



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 11 SEPTEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 Mwata obtains her Inventory from the nearby wholesale. The terms of payment are as follows:

- Trade discount 4%
- Cash discount 10% for cash purchases
- Settlement discount 5% for credit purchases paid within 15 days of purchase.

In June 2022, Mwata purchased inventory worth K2,500 of which K1000 was for cash and the rest was settled within ten days of purchase.

What are the total savings by Mwata in June 2022 as a result of discounts?

- A. K270
- B. K240
- C. K350
- D. K360

(2 marks)

1.2 A suspense account was opened when a trial balance failed to balance. When the following errors were corrected, the suspense account was cleared.

- An electricity expense bill for K840 was entered on the correct side of the electricity account as K480.
- A telephone bill received for K100 had been credited to the telephone expense account. The other entry had been made correctly.
- Interest received of K140 was entered correctly in the bank account, but no other entry was made.

What was the balance on the suspense account when it was created?

- A. Credit K320
- B. Debit K320
- C. Credit K420
- D. Debit K420

(2 marks)

1.3 Which of the following is an example of an error of commission?

- A. A transaction has been recorded using the wrong amount.
- B. A transaction has not been recorded.
- C. One side of a transaction has been recorded in the wrong account, and that account is of different class to the correct account.
- D. One side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account.

(2 marks)

- 1.4 Saka, a sole trader, does not keep full accounting records. He has calculated that his assets and liabilities at 31 May 2022 were:

| | K |
|---------------------|--------|
| Property | 60,000 |
| Plant and equipment | 42,600 |
| Inventories | 15,540 |
| Trade Receivables | 11,130 |
| Trade payables | 7,988 |
| Bank overdraft | 7,074 |

On reviewing his calculations, you note that there were no entries made in relation to rent for the month of May 2022 because rent is paid in arrears, with the payment for May having been made on 1 June 2022. Rent is K1,000 per month.

What is Saka's capital at 31 May 2022?

- A. K129,356
- B. K113,208
- C. K115,208
- D. K127,356

(2 marks)

- 1.5 Ada keeps records identifying those business debts he has met personally and those debts met using business assets. By doing this, Ada is trying to make sure that when he prepares his accounts, he does so in accordance with which accounting principle or concept:

- A. Going concern.
- B. Accruals
- C. Business entity
- D. Prudence

(2 marks)

- 1.6 Banda, a sole trader, sold a delivery van which originally cost K49,000. The accumulated depreciation on the van was K27,300 at the date it was sold. Sale proceeds of K15,000 were received. What was the loss on Disposal?

- A. A loss K6,700
- B. A loss K12,300
- C. A loss K21,700
- D. A loss K34,000

(2 marks)

- 1.7 M. Kalomo, a sole trader had net assets at 1 July 2021 of K151,200 and at 30 June 2022 of K147,600. During the year, he introduced additional capital of K35,400 and withdrew cash amounting to K32,600.

What profit or loss was made by the business in 2022?

- A. K800 Loss
- B. K800 Profit
- C. K6,400 Loss
- D. K6,400 Profit

(2 marks)

- 1.8 Bwali and Kanu are in partnership sharing profits in the ratio 2:1 after payment of Bwali's salary of K12,000. They both owe K600 each for interest on drawings. Profit for the year is K90,000.

What will Bwali's profit share be?

- A. K60,000
- B. K52,200
- C. K52,800
- D. K53,000

(2 marks)

- 1.9 In the year to 31 December 2022, Daka recorded a revenue expense as an asset in the statement of financial position.

What is the effect on his profit for the year to 31 December 2022 and his net assets at that date?

| | <u>Profit</u> | <u>Net Assets</u> |
|----|----------------------|--------------------------|
| A. | Understated | Overstated |
| B. | Overstated | Overstated |
| C. | Overstated | Understated |
| D. | Understated | Understated |

(2 marks)

- 1.10 Daniel and Daka are in partnership. In the year to 31 December 2022, Daniel's drawings were K24,000 and the following entries have been made in the partnership appropriation account for Daniel:

| | |
|----------------------|--------|
| | K |
| Partnership salary | 15,000 |
| Interest on drawings | 5,600 |
| Share of profit | 27,000 |

On 1 January 2022, the balance on Daniel's current account was K62,400 (Credit).

What is the balance on Daniel's current account at 31 December 2022?

- A. K74,800
- B. K86,000
- C. K98,800
- D. K44,800

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

M. Chani, a sole trader, has the following trial balance as at 31 December 2022.

| | Dr K | Cr K |
|--|------------------|------------------|
| Capital | | 480,000 |
| Drawings | 40,000 | |
| Plant and equipment at cost | 36,000 | |
| Buildings at cost | 224,000 | |
| Accumulated depreciation: - | | |
| - Plant and equipment | | 1,800 |
| - Buildings | | 11,200 |
| Inventory | 468,000 | |
| Trade receivables | 963,000 | |
| Allowance for receivable at 1 January 2022 | | 17,400 |
| Cash at Bank | 73,680 | |
| Trade Payables | | 1,170,000 |
| Purchases | 1,836,000 | |
| Sales | | 2,320,000 |
| Salaries | 287,600 | |
| Administration | 41,400 | |
| Rent for 15 months to 31 March 2023 | 27,000 | |
| Carriage inwards | 120 | |
| Banks charges | 3,600 | |
| | <u>4,000,400</u> | <u>4,000,400</u> |

The following additional information is relevant:

- (i) The inventory at 31 December 2022 is valued at K540,000
- (ii) On 31 December 2022, salaries amounting to K2,000 were owing so were administration expenses amounting to K2,080.
- (iii) Depreciation is to be provided for as follows:
 - Plant and equipment at 5% on the reducing balance basis.
 - Buildings at 5% straight line.
- (iv) A Trade receivable of K9,000 is irrecoverable and is to be written-off while an allowance for receivables of 2% on the year-end receivables is required.

Required:

- (a) M. Chani's Statement of profit or loss for the year ended 31 December 2022. (10 marks)
- (b) M. Chani's Statement of financial position as at 31 December 2022. (8 marks)

Mundia is preparing his bank reconciliation statement. The bank balance in his general ledger is K2,160 credit. There are two items he has yet to deal with.

1. A cheque for K2,480 was sent to a supplier but is not yet showing on the bank statement.
2. A bank charge of K112 was made by the bank, but was not recorded by Mundia.

- (c) What is the closing balance on Mundia's bank statement assuming there are no other errors or adjustments? (2 marks)

[Total: 20 Marks]

QUESTION THREE

Atwiko had the following Statements of financial position at 31 December:

| Assets: | 2021 K'000 | 2020 K'000 |
|-----------------------------|-----------------------|-----------------------|
| Non-current assets at cost | 6,500 | 5,000 |
| Accumulated depreciation | <u>(3,000)</u> | <u>(2,000)</u> |
| | 3,500 | 3,000 |
| Current assets: | | |
| Inventories | 7,000 | 4,000 |
| Receivables | 15,500 | 13,500 |
| Bank | - | <u>1,000</u> |
| Total assets | <u>26,000</u> | <u>21,500</u> |
| Equity liabilities: | | |
| Share capital | 6,500 | 5,000 |
| Share premium | 3,500 | 2,500 |
| Retained earnings | <u>8,000</u> | <u>7,500</u> |
| | 18,000 | 15,000 |
| Current liabilities: | | |
| Payables | 7,400 | 6,500 |
| Bank overdraft | <u>600</u> | <u>-</u> |
| | <u>26,000</u> | <u>21,500</u> |

During the year ended 31 December 2021, non-current assets which cost K250,000 were sold for K200,000 cash. Accumulated depreciation on these assets to 31 December 2021 was K100,000.

Required:

- (a) (i) Calculate the additions to Non-current assets. (2 marks)
 (ii) Calculate the profit or loss on sale of non-current assets. (2 marks)
 (iii) Calculate the depreciation charge for the year ended 31 March 2021. (2 marks)
- (b) Prepare a statement of cash flows for the year ended 31 March 2021. (14 marks)

[Total: 20 Marks]

QUESTION FOUR

The Accounting records of the Happy Star Sports and Social Club are in a mess. As an accountant you managed to find the following information to help you prepare the accounts for the year to 31 December 2021.

Summarized Statement of financial position as at 31 December 2020

| | |
|------------------------------------|----------------|
| | K |
| Half-share in motorized roller | 90,000 |
| New sport's equipment unsold | 150,000 |
| Used sports equipment at valuation | 105,000 |
| Rent prepaid (2 months) | 30,000 |
| Subscriptions for 2020 | 9,000 |
| Cafeteria inventory | 120,000 |
| Cash and bank | <u>181,500</u> |
| | <u>685,500</u> |
| | K |
| Life subscriptions | 210,000 |
| Subscriptions for 2021 | 18,000 |
| Insurance accrual (3months) | 22,500 |
| Accumulated funds | <u>435,000</u> |
| | <u>685,500</u> |

Receipts in the year to 31 December 2021

| | |
|----------------------------------|------------------|
| | K |
| Subscriptions - 2020 | 6,000 |
| - 2021 | 165,000 |
| - 2022 | 12,000 |
| - Life | 30,000 |
| Sale from new sports equipment | 135,000 |
| Sales from used sports equipment | 2,100 |
| Cafeteria takings | <u>699,000</u> |
| | <u>1,049,100</u> |

Payments in the year to 31 December 2021

| | |
|-------------------------------|------------------|
| | K |
| Rent (12 months) | 180,000 |
| Insurance for (18 months) | 135,000 |
| Suppliers of sports equipment | 150,000 |
| Cafeteria supplies | 285,000 |
| Wages of cafeteria manager | 300,000 |
| Repairing motorized roller | <u>67,500</u> |
| | <u>1,117,500</u> |

Additional information:

- (i) Ownership and all expenses of the motorized roller are agreed to be shared equally with the Carefree conveyancers Sports and Social Club which occupies a nearby site. The roller cost a total of K300,000 on 1 January 2017 and had an estimated life of ten (10) years.
- (ii) Life subscriptions are brought into income equally over ten (10) years in a scheme which began three (3) years ago in 2018. Since the scheme started, the cost of K30,000 per person has been constant. Prior to 31 December 2021 10 life subscriptions had been received.
- (iii) Four (4) more annual subscriptions of K3,000 had been promised relating to 2021, but not yet received.
- (iv) New sports equipment is sold to members at cost plus 50%. Used equipment is sold off to members at book value. Half the sports equipment bought in the year (all from Cash and

- Carry Suppliers) has been used within the club, half made available for sale. The used equipment value in December 2021 statement of financial position is to remain K105,000.
- (v) On 31 December 2021, closing cafeteria inventory was K127,500 and K12,000 was owed to payables.

Required:

- (a) Calculate profit on cafeteria operations and profit on sale of new sports equipment. (5 marks)
- (b) Prepare a Statement of subscription income for 2021. (6 marks)
- (c) Prepare an Income and expenditure statement for the year ending 31 December 2021. (4 marks)
- (d) Prepare the Statement of financial position as at 31 December 2021. (5 marks)
- [Total: 20 Marks]**

QUESTION FIVE

- (a) Zed Plastics Limited presented the following information for the year ended 31 December, 2022:

| | K'000 |
|---------------------------------|---------|
| Purchase of Raw materials | 360,000 |
| Carriage inwards | 24,000 |
| Manufacturing wages | 180,000 |
| Depreciation of Plant | 50,000 |
| Inventory at January 1 2022: | |
| Raw materials | 100,000 |
| Work in progress | 150,000 |
| Finished products | 80,000 |
| Return outwards | 25,000 |
| Office salary | 12,500 |
| Insurance expenses – office | 10,000 |
| Factory expenses | 25,000 |
| Royalty paid | 52,000 |
| Depreciation – Office Equipment | 12,500 |
| Factory fuel and electricity | 10,500 |
| Revenue | 950,000 |

The following additional information is also relevant:

1. It is the policy of the company to transfer finished products to the marketing department at cost plus 15%;
2. Inventory at 31 December, 2022:

| | |
|-------------------|---------|
| Raw material | 125,000 |
| Work in progress | 140,000 |
| Finished products | 100,000 |

Required: Zed Plastics Ltd.'s

- (i) Manufacturing account for the year ended 31 December 2022. (6 marks)
(ii) Statement of profit or loss for the year ended 31 December, 2022. (4 marks)

- (b) The International Accounting Standards Board's (IASB) Conceptual Framework underpins what International Financial Reporting Standards (IFRSs) state and why they identify a particular accounting treatment.

Another important aspect of the conceptual framework is an attempt to define "high quality" information or in other words, what makes financial information useful.

Required:

Explain, in accordance with the IASB's Conceptual Framework, the four (4) enhancing qualitative characteristics of useful financial accounting information. (10 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) (i) Under the scope of Public Sector Accounting, identify four (4) users of financial reports and briefly explain their respective interests in this information. (8 marks)
(ii) Explain four (4) advantages and four (4) disadvantages of cash accounting under Public Sector Accounting. (8 marks)
- (b) List four (4) advantages of Accounting Packages. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA1 FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) **M. Chani's
Statement of Profit or Loss for the year ended 31 December 2022**

| | K | K |
|---|------------------|--------------------|
| Sales | | 2,320,000 |
| Opening inventory | 468,000 | |
| Purchases (1,836,000 + 120) | <u>1,836,120</u> | |
| | 2,304,120 | |
| Less closing inventory | <u>(540,000)</u> | <u>(1,764,120)</u> |
| Gross profit | | 555,880 |
| Less: Depreciation on Plant (5% x (36,000 – 1,800)) | 1,710 | |
| Depreciation on Buildings (5% x 224,000) | 11,200 | |
| Increase in allowance for Receivables (w1) | 1,680 | |
| Salaries (287,600 + 2,000) | 289,600 | |
| Administration (41,400 + 2,080) | 43,480 | |
| Irrecoverable Receivables | 9,000 | |
| Rent ($\frac{12}{15} \times \frac{27,000}{1}$) | 21,600 | |
| Bank charges | <u>3,600</u> | <u>(381,870)</u> |
| Net profit | | <u>174,010</u> |

Working W1

$$963,000 - 9,000 = 954,000 * 2\% = \underline{19,080}$$

$$19,090 - 17,400 = \underline{1,680}$$

(b) **M. Chani's**

Statement of Financial position as at 31 December 2022

| | K | K |
|---|-----------------|------------------|
| <u>NON-CURRENT ASSETS</u> | | |
| Buildings (224,000 – 22,400) | 201,600 | |
| Plant and Equipment (36,000 – 3,510) | | 234,090 |
| | <u>32,490</u> | |
| <u>CURRENT ASSETS</u> | | |
| Inventory | | |
| Trade Receivables (963,000 – 9,000 – 19,080) | 540,000 | |
| Bank | 934,920 | |
| Prepaid Rent ($\frac{3}{15} \times \frac{27,000}{1}$) | 73,680 | |
| Total Assets | | <u>1,554,000</u> |
| | <u>5,400</u> | |
| <u>FINANCED BY</u> | | |
| Capital | | <u>1,788,090</u> |
| Net profit | | |
| less Drawings | 174,010 | 480,000 |
| <u>CURRENT LIABILITIES</u> | | |
| Trade payables | <u>(40,000)</u> | <u>134,010</u> |
| Accruals: Salaries | 2,000 | |
| Administration | 2,080 | |
| Total capital and liabilities | 1,170,000 | 614,010 |
| | <u>4,080</u> | |
| | | <u>1,174,080</u> |
| | | <u>1,788,090</u> |

(c) **M. Chani's Bank Reconciliation statement for month of December 2022**

| | K |
|-------------------------------|------------|
| Balance as per cash book | 2,160 |
| Add bank charges | |
| | <u>112</u> |
| Less Unpresented cheque | 2,272 |
| Balance as per Bank statement | |

(2,480)

(208)

SOLUTION THREE

| Non-current assets at cost. | | | |
|------------------------------------|-------|---|-------------------------------|
| (a) | (i) | | |
| | | K'000 | K'000 |
| | | Balance b/d | Disposal account |
| | | 5 000 | 250 |
| | | Additions (bal fig) | Balances c/d |
| | | <u>1 750</u> | <u>6 500</u> |
| | | <u>6 750</u> | <u>6 750</u> |
| | (ii) | Non-current asset – Accumulated depreciation | |
| | | K'000 | K'000 |
| | | Disposals account | Balance b/d |
| | | 100 | 2 000 |
| | | Balance c/d | P & L |
| | | <u>3 000</u> | <u>1 100</u> |
| | | <u>3 100</u> | <u>3 100</u> |
| | (iii) | Non-current assets – disposals | |
| | | K'000 | K'000 |
| | | Non-current assets at cost | Non-current accumulated dep'n |
| | | 250 | 100 |
| | | Profit on sale of non-current assets | Disposal proceeds |
| | | <u>50</u> | <u>200</u> |
| | | <u>300</u> | <u>300</u> |

(b) **ATWIKO's**
Statement of cash flows for the year ended 31 December 2021.

| | K'000 | K'000 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Increase in retained earnings (8 000 – 7 500) | 500 | |
| Add: depreciation (wii) | 1 100 | |
| Less: profit on sale of non-current assets (wiii) | <u>(50)</u> | |
| | 1 550 | |
| Less: Increase in inventories (4,000 – 7,500) | (3 000) | |
| Less: Increase in receivables (13,500 – 15,500) | (2 000) | |
| Add: Increase in payables (6,500 – 7,400) | <u>900</u> | |
| | | (2 550) |
| Cash flows from investing activities: | | |
| Proceeds from sales of non-current assets | 200 | |
| Non-current asset purchase | (1 750) | (1 550) |
| Cash flow from finance activities: | | |
| Share capital (6 500 – 5 000) | 1 500 | |
| Share premium (3 500 – 2 500) | <u>1 000</u> | |
| | | <u>2 500</u> |
| Decrease in cash and cash equivalents during the year | | (1 600) |
| Cash and cash equivalent at beginning of the year | | <u>1 000</u> |
| Cash and cash equivalent at end of the year | | <u>(600)</u> |

SOLUTION FOUR

(a) Cafeteria Operations:

| | K'000 | K'000 |
|-----------------------------------|------------------|------------------|
| Takings | | 699 000 |
| Less: cost of supplies: | | |
| Opening inventory | 120 000 | |
| Add: purchases (285 000 + 12 000) | <u>297 000</u> | |
| | 417 000 | |
| Less: closing inventories | <u>(127 500)</u> | <u>(289 500)</u> |
| | | 409 500 |
| Wages | | <u>(300 000)</u> |
| Profit | | <u>109 500</u> |

New Sports equipment:

| | | |
|---|------------------|-----------------|
| Sales | | 135 000 |
| Less: cost of equipment sold: | | |
| Opening inventory | 150 000 | |
| Add; purchase (150 000 x 50%) | <u>75 000</u> | |
| | 225 000 | |
| Less: closing inventory (balancing figure) | <u>(135 000)</u> | <u>(90 000)</u> |
| Profit margin ($\frac{50}{150} \times 135,000$) | | <u>45 000</u> |

(b) Subscriptions Account for 2021

| | K'000 | | K'000 |
|----------------------|----------------|-------------|----------------|
| Balance b/f | 9 000 | Balance b/f | 18 000 |
| Income & expenditure | 183 000 | Cash: 2020 | 6 000 |
| Balance c/d | <u>12 000</u> | 2021 | 165 000 |
| | <u>204 000</u> | | <u>204 000</u> |

Life Subscriptions Account

| | K'000 | | K'000 |
|------------------------|----------------|-------------|----------------|
| Income and expenditure | 33 000 | Balance b/d | 210 000 |
| Balance c/d | <u>207 000</u> | Cash | <u>30 000</u> |
| | <u>240 000</u> | | <u>240 000</u> |

(c) Happy Star and Social Club

Income and Expenditure Account for the year ending 31 December 2021.

| | K'000 | K'000 |
|------------------------------------|-------|---------|
| Income: | | |
| Subscriptions (183 000 + 33 000) | | 216 000 |
| Profit on cafeteria operations (a) | | 109 500 |

| | | |
|--|---------------|-----------------|
| Profit on Sport equipment (a) | | <u>45 000</u> |
| | | 370 500 |
| Less Expenditure: | | |
| Rent (30,000+180,000 less prepaid of $\frac{2}{12} \times 180,000$) | 180 000 | |
| Insurance (135,000x 12/18) | 90 000 | |
| Repairs to roller ($\frac{1}{2} \times 67 500$) Note (i) | 33 750 | |
| Sports equipment depreciation (75,000-2,100) | 72 900 | |
| Depreciation of roller ($\frac{1}{2} \times 30 000$) | <u>15 000</u> | |
| | | <u>391 650</u> |
| Excess of expenditure over income | | <u>(21 150)</u> |

(d) **Happy Star Statement of financial position as at 31 December 2021.**

| | Cost K'000 | Dep'n K'000 | NBV K'000 |
|-----------------------------------|-----------------------|------------------------|----------------------|
| Non-current Assets: | | | |
| Motor roller (at half the cost) | 150 000 | 75 000 | 75 000 |
| Sports equipment | <u>105 000</u> | - | <u>105 000</u> |
| | 255 000 | 75 000 | 180 000 |
| Current assets: | | | |
| Inventory of new Sports equipment | 135 000 | | |
| Inventory of cafeteria suppliers | 127 500 | | |
| Subscription owing | 3 000 | | |
| Cafeteria conveyancers' owing | 33 750 | | |
| Prepaid expenses | 52 500 | | |
| Cash and bank | <u>113 100</u> | | |
| | | | <u>464 850</u> |
| | | | <u>644 850</u> |
| Equity and liabilities: | | | |
| Accumulated funds: | | | |
| Balance at 1 January 2021 | 435 000 | | |
| Less: Excess of expenditure | <u>(21 150)</u> | | |
| | | | 413 850 |
| Current liabilities: | | | |
| Cafeteria Suppliers Note (v) | 12 000 | | |
| Advance subscriptions Note (iii) | <u>12 000</u> | | |
| | | | 24 000 |
| Non-current liabilities: | | | |
| Life subscriptions | | | <u>207 000</u> |
| | | | <u>644 850</u> |

SOLUTION FIVE

(a) Zed Plastic Plastics Limited

(i) Statement of Manufacturing for the year ended 31 December, 2022

| | K'000 | K'000 |
|---|------------------|-----------------------|
| Direct Material Consumed: | | |
| Opening Inventory | | 100,000 |
| Purchases | 360,000 | |
| Add Carriage inwards | <u>24,000</u> | |
| | 384,000 | |
| Less Return outwards | <u>(25,000)</u> | |
| Net Raw Material Purchased | | <u>359,000</u> |
| Direct Material available for consumption | | 459,000 |
| Less Closing Inventory | | <u>(125,000)</u> |
| Direct Material Consumed | | 334,000 |
| Manufacturing Wages | | 180,000 |
| Royalty paid | | <u>52,000</u> |
| Prime cost of production | | 566,000 |
| | | |
| Factory Overhead: | | |
| Depreciation of Plant | 50,000 | |
| Factory Expenses | 25,000 | |
| Fuel and Electricity | <u>10,500</u> | |
| | | 85,500 |
| | | 651,500 |
| | | |
| Add: Work in progress at start | 150,000 | |
| Less: Work in progress at close | <u>(140,000)</u> | |
| Cost of production | | <u>661,500</u> |
| Gross Profit on Production (15%) c/d | | <u>99,225</u> |
| Market value of good completed c/d | | <u>760,725</u> |

(ii) Statement of Profit or Loss for the year ended 31 December, 2022

| | | |
|--|------------------|-----------------------|
| Revenue | | 950,000 |
| Less Cost of Sales: | | |
| Opening Inventory of Finished Goods | 80,000 | |
| Market value of good produced b/d | <u>760,725</u> | |
| | 840,725 | |
| Less Closing inventory of finished goods | <u>(100,000)</u> | |
| | | <u>(740,725)</u> |
| Gross Profit on trading | | 209,275 |
| Gross Profit on Production b/d | | <u>99,225</u> |
| | | 308,500 |
| | | |
| Less Operating Expenses: | | |
| Office Salary | 12,500 | |
| Insurance | 10,000 | |
| Depreciation – Office Equipment | <u>12,500</u> | |
| | | <u>35,000</u> |
| Net Profit | | <u>273,500</u> |

(b) An explanation of the IASB's Conceptual Framework's FOUR enhancing qualitative characteristics of useful financial accounting information

The IASB's Conceptual Framework states that there are four enhancing qualitative characteristics: comparability, verifiability, timeliness and understandability.

Comparability: Comparability is the qualitative characteristic that enables users to identify and understand similarities, and differences among, items. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability should not be confused with consistency. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Applying consistency helps in achieving the goal of comparability.

Verifiability: Verifiability helps to assure users that information is a faithful record of the transactions or events it purports to represent. If information is verifiable it essentially means that it can be proven, for example it can be checked if it is true by examination, inspection or comparison. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Timeliness: Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. As a general rule, older information is less useful than recent information. Some information, however, may still be timely for a long time after the end of a reporting period. This is true of information for users of financial information who need to identify and assess trends.

Understandability: Information is understandable if it is classified, characterized and presented clearly and concisely. In considering whether information is understandable, it should be borne in mind that financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who are willing to review and analyze the information diligently.

SOLUTION SIX

(a) (i) Users of financial reports under Public Sector Accounting and their information needs

1. **Central Government** which is concerned with how funding has been utilised and with future control and planning.
2. **Managers** who are responsible for ensuring that their organizations are running smoothly on a day to day basis and that budgets are being adhered to.
3. **Tax payers** who are interested in how the government is using money paid in tax and in predicting future tax levels.
4. **General public** who are concerned with the quantity and quality of services provided and with the performance of their elected representatives.
5. **International funding organizations** who are concerned that developmental funding has been used for the intended purpose.

(ii) **Four advantages of cash accounting under public sector**

1. Financial statements are easier to prepare and understand.
2. It shows how an organization has managed its finances.
3. Activities must be carried out within the constraints of available funding.
4. Actual activities only are recorded so that there is no subjectivity.

Four disadvantages of cash accounting under public sector

1. Cash is the only focus
2. Assets and liabilities other than cash are ignored.
3. The true worth of an organization is not measured.
4. Financial statements are incomplete and may be misleading.

(b) **Advantages of Accounting Packages**

1. The packages can be used by non-specialists.
2. A large amount of data can be processed very quickly.
3. Computerised systems are more accurate than manual systems.
4. A computer is capable of handling and processing large volumes of data.
5. Once the data has been input, computerised systems can analyse data rapidly to present useful control information for managers such as a trial balance or a trade receivables schedule.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 13 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A mathematical standard 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.

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 Suppose that a book of 600 pages contains 40 printing mistakes. Assume that these errors are randomly distributed throughout the book and X the number of errors has a Poisson distribution. What is the probability that 8 pages selected at random will be free of errors?

- A. 0.3129
- B. 0.3192
- C. 0.5866
- D. 0.8566

(2 marks)

1.2 A company recently invested in a project with a 3-year life span. The initial investment was K20 000, and annual cash inflows were K7,000 for year 1, K8,000 for year 2 and K9,000 for year 3. The company expects a 12% required rate of return. What is the net present value for the project?

- A. -669.43
- B. -966.43
- C. 966.43
- D. 669.43

(2 marks)

1.3 The is often the preferred measure of central tendency if the data are severely skewed.

- A. Mean
- B. Mode
- C. Range
- D. Median

(2 marks)

- 1.4 A regression analysis between sales (in K ' 000) and price (in Kwacha) resulted in the following:

$$\hat{y} = 75,000 - 6x$$

- A. Increase of K1 in price is associated with a decrease of K6 in sales
- B. Increases of K1 in price is associated with a decrease of K71,000 in sales
- C. Increase of K1 in price is associated with a decrease of K6,000 in sales.
- D. Increase of K6 in price is associated with an increase of K6,000 in sales.

(2 marks)

- 1.5 Food is placed in similar type of packages. If their weight is normally distributed with an average of 55 grams per packet and standard deviation of 10 grams. Find the probability that weight of a selected bag will be less than 65 grams.

- A. 0.8413
- B. 1.0000
- C. 0.1525
- D. 0.2643

(2 marks)

- 1.6 When a capital budgeting project generates a positive net present value, this means that the project earns a return higher than the?

- A. Internal rate of return.
- B. Annual rate of return.
- C. Required rate of return.
- D. Present value index.

(2 marks)

- 1.7 Grouped continuous data can be displayed into a diagram in which bar of groups are attached. The form of diagram is called;

- A. Stem and leaf plot.
- B. Cumulative frequency curve
- C. Bar chart.
- D. Histogram.

(2 marks)

1.8 The first step in formulating a linear programming problem is:

- A. Identify any upper or lower bound on the decision variables
- B. State the constraints as linear combinations of the decision variables
- C. Understand the problem
- D. Identify decision variables

(2 marks)

1.9 If A and B are two mutually exclusive events, which of the following is true?

A. $P\left(\frac{A}{B}\right) = P(A)$

B. $P(A \cup B) = P(A) \times P(B)$

C. $P(A \cap B) = 0$

D. The events A and B are said to be mutually exclusive if the probability of event B occurring is not influenced by event A occurring.

(2 marks)

1.10 If Mr. Jones invest a K20,500 for five (5) years, compounded monthly at 7% per annum. What would be the total value of his invest in five (5) years' time?

A. K29,061.31

B. K 21,935

C. K20,500

D. K102,500

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

- (a) The following data give the sales of refrigerators by XYZ Company.

| Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------|------|------|------|------|------|------|------|
| Sale of refrigerator | 150 | 161 | 180 | 175 | 230 | 195 | 211 |

Required:

- (i) Find the trend line by the method of least squares (7 marks)
(ii) Find the trend values for all the years from 1998 to 2004 (4 marks)
(iii) Estimate the sales for the year 2008 (2 marks)
- (b) Banda invests K15,000 in a savings account that pays interest monthly at a nominal rate of 8.4%.
- (i) What is the balance of the account at the end of five (5) years? (5 marks)
(ii) What is the APR for Banda's investment? (2 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) The following table gives the weekly expenditure of 50 families.

| Weekly expenditure (in K) | Number of families |
|---------------------------|--------------------|
| 10 – 14 | 4 |
| 15 – 19 | 6 |
| 20 – 24 | 10 |
| 25 – 29 | 5 |
| 30 – 34 | 7 |
| 35 – 39 | 3 |
| 40 – 44 | 9 |
| 45 – 49 | 6 |

- (i) Calculate the mean weekly expenditure (5 marks)
(ii) Calculate the median weekly expenditure (3 marks)
(iii) Calculate the modal weekly expenditure (3 marks)
- (b) Mtonga has a retirement account with K40,000 in it. The account earns 4.5% interest compounded monthly, and you deposit K1,000 every month for the next five (5) years. How much will be in the account at the end of those fifteen (15) years? (9 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) A contractor has submitted bids on three (3) state jobs: an office building, a theater, and a parking garage. State rules do not allow a contractor to be offered more than one of these jobs. If this contractor is awarded any of these jobs, the profits earned from these contracts are K10 million from the office building, K5 million from the theater, and K2 million from the parking garage. His profit is zero if he gets no contract. The contractor estimates that the probabilities of getting the office building contract, the theater contract, the parking garage contract, or nothing are 0.15, 0.30, 0.45, and 0.10, respectively. Let x be the random variable that represents the contractor's profits in millions of kwacha.

Required:

- (i) Write the probability distribution of x . (2 marks)
- (ii) Find the mean value of x . (3 marks)
- (iii) Find the standard deviation of x . (5 marks)
- (b) At the end of a season a league of eight football clubs produced the following table showing position of each club in the league and the average attendance (in hundreds) at home matches.

| Club | Position | Average Attendance |
|-------------|-----------------|---------------------------|
| A | 1 | 27 |
| B | 2 | 29 |
| C | 3 | 9 |
| D | 4 | 16 |
| E | 5 | 24 |
| F | 6 | 15 |
| G | 7 | 12 |
| H | 8 | 22 |

- (i) Calculate the spearman's rank correlation coefficient between position in the league and average attendance. (8 marks)
- (ii) Comment on your results. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The Director of Finance for a farm cooperative is concerned about the yield per acre she can expect from this year’s maize crop. The probability distribution of the yields for the current weather conditions is given below:

| | | | | |
|-----------------------------|------|------|------|------|
| Yield in kg per acre | 120 | 140 | 160 | 180 |
| Probability | 0.18 | 0.26 | 0.44 | 0.12 |

She would like to see a simulation of the yield she might expect over the next ten (10) years for weather conditions similar to those she is now experiencing.

Required:

- (i) Simulate the average yield she might expect per acre using the following random numbers:

20, 72, 34, 54, 30, 22, 48, 74, 76, 02 (3 marks)

She is also interested in the effect of market price fluctuations on the cooperative’s farm revenue. She makes this estimate of per kg prices for maize:

| | | | | | | |
|-------------------------|------|------|------|------|------|------|
| Price per kg (K) | 2.00 | 2.10 | 2.20 | 2.30 | 2.40 | 2.50 |
| Probability | 0.05 | 0.15 | 0.30 | 0.25 | 0.15 | 0.10 |

- (ii) Simulate the price she might expect to observe over the next ten (10) years using the following random numbers:

82, 95, 18, 96, 20, 84, 56, 11, 52, 03 (3 marks)

- (iii) Assuming that prices are independent of yields, combine these two (2) into the revenue per acre and also find out the average revenue per acre she might expect every year. (4 marks)

- (b) The development committee in a construction company is studying two (2) investment proposals whose cash inflows are projected for the next four (4) years as shown in the table below:

| Year | Cash Inflows | |
|------|----------------------|----------------------------------|
| | Project I: $r = 8\%$ | Project II: $r = 7\frac{1}{2}\%$ |
| 1 | 35,000 | 40,000 |
| 2 | 40,000 | 40,000 |
| 3 | 50,000 | 95,000 |
| 4 | 120,000 | 100,000 |

Both proposals ask for a capital allocation of K200,000, but the cost of capital for the first project is 8% and for the second is $7\frac{1}{2}\%$. Which of the two (2) proposals would be approved?

(10 marks)

[Total: 20 Marks]

QUESTION SIX

(a) What are the five (5) characteristics of good information? Explain briefly.

(10 marks)

(b) A small firm builds two (2) types of garden shed.

Type 1 requires 2 hours of mechanic time and 5 hours of craftsman time.

Type 2 requires 3 hours of crafts time and 5 hours of craftsman time.

Each day there are 30 hours of machine time available and 60 hours of craftsman time.
The profit on each of each type 1 shed is K75 and each type 2 shed is K95.

(i) Formulate the appropriate linear programming problem.

(3 marks)

(ii) Find the number of type 1 and type 2 shed which must be produced to maximize profit? Also indicate the maximum profit.

(7 marks)

[Total: 20 Marks]

END OF PAPER

DA 2 QUANTITATIVE ANALYSIS SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 B

1.3 D

1.4 A

1.5 A

1.6 C

1.7 D

1.8 D

1.9 C

1.10 A

SOLUTION TWO

(a)

(i) Let X stand for the time variation and Y for the sale of refrigerators

| Year | Sales Y | $x =$ Deviation from the mid-year ($X = 2001$) | x^2 | xy | Trend values: $Y_c = a + bx$ |
|-------|------------------|--|-----------------|-----------------|------------------------------------|
| 1998 | 150 | -3 | 9 | -450 | 153.75 |
| 1999 | 161 | -2 | 4 | -322 | 164.50 |
| 2000 | 180 | -1 | 1 | -180 | 175.25 |
| 2001 | 175 | 0 | 0 | 0 | 186.00 |
| 2002 | 230 | 1 | 1 | 230 | 196.75 |
| 2003 | 195 | 2 | 4 | 390 | 207.50 |
| 2004 | 211 | 3 | 9 | 633 | 218.25 |
| Total | $\sum y = 1,302$ | | $\sum x^2 = 28$ | $\sum xy = 301$ | |

The trend line is given by $Y_c = a + bx$, where $a = \frac{\sum y}{N}$ and $b = \frac{\sum xy}{\sum x^2}$

$$\text{Here, } a = \frac{\sum y}{N} = \frac{1,302}{7} = 186 \text{ and } b = \frac{\sum xy}{\sum x^2} = \frac{301}{28} = 10.75$$

Therefore, $Y_c = a + bx$

$Y_c = 186 + 10.75x$ is the required trend line.

(ii) The Trend values are obtained by assigning values of x as $-3, -2, -1, 0, 1, 2, 3$.
See the table above for trend values

(iii) For 2008, $x = 7$

$$Y_{2008} = 186 + 10.75 \times 7 = 261.25, \text{ i.e., } 261 \text{ refrigerators.}$$

(b)

(i) The monthly rate is $i = \frac{0.084}{12} = 0.007$. so after 5 years, there have been $n = 12(5) = 60$ payments of interest and the balance is

$$15000 \left(1 + \frac{0.084}{12} \right)^{60} = 15000(1.007)^{60} = K22\,796.04$$

(ii) The APR formula gives the rate $r = \left(1 + \frac{0.084}{12} \right)^{12} - 1 = 0.081310661$
So the APR = 8.73%

SOLUTION THREE

(a)

| Weekly expenditure (K) | x | Frequency f | fx | Cumulative frequency |
|------------------------|-----|---------------|-------------------|----------------------|
| 10 – 14 | 12 | 4 | 48 | 4 |
| 15 – 19 | 17 | 6 | 102 | 10 |
| 20 – 24 | 22 | 10 | 210 | 20 |
| 25 – 29 | 27 | 5 | 135 | 25 |
| 30 – 34 | 32 | 7 | 224 | 32 |
| 35 – 39 | 37 | 3 | 111 | 35 |
| 40 – 44 | 42 | 9 | 378 | 44 |
| 45 – 49 | 47 | 6 | 282 | 50 |
| | | $\sum f = 50$ | $\sum fx = 1,490$ | |

$$(i) \quad \bar{x} = \frac{\sum fx}{\sum f} = \frac{1490}{50} = 29.8$$

(ii) Here $n = 50$, $\frac{n}{2} = 25$, So, 25 – 29 is the median class.

$$\begin{aligned} \text{Median} &= l + \left(\frac{\frac{n}{2} - cf}{f} \right) \times h \\ &= 24.5 + \left(\frac{25 - 20}{5} \right) \times 5 \\ &= 24.5 + 5 \\ &= 29.5 \end{aligned}$$

(iii) Here frequency of class interval 20 – 24 is maximum. So, it is the modal class.

$$\begin{aligned} \text{Mode} &= l + \left(\frac{f_1 - f_0}{2f_1 - f_0 - f_2} \right) \times h \\ &= 19.5 + \left(\frac{10 - 6}{2(10) - 6 - 5} \right) \times 5 \\ &= 19.5 + 2.2 \\ &= 21.7 \end{aligned}$$

(b) First Mtonga has K40 000 in his account at $r = 4.5\%$ compound monthly $m = 12$. This should be treated as a separate account. This amount in 12 years' time will be

$$p_t = p_0 \left(1 + \frac{r}{m}\right)^{mt} = 40\,000 \left(1 + \frac{.045}{12}\right)^{12(15)} = 40\,000(1.00375)^{180} = K78\,462.20$$

Now the K1 000 per month for 15 years is the amount of an annuity

$$S = R \left[\frac{(1 + i)^n - 1}{i} \right] = 1000 \left[\frac{\left(1 + \frac{.045}{12}\right)^{12(15)} - 1}{\frac{.045}{12}} \right] = 1\,000(42.73577814)$$

$$= K256\,414.67$$

The total amount in the account after 15 years will be the sum of what we got from the original K40 000 and the total amount from K1 000 monthly deposits: $K78\,462.20 + K256\,414.67 = K334\,876.87$

SOLUTION FOUR

(a)

(i) From the given information, the distribution of X is:

| | | | | |
|------|-----|------|-----|------|
| X | 0 | 2 | 5 | 10 |
| P(X) | 0.1 | 0.45 | 0.3 | 0.15 |

(ii) **Mean:**

$$E(X) = \sum xP(X = x) = 0(0.1) + 2(0.45) + 5(0.3) + 10(0.15) = K3.9 \text{ Million}$$

(iii) **Standard deviation:**

$$\begin{aligned} \text{Var}(X) &= E(X^2) - [E(X)]^2 \\ E(X^2) &= 0^2(0.1) + 2^2(0.45) + 5^2(0.3) + 10^2(0.15) \\ &= 0 + 1.8 + 7.5 + 15 \\ &= 24.3 \end{aligned}$$

Therefore,

$$\begin{aligned} \text{Var}(X) &= E(X^2) - [E(X)]^2 \\ &= 24.3 - 3.9^2 \\ &= 9.09 \end{aligned}$$

$$\begin{aligned} \text{Standard deviation} &= \sqrt{9.09} \\ &= K3.01 \text{ Million} \end{aligned}$$

(b) (i) There are 8 pairs of data, so $n = 8$. Ranking the lowest mark 1 and the highest rank 8 gives the ranks as shown below:

| | | | | | | | | | |
|--------------------|----|----|---|----|----|----|----|----|------------------|
| Position (X) | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| Av. Attendance (Y) | 27 | 29 | 9 | 16 | 24 | 15 | 12 | 22 | |
| Rank X | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| Rank Y | 7 | 8 | 1 | 4 | 6 | 3 | 2 | 5 | |
| d | 6 | 6 | 2 | 0 | 1 | 3 | 5 | 3 | |
| d^2 | 36 | 36 | 4 | 0 | 1 | 9 | 25 | 9 | $\sum d^2 = 120$ |

$$\begin{aligned} r_s &= 1 - \frac{6 \sum d^2}{n(n^2 - 1)} \\ &= 1 - \frac{6(120)}{8(8^2 - 1)} = -0.43 \end{aligned}$$

Spearman's coefficient of correlation is -0.43.

- (ii) This appears to show a very weak negative correlation between the position and the average attendance of the club.

SOLUTION FIVE

(a)

(i) Simulation for 10 years is carried out in the table below:

| Yield in kg/acre | Probability | Cumulative Probability | Range | Random numbers fitted |
|------------------|-------------|------------------------|---------|-----------------------------------|
| 120 | 0.18 | 0.18 | 00 – 17 | 02(10) |
| 140 | 0.26 | 0.44 | 18 – 43 | 20(1), 34(3), 30(5), 22(6) |
| 160 | 0.44 | 0.88 | 44 – 87 | 72(2), 54(4), 48(7), 74(8), 76(9) |
| 180 | 0.12 | 1.00 | 88 – 99 | |

∴ Yields over the next ten years are 140, 160, 140, 160, 140, 140, 160, 160, 160 and 120Kg respectively.

(ii) Price/kg of the corn crop over the next 10 years is simulated in the table below:

| Price/kg (K) | Probability | Cumulative Probability | Range | Random numbers fitted |
|--------------|-------------|------------------------|---------|-----------------------|
| 2.00 | 0.05 | 0.05 | 00 – 04 | 03(10) |
| 2.10 | 0.15 | 0.20 | 05 – 19 | 18(3), 11(8) |
| 2.20 | 0.30 | 0.50 | 20 – 49 | 20(5) |
| 2.30 | 0.25 | 0.75 | 50 – 74 | 56(7), 52(9) |
| 2.40 | 0.15 | 0.90 | 75 – 89 | 82(1), 84(6) |
| 2.50 | 0.10 | 1.00 | 90 – 99 | 95(2), 96(4) |

∴ Price/Kg over the next ten years K2.40, 2.50, 2.10, 2.50, 2.20, 2.40, 2.30, 2.10, 2.30 and 2.00 respectively.

(iii) $Revenue/acre = Yield\ in\ kg/acre \times price\ in\ K/Kg$

∴ Revenue/acre over the next ten years

K336, 400, 294, 400, 308, 336, 368, 336, 368 and 240 respectively.

$$\begin{aligned} \text{Expected yield/acre} &= 120 \times 0.18 + 140 \times 0.26 + 160 \times 0.44 + 180 \times 0.12 \\ &= (21.6 + 36.4 + 70.4 + 21.6) Kg = 150Kg \end{aligned}$$

Expected price/Kg

$$= K (2 \times 0.05 + 2.10 \times 0.15 + 2.20 \times 0.30 + 2.30 \times 0.25 + 2.40 \times 0.15 + 2.50 \times 0.10)$$

$$= K (0.10 + 0.315 + 0.66 + 0.575 + 0.36 + 0.25) = K 2.26$$

$$\therefore \text{Average revenue/acre} = K150 \times 2.26 = K339$$

(b) For project I:

$$\begin{aligned}PV &= \frac{35,000}{(1+0.08)^1} + \frac{40,000}{(1+0.08)^2} + \frac{50,000}{(1+0.08)^3} + \frac{120,000}{(1+0.08)^4} \\ &= 32,407.41 + 34,293.55 + 39,691.61 + 88,203.58 \\ &= \text{K}194,596.15\end{aligned}$$

$$\begin{aligned}NPV_I &= PV_{in} - I_0 \\ &= 194,596.15 - 200,000 \\ &= -\text{K}5,403.85\end{aligned}$$

For project II:

$$\begin{aligned}PV &= \frac{40,000}{(1+0.075)^1} + \frac{40,000}{(1+0.075)^2} + \frac{95,000}{(1+0.075)^3} + \frac{100,000}{(1+0.075)^4} \\ &= 32,209.30 + 34,613.30 + 76,471.25 + 74,880.05 \\ &= \text{K}223,173.90\end{aligned}$$

$$\begin{aligned}NPV_{II} &= PV_{in} - I_0 \\ &= 223,173.90 - 200,000 \\ &= \text{K}23,173.90\end{aligned}$$

Project I would incur a loss of K5,403.85. Project II would make a positive net value of K23,173.90. Project I would be rejected, Project II would be accepted.

SOLUTION SIX

(a)

1. **Relevance.** Information must be relevant to the purpose for who which the manager wants to use it
2. **Completeness.** An information user should have all the information needed to do a proper job
3. **Accuracy.** Information should be sufficiently accurate for its purpose because using incorrect information could have serious and damaging consequences.
4. **Clarity.** Information must be clear to the user.
5. **Confidence.** Information must be trusted by the managers who are expected to use it. However not all information is certain. Some information has to be certain, especially operating information, for example, related to a production process, strategic information, especially relating to the environment, is uncertain. However, if the assumptions underlying it are clearly stated, this might enhance the confidence with which the information is perceived.
6. **Communication.** Within any organization, individuals are given the authority to do certain tasks, and they must be given the information they need to do them.
7. **Volume.** There are physical and mental limitations to what a person can read, absorb and understand properly before taking action.
8. **Timing.** Information which is not available until after a decision is made will be useful only for comparisons and longer – term control, and may serve no purpose even then. Information prepared too frequently can also be a problem.
9. **Channel of communication.** There are occasions when using one particular method of communication will be better than others. For example, job vacancies should be announced in a medium where they will be brought to the attention of the people most likely to be interested.
10. **Cost.** Information should have some value, otherwise it would not be worth the cost of collecting and filing it. The benefits obtainable from the information must exceed the cost of acquiring it.

(b)

(a) (i) Compress the given information tabular form

| Time | Type 1 | Type 2 | Availability |
|----------------|--------|--------|--------------|
| Machine time | 2 | 3 | 30 |
| Craftsman time | 5 | 5 | 60 |
| Profit | 75 | 95 | |

Let x_1 be the number of type 1 and x_2 type 2 produced each day

Then maximize profit $75x_1 + 95x_2$

Subject to the following constraints

$$2x_1 + 3x_2 \leq 30$$

$$5x_1 + 5x_2 \leq 60$$

$$x_1, x_2 \geq 0$$

(ii)see graph attached.

| Line | X intercept | Y intercept |
|-----------------------|-------------|-------------|
| $2x_1 + 3x_2 \leq 30$ | (0,10) | (15,0) |
| $5x_1 + 5x_2 \leq 60$ | (0,12) | (12,0) |

The point of intersection is given by solving the two systems of equations using elimination or substitution method.

| | |
|---|-------|
| $2x_1 + 3x_2 \leq 30$ and $5x_1 + 5x_2 \leq 60$ | (6,6) |
|---|-------|

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 12 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: Ten (10) compulsory multiple choice questions.
Section B: Any two (2) of three (3) optional questions on Microeconomics.
Any two (2) of three (3) optional questions on Macroeconomics.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A - (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 The basic economic problem facing all economies is.....
- A. Maximising economic growth
 - B. Unemployment
 - C. Inflation
 - D. Allocation of scarce resources
- (2 marks)

- 1.2 A merger between two firms at different stages in the same production process such as a firm producing maize and a milling company processing mealie meal is an example of.....
- A. Horizontal integration
 - B. Vertical integration
 - C. Conglomerate diversification
 - D. Organic growth
- (2 marks)

- 1.3 To determine whether two goods are substitute or complements in production, an economist would calculate.....
- A. Income elasticity of demand
 - B. Price elasticity of supply
 - C. Cross elasticity of demand
 - D. Cross elasticity of supply
- (2 marks)

- 1.4 In the short run, firms would continue to supply a good provided they cover.....
- A. Fixed costs
 - B. Variable costs
 - C. Total costs
 - D. Opportunity cost
- (2 marks)

- 1.5 Which one of the following is NOT a financial intermediary in Zambia?
- A. Zambian National Commercial Bank (ZANACO)
 - B. Lusaka stock Exchange (LuSE)
 - C. National Pension Authority (NAPSA)
 - D. Development Bank of Zambia (DBZ)
- (2 marks)
- 1.6 Which of the following best describes the cause of cyclical unemployment?
- A. Technological change
 - B. Seasonal change
 - C. Excess demand
 - D. Deficient demand
- (2 marks)
- 1.7 A (an).....is a quantitative restriction of the quantity of a good allowed to be imported into the country.
- A. Quota
 - B. Tariff
 - C. Embargo
 - D. Exchange controls
- (2 marks)
- 1.8 Which of the following best reflects the ability-to-pay philosophy of taxation?
- A. Taxes on residential property
 - B. Progressive income taxes
 - C. Excise taxes on fuel
 - D. Excise taxes on Chibuku (Opaque) beer
- (2 marks)
- 1.9 If the Bank of Zambia wishes to increase the excess reserves of commercial banks, which of the following actions would be recommended?
- A. The Bank of Zambia sells bonds to the public
 - B. The Bank of Zambia sells bonds to commercial banks
 - C. The Bank of Zambia buys bonds from commercial banks
 - D. The Bank of Zambia increases the discount rate.
- (2 marks)
- 1.10 Which one of the following are characteristics of monopolistic competition?
- (i) Large number of sellers of a product
 - (ii) Differentiated product
 - (iii) Normal profit in the long run
 - (iv) Freedom of entry into and exit from the industry
- A. (i), (ii) and (iii) only
 - B. (i), (iii) and (iv) only

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

(2 marks)

[Total: 20 Marks]

SECTION B

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

1. MICROECONOMICS

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

QUESTION TWO

- (a) Use supply and demand curves to illustrate how each of the following events would affect the equilibrium price and equilibrium quantity of a named good:

Required:

- (i) A recommendation for health consumption of 'chibwabwa' (5 marks)
 - (ii) An increase in the price of fertiliser used in maize production (5 marks)
 - (iii) An increase in consumer income levels assuming a normal good (5 marks)
- (b) Explain the difference between an individual demand curve and market demand curve. (5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain any three (3) features of a free market economic system. (6 marks)
- (b) Assess whether the free market system should be used to provide all types of goods in an economy. (4 marks)
- (c) Explain any three (3) benefits and any two (2) costs of economic growth. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

The primary objective of a profit seeking organisation is to maximise profits. To do this, the firm must pay particular attention to its marginal revenue

- (a) Define marginal revenue. (2 marks)
- (b) State the formula for calculating marginal revenue. (2 marks)
- (c) Explain why marginal revenue is constant and equal to price under perfect competition? (4 marks)
- (d) Discuss the shape and elasticity of the demand curve facing a perfectly competitive firm. (6 marks)

- (e) Explain how a perfectly competitive firm determines how much to produce in the short run?

(6 marks)

[Total: 20 Marks]

2. MACROECONOMICS

Attempt any two (2) questions out of the three (3) questions from FIVE to SEVEN.

QUESTION FIVE

- (a) Explain any four (4) functions of financial intermediaries. (8 marks)
- (b) Describe any four (4) methods a central bank can use to control money supply in an economy. (8 marks)
- (c) Outline any two (2) limitations of monetary policy. (4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Suppose the Zambian banking system has liquid reserves of K500 billion and seeks to maintain a reserve ratio of 20%. Calculate the value of broad money supply. (5 marks)
- (b) Outline three (3) injections into the circular flow of income in an open economy. (6 marks)
- (c) You are given the following information about a closed economy:

$$Y = C + I + G$$

$$C = 100 + 0.40(Y - T)$$

$$I = 300$$

$$G = 900$$

Where: Y refer to national income, and where C, I, and G refer respectively to consumption, investment and government expenditure. Y - T refers to disposable income, and the tax (T) in this economy is 10.

- (i) Define 'closed economy' (3 marks)
- (ii) Calculate the equilibrium level of national income (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) A country may adopt either a freely floating exchange rate regime or fixed exchange rate regime or managed float regime. Each of these exchange rate systems has its own advantages and disadvantages to the country.
- (i) Outline any three (3) advantages of a freely floating exchange rate system.

(6 marks)

(ii) Outline any three (3) disadvantages of a freely floating exchange rate system

(6 marks)

(b) State any four (4) assets and any four (4) liabilities of commercial banks in Zambia.

(8 marks)

[Total: 20 Marks]

END OF PAPER

DA3 BUSINESS ECONOMICS SUGGESTED SOLUTIONS

SOLUTION ONE

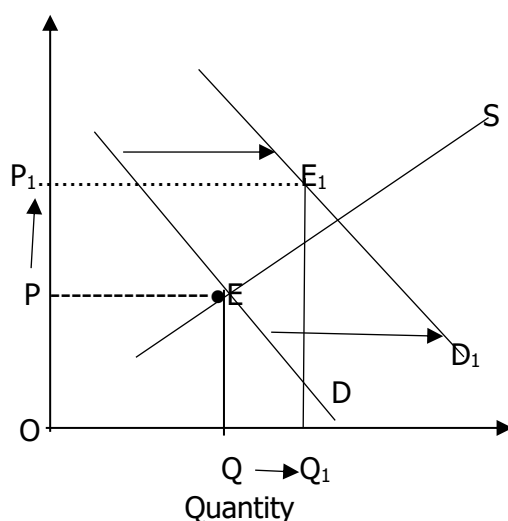
- 1.1 D
- 1.2 B
- 1.3 D
- 1.4 A
- 1.5 B
- 1.6 D
- 1.7 A
- 1.8 B
- 1.9 C
- 1.10 D

SOLUTION TWO

(a) Effect of changes

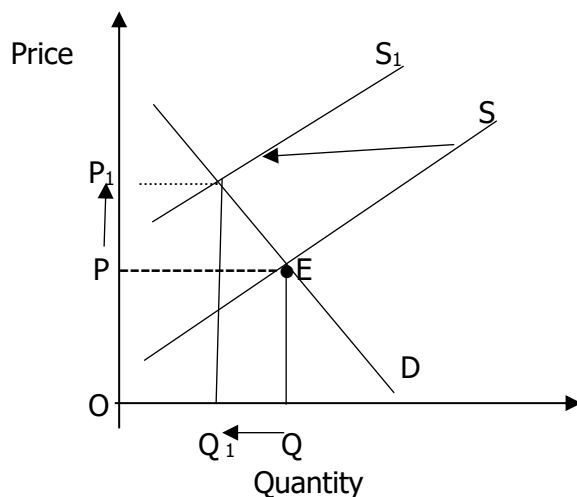
i) A recommendation for health consumption of 'chibwabwa'

Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point $E(Q,P)$. A recommendation for health consumption will affect the demand curve. The recommendation will cause people to increase their consumption of chibwabwa, thereby shifting the demand curve for it rightwards from D to D_1 . The new equilibrium is $E_1(Q_1, P_e)$. At this point the equilibrium price has increased from P to P_1 while the equilibrium quantity has increased from Q to Q_1 as shown below:

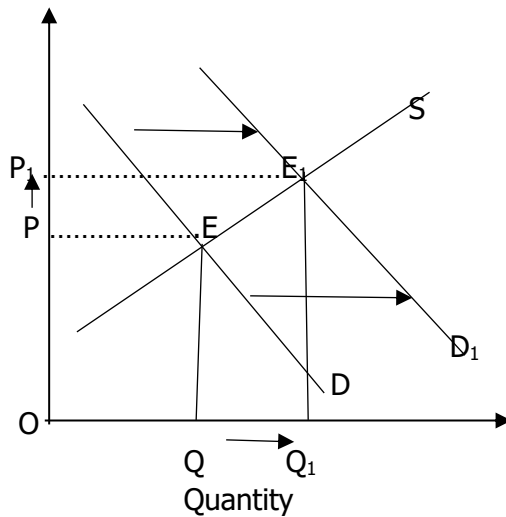


ii) An increase in the price of fertilizer used in production of maize

Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point $E(Q,P)$. An increase in the price of fertilizer increases the cost of producing maize, which reduces the supply of maize. An increase in the price of fertilizer shifts the supply curve to the left. The new equilibrium is $E_1(Q_1, P_e)$. At this point the equilibrium price has increased from P to P_1 while the equilibrium quantity has decreased from Q to Q_1 as shown below:



- iii) A increase in average income levels for a normal good
Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point $E(Q,P)$. For a normal good, an increase in average income will result in people buying more of it thereby shifting the demand curve for good rightwards from D to D_1 . The new equilibrium is $E_1(Q_1,P_e)$. At this point the equilibrium price has increased from P to P_1 while the equilibrium quantity has increased from Q to Q_1 as shown below:



- (b) An individual demand curve plots the quantity demanded by one person at various prices. A market demand curve is the horizontal sum of all the individual demand curves. It plots the total quantity demanded by all consumers at various prices

SOLUTION THREE

(a) Features of free market

1. No government intervention in the economic system, including no legislative control over employment, production or pricing. Instead, businesses and organizational groups are given full legislative control.
2. Supply and demand drives production, the use of resources and sets prices.
3. All goods and services are produced in the private sector.
4. All properties are privately owned by individuals or businesses.
5. Any goods or services are exchanged voluntarily by buyers and sellers, with sellers setting any price they consider to be appropriate.
6. Complete freedom for financial institutions and individuals.

(b)

1. Free market should not provide all types of goods because;
2. Public goods can only be provided by governments.
3. Merit goods will be underprovided in the free market and governments should intervene to increase provision.
4. Demerit goods will be overprovided by the free market and should be controlled in provision.

(c) Main Benefits of Economic Growth

1. Higher living standards – i.e. Real GNI per capita – helps to lift people out of extreme poverty and improve development outcomes (e.g. rising HDI)
2. Employment effects – sustained growth stimulates jobs and contributes to lower unemployment rates which in turn helps to reduce income inequality.
3. Fiscal dividend – higher economic growth will raise tax revenues and reduce government spending on unemployment & poverty related welfare benefits
4. Accelerator effect - rising growth stimulates new investment e.g. in low-carbon technologies. Better growth may attract foreign direct investment projects

Main Costs of Economic Growth

Risks of higher inflation and higher interest rates

1. Fast-growing demand can lead to demand-pull and cost-push inflation – this leads to a conflict between macro objectives
2. The central bank may decide to raise interest rates to control inflation

Environmental effects

1. More negative externalities such as pollution & waste
2. Risk of unsustainable extraction of finite resources – i.e. fast growing countries may cause a long-run depletion of natural resources

Inequalities of income and wealth

1. Rapid increases in real national income can lead to a higher level of inequality and social divisions
2. Many of the gains from growth may go to only a few people

SOLUTION FOUR

(a) Marginal Revenue is defined as the change in Total Revenue for a one-unit change in the quantity sold.

(b) Marginal Revenue (MR) = $MR = \frac{dTR}{dq} = \frac{\Delta TR}{\Delta q}$

(c) Since the perfectly competitive firm can sell any amount of the commodity at the prevailing market price, its MR is constant. For example, if $P = K4$, $TR = K4$ when the firm sells one unit and $TR = K8$ for two units. Thus, $MR = \text{change in } TR = K4 = P$.

$$MR = \frac{dTR}{dq} \text{ but } TR = pq$$

$$MR = \frac{d}{dq}[pq] = p \text{ This shows that firms are price takers.}$$

(d) Since the perfectly competitive firm can sell any amount at the market price, the demand curve it faces is horizontal or infinitely elastic at this price. With a horizontal demand curve, an infinitely small fall in price causes an infinitely large increase in sales because all consumers will go to the seller with the lowest price. As the denominator of the elasticity formula (the percentage change in price) approaches zero and the numerator (the percentage change in quantity) becomes very large, the value of the fraction and elasticity (ED) approaches infinity.

(e) We can determine how much a firm produces in the short run by making the reasonable assumption that the firm wants to maximize its total profits or minimize its total losses. The general rule is that the firm should expand its output until $MR = MC$ (as long as P exceeds AVC). A firm should expand its output as long as the addition to TR from an additional unit sold (its MR) exceeds the addition to TC to produce this extra unit (its MC). As long as $MR > MC$, the firm can increase its total profits by expanding output. The firm should not produce any unit for which $MR < MC$. If it did, it would be adding more to its TC than to its TR and its total profits would fall.

SOLUTION FIVE

(a) Functions of financial intermediaries

A convenient way in which lenders save money

1. They can package the amounts lent by savers and lend on to borrowers in bigger amounts (aggregation). They provide a ready source of funds for borrowers.
2. The lenders, capital is secure, bad debts are borne by the financial intermediary.
3. They bridge the gap between the wish of most lenders for liquidity and the desire of most borrowers for loans over longer periods. This is known as maturity transformation.
4. They provide tangible returns to savings i.e. Interest rates.
5. They act as an important medium for the implementation of financial (monetary) policies.

(b)

1. **Open Marketing Operations:** By intervening in the open market to buy or sell securities, the central bank can directly influence the size of bankers' deposits. If the central bank wants to reduce the rate of inflation, it has to control (reduce) the money supply, and if it sold securities, e.g. treasury bills if it is a short term measure or government bonds if it is a long-term measure, the central bank receives payment by cheques drawn on commercial banks. This brings about a reduction in commercial banks deposits as well as the amount of money circulating in the economy.
2. **Bank Rate (interest rate changes):** The importance of central bank rate is that other rates of interest used, depend on it, the rate charged to discount houses, the rates charged on advances to customers and the rate offered on deposit accounts. These rates move up or down with central bank rate. To check inflation, i.e. to reduce the money supply, the interest rate is raised to make credit expensive and as such discourage people from borrowing.
3. **Special Deposits:** To reduce the cash basis for credit creation and to contract credit, the central bank can request commercial banks to place specified amount or to increase the percentage of these specified amounts, which are supposed to be kept in frozen accounts with the central bank. The government pays interest on the 'special deposits'. When following an expansionary policy, to encourage lending, the special deposits are returned.
4. **Assets Ratios:** The central bank dictates or compels commercial banks to keep certain proportions of specified assets. To control inflation the ratio is raised.
5. **Directives (moral suasion):** This is a direct instruction from the central bank to the commercial banks to restrict their lending. The directive can be in two forms:
 - Qualitative, this is when commercial banks are requested to restrict lending only to purposes regarded as being in the national interest. Commercial banks would be encouraged to lend only to important sectors in the economy such as agriculture, mining and manufacturing.
 - Quantitative, this is when banks are instructed to reduce their lending by a required amount.

(c) Limitations of monetary policy

1. A central bank may lack adequate, detailed, up to date information on the economy and the money supply.
2. The central bank has to closely supervise the commercial banks to ensure that they have reduced their lending to customers, in order to reduce the money supply in the economy.
3. Conflicting objectives of reducing the money supply, which results in an increase in the rate of interest, lower investments, less Economic activity and increased unemployment. The government has to trade inflation for unemployment or vice versa.
4. The reluctance of the central bank to undermine initiative and commercial banks' ability to make profits, as mentioned earlier, lending is the most profitable business of commercial banks.

(a) Total deposits (broad money) = liquid reserves x credit multiplier. Credit multiplier = 1/reserve ratio. Thus, broad money = K500 billion x 1/0.2 = K2,500 billion.

(b) Injections into the circular flow of income are:

1. **Investment (I).** Investment in capital goods is a form of spending on output, which is additional to expenditure by households. Just as savings are a withdrawal of funds, investment is an injection of funds into the circular flow of income, adding to the total economic wealth that is being created by the country
2. **Government spending (G).** Government spending is also an injection into the circular flow of income. In most mixed economies, total spending by the government on goods and services represents a large proportion of total national expenditure. The funds to spend come from either taxation income or government borrowing
3. **Exports (X).** Firms produce goods and services for export. Exports earn income from abroad, and therefore provide an injection into a country's circular flow of income.

(c) The level of national income:

i) A closed economy is an economy which does not export or import goods and services.

ii) The equilibrium nation income is:

$$Y = C + I + G$$

$$\text{But } C = 100 + 0.40(Y - T)$$

$$Y = 100 + 0.40(Y - 10) + 300 + 900$$

$$Y = 100 + 0.40Y - 4 + 300 + 900$$

$$Y - 0.40Y = 100 - 4 + 300 + 900$$

$$Y(1 - 0.40) = 1,296$$

$$Y = \mathbf{K2,160}$$

SOLUTION SEVEN

(a) Freely floating exchange rate system:

- i) Advantages of floating exchange rates:
 1. Governments do not have to spend or even hold foreign currency reserves
 2. Balance of payments deficits or surpluses are automatically corrected. A deficit will result in the exchange rate falling; this will improve competitiveness, raise exports and restore equilibrium
 3. Governments need not adopt economic policies that may be undesirable for other reasons to maintain exchange rates
 4. Encourage efficient allocation of resources since exchange rates will reflect economic conditions.
- ii) Disadvantages of floating exchange rates
 1. If exchange rates appreciate too much under a floating rate system, then firms' international competitiveness may be reduced, and output and employment may fall across the economy
 2. Uncertainty surrounding fluctuations in exchange rate could deter trade
 3. If exchange rates fall too much, import prices, and hence inflation, will rise.
 4. Currency risk will be maximised under a system of floating exchange rates
 5. The freedom afforded governments by (c) in the advantages above may mean governments do not pursue domestic policies which they should.

(b) Assets and liabilities of commercial banks:

- i) Assets:
 1. Notes and coins
 2. Customer loans and advances
 3. Investments in securities
 4. Balances with the Bank of Zambia
 5. Balances with banks and other financial institutions in Zambia
 6. Balances with banks and other financial institutions abroad
 7. Fixed assets
- ii) Liabilities:
 1. Customer deposits
 2. Balances to banks and other financial institutions in Zambia
 3. Balances due to banks and other financial institutions abroad
 4. Borrowed funds
 5. Shareholders' equity

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 13 SEPTEMBER 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 paper is divided into TWO (2) sections:

Section A: Ten (10) compulsory multiple choice questions. Five (5) on Information Technology and five (5) on Communication.

Section B: There are three (3) questions on **Information Technology**. Attempt any two (2) questions.

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

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions

QUESTION ONE

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

1.1 The disk can be used as an ordinary floppy

- A. CD-RRW
- B. CD-ROM
- C. CD-RW
- D. CD-R

(2 marks)

1.2 Validation tests are checks done under ... controls

- A. Input
- B. Processing
- C. Output
- D. Data

2 marks)

1.3 Which statement below describes a Local Area Network (LAN)

- A. Computer devices connected together through a telecommunication link over a wider geographical area.
- B. A network of computers connected to together over a short distance or within a building.
- C. Computer network and associated devices connected within a city or town.
- D. Connected computer devices within a bigger radius such as military base or university campus.

(2 marks)

1.4 Mail-merge is most commonly achieved using the following software package(s)

- A. Spreadsheet and word processor
- B. Graphics package and Powerpoint
- C. Word processor and Publisher
- D. Database software and spreadsheet

(2 marks)

1.5 Which statement is TRUE regarding the use of BLOCK CHAIN TECHNOLOGY

- A. The technology is a form of distributed processing and removes intermediary during ledger processing as all the transactions are visible to the group in the dataset.
- B. Block chain can only be applied to cryptocurrency processing and usage.
- C. The rules on the use of block chain are set by a legal entity
- D. Block chain acts as an interface between the user and the computer hardware.

(2 marks)

1.6 Which of the following differentiates a memorandum from a letter?

- A. Tone
- B. Formality
- C. Date
- D. Subject

(2 marks)

1.7 What barrier of communication will be created if a supervisor is reluctant to criticize a friend who is a subordinate?

- A. Emotion barrier
- B. Status barrier
- C. Not wanting to receive messages
- D. Not wanting to transmit messages

(2 marks)

1.8 Letters, posters, group discussions and emails are examples of _____.

- A. Mediums of communication
- B. Channels of communication
- C. Directions of communication
- D. Patterns of communication

(2 marks)

1.9 Which of the following best describes the **abstract** in a report?

- A. It is the part of the report that constitutes the main ideas of the report
- B. It is the part of the report that outlines the author's areas of reporting
- C. It is the conclusion of the report
- D. It shows recommendations of a report

(2 marks)

1.10 Meeting minutes are _____.

- A. An announcement of a meeting
- B. A list of items to be discussed in a meeting
- C. An official invitation to attend a meeting
- D. A record to show evidence of a meeting

(2 marks)

[Total: 20 Marks]

SECTION B

This section has TWO (2) parts:

1. INFORMATION TECHNOLOGY

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

Attempt any two (2) from questions: TWO, THREE AND FOUR

QUESTION TWO

You are employed in Amama a private audit firm as an Internal Auditor, Amama management has formed an intranet design team and you are part of that team.

Required:

- (a) Describe five (5) different types of information typically found on an Intranet webpage for Amama. (10 marks)
- (b) State any five (5) differences between MS Word and MS Excel. (10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Chami Ltd, a steel manufacturing company in Chilanga had recently implemented a database which is holding records of all the inventory, orders and sales of the steel products. As Chief Accountant you have been tasked to work with IT to assist employees to use a database management system to be able to provide various management reports.

Required:

- Explain with examples five (5) advantages of implementing a database to Chami employees (10 marks)
- (b) The most important software in a computer system is the Operating System. Explain three (3) functions of the operating system. (6 marks)
- (c) A Ngabwe based bank has been contemplating using block chain technology for its financial transaction in order to start using crypto currency as opposed to the current usage of bank notes. As a Financial manager, management has you asked you to research on the above technology.

Required:

- Explain a role of a miner in block chain transactions. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Write the structure of an excel =IF() function. (4 marks)
- (b) List the four (4) types of Tab stops in word processing. (4 marks)
- (c) The world has transformed the way human beings communicate between each other due to the emergence of information communication technology (ICT) innovation.

Explain the following acronyms

- (i) WWW (2 marks)
 - (ii) HTTP (2 marks)
 - (iii) URL (2 marks)
- (d) Explain how you would protect the following on intranet against hackers;
- (i) Confidentiality of information (2 marks)
 - (ii) Social network software installed on server (2 marks)
 - (iii) Identity of employee's information (2 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Memos and emails play a very important role in circulating information within an organisation. As Chief Financial Officer at Zambia Revenue Authority, you are required to write a memo informing members of the Accounts Department to prepare for the Finance Minister's visit to your institution.

Required:

- (a) Explain the contents of the following elements of a memo:
- | | |
|------------------|-----------|
| (i) Introduction | (2 marks) |
| (ii) Conclusion | (2 marks) |
| (iii) Subject | (2 marks) |
| (iv) Reference | (2 marks) |
| (v) Main body | (2 marks) |
- (b) Outline any five (5) limitations of using emails. (10 marks)

[Total: 20 Marks]

QUESTION SIX

The process of communication has multiple barriers based on the situation and ability of the person. The intended message will often be disturbed and distorted leading to misunderstanding and failure of communication. In order to avoid barriers to effective communication, concepts such as **PASS**, **KISS** and **7Cs** should be employed.

Required:

- (a) What does the mnemonic **KISS** stand for? (4 marks)
- (b) State any four (4) reasons why it is important to use the **KISS** concept in business communication. (8 marks)
- (c) Explain any four (4) of the **7Cs** of communication. (8 marks)

[Total: 20 Marks]

QUESTION SEVEN

In every organization not a day goes by without holding a meeting. Some meetings are formal while others are informal.

Required:

- (a) Explain any five (5) roles of a member in a business meeting. (10 marks)
- (b) Outline any five (5) differences between formal and informal meetings. (10 marks)

[Total: 20 Marks]

END OF PAPER

DA4 INFORMATION TECHNOLOGY AND COMMUNICATION SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Types of information typically found on an Intranet webpage

1. Guide in using the intranet, FQA, instructional videos for operations or detailed instructions are helpful to users
2. Company official documents, policies and forms will prevent employees from using the outdated version
3. Company goals and strategies, which must be updated frequently
4. Employee spotlight helps bring employees together and recognise the accomplishments
5. A section where information about how tasks and processes are carried out. It helps employees, save time in finding the information they need when completing simple and complex tasks
6. HR information including benefits, pay vacation leave or individual training. It saves time for HR and employees have access to all information they need
7. Internal network provides employees with learning opportunities and resources to enhance their skills and knowledge

(b)

The difference between MS Word and MS Excel

| MS WORD | MS EXCEL |
|---|---|
| Word processor is used to prepare documents like letters, reports etc. | Spread sheet used to record data in rows and columns – in form of a table |
| File extension is "doc" | File extension is "xls" |
| New documents is a blank page where one can add text, images | A spread sheet has rows and columns where data is manipulated |
| A spread sheet table can be inserted in a word document | A word file cannot be inserted in a spread sheet |
| A formula can be written manually and automatic calculations cannot be done | Once a formula is entered in a spread sheet automatic calculations can easily be done |
| Advanced formatting features are available | Limited formatting features are available |
| Statistical analysis and division of data is complex | Filtering and editing statistical data is simpler |

SOLUTION THREE

(a) Advantages of implementing a database

1. Less duplication – data is input once only to update the data on the file
2. Less processing – minimising data redundancy storage space in the system files is reduced, and storage space is used more efficiently
3. Updating is much easier and data is equally up to date for all applications
4. Data consistency/data integrity- all users access the same data and therefore inconsistencies between data in different applications systems do not exist
5. Improving access to data, which allows many different users access to shared files and to quickly search for and find data
6. Data can be used by different users for different applications and in different ways

(b) Functions of the Operating System

1. Initial set-up of the computer once it has booted up via the BIOS
2. Checking that hardware or peripherals are functioning properly
3. Calling up of program files and data files into memory
4. Opening and closing files
5. Interpreting and executing computer user commands
6. Controlling system security i.e monitoring the use of passwords
7. Managing multitasking i.e using more than one application at once

(c) A miner is a user who is participating in crypto currency dealings and he also verifies transactions

Roles of a miner

1. They are responsible for verifying transactions and adding them to the block chain
2. They use powerful computers to solve complex mathematical problems that allow them to validate transactions
3. They help maintain the security of the block chain by verifying transactions and adding them to the ledger. This ensures that the ledger remains accurate, up to date and fraudulent transactions are not recorded.

SOLUTION FOUR

- (a) Write the structure of an excel =IF() function.
=IF(logical test, "value if true", "value if false)
- (b) List the four (4) types of Tab stops in word processing.
1. Left tab stop
 2. Right tab stop
 3. Centre tab stop
 4. Decimal tab stop
- (c) Explaining acronyms
1. WWW
World Wide Web is the interconnection of electronic documents on the internet webservers using hyperlink protocols
 2. HTTP
Hyper Text Transport Protocol is a format which allows the internet users to access documents on the World Wide Web.
 3. URL
Universal Resource Locator, this is a software which allows the users of the internet to search on the internet using a web address.
- (d) how to protect the following against hackers
1. Confidentiality of information: Encryption that is used to reduce the risk of being intercepted during transactions
 2. Social network software installed on the server: Firewall that may be configured to virus checks for messages and may also prevent files of a certain type to be sent via email
 3. Identity of employees' information: to ensure that only authorised individuals have access by using passwords and the allocation of system privileges depending on use and business need

SOLUTION FIVE

(a) Memo Elements

1. Introduction states the reason for writing
2. Conclusions states the expected action / seeks the reader's cooperation
3. Reference is the file number (code number created for filing. It assists to access or tract documents mostly correspondence in the organisation)
4. Subject is the topic of the message or main theme or statement of the memo
5. Main body gives more details about the statement

(b) Limitations

1. May not be secure
2. Once sent, it can't be retrieved
3. They lack personal touch which can promote interpersonal relations.
4. May contain viruses
5. It requires the use of bundles which can be a bit expensive.
6. Sometimes it can be mistakenly sent to a wrong person.
7. The recipient may misunderstand information due to lack of reinforcement of verbal communication.
8. Feedback may not be instant.
9. It requires one to have a computer and an email address, if not available communication using email may not be possible.

SOLUTION SIX

(a) KISS

1. Keep It Short and Simple

(b) **Importance of KISS**

1. Ensures the message is well structured
2. Makes it easy to read
3. Reduces ambiguity
4. Helps in avoiding use of jargon
5. Helps to focus on key points.
6. It saves time (shortens the time of communicating information)

(c) **7Cs**

1. Clear: information to be easy to understand
2. Conciseness: using few words to communicate
3. Concreteness: Specifics Instead of Generalizations. ...
4. Completeness: giving all the required information which is relevant to the recipient
5. Correctness: information given should accurate and free of any errors.
6. Courtesy: be polite and respectful when giving information
7. Consideration: information to be given should consider the audience (the aspect of audience's characteristics such as age, gender, literacy levels among others must be taken into consideration.

(a) **Roles of members**

1. To attend meetings on time
2. Make contributions
3. Help prepare the agenda
4. Be polite and respectful in discussions
5. Prepare for the meeting
6. Vote when need arises.

(b) **Formal vs Informal**

1. Formal must have meeting documents such as minutes, agenda and notices while
2. informal may have minutes
3. Formal meetings abide by strict rule while informal do not
4. Formal meetings are planned while informal may be spontaneous
5. Formal meetings need a quorum while informal do not
6. Formal has a notice and an agenda while informal may not
7. Formal meetings have meeting officials with official roles while informal meetings may not.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

TUESDAY 12 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – MULTIPLE CHOICE

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

QUESTION ONE

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

- 1.1 A company, which uses marginal costing, normally manufactures 1,000 units of a product in a period. The product is sold for K50 per unit. Costs for the 1,000 units are:

Direct materials K16,300
Direct labour K9,800
Fixed overheads K21,600

How much profit will be expected if 1,100 units of the product are manufactured and sold in a period?

- A. K2,300
B. K2,530
C. K4,690
D. K7,300

(2 marks)

- 1.2 A particular cost has been classified as 'semi-variable'.

How will the average cost per unit of activity be affected by a 20% reduction in the level of activity?

- A. Decrease by less than 20%
B. Decrease by more than 20%
C. Increase by less than 25%
D. Increase by more than 25%

(2 marks)

- 1.3 A wholesaler uses the first-in first-out (FIFO) method of pricing inventory issues at each month end. The following details, relating to Product Z, are provided for a month:

| | |
|-----------------|---------------------------------------|
| Opening balance | 860 units at a total cost of K1,892 |
| Purchases | 1,000 units at a total cost of K2,250 |
| Sales | 910 units |

What is the cost of sales of Product Z in the month?

- A. K2,002.00
B. K2,004.50
C. K2,045.00
D. K2,047.50

(2 marks)

- 1.4 Which of the following are expenses that may be part of the cost accounts, but not of the financial accounts?
1. Cash discounts available to customers
 2. Interest charged to products based on average inventory
 3. Notional rent for the use, by different cost centres, of company-owned buildings
 4. Trade discounts received from suppliers
- A. 1 and 4
B. 2 and 3 only
C. 1, 2 and 3
D. 4 only
- (2 marks)
- 1.5 In which of the following manufacturing environments would job costing be appropriate?
1. Production is carried out in accordance with the special requirements of each customer
 2. Products are mass produced for inventory
 3. Joint products are manufactured
- A. 1 only
B. 1 and 2
C. 3 only
D. 2 and 3
- (2 marks)
- 1.6 When is service costing used?
- A. When indirect costs are a small proportion of total costs
B. When overhead absorption is straightforward
C. When the absence of a physical product makes it impossible to determine unit costs
D. When the output is intangible
- (2 marks)
- 1.7 A company produced 6,200 units of a product in a period. The product used 80 kg of material per 100 units of output. The inventory holding of the material reduced by 380 kg in the period.
- What quantity of material was purchased in the period?
- A. 4,580 kg
B. 4,960 kg
C. 5,340 kg
D. 7,370 kg
- (2 marks)
- 1.8 A company has a single product with a selling price of K12 per unit, which is calculated as variable cost per unit, plus 20%. At an output level of 5,000 units it makes a loss of K8,000.
- What is the company's total fixed cost?

- A. K2,000
- B. K4,000
- C. K18,000
- D. K20,000

(2 marks)

1.9 The following are examples of labour costs incurred in production cost centre X in a factory:

1. Basic wages of machine operatives
2. Cost centre supervisor's wages
3. Wages (including overtime premium) of cleaning staff

Which of the labour costs are direct product costs?

- A. 1 only
- B. 1 and 2 only
- C. 1 and 3 only
- D. 1, 2 and 3

(2 marks)

1.10 A company prices its product by using a mark up of 80% on variable production cost. Fixed production overhead is absorbed at 50% of variable production cost and the product has a selling price of K15 per unit.

What is the product's full production cost per unit?

- A. K4.17
- B. K4.50
- C. K6.00
- D. K12.50

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this Section.

Attempt any FOUR (4) questions.

QUESTION TWO

Different costs tend to be affected differently by change in levels of activity. 'Over time or over a specific range of activity, some costs tend to be unaffected by the level of activity, whereas others will change as activity level changes.

Required:

- (a) Explain, each of the following three (3) cost behaviour patterns. Give one example for each pattern.
- (i) Variable cost. (2 marks)
 - (ii) Fixed cost. (2 marks)
 - (iii) Mixed cost. (2 marks)
- (b) The following information has been supplied for Banene Ltd, a manufacturing company based in Zambia:

| Activity | Activity level 1 | Activity level 2 |
|--------------------------|-------------------------|-------------------------|
| Production (units) | 40,000 | 80,000 |
| Sales (units) | 36,000 | 68,000 |
| Costs: | K | K |
| Direct material | 100,000 | 200,000 |
| Administration | 60,000 | 60,000 |
| Factory overhead | 340,000 | 400,000 |
| Production labour | 360,000 | 560,000 |
| Selling and distribution | 58,000 | 74,000 |

Required:

- Prepare a table summarising the variable cost per unit and total fixed cost for each of the five (5) cost headings above. (10 marks)
- (c) Calculate the total estimated cost using your answer in part (b), for an activity with level of production of 60,000 units and sales of 46,000 units. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Kasamu Engineering Ltd (KEL) is a manufacturer of machine components. The components are assembled from various parts and the production operatives are paid on a piece work basis. However, the company is concerned with the high rate of rejects from the operatives and thus, has altered the piece work payment scheme by charging a penalty of 20% of the equivalent good unit production rate on rejects made by any of the operatives. This penalty is charged against an operative total earned income from good units produced.

The piece work scheme to be applied to all good products in a week is as follows:

| Units | Cost per unit (K/u) |
|-----------|------------------------|
| 0 – 100 | 8 |
| 101 – 200 | 9.6 |
| 201 – 300 | 11.2 |
| Over 300 | 12.8 |

It should be noted that only additional units qualify for the higher rates in both cases (i.e. good units and rejects).

The following output was achieved by three operatives during the week ending 31 December, 2022:

| Operative | Banda | Mwape | Phiri |
|----------------------------|-------|-------|-------|
| | Units | Units | Units |
| Output (excluding Rejects) | 520 | 600 | 480 |
| Rejects | 119 | 162 | 100 |

Required:

- (a) Calculate separately the earnings of each operative Banda, Mwape and Phiri for the week ending 31 December, 2022. (9 marks)
- (b) State six (6) costs of labour turnover. (6 marks)
- (c) State five (5) reasons for labour turnover in an organisation. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

Maleleko Beauty Products Ltd (MBP) produces a brand of shampoo called 'Beauty'. It blends a liquid soap with a special ingredient (which has no significant volume). The resulting liquid is then put into bottles costing K0.40 each. Each bottle of Beauty contains one third of a litre of shampoo and sells for K16.

The data given below refers to the month of October 2022:

Inputs into the blending process:

| | K |
|---------------------------|--------|
| Liquid soap 11,400 litres | 30,492 |
| Special ingredient | 61,560 |
| Process labour | 10,518 |

The output from the process was 10,800 litres.

Overhead is charged to the process at 200% on Process labour cost.

The blending process normally causes losses of about 10% of input liquid soap. The losses take the form of a thicker soap which is sold for K2 per litre.

The monthly budgeted **maximum** output of the process is 10,800 litres.

Required:

- (a) Prepare the process account for the blending process for the month of October. (7 marks)
- (b) Calculate the normal profit per bottle of shampoo. (4 marks)
- (c) MBP Ltd starts to manufacture body lotion on 1 December 2022. During the month of December the company commences the production of 40,000 units. At the end of December there are 3,000 units still in process.

Additional information:

- (i) All materials have been input to the process.
- (ii) Work-in-progress is only one-third complete as regards labour.
- (iii) Costs for the period are: materials K20,000 and labour K19,000.

Required:

Calculate both the cost of finished production and the cost of work-in-progress.

(9 marks)

[Total: 20 Marks]

QUESTION FIVE

Professional Bakers Ltd (PBL) manufactures and sells a single product (bread). The following budgeted and actual information is provided in relation to the production of this product:

| | K/loaf (unit) |
|-------------------------------|---------------|
| Selling price | 25.00 |
| Direct materials | 4.00 |
| Direct labour | 2.50 |
| Variable production overheads | 1.75 |

Details for the months of July and August 2022 are as follows:

| Month | July | August |
|------------------------------|-------|--------|
| Production of bread (loaves) | 1,500 | 1,140 |
| Sales of bread (loaves) | 900 | 1,500 |

Fixed production overheads are budgeted at K6,000 per month and are absorbed on per loaf basis. The normal level of production is budgeted at 1,200 loaves per month.

Other costs:

| | |
|---------------------------|---------------------|
| Fixed selling | K6,000 per month |
| Fixed Administration | K4,000 per month |
| Variable sales commission | 5% of sales revenue |

The opening inventory of bread at the start of July was 450 loaves.

Required:

- Prepare the profit statement for July and August 2022 using absorption costing. (8 marks)
- Prepare the profit statement for July and August 2022 using marginal costing. (6 marks)
- Prepare the profit reconciliation statement for July and August 2022. (6 marks)

[Total: 20 Marks]

QUESTION SIX

BMK Jobbing Zambia Limited is a manufacturing company incorporated in the republic of Zambia. On 1 December 2022, the company had one incomplete Job in its factory. The following information relates to the job card No 4500 for incomplete work:

| S/N | Particulars | Amount (K) |
|-----|---------------------------|------------------|
| 1 | Direct material | 630,000 |
| 2 | Direct labour (120 hours) | 350,000 |
| 3 | Factory overheads | 240,000 |
| | Total | 1,220,000 |

During the month, three new Jobs were started in the factory and the cost of production were as follows:

| | |
|--|-----------|
| Direct materials issued to: | K |
| Job N4500 | 2,390,000 |
| Job N4501 | 1,680,000 |
| Job N4502 | 3,950,000 |
| Job N4503 | 4,420,000 |
| Damaged stock written off during the month | 2,300,000 |
| Materials transfers between jobs were as follows: | K |
| Job N4502 to Job N4501 | 250,000 |
| Job N4500 to Job N4502 | 620,000 |
| Materials returned to stores: | K |
| Job N4500 | 870,000 |
| Job N4503 | 170,000 |
| Direct labour hours recorded: | |
| Job N4500 | 430 hours |
| Job N4501 | 650 hours |
| Job N4502 | 280 hours |
| Job N4503 | 410 hours |

The cost of labour hours during the period was K3,000 per hour and production overhead is absorbed at the rate of K2,000 per direct hour. Production overhead incurred during the period amounted to K3,800,000. Completed jobs were delivered to customers and invoiced K5,500,000 for N4500; K8,000,000 for N4502; and K7,500,000 for N4503.

During the period, administration and marketing overheads amount to K3,200,000 and they are added to the cost of sales at the rate of 20% of factory cost.

Required:

- (a) Prepare the Job accounts for each job during the month ended 31 December 2022. (12 marks)
- (b) Prepare the profit/loss statement on each completed Job. (6 marks)
- (c) Determine the factory cost for the incomplete Job. (2 marks)

[Total: 20 Marks]

END OF PAPER

DA5 COST ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 C

1.3 B

1.4 B

1.5 A

1.6 D

1.7 A

1.8 C

1.9 A

1.10 D

SOLUTION TWO

(a)

- (i) **Variable cost:** variable cost is a cost that varies as the level of activity changes. An example of a variable cost is the cost of materials. As production is increased, the material requirement will increase and therefore the cost of materials will increase.
- (ii) **Fixed cost:** Fixed cost is a cost that remains the same irrespective of the level of activity. The cost of renting a building is classified as a fixed cost. The rent would be paid periodically and would not vary with the level of activity.
- (iii) **Mixed cost:** Mixed cost is a cost that is partly fixed and partly variable. An example of a mixed cost is the remuneration package of a sales representative. The basic salary of a sales representative is the fixed element and any sales commission paid is the variable element. The commission payable would depend on the volume of sales achieved, hence, the variable element.

(b)

| | Variable cost per unit | Fixed cost | working |
|------------------------|------------------------|------------|---------|
| | K | K | |
| Direct material | 2.5 | 0 | 1 |
| Administration | 0 | 60,000 | 2 |
| Factory overhead | 1.5 | 280,000 | 3 |
| Production labour | 5.0 | 160,000 | 4 |
| Selling & distribution | 0.5 | 40,000 | 5 |
| Total | 9.5 | 540,000 | |

(c)

| | | K |
|------------------------|-------------------------------------|-------------------------|
| Direct material | $60,000 \times K2.50 =$ | 150,000 |
| Administration | | 60,000 |
| Factory overhead | $(60,000 \times K1.5) + K280,000 =$ | 370,000 |
| Production labour | $(60,000 \times K5) + K160,000 =$ | 460,000 |
| Selling & distribution | $(46,000 \times K0.5) + K40,000 =$ | <u>63,000</u> |
| | | <u>1,103,000</u> |

WORKINGS

| W1: Direct material | Activity volume | Total cost | Variable | Fixed |
|--------------------------|-----------------|------------|----------|-------|
| | Units | K | K | K |
| Production | 40,000 | 100,000 | 2.5 | – |
| Production | 80,000 | 200,000 | 2.5 | – |
| Increase in units & cost | 40,000 | 100,000 | 2.5 | Nil |

| W2: Administration | Activity volume | Total cost | Variable | Fixed |
|--------------------------|-----------------|------------|----------|--------|
| | Units | K | K | K |
| Production | 40,000 | 60,000 | NIL | – |
| Production | 80,000 | 60,000 | NIL | – |
| Increase in units & cost | 40,000 | Nil | Nil | 60,000 |

| W3: Factory overhead | Activity volume | Total cost | Variable | Fixed |
|--------------------------|-----------------|------------|----------|---------|
| | Units | K | K | K |
| Production | 40,000 | 340,000 | NIL | – |
| Production | 80,000 | 400,000 | NIL | – |
| Increase in units & cost | 40,000 | 60,000 | 1.5 | 280,000 |

W4: Production labour

| | | | | |
|--------------------------|--------|---------|-------|---------|
| Production | 40,000 | 360,000 | - | - |
| Production | 80,000 | 560,000 | - | - |
| Increase in units & cost | 40,000 | 200,000 | 5.0 1 | 160,000 |

W5: Selling and distribution

| | | | | |
|--------------------------|--------|--------|-----|--------|
| Sales units | 36,000 | 58,000 | - | - |
| Sales units | 68,000 | 74,000 | - | - |
| Increase in units & cost | 32,000 | 16,000 | 0.5 | 40,000 |

Workings using high-low method

1. VC $K100,000/40,000 = K2.50$ per unit; $K200,000/80,000 = K2.50$
2. All fixed because there is no increase in costs as volume of output increases.
3. $40,000 \times K1.5 = K60,000$ variable. Total is $K340,000$. Fixed is $K280,000$
4. $40,000 \times K5 = K200,000$ variable. Total is $K360,000$. Fixed is $K160,000$.
5. V.C $= (K74,000 - K58,000) / (68,000 - 36,000) = K0.5$ per unit. $K58,000 - (0.5 \times 36,000) = K40,000$.

SOLUTION THREE

| | | (a) Total earnings | | |
|------------|--|--------------------------------------|---------------------------------------|-----------------------------------|
| Operative | | Banda | Mwape | Phiri |
| Good units | | <u>520</u> | <u>600</u> | <u>480</u> |
| 0 - 100 | | $K8 \times 100 = 800$ | $K8 \times 100 = 800$ | $K8 \times 100 = 800$ |
| 101 - 200 | | $K9.6 \times 100 = 960$ | $K9.6 \times 100 = 960$ | $K9.6 \times 100 = 960$ |
| 201 - 300 | | $K11.2 \times 100 = 1,120$ | $K11.2 \times 100 = 1,120$ | $K11.2 \times 100 = 1,120$ |
| Above 300 | | $K12.8 \times 220 = 2,816$ | $K12.8 \times 300 = 3,840$ | $K12.8 \times 180 = 2,304$ |
| Total wage | | <u>K5,696</u> | <u>K6,720</u> | <u>K5,184</u> |
| Rejects | | 119 | 162 | 100 |
| | | $20\% \times K8 \times 100 = 160$ | $20\% \times K8 \times 100 = 160$ | $20\% \times K8 \times 100 = 160$ |
| | | $20\% \times K9.6 \times 19 = 36.48$ | $20\% \times K9.6 \times 62 = 119.04$ | |
| Penalties | | <u>K(196.48)</u> | <u>K(279.04)</u> | <u>K(160)</u> |
| Net wages | | <u>K5,499.52</u> | <u>K6,440.96</u> | <u>K5,024</u> |

(b) Labour turnover

- (i) Costs of training a new employee
- (ii) Loss of efficiency due learning curve
- (iii) Demotivated staff due to high turnover rate
- (iv) Improving employee remuneration
- (v) Improving the working environment
- (vi) Training existing employees and offering career progression.

(c) Causes of labour turnover

- (i) Staff retirement
- (ii) Job dissatisfaction
- (iii) Poor interpersonal relationships
- (iv) Poor working conditions
- (v) Dismissal
- (vi) Family reasons

SOLUTION FOUR

(a) Process account

| | Units | Amount | | Units | Amount |
|---------------------------|--------|----------|-------------|--------|----------|
| | | K | | | K |
| Liquid soap | 11,400 | 30,492 | Normal loss | 1,140 | 2,280 |
| Ingredient | | 61,560 | Good output | 10,800 | 127,712 |
| Labour | | 10,518 | | | |
| Overhead (200% of 10,518) | | 21,036 | | | |
| Abnormal gain | 540 | 6,386 | | | |
| | 11,940 | 129,992 | | 11,940 | 129,992 |

Working

Total process costs = 30,492+61,560+10,518+21,036+6,386 = K123,606

Cost per unit = (123,606 – 2,280)/11,400 – 1,140 = K11.8251

Good output = 11.8251 x 10,800 = K127,712

Abnormal gain = 11.8251 x 540 = K6,386

(b) Profit per shampoo bottle

| | K/bottle |
|---------------|----------|
| Selling price | 16.00 |
| Process cost | 11.83 |
| Packaging | 0.40 |
| Profit | 3.77 |

(c) The cost of finished production and the cost of work-in-progress

| | Input | | Output | % | Materials | % | Labour |
|-----------|--------|---------------------|---------------|------------|---------------|------------|----------------------|
| | units | | units | | units | | units |
| Materials | 40,000 | Finished Production | 37,000 | 100 | 37,000 | 100 | 37,000(100%) |
| | | Closing WIP | <u>3,000</u> | <u>100</u> | <u>3,000</u> | <u>100</u> | <u>1,000(33.33%)</u> |
| | 40,000 | | <u>40,000</u> | | <u>40,000</u> | | <u>38,000</u> |

Cost per equivalent unit

Material = K20,000 / 40,000 units = K0.50 / unit

Labour = K19,000 / 38,000 units = K0.50/ unit

Output valuation

Finished production = 37,000 units x K1/unit = K37,000.00

Closing work in progress = (3,000 units x K0.5/unit) + (1,000 x K0.5/unit) = K2,000.00

SOLUTION FIVE

(a) Profit statement for July and August 2022 using absorption costing.

| | July | | August | |
|-------------------------|-------------|------------|------------|--------------|
| | K | K | K | K |
| Sales (w1) | | 22,500 | | 37,500 |
| Less cost of production | | | | |
| Opening inventory | 5,962.50 | | 13,912.50 | |
| Add production | 19,875.00 | | 15,105.00 | |
| Less closing inventory | (13,912.50) | | (9,142.50) | |
| | 11,925 | | 19,875 | |
| Adjustment (w3) | (1,500) | | 300 | |
| | | (10,425) | | (20,175) |
| Gross profit | | 12,075 | | 17,325 |
| Less other costs: | | | | |
| Fixed selling | 6,000 | | 6,000 | |
| Fixed Administration | 4,000 | | 4,000 | |
| Sales commission 5% | 1,125 | (11,125) | 1,875 | (11,875) |
| Profit | | 950 | | 5,450 |

Workings:

1. Sales

$$\text{July} = 900 \times \text{K}25 = \text{K}22,500$$

$$\text{August} = 1,500 \times \text{K}25 = \text{K}37,500$$

2. Cost per unit

| | K/unit |
|--|--------|
| Direct material | 4.00 |
| Direct labour | 2.50 |
| Variable production overheads | 1.75 |
| Fixed production overheads (6,000 / 1,200) | 5.00 |
| Cost per unit | 13.25 |

3. Adjustment

| | July | August |
|--------------------------------------|---------|--------|
| | K | K |
| Overheads absorbed (5 x 1,500/1,140) | 7,500 | 5,700 |
| Overheads incurred | 6,000 | 6,000 |
| (Over) / under absorbed | (1,500) | 300 |

(b) Profit statement for July and August 2022 using Marginal Costing.

| | July | | August | |
|-------------------------|-----------|--------|----------|--------|
| | K | K | K | K |
| Sales (w1) | | 22,500 | | 37,500 |
| Less cost of production | | | | |
| Opening inventory | 3,712.50 | | 8,662.50 | |
| Add production | 12,375.00 | | 9,405.00 | |

| | | | |
|----------------------------------|-------------------|-----------------------|---------------------|
| Less closing inventory | <u>(8,662.50)</u> | | <u>(5,692.50)</u> |
| | 7,425 | | 12,375 |
| Sales commission 5% | <u>1,125</u> | | <u>1,875</u> |
| Total variable costs | | (8,550) | (14,250) |
| Contribution | | 13,950 | 23,250 |
| Less other costs (overheads): | | | |
| Fixed selling | 6,000 | | 6,000 |
| Fixed administration | 4,000 | | 4,000 |
| Fixed production | <u>6,000</u> | | <u>6,000</u> |
| | | (16,000) | (16,000) |
| Profit(loss) | | <u>(2,050)</u> | <u>7,250</u> |
| | | | |

(c) Profit reconciliation statement for July and August 2022

| | July | August |
|---------------------------|----------------|--------------|
| | K | K |
| Absorption costing profit | 950 | 5,450 |
| Change in inventory | <u>3,000</u> | <u>1,800</u> |
| Marginal costing profit | <u>(2,050)</u> | <u>7,250</u> |

SOLUTION SIX

(a) Job accounts

| Job N4500 Account | | | |
|-----------------------------------|---------------------|-----------------------------|---------------------|
| | K'000 | | K'000 |
| Balance b/f | 1,220 | Job N4502 material transfer | 620 |
| Materials (stores a/c) | 2,390 | Materials returned to store | 870 |
| Labour (wages a/c) | 1,290 | Cost of sales a/c balance | 4,270 |
| Production overheads | <u>860</u> | | |
| | <u>5,760</u> | | <u>5,760</u> |
| | | | |
| | | | |
| Job N4501 Account | | | |
| | K'000 | | K'000 |
| Materials (stores a/c) | 1,680 | Cost of sales a/c balance | 5,180 |
| Materials transfer from job N4500 | 250 | | |
| Labour (wages a/a) | 1,950 | | |
| Production overheads | <u>1,300</u> | | |
| | <u>5,180</u> | | <u>5,180</u> |

Job N4502 Account

| | K'000 | | K'000 |
|-----------------------------------|--------------|--------------------------------|--------------|
| Materials (store a/c) | 3,950 | Materials transferred to N4501 | 250 |
| Labour (wages a/c) | 840 | Cost of sales a/c balance | 5,720 |
| Production overhead | 560 | | |
| Materials transfer from job N4500 | 620 | | |
| | 5,970 | | 5,970 |

Job N4503 Account

| | K'000 | | K'000 |
|------------------------|--------------|----------------------------------|--------------|
| Materials (stores a/c) | 4,420 | Materials returned to stores | 170 |
| Labour (wages a/c) | 1,230 | Cost of sales a/c balancing fig. | 6,300 |
| Production overheads | 820 | | |
| | 6,470 | | 6,470 |

(b) Statement of profit or loss on the completed Jobs

| Particulars | Job N4500 | JOB N4502 | Job N4503 |
|---|------------------|------------------|------------------|
| | K'000 | K'000 | K'000 |
| Materials | 1,530 | 4,320 | 4,250 |
| Labour | 1,640 | 840 | 1,230 |
| Production overhead | 1,100 | 560 | 820 |
| Factory cost | 4,270 | 5,720 | 6,300 |
| Administration and marketing overhead (20%) | 854 | 1,144 | 1,260 |

| | | | |
|-----------------------|------------|--------------|-------------|
| Cost of sales | 5,124 | 6,864 | 7,560 |
| Sales invoice value | 5,500 | 8,000 | 7,500 |
| Profit/ (Loss) | 376 | 1,136 | (60) |

(c) Factory cost of uncompleted job

| Particulars | Job N4501 |
|----------------------|------------------|
| | K'000 |
| Materials | 1,930 |
| Labour | 1,950 |
| Production overheads | 1,300 |
| Factory cost | 5,180 |

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

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

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

SECTION A- (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 Which one properly compares criminal and civil law.
- A. There is no difference between the two
 - B. Liability for both is determined by the penal code
 - C. One attracts punishment and the other compensation
 - D. All the above
- (2 marks)
- 1.2 Which is not correct about law of contract and law of torts?
- A. They are both concerned with compensation for damage
 - B. They are both meant to punish people for acting wrongly
 - C. They are branches of civil law
 - D. One concerns pre existing agreements and the other does not
- (2 marks)
- 1.3. Which are the elements of a valid contract.
- A. An agreement, consideration and execution
 - B. Invitation to treat, acceptance and consideration
 - C. Offer, consideration and execution
 - D. Offer, acceptance and consideration
- (2 marks)
- 1.4. Which makes a contract voidable?
- A. Acceptance not matching offer
 - B. Misrepresentation of facts
 - C. Insufficient consideration
 - D. All the above
- (2 marks)
- 1.5 Which one of the following statements explains *ratio decidendi*?
- A. Reasoning for arriving at a decision by courts
 - B. A binding resolution of a tribunal
 - C. An adjudicative statement by the judge
 - D. A source of law.
- (2 marks)

- 1.6 Who is responsible for a breach of warranty in a contract for the sale of goods?
- A. The seller
 - B. The buyer
 - C. Both the seller and the buyer
 - D. Neither the seller nor the buyer
- (2 marks)
- 1.7 What is the statute of limitations for a breach of contract?
- A. Five (5) years
 - B. Two (2) years
 - C. Ten (10) years
 - D. The statute of limitations varies by state
- (2 marks)
- 1.8 What type of law governs the sale of goods between businesses?
- A. Contract law
 - B. Tort law
 - C. Criminal law
 - D. Property law
- (2 marks)
- 1.9 Munga, Matilda and Nchimunya are in a partnership business where Nchimunya is classified as a 'dormant partner'. This means that, a dormant partner
- A. Does not take part in a profit sharing of the business.
 - B. Does not take part in the management of the business.
 - C. Does not contribute any capital into the business.
 - D. Is also known as a nominal partner.
- (2 marks)
- 1.10 Parties to a contract may both make mistakes or one party may make the mistake. Which of the following is an example of a common mistake?
- A. Unknowingly buying something that belongs to you.
 - B. Each party believes that there is an understanding with the other and does not realize that there is a misunderstanding.
 - C. One party is mistaken and the other is aware of it.
 - D. Innocent misrepresentation when the contract is made.
- (2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Rex and Luis runs a partnership business manufacturing batteries and they recently placed an advertisement in a trade magazine stating that they would supply such to the best buyers in the market at a low cost.

Mwizu and Chile one responded to the partners stating that they accepted the offer but that they would only pay K2,500 per battery. Rex wrote back to Mwizu and Chile one stating that they would supply the batteries but only at the original price of K3,500. When their letter arrived, the Purchasing Director for Rex and Luis did not notice the alteration of the price and secured by way of order 2,000 batteries from the partnership, which they promised to deliver. They have delivered the batteries, however the invoice has the price to k3500 for the batteries, Rex adds another 500 kwacha and pockets the difference. Luis discovers the crookedness of Rex. Now he has threatened legal action against Rex.

Required:

- (a) Advise Luis on the rights and obligations of partners in a partnership. (4 marks)
- (b) Advise him further on the contractual obligations which arose from the above scenario. (4 marks)
- (c) Banda, the owner of a factory building, spreads rat poison on slices of bread with the intention of putting it down to attract and destroy cockroaches. A small boy who has wandered into the factory building and consumes the same.

Required:

- (i) Discuss the possible liabilities of Banda. (3 marks)
- (ii) What remedies may follow a successful tort action? (2 marks)
- (iii) Explain the meaning and effect of contributory negligence. (3 marks)
- (iv) Discuss the concept of remoteness of damage in the tort of negligence. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Zulu is a fruit grower and supplies both oranges and mangoes to a wide market base in his hometown of Sinazongwe. To expand his business, he recently bought a new farm measuring 2,050 metres x 1,000 metres from Habulembe and signed a contract of sale in regard to the said piece of land and was witnessed by Allan. He paid for it in full and obtained all the documents in respect of the said piece of land.

The only supermarket in the area, Shopping Heaven Ltd has also entered into a contract with Zulu to be supplying them with both oranges and mangoes every week valued at K10,000. That would include oranges for K7,000 and the rest mangoes.

Required:

- (a) Explain the distinctions between the requirements of the two contracts that Zulu signed with Habulembe and the one he signed with Shopping Heaven Ltd. (6 marks)

- (b) Last Sunday, Allan sent a WhatsApp message to Zulu requesting him to supply 100 boxes of oranges at K3,000. Zulu refused and replied, 'At least K5,000 I can supply them to you'. Allan then said, 'Ok, will send the money tomorrow', to which Zulu replied 'Cheers and Thanks'. The following day, before Allan could pay, Shopping Heaven Ltd came to get their oranges worth K7,000 and offered to buy additional 100 boxes which were reserved for Allan at K5,500 paying for them with cash. This has angered Allan and he exchanged bitter words with Zulu.

With the aid of case law, explain as to whether there was a binding contract between Zulu and Allan. (10 marks)

- (c) In their argument, Allan stated that, '*100 boxes of oranges at K5,000*' was a condition of a contract. What did he mean by a condition of a contract? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Malambo is the Audit Partner of Sydney Ltd and regularly advises on takeovers. She was asked to speak at a board meeting of sims Ltd which was planning a takeover of THT Ltd (a client of Malambo's) as the latest audited accounts showed very good profits. During the meeting she said that she 'absolutely stood by the results of THT Ltd', which she had signed off. The takeover went ahead, but soon after sims Ltd found that THT Ltd was in fact close to insolvency rather than being profitable. It is now looking to sue Sydney for negligence.

Required:

- (a) Advise Malambo as to whether or not her firm would be liable for a claim of negligence brought by sims Ltd. (10 marks)

- (b)
 - (i) Discuss custom as a source of law in Zambia. (5 marks)
 - (ii) Explain the importance of precedents and case law in the Zambian legal system. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

Explain the following features of a valid contract:

- (i) Offer (3 marks)
- (ii) Acceptance (3 marks)
- (iii) Withdrawal of the acceptance (3 marks)
- (iv) Method of communication (3 marks)
- (v) Advise whether shares can be inherited in the event of death. (3 marks)
- (b) Under the Law of Agency, explain to the parties on their legal obligations under agency of necessity. (5 marks)

[Total: 20 Marks]

QUESTION SIX

- (i) Define and explain in detail unfair dismissal. (8 marks)
- (ii) Explain the various ways a contract of employment may come to an end. (7 marks)
- (iii) Explain the main Sources of Law in Zambia. (5 marks)

[Total: 20 Marks]

END OF PAPER

DA6 BUSINESS LAW SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

Rights and Obligations of Partners as Mentioned in the Partnership Act

The relationship of partners among themselves, their rights and obligations are generally given in the partnership deed. If partnership deed is silent about it, then the partners shall have rights and obligations mentioned in the Partnership Act.

Right of a Partner:

- (i) Every partner has a right to take part in the conduct and management of the business.
- (ii) Every partner has a right to be consulted before taking important decisions. The decisions should be taken by mutual consent. If the decisions are unimportant, then they can be enforced by majority, but consensus of all partners is necessary for taking important decisions.
- (iii) The partners have a right to inspect books of accounts.
- (iv).Every partner will have an equal share in profits, unless otherwise mentioned, in partnership deed.
- (v) No new partner can be admitted into partnership without the consent of all partners.
- (vi).Every partner has a right to receive interest at the rate of 6% per annum on the excess money supplied over his capital.
- (vii) Every partner has a right to be indemnified by the firm in respect of expenses incurred or losses suffered for the normal conduct of the business.
- (viii) A partner has a right to get the firm dissolved under appropriate circumstances.
- (ix) The property of the firm shall be held and used exclusively for the purpose of the business.

Obligations of a Partner:

- (i) Every partner should carry on the business to the greatest common advantage. He must perform his duties honestly and diligently.
- (ii) A partner is not entitled to get remuneration for the conduct of business, unless otherwise it is specially mentioned in the partnership deed.
- (iii) A partner must indemnify the firm for loss suffered because of his fraudulent conduct or willful neglect.
- (iv) A partner is bound to keep and render true and correct accounts of the business.
- (v) A partner cannot carry on a competing business. If he carries on such business he shall account for and pay to the firm all profits made by him in that business.
- (vi) A partner is bound to act within the scope of his authority.

(vii) No partner can make a secret profit of the partnership business by way of commission, etc. If he does so, he must return the money to the firm.

Contract obligations are those duties that each party is legally responsible for in a contract agreement. In a contract, each party exchanges something of value, whether it be a product, services, money, etc. On both sides of the agreement, each party has various obligations in connected with this exchange. An example of contract obligations is with the sale of a product such as an automobile. One party has the obligation to transfer ownership of the car, while the other has the obligation to pay for it. The contract will specify the terms that regulate the obligations, such as the method and amount of payment, and the time/place of delivery. If either party fails to perform their contractual obligations according to the contract terms, it will usually result in a breach of contract. This may result in a damages award to reimburse the non-breaching party for their economic losses.

In the case at hand, it can be argued that the advertisement amounted only to invitation to treat, this was also highlighted in the case of **Fisher v Bell [1961] 1 QB 394** where the court stated that goods displayed in a shop together with a price label, such display is **treated** as an **invitation to treat** by the seller, and not an offer.

In some cases, contract obligations can be transferred to a third party. For instance, if one party is obligated to paint the other party's house, they can sometimes hire an outside party to do the painting for them. This is known as "contract delegation". Contract delegation may or may not be allowed for all obligations; the ability to delegate a contract duty may depend on the type of obligation as well as state contract laws. It can also be argued that, the amount pocketed by Dr Mulenga was a violation of the obligation of partners. Suffice also to state that, counter offers were made as was seen in **hyde v. Wrench**

i. Banda is strictly liable for the offence committed as was seen in Ryland v. Fletcher. In law, strict liability is a standard for liability which may exist in either a criminal or civil context. A rule specifying strict liability makes a person legally responsible for the damage and loss caused by his/her acts and omissions regardless of culpability (including fault in criminal law terms, typically the presence of *mens rea*). Under strict liability, there is no requirement to prove fault, negligence or intention. Strict liability is prominent in tort law (especially product liability), corporations law, and criminal law. For analysis of the pros and cons of strict liability as applied to product liability, the most important strict liability regime.

ii. Possible defences

- Assumption of the risk
- Commonly known dangers
- Knowledgeable users
- Unforeseeable misuse of the product
- Immunity
- Statutes of limitation
- Statutes of repose

- Comparative negligence (in some jurisdictions)

Affirmative defense:

The defendant's response to a plaintiff's claim setting forth new factual allegations that were not included in the plaintiff's original claim. An affirmative defense in which the plaintiff knowingly and voluntarily agrees to accept the risk of being injured by certain conduct of the defendant. Dangers associated with certain products which are so obvious that manufacturers need not warn users of them.

iii. Contributory negligence in common law jurisdictions is generally a defense to a claim based on negligence, an action in tort. This principle is relevant to the determination of liability and is applicable when plaintiffs/claimants have, through their own negligence, contributed to the harm they suffered. In some jurisdictions it may be applied by the court in a tort matter irrespective of whether it was pleaded as a defense.

The contributory negligence defense can potentially eliminate the defendant's responsibility to pay damages to an injured plaintiff. For example, a pedestrian crosses a road negligently and is hit by a driver who was driving negligently. Since the pedestrian has also contributed to the accident, they may be barred from complete and full recovery of damages from the driver (or their insurer) because the accident was less likely to occur if it hadn't been for their failure to keep a proper lookout. Another example of contributory negligence is where a plaintiff actively disregards warnings or fails to take reasonable steps for his or her safety, then assumes a certain level of risk in a given activity; such as diving in shallow water without checking the depth first.

iv. In English law, remoteness is a set of rules in both tort and contract, which limits the amount of compensatory damages for a wrong. In negligence, the test of causation not only requires that the defendant was the cause in fact, but also requires that the loss or damage sustained by the claimant was not too remote. As with the policy issues in establishing that there was a duty of care and that that duty was breached, remoteness is designed as a further limit on a cause of action to ensure that the liability to pay damages is fairly placed on the defendant.

Directness

The traditional approach was that once a breach in the duty of care had been established, a defendant was liable for all the consequent damage no matter how unusual or unpredictable that damage might be. In *Re Polemis* while docked, workers employed to unload the ship

negligently dropped a plank into the hold, which struck something, causing a spark that ignited petrol vapour lying in the hold. The fire destroyed the whole ship. The Lords held that although the fire was not a reasonably foreseeable consequence of the plank falling, there had been a breach of the duty of care and all damage representing a direct consequence of the negligent act was recoverable. It was determined that once *some* harm was foreseeable, the defendant would

be liable for the full extent of the harm. That particular consequences are possible does not make them reasonably foreseeable. This will particularly be the case when there are a significant number of links constituting the chain. The more links, the less likely that consequence may be considered reasonably foreseeable.

- *Greenland v Chaplin* (1850) 5 Ex 243, Pollock CB advocated a foreseeability test for remoteness
- *Smith v The London and South Western Railway Company* (1870–71) LR 6 CP 14, seven members of Exchequer Court uphold directness rule
- *Re Polemis & Furniss, Withy & Co Ltd* [1921] 3 KB 560
- *Glasgow Corp v Muir* [1943] AC 44

Foreseeability

However, in *The Wagon Mound (No 1)* a large quantity of oil was spilt into Sydney Harbour from the Wagon Mound and it drifted under the wharf where the claimants were oxyacetylene welding. The resulting fire caused extensive damage to the wharf and to vessels moored nearby. The Privy Council replaced the direct consequence test with the requirement that, in order to be recoverable, damage must be foreseeable in all the circumstances, thus, although pollution was a foreseeable consequence of the spillage, an outbreak of fire was not. Viscount Simonds held at pp 422–423:

“ A man must be considered to be responsible for the probable consequences of his act. To demand more of him is too harsh a rule, to demand less is to ignore that civilised order requires the observance of a minimum standard of behaviour. ”

He went on to say at p 423, that a man should be responsible for the necessary or probable consequences of his act (or any other similar description of them), "not because they are natural or necessary or probable, but because, since they have this quality, it is judged by the standard of the reasonable man that he ought to have foreseen them."

In *Hughes v Lord Advocate* a child climbed down a manhole left uncovered and protected only by a tent and paraffin lamp. When he came out he kicked over one of the lamps, which fell into the hole and caused an explosion. The child was burned. Lord Reid said at 845,

“ So we have (first) a duty owned by the workmen, (secondly) the fact that if they had done as they ought to have done there would have been no accident, and (thirdly) the fact that the injuries suffered by the appellant, though perhaps different in degree, did not differ in kind from injuries that might have resulted from an accident of a foreseeable nature. The ground on which this case has been decided against the appellant is that the accident was of an unforeseeable type. Of course, the pursuer has to prove that the defender's fault caused the accident and there could be a case where the intrusion of a new and unexpected factor could be regarded as the cause of the accident rather than the fault of the defender. But that is not this case. The cause of this accident was a known source of danger, the lamp, but it behaved in an unpredictable way.

SOLUTION THREE

(a) Zulu signed two types of contracts, one for the sale of land and the other for the supply of oranges and mangoes. The first contract signed between Zulu and Habulembe for the sale of

land is a **specialty contract**, whilst the other one which he signed with Shopping Heaven Ltd is a **simple contract**. The distinction between the two is that a **specialty contract** is a formal contract, also known as a **deed** and the requires that such contracts must be in writing, signed, sealed and delivered. The signature of the parties (Zulu and Habulembe) must be witnessed and attested. On the other side, a **simple contract** (Zulu and Shopping Heaven Ltd) can either be in writing or oral or may just be implied from conduct. They are informal contracts.

(b) Allan's first message was a request for the *supply of information*, which is generally not binding unless accepted (**Harvey v Facey (1893)**). Following Zulu's 'Ok, cheers' after the offer of K5,000, it means the offer has been accepted. This turns the supply of information into a binding contract [**Bigg v Boyd – Gibbons (1971)**] where a statement from the vendor at price slightly higher than the initial offer was accepted by the buyer, but seller did not honour the agreement. He was bound by the same. Thus Allan's offer of K5, 000 was accepted, when Zulu replied, 'Ok, cheers'. The parties have a binding contract and Zulu shouldn't have sold the oranges to Shopping Heaven Ltd even if their price was higher.

(c) **A condition** is a vital term, going to the root of the contract. Its breach will destroy the basis of the agreement. Breach of a condition entitles the injured party to decide to treat the contract as discharged and to claim damages. In the case at hand, the number of boxes of oranges (100) was a condition which goes to the root of the contract. Thus Allan was right in saying that it was a condition of the contract, changing the numbers entails discharge of a contract.

SOLUTION FOUR

(a) Yes , the firm would be liable for a claim of negligence. Whether providing services as an accountant or auditor, a certified public accountant owes a duty of care to the client and third parties who foreseeably rely on the accountant's work. Accountants can be sued for negligence

in the performance of their duties, and for fraud. Certified Public Accountants (CPAs) opinions affect their clients and their judgments can further affect investors, stockholders, firm creditors, or even partners. Large public accounting firms perform thousands of audits annually. Ultimately they will find unmodified reports on financial statements that could appear to be misleading. If CPAs fail to modify the audit report on financial statements that are materially misstated, investors and firm creditors may experience substantial losses.

As a result of litigation against public accounting firms, amounts in excess of \$300 million have been awarded to these parties. Even with professional liability insurance to cover such losses, occasionally the total amounts granted to plaintiffs have surpassed the maximum amounts the insurance can or will cover. If investors sustain losses they will attempt to recover them as long as the price to bring suit is low and there is a chance for recovery. Any public accounting firm may find itself in litigation no matter how careful the CPAs were. CPAs are often required to make further payments for investors and creditors uninsured losses. The firm itself can make these payments, as can personnel who have worked on the engagement.

(b) (i). Sources of law in its narrow sense means the origins of law, i.e. the binding rules governing human conduct. More generally, it means any premises of a legal reasoning. Such sources may be international, national, regional or religious.

The term "sources of law" also refers to the sovereign or the state from which the law derives its force or validity. In civil law systems, one has only to look at the appropriate code; but in common law systems one needs to look at legislation (primary and secondary) and at the decided cases that comprise judicial precedent.

Custom in Zambia becomes law if;

- It is not repugnant to the rules of natural justice and morality
- If it is inconsistent with any written law
- If it has existed from time immemorial

(ii). The **Importance of Precedent**. In a **common law** system, judges are obliged to make their rulings as consistent as reasonably possible with previous judicial decisions on the same subject. ... Judges deciding **cases** are bound by the new **law**, rather than the **precedent cases**.

SOLUTION FIVE

(a) (i) Offer and acceptance analysis is a traditional approach in contract law. The offer and acceptance formula, developed in the 19th century, identifies a moment of formation when the parties are of one mind. This classical approach to contract formation has been weakened by

developments in the law of estoppel, misleading conduct, misrepresentation and unjust enrichment.

Treitel defines an offer as "an expression of willingness to contract on certain terms, made with the intention that it shall become binding as soon as it is accepted by the person to whom it is addressed", the "offeree". An offer is a statement of the terms on which the offeror is willing to be bound. It is the present contractual intent to be bound by a contract with definite and certain terms communicated to the offeree. The expression of an offer may take different forms, such as a letter, newspaper advertisement, fax, email and even conduct, as long as it communicates the basis on which the offeror is prepared to contract. Whether the two parties have reached agreement on the terms or whether a valid offer has been made is an issue which is determined by the courts using criteria known as 'the objective test' which was explained in the leading English case of **Smith v. Hughes**. In *Smith v. Hughes*, the court emphasised that the important thing in determining whether there has been a valid offer is not the party's own (subjective) intentions, but how a reasonable person would view the situation .

(ii) Acceptance- A promise or act on the part of an offeree indicating a willingness to be bound by the terms and conditions contained in an offer. Also, the acknowledgment of the drawee that binds the drawee to the terms of a draft.

Test of acceptance

For the acceptance, the essential requirement is that the parties had each from a subjective perspective engaged in conduct manifesting their assent. Under this meeting of the minds theory of contract, a party could resist a claim of breach by proving that he had not intended to be bound by the agreement, only if it appeared subjectively that he had so intended. This is unsatisfactory, as one party has no way to know another's undisclosed intentions. One party can only act upon what the other party reveals objectively (*Lucy V Zehmer*, 196 Va 493 84 S.E. 2d 516) to be his intent.

Communication of acceptance

There are several rules dealing with the communication of acceptance:

- The acceptance must be communicated. Theisger LJ said in *Household Fire and Carriage* that "an acceptance which remains in the breast of the acceptor without being actually and by legal implication communicated to the offeror, is no binding acceptance". Prior to acceptance, an offer may be withdrawn.
- As acceptance must be communicated, the offeror cannot include an Acceptance by Silence clause. This was affirmed in ***Felthouse v Bindley***, here an uncle made an offer to buy his nephews horse, saying that if he didn't hear anything else he would "consider

the horse mine". This did not stand up in court, and it was decided there could not be acceptance by silence.

- An exception exists in the case of unilateral contracts, in which the offeror makes an offer to the world which can be accepted by some act. A classic instance of this is the case of *Carlill v. Carbolic Smoke Ball Co.* [1893] 2 Q.B. 484 in which an offer was made to pay £100 to anyone who having bought the offeror's product and used it in accordance with the instructions nonetheless contracted influenza. The plaintiff who was Mrs Carlill bought the smoke ball and used it according to the instructions but she contracted influenza. She sued the Carbolic Smoke Ball Co. for £100. The court held that the inconvenience she went through by performing the act amounted to acceptance and therefore ordered £100 to be given to Mrs. Carlill. Her actions accepted the offer - there was no need to communicate acceptance. Typical cases of unilateral offers are advertisements of rewards (e.g., for the return of a lost dog).

(iii) Withdrawal of acceptance

An acceptance may be withdrawn if the withdrawal reaches the offeror before or at the same time as the acceptance would have become effective. With respect to the withdrawal of an acceptance the present law provides that the offeree may change its mind and withdraw the acceptance provided that the withdrawal reaches the offeror before or at the same time as the acceptance. It should be noted that while the offeror is bound by the offer and may no longer change its mind once the offeree has dispatched the acceptance, the offeree loses its freedom of choice only at a later stage, i.e. when the notice of acceptance reaches the offeror.

(iv) Methods of communication

The postal rule is a historical ruling, which came about in a time where the main and quickest form of business communication was by post. Through the decades other forms of communication have been invented which are now much speedier – telex, phone, fax and now instant messaging and email. Central requisites to the forming of a contract are those of offer and acceptance. The general rule in law states that acceptance is communicated, and has been

received by the offeror. The ruling applies where the means of communication are deemed instantaneous **Entores Ltd v Miles Far East Corpn (1955)**.

(v) Advice as to whether shares can be inherited in the event of death.

Shares are a form of property, just like any other property a person can own e.g. a car, house, etc. Thus, shares can be inherited because they are property. Sect 57 of CAP 388. They can be bequeathed (given) in a Will or transferred at will, anytime. In an event a person dies without a will, they can be distributed to the beneficiaries just like any other asset.

(b)

Obligations of Parties under Agency by Necessity

A type of relationship whereby one party can make essential decisions for another party. Agency by necessity is recognized in the courts and typically applies when one party is unable to make a critical decision. If, for example, an individual is sick and unable to make a critical decision, agency of necessity would allow an attorney, parent or spouse to make decisions on behalf of the incapacitated party.

Agency by necessity refers to a situation where an agent by necessity makes a critical decision on behalf of another party who is not in a condition to do so. For example, if Person A was severely injured in a car accident and was in a coma, Person B could make the decision to allow medical staff to operate on Person A. Under normal circumstances, Person A would have to give consent, but if he or she was unable to do so, an agent can make the decision instead.

SOLUTION SIX

(i) Unfair dismissal is a creation of statute providing dismissal based on unfair reasons such as race, tribe, religion, etc. It is when an employee is dismissed from their job in a harsh, unjust or unreasonable manner including political ground "Any employee who has reasonable cause for believing that his services have been terminated or that he has suffered any other penalty or disadvantages on any of the grounds set out under section 108 of the Industrial and Labour Relations Act. A person unfairly dismissed may within thirty days of the occurrence or occurrences which may give rise to such belief, lay a complaint before the Industrial Relations Court and the court shall if it finds in favour of the complainant, grant to him such remedy as it deems fit including re – instatement for loss of employment". It therefore means that the termination was unfair and as reinstatement is the best with adequate damages.

In **ZAMBIA PRIVATISATION AGENCY v JAMES MATALE (1996) S.C.** In this case, the contract of employment made no provision for prior termination and the Court held that it was not a proper and lawful way of terminating the respondent's contract of employment on the basis any unfair grounds as provided in the Industrial and Labour Relations Act such as marital status, religion, political opinion or affiliation, tribe extraction or social status.

(ii). Like any other contract, a contract of employment can be terminated or it can come to an end. The following are some of the ways by which a contract of employment can be brought to an end.

Resignation – This is where an employee on his own decides to terminate the contract of employment.

Notice – This is termination of a contract of employment by either party giving the requisite notice as per the terms of the contract of employment

Death – This is a termination of a contract of employment by the death of an employee or employer.

Effluxion of time – This is termination of a contract of employment by lapse of time, i.e. the time the parties agreed to be in a relationship comes to an end.

Dismissal – This is a termination of a contract of employment through dismissal of an employee which can be through unfair dismissal, wrongful dismissal, summary dismissal or just normal dismissal giving the employee the requisite notice and following procedure. The employee must have done something wrong to be dismissed

Redundancy – This is termination of a contract of employment owing to the fact that the business is trying to reduce on costs or restructuring such that it no longer needs certain types of workers.

(iii) The main sources of law in Zambia are:

The Constitution – This is the supreme law of the land and any law inconsistent with it is declared null and void to the extent of the inconsistent.

Common Law and Equity - this part of our inherited laws from Britain which is still applicable in our judicial system.

Judicial Precedents – These are decisions of superior courts which are binding on lower courts, thus becoming part of our laws.

Legislation – Also known as Statute Law or Acts of Parliament – These are laws made by parliament and are binding on anyone within the country. This is the main source of law as only Parliament has an express power to make laws.

Customary Law – This is law derived from our various cultures in the country which regulate our conduct.

International Law – This includes treaties, conventions, etc. that are of international nature from of international bodies to which Zambia is a member. These laws have to be ratified and domesticated for them to be applied in Zambia.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 11 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – COMPULSORY

Attempt all ten (10) multiple choice questions

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

QUESTION ONE

- 1.1 Which one of the following is NOT in relation to Mintzberg informational roles a Manager must perform.
- A. Monitor role
 - B. Liaison role
 - C. Disseminator role
 - D. Spokesperson role
- (2 marks)
- 1.2 The type of business organisation which allows its members to trade shares on the Stock Exchange Market is called.....
- A. Co-operative
 - B. Private Limited Company
 - C. Public Limited Company
 - D. Parastatal Company
- (2 marks)
- 1.3 Which organizational structure is suitable when an organisation intends to undertake a project?
- A. Divisional structure
 - B. Functional structure
 - C. Bureaucracy structure
 - D. Matrix structure
- (2 marks)
- 1.4is a characteristic of a good objective which states that it should be challenging but obtainable by a competent person.
- A. Realistic
 - B. Measurable
 - C. Specific
 - D. Achievable
- (2 marks)
- 1.5 approach emphasizes the situation as the dominant feature in considering the characteristics of an effective leader.
- A. Behavioural leadership
 - B. Contingency leadership
 - C. Trait leadership
 - D. Style leadership
- (2 marks)

- 1.6 Which of the following is the correct process of motivation?
- A. Expectation → Driving force → Fulfilment
 - B. Needs → Driving force → Fulfilment
 - C. Needs → Driving force → Desired goal → Fulfilment
 - D. Needs → Desired goal → Driving force → Fulfilment
- (2 marks)
- 1.7 Kotter and Schlesinger proposed an approach to overcome resistance to change in an organisation by inviting individuals affected to join the change management team even though they do not have the skills and abilities to contribute to the process.
- Which term best describes this approach according to the scholars?
- A. Explicit coercion
 - B. Negotiation and agreement
 - C. Manipulation and co-option
 - D. Facilitation and Support
- (2 marks)
- 1.8 The statement that states the knowledge, abilities and skills required to perform a specified job by a potential employee is called.....
- A. Job description
 - B. Job analysis
 - C. Job specification
 - D. Job evaluation
- (2 marks)
- 1.9 Which of the following is NOT the benefit of training to the organisation?
- A. Reduces industrial accidents
 - B. Increases productivity
 - C. Enhances reluctance
 - D. Helps in change management
- (2 marks)
- 1.10 is an example of a company owned by the Government of the Republic of Zambia and listed on the Lusaka Stock Exchange Market.
- A. Nitrogen Chemicals of Zambia
 - B. INDENI Oil Company
 - C. Zambia Electricity Supply Corporation Ltd
 - D. ZCCM Investment Holdings Plc.
- (2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Management may also be based on 'organisational power' derived from status or position within the hierarchical structure, and the use of formal authority; or 'personal power' derived from competence and expertise, identification with subordinates, commanding respect, and urging and encouraging people in the performance of their tasks. *Green* contends that most successful managers are able to adjust their approach and response between a continuum of hard skills and soft skills, and react appropriately to different situations. Furthermore you cannot talk about management without the term delegation.

Required:

- (a) Outline the five (5) sources of power. (10 marks)
- (b) Define delegation (2 marks)
- (c) Analyse the steps in the delegation process (8 marks)

[Total: 20 Marks]

QUESTION THREE

In any organizational unit, whether it is a company or a section in a company, the Manager stands between the organization and its environment. The role of the management is to ensure that the goals of the organization are achieved.

Required:

- (a) List and explain four (4) of the essential skills of Managers. (8 marks)
- (b) Discuss three (3) different Management levels and their functions. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

One DA 7 Student during class discussions claimed that 'The relationship between the organisation and its members is influenced by what motivates them to work and the rewards and fulfilment they derive from it. The Manager needs to know how best to elicit the co-operation of staff and direct their performance to achieving the goals and objectives of the organisation. The

Manager must understand the nature of human behaviour and how best to motivate staff so that they work willingly and effectively. Based on class discussions, literature you have come across and recommended readings of this course as well as research done by other scholars, respond to this claim by:

Required:

- (a) Differentiate extrinsic motivation and intrinsic motivation. (4 marks)
- (b) Write brief notes on content and process theories of motivation. (8 marks)
- (c) State the Major content theories of motivation. Support your answer by including the pioneers as well. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

Change management as a discipline has evolved and matured over the past quarter of a century. The purpose of change management is to implement strategies for effecting change, controlling change and helping people to adapt to change.

Required:

- (a) Define change management (4 marks)
- (b) Demonstrate your understanding of the following classifications of change:
 - (i) Planned change (4 marks)
 - (ii) Unplanned change (4 marks)
 - (iii) Incremental change (4 marks)
 - (iv) Transformational change (4 marks)

[Total: 20 Marks]

QUESTION SIX

Organisational Chart, is generally prepared and regularly updated by HR. Organizational charts can be broad-based, depicting the overall company.

Required:

- a) Explain the two (2) approaches in which the hierarchy of objectives can be explained. (4 marks)
- (b) Define forecasting. (2 marks)
- (c) Distinguish an organizational structure from an organization Chart. (4 marks)
- (d) Write down any five (5) the uses of an Organization Chart. (10 marks)

[Total: 20 Marks]

END OF PAPER

DA7 PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTION

SOLUTION ONE

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

SOLUTION TWO

(a)

1. **Reward power.** It emanates from the influencer's ability to reward the influence for carrying out certain tasks.
2. **Coercive Power.** It emanates from the leader's ability to punish followers for undesirable behaviour.
3. **Legitimate Power.** It is the power acknowledged by the subordinate and may be referred to as formal *power / authority*. This power is derived from the organisational hierarchy.
4. **Expert Power.** It arises from the perception that that the leader has some specialised skill / knowledge that the influence does not have.
5. **Referent Power.** It emanates from the leader's "*exemplary power*" – his ability to set an example to the influences.

(b) **Delegation means the handing of authority down from a higher level of management to lower level management in an organisation.** It entails entrusting authority and responsibility to others.

- (c)
1. **Establish Performance levels / Results Expected** – Expected results should be clearly spelt out to the subordinate and should also be fully understood.
 2. **Assigning Tasks to subordinates** – The tasks should be clear and the subordinates should agree to perform the tasks delegated to him/her.
 3. **Allocate Authority and Resources** – These will be necessary for the accomplishment of the delegated tasks. A subordinate without authority and resources will be handicapped in his quest to perform the given tasks
 4. **Creating Accountability** – After responsibility and authority to perform tasks have been conferred on the subordinate, there is still need to allocate accountability. Here the superior passed accountability for results to the subordinates, but still retains the overall accountability for the same results to his superiors.

SOLUTION THREE

(a) List and explain the essential skills of Managers

1. **Technical skills** – Pertaining to knowledge and proficiency in activities involving methods and procedures;
2. **Human skills** – Ability to work effectively with other persons and to build up cooperative group relations to accomplish organizational objectives;
3. **Conceptual skills** – Ability to recognize significant elements in a situation; and to understand the relationship among those elements; and
4. **Design skills** – Ability to solve problems in ways that will benefit the enterprise.

(b) Discuss the different Management level and their functions

1. Top-level management
2. Middle level management
3. Lower-level management

Top level management functions

1. To formulate goals and policies
2. To formulate budgets
3. To appoint top executives
4. Overall control of work performance

Middle level management functions.

1. To train motives & develop supervisory level
2. To monitor and control the operations performance
3. Interpret the policies to lower management.
4. Assigning duties and responsibilities to employees in their department

Low level management

1. To train & develop workers
2. To assign job
3. To give orders and instructions
4. To report the information about the workers
5. Overseeing both the quality and quantity of production

SOLUTION FOUR

(a)

Extrinsic motivation is related to 'tangible' rewards such as salary and fringe benefits, security, promotion, contract of service, the work environment and conditions of work. Such tangible rewards are often determined at the organisational level and may be largely outside the control of individual managers.

Intrinsic motivation is related to 'psychological' rewards such as the opportunity to use one's ability, a sense of challenge and achievement, receiving appreciation, positive recognition, and being treated in a caring and considerate manner. The psychological rewards are those that can usually be determined by the actions and behaviour of individual managers.

(b)

Content theories attempt to explain those specific things which actually motivate the individual at work. These theories are concerned with identifying people's needs and their relative strengths, and the goals they pursue in order to satisfy these needs. Content theories place emphasis on the nature of needs and **what motivates**.

Process theories attempt to identify the relationship among the dynamic variables which make up motivation. These theories are concerned more with how behaviour is initiated, directed and sustained. Process theories place emphasis on the **actual process of motivation**.

(c)

1. Maslow's hierarchy of needs model
2. Alderfer's modified need hierarchy model;
3. Herzberg's two-factor theory; and
4. McClelland's achievement motivation theory.

SOLUTION FIVE

(a) **Change management** is a systematic approach that includes dealing with the transition or transformation of organizational goals, core values, processes or technologies.

Or

Change management is defined as the methods and manners in which a company describes and implements change within both its internal and external processes.

(b) Types of change:

1. **Planned change** is the process of preparing the entire organization, or a significant part of it, for new goals or a new direction. This direction can refer to culture, internal structures, processes, metrics and rewards, or any other related aspects. In other words, this is a deliberate and intended change. Managers identify the need for change and plan how to introduce it. This change is proactive.
2. **Unplanned change:** This is a reactive change that happens in response to development or events that have occurred. In other words, it's the changes that are not foreseen prior to the need to change, often made necessary by shifts in the organizational environment.
3. **Incremental change:** incremental change refers to change that occurs slowly and without necessarily modifying the essence of social structures or organizational practices. This is a small change and is normally gradual. Therefore, it does not require reorganization or restructuring of the organization.
4. **Transformational change:** Transformational changes are those you make to completely reshape your business strategy and processes, often resulting in a shift in work culture this are also major change that requires a substantial organization or restructuring of the organization and systems. This has big effect on the organization and people working in it.

SOLUTION SIX

(a)

There are two approaches in which the hierarchy can be explained.

1. top-down approach
2. bottom-up approach

In the top-down approach, the total organization is directed through corporate objective provided by the top-level management. In the bottom-up approach, the top-level management needs to have information from lower level in the form of objectives.

(b) Define forecasting. (Any of the three below, will suffice)

1. Forecasting is the process of predicting future conditions that will influence and guide the activities, behavior and performance of the organization.
2. Forecasting is *the process of making predictions based on past and present data*
3. Forecasting is a method of making informed predictions by using historical data as the main input for determining the course of future trends.

(c) Distinguish an organizational structure from an organisation Chart

Organisational structure

In organization structure simply by means the systematic arrangement of people working for the organization. The organization is concerned with establishment of positions and relationship between positions. The organization structure has two dimensions.

Organizational chart

Organizational chart is a diagrammatical form, which shows the important aspects of an organization including the major functions and their respective relationships, the channels of supervision, and the relative authority of each employee who is in charge of each respective function". It is a representation of the framework or structure of an organization. It may be a vertical or top-down chart, horizontal or left to right chart and circle or concentric chart.

(d) Write down any five uses of an organization chart?

1. The organization chart pinpoints the weakness of an organization. This will help to overcome the short coming of organization.
2. It tells quickly who is responsible for particular
3. It is useful in showing nature of an organization and changes if any in the existing staff and new
4. It helps to Identify Tasks
5. It helps Avoid Overlap
6. Helps in the Management of employee Data
7. Clarification of Responsibility
8. Workload Management

9. Faster Decision Making

10. Shows and identify Job Responsibility

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 11 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

QUESTION ONE

You are the Group Accountant of Yango Plc. The draft statements of financial position as at 31 March, 2023 for the three (3) companies are given below:

| | Yango | Tamba | Maka |
|--------------------------------------|-----------------|-----------------|-----------------|
| Assets | K' 000 | K' 000 | K' 000 |
| Non-current assets | | | |
| Property, Plant and Equipment | 500, 000 | 200, 000 | 150, 000 |
| Investments | <u>250, 000</u> | <u>-</u> | <u>-</u> |
| Total non-current assets | <u>750, 000</u> | <u>200, 000</u> | <u>150, 000</u> |
| Current assets | | | |
| Inventory | 50, 000 | 45, 000 | 13, 000 |
| Trade Receivables | 32, 000 | 21, 000 | 11, 000 |
| Bank | <u>-</u> | <u>15, 000</u> | <u>9, 000</u> |
| Total current assets | <u>82, 000</u> | <u>81, 000</u> | <u>33, 000</u> |
| Total assets | <u>832,000</u> | <u>281,000</u> | <u>183,000</u> |
| Equity and liabilities | | | |
| Equity shares K2 each | 400, 000 | 100, 000 | 80, 000 |
| Share Premium | 151, 000 | 15, 000 | 65, 000 |
| Retained earnings | <u>115, 000</u> | <u>65, 000</u> | <u>14, 000</u> |
| | <u>666, 000</u> | <u>180, 000</u> | <u>159, 000</u> |
| Non-current liabilities | | | |
| 12% Loan notes | 80, 000 | 50, 000 | 10, 000 |
| Current liabilities | | | |
| Trade Payables | 24, 000 | 32, 000 | 9, 000 |
| Taxation | 23, 000 | 19, 000 | 5, 000 |
| Bank overdraft | <u>39, 000</u> | <u>-</u> | <u>-</u> |
| Total current liabilities | <u>86, 000</u> | <u>51, 000</u> | <u>14, 000</u> |
| Total capital and liabilities | <u>832,000</u> | <u>281,000</u> | <u>183,000</u> |

The following notes are relevant:

- (i) On 1 April 2022, Yango acquired 75% ordinary shares in Tamba. The consideration was made up of:
- A share exchange of 2 shares in Yango for every 10 shares in Tamba and a deferred consideration to be paid in exactly three (3) years' time. Neither of the consideration has yet been recorded.
 - The fair value of deferred consideration on 1 April 2022 was K23.5 million and the cost of capital of Yango is 10% annually. The market values of one (1) share of Yango and Tamba on 1 April, 2022 were K4 and K3 respectively.
- (ii) The non-controlling interest is to be measured at fair value. The market price of shares of Tamba on 1 April, 2022 is deemed to be representative of the fair value of non-controlling interest.
- (iii) At the date of acquisition, the carrying values of Tamba assets were equal to their fair values with the exception of property (land and building) whose fair values were K4 million and K6 million more than their carrying values respectively. The building had a remaining useful life of four (4) years at the date of acquisition and it is depreciated on a straight-line basis.
- (iv) On 1 October 2022, Yango acquired 25% shares in Maka for K5 per share. This cash payment is included in the investments value. The investments value also includes investment property of Yango, which has been accounted for correctly.
- (v) The retained earnings of Tamba on 1 April, 2022 were K75.5 million and the retained earnings of Maka on 1 October, 2022 were K8 million.
- (vi) In the post-acquisition period, Tamba sold goods to Yango at a 20% profit margin. At the year end, inventory worth K42 million received from Tamba was still in the closing inventory of Yango.
- (vii) The current account balance of Yango in the books of Tamba was K6 million but Yango recognized a balance of K4 million. The difference in the current accounts is due to a cheque in transit which Yango sent on the last day of the financial year, but had not been received by Tamba until the 10 of April 2023.
- (viii) Goodwill in Tamba and investment in Maka were not impaired as at 31 March, 2023.

Required:

Prepare the consolidated statement of financial position for Yango Group as at 31 March, 2023 according to IFRS/IAS requirements. (25 marks)

[Total: 25 Marks]

QUESTION TWO

Timbe Plc. is a company situated on the Copperbelt and involved in distribution of mining equipment. The following trial balance relates to Timbe Plc. at 31 March 2023.

| | K'000 | K'000 |
|---|------------------|------------------|
| Investments at amortized cost | 105,000 | |
| Plant and Equipment at cost | 452,500 | |
| 25 year Leasehold Property at cost (note iii) | 562,500 | |
| Accumulated depreciation at 1 April 2022: | | |
| Plant and Equipment | | 212,500 |
| Leasehold property | | 90,000 |
| Equity shares of 50 ngwee each fully paid | | 375,000 |
| Retained earnings at 1 April 2022 | | 46,500 |
| Revenue | | 694,500 |
| Cost of sales | 295,000 | |
| Operating expenses | 103,000 | |
| Loan interest paid (note (v)) | 2,500 | |
| Lease rental of vehicles (note (i)) | 12,500 | |
| Investment income | | 5,000 |
| 2% loan note (note (v)) | | 125,000 |
| Deferred tax balance 1 April 2022 (note (iv)) | | 30,000 |
| Trade receivables | 133,750 | |
| Inventories at 31 March 2023 | 83,250 | |
| Bank | | 4,750 |
| Trade payables | | 46,750 |
| Suspense account (note vi) | | <u>120,000</u> |
| Totals | <u>1,750,000</u> | <u>1,750,000</u> |

The following additional information is relevant:

- (i) Timbe Plc entered into a lease contract for a motor vehicle on 1 April 2022. The lease rental in the trial balance is the initial payment made on 1 April 2022 for a four-year lease term. The lease agreement requires three further annual payments of K12.5 million each in advance. The present value of the remaining lease payments was K37.5 million at 1 April 2022. The interest rate implicit in the lease is 10% per annum.
- (ii) Other plant and equipment are depreciated at $12\frac{1}{2}\%$ per annum on the reducing balance basis. All depreciation of property is charged to cost of sales.
- (iii) On 31 March 2023, the leasehold property was revalued to K500 million for the first time. The revaluation is yet to be incorporated in the financial statements.
- (iv) The directors have estimated the provision for income tax for the year ended 31 March 2023 at K95 million. At 31 March 2023, there were K185 million of taxable temporary difference of which K50 million related to revaluation of leasehold property. The income tax rate is 20%.

- (v) The loan note was issued on 1 April 2022. It is redeemable on 31 March 2027 at a large premium (in order to compensate for the low nominal interest rate). The effective interest rate on the loan is 5.5% per annum.
- (vi) The suspense account balance arose because of the following transactions that were not recorded except for the cash entries:
- The receipt in October 2022 of a fully subscribed rights issue of one new share for every three held at a price of K0.80 each. The share issue expenses of K5 million were incurred and are to be charged to share premium.
 - The payment of dividend in April 2022 of K0.10 per share.

Required:

Prepare for Timber:

- (a) A statement of profit or loss and other comprehensive income for the year ended 31 March 2023 (9 marks)
- (b) A statement of financial position as at 31 March 2023. (16 marks)

[Total: 25 Marks]

SECTION B

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

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

QUESTION THREE

- (a) You have been asked to prepare the statement of cash flows for Ndola Plc. for the year ended 31 December 2022 using the indirect method in accordance with IAS 7 statement of cash flows.

The statement of profit or loss for year ended 31 December 2022 and statement of financial position of Ndola Plc for the past two years are set out below:

Ndola Plc Statement of profit or loss for the year ended 31 December 2022.

| | K |
|---------------------------|------------------|
| Sales | 1,344,000 |
| Cost of sales | <u>(739,200)</u> |
| Gross Profit | 604,800 |
| Profit on disposal of PPE | 13,440 |
| Distribution expenses | <u>(282,240)</u> |
| Administrative expenses | <u>(134,400)</u> |
| Profit from operations | 201,600 |
| Finance costs | <u>(3,150)</u> |
| Profit before tax | 198,450 |
| Tax | <u>(86,520)</u> |
| Profit for the year | <u>111,930</u> |

Ndola Plc Statement of financial position as at 31 December.

| | 2022 | 2021 |
|--------------------------------------|------------------|----------------|
| <u>NON- CURRENT ASSETS</u> | K | K |
| Property, Plant and Equipment (PPE) | 836,700 | 640,200 |
| <u>CURRENT ASSETS</u> | | |
| Inventories | 177,420 | 147,840 |
| Trade receivables | 134,400 | 161,280 |
| Cash and cash equivalents | <u>13,110</u> | <u>-</u> |
| Total Current Assets | <u>324,930</u> | <u>309,120</u> |
| Total Assets | <u>1,161,630</u> | <u>949,320</u> |
| <u>EQUITY AND LIABILITIES</u> | | |
| Equity: Ordinary shares at K1 each | 135,000 | 90,000 |
| Share Premium | 90,000 | 60,000 |
| Retained Earnings | <u>731,190</u> | <u>619,260</u> |
| Total equity | <u>956,190</u> | <u>769,260</u> |
| <u>NON-CURRENT LIABILITY</u> | | |
| Bank Loan | 45,000 | 15,000 |
| <u>CURRENT LIABILITIES</u> | | |
| Trade Payables | 73,920 | 133,050 |
| Tax liability | 86,520 | 26,610 |
| Bank overdraft | <u>-</u> | <u>5,400</u> |
| Total Current Liabilities | <u>160,440</u> | <u>165,060</u> |
| Total Equity and Liabilities | <u>1,161,630</u> | <u>949,320</u> |

Additional information:

1. The total Depreciation charge for the year was K133,740.
2. Property, Plant and Equipment costing K26,340 with accumulated Depreciation of K10,020 was sold in the year.

Required:

Prepare a statement of cash flows for the year to 31 December 2022 using indirect method in accordance with *IAS 7 statement of cash flows*. (16 marks)

- (b) Briefly explain the importance of the Key Financial Indicators below to Management of Ndola Plc.
- (i) Operating Profit
 - (ii) Return On Capital Employed
 - (iii) Current Ratio
 - (iv) Equity/Debt Ratio
 - (v) Inventory turnover
 - (vi) Interest cover ratio

(9 marks)

[Total: 25 Marks]

QUESTION FOUR

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

Note: The financial year end in each scenario [(a), (b), (c) and (d)] is 31 March 2023.

- (a) On 1 April 2022, Chalo issued a 5% K8,000,000 convertible loan note at par. Interest is payable annually in arrears on 31 March each year. The loan note is redeemable at par or convertible into equity shares at the option of the loan note holders on 31 March 2025. The interest on an equivalent loan note without the conversion rights would be 8% per annum.

Required:

Explain the accounting treatment of this transaction according to IFRSs/IASs.

(6 marks)

- (b) Chalo sells bank Automated Teller Machines (ATMs), as a package comprising ATM, installation and maintenance services. The individual selling prices are: the ATM K225,000; Installation of the machine K25,000 and three (3) year maintenance service K150,000. On 1 April 2022 the package was sold for K300,000 cash. Installation was done on 1 April 2022 and annual maintenance services have been provided.

Required:

Explain the accounting treatment of this transaction according to IFRSs/IASs.

(6 marks)

- (c) On 1 April 2021, Chalo entered into a five (5) year lease of the equipment. The equipment has six (6) years useful life. The annual payments are K30,000 per annum, paid in advance. To obtain the lease, the expert was paid K6,000 as lease arrangement fee. The lessor and Chalo agreed a lease incentive of K3,000. The present value of the minimum lease payments is K136,380 and the interest rate implicit in the lease is 5%.

Required:

Explain the accounting treatment of this transaction in the books of Chalo according to IFRSs/IASs.

(7 marks)

- (d) Chalo gives 12 months warranty for all the goods sold during the year. Past experience shows that 80% of the goods sold need no repairs. On average, 15% need minor repairs and 5% need major repairs. The finance director of Chalo has calculated that if minor repairs were needed on all goods sold, it would cost K500,000 and major repairs on all goods sold would cost K2,000,000.

Required:

- (i) Explain the criteria to be met before a provision can be recognized. (3 marks)

- (ii) Explain how Chalo will account for this warranty according to IFRSs/IASs.

(3 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Accrual basis of Accounting has been recommended as the best approach to ensure accountability and transparency in the management of public funds. Despite its favourable advantages, many countries are yet to implement a full accrual public sector accounting system.

Required:

Discuss FOUR (4) reasons why many countries have not been able to implement a full accrual public sector accounting system. (10 marks)

- (b) The IASB's Conceptual Framework identifies, among others: *relevance*, *faithful representation*, *comparability* and *understandability* as the qualitative characteristics of financial information associated with the preparation of financial statements.

Required:

Justify, *with an example each*, how the above stated qualitative characteristics would be applied in financial reporting in relation to non-current assets. (10 marks)

- (c) IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors.

The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information.

Required:

Explain the following in accordance with IAS 8:

- | | |
|--------------------------------------|-----------|
| (i) Accounting policies | (1 mark) |
| (ii) A change in accounting estimate | (2 marks) |
| (iii) Prior period errors | (2 marks) |

[Total 25 Marks]

END OF PAPER

DAS FINANCIAL REPORTING SUGGESTED SOLUTIONS

SOLUTION ONE

Yango Plc. Group statement of financial position for the year ended 31 March, 2023

| Assets | K'000 |
|--|-------------------------|
| Non-current assets | |
| Property, Plant and Equipment [500,000+200,000+4,000 w2+6,000 w2-1,500 w2] | 708,500 |
| Goodwill | - |
| Associate w7 | 51,500 |
| Other investments –Investment property [250,000-50,000 w7] | <u>200,000</u> |
| Total non-current assets | <u>960,000</u> |
| Current assets | |
| Inventory [50,000+45,000-8,400 w4] | 86,600 |
| Trade Receivables [32,000+21,000-6,000 w8] | 47,000 |
| Bank [15,000+2,000 w8] | <u>17,000</u> |
| Total current assets | <u>150,600</u> |
| Total assets | <u>1,110,600</u> |
| Equity and Liabilities | |
| Equity shares [400,000+15,000 w9] | 415,000 |
| Share premium [151,000+15,000 w9] | 166,000 |
| Retained Earnings w5 | <u>208,350</u> |
| | <u>789,350</u> |
| Non-controlling interest w6 | 32,400 |
| Non-current liabilities | |
| 12% Loan notes [80,000+50,000] | 130,000 |
| Deferred consideration [23,500+2,350 w5] | <u>25,850</u> |
| | <u>155,850</u> |
| Current liabilities | |
| Trade Payables [24,000+32,000-4,000 w8] | 52,000 |
| Tax [23,000+19,000] | 42,000 |
| Bank overdraft | <u>39,000</u> |
| | <u>133,000</u> |
| Total equity and liabilities | <u>1,110,600</u> |

Solution One Workings

K' 000

W1: Group structure: Yango 75% in Tamba, NCI 25% Yango 25% in Maka

W2: Net assets table of Subsidiary

| | | |
|---------------|---------|---------------|
| | @acq | @B/Sheet date |
| Equity shares | 100,000 | 100,000 |

| | | |
|------------------------------|----------------|----------------|
| Share premium | 15,000 | 15,000 |
| Retained Earnings | 75,500 | 65,000 |
| FV adjustments: | | |
| Land | 4,000 | 4,000 |
| Building | 6,000 | 6,000 |
| Dep on Building [6,000/4yrs] | ----- | (1,500) |
| | <u>200,500</u> | <u>188,500</u> |

Post-acq

R/Earnings $188,500 - 200,500 = (12,000)$

Yango $(12,000) \times 75\% = (9,000)$ NCI $(12,000) \times 25\% = (3,000)$

W3: Goodwill @ acquisition

FV of consideration:

| | |
|---|------------------|
| Shares $K100,000/K2 = 50,000$ shares $\times 75\% \times 2/10 = 7,500$ @ K4 | 30,000 |
| Deferred consideration | 23,500 |
| NCI $50,000$ shares $\times 25\% = 12,500$ @ K3 | 37,500 |
| Less FV of net assets @ acq | <u>(200,500)</u> |
| Bargain Purchase/Negative Goodwill | <u>(109,500)</u> |

W4: Unrealised profit: Tamba sold goods

URP $42,000 \times 20/100 = 8,400$

Yango $8,400 \times 75\% = - 6,300$ NCI $8,400 \times 25\% = - 2,100$ Inventory = - 8,400

W5: Group R/Earnings

| | |
|---|----------------|
| Yango fig | 115,000 |
| From Tamba w2 | (9,000) |
| URP w4 | (6,300) |
| Interest on deferred consideration [23,500@10%] | (2,350) |
| From Maka [14,000 -8,000] $\times 25\%$ | 1,500 |
| Bargain purchase | <u>109,500</u> |
| | <u>208,350</u> |

ALTERNATIVELY

Group retained earnings

| | Yango K'000 | Tamba K'000 | Maka K'000 |
|--------------------------------|----------------|----------------|---------------|
| Per question | 115,000 | 65,000 | 14,000 |
| Less pre-acquisition ret earn. | | (75,500) | (8,000) |
| Post acq R.E | | (10,500) | 6,000 |
| Fair value add.nal dep'n | | (1,500) | |
| Unwinding of discount | (2,350) | | |
| PUP(W4) | | <u>(8,400)</u> | |
| Bargain purchase | 109,500 | (20,400) | |
| Yango's share of Tamba: | | | |
| (75%*(20,400)) | (15,300) | | |
| Yango's share of Maka: | | | |
| (25%* 6,000) | <u>1,500</u> | | |
| Total | <u>208,350</u> | | |
| W6: NCI | | | |
| @acq w3 | | | 37,500 |
| From Tamba w2 | | | (3,000) |

| | |
|--|----------------|
| URP w4 | <u>(2,100)</u> |
| | <u>32,400</u> |
| W7: Investment in Associate: Maka | |
| @acq K80,000/K2 = 40,000 shares x 25% x K5 | 50,000 |
| Post-acq w5 | <u>1,500</u> |
| | <u>51,500</u> |

W8: Inter-company debt
 Receivables = - 6,000 Payable = - 4,000 Bank = + 2,000

W9: Shares consideration:
 Equity shares: 7,500 shares @ K2 = 15,000. Share premium: 30,000-15,000 = 15,000

SOLUTION TWO

(a) Timbe Plc.

Statement of profit or loss and other comprehensive income for the year ended 31 March 2023.

| | K'000 |
|---|------------------|
| Revenue | 694,500 |
| Cost of sales (W7) | <u>(360,000)</u> |
| Gross profit | 334,500 |
| Operating expenses | (103,000) |
| Investment income | 5,000 |
| Finance cost (3,750 (W3)+(6,875 (W4) | <u>(10,625)</u> |
| Profit before tax | 225,875 |
| Income tax (W2) | <u>(92,000)</u> |
| Profit for the year | 133,875 |
| Other comprehensive income: | |
| Revaluation surplus (50,000-10,000 (W1)) | <u>40,000</u> |
| Total comprehensive income | <u>173,875</u> |

(b) **Timbe Plc. Statement of financial position as at 31 March 2023**

| | |
|---|------------------|
| Non-current assets: | K'000 |
| Property, Plant and Equipment (W1) | 747,500 |
| Investment at amortized cost at 31 March 2023 | <u>105,000</u> |
| Total non-current assets | <u>852,500</u> |
| Current assets: | |
| Inventory | 83,250 |
| Trade receivables | <u>133,750</u> |
| Total current assets | <u>217,000</u> |
| Total assets | <u>1,069,500</u> |
| Equity and liabilities: | |
| Equity shares of K0.50 each (W5 & W6) | 500,000 |
| Share premium (W5 & W6) | 70,000 |
| Revaluation reserve (W6) | 40,000 |
| Retained earnings (W6) | <u>105,375</u> |
| Total shareholders' funds | <u>715,375</u> |
| Non-current liabilities: | |
| 2% loan note (W4) | 129,375 |
| Lease obligation (W3) | 28,750 |
| Deferred tax (W2) | <u>37,000</u> |
| Total non-current liabilities | <u>195,125</u> |
| Current liabilities: | |
| Trade payables | 46,750 |
| Bank overdraft | 4,750 |
| Current tax payable (W2) | 95,000 |
| Lease obligation (W3) | <u>12,500</u> |
| Total current liabilities | <u>159,000</u> |
| Total equity and liabilities | <u>1,069,500</u> |

WORKINGS

(Note: Workings are too detailed than what is expected from Students-Please give marks appropriately. No marks should be given for explanations as that is not required)

1. Property, Plant and Equipment

| | Leasehold property | Plant and equipment | Leased vehicles | Total |
|-------------------------------|-----------------------|------------------------|--------------------|------------------|
| | K'000 | K'000 | K'000 | K'000 |
| Cost b/f at 1 April 2022 | 562,500 | 452,500 | 50,000 | 1,065,000 |
| Less acctd dep'n b/f | <u>(90,000)</u> | <u>(212,500)</u> | - | <u>(302,500)</u> |
| Carrying amounts c/f | 472,500 | 240,000 | 50,000 | 762,500 |
| Depreciation expense: | | | | |
| L/hold (562,500/25 years) | (22,500) | | | (22,500) |
| P & E(12 ½ % x 240,000 | | (30,000) | | (30,000) |
| L/vehicles (50,000/4 years) | | | (12,500) | (12,500) |
| Carrying amts at 3 March 2023 | 450,000 | 210,000 | 37,500 | 697,500 |
| Revaluation surplus | <u>50,000</u> | - | - | <u>50,000</u> |
| Revalued/carrying amount | <u>500,000</u> | <u>210,000</u> | <u>37,500</u> | <u>747,500</u> |

2. Income taxes

(Note: Students are not required to explain. The calculation is what is needed)

Current tax

There was no current tax balance at the beginning of the current accounting period hence the estimated provision of K95 million at 31 March 2023 goes to profit and loss as part of the charge and same amount goes to statement of financial position as a current tax payable under current liabilities.

For deferred tax,

The total temporary difference of K185 million in which K50 million relates to revaluation of lease hold property. The deferred tax on revaluation surplus of K10 million will be subtracted from revaluation surplus of K50 million, leaving the net surplus of K40 million to be recognized as other comprehensive income and equity. Additionally, the balance of K135 million temporary difference gives closing deferred tax relating to profit and loss of K27 million (20% x K135 million) which is a reduction in deferred tax of K3 million between the beginning (K30 million) and the end (K27 million).

This reduction will be a credit to profit or loss, when netted with a debit of current tax of K95 million leaves net amount to profit or loss a debit of K92 million. Finally, the sum of deferred tax on revaluation surplus of K10 million and that relating to profit or loss of K27 million (K37 million) will be recognized as non-current liability in the statement of financial position.

3. Leased vehicles:

| | |
|---|--|
| | K'000 |
| Initial measurement of the lease liability | <u>37,500</u> |
| Initial measurement of ROUA (37,500 + 12,500) | <u>50,000</u> (due to advance lease rental, the initial rental is added to the initial measure of lease liability) |

Depreciation expense:

= initial ROUA/lease term = 50,000/ 4 years = 12,500 per annum

Further, lease obligation at 31 March 2023 is computed as follows:

| | |
|---|----------------|
| | K'000 |
| Initial lease liability at 1 April 2022 | 37,500 |
| Plus implicit interest (10% x 37,500) | <u>3,750</u> |
| Lease obligation at 31 March 2023 | 41,250 |
| Less lease rental | 12,500) |
| Subtotal before interest | 28,750 |
| Plus implicit interest (10% x 28,750) | <u>2,875</u> |
| Total liability at 31 March 2024 | <u>31, 625</u> |

4. 2% loan notes

(Note: Students are not required to explain. The calculation is what is needed)

As the loan will be redeemed at a large premium, it is held as an amortized cost financial liability which is amortized as follows:

| | Balance b/f | Effective Interest @ 5.5% | Interest paid @ 2% | Balance c/f |
|-------------------|-------------|---------------------------|--------------------|-------------|
| | K'000 | K'000 | K'000 | K'000 |
| Y/E 31 March 2023 | 125,000 | 6,875 | (2,500) | 129,375 |

The finance cost to be taken to the statement of profit or loss and other comprehensive income for the year ended 31 March 2023 is K6.875 million (5.5% X K125 million). As the actual interest paid is K2.5 million, an accrual of K4.375 million is required. This amount is added to the nominal value of the loan at the date of issue of K125 million, to give carrying amount of loan note of K129.375 million to be taken to the statement of financial position as at 31 March 2023.

5. Clearance of suspense account balance: (all figures in '000' except price/dividend per share and proportion of rights issue)

(Note: Students are not required to explain. The calculation is what is needed)

(i) Rights issue of shares:

existing number of shares = $K375,000 / K0.50 = 750,000$ shares

If rights issue was 1 share for every 3 existing, then new shares were:

$750,000 / 3$ shares x 1 share = 250,000 shares.

Total value from the issue would be K200,000 (250,000 shares x K0.80)

Total value is split into equity capital and share premium as follows:

To equity (250,000 shares x K0.50 nominal price) = K125,000

To share premium (250,000 shares x K0.30 premium price) = K75,000

(ii) Dividends paid before rights issue:

Existing shares before rights issue x dividend per share

= 750,000 shares x K0.10

= K75,000

(iii) Issue costs were K5,000

The required double entries for the above three transactions are as follows:

- Rights issue:

| | | |
|------------------|---------|--------------------|
| Dr Bank | 200,000 | (already recorded) |
| Cr share capital | 125,000 | (not recorded) |
| Cr share premium | 75,000 | (not recorded) |
- Dividends paid

| | | |
|----------------------|--------|----------------|
| Dr retained earnings | 75,000 | (not recorded) |
| Cr Bank | 75,000 | (recorded) |
- Issue costs

| | | |
|------------------|-------|----------------|
| Dr share premium | 5,000 | (not recorded) |
| Cr Bank | 5,000 | (recorded) |

The suspense account balance cleared as follows:

SUSPENSE ACCOUNT

| | K'000 | | K'000 |
|------------------------------|----------------|---------------------------------|----------------|
| Share capital (rights issue) | 125,000 | Balance b/f (per trial balance) | 120,000 |
| Share premium (rights issue) | 75,000 | Retained earnings (div. paid) | 75,000 |
| | | Share premium(issue cost) | 5,000 |
| | <u>200,000</u> | | <u>200,000</u> |

Explanation: (Note: Students are not required to explain. The calculation is what is needed)

The share capital of K375 million in the trial balance represents 750 million shares (K375 million/K0.50).

A fully subscribed rights issue of one new share for every three shares held would lead to an issue of 250 million new shares (K375 million/K0.50) x 1/3. This would yield a gross amount of K200 million (250 million shares x K0.80).

After the issue costs of K5 million, a net amount of K195 million received. This net amount received is reduced by dividends paid of K75 million leaving the balance of K120 million that reconciles with suspense account balance.

6. Extract statement of changes in equity

| | Share capital | Share premium | Revaluation surplus | Retained earnings |
|----------------------------|---------------|---------------|---------------------|-------------------|
| | K'000 | K'000 | K'000 | K'000 |
| Balances b/f | 375,000 | - | - | 46,500 |
| New share issue (W5) | 125,000 | 75,000 | - | - |
| Issue cost of shares | | (5,000) | | |
| Total comprehensive income | | | 40,000 | 133,875 |
| Dividends paid (W5) | | | | (75,000) |
| Balances c/f | 500,000 | 70,000 | 40,000 | 105,375 |

7. Cost of sales

K'000

| | |
|---------------------------------|----------------|
| Per trial balance | 295,000 |
| Depreciation expense: | |
| Leasehold property (W1) | 22,500 |
| Owned plant and equipment (W1) | 30,000 |
| Leased plant and equipment (W1) | <u>12,500</u> |
| Total | <u>360,000</u> |

SOLUTION THREE

(a) Ndola Plc's

Statements of Cashflows for the year ended 31 December 2022

| | K | K |
|--|---------------|----------------------|
| <u>Cashflows from Operating Activities</u> | | |
| Profit before tax | | 198,450 |
| Adjust for: Depreciation | | 133,740 |
| Profit on Disposal of PPE | | (13,440) |
| Finance cost | | <u>3,150</u> |
| <u>Movements in working capital</u> | | 321,900 |
| Increase in Inventories (177,420 – 147,840) | (29,580) | |
| Decrease in Receivables (134,400 – 161,280) | 26,880 | |
| Decrease in Payables (73,920 – 133,050) | (59,130) | (61,830) |
| <u>Cash generated from other Activities</u> | | |
| Tax paid | (26,610) | |
| Finance costs (interest Paid) | (3,150) | <u>(29,760)</u> |
| Net cash inflow from operating Activities | | 230,310 |
| <u>Cashflows from Investing Activities</u> | | |
| Payments to acquire PPE (w1) | (346,560) | |
| Proceeds from PPE Disposal (w2) | 29,760 | |
| Net Cash flows from Investing Activities | | (316,800) |
| <u>Cashflows from financing Activities</u> | | |
| Issue of new share (225,000 – 150,000) | 75,000 | |
| Bank Loans (45,000 – 15,000) | <u>30,000</u> | |
| Net cash inflows from financing Activities | | <u>105,000</u> |
| Net Increase in cash and cash equivalents | | 18,510 |
| Opening Balance | | <u>(5,400)</u> |
| Closing Balance | | <u><u>13,110</u></u> |

WORKINGS

1.

PPE @ carrying amount Account

K

K

| | | | | |
|------------------|-----|---------|------------------------------|---------|
| Balance | b/f | 640,200 | Disposal (K26,340 – K10,020) | 16,320 |
| Bank - Additions | | 346,560 | Depreciation | 133,740 |
| | | | Balance | c/d |
| | | 986,760 | | 836,700 |
| | | | | 986,760 |

2. Proceeds from sale of PPE = NBV + Gain on sale
= 16,320 + 13,440
= K29,760

(b) Financial indicators

- (i) Operating Profit
This measures how much profit is generated from operations before interest and tax.
- (ii) ROCE
This measures operating profit generated using the capital employed.
- (iii) Current Ratio
This measures the number of times the current assets cover the current liabilities.
- (iv) Equity/Debt ratio
This measures the relationship between the equity and debt of the entity.
- (v) Inventory turnover
This measures the rate at which inventory is been sold.
- (vi) Interest cover
This measures the numbers of times operating profit covers finance cost.

SOLUTION FOUR

(a) Convertible loan note

In the income statement, K590,624 (w2) will be reported as finance cost at 31 March 2023.

In the statement of financial position, equity of K617,200 (w1) and liability (debt) of K7,573,424 (w2) will be reported at 31 March 2023.

Workings

| | | |
|-----|---|------------------|
| W1: | Principal: $8,000,000 \times 0.794$ | 6,352,000 |
| | Coupon: $8,000,000 \times 5\% = 400,000 \times 2.577$ | <u>1,030,800</u> |
| | Debt (liability) | 7,382,800 |
| | Equity | <u>617,200</u> |
| | Total Loan | <u>8,000,000</u> |

| | | | | |
|-----|-----------|--------------|-----------|-----------|
| W2: | Liability | | | |
| | O/Bal | Interest @8% | (payment) | C/Bal |
| | 7,382,800 | 590,624 | (400,000) | 7,573,424 |

(b) Revenue recognition

In the profit or loss, K168, 750 (w1) and 18,750 (w1) will be reported as revenue at 1 April 2023, when control is transferred to the customer, while K37, 500 will be reported as revenue from maintenance services for the year ending 31 March 2023.

In the statement of financial position, K37, 500 (w1) current liability (deferred income) and K37, 500 non-current liability (deferred income) will be reported at 31 March 2023.

Workings

| | | |
|-----|------------------|---|
| W1: | Price allocation | |
| | Machine | $225,000 \times [300,000/400,000] = 168,750$ |
| | Installation | $25,000 \times [300,000/400,000] = 18,750$ |
| | Services | $150,000 \times [300,000/400,000] = 112,500/3\text{yrs} = 37,500$ |

(c) Lease accounting

In the income statement, K27, 876 (w1) depreciation and K4, 085 (w2) finance cost will be reported at 31 March 2023.

In the statement of financial position, K83,628 carrying value; K30,000 current liability and K55,784 non-current liability will be reported at 31 March 2023.

Workings

| | | |
|-----|---------------|--|
| W1: | Dep and N.B.V | |
| | Dep | $[136,380 + 6,000 - 3,000] = 139,380/5\text{yrs} = 27,876$ |
| | N. B.V | $139,380 - 27,876 - 27,876 = 83,628$ |
| | O. | |

| | | | | |
|-----|------------------------------|-----------|-------------|-------|
| W2: | Liabilities and Finance cost | | | |
| | O/Bal | (payment) | interest@5% | C/Bal |

| | | | |
|---------|----------|-------|---------|
| 136,380 | (30,000) | 5,319 | 111,699 |
| 111,699 | (30,000) | 4,085 | 85,784 |

Current liability = 30,000

Non-current liability 85,784 - 30,000 = 55,784

(d) Criteria for a provision

There is need for:

1. Present obligation as a result of past event(s).
2. Probable outflow of economic benefits to settle the obligation.
3. Cost can be reliably measured or estimated.

In the income statement, K175,000 (w1) will be reported as an expense.

In the statement of financial position, K175,000 (w1) will be reported as a current liability.

W1: Provision $[15\% \times 500,000] + [5\% \times 2,000,000] = 175,000$

SOLUTION FIVE

(a) Reasons why countries have not implemented a full accrual public sector accounting system:

1. Accruals accounting financial statements are more technical and relatively more difficult to understand by users. Users require some technical knowledge to understand such statements.
2. A lot of subjective judgments can go into the determination of some estimates or the making of provisions. Relevant accounts are therefore difficult to prepare and can also be manipulated easily to suit the preparer's desires.
3. It requires significant investment in time and human capacity to produce accrual basis financial statements.
4. To the extent that budgets and other requirements are cash based; accrual basis accounting fails to demonstrate compliance with budgetary estimates.
5. Users of financial information such as legislators, tax payers, public sector officers etc. may require a lot more technical guidance and support to appreciate the utility of accrual based financial reports compared to financial statements based on other basis of accounting.
6. High cost of implementation discourages poor countries from implementation of the accrual public sector accounting system.
7. Lack or weak political commitment towards implementation of accrual public sector accounting system. Political leadership often fails to prioritize the implementation of accrual accounting.

(b) Qualitative characteristics as applicable to tangible non-current assets illustrated by IAS 16

Relevance

The choice of the revaluation model as a measurement model in IAS 16 provides relevant information by showing up-to-date values. This will help give an indication as to what the entity's underlying assets are worth. Revaluations should be applied to all assets in a class, not just those with positive changes.

Faithful representation

Although the revaluation model gives relevant information this information is generally seen to be a less faithful representation than the cost model – the other measurement model allowed by IAS 16. The cost model is based on historic costs which are not the most relevant costs on which to base future decisions. However, historic cost is based on fact, so can claim to represent that which it purports to represent. The recognition criteria of IAS 16, setting out what may be recognised as part of the cost of an item of property, plant and equipment also aids verifiability of the resultant figure.

Comparability

The standard 'rules' laid down in IAS 16 mean that the financial statements of different companies can be compared as they have been prepared on the same basis. IAS 16 also

facilitates comparability between companies by requiring the disclosure of accounting policies (in accordance with IAS 8) in respect of, for example, depreciation methods and measurement bases. It also requires the disclosure of both carried forward and brought forward figures, aiding comparability between this year and the previous year. IAS 16 allows comparability between the cost and the revaluation model (for example to facilitate comparison between two companies who have adopted different models) by requiring equivalent cost information to be disclosed under the revaluation model. It also requires disclosures (in accordance with IAS 8) of the effect of a change in an accounting estimate such as useful lives or depreciation rates. This facilitates comparison.

Understandability

To improve understandability IAS 16 requires disclosures to be given by each class of property, plant and equipment so it will be clear what types of asset have been purchased during the year and what types of assets have been sold. If this information was merged over one class, it would be less understandable. The format of the property, plant and equipment 'table' also aids understandability (with the movement on each class of assets clearly set out) and the disclosure of depreciation policies aids an understanding of asset lives.

(c)

- i) Accounting policies are the specific principles, bases, conventions, rules and practices consistently applied by an entity in preparing and presenting financial statements. IFRSs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial.
- ii) Change in accounting estimates is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. A change in accounting estimate may be needed if changes occur in the circumstances on which the estimate was based, or if new information becomes available.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effects of changes in accounting estimate should be recognised prospectively.

- iii) Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- 8. Was available when the financial statements for those periods were authorised for issue;

- 9. and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

All material prior period errors should be corrected retrospectively in the first set of financial statements following the discovery of the error. Comparative amounts for the

previous period should be restated at their correct amount, and where practicable, opening balances of affected assets, liabilities and equity restated too.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 12 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A - TWO (2) COMPULSORY QUESTIONS

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

QUESTION ONE

Quick Silver Paints Limited, is reviewing operations for the year 2023. The company operates a standard marginal costing system and manufactures one product, 'Water Guard, ' for which the following standard revenue and cost data per unit of product is available:

| | |
|-------------------|---------------------------|
| Selling price | K12.00 |
| Direct material A | 2.5kg at K1.70 per kg |
| Direct material B | 1.5kg at K1.20 per kg |
| Direct labour | 0.45hrs at K6.00 per hour |

Fixed production overheads for the three-month period were expected to be K62,500.

Budgeted production and sales for the three-month were 50,000 units of product Water Guard.

Actual data for the three-month period was as follows:

Sales and production 48,000 units of Water Guard were produced and sold for K580,800.

Direct material A: 121,951kg were used at a cost of K200,000

Direct material B: 67,200kg were used at a cost of K84,000

Direct labour: Employees worked for 18,900 hours, but 19,200 hours were paid for at a cost of K117,120.

Fixed production overheads incurred were K64,000.

Required:

(a) Calculate the following variances.

- (i) Sales volume contribution and sales prices variances.
- (ii) Price, mix and yield variances for each material.
- (iii) Labour rate, efficiency and idle time variances.

(10 marks)

(b) Explain possible causes for each of the following variances.

- (i) Material price, mix and yield variances for material A.
- (ii) Labour rate, labour efficiency and idle time variances.

(6 marks)

- (c) Explain what is meant by basic standards and ideal standards and their effect on employee motivation. (4 marks)
- (d) Compare and contrast Financial Accounts and Management Accounts. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Greg Lungu Investment (GLI) is in the business of producing and selling children toys. In the recent past the company has recorded losses. The latest being a loss of K100,000 from the year ending 31 January, 2023. The summarized Income Statement for GLI for the year ended 31 January, 2023 is as follows:

| | K'000 | K'000 |
|-----------------------------------|--------------|--------------|
| Sales (50,000 units) | | 1,000 |
| Direct materials | 350 | |
| Direct wages | 200 | |
| Fixed production overhead | 200 | |
| Variable production overhead | 50 | |
| Administration overhead | 180 | |
| Selling and distribution overhead | <u>120</u> | |
| | | <u>1,100</u> |
| Profit/(loss) | | <u>(100)</u> |

At a recent board meeting the directors discussed the year's results and the chairman asked for suggestions to improve the situation and certain proposals were put forward.

Required:

Evaluate the effectiveness of each of the following proposals put forward at the meeting.

Note: Your evaluation should include an explanation of how the proposals will improve the current results.

- (a) Pay salesmen a commission of 10% of sales and thus increase sales to achieve the break-even point. (6 marks)
- (b) Reduce selling price by 10% of which it is estimated would increase sales volume by 30%. (5 marks)

- (c) Increase direct wages rates from K4 to K5 per hour, as part of a productivity pay deal. It is hoped that this would increase production and sales by 20%, but advertising costs would increase by K50,000. (6 marks)
- (d) Increase sales by additional advertising of K300,000, with an increased selling price of 20%, setting a profit margin of 10%. (8 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

Chanda Ltd manufactures packed foods using various ingredients and the foods are for Babies, Adults and Senior Citizens. All the three (3) products use two (2) materials: material A and material B. Due to adverse weather conditions and poor growth yield, the supplier of the materials has informed Chanda Ltd that the supply of material A and material B will be limited to the following quantities for the next quarter, the last one for the year, 2022:

Material A 12,250 Kgs

Material B 12,200 Kgs

Chanda Ltd has agencies and stores in all districts which help in sales distribution. Its products are mostly known in the Zambian market. No other source of supply can be found for the next period. Information relating to the three products manufactured by Chanda Ltd is as follows:

| Details | Babies | Adult | Senior Citizens |
|---|---------------|--------------|------------------------|
| Quantity of material used per unit manufactured: | | | |
| Material A (Kg) | 20 | 10 | 40 |
| Material B (Kg) | 50 | 30 | 70 |
| Maximum sales demand (units) | 120 | 160 | 110 |
| Contribution per unit sold (K) | 150 | 120 | 175 |

Required:

- (a) Define a limiting factor and provide an example of what might constitute an organization's limiting factor. (3 marks)
- (b) Recommend a production mix that will maximize the profits of Chanda Ltd for the forthcoming period. (15 marks)

Chanda Ltd has a special order from Masaiti and Mpongwe districts to which they wish to guarantee the supply of 50 units of each product in the next period.

Required:

- (c) Evaluate whether this special order would alter your recommendation you made in (b) above. (7 marks)

[Total: 25 Marks]

QUESTION FOUR

Your company has just employed a new production manager who seem not to understand most management accounting terminologies. He recently attended a conference where a number of accounting terminologies were explained. As their company management accountant, he has requested you to explain some management accounting terminologies and techniques.

Required:

- (a) Briefly describe the target costing process and state its stages of implementation. (8 marks)
- (b) Explain what you understand by product life cycle costs. (8 marks)
- (c) Describe the methods that an organization could adopt to optimize costs. (4 marks)
- (d) Explain the principles of Kaizen costing. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

Mumizo Breweries Limited specializes in the brewing of a special drink called 'Simela'. Sales in the current year have been K5.2 million. The terms of sale are 2% discount for payments within 14 days. All sales are on 28 days credit, although customers not taking the discount usually take 56 days to pay on average. Accounts receivable currently amounts to K500,000, included in which are the 50% of the company's customers who take advantage of the cash discount. 1% of credit sales are irrecoverable debts. The net operating margin excluding bad debts and all discounts for Mumizo Brew Limited is 25% of sales.

The company is considering a change in its credit policy to 4% discount within 14 days, net 56 days. It anticipates the following effects of this change:

- Sales to increase by 10% annually.
- 75% of customers to take advantage of the discount.
- Irrecoverable debts to fall to 0.5% of sales.
- Period of time before payment for customers not taking the discount to increase by one week.

The company's cost of finance is 12% and work a 52-week year.

Required:

- (a) Calculate and explain the effect of the proposed changes in credit policy on:
- (i) Net operating profit
 - (ii) Accounts receivable
 - (iii) Discount allowed
 - (iv) Irrecoverable debts
 - (v) Profitability of the company
- (12 marks)
- (b) Outline policies that may produce savings in other items of working capital other than receivables. (5 marks)
- (c) Explain the services that may be provided by factoring organizations. (8 marks)

[Total: 25 Marks]

END OF PAPER

SOLUTION ONE

| | | |
|---------------------------------|--------------------|---------------|
| (a) Variances | K | K |
| (i) Standard sales price K12.00 | | 12.00 |
| Material A K1.70 x 2.5 | 4.25 | |
| Material B K1.20 x <u>1.5</u> | <u>1.80</u> | |
| | <u>4.00</u> | |
| Labour K6.00 x 0.45 | <u>2.70</u> | <u>(8.75)</u> |
| Standard contribution | | <u>3.25</u> |

Sales volume contribution variance

| | |
|----------------------------------|---------------------------|
| Budgeted sales volume | 50,000 units |
| Actual sales volume | <u>48,000 units</u> |
| Sales volume variance in units | <u>2,000 units (A)</u> |
| X standard contribution per unit | x K3.25 |
| Sales volume variance | <u>K6, 500 (A)</u> |

Sales price variance

| | |
|---|-------------------------|
| | K |
| Sales revenue for 48,000 units should have been x K12 | 576, 000 |
| But was | <u>580, 800</u> |
| Selling price variance | <u>4,800 (F)</u> |

(ii) Direct material price variances

| | |
|---|-------------------------|
| | K |
| 121,951 Kgs of (A) should have cost (x K1.70) | 207, 317 |
| But did cost | <u>200,000</u> |
| Material A price variance | <u>7,317 (F)</u> |

| | |
|--|------------------------|
| | K |
| 67,200 Kgs of (B) should have cost K1.20 | 80,640 |
| But did cost | <u>84,000</u> |
| Materia B price variance | <u>3,360(A)</u> |

Material mix variances

| | |
|---|----------------|
| | Kg |
| Total quantity used (121,951 + 67,200) kg | 189, 151 |
| Standard mix for actual use 2.5/4 A ; 1.5/4 B | <u>118,219</u> |
| | <u>70,932</u> |

| Material | Actual quantity | | variance | per kg variance | |
|----------|-----------------------|-----------------------|-----------------|-----------------|------------------------|
| | Standard mix | actual mix | | K | K |
| | Kg | Kg | Kg | K | K |
| A | 118,219 | 121,951 | 3,732(A) | 1.70 | 6,344 (A) |
| B | <u>70,932</u> | <u>67,200</u> | <u>3,732(F)</u> | <u>1.20</u> | <u>4,478 (F)</u> |
| | <u>189,151</u> | <u>189,151</u> | - | | <u>1,866(A)</u> |

Material yield variances in total

| | |
|--|-----------------------------|
| 189,151 kg should have yielded (\div 4kg) | 47,288 units |
| But did yield | <u>48,000 units</u> |
| Yield variance in units | <u>712 units (F)</u> |
| X standard cost per unit of output | x K6.05 |
| Yield variance | <u>K4, 308 (F)</u> |

For individual materials(**Alternative answer**)

| Material | Std Qty | Actual | standard | per Kg | variance |
|----------|----------------|----------------|------------------|-------------|------------------|
| | standard mix | standard mix | variance | | |
| | Kg | kg | kg | K | K |
| A | 120,000 | 118,219 | 1,781(F) | 1.70 | 3,028 (F) |
| B | <u>72,000</u> | <u>70,932</u> | <u>1,068(F)</u> | <u>1.20</u> | <u>1,282 (F)</u> |
| | <u>192,000</u> | <u>189,151</u> | <u>2,849 (F)</u> | | <u>4,310 (F)</u> |

(iii) **Labour rate variances**

| | |
|---|-------------------------|
| | K |
| 19,200 hours of work should have cost (K6 per hr) | 115,200 |
| But did cost | <u>117,120</u> |
| Labour rate variance | <u>1,920 (A)</u> |

Labour efficiency variance

| | |
|--|-----------------------------|
| 48,000 units of water guard should have taken (x 0.45 hrs) | 21,600 hrs |
| But did take | <u>18,900 hrs</u> |
| Efficiency variance in hours | <u>2,700 hrs (F)</u> |
| X standard rate per hour | x K6 |
| Efficiency variance | <u>K16,200 (F)</u> |

Idle time variance

18,900 hours were worked but 19,200 hours were paid for.

Idle time variance = 300 hours (A) x K6 = **K 1,800 (A)**

(b)

- (i) The favorable material A price variance shows that it cost less than standard. This could have been because of out of date standard, price changes by the supplier or perhaps a discount.

The adverse mix variance shows that more of an expensive material (material A) was used in the mix.

The favourable material A yield variance indicates that more output was produced than expected. This could be due to better operating processes or a superior workforce.

It should be noted, however, that any explanations of the mix and yield variances for material A cannot really be discussed in isolation from those for material B.

- (ii) The adverse labour rate variance is because staff were paid more per hour than expected. This may have been because more skilled staff were employed, or there may have been a pay increase from the time the standard was developed.

The favourable labour efficiency variance shows that few hours were worked than was expected, maybe as employees benefited from a learning curve effect or additional training.

The adverse idle time variance maybe due to process problems such as machine breakdowns.

(c)

- A basic standard is a long-term standard which remains unchanged over the years and is used to show trends.
- An ideal standard is one which can be attained under perfect operating conditions: no wastage, no inefficiencies, no idle time and no breakdowns.
- Basic standards may have an adverse effect on motivation as employees discover over time that they are easily able to achieve the standards.
- Ideal standards can be seen as long-term targets but are not very useful for day-to-day control purposes as they cannot be achieved. It is claimed that they provide employees with an incentive to be more efficient. However, they may have an adverse effect on employee motivation as variances will always be adverse.

(d)

| Financial Accounts | Management accounts |
|--|---|
| Financial accounts detail the performance of an organization over a defined period and the state of affairs at the end of that period. | Management accounts aid management to record, plan, control the organization's activities and help the decision-making process. |
| Limited liability company must, by law, prepare financial accounts. | There is no legal requirement to prepare management accounts. |
| The format of published financial accounts is determined by local law, by international Accounting Standards and International Financial Reporting Standards. In principle the accounts of different organizations can therefore be easily compared. | The format of management accounts is entirely at management discretion: no strict rules govern the way they are prepared or presented. Each organization can devise its own management accounting system and format of reports. |
| Financial accounts concentrate on the business as a whole, aggregating revenues and costs from different operations and are an end in themselves. | Management accounts can focus on specific areas of an organization's activities. Information may be produced to aid a decision rather than to be an end product of a decision. |
| Most financial accounting information is of a monetary nature. | Management accounts incorporate non-monetary measures. Management may |

| | |
|--|--|
| | need to know, for example tons of aluminum produced, monthly machine hours or miles travelled by salesmen. |
| Financial accounts present an essentially historic picture of past operations. | Management accounts are both historical record and a future planning too. |

SOLUTION TWO

Workings: (K'000)

| | |
|-----------------|--------------|
| Sales | 1000 |
| Variable costs | <u>600</u> |
| Contribution | <u>400</u> |
| Fixed | <u>(500)</u> |
| Profit and loss | <u>(100)</u> |

Unit selling price = K20 (K1,000,000/50,000)

Unit variable cost = K12 (K600,000/50,000)

Unit contribution = K8

- (a) Sales commission will be K2 per unit, thus reducing the contribution per unit to K6. The break-even point will be 83,333 units (K500,000/K6) or K1,666,667 sales value. This requires an increase of 67% on previous sales and the company must assess whether or not sales can be increased by such a high percentage.
- (b) A 10% decrease in selling price will decrease the selling price by K2 per unit and the revised unit contribution will be K6.

K

| | |
|--|------------------|
| Revised total contribution (65,000 x K6) | 390,000 |
| Less fixed costs | <u>(500,000)</u> |
| Profit/(loss) | <u>(110,000)</u> |

The estimated loss is worse than last year and the proposal is therefore not recommended.

(c) Wages will increase by 25% - that is from K200,000 to K250,000 – causing output to increase by 20%

| | | K |
|---|----------------|------------------|
| <hr/> | | |
| Sales | | 1, 200,000 |
| Direct materials and variable overheads | 480,000 | |
| Direct wages | <u>250,000</u> | |
| | | <u>(730,000)</u> |
| Contribution | | 470,000 |
| Less fixed costs | | <u>(550,000)</u> |
| Profit/(loss) | | <u>(80,000)</u> |

This represents an improvement of K20,000 on last year's loss of K100,000.

(d) Revised selling price = K24

Let X = Revised sales volume

| | | |
|--|---|----------------------------|
| Therefore, sales revenue less (variable costs + fixed costs) = | | Profit |
| 24X less (12X + 800,000) | = | 0.1(24X) |
| 9.6X | = | 800,000 |
| X | = | <u>83,333 units</u> |

Clearly this proposal is preferable since it is the only proposal to yield a profit. However, the probability of increasing sales volume by approximately 67% plus the risk involved from increasing fixed costs by K300,000 must be considered.

SOLUTION THREE

(a) Limiting factor

This refers to any factor that is in scarce supply and that prevents an organization from expanding its activities further, for instance, it limits the organizations activities such as production capacity. Usually the objective is to maximize total profits which depend on getting the highest contribution margin per unit of the constraining factor.

(b) The first step is to check whether the supply of each material is adequate or whether either or both of them represent a limiting factor.

| Details | Babies | Adults | Senior Citizens |
|-----------------------------------|---------------|---------------|------------------------|
| Contribution per unit sold | 150 | 120 | 175 |
| Material B per unit (Kg) | 50 | 30 | 70 |
| Contribution per Kg of Material B | 3.00 | 4.00 | 2.50 |
| Ranking | 2nd | 1st | 3rd |

Therefore, Chanda Ltd should produce as much of Adults products as possible. Then, when maximum demand for Babies product has been met, any material leftover from B, should be used to produce the Senior Citizen product.

The optimal production plan for the period will be:

| Products | Recommended production | Material B utilized | Contribution per unit | Total contribution |
|-----------------|-------------------------------|----------------------------|------------------------------|---------------------------|
| Adult | 160 | 4,800 | K120 | 19,200 |
| Babies | 120 | <u>6,000</u> | K150 | <u>18,000</u> |
| | | 10,800 | | 37,200 |
| Senior Citizens | 20* | 1,400 (Balance) | K175 | <u>3,500</u> |
| | | Maximum | contribution | <u>40,700</u> |

After satisfying the demand for Babies and Adults, 1,400 Kg of Material B will be available for the production of the Senior Citizen product. Senior Citizen products requires 70 Kg of B per unit, a maximum 20 units of Senior Citizen products can be produced.

(c) The recommended production plan in part (b) does not include sufficient Senior Citizen product to satisfy the requirements of 50 units for the valued customer. Some of the material allocated to product Babies product (second in the ranking) must be allocated to Senior Citizen product. The recommended production plan will now be as follows:

| Products | Recommended production | Material B utilized | Total contribution |
|-----------------|-------------------------------|----------------------------|---------------------------|
| Adult | 160 | 4,800 | 19,200 |
| Babies | 78* | 3,900 | <u>11,700</u> |
| | | | 30,900 |
| Senior Citizens | 50** | <u>3,500</u> | <u>8,750</u> |
| | | <u>12,200</u> | <u>39,650</u> |

*If 6,000 =Kgs of Material B satisfy 120 units of sales demand; 3,900 units will satisfy $(3,900 \times 120) / 6,000 = \underline{78}$

**If 20 units of sales demand requires 1,400 kgs of Material B; 50 units of sales demand will require $(50 \times 1,400) / 20 = \underline{3,500}$

SOLUTION FOUR

(a)

(i) Target costing **estimates product cost by subtracting a desired profit margin from a competitive market price**. As the target cost makes reference to the competitive market, it is fundamentally customer-focused and an important concept for new product development.

(ii) Stages in target costing:

1. Determine its target price which customers will be prepared to pay for the product.
2. Deduct a target profit margin from the target price to determine the target cost.
3. Estimate the actual cost of the product.
4. If estimated actual cost exceeds the target cost, investigate ways of driving down the actual cost to the target cost.

(b) Lifecycle costing estimates and accumulates costs over a product's entire lifecycle.

The lifecycle costs are the costs incurred on products and services from their design stage through development to market launch, production and sales and their eventual withdrawal from the market.

Knowledge of the lifecycle costs for the product will help management determine whether or not profits made during the manufacturing phase will cover the costs incurred during the pre and post manufacturing stages.

Identifying the costs incurred during the different stages of the product's lifecycle will provide management an insight into understanding and managing the total costs incurred throughout its lifecycle.

Management will be able to identify areas in which cost reduction efforts are likely to be most effective since lifecycle costing allows them to understand the consequences of developing and making the product.

(c)

- (i) Increase the selling price of the product
- (ii) Reduce the material cost per unit
- (iii) Reduce the total expenditure on conversion cost
- (iv) Change the working practices on the bottleneck resource

(d) Kaizen costing is **a system of cost reduction via continuous improvement**. It tries to maintain present cost levels for products currently being manufactured via systematic efforts to achieve the desired cost level. The word kaizen is a Japanese word meaning continuous improvement.

Cost reduction targets are set and applied monthly. Management is forced to investigate when Kaizen cost targets are not achieved. Standards are tightened so as to facilitate constant cost reductions.

(iii) **Discount allowed:**

| | KM |
|--|------------------------|
| Current (K5.2M x 2% x 50%) | 0.052 |
| After change in policy (K5.72M x 4% x 75%) | <u>0.1716</u> |
| | <u>0.1196</u> |
| Discount allowed will increase by | <u>K119,600</u> |

(iv) **Irrecoverable debts:**

| | K'M |
|--|---------------|
| Current level (1% x K5.2M) | 0.052 |
| After change in policy (0.5% x K5.72M) | <u>0.0286</u> |
| | <u>0.0234</u> |
| Irrecoverable debts will reduce by | K 23,400 |

(v) Profitability of the company

| | Saving K | Cost K |
|------------------------|----------------|----------------|
| Net operating profit | 130,000 | |
| Receivables | 10,500 | |
| Discount allowed | | 119,600 |
| Irrecoverable debts | <u>23,400</u> | |
| | <u>163,900</u> | <u>119,600</u> |
| Net increase in profit | <u>K44,300</u> | |

There will be an increase in the company's profitability arising from the proposed changes in credit policy.

(b) **Inventory control**

Improvements using computerized systems and techniques such as economic order quantity and just in time. Achieving faster inventory turnover can reduce costs of inventory holding.

Cash control

Use of cash flow forecasts can help identify surpluses and deficits of cash. Surpluses can be invested and short-term overdrafts arranged to cover deficits.

Payables

It may be possible to delay payments to trade payables but this can have adverse effects on relationships with suppliers and the company could incur interest payments on overdue accounts.

(c) A factor normally manages the debts owed to a client on the client's behalf.

Services provided by factoring organizations

- (i) Administration of the clients invoicing, sales accounting and debt collection service.
- (ii) Credit protection for the clients debts, whereby the factor takes over the risk of loss from bad debts and so insures the client against such losses. The factor may purchase these debts without recourse to the client, which means that if the clients customers do not pay what they owe, the factor will not ask for the money back from the client.
- (iii) Factor finance may be provided, the factor advancing cash to the client against outstanding debts. The factor may advance up to 85% of approved debts from the date of invoice.
- (iv) A confidentiality agreement may be offered to conceal the existence of the arrangement from customers.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 14 SEPTEMBER 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 paper is divided into TWO sections:

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

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

Taxation Table 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

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

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

SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

QUESTION ONE

Goodhope Plc, is a Zambian resident company engaged in manufacturing. It manufactures plastic containers for one of the companies which produce carbonated soft drinks in Kitwe. The company was listed on the Lusaka Securities Exchange (LuSE) at the beginning of 2022. Upon its listing, it also offered 28% of the shares to indigenous Zambians.

The company's summarised statement of profit or loss for the year ended 31 December 2023 is as follows:

| | Notes | K | K |
|--------------------------------|-------|----------------|--------------------|
| Gross profit | | | 3,635,640 |
| <i>Other income:</i> | | | |
| Bank interest | (1) | 63,750 | |
| Dividend received | (1) | 20,400 | |
| Royalties received | (1) | 54,400 | |
| Profit from disposal machinery | (2) | <u>52,400</u> | |
| | | | <u>190,950</u> |
| | | | 3,826,590 |
| Operating expenses: | | | |
| Bad debts | (3) | 112,460 | |
| Depreciation | | 540,690 | |
| Premium paid | (4) | 670,000 | |
| Accountancy and legal fees | (5) | 120,500 | |
| Repairs and renewals | (6) | 225,700 | |
| Miscellaneous expenses | (7) | <u>989,490</u> | |
| | | | <u>(2,658,840)</u> |
| Profit before taxation | | | <u>1,167,750</u> |

The following additional information is also available:

Note 1: Investment income

In all the cases, the amounts shown are the actual amounts received by the company.

Note 2: Profit on disposal of machinery

The profit of K52,400 is in respect of a piece of machinery that was sold on 30 June 2023 for K105,000. The original cost of the asset was K280,000 and it had an income tax value of K70,000 at 1 January 2023.

Note 3: Bad debts

Bad debts are as follows:

| | K |
|--|-----------------|
| Trade debts written off | 73,485 |
| Increase in specific bad debt provision | 61,575 |
| Decrease in general provision for doubtful debts | <u>(22,600)</u> |
| | <u>112,460</u> |

Note 4: Premium paid

The company obtained the right for the use of a patent on 1 January 2023. The company paid a premium of K670,000 as consideration for the grant of the right. The right will be used by the company over a 40-year period.

Note 5: Accountancy and legal fees

The accountancy and legal fees are as follows:

| | K |
|--|----------------|
| Accountancy and audit fee | 23,600 |
| Legal fees in connection with the issue of share capital | 28,800 |
| Legal fees in connection with issue of debentures | 18,800 |
| Legal fees in connection with the defense of the company's internet domain name | 23,000 |
| Legal fees in connection with a court action for not complying with Environmental Protection Act | <u>26,300</u> |
| | <u>120,500</u> |

Note 6: Repairs and renewals

The figure of K225,700 for repairs includes K25,400 for repairing part of the roof which was blown off by a heavy storm which damaged a number of buildings in the area and K93,600 Incurred on clearing of land on which a new office complex is being built. The new office complex was still under construction as at 31 December 2023.

The balance is made up of revenue expenses which are all allowable for tax purposes.

Note 7: Miscellaneous expenses

Miscellaneous expenses include K16,000 incurred on entertaining customers, K18,000 incurred on a staff end of year party, a donation of K10,000 to a public benefit organisation and the remainder consists of revenue allowable expenses.

Note 8: Accommodation benefit

The company has provided free accommodation to the Finance Director in a company owned house. He does not pay any rent to the company. The Finance Director's emoluments were K426,000 for the year ended 31 December 2023.

Note 9: Buildings

The company constructed a building at a total cost of K10,300,000 which was brought into use on 1 March 2022. The amount of K10,300,000 comprised land with a cost of K1,100,000, Staff canteen of K2,000,000, administrative office of K1,250,000 and Main factory of K5,950,000.

Note 10: Implements, plant and machinery

The following transactions took place during the year ended 31 December 2023:

| Date | Asset | Cost/(Proceeds) K |
|--------------|--|----------------------|
| 5 March | Purchased manufacturing equipment | 184,000 |
| 22 June | Purchased furniture | 80,000 |
| 30 June | Sold machinery (see also note 2 above) | (105,000) |
| 11 September | Purchased a motor car | 220,000 |
| 15 October | Purchased a Mitsubishi canter | 113,000 |

The motor car purchased on 11 September 2023, has a cylinder capacity of 3,200 cc and was specifically provided to the Production Manager as a personal to holder car. The motor car is used 20% for private purposes.

Note 11: Provisional income tax

The provisional income tax paid by the company for the tax year 2023 was K311,022. This amount was not charged to the statement of profit or loss.

Required:

- Calculate the amount of capital allowances claimable by Goodhope Plc for the tax year 2023. (10 marks)
- Calculate the tax adjusted business profit for Goodhope Plc for the tax year 2023. (9 marks)
- Calculate the Company income tax payable by Goodhope Plc for the tax year 2023. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Mr Kalandanya has been employed as the Marketing Manager at Zambia Mining Corporation Plc for 17 years. For the tax year 2023 he was entitled to a monthly salary of K41,600. In addition to the salary, he was also entitled to the following:

| | |
|-------------------------|-----------------------------|
| Housing allowance | K2,500 per month. |
| Entertainment allowance | K9,600 per annum. |
| Transport allowance | 5% of monthly basic salary. |
| Education allowance | 8% of monthly basic salary. |
| Medical allowance | K900 per month. |

In October 2023, the company declared a bonus for all employees for exceeding performance targets for the quarter ended 30 June 2023. His bonus was K4,000 which was paid to him on 30 November 2023.

The company pays for all the utility bills in connection with the residence of all the Managers. During the year ended 31 December 2023. Mr. Kalandanya's security fees and other utility bills amounted to K1,000 and K1,200 per month respectively, which the company paid on his behalf. On 1 May 2023, he was given a labour day award comprising of a fridge valued at K11,000 and cash amounting to K3,000.

During the year ended 31 December 2023, he lost his nephew and the company paid him a funeral grant amounting to K8,500 in cash.

He has always contributed NAPSA at the rate of 5% of his taxable earnings and NHIMA contributions at the rate of 1% of the basic salary.

Other payments and deductions made from his emoluments during the year ended 31 December 2023 are as follows:

| | K |
|---|--------|
| Trade Union contributions | 12,000 |
| Life assurance premiums | 18,000 |
| School children educational fees | 11,250 |
| Donation to an approved public benefit organisation | 6,100 |
| Subscriptions to the Institute of Marketing | 3,500 |
| PAYE deducted from his salary | 91,116 |

Besides being a dedicated employee, Mr Kalandanya has successfully run a retail business for many years. For the year ended 31 December 2023, Mr Kalandanya made a net profit as per accounts of K280,000 from a turnover of K1,500,000. The net profit was arrived at after deducting the following expenses:

- (1) Motor car running expenses which amounted to K1,200 in respect of his private motor car which is partly used for business purposes. During the year ended 31 December 2023, he drove a total of 8,000 kilometres, out of which 5,000 kilometres were for private journeys.
- (2) Professional fees which included fees for accountancy services amounting to K21,750, fees in connection with the preparation of a personal tax computation of K750, and fees for trade debt collection amounting to K2,500.

- (3) Property expenses amounting to K4,800. He lives in a flat that is situated above the shop, and one-third of the total property expenses relate to this flat.
- (4) General expenses of K80,000 which includes K200 for a fine in respect of breach of health and safety regulations, K250 for a donation to a political party, advertising expenses amounting to K6,750, shop repairs amounting to K55,300 and depreciation of K17,500.
- (5) Salaries for employees amounting to K19,300. This amount includes the nominal salary for Kalandanya of K6,000.

Other information

- (1) During the year ended 31 December 2023, Kalandanya took goods out of the business for personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost K1,250 and he makes a mark-up of 20% on the cost of sales.
- (2) Mr Kalandanya uses his private telephone to make business calls. Telephone expenses for the year to 31 December 2023 amounted to K3,250 and have not been included in the computation of the net profit figure given above. It has been agreed with the Commissioner General that 80% of the telephone expenses related to business calls.
- (3) Capital allowances for the tax year 2023 have been agreed with the Commissioner General to be K12,750.

Required:

- (a) Explain the meaning of actual receipt basis of assessment in relation to taxation of employment income. (3 marks)
- (b) Compute the taxable business profit for the tax year 2023. (8 marks)
- (c) Calculate the income tax payable by Mr Kalandanya for the tax year 2023. You should indicate using a zero (0) any benefits received from employment which are exempt from tax. (14 marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions in this Section. Attempt any **TWO (2)** questions.

QUESTION THREE

(a) Malaiti Limited is a Zambian registered company for Value Added Tax (VAT) purposes and is in the process of completing its VAT return for the month of October 2023. The following information is available:

- (1) Sales invoices totaling K135,000 were issued to customers in respect of standard rated sales. Exempt sales amounted to K15,000 during the month of October 2023.
- (2) The company received an advance deposit of K20,500 in respect of a contract that was due for completion in December 2023. The contract has a total VAT exclusive value of K80,000.
- (3) Standard rated expenses amounting to K30,160 (VAT inclusive). Included in this figure is a sum of K6,960 (VAT inclusive) incurred on entertaining suppliers.
- (4) The company wrote off a bad debt amounting to K15,000 on 31 October 2023. The bad debt arose from two invoices of K7,500 each in respect of which payment was due on 31 March 2022 and on 30 June 2022.
- (5) The company bought a motor car at a cost of K122,800 (VAT inclusive) and office equipment at a cost of K58,580 (VAT inclusive).
- (6) General overheads incurred for the month amounted to K12,180 (VAT inclusive)
- (7) All the above figures are VAT exclusive unless stated otherwise.

Required:

- (i) State any three (3) conditions which should be met in order for a claim for bad debt relief to be successful. (3 marks)
 - (ii) State any three (3) advantages and three (3) disadvantages of voluntary registration for Value Added Tax. (6 marks)
 - (iii) Calculate the amount of VAT payable by Malaiti Ltd for the month of October 2023 and state the due date when the VAT calculated should be paid. (10 marks)
- (b) Provisional income tax is income tax calculated and paid on the estimated taxable business profit. The following information relates to three (3) Zambian resident individuals:
- (1) Mr. James Kumwenda is employed as a Director at a monthly basic salary of K104,400. For the tax year 2023. Kamwendo also received a bonus of K6,200, in addition to his annual basic salary. He does not have any other income.

- (2) Mrs. Jenipher Malambo is a commercial farmer in Kalomo district of southern province. She had taxable farming profits of K980,300 for the tax year 2023. She also receives a sitting allowance as a Ward Councillor. The amount received as sitting allowance for the year 2023 was K3,000.
- (3) Mr. Chewe Mwansa is employed as a Computer Specialist at Digital Computer Limited at an annual basic salary of K150,000. He owns a grocery shop that produced taxable business profit of K42,700 and a turnover of K324,000.

Required:

Explain, with reasons whether each of the above individuals will be required to pay provisional income tax, and clearly state any other method that may be used to collect income tax from each one of them. You are **NOT** required to compute the amount of any tax paid by each individual. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Mr Habbenzu, imported a new Toyota Allion Sedan motor car from Singapore at a cost of US\$5,400 (free on board). The car has an engine capacity of 1,800cc and was manufactured in January 2023. Mr Habbenzu paid insurance and freight charges of US\$2,500 and US\$2,560 respectively. Other incidental costs incurred up to the port of Dare-salaam in Tanzania amounted to US\$1,600. He incurred further transportation and handling costs of US\$580 in transporting the car from Nakonde to Lusaka. He insured the car comprehensively at the cost of K6,000 in Lusaka and motor vehicle registration charges amounted to K2,000. At the time of the importation of the car, the prevailing exchange rate in the local commercial banks was K18.95 to US\$1. However, the Bank of Zambia's exchange rate was K18.30 to US\$1 which the Commissioner General approved.

Required:

- (i) Calculate the value for duty purposes and the total import taxes paid on the importation of the Toyota Allion car. (6 marks)
- (ii) Explain four (4) conditions to be met for the customs officers to use the transaction value method in determining the value for duty purposes. (4 marks)
- (b) Martin Zeko commenced business, as a sole trader, on 1 January 2023, running a retail shop. The monthly turnover averaged K62,000 throughout the year ended 31 December 2023. The purchases and other operating expenses amounted to K21,000 per month and K15,400 per month respectively.

Required:

Explain how Martin will be assessed to tax in the tax year 2023 and compute the amount of arising on business for the tax year 2023. (5 marks)

- (c) Joyce Mpeleni made the following disposals of assets during the year ended 31 December 2023:
- (1) She sold her Toyota Hilux double cab van for K200,000. The motor vehicle was acquired in the year 2021 at a cost of K405,000. She incurred K16,300 as motor vehicle repair expenses immediately before the sale transaction. The open market value of the motor vehicle at the date of sale was K210,000.
 - (2) She sold a piece of land for K140,000. This land is a residential plot which she acquired at a cost of K72,000, two years ago. She incurred professional fees, which were paid to the surveyors, amounting to K4,200 at the date of sale. The open market value as at the date of sale was K155,000.
 - (3) She sold a two (2) bedroomed house to her first born son for K100,000. The open market value of the house at the date of sale was K600,000. The house was acquired five (5) years ago at a cost of K280,000. She incurred K7,000 to transfer ownership of the house to her son.
 - (4) She sold 5,000 equity shares she held in Corp Limited, a private limited company, for K100,000. The total nominal value of the shares was K5,000, while the open market value of the shares at the date of sale was K95,000.
 - (5) She sold a Toyota Vitz car to her daughter for K20,000. The motor vehicle was acquired in the year 2020 at a cost of K80,000. The open market value of the motor vehicle at the date of sale amounted to K42,000.

Required:

- (i) Explain the property transfer tax treatment of transfers made to members of the immediate family. (2 marks)
- (ii) Explain the property transfer tax implications arising from sale of the above assets. Your answer should include a computation of the amount of any property transfer tax arising on each transaction. (8 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) The Zambian Government, like any other government raises revenue through taxes imposed on the income and gains of Zambian resident persons.

Required:

Explain five (5) other functions of taxation in Zambia apart from being a source of revenue for Central Government. (5 marks)

- (b) Pollan and Andrey are in Partnership. At 1 January 2023, the opening balances on their capital accounts were K700,000 and K850,000 respectively. The tax adjusted business profit for the partnership for year ended 31 December 2023 was K2,500,000 .

Up to 30 April 2023 profits and losses were shared between Pollan and Andrey in the ratio of 3:2 after allowing for annual salaries of K200,000 and K300,000 respectively. From 1 May 2023, profits and losses were to be shared in the ratio of 5:2 between Pollan and Andrey after allowing annual salaries of K400,000 and K500,000 respectively. From 1 May 2023, each partner became entitled to annual interest on capital of 12% of each individual's opening capital account balance.

Required:

Calculate the amount of income tax payable by each partner for the year ended 31 December 2023. (12 marks)

- (c) Chellah has frequently been visiting South Africa in the recent past. On 12 January 2023, his passport at Kazungula border indicated that in the past one year he had visited South Africa seven (7) times. The officer on duty asked Chellah if he was a business man but he refused.

At the time Challah was being cleared at the border, he had three (3) Plasma TV sets and four (4) batches of wrist watches which he was importing into Zambia. The records showed he imported similar items on the last three (3) trips he made to South Africa.

Required:

Explain any four (4) factors (badges of trade) that can be used to establish whether Chellah is carrying on a business. (8 marks)

[Total: 25 Marks]

END OF PAPER

SOLUTION ONE

- (a) GOODHOPE PLC
COMPUTATION OF CAPITAL ALLOWANCES FOR THE YEAR ENDED 31 DECEMBER 2023
Buildings

| | Capital allowance K |
|---------------------------------|------------------------|
| <u>Staff canteen</u> | |
| Wear and tear (K2,000,000 X 5%) | 100,000 |
| <u>Administrative office</u> | |
| Wear and tear (K1,250,000 X 2%) | 25,000 |
| <u>Factory</u> | |
| Wear and tear (K5,950,000 X 5%) | 297,500 |
| Total capital allowances | |

IMPLEMENTS, PLANT AND MACHINERY

| | |
|--|-----------------|
| <u>Manufacturing equipment</u> | |
| Wear and tear (K184,000 X 50%) | 92,000 |
| <u>Furniture</u> | |
| Wear and tear (K80,000 X 25%) | 20,000 |
| <u>Motor car</u> | |
| Wear and tear (K220,000 X 20%) | 44,000 |
| <u>Mitsubishi canter</u> | |
| Wear & tear (K113,000 x 25%) | 28,250 |
| <u>Piece of machinery</u> | |
| Balancing charge (K70,000 – K105,000) | <u>(35,000)</u> |
| Total capital allowances (K422,500 + K149,250) | <u>571,750</u> |

Workings

| | K |
|-------------------|--------------------|
| Total cost | 10,300,000 |
| Less cost of land | <u>(1,100,000)</u> |
| Construction cost | <u>9,200,000</u> |

$$10\% \times K9,200,000 = K920,000$$

The cost of Administrative office exceeds 10% of the total construction cost of the building. As such, the administrative office will not qualify as an industrial building.

- (b) GOODHOPE PLC
TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2023

| | K | K |
|--------------------------------|---------|-----------|
| Net profit per accounts | | 1,167,750 |
| Add: | | |
| Premium | 670,000 | |
| Depreciation | 540,690 | |
| Legal fees – issue of shares | 28,800 | |
| Legal fees – environmental Act | 26,300 | |
| Clearing of land | 93,600 | |

| | | |
|---------------------------------------|----------------|------------------|
| Entertaining customers | 16,000 | |
| Free accommodation (K426,000 X 37.5%) | 159,750 | |
| Personal to holder car | <u>48,000</u> | |
| | | <u>1,583,140</u> |
| | | 2,750,890 |
| Less: | | |
| Profit on disposal of machinery | 52,400 | |
| Bank interest | 63,750 | |
| Dividend received | 20,400 | |
| Royalties received | 54,400 | |
| Decrease in general provision | 22,600 | |
| Premium allowance (K670,000/40) | 16,750 | |
| Capital allowances | <u>571,750</u> | |
| | | <u>(802,050)</u> |
| Tax adjusted business profit | | <u>1,948,840</u> |

(c) GOODHOPE PLC
COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2023

| | | |
|--------------------------------------|---------------|------------------|
| | K | K |
| Taxable business profit | | 1,948,840 |
| Add: | | |
| Bank interest (K63,750 X 100/85) | 75,000 | |
| Royalties (K54,400 X 100/85) | <u>64,000</u> | |
| | | <u>139,000</u> |
| Taxable income | | <u>2,087,840</u> |
| Company income tax @30% X K2,087,840 | | 626,352 |
| Less: | | |
| WHT- Bank interest (K75,000 X 15%) | | (11,250) |
| WHT – Royalties (K64,000 X 15%) | | (9,600) |
| Provisional income tax | | <u>(311,022)</u> |
| Income tax payable | | <u>294,480</u> |

SOLUTION TWO

- (a) The actual receipt basis means that emoluments are chargeable to income tax in the tax year when they are received by the employee.

Emoluments are deemed to have been received on the earlier of:

the time when payment is actually made and

the time when the employee becomes entitled to the emolument.

- (b) MR KALANDANYA

COMPUTATION OF TAXABLE BUSINESS PROFITS FOR THE TAX YEAR 2023

| | K | K |
|---|---------------|-----------------|
| Net profits as per accounts | | 280,000 |
| Add: | | |
| Private motor car expenses (5,000/8,000 x K1,200) | 750 | |
| Personal income tax computation | 750 | |
| Personal property expenses (K4,800 x 1/3) | 1,600 | |
| Goods for personal use (K1,250 x 120/100) | 1,500 | |
| Fine for breach of health regulations | 200 | |
| Political party donation | 250 | |
| Kalandanya's salary | 6,000 | |
| Depreciation | <u>17,500</u> | |
| | | <u>28,550</u> |
| | | 308,550 |
| Less | | |
| Private telephone expense (K3,250 x 80%) | 2,600 | |
| Capital allowances | <u>12,750</u> | |
| | | <u>(15,350)</u> |
| Taxable business profit | | <u>293,200</u> |

- (c) MR KALANDANYA

COMPUTATION OF TAXABLE PROFIT AND INCOME TAX PAYABLE FOR THE TAX YEAR 2023

| | K | K |
|--------------------------------------|--------------|----------------|
| Business profit (W1) | | 293,200 |
| Salary (K41,600 x 12) | | 499,200 |
| Entertainment allowance | | 9,600 |
| Housing allowance (K2,500 x 12) | | 30,000 |
| Transport allowance (K499,200 x 5%) | | 24,960 |
| Education allowance (K499,200 x 8%) | | 39,936 |
| Medical allowance (K900 x 12) | | 10,800 |
| Bonus | | 4,000 |
| Security fees (K1,000 x 12) | | 12,000 |
| Utility bills (K1,200 X 12) | | 14,400 |
| Labour day awards | | 0 |
| Funeral grant (not taxable) | | <u>0</u> |
| Gross income | | 938,096 |
| Less allowable deductions: | | |
| Professional subscription | 3,500 | |
| Donation to an approved organisation | <u>6,100</u> | |
| | | <u>(9,600)</u> |
| Taxable income | | <u>928,496</u> |

Income Tax

| | |
|--|-----------------------|
| On First K57,600 @0% | 0 |
| On Next K24,000 @20% | 4,800 |
| On Next K25,200 @30% | 7,560 |
| On Excess (K928,496 – K106,800) @37.5% | <u>308,136</u> |
| Income tax liability | 320,496 |
| Less: | |
| Pay as you earn | <u>(91,116)</u> |
| Income tax payable | <u><u>229,380</u></u> |

SOLUTION THREE

(a) VALUE ADDED TAX

(i) The following are the conditions which should be met in order for a bad debts relief be successful:

- (1) A supply of goods and services 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 part of the debt has been written off as bad in the records of the supplier.
- (4) At least 18 months have elapsed since the time when payment was due

(ii) Advantages of Voluntary registration

- (1) The impression of a substantial business activity may be created.
- (2) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable
- (3) The business will compete well with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

Disadvantages of Voluntary registration

- (1) VAT registration results in increased administration. The trader's administration costs will rise as a result of registering for VAT purposes.
- (2) Non-registered customers who get supplies from the trader will have an increased cost.
- (3) Penalties will be charged if the trader fails to pay or submit the VAT return.

(iii) Malaiti Limited

Computation of vat payable for the month of September 2023

| | K | K |
|--|-------|-----------------|
| Output VAT | | |
| Exempt sales | | 0 |
| Standard rated sales (K135,000 X 16%) | | 21,600 |
| Deposit (K20,500 X 16%) | | <u>3,280</u> |
| | | 24,880 |
| Input VAT | | |
| Standard rated expenses | | |
| (K30,160 – K6,960) X 4/29 | 3,200 | |
| Entertainment expenses | 0 | |
| Bad debts relief (K7,500 X 16%) | 1,200 | |
| Office equipment (K58,580 X 4/29) | 8,080 | |
| Motor car | 0 | |
| General overheads (K12,180 X 4/29 X 90%) | 1,512 | |
| | | <u>(13,992)</u> |
| VAT payable | | <u>10,888</u> |

The VAT of K10,888 should be paid not later than 18th November 2023.

Working
Non-attributable input VAT
 $\frac{K135,000}{(K135,000 + K15,000)} \times 100$
= 90%

(b) The status of the various taxable persons is as follows:

- (1) Mr. James Kumwenda will not be required to pay provisional income tax because all of his taxable income is in form of emoluments from employment. Income tax on emoluments from employment is taxable under the Pay as You Earn system.
- (2) Mrs. Jenipher Malambo will be required to pay provisional income tax because her taxable income for the year will exceed K800,000 and that income is not in the form of emoluments from employment that are taxable under PAYE system. The sitting allowance received as ward councilor is exempt from tax.
- (3) Mr. Chewe Mwansa will not be required to pay provisional income tax on his income from the grocery because his total taxable income for the year is less than K800,000. However, the emoluments from employment will be taxable under PAYE system.

SOLUTION FOUR

(a) Haabenzu

| | | |
|-------------------------------|--|----------------|
| (i) Customs and excise duties | | US\$ |
| Cost | | 5,400 |
| Insurance | | 2,500 |
| Freight charges | | 2,560 |
| Incidental costs | | <u>1,600</u> |
| | | 12,060 |
| Exchange rate | | <u>K18.30</u> |
| VDP in ZMW | | <u>220,698</u> |

| | | |
|--------------------|----------------|----------------|
| | K | K |
| Customs value | 220,698 | |
| Customs duty @30% | <u>66,209</u> | 66,209 |
| | 286,907 | |
| Excise duty @30% | <u>86,072</u> | 86,072 |
| | 372,979 | |
| Import VAT @16% | <u>59,677</u> | <u>59,677</u> |
| | <u>432,656</u> | |
| Total import taxes | | <u>211,958</u> |

(ii) The following are the conditions:

- (1) There should be no restrictions to the use of the goods.
- (2) There should be no conditions to deter the determination of value for duty purposes.
- (3) No part of the proceeds on resale of the imported goods should accrue to the seller, unless included in the value.
- (4) No restrictions exist to influence the value

(iii) Martin Zeko

Martin's turnover averaged K62,000 per month, giving an annual turnover of K744,000. The annual turnover is less than K800,000, which means that he is required to pay turnover tax for the year ended 31 December 2023.

Turnover tax is calculated at a rate of 4% of gross turnover, with the first K1,000 per month being taxable at 0%. This means that turnover tax is charged on the gross sales in excess of K1,000 per month.

The monthly turnover tax:

| | |
|-------------------------------|--------------|
| | K |
| First K1,000 @0% | 0 |
| Excess (K62,000 – K1,000) @4% | <u>2,440</u> |
| Total monthly turnover tax | <u>2,440</u> |

The annual turnover for the tax year 2023 will, therefore, be: $K2,440 \times 12 = K29,280$ or $(K744,000 - K12,000) \times 4\% = K29,280$.

(iv) Joyce Mpeleni

(i) Where a property is transferred to a member of the immediate family, the realised value of such a transfer is the actual price received by the transferor, if any. This means that

where a property is transferred to a member of the immediate family at nil price, the realised value shall be nil, and as such no property transfer tax will be charged.

(ii) The following are the property transfer tax implications:

(1) There will be no property transfer tax to be charged on the transfer of Toyota Hilux van as this asset does not qualify as property for property transfer tax purposes. All movable assets fall outside the scope of property transfer tax.

(2) Property transfer tax will be charged on the transfer of a piece of land at a rate of 5% of the gross amount of realised value. The realised value is whichever is higher between the actual proceeds received from sale and; the open market value.

In this case the realised value is K155,000 which is the higher of actual proceeds received.

Property transfer tax payable is: $K155,000 \times 5\% = K7,750$.

(3) Property transfer tax will be charged on the transfer of the two (2) – bedroomed house. The house was transferred to her son who is a member of the immediate family.

The realised value will therefore be the actual price received from the transfer.

Property transfer tax is: $K100,000 \times 5\% = K5,000$.

(4) Property transfer tax will be charged on the transfer of shares as the shares transferred are not listed on the Lusaka Securities Exchange (LuSE). Property transfer tax is charged at a rate of 4% of the gross amount of the realised value.

The realised value is the higher of nominal value of the shares and; the actual proceeds received or open market value. In this case the realised value is K100,000.

Property transfer tax payable is: $K100,000 \times 5\% = K5,000$.

(5) Property transfer tax will not be payable on the transfer of the Toyota Vitz as motor vehicles do not qualify as property. Therefore, any transfer of movable assets falls outside the scope of property transfer tax.

SOLUTION FIVE

(a) The following are other functions of taxation in Zambia:

(1) Redistribution of wealth

Taxes are used by government to redistribute income from higher to lower income households and thus remove the apparent inequalities that income is bound to bring among the Country's citizenry i.e. the Government will generally collect higher taxes from the rich through progressive tax systems and redistribute the funds collected to the poor and thus prevent the poor from getting poorer and the rich getting richer at the expense of the poor.

(2) Influencing economic activity in the country (Economic regulation)

Taxes are used to influence economic activity in the country. This can be done through giving tax incentives such as capital allowances to individuals and institutions that engage in activities that contribute towards economic growth and encouraging savings through imposition of low rates of withholding taxes on investment income.

(3) Control of inflation

To act as a fiscal tool to curb the effects of inflation- taxes ultimately reduce the disposable incomes of the taxpayers and this in turn reduces their propensity to spend thus reducing the quantity of money in supply in the economy at any given time.

(4) Protection of local industries from unfair foreign competition

The tariffs levied on imported goods aim at raising the prices of those goods that come from low production cost Countries and as such would put local industries at a disadvantage in terms of pricing if no taxes were levied on them.

(5) Maintaining the well-being of the environment

Taxes are used to maintain the well-being of the environment by imposing heavy taxes on income and gains arising from activities which are not friendly to the environment such as those contributing to global warming, pollution etc.

(b) POLLAN AND ANDREY

ALLOCATION OF TAXABLE PROFITS AND COMPUTATION INCOME TAX PAYABLE FOR THE TAX YEAR 2023

| | Pollan | Andrey | Total |
|--------------------------------|------------------|------------------|------------------|
| | K | K | K |
| Period up to 30 April 2023 | | | |
| Salary (4/12) | 66,667 | 100,000 | 166,667 |
| Share of profit 3:2 | <u>400,000</u> | <u>266,666</u> | <u>666,666</u> |
| (K2,500,000 x 4/12) | <u>466,667</u> | <u>366,666</u> | <u>833,333</u> |
| From 1 May to 31 December 2023 | | | |
| Salary (8/12) | 266,667 | 333,333 | 600,000 |
| Interest on capital | 56,000 | 68,000 | 124,000 |
| Share of profits 5:2 | <u>673,334</u> | <u>269,333</u> | <u>942,667</u> |
| (K2,500,000 x 8/12) | <u>996,001</u> | <u>670,666</u> | <u>1,666,667</u> |
| Total | <u>1,462,668</u> | <u>1,037,332</u> | <u>2,500,000</u> |
| <u>Income Tax</u> | | | |
| On First K57,600 @0% | 0 | 0 | |
| On Next K24,000 @20% | 4,800 | 4,800 | |
| On Next K25,200 @30% | 7,560 | 7,560 | |

| | | |
|--------------------------------|----------------|----------------|
| On Excess | | |
| (K1,462,668 – K106,800) @37.5% | 508,451 | |
| (K1,037,332 – K106,800) @37.5% | ----- | <u>348,950</u> |
| Income tax payable | <u>520,811</u> | <u>361,310</u> |

(c) 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 Chellah 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.

END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 14 SEPTEMBER 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 paper is divided into TWO (2) sections:
Section A: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – TWO COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

QUESTION ONE

Nyama Co (Nyama) produces and sells meat products to customers across the country. Its financial year end is 31 March 2023. You are an Audit Manager of Mbinga Co and are reviewing extracts of documentation describing the internal control systems of Nyama.

Nyama has 70% credit customers and 30% cash customers. All new credit customers undergo credit checks before they are accepted and credit limits are subsequently set by the Senior Receivables Clerk who sets credit limits in the receivables master database. The company's Credit Controller resigned three (3) months ago and has not been replaced.

In order to meet sales orders, additional temporary Sales Assistants have been employed and are responsible for generating sales invoices. Customers who buy meat products as wholesalers are offered a 15% discount on all orders placed. The Senior Sales Clerks manually include the discount onto the invoice.

The sales department sends approved orders to the warehouse department for dispatch. Before each dispatch, a three-part Goods Dispatch Note (GDN) is completed, one copy is sent with goods to the customer, one is sent to accounts department and one remains with the warehouse. Receivables statements are sent out every six (6) months and the receivables ledger control account is reconciled at the year-end to verify the year-end receivables balance.

Nyama has a clocking-in system directly linked to the payroll system, which automatically calculates gross pay, deductions and net pay. The Payroll Supervisor reviews the calculations and the Payroll Accountant approves the payroll, which is evidenced by his signature. Nyama has an internal audit department with ten (10) junior internal auditors, an Internal Audit Manager and Internal Audit Director. Nyama board of directors is yet to establish the audit committee.

Required:

- (a) Identify and explain six (6) deficiencies in the sales internal control system, and for each deficiency, suggest a recommendation to overcome the deficiency. (12 marks)
- (b) Explain three (3) factors external auditors will consider in deciding to rely on the work of internal audit. (3 marks)
- (c) Explain three (3) advantages and two (2) disadvantages of the audit committee to Nyama. (5 marks)
- (d) Explain five (5) substantive procedures that auditors should perform to confirm the year-end receivables balance. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Antelope Traders Ltd (AT Ltd) is a company that deals in second hand clothes that it imports. The bales of second hand clothes are known as 'salaula' which it sells at wholesale price to retailers across the country. AT Ltd.'s Board of Directors is based in the United Kingdom while its operations are carried in Zambia. The company runs a centralized treasury system whereby cash receipts are remitted to Head Office bank account in the United Kingdom.

The following information on purchases and expenses is given:

The purchasing system

Each Branch Manager submits a budget of the type of second hand clothes that each branch needs. Once a budget is approved, a requisition note is issued by the branch and then Head Office approves payments to the identified suppliers. A Goods Dispatch Note is issued and the copies of invoices are sent to the branch and the Goods Received Notes is raised and compared with the order and requisition notes.

Expenses

All payments for fixed costs such as wages, rent and electricity are paid for by cash after approval from Head Office. However, certain expenses for services that are not budgeted for, are paid on account after an invoice has been received by each branch. All expenses of revenue in nature are entered in the profit or loss account. As for expenses accrued or prepaid journal entries are passed before appropriate accounts are recorded.

Owing to a slump in the economy due to depreciation of the kwacha and inflation rates, the company fortunes dwindled leading to reduced sales and cash flows being affected. Consequently, the company failed to pay suppliers on time, fixed charges crystallized and the company failed to pay its dividend for the last two (2) years.

Management has intentions of selling off some non-performing branches. A number of key staff resigned and the company was behind in submitting environmental reports and was threatened with penalties. The external auditors regarded these as conditions or events that cast doubts on the viability of AT Ltd. Among other tasks given to the audit team, is to obtain a bank confirmation for Head Office bank account and attending cash counts at the branches.

The following extracts from working papers of three (3) of your firm's audit clients have been extracted by newly recruited auditors of your firm:

Client 1:

There is a material uncertainty with regards going concern of this client. Management correctly prepared the financial statements on the basis that it is a going concern and made adequate disclosure of the material uncertainty in the financial statements. A disclaimer of opinion was suggested.

Client 2:

The auditors found that there was a matter of misstatement in the financial statements that was material but not pervasive. The auditor expressed an adverse opinion.

Client 3:

There was an amount of sales that was understated by K2,000. The matter was considered both material and pervasive. External auditors expressed a qualified opinion.

Required:

- (a) Explain five (5) steps used by the external auditors when obtaining a bank confirmation letter. (5 marks)
- (b) Explain four (4) audit procedures to perform during cash count. (4 marks)
- (c) Describe two (2) audit procedures you would perform when testing purchases and other expenses. (2 marks)
- (d)
 - (i) Explain four (4) ways that external auditors can determine that a material uncertainty exists casting doubt on the company as a going concern. (4 marks)
 - (ii) Outline specific audit procedures that the auditors should perform regarding matters or conditions that cast doubt about the going concern basis of accounting. (4 marks)
- (e) Explain and comment on the opinions suggested in notes 1 to 3 and suggest an alternative audit opinion where necessary. (6 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt TWO (2) questions.

QUESTION THREE

You are the Audit Manager of Kanono & Co (Kanono), a newly registered audit firm. The firm is looking to increase its revenue and minimise costs, so it has guaranteed its clients that its audits will not take longer than one (1) month and to attract more clients, Kanono offered all new audit clients a free accounts preparation service for the first year of the engagement. Kanono audit fee income from its major client, a listed company is expected to be 16% of the firm's total fees.

One prospective client proposed that the audit fee should be based on a percentage of their profit before tax. It also proposed to Kanono that it should not contact the previous auditors and Kanono accepted the proposals in order to win the audit tender. Kanono has audit engagements where more junior auditors will be used as part of their training. Your junior auditors do not know the "assertions about classes of transactions and events" and "substantive procedures relevant to the audit of revenue".

The Engagement Partner requested you that during the audit, you should obtain "written representations" from management on certain matters as part of audit evidence. He also requested you to perform substantive procedures on directors' bonus, because bonus the is paid as part of their remunerations. Bonus is 10% of profit before tax.

Required:

- (a) (i) Identify and explain four (4) ethical issues which arise from the matters above. (6 marks)
- (ii) Explain the appropriate safeguard for each ethical issue. (4 marks)
- (iii) Explain Four (4) financial statements assertions relevant to classes of transactions and events. (4 marks)
- (iv) For each assertion, explain a substantive procedure that should be performed in relation to the audit of revenue. (4 marks)
- (b) (i) State four (4) matters on which "written representations" are necessary and a are obtained. (4 marks)
- (ii) Explain three (3) substantive procedures that should be performed in relation to the audit of directors' bonus paid. (3 marks)

[Total: 25 Marks]

QUESTION FOUR

You are an Audit Manager of Mukaka & Co. and are planning the audit of Manga & Co. Its year end is 31 March 2023. You had a planning meeting with the Finance Director of Manga. Forecast profit before tax is K1,500,000 and total assets are K80,000,000.

Manga Co. values its inventory at standard cost. The inventory cost includes the production and general overheads. Inventory count will take place at the year-end at the five (5) warehouses and internal auditors will attend the inventory count to ensure proper inventory count is done. Inventory at the year-end includes significant quantities of raw materials, work in progress and finished goods.

During the year, a patent was acquired for K10,000,000 which gives Manga Co the exclusive right to manufacture and sell its cement for (5) five years. K2,000,000 has been capitalised in respect of this patent in the current year.

Cement is in high demand and to meet the market demand, Manga Co increased its production capacity and to finance this additional production, the company borrowed K3,000,000 from the bank repayable in installments over four (4) years and at an interest rate of 10%.

Since February 2023, sales invoices have not been recorded in the accounting system because of an accounting software malfunction and the backlog of invoices is not likely to be cleared by the year end. The Receivables Accountant stole K500,000 collected from sales and later resigned.

During the year, management of Manga Co. sold production equipment at a significant loss and extended the useful life of the remaining plant and equipment by four (4) years.

Required:

- (a) Explain the importance of audit documentation. (4 marks)
- (b) Identify and explain six (6) audit risks, and explain the auditor's response to each risk in planning the audit of Manga Co. (12 marks)
- (c) Explain the external auditors' responsibilities in relation to prevention and detection of fraud. (4 marks)
- (d) Explain five (5) audit procedures that should be performed during inventory count by external auditors. (5 marks)

[Total: 25 Marks]

QUESTION FIVE

You are an Audit Senior and in your audit team you have five (5) new audit trainees who have never undertaken an assurance engagement before. As part of their induction, the Audit Manager requested you to meet them and explain to them the elements of an assurance engagement, the difference between "Key Audit Matters paragraph" and "Other Matters paragraph".

Your client, Mwaka Co (Mwaka) manufactures goods and has five (5) factories. Mwaka year-end is 31 December 2022. The final audit is almost complete and the financial statements and audit report

are due to be signed on 31 March 2023. Total assets and profit before tax are K15,000,000 and K2,800,000 respectively.

The following two (2) events occurred subsequent to the year end. No amendments or disclosures have been made in the financial statements.

1. Inventory that cost K425,000 was found defective on 15 January 2023. In its current condition it can be sold at a scrap value of K50,000. Mwaka's management is willing to sell this inventory at the scrap value.
2. Fire occurred at the biggest factory on 20 February 2023. This damaged property, plant and equipment, with carrying value of K350,000 and with no scrap value. These assets were not insured.

Required:

- (a)
 - (i) Explain the five (5) elements of an assurance engagement. (5 marks)
 - (ii) Distinguish between "Key Audit Matters paragraph" and "Other Matters paragraph". (4 marks)
 - (b) For each of the two (2) events above:
 - (i) Explain whether the financial statements require amendment. (4 marks)
 - (ii) Explain three (3) audit procedures that should be performed. (6 marks)
 - (iii) Explain the impact on the audit opinion if the matter is not correctly accounted for. (6 marks)
- [Total: 25 Marks]**

END OF PAPER

DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Deficiencies and recommendations

| Deficiencies | Recommendations |
|--|--|
| <p>(1) Senior Receivables Clerk The clerk sets credit limits in the receivables master database. There is a risk that wrong credit limits could be set up resulting in loss of customer goodwill and sales revenue. There is also increased risk of fraud.</p> | <p>Credit limits should be set by a senior member of the receivables ledger department (e.g. the Finance Manager) and not by Senior Receivables Ledger Clerks. These limits should be regularly reviewed by a responsible official.</p> |
| <p>(2) Non replacement of Credit Controller: The credit controller resigned 3 months ago and has not been replaced. This could increase risk of irrecoverable debts and customers may not be paying their debts or outstanding balances on time, or at all, leading to cash flows problems.</p> | <p>Someone with appropriate skills and experience should be assigned or employed as Credit Controller and assigned responsibility for reviewing the aged receivables listing and following up on any overdue customers.</p> |
| <p>(3) Temporary sales assistants These are responsible for producing sales invoices. These lack necessary skills and experience so there is an increased risk of wrong sales invoices been issued, which could lead to misstated revenue or dissatisfied customers or damaged reputation.</p> | <p>Recruit and train more permanent sales assistants who can be producing sales invoices or temporary sales assistants should be adequately trained and additional input checks on invoices should be introduced to reduce or minimise errors.</p> |
| <p>(4) 15% Discount on bulk sales Discounts given to customers are manually entered onto the sales invoices by Senior Sales Clerks. There is a risk wrong discounts may be given by error or fraudulently, leading to either under or overstated revenue and loss of customer goodwill or damaged reputation.</p> | <p>The discounts should be given by a senior official (e.g. Sales Director) to avoid wrong discounts been given and avoid frauds. The system should be automated to avoid entering discounts onto the invoices manually. The system should also request password before access.</p> |
| <p>(5) Goods Dispatch Note (GDN) The copy of Goods Dispatch Note is not sent to the sales order department by warehouse department, so there is a risk they may not be able to monitor if sales orders are being fulfilled on a timely basis. This could result in loss of revenue and customer goodwill.</p> | <p>The GDN should be amended to be at least four-part. One copy should be sent to the sales order department. The received copy of the GDN should be matched to the order. A regular review of unmatched orders should be undertaken to identify any unfulfilled orders.</p> |
| <p>(6) Customers statements The statements are only sent to customers every 6 months. If statements are not sent regularly (e.g. monthly), this increases the risk of errors and any disputed invoices not being identified and resolved for 6 months. This could lead to cash flow problems or frauds.</p> | <p>The customers' statements should be produced monthly for all customers and sent out promptly. Confirmation should be obtained from customers that they have received their monthly statements to avoid disputed invoices.</p> |
| <p>(7) Reconciling control account annually The receivables ledger control account is only reconciled at the year-end in order to verify the year-end balance. If control account is only reconciled annually, there is a risk errors /frauds will not be identified/detected promptly and receivables may be misstated.</p> | <p>The receivables ledger control account should be reconciled on a monthly basis to identify any errors which should be investigated and corrected or to prevent and detect frauds. The reconciliations should be reviewed and signed by a responsible official (e.g. finance manager).</p> |

| | |
|--|--|
| <p>(9) Payroll reviews The Payroll Supervisor reviews the payroll calculations. There is a risk of errors or frauds not been noticed or detected, because the supervisor may lack the necessary skills and experience.</p> | <p>The payroll calculation should be reviewed by a senior official (e.g. Finance Manager) to minimise errors and prevent and detect frauds. Review should be evidenced by his signature.</p> |
| <p>(10) Payroll approval The Payroll Accountant approves the payroll. There is a risk of errors or frauds not been noticed or detected, because the accountant may lack the necessary skills and experience.</p> | <p>The payroll should be approved by a senior official (e.g. Finance Director) to minimise errors and prevent and detect frauds. Approval should be evidenced by his signature.</p> |

(b) Factors to consider in relying on work of internal audit:

1. The internal auditors are objective and independent of management.
2. The internal auditors are competent enough (skilled and experienced).
3. The internal auditors use a systematic and disciplined approach by planning and documenting their work.
4. The internal auditors have put in place quality control measures such as direction, supervision and reviews.

(c) Advantages and disadvantages of an audit committee to Nyama

Advantages

1. Increases public confidence in the credibility of financial reporting.
2. Provides independent reporting lines for internal audit function.
3. Improves independence/impartial link for external auditors.
4. Creates culture that opposes or deters fraud.
5. Frees executive directors /management to manage strategic issues.
6. Ensures system of internal control is effective/sound.

Disadvantages

1. It is difficult to find non-executive directors with appropriate skills and experience.
2. Additional cost will be involved (small entities find it costly).
3. Non-executive directors may be seen as a threat by management/executive directors.

(d) Substantive procedures to confirm year end receivables balance

1. Perform a positive trade receivables circularisation of a representative sample of year-end balances.
2. For any non-replies, obtain client's permission, and send a reminder letter to follow up.
3. Review the after (year-end) date cash receipts and follow through to pre-year-end receivable balances.
4. Review a sample of post year-end credit notes to identify any that relate to pre-year-end transactions to verify cut-off.
5. Review the sales ledger for any credit balances and discuss with management whether these should be reclassified as payables.
6. Select a sample of year-end receivable balances and agree back to valid GDNs and sales order to ensure existence.
7. Agree the reconciliation of sales ledger control account to the sales ledger list of balances.
8. Select a sample of GDN and sales invoices before and just after the year end and verify they are recorded in the correct accounting period.

9. Calculate average receivable days and compare this to prior year, investigate any significant differences.
10. For disputed invoices, discuss with management the possibilities of writing them off as bad debts.

- (a) The following steps can be undertaken by auditors when obtaining confirmations:
- (i) The bank will need an express authority from AT Ltd so that they can disclose information to external auditors.
 - (ii) External auditors need to refer to AT Ltd.'s letter of consent when requesting information from clients.
 - (iii) If AT Ltd is running joint accounts, all letters of confirmations must be countersigned by all parties to the bank account.
 - (iv) The letters of confirmations should be specific as for how long such information will be required.
 - (v) Auditors need to take measures to review correspondence from banks so as to confirm whether requested information from the bank has been provided.
- (b) The following audit procedures during cash count can be undertaken:
- (i) Auditors should count the cash balances held and confirm that they agree with that held in the petty cash book.
 - (ii) They should count the cash in the presence of responsible official
 - (iii) They should also obtain certification of cash from the officer responsible for custody of cash.
 - (iv) Verify the balances counted are reflected in the in the financial statements by inspecting draft financial statements at year end.
 - (v) Confirm if there are any I.O.U from employees have also been taken into account.
- (c) (i) Audit procedures for testing purchases and expenses:
- Obtain and inspect a sample of purchases invoices and agree with the amount posted in the purchases ledger.
 - Compare expenses in the previous year and compare and verify with any changes with expectations.
 - Inquire from management whether any account balance unpaid has been included as accruals.
 - Obtain samples from expenses and verify details by inspecting supporting documents to confirm correct classification of expenses.
- (d) (i) External auditors can use the following ways to determine the condition concerning uncertainty:
- Management assessment of uncertainty should be done as it is needed. Auditors need to determine if this has been done at all.
 - External auditors need to evaluate management's plan regarding the going concern of AT Ltd.

- Auditors should evaluate information management used in order to arrive at conclusion regarding going concern
 - Determine if any facts or information have come up which was not there in the initial stages when going concern assessment was being made.
 - Management should be able to provide external auditors with written representations regarding future actions and feasibility of their plan.
- (ii) The following audit procedures will be used to assess conditions that cast doubt on the company's going concern:
- Obtain cash flow statements and any forecasts analysis and discuss any salient information of importance that cast doubt on going concern with those charged with governance,
 - Obtain interim management financial statements of AT Ltd and discuss them with management.
 - Obtain any loan details to confirm if there any charges on them and inquire if they have been breached.
 - Obtain important minutes of the meetings and review them for any financial difficulties.
 - Obtain details from third parties that have been rendering credit facilities to AT Ltd and determine whether they will continue to do so.

(e) **Client one:**

The client prepared the financial statements using an appropriate basis of accounting. There is adequate disclosure of the material uncertainty in the notes to the financial statements. In this case, an unmodified opinion is suitable and not the suggested disclaimer of opinion.

Client two:

An adverse opinion can be expressed when the matter is both material and pervasive. In the case in the question the matter is material but not pervasive. The correct opinion should have been a qualified opinion.

Client three:

A qualified audit opinion can be expressed when the matter in question is material and not pervasive. However, in the given situation the matter is both material and pervasive, therefore the correct opinion should have been an adverse opinion.

SOLUTION THREE

(a) **Ethical threats and safeguards**

| (i) Ethical matters | (ii) Safeguards |
|--|--|
| (1) One (1) month audit guarantee There is a risk sufficient and appropriate audit evidence may not be obtained, this increases the risk of giving inappropriate audit opinions, which may lead to possible litigations. The firm would also contravene the <i>Code of Ethics</i> . | Withdraw 'one (1) month audit guarantee' immediately. All clients must be informed that the duration of audits will depend upon the level of complexity and risk associated with each client. Duration will be agreed at the planning stage, but may change as need arise. |
| (2) Free accounts preparation The preparation of the accounts, which the firm will then audit. This creates a self-review threat. Free service creates lowballing. Lowballing is acceptable but may result in poor quality service being offered | A separate team should be allocated to the accounts preparation work, but it must not offer this service to listed clients. It must also ensure that appropriate time, appropriately qualified and experienced staff is assigned to its audit engagements. |
| (3) 16% fee income from one client This is likely to create a self-interest threat because of undue dependence on this client. It also exceeds 15% limit for listed companies, so objectivity is impaired according to <i>Code of Ethics and Conduct</i> . | Consider refusing further offers so that 15% threshold is not exceeded. If 15% is exceeded for two consecutive years, the audit firm should mandatory disclose the position to the board and arrange an independent pre-issuance or post-issuance engagement review |
| (4) Audit fee based on profit before tax This constitutes a contingent fee. Contingent fee structures create a self-interest threat which cannot be mitigated or reduced to an acceptable low level. They are prohibited for audit services by the <i>Code of Ethics</i> . | The firm should decline the client's proposal, and explain that audit fees would be based on the level of work (including staff, time and other resources) required to obtain sufficient appropriate audit evidence. |
| (5) Outgoing auditor not contacted. There is a risk of accepting an audit engagement, which should not be accepted, if they do not obtain information whether there are any ethical reasons, which would preclude the firm from accepting the audit engagement. | The firm should inform the client that it is ethical requirement to contact the previous auditors to confirm whether there are ethical issues precluding the firm from acting as auditor. If permission to contact them is not given, do not accept the audit engagement. |
| (6) More junior audit staff Junior audit staff are unlikely to have sufficient knowledge and experience to perform audit work competently and with due care, this will increase the risk of giving an inappropriate audit opinion. | Allocate an appropriate number of skilled and experienced audit staff to the audit engagements or change the timing of the audits to a period (s) when adequate staff resources are available. |

Assertions and substantive procedures for audit of revenue

| (iii) Assertions | (iv) Substantive procedures |
|---|---|
| (1) Completeness All transactions and events that should have been recorded have been recorded. | Select a sample of GDNs raised during the year and agree to the sales invoices and that they are recorded in the sales day book. |
| (2) Occurrence The transactions and events that have been recorded have actually occurred and pertain to the entity. | Select a sample of sales transactions recorded in the sales day book and agree the details back to goods dispatched notes (GDNs) and customer orders. |

| | |
|---|---|
| (3) Cut-off The transactions and events have been recorded in the correct accounting period. | Select a sample of pre and post year-end GDNs and agree that the sales are recorded in the correct period in the sales day books. |
| (4) Classification Transactions and events have been recorded in the proper accounts. | Select a sample of sales invoices and agree that they have been correctly recorded within revenue GL account and included within revenue in the financial statements. |
| (5) Accuracy/valuation The amounts related to transactions and events have been recorded correctly or appropriately. | Select a sample of sales invoices and recalculate the totals and sales tax and verify that they are correct. |
| (6) Presentation and disclosure The transactions and events are appropriately described, presented and disclosed. | Review the presentation and disclosure of revenue to verify that it is according to the requirements of relevant IFRS (IFRS 15). |

- (b) (i) The auditors should obtain written representation that:
1. Financial statements are free from material misstatements including omissions.
 2. Auditors have access to all relevant information, documents, records & accounts.
 3. No non-compliance with the relevant or applicable laws and regulations.
 4. No irregularities involving management or employees that may materially affect financial statements.
 5. No plans or intentions that may materially affect the carrying value of assets or liabilities in financial statements.
 6. All related parties information and disclosures are complete and correct.
 7. Directors are not aware of any actual, or suspected, instances of fraud.
 8. Directors considered all subsequent events when preparing the financial statements.
 9. Directors have reviewed going concern and have considered all possible events, matters and contingencies.
- (ii) Substantive procedures performed on director's bonus paid
1. Obtain a schedule of the directors' bonus paid and cast the addition of the schedule.
 2. Agree the individual bonus payments to the payroll records.
 3. Agree the amount of each bonus paid to the cash book and bank statements amounts.
 4. Review the board minutes to confirm whether bonus payments were agreed and approved.
 5. Recalculate the 10% bonus amount and confirm that bonus paid is not more than this amount.
 6. Review any disclosures made on directors' remuneration including the bonus and assess whether these are adequate and correct.
 7. Obtain a written representation from management confirming the completeness of directors' remuneration including the bonus.

SOLUTION FOUR

- (a) Importance of audit documentation or working papers
1. Assists auditors to plan and perform audit efficiently and effectively.
 2. Assists in direction, supervision and review of audit work.
 3. Provides evidence that audit was planned and performed in line with ISAs.
 4. Enables the audit team to be accountable.
 5. Allows a record of matters of continuing significance to be retained.
 6. Provides evidence of auditor's basis for conclusion.
 7. Enables conduct of quality control reviews and inspections.

- (b) Audit risks and auditor's responses

| Audit risks | Auditor's responses |
|--|--|
| (1) General overheads. There is a risk inventory may be overstated because general overheads have been included in the cost of inventory. Production costs incurred to bring inventory to its present location and condition should be included, not general overheads (IAS 2 Inventory valuation). | Review the inventory valuation done by management and ensure that no general overheads are included. This will involve inspecting the supporting documents for overheads included. |
| (2) Work in progress valuation There is a risk of misstatement of raw materials and work in progress which requires specialist skills to value. | Consider engaging an auditor expert to assess the valuation of raw material and work in progress by Mukaka & Co. |
| (3) Patent There is a risk assets and amortisation expense are understated because only K2, 000, 000 has been capitalised. The full K10, 000, 000 should have been capitalised as an intangible asset and amortised over its useful life of 5 years. IAS 38 intangible assets. | Enquire from management (e.g. Finance Director) the reason for capitalising only K2, 000, 000 and request them to capitalise the full K10, 000, 000 and amortise it over 5 years. Recalculate amortisation charge and carrying value to ensure accuracy. |
| (4) K3, 000, 000 bank loan The loan is for 4 years. There is a risk the loan may not be correctly presented and disclosed in the financial statements by management. Management may intentionally not split the loan into current and non-current liabilities. | Review the presentation and disclosure to verify that the loan is split correctly between current and non-current liabilities in the financial statements and the disclosures comply with relevant accounting standards and legislation. |
| (6) Fraud of K500, 000 There is a risk additional frauds may have been committed by the receivables accountant and have not been detected yet. This could result in receivables being overstated and expenses understated. | Maintain professional skepticism and perform additional substantive procedures over the receivables balance. |
| (7) Unprocessed invoices There is a risk sales balance and trade receivables balance at the year-end may be understated, if these invoices are not processed in the accounting system by the year end. | Enquire from the Finance Director how they intend to resolve the issue of unprocessed sales invoices and verify whether these invoices have been included in the sales balance and receivables balance in the year-end financial statements. |
| (8) Extended useful lives by 4 years There is a risk Plant and Equipment may be overstated and depreciation expense | Discuss with the management (e.g. Finance Director) the basis/rationale for extending the assets useful life by 4 years. Compare the |

| | |
|--|---|
| understated since the extension appears unreasonable as an equipment was disposed of at a significant loss. Annual review of assets useful life should be reasonable (IAS 16). | useful life of these assets with those of similar assets in the industry to assess or ascertain the reasonableness of the useful life of such assets. |
| (9) Significant loss There is a risk loss may be understated when calculating profit or loss on disposal of the equipment to reduce its impact on profit or loss of the year. | Recalculate the loss on the disposed equipment to ensure accuracy and verify whether it has been correctly recognised in the financial statements. |

(c) Auditors responsibilities for fraud prevention and detection

1. Obtain reasonable assurance that financial statements (as a whole) are free from material misstatement whether due to fraud or error.
2. Identify and assess risks of material misstatements of financial statements due to fraud.
3. Design and implement appropriate responses to obtain sufficient and appropriate audit evidence regarding identified and assessed risks.
4. Respond appropriately to fraud or suspected fraud by performing appropriate audit procedures during the audit.
5. Exercise professional skepticism throughout the audit, considering possibility of management to override internal controls.
6. Ensure audit team is aware of the risks and responsibilities of fraud and error.

(d) Auditors procedures performed during inventory count

1. Observe the inventory count to ensure the authorised stock take instructions/procedures are been properly followed.
2. Verify that inventory count sheets are pre-numbered and recording is done in ink and counted stock and areas are marked or flagged.
3. Ensure cut-off of inventory movement (in and out) to avoid omission or double counting of inventory.
4. Perform and record (evidence) test counts from the inventory count records /sheets to the inventory to ensure accuracy.
5. Perform and record (evidence) test counts from the inventory to the inventory count records/sheets to ensure completeness.
6. Ensure that slow moving, damaged or obsolete inventory is identified and recorded separately.
7. Ensure slow moving, damaged or obsolete inventory is properly valued as the NRV is likely to be lower than the cost.
8. Confirm that inventory held on behalf of third parties is identified and excluded from inventory count and records.
9. Obtain copies of the completed physical count records/sheets to assist in subsequent audit procedures.

SOLUTION FIVE

- (a) **(i) 5 Elements of Assurance engagements are:**
1. **Three (3) Party relationship**
The intended user - (e.g. Shareholders)
The responsible party - (e.g. Directors)
The Practitioner - (e.g. Auditors)
 2. **The Subject Matter**
The material provided by the responsible party, which needs assurance on.
 3. **Criteria**
This is used to assess the subject matter.
 4. **Evidence**
Sufficient appropriate evidence obtained by the practitioner to give assurance on.
 5. **Report**
Written report given to the intended user.

- (ii) Key audit matters paragraph and Other matters paragraph

Key audit matters paragraph

This paragraph is used to communicate matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Other matters paragraph

This paragraph is used to refer to matters other than those presented or disclosed in the financial statements, but in the auditor's judgment, the matters are relevant to the users understanding of the auditor's report / audit opinion.

- (b) **Subsequent events in Mwaka Co:**

1. Inventory

(i) **Amendment**

1. The event is an adjusting event as it provides additional / further evidence that existed at the reporting date.
2. The financial statements should be amended so that inventory is not overstated (IAS 2).

(ii) **Audit procedures**

1. Discuss with management that damaged inventory should be recorded at the net realisable value and not at cost.
2. Enquire from management the basis/assumptions used to estimate the scrap value.
3. Obtain a schedule of scrap value and cast to verify accuracy.
4. If financial statements are amended, verify that the amendment is correct.

(iii) **Impact on audit opinion**

1. The overstatement is material 2.5% (375/15,000) to total assets, but not pervasive. (*Note: materiality based on profit before tax is also acceptable*).
2. If management amends the financial statements correctly, then, the audit opinion will not be modified.
3. If management refuses to amend the financial statements, then, the audit opinion will be modified with "except for opinion" due to disagreement on a material matter.

2. Property, plant and equipment

- (i) **Amendment**
1. The event is a non-adjusting event as it provides evidence of conditions that arose after the reporting date.
 2. The financial statements should not be amended according to IAS 10.

- (ii) **Audit procedures**
1. Discuss with management that the matter should be disclosed since it is material.
 2. Obtain written representation confirming that disclosure will be made.
 3. If disclosure is made, then, review its adequacy and correctness.
 4. Enquire from management the basis/assumptions used to estimate the scrap value.
 5. Review valuation reports to verify that the assets have no scrap value.

Impact on audit opinion

1. The overstatement is material 2.3% (350/15,000) to total assets, but not pervasive. (Note: materiality based on profit before tax is also acceptable).
2. If disclosure is made adequately and correctly, then, the audit opinion will not be modified.
3. If management refuses to disclose a material event, then, the audit opinion will be modified with "except for opinion" due to disagreement on a material matter.

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND CORPORATE LAW

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

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

SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

QUESTION ONE

Bamboo Security Limited is a registered security company with six hundred (600) employees providing security services in Zambia. The company structure has three shareholders, and is governed by a seven member Board of Directors. The Chief Executive Officer (CEO) chairs the Board which comprises of the accountant and five (5) independent, unpaid Non-Executive Directors who were appointed by the CEO based on past business relationships. You are one of the independent members of Bamboo Security Board. The CEO and Chairman sets the Board agendas, distributes Board papers in advance of meetings and briefs Board members in relation to each agenda item. At each of its quarterly meetings, the board reviews the financial reports of the company in detail and the accountant answers questions. Other issues that regularly appear as agenda items include bids for prospective companies, results of submitted proposals, and corporate social responsibility activities. There is rarely any discussion of operational matters relating to the company as the CEO believes these are outside the directors' experience, and the executive management team is more than capable of managing the delivery of the services. The chairman feels that the Company is disclosing a lot of information to the public, which could affect its reputation. The Board has no separate audit committee but relies on the annual management letter from the external auditors to provide assurance that financial controls are operating effectively. The external auditors were appointed by the CEO many years ago. Bamboo Security Board believes that the company's corporate governance could be improved by following the principles applicable to listed companies. One of the concerned shareholders approaches you for legal advice on the legal issues highlighted below.

Required:

- (a) Define 'Corporate Governance' (5 marks)
- (b) Discuss three (3) ways by which good Corporate Governance protects the basic rights of the shareholders such as the Bamboo Security Service. (15 marks)
- (c) Outline five (5) contents of the Directors' Report for a company like Bamboo security. (5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) One of the key features of a company was explained in the popular case of *Macaure v. Northern Assurance Co. Ltd (1925)*. Explain the feature of a company that was highlighted in this case. (6 marks)
- (b) With the aid of case law, explain the statement, 'the company's constitution (articles) binds the members to the company'. (9 marks)
- (c) Explain five (5) distinctions between an unlimited company and a partnership. (10 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Martin Coleman is an Associate under *Price Water House Coopers* in the United Kingdom, he has since been sent to Zambia under the Firm's exchange program. As part of its social corporate responsibility, *Price Water House Coopers Zambia* is scheduled to hold an internal staff training for one of its biggest clients; *Granite Mining Limited*, who have, in the recent past been threatened by compulsory winding up.

The General Manager of Granite Limited is a ZICA student presently furthering his studies in the field of finance and has, in the course of his studies come across the concept of incorporation of a company and its attributes.

Required:

- (a) In relation to Granite Mining Limited, discuss the seven (7) attributes of incorporation. (21 marks)
- (b) Identify at least four (4) grounds for Compulsory winding up. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

Lobos Mining Limited is a locally registered company with four (4) Shareholders. At the last Annual General meeting held at the prestigious Radisson Blu Hotel in Livingstone, various concerns were raised concerning the corporate governance surrounding the company.

The Shareholders of the Lobos Mining Limited have lamented that; had it not been for the poor governance system of the directors and the poorly thought out resolutions passed in the past financial year, the shareholders would have benefitted from a hefty dividend this year.

The Shareholders of the Mining Firm have also since come to learn that the directors have been involved in reckless spending and borrowing. The Shareholders are now worried that the directors may run down the Mining Firm, in view of the fact that the Creditors of the Mining Firm are threatening to file a winding up petition if their various debts are not settled before the end of this financial year.

Required:

- (a) With the aid of the above scenario, explain the connection between the Board of Directors of a company and corporate governance. (10 marks)
- (b) Discuss the difference between an *extra-ordinary resolution* and a *special resolution*. (8 marks)
- (c) In light of the above issues, discuss which one maybe favorable between Members voluntary winding up and Creditors voluntary winding up. (7 marks)

[Total: 25 Marks]

QUESTION FIVE

You have recently been appointed Auditor General of the Republic of Zambia and have dived straight into the job. Your first assignment is to make a presentation at the Accountants' quarterly workshop to be held in Siavonga. You are required to deliver a presentation on the importance of an Audit Committee.

Your Deputy under your new office shall be focusing on the reduction of share capital and the capital and financing of companies.

Following your presentation, it would appear that the key areas of the discourse remain grey to the audience. The attendees of the workshop have since swarmed your table and require further clarity.

Required:

- (a) With reference to the above statement, explain the six (6) duties of the Audit Committee. (18 marks)
- (b) Discuss the differences between reduction of share capital by cancellation and paying off paid up share capital. (7 marks)

[Total: 25 Marks]

END OF PAPER

DA 12: GOVERNANCE AND CORPORATE LAW

SOLUTION ONE

(a) Corporate governance is the system by which organizations are directed and controlled.(Cadbury Report). Corporate governance is the system of laws and sound approaches by which misdeeds of corporate officers (directors) are minimized by focusing on the internal and external structures, with a view of mitigating against the consequences of their risks. Thus for good management, Bamboo Security Services Ltd need good corporate governance.

(b) Corporate governance protects the shareholders in Bamboo Security Services in three ways:

1. *Basic voting rights*

Shareholders are the owners of the company by contributing capital. This gives them power to alter the legal position of the company at the annual general meeting (AGM) through voting. Through the vote, they are able to dismiss and appoint corporate officers of the company (directors and auditors), share profits, convey and transfer shares. Corporate governance requires that to exercise this right effectively, they must obtain relevant information on a timely and regular basis, such as date, location and agenda of the meeting. They must be informed of rules and voting procedure that governs the meetings.

2. *Participation in decision making*

Shareholders must be sufficiently informed and have a right to participate in deciding on corporate changes such as amendment of articles of association and authorization of additional shares. They should be allowed to consult on key issues concerning their rights.

3. *Equitable treatment of shareholders*

Shareholders of the same class must be treated equally. Minority shareholders need protection from abusive actions by controlling shareholders through the Majority Rule and Minority Protection. Board members should declare interest and avoid insider trading.

(c) The following are the contents of the Director's Report in a company such as Bamboo Services Ltd:

1. The amount paid as dividends and the amount proposed to be taken to Reserves
2. The nature of the business of the company or its subsidiaries
3. The classes of business in which the company has interest
4. The principal business of the company and its subsidiaries
5. Any changes in activities during the year
6. Particulars of important events that have occurred during the year

7. Indications of likely future developments
8. Indications of research and development activities

SOLUTION TWO

(a) The key feature of a company explained in ***Macaura v. Northern Assurance Co. Ltd (1925)*** is Separate Legal Personality. This means that a company is regarded as a legal entity or artificial person distinct from its shareholders or members. Thus, the implication of this is that, the company will be able to buy and sale assets using its own name, own such property separately from the owners.

(b) The statement, 'the company's constitution (articles) binds the members to the company' means that the company can compel the members to obey its articles as seen in ***Hickman v Kent or Romney Marsh Sheepbreeders Association 1905*** where it was held that members must comply with the company articles, which in that case, provided for arbitration, therefore, members had to follow the company articles.

Further in ***Eley v. Positive Government Security Life Assurance Co. Ltd 1895***, it was held that outsiders cannot enforce rights due to members in the articles as it is a contract between the company and its members.

Thus the articles bind the company to its members.

(a) The distinctions between an unlimited company and partnership is that:

- (i) An unlimited company is a company, i.e. separate from owners, whilst a partnership is not.
- (ii) An unlimited company can own assets in its own name, whilst a partnership cannot.
- (iii) Shareholders in an unlimited company are only liable when the company assets are not enough, whilst in a partnership, liability is from the onset, whether the firm has enough resources to settle its debts or not.
- (iv) A partnership does not have perpetual succession whilst an unlimited company does.
- (v) An unlimited company will have 'LTD' as part of its name, whilst a partnership will not.
- (vi)** Partnerships have a limit as to how many members can be in it, i.e. 20, whilst an unlimited company has a limit of up to 50 shareholders like any other private limited company.

SOLUTION THREE

a) Businesses world over are run on various forms, some are run informally, whilst others are run formally, the reasons for so doing in the respective circumstances can be unique. It must be noted however that there are a number of perks and/or attributes that come with the formalization or incorporation of a company, and some of these are as follows:

1. **Limited liability**

A company once incorporated has limited liability, this means that the liability of its Members is only limited to the extent of their unpaid up shares, therefore, if a company being wound up, and there is a Member (s) with a certain amount of unpaid up shares, the same will be called upon to contribute to the company for purposes of meeting the latter's liability where the assets are not enough to meet the same liabilities.

2. **Separate Legal personality**

A company once incorporated begins, from the day of such incorporation to exist as if it were an actual human being, put simply, a company once incorporated begins to exist as an artificial being, capable of dealing with other beings, both natural and artificial. The company will now exist in a separate and distinct fashion from its Members.

Suffice to note that once incorporated, the company enjoys the same rights and powers as a natural being.

3. **Capacity to sue and be sued**

Upon incorporation, a company assumes corporate capacity and can therefore sued or be sued in its own name, instead of its Members.

4. **Perpetual Succession**

Once incorporated, a company assumes what at law is classified *perpetual succession*. The foregoing basically means that the company's existence is capable of outliving its Members existence, meaning that the Members may dies but new Members will come in and the existence of the company continues.

5. **Common Seal**

A company once incorporated as above stated begins to exist as an artificial being and can engage in day to day transactions just like a natural human being, however, the same said company being an artificial being is unable to append its signature to a document, and as such must do so by way of affixing a common seal on any document to which it is a Party to.

6. **Transferability of Shares**

A company once it has been incorporated has initial subscribers to its shares and may also issue out an allotment of shares, by the corporate nature assumed by a company when it has been incorporated, the company's shares become transferable.

7. Owning of property in its own name

A company being an artificial person at law and having the rights and powers of a natural being can own property in its own name, away from the Members of the company, in fact, the Members of a company have no interest in the property of the company.

- b) Where a company is struggling financially, the said company can be wound up in various ways, and one such way of winding up a company is *Compulsory winding up*. There are six grounds upon which a company can be compulsorily wound up, the same are as follows:
1. The period, if any, fixed for the duration of the company by the articles expires of the event, if any, occurs on the occurrence of which the articles provide that the company is to be dissolved.
 2. Where it is, in the option of the Court, just and equitable that the company be wound up.
 3. Where the company has, by a special resolution resolved that it be wound up.
 4. If the numbers of Members drop below 2.
 5. If a company does not commence its business within a year of incorporation or suspends its business for twelve (12) months.
 6. If a company is unable to pay its debts.

a) Connection between the Board of Directors & Corporate Governance

Board of Directors

First and foremost, it suffices to say that; a company being an artificial entity at law has no way in which it can run its own affairs for purposes of furthering the interests of itself, and as such the company will act through the aid and/or assistance of its Agents, these being; the *Board of Directors*.

The Shareholders and Members of the company form part of the key Stakeholders in the context of a company, and it is for this reason that once the said Members convene at a material Annual General meeting, part of the agenda is to retain a group of trusted and competent people to be able to run the day to day affairs of the company (*although this is arguable, since the Board of Directors does not itself meet on a regular basis, and in the strictest sense, the day to day affairs of a company are in fact and in truth run by what is known as being; The Professional Cadre of Managers, these are the everyday Technocrats that keep the company going.*), in the best interest of the company.

It is important to note that the continued stay in office of the Board of Directors will be dependent on their performance in office during their particular tenure and how well they were, at the time, able to turn the fortunes of the company that they had been entrusted to run and or administer by the Shareholders and Members of the said company.

Corporate Governance

Corporate Governance is a system of rules, practices and processes by which a Firm is directed and/or controlled.

Various definitions arise when dealing with the concept of Corporate Governance, others such as the *Cudbury Report* and the *OECD* define Corporate Governance as being a system by which organizations are directed and controlled. The other meaning that can be ascribed to the term Corporate Governance is that; it is a set of relationships between a company's Directors, its Shareholders and other Stakeholders. It also provides the structure through which objectives of the company are set, and the means of achieving those objectives and monitoring performance.

It is clear from the above given definitions that the success of a company largely depends on the Corporate Governance that has been put in place and that it is for this reason that no company can gamble with or compromise on its Corporate Governance.

The link between the Board of Directors and Corporate Governance

Having discussed the two concepts, i.e. the Board of Directors and Corporate Governance, it is without a shadow of a doubt that there is an inevitable link between the two.

The link between the two above mentioned concepts is such that; The Board of Directors being the body entrusted with running the day to day affairs of the company has the responsibility of putting in place a system of rules, practices and processes in order to ensure the proper directing and controlling of a particular and/or Company. In other words, the Board of Directors are the vehicle through which the concept of Corporate Governance is advance

- i. The Shareholders and Members of a company will meet from time to time and sometimes abruptly, as the case may be, and depending the necessity of the said meeting. Once the said Members have met to discuss the various aspects touching on, and affecting the company in which they have a stake in, they may, after lengthy deliberations pass numerous resolutions for the purposes of giving effect to their discussions.

Some of the two kinds of resolutions that can be passed are; *an extra-ordinary resolution* and *a special resolution*. The former is passed at a general meeting and must be by a majority of not less than three-fourths of the members as being so entitled to do either in person or by proxy, as the case may be. Prior to the passing of an extra-ordinary resolution, there ought to have been a notice given of the intention to pass the resolutions as such.

The latter, being *a special resolution* just like the former will require a majority as that of the former in order to be passed and will, just like the former require prior notice of the intention to propose the resolution as a special resolution.

In conclusion, despite the two being similar, the two differ in the sense that a special resolution, unlike an extra-ordinary resolution will require not less than 21 days' notice specifying the intention of passing the said resolution as being *a special resolution*.

- b) Companies being of the business nature that they are do sometimes fall on hard times and begin to suffer losses, and when this happens, one of two things is likely to happen, firstly, there may be *a Creditors voluntary winding up* or, the company may decide to minimize its

losses and close shop by disposing off its assets for the purpose of meeting its obligations, this is what is known as being; *a Members voluntary winding up*.

The key difference between the two is such that; in the former, the Members of the company cannot make a declaration of solvency at the point of winding up of the company, whereas in the latter, the Directors of the company will have to make the said declaration of solvency, confirming that; once wound up, the company will be able to meet its obligations in terms of debt settlement.

SOLUTION FIVE

(a) Duties of the Audit Committee

The following are the **six duties** of the Audit Committee:

1. **Checking the integrity of the company's financial statements.** That is the committee will review the judgments of the board in preparing financial statements and ensure that they reflect the highest level of integrity and ensure that they reflect the situation in the company.
2. **Reviewing the company's internal controls and risk management systems.** That is the committee has a duty to ensure that strong systems are established within the institution to avoid unnecessary risks and ensure that appropriate action is taken to avoid these risks and ensuring firm internal financial controls through internal auditors.
3. **Reviewing the work of external auditors and make recommendations** to the board either for their re-appointment or non-renewal of their contracts. Recommending for the appointment of new external auditors where need be.
4. **Producing and implementing a policy regarding the provision of non – audit services** to be provided by external auditors to ensure the independence of external auditors.
5. **Reporting to the board regarding matters such as amendments** to the internal control systems, where need be.
6. **Investigate financial fraud** within the company and verify the financial statements to rule out financial irregularities and may receive confidential reports from staff regarding financial irregularities for further action.

(b) The difference between Reduction of capital by cancellation and Reduction of capital by paying off paid up shares.

Cancellation of share capital happens when a company decides to cancel any paid up share capital which is lost or is unrepresented by available assets, for example when the value of the net assets is less than the paid up capital because the company has sustained a loss. This in effect reduces the capital's nominal capital. Whilst reduction of share capital by paying off paid up share capital occurs where the company refunds excess capital paid by a shareholder into the company. By giving back to the shareholder what he had invested, it reduces that shareholder's capital in the company.

END OF SOLUTIONS