55 per share. This decision was based on the historical annual growth rate in dividends.

Required:

(a) Explain meaning of the Weighted Average Cost of Capital (WACC). (2 marks)

(b) Calculate WACC for Kifolia Plc using the information provided above. (15 marks)

(c) Discuss the usefulness of WACC as a discount rate in investment appraisal. (8 marks)

[Total: 25 Marks]

QUESTION FOUR

Bulio Group Ltd was established in 2020 to manufacture leather covers for laptops. The turnover for the last financial year increased by 25% and was in the range of K2 billion. On a daily basis, the Bulio Group Ltd is managed by Betty and Golibaba. Golibaba is the sales and Marketing Director, whereas Betty is the Production Manager.

Both the Directors are proficient in their areas of expertise. However, they decided to engage an individual financial consultant named Lio, to review the finances of the group. Lio highlighted the following challenges:

(i) Poor investment in working capital;
(ii) Liquidity challenges need to be investigated;
(iii) That Debtor’s policy needs to be critically examined;
(iv) That inventory management is poor, resulting in many idle Stock balances;
(v) Absence of any policy regarding investment; and
(vi) Financial analysis of the group statement of financial position required.

The Bulio Group Ltd Statement of Financial Position is given as follows:

Non-Current Assets	**31 March 2022**		**31 March 2021**	
	K'000	K'000	K'000	K'000
Equipment	275		125	
Motor Vehicles	69		53	
Land and Buildings	55		55	
	399		233	
Less: Depreciation	82		41	
		317		192
Current Assets				
Stocks and WIP	97		45.1	
Debtors	198.2		123	
Cash and Bank Balances	7.6		4.2	
	302.8		172.3	
Less: Current Liabilities				
Trade Creditors	65		51	
Sundry Creditors	56		37	
Short Term Leases	48		24	
Bank Overdraft	142		46.2	
	311		158.8	
Net Current Assets		(8.2)		13.5
Total Assets		325.2		205.5
Less: Creditors Due after more than one year				
Leases		(66.7)		(6)
Net Assets		**258.5**		**199.5**
Financed By:				
Common Stock	100		100	
Retained Earnings	158.5		99.5	
Total Equity		**258.5**		**199.5**

Required:

Acting as Luo, you are required to prepare a report for the Bulio plc. Group Ltd which:

(i) Examines the liquidity of the Company. (5 marks)

(ii) Discusses the management of working capital of Bulio plc. Group Ltd. (5 marks)

(iii) Recommends improvements which can be made to financial management within the organization. (5 marks)

(iv) Explain the limitations of ratio analysis, in relation to the Bulio Group. (10 marks)

[Total: 25 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1-T)(k_e^i - k_d)\frac{V_d}{V_e}$$

Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2w_a w_b r_{ab} s_a s_b}$$

The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))}\beta_e\right] + \left[\frac{V_d(1-T)}{(V_e + V_d(1-T))}\beta_d\right]$$

The Growth Model

$$P_o = \frac{D_o(1+g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

$$WACC = \left[\frac{V_e}{V_e + V_d}\right]k_e + \left[\frac{V_d}{V_e + V_d}\right]k_d(1-T)$$

The Fisher formula

$$(1+i) = (1+r)(1+h)$$

Purchasing power parity and interest rate parity

$$S_1 = S_0 x \frac{(1+h_c)}{(1+h_b)} \qquad F_0 = S_0 x \frac{(1+i_c)}{(1+i_b)}$$

Modified Internal Rate of Return

$$MIRR = \left[\frac{PV_R}{PV_I}\right]^{\frac{1}{n}}\left(1+r_e\right)-1$$

The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1 - (1 + r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

Standard normal distribution table

	0·00	0·01	0·02	0·03	0·04	0·05	0·06	0·07	0·08	0·09
0·0	0·0000	0·0040	0·0080	0·0120	0·0160	0·0199	0·0239	0·0279	0·0319	0·0359
0·1	0·0398	0·0438	0·0478	0·0517	0·0557	0·0596	0·0636	0·0675	0·0714	0·0753
0·2	0·0793	0·0832	0·0871	0·0910	0·0948	0·0987	0·1026	0·1064	0·1103	0·1141
0·3	0·1179	0·1217	0·1255	0·1293	0·1331	0·1368	0·1406	0·1443	0·1480	0·1517
0·4	0·1554	0·1591	0·1628	0·1664	0·1700	0·1736	0·1772	0·1808	0·1844	0·1879
0·5	0·1915	0·1950	0·1985	0·2019	0·2054	0·2088	0·2123	0·2157	0·2190	0·2224
0·6	0·2257	0·2291	0·2324	0·2357	0·2389	0·2422	0·2454	0·2486	0·2517	0·2549
0·7	0·2580	0·2611	0·2642	0·2673	0·2704	0·2734	0·2764	0·2794	0·2823	0·2852
0·8	0·2881	0·2910	0·2939	0·2967	0·2995	0·3023	0·3051	0·3078	0·3106	0·3133
0·9	0·3159	0·3186	0·3212	0·3238	0·3264	0·3289	0·3315	0·3340	0·3365	0·3389
1·0	0·3413	0·3438	0·3461	0·3485	0·3508	0·3531	0·3554	0·3577	0·3599	0·3621
1·1	0·3643	0·3665	0·3686	0·3708	0·3729	0·3749	0·3770	0·3790	0·3810	0·3830
1·2	0·3849	0·3869	0·3888	0·3907	0·3925	0·3944	0·3962	0·3980	0·3997	0·4015
1·3	0·4032	0·4049	0·4066	0·4082	0·4099	0·4115	0·4131	0·4147	0·4162	0·4177
1·4	0·4192	0·4207	0·4222	0·4236	0·4251	0·4265	0·4279	0·4292	0·4306	0·4319
1·5	0·4332	0·4345	0·4357	0·4370	0·4382	0·4394	0·4406	0·4418	0·4429	0·4441
1·6	0·4452	0·4463	0·4474	0·4484	0·4495	0·4505	0·4515	0·4525	0·4535	0·4545
1·7	0·4554	0·4564	0·4573	0·4582	0·4591	0·4599	0·4608	0·4616	0·4625	0·4633
1·8	0·4641	0·4649	0·4656	0·4664	0·4671	0·4678	0·4686	0·4693	0·4699	0·4706
1·9	0·4713	0·4719	0·4726	0·4732	0·4738	0·4744	0·4750	0·4756	0·4761	0·4767
2·0	0·4772	0·4778	0·4783	0·4788	0·4793	0·4798	0·4803	0·4808	0·4812	0·4817
2·1	0·4821	0·4826	0·4830	0·4834	0·4838	0·4842	0·4846	0·4850	0·4854	0·4857
2·2	0·4861	0·4864	0·4868	0·4871	0·4875	0·4878	0·4881	0·4884	0·4887	0·4890
2·3	0·4893	0·4896	0·4898	0·4901	0·4904	0·4906	0·4909	0·4911	0·4913	0·4916
2·4	0·4918	0·4920	0·4922	0·4925	0·4927	0·4929	0·4931	0·4932	0·4934	0·4936
2·5	0·4938	0·4940	0·4941	0·4943	0·4945	0·4946	0·4948	0·4949	0·4951	0·4952
2·6	0·4953	0·4955	0·4956	0·4957	0·4959	0·4960	0·4961	0·4962	0·4963	0·4964
2·7	0·4965	0·4966	0·4967	0·4968	0·4969	0·4970	0·4971	0·4972	0·4973	0·4974
2·8	0·4974	0·4975	0·4976	0·4977	0·4977	0·4978	0·4979	0·4979	0·4980	0·4981
2·9	0·4981	0·4982	0·4982	0·4983	0·4984	0·4984	0·4985	0·4985	0·4986	0·4986
3·0	0·4987	0·4987	0·4987	0·4988	0·4988	0·4989	0·4989	0·4989	0·4990	0·4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0·5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0·5.

D2 FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Factors affecting length of cash operating cycle

1. Liquidity versus profitability concerns

2. Management efficiency

3. Industry norms ie construction versus retail

Working Capital Ratio	K'million
Inventory Days - $\frac{35}{365}$ x 60 =	5.75
Receivables Days - $\frac{40}{365}$ X 100 =	10.96
Trade payables Days - $\frac{45}{365}$ X 60 =	(7.40)
Working capital Days	**9.31**

(b)

C_o = 3,000

D = 13,000 X 12 = 156,000

C_H = (1,000 X 0.15) + 300 = 450

EOQ = $\left(\frac{(2*3000*156000)}{450}\right)^{\frac{1}{2}}$ = *1442*

(c)

Objectives of JIT

- Reduced manufacturing lead times
- Reduced scrap/rework/warranty costs
- Flexible production process responsive to the customer's requirements.
- Reduction in capital tied up in inventory.
- Improved labour productivity

Measures to achieve JIT

- Elimination of non - value adding activities.
- Reducing batch sizes.
- Delivering materials to point of use.
- Emphasis on total quality.
- Long – term supplier relationships that depend on quality and reliability.
- Making goods to order to reduce inventory of finished goods.

(d)

Demerits of making sales on credit

1. Opportunity costs of funds tied up in receivables
2. Administrative costs of debt collection
3. Collection costs of external debt collectors
4. Costs of bad debts from defaulters

Factors include

1. Administrative costs of debt collection
2. Procedures for controlling credit and debt collection
3. Extra capital required to finance net increase in working capital
4. Savings or additional expenses in operating credit policy
5. Credit terms for settling accounts
6. Effects of easing credit
7. Cash discounts for early payment

(e)

The role of financial intermediaries in providing short-term finance for use by the dairy would be to act as a financial intermediary or go between with investors who have surplus cash and the company, as a borrower in need of financing.

Financial intermediaries aggregate or parcel up small amounts of cash provided by individual investors, and lend borrowers such as the dairy who need large amounts of cash over a long - term. They would therefore provide a convenient and readily accessible means for the company to obtain necessary funds. Where loan amounts are large, as is the case with aircraft acquisition, banks are able to finance the large amounts and manage risk by forming a lending group called a syndicate.

Small investors are averse to losing any capital, so financial intermediaries could also provide risk transformation by assuming the risk of loss on long-term funds borrowed by the dairy, either individually or by pooling risks between financial intermediaries.

Financial intermediaries also offer maturity transformation, in that savers can deposit funds with the option of withdrawing them at short notice, while borrowers may require funds for a fixed term and on a long-term basis, and vice versa. The needs of both the dairy as a borrower and lenders can therefore be satisfied. Finance leases are commonly used by banks to finance large amounts of non-current assets such as aircraft with cash flows generated by the leased asset and the aircraft itself serving as security or collateral in case of default. Banks can also help the dairy put up a long-term bond to raise the required financing.

SOLUTION TWO

(a) **Limitations or drawbacks of the Payback method**

- It ignores the time value of money
- It does not measure the profitability of the project
- The choice of method is arbitrary
- It ignores the cash flows after the payback period
- It also ignores when the cash flow is received or the timing of the cash flow.
- May not be able to deal with unconventional cash flows

b) (i)

Project A

Average Annual Accounting profit = (Total accounting profit for 4 years less Initial investment) / 4 years

= (600,000+500,000+400,000+300,000) – 1,000,000/4

= (1,800,000 - 1000, 000)/4 = 200,000

Average annual investment = Initial investment /2 = 1,000,000/2 = 500,000

ARR = Average Accounting profit/Average annual investment x 100

200,000/500,000 x100 = **40%**

Project B

Average Annual Accounting profit = (Total accounting profit for 4 years less Initial investment) / 5 years

= (700,000+600,000+500,000+500,000+400,000) – 1,600,000))/5

= (2,700,000 -1600, 000)/5 = 220,000

Average annual investment = Initial investment /2 = 1,600,000/2 = 800,000

ARR= Average Accounting profit/Average annual investment x 100

220,000/800,000 x100 = **27.5%**

Project C

Average Annual Accounting profit = (Total accounting profit for 4 years less Initial investment)/ 4 years

= (800,000+600,000+500,000+400,000) – 2,000,000/4

= (2,300,000 - 2000, 000)/4 = 75,000

Average annual investment = Initial investment /2 = 2,000,000/2 = 1000,000

ARR = Average Accounting profit/Average annual investment x 100

75,000/1,000,000 x100 = 7.5%

(ii) Since the target ARR is 25% Projects A and B will be the only projects that will be accepted.

(c)

(i) Pre-emptive rights refer to the obligation on the company to offer any new issue of shares to existing shareholders before proceeding to make the offer to the general public. The importance of this pre-emptive right to shareholders is that it prevents significant changes to the structure of ownership and control of the company since the shares are offered to existing shareholders even though it might not necessarily be taken on in proportion to existing holdings.

(ii) Right issues are subscription rights made to only existing shareholders to buy additional shares in the company at a discounted rate.

(iii) Equity issues such as a placing and a rights issue do not require security, unlike a bond issue, which might have to be secured with non- current assets as collateral.

The key advantage of using right issues by the company is that it allows the company to raise capital without having to issue new shares to the public, which can be expensive and time consuming. To shareholders it offers them the opportunity to maintain the proportion of their shareholding in the company.

Annual interest charges on a bond issue can worsen its interest cover, if not off-set by operating profits. If the interest coverage ratio is high relative to industry peers or the sector average, that it raises the financial risk of the company, it would be unwise to use a bond to finance the projects.

An issue of new shares through a placing, rights issue or a public offer would reduce the project's gearing, reducing its financial risk. A reduction in financial risk is preferable to an increase, giving the placing or rights issue an advantage in this regard, compared to a bond issue.

A placing will dilute ownership and control, if an issue of new equity is taken up by new shareholders. On the contrary, a rights issue will not dilute ownership and control, as long as existing shareholders take up their rights. A bond issue, if not convertible into equity, will not affect the ownership and control of the company. However, restrictions or covenants in bond issue documents can negatively limit the actions of a company and its managers.

A bond issue, a placing and a rights issue are long-term sources of finance and so are appropriate for a long-term investment such as the proposed projects.

SOLUTION THREE

(a) Weighted Average Cost of Capital(WACC)
It is the overall cost of capital regarded as the weighted average value of the costs of various sources of finance using their relative market values to determine their weights.

(b) WACC=[(27%*480)+(19.33%*200)+(7%*100)]/780
=22.5%

Workings:

1. g=(0.55/0.50)-1
=0.1

2. Ke=D1/P0+g
=(0.55/3.20)+0.1
=27%

3. Cost of Redeemable Debt
Post tax coupon payment= 30%*100(1-0.30)
= K21

Calculation of net present value of cash flows

Year	Cash flow	DCF @10%	PV	DCF @20%	PV
	K		K		K
1-5	21	3.791	79.61	2.991	62.81
5	100	0.621	62.1	0.402	40.2
			141.71		103.01
Less current market price			(110)		(110)
Net Present Value			31.71		(6.99)

Kd(1-t)=10+[31.71/(31.71+6.99)*(20-10)]
=18.19%

4. Bank Loan
Cost= 10(1-0.30)
=7%

5. Values of Equity and Debt

		K'000	%
Equity	150million*K3.20	480	61.54
Debt	K200million*K110/K100	200	25.64
Bank Loan		100	12.82
Total Value		780	100

WACC= (27% x 0.6154) + (18.19% x 0.2564) + (7% x 0.1282)
WACC = 22.18%

(c) WACC can be used under the following circumstances:

- Under investment appraisal in the event that the investment proposal being assessed are similar to the current risks of the investment firm
- The investment proposed in similar to the business risk of existing operations
- When the proposed investment is similar to the financial risk of the existing operations.
- The proposed investment should be small in comparison with the size of the firm.

SOLUTION FOUR

(i) Examination of Liquidity:

- First explain as to what liquidity means for a company. Liquidity is defined as the ability of the company to meet its short term liabilities promptly and conveniently.
- Calculate both current and quick (acid) test ratios. Current Ratio is calculated by dividing current assets with current liabilities. The Current ratio for Bulio Enterprises is =(302.8/311) i.e 0.97 and
  (172.3/158.8) i.e 1.08 for the years 2022 and 2021 respectively.
  The Quick (acid) ratios removes the Stocks and WIP from the current assets.
  in 2022, the currents assets less stocks and WIP is (205.8/311) i.e. 0.661 and as for 2021 will be(127.2/158.8) i.e 0.80.
  The liquidity situation of Bulio enterprises is not good for both years as has been determined the liquidity ratios

(ii) Working Capital Management:

- Working capital is the difference between current assets and current liabilities. Working capital should be managed properly in order to, ensure that companies maintain a sound liquidity position and also that they maximize profitability.
- The working capital for Bulio enterprises was not that favorable especially in 2022. As the statement of financial position shows, in 2022, it was negative at (K8,200) and in 2021, the working capital was at K13.5.
- There is need to ensure the effective management of working capital by adopting any of the three working capital polices like the aggressive, conservative or moderate.

(iii) Recommendations:

- Based on the Bulio Enterprises Statement of Financial Affairs as of 31st March 2022 and 31st March, 2021, the financial aspect of the company appears to have deteriorated especially regarding liquidity as per Quick Ratio. However, the following recommendation can be made in order to increase efficiency at the company.
- The first recommendation that can be made is that the company should prepare paying for the long term leases of K6000. This would ease the financial burden that the company faces in the future.
- The other recommendation that can be made is that the company should increase investments. Increasing investment would help the company acquire more stock and WIP.
- Inventory management is crucial to Bulio Enterprises. The company must strike a balance between holding just the right amount of inventory on hand to meet consumer demand and avoiding holding too much that depletes working capital. The enterprises must consider implementing an inventory management system that can be used to track stock levels and increase output
- Managing accounts receivable is an essential part of working capital management. The business should strive to minimize the amount of time an account is receivable at a minimal in order to prevent having its cash locked up in unpaid invoices. In order to do this, It can consider implementing credit control measures, such as restricting credit and demanding deposits from clients.

(iv) Limitations of ratio analysis

There are a number of limitations of ratio analysis that include:

- *Historical*. All of the information used in ratio analysis is derived from actual historical results. This does not mean that the same results will carry forward into the future. The future may be different due to several factors. However, you can use ratio analysis on pro forma information and compare it to historical results for consistency.
- *Inflation*. If the rate of inflation has changed in any of the periods under review, this can mean that the numbers are not comparable across periods. For example, if the inflation rate was 100% in one year, sales would appear to have doubled over the preceding year, when in fact sales did not change at all.
- *Aggregation*. The information in a financial statement line item that you are using for a ratio analysis may have been aggregated differently in the past, so that running the ratio analysis on a trend line does not compare the same information through the entire trend period.
- *Operational changes*. A company may change its underlying operational structure to such an extent that a ratio calculated several years ago and compared to the same ratio today would yield a misleading conclusion. For example, if you implemented a constraint analysis system, this might lead to a reduced investment in fixed assets, whereas a ratio analysis might conclude that the company is letting its fixed asset base become too old.
- *Accounting policies*. Different companies may have different policies for recording the same accounting transaction. This means that comparing the ratio results of different companies may be like comparing apples and oranges. For example, one company might use accelerated depreciation while another company uses straight-line depreciation, or one company records a sale at gross while the other company does so at net.
- *Interpretation*. It can be quite difficult to ascertain the reason for the results of a ratio. For example, a current ratio of 2:1 might appear to be excellent, until you realize that the company just sold a large amount of its stock to bolster its cash position. A more detailed analysis might reveal that the current ratio will only temporarily be at that level, and will probably decline in the near future.
- *Point in time*. Some ratios extract information from the balance sheet. Be aware that the information on the balance sheet is only as of the last day of the reporting period. If there was an unusual spike or decline in the account balance on the last day of the reporting period, this can impact the outcome of the ratio analysis.

END OF SOLUTIONS

Zambia Institute of Chartered Accountants

ZiCA — Competence, Integrity and Virtue

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY 14 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FOUR (4) questions of twenty five (25) marks each. You MUST attempt all the 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 taxation table is provided on pages 2,3,4,5 and 6 of this paper.

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

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

Customs Duty:	
Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

Customs Duty	
Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt All Four (4) Questions.

QUESTION ONE

(a) Mukuba Mining Limited is a Zambian resident mining company, engaged in the extraction and sale of cobalt. The company made profit before taxation of K2,750,000 for the year ended 31 December 2023. The gross sales revenue of the company for the year was K35,600,000. The mineral royalty tax was accounted for and paid at appropriate rates on the relevant due dates during the year.

The profit before taxation was arrived at after crediting a dividend received from a Zambian company which is listed on the Lusaka Securities Exchange of K93,500 (net) and royalties amounting to K102,000 (net) and after deducting the following expenses:

	K
Depreciation of non-current assets	950,000
Gifts of Mukuba Mining Limited diaries, costing K95 each	245,000
Trade debts written off	760,000
Other operating expenses	6,320,000

Included in other operating expenses is expenditure of K1,450,000, incurred on constructing a Police post for the mining community and K50,000 for the construction of two (2) boreholes in the mine township. The remaining amount comprises general operating expenses which are allowable for tax purposes.

Additional information:

(1) Agreed Capital allowances on other assets used wholly and exclusively for business purposes amounted to K550,000 for the tax year 2023.

(2) In May 2023, the company purchased new mining excavator at a cost of K10,650,000 which was immediately brought into use.

(3) The provisional income tax paid during the tax year 2023 was K255,000.

Required:

Calculate the company income tax payable on the mining profits for the tax year 2023.
(11 marks)

(b) The insurance sector in Zambia has experienced an increase in the number of insurance companies offering several insurance products to their client which mainly includes General and Life insurance.

Required:

(i) Explain the difference between General and Life insurance and give examples of products provided under each of these insurance policies. (4 marks)

(ii) State the items which should be included to arrive at a profit of a non-Zambian resident company carrying on an insurance business other than life insurance

(4 marks)

(c) The Transaction Value method is one of the methods used to determine the Value for Duty Purposes (VDP) on imported goods among the other methods used.

Required:

(i) Explain what is meant by the transaction value for customs duty purposes. (2 marks)

(ii) State four (4) conditions that should be met in order for the transaction value method to be used. (4 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Tiku Ltd is a VAT registered company dealing in food supplies and has decided to diversify to other businesses by registering with the National Council for Construction (NCC) as a contractor.

During the month of May 2023, the company undertook the following transactions:

1. Made sales worth K350, 000, of which 20% were exempt supplies, 10% zero rated supplies and the remainder were standard rated supplies.
2. The company disposed of a Toyota canter delivery van for K80, 000 VAT inclusive.
3. The purchases for the month amounted to K265, 000. Of this amount, 15% were unregistered VAT suppliers, 10% were exempt suppliers and the remainder standard suppliers.
4. Purchased a second hand Toyota van for K120, 000 (VAT inclusive) to replace the Toyota Canter delivery Van which was sold.
5. The standard rated operating expenses included the following:

	K
Petrol	5,800
Diesel	6.500
Telephone and internet	6.500
Utility bills for Directors accommodation	2,320

Unless otherwise stated all of the above transactions are VAT exclusive.

Required:

(i) Explain the importance of establishing the tax point in respect of supplies for VAT purposes. (2 marks)

(ii) Explain the five (5) conditions needed for Input VAT to be recoverable. (5 marks)

(iii) Calculate the VAT payable/claimable by TIKU Ltd for May 2023. (9 marks)

Indicate zero (0) for exempt and zero rated supplies.

(b) Chiloshi, a Director of TIKU Ltd has imported a Toyota Station wagon 3000cc manufactured in 2020 from Japan at US$7,500. He paid US$1,361 and US$2,025 for insurance and transport respectively. He also paid US$714 as incidental costs. All the foregoing costs were up to Nakonde border. He paid a further US$250 for transportation of the car from Nakonde to Lusaka.

At the date of entry into Zambia, the exchange rate provided by the Bank of Zambia and approved by the Commissioner General was K19.30 per US$1, while the one approved by a local Bureau De Change was K19.60 per US$1

Required:

(i) Explain two (2) circumstances which may lead the Zambia Revenue Authority to revalue imported vehicles. (2 marks)

(ii) Calculate the import taxes paid by Chiloshi. (7 marks)

[Total: 25 Marks]

QUESTION THREE

TopCow plc is a Zambian resident company engaged in farming. The company made a profit as per accounts amounting to K12,340,000 for the year ended 31 December 2023 after taking into account the following:

(1) Non-farming income amounting to K1,400,000. This amount was made up of K1,050,000 profit from retail trade, dividends from Zambian companies K50,000 (gross) and royalties K300,000 (gross). Withholding tax had been deducted at source where appropriate.

(2) Salaries & wages amounting to K13,600,000. This figure includes directors' emoluments K3,800,000 and employers NAPSA contributions K490,000. The balance is made of salaries paid to the employees. All the directors are accommodated in company owned houses for which they pay no rent.

(3) Sales & marketing expenses of K800,000. This was made up of the following:

	K
Gift of business branded calendars to suppliers costing K80 each	28,160
Gift of food hampers to customers costing K210 each	49,350
Entertaining suppliers	111,000
Advertisements through print media	213,000
Commissions paid to sales agents	178,000
Installation of company billboards	220,490
	800,000

(4) Other operating expenses of K14,600,100. These expenses were made up of the following:

	K
Donation to an approved public benefit organisation	120,100
Donation to political parties	310,000
Legal fees in connection with purchase of new farm land	42,000

Legal fees in connection with drafting employee contracts	66,000
Fines for breach of labour laws	102,300
Pesticides and other chemicals	1,600,200
Amortization of intangible assets	22,000
Depreciation expenses	108,000
Legal fees in connection with defending title to the farmland	223,700
Fuel and lubricants	1,290,000
Other revenue allowable expenses	10,715,800
	14,600,100

Other information

(1) Provisional income tax paid during the year ended 31 December 2023 amounted to K1,100,000.

(2) Implements, plant & machinery and other capital transactions.

At 1 January 2023, the company had the following assets:

Date of purchase	**Asset**	**Original cost**
		K
2 February 2021	Farm tractor	140,000
4 April 2021	Office furniture	110,000
10 March 2022	Toyota Hilux double cab van	320,000
14 June 2022	Office equipment	96,000

During the year ended 31 December 2023, the following capital transactions took place:

Date of transaction	**Asset**	**Original cost**
		K
14 February 2023	Bought a new farm tractor	250,000
30 April 2023	Constructed four (4) dwelling houses	480,000
23 May 2023	Drilling of boreholes	160,000
25 July 2023	Clearing of the new farm land	47,000
21 August 2023	Bought farming implements	300,000

Required:

(a) Calculate the amount of capital allowances claimable by the company for the tax year 2023. (10 marks)

(b) Calculate the tax adjusted business profit for the year ended 31 December 2023.

(8 marks)

(c) Calculate the amount of income tax payable for the tax year 2023. Your answer should state the due date when the tax calculated should be paid. (5 marks)

(d) Explain the circumstances under which income from farming may be averaged.

(2 marks)

[Total: 25 Marks]

QUESTION FOUR

For the purposes of this question, you should assume that today's date is 20 December 2022.

Textile (Z) Plc is a VAT registered Zambian resident company engaged in manufacturing. The company is considering acquiring manufacturing equipment costing K707,600 (VAT inclusive) on 1 January 2023. And as such, the company is considering a number of options to finance the purchase of the equipment as shown below:

Option 1:

The company can borrow K730,000 from the bank at an interest rate of 23.10% per annum, then use the net funds to acquire the equipment outrightly. The company will be charged K22,400 by the bank as loan administration costs which will be deducted from the loan. The loan will be repaid over a period of three (3) years. Interest is payable annually in arrears. The first loan repayment and interest will be made on 31 December 2023.

Option 2:

The company can acquire the equipment under a hire purchase arrangement. Under this option, the company will be required to pay an initial deposit of K200,000 followed by twelve (12) monthly instalments of K50,000 payable at the end of each month. The deposit will be paid on 1 January 2023 while the first instalment will be paid on 31 January 2023.

Option 3:

The company can acquire the use of the equipment under an operating lease for a period of 2 years after which it will be returned to the lessor. The company will be required to pay annual lease rentals of K176,900 (VAT inclusive) at the end of each year. The first rental will therefore, be paid on 31 December 2023.

Option 4

The company can issue 100,000, K1 equity shares at a premium of K6.40 per share. The issue costs will amount to K32,400. The net proceeds from the issue will then be used to acquire the manufacturing equipment. The Directors have estimated the dividend per share to be 68 Ngwee for the year ended 31 December 2023.

Over and above the given four (4) options, the Directors of Textile (Z) Plc are in the process of investing in farming through the acquisition of an existing farming company. The company to be acquired has already been identified and negotiations are underway. The Directors of Textile (Z) Plc will acquire 75% of the issued equity shares of the investee company.

Required:

(a) Advise the Directors of Textile (Z) Plc of the taxation implications arising from the purchase of manufacturing equipment for the tax year 2023 under each of the above Four (4) options of financing. Your answer should include relevant calculations of amounts to be allowed or disallowed where appropriate. (16 marks)

(b) Explain the Income Tax, Property Transfer Tax and Value Added Tax implications of entry into the group and exit of the company from the group. (9 marks)

[Total: 25 Marks]

END OF PAPER

D3 BUSINESS TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Mukuba Mining Limited**

Computation of Company income tax payable for the tax year 2023

	K	K
Profit before taxation as per accounts		2,750,000
Add:		
Depreciation	950,000	
Construction of Police Post	1,450,000	
Construction of boreholes	50,000	
		2,450,000
		5,200,000
Less:		
Dividend received	93,500	
Royalties	102,000	
Capital allowances (w)	2,980,000	
		(3,175,500)
Tax adjusted mining profit		2,024,500
Add:		
Royalties (K102,000 X100/85)		120,000
Taxable income		2,144,500
Company income tax payable (K2,144,500 X 30%)		643,350
Provisional income tax		(255,000)
Less WHT –Royalties (K120,000 X 15%)		(18,000)
Final Company income tax payable		370,350

Workings:

Computation of capital allowances

	K
Police post	
Wear and tear (K1,450,000 X 20%)	290,000
Mining excavator	
Wear and tear (K10,650,000 X 20%)	2,130,000
Boreholes (K50,000 x20%)	10,000
Other capital allowances	550,000
Total	2,980,000

(b) (i) **General insurance i**s insurance against loss of, or damage to property and it includes motor insurance, home and contents insurance, cover for businesses and so on.

While **Life insurance** is insurance of human life. This takes the form of life insurance products which fall into protection and savings products. Protection products are those which provide protection for individuals or businesses against the adverse financial effects death or illness.

(ii) The profits of carrying on insurance business, other than life insurance business, by a company that is not resident are ascertained by:

(1) Taking the gross premiums, interest and other income, received in the Republic, less premiums refunded or paid on reinsurance; and

(2) Adding a reserve for unexpired risks at such reasonable percentage as is adopted by the company in relation to its business as a whole at the beginning of the year's business; and

(3) Deducting a reserve for unexpired risks at such reasonable percentage as is adopted by the company in relation to its business as a whole at the end of the year's business; and

(4) Deducing the:

- actual losses (less the amounts received under reinsurance),
- agency expenses
- allowed business expenses expenses incurred in the Republic
- such proportion of the company's head office expenses as the Commissioner General determines.

(c) (i) The term 'Transaction value' is the actual price paid or payable in respect of imported goods, including insurance, freight and other incidental expenses.

(ii) In order for the transaction value to be used for customs duty purposes, the following conditions should be met:

(1) There should be no restrictions to the use of the goods.

(2) There should be no conditions to deter determination of the VDP.

(3) No part of the proceeds on resale would accrue to the seller, unless included in the value.

(4) No relationship exists to influence the value.

SOLUTION TWO

(a) (i) The importance of establishing the tax point in respect of supplies for VAT purposes:

- The tax point is used for determining the tax accounting period for VAT relating to the supply
- The tax point is used to decide which scheme or VAT rate will apply to a supply when there is a change in the VAT scheme of VAT rate.

(ii) Conditions for INPUT VAT to be recoverable

(1 At the time the supply was made, the trader was registered trader for VAT purposes.
(2 The supply must have been made to the taxable person making the claim.
(3 The supply must be supported by evidence. The evidence is normally in the form of tax invoice
(4 The person making the claim must use the goods or services for business. Personal expenses do not qualify for relief.
(5 The amount available for recovery is one which is accurately calculated. The tax must be the amount that accurately relates to the supply.
(6 The input VAT invoice and other supporting documents must have been incurred (dated|) within the last three (3) months from the period of claim
(7 The VAT should not be that which is irrecoverable

(iii)Computation of VAT Payable or Claimable by Tiku Ltd for May 2023

OUTPUT VAT	K
Exempt supplies (K350.000 x 20%)	0
Zero rated (350,000 x 10%)	0
Standard rated (350,000 X 70% X 16%)	39,200
Disposal of Van (K80, 000 x 4/29)	11,034
	50,234
INPUT VAT	
Exempt supplies (K265, 000 x 10%)	0
Standard supplies (K265, 000 x 75% x 16%)	31.800
Telephone & internet	0
Utility bills for Directors accommodation	0
Purchase Toyota van (K120, 000 x 4/29)	16,552
Petrol K5,800 x 16%	928
Diesel (K6,500 x 16%)	1,040
	50,320

VAT Payable/ Claimable (K50,234-K50,320) (86)

(b) (i) Circumstances which will lead to Zambia Revenue Authority to revalue imported motor vehicles.

1) The Importer or Customer Clearing Agent provides insufficient or unsatisfactory information.
2) The vehicle is acquired in circumstances other than in normal course of trade.

(ii) Computation of Import Taxes paid by Chiloshi

		US$
Cost price		7.500
Insurance		1,361
Transport		2,025
Incidental costs		714
Total		11,600
Value fot Duty Purposes (US$11,600 x K19.30		223,880
	VALUE	TAX PAID
	K	K
VDP	223,880	
Customs duty	18,049	18,049
	241,929	
Excise duty	23,463	23,463
	265,392	
Import VAT @ 16%	42,463	42,463
Total taxes	307,855	83,975

SOLUTION THREE

(a) Capital allowances for the year ended 31 December 2023

	K
Old Farm Tractor	
Wear & tear allowance	Nil
Furniture	
Wear & tear allowance (K110,000 x 25%)	27,500
Toyota Hilux double cab van	
Wear & tear allowance (K320,000 x 20%)	80,000
Office equipment	
Wear & tear allowance (K96,000 x 25%)	24,000
Farm tractor	
Wear & tear allowance (K250,000 x 100%)	250,000
Farm dwelling houses(restricted)	
Farm improvements (K100,000 x 4 x 100%)	400,000
Boreholes	
Farm works (K160,000 x 100%)	160,000
Clearing of farm land	
Farm works (K47,000 x 100%)	47,000
Billboards	
Wear & tear (K220,490 x 25%)	55,123
Farming implements	
Wear & tear allowance (K300,000 x 100%)	300,000
Total capital allowances	1,343,623

(b) Tax adjusted business profit for the year ended 31 December 2023

	K	K
Net profit		12,340,000
Add:		
Free accommodation benefit		
(K3,800,000 x 37.5%)	1,425,000	
Gift of food hampers	49,350	
Entertaining suppliers	111,000	
Installation of bill boards	220,490	
Donation to political parties	310,000	
Legal fees – purchase of farm land	42,000	
Fines for breach of labour laws	102,300	
Amortization	22,000	
Depreciation	108,000	
		2,390,140
		14,730,140
Less:		
Profit from retail trade	1,050,000	

	K	K
Dividends	50,000	
Royalties	300,000	
Capital allowances	1,343,623	
		(2,743,623)
Taxable farming profit		11,986,517

(c) Income tax payable for the tax year 2023

	K	K
Non-farming (K1,350,000 x 30%)		405,000
Farming (K11,986,517 x 10%)		1,198,652
Income tax liability		1,603,652
Less:		
WHT – Royalties (K300,000 x 15%)		(45,000)
Provisional income tax		(1,100,000)
Income tax payable		458,652

This tax should be paid not later than 21 June 2024.

(d)
Income from farming may be averaged if:
It is for two consecutive Tax years and it is such that one year's income is substantially greater than the income of the other year or
One year has a loss while the other has a profit

SOLUTION FOUR

(a) Taxation implications arising from the financing options:

Option 1 – borrowing K730,000

(1) The costs of arranging a loan of K22,400 will be an allowable expense when computing the taxable business profit for Textile (Z) Plc.

(2) The interest on loan will be an allowable deduction when computing the taxable business profit, for as long as it will be less than 30% of the tax earnings before interest, tax, depreciation and amortistaion (EBITDA).

(3) The amount of interest on loan to be allowed will be calculated as: (K730,000 x 23.10%) = K168,630.

(4) The company will be able to claim capital allowances at a rate of 50% per annum on the VAT exclusive cost. i.e., K707,600 x 25/29 x 50% = K305,000.

(5) The company will be able to claim input VAT on the purchase of the manufacturing equipment. The amount of VAT to be claimed will be; K707,600 x 4/29 = K97,600.

Option 2 – hire purchase agreement

(1) The hire purchase interest will be an allowable deduction when computing the taxable business profit for the year ended 31 December 2023.

(2) The amount of interest to be allowed will be calculated as; [K200,000 + (K50,000 x 12)] – K707,600 = K92,400.

(3) The company will be able to claim capital allowances at a rate of 50% per annum on the VAT exclusive cash price of the equipment. The capital allowance will be; (K707,600 x 25/29 x 50%) = K305,000.

(4) The company will be able to claim the input VAT on the purchase of the manufacturing equipment. The amount of input VAT will be; K707,600 x 4/29 = K97,600.

Option 3 – operating lease

(1) The company will not be able to claim capital allowances on the manufacturing equipment as the lessor will claim the capital allowances.

(2) The annual lease rentals, exclusive of VAT, will be an allowable deduction when computing the taxable business profit. The amount to be allowed will be; K176,900 x 25/29 = K152,500.

(3) The company will be able to claim input VAT on the lease rentals to paid. The amount of input VAT to be claimed will be; K176,900 x 4/29 = K24,400.

Option 4 – issue of shares

(1) The costs of issuing equity shares amounting to K32,400 to be incurred will not be deductible when computing the taxable business profit of the company.

(2) The dividends to paid will not be deductible when computing the taxable business profit of the company. The additional dividends to be paid will amount to; 100,000 x K0.68 = K68,000.

(3) The company will be able to claim capital allowances on the purchase of the manufacturing equipment at a rate of 50% per annum on the VAT exclusive cost. The capital allowances to be claimed will amount to; K707,600 x 25/29 x 50% = K305,000.

(4) The company will be able to claim input VAT on the purchase of the manufacturing equipment. The amount of input VAT will be; K707,600 x 4/29 = K97,600.

(b) The following are the income tax, property transfer tax and value added tax implications of entry and exit from the group

Entry into the group

(1) The company that has been acquired by a group is taxed separately for income tax purposes, just like existing members are taxed individually.

(2) The new member is required to complete its own tax returns for each relevant tax year and pay the income tax.

(3) In the year of acquisition, the newly acquired subsidiary will be required to make its company income tax assessments using commencement rules to determine the basis of assessment.

(4) The newly acquired company will be required to register for VAT individually and submit VAT returns individually.

(5) VAT is chargeable on any taxable supplies of goods and services made by companies within the group to each other.

Exit from the group

(1) When a company is disposed of, the company exits the group and company is deemed to have ceased to trade in the year of disposal. This means that the company will be assessed to income tax using cessation rules.
(2) The company will not be able to claim capital allowances on the assets in the year of disposal, but instead balancing allowance and balancing charge will be computed.
(3) If the company is not sold as a going concern, there will be no value added tax implications. However, if the company is sold not as a going concern, VAT will be payable on all taxable assets.
(4) If the company is not sold as a going concern, then property transfer tax will be chargeable on the sale of qualifying property.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY 13 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty-Five (25) marks each. You MUST attempt all the **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 Taxation table is provided on pages 2 and 3

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions in this paper.

QUESTION ONE

For the purposes of this question, you should assume today's date is 23 December 2022 and that the earnings ceiling for the purposes of NAPSA is K322,080.

John Mokambo, a sole trader, has been in business for many years preparing his financial statements annually to 31 December. The business has grown significantly, and as a result he wishes to engage his daughter, Martha Mokambo, into the business with effect from 1 January 2023. He is not sure whether he should engage his daughter as an employee and continue running the business as a sole proprietorship or engage her as a partner and run the business as a partnership. He is, therefore, seeking advice as to which medium of business will be beneficial from a tax point of view.

As at 31 December 2022, all the business assets will be written down to zero for the purposes of capital allowances as the assets were acquired more than five (5) years ago. On 1 January 2023, the business will purchase a delivery van at a cost of K252,000, a Toyota Carina car (2,100cc) at a cost of K136,000 and Toyota Axio car (1,800cc) at a cost of K121,000. John will use the Toyota Carina car for both business and private purposes. The business use is estimated to be 60%. Martha will use the Toyota Axio car exclusively for business purposes.

Regardless of how the business will be run, the net profit is as per accounts is expected to be K1,300,000 for the year ended 31 December 2023. This profit figure is before deducting payments and expenses relating to John and Martha and NAPSA contributions. All the other expenses that will be incurred and deducted in arriving at the net profit figure are allowable expenses for taxation purposes.

If Martha is engaged as an employee, then John will continue running his business as a sole trader. Martha will be entitled to an annual salary of K250,000 and fuel allowance amounting to K40,000 per annum. John will also draw an annual salary of K305,000 and annual fuel allowance amounting to K50,000. Martha will contribute 5% of her relevant earnings as employee's NAPSA contributions. John will contribute 5% of Martha's earnings as employer's NAPSA contributions

If Martha is engaged as a partner, they will run the business as a partnership. John and Martha will personally manage their business. John and Martha will draw K305,000 and K250,000 respectively as annual salaries. They will additionally draw K50,000 per annum and K40,000 per annum respectively as fuel allowance. They will share the balance of profits in the ratio of 3:2 for John and Martha respectively. There will be no NAPSA contributions that will be payable under this alternative.

Required:

(a) Assuming that Martha is engaged as an employee;

(i) Calculate the income tax payable by John for the tax year 2023. (7 marks)

(ii) Calculate the income tax payable by Martha for the tax year 2023. (3 marks)

(b) Assuming that Martha is engaged in the as a partner, calculate the amount of income tax payable by John and Martha for the tax year 2023. (10 marks)

(c) Advise Martha as to which of the two options is beneficial from a tax point of view. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Ngosa Musonda has been employed at Kezel Ltd, a private limited a clothing and textile retailer. His employment contract with Kezel Ltd commenced on 1 July 2021 and was entitled to an annual basic salary of K420,000. As an incentive to retain his services, Kezel Ltd granted Ngosa an option to purchase 300,000, K1 ordinary shares of the company for an exercise price of K5 per share, immediately he joined the company being the market price per share on that date. The options were granted under the share option scheme operated by the company which is not approved for tax purposes. The grant was on condition that the options will only be exercisable once he had been employed by the company for at least two years.

Ngosa is entitled to an annual housing allowance of 10% of his annual basic salary and an annual utility allowance of 2% of his annual basic salary. On 1 April 2023, he was awarded a salary increment of 20% of his basic salary effective that date.

Other benefits provided to Ngosa in the tax year 2023 included the following:

(1) An interest free staff loan of K150,000, which was provided to him on 1 January 2023, to help him finance the purchase of a residential plot. The loan is repayable in eighteen equal monthly instalments commencing on 31 January 2023.

(2) Free airtime costing K300 per month, which is credited to his mobile account for his wholly and exclusively use in the performance of his employment duties.

(3) Free staff refreshments costing K500, per month whilst performing the duties of his employment.

(4) During March 2023, Ngosa was required to travel out of town for employment purposes for five days. The company paid him an accommodation and meals subsistence of K3,500 per day and a travel allowance of K500 per day.

(5) The company sold fashion suits to Ngosa at a price of K8,000 in May 2023. The open market commercial selling price of the suits to the customers of the company is K12,000.

(6) In December 2023, he was paid a Christmas bonus of 1.5% of his basic monthly salary.

On 1 July 2023, Ngosa exercised the 300,000 share options when the share price on that date was determined to be K5.50 per share. On 1 December 2023, he sold 100,000 shares out of the 300,000 shares at K5.65 per share being the market value of each share on that date.

Additional information

(1) Ngosa received the following additional income from Zambian sources in the tax year 2023.

	K
Fixed deposit interest	1,530
GRZ bond interest	8,500
Winnings from gaming and betting	12,750
Consultancy fees	25,500
Dividends from Xpel Plc (a LuSE Listed company)	17,000

The above amounts were the actual amounts received by Ngosa in each case.

(2) During the tax year 2023, Ngosa made the following payments from his employment income:

Fitness Gym Subscriptions	K500 per month
NAPSA contributions	K705 per month
Life insurance premiums	K500 per month
Donations to approved public benefit organization	K300 per month
PAYE deducted from Zambian employment income for the year	K243,400

Required:

(a) Explain the taxation implications for Ngosa of:

(i) The exercise of the 300,000 share options on 1 September 2022. (2 marks)

(ii) The sale of 100,000 shares in Kezel Ltd on 1 December 2022. (2 marks)

(b) Explain how your answer in part (a) above would have been different if the share option scheme was approved for tax purposes. (2 marks)

(c) Explain any three (3) conditions that must be met for the company to have its share option scheme approved for tax purposes. (3 marks)

(d) Compute the income tax payable by Ngosa for the tax year 2023. You should indicate using a zero (0) in your computation, all benefits which are exempt from tax. (16 marks)

[Total: 25 Marks]

QUESTION THREE

Joseph Malaiti is a civil engineer who runs his own firm. His annual turnover has always exceeded K800,000, and prepares financial statements annually to 31 December.

On 1 August 2023 he was engaged by BCC Plc, a Zambian construction company, to provide consultancy services regarding designs of buildings and other construction works, as a self-employed consultant on a one (1) year contract ending 31 July 2024 at a fixed contract price of K445,200. The contract price was paid to him in monthly instalments at the end of each month. To this end, he was provided with an office from where he performed his duties at BCC Plc, although was mostly required to be at the construction site and reported at BCC Plc daily and worked for at least three (3) hours from Monday to Friday and spent the rest of the time at his firm dealing with a wide range of clients. The contract required him to report at BCC Plc at 08:00 hours and could leave after 11:00 hours. The contract could not be terminated before 31 July 2024 as doing so would result in penalties being charged. Although he was going to be assisted by the other staff at BCC Plc whenever providing the services, he used his own tools and equipment to execute the duties.

He was found at his firm every day after 11:00 hours dealing with a wide range of clients. And his adjusted business profit for the year ended 31 December 2023 amounted to K514,000 excluding his income from BCC Plc. This profit was before capital but after all necessary tax adjustments had been made. As at 31 January 2023, he had the following assets qualifying for capital allowances:

Date of purchase	Asset purchased	Original cost
		K
21 June 2021	Toyota Prado car (3,000cc)	210,000
31 October 2022	Office equipment	60,000
12 August 2023	Specialised equipment	100,000
16 September 2023	Fixtures & fittings	70,000

Joseph used the Toyota Prado car for both business and private purposes and it was agreed with the Commissioner General that the business use in the car was 70%.

On 28 December 2023, BCC Plc was visited by the Zambia Revenue Authority inspectors for a pay as you earn tax audit. The inspectors queried Joseph's self-employed status.

Required:

(a) Explain four (4) reasons why the ZRA Inspectors queried Joseph's self-employed status at BCC Plc. (4 marks)

(b) Explain four (4) reasons Joseph and BCC Plc would put forward to defend the self-employed status of Joseph. (4 marks)

(c) Assuming that he is held to be self-employed, calculate the amount of income tax payable by Joseph for the tax year 2023. (9 marks)

(d) In relation to basis periods and basis of assessment for business profits:

(i) Explain the commencement rules which are applied to determine the basis of assessment for profits made in the year a trade commences and clearly describing the circumstances in which each rule applies. (3 marks)

(ii) Outline the cessation rules which are applied to determine the basis of assessment for profits made in the year a trade ceases clearly explaining the circumstances in which each rule applies. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) You are employed in tax practice, and have been provided with the following information extracted from the files of the clients of your firm.

SIMASIKU

Simasiku lets out property for commercial purposes. In the tax year 2023, he let out six (6) flats receiving gross monthly rentals of K5,000 from each flat per month. He incurred maintenance expenses of K1,200 per month on each flat. All the flats were occupied throughout the tax year 2023.

He also let out three (3) car park facilities, generating gross income of K6,000 per month from each car park. He incurred incidental expenses in connection with the car parks of K1,500 per month for each car park.

He additionally let out two (2) boarding houses. Each of the boarding houses has sixteen (16) student bed spaces, and he charges K1,000 per bed space per month. Property maintenance expenses relating to each boarding house were K1,200 per month. All of the boarding houses were let out throughout the tax year 2023.
(6 marks)

KALUNGA

Kalunga is employed as a Human Resources Officer at a Zambian resident company and in the 2023 tax year he was entitled to an annual basic salary of K168,000. He also owns a grocery shop that produced a final taxable business profit of K360,000 from an annual turnover of K850,000 for the year 2023.

In May 2023, he bought five (5) Fuso buses each with a seating capacity of thirty-five (35) persons including the driver. He used the buses for public passenger transportation every day from 10 May 2023 up the end of the tax year. Each bus generated gross income of K55,000 per month. The drivers of each were paid K10,000 per month whilst other operating expenses amounted to K5,000 per month. (6 marks)

NAMASIKU

Namasiku runs a chain of retail shops dealing in motor vehicle spare parts, generating annual turnover which averages K648,000 per year. In the tax year 2023, her business generated a net profit of K133,200 as shown by the statement of profit or loss for the year presented below:

NAMASIKU
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2023

	K	K
Sales		648,000
Cost of sales		(235,400)
Gross profit		412,600
Less expenses		
Namasiku's salary	72,000	
Employee's salaries	96,000	
Entertaining customers	6,400	
Rent for business premises	24,000	
Donations to approved public benefit organisations	2,600	
Namasiku's speeding fines	1,500	
Miscellaneous business expenses	76,900	
		279,400
Net profit		133,200

Required:

Explain, with reasons, how each of the above individuals will be assessed to tax in the tax year 2023 and compute the amount of tax arising on the income generated by each person in the tax year 2023. (5 marks)

(a) Explain what is meant by Double Taxation relief and describe three (3) methods that can be used to give double taxation relief to a Zambian resident individual receiving income from foreign sources. (8 marks)

[Total: 25 Marks]

END OF PAPER

D4 PERSONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) If Martha is engaged as an employee

(i) COMPUTATION OF INCOME TAX PAYABLE BY JOHN FOR THE TAX YEAR 2023

	K	K
Business profit		1,300,000
Less:		
Martha's salary	250,000	
Fuel allowance	40,000	
Employer's NAPSA		
(K250,000 + K40,000) x 5%	14,500	
Capital allowances:		
Delivery vans (K252,000 x 25%)	63,000	
Toyota Carina (K136,000 x 20% x 60%)	16,320	
Toyota Axio car (K121,000 x 20%)	24,200	
		408,020
Taxable business profit		891,980

Income tax computation:

Taxable amount	Tax rate	Tax Charged K
First K57,600	0%	NIL
Next K24,000	20%	4,800
Next K25,200	30%	7,560
Balance K785,180	37.5%	294,443
		306,803

(ii) Income tax payable by Martha for the tax year 2023

	K
Salary	250,000
Fuel allowance	40,000
Taxable income	290,000

Income tax computation:

Taxable amount	Tax rate	Tax Charged K
First K57,600	0%	NIL
Next K24,000	20%	4,800
Next K25,200	30%	7,560
Balance K183,200	37.5%	68,700

81,060

(b) If the business is run as a partnership

COMPUTATION OF FINAL TAXABLE PROFITS AND INCOME TAX PAYABLE

	K	K
Business profit		1,300,000
Less:		
Capital allowances		
Delivery vans (K252,000 x 25%)	63,000	
Toyota Carina car (K136,000 x 20% x 60%)	16,320	
Toyota Axio car (K121,000 x 20%)	24,200	
		(103,520)
Taxable business profit		1,196,480

	Total	John	Martha
	K	K	K
Salaries	555,000	305,000	250,000
Fuel allowance	90,000	50,000	40,000
Balance 3:2	551,480	330,888	220,592
Total	1,196,480	685,888	510,592

Income tax computation:

		John	Martha
First K57,600	0%	nil	nil
Next K24,000	20%	4,800	4,800
Next K25,200	30%	7,560	7,560
Balances			
K599,088/K403,792	37.5%	217,158	151,422
		229,518	163,782

(b) COMPUTATION OF NET INCOME IF MARTHA IS ENGAGED AS

	An Employee	A partner
	K	K
Total income	1,300,000	1,300,000
Income tax for:		
John	-306,803	-229,518
Martha	-81,060	-163,782
Employee's NAPSA contribution	-14,500	0
Employer's NAPSA contribution	-14,500	0
Net income	883,138	906,700

(c) Based on the above analysis, it is more beneficial for Doreen to engage Ireen as a partner rather than as an employee as the net income under this option will be higher by: K906,700 – K883,138 = 23,563

SOLUTION TWO

(a) (i) Tax implications of the exercise of the share options on 1st September 2022:

On the exercise of share options by an employee from a share option scheme run by an employer in a scheme that is not approved for tax purposes, the price paid is compared with the open market value at that time, and if less, the difference is charged to income tax.

In the case of Ngosa on exercise of the options, the difference between market value (K5.50) and the price paid (K5.00) per share will be taxed as income. Therefore, K150,000 [300,000 x (K5.50 – K5.00)] will be taxed as income at 37.5%.

(ii) Tax implication of the sale of the shares on 1st December 2022.

On the sale of shares acquired from a share option scheme that is not approved for tax purposes in an unlisted company, property transfer tax is payable on the realised value of the shares sold.

In Ngosa's case, on the amount of property transfer tax arising on the sale of the shares is:
(100,000 x K5.65) = K565,000 x 5% = K28,250.

(b) Any gain arising to an individual on allotment of shares under an approved share option scheme is exempt from income tax. The gain or benefit arises when the market value per share at the time when the option is being exercised exceed the exercise price.

(i) Therefore, in Ngosa's case the gain arising on exercise of the options of K150,000 [300,000 x (K5.50 – K5.00)] would have been exempt from income tax if the share option scheme was approved for tax purposes.

(ii) Additionally property transfer tax would not have arisen on the subsequent sale of 100,000 shares, PTT of K28,250 would have been avoided by Ngosa if the scheme was approved for tax purposes.

(c) **Conditions for approval of share option scheme**

For the Commissioner General to approve a share option scheme, the following requirements must be met:

(i) The scheme must be established in Zambia and the employer must be carrying on business wholly or partly in Zambia.

(ii) The scheme should provide for the participation of all eligible employees (including directors).

(ii) An employee participating in the scheme should not acquire more than one fifth (20%) of the shares to be issued under the scheme.

(iv) Only ordinary shares of the company may participate in the scheme.

(v) The scheme entitles an employee to acquire a set number of shares at a fixed price.

(vi) The employee must be restricted to a set period of time to use an option to buy shares.

(vii) The employees must be citizens or permanent residents of Zambia regardless of where they perform their duties.

(d) NGOSA'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	K
Salary	
(K420,000 x 3/12) +(K420,000 x 120% x 9/12)	483,000
Housing allowance (10% x 483,000)	48,300
Utility allowance (2% x K483,000)	9,660
Interest free loan	0
Free airtime	0
Free staff refreshments	0
Re-imbursement of fuel (K5,000 x 12)	60,000
Accommodation and meals subsistence	0
Travel allowance	0
Fashion suits (K12,000 - K8,000)	4,000
Christmas bonus (K35,000 x 120% x 1.5%)	630
Income from share options	
(K5.50-K5.00) x 300,000 shares	150,000
	755,590
Less allowable deductions:	
Donation to approved PBO (K300 x 12)	(3,600)
	751,990
Investment income	
Consultancy fees (K25,500 x 100/85)	30,000
	781,990
Income Tax	
On first K106,800	12,360
On excess (K835,120 - K82,800) x 37.5%	253,196
	265,556
Less tax already paid	
PAYE	(243,400)
WHT on Consultancy fees	(4,500)
	17,656

SOLUTION THREE

(a) The following are the reasons why the Zambia Revenue Authority inspectors have queried Joseph's self-employed status:

(1) He is paid on a monthly basis just like any other employee of BCC Plc
(2) He is provided with an office from which he carries out his duties. Employees normally perform the duties from the place prescribed by the employer.
(3) He is required to report at BCC Plc daily at 08:00hrs to 11:00 hrs from Monday to Friday. This means that Joseph is controlled by BCC Plc as he has been given stipulated hours in which to perform his duties.
(4) He is assisted by other staff of BCC Plc whenever performing the duties.

(b) The following are the reasons Joseph can use to defend his self-employed status:
(1) He signed a contract specifying the beginning and end. This means that the contract cannot be terminated until expiry.
(2) He is paid an agreed fixed contract price which is payable in monthly installments. Self-employed individuals are paid a fixed contract price.
(3) He uses his own tools whenever performing the duties at BCC Plc. Self-employed individuals usually provides their own tools.
(4) He spends most of his time at his firm dealing with a wide range of clients. This means Joseph does not work exclusively for BCC Plc.

(c) COMPUTATION OF TAXABLE BUSINES PROFIT AND INCOME TAX PAYABLE FOR THE TAX YEAR 2023

	K	K
Business profit		514,000
Less:		
Toyota Prado (K210,000 x 20% x 70%)	29,400	
Office equipment (K60,000 x 25%)	15,000	
Specialized equipment (K100,000 x 25%)	25,000	
Fixtures & Fittings (K70,000 x 25%)	17,500	
		(86,900)
Taxable business profit		427,100
Income from BCC plc (K445,200 x 5/12)		185,500
Total taxable income		612,600
Income Tax		
First K57,600 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess K505,800 @37.5%		189,675
Income tax payable		202,035

(d) (i) The commencement rules s are as follows:

(1) If the first accounting period is made up of exactly 12 months or less, then the normal rules (that is, the CYB or the PYB) apply depending on when the period ends.

(2) If the first accounting period is made up of more than 12 months, then that period should be split into 2 notional accounting periods for tax purposes as follows:

- The first period should consist of less than 12 months.

- while the second period should consist of exactly 12 months ending on the first accounting date.

(3) The profits for the whole period should be allocated to the two notional accounting periods on a time basis and thereafter, the normal rules should be applied to determine the tax year in which the profits should be assessed.

(ii) The cessation rules are which are applied are as follows:

(1) If the last accounting period is exactly 12 months long, then the normal rules will apply i.e. the CYB or PYB as applicable.

(2) If the last accounting period is less than 12 months, then the profits of that accounting period are assessed in the tax year following the one in which the profits of the second last accounting period were asses

(3) If the last accounting period is made up of more than 12 months, then that period should be split into two as follows:

- A 12-month period ending on the normal accounting date and

- A short accounting period ending on the date of cessation.

(4) The profits of the long accounting period should be allocated to the two resulting periods on a time basis:

- The tax year in which the profits of the 12-month period are to be assessed is determined by using the normal rules.
- The profits of the last accounting period (the one with less than 12 months) are to be assessed in the following tax year.

SOLUTION FOUR

(a) The status of the various taxable persons is as follows:

SIMASIKU

Simasiku will be assessable to rental Income tax as he is generating income from letting of real property is subjected to rental income tax. The rental will be charged on gross monthly rental and payable by the 14th day following the end of each month.

The amount of rental income tax arising each month in the tax year 2023, will be computed as shown below:

Gross Rental income on:	K
Flats	
(K5,000 x 6 x 12)	360,000
Car parks	
(K6,000 x 3 x 12)	216,000
Boarding houses	
(K1,000 x 16 x 2 x 12)	84,000
	960,000
Rental income Tax	
On first K12,000 x 0%	0
On excess (948,000) x 12.5%	118,500
	118,500
Rental income tax per month	
K118,500/12	9,875

KALUNGA

(1) Kalunga will be required to pay provisional income tax on his income from the grocery because his total taxable income for the year exceeds K57,600 and the annual turnover is above K800,000, whilst income from employment will be assessed under PAYE.

(2) Both the taxable profit from his grocery and employment will be aggregated together to determine his final tax liability for the tax year 2023.

(3) However, the income from the transportation business will be assessed separately under presumptive taxes for transporters.

(4) Income tax arising from on the taxable business profit and employment income will be computed as shown below:

KALUNGA'S
COMPUTATION OF TAX PAYABLE ON PROFITS FOR THE TAX YEAR 2023

	K
Taxable business profits	360,000
Emoluments from employment	168,000
	528,000
Income Tax	
On first K57,600 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess K421,200 x 37.5%	157,950
	170,310

(5) The presumptive taxes arising from the public passenger transportation will be based on the seating capacity of the buses. He will not be assessed on the profits arising from this business and therefore both the income and expenses arising from this business will be irrelevant for the purposes of determining the amount presumptive taxes arising.

Each bus will be operational for three quarters of the year and therefore,the amount of presumptive taxes arising from the Fuso buses will therefore be:

	K
(K1,620 x 3) x 5	24,300

NAMASIKU

Namasiku will be taxable under turnover tax as her business generates annual turnover which is below K800,000.

The turnover will be charged on the gross monthly turnover without deducting any expenses incurred wholly and exclusively for business purposes and will be due on the 14th day following the end of each month.

Monthly Turnover Tax	K
K648,000 @4%	25,920

(b) Double Taxation Relief is a relief is given to eliminate the effects of double taxation where income received by a taxpayer has suffered tax in one country and is also subjected to tax in another country.

Methods of giving double taxation relief

Treaty relief

Treaty relief is available in cases where the President of the Republic of Zambia has entered into a double taxation treaty/Double taxation convention or agreement with the foreign countries.

Where there is a treaty, then DTR is given according to the provisions of that treaty. In some cases, the treaty may provide that income is only charged to income tax in one of the two countries, or income is charged to tax in one country, with the tax being apportioned between the two countries or a double taxation agreement may provide for full recovery of any foreign tax covered by the agreement, by means of a tax credit to a Zambian resident individual, against the Zambian income tax, as long as the relief does not exceed the equivalent Zambian tax charge.

Unilateral relief (unilateral credit relief)

This applies where there is no treaty relief. Relief is given for foreign tax unilaterally in the Republic of Zambia. Under this relief, the amount of foreign tax suffered is credited against Zambian income tax on the foreign income, limited to a maximum of the Zambian tax on that foreign income.

As a result, the amount of foreign tax available for credit is the lower of the actual amount of foreign tax paid to foreign tax authorities, and the Zambian tax chargeable on the foreign income.

Unilateral Expense Relief

Unilateral expense relief is given when both treaty relief and unilateral relief are not available.

Relief is given by deducting the foreign tax from the foreign income, as if it were an expense, before including it in the Zambian tax computation. In other words, the amount of foreign income net of foreign taxes paid, is charged to income tax in Zambia.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: INTERNATIONAL TAXATION

THURSDAY 15 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This question paper consists of FOUR (4) questions of Twenty Five (25) marks each. You must attempt all the 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 Taxation table is provided on pages 2, 3 and 4.

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

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

Customs Duty:	
Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

Customs Duty	
Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions.

QUESTION ONE

Mega Power Plc is a multinational company with branches in most Southern African countries. The company is resident in a country known as FreeLand where the company's head office is located. The company launched a plant in Zambia to provide solar energy to various industrial institutions under the name Mega Power (Z) Limited.

When the business was launched in Zambia, the company offered Lisa Chikondi a job as a Managing Director for Mega power (Z) Limited. Lisa is a Zambian who went out of the country for employment in FreeLand. She arrived in Zambia on 3 March 2023 and started work on 1 April 2023. The contract of employment provided for an annual salary of K450,000 and general purpose allowance of K120,000 per annum. In October 2023, Mega Power (Z) Limited declared a bonus for all employees for meeting the target during the quarter ended 30 September 2023. Lisa's bonus was K55,000 which was paid in November 2023. On 8 October 2023, she lost her mother and the company paid her a funeral grant of K35,000.

Whilst in FreeLand, Lisa made some investments in FreeLand resident companies and properties. In December 2023, she received dividends amounting to K42,000 from shares in FreeLand companies and interest amounting to K24,000 on fixed deposit accounts with the bank resident in FreeLand. She also received rental income amounting to K108,000 from the house let out in FreeLand. The dividends are net of withholding tax deducted in FreeLand at a rate of 30% while interest income is net of withholding tax deducted in FreeLand at a rate of 20%. Rental income is net of withholding tax deducted in FreeLand of 15%. All the incomes were credited to her accounts with Zambian banks.

She paid tax under the pay as you earn system amounting to K75,000, made a donation to an approved public benefit organisation amounting to K6,000 and Employee NAPSA contributions amounted to K16,104 during the tax year 2023..
There is no double taxation convention between Zambia and FreeLand. Any double taxation relief is given as tax credit against Zambian income tax on foreign income.

Required:

(a) Explain three (3) methods of giving double taxation relief (DTR). (6 marks)

(b) Calculate the income tax payable by Lisa for the tax year 2023. Indicate by the use of zero (0) any amounts of income that are exempt from tax. (14 marks)

(c) Explain five (5) key benefits of double taxation agreements (DTAs). (5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) FDI is defined as an investment in a business by an investor from another country where the foreign investor has control over the company. According to the Organisation of Economic Cooperation and Development (OECD), control is achieved by owning 10% or more of the business. Businesses that make FDIs are often called Multinational Corporations (MNCs) or Multinational Enterprises (MNEs).

Required:

(i) Explain any Four (4) reasons why Foreign Direct Investment (FDI) is important in Zambia. (8 marks)

(ii) Explain any Five (5) strategic reasons which can entice Multinational enterprises to engage in Foreign Direct Investment (10 marks)

(b) Regional Economic Groupings (REGs) are groups of individual countries in a sub region that come together for the purpose of achieving greater economic integration.

Required:

Explain any four (4) advantages and three (3) disadvantages of regional economic groupings. (7 marks)

[Total: 25 Marks]

QUESTION THREE

(a) A Zambian resident subsidiary of a Multinational Foreign Corporation can use various practices to reduce its liability to Zambian income tax and hence the tax liability of the group as a whole.

Required:

(i) Explain how obtaining excessive debt finance from foreign members of the group at higher interest rates can be used to reduce tax liability. (4 marks)

(ii) Explain how the transfer of goods within the group can be used to reduce tax. (4 marks)

(b) State four (4) problems of arm's length principle in relation to transfer pricing. (2 marks)

(c) LimCorp Plc is a Zambian resident company engaged in manufacturing. The company manufactures solar batteries and usually sells them within Zambia. The company imports the raw materials that are used to manufacture solar batteries. In November 2022, LimCorp Plc acquired 75% of the issued equity shares of

AcidCorp Limited a company that manufactures raw materials used in the manufacture of solar batteries. AcidCorp Limited is resident in a country known as Republic of BaseLand whose currency is the BaseLand Dollar (BL$). On 1 January 2023, the Board of Directors of LimCorp Plc passed a resolution that raw materials should now be imported from its subsidiary, AcidCorp Limited, in BaseLand.

LimCorp Plc made a tax adjusted business profit before tax amounting to K8,130,000 for the year ended 31 December 2023. This profit is after all the tax adjustments but before transfer pricing adjustments. Provisional income tax paid during the year amounted to K2,334,100 for the tax year 2023.

During the year ended 31 December 2023, the following transactions took place between LimCorp Plc and its subsidiary, AcidCorp Limited:

(1) LimCorp Plc imported 300,000 units of raw materials from AcidCorp Limited at a price of BL$30 per unit. The open market value of these raw materials at the dates of transactions averaged BL$24.50 per unit. LimCorp Plc accounted for these purchases in its statement of profit or loss at a purchase price of BL$30 per unit.

(2) LimCorp Plc advanced a loan of K22,000,000 to its subsidiary, AcidCorp Limited, and an interest rate of 16% per annum. At the date of the transaction, LimCorp Plc would have advanced the same loan to any other person in Zambia at an open market interest rate of 25.60% per annum. The loan was advanced on 1 April 2023, and LimCorp Plc has received the interest income for the year ended 31 December 2023. The gross amount of interest is included in the statement of profit or loss as other income. Interest on loan is taxed at source in BaseLand at a rate of 0% which is the final tax.

(3) LimCorp Plc received a dividend of K816,000 from its subsidiary, AcidCorp Limited, on 23 December 2023. These dividends were net of withholding tax deducted in the republic of BaseLand at a rate of 32%. The dividends have not been accounted for in the statement of profit or loss for the year ended 31 December 2023.

There is no double taxation agreement between Zambia and the republic of BaseLand. Any double taxation relief is given unilaterally in Zambia by way of tax credit. The exchange rate averaged K18.90 per BL$1.

Required:

(i) Explain the income tax implications on LimCorp Plc arising from the transfer of goods and the loan advanced to AcidCorp Limited. (8 marks)

(ii) Calculate the amount of income tax payable by LimCorp Plc for the tax year 2023. (7 marks)

[Total: 25 Marks]

QUESTION FOUR

The practice of international tax avoidance by multinational enterprises makes the Government lose company tax revenue due to the shifting of profits and income from higher tax countries to low-tax countries.

According to the OECD, international tax competition is lowering tax rates and making government expenditure more efficient worldwide. The OECD also reported that some countries have introduced harmful tax practices that encourage non-compliance with tax laws of other countries such as money laundering. Some countries have formed cooperation between revenue authorities in order to combat the financial crime.

Required:

(a) Explain four (4) factors for the identification of tax havens as defined by the OECD. (8 marks)

(b) Explain any three (3) cooperation models between revenue authorities of different countries. (6 marks)

(c) Explain any four (4) recommendations by Financial Action Task Force (FATF) on money laundering that helps to combat tax evasion. (8 marks)

(d) Explain the difference between the concept of source and the concept of residence as they apply in international taxation. (3 marks)

[Total: 25 Marks]

END OF PAPER

D5 INTERNATIONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are the methods of giving double taxation relief:

(1) Treaty relief

This is applicable where there is a double taxation convention between two countries. The treaty would provide for how the relief would be granted on inter country income. The methods under which the relief would be available may be by way of exemption, where income subjected to tax in one contracting state would be exempt from tax in the other contracting state or by way of credit, where tax already paid on the same income in one contracting state is given as a credit against tax payable on the same income in the other contracting state and so on.

(2) Unilateral credit relief

This applies where there is no double taxation convention. In such a case, DTR may be granted unilaterally in the country where the income is received by crediting against the tax charged in that country, the amount of foreign tax paid, if lower than the local tax payable. For example, the amount that is given as double taxation relief in Zambia is the lower of:

(i) The foreign tax paid and;
(ii) The equivalent Zambian tax charge on the foreign income.

(3) Unilateral expense relief

This is also available where there is no double taxation convention. In this case, DTR is given unilaterally in the country where the income is received by treating the foreign tax paid as an allowable expense.

(b) Lisa

Income tax payable for the tax year 2023

	K
Zambian income	
Salary (K450,000 x 9/12)	337,500
General purpose allowance (K120,000 x 9/12)	90,000
Funeral grant	0
Bonus	55,000
	482,500
Foreign income	
Rental income	0
Interest income (K24,000 x 100/80)	30,000
Dividends (K42,000 x 100/70)	60,000
	572,500
Less:	
Donation to approved public benefit organisation	(6,000)
Taxable income	566,500
Computation	
First K57,600 @0%	0
Next K24,000 @20%	4,800
Next K25,200 @30%	7,560

Excess (K566,500 – K106,800) @37.5%	172,388
Income tax liability	184,748
Less:	
Double taxation relief:	
Dividends	(18,000)
Interest	(6,000)
Pay as you earn	(75,000)
Income tax payable	85,748

Workings

Double taxation relief - Dividends
Foreign tax paid : K60,000 x 30% = K18,000

Equivalent Zambian tax
Gross foreign income x Zambian tax charge
Total assessable income
K60,000 x K184,748
K566,500
= K19,567

The double taxation relief is K18,000 which is the lower of the Zambian income tax.

Double taxation relief - interest
Foreign tax paid: K30,000 x 20% = K6,000

Equivalent Zambian tax
K30,000 x K184,748
K566,500
= K9,784
The double taxation relief is K6,000 which is the lower of the Zambian income tax.

(c) The key benefits of double taxation agreements (DTAs) include:
(1) Protect against the risk of double taxation where the same income is taxed in two states. This could present a "huge" burden on the taxpayers and effectively work against the promotion of globalisation and its resulting benefits.
(2) Provide certainty of treatment for cross border trade and investment. Certainty is one of the good qualities of a good tax system. Taxes should be certain. If tax rules are complex, they can be subverted and evaded.
(3) Prevent excessive foreign taxation and other forms of discrimination against business interests abroad. This could have an adverse impact on economic performance of the respective countries.
(4) Protect the government's taxing rights and protect against attempts to avoid or evade tax. Aggressive tax avoidance and/or tax evasion could result in significant reduction in tax revenues. This could result in reduced service delivery, in key sectors of the economy, by the government.
(5) They also contain provisions for the exchange of information between national taxation authorities. This could boost tax revenue and impact positively on the respective economies.

SOLUTION TWO

(a) Foreign Direct Investments (FDIs).

(i) The reasons why foreign direct investment is important are as follows:

(1) Improved economic growth
An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI into new infrastructure and other projects to boost development.

(2) Greater competition
Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of foreign entity's policies to a domestic subsidiary may improve corporate governance standards.

(3) Transfer of soft skills
Foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources.

(4) Employment opportunities
The local population may be able to benefit from the employment opportunities created by new businesses.
(2 marks per valid point up to 8 marks)

(ii) The following are the strategic reasons why multinational enterprises engage in foreign direct investment:

(1) Market seeking
Most multinational firms will engage in foreign direct investment either to meet local demand or as a way of exporting to markets other than the home market.

(2) Raw materials seeking
Raw material seeking which means that firms will extract materials in the places where they can be found, whether for export or for further processing and sale in the host country.

(3) Production efficiency seeking
Production efficiency seeking involves locating production where one or more factors of production are cheap relative to their productivity.

(4) Knowledge seeking
Knowledge seeking; firms choose to set up operations in countries in which they can gain access to technology or management expertise.

(5) Political safety seeking
Political safety seeking; firms which are seeking political safety will require or set up operations in those countries which are thought to be unlikely to expropriate or interfere with private enterprise.

(b) The following are the advantages and disadvantages of regional economic groupings:

Advantages

(1) There in an increase in foreign direct investment as a result of trade groupings and this benefit the economies of participating nations.
(2) There are larger markets created through trading groups and these markets allow economies of scale. This results in decrease in average cost of production due to mass production.
(3) Trade groupings eliminate tariffs, hence, driving the cost of imports down. As a result demand changes and consumers make purchases based on the lowest prices, allowing firms with a competitive advantage to thrive.
(4) Trade groupings bring manufacturers in numerous countries closer and this brings greater competition which promotes greater efficiency within firms.
(5) There is market efficiency arising from increased consumption experienced with changes in demand which results into greater amounts of products being manufactured.

Disadvantages

(1) Economic groupings bear inherent bias in favor of their participating countries. Regional economies protect intra-regional trade from outside forces rather than pursuing a global trading regime within the region economic group.
(2) Economic groupings may lead to partial loss of sovereignty for its participants especially if it is coupled by a political union.
(3) Most countries do not want to let foreign firms gain share of the local markets at the expense of local companies without getting anything in return. This means that any country that wants to join a regional economic grouping must be prepared to make concessions.
(4) Countries become increasingly dependent on each other due to an increase in trade among participating countries within the economic grouping. This may have severe consequences on the economies of participating countries if there is any disruption of trade.

SOLUTION THREE

(a) Reduction of income tax of the group using debt finance from members of the group and transfer of goods

(i) Excessive debt finance from foreign members of the group

Multinational companies are motivated to finance foreign subsidiaries through loans rather than equity because in many jurisdictions, including Zambia, interest expenses are allowable for tax purposes.

Where a Zambian subsidiary obtains a loan, from its parent resident in a foreign country, at high interest rates, the company pays significant amounts of interest expenses which are deductible when computing the taxable business profits.

This understates the amount of taxable business profits reported by a Zambian subsidiary and, hence, the amount of income tax liability is reduced.

Transfer pricing rules are set to ensure that the amount of interest to be allowed for tax purposes is the interest calculated at open market interest rates. Therefore, the difference between the open market interest rates and the interest rates at which the interest is actually paid is disallowed when computing the taxable business profits.

(ii) Transfer of goods within a group

Transfer of goods within a group may be used to reduce the taxable business profit and the overall income tax liability of the group.

A Zambian subsidiary can make a transfer of goods to a member of the group resident in a foreign country at a price lower than the open market price of the goods. This means that the revenue will be understated in the statement of profit or loss and, hence, the taxable business profit.

A Zambian subsidiary may also acquire goods from a member of the group resident in a foreign country at higher prices, which means that the cost of sales figure is overstated in the statement of profit or loss. This reduces the taxable business profit.

In order to seal this loophole, the difference between the transfer price and the open market value of the goods is added back when computing the taxable business profit.

(b) The following are the problems of the arm's length principle:

(1) Lack of comparable prices in most cases.
(2) Lack of sufficient information
(3) Risk of effective double taxation through disagreement over transfer price
(4) It demands a lot of information.

(c) LimCorp Plc

(i) The following are the tax implications:

Transfer of goods

LimCorp Plc imported raw materials from its foreign subsidiary at a price higher than the open market value. This means that the cost of sales figure in the statement of profit or loss has been overstated, hence the profit is understated.

The difference between the transfer value and the open market value of the raw materials should be added back to the taxable profit.

The amount to be added back will be calculated as follows:

	K
Transfer value (300,000 x BL$30 x K18.90)	170,100,000
Less:	
Open market value (300,000 x BL$24.50 x K18.90)	(138,915,000)
Amount to be added back	31,185,000

Loan advanced

The loan was advanced by LimCorp Plc to its foreign subsidiary at an interest rate lower than the open market rate of interest. This means that LimCorp Plc received interest income lower than it would have received if the loan was advanced to any other person; hence the taxable income is understated.

The difference between the actual interest received and the interest calculated at market rate should be added to the taxable business profit. The amount to be added is as calculated below:

	K
Interest at open market interest rate (K22,000,000 x 25.60% x 9/12)	4,224,000
Less:	
Actual interest received (K22,000,000 x 16% x 9/12)	(2,640,000)
Amount to be added	1,584,000

(ii) Income tax payable for the tax year 2023

	K	K
Business profits		8,130,000
Add:		
Transfer pricing adjustment- goods	31,185,000	
Transfer pricing adjustment - loan	1,584,000	
Dividends from foreign subsidiary (K816,000 x 100/68)	1,200,000	
		33,969,000
Taxable income		42,099,000
Company income tax (K42,099,000 x 30%)		12,629,700
Less:		
Double taxation relief - dividends		(360,000)
Provisional income tax paid		(2,334,100)
Income tax payable		9,935,600

Workings

Double taxation relief on dividends

Foreign tax paid:

K1,200,000 x 32% = K384,000

Equivalent Zambian tax:

K1,200,000 x 30% = K360,000

The double taxation relief is K360,000 which is the lower of the foreign tax paid.

SOLUTION FOUR

(a) The following are the factors used to identify a tax haven:

(1) No or only nominal taxes
It means that there is no or nominal tax on the relevant income, usually capital. This is the first necessary condition to identify a tax haven but it is not sufficient because a country may be competing fairly or adopting preferential regime.

(2) Lack of effective exchange of information
Tax havens typically have in place laws or administrative practices under which businesses and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on tax payers benefiting from the low tax jurisdiction.

(3) No substantial activities
The jurisdiction facilitates the establishment of foreign owned entities without the need for a local substantive presence. This is what makes doubtful how small islands can host billions of dollars in foreign direct investment if they apparently do not have the necessary resources to yield production.

(4) Lack of transparency
Lack of transparency may be attractive for those who want to hide the origins of their income or keep them undeclared in their source countries. For example the details of the regime and/or its application are not apparent, or there is inadequate regulatory supervision or financial disclosure.

(b) The following are the cooperation models of revenue authorities:

(1) Formation of joint investigation teams which enables agencies with common interests to work together in an investigation. This enables an investigation team to draw a wider range of skills and experience from investigators with different backgrounds and training.
(2) Inter-agency intelligence centers which are typically established to centralize processes for information gathering and analysis for a number of agencies. These help to focus on a specific geographical area or type of criminal activity.

(3) Secondments and co-location of personnel which is an effective way of enabling skills to be transferred while allowing personnel to build contacts with their counterparts in other agencies.

(4) Use of shared databases, dissemination of strategic intelligence products such as newsletters, setting up of joint committees to coordinate policy in areas of shared responsibility. Inter-agency meetings and trainings can also be implemented.

(c) The following are the recommendations by the Financial Action Task Force (FATF):

(1) Demanding full transparency from financial institutions to provide all information concerning their activities in offshore supervisory authorities. In this respect financial institutions must be discouraged or, if necessary, prohibited from operating in territories that feature on the black lists of the FATF, OECD and the World banks StAR (Stolen Assets Recovery Initiative).

(2) Establishing an interconnected and well integrated system of legal shareholder registries encompassing economic blocs and their member states, which will feature all necessary information concerning the shareholders of corporations operating within the economic blocs.

(3) Creating a regularly-updated beneficial owner registry. Information of this kind should be either exchanged or coordinated across member states without any obstacle. This can avoid instances of fiscal dumping and eliminate an opportunity for criminals to make use of legal loopholes in a manner that is sophisticated, structured and systematic abuse of the system.

(4) Strengthening the requirements on the function of corporate directors. Directors should be held accountable for failing to take reasonable steps to prevent money-laundering, this should apply regardless of whether they are nominees or not.

(5) Reconsidering and reinforcing the rules regarding the due diligence that corporate registries and financial institutions should perform, always on an accurate risk-based approach, in an attempt to verify that all information pertaining to the beneficial ownership is correct and that no margin for fraudulent or corrupt activity is allowed.

(6) Introducing requirements for enhanced due diligence in cases where politically exposed people are identified, with the option of rendering void or otherwise limiting the transaction in question.

(7) Forming a Financial Intelligence Unit (FIU) whose role shall be to monitor, assess and analyse suspicious transaction reports and contracts. This entity could operate within the context of the Single Supervisory Mechanism that would be incorporated within the range of responsibilities of the Central Bank.

(d) The concept of source states that imposition of tax depends on the relationship between the income and the state. This means that income is taxed in the country (state) in which the income is generated from; i.e.; in the country where the sources of that income are.

On the other hand, the concept of residence states that imposition of income tax depends on the relationship between the person receiving the income and the state. This means that all the income received by persons regarded as residents in particular country is taxable regardless of where the source of that income is.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: TAX AUDIT AND INVESTIGATIONS

MONDAY 12 JUNE 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **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 Taxation table is provided on pages 2, 3 and 4.

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

Taxation Table
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		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%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

Norm price range	Incremental value	Mineral Royalty rate
Less than US$4,000	Less than $4,000	4.0% of norm value
From US$4,000 but less than US$5,000	Next $1,000	6.5% of norm value
From US$5,000 but less than US$7,000	Next $2,000	8.5% of norm value
US$7,000 and above	Over $7,000	10% of norm value

Mineral Royalty on other minerals

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

Capital Allowances

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%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%

Investment Allowance	10%

Low Cost Housing **(Cost up to K100,000)**

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

Annual Turnover

K0.01 to K12,000	0%
K12,001 to K800,000	4%

Rental income Tax

K0.01 to K12,000	0%
K12,001 to K800,000	4%
On income above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	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, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a 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

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463

SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles
Duty rates on:

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

Customs Duty:	
Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

Customs Duty	
Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:	
Percentage of Value for Duty Purposes	15%
Excise Duty:	
Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt All FOUR (4) questions.

QUESTION ONE

TP Banking Ltd is a resident bank in Zambia. It has been operating in Zambia for quite a number of years now. The financial sector attracts a particular interest from the tax authority. It was therefore not surprising that TP banking Ltd was visited by auditors from Zambia Revenue Authority for a routine sampling audit.

TP Banking Ltd prepares its accounts to 31 December each year. The following summarised statement of profit or loss has been obtained from the office of the Director of Finance.

TP Bank Ltd

Statement of Profit or loss for the year ended 31 December 2023

		K'000
Interest income	(Note1)	163,770
Interest expense		(36,000)
Net interest income		127,770
Provision for loan losses	(Note 2)	(22,020)
Net interest income after provision for loan losses		105,750
Non- interest income	(Note 3)	15,000
Net interest and other income		120,750
Non-interest expenses	(Note 4)	(42,750)
Income before taxes	(Note 5)	78,000
Income tax expense		(8,000)
Income after tax		70,000

The following additional information is available:

Note 1: Interest Income

Withholding tax deducted at source amounted to K11, 500,000.

Note 2: Provision for loan losses	K'000
Irrecoverable loans written off	10,020
Increase in specific provision for loan losses	18,000
Decrease in general provision for loan losses	(6,000)
	22,020

Note 3: Non- interest income	K'000
Dividends from an unlisted Zambian Company (net)	2,550
Unrealised trading gain	3,690
Royalties (gross)	8,760
	15,000

Note 4: Non- Interest expense	K'000
Depreciation	3,900
Loss on disposal of assets	16,200
Entertaining auditors	6,336

Employer NAPSA contributions	216
Other allowable expenses	16,098
	42,750

Note 5: Provisional income tax

The income tax expense represents the provisional income tax paid for the tax year 2023.

Note 6: Implements, plant & machinery

The only assets qualifying for capital allowances at 1 January 2023 were as follows:

	Original cost	Income tax value
	K'000	K'000
Fixtures & fittings	35,360	26,520
Office equipment	10,000	7,500
Personal to holder VX8 land Cruiser car (3000cc)	1,800	1,440
Purpose built cash in transit van	1,200	900

During the year ended 31 December 2023, TP bank had continued offering free accommodation to its Managing Director in the bank's house. The house would have been rented out for K25,000 per month. The Managing Director's annual salary is K1,800,000.

Required:

(a) List six (6) matters to be included in the introductory meeting between the tax auditor and the taxpayer. (3 marks)

(b) Explain the key elements of a legal framework as it relates to the audit function.

(4 marks)

(c) Explain the meaning of relevant evidence and reliable evidence as they apply in tax audits. (3 marks)

(d) Calculate the company final income tax payable by TP bank for tax year 2023. (15 marks)

[Total: 25 Marks]

QUESTION TWO

(a) There are a number of key principles in the manner an audit is supposed to be conducted. This is done in order to have a quality audit that is satisfying to both the taxpayer and the auditor.

Required:

(i) Explain any four (4) key principles of a quality audit. (8 marks)

(ii) Explain the misrepresentations which can cause sanctions to be imposed on a tax payer. (5 marks)

(b) A company may issue preference shares to raise finances. Preference shares have a fixed percentage dividend before any dividend is paid to the ordinary shareholders. Preference dividend can only be paid if sufficient distributable profits are available.

Required:
Explain the advantages of preference shares to the company. (5 marks)

(c) In relation to taxation of telecommunication companies, explain the tax treatment of the following:

(i) Discounts to Air time dealers (2 marks)
(ii) Discounts to Subscribers (2 marks)
(iii) Network Switch Expenditure (1 mark)
(iv) Treatment of Roaming Charges and Income (2 marks)

[Total: 25 Marks]

QUESTION THREE

Many businesses world over are currently experiencing reduced production and profitability. One of the reasons which has contributed to low production and profitability is an increased operational and production costs. It is undeniable, that taxes possess a huge cost which every business has to pay. Some businesses, however, have not been submitting their tax returns and remitting correct taxes to ZRA. This has increased the level of non-compliance amongst taxpayers and has led to increased tax audits by ZRA. In order for a tax audit to be appreciated, certain performance objectives and measures need to be put in place and team leaders ensure they are effective. These measures will then show whether the Zambia Revenue Authority (ZRA) compliance strategies and audit strategies are working towards the achievement of intended objectives. In order to have a good compliance culture in Zambia, a tax payer is expected to perform certain roles that can contribute to the efficient operation of the tax system. This does not only speak to the taxpayer paying the relevant taxes, but also perform other responsibilities as required by law.

Required:

(a) Explain any five (5) reasons why tax audit activities are important in achieving the Zambia Revenue Authority's mission. (5 marks)

(b) Explain the meaning of review of unreported income and intelligence gathering as audit pre-contact analysis.
(4 marks)

(c) Explain any four (4) types of tax audits. (8 marks)

(d) Explain four (4) main theories that have contributed to the evolution of audit theory.

(8 marks)
[Total: 25 Marks]

QUESTION FOUR

(a) The duty of a tax auditor is to ensure that all taxes are properly and fully accounted for to the Zambia Revenue Authority. A tax auditor may use various techniques to examine the books and records behind a return, which vary with the customer and tax regime.

Required:

Explain the meaning of each of the following examination techniques:

(i) Analytical review (2 marks)
(ii) Investigative approach (2 marks)
(iii) Record examination (2 marks)
(iv) Third party information (2 marks)

(b) Working papers should be readily available and identifiable. They should be clear, legible and easy to understand and should include among other things profiling checks, records of interviews and bank analyses. However, working papers should conform to certain qualitative characteristics.

Required:

(i) Explain the importance of working papers to the tax auditor. (2 marks)
(ii) Explain five (5) qualitative characteristics of good working papers. (10 marks)

(c) Explain five (5) matters the tax auditor will discuss with the taxpayer when finalizing the tax audit. (5 marks)
[Total: 25 Marks]

END OF PAPER

D6 TAX AUDIT & INVESTIGATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Matters to be included in the introductory meeting between the tax auditor and the taxpayer.

(1) Purpose of the main study.
(2) Time schedule for the main body
(3) A list of members who will be on the Audit team
(4) The types of methods that will be used by the auditor.
(5) The information that will be requested from the taxpayer.
(6) The need to appoint or confirm the contact person

(b) The key elements of a legal framework as it relates to the audit function:

(1) Taxpayer's record keeping obligations.
(2) Giving the tax officials access to taxpayers' books and records.
(3) Giving tax officials access to third party information sources
(4) Obtaining information from other countries revenue bodies
(5) Powers of revenue bodies to amend returns
(6) Sanctions for non- compliance

(c) Relevant evidence is evidence that bear a clear and logical relationship to audit objectives, audit questions and assessment criteria. An important aspect of relevance is that, if the audit objective is an on-going activity, the evidence used to reach a conclusion should not be outdated.

Reliable evidence is evidence that will lead to consistent findings if the same study is carried out repeatedly in the same environment by different auditors using the same methods and data. In order to achieve this, tax auditors should ensure that the methods adopted are clearly described and generally accepted.

(d) TP Bank ltd

Computation of taxable business profit for tax year 2023

	K'000	K'000
Income before taxes		78,000
Add		
Depreciation	3,900	
Loss on disposal of assets	16,200	
Personal to holder car	48	
Free accommodation (K1, 800,000 x 37.5%)	675	
Entertaining auditors	6,336	
		27,159
		105,159
Less		
Decrease in General provision	6,000	
Dividends	2,550	
Unrealised trading gain	3,690	
Royalties	8,760	
Capital allowances:		

Fixtures & fittings (35,360 x 25%)	8,840	
Office equipment (10,000 x 25%)	2,500	
Land Cruiser car (1,800 x 20%)	360	
Cash in transit van (1,200 x 25%)	300	
		(33,000)
Taxable profit		72,159
Add:		
Royalties		8,760
Total taxable income		80,919
Company income tax (80,919 x 30%)		24,276
Less:		
Provisional income tax paid		(8,000)
WHT – interest income		(11,500)
WHT- royalties (8,760 x 15%)		(1,314)
Income tax payable		3,462

SOLUTION TWO

(a) Tax audits

(i) The following are the key principles of a quality tax audit:

(1) Accurate- they identify non-compliance, entail a correct interpretation of the law, and lead to a correct assessment of liability.
(2) Efficiency- they minimise the compliance burden on the taxpayer and minimise the use of the revenue body's resources in terms of the outcome delivered.
(3) Objective-all decisions made are based on facts
(4) Transparent-as issues are developed and fully documented in the work papers, these developments are generally discussed with the taxpayer during the course of the audit.
(5) Fair- technically accurate and procedurally correct in accordance with domestic laws and policies.
(6) Complete-the audit has a defined start and end point and the Taxpayer knows when the audit process is complete
(7) Defensible-the decisions made in the audit and the actual audit process can stand up to external scrutiny
(8) Consistent-the same tax payer circumstances should produce the same result regardless of which auditor undertakes the audit

(ii) The following are the misrepresentations which can cause sanctions to be imposed on taxpayers:

(1) Under-estimation of the tax liability resulting from unintended errors, of ignorance misrepresentation of facts and or laws.
(2) Understatements of liability resulting from carelessness of reckless acts.
(3) Understatements of liability resulting from deliberate and/fraudulent acts.
(4) The failure to keep adequate records and books of accounts.
(5) The failure to supply the requested information relevant to the conduct of audit inquiries
(6) Tax evasion offences can be subjected to prosecution under criminal laws and in most cases lead to terms of improvements and/or fines.

(b) The advantages of preference shares to the company.

(1) Dividends do not have to be paid in a year in which profits are poor, while this not the case with interest payments on long term debt (loans or debentures).
(2) Since preference shares do not carry voting rights, they avoid diluting the control of existing shareholders while an issue of equity shares would not.
(3) Unless they are redeemable, issuing preference shares will lower the company's gearing, Redeemable preference shares are commonly treated as debt when gearing is calculated.
(4) The issue of preference shares does not restrict the company's borrowing power at least in the sense that preference share capital is not secured against assets in the business.

(5) The non-payment of dividend does not give the preference shareholders the right to appoint a receiver.

(c) Taxation of telecommunication companies

(i) Treatment of Discounts to Air time dealers

A discount is an allowance given for either prompt payment or buying in bulk or indeed fulfilling.

The discount will be a reduction in the amount of sales that the airtime manufacturer would record in his books over a given financial period.

(ii) Treatment of Discounts to Subscribers

A discount given to a subscriber will reduce to the cost of purchases when submitting his tax return to Zambia Revenue Authority payable in a given financial period

(iii) Treatment of Network Switch Expenditure

Network Switch expenditure will be treated as part of cost of making an outward bound telephone call when ascertaining the cost of accessing telephone services. The caller will be billed as such

(iv) Roaming Charges and Income

Making a call to someone on a roaming facility entails charging both the person making the call as well as the one receiving the call. However, the tax treatment of these charges will be determined by establishing where the income arising from the service facility is recorded or accrued.

When the roaming charges are receivable by a company resident here in Zambia, then, that income will be subjected to the Zambian laws regarding VAT and Income tax , otherwise they will not be charged.

SOLUTION THREE

(a) The following are the reasons why tax audit activities are important:
  (1) Educating tax payers: Tax audit does not only focus on examining taxpayers' records but also making them knowledgeable about tax matters, and help them understand their rights and obligation so they make decision that will not compromise the tax laws, thus may lead to improved compliance and maximise Revenue collection by ZRA.
  (2) Compliance: By reminding the tax payer of the risks of non-compliance and instilling confidence in the tax payer, consequently, this leads to revenue optimisation.

  (3) Detection of non-compliance-Omissions and understatements can be detected through a tax audit activities and penalties charged that boost tax revenue collection.

  (4) Data: During tax audit process details are gathered and certain pattern of risk that emerges are documented that ZRA can prevent from happening in future.

  (5) Gather intelligent information-the information on tax evasion and avoidance can be used to come up with counter measures such as strict inspections and antitax squads can be set up.

  (6) Identify areas of the law: that requires clarification-audits may bring to light areas of the tax law that are causing confusion and problems to large numbers

(b) Review of unreported income assesses the possibilities of under reporting the income by the taxpayer. The auditor should carry out additional analysis of the tax return to ensure that all income is properly reported using techniques such as gross profit reviews and cash flow analysis.

Intelligence gathering applies is an essential part of the risk assessment process. Where data is not available, the tax auditor needs to ensure that all relevant intelligence from internal and external sources is gathered together to form the audit plan.

(c) The four (4) types of tax audits are as follows:
  (1) **Full Audits**-the scope of a full audit is all encompassing, typically entails a comprehensive examination of all information relevant to the calculation of a tax payers liability for a given period.

  (2) **Limited scope audits**-these are confined to specific issues on a tax return and/or a particular tax scheme arrangement employed by the tax payer.

  (3) **Single issue audits**-these are confined to one item of potential non-compliance that may be apparent from examination of a taxpayers return.

  (4) **Deregistration Audits**-conducted when a business is pending deregistration from being a VAT registered supplier. The aim is to establish the final VAT liability/refund position

(5) **Education Audits**-these audits are normally done when there is a major change in the tax law that is complex.

(6) **Credibility audits**-For instance under VAT aimed at checking the correctness of a claim for a VAT refund.

(d) The theories of auditing

(1) Policeman theory.
The theory held the view that that the auditor is responsible for searching, discovering and preventing fraud. However, this view has changed and the auditor is expected to provide reasonable assurance and verify the truth and fairness of the financial statements by way of expressing an opinion.

(2) The lending credibility theory.
The theory suggests that the primary function of an audit is to add credibility to the financial statement by way of expressing an opinion that users of financial statements can rely upon. It can also resolve the agency problem as management would know that auditors will audit and scrutinize the books of accounts.

(3) The theory of inspired confidence (theory of rational expectations)
This is the theory that satisfies the demand for audit. An audit should be supplied as a service. The demand side for audit services is as a result of demand for audit services by users of financial statements and other third parties such as creditors. Investors have provided capital and would like to see accountability in the use of their investments.
On the other side, the supply of audit services, suggested that auditors need to strive to meet the expectations of stake holders in order to reduce the audit expectation gap.

(4) Agency theory (Watts and Zimmerman 1986)
This suggested that an auditor acts on behalf of both third parties such as shareholders as well as management. Management are agents who should obtain services such as goods, or other services and sell or transfer these services at a higher value in order to maximize the return on audit perception that auditors are just about detecting audit fraud.

SOLUTION FOUR

(a) Examination techniques

(i) Analytical review

Analytical review of financial statements and returns submitted by the taxpayer is usually performed during the preliminary stage of the audit. This includes use of key profitability ratios such as gross profit margin to test the accuracy of the taxpayers reported revenue and cost of sales. This helps the auditor to take not of unusual variances and addressed during an interview with the tax payer.

(ii) Investigative approach

Tax auditors may use investigative approach in their audit which uses information obtained from either the taxpayer or other sources. It requires judgement, imagination and using information outside the accounting records to perform the audit.

(iii) Record examination

This approach is used to detect false accounting including examination of books and documents conducted at the taxpayer's business office or branches, counter party examination and examination of savings and deposit accounts.

(iv) Third party information

The tax auditor may also use this approach to obtain warranted information during a tax audit from third parties in order to verify taxpayer's income.

(b) Working papers

(i) Working papers provide readily identifiable trail that other officers are able to follow without the need to ask for further details. They are important because:

(1) They assist the team leaders and other officers who may be dealing with the case at a later stage. For example at the tribunal or court proceedings.
(2) They are a connecting link between the examination of a taxpayer's affairs and the audit report.
(3) They can be evaluated as part of the quality assurance process.

(ii) The following are the qualitative characteristics of working papers:

(1) Methodical continuity

This means that working papers should provide space or areas that would allow for future comparisons and entries.

(2) Clarity of purpose

Meaning that working papers need to provide a clear and concise explanation of what purpose they intend to achieve.

(3) Description

This means that a description of the content or purpose of the sheet and period of concern should be given.

(4) Evidence

Meaning that working papers should have evidence of all significant verification activities' detailing what was actually done.

(5) Simplicity
Meaning that working papers should be simple for the tax auditors to cross reference information and each page should be numbered.

(c) The following are the matters the tax auditor can discuss with the taxpayer:

(1) The nature and details of expected adjustments to income and/or expenditure.
(2) Any penalty and interest consideration for non-compliance and under declaration of taxable income.
(3) The tax authorities view on any technical interpretations and supporting references such as tax rulings and tax legislation.
(4) Arrangements for payment of any additional tax liabilities incurred through the tax audit.
(5) Discussion of the tax payer’s appeal rights.

END OF SOLUTIONS