TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY, 11 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

(a) List down five (5) contents of a partnership deed.

(10 marks)

(b) Competitive factors in the business environment affect the management of the business towards achieving its goals.

Required:

Identify and explain five (5) forces of Michael Porter's model that affect competition in business.

(10 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Managers should be encouraged to be aware of certain factors that may influence their ethical courses of actions when under pressure.

Required:

Explain three (3) factors that may influence managerial ethics in managers when they are under pressure.

(6 marks)

(b) Identify four (4) roles of Boards of Directors in organizations.

(8 marks)

(c) Lack of proper planning other than poor management has been mostly given as the main reason for failure to reach desired profitability in organizations.

Required:

Explain three (3) important relationship of planning to other management functions within an organization.

(6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Mr. Chama is worried about the lack of order and coordination in his company. Employees continue to work as individuals rather than a team. Describe the four (4) characteristics of an organization and how they can facilitate team work in Mr. Chama's company.

(8 marks)

(b) Hamanjila runs a chemist in Lusaka. He has noticed the mushrooming of similar businesses and more are coming up within the area. I feel so frustrated and don't know what to do, because all my customers are no longer coming in as before. People are only coping what others are doing he complained. Suggest four (4) most common ways of competing to Hamanjila and how he can improve his business in the midst of this competition.

(12 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Define performance appraisal.

(2 marks)

(b) Describe the dual role of performance appraisals.

(4 marks)

(c) State two (2) outcomes of the Appraisal process.

(4 marks)

(d) State two (2) shortcoming of the Appraisal process.

(4 marks)

(e) What three (3) factors should a performance management incorporate?

(6 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Modern societies comprise of heterogeneous people that demand for business organizations to embrace workforce diversity and equal opportunity policy to be considered as a good corporate citizen.

Required:

As a Human Resource Manager, make five (5) suggestions that the organization may include as part of the workforce diversity and equal opportunity policy.

(10 marks)

(b) Explain how the Marketing Manager could use the marketing mix elements of product, price and promotion with the purpose of increasing demand of the goods.

(6 marks)

(c) Differentiate between data and information.

(4 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT

SOLUTION ONE

(a) **Partnership** is a relationship that exists between two or more persons carrying out business with a common objective of making a profit. The maximum membership of partnership is twenty however, in professional partnership such as for accountants, lawyers etc numbers can go beyond the maximum. In a partnership, resources such as finances, labour and assets are organized. Partnership deed or agreement is a written legal document the contains the terms and condition of the partnership. The following are the contents of a partnership deed:

(i) Capital contribution made by each partner
(ii) The sharing proportions of profits and losses
(iii) How new members will be admitted in the partnership
(iv) Interest to be charged on drawings and capital
(v) Salaries to be paid to partners

Types of partnership

(i) General partnership
(ii) Limited partnership
(iii) Limited liability partnership

(b) Michael Porter developed a model that is used to formulate strategic plans which comprises of five competitive forces:

(i) **Bargaining power of buyer**: Big buyers in the industry may have the power to negotiate for discounts, free deliveries, longer credit periods, good trade prices etc.

(ii) **Bargaining power of suppliers**: Suppliers may have a strong position where there are few suppliers or it's a major supplier as the will be able to dictate the prices and other sales conditions.

(iii) **Threats of new entrants**: This will depend with the degree of barriers to enter the industry. High entry barriers will reduce competition in the industry such as huge capital investment.

(iv) **Threats of substitute products:** Bargaining power of buyers is influenced by the degree of substitute goods. If substitute goods are readily available buyers have a strong position therefore increasing competition.

(v) **The firm's rivalry in the industry:** Rivalry in competition among firms may be based on quality, price, technology, research and development and marketing.

SOLUTION TWO

(a) The following are the three (3) factors that may affect managerial ethics when under pressure:

(i) Manager as a person- personal experience such as family religion, personal standards and needs.

(ii) The employing organization- policies, code of conduct, supervisor and peer behavior.

(iii) The external environment- government regulations, norms and value of society and ethical climate of industry.

(b) The following are the roles of board of directors in an organization:

(i) To make sure an organization acts in the interest of the owners

(ii) Endorsing or confirming the strategic initiatives of top management-

(iii) Exercise control and ensure that the strategic management of an enterprise is successful

(iv) Encourage managerial accountability towards financial performance and social responsibility

(c) The following are the importance of planning to other management functions: it initiates the management process.

(i) identifies the important objectives and what must be done to achieve them.

(ii) sets the stage for managerial efforts in organizing- through the allocation of resources to accomplish tasks.

(iii) Leading- through guidance of human resource to ensure high levels of productivity and controlling- through monitoring and taking necessary correction measures.

SOLUTION THREE

(a) The following are the four (4) characteristics that describe an organization and how they can facilitate team work in Mr. Chama's company:

(i) Collection of people- synergy, it is difficult to accomplish the desired results unless people come together

(ii) Division of labor-people have different talents and therefore let them do what they are trained for so that they build skills and expertise to prevent boredom and spiteful attitudes.

(iii) People working together- coordination is very important so that all efforts of by members will are put together to allow for more productivity.

(iv) Common purpose-the mission of the organization must be explained and understood by every member of the organization so that employs work in unison and for the same reason.

(b) The following are the four (4) common ways of competing that can be suggested to Hamanjila:

(i) Price: use price cuts, discounting for loyalty, repeated-purchase, and value addition

(ii) Marketing and adverts: use expensive advertising campaigns through the use of

(iii) different platforms, promotional gifts to customers and distributors and many more.

(iv) Investment and product development: use differentiation on product features, bring latest brands on the market. Increase the economies of scale and fight the competitors out of the industry.

(v) Litigation: turning to court to delay a competitor from launching a new product as armory for firms seeking to neutralize the patent protection on established products

SOLUTION FOUR

(a) Define performance appraisal.

This is the process of formally assessing someone's work and providing feedback on his or her performance.

(b) Describe the dual role of performance appraisals.

(i) Evaluation- letting people know where they stand relative to objectives and standards.

(ii) Development- its assist in training and continuous development of the employees. It focuses on future performance and clarification of standards. It uncovers obstacles and offers training and continuous development opportunities.

(c) State two (2) outcomes of the Appraisal process.

(i) The outcome of the appraisal process is the grading score that is decided for employees as well as salary hike or bonus potential that is awarded to the employee. The appraisal process does not necessarily the offer changes grad but may be demoted, promoted, or a notch increase.

(ii) They determine possibility of a salary hike and/ or deciding how much bonus he or she get for the cycle. In this way the organization ensure that there is no overlap in grading the employee and a fair and balanced evaluation is the desired outcome though this does not always happened in reality

(d) State two (2) shortcoming of the Appraisal process.

(i) The participants are not rational and objective at all times.

(ii) Further, since most organizations decide the grade in a way similar to the school equivalent of relative grading instead of absolute ratings an element of competitive rivalry creeps into the process making some employees unhappy.

(e) What three (3) factors should a performance management incorporate?

(i) Performance improvement- for individual, group and organizational effectiveness.

(ii) Development- unless there is continuous development of individuals and teams, performance will not improve.

(iii) Managing behavior- making sure that individuals are encouraged to behave in a way that permits and fosters better working relationship

SOLUTION FIVE

(a) **Workforce diversity and Equal Opportunity Policy**

(i) Diversity in Culture

The policy must embrace individual employee's cultural backgrounds and work as a team for the purpose of achieving the organizational goal. Cultural background in respect of ethnicity and religion.

(ii) Diversity in Demographic Differences

The policy must clearly state the organization's position against any discrimination against racism, gender inequity, nationality and tribe.

(iii) Equal Opportunity in Employment

The policy must stipulate that recruitment and selection processes must not be discriminate against sex, race, tribe, age, minority groups etc.

(iv) Equal Opportunity in Training

The policy must state that training opportunities will be provided to employees without any form of discrimination, nepotism, bribery or corruption.

(v) Equal Opportunity in Promotions

The policy must not perpetuate past discriminatory practices in selection for promotions

(b) **How a Marketing Manager could use the marketing mix elements to increase demand of goods.**

(i) **Product**: These are the goods offered for sale by the organization. The product must be of good quality, provide variety for choice, design and features must be attractive, reputable brand name and good packaging of the product.

(ii) **Price**: This is the amount of money paid for a product by a customer. The price to be attractive cash and trade discounts must be offered to customers. Credit terms must be enticing to a customer such as payment period offered to customers.

(iii) **Promotion**: These activities carried out to persuade the target customers to buy the product. This will involve activities meant to increase demand such as advertising, personal selling, sales promotion and public relations.

(c) **Difference between data and information**

(a) **Data**: This is raw, unanalyzed numbers and facts about a certain event such as sales volume per week, sales revenue per month, production per week etc.

(b) **Information**: This is the data which has been organized or analyzed into some meaningful data. For example the monthly sales revenue data can be compared against the monthly target and interpret the performance of the business.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY, 11 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

7. Present legible and tidy work.

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

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

Attempt all five (5) questions.

QUESTION ONE

(a) Outline any four (4) functions of money.

(8 marks)

(b) Explain any two (2) functions of the commercial banks

(4 marks)

(c) Outline any two (2) functions of the central bank

(4 marks)

(d) Distinguish between regressive tax and progressive tax.

(4 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Discuss the four (4) canons of taxation as given by Adam Smith.

(8 marks)

(b) In managing its exchange rate, a country may adopt a devaluation policy.

(i) What do you understand by the term devaluation

(2 marks)

(ii) Explain why a country may decide to devalue its currency

(4 marks)

(c) The Balance of Payments is a statistical record of a country's international transactions over a given period of time presented in the form of double-entry bookkeeping. Analyse the contents of the following Balance of Payments components:

(i) Current account

(2 marks)

(ii) Capital account

(2 marks)

(iii) Official reserves account

(2 marks)

[Total: 20 Marks]

QUESTION THREE

(a) What is compound interest?

(2 marks)

(b) Mrs. Mubanga has taken a loan of K10,000 from a bank for three (3) years. After three (3) years, she has paid a total of K13,310. What is the annual compound interest rate?

(5 marks)

(c) Anticipated consumer demand in a restaurant for steaks next month can be modelled by a normal random variable with mean 1,200 pounds and standard deviation 100 pounds.
Required:

(i) What is the probability that demand will exceed 1,000 pounds?
(3 marks)

(ii) What is the probability that demand will be between 1,100 and 1,300 pounds?
(4 marks)

(iii) The probability is 0.10 that demand will be more than how many pounds?
(4 marks)

(d) The number of houses sold by an estate agent follows a Poisson distribution, with a mean of 2 per week. Find the probability that in the next week the estate agent will sell, exactly three (3) houses.
(2 marks)

[Total: 20 Marks]

QUESTION FOUR

An auto manufacturing company wanted to investigate how the price of one of its car models depreciates with age. The research department at the company took a sample of eight cars of this model and collected the following information on the ages (in years) and prices (in hundreds of Kwachas) of these cars.

Age (X)	8	3	6	9	2	5	6	3
Price (Y)	45	210	100	33	267	134	109	235

Required:

(a) Construct a scatter diagram for these data. Does the scatter diagram exhibit a linear relationship between ages and prices of cars?
(3 marks)

(b) Determine the regression line for these data.
(11 marks)

(c) Predict the price of a 7-year-old car of this model.
(2 marks)

(d) Calculate the coefficient of correlation and comment on your finding.
(4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) A firm has a choice between three (3) investment projects, all of which involve an initial outlay of K36,000. The returns at the end of the next four (4) years are given in table below. If the interest rate is 15%:

Year	**Project A**	**Project B**	**Project C**
1	15, 000	5, 000	20, 000
2	15, 000	10, 000	15, 000
3	15, 000	20, 000	10, 000
4	15, 000	25, 000	5, 000

(i) Comment whether each project is viable or not, and

(12 marks)

(ii) Which project is the best investment?

(2 marks)

(b) Mr Kambikambi decides to get a loan of K270, 000 in order to build a house. What will be the monthly repayments on his loan, if he is to pay back in five (5) years at a monthly interest rate of 0.8%?

(6 marks)

[Total: 20 Marks]

END OF PAPER

C2: ECONOMICS & FINANCIAL MATHEMATICS

SOLUTION ONE

(a) **Functions of money**

(i) **Medium of exchange.** Money's most important function is as a medium of exchange to facilitate transactions. Without money, all transactions would have to be conducted by **barter**, which involves direct exchange of one good or service for another. in a barter system, exchange can take place *only* if there is a **double coincidence of wants** between two transacting parties. The likelihood of a double coincidence of wants, however, is small and makes the exchange of goods and services rather difficult. Money effectively eliminates the double coincidence of wants problem by serving as a medium of exchange that is accepted in all transactions, by all parties, regardless of whether they desire each other's' goods and services.

(ii) **Store of value.** In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. Money is more **liquid** than most other stores of value because as a medium of exchange, it is readily accepted everywhere. Furthermore, money is an easily transported store of value that is available in a number of convenient denominations.

(iii) **Unit of account.** Money also functions as a unit of account, providing a *common measure of the value* of goods and services being exchanged. Knowing the value or price of a good, in terms of money, enables both the supplier and the purchaser of the good to make decisions about how much of the good to supply and how much of the good to purchase.

(iv) **Standard of Deferred Payment:** This function creates credit and allows transactions to be settled in the future. To be a standard of deferred payment, money must be an accepted way to value and settle a debt in the future.

(b) **Functions of commercial banks**

(i) Banks provide a payment mechanism and a place to store surplus money; they also provide means of obtaining and selling foreign exchange.

(ii) Commercial banks advise and assist companies in the issue of shares, and give investment unit trust advice and business.

(iii) They also engage in financial leasing, debt factoring or collection management, including executorships (trustee) services.

(iv) Banks finance import and export operations and investments.

(v) The most profitable business of commercial banks is lending money in the form of overdrafts, discounting bills of exchange and loan facilities. This particular function is always expanding because banks create credit, create deposit and therefore create money.

(c) **Functions of the central bank**

(i) To provide banking services to Government , commercial banks and to act as Settlement Agent;

(ii) To license, regulate and supervise banks and financial service institutions;

(iii) To ensure a safe and sound financial system and;

(iv) To manage the banking, currency and payment systems operations of the Bank of Zambia.

(d)

(i) **A progressive tax**: A progressive tax is a tax that takes an increasing proportion of income as income rises. The rate of tax keeps on increasing with every subsequent increase in income. Most direct taxes are progressive, a good example is income tax, and the rate increases as a person earns more.

(ii) **A regressive tax**: This takes a higher proportion of a poorer person's income. Most indirect taxes are regressive. A regressive tax is a tax that takes a smaller proportion of income as income rises, this means it takes a higher proportion of a poorer person's income. In other words it is a tax that hits less well-off people harder than the better off. An example of a regressive tax is the television licence. It is exactly the same amount for everyone, which makes it a much smaller proportion of a large income than a small one.

SOLUTION TWO

(a) The four canons of taxation according to Adam Smith are:

(i) **Equity**: axes should be levied according to the ability to pay of the taxpayer. This can be extended to the argument that people in similar circumstances should pay similar amounts of tax. This is the most important cannon of taxation and it lays the moral foundation of the tax system.

(ii) **Certainty**: The taxpayer should know when the tax should be paid, how much should be paid and know which transactions give rise to a tax liability. The tax should be unavoidable. Thus, this canon demands that there should be no element of arbitrariness in a tax.

(iii) **Convenience**: The tax should be convenient to pay, not involving the taxpayer in time consuming activities. Additionally, the time of payment and the manner of payment should be convenience to the taxpayer. For example, if farmers are to be taxed, this should mean that payment of tax should be at harvest time.

(iv) **Economy**: The tax should be cheap to collect, otherwise much of the revenue collected will be wasted. Thus, the tax is economical if the cost of collecting is very small. If, on the other hand, the salaries of the officers' engaged in collecting tax take away a big portion of the tax revenue, the tax certainly is uneconomical.

(b) Devaluation:

(i) Devaluation is the deliberate downward adjustment of a country's official exchange rate relative to other currencies.

Adjustment occurs under fixed exchange regime.

(ii) A country may devalue its currency in order promote exports. Devaluation makes a country's export relatively less expensive for foreigners therefore boosting exports. Further, devaluation makes foreign products relatively more expensive for domestic consumers discouraging imports. As a result, this may help to reduce a country's trade deficit.

(iii) Balance of Payments components:

(1) Current Account: Exports of goods and services, imports of goods and services, unilateral transfers

(2) Capital Account: Direct investment, portfolio investment, other investments

(3) Official Reserves Account: Gold, foreign currencies, reserve positions at IMF

SOLUTION THREE

(a) Compound interest is the interest computed on the principal and any interest earned that has not been paid or withdrawn.

(b) We are given,

$\mathrm{A}(3) = \mathrm{K}13,310,\ \mathrm{P} = \mathrm{K}10,000,\ \ n = 1$ and $t = 3$ years

$$\mathrm{A}(t) = \mathrm{P}\left(1 + \frac{r}{n}\right)^{nt}$$

$$13,310 = 10,000\left(1 + \frac{r}{1}\right)^{1(3)}$$

$$13,310 = 10,000(1+r)^3$$

$$(1+r)^3 = \frac{13,310}{10,000}$$

$$(1+r)^3 = 1.331$$

$$1 + r = 1.331^{\frac{1}{3}}$$

$$r = 1.331^{\frac{1}{3}} - 1$$
$$r = 1.1 - 1$$
$$r = 0.1$$
$$r = 0.1 \times 100\%$$
$$r = 10\%$$

$\therefore$ Annual compound interest rate $= 10\%$

(c) $X \sim N(1200, 100^2)$

Standardize X so that $\mathrm{Z} = \dfrac{\mathrm{X} - 1200}{100}$

(i) $$\mathrm{P}(\mathrm{X} > 1000) = \mathrm{P}\left(\frac{\mathrm{X} - 1200}{100} > \frac{1000 - 1200}{100}\right)$$

$= \mathrm{P}(\mathrm{Z} > -2)$

$= \mathrm{P}(\mathrm{Z} < 2)$ By symmetry

$= F(2)$

$= 0.9772$

(ii) $$P(1100 < X < 1300) = P\left(\frac{1100-1200}{100} < \frac{X-1200}{100} < \frac{1300-1200}{100}\right)$$

$= \mathrm{P}(-1 < \mathrm{Z} < 1)$

$$= F(1) - F(-1)$$
$$= F(1) - [1 - F(1)]$$
$$= 0.8413 - [1 - 0.8413]$$
$$= 0.8413 - 0.1587$$
$$= 0.6826$$

(iii) $P(X > a) = 0.10$

$$P\left(\frac{X-1200}{100} > \frac{a-1200}{100}\right) = 0.10$$

$$P\left(Z > \frac{a-1200}{100}\right) = 0.10$$

$$P\left(Z < \frac{a-1200}{100}\right) = 1 - 0.10$$

$$P\left(Z < \frac{a-1200}{100}\right) = 0.90$$
$$F\left(\frac{a-1200}{100}\right) = 0.90$$

But from the tables

$F(1.28) = 0.9$

So $\frac{a-1200}{100} = 1.28$

$$a - 1200 = 100(1.28)$$
$$a - 1200 = 128$$
$$a = 128 + 1200$$
$a = 1{,}328$ pounds

(d) $\lambda = 2$

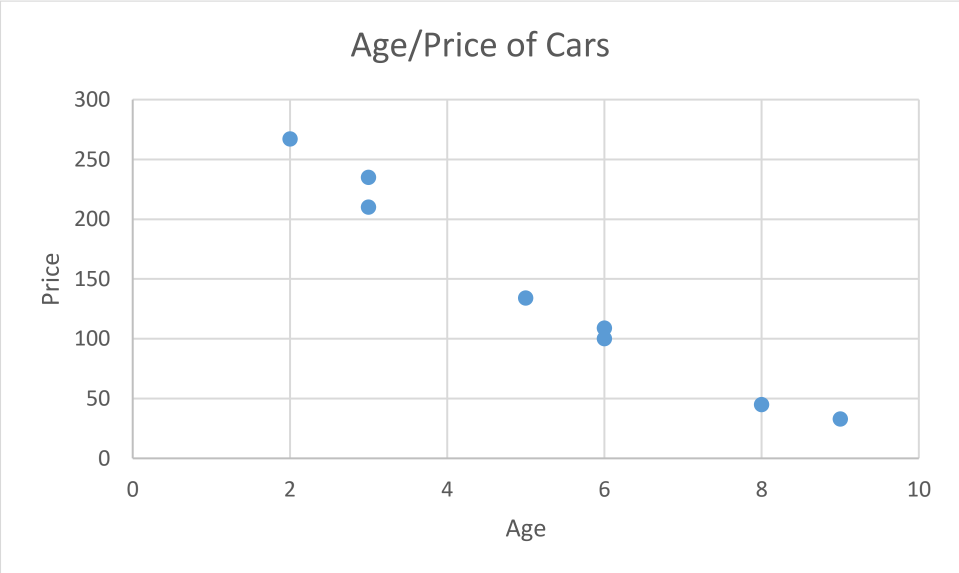
$$P(X = x) = \frac{e^{-\lambda}\lambda^{x}}{x!}$$
$$P(X = 3) = \frac{e^{-2}(2)^{3}}{3!} = 0.1804$$

SOLUTION FOUR

Summary statistics table:

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

(a) Scatter plot:



Yes the scatter plot exhibits a (Negative) linear relationship between Age and Price of cars.

(b) Regression line:

$\sum XY = 4450 \quad \sum X = 42 \quad \sum Y = 1133 \quad \sum X^2 = 264 \quad \sum Y^2 = 213565$

$$\beta = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - \left(\sum X\right)^2} = \frac{8\times 4450 - 42\times 1133}{8\times 264 - (42)^2} = -34.44$$

and

$$\alpha = \overline{Y} - \beta\overline{X} = \frac{1133}{8} - (-34.44)\left(\frac{42}{8}\right) = 322.45$$

Hence, the least –squares regression line is $y = \alpha + \beta x = 322.45 - 34.44x$

(c) $y = \alpha + \beta x = 322.45 - 34.44\times 7 = 81.37$

(d)

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

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

$$= \frac{-11986}{\sqrt{348 \times 424831}}$$

$$= \frac{-11986}{12158.996} = -0.99$$

There is a very strong negative correlation between the Age and the price of the cars.

SOLUTION FIVE

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

Consider $r = 15\%$

$$PV_A = 15000(1.15)^{-1} + 15000(1.15)^{-2} + 15000(1.15)^{-3} + 15000(1.15)^{-4}$$
$$= 13043.48 + 11342.16 + 9862.74 + 8576.30 = 42824.68$$

Thus the NPV is: $42824.68 - 36{,}000 = 6824.68$

$$PV_B = 5000(1.15)^{-1} + 10000(1.15)^{-2} + 20000(1.15)^{-3} + 25000(1.15)^{-4}$$
$$= 4347.83 + 7561.44 + 13150.32 + 14293.83 = 39353.42$$

Therefore, the total present value over the four years is K39353.42

Thus the NPV is

$$39353.42 - 36000 = 3353.42$$

$$PV_C = 20000(1.15)^{-1} + 15000(1.15)^{-2} + 10000(1.15)^{-3} + 5000(1.15)^{-4}$$
$$= 17391.30 + 11342.16 + 6575.16 + 2858.77 = 38167.39$$

Therefore, the total present value over the four years is K38167.39

Thus the NPV is

$$38167.39 - 36000 = 2167.39$$

Thus, at 15% project A is more profitable than project B.

And project B is more profitable than project C. Project A is the best investment.

(b) Using the loan repayment formula:

$$R = \frac{iL}{1-(1+i)^{-n}}$$

Where $L = 270{,}000$, $i = 0.8\% = 0.08$, $n = 5 \times 12 = 60$

$$R = \frac{iL}{1-(1+i)^{-n}} = \frac{0.008 \times 270000}{1-(1.008)^{-60}}$$

$$= \frac{0.008 \times 270000}{1-0.6199662866} = \frac{2160}{0.3800337134}$$

$$= 5683.71$$

Mr Kambikambi will be paying K5683.71 as monthly repayment.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY, 11 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

The Statement of Financial Position as at 31 July 2020 has been provided to you below for Yebo Limited. A list of ledger balances as at 30 June 2021 having profit before tax of K312 million.

Yebo Limited.

Statement of Financial Position as at 1 July 2020

	K'000	K'000
Assets:		
Non-Current:		
Property, plant and Equipment		1,834
Investment		338
		2,172
Current Assets:		
Inventory	1,148	
Trade receivables	572	
Bank	24	
		1,744
Total Assets		3,916
Equity and Liabilities:		
Ordinary shares of K1 each		500
Share premium		100
Revaluation reserves		240
Retained earnings		1,406
		2,246
Liabilities:		
Non-Current liabilities		
8% loan notes		864
Current liabilities:		
Trade payables	628	
Taxation	178	
		806
Total equity and liabilities:		3,916

Ledger Account listing at 30 June 2021

	K'000
Ordinary shares	1,000 Credit
Share premium	160 Credit
Retain earnings 1 July 2020	1,406 Credit
Profit before tax 30 June 2021	312 Credit
Revaluation reserves	360 Credit
8% loan rate	796 Credit
Trade payables	534 Credit
Accrued loan interest	6 Debit
Taxation	22 Debit
Property at valuation	1,246 Debit
Plant at cost	1,692 Debit
Accumulated Depreciation – Buildings	136 Credit
Accumulated Depreciation – Plant	752 Credit
Investment at cost	164 Debit
Trade receivables	1,008 Debit
Inventory 30 June 2021	866 Debit
Bank balance (overdraft)	38 Credit
Investment income received	8 Credit
Profit on sale of investments	46 Credit
Loan interest paid	34 Debit
Ordinary dividends paid	522 Debit

The following additional information is available:

(i) Property in the statement of financial position at 1 July 2020 is at valuation of K984,000 with Accumulated depreciation of K100,000 and Plant at cost of K1,400,000 with accumulated depreciation of K450,000. There were no disposal of land and buildings during the year. The increase is revaluation reserves was from land revaluation.

(ii) Plant with a carrying amount of K240,000 (cost K470,000) was sold during the year for K156,000. The loss on sale had been included in the profit before interest and tax.

(iii) Investment with a cost of K174,000 were sold during the year for K220,000. There were no further investments made in the year.

(iv) The balance on the taxation account is after the settlement of a provision made for the year to 30 June 2020. The provision for the current year has not yet been made.

Required:
Prepare the Statement of Cash Flows for the year ended 30 June 2021.

[Total: 20 Marks]

QUESTION TWO

The following summary of Financial statements were extracted from the books of Manda Plc on 31 December 2022.

Manda Plc's Statement of Profit or Loss for the year ended 31 December 2022.

	K
Revenue	48,760
Cost of sales	(24,920)
Gross Profit	23,840
other business expenses	(17,610)
Operating Profit	6,230
Finance cost	(800)
Profit for the year	5,430

Manda Plc's Statement of Financial Position as at 31 December 2022.

	K
NON-CURRENT ASSETS	
PPE (carrying value)	31,930
CURRENT ASSETS	
Inventory	8,000
Trade Receivables	3,800
Bank	500
	12,300
Total assets	44,230
EQUITY AND LIABILITIES	
EQUITY: Ordinary shares of K1 each	10,000
Share Premium	5,000
Retained Earnings	7,030
	22,030
NON-CURRENT LIABILITIES	
8% Loan notes	
	10,000
CURRENT LIABILITIES	
Trade Payables	
VAT payables	5,250
	6,950
Total Equity and Liabilities	12,200
	44,230

Required:

(a) Calculate the following ratios:

(i) Gross Profit margin

(3 marks)

(ii) Inventory Turnover period

(3 marks)

(iii) Return on capital employed (ROCE)

(3 marks)

(iv) Acid Test Ratio

(3 marks)

(v) Trade Receivables collection period

(3 marks)

(b) For each ratio calculated above, give a brief meaning.

(5 marks)

[Total: 20 Marks]

QUESTION THREE

Clara Soko is in business but does not keep full accounting records. For the year ended 31 December 2022, she is able to provide you with the following information.

	1 Jan 2022	**31 Dec 2022**
	K	**K**
Inventories	14,750	16,355
Trade Receivables	1,625	2,505
Trade Payables	3,680	5,070
Accrued wages Payable	370	415

You are able to prepare the following summary of her cash and Bank transactions for the year:

Cash account

Date	**Details**	**K**	**Date**	**Details**	**K**
2022			2022		
Jan. 1	Balance	245	Dec. 31	Purchases	1,700
Dec. 31	b/f	26,800	Dec. 31	Wages	510
Dec. 31	sales	1,300	Dec. 31	other Expenses	1,130
	Bank		Dec. 31	Drawings	4,100
			Dec. 31	Bank	19,975
			Dec. 31	Balance c/d	930
		28,345			28,345

Bank account

Date	**Details**	**K**	**Date**	**Details**	**K**

2022			2022		
Jan. 1	Balance	4,600	Dec. 31	Trade Payables	14,750
Dec. 31	b/f	8,665	Dec. 31	Wages	1,855
Dec. 31	Trade	19,975	Dec. 31	other Expenses	3,850
	Receivables		Dec. 31	Purchase of	6,250
	Cash		Dec. 31	Van	1,300
			Dec. 31	Cash	
				Balance	
				c/d	5,235
		33,240			
					33,240

Additional information

1. Clara Soko believes that one customer owing K135 will definitely not pay. On the basis of past experience, she also believes that about 4% of the remaining trade receivables may not pay.
2. The van is to be depreciated at the rate of 20% per annum using straight line assuming no residual value.

Required:

(a) Draw up an opening journal entry to establish Clara Soko's capital at 1 January 2022.

(3 marks)

(b) Prepare Clara Soko's statement of profit or loss account for the year ended 31 December 2022.

(11 marks)

(c) Prepare Clara Soko's statement of financial position as at 31 December 2022.

(6 marks)

[Total: 20 Marks]

QUESTION FOUR

Kabanshi is in the manufacturing industry. He manufactures tables for schools in his local area.

Required:

(a) Briefly explain the following and give examples relating to the industry in which Kabanshi operates:

(i) Direct material costs.

(2 marks)

(ii) Direct labour costs.

(2 marks)

(iii) Direct expenses.

(2 marks)

(iv) Indirect manufacturing cost/factory overheads.

(2 marks)

(v) Administrative expenses.

(2 marks)

(vi) Prime costs.

(2 marks)

(b) Modi Company Imports Transistor Radios from Britain, however, the radios must be modified to meet Zambia's specifications with the help of some equipment. The trial balance at year end 31 December 2021 for Modi Company was as follows:

	K'000	**K'000**
Sales		24,000
Purchases	9,000	
Radios	6,000	
Carriage inwards	400	
Carriage outwards	600	
Returns inwards	1,200	
Returns outwards		1,000
Wages for modifications	800	
Motor vans	20,000	
Equipment	4,000	
Selling expenses	1,000	
Capital		18,000
	43,000	43,000

It is company policy to depreciate fixed assets at 10% per annum on cost and increase the inventory held by 10% each year.

Required:
Prepare the statement of profit or loss account for the year ended 31 December 2021.

(8 marks)
[Total: 20 Marks]

QUESTION FIVE

You have been provided with the following list of balances of Johannes Limited from which you are required to extract a trial balance as at 31 March 2021:

	K'000
Share capital	413
Employee salary	375
Interest received	520
10% debenture	450
Revaluation reserves	285

Purchase	810
Sales	1,335
Returns outwards	90
Returns inward	128
Carriage inwards	180
Carriage outwards	300
Rent receivable	45
General reserves	315
Bank loan	1,365
Payables control	900
Receivables control	1,275
Computers	2,100
Drawings	405
Bills receivable	625
Bills payable	480

Required:

(a) Prepare the trial balance using information provided above.

(10 marks)

(b) Explain three (3) disadvantages of double entry system and two (2) advantages of double entry system.

(10 marks)

[Total: 20 Marks]

END OF PAPER

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

SOLUTION ONE

Yebo Limited.

Statement of Cash flows for the year ended 30 June 2021

	K'000	K'000
Operating profit as per question		312
Adjustments for:		
Depreciation: - Buildings (w1)	36	
- Plant (w1)	532	
Loss on sale of plant (w1)	84	
		652
Changes in working capital:		
Decrease in inventory (1,148 – 866)	282	
Increase in receivables (1,008 – 572)	(436)	
Decrease in payables (628 – 534)	(94)	(248)
Cash generated from operations		716
Cash from other transactions:		
Interest paid (34 - 6)	(28)	
Income tax paid (w2)	(200)	(228)
Net cash flows from operating activities		488
Cash flows from investing activities:		
Purchases of plant (w1)	(762)	
Purchase of land and buildings (w1)	(142)	
Investment income	8	
Proceeds from sale of plant	156	
Proceeds from sale of investment	220	
Net cash used in investing activities		(520)
Cash flows from financing activities:		
Proceeds from issue of shares (w3)	560	
Loan repayment	(68)	
Dividends paid	(522)	
		(30)
Net decreases in cash and cash equivalents:		(62)
Opening balance		24
Closing balance		(38)

Workings:

(1)

	K'000
Non-current assets:	
Land and buildings:	
Valuation brought forward	984

	Revaluation surplus (360 – 240)	120
	Acquisitions (b/d figure)	142
	Valuation carried forward	1,246
	Plant:	
	Cost at beginning	1,400
	Disposals	(470)
	Acquisitions (balance figure)	762
	Cost at end	1,692
	Depreciation – Buildings:	
	Accumulated Depreciation brought forward	100
	Depreciation expense	36
	Depreciation carried forward	136
	Depreciation – Plant:	
	Accumulated Depreciation	450
	Disposals	(230)
	Charge for the year (balance figure)	532
	Accumulated Depreciation carried forward	752
	Disposal of plant:	
	Carrying amount	240
	Proceeds from sale	156
	Excess of carrying amount over proceeds (loss)	84
(2)	**Income tax paid:**	
	Tax payable brought forward	178
	Cash paid (balance figure)	200
	Tax receivable	22
(3)	Ordinary shares 30 June 2021	1,000
	Share premium 30 June 2021	160
	Share at 1 July 2020	(500)
	Share premium 2020	(100)
		560

SOLUTION TWO

(a)

(i) Gross Profit margin $= \frac{Gross\ Profit}{Sales} \times \frac{100}{1}$

$= \frac{23{,}840}{48{,}760} \times \frac{100}{1}$

$= 49\%$ or 48.89%

(ii) Inventory Turnover $= \frac{Inventory}{Cost\ of\ Sales} \times \frac{365}{1}$

$= \frac{8{,}000}{24{,}920} \times \frac{365}{1}$

= 117 days (say 4 months)

(iii) ROCE $= \frac{Operating\ Profit}{Capital\ Employed} \times \frac{100}{1}$

$= \frac{6{,}230}{44{,}230 - 12{,}200} \times \frac{100}{1}$

$= \frac{6{,}230}{32{,}030} \times \frac{100}{1}$

$= 19\%$

(iv) Acid Test Ratio $= \frac{Current\ assets - Inventory}{Current\ liabilities}$

$= \frac{12{,}300 - 8{,}000}{12{,}200}$

$= \frac{4{,}300}{12{,}200}$

= 0.35:1

(v) Trade Receivables Collection Period $= \frac{Trade\ Receivables}{Sales} \times \frac{365}{1}$

$= \frac{3{,}800}{48{,}760} \times \frac{365}{1}$

= 28 days

(b) **MEANING**

(i) **Gross Profit Margin**

For every K1 of sales, only K0.49 remain to meet the other expenses before a profit is made.

(ii) **Inventory Turnover Period**

This gives an average number of days a stock item is kept before it is sold. 117 days seems to be too long a period.

(iii) **ROCE**

This indicates the reward for investors to be compared with the cost of capital.

(iv) **Acid Test Ratio**

This means that for every K1 in current liabilities, there is only K0.35 available in current assets minus Inventory to pay off the current liabilities.

(v) **Receivables Collection Period**

This means that trade receivables take on average 28 days' credit.

SOLUTION THREE

(a) **Opening Journal Entry**

	Dr 'K'	Cr 'K'
Inventories	14,750	
Trade Receivables	1,625	
Bank	4,600	
Cash	245	
Trade Payables		3,680
Accrued wages		370
∴ Capital		
		17,170
	21,220	21,220

(b)

Clara Soko's
Statement of Profit or Loss account for the year ended 31 December 2022

	K	K
Sales (w1)		36,345
Opening Inventory	14,750	
Purchases (w2)		
	17,840	
Closing Inventory	32,590	
		(16,235)
less: Depreciation (20% x 6,250)	(16,355)	20,110
Irrecoverable Receivables		
Allowance 4% x (2,505 – 135)	1,250	
Wages (w3)	135	
Other expenses (1,130 + 3,850)	95	
	2,410	
		(8,870)
	4,980	11,240

(c) **Clara Soko's**

Statement of Financial Position as at 31 December 2022

	Cost	Accumulated	NBV

NON-CURRENT ASSET	**(K)**	**Depn. (K)**	**(K)**
Motor van	6,250	1,250	5,000
CURRENT ASSETS			
Inventories		16,355	
Trade Receivables (2,505 –		2,275	
135 - 95)		5,235	
Bank		930	
Cash			24,795
Financed by:			29,795
Capital (Part a)		11,240	
Net Profit		(4,100)	17,170
less Drawings			
			7,140
CURRENT LIABILITIES		5,070	
Trade Payables		415	
Accrued wages			
			5,485
			29,795

Workings

(1) **Total sales**

Trade Receivables control account

2022			2022		
Jan.	Balance	1,625	Dec.	Bank	8,665
1	b/f	9,545	31		
Dec.	Credit sales			Balance	
31	(Bal. fig)	11,170		c/d	2,505
					11,170

∴ Total sales = credit sales + cash sales
= 9,545 + 26,800
= 36,345

(2) **Total purchases**

Trade Payables control account

2022			2022		
Dec.	Bank	14,750	Jan.	Balance	3,680
31	Cash	1,700	1	b/f	17,840
Dec.	Balance			Purchases	
31		5,070		(Bal. fig.)	21,520
Dec.					
31		21,520			

(3)

Wages control account

2022			2022		
Dec.	Cash	510	Jan.	Balance	370
31	Bank	1,855	1	b/f	2,410
Dec.	Balance			Profit or Loss	
31		415			
Dec.					2,780
31		2,780			

SOLUTION FOUR

(i) **Direct material costs** are those materials used directly in the manufacture of products i.e materials that can be identified in the final product E.g. Timber, nails, glue etc.

(ii) **Direct labour costs** are wages paid to those who are directly involved in the manufacturing of a product e.g. labour paid to workers who saw, shape and join the pieces of timber into a table.

(iii) **Direct expenses** are those that are incurred in the manufacturing of a product, i.e. they can be directly charged to a particular unit of a product e.g. live charges for a special equipment used in the process, royalties.

(iv) **Indirect manufacturing/factory overheads** costs are any other costs apart from direct costs for the items being manufactured e.g. cleaners' wages, factory rent, factory power & lighting.

(v) **Administrative expenses** incurred in the process of planning, controlling and directing the organization e.g. office rent, electricity, depreciation of office machinery, secretarial services.

(vi) **Prime costs** consist of direct materials and direct labour. It is expenditure that directly relates to the production of finished goods.

Modi's Trading and Profit and Loss Account for the year ended 31 December 2021

	K'000	**K'000**	**K'000**
Sales		24,000	
Less: returns inwards		(1,200)	
Net sales			22,800
Cost of goods sold:			
Opening inventory		6,000	
Add: Purchase	9,000		
Less: Returns outwards	(1,000)		
Net purchases	8,000		
Add: carriage inwards	400		
		8,400	
		14,400	
Less: closing inventory (radios)		(6,600)	
		7,800	
Add: Wages for modifications	800		
Depreciation on equipment	400		
		1,200	
			(9,000)
Gross profit:			13,800
Less: Expense:			
Carriage outwards		600	
Selling expenses		1,000	
Depreciation on Motor van		2,000	
Net profit			(3,600)
			10,200

SOLUTION FIVE

(a) **Trial balance of Johannes Limited as at 31 March 2021**

	K'000	K'000
Share capital		413
Employee salary	375	
Interest received		520
10% debenture		450
Revaluation reserves		285
Purchase	810	
Sales		1,335
Returns outwards		90
Returns inwards	128	
Carriage inwards	180	
Carriages\ outwards	300	
Rent receivable		45
General reserve		315
Bank loan		1,365
Trade payables		900
Trade receivables	1,275	
Computers	2,100	
Drawings	405	
Bill receivables	625	
Bills payables		480
	6,198	6,198

(b) **Disadvantages**

(1) The system requires the maintenance of a number of books of accounts which is not practical for small companies.

(2) The system is costly because a number of records are to be maintained.

(3) There is no guarantee of absolute accuracy for the books of accounts in spite of the agreement of the trial balance.

(4) The system is complex requiring skilled and qualified employees to handle the process of maintaining accounting records.

Advantages

(1) The trial balance can be prepared to check the arithmetical accuracy of the accounting entries.

(2) It prevents fraud by rendering any alteration in any account more difficult.

(3) The transactions are recorded in a systematic way that gives the most reliable information of the business.

(4) Under double entry system, two aspects of each transaction are recorded, creating an equilibrium within the records which helps in detecting errors, omissions and frauds.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

TUESDAY, 12 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

10. A taxation table is provided on pages 2 to 6 of this paper.

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

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

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270

From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

	Aged 2 to 5 years		Aged above 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

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

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

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

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

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

ATTEMPT ALL FIVE (5) QUESTIONS

QUESTION ONE

Deko Plc is a Zambian resident company that manufactures bicycles in Livingstone. The company has been listed on the Lusaka Securities Exchange since 2022 and since then 35% of the company's shares have always been held by indigenous Zambians.

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

		K	K
Gross profit			1,740,850
Add: Other income:			
Profit on disposal of lorry		26,600	
Bank interest (net)	(Note 1)	51,000	
			77,600
			1,818,450
Less: Operating expenses			
Bad debts	(Note 2)	117,880	
Depreciation		66,650	
Gifts and donations	(Note 3)	31,400	
Legal and professional fees	(Note 4)	74,500	
Entertaining expenses	(Note 5)	50,400	
Repairs and renewals	(Note 6)	36,000	
Miscellaneous operating expenses	(Note 7)	223,240	
			(600,070)
Profit before taxation			1,218,380

Note 1: Bank interest

The bank interest was received on 31 December 2023. Withholding tax was deducted at source.

Note 2: Bad debts

Bad debts are as follows:

	K
Trade debts written off	82,670
Loan to employee written off	28,800
Increase in specific bad debt provision	25,080
Decrease in general provision	(18,670)
	117,880

Note 3: Gifts and donations

Gifts and donations are as follows:

K

Donation to public benefit organisation	10,800	
Donation to local charity (Deko PLC received free Advertising in the charity's magazine)	15,500	
Gifts to customers (40 Deko plc calendars of K127.50 each)	5,100	
		31,400

Note 4: Legal and professional fees

Legal and professional fees are as follows:

	K	
Accountancy and audit fees		46,600
Legal fees in connection with a new 20-year property lease		14,400
Legal fees in connection with issue of shares	13,500	
	74,500	

Note 5: Entertaining expenses

The entertaining expenses are as follows:

	K	
Entertaining customers	18,200	
Staff year-end party	21,900	
Entertaining suppliers		10,300
	50,400	

Note 6: Repairs and renewals

The figure of K36,000 for repairs includes K12,500 for replacing part of a wall that was damaged by a lorry, and the balance represents repairs performed to remedy normal wear and tear of non-current assets.

Note 7: Miscellaneous operating expenses

	K	
Canteen expenses for staff	26,100	
Wages and salaries	112,600	
Speeding fines incurred by the General Manager		15,200
Other allowable revenue expenses		69,340
	223,240	

Note 8: Buildings

The company has traded in a purpose-built building unit since 1 January 2020. The total cost of the buildings is made up as follows:

	K	
Freehold land	150,000	
Factory		750,000
Canteen	130,000	
Design office	190,000	
Administrative office	193,500	
Total cost	1,413,500	

Note 9: implements, plant and machinery

The following acquisitions and disposal of assets took place during the year ended 31 December 2023:

		Cost/ (Proceeds)
		K
5 March	Purchased production machinery	168,000
11 September	Purchased motor car	175,000
15 October	Sold a lorry	(118,000)

The lorry sold on 15 October 2023 for K118,000 originally cost K98,000, when it was acquired in 2021 and had an income tax value of K49,000 on 1 January 2023. The motor car purchased on 11 September 2023, has a cylinder capacity of 2,300 cc and is used by the Production Manager as a personal to holder car. The private use of the motor car as agreed with the Commissioner General is 25%.

Required:

(a) Calculate the maximum amount of capital allowances claimable by Deko Plc in the tax year 2023, in respect of its:

(i) Buildings

(5 marks)

(ii) Implements, plant and machinery

(3 marks)

(b) Calculate the tax adjusted business profit for Deko Plc for the tax year 2023.

(9 marks)

(c) Calculate the income tax payable by Deko Plc for the tax year 2023.

(3 marks)

[Total: 20 Marks]

<u>QUESTION TWO</u>

Jack Chuma, has been in business as a sole trader since 2006. In February 2023, he made the following disposals of assets:

(1) He sold a freehold office building to his son for K120,000. The building had a market value of K650,000 on the date of disposal. It was purchased on 1 July 2020 for K420,000 and has always been used by Jack for business purposes.

(2) On 10 February 2023, he sold a freehold warehouse having a market value of K330,000 on that date to his nephew for K130,000. The warehouse was purchased on 1 September 2021 for K225,000, and has never been used by Jack for business purposes.

(3) On 12 February 2023, he sold a motor car with a market value of K120,000 for K50,000. The motor car was purchased on 1 November 2019 for K135,000, and has always been used by Jack for business purposes.

(4) On 13 February 2023, Jack also sold 10,000, K1 ordinary shares he held in Universal Limited, an unquoted trading company for K75,000. The market value of the shares on this date was K110,000. The shareholding was purchased on 10 July 2018 at a total cost of K50,000.

(5) On 20 February 2023, he sold 25,000 K1 ordinary shares he held in Tusha Plc, a company listed on the Lusaka Securities Exchange for K115,000. Jack had originally purchased the shares in Tusha Plc on 19 June 2020 for K34,000.

Required:

(a) Explain the meaning of an immediate family member in the context of property transfer tax.

(2 marks)

(b) Explain the property transfer tax treatment of transfers of property to an immediate family member.

(2 marks)

(c) State any three (3) transactions which are exempt from property transfer tax.

(3 marks)

(d) State any three (3) documents required for the refund of property transfer tax.

(3 marks)

(e) Explain the property transfer tax implications of each of the disposals made by Jack and compute the amounts of any Property Transfer Tax arising in each case.

(10 marks)

[Total: 20 Marks]

QUESTION THREE

Mambwe has been employed by Timwe Breweries Ltd as a Sales and Marketing Director since 1 January 2019. Mambwe decided to go on early retirement during the year and his last day of employment was on 31 October 2023.

He was entitled to the following benefits during his employment in the year 2023:

Annul basic salary	K720,000.
Housing allowance	30% of annual basic pay
Medical allowance	K72,000 per annum.
Telephone allowance	K30,000 per annum
Fuel allowance	K3,500 per month
School fees allowance per child	K6,000 per annum

Mambwe has his three school going children.

On his retirement Mambwe received gratuity of 25% of his cumulative basic salary earned during the period of his employment with the company. He also received a long service award in form a television set valued at K15,000.

The following payments and deductions were made from his gross emoluments up to the time of his retirement in the tax year 2023:

Donation to a political party	K6,000
Donations to an approved Public Benefit Organization	K6,500
Subscriptions to a professional body relevant to his employment	K5,000
NAPSA contributions	K12,500
PAYE	K68,800
Payment of medical expenses for children	K51,000

Required:

(a) Explain the meaning of the following tests used to distinguish employees from independent self-employed persons:

(i) Work performance

(2 marks)

(ii) Engagement and dismissal

(2 marks)

(c) Explain the time when emoluments are deemed to be received by directors.

(5 marks)

(d) Calculate the final income tax payable by Mambwe for the tax year 2023.

(11 marks)

[Total: 20 Marks]

QUESTION FOUR

Chishala and Mushala are good friends who have ran a partnership business involved in retailing for many years. They have always shared profits and losses in the ratio 3:2 after drawing annual salaries of K216,000 and K204,000 for Chishala and Mushala respectively.

On 1 May 2023, a new partner, Kashala was admitted to the partnership. With effect from that date, the partnership agreement was amended as follows:

	Chishala	**Mushala**	**Kashala**
Annual salaries	K252, 000	K240, 000	K228, 000
Profit and losses	4 :	3 :	2

The partnership made a tax adjusted business profit of K2,200,000 for the year ended 31 December 2023. This profit was after all necessary adjustments for tax purposes had been made but before capital allowances.

The partnership had the following implements, plant and machinery at 1 January 2023.

	Income tax value	**Original cost**
	K	**K**

Toyota delivery van	195,000	260,000
Fixtures & fittings	84,000	112,000
Office equipment	120,000	160,000

Required:

(a) Explain the tax treatment treatments of a tax loss suffered by a partnership. (3 marks)

(b) Calculate the amount of capital allowances claimable on partnership assets and the final tax adjusted partnership profit for the tax year 2023. (5 marks)

(c) Show the allocation of the tax adjusted partnership profit amongst the partners and Calculate the final amount of income tax payable by each partner for the tax year 2023. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The organizational mission of the Zambia Revenue Authority (ZRA) is to maximise and sustain revenue collection through integrated, efficient, cost effective and transparent systems which are professionally managed to meet the expectations of all stakeholders.

Required:

Explain five (5) responsibilities of the ZRA. (5 marks)

(b) Zambian company income tax is only charged on companies that are resident in Zambia.

Required:

Explain the criteria used by the ZRA to determine whether a company is resident in Zambia for tax purposes. (3 marks)

(c) Presumptive taxes for transporters are chargeable on individuals and partnerships carrying on public passenger transportation business;

Required:

Explain four (4) reasons why presumptive taxes for public passenger transporters were introduced by Government. (8 marks)

(d) Turnover Tax is tax chargeable on a person carrying on a business whose annual turnover is K800,000 or less.

Required:

Explain any two (2) problems associated with turnover tax from tax payer's point of view. (4 marks)

[Total: 20 Marks]

END OF PAPER

C4: DIRECT TAXES SUGGESTED SOLUTIONS
SOLUTION ONE

(a)

(i) INDUSTRIAL BUILDINGS CAPITAL ALLOWANCES

	K
Factory	
Wear and tear (K750,000 X 5%)	37,500
1	
Canteen	
Wear and tear (K130,000 X 5%)	6,500
Design office	
Wear and tear (K190,000 X 5%)	9,500
COMMERCIAL BUILDING	
Administrative office	
Wear and tear (K193,500) X 2%	3,870
	57,370

Total capital allowances for the year (K70,000 + 57,370) = K127,370

Workings

	K
Total cost	1,413,500
Less cost of land	(150,000)
Construction cost	1,263,500

10% X 1,263,500 = K126,350

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.

(ii) DECO PLC
COMPUTATION OF CAPITAL ALLOWANCES ON IMPLEMENTS, PLANT AND MACHINERY FOR THE YEAR ENDED 31 DECEMBER 2023

	Cost/ITV	Capital allowance
	K	K
Production equipment		
Purchase cost	168,000	
Wear and tear (K168,000 X 50%)	(84,000)	84,000
ITV c/f	84,000	
Motor car		
Purchase cost	175,000	
Wear and tear (K175,000 X 20%)	(35,000)	35,000

ITV c/f	140,000	
Lorry		
ITV b/f	49,000	
Disposal proceeds (Restricted to cost)	(98,000)	
Balancing charge	(49,000)	(49,000)
		70,000

(b) DEKO PLC

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2023

	K	K
Profit before taxation		1,218,380
Add:		
Loan employee written off	28,800	
Depreciation	66,650	
Donation to local charity	15,500	
Gifts to customers (40 x 27.50)	1,100	
Legal fees in connection with lease	14,400	
Legal fees-Issue of shares	13,500	
Entertaining customers	18,200	
Entertaining Suppliers	10,300	
Canteen expenses	26,100	
GM's speeding fine	15,200	
Personal to holder car	36,000	
		245,750
		1,464,130
Less:		
Bank interest (net)	51,000	
Profit on disposal of Lorry	26,600	
Decrease in general provision	18,670	
Capital allowances (w)	127,370	
		(223,640)
Tax adjusted business profit		1,240,490

(c) DEKO PLC

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2023

	K
Tax adjusted business profit	1,240,490
Add: Bank interest (51,000 X 100/85)	60,000
Taxable profit	1,300,490
Company income tax @ 30% - 5% =25% X K1,300,490	322,122.50
Less: WHT- bank interest (60,000 X 15%)	(9,000)
Final company income tax payable	316,122.50

SOLUTION TWO

(a) A member of the immediate family is any of the spouse, own blood child, duly adopted child or step child of the person transferring property.
(b) Where a person transfers property to a member of the immediate family, the realized value of such property is the actual price received by the transferor, if any.

The following transactions are exempt from PTT:

(1) The transactions as a result of the sale or other disposal of any stock or share listed on the Lusaka Securities and Exchange (LUSE).
(2) Contribution towards the equity for a company. The Commissioner General may treat a transfer of property by a shareholder of a company incorporated under the Companies Act, if such transfer is his contribution towards the equity of that company as qualifying for exemption.
(3) Transfers which are occasioned by death of the transferor to a member of the immediate family.

The following documents are required for a refund of PTT:

1. Original Tax receipt voucher
2. Original Tax Clearance Certificate
3. Original PTT returns
4. Any proof that the property was not transfered (e,g. confirmation from Registrars from Ministry of Lands or Local Authorities).
5. Formal letter of sale from the vendor, or their legal representatives.
6. The transfer of a freehold office building is chargeable to Property transfer tax even though it was to the immediate member of the family because a consideration was paid by his son. Therefore, the realized value is K120,000. Property transfer tax = K120,000 X 5% = K6,000

The transfer of a freehold warehouse is chargeable to PTT because the nephew is not an immediate family member. The realized value is therefore K330,000.

Property transfer tax = K330,000 X 5% = K16,500

The transfer of a motor car has no realized value because PTT is not chargeable on movable properties or chattels. Therefore no PTT would be charged on the transfer of the motor car.

The transfer of shares is chargeable to PTT because the company is not listed on the LuSE. The realized value is therefore K110,000, being higher than both the actual proceeds of K75,000 received and the nominal value of the shares of KK10,000

Property transfer tax = K110,000 X 5% =K5,500

The transfer of shares in a company listed on the Lusaka Securities Exchange market has a realized value is nil and therefore no PTT is chargeable.

SOLUTION THREE

(a)

(i) Work performance

Employees are required to perform the work assigned to them personally and cannot hire other people to help them.

Self-employed person s on the other hand have the right to hire other people to help them.

(ii) Engagement and dismissal

The employer will take on and dismiss employees. The employer will have a right or power to terminate the contracts of employment by giving the employees an appropriate notice.

A self-employed person will normally enter into a contract with a client specifying the beginning and end.

The contract normally ends when the work has been performed completely and accurately.

(b) Directors emoluments are deemed to have been received by each director on the earliest of:

(1) The time when payment is actually made
(2) The time when the employee becomes entitled to the emoluments
(3) The time when the amount payable is decided
(4) The when the amount payable is credited in the company's accounting records.
(5) The end of the company's accounting period

(c) MAMBWE'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023:

	K	K
Basic salary (K720,000 x 10/12	600,000	
Housing allowance (K600, 000 X 30%)	180,000	
School allowance (K6000/12 x3x10)	15,000	
Medical allowance (K72,000/12 x 10)-K51,000	9,000	
Telephone allowance (K30,000/12 x10)	25,000	
1		
Fuel allowance (K3,500 x 10)	35,000	
		864,000
Less:		
Donation to approved charity	6,500	
Subscription to professional body	5,000	
		(11,500)
Taxable income		852,500

Tax computation	
First K57, 600 @ 0%	0
Next K24, 000 x 20%	4,800
Next K25, 200 @30%	7,560
Balance K745,700 x 37.5%	279,638
Income tax liability	291,998
Less PAYE	(68,800)
Income tax payable	223,198

SOLUTION FOUR

(a) LOSS TREATMENT IN A PARTNERSHIP

If a partnership makes a loss that loss should be divided between the existing partners on the basis of their partnership agreement in the same way the profits are shared.

(b) CALCULATION OF CAPITAL ALLOWANCES CLAIMABLE ON PARTNERSHIP ASSET

COMPUTATION OF CAPITAL ALLOWANCES:

Asset	Cost/ITV	Capital allowance s
	K	K
Toyota delivery Van		
Income tax value b/f	195.000	
Wear & tear @25%x K260,000	65,000	65,000
ITV C/F	1,030,000	
Fixtures & fittings	84,000	
Wear & tear @25% x K112.000	28,000	28,000
ITV C/F	56,000	
Office Equipment	120,000	
Wear & tear @25% x K160, 000	40,000	40,000
ITC c/f	80,000	
Total		133,000

(c) COMPUTATION OF FINAL TAXABLE PROFIT

	K
Business profit	2,200,000
Less capital allowances	(133,000)
Adjusted taxable business profit	2,067,000

01.01.2023-30.04.2023	Total	Chishala	Mushala	Kashala
	K	K	K	
Salaries	140,000	72,000	68,000	-
Balance 3:2	549,000	329,400	219,600	-
Totals	689,000	401,400	287,600	
Last 8 months				
01.05.2023-31.12.2023				
Salary	480,000	168,000	160,000	152,000
Balance 4:3:2	898,000	399,111	299,333	199,556
Total	1,378,000	567,111	459,333	351,556
Tax computation				
First K57, 600		0	0	0

Next K24, 000 @ 20%	4,800	4,800	4,800
Next K25, 200 @ 30%	7,560	7,560	7,560
Balance: Chshala K460, 311 @ 37.5%	172,617		
Mushala K352, 533 @ 37.5%		132,200	
Kashala K244, 756 @ 375%			91,784
Income tax payable	184,977	144,560	104,144

SOLUTION FIVE

(a) Responsibilities of the ZRA

1. Properly assess and collect taxes and duties at the right time without causing undue burden to the public,
2. Encourage the public to present themselves forward and pay tax voluntarily,
3. Ensure that all monies collected are properly accounted for and timely banked,
4. Properly enforce all relevant statutory provisions,
5. Give advice to Ministers on aspects of tax policy,
6. Facilitate international trade.

(b) A company is regarded as being resident in Zambia if either:

(1) It is incorporated or formed in Zambia, or
(2) The place of effective management that company's affairs is in Zambia

(c) Reasons why presumptive taxes for transporters were introduced:

(1) Most of the mini bus and tax operators know very little about tax and accounting records.
(2) Most taxi and minibus operators feel they cannot afford the high fees charged by these consultants. They therefore decide to avoid the costs by not engaging the professional accountants to handle their accounting and taxation matters.
(3) Most of taxi and minibus operators find it difficult in settling the assessed tax, or provisional taxes that they are asked to pay, because the amounts appear to be large and they are not able to maintain bank savings as the daily cash takings are quickly disbursed to meet numerous expenses. Many taxi and minibus operators do not naturally look forward to growing their businesses. They use the takings to survive on and not grow the businesses.
(4) The other issue of concern is that their vehicles break-down for a large proportion of the year and therefore, they disagree with the amounts assessed on them.

(d) Problems associated with Turnover Tax

1. Turnover Tax (TOT) is chargeable on the gross turnover generated by a tax payer before deducting any expenses incurred wholly and exclusively for business purposes. Therefore, persons chargeable under turnover tax do not get any relief on expenses incurred wholly and exclusively for business purposes as is the case with other businesses which are chargeable to normal income.

2. There is no relief for capital allowances as businesses chargeable under TOT cannot claim capital allowances as allowable deductions when computing the TOT payable.

If a tax payer who pays turnover tax has assets on which capital allowances are claimed, then the assets are written down notionally for the purposes of computing the income tax values of such assets only.

There is no loss relief in case of any losses suffered by such persons. This means that TOT is still chargeable on gross sales even when a business has incurred a loss.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY, 14 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

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

	Aged 2 to 5 years		Aged above 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

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

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

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

Attempt all FIVE (5) questions.

QUESTION ONE

KBM Bus Services Ltd is a company which operates a transportation business. The company imported a brand new 30-seater minibus at a purchase price of $20,500. The company incurred shipping costs of $900 and insurance charges of $1,200 up to the port of Dar es Salaam. The company also incurred incidental costs of $750 from the port of Dar es Salaam to the Nakonde Boarder Post and $1,400 from Nakonde to Lusaka. The company insured the bus on a comprehensive insurance policy at a cost of K4,500 per annum.

The bus was acquired in January 2023 and arrived at Nakonde Border Post on 20 February 2023. The exchange rate as approved by the Commissioner General on this date was K17.20 per US dollar. The Exchange rate quoted by most of the Commercial Banks in Lusaka was K18 per US$1 dollar.

Required:

(a) Calculate the total amount of duties paid by KBM Bus Services Ltd on the importation of the Minibus.

(7 marks)

(b) State any five (5) documents which should be presented to the customs officials in order to complete the clearance of a motor vehicle and state the clearance period of motor vehicles.

(6 marks)

(c) The Transaction Value Method is one of the main methods used to determine the Value for Duty Purposes (VDP) as stipulated in the Customs and Excise Act. The customs value is the transaction value, defined as the price actually paid or payable for goods on importation into Zambia, as adjusted by the Commissioner General where he is of the opinion that the price is affected by the special relationship between the exporter and the Zambian importer.

Required:

(i) Explain the conditions that must be met for the Transaction value method to be used.

(4 marks)

(ii) Explain the circumstances in which the ZRA may revalue imported goods for the purposes of assessing import taxes.

(3 marks)

[Total: 20 Marks]

QUESTION TWO

(e) The supply of services takes place where an individual lives or where one has a business or some other fixed establishment, including a branch or an agency. The supply of services for the company is where it is legally constituted or registered. Where services are supplied wholly or partly in Zambia but at or near the border, the Commissioner General may determine that they shall be regarded as supplied in Zambia.

Required:
State three (3) conditions which should be met for a supply of services to be treated having taken place in Zambia.

(3 marks)

(f) Under the Value Added Tax (VAT) law, it is a criminal offence to make late submissions of returns and payments as well as to make false declarations. Therefore, VAT penalties and interest are imposed on the offenders.

Required:

(i) State the penalties and interest imposed for the late submission of a VAT return and late payment of VAT due.

(3 marks)

(ii) Explain the procedure to be followed after a taxable supplier discovers errors in the VAT return already filled with Zambia Revenue Authority (ZRA).

(4 marks)

(g) Dako Limited submitted the VAT return for the month of June 2023 and paid late the related VAT by 20 days. The amount of VAT due was K75,200. Assume that the Bank of Zambia discount rate at the time was 15%.

Required:
State the date when the VAT was due and calculate the penalties and interest arising on the late submission of the VAT return and payment of the VAT due.

(6 marks)

(h) The export of taxable goods is zero-rated for Value Added Tax (VAT) purposes. Therefore certain business sectors are able to claim a VAT refund on provision of proof of exportation of goods.

Required:
Explain any four (4) documents which are required as proof for exportation of goods.

(4 marks)

[Total: 20 Marks]

<u>QUESTION THREE</u>

Zina Phiri is an Enterprenuer dealing in assorted merchandises. His business projections for the current year are that his annual business turnover will be well beyond K800,000.
He has approached you, as a Tax consultant requesting for tax advise relating to VAT registration.

Required:

(a) Explain the meaning of a taxable supply.

(2 marks)

(b) Explain the compulsory or statutory VAT registration requirements.

(3 marks)

(c) Explain seven (7) advantages and two (2) disadvantages of VAT registration.

(9 marks)

(d) Describe the composition of the Revenue Appeals Tribunal.

(2 marks)

(e) State four (4) matters heard by the Tax Appeals Tribunal from taxable suppliers.

(4 marks)

[Total:20 Marks]

QUESTION FOUR

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

(6 marks)

(b) Explain the VAT de-registration application process. (4 marks)

(c) Peter is a VAT registered supplier of stationery. During the month of May 2023, his sales revenue amounted to K350,400. Included in this sales figure are zero supplies amounting to 20% of the total sales. The remainder are all standard rated supplies.

He undertook the following transactions during the month of May.

	K
Purchases	175,000
Purchase of a Motor Van	220,000
Office printer	4,500
Entertainment of customers (inclusive of VAT)	3,400
Standard rated overheads (inclusive of VAT)	21,500

15% of the purchases are exempt supplies, the remainder of the purchases are all standard rated.

A Toyota car was sold for disposal proceeds of at K45,000 during the same month of May.

Unless stated otherwise all the above figures are VAT exclusive.

Required:

Calculate the VAT payable/refundable by Peter for May 2023. You should indicate in your computation using a Zero (0) in your computation items on which VAT is not chargeable or claimable.

(10 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) The Zambian Government has signed various regional economical treaties. It belongs to trade blocks like COMESA, SADC and AGOA. The Zambian trade membership to these blocks has enhanced and improved business opportunities for Zambian businesses.

Required:

Explain two (2) main aims of the African Growth Opportunity Act (AGOA).

(4 marks)

(b) Explain Eight (8) strategies used by the Preferential Trade Agreement (PTA) in the attainment of its objectives.

(8 marks)

(c) Explain the four (4) major focuses areas of the Customs Union.

(4 marks)

(d) Explain the main purpose of Duty Drawback mechanism (DDB) system.

(4 marks)

[Total: 20 Marks]

END OF PAPER

C5: INDIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **COMPUTATION OF VALUE FOR DUTY PURPOSES (VDP)**

	$
Purchase price	20,500
Shipping costs	900
Insurance charges	1,200
Incidental costs	750
CIF	23,350
VDP ($23,350 X K17.20)	401,620

	Value		Taxes
	K		K
VDP	401,620		
Customs duty 15% x K401,620	60,243		60,243
	461,863		
Excise duty @ 0%	0		0
	461,863		
VAT 16% x K461,863		73,898	73,898
	535,761		
Total import taxes paid			134,141

(b) Documents required to be declared when importing the motor vehicle.
(1) Invoice showing the purchase price
(2) Bill of lading
(3) Insurance certificate
(4) Freight insurance
(5) Contract of sale
Motor vehicles must be cleared within 30 days after importation.

(c)
(i) Conditions to be considered when determining the transaction value.
(1) There must be a valid or legally binding contract, legally enforceable against a defaulting party
(2) Determine the price, which in the case of imported goods is the sum of amounts actually paid/payable by the buyer to/for the benefit of the seller in respect of the goods.
(3) Make adjustments to the price if the price has been affected by any relationship between the buyer and the seller.
(4) Other considerations such as price averaging

(ii) Circumstances in which ZRA may revalue imported goods for the purpose of assessing import taxes includes:
- Cases where there are connections between the parties to the transactions
- Suspicious cases

SOLUTION TWO

(a) Conditions which should be met for a supply to have taken place in Zambia;

(1) The business supplying the services is registered in Zambia

(2) The business operates on a de factor basis in Zambia.

(3) In such other circumstances as the Commissioner General considers relevant

(b)

(i) The daily penalty for late submission of VAT returns is the higher of:
1,000 penalty units (K300)
0.5% of the amount of VAT payable
Interest is charged on overdue tax at a prescribed rate of interest. This rate is normally the Bank of Zambia discount rate plus 2%

(ii) A taxable supplier may discover errors in the returns already filed with Zambia Revenue Authority (ZRA). The errors may be under-declarations or over-declarations. The law requires the taxable supplier to include on the next VAT return all under-declarations and over-declarations he discovers. The Commissioner General has to be notified of the circumstances relating to the corrections. However, errors and omissions discovered during audit visits by ZRA officers attract interest at the Bank of Zambia discount rate plus 2% on amounts under-declared on VAT returns.

(c) For the late submission of the VAT return, the penalty would be:

1,000 penalty units x 20 days
= K300 X 20 days
= K6,000

For the late payment of VAT, the penalty would be:

= 0.5% x K75,200 x 20 days
= K7,520

There will also be interest on overdue tax as follows:

= (15% +2%) x K75,200 x 20/365
= K700

(d) Documents required as proof for exportation of goods:

(1) Certificate of origin for exports into member countries that have ratified particular preferential trade agreements within Zambia.

(2) VISA Certificate of origin for exports to the USA under AGOA programme.

(3) Permits, e.g. quality certificate from Veterinary department (meat and livestock), phytosanitary certificate from Mt. Makulu Research station (seeds, plants and fruits), permit for gemstone exports and timber verification certificate for timber exports.

(4) Other supporting documents such as packing list, consignment note, cargo manifest, commercial invoice airway bill, bill of lading, insurance and any other document relevant to the export.

SOLUTION THREE

(a) Definition of a taxable Supply

A taxable supply is a sale of goods or services made in the course of carrying on a business.

(b) Requirements for a compulsory VAT registration

(1) If a business deals in taxable supplies.

(2) If the business taxable turnover in the course of business exceeds at least K800,000 in any 12 months.

(3) If taxable supplies exceeds K200,000 in any three consecutive months.

(c) Advantages of VAT Registration:

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

(2) VAT has a self-policing nature thereby enhances compliance. VAT has elements of self-checking mechanisms to minimize evasion.

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

(4) The input credit mechanism gives registered business back much of the tax they pay on purchases and expenses used for making taxable supplies, and as a result, largely avoid the tax on tax character of sales tax

(5) Is internationally proven in developed and developing countries

(6) In view of the broad tax base, revenue yield is generally higher and stable and is less susceptible to fluctuations.

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

Disadvantages of VAT

(1) VAT is regressive like indirect taxes. Regressively is partially minimized by exempting most essential consumer items like food, solar and health supplies.

(2) Smaller business find it difficult to maintain the required VAT records.

(d) Composition of Tax Appeals Tribunal

(1) Three (3) lawyers

(2) Two (2) Accountants.

(3) Two (2) members of the business community appointed by the Minister of Finance.

(e) Matters the Tax Appeals Tribunal hears from taxable suppliers.

(1) Registration of taxable suppliers, or cancellation of registration or refusal to register a supplier.

(2) Tax assessed on any supply of goods/services or the importation of goods.

(3) Input tax that may be claimed by a taxable supplier.

(4) The application of any rule providing for the apportionment or disallowance o input tax .

(5) Notice requiring early payment of tax or security.

SOLUTION FOUR

(a) The following matters can cause the cancellation of VATregistration:

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

(2) If the business ceases trading permanently

(3) If the business is sold

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

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

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

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

(b) VAT Deregistration application process

(1) The application must be in writing

(2) Must be addressed to the Commissioner General through the nearest ZRA office.

(3) Must include the VAT number of the supplier.

(4) Include full details of the circumstances giving rise to being de-registered.

(c) Peter's VAT payable/receivable for month of May 2023.

OUT PUT VAT		K
Standard sales (K350,400 x 80% x16%)		44,851
Zero rated sales (K350,400 x 20%)	x 0%	0
Sale of Toyota Car (K45,000x 16%)		7,200
		52,051
INPUT VAT		
Purchases (K175,000 x 85%16%)		23,800
Exempt Purchases (K175,000 x 15%)		0
Purchase of a Motor Van (K220,000 x 16%)		35,200
Entertainment of customers		0
Overheads (K21.500 x 4/29)		2,966
Printer(K4,500 x 16%		720
		62,686
VAT Refundable (52,051-62,686)		(10,635)

SOLUTION FIVE

(a)

(i) The main aim of AGOA

1. To promote two way trades between sub-Saharan Africa and the United States USA.
2. Increase US investment into the Saharan Africa.

(b) The objectives of PTA strategy

(1) Reduction and elimination of trade barriers on selected goods traded within area.

(2) Cooperation in customs through simplification and harmonization of customs procedures and regulations.

(3) Introduction of rules of origin to determine which goods will receive preferential treatment.

(4) Granting of transit rights to all transporters when coming from or entering other member states.

(5) Clearing and payments arrangement to promote trade in goods and services within the sub region.

(6) Cooperation to develop coordinated and complimentary policies and systems in transport and communications.

(7) Cooperation in the field of industrial development in order to promote self-sustained industrialization within PTA, to expand trade in industrial products and to bring about structural transformation of industry for the purpose of fostering the overall social and economic development of member states.

(8) Cooperation in the area of agricultural development so as to raise production and supply of food to coordinate the export of agricultural commodities to harmonize programmers in agricultural production develop land and water resources share agricultural services, technology and marketing and stabilize the prices of agricultural commodities in the sub region.

(9) Simplification and harmonization of trade documents and procedures.

(10) Interventions to assist the least industrialized member states such as special consideration in allocating multinational industries.

(c) The five major areas the Customs Area focuses on.

(1) The internal trade area

(2) Relations with third countries including the application of CET

(3) Trade remedies

(4) Export promotion

(5) Dispute settlement.

(d) The main purpose of Duty Drawback.

(1) This is an export support program introduced by the government of the Republic of Zambia that enables local manufacturers to claim back any taxes incurred either directly or indirectly on any goods produced for export.

(2) Increasing competitiveness of local products on the export market.

(3) To improve the exporters cashflow.
(4) To avoid double taxation.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: **LAW FOR TAX PRACTITIONERS**

2023 SERIES – SET 1

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

INSTRUCTIONS TO CANDIDATES

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

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

Attempt all five (5) questions.

QUESTION ONE

Finger Licking Foods has been running as a partnership business for the past eleven (11) years. The owners Muntanga, Sakwanda and Nang'andu are excited after hearing that they can convert it into a private limited company which shall be called 'Finger Licking Foods Ltd'. The three (3) want answers from you on the following issues:

(a) They would like to know at least three (3) differences between a partnership business and a private company limited by shares.

(6 marks)

(b) Explain to them the purpose of Articles of Association to a limited company?

(3 marks)

(c) State to them four (4) likely contents of the partnership deed Muntanga, Sakwanda and Nang'andu signed.

(4 marks)

(d) Muntanga retired from the partnership last month, the partnership has continued having her name on the partnership's letterheads and contract documents. Sakwanda and Nang'andu came to you to consult over the implications of Muntanga's name on the above documents and you told them "*in this case, Muntanga will be considered a partner by estoppel*".
Explain what you meant by '*partner by estoppel*'.

(7 marks)

[Total: 20 Marks]

QUESTION TWO

Chungu and Malama decided to execute a partnership deed on the 3 of August 2022. The motive was to grow their business and expand it to all Zambian provinces. It was an express clause of the partnership deed that no secret profits were to be made by either party. Disclosure was central to the partnership deal. On the 6 of January 2023, Chungu applied for Community Development Fund using the partnership name, which he directed to his personal account. Malama has discovered this development and is in your office.

Required:

(a) Kindly explain to him the rights and duties of partners in a partnership agreement. (8 marks)

(b) Explain to him the possible legal action he can take given Chungu's action.

(3 marks)

(c) Explain the duties of an official receiver under bankruptcy law

(3 marks)

(d) Explain briefly, how equity has filled in the gaps of common law.

(4 marks)

(e) Define an agency relationship.

(2 marks)

[Total: 20 Marks]

QUESTION THREE

Bwalya bought three (3) tables from Shopping Addict Ltd. A sales representative from Shopping Addict Ltd persuaded him to do so. Two days later, he discovered that one of the table's legs had a fault and he took it back to Shopping Addict Ltd who refused to accept it, saying they already sold it to him and had nothing to do with Bwalya anymore. He has now come to you for help.

Required:

(a)

(i) State two (2) remedies available to Bwalya in the above case.

(2 marks)

(ii) Explain the remedies you have stated above.

(2 marks)

(b) Bwalya now wants to buy a spring mattress on hire purchase from Shopping Addict Ltd. Explain to him, two (2) features of a hire purchase agreement.

(4 marks)

(c) Define the following:

(i) Finance lease

(3 marks)

(ii) Negotiable instruments

(3 marks)

(iii) Organs of Government.

(3 marks)

(iv) Transfer of property in goods

(3 marks)

[Total: 20 Marks]

QUESTION FOUR

Explain each of the following:

(i) 'Consideration must move from the promisee'

(4 marks)

(ii) Privity of contract

(4 marks)

(iii) Summary dismissal

(4 marks)

(iv) Collective agreement

(4 marks)

(v) Receivership

(4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Explain the applicability of the ***Ultra -vires*** doctrine in Zambian Company Law.

(3 marks)

(b) Discuss the advantages and the disadvantages of a sole trader

(5 marks)

(c) Explain the requirements for a joint venture to succeed

(3 marks)

(d) Explain the Powers of Trustees under the Bankruptcy Act

(3 marks)

(e) The employment Act restricts employment of persons under the age of fifteen (15) years. Explain the exceptions to this rule

(3 marks)

(f) Define insurance contract and highlight briefly its elements.

(3 marks)

[Total: 20 Marks]

END OF PAPER

C6: LAW FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The ***distinctions*** between a partnership and a private limited company limited by shares include:
In a Private Limited Company limited by shares, property belongs to the company, members have limited liability, members are separate from the company, there is share capital, members can contract with the company as they are separate from the company, etc
Whilst in a Partnership, property belongs to individual partners and are collectively entitled to it, there is no separation between the partners and the firm, partners do not have limited liability, partners can incur liability on behalf of the company, etc

(b) *Articles of Association* – The purpose of articles of association to a limited liability company is to regulate the internal activities or the running of the company and the relationship between the company and its members. The articles form the core organizational structure of the company and the general meeting.

(c) Contents of a Partnership Deed include:
(1) Partnership name
(2) Names of partners
(3) Type of business activities
(4) Business address
(5) The amount of capital contributed by each partner
(6) The way in which profits and/or losses are to be shared
(7) Management and working arrangements
(8) Admission of new partners, removal of partner, resignation or death of a partner.

(d) Partnership by Estoppel – This is a partnership by implication or conduct. In this case, by Muntanga having her name on the letterheads after retiring, it means that she is still a partner and will be stopped (denied) from refusing that she is a partner by conduct because she has not removed her name from the documents of the partnership despite retiring.

Any agency may be terminated by:
(1) Agent can renounce the authority by giving notice;
(2) Principal can revoke the authority by giving notice;
(3) Mutual consent of the parties (by agreement);
(4) Death; bankruptcy of principal; frustration of the agency relationship; illegality; complete performance of the contract; and by inconsistent conduct.

SOLUTION TWO

(a)

(1) To observe good faith.
(2) To Indemnify for Loss.
(3) To Attend to his Duties Diligently.
(4) Not to Claim Remuneration.
(5) To Indemnify for Willful Neglect.
(6) To Share Losses.
(7) To Hold and Use Property of the Firm.
(8) To Account for Private Profits.
(9) To Account for the Profits of a Competing Business.
(10) To Act within Authority.
(11) Not to Assign his Rights

(b) As a partner, Chungu has a duty to account, thus he must be asked to account for the money he received from the Community Development Fund and refund it to the partnership. Further, Malama can sue him for breach of contract and apply for dissolution of partnership with damages

(c) Upon appointment as receiver, the receiver shall take possession of the Corporation in order to wind up the business operations of the Corporation, collect the debts owed to the Corporation, liquidate its property and assets, pay its creditors, and distribute the remaining proceeds to stockholders.

(d) Equity has mitigated the rigour of the common law by looking to substance rather than to form. Litigants would go 'jurisdiction shopping and often would seek an equitable injunction prohibiting the enforcement of a common law court order. The penalty for disobeying an equitable injunction and enforcing an unconscionable common law judgment was imprisonment.

(e) An agency relationship is a relationship that exist between an agent and a principal and the agent acts on behalf of the principal.

SOLUTION THREE

(i) Remedies available to Bwalya (Buyer):

(1) Reject the goods or get a refund
(2) Rescission
(3) Damages
(4) Specific performance

(ii) The remedies are explained below:

(1) *Reject the goods* – the buyer can reject the defective goods and claim a refund from Shopping Addict Ltd.
(2) *Rescission* – He can rescind (cancel) the contract on the ground that Shopping Addict Ltd misrepresented (fraudulently) on the condition of the table before buying it.
(3) Damages – He can sue for monetary compensation for the wrong goods and breach of contract.
(4) Specific Performance – Bwalya as a buyer can sue for specific performance, i.e. having Shopping Addict Ltd perform their part of the contract by supplying him with a table in good condition.

(iii) Features of Hire Purchase:

(1) Deposit – The buyer pays a deposit before getting the item
(2) Hirer does not become owner until last installment is paid
(3) Parties are not committed to sell until the buyer exercises his option to buy.
(4) The owner of the goods could repossess the goods where the hirer fails to finish payments.
(5) Property in the goods does not pass until the final installment is paid.

(iv) Definitions of the following:

(a) *Finance Leases* – A finance lease involves the lease of an asset, such as machinery, to a commercial customer under an arrangement which is non-cancellable or only cancellable on payment of a financial penalty. The lessor provides the funding for the equipment but maintenance is done by the lessee. The lessee has no option to purchase the equipment. The equipment remains property of the lessor until the end of the agreement or when the asset is duly paid for by the lessee.
(b) *Negotiable Instruments* – This is a written instrument, signed by the maker or drawer of the instrument, that contains an unconditional promise or order to pay an exact sum of money on demand or at an exact future date to a specific person, or order, or to its bearer.
(c) Organs of government refers to the three bodies that make up the government namely, the executive, legislature and the judiciary.

(d) *Transfer of Property in Goods* – This is one of the aims of the Sale of Goods Act 1893. It simply means that the seller must transfer the whole property in the goods to the buyer once the buyer has paid for the goods or once all the conditions attached to the sale have been fulfilled.

SOLUTION FOUR

(i) *Consideration must move from the promisee* - This means that the promisee (one who was promised) is the only person who can enforce the promise if they themselves, and not a third party provided consideration.

(ii) *Privity of Contract* – This legal principle means that only a party to a contract can sue and be sued upon it. Third parties do not acquire rights or obligations, but acquire such rights in exceptional situations to mitigate the harsh outcomes of a harsh rule.

(iii) *Wrongful Dismissal* – This is a kind of dismissal from employment owing to the fact that the employee has done something wrong which is so serious that it amounts to gross misconduct and the rules provide that such an employee must be dismissed. The employee is not entitled to notice when he/she has grossly misconducted himself/herself.

(iv) *Collective Agreement* – This is a voluntary agreement negotiated voluntarily between employers or associations of employers and employees or associations of or representing employees in which are laid down the conditions of employment and remuneration for employees. Collective agreements can be incorporated into the employment contracts either expressly or impliedly.

(v) *Receivership* – receivership is a process of realizing the company assets which are a subject of a floating charge and selling them so that its creditors are paid off. The process is arrived where a company fails to pay its debts and a Receiver is appointed to oversee the company until it is able to make profit and pay off its debts.

SOLUTION FIVE

(a) "**Beyond the powers**." Describes actions taken by government bodies or corporations that exceed the scope of power given to them by laws or corporate charters.

(b) Advantages of sole trading include that:

(1) you're the boss
(2) you keep all the profits
(3) start-up costs are low
(4) you have maximum privacy
(5) establishing and operating your business is simple
(6) it's easy to change your legal structure later if circumstances change you can easily wind up your business.

Disadvantages of sole trading include that:

(1) you have unlimited liability for debts as there's no legal distinction between private and business assets
(2) your capacity to raise capital is limited
(3) all the responsibility for making day-to-day business decisions is yours
(4) retaining high-calibre employees can be difficult
(5) it can be hard to take holidays
(6) you're taxed as a single person the life of the business is limited.

(c) The parties to the joint venture **must be at least a combination of two natural persons or entities**. The parties may contribute capital, labor, assets, skill, experience, knowledge, or other resources useful for the single enterprise or project. The creation of a joint venture is a matter of facts specific to each case.

(d) Normally, a Trustee will have the following powers: to invest the Trust assets; to deal with land; to delegate certain matters to an agent or nominee; to insure the Trust's property; to make advances of capital to beneficiaries; to provide for beneficiaries who are under age; and to lend funds to beneficiaries.

(e) On contracts beneficial to them and they do not disrupt their education

(f) An insurance contract is **a document representing the agreement between an insurance company and the insured**. Central to any insurance contract is the insuring agreement, which specifies the risks covered, the limits of the policy, and the term of the policy.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

WEDNESDAY, 13 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

Answer all FOUR (4) questions.

QUESTION ONE

(a) Explain how information technology can influence an organization's competitive position in relation to Michael Porter's five (5) competitive forces.

(15 marks)

(b) Nowadays organizations are investing huge amounts of money in adopting information technology due to the insights from research, success stories within the industries and proclamations by technological companies of how Information technologies can be beneficial to the organization. Digitalization comes with its on challenges and as such if deliberate effort is not taken to ensure that the types of technologies adopted, the way they are utilized and the purpose they are adopted for, this can lead to major loses within the business.

Explain the importance of carrying out a SWOT analysis before adopting any new Technology.

(5 marks)

(c) Explain the role of a firewall outlining how it operations in an organisation.

(5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) State the type of database that an Online Analytical Processing (OLAP) application relies on.

(2 marks)

(b) Outsourcing is the one of the ways an organisation can reduce its operating costs. Most non-core operations such as payroll, accounts may be outsourced.

Outline four (4) broad classifications of outsourcing.

(8 marks)

(c) Knowledge management increases the ability of the organization to learn from its environment and to incorporate new knowledge into its business processes. Knowledge management involves several activities. When Creating, incorporating and managing knowledge, members may work in teams that may dispersed in different location but will need collaboration tools to work seamlessly.

Mention any three (3) collaboration tools that you can use in your organization to share knowledge.

(3 marks)

(d) Explain the features of a data warehouse.

(12 marks)

[Total: 25 Marks]

QUESTION THREE

(a) State five (5) key elements organizations should consider when choosing or negotiating for contracts with external vendors and suppliers.

(5 marks)

(b) The internet and the web have opened opportunities for businesses that are in the retail industry to increase their profits and to be more innovative by maximizing on technologies adopted within the business. Telecommunications companies such as MTN, Airtel and Zamtel are providing internet services to businesses such as SamPay which are also providing services to other businesses and individuals like ecommerce platforms and financial services to cooperatives and community based business ventures like village banks just to mention a few.

(i) Briefly explain the positive impact that the internet has had on the way commerce and trade is done.

(6 marks)

(ii) Explain the use of the Intranet and Extranet in ecommerce businesses such as Beforward or eBay.

(4 marks)

(c) Outline the characteristics of systems development methodologies

(10 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Organizational knowledge is information that is combined with experience, context, interpretation and reflection. It is in this regard that organizations are constantly converting knowledge into various forms of information and acquiring information for others to improve their knowledge. Knowledge is difficult to manage because it is invisible and intangible.

Explain four (4) major objectives a database system should achieve in order to provide comprehensive file of data to different users.

(8 marks)

(b) With the aid of a diagram explain the levels of management in an organisation.

(9 marks)

(c) Explain the meaning of "backward compatibility" in relation to Information System delivery.

(2 marks)

(d) Several business strategies (initiatives) can be utilized within an organization to gain competitive advantage.

State three (3) business initiatives stating the way each would be beneficial to the organization.

(6 marks)

[Total: 25 Marks]

END OF PAPER

D1: BUSINESS INFORMATION MANAGEMENT SUGGESTED SOLUTIONS
SOLUTION ONE

(a) IS and competitive position

(1) New entrants: defensively, IT can increase economies of scale, raise capital cost of entry or effectively colonizing distribution channels by tying customers and suppliers into the supply chain or distribution chain. Offensively, IT can leap over entry barriers.

(2) Suppliers: supplier power can derive from various factors such as geographical proximity and the fact that the organization requires goods of a certain standard in a certain time. Competition between suppliers can be increased, suppliers' power can be shared and suppliers can be integrated by a system of electronic data interchange.

(3) Customers: bargaining power of customers can be affected as IT can raise switching costs in terms of cash and in terms of operational conveniences. Customer information systems can also enable a thorough analysis of marketing information so that products and services are tailored to needs of certain segments.

(4) Substitutes: IT itself is the substitute product and the basis for new leisure activities. IT can add value to existing services by allowing more detailed analysis, generating cost advantages, extending the market.

(5) Rivalry: IT can be used to support firm's generic strategy of cost leadership, differentiation or focus. IT can also be used as a collaborative venture and even set up new communication networks.

(b)

SWOT analysis will help you to identify your organisation's Strengths, Weakness, Opportunities and Threats of any project.

(1) It guides you to build on what you do well, address what you're lacking, seize new openings and minimise risks

(2) Carrying out this analysis will help understand the position on the project by identifying what to capitalise on, what to improve etc.

(3) It helps to identify the competitive advantage in the business environment

(c) A firewall which is a combination of hardware and software is used to prevent unauthorized users from accessing private network of an organization.

A firewall works like an access controller who examines each user's credentials before access is granted to a network. The firewall **identifies** names, IP addresses, applications and other characteristics of incoming traffic. It **checks/compares** this information against access rules that have been programmed into the system by the network administrator thereby **preventing** unauthorized communication into and out of the network

SOLUTION TWO

(a) Type of Database OLAP relies on :

(1) Multidimensional database

(2) Relational databases

(3) Hybrid of relational and multidimensional databases

(b) Types of outsourcing

(1) Ad-hoc: The organization has a short-term requirement or increased IS/IT skills.

(2) Project management: The development and installation of a particular IS/IT project is outsourced.

(3) Partial: Some IT/IS services are outsourced.

(4) Total: External supplier provides the vast majority of an organization's IT/IS services.

(c) Three (3) collaboration tools that you can use in your organization to share Knowledge :

(1) Portals

(2) e-mail

(3) Instant messaging

(4) Wikis

(5) Social business tools

(6) Search engines technology.

(d) Features of a data warehouse

(1) **Subject oriented**: as the warehouse is organized around the major subjects of the enterprise (such as customers, products, and sales) rather than the major application areas

(2) **Integrated**: because of the coming together of source data from different enterprise-wide applications systems. The source data is often inconsistent using, for example, different formats.

(3) **Time variant**: because data in the warehouse is only accurate and valid at some point in time or over some time interval. The time-variance of the data warehouse is also shown in the extended time that the data is held,

the implicit or explicit association of time with all data, and the fact that the data represents a series of snapshots.

(4) **Non-volatile**: as the data is not updated in real time but is refreshed from operational Systems on a regular basis. New data is always added as a supplement to the database, rather than a replacement. The database continually absorbs this new data, incrementally integrating it with the previous data.

SOLUTION THREE

(a) Five (5) key elements organizations should consider when choosing or negotiating for contracts with external vendors and suppliers.

(1) Managing outsourcing arrangements
(2) Time scale and delivery time
(3) Service level and after sales service
(4) The suppliers perspective
(5) The negotiation process
(6) The contract terms and Conditions

(b)

(i) The internet has brought about innovative ways in which business is conducted between business houses and their clients or other businesses. For example, a in the past, a meeting place of buyers and sellers had to be **tangible or physical** such as a marketplace, an annual fair, or a store building. Finding a buyer for car spare part, used furniture or office equipment, or any other commodity might have taken a long time as it would require a buy to literally move about.

A lot of companies such as eBay, amazon have provided **virtual platforms/auction sites** which use the internet where business exchanges take place.

Also, the buyer and seller had to **pay high finder's** fees to individuals and firms that specialized in such intermediary trade called agents.

(ii) The use of the Intranet and Extranet in ecommerce businesses.

Intranet.

An intranet is a network that is setup to be used only by the employees of an organization. It allows organisations to build a private, secure network that can only be accessed by that organisation's employees to communicate, collaborate and share documents.

Extranet.

An extranet limit site access to the employees of particular organizations, usually business partners. An extranet might be viewed as connecting intranets of business partners.

(c) Characteristics of systems development methodologies

(1) Separation of logical from physical

(2) Diagrammatic documentation

(3) User involvement

(4) Data driven

(5) Defined structure

SOLUTION FOUR

(a) Objectives of a database

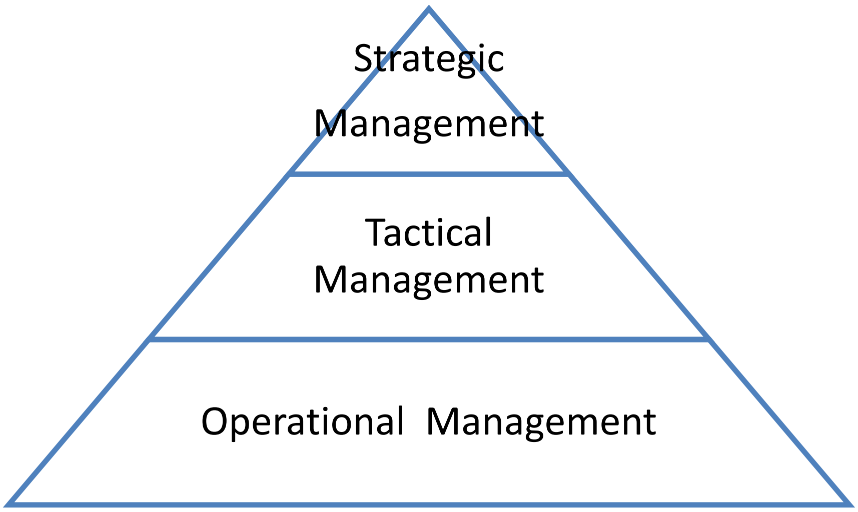
(1) It should be shared: different users should be able to access the same data in the database for their own processing applications and at the same time if required. This removes the need for duplicating data on different files.

(2) Integrity of the database must be preserved: one user should not be allowed to alter the data on file so as to spoil the database records for other users. Users must be able to make valid alterations to the data.

(3) Database system should provide for the needs of different users who each have their own processing requirements and data access methods.

(4) Database should be capable of evolving both in the short term (must be kept updated) and in the longer term (meeting future data processing needs of users)

(b)



Organisational management is usually arranged in a pyramid as shown in the diagram above.

Operational Management is found at the bottom of the pyramid and are concerned with the daily operations of the organisation. Thus is the supervisory level management

Tactical management is made of senior managers and are concerned with medium term planning ensuring that resources are available and that they are used effectively and efficiently.

Strategic management comprises of the top management of the organisation such as the CEO, the Board etc. They are involved in making strategic decision of the organisation such what new businesses to venture into, new products to include etc

(c) Backward compatibility: the new systems or components should be able to work with older versions

(d) **Reduce costs** - A company can gain advantage if it can sell more units at a lower price while providing quality and maintaining or increasing its profit margin.

Raise barriers to market entrants - A company can gain advantage if it deters potential entrants into the market, enjoying less competition and more market potential.

Establish high switching costs - A company can gain advantage if it creates high switching costs, making it economically infeasible for customers to buy from competitors.

Create new products or services - A company can gain advantage if it offers a unique product or service.

Differentiate products or services - A company can gain advantage if it can attract customers by convincing them its product differs from the competition's.

Enhance products or services - A company can gain advantage if its product or service is better than anyone else's.

Establish alliances - Companies from different industries can help each other gain advantage by offering combined packages of goods or services at special prices.

Lock in suppliers or buyers - A company can gain advantage if it can lock in either suppliers or buyers, making it economically impractical for suppliers or buyers to deal with competitors.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY, 15 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. Formulae, Present Value, and Annuity tables are provided at the end of this question paper.

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

Attempt All the FOUR (4) Questions.

QUESTION ONE

Beyond limits Plc. is a large conglomerate based in the Far East. The Company Board is contemplating on a new strategy to expand their presence in Africa. This strategy will require that they acquire listed firms which have undervalued stocks. The Board Chairman of BeYond limits is however, not fully convinced that the stock market is efficient and believes that opportunities exist to purchase firms cheaply.

Required:

(a) Discuss the evidence that is available to justify the views of the board members, and the advice that should be given concerning the proposed strategy.

(8 marks)

(b) Explain the term "efficient" in the context of stock markets and describe the various levels of stock market efficiency that may exist.

(11 marks)

(c) Describe the role that the investment managers and financial analysts may play in establishing an efficient stock market

(6 marks)

[Total: 25 Marks]

QUESTION TWO

A country called Goila has been faced with Load Shedding due to its dependence on hydro- electricity. The major power plant that supplies electricity was recently going through rehabilitation. Further, there has been a reduction of rainfall which has been attributed to the effect of climate change. Further, the electricity tariffs have recently been increased. These developments have placed significant strain on businesses, both small and large. The costs incurred by these businesses were not being passed over to the consumers largely because income levels of the consumers remained generally static. Some of the consumers who were in formal employment had their salaries not increased and for those whose salaries were increased, the adjustment was insufficient.

Due to the above factors, Fulia limited, which is a medium sized company dealing in consumable goods started experiencing liquidity problems. The company is not able to meet its short-term obligations promptly and conveniently due to challenges in its cash flows.

Fulia limited previously had been operating on an overdraft with a local commercial bank, but could no longer utilize this facility as it has been exhausted.

Fulia Limited's sales invoices average K2 million worth of consumable goods on a yearly basis. The company established credit policy stipulated that clients would be allowed 30 day's credit to honour their obligations from the date of invoicing.

The management of Fulia limited through its financial committee, discussed in detail the liquidity position of the company. They came up with two possible options to address this problem.

Option A
They identified a firm that could manage their debtors by factoring them. The company, known as Shardap Ltd would advance Fulia Limited with 80% of its invoices immediately on their receipt at an annual interest rate of 15%. Shardap Ltd would in turn charge a fee of 3% of the total invoice value. Fulia Ltd total administrative cost were K10, 000, but by using Fulia Ltd, these costs would now be reduced by half (1/2) on a monthly basis.

Option B
The finance committee of Fulia Ltd under this option entailed the offering of a cash discount of 5% for prompt payment. However, this discount would be offered with 15 days of being invoiced. Assume an annual year of 360 days.

Required:

(a) Explain in detail the key aspects of a receivables management system that may be suitable for Fulia Ltd.

(8 marks)

(b) Discuss the advantages of factoring that would accrue to Fulia Ltd.

(7 marks)

(c) Calculate the annual net cost in Kwacha (K) of the proposed factoring agreement

(5 marks)

(d) Determine the annualized cost in percentage terms of offering a cash discount to customers.

(5 marks)

[Total: 25 Marks]

QUESTION THREE

The HubTech Group achieved a turnover of K16 million during the year ended 31 December 2022 and expects turnover to grow by 8.4% in the next year. Cost of Sales in 2022 amounted to K10.88 million and Indirect Expenses were K1.44 million.
The consolidated statement of financial position for the HubTech Group as at 31st December 2022 is as follows:

	K'000	**K'000**
Non-current assets		22,000
Current assets		
Inventory	2,400	
Trade receivables	2,200	
		4,600
Total assets		**26,600**
	K'000	**K'000**
Equity finance:		

Ordinary shares	5,000	
Reserves	7,500	
		12,500
Long-term bank loan		10,000
		22,500
Current liabilities		
Trade payables	1,900	
Overdraft	2,200	
		4,100
Total liabilities		**26,600**

The long-term bank loan has a fixed annual interest rate of 8% per year. HubTech Group pays taxation at an annual rate of 30% per year. The accounting ratios for 2023 have been forecast as follows:

Gross profit margin:	30%
Operating profit margin:	20%
Dividend payout ratio:	50%
Inventory turnover period:	110 days
Trade receivables period:	65 days
Trade payables period:	75 days

Overdraft interest in the next year is forecast to be K140, 000. No change is expected in the level of non-current assets and depreciation should be ignored.

Required:

(a) Discuss three (3) benefits and three (3) limitations of a statement of cash flows in comparison to the statement of profit or loss for HubTech. (6 marks)

(b) Prepare the following forecast financial statements for The HubTech Group using the information provided:

(i) Income Statement for 2023. (4 marks)

(ii) Statement of Financial Position at the end of 2023. (6 marks)

(c) Analyse the trends in the accounting ratios for the two (2) financial years and discuss the financial performance of HubTech Group in relation to working capital management. (9 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Nkeyema Plc will shortly pay its annual dividend in respect of the financial year ended (y/e) 31 December 2022 and has the following financial information:

Number of ordinary shares	50 million
Ordinary market share price (ex div basis)	K3.50
Earnings per share for (y/e) 2022	K1.00
Proposed payout ratio	40%
Dividend per share for (y/e) 2018	K0.20
Equity beta	1.5
Average sector price/earnings ratio	8
Risk- free rate of return	15%
Market risk premium	10%

Required:

(i) Determine the valuation of Nkeyema Plc and give a possible explanation for the difference between the computed value and the company's current market value. Use the following methods:

(1) Price/earnings ratio;

(2 marks)

(2) Dividend growth model;

(12 marks)

(ii) Explain two (2) Limitations of the Dividend Valuation Model.

(2 marks)

(iii) Discuss factors that should be considered when formulating dividend policy.

(3 marks)

(b) To raise K250 million Nkeyema Plc has issued a bond that will be redeemed at its par value of K1,000 in ten years' time and pays annual interest of 15%. The current ex interest market price of the bond is K950. Ignore taxation.

Required:

(i) Compute the cost of debt of the bond.

(4 marks)

(ii) Give two (2) reasons different bonds issued by Nkeyema Plc might have different costs of debt.

(2 marks)

[Total: 25 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

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

Two asset portfolio

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

The Capital Asset Pricing Model

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

The asset beta formula

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

The Growth Model

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

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Modified Internal Rate of Return

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

The Black-Scholes option pricing model

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

Where:

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

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

The Put Call Parity relationship

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

Present Value Table

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

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

Discount rate (r)

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

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

Annuity Table

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

Where r = discount rate
n = number of periods

Discount rate (r)

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

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

Standard normal distribution table

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

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

D2: FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Advice will be based on available Evidence
  (1) Market Inefficiencies allows cheap purchases of firms
  (2) Possibilities of companies with low P/E ratios in some instances, perform better than those with higher P/E
  (3) Share prices fall by more than average allowing cheaper shares to be purchased.

(b) Efficient in the context of stock markets concerns with the data and information about stocks and the underlying firm are processed by potential investors in the market.

Levels:

  (1) Weak form
  Efficient market share prices show all the relevant published information concerning the previous share price and trading performance.
  (2) Semi-strong form
  This when share prices quickly and accurately show all publicly available information concerning to the future prospects of the firm, regarding industry.
  (3) Strong form
  Market share price in this scenario implies that the share price will already reflect all information regarding the company regardless of whether or not this is publicly available.

(c) Role of the investment managers and financial analysts

  (i) Provision of information to investors
  (ii) Examination of share prices
  (iii) Recommendation on potential investments in terms of whether and when shares can be transacted.

SOLUTION TWO

(a) KEY ASPECTS:
   (1) Establishing a policy regarding credit management
   (2) The Credit Assessment Criterion including age-analysis
   (3) Control of Credit
   (4) Collection of amounts due

(b) ADVANTAGES:
   (1) The ability of obtain funds from sources that are flexible in term of terms and availability.
   (2) Receivable ledger expertise in terms of skills and resources
   (3) Available of economies of scale
   (4) Honoring of debt settlement much more promptly.
   (5) Factors also offer credit protection
   (6) Debt factoring is a source of funds.
   (7) Avoidance of receivable ledger administration costs as these are taken over by the factor, in this particular case, Shardap Ltd.

(c) Annual net cost of factoring agreement;

Savings in administration costs		
K10,000/2	K5,000*12	K60,000
Factor's interest charge		
K2,000,000*30/365*15%	K24,657.53	
Service Charge		
K2,000,000*3%	<u>K60,000.00</u>	
TOTAL COST		<u>(K84,657.53)</u>
Net Annual Cost		(24,657.53)

(d) Annual cost (in percentage terms)of offering a cash discount

- Cost of Discount= (100/100-d)^360/n
  Where: d=discount rate (5%)
  n=reduction in credit period (30-15=15)

  Annualized Cost=[100/(100-5)] ^360/15
  =(3.425 -1)100 = 24%

SOLUTION THREE

(a) Benefits and Limitations of statement of cash flows in comparison to a statement of profit or loss:

(1) Unlike the statement of profit or loss, cash flows cannot be easily manipulated and are not impacted by accounting policy or judgement.
(2) May assist the group in making judgements on the amount, timing and degree of certainty of future cash flows
(3) Can be used to assess the quality of the profits earned, by giving an indication of the relationship between profitability and cash generation.
(4) The cash flows can facilitate valuation of HubTech, through computation of its present value.
(5) Can provide the group additional information on liquidity, viability and adaptability.

<u>Limitations include:</u>

(6) Cash flows are based on historical information, and therefore do not provide complete information for assessing the future
(7) Cash flows can be manipulated, for instance through delayed payments to suppliers.
(8) While liquidity is key for survival in the short-term, in the long-term profitability is more important.

(b)

(i) Forecast Income Statement for 2023

Details	**K'000**
Turnover (16.00m x 1.84)	17,344
Cost of sales (17.344m – 5.203m)	(12,141)
Gross profit (17.344m x 30%)	5,203
Indirect expenses (5.203m – 3.469m)	(1,734)
Net profit (17.344m x 20%)	3,469
Interest expense ((10m x 0.08) + 0.140m)	(940)
Profit before tax	2,529
Tax (2.529m x 0.3)	(759)
Profit after tax	1,770
Dividends (1.770m x 50%)	(885)
Retained profit	885

(ii) Forecast Statement of Financial Position for 2023:

	K'000	**K'000**
Non-current assets		22,000
Current assets		
Inventory	3,660	
Trade receivables	<u>3,090</u>	
		<u>6,750</u>

Total assets		**28,750**
Equity finance:		
Ordinary shares	5,000	
Reserves	8,390	
		13,390
Bank loan		10,000
		23,390
Current liabilities		
Trade payables	2,490	
Overdraft	2,870	
		5,360
Total liabilities		**28,750**

Workings	**K'000**
Inventory (12.141m x (110/365)	3,660
Trade receivables (17.344m x (65/365))	3,090
Trade payables (12.141m x (75/365))	2,490
Reserves (7.5m + 0.885m)	8,390
Overdraft (28.75m – 23.39m – 2.49) (balancing figure)	2,870

(c) Working Capital Management

The financial analysis shows deterioration in key working capital ratios.

(1) The inventory turnover period is expected to increase from 81 days to 110 days,

(2) The trade receivables period is expected to increase from 50 days to 65 days and

(3) The trade payables period is expected to increase from 64 days to 75 days.

HubTech Group is forecasting a worsening in its working capital position. The current and forecast values could be compared to sector values in order to confirm whether they are realistic.

Because current assets are expected to increase by more than current liabilities, the current ratio and the quick ratio are both expected to increase in the next year, the current ratio from 1·12 times to 1·26 times and the quick ratio from 0·54 times to 0·58 times. Again, comparison with sector average values for these ratios would be useful in making an assessment of the working capital management of HubTech Group.

The balance between trade payables and overdraft finance is approximately the same in both years (trade payables are 46% of current liabilities in the current statement of financial position and 47% of current liabilities in the forecast statement of financial position), although reliance on short-term finance is expected to fall slightly in the next year.

The deteriorating working capital position may be linked to an expected deterioration in the overall financial performance of SPV Lt. For example, the forecast gross profit margin (30%) and net profit margin (20%) are both less than the current values of these ratios (32% and 23% respectively), and despite the increase in turnover, return on capital employed (ROCE) is expected to fall from 16·35% to 14·83%.

Working capital financing policies can be classified into conservative, moderate (or matching) and aggressive, depending on the extent to which fluctuating current assets and permanent current assets are financed by short-term sources of finance. Permanent current assets are the core level of investment in current assets needed to support a given level of business activity or turnover, while fluctuating current assets are the changes in the levels of current assets arising from the unpredictable nature of some aspects of business activity.

A conservative working capital financing policy uses long-term funds to finance non-current assets and permanent current assets, as well as a proportion of fluctuating current assets. This policy is less risky and less profitable than an aggressive working capital financing policy, which uses short-term funds to finance fluctuating current assets and a proportion of permanent current assets as well. Between these two extremes lies the moderate (or matching) policy, which uses long-term funds to finance long-term assets (non-current assets and permanent current assets) and short-term funds to finance short-term assets (fluctuating current assets).

The current statement of financial position shows that HubTech Group uses trade payables and an overdraft as sources of short-term finance. In terms of the balance between short- and long-term finance, 89% of current assets (100 x 4.1/4.6) are financed from short-term sources and only 11% are financed from long-term sources. Since a high proportion of current assets are permanent in nature, this appears to be a very aggressive working capital financing policy which carries significant risk. If the overdraft were called in, for example, HubTech Group might have to turn to more expensive short-term financing.

The forecast statement of financial position shows a lower reliance on short-term finance, since 79% of current assets (100 x 5.36/6.75) are financed from short-term sources and 21% are financed from long-term sources. This decreased reliance on an aggressive financing policy is sensible, although with a forecast interest coverage ratio of only 3.7 times (3.469/0.94), The HubTech Group has little scope for taking on more long-term debt. An increase in equity funding to decrease reliance on short-term finance could be considered.

Extracts of 2022 income statement:	
	K'000
Turnover	16,000
Cost of sales	(10,880)
Gross profit	5,120
Indirect expenses	(1,440)
Net profit	3,680

Gross profit margin (100 x 5.12/16.00)	32%	

		30%
Net profit margin (100 x 3.68/16.00)	23%	
		20%
ROCE (100 X 3.68/22.5)	16.35%	
(100 X 3.469/23.39)		14.83%
Inventory Period (365 X 2.4/10.88)	81 days	
		110 days
Receivables Period (365 x 2.2/16.00)	50 days	
		65 days
Payables Period (365 X 1.9/10.88)	64 days	
		75 days
Current Ratio (4.6/4.1)	1.12 times	
(6.75/5.36)		1.26 times
Quick ratio (2.2/4.1)	0.54 times	
(3.09/5.36)		0.58 times

SOLUTION FOUR

(a)

(i)

(1) Price/earnings ratio method valuation

Earnings per share of Nkeyema Plc = ZMW 1.00
Average sector price/earnings ratio = 7
Implied value of an ordinary share of Nkeyema Plc = 1.00 x 7 = ZMW 7.00
Number of ordinary shares = 50 million
Value of Nkeyema Plc = 7.00 x 50m = ZMW 350 million

(P/E Computation)

(2) Dividend growth model

Earnings per share of Nkeyema = ZMW 1.00
Proposed payout ratio = 40%
Proposed dividend of Nkeyema for y/e 2022 is therefore = 1.00 x 0.4 = ZMW0.4 per share (proposed dividend)
Four year average dividend growth rate = $(0.4/0.2)^{1/4}$ -1 = 1.1892 -1= 0.1892 or
18.92% = 19% (Dividend Growth rate computation)
Cost of equity of Nkeyema using CAPM
MV= 15 + 1.5 x (10) = 30% (Ke using CAPM)
Value of each ordinary share of Nkeyema Plc using DGM
MV= (0.4 x 1.19)/(0.30 – 0.19) = ZMW 4.33 (Market Value/share using DGM)
Value of Nkeyema plc as a company = 4.33 x 50m = ZMW 216.5 million(Market Value)
The current market capitalization of Nkeyema Plc = ZMW175m (ZMW3.50 x 50m). (Market Capitalization)

The valuation of Nkeyema Plc using the sector price/earnings ratio is higher at ZMW 216m, than its current market capitalization of ZMW 175m, implying that Nkeyema Plc's stock is undervalued by the market. Its price earnings ratio of 3.5 is lower than that of the sector averaging 8, indicating that there may be scope for improving its financial performance, hence its undervaluation.

The difference in valuation could also be explained by either the cost of equity or the expected dividend growth rate used in the dividend growth model calculation been inaccurate, or due to some inefficiency in the stock market.

Market sentiment regarding Nkeyema's prospects might result in its undervaluation. For instance perceptions of potential divestiture by a major investor can reduce the market price of its stock.

(ii) Limitations of the DVM:

(1) Estimating future growth rates may be subjective.
(2) Dividend growth is not normally constant in practice as assumed by the DVM.
(3) The DVM is not very suitable for valuation of controlling interests.
(4) To use the DVM, computation of the cost of equity is required.
(5) The model is sensitive to changes in the assumptions.

(iii) Factors to consider when formulating dividend policy

(1) Nkeyema Plc will need to remain profitable in order to sustain dividend pay outs.
(2) Loan agreements may impose dividend pay - out ratios or restraints.
(3) The company's liquidity position.
(4) The signaling effect of dividends.
(5) The need to repay debt in the near future.
(6) Company gearing levels.

(b)

(i)

		Cash flow	DF@13%	PV	DF@17%	PV
0	Market Value	(950)	1	(950)	1	(950)
1 - 10	Coupon payment	150	5.426	813.9	4.659	698.85
10	Redemption value	1,000	0.295	295	0.208	208
			NPV	158.9	NPV	(43.15)

K_d = 13% + [158.9/(158.9 + 43.15)*(17 – 13)] = 13% + 3.14% = 16.14%

(ii) Differences in the cost of debt could be explained by the following reasons:
The duration of the bond - the longer the time to maturity of a debt, the higher will be the interest rate and the cost of debt. A bond with the greater time to maturity would be expected to have a higher interest rate and a higher cost of debt.
Liquidity preference theory - suggests that investors require compensation for not having access to their cash, and so providers of debt finance require higher compensation for lending for longer periods.

Expectations theory - suggests that the shape of the yield curve depends on expectations as to future interest rates. At the time of issue if the expectation is that future interest rates will be higher than current interest rates, the yield curve will slope upwards and vice versa

Market segmentation theory - suggests that future interest rates depend on conditions in different debt markets, e.g. the short-term market, the medium-term market and the long-term market. The shape of the yield curve therefore depends on supply and demand for funds in the market segments.

The size of the debt - the greater the size of a bond issue, the higher the cost of debt.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY, 13 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FOUR (4) questions of twenty five (25) marks each. You MUST attempt all the FOUR (4) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. Cell Phones are NOT allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2,3,4,5 and 6 of this paper.

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K57,600	first K57,600	0%
K57,601 to K81,600	next K24,000	20%
K81,601 to K106,800	next K25,200	30%
Over K106,800		37.5%
Income from farming for individuals		
K0.01 to K57,600	first K57,600	0%
Over K57,600		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270

From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

	Aged 2 to 5 years		**Aged above 5 years**	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

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

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

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

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

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

Attempt All Four (4) Questions.

QUESTION ONE

Pusha Limited is a Zambian resident company that is not listed on the Lusaka Securities Exchange (LUSE). The company prepares accounts to 31 December each year. For the year ended 31 December 2023, the company had a profit before taxation of K2,430,000 which was arrived at after dealing with the following items of income and expenditure:

Income

(1) Dividends received from another Zambian company of K45,000 (net) were credited to the statement of profit or loss.

(2) A profit on disposal of equipment of K19,000. This profit on disposal is the difference between the disposal proceeds of K25,000 and the carrying value of K6,000. The income tax value for capital allowances purposes at 1 January 2023 was K18,500. Its original cost was K15,000

(3) Debenture interest received of K51,000 (net). The debenture interest was received from another Zambian company.

(4) A sum of K27,500 received from Goldlack Insurance Company being the cost value of inventory that was damaged in a flood during the year ended 31 December 2022. The whole amount of K27,500 was written off in the accounts for the year ended 31 December 2022.

Expenditure

(5) Initial repairs of K14,700 incurred on repairing a second hand item of plant which was not in a usable condition.

(6) (6) Bad debts charged to the statement of profit or loss account of K6,000 was arrived at as given in the bad debts account below:

	K	
Balances b/f:		
General provision	(13,000)	
Specific provision	(14,000)	
Loans written off now recovered	(8,500)	
Trade debts written off	18,500	
Loan to former employee written off		1,900
Balances c/f:		
General provision	11,100	
Specific provision	10,000	
Profit or loss	6,000	

(7) Legal fees paid which were made up of the following:

	K	
Cost of share issue	15,800	
Drafting employees' service contracts	29,500	
Cost of disposal of equipment (see also note (2) above)		11,200
	56,500	

(8) Gifts and entertaining expenses which included the following:

	K
Gifts of 180 diaries bearing company's details	13,200
Entertaining local customers	15,000
Staff end of year party	18,500
Entertaining foreign suppliers	26,300
	73,000

(9) Depreciation of non-current assets for the year was K48,900.

(10) Miscellaneous expenses consisting of the following:

	K
Motor car expenses for Toyota and Nissan	15,100
Donation to approved public benefit organisation	22,400
Donation to political party	20,000
	57,500

(11) The provisional tax paid amounting to K110,000.

(12) Directors emoluments of K620,000 which included emoluments of K140,000 were paid to the Finance Director who has been accommodated in a company owned house for which he paid no rent.

The following additional information is also available:

(1) The company owns the following implements, plant and machinery which are used wholly and exclusively in the company's trade:

	Original cost
	K
Second hand plant (see note (5) above)	105,000
Machinery	280,000
Toyota motor car	220,500
Nissan motor car	195,000
Computer	16,500

The Toyota and Nissan motor cars are used on a personal to holder basis.

The Toyota motor car has a cylinder capacity of 2,500 cc and is used by the Finance Director while the Nissan motor car has a cylinder capacity of 3,200 cc and it is used by the Marketing Director. The Nissan motor car is used 20% for private purposes.

(2) On 1 January 2023, the company had a trading loss brought forward of K96,200 which is the balance of the loss incurred in respect of the year ended 31 December 2022.

Required:

(a) Calculate the maximum capital allowances claimable by Pusha Limited for the tax year 2023.

(7 marks)

(b) Calculate the taxable business profit for Pusha Limited for the tax year 2023.

(12 marks)

(c) Calculate the company income tax payable by Pusha Limited for the tax year 2023.

(6 marks)

[Total: 25 Marks]

QUESTON TWO

(a) Dickson Kabesha has been running a farming business for many years. However, in the recent past his farming business has not been performing well due to the adverse effects of climate change. During the 2021/22 farming season, his harvest was poor and he decided to diversify and ventured into retail trading business. He started his retail business at the beginning of 2023 and prepared his accounts annually to 31 December.
For the tax year 2023, the turnover figure from the businesses exceeded K800,000. And the final trading results were as follows:

	K
Profit from retail trading	748,800
Profit from farming	950,000

Mr Kabesha also received the following investment income in the tax year 2023:

	K
Royalties	12,750
Dividend from Exonel Zambia Ltd	17,000

In all cases, the amounts shown are the actual amounts received by Mr Kabesha. Neither the royalties nor the dividends were received from a mining company.

The following additional information has been made available:

(1) The figures of profit from retail trade and from farming are the final taxable results after capital allowances.

(2) On 1 January 2023, there was a brought forward trading loss from the retail trade that had been incurred in the tax year 2022 amounting to K220,000.

(3) Provisional income tax paid in respect of the tax year 2023 is K95,000.

Required:

(i) Explain the circumstances under which income from farming may be averaged.
(2 marks)

(ii) Calculate the final income tax payable by Mr Kabesha for the tax year 2023
(7 marks)

(b) Mr Kabesha’s retail trading business is also registered for Value Added Tax (VAT) purposes and the following information was provided for the month of September 2023:

(1) Sales invoices totaling K75,000 were issued to customers in respect of standard rated sales. The company offers its customers a discount of 5% for prompt payment. Exempt sales were K25,000.

(2) The business received an advance deposit of K15,000 in respect of a contract that was due for completion in December 2023. The contract has a total VAT exclusive value of K60,000.

(3) Standard rated expenses amounting to K17,100 (VAT inclusive). Included in this figure is a sum of K6,000 (VAT inclusive) incurred on entertaining suppliers.
(4) The business wrote off a bad debt amount to K10,000 on 31 September 2023. The bad debt arose from two invoices of K5,000 each in respect of which payment was due in March 20222 and in June 2022.
(5) The business bought a motor car at a cost of K96,800 (VAT inclusive). The company bought petrol for use in the car during the month of September 2023. The total cost of the petrol was K34,800 (VAT inclusive).
(6) Input Value Added Tax that was attributed to neither the taxable nor the exempt supplies was K3,500.

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 any three (3) disadvantages of voluntary registration for Value Added Tax.
(6 marks)

(iii) Calculate the amount of Value Added Tax payable by business for the month of September 2023.
(7 marks)

[Total: 25 Marks]

QUESTION THREE

Jim and Ton are in partnership dealing in Agricultural supplies, including seedlings, fertilizer and plant and equipment. They share profit and losses in the ratio 3:1 after allowing annual partnership salaries of K150, 000 each.
On 1 September 2023, Don joined the partnership and the partnership agreement was amended as follows:

1) Profit and loss sharing ratios adjusted to 4:3:1 for Jim, Tom and Don respectively.
2) The annual salaries were agreed at K144, 000 for each partner.

The Partnership's statement of Profit and Loss for the year ended 31 December 2023 was as follows:

		K	K
Gross profit			3,100,000
Less Expenses			
Depreciation		41,000	
Wages & Salaries	(Note 1)	1,040,000	
Rent & rates	(Note 2)	680,000	
Repairs & Renewals	(Note 3)	105,400	
Electricity	(Note 4)	28,800	
Water bills	(Note 5)	7,200	
Legal expenses	(Note 6)	41,000	
Motor car running expenses	(Note 7)	37,000	

Other Expenses	(Note 8)	51,200	
			(2,031,600)
Net profit			1,068,400

The following additional information is available:

Note 1: Wages & salaries

Included in wages & salaries are partners' annual salaries of K344, 000 for the partners and the balance were salaries for employees engaged by the business.

Note 2: Rent & Rates

Included in the rent and rates is two thirds (2/3) for partners' private residence.

Note 3: Repairs & renewals

This includes costs of initial repairs of K10, 400 incurred on repairing second hand cooling system equipment purchased during the year which was not in usable state.

Note 4: Electricity

The expenditure on electricity includes 30% for the partners' private residence and the balance is for the business premises.

Note 5: water

Included in the water bill is two thirds (2/3) relating to the partners private residence and the balance is for business premises.

Note 6: Legal expenses

	K
Recovery of trade debts	5,800
Legal fees in connection with the dismissal of an employee	11,660
Legal fees in connection with drafting employees service contracts	5,340
Legal fees in connection with defending title to land	8,600
Unsuccessful appeal against previous year's income tax assessment	9,600
	41,000

Note 7: Motor car running expenses

The partners use their own personal private motor cars in the partnership business. The following information has been provided:

Partner	**Private Mileage %**	**Motor car expense**
		K
Jim	35	12,950
Ton	45	16,650
Don	20	7,400
		37,000

Note 8: Other Expenses

These included the following	K
Donation to an unapproved charity	13,000

Postage & stationery	13,000	
Donation to a political party	25,200	
		51,200

Note 9: Partner's Motor vehicles

Partners use their own personal private motor cars partly for business as explained in note (7) above. The original costs and dates on which each vehicle was brought into use are given below:

Date brought into use	Partner	Purchase cost
		K
1 October 2022	Jim's car	300,000
1 November 2022	Tom's car	280,000
1 April 2022	Don's car	290,000

Capital allowances on other Partnership assets were determined to be K144, 000 for the year ended 31 December 2023.

Required:

(a) Explain the treatment of profit when there is a change in the partnership agreement during an accounting period.

(3 marks)

(b) Calculate the partnership's tax adjusted business profit for the tax year 2023.

(9 marks)

(c) Calculate the amount of the business profits on which each partner will be assessed, for the tax year 2023

(13 marks)

QUESTION FOUR

Kasapo Mining Plc is a Zambian resident company engaged in the extraction of base metals in Central province of Zambia. The following is the statement of profit or loss for the year ended 31 December 2023:

	Notes	K
Revenue	1	525,000,000
Cost of sales	2	(310,275,000)
Gross profit		214,725,000
Operating expenses	3	(156,300,000)
Profit from operations		58,425,000
Other income	4	1,230,000
Profit before tax		59,655,000
Income tax expense	5	(14,827,792)
Profit for the year		44,827,208

The following information is relevant:

(1) **Revenue**

The figure for revenue is the norm value for mineral royalty tax purposes which is made up of the following:

	Tonnage	Price per tonne	Exchange rate	Revenue
		US$	K per US$	K
Sales of copper	3,000	6,000	17.50	315,000,000
Sales of cobalt	1,200	10,000	17.50	210,000,000
Total revenue				525,000,000

Mineral royalty tax has not been accounted for in the above statement of profit or loss.

(2) **Cost of sales**
Included in cost of sales are depreciation charges of K8,116,000 and amortization expenses of K4,200,000. The balance is made up of revenue allowable expenses.

(3) **Operating expenses**
Included in operating expenses is entertaining suppliers K420,000, construction of a road within the mining township K11,000,000, construction of a community school within the mine township K8,400,000, donations to approved public benefit organisations K2,800,000 and donations to political parties of K4,410,000. The balance consists of revenue expenses which are all allowable for tax purposes.

(4) **Other income**
Other income is made up of interest on GRZ bonds. The amount shown in the statement of profit or loss is gross. Withholding tax had been deducted at source.

(5) **Income tax expense**
The amount shown represents the provisional income tax paid during the year ended 31 December 2023.

The following additional information is also available:

(1) As at 1 January 2023, the only other assets held by the company was the mining equipment which was acquired at a cost of K27,600,000.

During the year ended 31 December 2023, the company acquired the following assets from Zambian suppliers and paid for them in Zambian Kwacha:

Date	**Asset**	**Original cost**
		K
25 January 2023	Dump trucks	3,000,000
10 March 2023	Office equipment	800,000
31 July 2023	Two motor cars (2,700cc)	1,200,000

The two motor cars are used by the Finance Director and Human Resources Director on personal-to-holder basis. It has been agreed with the Commissioner General that the private use in the motor cars by each Director is 40%.

(2) The average mid-exchange rates were as follows:

	K per US$1
2022	17.20
2023	17.50

(3) Indexation

The following indexation formula may be used where appropriate:
1 + [(R2 – R1)/R1]

Required:

(a) Calculate the amount of mineral royalty tax paid by the company for the year ended 31 December 2023.

(5 marks)

(b) Calculate the adjusted mining profit and the income tax payable for the year ended 31 December 2023.

(20 marks)

[Total: 25 Marks]

END OF PAPER

D3: BUSINESS TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) PUSHA LIMITED

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2023

	Cost/ITV	Capital allowances
	K	K
Plant		
Purchase cost (K105,000 + K14,700)	119,700	
Wear and tear (K119,700 X 25%)	(29,925)	29,925
ITV c/f	89,775	
Machinery		
Purchase cost	280,000	
Wear and tear (K280,000 X 25%)	(70,000)	70,000
ITV c/f	210,000	
Toyota car		
Purchase cost	220,500	
Wear and tear (K220,500 X 20%)	(44,100)	44,100
ITV c/f	176,400	
Nissan car		
Purchase cost	195,000	
Wear and tear (195,000 X 20%)	(39,000)	39,000
ITV c/f	156,000	
Computer		
Purchase cost	16,500	
Wear and tear (16,500 X 25%)	(4,125)	4,125
ITV c/f	12,375	
Equipment		
ITV b/f	18,500	
Disposal proceeds (K25,000 restricted to cost)	(15,000)	
Balancing allowance	3,500	3,500
Total capital allowances for the year		190,650

(b) **Pusha Plc**

Computation of taxable business profit for the tax year 2023

	K	K
Profit before tax		2,430,000
Add:		
Repairs to plant	14,700	
Loan to former employee	1,900	
Cost of share issue	15,800	
Legal expenses: disposal of equipment	11,200	
Entertaining local customers	15,000	

Entertaining foreign suppliers	26,300	
Depreciation	48,900	
Donation to political party	20,000	
Tax charge	110,000	
Accommodation benefit (140,000 X 37.5%)	52,500	
Personal to holder cars:		
Finance Director' car	36,000	
Marketing Director's car	48,000	
		400,300
		2,830,300
Less:		
Dividends received	45,000	
Profit on disposal of equipment	19,000	
Debenture interest	51,000	
Loan w/off now recovered	8,500	
Decrease in GP (11,100 – 13,000)	1,900	
Capital allowances (w)	190,650	
		(316,050)
Taxable business profit		2,514,250

(c) COMPUTATION OF COMPANY INCOME TAX FOR THE TAX YEAR 2023

	K
Business profits	2,514,250
Less trading loss b/f	(96,200)
	2,418,050
Add: Debenture interest (K51,000 X 100/85)	60,000
Total taxable income	2,478,050
Company income tax (K2,478,050 x 30%)	743,415
Less : WHT- Debenture interest (60,000 X 15%)	(9,000)
: Provisional tax paid	(110,000)
Final income tax payable	624,415

SOLUTION TWO

(a)

(i) Income from farming or fishing may be averaged if:

(1) It is for two consecutive tax years and it is such that one year's income is substantially greater than the income of the other year, or

(2) One year has a loss while the other has a profit.

(ii) DICKSON KABESHA

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	Total K	Non Farming K	Farming K
Profit from retail trade	748,800	748,800	
Trading loss b/f	(220,000)	(220,000)	
	528,800	528,800	
Profit from farming	950,000		950,000
Royalties (K12,750 X 100/85)	15,000	15,000	
	1,493,800	543,800	950,000
Less tax free income	(57,600)	(57,600)	
Taxable income	1,436,200	486,200	950,000
Tax on non-farming income:			
20% X 24,000			4,800
30% X 25,200			7,560
37.5% X 437,000			163,875
Tax on farming income:			
10% X 950,000			95,000
			271,235
Less WHT- Royalties(K15,000 x15%)			(2,250)
Provisional income tax			(95,000)
Final income tax payable			173,985

(b)

(i) The three conditions which should be met in order for a claim for bad debt relief to be met are as follows:

(1) The amount must actually have been written off in the accounts.
(2) The amount written off must have proved to be irrecoverable.
(3) The amount written off must have been overdue for a period of at least 18 months.

(ii) Advantages of voluntary registration

(1) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable.
(2) The impression of a substantial business will be given since traders should only register if the turnover is substantially high.
(3) Businesses 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 VAT or to submit the VAT.

(iii) DICKSON KABESHA
COMPUTATION OF VAT PAYABLE FOR THE MONTH OF SEPTEMBER 2023

	K	K
Output tax		
Standard rated sales (K75,000 X 16%)		12,000
Deposit (K15,000 X 16%)		2,400
		14,400
Input tax		
Standard rated expenses (K17,100 – K6,000) X 4/29	1,531	
Bad debts relief (K5,000 X 16%)	800	
Non-attributable VAT (75/100 = 75% X K3,500)	2,625	
		(4,956)
VAT payable		9,444

SOLUTION THREE

(a) Measures to be taken when there is a change in the partnership agreement.

(1) The accounting period should be divided into two periods on the date when the partnership agreement was changed so as to have a period before the change and a period after the change.
(2) The total profits should then be allocated to each of these two periods on a time basis.

(3) The profits allocated to each period are finally divided between the partners on the basis of the partnership agreement that is in existence in each period.

(b) CALCULATION OF THE PARTNERSHIP ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR ENDING 31ST DECEMBER 2023:

	K	K
Net profits as per accounts		1,068,400
Add:		
Depreciation	41,000	
Partners salaries (K144, 000 x 3)	344,000	
Rent & rates (2/3 x K680,000)	453,333	
Restoring capital asset	10,400	
Water for partner's residence (2/3 x 7,200)	4,800	
Electricity (K28, 800 x 30%)	8,640	
Legal fees tax appeal	9,600	
Motor car running expenses:		
Jim (K12,950 x 35%)	4,533	
Ton (K16,650 x 45%)	7,493	
Don (K7,400 x 20%)	1,480	
Donation to an unapproved charity	13,000	
Donation to a political party	25,200	
		923,479
		1,991,879
Less		
Capital allowances		(144,000)
Adjusted business profit		1,847,879

(c) The amount of profits on which each partner will be assessed on for the year ended 31 December 2023

First 8 months

	Total	Jim	Ton	Don
01.01.2023-31.08.2023	K	K	K	K
Salaries (8/12 X K300, 000	200,000	100,000	100,000	
Balance (3:1)	1,031,919	773,939	257,980	
	1,231,919	873,939	357,980	
Last 4 months				
01.09.2023-31.12.2023				
Salaries (4/12 x K144, 000)	144,000	48,000	48,000	48,000
Balance (4:3:1)	471,960	235,980	176,985	58,995
	615,960	283,980	224,985	106,995
Total	1,847,879	1,157,919	582,965	1065995
Less capital allowances:				
Jim (K300.000 X 20% x 65%)		(39,000)		
Ton (K280, 000 x 20% x 55%)			(30,800)	
Don (K290, 000 X 20% X 80%				(46,400)
Taxable profits		1,118,919	552,165	60,595

SOLUTION FOUR

(a) Mineral royalty tax

	K
Copper	
First ($4,000 x 3,000 tones x K17.50 x 4%)	8,400,000
Next ($1,000 x 3,000 tones x K17.50 x 6.5%)	3,412,500
Balance ($1,000 x 3,000 tones x K17.50 x 8.5%)	4,462,500
	16,275,000
Cobalt (K210,000,000 x 8%)	16,800,000
Total mineral royalty tax	33,075,000

(b) Adjusted mining profit for the year ended 31 December 2023

	K	K
Profit before tax		59,655,000
Add:		
Depreciation	8,116,000	
Amortization	4,200,000	
Entertaining suppliers	420,000	
Construction of roads	11,000,000	
Construction of community school	8,400,000	
Donations to political parties	4,410,000	
Personal-to-holder basis		
Finance Director-Car benefit	36,000	
Human Resources Director-car benefit	36,000	
		36,618,000
		96,273,000
Less:		
Interest on GRZ bonds	1,230,000	
Mineral royalty (a)	33,075,000	
Capital allowances	10,400,000	
		(44,705,000)
Taxable mining profit		51,568,000
Non mining:		
Interest on GRZ bonds		1,230,000
Total taxable income		52,798,000
Company income tax :		
Mining (K52,798,000 x 30%)		15,839,400
Less:		
Provisional income tax		(14,827,792)
WHT – Interest (K1,230,000 x 15%)		(184,500)
Income tax payable		827,108

Workings

Capital allowances:

	K
Mining equipment	
K27,600,000 x 20%	5,520,000
Dump trucks	600,000
(K3,000,000 x 20%)	
Office equipment	160,000
(K800,000 x 20%)	
Motor cars	240,000
(K1,200,000 x 20%)	
Road	
(K11,000,000 x 20%)	2,200,000
Community school	1,680,000
(K8,400,000 x 20%)	
Total capital allowances	10,400,000

END OF SOLUTIONS

Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY, 12 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of **FOUR (4)** questions of Twenty-Five (25) marks each. You MUST attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2 to 6.

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

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

	Aged 2 to 5 years		Aged above 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

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

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

   Customs Duty

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

   Excise Duty:

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

3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all the four (4) questions.

QUESTION ONE

For the purposes of this question assume that today's date is 22 December 2022 and that the earnings ceiling for NAPSA contributions purposes is **K322,080 per annum.**

Doreen is a self-employed individual running a chain of retail shops. Her business has grown rapidly over the last few years and she now wants to engage her daughter Ireen on 1 January 2023, to help her ran the business. Doreen wishes to take on Ireen either as an employee or as a partner.

The business owns a Toyota Hilux Single cab van which was purchased a year ago, at a cost of K560,000 and has always been used wholly and exclusively for business purposes. From 1 January 2023, this car will be provided to Ireen who will use it both for business and private purposes, regardless of whether she is involved in running the business as employee or as a partner. It has been estimated that Ireen's private use of the car will be 25%.

Doreen owns her own personal Ford Ranger Car which was acquired a year ago at a cost of K600,000, which she uses both for business and private purposes. It has been agreed with the Commissioner General that the private use of the motor car is 25%. She will incur motor car running expenses of K60,000 on the motor vehicle in the tax year 2023, regardless of whether Ireen is involved in running the business as employee or as a partner.

If Ireen is taken on as an employee, the net profit as per accounts for the year ending 31 December 2023, is expected to be K1,420,000. This profit figure is before deducting payments and expenses relating to Dorren and Ireen and NAPSA contributions. All the other expenses that will be incurred and deducted in arriving at the net profit figure are allowable expenses for taxation purposes. The payments and expenses relating to Dorren and Ireen will include a gross monthly salary of K25,000 and a monthly travel allowance of K5,000 per month for Doreen, whilst Ireen will be entitled to a gross monthly salary of K15,000 and a housing allowance of K4,000 per month. Motor car running expenses of K48,000 per annum will be paid out of profits in relation to the Toyota Hilux single cab van which will be used by Ireen.

Doreen will be required to pay employer's NAPSA contributions of 5% of Ireen's earnings and Ireen will also be required to pay employee's NAPSA contributions of 5% of her earnings.

If Doreen involves Ireen in the business as a partner, the net profit as per accounts for the year ending 31 December 2023, is also expected to be K1,420,000. This profit figure is before deducting payments relating to Dorren and Ireen. All the other expenses that will be incurred and deducted in arriving at the net profit figure are allowable expenses for taxation purposes. The payments and expenses relating to the two (2) individuals will include a gross monthly salary of K25,000 and a monthly travel allowance of K5,000 per month for Doreen, whilst Ireen will be entitled to a gross monthly salary of K15,000 and a housing allowance of K4,000 per month. Motor car running expenses of K36,000 per annum will be paid out of profits in relation to the Toyota Hilux single cab van which will be used by Ireen. No NAPSA contributions will arise under this option. Any profits and losses arising will be shared between the Doreen and Ireen in the ratio 3:2 respectively.

Required:

(a) Calculate the income tax payable by Doreen and Ireen for the tax year 2023 on the basis that:

(i) Ireen is brought into the business as an employee.

(10 marks)

(ii) Ireen is brought into the business as a partner.

(11arks)

(b) Advise Doreen, with justification, as to which of the two (2) options is beneficial from a tax point of view.

(4 marks)

[Total: 25 Marks]

QUESTION TWO

Abele Akufu was born in a country called Republic of GreenLand in the year 1989. The currency of the Republic of GreenLand is GreenLand Dollar (GL$). He had been employed at PINK Plc, a manufacturing company resident in that country. On 1 April 2023, PINK Plc invested in Zambia through incorporation of a new company known as PINK (Z) Limited, a manufacturing company. Abele Akufu was appointed as a Managing Director of PINK (Z) Limited on a three (3) year renewable contract commencing on 1 August 2023. He arrived in Zambia on 25 July 2023 to take this job. He was entitled to an annual basic salary of K502,800 and transport allowance was 12% of the basic salary.

He was accommodated in a company owned house for which he paid no rent. The house was acquired in July 2023 at a cost of K3,000,000. If the house was rented to any other person, the company could have charged gross monthly rentals of K17,100. The company maintains the house, and monthly maintenance expenses amounted to K3,800 during the year ended 31 December 2023. Abel used his personal Toyota Landcruiser car in the performance of duties of employment which he acquired at a cost of K480,000 on 1 August 2023. Motor car running expenses amounted to K5,200

per month all of which were paid by him. It is estimated that the business use of the car was 45% during the year ended 31 December 2023.
Akufu holds investments in companies resident in the Republic of GreenLand and on 10 December 2023, he received dividends amounting to K70,000 from companies listed on the securities exchange in GreenLand and bank deposit interest amounting to K38,400 from banks resident in GreenLand. The amount of dividends and bank deposit interest are net of withholding tax deducted by the tax authority in the GreenLand at the rate of 30% and 20% respectively. These amounts were all credited to his Zambian bank accounts.
There is no double taxation convention between Zambia and GreenLand. Any double taxation relief is given in Zambia unilaterally as a tax credit against the Zambian income tax.

Required:

(a) Explain whether Akufu will be regarded as a resident in Zambia for income tax purposes in the year ended 31 December 2023. You should give reasons for your answer.
(6 marks)

(b) Explain the three (3) methods of giving double taxation relief in Zambia.
(6 marks)

(c) Calculate the amount of income tax payable by Akufu for the tax year 2023.
(13 marks)

[Total: 25 Marks]

<u>QUESTION THREE</u>

You are employed in a firm of chartered Accountants where you deal with the tax affairs of the following tax clients:

Lizzie Mafungo

Lizzie is a Zambian resident who has invested in real estate. She owns houses and other commercial buildings which were all let out to companies during the year ended 31 December 2023. The following information is relevant:

	Houses **K**	**Other commercial buildings** **K**
Gross monthly rental income	28,100	37,400
Monthly maintenance expenses	4,900	10,800
Commissions paid to agents during 2023	41,210	62,780

Gerald Mphamvu

Gerald is a sole trader running a fleet of vehicles in the public transportation business. During the year ended 31 December 2023, he had the following motor vehicles in operation, together with other information for each vehicle:

	Toyota Hiace bus	**Toyota Noah car**	**Rosa bus**

Commencement of operations	**23 January 2023**	**14 April 2023**	**21 June 2023**
Seating capacity	14 passengers	7 passengers	32 passengers
Original cost	K210,000	K105,000	K650,000
Ticket sales per month	K14,600	K9,000	K55,000
Operating expenses per month	K8,200	K4,000	K12.500

Joyce Gwembe

Joyce is a Managing Director and a shareholder of JGD Limited, a Zambian resident private company. She holds 60% of the issued equity share capital of the company. Joyce and other directors are considering to form the employee share option scheme in order to allow the hardworking employees buy shares in their employer company. She has heard that there are tax incentives that are given to both the employer and the participating employees if the share option scheme is approved by the Commissioner General. Therefore, she wishes to know the conditions to be met for the share option scheme to be approved for tax purposes and the tax incentives available for administering an approved employee share option scheme.

Required:

(a) Explain, with reasons, how each of the following tax payers will be assessed to tax for the year 2023:

(i) Lizzie Mafungo

(3 marks)

(ii) Gerald Mphamvu

(2 marks)

Your answer should include an explanation of the tax treatment of expenses incurred by each individual.

(b) Calculate the amount of tax payable for the tax year 2023 by:

(i) Lizzie Mafungo

(5 marks)

(ii) Gerald Mphamvu

(4 marks)

(c) In relation to Joyce;

(i) Explain seven (7) conditions to be met for an employee share option scheme to be approved by the Commissioner General.

(7 marks)

(ii) Explain the tax benefits to the employer and the employee of administering an approved employee share option scheme.

(4 marks)

[Total: 25 Marks]

QUESTION FOUR

Lawrence Changala was employed as a Civil Engineer on a three-year renewable fixed term contract at FMS Construction Ltd. as from 1 April 2020 to 31 March 2023. The conditions of his contract of employment provided for a monthly salary of K18,000, a monthly transport allowance of 5% of his monthly basic salary and a monthly housing allowance of 20% of his basic salary. He was paid monthly on the last day of each month and Pay As You Earn amounting to K29,060 was deducted from his employment income in the tax year 2023.

On 31 March 2023, the company paid his accrued leave pay of K10,000, repatriation pay of K50,000 and gratuity of 35% of his cumulative basic salary earned up to the date of expiry of the contract. He had always contributed 5% of his gross earnings as NAPSA contribution. The earnings ceiling for the purposes of NAPSA contributions should be taken to be K322,080 per annum.

Changala decided not to renew his contract with the construction company and on 1 April 2023, he commenced in business as a Self-employed Civil Engineer.

He expects his annual revenue from this business to exceed K800,000. He will prepare the first accounts for the period to 31 December 2024, generating a taxable profit before capital allowances of K1,050,000, and will then prepare them annually thereafter.

On 1 April 2023 he purchased office equipment costing K80,000, business premises at a cost of K400,000 (comprising office buildings costing K300,000 and land costing K100,000) and a second-hand Isuzu Double cab car at a cost of K320,000. It was agreed with the commissioner General that he will have private use of the motor van of 25%.

In February 2024, he sold the second-hand Isuzu double cab van for K230,000 and replaced it with a Toyota Fortuner car costing K600,000. It has been agreed with the commissioner General that he will have private use of the Fortuner of 25%.

Required:

(a) Explain the basis of assessment for the first period of trading and compute the final taxable profits for each relevant tax year.

(18 marks)

(b) Compute the final amount of income tax payable by Changala in the tax year 2023.

(7 marks)

[Total: 25 Marks]

END OF PAPER

D4: PERSONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) COMPUTATION OF INCOME TAX PAYABLE BY **DOREEN** IF IREEN IS TAKEN ON AS AN EMPLOYEE

	K	K
Net profit as per accounts		1,420,000
Less:		
Ireen's gross emoluments		
(Salary K15,000+Housing K4,000) x 12		(228,000)
Employer's NAPSA contribution		
(K228,000 x 5%)		(11,400)
Motor running expenses on:		
- Toyota Hilux(K48,000*75%)	(36,000)	
- Ford Ranger (K60,000 x 75%)	(45,000)	
		(81,000)
Capital allowances on:		
Toyota Hilux (K560,000 x 25%)*75%	(105,000)	
Ford Ranger (K600,000 x 20%) x 75%	(90,000)	
		(195,000)
Final taxable business profits		904,600

Income Tax Computation:

Taxable amount	Tax rate	Tax charged
		K
First K57,600	0%	NIL
Next K24,000	20%	4,800
Next K25,200	30%	7,560
Balance K797,799	37.5%	299,175
		311,535

IREEN'S
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	K
Salary (K15,000 x12)	180,000
Housing allowance (K4,000 x12)	48,000
	228,000

Taxable amount	Tax rate	Tax Charged K

First K57,600	0%	NIL
Next K24,000	20%	4,800
Next K25,200	30%	7,560
Balance K121,200	37.5%	45,450
		57,810

(ii) COMPUTATION OF FINAL TAXABLE PROFIT IF IREEN IS TAKEN ON AS A PARTNER

	K
Taxable profits before capital allowances	1,420,000
Less:	
Motor running expenses on Toyota Hilux (K48,000 x 75%)	(36,000)
Capital allowances on:	
Toyota Hilux (K560,000 x 25%) x 75%	(105,000)
	1,279,000

ALLOCATION OF THE FINAL TAXABLE PARTNERSHIP PROFITS

	Total	Doreen	Ireen
	K	K	K
Salaries	480,000	300,000	180,000
Travel/Housing allowance	108,000	60,000	48,000
Total Appropriations	588,000	360,000	228,000
Balance (3:2)	691,000	414,600	276,400
	1,279,000	774,600	504,400
Motor car running expense on Ford Ranger			
Ford Ranger (K60,000 x 75%)	(45,000)	(45,000)	
Less capital allowances on Ford Ranger			
Ford Ranger (K600,000 x 20%) x 75%	(90,000)	(90,000)	
	1,144,000	639,600	504,400

Income Tax Computation:

Taxable amount	Tax rate	Tax charged Doreen	Tax charged Ireen
		K	K
First K57,600	0%	NIL	NIL

Next K24,000	20%	4,800	4,800
Next K25,200	30%	7,560	7,560
Balances K532,800/K397,600	37.5%	199,800	149,100
		212,160	161,460

(b) COMPUTATION OF NET INCOME IF IREE IS ENGAGED AS

	An Employee	A partner
	K	K
Total income	1,420,000	1,420,000
Income tax for:		
Doreen	(311,535)	(212,160)
Ireen	(57,810)	(161,460)
Employee's NAPSA contribution	(11,400)	0
Employer's NAPSA contribution	(11,400)	0
Net income	1,027,855	1,046,380

Based on the above analysis, it is more beneficial for Doreen to engage Ireen as a partner rather than as an employee as the net income under this option will be higher by:
K1,051,405 – K1,027,855 = K23,550

SOLUTION TWO

(a) An individual is regarded as a resident in Zambia if that individual is physically present in Zambia for more than 183 days excluding the date of arrival and departure.

An individual is also regarded as a resident in Zambia if that individual comes to Zambia for a purpose that will take more than twelve (12) months or comes to Zambia with intentions of establishing permanent residence, then from the date of arrival that individual is held to be a resident.

Akufu will be regarded as a resident in Zambia for the tax year 2023, and therefore, liable to pay income tax.

This is so because Akufu is expected to be in Zambia for employment that will take more than twelve (12) months, hence regarded as a resident in Zambia from the date of arrival.

(b) The following are the methods of double taxation relief:

(1) Treaty relief:
This is an agreement between two or more states on how the income earned in one state will be treated for income tax purposes if remitted in the other state. The treaty relief is given according to the provisions of the treaty.

(2) Unilateral credit relief:
This relief is given when there is no treaty relief. Unilateral credit relief is given unilaterally in Zambia by way of foreign tax credit against the Zambian income tax on foreign income.
The relief to be given is the lower of:
(1) The amount of tax paid on foreign income to foreign tax authorities, and;
(2) The equivalent Zambian tax

(3) Unilateral expense relief
This is relief given by treating the foreign tax paid on foreign income as an allowable deduction in Zambia. Under this relief it is the income net of foreign tax paid which is assessed to Zambian income tax.

(c) Income tax payable by Akufu for the tax year 2023

	K	K
Zambian income		
Salary (K502,800 x 5/12)		209,500
Transport allowance (K209,500 x 12%)		25,140
House maintenance expenses (K3,800 x 5)		<u>19,000</u>
		253,640
Foreign income		
Dividends (K70,000 x 100/70)	100,000	

Bank interest (K38,400 x 100/80)	48,000	
		148,000
		401,640
Less:		
Capital allowances (K480,000 x 20% x 45%)	43,200	
Motor car running expenses (K5,200 x 5 x 45%)	11,700	
		(54,900)
Taxable income		346,740
Computation		
First K57,600 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess K239,940 @37.5%		89,978
Income tax liability		102,338
Less:		
Tax credit relief:		
Dividends (K70,000 *30/70)		(29,514)
Bank interest		(9,600)
Income tax payable		63,224

SOLUTION THREE

(a) Tax treatment

(i) **Lizzie Mafungo**

Lizzie will be subjected to rental income tax, as her income constitutes income from letting of real property.

Lizzie will, therefore, be required to pay rental income tax for the year ended 31 December 2023 on the gross rental received less tax free amount every month which will be due on the 14th day following the end of each month.

The maintenance expenses incurred by Lizzie will not be deductible for the purposes of turnover tax as it is calculated on the gross income.

(ii) **Gerald Mphavu**

Gerald is engaged in public transportation business. He will therefore, be required to pay presumptive taxes for transporters.

The operating expenses to be incurred by Gerald will not be deductible for the purposes of presumptive taxes.

(b) Amount of tax payable for the tax year 2023

(i) Lizzie Mafungo

The amount of the monthly rental income tax to be paid will be:

Gross monthly rental income	K
Houses	28,100
Other commercial building	37,400
Total rental income	65,500
Rental Income Tax	
First K1,000 @0%	0
Excess (K65,500 – K1,000) @4%	2,580
Total monthly turnover tax	2,580
Total turnover tax for the year 2023: K2,580 x 12 =	30,960

(ii) Gerald Mphavu

Presumptive taxes are fixed per quarter depending on the seating capacity of the vehicle.

	K
Toyota Hiace bus (K540 x 4 quarters)	2,160
Toyota Noah car (K270 x 3 quarters)	810
Marcopolo bus (K1,620 x 3 quarters)	4,860
Total presumptive tax	7,830

(c) Joyce Gwembe

(i) The following are the conditions to be met for an employee share option scheme to be approved by the Commissioner General:

(1) The scheme must be established in Zambia and the employer must be carrying on operations in Zambia.
(2) Only ordinary (equity) shares may participate in the scheme
(3) The scheme should provide for participation of all eligible employees, including directors.
(4) An employee participating in the scheme should not acquire more than 20% of the shares to be issued under the scheme.
(5) The scheme entitles an employee to acquire a set number of shares at a fixed price.
(6) The employee must be restricted to a set period of time to use an option to buy shares.
(7) The employees must be citizens or permanent residents of Zambia regardless of where they perform their duties.

(ii) The following are the tax benefits of an approved employee share option scheme:

Tax benefits for the employer

(1) Costs incurred by the employer to set up the scheme will be allowed as a deduction in calculating the company's taxable business profit.
(2) The income of an approved share option scheme will be exempt from tax.
(3) The employer will be exempt from paying property transfer tax on shares transferred under the terms of an approved share option scheme.

Tax benefits for the employee

(1) Any gain or income which arises to that individual on allotment of shares under an approved share option scheme is exempt from tax.

SOLUTION FOUR

(a) Basis of assessment

(1) Since the first accounting period is made up of more than 12 months, being twenty-one (21) months long it will be split into 2 notional accounting periods for tax purposes.

(2) This will be done as follows:

(i) The first period will consist of less than 12 months being the period from 1 April 2023 to 31 December 2023.

(ii) The second period should consist of exactly 12 months ending on the first accounting date, being the period from 1 January 2024 to 31 December 2024.

(3) The profits for the whole period before capital allowances should be allocated to the above two notional accounting periods on a time basis.

(4) Thereafter, the normal rules should be applied to determine the tax year in which the profits of the first and second accounting period should be assessed on a current year basis.

(5) This will be done as shown below:

Tax year	Basis Period	Taxable profit before capital allowance
2023	1.04.2023 - 31.12.2023	K1,050,000 x 9/21 = K450,000
2024	1.01.2024 - 31.12.2024	K1,050,00 x 12/21 = K600,000

(6) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2023

Office buildings	K		K
Wear & tear allowance			
(K300,000 x 2%)			6,000
Isuzu Double cab			
Cost	320,000		
Wear & tear allowance			
(K320,000 x 20%)	(64,000)	x 75%	48,000
ITV c/f	256,000		
Office equipment			
Wear & tear allowance			
(K80,000 x 25%)			20,000
			74,000

(7) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2024

Office buildings	K		K
Wear & tear allowance			
(K300,000 x 2%)			6,000
Isuzu Double cab			
ITV c/f	256,000		
Proceeds	(230,000)		
Balancing allowances	26,000	x 75%	19,500
Office equipment			
Wear & tear allowance			
(K80,000 x 25%)			20,000
Toyota Fortuner			
Wear & tear allowance			
(K600,000 x 20%) x 75%			90,000
			135,500

(8) COMPUTATION OF final taxable profits FOR THE TAX YEARS:

	2023	2024
	K	K
Tax adjusted profit	450,000	600,000
Less capital allowances	(74,000) W6	(135,500) W7
Final taxable profits	376,000	464,500

(b) CHANGALA

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	K'000	K'000
Business profits (W8)		376,000
Employment income		
Salary (K18,000 x 3)	54,000	
Transport allowance (K18,000 x 5%) x 3	2,700	
Housing allowance		
(K18,000 x 20%) x 3	10,800	
Accrued leave pay	10,000	
Taxable emoluments		77,500
Total income		453,500

Income Tax computation:

Taxable amount	Tax rate	Tax Charged K
First K57,600	0%	NIL

Next K24,000	20%	4,800
Next K25,200	30%	7,560
Balance K346,700	37.5%	130,013
		142,373
Less PAYE		(29,060)
		113,313

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: INTERNATIONAL TAXATION

THURSDAY, 14 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

2. This question paper consists of FOUR (4) questions of Twenty Five (25) marks each. You must attempt all the FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided on pages 2, 3 and 4.

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

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

Income from farming for individuals

K0.01 to K57,600	first K57,600	0%
Over K57,600		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270

From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

	Aged 2 to 5 years		Aged above 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497

Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

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

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

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

Attempt all FOUR (4) question.

QUESTION ONE

Liquonand Ltd is a manufacturing company resident in a country known as Thaiiland.The republic of Thaiiland has been recognised as a tax haven state. The currency of Thaiiland is the Thaiiland Dollar (T$) and the company income tax at which Liquonand pays is 5%. The company produces Liqui X oil which is used in jets. Liquonand identified a business opportunity in Zambia for this special type of oil. On 2 December 2022, Liquonand Ltd acquired 100% of the issued ordinary share capital of Zamlight Ltd, a Zambian resident company that also produces Liqui X oil. On 1 January 2023 the directors of Liquonand Ltd instructed Zamlight Ltd to transfer 75% of its total production of Liqui X oil to its parent at a price of T$12.5 per litre. This directive enabled Liquonand Ltd to meet an increase in demand of Liqui X oil and increased revenues in Thaiiland. In the year ended 31 December 2023, Zamlight Ltd produced 245,000 litres of Liqui X oil at a production cost of K55 per litre and incurred operating expenses amounting to K3,000,000. These expenses are all allowable for tax purposes. Other costs incurred by Zamlight Ltd during the year to 31 December 2023 were finance costs amounting to K550,000. The open market price of Liqui X oil during the year 2023 averaged T$15 per litre.

On 1 November 2023, Zamlight Ltd obtained a loan of K650,000 from Liquonand Ltd at an annual interest rate of 32%. Zamlight Ltd has accounted for the interest payable to Liquonand Ltd and is included in the finance cost figure of K550,000. On 1 November 2023 the open market rate of interest on loans from local lenders averaged 18%.

The exchange rate during the tax year 2023 as quoted by the Bank of Zambia and approved by the Commissioner General averaged K18.75 per T$1.

Required:

(a) In relation to tax havens;

(i) Explain the meaning of tax haven. (2 marks)

(ii) State four (4) practices for the identification of tax havens as defined by the OECD. (4 marks)

(b) Explain the meaning of transfer pricing and its effects on the economy. (5 marks)

(c) Explain the income tax implications for Zamlight Ltd of the following transactions:

(i) Transfer of goods to Liquonand Ltd at a transfer price of T$12.5. (4 marks)

(ii) Borrowing of K650,000 from Liquonand Ltd at an interest rate of 32% per annum. (5 marks)

(d) Calculate the company income tax payable by Zamlight Ltd for the tax year 2023. (5 marks)

[Total: 25 Marks]

QUESTION TWO

OKCorp Plc is a company resident in a country known as GreatLand. The company manufactures poly pipes used for irrigation by farming businesses. The currency of GreatLand is the GreatLand Dollar (GL$). On 28 February 2023, OkCorp Plc acquired 70% of the issued equity shares of FarmCorp Limited, a Zambian resident company that supplies farming and irrigation equipment.

Juru Okafor, a resident of GreatLand, was appointed Managing Director of FarmCorp Limited on a three (3) year contract commencing 1 August 2023. The contract is renewable at the discretion of the Board of Directors of OkCorp Plc. He arrived in Zambia on 25 July 2023 to take up this appointment. The contract provides for an annual salary of K741,600 and general purpose allowance of K4,900 per month. FarmCorp Limited rents a house on his behalf at a gross monthly rent of K11,600. He moved into this house on 1 August 2023. The company pays for all utility expenses in connection with his residential accommodation which amounted to K2,100 per month. All the employment income was paid by FarmCorp Limited and was credited to his bank account he holds with a Zambian bank.

He is provided with a personal-to-holder car which the company bought on 26 July 2023 at a cost of K400,000. The motor car running expenses amounted to K3,000 per month. The motor car has a cylinder capacity of 3,000cc. The private use in the motor car is estimated to be 60%.

On 20 December 2023, he received dividends and interest income amounting to GL$5,100 and GL$1,680 respectively, from his investments in GreatLand resident companies. The amounts of dividends and interest are net of withholding tax deducted in GreatLand at a rate of 15% and 40% respectively. All of these amounts were credited to his bank account he holds with a Zambian bank.
He paid income tax under the pay as you earn system amounting to K111,223 during the year ended 31 December 2023.

The exchange rate averaged K18.90 per GL$1 for the year ended 31 December 2023 and must be used where appropriate. There is no double taxation convention between Zambia and GreatLand. Any double taxation relief is given unilaterally in Zambia by way of tax credit against the Zambian income tax on foreign income.

Required:

(a) Explain, with reasons, whether Okafor will be held to be resident in Zambia for income tax purposes for the year ended 31 December 2023. (3 marks)

(b) Explain six (6) roles of double taxation treaties. (6 marks)

(c) Explain the difference between the concept of source and the concept of residence as they apply in international taxation. (3 marks)

(d) Calculate the amount of income tax payable by Okafor for the tax year 2023. (13 marks)

[Total: 25 Marks]

QUESTION THREE

Limited tax base is one of the biggest challenges most developing countries, especially in Africa, are facing today.This implies that such countries are over taxing their residents. In turn, this leads to residents opting to practice tax avoidance, tax evasion, money laundering and some choose to go to tax havens in order to reduce their tax liabilities. These practices cause nations to lose so much revenue. The Financial Action Task Force (FATF) however, has proposed some measures to ensure that leakages in terms of tax revenue is minimised and that countries work on broadening their tax base. It is argued that globalization, in a way, is helping broadening the tax base as it has brought about an increase in non-residents whose income is subject to tax. In Zambia both foreign income of non-residents and foreign income of residents is assessed for tax purposes.

Required:

(a) Explain the income tax treatment of the following types of income:

- (i) Domestic employment income of non-residents. (3 marks)
- (ii) Domestic business profits of non-residents. (3 marks)
- (iii) Domestic investment income of non-residents. (2 marks)
- (iv) Foreign income of non-residents. (2 marks)

(b) Explain the income tax treatment of dividends income, interest income, rental income, employment income and business profits of Zambian residents arising from foreign investments. (5 marks)

(c) Explain any five (5) recommendations, made by the Financial Action Task Force (FATF), to implement in order to effectively deal with international tax avoidance and evasion involving money laundering. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

Globalization is a process of interaction and integration among people, companies and Governments of different nations which is driven by international trade and investment and aided by information technology. This process has effects on the environment, culture, political systems, economic development and prosperity, and human physical well being in societies around the world. Research has recently shown that failure to properly align tax law with human rights could have serious repercussions on business investments. COMESA has since planned to have training programmes for the charge year 2023 with Tax Authorities in effective customs services,harmonising human rights with tax laws, General Agreement on Tarriffs and Trade (GATT), Border Tax Adjustments (BTAs) and World Trade Organisation (WTO) regulations.

Required:

(a) In relation to Border Tax Adjustments (BTAs).;

- (i) Explain the meaning of Border Tax Adjustments. (2 marks)
- (ii) Explain the limitations of Border Tax Adjustments (BTAs). (3 marks)

(b) Explain the difference between origin principle and destination principle for indirect taxes. (4 marks)

(c) Explain the GATT rules on border tax adjustment. (6 marks)

(d) Explain the methods in which a cross-border merger may be effected. (6 marks)

(e) Explain the main areas of interaction between human rights law and tax law In international taxation. (4 marks)

[Total: 25 Marks]

END OF PAPER

D5: INTERNATIONAL TAXATION SUGGESTED SOLUTIONS
SOLUTION ONE

(a) Tax harvens

(i) A tax haven is a country with lenient tax rules or relatively low tax rates which are often designed to attract foreign investments.

(ii) Four factors or practices for the identification of tax haven are:-

(1) No or only nominal tax on the relevant income or usually capital.

(2) Lack of effective exchange of information by strict secrecy rule and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on taxpayers benefiting from low tax jurisdiction e.g. Swiss bank accounts in the past.

(3) Lack of transparency e.g. the details of the regim e and/or its application is not apparent, or there is inadequate regulatory supervision or financial disclosure.

(4) No substantial activities in country where the jurisdiction facilitates the establishment of foreign owned entities without the need for a loca l substantive presence. This is what makes it doubtful how small islands can host billions of dollars in foreign direct investment if they apparently do not have the necessary resources to yield production.

(b) Transfer pricing is the general term used to refer to the problem of allocating profits by a multinational enterprise among the parts of a corporate group.This involves pricing of goods and services supplied within the group between the parent company and its foreign subsidiary or between two foreign subsidiaries.

Effects of practising transfer pricing

Transfer pricing is used by companies with subsidiaries located in countries with lower tax rates (tax havens) to divert profits in order to lower tax liabilities of the group.

It, therefore,

(1) reduces taxable business profits and tax liabilities of the whole group and

(2) result in loss of significant amounts of tax revenue for the government.

(3) results in funds to be moved from the country in which tax rates are perceived to be high to a foreign country with low tax rates. This reduces money circulation in the economy.

(c) Income tax implications of transfer pricing for Zamlight Ltd are as follows:

(i) Transfer of goods

When Zamlight Ltd transferred goods to Liquonand Ltd for less than the market value, the taxable profits of Zamlight Ltd reduced by the difference between transfer price and market price of the goods.

The difference is:

	K
Open market value	
(245,000 ltrs x 75% x T$15 x K18.75)	51,679,688
Less:	
Transfer value	
(245,000 x 75% x T$12.5 x K18.75)	(43,066,406)
Decrease in taxable profit	8,613,282

The decrease in taxable profits of K8,613,282 should be added back when computing the taxable business profit of Zamlight Ltd for the tax year 2023.

(ii) Borrowing of K650,000 from Liquonand Ltd

When the loan is provided by a related party resident in a foreign country,the rate of interest on that loan should reflect the market interest rates (arm's length interest rates).

Zamlight Ltd obtained a loan from its parent at an interest rate of 32% when the local lending rates on the market averaged 18%. This means that the taxable profits of Zamlight Ltd reduced by the difference between the actual interest paid and the interest that they should have paid if the loan was borrowed from within Zambia.

The difference is:

	K
Actual interest paid (K650,000 x 32% x 2/12)	34,667
Less:	
Interest based on market rates	
(K650,000 x 18% x 2/12)	(19,500)
Decrease in taxable profits	15,167

The decrease in taxable business profits of K15,167 should be added back when computing the taxable business profits of Zamlight Ltd for the tax year 2023.

(d) Zamlight Ltd

Income tax payable for the tax year 2023

	K	K
Revenue		
[K51,679,688 + (245,000 x 25% x T$15 x K18.75)]		68,906,251
Less:		

Cost of production (245,000 ltrs x K55)	13,475,000	
Operating expenses	3,000,000	
Finance costs (K550,000 – K15,167)	534,833	
		(17,009,833)
Taxable business profit		51,896,418
Company income tax (K51,896,418 x 30%)		15,568,925

SOLUTION TWO

(a) An individual is regarded as a resident in Zambia if that individual is physically present in Zambia for a period of more than one hundred eighty three (183) days excluding the date of arrival and departure.

An individual is also regarded as a resident in Zambia if that individual comes to Zambia for a purpose that will take more than twelve (12) months, or he/she comes to Zambia with the intentions of establishing permanent residence in Zambia. In this case the individual is regarded as a resident in Zambia upon arrival.

Akafor will therefore be regarded as a resident in Zambia for the tax year 2023 as he has come in Zambia for the purpose that will take more than twelve (12) months. He qualified to be a Zambian resident on the date he arrived in Zambia, and therefore liable to pay Zambian income tax.

(b) The following are the roles of double taxation treaties:

(1) Protect against the risk of double taxation where the same income is taxed in two different states.
(2) Provide certainty of treatment for cross-border trade and investment between two (2) or more states.
(3) Prevent excessive foreign taxation and other forms of discrimination against business interests situated abroad.
(4) Protect the government's taxing rights and protect against attempts to avoid or evade tax by businesses and individuals
(5) Promote exchange of information between national taxation authorities in order to reduce or eliminate tax evasion internationally.
(6) Encourage and maintain an international consensus on cross-border economic activity and promote international trade and investment.

(c) The concept of source states that imposition of tax depends on the relationship between the income and the state. This means that income is taxed in the country (state) in which the income is generated from; i.e.; in the country where the sources of that income are.
On the other hand, the concept of residence states that imposition of income tax depends on the relationship between the person receiving the income and the state. This means that all the income received by persons regarded as residents in particular country is taxable regardless of where the source of that income is

(d) Okarfor
Income tax payable for the tax year 2023

	K	K
Zambian income		
Salary (741,600 x 5/12)		309,000

General purpose allowance (K4,900 x 5)		24,500
House rentals (K11,600 x 5)		58,000
Utility expenses (K2,100 x 5)		10,500
		402,000
Foreign income		
Dividends (GL$5,100 x 100/85 x K18.90)	113,400	
Interest (GL$1,680 x 100/60 x K18.90)	52,920	
		166,320
Taxable income		568,320
Computation		
First K57,600 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess (K568,320 – K106,800) @37.5%		173,070
Income tax liability		185,430
Less:		
Double taxation relief:		
Dividends		(17,010)
Interest		(17,267)
Pay as you earn		(111,223)
Income tax payable		39,930

Workings – double taxation relief

Dividends

Foreign tax paid: K113,400 x 15% = K17,010

Equivalent Zambian tax

Gross foreign income x Zambian tax charge
Total assessable income

K113,400 x K185,430
K568,320
= K37,000

Interest

Foreign tax paid: K52,920 x 40% = K21,168

K52,920 x K185,430
K568,320
= K17,267

SOLUTION THREE

(a) Income tax treatment of domestic income received by non-residents

(i) Domestic employment income

This income is usually subject to the normal wage withholding tax, and not any special final withholding tax, in the country in which the income arises from.

There are special tax collection problem where the employer is a non-resident, but tax treaties usually will profit the employee from taxation by the country where the work is performed in this event through the 183-day rule.

Some transition countries find it difficult to cope with withholding tax on wages of expatriates because their wages are paid into bank accounts in foreign countries. However, tax treaties make penalties severe for such practices.

(ii) Domestic business pprofits

The business profits sourced in a country is taxable if that income is generated from the operations classified as a permanent establishment in a country where the profits are generated from. The net assessment basis is used.

If the business profits attributable to any operation not classified as a permanent establishment and are taken out of the country as dividends, interest, royalties or consultancy fees, that income is subjected to a final withholding tax.

Problems normally arise in the treatment of allowable deductions from the gross income of non-residents, before being taxed. A deduction can be given to a company classified as a permanent establishment, any expense incurred for as long as it is at arm's length in the case of related party transactions.

(iii) Domestic investment income

Withholding tax is charged at a flat rate which is usually the finanl tax in the case of domestic investment income of non-residents. The withholding tax is charged on the gross amount of investment income.

The domestic tax laws sets withholding tax rate in the range of 10 - 20 percent.

(iv) Foreign income

For foreign income of non-residents is exempted from income tax. This may apply to a person who comes in Zambia, for example, for a specific task that is completed within a period of less than six (6) months. This means that a person does not qualify to beregarded as a resident under domestic tax laws.

(b) Income tax treatment of the following foreign income of residents:

(1) Dividends received from shares held in companies resident in a foreign country is generally taxable if it is received in Zambia. The normal income tax rates are

applicable subject to double taxation treaties. The taxable amount is gross forein dividends received.

(2) Interest income received from investments in debt instruments of companies resident in a foreign country is taxable if that income is received in Zambia. The taxable amount is the gross amount of interest received subject to double taxation relief.

(3) Rental income received from letting out of properties situated in a foreign country is exempt form Zambian income tax.

(4) Employment income is usually taxed in the country in which it is received. However, if the employment income is received in Zambia, it is subjected to Zambian income tax taking into account the double taxation relief.

(5) Business profits are only taxable in Zambia if the business is controlled from Zambia. If the business is controlled fom outside Zambia, then business profits of a business situated in a foreign country will not be taxable in Zambia.

(c) The following are the recommendations made by the Financial Actrion Task Force (FATF):

(1) Demanding full transparency from financial institutions to provide all information concerning their activities in offshore supervisory authorities. In this respect financial institutions must be discouraged or, if necessary, prohibited from operating in territories that feature on the black lists of the FATF,OECD and the World banks StAR (Stolen Assets Recovery Initiative).

(2) Establishing an interconnected and well integrated system of legal shareholder registries encompassing economic blocs and their member states, which will feature all necessary information concerning the shareholders of corporations operating within the economic blocs.

(3) Creating a regularly-updated beneficial owner registry. Information of this kind should be either exchanged or coordinated across member states without any obstacle. This can avoid instances of fiscal dumping and eliminate an opportunity for criminals to make use of legal loopholes in a manner that is sophisticated, structured and systematic abuse of the system.

(4) Strengthening the requirements on the function of corporate directors. Directors should be held accountable for failing to take reasonable steps to prevent money-laundering, this should apply regardless of whether they are nominees or not.

(5) Reconsidering and reinforcing the rules regarding the due diligence that corporate registries and financial institutions should perform, always on an accurate risk-based approach, in an attempt to verify that all information pertaining to the beneficial ownership is correct and that no margin for fraudulent or corrupt activity is allowed.

(6) Introducing requirements for enhanced due diligence in cases where politically exposed people are identified, with the option of rendering void or otherwise limiting the transaction in question.

(7) Forming a Financial Intelligence Unit (FIU) whose role shall be to monitor, assess and analyse suspicious transaction reports and contracts. This entity could operate within the context of the Single Supervisory Mechanism that would be incorporated within the range of responsibilities of the Central Bank.

SOLUTION FOUR

(a) Border Tax Adjustments (BTAs)

(i) Border Tax Adjustments (BTAs) are any fiscal measures that put into effect the destination principle in whole or in part. In other words, BTAs relieve exported products of some or all of the tax the exporting country charged on similar domestic products in the home market and enables the importing country to charge some or all of the tax on imported products that it charges on similar domestic products.

(ii) The following are the limitations of BTAs:
The term ''Border Tax adjustment'' is somewhat confusing because its suggests that a fiscal measure is applied at the border, which is not always the case.
Although in many cases imports are taxed on entry, certain countries apply a tax to imports after the goods have crossed the border and have been sold to other merchants or consumers.
The OECD has noted that certain tax systems do not tax exports at all and make no adjustment at the border. As a result, the OECD Working Party has recommended the replacement of the term ''Border tax adjustment'' with ''tax adjustment applied to goods entering into international trade''.

(b) The origin principle is the principle of charging indirect taxes which states that, internationally traded commodities are taxed at the rates prevailing in the country where the goods are produced. This means that the goods are taxed and revenue collected by the exporting country. The origin principle exempts imports from taxation and tax exports.
On the other hand, the destination principle states that internationally traded commodities are at the rates prevailing in the country where final consumption of the goods takes place. This means that the goods are taxed and revenue collected by the importing country.

(c) The following are the GATT rules on BTAs:

(1) Policies addressing climate change should be adopted. Carbon taxing countries imposes import fees on goods manufactured by non-carbon taxing countries motivating factor for these measures is at least, in theory, internalise the real costs of producing goods and services with respect to international climate change regulation, thereby leveling the playing field between producers of like products from different countries.
(2) BTAs should tax imported goods the equivalent of what the producers would have had to pay to produce them in the home market they are entering. Under this system, domestic producers in countries with carbon taxes will not face costly climate change measures that foreign producers do not face in their home countries.
(3) An alternative approach would be to impose taxes on imported goods that are equivalent to the enforcement of emissions allowance trading.
(4) Therefore, in order to import products from a nation that does not comply with the carbon taxes applied in the importing country, an importer of goods would

be required to purchase emission rights in his country, compensating for the difference.

(d) The following are the methods of effecting cross-border megers:

(1) Merger by absorption

This is a meger in which an existing company acquires all the assets and liabilities of its wholly owned subsidiary. This means that the subsidiary company is dissolved and, without going into liquidation, transfers all its assets and liabilities to its parent company.

(2) Meger by acquisition

This is a meger where a company acquires all of the assets and liabilities of another company in exchange for the issue to the members of the transferor company of securities or shares in the acquiring company, with or without cash payment

(3) Meger by formation of a new company

This is a meger in which two or more companies, upon being diso;ved without going into liquidation, transfer all of their assets and liabilities to the successor company that they form in exchange for the issue to their members of securities or shares representing the capital of that new company.

(e) The tax law and human rights law may interact in the following areas:

(1) Taxation may interfere with international human rights standards in the process of enforcing the tax laws. E.g pursuing tax offenders in their place of residence or home country. Therefore, taxation should be executed in accordance with certain principles while avoiding undermining fundamental individual rights and freedoms.

(2) Taxation may be used as a tool to enforce the general social and legal values of the nation beyond its borders. These values include human rights.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: TAX AUDIT AND INVESTIGATIONS

TUESDAY, 12 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

6. You have fifteen (15) minutes reading. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

7. This question paper consists of **FOUR (4)** questions of Twenty-Five (25) marks each. You MUST attempt all the **FOUR (4)** questions.

8. 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.

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

10. **Cell phones** are **NOT** allowed in the Examination Room.

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2, 3, 4, 5 and 6.

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

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

	Aged 2 to 5 years		**Aged above 5 years**	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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 above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles
Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

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

   Customs Duty

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

   Excise Duty:

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

3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all the four (4) questions.

QUESTION ONE

There are various types of tax audit which can only be successful when there is an adequate legal framework. This is because a tax audit involves auditors looking into the internal affairs of a tax payer which naturally allows an intrusion on the tax payer's privacy, exploration of private and business issues as well as the disruption of the tax payer's day-to-day's workflow.

Required:

(a) Explain the meaning of tax audit and the circumstances under which it may be conducted.

(3 mark)

(b) Explain four (4) key elements of a tax legal framework that relate to the function of a tax audit and investigation.

(8 marks)

(c) Explain any four (4) types of tax audits that may be conducted by Zambia Revenue Authority.

(8 marks)

(d) Explain any three (3) roles of the taxpayer audit programme.

(6 marks)

[Total: 25 Marks]

QUESTION TWO

(a) The world economy has in the recent past been slowing down in terms of growth due to the Covid -19 pandemic and the Zambian economy has not been spared either. Some businesses have been suppressing their revenues and inflating their expense in order to evade tax payments.

Required:

(i) Explain the meaning of tax investigation and the circumstances under which it is conducted.

(6 marks)

(ii) Explain the difference between risk based approach and systems based approach as they apply in tax investigation.

(5 marks)

(b) A good number of companies belonging to the same group do trade amongst themselves. Some of these business transactions may not be at arms-length.

The tax authority in this case Zambia Revenue authority normally takes keen interest in such business transactions.

Required:

(i) List six (6) enterprises that are normally subjected to transfer pricing audits.

(6 marks)

(ii) Explain the arm's length concept in transfer pricing.

(4 marks)

(c) Explain the roles of a tax audit team leader.

(4 marks)

[Total: 25 Marks]

QUESTION THREE

Chandamali has been trading as a sole trader for the past two (2) years. She has not formally registered her business with both PACRA and ZRA. She has been advised to register her business formally as there are more benefits of having a registered business. Chandamali is aware that once she registers her business formally, she would need to expand her business and this would entail raising more funds for expansion. After further consultations, she was advised to incorporate her business and this would mean that all assets automatically get transferred to a new company. Chandamali does not really appreciate the difference between capital expenditure and revenue expenditure and she has been warned to seriously comply with tax laws to avoid sanctions that may be imposed on her business by ZRA.

Required:

(a) Explain to Chandamali the differences between a limited liability company and a company limited by guarantee.

(5 marks)

(b) Explain any four (4) assets that could to be transferred when a business is incorporated.

(4 marks)

(c) Explain any three (3) methods that can be used as sources of capital in a business.

(6 marks)

(d) (d) Explain six (6) causes of the sanctions that can be imposed on Chandamali if she does not comply with relevant provisions of the tax law.

(6 marks)

(e) (e) Explain the difference between capital expenditure and revenue expenditure for income tax purposes.

(4 marks)

[Total: 25 Marks]

QUESTION FOUR

John is a sole trader engaged in farming. His annual turnover has always exceeded K800,000. For the year ended 31 December 2023, he reported a loss before tax amounting to K30,300. Using his basic taxation knowledge, he computed the income tax refund on this figure which he later submitted to Zambia Revenue Authority as a claim. He has engaged you to verify the correctness of his claims.

After a review of his financial statements, you have discovered the following:

(1) Depreciation of K165,800 was charged to the statement of profit or loss for the year ended 31 December 2023.
(2) Salaries and wages amounting to K400,000. Included in this figure is a nominal salary for John amounting to K180,000. The balance is made up of salaries paid to his employees.
(3) Entertainment of customers and suppliers K59,050 were charged to the statement of profit or loss.
(4) Rent and rates amounting to K181,200. This figure includes rental expenses for his rented house amounting to K112,000. The balance is made up of rental expenses paid for the business office space.
(5) General expenses amounting to K890,000. This figure included traffic fines charged on John K6,200, staff refreshments K33,600, loans to former employees written off K36,000, donation to an approved public organisation K11,000 and increase in general provision for irrecoverable debts K16,400. The balance is made up of revenue expenses which are all allowable for tax purposes.

Other information

(1) John withdrew farm produce for his own and family's consumption. The selling price of the goods was K44,000. No adjustment was made in the financial statements to record this.

(2) He paid provisional income tax amounting to K40,000 during the tax year 2023.

(3) He incurred the following capital expenditure during the year ended 31 December 2023:

	K
Farm tractor	51,000
Ploughs	21,000
Prevention of soil erosion	13,000
Boreholes	40,000
Motor car	70,000
Office furniture	30,000

On 1 January 2023, he had no assets qualifying for capital allowances. It has been agreed that he uses the motor car 60% for business.

Required:

(a) Explain any five (5) key principles that apply to quality audits according to OECD.

(5 marks)

(b) Explain six (6) categories of businesses not liable to pay turnover tax.

(6 marks)

(c) Calculate the amount of capital allowances claimable by John for the tax year 2023.

(6 marks)

(d) Calculate the income tax payable by John for the tax year 2023.

(8 marks)

[Total: 25 Marks]

END OF PAPER

D6: TAX AUDIT AND INVESTIGATIONS SUGGESTED SOLUTIONS
SOLUTION ONE

(a) A tax audit is an examination of tax returns and supporting books of accounts and any other related information submitted by a taxpayer to Zambia Revenue Authority.

A tax audit may be called due to

(1) Some perceived irregularity in one or two returns.
(2) Sometimes, a tax audit may be done simply as part of a random sampling.

(b) The following are the three key elements of a tax legal framework:

(1) Tax payer's record keeping.
Business enterprises are expected to keep adequate books of accounts and records based on national codes of commerce to the extent that they do not contravene any tax laws. Where technology is advanced, obligations may require that they keep electronic books and accounts. The books and records should be maintained in the language of the country in which the tax payer resides
(2) Tax Inspectors Access to books and records
Company law requires that that the auditor is given access to records and books of accounts at all times they are required. This information maybe inform of financial statements, letters of contracts in order to determine correct amounts of taxes due. However, the ability to collect taxes is subject to the provisions of the respective country's Double Taxation Agreements or Tax Information Exchange Agreements and Domestic Laws. An auditor should conduct an investigation on the premises of the client in order to observe work –flow daily and inspect various assets that are being used by the client.
(3) Tax officials Access to third party information
All countries have legal provisions to support the auditor in cases where the tax payer provides unsatisfactory information or the auditor must verify tax payer's information using an independent or third party sources. However the auditor can be limited due to protection of tax payer's privacy, Protection of trade industrial secrets and confidential rules of professional ethics.
(4) Sanctions for Non-compliance
The voluntary reporting of tax payer's correct tax liabilities and the provision of any assistance that may be required verifying tax payer's reported liabilities are facilitated by an appropriately structured regime of sanctions such as penalties, interest and imprisonment. These penalties may arise when a tax payer fails to answer questions or provide relevant documents. Sanctions can be Imposed when a tax payer understates tax liabilities resulting from unintended errors or from careless or reckless acts and from deliberate and fraudulent acts.

(c) The following are the types of tax audits:

(1) Full audits- the scope of a full audit is encompassing. It typically entails a comprehensive examination of all information relevant to the calculation of a tax payer's tax liability for a given period. The objective is to determine the correct tax liability for a tax return as a whole.
(2) Limited scope audits or (issued based Audit)-limited scope audits are confined to specific issues on tax return and/or a particular tax scheme arrangement employed by the tax payer. The objective is to key potential risk areas of non-compliance. These audits consume relatively fewer resources than full audits and allow for an increased coverage of a tax payer population.
(3) Single issue audits-single issue audits are confined to one item of potential non-compliance that may be apparent from examination of tax payer's return. given there narrow scope , single issue audits typically take less time to perform and can be used to review large numbers 0f tax payers involved in schemes to conceal non-compliance.
(4) Deregistration audit- conducted when a business is pending deregistration from being a VAT registered supplier. The aim is to establish the final VAT liability/refund position.
(5) Education audits-These audits are normally done when there is a major change in the tax law that is complex.
(6) Credibility audits- for instance under VAT, credibility audit is aimed at checking the correctness of a claim for a VAT refund

(d) The following are the roles of the taxpayer audit programme:
(1) Promotion of voluntary compliance: by reminding the tax payer of the risks of non-compliance and inculcating confidence in the tax payer, serious abuses can be minimized through dissemination of such tax information.
(2) Detection of non-compliance by tax payer-significant omissions and understatements can be detected through a tax audit programme.
(3) Collection of tax information on behalf of the tax payer: as details are gathered by the use of the audit programme, certain pattern of risk that emerges can be documented and analysed by the tax auditor. In the final end appropriate audit procedures as such as risk-based procedures can be designed to deal with tax evasion /avoidance schemes that can prevent such abuses from happening in future.
(4) Gathering intelligent information-the information on tax evasion and avoidance can be used to come up with counter measures such as strict inspections and anti- tax squads can be set up.
(5) Educating tax payers-audits can assist to clarify the application of the law for individual tax payers and to identify improvements required for record keeping and thus may contribute to improved compliance by the tax payers in the future.

(6) Identify areas of the law that requires clarification-audits may bring to light areas of the tax law that are causing confusion and problems to large

numbers of taxpayers and thus required further efforts by ZRA to clarify and educate the tax payer.

SOLUTION TWO

(a) Tax investigation

(i) A tax investigation is an in depth examination process by a tax authority in order to recover tax undercharged in previous years of assessment.
A tax investigation includes a check that all the documents that have been submitted to ZRA are correct and complete, including supporting documentation.

A tax investigation is usually conducted:

(1) When a tax payer is suspected of tax evasion, or just by random sampling.
(2) When a tax payer does not submit returns but are in receipt of taxable income
(3) When the tax agency has reason to believe that taxpayers' return or business accounts is wrong.
(4) The tax agency may have received a tip off, some figures may not tally with other information they have.
(5) The tax return may have been sent late to the tax agency.

(ii) Risk based auditing refers to the development of auditing techniques which are responsive to risk factors in a taxpayers business environment.

The auditor applies judgement to determine what level of risk pertains to different areas of a client's system and devises appropriate audit tests. This approach should ensure that the greatest audit effort is directed at riskiest areas so that the chance of detected errors is improved and time is not spent on unnecessary testing of safe areas.

The effectiveness of a risk-based compliance approach depends fundamentally on the use of automated systems to gather third-party information and match with the taxpayer returns using reliable databases and a unique taxpayer identification number.

On the other hand, a systems audit is an examination of internal controls. The systems based audit is used mainly for medium and large enterprises and is based on the assumption that such companies have internal control system which will constitute a reliable base for the preparation of the record and books for the taxpayer.

(b) Transfer pricing

(i) <u>Entities that may be subjected to transfer pricing audit</u>:

(1) Enterprises which have a significant amount of, or various types of related party transactions.
(2) Enterprises which have been in long-term consecutive losses, low profitability, or fluctuating profit and loss situations.

(3) Enterprises whose profit levels are lower than those in the same industry.
(4) Enterprises showing an obvious mismatch between their profit levels and their functional and risk profile.
(5) Enterprises which have business dealings with related parties in tax havens.
(6) Enterprises which have not complied with the reporting of their related part transactions or preparation of contemporaneous documentation.

(ii) The 'arm's length principle pricing states that the amount charged by one related party to another for a given product must be the same as if the parties were not related.
An arm's length price for transaction is therefore what the price of that transaction would be on the open market.

(c) The following are the roles of the team leader:
(1) Ensure the consistent application of delegated authority, audit standards, policy, procedures and their interpretation of tax law.
(2) Act as change champions and immediate leaders for organisational change and the training of auditors.
(3) Ensure that tax audits are correctly carried and evaluate the performance of the auditor.
(4) Act as a mediator in disputes between taxpayers and the auditor.

SOLUTION THREE

(a) A company is a legal person that is created at law. It can be formed by registration or by royal charter. In Zambia most companies are formed by registration through PACRA and can either be limited by guarantee or by Limited Liability Company.

A company limited by guarantee is usually formed for non-commercial purposes. It can also be referred to as a non-profit making organization. Common examples are clubs and societies.
Members who form these companies do make a firm promise or guarantee to pay a certain amount of money should the company go into liquidation or insolvency.

The members themselves do not have an economic right in relation to the company. The company can be with or without a share capital and can be publicly traded or privately controlled.

A limited liability company is a company that is formed by members who have shares in the company. The shareholders are expected to have some economic right in the company in form of dividends.
However, the liabilities of the company cannot be extended to the private assets of the shareholders in case the company is in liquidation.

(b) The following assets are expected to be transferred when a business is incorporated:

(1) Assets net of liabilities need to be transferred to limited company when the business transfer takes place.
(2) A lease of premises which is in the name of the sole traders or partners which will need to be assigned to the limited company.
(3) Any regulatory approvals which the business requires will need to be obtained again in the name of the Limited company.
(4) Employees will transfer under the labour law provisions, but will need to have letters confirming the positions under labour and employment Acts.
(5) Any fiancée contracts which are in the name of the sole trader or partners will need to be transfer to the limited company.

(c) The following are the common sources of finance that Chandamali can use to finance her business expansion:

(1) Ordinary shares or Equity
These are shares that are issued to the owners of the company and have a nominal value of K1.00 each. The shares do not guarantee a constant flow of dividend to shareholders. The ordinary shareholders may not get any dividends in arrears whenever the company makes a loss in a particular year.

(2) Preference shares

These can be a source of finance which is issued at the stock exchange. They rank higher than ordinary shares and carry a fixed rate of dividend and are paid first before ordinary members. They have the advantage of not being diluted as they do not carry voting rights and if they are cumulative type, can be paid in arrears if they did not get dividends in the previous year.

(3) Loan stock
This a type of debt or loan owed to the company and the interest is paid at a stated coupon yield on this amount. The loan stock has a nominal value in which the debt owed by the company and interest paid by stated "coupon yield"on the amount. Debentures are form of loan stock which is legally defined as written acknowledgement of a debt incurred by a company. It contains provisions about details of payments and eventual repayment of the loan capital.

(4) Retained earnings
These are amounts of profits that remain after operational costs, interest, and taxation have been paid. It is the money which is reinvested into profitable projects. Retained earnings have an advantage not attracting cost of issues and do not carry any charge.

(5) Sales of tangible assets
When a company has excess assets that are not being used, it can sell these assets in order to generate capital for investing in profitable business portfolio.

(d) The six causes of sanctions for non-compliance are:
(1) Understating liabilities resulting from unintended errors, ignorance or misinterpreting of fact or law.
(2) Understatements of tax liability resulting from careless or reckless acts.
(3) Under estimation of liabilities resulting from deliberate and /fraudulent acts.
(4) Failure to keep adequate records and books.
(5) The failure by a tax payer to submit requested information that is relevant to the conduct of audit inquiries.
(6) When a tax payer evades tax, they are then subjected to criminal prosecution which may lead to imprisonment and /or serious fines.

(e) Capital expenditure and revenue expenditure
Capital expenditure is an expenditure incurred with a view to improve the condition of the asset or any expenditure related to capital assets. This is specifically disallowed.

When expenditure is made once and for all but with a view to bringing into existence an asset or advantage for the enduring benefit of a business, that expenditure will reasonably be treated as capital expenditure.

Revenue expenditure is any expenditure incurred in the course of the business that is wholly and exclusively for the purposes of the business. Such expenses are allowable when computing adjusted business profit.

SOLUTION FOUR

(a) The following are the key principles of a quality tax audit:

(1) Accurate- they identify non-compliance, entail a correct interpretation of the law, and lead to a correct assessment of liability.

(2) Efficiency- they minimise the compliance burden on the taxpayer and minimise the use of the revenue body's resources in terms of the outcome delivered.

(3) Objective-all decisions made are based on facts

(4) Transparent-as issues are developed and fully documented in the work papers, these developments are generally discussed with the taxpayer during the course of the audit.

(5) Fair- technically accurate and procedurally correct in accordance with domestic laws and policies.

(6) Complete-the audit has a defined start and end point and the Taxpayer knows when the audit process is complete

(7) Defensible-the decisions made in the audit and the actual audit process can stand up to external scrutiny

(8) Consistent-the same tax payer circumstances should produce the same result regardless of which auditor undertakes the audit

(b) The following businesses are not liable to pay turnover tax:

(1) Any person whose annual business earnings are more than K800,000.

(2) Any individual or partnership carrying on the business of public service vehicle for the transportation of person.

(3) Any person whose annual business earnings are less than K800,000 but has voluntarily registered for value added tax.

(4) Any partnership regardless of the level of annual turnover.

(5) Any individual whose income constitutes income from partnership since the partnership is exempted from turnover tax.

(6) Any person running a business engaged in mining operations where that person is a holder of a large scale mining licence.

(7) Any person whose income is subjected to withholding tax where the withholding tax is the final tax.

(c) Capital allowances claimable for the tax year 2023

	K
<u>Farm tractor</u>	
Wear & tear (K51,000 x 100%)	51,000
<u>Ploughs</u>	
Wear & tear (K21,000 x 100%)	21,000
<u>Prevention of soil erosion</u>	
Farm works (K13,000 x 100%)	13,000

Boreholes	
Farm works (K40,000 x 100%)	40,000
Motor car	
Wear & tear (K70,000 x 20% x 60%)	8,400
Office furniture	
Wear & tear (K30,000 x 25%)	7,500
Total capital allowances	140,900

(d) Income tax payable for the tax year 2023

	K	K
Loss before tax		
		(30,300)
Add:		
Depreciation	165,800	
John's salary	180,000	
Entertaining customers & suppliers	59,050	
Rental expenses - house	112,000	
Traffic fines	6,200	
Staff refreshments	33,600	
Loans to former employees written off	36,000	
Increase in general provision	16,400	
Goods drawn for personal use	44,000	
		653,050
		622,750
Less:		
Capital allowances		(140,900)
Taxable business profit		481,850
Computation		
First K57,600 @0%		0
Excess K424,250 @10%		42,425
		42,425
Less:		
Provisional income tax paid		(40,000)
Income tax payable		2,425

END OF SOLUTIONS