



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 1: FINANCIAL ACCOUNTING

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MONDAY 10 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A – (COMPULSORY)**

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

#### **QUESTION ONE**

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

- 1.1 Mr. A. Sasa, a sole trader, had reported a profit of K51,000. It was later discovered that capital expenditure on an asset for K15,000 had been treated as revenue expenditure to statement of Profit or Loss Account.

What should the correct profit have been?

- A. K51,000.
- B. K66,000.
- C. K36,000.
- D. K81,000.

(2 marks)

- 1.2 A business entity is owned and run by Banda, Daka and Goma.

What type of business is this an example of?

- A. Don't know.
- B. Sole trader.
- C. Partnership.
- D. Limited Liability company.

(2 marks)

- 1.3 Which of the following arguments is not in favour of accounting standards, but is in favour of accounting choice?

- A. They oblige companies to disclose their accounting policies.
- B. They may tend towards rigidity in applying the rules.
- C. They reduce variations in methods used to produce accounts.
- D. They are a less rigid alternative to legislation.

(2 marks)

- 1.4 Petty cash is controlled under an imprest system. The imprest amount is K500. During a period, payments totalling K265 have been made and a sundry income of K25 from an employee for making a private phone call. How much needs to be reimbursed at the end of the period to restore petty cash to the imprest account?

- A. K265.
- B. K240.
- C. K235.
- D. K290.

(2 marks)

- 1.5 When VAT is not recoverable on the cost of a motor car, it should be treated in which of the following ways?
- A. Deducted from output Tax for the period.
  - B. Included in the cost of the asset capitalised.
  - C. Deducted from the cost of the asset capitalised.
  - D. Written off to statement of Profit or Loss as an expense. (2 marks)
- 1.6 According to IAS 2: Inventories, what is included in the cost of purchases of inventories?
- A. Purchase price less import duties less trade discount.
  - B. Purchase price less trade discount.
  - C. Purchase price plus import duties plus transport costs less trade discount
  - D. Purchase price plus transport costs less trade discount. (2 marks)
- 1.7 A non-current asset (cost K50,000, Depreciation K37,500) is given in part exchange for a new asset costing K102,500. The agreed trade-in value was K17,500. The statement of Profit or Loss will include:
- A. A Loss on purchase of a new asset K17,500
  - B. A Loss on disposal K5,000.
  - C. A Profit on disposal K5,000.
  - D. A Profit on disposal K17,500. (2 marks)
- 1.8 X Co. has a trade payables control account balance of K25,000 at 31 December 2023. However, the extract of balances from the trade payables ledger totals K25,600. An investigation finds the following errors:
- Purchases for week 52 of K2,400 had been omitted from the control account; a payable account of K1,800 had been omitted from the list of balances.
- What is the correct trade payables balance at 31 December 2023?
- A. K27,400.
  - B. K26,200.
  - C. K26,800.
  - D. K25,600. (2 marks)
- 1.9 A business has net assets of K350,000 at the beginning of the year and K400,000 at the end of the year. Drawings were K125,000 and a lottery win of K25,000 was paid into the business during the year.
- What was the profit for the year?
- A. K50,000 Profit.
  - B. K50,000 Loss.
  - C. K200,000 Profit.
  - D. K150,000 Profit . (2 marks)

1.10 In the published accounts of DC Ltd, the profit for the period is K700,000. The balance of retained earnings at the beginning of the year is K100,000. If dividends of K500,000 were paid, what is the closing balance of retained earnings?

- A. K800,000.
- B. K300,000.
- C. K100,000.
- D. K200,000.

(2 marks)

**[Total: 20 Marks]**

## SECTION B

There are **FIVE (4)** questions in this section.

Attempt any **FOUR (3)** Questions.

### **QUESTION TWO**

Owen Muuka, a sole trader, had prepared the following trial balance at 31 December 2023.

	<b>K</b>	<b>K</b>
Capital		107,600
Property at cost	52,000	
Fixtures and fittings at cost	15,600	
Allowance for depreciation (as at 1 January 2023)		7,000
Trade receivables	18,400	
Trade payables		22,600
Bank	16,000	
Inventory – 31 December 2023	27,600	
Drawings	19,000	
Motor vehicles at cost	8,600	
Allowance for depreciation (as at 1 January 2023)		4,800
Gross profit		40,000
Heating and lighting	2,900	
Salaries	14,700	
Advertising	1,800	
Carriage outwards	1,400	
Motor vehicle running expenses	3,500	
Rent and Rates	5,000	
Cash	500	
Suspense Account (difference in books)		5,000
	<u>187,000</u>	<u>187,000</u>

An investigation of Muuka's records revealed the following errors:

1. The purchases account had been over added by K1,000.
2. A. Jata, a trade receivable, had paid K1,400 on his account. The amount had been recorded in the cash book, but not in trade receivables control account.
3. Sales returns of K700 had been recorded in trade receivables control account, but not in the sales returns account;
4. No entry had been made in the bank account for K3,000 paid in respect of rent, although the payment had been recorded in the rent account.
5. When the total of trade payables was calculated, a creditor for K300 had been omitted.

**The following additional information for the year was available:**

- (i) At 31 December 2023, there were salaries accrued of K700 and heating and lighting accrued K380, while K200 of the advertising expenditure had been paid in advance;
- (ii) No entry had been made for inventory taken by the proprietor (Owen Muuka) for his own use K500 (at cost price).

- (iii) Depreciation is to be charged on fixtures and fittings at 10% on cost and on the motor vehicles at 20% using reducing balance method.

**Required:**

Prepare:

- (a) A Suspense account starting with the balance of K5,000 and recording the necessary corrections. (Journal entries not required). (2 marks)
- (b) A Statement of profit or loss for the year ended 31 December 2023. (8 marks)
- (c) A Statement of financial position as at 31 December 2023. (10 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

Blessington is the owner of Yaami's restaurant which was opened 10 years ago. The restaurant is involved in the business of selling local traditional food which is loved by most of its customers. During the COVID 19 pandemic, the business lost most of its customers due to lock downs and deaths. Some customers became bankrupt and so were unable to pay their debts. In 2021 Blessington decided to hire a consultant who assisted in computerising the operations of the organisation. A computer application was developed which allowed customers to buy food online and then have it delivered to their door steps.

On 1 January 2020 Yaami's restaurant's outstanding debts totalled K9,500,000. During the accounting year to 31 December 2020, the following transactions occurred:

- (i) Sales on credit amounting to K30, 000,000 were made to its customers.
- (ii) Payments by cheque from various customers amounting to K10,000,000 were received.
- (iii) Discount allowed to various customers during the accounting period was K100,000.
- (iv) Debts amounting to K700,000 were deemed and declared irrecoverable.
- (v) Management at the same time decided to make an allowance for receivable of 10% per annum. The previous allowance for receivables was K475,000 at the rate of 5%.

**Required:**

- (a) Describe four (4) causes for irrecoverable debts for Yaami restaurant. (4 marks)
- (b) State four (4) advantages of computerised accounting. (4 marks)
- (c) Prepare Yaami's trade receivables account. (6 marks)
- (d) Prepare Yaami's irrecoverable debts account. (2 marks)
- (e) Prepare Yaami's allowance for receivable account. (4 marks)

**[Total: 20 Marks]**

## **QUESTION FOUR**

Mutale is a sole trader manufacturing desks out of wood extracted locally in Zambia. Recently there has been stiff competition arising from other businesses who have been importing already made desks that are slightly cheaper.

Below is Mutale's list of balances extracted from the ledgers as at 31 March 2023:

	<b>K'000</b>
Carriage inwards on raw materials	300
Purchases of raw materials	40,000
Inventory at 1 April 2022:	
Raw materials	5,200
Finished goods	6,700
Work in progress	2,000
Royalties	300
Wages (direct)	30,400
Receivables	80,400
Payables	21,400
Bank	10,000
Cash	900
Sales	173,400
Capital	70,000
Drawings	5,000
Factory plant (cost K60m)	50,000
Motor van at cost	20,000
Accumulated depreciation on motor van	1,600
Rent	2,600
Lighting and heating	900
Factory power	3,400
Administrative salaries	6,200
Bank interest charges	300
Discount allowed	500
Carriage outwards	700
Insurance	600

### **Notes at 31 March 2023:**

1. Inventory of raw materials K5,500,000, Inventory of finished goods K4,200,000, work in progress K3,300,000.
2. Rent, lighting and heating and insurance are to be apportioned: factory 2/3, administration 1/3
3. Rent prepaid at 31 March 2021 K500,000.
4. Depreciate plant at 8% using reducing balance method and Motor van at 4% using straight line method.

### **Required:**

- (a) Explain four (4) elements of production cost that would be related to Mutale's business giving one (1) example in each. (4 marks)
- (b) Prepare Mutale's Manufacturing account as at 31 March 2023. (8 marks)
- (c) Prepare Mutale's Statement of profit or loss account for the year ended 31 March 2023. (8 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

1. Mr Ngoshe is an engineer who runs a business in Solwezi. He engaged an agent to help him prepare accounts. The trial balance of Ngoshe failed to agree because the credit balances were more than the debit balances by K12,150. Consequently, the suspense account was opened and after some investigations the following errors made by the agent were discovered as at 30 November 2023:
  - (i) The sales day book total was listed as K11,250 instead of K13,680.
  - (ii) Discount allowed was credited to discount received K9,450.
  - (iii) The purchases day book total of K11,880 had been recorded properly in the ledger but posted to the payables control twice.
  - (iv) Repair of furniture for K5,040 was debited to furniture account.
  - (v) Cash receipts from receivables of K16,200 were debited in the cash book but not posted to the receivables control account.

#### **Required:**

In relation to the above scenario:

- (a) State two (2) reasons for preparing the trial balance. (2 marks)
  - (b) Briefly explain three (3) errors that will be revealed by the trial balance. (3 marks)
  - (c) Briefly explain two (2) errors that will not be revealed by the trial balance. (2 marks)
  - (d) Prepare Journal entries to correct the above entries. (No narratives required) (5 marks)
2. You were recently recruited to help with bank reconciliation by Zed enterprises. On 30 June 2023. The bank column of Zed Enterprise's Cash Book showed a debit balance of K39,600. The Bank Statement on the same date showed a balance of K79,065 credit. You compare the Bank Statement and Cash Book and establish the following:
    - (i) Zed enterprises received cheques amounting to K18,810 which were deposited by 30 June 2023, but were only credited to her bank account on 5 July, 2023.
    - (ii) Two cheques issued in June 2023 had not been presented for payment, payable to S.Malani for K6,300 and another to G. Chabala for K7,200.
    - (iii) A standing order to Chikwanda Building Society for K5,400 had been paid by the bank.
    - (iv) A direct credit amounting to K6,480 had not been entered in the Cash Book.
    - (v) Zed enterprises earned interest of K3,420 on her bank account. This has not been entered in the account.
    - (vi) Zed enterprises fixed deposit account had matured; K37,800 had been transferred into her current account.



- (vii) The bank statement showed an entry for a dishonoured cheque of K1,890 returned from Musonda, a customer.
- (viii) An error was discovered in the cash book where a cheque received for K2,880 from a customer, C.Taonga, was credited to the cash book.
- (ix) The Bank Statement showed bank charges of K1,395 not recorded in the business's books.

**Required:**

- (a) Update the Cash Book balance as at 30 June, 2023. (4 marks)
- (b) Draw up a bank reconciliation statement as at 30 June 2023, starting with the Bank Statement balance. (4 marks)

**[Total: 20 Marks]**

**QUESTION SIX**

The following is a summary of the receipts and payments of Universal Theatre Club during the year ended 31 December 2023.

**UNIVERSAL THEATRE CLUB**

**Receipts and payments account for the year ended 31 December 2023**

	<b>Dr</b>		<b>Cr</b>
	K		K
Cash and bank balance	9,000	Secretarial expenses	2,040
Sales of competition tickets	4,500	Rent	15,120
Members subscriptions	28,800	Travel expenses	5,100
Donations	1,260	Donations to charities	270
Sale of refreshments	5,520	Prizes for competitions	1,620
		Stationery & printing	1,074
		Purchases of refreshments	2,640
		Wages of bar attendant	1,380
		Supplier of New Equipment	10,800
		Balance c/d	<u>9,036</u>
	<u>49,080</u>		<u>49,080</u>
Balance c/d	9,036		

The following account balances are also available as at 31 December:

	2022	2023
	<b><u>K</u></b>	<b><u>K</u></b>
Equipment (original cost K21,000)	12,000	33,000
Subscriptions in arrears	480	390
Subscriptions in advance	180	240
Owing to suppliers of refreshments	780	750
Inventory of competition prizes	252	228

Inventory of refreshments	900	1,080
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During the year equipment worth K27,000 was bought on credit from Earthrolds Enterprises but no record of this transaction was made in the books.

**Required:**

- (a) Calculate the value of the accumulated fund of the club as at 1 January 2023. (3 marks)
- (b) Calculate the amounts for:
  - (i) Subscription earned (3 marks)
  - (ii) Profit or loss on refreshments (3 marks)
  - (iii) Surplus on competitions held (2 marks)
- (c) Prepare an Income and expenditure account for the club for the year ended 31 December 2023. (5 marks)
- (d) Prepare a Statement of financial position as at 31 December 2023. (4 marks)

**[Total :20 Marks]**

**END OF PAPER**

## **DA 1: FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

1.1 B

1.2 C

1.3 B

1.4 B

1.5 B

1.6 C

1.7 C

1.8 A

1.9 D

1.10 B

## SOLUTION TWO

(a)

### Suspense Account

	K		K
Purchases	1,000	Difference in Books	5,000
Trade Receivables	1,400	Sales Returns	700
Bank	3,000		
Trade Payables	<u>300</u>		
	<u>5,700</u>		<u>5,700</u>

(b)

### Owen Muuka's

#### Statement of profit or loss for the year ended 31 December 2022

	K	K
Gross Profit (40,000 + 1,000 + 500 - 700)		40,800
less Expenses:		
Depreciation on Fittings (10% x 15,600)	1,560	
Depreciation on motor vehicles (20% x (8,600 - 4,800))	760	
Salaries (14,700 + 700)	15,400	
Heating and Lighting (2,900 + 380)	3,280	
Advertising (1,800 - 200)	1,600	
Carriage outwards	1,400	
Vehicle running expenses	3,500	
Rent and Rates	5,000	(32,500)
<b>Net Profit</b>		<b><u>8,300</u></b>

(c)

### Owen Muuka's

#### Statement of financial position as at 31 December 2022.

	<i>Cost</i>	<i>Accumulated Depn.</i>	<i>NBV</i>
	K	K	K
<b><u>NON-CURRENT ASSETS</u></b>			
Property	52,000	-	52,000
Fixtures and Fittings	15,600	8,560	7,040
Motor vehicles	8,600	5,560	<u>3,040</u>
			62,080
<b><u>CURRENT ASSETS</u></b>			
Inventory		27,600	
Trade Receivables (18,400 - 1,400)		17,000	
Bank (16,000 - 3,000)		13,000	
Cash		500	
Prepaid Expenses - Advertising		<u>200</u>	<u>58,300</u>
<b>Total Assets</b>			<b><u>120,380</u></b>
<b><u>Financed by</u></b>			
Capital			107,600
Net Profit		8,300	
Drawings (19,000 + 500)		<u>(19,500)</u>	(11,200)
<b><u>CURRENT LIABILITIES</u></b>			
Trade Payables (22,600 + 300)	700	22,900	
Accruals: - Salaries	<u>380</u>		
- Heating and Lighting		<u>1,080</u>	<u>23,980</u>
<b>Total equity and liabilities</b>			<b><u>120,380</u></b>

### SOLUTION THREE

(a) Description of four (4) causes for irrecoverable debts for Yaami restaurant.

1. Bankruptcy. Some customers of Yaami restaurant became bankrupt. The court could have declared them bankrupt due to their inability to pay debts.
2. Deaths. Deaths of some customers could have been one of the reasons that led to irrecoverable debts. If a customer dies without leaving any asset, the debt becomes irrecoverable hence has to be written off.
3. Insanity/madness. Some customers might have passed through deep depression because of COVID 19 that could have made some to go insane thereby making the debt to be irrecoverable.
4. Long sickness or illness. Long illness may have caused the customer to fail to pay the debt.

(b) Four (4) advantages of computerised accounting.

1. Large amount of data can quickly be processed within a short period of time
2. Computerised accounting can be used by non-specialised as it is easy to use.
3. Operating systems that are computerised are able to give accurate information compared to manual systems.
4. Large volumes of data can be processed. In the case of Yaami restaurant, large volumes of customers' orders can be processed without workers getting very tired

(c)	Yaami's Trade receivable a/c			
2020	K'000	2020	K'000	
Opening balance b/d	9,500	Bank	10,000	
Sales	30,000	Discount allowed	100	
		Irrecoverable debts	700	
		Closing balance c/d	<u>28,700</u>	
	<u>39,500</u>		<u>39,500</u>	

(d)	Yaami's irrecoverable a/c			
2020	K'000	2020	K'000	
Trade receivables	700	SPL: irrecoverable debts	700	
	<u>700</u>		<u>700</u>	

(e)	Yaami's Allowance for receivable a/c			
2020	K'000	2020	K'000	
		Balance b/d	475	
balance b/d	2,870	SPL: (2,870 – 475)	2,395	
	<u>2,870</u>		<u>2,870</u>	

## SOLUTION FOUR

(a) Description of four (4) elements of production costs that would be related to Mutale's business and one example in each.

1. Direct materials

These are materials that are used in the production of goods. In case of Mutale, this would be wood or timber that is used to produce desks.

2. Direct labour

This refers to skilled manpower that is involved in the actual work of making the desks. Example of this are wages paid to workers making desks.

3. Direct expenses

This represents directly expenses such as royalties payable to an inventor a product or model. In case of Mutale an inventor of new desks.

4. Factory overheads

These are costs that cannot be directly attributable to what is being produced. An example could be factory heat and lighting.

(b) Mutale's Manufacturing account as at 31<sup>st</sup> March 2021.

	K'000	K'000
Raw materials:		
Opening inventory	5,200	
Purchases	40,000	
Carriage inwards	<u>300</u>	
Total inventory	45,500	
Less closing inventory	<u>(5,500)</u>	
Cost of raw materials consumed		40,000
Direct labour:		
Wages		30,400
Direct expenses:		
Royalties		<u>300</u>
Prime cost		70,700
Factory overheads		
Rent $(2,600 - 500) \times 2/3$	1,400	
Lighting and heating $(900 \times 2/3)$	600	
Factory power	3,400	
Insurance $(600 \times 2/3)$	400	
Depreciation: Factory plant $(50,000) \times 8\%$	<u>4,000</u>	
		<u>9,800</u>
		80,500
Add opening work in progress		<u>2,000</u>
		82,500
Less closing work in progress		<u>(3,300)</u>
Production cost		<u>79,200</u>

(c) Mutale's Statement of profit or loss account for the year ended 31<sup>st</sup> March 2021.

	K'000	K'000
Sales		173,400
Less cost of sales:		
Opening inventory	6,700	
Production cost	<u>79,200</u>	
Total inventory available	85,900	
Less closing inventory	<u>(4,200)</u>	
Cost of sales		<u>(81,700)</u>
Gross profit		91,700
Less expense:		
Rent $(2,600 - 500) \times 1/3$	700	
Lighting and heating $(900 \times 1/3)$	300	
Administrative salaries	6,200	
Bank interest charges	300	
Discount allowed	500	
Carriage outwards	700	
Insurance $(600 \times 1/3)$	200	
Depreciation: Motor van $(20,000) \times 4\%$	<u>800</u>	
Total expenses		<u>(9,700)</u>
Net profit		<u>82,000</u>

## **SOLUTION FIVE**

1.

(a) The trial balance is a list of all the debit balances and credit balances from the ledger accounts. The following are the main reasons for preparing a trial balance:

- The trial balance is used to check the accuracy of the double entries made in the ledger accounts. If the trial balance is not in balance, then an error has been made somewhere in the accounting process.
- The trial balance will also be used as a basis for the preparation of the final accounts namely the income statement and the statement of financial position.

(b) Errors that will be revealed by the trial balance:

- i. Single sided entry – a debit entry has been made but no corresponding credit entry or vice versa.
- ii. Debit and credit entries have been made but at different values.
- iii. Two entries have been made on the same side.
- iv. An incorrect addition in any individual account, i.e. miscasting, leading to over/undercast.
- v. Opening balance has not been brought down.
- vi. Extraction error – the balance in the trial balance is different from the balance in the relevant ledger account.

(c) The following errors will not result in an unbalanced trial balance and therefore will not be revealed by the trial balance.

- i. Error of omission - Where a transaction has been completely omitted from the accounting records. E.g. A cash sale of K90,000 was not recorded.
- ii. Error of commission – It is when a transaction has been posted, i.e. recorded in the correct ledger but in the wrong account. E.g. Expenditure of K27,000 on rates has been posted to the rent account in error.
- iii. Error of principle - A transaction has conceptually been recorded incorrectly. E.g. The cost of a new car of K540,000 has been debited to motor expenses.
- iv. Compensating errors - Two different errors may have been made which cancel each other out. e.g. The balance on the sales account is overstated by K180,000 due to a casting error. A rent bill of K450,000 has been debited to the rent account as K630,000.
- v. Error of original entry - The correct double entry has been made but with the wrong amount. e.g. A cash sale of K78,000 has been recorded as K87,000.
- vi. Reversal of entries - The correct amount has been posted to the correct accounts but on the wrong side. E.g. A cash sale of K180,000 has been debited to sales and credited to bank.



(d) Journal entries

	<b>Dr</b>	<b>Cr</b>
	<b>K</b>	<b>K</b>
i) Suspense	2,430	
Sales		2,430
ii) Discount allowed	9,450	
Discount received	9,450	
Suspense		18,900
iii) Payables	11,880	
Suspense		11,880
iv) Repairs to furniture	5,040	
Furniture		5,040
v) Suspense	16,200	
Receivables control		16,200

2.

(a)

CASH BOOK			
	Dr		Cr
	K		K
Balance	39,600	Standing order	5,400
Direct credit	6,480	Bank charges	1,395
Fixed deposit transfer	37,800	Dishonoured cheque	1,890
Interest received	3,420		
Correction of error – receipt CR.	5,760	Adjusted balance	84,375
	<b>93,060</b>		<b>93,060</b>

(b) BANK RECONCILIATION STATEMENT AS AT 30 JUNE 2023

	K	K
Balance as per bank statement		79,065
ADD: Outstanding deposits		<u>18,810</u>
		97,875
Less: Unpresented cheques		
S. Malani	6,300	
G. Chabala	<u>7,200</u>	<u>(13,500)</u>
Balance as per adjusted cash book		<u>84,375</u>

## SOLUTION SIX

### (a) UNIVERSAL THEATRE CLUB

#### Opening Journal (Calculation of Accumulated Fund at 1 January 2023):

##### Assets

	K	K
Bank	9,000	
Equipment	12,000	
Subscriptions in arrears	480	
Inventory of Competition prizes	252	
Inventory of Refreshments	<u>900</u>	<u>22,632</u>

##### Liabilities

Subscriptions in advance	180	
Owing to suppliers of refreshments	<u>780</u>	<u>(960)</u>
<b>Accumulated Fund</b>		<u>21,672</u>

### (b)

#### (i)

##### ANNUAL SUBSCRIPTIONS

	K		K
Balance b/d	480	Balance b/d	180
I & E	28,650	Bank	28,800
Balance c/d	<u>240</u>	Balance c/d	<u>390</u>
	<u>29,370</u>		<u>29,370</u>
		Balance b/d	240

#### (ii)

##### Calculation of profit on Bar refreshments:

	K	K
Sales of refreshments		5,520
Opening inventory		900
Purchases [2,640-(780-750)]	<u>2,610</u>	
	3,510	
Closing inventory	<u>(1,080)</u>	<u>(2,430)</u>
		3,090
Wages of bar attendant		<u>(1,380)</u>
Profit on restaurant		<u>1,710</u>

#### (iii)

##### Calculation of profit or loss on competition:

	K	K
Ticket sales		4,500
Opening inventory of prizes	252	
Purchases	<u>1,620</u>	
	1,872	
Closing inventory	<u>(228)</u>	<u>(1,644)</u>
Surplus		<u>2,856</u>

(c)

**UNIVERSAL THEATRE CLUB**

INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2023

	K	K
<b>INCOME</b>		
Profit on bar	1,710	
Profit on competition	2,856	
Annual subscriptions	28,650	
Donations	<u>1,260</u>	34,476
<b>EXPENDITURE</b>		
Secretary's expenses	2,040	
Rent of clubhouse	15,120	
Travel expenses	5,100	
Donations	270	
Stationery	1,074	
Depreciation (W1)	6,000	(29,604)
<b>SURPLUS</b>		<u>4,872</u>

**WORKING**

1. Depreciation K K

**Non-current assets**

Equipment – Cost bal b/f	21,000
Addition (purchases)	<u>27,000</u>
	48,000
Less: Net book value as at 31 December 2011	(33,000)
Accumulated Depreciation	15,000
Less Dep for previous years (21,000-12,000)	(9,000)
Depreciation for the year	<u>6,000</u>

(d) **UNIVERSAL THEATRE CLUB**

**Statement of Financial Position as at 31 December 2011**

	K	K
<b>Non-current assets</b>		
Equipment – Cost (21,000+27,000)	48,000	
Accumulated Dep (9,000+6,000)	<u>(15,000)</u>	
		33,000
<b>Current Assets</b>		
Inventories: - refreshments	1,080	
Prizes	228	
Subscriptions in arrears	390	
Cash and bank balances	<u>9,036</u>	
<b>Total assets</b>		<u>10,734</u>
		<u>43,734</u>
<b>Accumulated Fund</b>		
Balance at start	21,672	
Add: Surplus	<u>4,872</u>	
		26,544

**Non-current Liabilities****Current liabilities**

Suppliers of refreshments	750	
Annual subscriptions in advance	240	
Suppliers of equipment (27,000-10,800)	<u>16,200</u>	<u>17,190</u>
<b>Total Accumulated fund and liabilities</b>		<b><u>43,734</u></b>

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 2: QUANTITATIVE ANALYSIS

---

WEDNESDAY 12 JUNE 2024

---

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (COMPULSORY)

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

#### QUESTION ONE

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

- 1.1 Suppose that a quiz consists of 20 True or False questions. A student hasn't studied for the exam and will just randomly guess at all answers (with True and False equally likely). How would you find the probability that the student will get 3 or fewer answers correct?
- A. Find the probability that  $x = 3$  for a normal distribution with mean of 15 and standard deviation of 4.
  - B. Find the area between 0 to 3 in a uniform distribution 0 to 20.
  - C. Find the cumulative probability for 3 in a binomial distribution with  $n = 20$  and  $p = 0.5$ .
  - D. Find the probabilities of  $x = 3$  in a binomial distribution with  $n = 20$  and  $p = 0.5$
- (2 marks)
- 1.2 An investor invests money by equal series of payments every year. This form of equal series of payments is called:
- A. Future value of annuity.
  - B. Present value of annuity.
  - C. Sinking value of annuity.
  - D. Nominal value of annuity.
- (2 marks)
- 1.3 In statistical terms, a statistic is:
- A. A random variable.
  - B. A sample value.
  - C. A population value.
  - D. The solution to a statistical problem.
- (2 marks)
- 1.4 Which of the following is the cyclic behaviour of time series?
- A. Level.
  - B. Trend.
  - C. Seasonality.
  - D. Noise.
- (2 marks)
- 1.5 The statement that ' $P(A|B) = P(B|A)$ ', whenever  $A$  and  $B$  are independent events is:
- A. Never true.
  - B. Always true.
  - C. Not enough information, we would need to know if the events are equally likely.

- D. Not enough information, we would need to know if  $A$  and  $B$  are disjoint event. (2 marks)
- 1.6 Find the value, in four (4) years' time, of K11,000 invested at 8% interest compounded annually.
- A. K115,473.6.  
B. K11,356.25.  
C. 14,965.38.  
D. K14,960.12. (2 marks)
- 1.7 Sampling frame is a list of:
- A. Random numbers.  
B. Natural numbers.  
C. Units of a population.  
D. None of the above. (2 marks)
- 1.8 With which component of a time series would you associate the global economic recession?
- A. Random.  
B. Trend.  
C. Cyclical variation.  
D. Seasonal variation. (2 marks)
- 1.9 If  $P(X = 1) = P(X = 5)$  in Poisson's distribution, find the value of the mean.
- A. 3.38.  
B. 5.38.  
C. 6.38.  
D. 3.31. (2 marks)
- 1.10 A man invested  $\frac{1}{3}$  of the sum at 6%,  $\frac{1}{5}$  at 8% and the remaining at 12% for one year. If the annual interest is 624, then the investment is
- A. K6,782.61.  
B. K6,700.00.  
C. K6,782.16.  
D. None of the above. (2 marks)

**[Total: 20 Marks]**

## SECTION B

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

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

### QUESTION TWO

The table below shows the names of five (5) toy construction kits which were bought from a catalogue, the number of pieces  $X$ , found in each, and the corresponding pieces paid,  $Ky$ .

Name	Set 1	Set 3	Set 4	Set 5	Set 6
X	11	21	28	37	75
Y	11	26	34	41	88

**Required:**

- (a) Plot the scatter diagram of the data. (3 marks)
- (b) Calculate the equation of the regression line. (11 marks)
- (c) Find the price of Set 2, which is not listed in the catalogue, but is thought to have 15 pieces. (2 marks)
- (d) Determine the correlation coefficient between  $X$  and  $Y$ . (4 marks)

**[Total: 20 Marks]**

### QUESTION THREE

- (a) Suppose you would like to invest K4,000 at a 7% compounded quarterly, how long will it take to double your money? (5 marks)
- (b) The lengths of 45 fish caught in a fishing competition were measured correct to the nearest centimetre.

The table shows the frequency of length of 45 fish that was caught.

Length (cm)	Frequency
51 – 60	6
61 – 70	10
71 – 80	12
81 – 90	9
91 – 100	8

**Required:**

Find:

- (i) The mean length (5 marks)



- (ii) The standard deviation (4 marks)
- (iii) The median (3 marks)
- (iv) Modal value (3 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) As Manager for a store, you have to embark, on new strategies to increase your profits. There are three possible strategies and the profits for each depend on two (2) possible scenarios: high inflation, or low inflation. Historical data shows that the expected profits are:

<b>Profit pay offs</b>	<b>Pay – off table of profits</b>		
Strategies		High	Low
	1	2 000	3 000
	2	875	2 800
	3	-300	4 500

- (i) Assume complete uncertainty for the inflation outlook. Use the Laplace criterion to make a decision. (4 marks)
  - (ii) Use the maximax criterion to make a decision. Compare with the answer in (i) (4 marks)
  - (iii) Now assume probabilities can be assigned to the inflation outcomes; the probability of high inflation is 0.75 as estimated from data. Which strategy will you follow in this case if you use expected monetary value as your criterion. (4 marks)
- (b) Explain the following terms:
- (i) Ordinary annuity (2 marks)
  - (ii) Annuity due (2 marks)
  - (iii) Sinking fund (2 marks)
  - (iv) Perpetuities (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) JAZ engineering got a loan of K800,000 payable in six (6) years at 8% interest compounded annually. Calculate the annuity to amortize the loan. (5 marks)
- (b) The Bank of Wonderland issues Visa and MasterCard credit cards. It is estimated that the balance on all Visa credit cards issued by the Bank of Wonderland have a mean of

K845 and a standard deviation of K270. Assume that the balances on all these Visa cards follow a normal distribution.

- (i) What is the probability that a randomly selected Visa card issued by this bank has a balance of at least K900? (3 marks)
- (ii) What is the probability that a randomly selected Visa card issued by this bank has a balance between K1,000 and K1,440? (3 marks)
- (iii) What percentage of the Visa cards issued by this bank have a balance of K730 or more? (3 marks)
- (c) Mrs. Ngalande plans to make equal annual deposits into a retirement account for twenty (20) years and then make 25 equal annual withdrawals of K20,000 reducing the balance in the amount to zero. Assume the account offers a nominal annual rate of 8.5% compounded annually. How much must be deposited annually to accumulate sufficient funds to provide for these payments? (6 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) With rising cost of living due to load shedding and high fuel cost a businessman plans to invest in one of the projects described as;  
Business A involve selling Non-perishable glossaries, and  
Business B involve non electrical dependent saloon and hair dressing.  
The cash flows (in kwacha) of two (2) projects A and B are shown in the table below:

<b>YEAR</b>	<b>1</b>	<b>2</b>	<b>3</b>
A	600	700	400
B	500	900	700

Suppose the initial cost of each project is K1,600 and the cost of the capital is 10%. Calculate the NPV of project A and project B, hence determine which project is a better option. (10 marks)

- (b) A mineral water company conduct an assessment of sales of the water for two (2) years. The quarterly sales of mineral water for the year 2020, and 2021 are given in the table below:

<b>Quarterly Sales in K'000</b>				
<b>year</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>
2020	210	150	170	80
2021	230	170	150	70

**Required:**

Calculate:

Using a multiplicative model,

- (a) The four-quarter centered moving average trend. (6 marks)
- (b) The seasonal variations values. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 2: QUANTITATIVE ANALYSIS SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

1.1 C

1.2 B

1.3 B

1.4 C

1.5 D

1.6 C

1.7 C

1.8 C

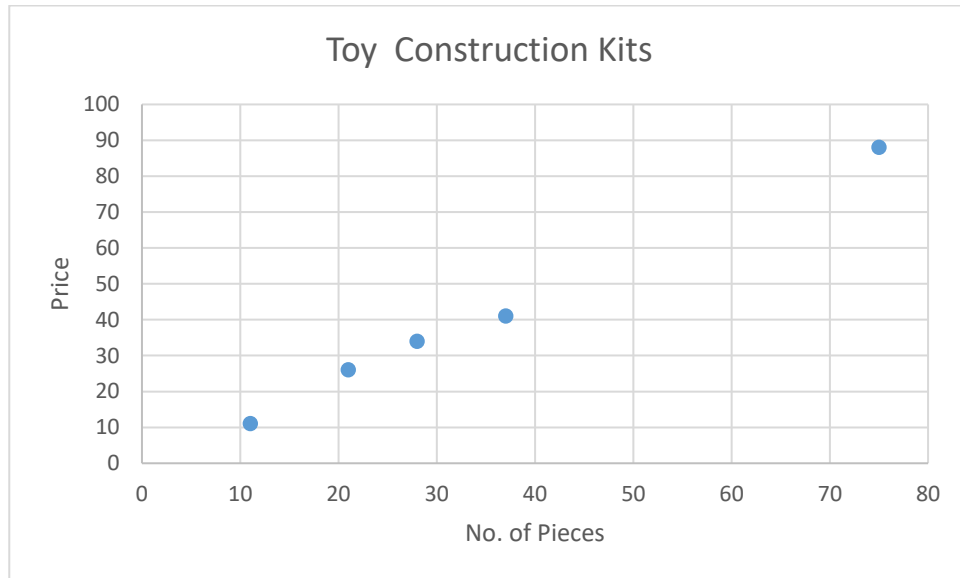
1.9 D

1.10 A

## SECTION B

### SOLUTION TWO

(a) Scatter plot:



(b) Summary statistics table:

X	Y	X <sup>2</sup>	XY	Y <sup>2</sup>
11	11	121	121	121
21	26	441	546	676
28	34	784	952	1156
37	41	1369	1517	1681
75	88	5625	6600	7744
<b>172</b>	<b>200</b>	<b>8340</b>	<b>9736</b>	<b>11378</b>

Therefore,

$$\beta = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} = \frac{5 \times 9736 - 172 \times 200}{5 \times 8340 - (172)^2} = 1.179$$

and

$$\alpha = \bar{Y} - \beta \bar{X} = \frac{200}{5} - 1.179 \left( \frac{172}{5} \right) = -0.544$$

Hence, the least-squares regression line is

$$y = \alpha + \beta x = -0.544 + 1.179x$$

(c)

$$y = \alpha + \beta x = -0.544 + 1.179 \times 15 = 17.141$$

(d)

$$\begin{aligned} r &= \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}} \\ &= \frac{5(9736) - (172)(200)}{\sqrt{[5(8340) - 172^2][5(11378) - 200^2]}} \\ r &= \mathbf{0.998} \end{aligned}$$

There is a very strong positive correlation between X and Y.

**SOLUTION THREE**

(a)  $S = P \left(1 + \frac{r}{n}\right)^{nt}$  double of 4000 is 8000

$$8000 = 4000 \left(1 + \frac{0.07}{4}\right)^{4 \times t}$$

$$\frac{8000}{4000} = (1.0175)^{4t}$$

$$2 = (1.0175)^{4t}$$

$$\ln 2 = \ln(1.0175)^{4t}$$

$$\ln 2 = 4t \ln(1.0175)^1$$

$$4t = \frac{\ln 2}{\ln(1.0175)^1}$$

$$t = \frac{\ln 2}{4 \ln(1.0175)^1} = 9.98 = 10 \text{ years}$$

(b) We use the table below

Length	Frequency ( $f$ )	Class midpoint ( $x$ )	$xf$	$x^2f$	$F$
51 – 60	6	55.5	133	18481	6
61 – 70	10	65.5	655	42902.5	16
71 – 80	12	75.5	906	68403	28
81 – 90	9	85.5	769.5	65792.25	37
91 – 100	8	95.5	764	72962	45
	$\sum f = 45$		$\sum xf = 3427.5$	$\sum x^2f = 268541.3$	

(i)  $\bar{x} = \frac{3427.5}{45} = 76.17$

(ii)  $S^2 = \frac{268541.3 - \frac{(3427.5)^2}{45}}{45-1} = \frac{7480.05}{44} = 170$

Standard deviation  $SD = \sqrt{170} = 13.04$

(iii)  $Median = l_k + w/n_k \left(\frac{n}{2} - cf_{k-1}\right)$   
 $= 71 + 9/12 (45/2 - 16) = 71$

(iv)  $Mode = 71 + \frac{(12-10)}{12-9} (9) = 75.875$

## SOLUTION FOUR

(a) Using Laplace method which is the average method, we get

$$(i) \quad L(1) = \frac{2\,000 + 3\,000}{2} = 2\,500$$

$$L(2) = \frac{875 + 83\,800}{2} = 2\,337.50$$

$$L(3) = \frac{-300 + 4\,500}{2} = 2\,100$$

Using Laplace STRATEGY (1) (2 500) will adopted

(ii) Using the Maximax

	High	low	maximum	
1	2 000	3000	3 000	
2	875	3800	2 800	
3	-300	4500	4 500	maximum

Using the Maximax criterion, we adopt STRATEGY (3) (4 500)

Using Laplace Criterion, STRATEGY (1) (2 500) was chosen as opposed to Maximax Criterion in which we choose STRATEGY (4) (4 500)

(iii) Using the Expected Monetary Value (EMV)

$$EMV(1) = .75(2\,000) + .25(3\,000) = 1\,500 + 750 = 2\,250$$

$$EMV(2) = .75(875) + .25(3\,800) = 656.25 + 950 = 1606.25$$

$$EMV(3) = .75(-300) + .25(4\,500) = -2250 + 1125 = -1125$$

Using EMV STRATEGY (1) (2 250) will be adopted

(b)

- (i) An ordinary annuity is a series of equal periodic payment at the end of the period over a fixed length of time.
- (ii) An annuity due is a series of equal periodic payment at the beginning of the period over a fixed period of time.
- (iii) A sinking fund is a fund containing money set aside or saved to pay off a debt or bond.
- (iv) Perpetuities is a constant annual payment or receipt in perpetuity (i.e., forever) or annuity that has no end.



## SOLUTION FIVE

(a)

$$\begin{aligned} AA &= \frac{Pi}{1 - (1 + i)^{-n}} \\ &= \frac{800000 \times 0.08}{1 - (1.08)^{-6}} = \frac{64000}{1 - 0.63017} \\ &= \frac{64000}{0.36983} \\ &= \text{K } 173,052.48 \end{aligned}$$

(b)

$$(i) \quad Z = \frac{X - 845}{270}$$

$$P(X \geq 900)$$

$$\begin{aligned} P\left[\frac{X - 845}{270} \geq \frac{900 - 845}{270}\right] \\ &= P[Z \geq 0.203] \\ &= 1 - 0.5793 \\ &= 0.4207 \end{aligned}$$

(ii)

$$P\left[\frac{1000 - 845}{270} < \frac{X - 845}{270} < \frac{1440 - 845}{270}\right]$$

$$\begin{aligned} &P[0.57 < Z < 2.20] \\ &P[Z < 2.20] - P[Z < 0.57] \\ &0.9861 - 0.7157 \\ &= 0.2704 \end{aligned}$$

(iii)

$$P(X \geq 730)$$

$$\begin{aligned} P\left[\frac{X - 845}{270} \geq \frac{730 - 845}{270}\right] \\ &= P[Z \geq -0.43] \\ &P[Z \leq 0.43] \\ &= 0.6664 \end{aligned}$$

Therefore the percentage is:

$$0.6664 \times 100 = 66.64\%$$

(c) At time  $t = 20$ , we want to find the amount needed in the account so that K20,000 can be withdrawn annually from the account for 25 years, reducing the balance in the account to 0.

$$\begin{aligned} P &= R \left[ \frac{1 - (1 + r)^{-n}}{r} \right] \\ &= 20,000 \left[ \frac{1 - (1 + 0.085)^{-25}}{0.085} \right] \end{aligned}$$

$$= 20,000 \left[ \frac{1 - (1.085)^{-25}}{0.085} \right] = \text{K} 204,683.82$$

Next, we want to find the amount deposit into an account that will accumulate to K204,683.82 after 20 years. The annual deposit is **(Sinking Fund)**

$$R = P \left[ \frac{r}{(1+r)^n - 1} \right]$$

$$R = 204,683.82 \left[ \frac{0.085}{(1+0.085)^{20} - 1} \right] = \text{K} 4,231.01$$

## SOLUTION SIX

(a)

### PROJECT A

YEAR	CASH	DF	C(DF)	PV
1	600	$1.1^{-1} = 0.9090$	$600(0.9091)$	545.46
2	700	$1.1^{-2} = 0.8264$	$700(0.8264)$	578.48
3	400	$1.1^{-3} = 0.7513$	$400(0.7513)$	300.52
TOTAL				1,424.46

$$\text{NPV} = 1598.01 - 1600 = -\text{K}175.54$$

### PROJECT B

YEAR	CASH	DF	C(DF)	PV
1	500	$1.1^{-1} = 0.9090$	$500(0.9091)$	454.55
2	900	$1.1^{-2} = 0.8264$	$900(0.8264)$	743.76
3	700	$1.1^{-3} = 0.7513$	$700(0.7513)$	525.91
TOTAL				1724.22

$$\text{NPV} = 1724.22 - 1600 = \text{K}124.22$$

**Project B is optimum**

(b) (i)

$t$	$y$	$\hat{y} = 4CMA$	$s = \frac{y}{\hat{y}}$
1	210		
2	150		
3	170	155	1.1
4	80	160	0.5
5	230	160	1.4
6	170	156.25	1.0
7	150		
8	70		

**Note: last column is solution for part b (ii).**

Computation of the four moving totals

$210 + 150 + 170 + 80 = 610$
$150 + 170 + 80 + 230 = 630$
$170 + 80 + 230 + 170 = 650$

$80 + 230 + 170 + 150 = 630$
$230 + 170 + 150 + 70 = 620$

(ii) Summarized seasonal indices

	I	II	III	IV
2008			1.1	.5
2009	1.4	1.1		
Average seasonal indices	1.4	1.1	1.1	.5

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

---

LEVEL ONE

---

DA 3: BUSINESS ECONOMICS

---

TUESDAY 11 JUNE 2024

---

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

---

**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to carefully study the examination paper so that you understand what to do in each question.
2. This paper is divided into TWO (2) sections:  
Section A: Ten (10) compulsory multiple choice questions.  
Section B: Any two (2) of three (3) optional questions on Microeconomics.  
Any two (2) of three (3) optional questions on Macroeconomics.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

## SECTION A - (COMPULSORY)

Attempt all (10) multiple choice questions.

### QUESTION ONE

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

- 1.1 Which of the following statements best describes a capitalist economy?
- A. Society determines production and the allocation of goods and services only through markets.
  - B. Government policies determine the production and the allocation of goods and services.
  - C. Government policies determine the production, but not the allocation of goods and services.
  - D. The role of individual self-interest is relatively unimportant because the government makes most of the economic decisions. (2 marks)
- 1.2 Butter and margarine are..... goods in consumption.
- A. Complementary.
  - B. Substitutes.
  - C. Independent.
  - D. Inferior. (2 marks)
- 1.3 ..... Is the act in which commercial banks borrow short term and lend long term
- A. Maturity transformation.
  - B. Risk transformation.
  - C. Lender of last resort.
  - D. Credit allocation. (2 marks)
- 1.4 Aggregate demand for a good increases as the price falls because the.....
- A. Lower price shifts the demand curve rightwards.
  - B. Lower price shifts the demand curve leftwards.
  - C. Lower price results in an increase in aggregate supply.
  - D. Aggregate demand curve is downward sloping. (2 marks)
- 1.5 Which of the following is a feature of a competitive market structure?
- A. There are price differences between firms producing the same good.
  - B. There are significant barriers to entry into the industry.
  - C. The industry's demand curve is perfectly elastic.
  - D. Goods are standardized or homogenous. (2 marks)

- 1.6 One major advantage of limited liability is that it .....
- A. Is not subject to free-rider problem.
  - B. Is not subject to principal-agency problem.
  - C. Has unlimited profit sharing among the firm's owners.
  - D. Shields the personal assets of owners from liability claims. (2 marks)
- 1.7 which of the following methods can be used by a firm to raise long term finance in order to modernize its equipment
- A. Bank overdraft.
  - B. Short term bank loan.
  - C. Issuing ordinary shares.
  - D. Issuing commercial paper. (2 marks)
- 1.8 In a circular flow model, households.....
- A. Buy goods and resources.
  - B. Sell goods and resources.
  - C. Buy goods and sell resources.
  - D. sell goods and buy resources. (2 marks)
- 1.9 The rate of unemployment when the economy is at its potential output is called the.....
- A. Full employment rate of unemployment.
  - B. Natural rate of unemployment.
  - C. Structural rate of unemployment.
  - D. Cyclical rate of unemployment. (2 marks)
- 1.10 The multiplier can be calculated by dividing.....
- A. The initial change in spending by the change in real GDP.
  - B. The change in real GDP by the initial change in spending.
  - C. One by one minus the marginal propensity to save.
  - D. One by one minus the marginal propensity to consume. (2 marks)

**[Total:20 Marks]**

## SECTION B

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

### 1. MICROECONOMICS

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

#### QUESTION TWO

The production possibilities frontier or curve (PPF or PPC) is a graphical illustration of the different combinations of the output of two goods that can be produced at a given level of technology and available resources. The concepts of opportunity cost, choice and scarcity are concisely captured by the PPF or PPC.

- (a) Explain how the concepts of opportunity cost and choice are illustrated on the PPF. (4 marks)
- (b) Describe the conditions under which a movement from one point on the PPF to another is considered efficient. (2 marks)
- (c) State any three (3) differences between private and public limited companies. (6 marks)
- (d) State monopolies like ZESCO may be preferred over free market mechanisms. Outline two (2) merits of State monopolies and two (2) demerits of monopolies. (8 marks)

**[Total: 20 Marks]**

#### QUESTION THREE

- (a) Manda currently works for a corporate law firm where she earns K125,000.00 per year. She is considering opening her own legal practice, where she expects to earn K200,000.00 per year once she gets established. All she needs is an office and a clerk. She has found an office, which rents for K50,000.00 per year and a clerk who could be hired for K35,000.00 per year.
  - (i) Determine the profitability of the legal practice from both the accounting and economic point of view. (4 marks)
  - (ii) What would you advise Manda, based on your calculations? (2 marks)
- (b) Consider a perfectly competitive market in the short run. Assume that market demand is  $100 - 4Q_d$  and market supply is  $P = Q_s$ . Denoting firm level quantity by  $q$ , assume  $TC = 50 + 4q + 2q^2$ .

#### **Required:**

- (i) Calculate the equilibrium price and quantity. (4 marks)
- (ii) Calculate Total Revenue (2 mark)
- (iii) Determine the profit or loss (4 marks)



- (c) Explain why a perfectly competitive firm may choose to operate at a loss in the short run. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Use a diagram in each case to illustrate how each of the following events affects the equilibrium price and quantity of pizza.
- (i) The price of cheese goes up. (4 marks)
  - (ii) The health hazards of chicken and chips are widely publicized. (4 marks)
  - (iii) The price of tomato sauce falls. (4 marks)
- (b) Using a graph, explain the demand curve that a monopolistic firm faces. (8 marks)

**[Total: 20 Marks]**

## **2. MACROECONOMICS**

**Attempt any TWO (2) question out of the THREE (3) questions from FIVE to SEVEN.**

#### **QUESTION FIVE**

- (a) In the Keynesian consumption function  $Y = C + I + G + (X - M)$  state what each of the following letters stand for:
- (i) Y (1 marks)
  - (ii) G (1 marks)
  - (iii)  $X - M$  (1 marks)
- (b) Suppose the equation of a linear consumption function is  $C = 70 + 0.8Y$ ; where  $I = K120$  and  $X = 0$ .
- (i) Calculate the equilibrium level of output for this economy. (6 marks)
  - (ii) Determine the level of consumption. (3 marks)
- (c) Explain four (4) phases of business cycle. (8 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Explain the basis of trade according to:
- (i) Adam Smith (Absolute Advantage) (3 marks)
  - (ii) David Ricardo (Comparative Advantage) (3 marks)
- (b) Some countries prefer to protect their economies from trade.
- (i) Outline any three (3) methods they can use to achieve this. (6 marks)
  - (ii) Bring out any four (4) disadvantages of trade protection. (4 marks)
- (c) Outline any two (2) benefits and any two (2) disadvantages of belonging to a trading bloc such as COMESA. (4 marks)

**[Total: 20 Marks]**

### **QUESTION SEVEN**

The table below shows the labour market statistics of a populous country in 2023.

<b>Population 16 years &amp; older</b>	<b>Employed</b>	<b>Unemployed</b>	<b>Not in the labour force</b>
<b>239.9 million</b>	<b>139.6 million</b>	<b>14.0 million</b>	<b>?</b>

- (a) (i) Define labour force and hence calculate the labour force for this country. (3 marks)
- (ii) Using the answer, you found in (i), compute the number of people not in the labour force. (2 marks)
- (b) Define the concept of unemployment rate. (2 marks)
- (c) Calculate the unemployment rate in 2023 (2 marks)
- (d) Explain any four (4) costs associated with unemployment. (5 marks)
- (e) Outline the three (3) objectives of commercial banks. (6 marks)

**[Total: 20 Marks]**

**END OF PAPER**

### **DA 3: BUSINESS ECONOMICS SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

1.1 A

1.2 B

1.3 A

1.4 D

1.5 D

1.6 D

1.7 C

1.8 C

1.9 B

1.10 D

## SECTION B

### 1. MICROECONOMICS

#### SOLUTION TWO

(a) **Opportunity Cost and Choice on the PPF**

The production possibility frontier (PPF) illustrates the trade-offs inherent in producing two goods with limited resources. Every point on the PPF represents the maximum production of one good achievable while producing a specific quantity of the other. Moving along the PPF from one point to another signifies **choosing** to produce more of one good and less (or sacrifice more) of the other. This choice reflects the opportunity cost, which is the amount of the other good that must be sacrificed/foregone to obtain one additional unit of the chosen good. The PPF's curvature emphasizes this trade-off, as the opportunity cost increases as more of one good is produced.

(b) **Efficient Movement on the PPF**

A movement from one point on the PPF to another is considered efficient if it **utilizes resources optimally** to reach the new production level. This means achieving the desired output without wasting resources or producing less than the maximum possible. There are **two main** conditions for efficient movement:

- **Staying on the PPF:** The movement must occur along the curve, not exceeding its production possibilities.
- **Using the least-cost path:** The movement should choose the path that minimizes the sacrifice of the other good for the desired increase in the chosen good

(c) **Differences between private and public limited companies**

- public limited companies can raise funds by issuing shares to the general public, while private limited companies cannot.
- The minimum number of shareholders is higher for public limited companies than private limited companies
- Accounts of private limited companies may be kept secret, while those of a public limited companies are made available to the general public.
- Index of members– A private company has a privilege over the public company as they don't have to keep an index of its members whereas the public company is required to maintain an index of its members.
- A number of directors– When it comes to directors a private company needs to have only two directors. With the existence of 2 directors, a private company can come into operations.

(d) **Merits of State Monopolies like ZESCO**

- **Price control:** State monopolies can regulate prices to ensure affordability for essential services like electricity, especially in developing countries where large sections of the

population may struggle with high costs. This can be crucial for social welfare and poverty reduction.

- **Universal access:** Monopolies, particularly in infrastructure sectors like electricity, can prioritize investments in rural and remote areas where private companies might find it unprofitable to operate. This can lead to greater equity and access to essential services for all citizens.
- **Long-term investments:** State monopolies can take a longer-term perspective on investments and infrastructure development, focusing on national needs and strategic interests beyond short-term profits. This can be crucial for building essential infrastructure and ensuring energy security for a nation.
- **Government revenue generation:** Profits generated by state monopolies can be used to fund social programs, healthcare, education, and other public services, contributing to overall social welfare and development.

### **Demerits of Monopolies in general**

- **High Prices and Reduced Consumer Choice:** Monopolies, by definition, lack competition, allowing them to control prices and limit consumer options. This can lead to inflated prices for consumers, who have little choice but to pay up if they need the product or service offered. For example, a monopoly provider of essential goods like water or electricity can effectively hold consumers hostage to high prices.
- **Reduced Quality and Innovation:** Without the pressure of competition, monopolies have little incentive to improve the quality of their products or services or invest in innovation. This can lead to stagnation and a decline in quality over time, as consumers have limited options and no alternative providers to drive improvements.
- **Political Interference and Corruption:** State monopolies are inherently susceptible to political interference and corruption. Politicians might pressure the company to prioritize hiring based on political connections or make decisions that benefit specific groups rather than the broader public interest. This can lead to mismanagement and wasted resources

### SOLUTION THREE

(a)

Explicit costs=Office rental +Law clerk's salary

$$K50,000 + K35,000$$

Explicit costs= K85,000.

$$\begin{aligned}\text{(i)} \quad \text{Accounting Profit} &= \text{Revenue} - \text{Explicit cost} \\ &= K200,000 - K85,000 \\ &= \mathbf{K\ 115,000.00}\end{aligned}$$

$$\begin{aligned}\text{Economic Profit} &= \text{Total Revenue} - (\text{Explicit cost} + \text{Implicit cost}) \\ &= K200,000 - (K85,000 + K125,000) \\ &= 200,000 - 210,000\end{aligned}$$

Economic Profit = **-K10,000.00**

(ii) Manda would be losing K10,000.00 per year if she decides to open her own legal practice. **The** advice would be that she continues working at the corporate law firm.

(b)

(i) Set demand equal to supply and find  $100-4Q=Q$ , so  $Q=20$ ,  $P=20$

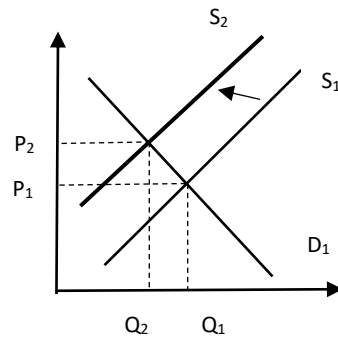
(ii) Total revenue  $= (P \times Q = 400)$

(iii) Profit = Total Revenue - total cost  $= 400 - (50 + 4q + 2q^2) = 400 - (50 + 80 + 800) = 400 - 930 = \mathbf{-530}$  which is a loss.

(c) If the firm can cover their variable costs in the short run, then they can start to pay down some of their fixed costs by producing. If they shut down they must pay all of their fixed costs. If the firm can cover the variable costs they can use any excess revenue towards paying their fixed costs, which is a better outcome than shutting down in the short run. In the long run a firm cannot constantly operate at losses and will eventually leave the industry unless costs change

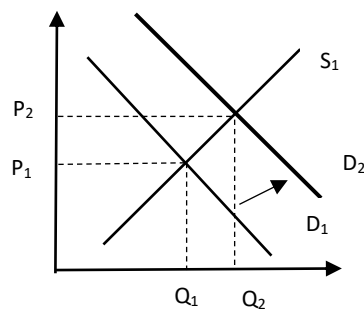
## SOLUTION FOUR

(a)  
(i)



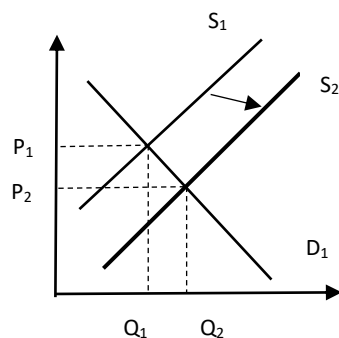
Cheese is an input in the production of pizza. Since the cost of an input has risen, pizza producers will reduce the quantity supplied at any given price, a leftward shift of the supply curve from  $S_1$  to  $S_2$ . As a result, the equilibrium price of pizza will rise and the equilibrium quantity will fall as the equilibrium changes from  $Q_1$  to  $Q_2$ .

(ii)



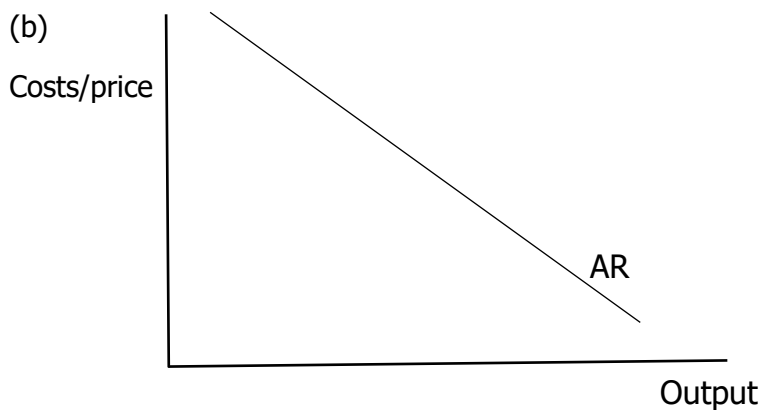
Consumers will substitute pizza in place of chicken and chips, resulting in an increased demand for pizza at any given price. This generates a rightward shift of the demand curve from  $D_1$  to  $D_2$ , leading to a rise in the equilibrium price and quantity as the equilibrium changes from  $Q_1$  to  $Q_2$ .

(iii)



Tomato sauce is an input in the production of pizza. Since the cost of an input has fallen, pizza producers will increase the quantity supplied at any given price, a rightward shift of

the supply curve from S1 to S2. As a result, the equilibrium price of pizza will fall and the equilibrium quantity will rise as the equilibrium changes from Q1 to Q2.



A monopolistic firm faces a downward sloping demand curve which is slightly more elastic than that of monopoly. This is because a monopolistic firm has some degree of power over the price of a good, and will gain more customers if it lowers its price. It also means that, a firm can increase its price, without losing all of its customers because of customer loyalty.



## SOLUTION FIVE

(a) Letter stand for:

- (i)  $Y$  = National Income
- (ii)  $G$  = Government expenditure on goods and services
- (iii)  $X - M$  = Net Exports, i.e. Exports minus imports

(b) Given  $C = K70 + 0.8Y$ , where  $I = K120$  and  $X = K0$ ,

(i) equilibrium is found by solving for  $Y$  in the identity  $Y = C + I + X$

$$Y = C + I + X$$

$$Y = K70 + 0.8Y + K120 + K0$$

$$Y - 0.8Y = K70 + K120 + K0$$

$$0.2Y = K190$$

$$Y = \mathbf{K950}$$

(ii) the level of consumption is found by replacing the value of  $Y$  in the consumption function

$$C = K70 + 0.8Y$$

$$C = K70 + 0.8(950)$$

$$C = K70 + 760$$

$$\mathbf{C = K830}$$

(c) the phases of a business cycle

- **Expansion:** in this stage, there is an increase in employment, income, demand and supply.
- **Peak:** this is the saturation point for an economy. The maximum limit of growth has been attained and there is no further growth.
- **Recession:** this follows the peak stage. The demand for goods and services start to decline. All other economic indicators respond to this, and there is a downward trend in employment and income.
- **Depression:** there is continued decline in employment, the economy continues to decline.
- **Trough:** the economy's growth rate becomes negative. The prices of goods and services, as well as factors of production reach their lowest points.

## SOLUTION SIX

### (a) **Basis of trade**

- (i) Adam Smith: he developed the theory of **Absolute advantage**. According to Smith, countries can profit by only specializing in the goods and services they can produce efficiently. Smith suggested that countries can open up trade with others for products they can't make efficiently on their own.
- (ii) David Ricardo: he developed the theory of **Comparative advantage**. It argues that countries can benefit from trading with each other by focusing on making the things they are best at making, while buying the things they are not as good at making from other countries. This theory is based on the idea that every country has different cost structures and opportunity costs (costs in terms of other goods given up). By focusing on their strengths, they can produce more efficiently. Ricardo's research demonstrated that even if one country can make everything more efficiently than another country, international trade still beneficial.

### (b)

#### (i) **Methods of trade protection**

- **Import quotas** restrict the quantity of certain products, which can be imported into the country.
- **Tariffs or custom (import) duties**. These are taxes that are levied on imports. It can be a fixed amount per unit (specific) or a percentage of the price (ad valorem).
- **Trade embargoes**. This is a complete ban of imports from a particular country. Sometimes it is a total ban imposed on particular products like drugs, from any country!
- **Health and Safety regulations**. Countries sometimes put in place health and safety regulations that limit the importation of certain goods.
- **Administrative procedures (bureaucracy)**. These are long, complex and costly procedures that importers have to go through at border posts.
- **Exchange controls**. These are aimed at restricting the amount of foreign exchange that is available to importers.

#### (ii) **Disadvantages of protectionism**

- The fear of retaliation. If a country imposes restrictions against other countries' exports, the affected countries can retaliate by imposing restrictions on its exports.
- Reduction in industrial efficiency. Protecting industries from international competition reduces their efficiency.
- Cost to consumers. Protectionism is costly to consumers because they are forced to pay high prices for goods of poor quality.
- Restricted choice of products. Protectionism leads to the reduction in the range of products available to customers.

### (c) **Advantages and disadvantages of trading blocs**

#### Advantages

- **Market access**: member countries have access to each other's markets. This will create more trade between countries.

- Economies of scale: firms can benefit by producing quantities to enable them enjoy economies of scale. Consumers can benefit from lower prices.
- Job creation: increased trade between countries may result in the creation of more jobs and more job prospects due to free movement of labour.
- Cooperation: member countries may enjoy closer political cooperation.

#### Disadvantages

- Trade diversion: inefficient producers within the bloc may be sheltered from efficient producers outside the bloc.
- Employment shift: producers may shift production to member countries with lower labour costs. Similarly, workers may relocate to member countries with better employment benefits.
- Distortion of trade: trading blocs distort international trade and the benefits of specialization and comparative advantage.

## SOLUTION SEVEN

### (a) Labour Market:

- (i) The labour force is defined as the sum of the employed and unemployed.  
That is, Labor Force (**Lf**) = Number of Employed(N) + Number of Unemployed(**U**)  
= 139.6 million + 14.0 million  
= 153.6 million.

- (ii) The number of people not in the labour force = Adult Pop. - Labour Force  
= 239.9million -153.6 million  
= 86.3 million

(b) The unemployment rate is defined as the percentage of the labour force that is Unemployed.

$$\begin{aligned}\text{(c) Unemployment rate (u)} &= \frac{\text{No. Unemployed, } U}{\text{Labour Force, } Lf} \times 100 \\ &= \frac{14.0 \text{ million}}{153.6 \text{ million}} \times 100 \\ &= 9.11\%\end{aligned}$$

### (d) Costs of unemployment

- **Financial strain:** Unemployment can lead to a reduction in income and an increase in financial insecurity, as individuals may not have the resources to meet their basic needs or pay for necessities such as housing, food, and healthcare.
- **Mental health problems:** Unemployment can have a negative impact on mental health, as individuals may experience stress, anxiety, and depression due to their financial situation and loss of purpose and social connections.
- **Prolonged unemployment** may lead to an erosion of skills, basically robbing the economy of otherwise useful talents.
- **Relationship problems:** Unemployment can also strain relationships, as individuals may feel isolated, anxious, or depressed, and may be unable to contribute to the household or support their families.
- **Social disruption:** High levels of unemployment can lead to social disruption and unrest, as individuals may feel disenfranchised or disconnected from their communities.

### (e) Objectives of Commercial Banks

- **Profitability:** a bank must make profits for its shareholders. The biggest profits come from lending at higher interest rates.
- **Liquidity:** a bank must have sufficient liquid assets to meet demand from depositors for cash withdrawals and settle debts with other banks.
- **Security:** a bank must get collateral for loans extended which may be used as security against the loan. The security can be sold when the customer defaults on the loan repayments.

## END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

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WEDNESDAY 12 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A – (COMPULSORY)**

### **Attempt all Ten (10) multiple choice questions**

#### **QUESTION ONE**

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

- 1.1 Which of the following key combination is equivalent to support the ability to undo Multiple changes?  
A. Shift + P  
B. Ctrl + V  
C. Ctrl + Z  
D. Shift + S (2 marks)
- 1.2 ..... is the primary purpose of using a macro in spreadsheets  
A. Formatting cells.  
B. Performing repetitive tasks.  
C. Sorting data.  
D. Inserting formulas. (2 marks)
- 1.3 A network topology with a central device to which all the devices connect is called ...  
A. Mesh.  
B. Ring.  
C. Star.  
D. Hub. (2 marks)
- 1.4 Chimuti Ltd prooducers of Chibwantu and Munkoyo drink for sale to its customer, captures sales data over a week and enters this accumulated data once into the computer for processing.  
Which one of the following statements is correct about the data processing technique used by Chimuti Ltd  
A. Batch Processing technique.  
B. Realtime processing technique.  
C. Online processing.  
D. Interactive processing technique. (2 marks)
- 1.5 ..... poses a common threat to data quality  
A. Data encryption.  
B. Regular backups.  
C. Data duplication.  
D. Data normalization. (2 marks)

- 1.6 Which of the following is an example of formal internal communication?
- A. Question and answer succession with clients.
  - B. Team meeting.
  - C. Lunchtime discussions.
  - D. Social media posts.
- (2 marks)
- 1.7 What is the primary purpose of a business report?
- A. To entertain.
  - B. To persuade.
  - C. To inform.
  - D. To criticize.
- (2 marks)
- 1.8 Which of the following is **NOT** part of the communication process?
- A. Feedback.
  - B. Synchronising.
  - C. Decoding.
  - D. Encoding.
- (2 marks)
- 1.9 Which one of the following is an example of upward communication?
- A. A security guard telling another guard about a kitchen party she attended.
  - B. A managing director informing members of staff about changes in the company's policies.
  - C. Human Resource Manager reminding staff about the procedure of applying for annual leave.
  - D. Management obtaining the reactions of staff to a new online system.
- (2 marks)
- 1.10 One of the 7C's is conciseness. What does conciseness mean?
- A. Emphasizing one point or two at a time.
  - B. Taking into consideration the audience's characteristics.
  - C. The message communicated must contain all the needed facts.
  - D. Conveying the message into the fewest possible words.
- (2 marks)

**[Total: 20 Marks]**

## **SECTION B**

**This section has TWO (2) parts:**

### **1. INFORMATION TECHNOLOGY**

### **2. COMMUNICATION**

### **1. INFORMATION TECHNOLOGY**

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

#### **QUESTION TWO**

- (a) You work for a growing multinational corporation with offices spread across different continents. The company is looking to revamp its networking infrastructure to support its expanding operations and facilitate seamless communication and data sharing among its geographically dispersed teams.

Describe three (3) characteristics of Local Area Networks. (6 marks)

- (b) If security controls are not in place or they are configured improperly, the process of establishing the interconnection could expose the IT systems to access by unauthorized personnel.

State five (5) disadvantages of using e-mail for communication. (5 marks)

- (c) To prevent other users from accidentally or deliberately changing, moving or deleting data in a worksheet,

Outline two (2) ways you can protect a sheet in excel (4 marks)

- (d) You're a data analyst tasked with importing data from both CSV (comma-separated values) and Excel files into a spreadsheet for analysis.

Outline five (5) roles that databases would play in your role as a data analyst. (5 marks)

**[Total: 20 Marks]**

#### **QUESTION THREE**

- (a) Michael Porter created a value chain model as a way to map out how organisations can create value for the market.

Explain four (4) ways a well-designed Accounting Information System (AIS) can contribute to the organization's value chain. (8 marks)

- (b) A network topology is the physical and logical arrangement of nodes and connections in a network. It plays a major role in how a network functions, namely the topology has a direct effect on network functionality

Describe three (3) Network topologies. (6 marks)



- (c) Security controls are mechanisms strategically implemented to protect the confidentiality, integrity and availability of information, computer systems and other crucial assets from potential threats. Security controls function to avoid, prevent, detect, mitigate and remediate risks and vulnerabilities within an organisation.

State the difference between Intrusion Detection and Logical Access Controls. (6 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Information system threats can be in many forms; software attacks, theft or intellectual property, identity theft, theft of equipment or information, sabotage and information extortion.

Explain the following types of threats to information systems:

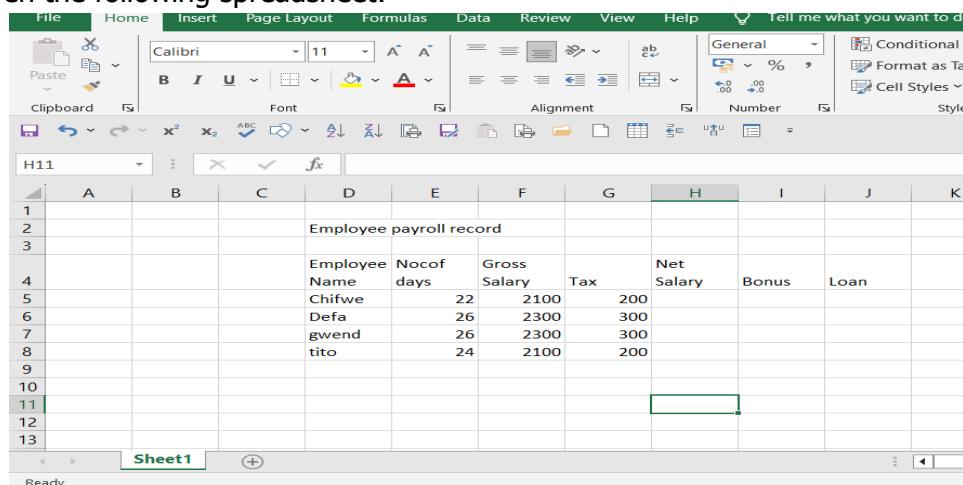
- (i) Denial of Service Attack. (2 marks)
  - (ii) Trojan Horse (2 marks)
  - (iii) Cracking (2 marks)
- (b) Microsoft Word is the most popular word processor due to its user-friendly interface, advanced formatting options and extensive features. It is widely used in businesses, education and personal use.

Mention four (4) things that a word processing application allows you to do. (4 marks)

- (c) Software issues are the common reason for a frozen computer. At some point, the software loses control over the application or tries to run the application in a way the windows operating system doesn't recognize.

Explain three (3) common causes of computer lock-ups? (3 marks)

- (d) Given the following spreadsheet:



The screenshot shows an Excel spreadsheet with the following data:

Employee Name	Nocof days	Gross Salary	Tax	Net Salary	Bonus	Loan
Chifwe	22	2100	200			
Defa	26	2300	300			
gwend	26	2300	300			
tito	24	2100	200			

Write down the formula in MS Excel for calculating:-

(i) Net salary (2 marks)

(ii) Bonus at 10 percent of net salary for employees with 26 days in a month.  
(5 marks)

**[Total: 20 Marks]**

## **2. COMMUNICATION**

**Attempt any TWO (2) questions from questions FIVE, SIX AND SEVEN.**

### **QUESTION FIVE**

Meetings, both formal and informal, play an integral role in running an organisation as they provide a platform for communication, collaboration and problem solving. Members of a meeting play different roles, and minutes are produced as records of proceedings of the meeting.

#### **Required:**

- (a) Identify any four (4) differences between formal and informal meetings. (8 marks)
- (b) Explain the following meeting terminologies:
  - (i) Quorum (2 marks)
  - (ii) Minutes (2 marks)
  - (iii) Ex officio (2 marks)
- (c) State any two (2) duties of the following meeting officials:
  - (i) Chair person (2 marks)
  - (ii) Members (2 marks)
  - (iii) Secretary (2 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

Your house was broken into and a number of valuable items were stolen. You approached your Manager for a salary advance. Although you made an oral request to your Manager, he/she instructed you to put the request in writing.

#### **Required:**

- (a) Write a letter requesting for a salary advance. (14 marks)
- (b) Outline any three (3) reasons why the Manager suggested that you put your request in writing. (6 marks)

**[Total: 20 Marks]**

### **QUESTION SEVEN**

- (a) Explain any five (5) factors to consider when writing a report. (10 marks)
- (b) Explain the following parts of a report:
  - (i) Findings (2 marks)

- |       |                   |           |
|-------|-------------------|-----------|
| (ii)  | Acknowledgements  | (2 marks) |
| (iii) | Report title      | (2 marks) |
| (iv)  | Executive summary | (2 marks) |
| (v)   | Appendices        | (2 marks) |

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SECTION B

### SOLUTION TWO

#### (a) **Characteristics of LAN**

- Should be capable of providing high speed, high bandwidth and high capacity communications
- Cost of deploying LAN should be cheap, equipment used in a LAN should be compact and powerful enough to provide high bandwidth, high speed and high capacity communication
- Size of campus defines size of the LAN, limited geographical area
- Private ownership, LAN are typically owned and operated by a single organisation or individual, giving them complete control over the network and security
- Centralised Management LAN allows easier management and troubleshooting due to their limited size.

#### (b) **E-mail has the following disadvantages**

- Confidentiality – passwords must be safeguarded
- Used to replace other communications that may be more appropriate
- Too much information going to people who don't need it as it is so easy to send to many recipients
- Spam or unwanted advertising email is the biggest danger that many email users encounter
- Email is also being used in frauds
- Email is used to spread computer viruses

#### (c) **Ways to protect a sheet in excel**

- Right click a worksheet tab at the bottom of your screen and select **Protect Sheet...** from the context menu.
- Or, click the **Protect Sheet** button on the Review tab, in the Changes group.

#### (d) **Roles that databases would play in your role as a data analyst.**

- **Data Storage:** Databases serve as the primary storage mechanism for accounting data, including transactions, financial records, customer information, vendor details, and other relevant data. By storing data in a centralized location, databases ensure data integrity, consistency, and security.
- **Data Organization:** Databases facilitate the organization of accounting data through the use of tables, rows, and columns, allowing for efficient storage and retrieval of information. Data can be categorized into different tables based on entities such as customers, vendors, accounts, transactions, and financial statements, enabling easy access and analysis.
- **Data Integration:** Databases enable the integration of data from various sources and modules within the accounting system, such as sales, purchases, inventory, payroll, and general ledger. By consolidating data from different functional areas, databases support

comprehensive reporting and analysis, providing a holistic view of the organization's financial performance.

- **Data Security:** Databases play a critical role in ensuring the security and confidentiality of accounting data. They offer features such as user authentication, access controls, encryption, and audit trails to protect sensitive financial information from unauthorized access, tampering, or loss.
- **Data Retrieval and Reporting:** Databases facilitate the retrieval of accounting data through query languages and reporting tools, allowing users to extract specific information based on predefined criteria. Accounting professionals can generate various financial reports, statements, and analyses from the database to support decision-making, regulatory compliance, and stakeholder communication.
- **Data Integrity and Accuracy:** Databases enforce data integrity constraints, such as unique keys, foreign keys, and data validation rules, to ensure the accuracy and consistency of accounting data. By preventing data duplication, inconsistencies, and errors, databases maintain the reliability and trustworthiness of financial information.

## **SOLUTION THREE**

### **(a) Ways a well-designed Accounting Information System (AIS) can contribute to the organization's value chain.**

- Improving the quality of good and services: Information systems can be used to monitor the operations and performance of the equipment and raise alarm if performance falls below the standard.
- Improved efficiency and effectiveness of the organisation's supply chain by allowing clients and business partners access the company's system for necessary information.
- Sharing Knowledge and expertise and thus improving operations and provide competitive advantages
- Improving the internal control structures: An AIS can provide security and privacy and protect the system from fraud and other activities
- Improved decision: a well implemented AIS can provide management with information for improved decision making

### **(b) Network topologies.**

- **Bus topology** where the network uses a common backbone to connect all devices
- **Ring topology** where every device has exactly two neighbouring devices for communication purposes
- **Star topology** where a central connection point called a hub is used to connect the devices
- **Tree topology** which integrates multiple star topologies together onto a bus.

### **(c) Difference between Intrusion Detection and Logical Access Control**

- **Intrusion Detection:**

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



- **Logical Access Controls:**

Logical access controls are mechanisms used to designate users who have access to system resources and the types of transactions and functions they are permitted to perform. Use access control lists (ACL) and access rules to specify the access privileges of authorized personnel, including the level of access and the types of transactions and functions that are permitted (e.g., read, write, execute, delete, create, and search). Hardware and software often are configured with ACLs, or the ACLs may be administered offline and then distributed to routers and other devices. Configure access rules to grant appropriate access privileges to authorized personnel, based on their roles or job functions. Ensure only system administrators have access to the controls.

## SOLUTION FOUR

(a)

- (i) **Denial of Service Attack** - DoS is when legitimate users of the system cannot access the resources they need because the system has been attacked and is overwhelmed to respond to legitimate users.
- (ii) **Trojan Horse** - is malware program the disguises as genuine software but when installed carries out malicious activities contrary to what it seemed to be.
- (iii) **Cracking** - is an unauthorised access to an information system for ill intention

(b) **Things that a word processing application allows you to do.**

- Formatting of the document and creation
- Used for collaborative editing of documents
- Spell check and grammar check
- Handling the insertion of multimedia elements
- Handling of different file formats
- Saving and printing of documents

(c) **Common causes of computer lock-ups**

- Because of another computer program is running on an older version
- Computer overheating
- Bottlenecks in two computer programs waiting for the other to respond when it also waiting for it to respond
- Too many applications running
- Insufficient RAM
- Hardware misconfigurations

(d)

(i) =F5-G5

(ii) =IF(E5>=26,(0.1\*H5),0)

## SOLUTION FIVE

(a) **Differences between formal and informal meetings**

FORMAL MEETINGS	INFORMAL MEETINGS
1. There must be a quorum	1. Quorum is not a must
2. There is always an agenda	2. There ,may be no agenda
3. Minutes are always written	3. Minutes may not be written
4. Governed by rules	4. Does not follow strict rules
5. Has meeting officials with official roles	5. May have unofficial positions with official roles(anyone can be chairperson, secretary, etc)

(b)

- (i) **Quorum** – minimum number of people required for a meeting to take place.
- (ii) **Minutes** – A record of discussions of a previous meeting.
- (iii) **Ex officio** – A person invited to attend a meeting of a committee by virtue of his his/her position in an organisation

(c) **Duties of:**

(i) **Chairperson**

- Call the meeting to order
- Ensure that members speak through the chairperson
- Lead the meeting in following the agenda
- Protect weaker members from harassment when they are on the floor
- Any other suitable answer

(ii) **Members**

- Attend meetings whenever they are called upon
- Actively participate in the discussions
- Perform any tasks assigned to them

(iii) **Secretary**

- Write minutes in the meeting
- Send out notice and agenda
- Check attendance before the meeting proceeds
- Any other suitable answer

## **SOLUTION SIX**

### **(a) Request letter**

Muzamba Filters LTD  
P.O Box 123  
Kafue

Any date suitable during examination period.

Muzamba Filters LTD  
P.O Box 123  
Kafue

Dear Sir,

#### **Re: Request for Salary Advance**

Following the conversation that we had earlier on concerning my salary advance, I wish to

Inform you that I experienced a break-in at my house. This resulted in unexpected damages and loss of property. Therefore, I am in need of a salary advance of K10, 000

The break-in happened on Sunday 9<sup>th</sup> June 2024 between 10 00 and 13 00hours when the family was at church.

We lost the following items: Plasma TV, one laptop and some kitchen electrical appliances valued at K15, 000. These need to be replaced as soon as possible in order to sustain our normal livelihood.

Your assistance and understanding in this difficult time will be appreciated.

Thank you for your continued support.

Yours faithfully,

Senders signature

Taonga Lubinda

Accounts Officer

**(b) Reason for writing letter**

- Keeps formal records
- Every recipient gets the exact same message
- Not easy to change
- Can be used as reference
- Formalises the request / to make the request official

## **SOLUTIONS SEVEN**

- (a) Factors to consider when preparing a report
  - i. Deadline- when is the report is required/
  - ii. Purpose of the report must be very clear
  - iii. Audience – who is the target audience?
  - iv. Structure or layout of the report
  - v. Types of report.
  - vi. The issues of the budget- what is the total cost of producing a comprehensive and investigative report?
- (b) The parts of a report are:
  - (i) Findings – These are facts found in the field after an investigation. They form the main body and with detailed arranged logically in sectional heading in case of a typical formal report.
  - (ii) Acknowledgements – these are recognition of people who have helped in the production of the report.
  - (iii) Report title – The main subject of a report
  - (iv) Executive summary – This is a very brief or condensed view of a report meant to be read by the people who don't have much time to go through the whole report.
  - (v) Appendices – These are extra material found at the back of a report such as pictures and graphs so that the flow of information is not disturbed. However they are necessary to provide more details of the report for the reader.

## **END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA: 5 COST ACCOUNTING

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TUESDAY 11 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (COMPULSORY)

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

### QUESTION ONE

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

- 1.1 A company has under-absorbed fixed production overheads for the period by K9,000. The fixed production overhead absorption rate was K7 per unit and is based on the normal level of activity of 5,000 units. Actual production was 5,500 units.

What was the actual fixed production overheads incurred for the period?

- A. K26,000.
- B. K29,500.
- C. K44,000.
- D. K47,500.

(2 marks)

- 1.2 The purchase price of an item of inventory is K110 per unit. In each six-month period the usage of the item is 50,000 units. The annual holding costs associated with one unit equate to 3% of its purchase price. The cost of placing an order for the item is K15.

What is the Economic Order Quantity (EOQ) for the inventory item to the nearest whole unit?

- A. 674.
- B. 953.
- C. 1,651.
- D. 10,000.

(2 marks)

- 1.3 The following statements relate to activity-based costing.

- (i) Activity-based costs can be used to identify relevant costs for decision making.
- (ii) Activity-based costing cannot be used to cost services.
- (iii) Activity-based costing is a form of absorption costing.
- (iv) Activity-based costing is an alternative to traditional volume-based costing models.

Which statement(s) is/are true?

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

(2 marks)

- 1.4 What is a by-product?

- A. A product produced at the same time as other products which has no value.
- B. A product produced at the same time as other products which requires further processing to put it in a saleable state.
- C. A product produced at the same time as other products which has a relatively low volume compared with other products.



- D. A product produced at the same time as other products which has a relatively low value compared with the other products. (2 marks)

- 1.5 A product is made in two (2) consecutive processes. Data for the latest period are as follows:

	<b>Process 1</b>	<b>Process 2</b>
Input (kg)	47,000	42,000
Normal loss (% of input)	8	5
Output (kg)	42,000	38,915

No work in progress is held at any time in either process

Was there an abnormal loss or abnormal gain arising in each process during the period?

- |    | <b>Process 1</b> | <b>Process 2</b> |           |
|----|------------------|------------------|-----------|
| A. | Abnormal loss    | Abnormal loss    |           |
| B. | Abnormal loss    | Abnormal gain    |           |
| C. | Abnormal gain    | Abnormal loss    |           |
| D. | Abnormal gain    | Abnormal gain    | (2 marks) |

- 1.6 Which of the following would help to explain a favourable direct labour efficiency variance?

- (i) Employees were of a lower skill level than specified in the standard
- (ii) Better quality material was easier to process
- (iii) Suggestions for improved working methods were implemented during the period.

- A. (i), (ii) and (iii).
- B. (i) and (ii) only.
- C. (ii) and (iii) only.
- D. (i) and (iii) only. (2 marks)

- 1.7 A company which uses marginal costing has a profit of K37,500 for a period. Opening inventory was 100 units and closing inventory was 350 units. The fixed production overhead absorption rate is K4 per unit.

What is the profit under absorption costing?

- A. K35,700.
- B. K35,500.
- C. K38,500.
- D. K39,300. (2 marks)

- 1.8 Which of the following is a feature of job costing?

- A. Associated with continuous production of large volumes of low-cost items.
- B. Establishes the costs of services rendered.
- C. Production is carried out in accordance with the wishes of the customer.
- D. Costs are aggregated and divided by units produced. (2 marks)

- 1.9 Kanele Tailoring shop situated in Section 27 in Mpatamato are preparing a quotation for a wedding attire for the wedding of a couple in Kawama township. Costs and other related information are shown as below:

Raw materials	K 8,500
Direct labour (1,600 hours)	K14,400
Production overheads	K5.5 per direct labour hour
Administration overhead	10% of production cost
Profit margin	20% on selling price

The shop has asked you to establish the sales price for them.

- A. K40,587.50.
- B. K31,487.50.
- C. K43,587.50.
- D. K46,493.33. (2 marks)

- 1.10 A company operates a continuous process into which 3,000 units of materials costing K9,000 was input in a period. Conversion costs for this period were K11,970 and losses, which have a scrap value of K1.50, are expected at a rate of 10% of input. There was no opening or closing inventories and output for the period was 2,900 units.

What was the output valuation?

- A. K20,271.
- B. K20,520.
- C. K20,970.
- D. K22,040. (2 marks)

**[Total: 20 Marks]**

## SECTION B

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

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

### QUESTION TWO

A company within the chemical industry located along Katemo Road in Lusaka mixes powdered ingredients in two (2) different processes to produce ladies' lotion known as 'Whiten me'. The output of Process 1 becomes the input of Process 2 and the output of Process 2 is transferred to the packing department as finished product. The company uses the weighted average method of inventory valuation.

Output from process 1 is 9,200 kilograms at a valuation of K2 per kg in the process account at that stage. Information regarding process 2 as extracted from the engineer's preliminary report is set out as follows:

Material C	6,600 kilograms at K2.50 per kilogram
Material D	4,200 kilograms at K1.50 per kilogram
Flavouring Essence	K600
Mixing Labour	370 hours at K4 per hour
Overhead Costs	K2,960
Normal Waste	5% of weight input with no disposal value
Output	18,000 kilograms.

No work in process at the beginning of the week but 1,000 kilograms in process at the end of the week and estimated to be only 50% complete so far as labour and overhead were concerned. Overhead of K6,400 incurred by the two processes to be absorbed on the basis of mixing labour hours.

#### **Required:**

- (a) Prepare a schedule of the equivalent units for Process 2. (8 marks)
- (b) Calculate the full cost per unit that would be used to value output in Process 2. (4 marks)
- (c) Prepare the Process 2 account. (8 marks)

**[Total: 20 Marks]**

### QUESTION THREE

Bolts and Nuts Ltd (BNL) produces various sizes of bolts and nuts. These use the same production methods and equipment. BNL is currently using absorption costing system for its product costing.

Details of the two (2) products for a typical period are as follows:

	<b>Bolt</b>	<b>Nut</b>
	<u>K /unit</u>	<u>K /unit</u>
Materials cost	15.00	10.00
Labour cost	10.00	10.00
Volumes (units) produced and sold	90,000	100,000

BNL's total production overheads amount to K675,000. These are currently absorbed on a materials cost. The overhead absorption rate for the period is 30%.

BNL is now considering to change costing system to activity based costing.

Further analysis shows that BNL's total production overhead costs can be divided as follows:

	<u>K</u>
Materials purchases	182,250
Machine set-ups	135,000
Product packaging	189,000
Quality testing	168,750

The following activity volumes are associated with each product for the period:

Product	Bolt	Nut
Number of purchase orders	75	25
Number of machine set-ups	150	100
Number of packages	300	150
Number of tests carried out	500	1,500

**Required:**

- Calculate the cost per unit for each product using the current method of allocating overheads. (4 marks)
- Calculate the cost per unit for each product using activity based costing (ABC). (13 marks)
- Explain the function of cost accounting system in an organisation. (3 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Juliet Mwapona, a green grocer buys and sells farm products. The following transactions relate to crates of tomatoes for the first week of December 2022.

	Quantity (crates)	Crate cost (K)	Selling price (K)
Opening balance at 1 December	30	170	
Purchases 1 December	100	200	
Sales 2 December	40		350
Purchases 3 December	40	250	
Purchases 4 December	50	300	
Sales 5 December	120		400
Sales 6 December	35		450

**Required:**

- (a) Calculate the value of closing raw materials inventory using the FIFO method to price issues. (7 marks)
  - (b) Mention one (1) advantage and one (1) disadvantage for each of the following inventory valuation methods:
    - (i) FIFO (2 marks)
    - (ii) LIFO (2 marks)
    - (iii) AVCO (2 marks)
- Juliet Mwapona has an annual demand of 36,750 crates of green beans. A crate costs K120 each. Fresh supplies can be obtained immediately, but ordering costs and the cost of carriage inwards are K200 per order. The annual cost of holding one crate of green beans in inventory is estimated to be K12.
- (c) Define economic order quantity (EOQ) and state any three (3) of its assumptions. (5 marks)
  - (d) Calculate the economic order quantity (EOQ) (2 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

Management decisions are often based on how costs and revenues vary at different activity levels. This aspect also helps in cost control. Costs can be analyzed in several ways in accordance with their behaviour.

**Required:**

- (a) Explain what you understand by the term '**cost behaviour**'. (2 marks)
- (b) Describe the cost behaviour patterns for the following costs:
  - (i) Total fixed cost and fixed cost per unit (3 marks)

- (ii) Total variable costs and variable per unit (3 marks)
- (iii) Total stepped cost and stepped cost per unit (3 marks)
- (iv) Mixed cost or semi variable costs (3 marks)
- (c) Integrated systems combine both financial and cost accounts into one system of the ledger accounts.

**Required:**

Identify the accounting entries by showing clearly which account should be debited or credited for the following transactions in an integrated system for cost and financial accounts:

- (i) Issue of direct materials to production (2 marks)
- (ii) Goods completed in the factory (2 marks)
- (iii) Indirect labour charged to production (2 marks)

**[Total: 20 Marks]**

**QUESTION SIX**

- (a) Marginal costing and Absorption costing are cost management techniques used to allocate costs to the output of production process for their valuation. The two (2) methods sometimes give different operating profit figures.

**Required:**

State two (2) reasons that account for the differences in the operating profit under Marginal costing and Absorption costing systems. (4 marks)

- (b) Chungu Chikoyi Ltd is a producer of product Mango Sweet. In a period, it produced 20,000 units and sold 18,000 units of product Mango Sweet. The selling price per unit of the output is K5. The variable production cost per unit is K1.75. Actual production units are equal to budgeted production. In the planned production period, relevant cost data were stated as follows:

	<b>K</b>
Production cost:	
Variable	35,000
Fixed	15,000
Administration and selling overheads:	
Fixed	25,000

**Required:**

Prepare a profit or loss statement based on the following costing systems:

- (i) Marginal costing systems (8 marks)

(ii) Absorption costing systems.

(8 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 5 COST ACCOUNTING SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

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



## SECTION B

### SOLUTION TWO

(a)

#### Step 1: Determine output and losses

	Kgs
Input (9,200 + 6,600 + 4,200)	20,000
Output:	
Normal Waste (20,000 x 5%)	1,000
Abnormal loss/gain	—
Work-in progress	1,000
Output	<u>18,000</u>
	<b><u>20,000</u></b>

#### Statement of Equivalent Units

	Total	Material	Labour Overheads	
	Units	Units	Units	Units
Normal waste	1,000	-	-	-
WIP	1,000	1,000	500	500
Fully Worked Units	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>
	<u>20,000</u>	<u>19,000</u>	<u>18,500</u>	<u>18,500</u>

(b)

#### Step 2: Calculate cost per unit of output, losses and WIP

Statement of cost per equivalent unit

	Material	Labour	Overheads
Costs (K),(W)	41,800	1,480	2,960
Equivalent units	19,000	18,500	18,500
Cost per equivalent unit (K)	<b><u>2.2</u></b>	<b><u>0.08</u></b>	<b><u>0.16</u></b>

**Total**

**K2.44 per kg**

**Working**

	K
Materials from process 1 (9,200 Kgs x K2)	18,400
Material C (6,600@K2.50)	16,500
Material D (4,200@K1.50)	6,300
Flavouring Essence	<u>600</u>
Total Material Costs	<b><u>41,800</u></b>

Step 3: Calculate total cost of output, losses and WIP

	K
Normal Waste	—
WIP (1,000@K2.2+500@K0.08+500@K0.16)	2,320
Output (18,000@K2.44)	<u>43,920</u>
	<b><u>46,240</u></b>

(c)

**Step 4: Complete Accounts**

**Process 2 Account**

Description	Kgs	K	Description	Kgs	K
Process 1 Material	9,200	18,400	Normal waste	1,000	
Material C	6,600	16,500	Work-in progress	1,000	2,320
Material D	4,200	6,300	Finished goods	18,000	43,920
Flavouring Essence		600			
Mixing Labour		1,480			
Overhead		<u>2,960</u>			
	20,000	<u>46,240</u>		<u>20,000</u>	<u>46,240</u>

### SOLUTION THREE

(a) Current method of allocating overheads:

	Bolt K	Nut K
Material cost	15	10
Labour cost	10	10
Overheads cost (30% x K15/10)	4.5	3
Total cost	<u>29.5</u>	<u>23</u>

(b) ABC method of allocation of overheads

Cost per unit for both products

Product	Bolt (K)	Nut (K)
Material	15.00	10.00
Labour	10.00	10.00
Overheads	4.29	2.89
Cost per unit	<u>29.29</u>	<u>22.89</u>

Workings

#### 1. Rates

Activity	Cost Pool (K)	Cost driver	Rate
Materials purchases	182,250	100 Orders	K1,822.50/order
Machine set-ups	135,000	250 Set-ups	K540/set-up
Product packaging	189,000	450 packages	K420/package
Quality testing	168,750	2,000 tests	K84.38/test

#### 2. Apportionment of overheads to units

Product	Bolt	Nut
Materials purchases (K1,822.50 x 75)/90,000	1.5188	
(K1,822.50 x 25)/100,000		0.4556
Machine set-ups (K540 x 150)/90,000	0.9000	
(K540 x 100)/100,000		0.5400
Product packaging (K420 x 300)/90,000	1.4000	
(K420 x 150)/100,000		0.6300
Quality testing (K84.38 x 500)/90,000	0.4688	
(K84.38 x 1,500)/100,000		1.2657
Total overheads per unit	<u>4.29</u>	<u>2.89</u>

(c) Function of cost accounting system

- A cost accounting system is concerned with gathering internal data about costs and revenues.
- A cost accounting system is concerned mainly with measuring actual costs and revenues.
- Concerned with estimating future costs and revenues associated with an activity.
- Ascertain cost of operating a department
- Calculating profit for a product produced or any activity carried out.
- Putting a value on inventories that are usually held at the end of the period.
- Analysing the difference between actual costs and revenues with budgets to provide more relevant information for decision making.

## SOLUTION FOUR

(a) Valuation of inventory using FIFO.

Date	Receipts			Issues			Balance		
	QTY	PRICE	VALUE	QTY	PRICE	VALUE	QTY	PRICE	VALUE
	Units	K	K	Units	K	K	Units	K	K
1/12/22							30	170	5,100
1/12/22	100	200	20,000				100	200	20,000
							130		25,100
2/12/22				30	170	5,100			
				10	200	2,000	90	200	18,000
3/12/22	40	250	10,000				40	250	10,000
							130		28,000
4/12/22	50	300	15,000				90	200	18,000
							40	250	10,000
							50	300	15,000
							180		43,000
5/12/22				90	200	18,000	10	250	2,500
				30	250	7,500	50	300	15,000
							60		17,500
6/12/22				10	250	2,500			
				25	300	7,500	25	300	7,500

(b)

### Advantages:

(i) FIFO

1. Logical – reflects the most likely physical flow.
2. Easily understood.
3. Inventory values at up-to-date prices
4. Acceptable to ZRA and IAS2

(ii) LIFO

1. Issue prices are up-to-date.
2. In times of rising prices, reported profits are reduced (as in the case above where closing inventory is valued at lower cost).

(iii) AVCO

1. Acceptable to accounting standards and ZRA
2. Logical because units all have the same value.

### Disadvantages:

1. Issues may be at out-of-date prices
2. In times of rising prices (as in the case above), reported profits are high (high closing inventory valuations)
3. Cost comparisons between jobs are difficult

1. Not usually acceptable to ZRA and accounting standards.
2. Inventory values may become very out-of-date.
3. Cost comparisons between jobs are difficult.

1. Tedious calculations of weighted average (on every receipt).
2. Issue price may be fictional (i.e. not an actual price).

(c) Economic order quantity

The EOQ is the reorder quantity which minimises the total costs associated with holding and ordering inventory (i.e. holding costs + ordering costs) are at a minimum.

The three (3) assumptions of EOQ are as follows:

- Demand and lead time are constant and known
- Purchase price is constant
- No buffer inventory is held.

(d) EOQ computation

$$EOQ = \sqrt{\frac{2C_o D}{C_h}}$$

Where:

D = Demand per annum

Co = Cost of placing one order

Ch = Cost of holding one unit for one year

Q = Reorder quantity (EOQ)

$$EQO = \sqrt{2 \times 200 \times 36,750 / 12}$$

$$EOQ = 1,106.79 = 1,107 \text{ crates}$$

## SOLUTION FIVE

- (a) **Cost behaviour** is defined as the way in which costs per unit or in total output are affected by fluctuations in the level of the activity.
- (b) **The basic principle of cost behaviour** is that as the level of activity increases, costs also increase.
  - (i) **Fixed cost** is constant or do not change regardless of the level of the output. However, cost per unit reduces as output increases
  - (ii) **Variable costs**- these increases as out put increases but cost per unit remains constant.
  - (iii) **Stepped Cost**- these are fixed for a given output and then increases however cost per unit of stepped costs reduces as output increases but breaks as the new increases in adjusted and start all over again.
  - (iv) **Mixed or semi variable Cost**- these are both fixed and variable such that they have a fixed component and variable component then gives the total cost.
- (c)
  - (i) **Work in Progress;**  
Debit: WIP  
Credit: Material Control Account
  - (ii) **Finished Goods**  
Debit: Finished Goods Account  
Credit: WIP
  - (iii) **Cost of sales**  
Debit: Production Overhead Control  
Credit: Wages Control Account

## SOLUTION SIX

(a) Factors causing difference in profit:

1. Fixed factory overhead. Marginal costing system excludes fixed factory overhead from inventory evaluation whereas, absorption costing system includes fixed factory overheads into inventory evaluation.
2. Differences in inventory levels in the period. For example, in absorption method, increase in inventory at the period end will exclude a larger portion of costs from cost of sales hence increasing profit reported compared to marginal costing.

(b)

(i) Marginal cost per unit

Variable production cost per unit= **K1.75**

### Profit Statement using marginal costing

	K
Sales (18,000 x K5)	90,000
Less marginal cost of production:	
Variable production cost	35,000
Closing stock (20,000 – 18,000) 2,000 x K1.75	(3,500)
Total marginal cost	(31,500)
Contribution	58,500
Less, fixed production cost:	
Fixed production cost	15,000
Fixed selling and administration	25,000
Total expenses	(40,000)
Net profit	<b>18,500</b>

(ii) Absorption cost per unit

= variable production cost per unit - 1.75



Plus fixed production cost per unit	
(15,000/20000)	<u>0.75</u>
=	<b><u>K2.50</u></b>

**Profit statement using absorption costing**

	K
Sales (18,000 x K5)	90,000
Less production cost:	
Variable production cost	35,000
Fixed	15,000
Closing inventory (20,000 – 18,000) 2,000 x K2.5	(5,000)
Total production cost	(45,000)
Gross profit	45,000
Less, selling and administration overheads	<u>(25,000)</u>
Net profit	<b><u>20,000</u></b>

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 6: BUSINESS LAW

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FRIDAY 14 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions

### **QUESTION ONE**

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

- 1.1 Which of the following is considered a secondary source of law in Zambia?  
A. Customary law.  
B. Constitution.  
C. International treaties.  
D. Legal commentaries. (2 marks)
- 1.2 Which principle states that certain agreements are not contracts unless they are made in prescribed manner?  
A. Principle of legality.  
B. Principle of freedom of contract.  
C. Principle of formalities.  
D. Principle of privity of contract. (2 marks)
- 1.3 In contract law, what does the term "consideration" refer to?  
A. The price paid for the contract.  
B. The promise made by one party in exchange for something from the other party.  
C. The duration of the contract.  
D. The legality of the contract. (2 marks)
- 1.4 What does the "implied warranty of fitness for a particular purpose" imply in the sale of goods?  
A. The goods must be fit for any purpose.  
B. The seller guarantees the goods will last indefinitely.  
C. The goods must be suitable for the buyer's specific purpose, as communicated by the buyer to the seller.  
D. The seller must provide a warranty certificate for the goods. (2 marks)
- 1.5 Under the Sale of Goods Act, what is the implied condition that goods sold must be of satisfactory quality?  
A. Condition as to title.  
B. Condition as to fitness for purpose.  
C. Condition as to description.  
D. Condition as to merchantability. (2 marks)
- 1.6 Which of the following is **NOT** a protected characteristic under Zambian employment law?  
A. Race.  
B. Religion.

- C. Qualifications.  
D. Marital status. (2 marks)
- 1.7 What is agency in a legal context?  
A. A contractual agreement between two parties.  
B. A fiduciary relationship where one party acts on behalf of another.  
C. A unilateral promise made by one party to another.  
D. An agreement involving three or more parties. (2 marks)
- 1.8 What does the "reasonable person standard" refer to in the context of negligence?  
A. The legal standard used to determine if a defendant's conduct was negligent.  
B. The subjective standard of care required of a defendant.  
C. The level of care required in contractual relationships.  
D. The standard of care applicable to intentional torts. (2 marks)
- 1.9 In a general partnership, how is liability typically distributed among partners?  
A. Partners have limited liability.  
B. Partners have joint and several liability.  
C. Each partner is only liable for their own actions.  
D. Partners are not liable for any business debts. (2 marks)
- 1.10 What is the main difference between a general partnership and a limited partnership?  
A. In a general partnership, partners have limited liability.  
B. In a limited partnership, partners have unlimited liability.  
C. In a general partnership, all partners actively manage the business.  
D. In a limited partnership, there must be at least one general partner with unlimited liability. (2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

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

### **QUESTION TWO**

- (a) Alfred advertised his grandfather's clock for sale in the Post newspaper. James read the advertisement, came to Alfred's house on June 1 to see the clock and said he would buy it for K4 million. Alfred replied that he would like some time to think about it and promised to let James know within a few days. On June 4, Alfred posted a letter to James in which he wrote that he agreed to sale the clock for K4 million. Later that day Clive came to Alfred's house and said that he would buy the clock for K5 million. After sending a telegram to James saying "ignore letter: clock no longer for sale" Alfred allowed Clive to take the clock away in return K5 million cash. The telegram was delivered to James house on the evening of June 4 and Alfred's letter arrived on June 5.

**Required:**

Advise James applying the legal principles on whether he can successfully sue or not?

(10 marks)

- (b) Mulenga, a schoolboy aged 16, entered into a contract for the purchase of a motorcycle. He neglected to take out any insurance, rode the motorcycle and was involved in an accident in which the machine was totally destroyed. The Vendor of the motorcycle wishes to recover its price from the Minor.

**Required:**

Advise him as to whether he is likely to succeed. Would your advice be different if the Minor had left school and was working as a travelling salesman. Use relevant authorities.

(10 marks)

**[Total 20 Marks]**

### **QUESTION THREE**

- (a) Alice owns a small business selling handmade jewelry online. She purchases a bulk order of gemstones from a supplier for \$5,000 with the intention of using them to create her jewelry pieces. However, upon delivery, Alice realizes that a significant portion of the gemstones are flawed and cannot be used for her designs.

**Required:**

Advise Alice on her legal rights under the Sale of Goods Act and how she can seek recourse for the defective gemstones.

(11 marks)

- (b) Tom is employed as a delivery driver for a courier company. While making a delivery, he negligently crashes into another vehicle, causing injury to the occupants of the car.

**Required:**

Advise whether the courier company can be held vicariously liable for Tom's negligent actions. (9 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Distinguish between '*agency by necessity*' and '*agency by holding out*'. (10 marks)
- (b) (i) List five (5) general defences in Tort. (5 marks)
- (ii) Briefly explain each of the defences you have listed above. (5 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) Define a partnership deed. (2 marks)
- (b) Explain four (4) duties of a partner in a partnership relationship. (8 marks)
- (c) Peter and Nsofwa have an agreement by which they contributed K50,000 each as deposits for the purchase of spare parts. By the agreement, they are to share the spare parts equally on continuous basis. Peter recently received a consignment of spare parts at the cost of K60,000. Nsofwa demands that the spare parts be shared equally with Peter on the ground that, by their agreement, they are partners. However, Peter has sold two-thirds of the spare parts. Nsofwa, therefore, demands an account from Peter of the sales by him of the spare parts. Peter insists that he cannot account to Nsofwa because they are not partners.

#### **Required:**

Discuss the elements of a valid partnership and Advise Nsofwa whether his relationship with Peter falls within the ambit of a partnership. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION SIX**

Distinguish between:

- (a) Civil and Criminal law. (4 marks)
- (b) The literal rule and the context rule of statutory interpretation. (4 marks)
- (c) Constructive dismissal and summary dismissal. (4 marks)
- (d) The multiple (economic reality) test and the Integration test of employment relationships. (4 marks)
- (e) Binding precedents and persuasive precedents. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 6: BUSINESS LAW SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

1.1.D

1.2.C

1.3.B

1.4.C

1.5.D

1.6.C

1.7.B

1.8.A

1.9.B

1.10.D

## **SOLUTION TWO**

- (a) **Whether James can successfully sue Alfred depends on several legal principles involved in offer, acceptance, and revocation of an offer:**

### **Offer and Acceptance:**

- ❖ Alfred's advertisement could be considered an invitation to treat, not a firm offer, as it invites people to make offers (to buy the clock).
- ❖ James's statement of buying the clock for K4 million could be considered an offer to Alfred.
- ❖ Alfred's reply about wanting time to think is not an acceptance but implies he doesn't reject the offer immediately.

### **Revocation of Offer:**

- ❖ Alfred's letter on June 4 agreeing to sell could be considered an acceptance of James's offer, creating a binding contract.
- ❖ However, Alfred sent a telegram later on June 4 revoking the offer before James received the letter.

### **Communication of Revocation:**

The general rule is that an offer can be revoked anytime before acceptance.

Telegram being faster than postal mail, and delivered before the letter, would likely be considered the effective form of communication for revocation.

### **Conclusion:**

Based on the scenario, James wouldn't be able to successfully sue Alfred for breach of contract. While James might argue that the letter constituted an acceptance before the telegram, the faster communication of revocation through the telegram would likely hold legal weight. **Only students who argue like this should be awarded marks.**

- (b) **Vendor's Chances of Recovering Money from Mulenga:**

The Vendor's chances of recovering the motorcycle price from Mulenga depend on several factors, including Mulenga's age and capacity to contract, the type of motorcycle, and the specific laws of Zambia regarding minors and contracts

### **Scenario 1: Mulenga is 16 and a Schoolboy:**

**Minority:** In Zambia, the age of majority is 18. Contracts entered into by minors (under 18) are generally voidable at their option, meaning they can choose to cancel the contract and avoid obligations.



**Necessaries:** Exceptions exist for contracts for "necessaries," such as food, clothing, or basic transportation. A motorcycle might not be considered a "necessary" for a schoolboy, depending on its intended use and other available transportation options.

**Beneficial Contracts:** While not strictly "necessaries," contracts demonstrably beneficial to the minor might be upheld. However, the benefit of a motorcycle for a 16-year-old schoolboy requires careful consideration in terms of legal interpretation.

**Relevant Authorities:**

**Mulenga is 18 and a Travelling Salesman:**

Majority: If Mulenga was 18 and working, he would be considered an adult with full contractual capacity. The Vendor would have a stronger case for recovering the money, assuming the contract was formed validly and the motorcycle served a legitimate purpose for his work.

**CASE LAW.**

**Minors' Capacity to Contract:**

**Nash v. Inman [2005] EWCA Civ 626:** This case clarifies that contracts entered into by minors are generally voidable, but courts consider the contract's nature and its benefit to the minor when determining enforceability.

**"Necessaries" for Minors:**

**Peters v. Fleming [1840] 1 Man & G 777:** This case defines "necessaries" as essential items for a minor's well-being, considering their station in life and social requirements. Whether a motorcycle would qualify as a "necessary" for a minor in this scenario requires careful analysis based on individual circumstances

### SOLUTION THREE

- (a) The issue is whether Alice has legal rights under the Sale of Goods Act due to receiving flawed gemstones.

According to the Sale of Goods Act, goods must be of satisfactory quality, fit for purpose, and as described. Henceforth, Alice has the right to receive goods that are of satisfactory quality, fit for purpose, and as described. The defective gemstones received by Alice do not meet these requirements. The case of **Grant v Australian Knitting Mills [1936] AC 85** is relevant here. In this case, it was established that goods must be of merchantable quality and fit for the purpose for which they are intended. The flawed gemstones not only fail to meet the standard of merchantable quality but also do not serve the purpose for which they were purchased.

Alice can seek recourse by contacting the supplier to inform them of the defective goods and request a refund or replacement. If the supplier refuses to cooperate, Alice may consider legal action for breach of contract under the Sale of Goods Act. The case of **Ashington Piggeries v Christopher Hill Ltd [1972] AC 441** established that if goods are not of satisfactory quality, the buyer is entitled to reject them and claim a refund. Alice could use this precedent to demand a refund for the defective gemstones.

- (b) The issue is whether the courier company can be held vicariously liable for Tom's negligent actions.

According to the principle of vicarious liability, employers can be held responsible for the wrongful acts of their employees if those acts occur in the course of employment.

The courier company can likely be held vicariously liable for Tom's negligent actions. In the case of **Lister v Hesley Hall Ltd [2001] UKHL 22**, the House of Lords held that employers can be vicariously liable for the wrongful acts of their employees if those acts occur in the course of employment. Since Tom's negligent driving occurred while he was performing his duties as a delivery driver for the courier company, it falls within the scope of his employment, making the company vicariously liable.

## SOLUTION FOUR

- (a) The distinction between *agency by necessity* and *agency by holding out* is as follows: Agency by necessity may arise by operation of law in situations of pressing need or emergency. It becomes necessary in order to preserve the property or interests of the principal. Thus the agent becomes an agent because of the situation he finds himself in. For him/her to be an agent of necessity; there must be an emergency, the agent must have no practical way of communicating with the principal, the agent must act in good interest of the principal, and the action taken must be reasonable and prudent in the circumstances.

On the other hand, *agency by holding out*, also known as *agency by estoppel* arises when the words or conduct of the principal give an impression to third parties that the agent has authority, when in fact not. Thus if those third parties who heard or saw the principal make such impressions, act on that and deal with the agent, the principal will be estopped (denied) from refusing that he did not create that impression to third parties and will be bound by the agent's transactions with those third parties. This agency is created by the principal to the third parties, whilst agency by necessity is created by an emergency.

(b)

- (i) The list of *Five defences in Tort* would include: Consent; Contributory negligence; Statutory or common law justification; Necessity and Illegality.
- (ii) *Consent (volenti non fit injuria)* – This is a defence in tort where the injured consents to the taking of the risk e.g. in football, undertaking a surgery, etc. The consent must be voluntary and freely undertaken, for it to be a good defence by the wrong doer.

*Contributory negligence* – This is a defence where the injured party partly contributed to his injury. The effect of this is a reduction in the amount of damages to be awarded to the injured party, reason being that he also contributed to his injuries.

*Statutory or common law justification* – This is a defence where one's acts are covered by statute or common law. For example, injuries incurred in resisting an arrest may not be compensated as the police officers would have been doing their work as authorized by statute/law.

*Necessity* – This defence comes into play where it was necessary to cause the injury in order to prevent a greater harm. The action must be a reasonable action.

*Illegality* – This defence states if the act from which the injured party seeks compensation is illegal, he must be prevented from benefiting from it as it would be against the law or public policy. For example, allowing such an injured party to benefit from proceeds of crime may perpetuate the crime, must be stopped from benefitting.

## SOLUTION FIVE

- (a) A partnership is a formal arrangement by two or more parties to manage and operate a business and share its profits. A partnership can be created only by an agreement, and such agreement may be oral or in writing. However, in order to avoid future disputes, it is always better to have the agreement in writing. Such an agreement in writing is called a 'partnership deed'.
- (b) The fiduciary nature of the partnership relationship imports the usual duties that derive from such a relationship, which can be summed up under the general heading of a duty to act in good faith. In addition to these general fiduciary duties, ss 28–30 of the PA 1890 lay down specific duties as follows:
- **The duty of disclosure.** Section 28 provides that partners must render true accounts and full information in relation to all things affecting the partnership to the other partners or their legal representatives.
  - **The duty to account.** Section 29 of the PA 1890 provides that partners must account to the firm for any benefit obtained, without consent, from any transaction concerning the partnership; its property, including information derived from membership of the partnership; its name; or its business connection. As with fiduciary duties generally, such profit is only open to challenge where it is undisclosed. Full disclosure is necessary and sufficient to justify the making of an individual profit from a partnership position.
  - **The duty not to compete.** Section 30 provides that, where a partner competes with the partnership business, without the consent of the other partners, then that person shall be liable to account to the partnership for any profits made in the course of that business.
  - **The duty to avoid conflict of interest.** This means partners must always act in good faith and avoid businesses which conflict with the object of the partnership such as, competitive business endeavours within a partnership.
  - **The duty not to make secret profits.** Partners are barred from making secret profits during the subsistence of a partnership. All profits made within a partnership belong to the partnership and must be disclosed.
- (c) Peter and Nsofwa had an agreement by which they contributed K50, 000 each as deposits for the purchase of spare parts. By the agreement, they are to share the spare parts equally on continuous basis. Peter recently received a consignment of spare parts at the cost of K60, 000. Nsofwa demanded that the spare parts be shared equally with Peter on the ground that,

by their agreement, they are partners. However, Peter has sold two-thirds of the spare parts. Nsofwa, therefore, demands an account from the Peter of the sales by him of the spare parts. Peter insists that he cannot account to Nsofwa because they are not partners.

The elements of a valid partnership are

- the existence of a business;
- carrying on the business by or on behalf of the partners; and
- making and sharing of profits by the partners.

The relationship between Peter and Nsofwa does not involve the sharing of profits, but, sharing of spare parts. It could be said that there is no business that is being carried on by the two gentlemen.

## SOLUTION SIX

- (a) *Criminal law* governs the relationship between the State and its citizens i.e. a citizen who commits a crime offends the State representing the whole society. Criminal law is strictly written stating the offences and punishment for the offence such as imprisonment, fines, etc. Offences include murder, rape, theft, etc. On the other hand *Civil Law* governs the relationship between citizens, it does not have punishment for the offender like imprisonment, instead the offender pays damages, has the contract cancelled, and so on. It has branches such as tort law, contract, company law, commercial law, etc.
- (b) *The Literal rule and Context rule of interpretation of legislation:* - *The Literal Rule* – This principle states that words of a statute or any other document must be interpreted according to their natural and primary meaning adding to or taking away nothing from them. Thus if the words of a statute are in themselves precise, clear and unambiguous, no more is necessary than to expound those words in their natural and ordinary sense. On the other hand, *The Contextual Rule* – This is a rule of interpretation that looks at the context words were said or in the light of the terms surrounding it. The judge will look at the peculiar context in which it was said or enacted.
- (c) *Constructive Dismissal and Summary dismissal* – **Summary dismissal** is where an employee is dismissed without notice for gross misconduct. Examples of instances where summary dismissal may be used is where an employee is involved in theft of the employer's property, fighting at work, etc that goes to the core of the contract, ***Sinclair v Neighbour (1967)***. Whilst, **Constructive dismissal** happens where the employer makes work environment so harsh that it is impossible for the employee to carry out his work properly. The employee would have no option but to resign due to the employer's behaviour, which making his work difficult. Examples of constructive dismissal may include where an employer denies tools to the employee to do his work, locks the offices where the employee is supposed to be working from, uses abusive language, etc., ***Faidecy Mithi Lungu v Lonrho Zambia Ltd (2000)***.
- (d) *The multiple (economic reality) test and The Integration test in employment relationships:-*  
*The Multiple (economic reality) test:-* This is one of the tests used to determine whether an employee is under a contract of service or contract for services. It requires looking at a number of factors such as does the employee provide his own tools, does he delegate his work, is he paid the gross amount without tax being deducted by the employer, etc. In other terms, to arrive at whether one is an employee or not, a number of factors need to be put into consideration – ***Ready Mixed Concrete (South East) v Ministry of Pensions & National Insurance (1968)***. On the other hand, **the integration test** asks the question as to whether the employee was an integral part of employer's business, if the answer is in the affirmative, then he or she will be treated as an employee, not an independent contractor. It further asks as to whether the employee is so skilled that he cannot be controlled in the performance of his duties, was he appointed and assigned to his duties by the employer – was he integrated into the employer's organisation. The test is used by the courts to determine whether a contract of employment exists, this will be so if worker is an integral part of the organisation but if this work remains outside it and is merely accessory to it as held in ***Cassidy v Ministry of Health 1951***.

- (e) *Binding Precedents and Persuasive Precedents*:- A *precedent* is a previous court decision which another court is bound to follow by deciding a subsequent case in the same way. ***Persuasive precedents*** may be followed, but need not be followed in a later case. This occurs where a decision is made by the court of the same status e.g. Livingstone High Court and Kitwe High Court; when a decision is made by a court of a different country; or the court hearing the matter is higher than the one that made the decision, e.g. the Supreme Court is higher than the High Court, so it is not bound by the High Court decisions, they can just be persuasive to it. On the other hand, a ***Binding Precedent*** is Binding precedents are precedents of which the courts are obliged to follow. These include decisions made by a higher court and ratio decidendi. All lower courts are bound to follow them to the latter.

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 7: PRINCIPLES OF MANAGEMENT

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MONDAY 10 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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



## SECTION A – COMPULSORY

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

#### **QUESTION ONE**

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

- 1.1. Henry Fayol was a French industrialist whose contributions are termed as Operational Management or Administrative Management. He followed "The Classical Approach" to the evolution of management thought. Which of the following is **NOT** among the list of his contribution to management?
- A. Identified six types of qualities of a manager are- Physical, mental, moral, educational, and technical and experience;
  - B. He adopted scientific methods to increase the productivity and greater efficiency in production.
  - C. Fourteen (14) principles of Management namely- Division of Work, Authority and responsibility and so on; and
  - D. Five elements/functions of management- Planning, organizing, commanding, coordinating and controlling. (2 marks)
- 1.2. Which of the following characterize a manager as being efficient?
- A. They use a minimum amount of resources for the amount of outputs produced.
  - B. They devote a large amount of time to planning.
  - C. They achieve their goals.
  - D. They interview, select, and train people who are most suitable to fill open jobs. (2 marks)
- 1.3. Which of the following is **NOT** a characteristic of parastatal organization?
- A. Public corporations owned or partly owned by the state.
  - B. Profit motive limited by the state.
  - C. The state sets a Board of directors to observe accountability.
  - D. Profit maximization is a variation of the profit objectives. (2 marks)
- 1.4. From your readings, which types of leadership remains underexplored through research?
- A. Leadership at executive level.
  - B. Leadership in organizations.
  - C. Leadership of organizations.
  - D. Leadership of teams. (2 marks)
- 1.4. Encoding is related to:
- A. Converting message into symbols.

- B. Converting symbols into message.  
C. Transmitting message.  
D. Receiving symbols. (2 marks)
- 1.6. Managers need to be able to see and understand the complexities of the business and its environment. Which managerial skills will be required for a manager to do this?
- A. Social skills.  
B. Technical skills.  
C. Conceptual skills.  
D. Leadership skills. (2 marks)
- 1.7. Name the legal principle which states that a shareholder is not held responsible for the debt owed by the company.
- A. Separate legal personality  
B. Limited liability.  
C. Unlimited liability.  
D. Perpetual existence. (2 marks)
- 1.8. Stakeholders can be grouped into internal, connected and external categories. Identify a connected stakeholder from the following answers:
- A. Employee.  
B. Government.  
C. Management.  
D. Shareholder. (2 marks)
- 1.9. State the intermediate products of Job analysis.
- A. Job depth and Job Specification.  
B. Job design and Job description.  
C. Job description and Job Specification.  
D. Job Scope and Job depth. (2 marks)
- 1.10. The three (3) strategy levels that managers think in are.
- A. Conscious, business, and implementation.  
B. Corporate, business, and strategic.  
C. Business, corporate, and functional.  
D. Functional, strategic, and universal.

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

### **QUESTION TWO**

It is a well-known fact that organizations operate in an environment that is dynamic. It is surrounded by not only its internal stakeholders but also the external ones. Environmental uncertainty increases the more that environmental conditions are dynamic or the more they are complex". The approach to making sense of this may differ both by the extent to which the environment is stable or dynamic, and also by the extent to which it is simple or complex. Based on your knowledge of environmental analysis;

#### **Required:**

- (a) Who are stakeholders? (4 marks)
- (b) Evaluate the meaning of SWOT analysis. (8 marks)
- (c) State any eight (8) stakeholder types. (8 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) In change management, the most suitable approach to adopt depends on the nature of change and the reasons for the resistance.

#### **Required:**

Identify six (6) approaches to change management suggested by Kotter and Schlesinger in their 'six change approach model'. (12 marks)

- (b) Centralisation offers greater control and coordination while decentralisation offers greater flexibility in decision making.

#### **Required:**

State any four (4) advantages of decentralisation, (8 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) Frederick Herzberg suggested three (3) ways of improving job design to make the job itself act as a motivator.

#### **Required:**

Explain each of the following job design and how it can be a motivating factor.

- (i) Job enlargement (4 marks)
- (ii) Job enrichment (4 marks)
- (b) Identify and briefly explain four (4) managerial skills. (12 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

One scholar commented 'Leadership and management are the terms that are often considered synonymous. It is essential to understand that leadership is an essential part of effective management'. Demonstrate your understanding of these two (2) terms by answering the following Questions.

#### **Required:**

- (a) List any five (5) Theories of Leadership. (10 marks)
- (b) Differentiate leadership from Management in five (5) ways. (10 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Some Managers consider training as a responsibility of an employee and an unnecessary cost to the organisation which should be avoided.

#### **Required:**

- State any four (4) benefits of training to the organisation (8 marks)
- (b) Describe four (4) types of organisation culture identified by Harrison. (12 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA 7: PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

1.1 B

1.2 A

1.3 D

1.4 C

1.5 C

1.6 C

1.7 B

1.8 D

1.9 C

1.10 C

## SOLUTION TWO

(a)

- stakeholders of an organization are individuals or groups of people who have an interest in or are affected by the goals, operations or activities of the organization or the behavior of the people who work in it.
- A **stakeholder(s)** is anyone **who** is affected by your work, has influence or power over it, or has an interest in its success.

(b) A SWOT analysis discusses:

- The Strength of a business i.e. the areas of the organization that should be exploited by suitable strategies
- The Weaknesses of a business i.e. area of the organisations which need strategies to improve them
- The Opportunities that the environment may provide – the external appraisal involving identifying opportunities that can be exploited by the organization's strength
- The Threats that the environment may provide. Threats that might affect the organization or its microenvironment such as competition

Strength and weaknesses analysis is intended to shape the organization's approach to the external world. A SWOT analysis brings together an organization's internal strength and weaknesses as well as external opportunities and threats so that strategies may be developed and assessed

(c) Potential stakeholders include;

interest groups/pressure groups, Employees, Investors Shareholders, management, lenders, Prospective customers, Government, communities, media, creditors, bankers, owners, Professional associations, Labour unions Suppliers etc.

## **SOLUTION THREE**

### **(a) Six change management approach model by Kotter and Schlesinger.**

#### **1. Education and communication**

This involves educating people and provide more information about change. This approach is ideal where people lack information or have inaccurate information about change.

#### **2. Participation and involvement**

This approach requires getting people involved in the change process in order to create sense of ownership of the change hence becoming more willing to get involved and make it work.

#### **3. Facilitation and support**

This involves providing help and support to individual concerned with change so that they have necessary skills and resources.

#### **4. Negotiation and agreement**

When people are resistant to change, it may be possible to negotiate and bargain to win their agreement.

#### **5. Manipulation and co-option**

This involves winning support of key people through rewards and who can later influence others to accept change.

#### **6. Explicit or implicit coercion**

Where change is inevitable and time is of essence, can be forced to accept change

### **(b) Advantages of Decentralisation**

1. It reduces workload on management hence gives them time concentrate on strategic issues.
2. It encourages flexibility
3. Decisions made have local knowledge
4. Quick decision making as there is no need to refer to the higher management level
5. It motivates lower level managers
6. it develops skills of lower management

## **SOLUTION FOUR**

### **(a) (i) Job enlargement**

This involves horizontal extension of job by increasing the number of operations or tasks but at the same level. It motivates staff as it reduces boredom through task variety and perceived higher status within the department.

### **(ii) Job enrichment**

This is a vertical extension of the job into greater levels of responsibility, challenge and autonomy. An employee is given decision making tasks at higher level and freedom to decide.

Job enrichment create a perception of promotion hence staff gets motivated.

### **(b) Managerial skills**

#### **1. Social skills**

The ability to interact with subordinate, fellow managers, superiors and other people. Managerial work involves dealing with other people which include superiors, fellow managers, subordinates and other people external to the organisation.

#### **2. technical skills**

The manager should demonstrate technical expertise and competence in the area of business. They should show technical know-how in the area of specialist and other related areas of work.

#### **3. Conceptual skills**

This is being able to understand the complexities of the business environment and looking at things on a wide picture. Therefore, considering the effect of the decisions on the business as a whole.

#### **4. Interpersonal skills**

This involves the manager being to interact and communicate with subordinates, superiors, fellow managers and other people.

#### **5. Leadership skills**

Ability of the manager to influence others like subordinates to do things willingly. The manager should inspire subordinates to be committed to the organisation's objectives willingly.



## **SOLUTION FIVE**

(a)

- The Transactional Theory or Management Theory
- Theory of Transformation
- The Theory of Contingencies
- The Theory of Situations
- The Great Man Theory
- The Trait Theory
- Behaviourist Theory
- Behavioural Theory

(b)

### **Managerial Skills and Behavior**

Planning

'Does things right'

Administers and Controls

Mainly short-time focus

Communication

Evaluating

Monitoring

Team working

Directing

Management Produces  
(Order and Consistency)

### **Leadership skills and Behavior**

Inspires trust

'Does the right thing'

Innovates and develops

long-term in outlook

Envisioning

Behaviour modelling

Involving

Promoting learning

Team-building

Leadership Produces  
(Change & Movement)

## **SOLUTION SIX**

### **(a) Benefits of training to the organisation**

1. it minimises the costs of obtaining the skills the organisation needs
2. training increases productivity as trained staff become more efficient
3. Reduction in supervision costs since trained staff require minimal supervision
4. increased motivation as training increases employ commitment to organisational goals.
5. it develops multi- skilled staff who become more flexible in performance
6. training helps the organisation to manage change

### **(b) Types organisation culture identified by Harrison.**

#### **1. Power culture**

This is culture shaped by an individual and exists where an organisation is controlled by a key central figure such as the owner or founder. This culture is personal and suitable in small organisations.

#### **2. Role culture**

This is culture shaped by rationality, rules and procedures found in bureaucratic organisations where there are well established formal rules. Individuals are required to perform the tasks according to the rules and procedures.

#### **3. Task culture**

This is culture shaped by focus on output and results. In this culture, there is no dominant or clear leader and the principal concern is task. The performance is judged by results as individuals are assumed to be experts.

#### **4. Person culture**

This is culture shaped by interests of individuals common in partnerships. The individual is subordinate to the organisation or task and culture is found in organisations whose purpose is to serve the interests of the individuals within it.

## **END OF SUGGESTED SOLUTIONS**



## DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 8: FINANCIAL REPORTING

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MONDAY 10 JUNE 2024

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

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### INSTRUCTIONS TO CANDIDATES

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

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

**SECTION A:**

**There are TWO (2) compulsory questions in this section.**

**Attempt BOTH questions.**

**QUESTION ONE**

On 1 May 2023 Ngaba Ltd purchased 75% of 24 million equity shares in Kanyu Ltd. The acquisition was through a share-for-share exchange of two shares in Ngaba Ltd for every three shares in Kanyu Ltd. Both companies have shares with a nominal price of K1 each. The market price of Ngaba Ltd's shares on 1 May 2023 was K6.00 per share. Ngaba Ltd will also pay in cash on 31 April 2025 (2 years after acquisition) K2.50 per acquired share of Kanyu Ltd. Ngaba Ltd's cost of capital is 10% per annum. The reserves of Kanyu Ltd on 1 January 2023 were K70,000,000.

Ngaba Ltd has held an investment of 30% of the equity shares in Manela Ltd for many years.

The summarized statements of Profit or Loss for the three companies for the year ended 31 December 2023 are:

	Ngaba Ltd K ` 000	Kanyu Ltd K ` 000	Manela Ltd K ` 000
Revenue	225,000	117,000	120,000
Cost of sales	<u>(141,000)</u>	<u>(76,500)</u>	<u>(90,000)</u>
Gross profit	84,000	40,500	30,000
Distribution costs	(11,100)	(4,500)	(5,250)
Administration expenses	(18,750)	(9,000)	(9,750)
Finance costs (Note 2)	<u>(3,000)</u>	<u>(1,350)</u>	<u>Nil</u>
Profit before Tax	51,150	25,650	15,000
Income tax expense	<u>(15,600)</u>	<u>(5,400)</u>	<u>(6,000)</u>
Profit for the year	<u>35,550</u>	<u>20,250</u>	<u>9,000</u>

**The following additional information is relevant:**

- The fair values of the identifiable net assets of Kanyu Ltd at the date of acquisition were equal to their carrying amounts with the exception of Property and Plant. Property and Plant had fair value of K4,264,000 and K2,496,000 respectively in excess of their carrying amounts. The increase in the fair value of the property would create additional depreciation of K208,000 in the consolidated financial statements in the post-acquisition period to 31 December 2023 and the Plant had a remaining life of four years (straight line depreciation) at the date of acquisition of Kanyu Ltd. All depreciation is treated as part of cost of sales.

The fair values have not been reflected in Kanyu Ltd's financial statements. No fair value adjustments were required on the acquisition of Manela Ltd.

- The finance costs of Ngaba Ltd do not include the finance costs on the deferred consideration.

3. Prior to its acquisition, Kanyu Ltd had been a good customer to Ngaba Ltd. In the year to 31 December 2023, Ngaba Ltd sold goods at a selling price of K1,500,000 per month to Kanyu Ltd both before and after its acquisition. Ngaba Ltd made a profit of 20% on the cost of these sales. At 31 December 2023, Kanyu Ltd still held inventory valued at K3,600,000 (at cost to Kanyu Ltd) of goods purchased in the post-acquisition period from Ngaba Ltd.
4. An impairment review of goodwill of Kanyu Ltd conducted on 31 December 2023 concluded that it should be written down by K2,400,000. The value of the investment in Manela Ltd was not impaired.
5. All items in the above statements of Profit or Loss are deemed to accrue evenly over the year.
6. It is the group policy to value non-controlling interest at fair value. At the date of acquisition the directors valued the non-controlling interest in Kanyu Ltd at K27,040,000.

**Required:**

- (a) Calculate the Goodwill arising on the acquisition of Kanyu Ltd at 1 May 2023. (7 marks)
- (b) Prepare the consolidated statement of Profit or Loss for the Ngaba Group for the year ended at 31 December 2023. (18 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

You are the Accountant of Bwangu Plc. and the following trial balance as at 31 March 2024 has been presented to you:

The Trial Balance of Bwangu Plc as at 31 March 2024

	<b>K' 000</b>	<b>K' 000</b>
Equity shares of K1 each		22,500
Share premium		2,500
Retained earnings at 1 April 2023		2,550
Property (12 years) – at cost (note (ii))	24,000	
Plant and equipment – at cost (note (ii))	23,750	
Accumulated depreciation:		
Property at 1 April 2023		8,000
Plant and equipment at 1 April 2023		16,750
Inventory at 31 March 2024 (note (v))	12,600	
Trade receivables (note (vi))	23,650	
Bank overdraft		2,855
Deferred tax (note (vii))		1,600
Trade and other payables (note (iv))		13,650

Revenue (note (i))		175,000
Cost of sales	140,350	
Distribution costs	12,305	
Administrative expenses	13,450	
Bank interest	150	
Current tax (note (vii))		100
Loan notes interest paid (note (iii))	250	
5 % Loan notes (note (iii))	<u>-</u>	<u>5,000</u>
	<u>250,505</u>	<u>250,505</u>

**The following notes are relevant:**

- (i) The revenue in the trial balance includes K6,000,000 for goods sold on credit to a customer on 1 March 2024. A credit note of K2,000,000 which was given to this customer on 30 March 2024 for the goods returned has not been recorded. Bwangu Plc applies a 25% profit margin on all the goods sold. The returned goods have not been included in the closing inventory at 31 March 2024 in the trial balance above.
- (ii) Bwangu Plc revalued its property on 31 March 2024. The directors accepted the revaluation report of an independent surveyor who valued the property at K15,000,000 on that date. Bwangu Plc has not yet recorded the revaluation.

The property is depreciated on a straight- line method with no residual value, while the plant and equipment is depreciated at 25% per annum using the reducing balance method.

No depreciation has yet been charged on any non-current asset for the year ended 31 March 2024. All depreciation is charged to cost of sales.

- (iii) Bwangu Plc issued K5,000,000 5% loan notes on 1 April 2023 at par, and incurred issue costs of K150,000 which were included in administrative expenses. These loan notes are redeemable after three (3) years at a premium which will give the effective interest rate of 8% per annum. Interest is paid annually on 31 March each year.
- (iv) During the year, a customer sued Bwangu Plc claiming K300,000 for damages alleged to have been caused by Bwangu Plc's products. On 25 March 2024, the court ruled in favour of the customer and stated that this amount must be paid in 2 equal installments. As at 31 March 2024, the first installment had been paid and recognised. The balance is yet to be accrued in the accounts.
- (v) The closing inventory of K12,600,000 includes goods purchased for resale at a cost of K200,000. The recent decrease in the demand for these goods has meant that these goods will be sold for K190,000 after incurring costs to sell of K10,000.

- (vi) On 30 March 2024, Bwangu Plc discovered that the credit customer owing K250,000 for the goods purchased during the year was declared bankrupt by the court on 28 March 2024. Bwangu Plc is not insured against this debt.
- (vii) The directors have estimated the provision for income tax for the year ended 31 March 2024 at K500,000. The required deferred tax provision at 31 March 2024 is K1,800,000. The balance on current tax represents the under/over provision of the tax liability for the year ended 31 March 2023. Ignore deferred tax on the revaluation.

**Required:**

- (a) Prepare for Bwangu Plc, a statement of profit or loss and other comprehensive income for the year ended 31 March 2024 according to IFRSs/IASs requirements.  
(12 marks)
- (b) Prepare for Bwangu Plc statement of financial position as at 31 March 2024 according to IFRSs/IASs requirements.  
(13 marks)

**[Total: 25 Marks]**

## SECTION B

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

### **QUESTION THREE**

Below are the statements of Financial position of Kaniki Ltd as at 31 December 2023 and 31 December 2022, together with an extract of statement of Profit or Loss for the year ended 31 December 2023.

Kaniki Ltd's

Statement of Financial Position as at 31 December:

	<b>2023</b>	<b>2022</b>
	K' 000	K' 000
<b>Non-current asset:</b>		
Property, Plant and Equipment	71,352	48,200
<b>Current assets:</b>		
Inventories	29,040	19,360
Trade Receivables	26,400	21,120
Cash and cash equivalents	-	902
	<u>55,440</u>	<u>41,382</u>
	<u>126,792</u>	<u>89,582</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital	16,000	12,000
Share premium	8,400	2,400
Retained earnings	<u>69,976</u>	<u>54,274</u>
	<u>94,376</u>	<u>68,674</u>
<b>Non-current liabilities:</b>		
Decommissioning provision	4,950	
Government grant	2,500	1,000
Bank Loan	8,000	3,000
<b>Current liabilities:</b>		
Government grant	1500	500
Trade Payables	9,680	14,520
Tax liability	2,688	1,888
Bank overdraft	<u>3,098</u>	<u>-</u>
	<u>126,762</u>	<u>89,582</u>

### **Statement of Profit or Loss (extract only) for December 2023**

	<b>K' 000</b>
Profit from operations	26,400
Finance cost	<u>(560)</u>
Profit before tax	25,840
Income tax	<u>(2,688)</u>



Profit after tax

23,152

### Notes

1. Depreciation charge for the year was K9,554,000.
2. Property, Plant and Equipment that cost K2,032,000 with accumulated Depreciation of K872,000 were sold in the year at a profit of K1,760,000.
3. Government grant income amortised to profit or loss for the year to 31 December 2023 amounted to K1.3 million.
4. The decommissioning provision relates to an item of plant acquired on 1 January 2023. The carrying amount at 31 December 2023 is the aggregate of initial carrying amount in respect of the provision and the unwinding of the discount for the year to 31 December 2023 at a discount rate of 10% per annum.

### Required:

- (a) Using the information provided, prepare a statement of cash flows for Kaniki Ltd for the year ended 31 December 2022 using the indirect method. (20 marks)
- (b) Explain how the direct method differs from the indirect method of preparing statements of cashflows and why the indirect method may be more useful than the direct method. (5 marks)

**[Total: 25 Marks]**

### QUESTION FOUR

You are the Financial Accountant for Musole Ltd., a listed company on the local stock exchange market. One of the conditions for listing is that the company must comply with the use of IFRSs in the preparation of its financial statements. The following transactions have arisen for Musole Ltd. and you have been approached as a Financial Reporting Consultant to advice on the accounting treatment. Musole Ltd. has an accounting year end of 31 December each year.

The following matters are to be considered for the year ending 31 December 2023:

#### **Transaction one**

On 1 March 2023, the directors of Musole Ltd. decided to sell Musole Ltd.'s manufacturing division. The division was available for immediate sale, but Musole Ltd. had not succeeded in disposing of the operation by 31 December 2023 (the reporting date). Musole Ltd. identified a potential buyer for the division, but negotiations were ongoing; the directors are, however, certain that the sale will be completed within the next three months.

The manufacturing division's carrying amount at 1 March 2023 was K843,000 and it had a fair value of K823,000.

Musole Ltd.'s directors have estimated that Musole Ltd. will incur consultancy and legal fees for the disposal of K55,000. (9 marks)

#### **Transaction two**

On 28 February 2024, Musole Ltd received communication from a customer who owed K3 million as at 31 December that they had filed for bankruptcy and unlikely to pay the balance. Further,

on 15 March 2024, Musole Ltd made an issue of shares to existing shareholders for a cash consideration of K5 million. Also, on 31 December 2023, Musole Ltd had not included the impact of an outstanding legal action against a local government for losses suffered as a result of incorrect enforcement of local business regulations. On 20 March Musole Ltd was awarded damages of K30 million by the courts. Musole's financial statements for the year to 31 December 2023 were authorized for issue on 31 March 2024.

Note: assume all transactions are material.

(8 marks)

### **Transaction three**

Musole Ltd entered into a lease agreement for a lorry on 1 January 2023. Initial direct costs amounted to K1,000. The lease term is five (5) years and the interest rate implicit in the lease is 7%. The annual lease payments are K110,000 in arrears. The lorry had an expected life of seven (7) years at date of entry into the agreement.

(8 marks)

### **Required:**

Explain the appropriate accounting treatment of each of the above transactions by Musole Ltd for the year ended 31 December 2023.

**[Total: 25 Marks]**

## **QUESTION FIVE**

The Conceptual Framework for Financial Reporting was formulated for the purpose of assisting the International Accounting Standards Board (IASB) in developing and revising International Financial Reporting Standards (IFRSs) that are based on consistent concepts to help preparers to develop consistent accounting policies for areas that are not covered by a standard or where there is choice of accounting policy, and to assist all parties to understand and interpret IFRSs.

### **Required:**

- (a) Briefly explain the need for regulation of financial reporting, clearly stating the sources of this regulation. (4 marks)
- (b) Briefly explain the terms '**measurement**', '**recognition**' and '**de-recognition**' of elements of financial statements, detailing methods of measuring elements, recognition criteria and de-recognition criteria as provided for in the conceptual framework for financial reporting. (12 marks)
- (c) Discuss the meaning of faithful representation, relevance and comparability as qualitative characteristics of financial statements that should be inherent if the financial statements are to be useful to users. (9 marks)

**[Total: 25 Marks]**

**END OF PAPER**



## DA 8: FINANCIAL REPORTING SUGGESTED SOLUTION

### SOLUTION ONE

(a) Goodwill

	K' 000	K' 000
Consideration transferred:		
Shares (w1)		72,000
Deferred consideration (w1)		<u>37,190</u>
		109,190
Fair value of NCI at acquisition		<u>27,040</u>
		136,230
Less Net assets acquired as represented by:		
Ordinary share capital	24,000	
Earnings                      b/f	70,000	
Current year to date ( $20,250 \times \frac{4}{12}$ )	6,750	
Fair value adjustment ( $4,264 + 2,496$ )	<u>6,760</u>	<u>(107,510)</u>
Goodwill at acquisition		<u><u>28,720</u></u>

(b) Ngaba Ltd Group's

Consolidated statement of Profit or Loss for the year ended 31 December 2023.

	K' 000
Revenue (w5)	291,000
Cost of sales (w6)	<u>(181,224)</u>
Gross Profit	109,776
Distribution costs ( $11,100 + (4,500 \times \frac{8}{12})$ )	(14,100)
Administration expenses ( $18,750 + (9,000 \times \frac{8}{12})$ )	(24,750)
Finance cost (w7)	(6,379)
Impairment of Goodwill	(2,400)
Share of Profit of associate ( $30\% \times K9,000$ )	<u>2,700</u>
	64,847
Income tax expense ( $15,600 + (5,000 \times \frac{8}{12})$ )	<u>(18,933)</u>
Profit for the year	<u><u>45,914</u></u>
Profit attributable to:	
Owners of the Parent (Bal. figure)	43,295
NCI (w3)	<u>2,619</u>
	<u><u>45,914</u></u>

### Workings

1. Goodwill:

Step 1: Calculate the shares acquired

$$\text{Number of shares acquired } 75\% \times 24,000,000 = 18,000,000$$

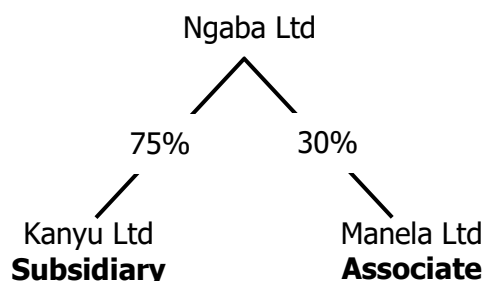
Step 2: Consideration transferred

$$(18,000 \div 3) \times 2 \times K6 = K72,000,000$$

$$\text{Step 3: Deferred consideration} = (18,000,000 \times 2.50) \times \frac{1}{1.21}$$

$$= K37,190,000$$

## 2. Group structure



## 3. Non-Controlling Interest (NCI)

	K' 000
Profit after tax $K20,250 \times \frac{8}{12}$	13,500
Additional Depreciation (w4)	(624)
Goodwill impairment	<u>(2,400)</u>
	<u>10,476</u>
$\therefore$ NCI share of (25% x 10,476)	<u>2,619</u>

## 4. Fair value adjustments

	Acquisition 1 <sup>st</sup> May 2023	Movement $(\frac{8}{12})$	Year end 31 Dec. 2023
	K' 000	K' 000	K' 000
Property	4,264	(208)	4,056
Plant	<u>2,496</u>	<u>(416)*</u>	<u>2,080</u>
	<u>6,760</u>	<u>(624)</u>	<u>6,136</u>

$*(2,496 \div 4\text{yrs}) \times \frac{8}{12} = K416$

5. Revenue:		K' 000
Ngaba Ltd		225,000
Kanyu Ltd $(117,000 \times \frac{8}{12})$		78,000
Intra-group sales $(1,500 \times 8 \text{ months})$		<u>(12,000)</u>
		<u>291,000</u>

6. Cost of sales:		K' 000
Ngaba Ltd		141,000
Kanyu Ltd $(76,500 \times \frac{8}{12})$		51,000
Intra-group sales (w5)		(12,000)
URP in Inventory $(3,600 \times \frac{20}{120})$		600
Additional Depreciation (w4)		<u>624</u>
		<u>181,224</u>

		K' 000
7.	Finance costs: Ngaba Ltd	3,000
	Kanyu Ltd ( $1,350 \times \frac{8}{12}$ )	900
	Unwinding of discount ( $37,190 \times 10\% \times \frac{8}{12}$ )	<u>2,479</u>
		<u>6,379</u>

## SOLUTION TWO

- (a) **Statement of Comprehensive Income of Bwangu Plc for the year ended 31 March 2024**

	<b>K' 000</b>
Sales revenue 175,000 -2,000 w1	173,000
Cost of sales 140,350 -1,500 w1+2,000 w2 +1,750 w2 +20 w5	<u>(142,620)</u>
Gross profit	30,380
Admin expenses 13,450+150 w4 +250 w6 – 150 w3	<u>(13,700)</u>
Distribution costs	<u>(12,305)</u>
Finance cost 388 w3 +150	<u>(538)</u>
Profit before tax	3,837
Tax expense w7	<u>(600)</u>
Profit for the year	<u>3,237</u>
<u>Other comprehensive income</u>	
Revaluation surplus w2	<u>1,000</u>
Total comprehensive income	<u>4,237</u>

- (b) **Statement of financial position of Bwangu Plc as at 31 March 2024:**

<b>Assets</b>	<b>K' 000</b>
<b>Non-current assets:</b>	
Property, plant and equipment 15,000 w2 +5,250 w2	<u>20,250</u>
<b>Current assets:</b>	
Inventory 12,600+1,500 w1 -20 w5	14,080
Trade Receivables 23,650 -250 w6 -2,000 w1	21,400
Bank	<u>-</u>
Total current assets	<u>35,480</u>
<b>Total assets</b>	<u>55,730</u>
<b>Equity:</b>	
Equity shares	22,500
Share premium	2,500
Retained earnings 2,550 +3,237	5,787
Revaluation surplus w2	<u>1,000</u>
	<u>31,787</u>
<b>Non-current liabilities:</b>	
Deferred tax (note vii)	1,800
6% loan note w3	<u>4,988</u>
	<u>6,788</u>
<b>Current liabilities:</b>	
Trade and Other Payables 13,650 +150 w4	13,800

Bank overdraft	<u>2,855</u>
Tax provision	<u>500</u>
	<u>17,155</u>
<b>Total equity and liabilities:</b>	<u><b>55,370</b></u>

## Workings

**K' 000**

- W1: Credit note  
 Dr Sales -2,000                      Cr Receivables - 2,000  
 Dr Inventory +1,500                Cr Cost of goods - 1500 (2,000 x 75/100)
- W2: Property, Plant and Equipment
- Property  
 Dep 31/3/2024      24,000/12yrs = 2,000 P/L figure  
 N.B.V 31/3/2024      24,000 – 10,000 = 14,000  
 Revaluation surplus      15,000 – 14,000 = 1,000  
 SOPF figure = 15,000
- Plant and Equipment  
 N.B.V 1/4/2023      23,750 – 16,750 = 7,000  
 Dep 31/3/2024      7,000 x 25% = 1,750 P/L figure  
 N.B.V 31/3/2024      7,000 – 1,750 = 5,250  
 SOPF figure = 5,250
- W3: 5% Loan notes  
 Net amount: 5,000 – 150 = 4,850      Admin Exp = - 150  
 O/Balance      Eff. I. Rate @8%      Coupon Rate @ 5%      C/Balance  
 4,850              388              (250)              4,988
- W4: Customer claim: court ruling  
 Accrual              300 x 1/2 = 150              Cr Payables (Accrual) + 150      Dr Admin Exp + 150
- W5: Overstated Inventory  
 Cr Inventory -20              Dr Cost of sales + 20
- W6: Receivables expense  
 Cr Receivables - 250      Dr 250 Admin Exp
- W7: Tax  
 T/Balance figure                      (100)  
 Estimated tax provision              500  
 Def tax increase 1,800 – 1,600              200.  
 Tax expense                              600



### SOLUTION THREE

(a) Kaniki Ltd's

Statement of Cash flows for the year ended 31 December 2023

<b><u>Cash flows from Operating Activities</u></b>	K' 000	K' 000
Profit before tax	25,840	
<b><u>Adjustment for:</u></b>		
Depreciation	9,554	
Amortisation of government grant	(1,300)	
Finance cost	560	
Profit on Disposal	(1,760)	
<b><u>Movements in working capital</u></b>		
Increase in Inventories (29,040 – 19,360)	(9,680)	
Increase in Trade Receivables (26,400 – 21,120)	(5,280)	
Decrease in Trade Payables (9,680 – 14,520)	(4,840)	
<b><u>Cash generated by operations</u></b>		
Income Tax paid	(1,888)	
Finance cost (560-450)	(110)	
Net cash from operating activities		11,046
<b><u>Cash flows from Investing Activities</u></b>		
Payments to acquire PPE (w1)	(29,366)	
Government grant received	3,800	
Disposal Proceeds or PPE (w2)	2,920	
Net Cash used in Investing Activities		(22,646)
<b><u>Cash flows from financing Activities</u></b>		
Increase in Bank loan (8,000 – 3,000)	5,000	
Dividends paid	(7,450)	
New issues of equity (24,400 – 14,400)	10,000	
Net cash from financing activities		7,550
Net decrease in cash and cash equivalent		(4,000)
Opening Balance of cash		902
Closing Balance of cash		(3,098)

### Workings

W1.

#### PPE Account

Balance	b/f	K	48,200	Disposal	K	1,160
Bank – Additions*			33,866	Depreciation		9,554
				Balance	c/d	71,352
			82,066			82,060

W2. Cash Proceeds from sale of PPE

	K' 000
Cost	2,032
Accumulated Depreciation	(872)
	1,160
Profit on sale	1,760

Total cash Received	<u>2,920</u>
W3. Government grant received:	
Government A/c:	K'000
Bal b/d	1,500
PL	(1,300)
	<hr/>
	200
Cash (balance)	3,800
	<hr/>
Bal c/d	4,000
	<hr/>
W4. Dividends paid	
RE A/c:	K'000
Balance b/d	54,274
PL	23,152
	<hr/>
	77,426
Dividends paid (balance)	(7,450)
	<hr/>
Balance c/d	69,976
	<hr/>

- (b) The direct method of calculating cash from operating activities differ in that it is a list of cash receipts and cash payments in the year. Both receipts and payments are those related to day to day trading activities. Therefore cash receipts include receipts from cash sales and receipts from credit customers in the year; cash payments include cash purchases and expenses and payments to suppliers in the year.
- In order to obtain the information necessary to prepare a statement of cash flows using the direct method, it is necessary to have access to internal accounting systems. The relevant information is not usually available in the statement of Financial Position and statement of Profit or Loss e.g. cash sales is not normally disclosed.
- In contrast, the Indirect method of preparing a statement of cash flows allows the preparer to use available information in the statement of financial position and statement of Profit or Loss to calculate cash generated by operating activities.

## **SOLUTION FOUR**

### **Transaction one**

The assets of the manufacturing division should be valued at the lower of its carrying amount and fair value less costs of disposal.

They had satisfied the requirements of non current assets held for sale as per IFRS 5.

This is the net fair value of K768,000 (K823,000-K55,000) being lower than carrying amount of K843,000.

Since the asset was not sold yet by 31 December 2023, it should be shown at the lower of net fair value of K768,000 in the statement of financial position under current assets.

Further, Musole Ltd would be required to recognize an impairment loss of K75,000 (K843,000-K768,000) in the statement of profit or loss for the year ended 31 December 2023.

### **Transaction two**

Communication received confirms the debt becomes irrecoverable before financial statements are authorized. It needs to be accounted for as an adjusting event hence at 31 December, receivables to be reduced by K3 million and an expense of K3 million as irrecoverable debt to reduce retained earnings.

The issue of shares after the reporting date is a non-adjusting even and so no adjustments to any element as at 31 December 2023 but a disclosure note describing the transaction – issue of shares and the financial value of K5 million so as to make users more informed of transactions yet to affect entity's financial statements in the near future.

The court case is an adjusting event so Musole Ltd will have to recognize a receivable as at 31 December 2023 and income receivable in profit or loss for the year ended 31 December 2023 to the value of K30 million.

### **Transaction three**

Initially, the liability will be measured at the present value of future lease payments as follows:

$$K110,000 \times 4.1 = K451,000$$

The K451,000 above will be amortized for a year giving finance cost of K31,570 (7%\*K451,000). The total liability at the year end 31 December will be K372,570 (K451,000+K31,570-K110,000). This will be amortized again to give a non current liability portion in it as shown below:

	Bal b/f	Effective interest	Lease rental	Bal c/f
Y/E 31/12/23	451,000	31,750	(110,000)	372,570
Y/E 31/12/24	372,570	26,080	(110,000)	288,650

Non current liability for year ending 31 December 2023 K288,650. The current liability would be K83,920 (K288,650 – K372,570)

Depreciation will be based on the shorter lease term of 5 years hence =K90,400 (K451,000+1,000/5 to be taken to statement of profit or loss for the year.

Carrying amount of ROUA to be taken to statement of financial position as at 31 December 2023 will be K361,600(K452,000-K90,400).

## SOLUTION FIVE

- (a) Financial Statements will be used by shareholders and many other users to make decisions. To ensure that they are relied upon, they should be subject to regulation.

Regulation of financial information will ensure that relevant and reliable financial reporting is achieved to meet the users' needs.

Sources of regulation include:

- Local company law
- Local accounting standards
- International accounting standards
- Conceptual frameworks
- Requirement of International bodies e.g IOSCO (International Organization of Securities Commissions)
- Security exchange rules (accounting standards on their own would not provide adequate regulation).

- (b) **Measurement** is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the financial statement. The conceptual framework recognizes two main methods of measuring elements namely:

Two measurement bases namely:

1. **Historic cost measurement**

2. **Current value**

- Historic cost for an asset is the cost that was incurred when the asset was acquired or created and, for a liability, is the value of the consideration received when the liability was incurred.
- Current value accounting attempts to address some of the problems of historic cost accounting by using information updated to reflect conditions at the measurement date. Current value measurement bases include:
  - Fair value
  - Value in use (for assets) or fulfilment value (for liability)
  - Current cost
    - Fair value – The net amount expected to be received from selling an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date
    - Value in use– The present value of future cash flows or other economic benefits that an entity expects to derive from the use of an asset and from its ultimate disposal.

**Recognition** is the process of capturing for inclusion in the financial statements an item that meets the definition of one of the elements of financial statements, an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items, in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or equity is recognised in the statement of financial position is referred to as its 'carrying amount'.

**De-recognition** is the removal of all or part of a recognised asset or liability from an entity's statement of financial position. Derecognition normally occurs when that item no longer meets the definition of an asset or of a liability:

- for an asset, derecognition normally occurs when the entity loses control of all or part of the recognised asset; and
- for a liability, derecognition normally occurs when the entity no longer has a present obligation for all or part of the recognised liability.

Accounting requirements for derecognition aim to faithfully represent both:

- any assets and liabilities retained after the transaction or other event that led to the derecognition (including any asset or liability acquired, incurred or created as part of the transaction or other event); and
- the change in the entity's assets and liabilities as a result of that transaction or other event.

**Recognition criteria of elements:**

The Conceptual Framework requires an item to be recognized in the financial statements if:

1. The item meets the definition of an element (asset, liability, income, expense, equity) and
2. Recognition of that element provides users of financial statements with information that is useful, that is,
  - i) Relevant.
  - ii) A faithful representation

Recognition must be cost effective (benefits to outweigh costs)

**De-recognition criteria**

- It occurs whenever the element no longer meets the definition of an element.
- For an asset- when control is lost
- For a liability – when there is no longer a present obligation.

- (c) Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations.

The **relevance of information** can be affected by its nature and materiality. Some items may be relevant to users simply because of their nature whereas some items may only become relevant once they are material. Hence, materiality is a threshold quality of information rather than a primary characteristic.

According to the Framework, information is material if its omission or misstatement could influence the decisions of users.

**Faithful representation** – If information is to represent faithfully the transactions and other events that it purports to represent, they must be accounted for and presented in accordance with their substance and economic reality and not merely their legal form. To be a faithful representation of financial performance and position, the following characteristics should be evident:

**Completeness**

To be understandable information must contain all the necessary descriptions and explanations.

### **Neutrality**

Information must be neutral, i.e. free from bias. Financial statements are not neutral if, by the selection or presentation of information, they deliberately influence the making of a decision or judgement to achieve a predetermined result or outcome. **Information must be free from error** within the bounds of materiality. A material error or an omission can cause the financial statements to be false or misleading and thus unreliable and deficient in terms of their relevance.

Free from error does not mean perfectly accurate in all respects. For example, where an estimate has been used the amount must be described clearly and accurately as being an estimate.

### **Comparability**

Users must be able to:

- compare the financial statements of an entity over time to identify trends in its financial position and performance
- compare the financial statements of different entities to evaluate their relative financial performance and financial position.

For this to be the case there must be:

- ✓ consistency and
- ✓ disclosure.

An important implication of comparability is that users are informed of the accounting policies employed in preparation of the financial statements, any changes in those policies and the effects of such changes. Compliance with accounting standards, including the disclosure of the accounting policies used by the entity, helps to achieve comparability.

Two measurement bases namely:

#### **1. Historic cost measurement**

#### **2. Current value**

- Historic cost for an asset is the cost that was incurred when the asset was acquired or created and, for a liability, is the value of the consideration received when the liability was incurred.
- Current value accounting attempts to address some of the problems of historic cost accounting by using information updated to reflect conditions at the measurement date. Current value measurement bases include:
  - Fair value
  - Value in use (for assets) or fulfilment value (for liability)
  - Current cost
  - Fair value – The net amount expected to be received from selling an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Value in use– The present value of future cash flows or other economic benefits that an entity expects to derive from the use of an asset and from its ultimate disposal.

Because users wish to compare the financial position and the performance and changes in the financial position of an entity over time, it is important that the financial statements show corresponding information for the preceding periods.

## **END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 9: MANAGEMENT ACCOUNTING

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TUESDAY 11 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

### QUESTION ONE

Monze Ltd (M Ltd) manufactures and sells a single product. The budgeted production and sales volumes were 2,000 units for the month of September 2023.

The standard cost card for the product is as follows.

		K per unit
Standard sales price		200
<b>Standard costs:</b>		
• Raw material A	(10kgs @K10 per kg)	100
• Labour	(6 hours @ K8 per hour)	<u>48</u>
Standard contribution per unit		<u>52</u>
<b>Actual results</b>		Total
Sales	2,000 units	316,000
Production data:		
Production units	2,000 units	
Raw material A	10,800 units	194,400
Labour	5,800 hours	<u>69,600</u>
Actual contribution		<u>52,000</u>

#### Notes

1. Sales were made at what was felt to be the highest feasible price but, it was later discovered that competitors sold their products at a price of K330 per unit and M Ltd could have sold them at the same price.
2. Labour costs rose drastically to a general market rate of K12.50 per hour even though M Ltd always paid below the general market rate.
3. The market price relating to raw materials averaged K17 per kg.

#### Required:

(a) Calculate the following variances.

- |       |                                      |           |
|-------|--------------------------------------|-----------|
| (i)   | Sales price variance                 | (2 marks) |
| (ii)  | Material price and usage variances   | (5 marks) |
| (iii) | Labour rate and efficiency variances | (5 marks) |

(b) Calculate the following planning and operational variances

- |      |             |           |
|------|-------------|-----------|
| (i)  | Sales price | (3 marks) |
| (ii) | Labour rate | (3 marks) |



(iii) Materials price (3 marks)

(c) Explain the difference between planning and operational variances. (4 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

Chambishi Ltd (C Ltd) produces and sells domestic and industrial ladders for use by clients who are building houses after acquiring medium-sized plots from various property developers. Information relating to domestic and industrial ladders is given below:

	<b>Domestic</b>	<b>Industrial</b>
	<b>K</b>	<b>K</b>
Selling price	<u>580</u>	<u>950</u>
Raw materials costs:		
Aluminium:		
Domestic 6 metres @K20 per metre	120	
Industrial 12 metres @K20 per metre		240
Fixings:		
Domestic 200 kgs @ K0.1 per Kg	20	
Industrial 400 Kgs @ K0.1 per Kg		40
Direct labour: 0.5/1 hour @K80 per hour	40	80
Machine costs: 6/10 hours @K10 per hour	60	100
Expected sales volume per annum (units)	30,000	20,000
Expected inventory at the beginning of 2023:		
Finished goods (units)	4,000	1,600
Raw materials:		
Aluminium (metres)		32,000
Fixings (Kgs)		120,000

At the end of 2023, management requires that inventory of both finished goods and raw materials to be 25% lower than their expected levels at the beginning of 2023.

Each of C Ltd's direct workers has a 35-hour working week for 48 weeks of the year. However, of these total hours, only 75% will be productive, the remainder being lost due to sickness, machine breakdown and a variety of other reasons.

The company currently has 30 machines which are used to shape and fix the ladders, each being capable of producing any length of ladder. To allow for maintenance and set-up time, each machine has an effective operational year of 8,000 machine hours.

### **Required:**

(a) Prepare the following functional budgets for C Ltd for next year:

- (iv) Sales budget in units and revenue. (2 marks)
- (v) Production budget in units. (5 marks)
- (vi) Material usage budget in metres and kgs. (2 marks)
- (vii) Materials purchases budget cost for each type of material. (6 marks)
- (viii) Direct labour budget cost in hours and Kwacha. (3 marks)
  
- (b) (i) Explain the meaning of 'principal budget factor'. (2 marks)
- (ii) State the assumed principal budget factor underlying the budgets prepared in part (a) above. (1 mark)
  
- (c) State four (4) objectives of budgeting. (4 marks)

**[Total: 25 Marks]**

## SECTION B

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

### QUESTION THREE

- (a) Extracts from Jacaranda Ltd's inventory management schedules for the latest financial period are as follows.

#### ***Extract 1***

The cost of making an order is K200. The cost of holding one kilogram in inventory for a year is K25 and annual demand for a raw material is 100,000 kgs.

#### ***Extract 2***

Information concerning a finished product is as follows:

Average usage	3,000 units per day
Minimum usage	2,400 units per day
Maximum usage	4,050 units per day
Re-order quantity	17,000 units

The inventory level is reviewed at the end of each day and an order is placed the following day if the normal reorder level has been reached. Delivery is reliably expected at the beginning of the 4 day following the order but could happen by the second day after the order is placed.

#### **Required:**

- (i) Calculate economic order quantity of the raw material. (3 marks)
- (ii) Calculate the reorder level of the finished product. (2 marks)
- (iii) Calculate the maximum level of the finished product. (3 marks)
- (iv) State four categories of inventory in a typical manufacturing business. (2 marks)
- (b) The following information relates to one of the products manufactured by a company in the entertainment industry.

Year	Development	Introduction	Growth	Maturity	Decline
Research and development (K'000)	200,000	-	-	-	-
Marketing costs (K'000)	-	50,000	40,000	20,000	4,000
Production costs per unit (K)	-	4	3.5	3	3.2

Production Volume (units)	-	2,000,000	5,000,000	10,000,000	4,000,000
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The Chief Executive Officer said that a price of K54 should be charged to cover costs. He produced the following schedule to support it.

Cost item	Calculation	
Amortized Research & Development	K200,000,000/4	K50,000,000
Marketing Costs		K50,000,000
Production Costs	2,000,000x K4	<u>K8,000,000</u>
Total costs		<u>K108,000,000</u>
Total production		2,000,000 Units
Cost per unit		K54

**Required:**

- (i) Calculate the Life-Cycle Cost of the product. (10 marks)
- (ii) State five (5) reasons why a product might go into decline. (5 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

Mkushi Limited is a manufacturer of two types of insecticides namely Masasa (M) and Kasokota (K) that are used by farmers in the fumigation of vegetables. The cost cards for the two products are as follows:

	<b>M</b>	<b>K</b>
	K	K
Selling price	<u>45.0</u>	<u>50.0</u>
Materials	14.0	36.0
Labour	9.0	4.0
Other variable costs	12.0	4.0
Fixed costs	<u>5.0</u>	<u>4.0</u>
	<u>40.0</u>	<u>48.0</u>
Profit	<u>5.0</u>	<u>2.0</u>
Machine hours per unit	2 hrs	1 hr
Maximum demand	20,000 units	10,000 units
The total hours available for the production of M and K are 48,000.		

**Required:**

- (a) (i) Using the principles of throughput accounting, calculate the optimum production plan and the maximum profit. (10 marks)
- (ii) Calculate the throughput accounting ratio. (4 marks)
- (iii) State five (5) ways of improving the throughput ratio. (5 marks)

- (b) Cash cycle measures how fast a company can convert materials on hand into cash. The period taken is largely affected by type of industry. Some entities make effort to push the cash cycle to the shortest possible period. One of the ways to do this is 'factoring' receivables.

**Required:**

Explain the term 'factoring' and outline the benefits of factoring receivables. (6 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

HT Ltd (HT Ltd) is specialized in the manufacture and supply of heavy duty equipment which it supplies to the local mines in Zambia. Chambishi Mines Ltd (CM Ltd) ordered a shaft machine costing K100,000. It is company policy for clients to pay upfront 20% of the total cost of the ordered equipment. An order has been received from CM Ltd.

However, CM Ltd has indicated that it will not proceed to buy the shaft machine and will not pay the remaining balance. HT Ltd has so far incurred total costs of K40,000 in manufacturing the machine.

HT Ltd has marketed the shaft machine to another client, 'Kaluma Mines', who are willing to buy the machine for K28,000 once it has been completed.

To complete the work, the following costs would be incurred by HT Ltd:

**Materials:** Materials were bought at a cost of K5,000. They have no other use, and if the machine is not completed, they would be sold for scrap for K3,000.

**Labour costs:** These would be K5,000. Labour is in short supply, and if the machine is not finished, the work force would be switched to another job, which would earn K12,000 in revenue, and incur direct costs of K4,000 and absorbed fixed overheads of K6,000.

**Consultancy fees:** They are estimated at K7,000. If the work is not completed, the consultant's contract would be cancelled at a cost of K2,500.

**General overheads** of K10,000 would be incurred due to additional work on the shaft.

The management accountant and financial accountant had a discussion on whether they should continue manufacturing heavy duty machines especially that, in the recent past, there has been a number of cancellations of contracts by a large number of clients.

**Required:**

- (a) Outline the costs to be used in the decision-making process of whether or not to complete the manufacture of the shaft for Kaluma Mines. Give reasons why the costs are relevant or irrelevant. (12 marks)

- (b) Calculate the extra profit or loss to be earned by accepting to complete the machine for Kalumas Mine. (5 marks)
- (c) Explain the differences between management accounting with financial accounting. (8 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

### SOLUTION ONE

#### (a) Calculation of traditional variances

##### (i) *Sales price variance*

	K
2,000 units should have earned x K200	400,000
But did earn	<u>316,000</u>
	<u>84,000 (A)</u>

##### (ii) *Material price and usage variance*

	K
10,800 kgs should have cost x K10	108,000
But did cost	<u>194,400</u>
Material price	<u>86,400 (A)</u>

2,000 units should have used x 10 kgs	20,000 kgs
But did use	<u>10,800 kgs</u>
Usage variance in kgs	<u>9,200 kgs (F)</u>
Valued at standard price per kg	<u>x K10</u>
<i>Usage variance</i>	<u>K92,000 (F)</u>

##### (iii) *Labour rate and efficiency variance*

	K
5,800 hours should have cost x K8	46,400
But did cost	<u>69,600</u>
<i>Rate variance</i>	<u>23,200 (A)</u>

<i>Efficiency variance</i>	
2,000 units should have taken x 6 hours	12,000 hours
But did take	<u>5,800 hours</u>
Efficiency variance in hours	<u>6,200hrs(F)</u>
Valued at standard rate per hour	<u>x K8</u>
<i>Efficiency variance</i>	<u>K49,600 (F)</u>

#### (b) Calculation of planning and operational variances

##### (i) *Sales price planning and operational variances*

	K
2,000 units should have earned x std price of K200	400,000
But did earn @revised price of K330	<u>660,000</u>
<i>Planning variance</i>	<u>260,000 (F)</u>

2,000 units should have earned x revised price of K330	660,000
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But did earn @ actual rate of K158 (K316,000/2,000 units)	<u>316,000</u>
<i>Operational variance</i>	<u>344,000 (A)</u>

(ii) Labour rate planning and operational variances

	K
5,800 hours should have cost x std rate of K8	46,400
But did cost at revised rate of K12.5	<u>72,500</u>
<i>Planning variance</i>	<u>26,100 (A)</u>

5,800 hours should have cost x revised rate of K12.5	72,500
But did cost at actual rate of K12 (K69,000/5,800 hrs)	<u>69,600</u>
<i>Operational variance</i>	<u>2,900 (F)</u>

(iii) *Material price planning and operational variances*

	K
10,800 kgs should have cost (std price) x K10	108,000
But did cost (revised rate) of K17	<u>183,600</u>
<i>Planning variance</i>	<u>75,600 (A)</u>

10,800 kgs should have cost (Revised rate) x K17	183,600
But did cost (Actual rate) x K18 (194,400/10,800kg)	<u>194,400</u>
<i>Operational variance</i>	<u>10,800 (A)</u>

(c) The difference between planning and operational variances

Planning variances are a classification of variances calculated by comparing the original budget to a budget revised for any permanent changes to a more realistic budget. On the other hand, operational variances are classification of variances calculated by comparing the actual results with a budget revised budget/ standard.

Planning variances are related to factors that certainly cannot be controlled and where it would be a waste time re-investigating each month. Operational variances are worth investigating more as they are variances caused by operating factors that potentially might be controllable.



## SOLUTION TWO

### (a) Preparation of budgets

#### (i) Sales in units and revenue

	K
Domestic ladders (30,000 units x K580)	17,400,000
Industrial ladders (20,000 units x K950)	<u>19,000,000</u>
Total sales revenue	<u>36,400,000</u>

#### (ii) Production budget in units

	Ladders (Units)	
	Domestic	Industrial
Sales budget	30,000	20,000
Add: Closing inventory	<u>3,000</u>	<u>1,200</u>
	33,000	21,200
Less: closing inventory	<u>(4,000)</u>	<u>(1,600)</u>
Production budget in units	<u>29,000</u>	<u>19,600</u>

#### (iii) Material usage in metres and kgs

	Aluminium (Metres)	Fixings (Kgs)
Domestic (29,000 x 6 metres/200kgs)	174,000	5,800,000
Industrial (19,600 x 12 metres/400 kgs)	<u>235,200</u>	<u>7,840,000</u>
Total usage	<u>409,200</u>	<u>13,640,000</u>

#### (iv) Material purchases budget

	Aluminium (Metres)	Fixings (Kgs)
Production usage budget	409,200	13,640,000
Add: Closing inventory	<u>24,000</u>	<u>90,000</u>
	433,200	13,730,000
Less: opening inventory	<u>(32,000)</u>	<u>(120,000)</u>
Purchases budget in metres/kgs	<u>401,200</u>	<u>13,610,000</u>
Cost per metre/kg	x K20	x K0.1
Purchase cost	<u>K8,024,000</u>	<u>K1,361,000</u>
Total purchase costs	<u>K9,385,000</u>	

#### (v) Direct labour cost budget

	Hours
Domestic (29,000 units x 0.5 hours)	14,500
Industrial ((19,600 units x 1 hour)	<u>19,600</u>
Labour budget in hours	34,100
Labour rate per hour	<u>x K80</u>
Total Labour cost budget	<u>K2, 728,000</u>

- (b) (i) A principal budget factor is a factor which limits the ability of the organization to achieve its objectives.
- (ii) Sales demand is the principal budget factor.
- (c) Objectives of budgeting:
- i. Ensuring the achievement of the organization's objectives
  - ii. Compelling planning
  - iii. Communicating ideas and plans
  - iv. Coordinating activities
  - v. Providing a framework for responsibility accounting
  - vi. Establishing a system of control
  - vii. Motivate employees to improve their performance

### SOLUTION THREE

(a) GSG

(i) Economic Order Quantity  $Q = \sqrt{(2CD)/H}$

C is K200

D is 100,000 kgs

H is K25

$$Q = \sqrt{[(2 \times K200 \times 100,000) \div K25]}$$

$$= \underline{\underline{1,265 \text{ kgs}}}$$

(ii) Re-order Level = Maximum Usage x Maximum lead time

$$= 4,050 \text{ units} \times 4 \text{ days}$$

$$= \underline{\underline{16,200 \text{ units}}}$$

(iii) Maximum Level = Reorder level + Re-order Quantity – (Minimum consumption x minimum lead time)

$$= 16,200 \text{ units} + 17,000 \text{ units} - (2,400 \text{ units} \times 2 \text{ days})$$

$$= 33,200 \text{ units} - 4,800 \text{ units}$$

$$= \underline{\underline{28,400 \text{ units}}}$$

(iv) Four categories of inventory in a typical manufacturing business include the raw materials, work-in-progress, finished goods and consumables.

(b)

(i) **Calculation of Life Cycle Costs**

Cost item	Development	Introduction	Growth	Maturity	Decline
Research & Development (K'000)	200,000				
Marketing costs (K'000)		50,000	40,000	20,000	4,000
Production costs (K'000)		K8,000	K17,500	K30,000	K12,800
Subtotals (K'000)	200,000	58,000	57,500	50,000	16,800
Total Life Cycle Costs (K'000)					382,300
Total production ('000 in units)					21,000
Cost per unit (K)					18,204.76

Workings: Production costs:

2,000,000 units x K4=8,000	5,000,000 units x K3.5 = 17,500	10,000,000 units x K3 =30,000	4,000,000 units x K3.2=12,800
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(ii) A product may go into the decline stage of the product life cycle due to the following reasons:

- i. Lack of investment in marketing and advertising
- ii. Consumers may no longer be interested in the product or service
- iii. Newer product or service on the market
- iv. Changes in customers' tastes
- v. Reduction in product reputation

## SOLUTION FOUR

- (a) (i) Determination and calculation of optimum production plan

	M	K
Selling price (K)	45	50
Less material (K)	<u>14</u>	<u>36</u>
Throughput per unit (K)	<u>31</u>	<u>14</u>
Machine hours per unit	2	1
Throughput per machine hour (K)	<u>15.5</u>	<u>14</u>
Ranking	1st	2 <sup>nd</sup>

### Production Plan

Product	Units	Hours
Masala	20,000 units x 2hours	40,000
Kasokota	8,000 units x 1 hour	<u>8,000</u>
Total hours available		<u>48,000</u>

### Profit statement

	K
Throughput	
Masala (M) (20,000 @ K31)	620,000
Kasokota (K) ( 8,000 @ K14)	<u>112,000</u>
	732,000
Less Fixed Costs	
M (20,000 units x K26)	(520,000)
K (10,000 units x K12)	<u>(120,000)</u>
Profit	<u>92,000</u>

- (ii) Calculation of Throughput Ratios

$$\begin{aligned}
 \text{Cost per factory hour} &= \text{Total factory costs/Total time available on key resource} \\
 &= \text{K}640,000/48,000 \text{ hours} \\
 &= \underline{\text{K}13.33}
 \end{aligned}$$

$$\text{Throughput Ratios} = \text{Return per factory hour/Cost per factory hour}$$

$$M = \text{K}15.50/\text{K}13.33 = \underline{1.16}$$

$$K = \text{K}14.00/\text{K}13.33 = \underline{1.05}$$

- (iii) Ways of improving the TA ratio include the following.

- Increase the selling price per unit.
- Reduce material costs per unit if possible.
- Reduce the time on the bottle neck resource

- iv. Red-design the bottleneck resource
- v. Invest in capacity to increase the bottleneck

(b) Factoring is an arrangement to have debts collected by a 'factor' company, usually a financial institution, which advances a proportion of money it is due to collect from customers

Benefits include:

- The business can pay its suppliers on time.
- The administrative expenses of running credit control department are saved or minimized
- Management time is spent on other strategic issues rather than on slow paying customers
- Optimum inventory levels can be maintained due to adequate cash availability
- Growth can be financed through sales rather than external capital that may be expensive.
- Business may obtain finance easily when lenders see faster turnaround.

## SOLUTION FIVE

(a)

Costs	Relevant K	Irrelevant K	Reason why
Cost to date		40,000	sunk costs or past costs
20 % upfront payment		20,000	ignored past transactions
Material cost		5,000	sunk costs or past costs
Scrap value for material replacement	3,000		opportunity cost
Labour cost to complete the machine	5,000		incremental costs
Works on another job (K12,000-K4,000)	8,000		Opportunity costs
Consultancy fees (K7,000- K2,500)	4,500		Net incremental costs
General absorbed overheads		6,000	Non-cashflow

(b)

Profit statement if the project is completed		K	
Sales		28,000	
Less relevant costs			
Scrap value for material replacement	3,000		
Labour cost to complete the machine	5,000		
Works on another work (12,000-4,000)	8,000		
Consultancy fees 7,000 less 2,500	4,500		
		<u>(20,500)</u>	
<b>Extra Profit to be earned</b>		<b><u>7,500</u></b>	

(c)

Difference between	Financial Accounting	Management Accounting
Users	External person who makes decisions	Mainly internal managers make decisions for planning, decision making and control
Time Focus	Historical in nature	Future emphasis
Legal Requirement	Required by law to be prepared and audited	No legal requirement by law
Presentation requirement	It has prescribed guidelines and formats	No guidelines or format to be followed
Subject	Primary focus is on the whole organization	Focuses on segments of the organizations
Precision	Emphasis on precision	Emphasis on timeliness

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 10: TAXATION

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THURSDAY 13 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## 2024 TAXATION TABLE

### Income Tax

#### Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37.5%

#### Income from farming for individuals

K0.01 to K61,200	first K61,200	0%
Over K61,200		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 per tonne	Incremental value	Mineral Royalty rate
Less than US\$4,000	First \$3,999	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%
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**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%
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**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****Rental income band****Taxable amount**

K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

**Presumptive tax for transporters**

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

### **Property transfer tax**

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	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

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

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

Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	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, <b>with spark ignition internal combustion piston engine</b>	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, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662
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### **Surtax**

On all motor vehicles aged more than five (5) years from year of manufacture	K2,000
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### **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%
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**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%
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**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
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## **SECTION A – Two (2) Compulsory questions.**

**Attempt BOTH questions in this section.**

### **QUESTION ONE**

NegaNega Plc is a VAT registered company engaged in manufacturing operations. The company has in issue 5,600,000 ordinary shares. In January 2023, the company listed its shares on the Lusaka Securities Exchange and offered 1,680,000 of the ordinary shares to indigenous Zambians. In January 2024, the company issued a further 840,000 of its ordinary shares to indigenous Zambians.

For the year ended 31 December 2024, the company made a profit for the year, as per accounts, of K18,320,000. This profit figure was arrived at after taking into account the following items:

- (1) Bad debt expenses, which comprised trade debts written off amounting K288,000, loans to suppliers previously written off, subsequently recovered amounting to K124,780, decrease in specific provision for bad debts of K26,000 and decrease in general provision for trade debts of K38,400.
- (2) Gifts and donations which included donations to political parties of K86,000, gifts of food hampers to suppliers (costing K80 each) totalling K40,000, NegaNega Plc branded diaries to customers (costing K250 per customer) totalling K240,000, expenditure on accommodation and meals for employees whilst on business trips of K140,600 and a donation of K140,000 to the Society for Health, a public benefit organisation which is approved by the Minister of Finance. The company received free advertising space in the organisation's quarterly magazine.
- (3) Staff costs which included the annual salary for the Finance Director of K912,000 who is accommodated in a company owned house for which he does not pay rent, expenses in connection with drafting employee's service contracts of K106,000, expenses in connection with employee's annual Christmas party of K205,000, entertainment expenses for the company's board of directors of K187,500, fitness gym subscriptions for the employees amounting to K65,000 and employee's salaries of K48,900,000.
- (4) General operating expenses comprising depreciation of K850,000, costs incurred in issuing ordinary shares to indigenous Zambian of K345,000, research costs of K650,000, relating to potential new products, advertising expenses of K890,000, cost of trade samples to customers for marketing purposes of K156,000 and miscellaneous allowable expenses of K18,917,800.
- (5) Other income comprising management fees of K374,000 (net), interest income from GRZ bonds of K340,000, dividends income from LuSE listed companies of K270,000(gross) and profit from the disposal of pool cars of K15,240.

### **Additional information**

- (1) At 1 January 2024, the company held general plant, which was acquired a year ago at a cost of K696,000 (VAT inclusive).
- (2) During the year ended 31 December 2024, the company acquired a Toyota Hilux Double cab van with a cylinder capacity of 3,200cc, at a cost of K580,000 (VAT exclusive) and a Toyota

Fortuner car having a cylinder capacity of 2200cc at a cost of K600,000 (VAT exclusive). Both of these cars are used on a personal to holder basis by the directors. The private use of each vehicle by each director is 40%.

- (3) In the charge year 2024, the company also acquired manufacturing equipment at a cost of K1,450,000 (VAT inclusive).
- (4) In September 2024, the company sold a pool car with a cylinder capacity of 1600cc, for K244,000 (VAT exclusive). The pool car was purchased at a cost of K260,000 (VAT exclusive) in the year 2022.
- (5) In March 2024, NegaNega Plc finished the construction of new central administrative premises at a total cost of K18,900,000 (VAT exclusive) which were brought into use immediately. This comprised land with a value of K3,600,000, and general administrative offices of K15,300,000.

**Required:**

- (a) Calculate the total capital allowances claimable in the charge year 2024 on buildings, implements, plant and machinery. (10 marks)
- (b) Calculate the tax adjusted business profits for the tax year 2024. (11 marks)
- (c) Calculate the company income tax payable by NegaNega Plc for the tax year 2024. (4 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

On 1 March 2024, Kayayi Maluvu was employed as an Engineer by Chileya Ltd on a three (3) year renewable contract at a monthly basic salary of K39,460. Kayayi is married and has three (3) school going children. On 1 September 2024, he was awarded a salary increment of 20% of his monthly basic salary.

Katayi is also entitled to the following allowances:

Fuel allowance	K1,265 per month
Medical allowance	K26,600 per year
Education allowance per child	K845 per month
Entertainment allowance	K1,780 per month
Housing allowance	K4,160 per month
Airtime allowance	K2,640 per month

He is entitled to leave days of three (3) and half ( $\frac{1}{2}$ ) days per month. He commuted twenty (20) days of his leave days which were paid at the rate of K1,937 per day.

The company declared and paid a bonus to all the employees during the tax year 2024, for meeting the performance targets. The bonus was paid on 28 December 2024. Kayayi's bonus was K15,500.

On 1 October 2024, he was provided with accommodation in a company owned house for which he did not pay any rent and with effect from that date, the company stopped paying him the housing

allowance. The company paid maintenance expenses in connection with the company owned house, throughout his stay in the house in the tax year 2024, amounting to K2,100 per month.

During the term of his employment, Kayayi used his own personal motor car in the performance of his duties of employment. He bought the motor car in the year 2023 at a cost of K98,650. The business use of his car in the tax year 2024, was agreed with the Commissioner General to be 65%.

The following payments and deductions were made from his emoluments during the year ended 31 December 2024:

Donations to an approved public benefit organisation	K 12,600
Employee NAPSA contributions amounting	K 16,104
School fees for his children	K 15,000
Subscription to the Institute of Engineers	K 4,800
Subscription to golf club	K 6,300
Income tax paid under PAYE	K139,600
Motor car running expenses	K 9,400

### **Other income**

Kayayi received the following investment income during the year ended 31 December 2024:

Royalties (net)	K59,500
Bank deposit interest (gross)	K 9,800
Dividends from a non-mining company (net)	K11,900
Interest on GRZ bonds	K13,600

### **Required:**

- (a) Calculate the amount of withholding tax paid by Kayayi on each item of investment income he received during the year ended 31 December 2024. (4 marks)
- (b) Calculate the amount of income tax payable by Kayayi Maluvu for the tax year 2024. (18 marks)
- (c) Explain the tax treatment of any three (3) benefits payable on termination of employment due to death. (3 marks)

**[Total: 25 Marks]**



## SECTION B

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

### **QUESTION THREE**

Joan Lukulu is a sole trade engaged in farming and retail operations. The annual turnover from her business has always exceeded K800,000 and she prepares financial statements annually to 31 December 2024.

In January 2024, she estimated the taxable farming profit for the tax year 2024, to be K880,000, while the estimated taxable profit from retail operations was K410,000. She computed the provisional income tax correctly and paid it on the appropriate due dates.

The following are the actual figures of the income she generated for the year ended 31 December 2024:

	<b>Notes</b>	<b>K</b>
Profit from retail operations	(1)	615,000
Royalties	(2)	119,000
Profit from farming	(3)	1,507,000

- (1) The profit from retail operations is the final taxable profit after capital allowances for the year ended 31 December 2024.
- (2) The amount of royalties shown above is the actual amount received. Withholding tax had already been deducted at source.
- (3) The profit from farming is after all tax adjustments have been made but before deducting capital allowances. As at 1 January 2024, all the assets had been written down to zero for the purposes of capital allowances.

The following capital transactions were entered into during the year ended 31 December 2024:

	<b>K</b>
Acquisition of farm tractor	81,000
Acquisition irrigation equipment	94,000
Construction of farm dwellings each costing K130,000	260,000
Acquisition of Toyota Mark-X car	115,000
Drilling of borehole	45,000
Acquisition of office equipment	60,000
Construction of dam for water conservation	101,000
Development of coffee plantation	120,000
Acquisition of a Mitsubishi light truck	140,000

Joan uses the Toyota Mark-X car for both business and private purposes. It has been agreed with the Commissioner General that the car is used 40% for private purposes.

### **Required:**

- (a) Calculate the amount of provisional income tax paid for the tax year 2024 and show the due date(s) on which the provisional income tax was paid. (7 marks)

- (b) Calculate the final taxable profit from farming after capital allowances for the year ended 31 December 2024. (10 marks)
- (c) Calculate the amount of income tax payable by Joan for the tax year 2024 and state the due date, when it should be paid. (8 marks)

**[Total: 25 Marks]**

#### **QUESTION FOUR**

- (a) Tax Avoidance is sometime confused with Tax Evasion:

**Required:**

- (i) Explain the difference between tax avoidance and tax evasion. (4 marks)
- (ii) Explain three (3) consequences of tax evasion on the economy. (3 marks)
- (iii) List any four (4) examples of practices that may constitute tax evasion. (4 marks)
- (b) Chilufya started running a retail business making standard rated supplies on 1 January 2024. She made sales of K82,940 in the month of January 2024. Her sales increased by K61,730 each month from February 2024 to July 2024. From August 2024, she expects sales to be constant at K455,000 per month. Her standard rated expenses were K41,200 per month and are expected to remain at this level in future. Chilufya is not sure whether she is required to register her business for Value Added Tax.

**Required:**

- (i) Explain the persons who are required to register for VAT. (2 marks)
- (ii) State, giving reasons, the date when Chilufya will be required to register for VAT. (5 marks)
- (iii) Explain the consequences of registering for VAT late. (2 marks)
- (iv) State any five (5) conditions that will need to be met for Chilufya to be able to recover any input VAT she will incur on her expenditure. (5 marks)

**[Total: 25 Marks]**

#### **QUESTION FIVE**

- (a) In June 2024, Lwando imported a brand new twenty-six (26) seater Nissan bus which was manufactured in July 2023. The bus had a purchase price of \$18,200 (Free on Board). The insurance cost in transit to the port of Durban, South Africa was \$15,800 and freight charges were \$3,150. A further amount of \$1,730 was paid to a clearing and forwarding agent to clear and transport the bus from the port of Durban to the Chirundu border post. Incidental costs from the Chirundu border post to Lusaka were \$300.

The exchange rate provided by the Commissioner General at that time was K21.60/US\$.

**Required:**

- (i) Calculate the value for duty purposes and the total import taxes paid on the importation of the Nissan Bus. (7 marks)
  - (ii) Explain the procedure to complete the customs clearance of a motor vehicle. (4 marks)
- (b) An efficient taxation system possesses certain qualities. These qualities generally underlie the effective operation of tax systems throughout the world.

**Required:**

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

- (c) In the tax year 2024, Shamabanze had the following transactions:
- (1) In March 2024, he sold a commercial plot for K295,600. He paid an Estate Agent K29,500 for arranging the sale and incurred an additional K5,000 in connection with legal fees of transferring title to the plot. He acquired the plot in June 2018 at a cost K132,400. The open market value of the commercial plot as determined by Government Valuation Officers was K231,200 on the date of the transfer.
  - (2) In October 2024, he sold 80,000, K10 shares he held in Kabamba Ltd, a private limited company for K98,000. He acquired the shares in May 2010 at a total cost of K62,000. The market value of the shares determined using approved valuation methods was K175,000.
  - (3) In November 2024, he sold 5,000 ordinary shares of K1 each in Ziggy Plc, a company which is listed on the Lusaka Securities Exchange (LuSE) for K5.00 each being the market value of each share on the date of sale. He had bought these shares in 2022 at a price of K3.50 each.
  - (4) In December 2024, he sold his Toyota Hilux for cash proceeds of K150,000. The open market value of the motor vehicle was K200,000 at the date of sale. He acquired the motor vehicle in 2012 at a cost of K300,000.

**Required:**

Calculate, giving reasons, the amount of any property transfer tax arising on each of the above transactions for the tax year 2024. (7 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 10: TAXATION SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2024		
<u>General plant</u>	K	K
Wear & tear allowance (K696,000 x 25/29) x 25%		150,000
<u>Toyota Hilux Double cab</u>		
Wear & tear allowance (K580,000 x 116%) x 20%		134,560
<u>Toyota Fortuner</u>		
Wear & tear allowance (K600,000 x 116%) x 20%		139,200
<u>Manufacturing equipment</u>		
Wear & tear allowance (K1,450,000 x 25/29) x 50%		625,000
<u>Pool car</u>		
Cost (K260,000 x 116%)	301,600	
Less total capital allowances (K301,600 x 20%) x 2 years	(120,640)	
ITV at 1 Jan 2024	180,960	
Proceeds (K244,000 x 116%)	283,040	
Balancing charge		(102,080)
		<u>946,680</u>
<u>Administrative buildings</u>		
Wear and tear allowances (K15,300,000 x 2%)		306,000
(b) NEGANEGA PLC		
COMPUTATION OF TAXABLE PROFITS THE TAX YEAR 2024		
	K	K
Profit as per accounts		18,320,000
<i>Add</i>		
Political donations	86,000	
Gym subscriptions	65,000	
Gifts of food hampers to suppliers	40,000	
Gifts of diaries to customers		
960=K150	144,000	
Public benefit organisation donation	140,000	
Accommodation benefit (37.5% x K912,000)	342,000	
Depreciation	850,000	
Share issue costs	345,000	
Research costs	650,000	
Personal to holder motor benefit on: Toyota Hilux double cab	48,000	

Toyota Fortuner	<u>36,000</u>	
		<u>2,746,000</u>
		21,066,000
Less:		
Supplier loans recovered	124,780	
Decrease in general provision	38,400	
Management fees	374,000	
GRZ bond interest	340,000	
Dividends	270,000	
Profit on sale of pool cars	15,240	
Capital allowances on IPMs	985,720	
Capital allowances on buildings	<u>306,000</u>	
		<u>2,454,140</u>
		<u>18,611,860</u>

(c) NEGANEGA PLC  
COMPANY INCOME TAX COMPUTATION FOR THE TAX YAER 2024

	K	K
Taxable business profit		18,585,900
<u>Investment income</u>		
Management fees (K374,000 x 100/85)	440,000	
GRZ bond interest (K340,000 x 100/85)	<u>400,000</u>	
		<u>840,000</u>
Taxable income		<u>19,425,900</u>
Company income tax (30%-5% (W)=25%)		4,856,475
Less tax already paid		
WHT on Management fees (K440,000 x 15%)		66,000
WHT on GRZ bond interest (K400,000 x 15%)		<u>60,000</u>
		<u>4,730,475</u>

WORKINGS

Percentage number of shares held by indigenous Zambians.

$$= \frac{1,680,000 + 840,000}{5,600,000} \times 100\%$$

$$= 45\%$$

## SOLUTION TWO

(a) Withholding tax paid by Kayayi

	K
Royalties ( $K59,500 \times 15/85$ )	10,500
Bank deposit interest	0
Dividends ( $K11,900 \times 15/85$ )	2,100
Interest on GRZ bonds ( $K13,600 \times 15/85$ )	<u>2,400</u>
Total withholding tax	<u>15,000</u>

(b) KAYAYI MALUVU

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024:

	K	K
<u>Earned income:</u>		
Salary ( $K39,460 \times 6$ ) + ( $39,460 \times 120\% \times 4$ )		426,168
Fuel allowance ( $K1,265 \times 10$ )		12,650
Maintenance expenses ( $K2,100 \times 3$ )		6,300
Medical allowance ( $K26,600 \times 10/12$ )		22,167
Education allowance ( $K845 \times 3 \times 10$ )		25,350
Housing allowance ( $K4,160 \times 7$ )		29,120
Entertainment allowance ( $K1,780 \times 10$ )		17,800
Airtime allowance ( $K2,640 \times 10$ )		26,400
Commutation of leave days ( $K1,937 \times 20$ )		38,740
Bonus		<u>15,500</u>
		620,195
<u>Investment Income:</u>	-	-
Royalties ( $K59,500 \times 100/85$ )		<u>70,000</u>
Total income		690,195
Less:		
Motor car repairs ( $K9,400 \times 65\%$ )	6,110	
Professional subscription	4,800	
Approved donation	12,600	
Capital allowance ( $K98,650 \times 20\% \times 65\%$ )	<u>12,825</u>	
		<u>36,335</u>
Taxable income		<u>653,860</u>
Tax computation:		
First K61,200 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess K543,460 @ 37.0%		<u>201,080</u>
		213,440
Less:		
Pay as you earn		(139,600)

WHT on Royalties (K70,000 x 15%)  
Income tax payable

(10,500)  
63,340

(c) Payments made to an employee on termination of employment due death are dealt as follows:

1. The final salary and leave pay are taxable under the normal PAYE system at the time when they are paid to the employee.
2. Any gratuity is exempt from tax.
3. Ex-gratia payments are exempt from income tax. For this purpose of taxation, an ex gratia payment is voluntary, non –obligatory payment made by the employer to the deceased.
4. If the year of death is the year when the deceased employee was eligible for retirement, the tax treatment of payments made is the same as the treatment.

### SOLUTION THREE

(a) Provisional income tax paid for the year ended 31 December 2024

	K
Profit from trading operations	410,000
Estimated farming profit	<u>880,000</u>
	<u>1,290,000</u>
<u>Provisional Income Tax</u>	
On Non-farming income	
First K61,200 @0%	0
Next K24,000 @20%	4,800
Next K25,200 @30%	7,560
Excess K299,600 @37.0 %	<u>110,852</u>
	123,212
On Farming income (K880,000 x 10%)	<u>88,000</u>
Provisional income tax	<u>211,212</u>
Quarterly installments: K211,212/4	52,803

Installment	Quarter ended	Amount	Paid not later than
		K	
1 <sup>st</sup>	31 March 2024	52,803	10 <sup>th</sup> April 2024
2 <sup>nd</sup>	30 June 2024	52,803	10 <sup>th</sup> July 2024
3 <sup>rd</sup>	30 September 2024	52,803	10 <sup>th</sup> October 2024
4 <sup>th</sup>	31 December 2024	52,803	10 <sup>th</sup> January 2024

(b) COMPUTATION OF FINAL TAXABLE FARMING PROFIT FOR THE YEAR ENDED 31 DECEMBER 2024

	K	K
Farming profits		1,507,000
Less:		
<u>Tractor</u>		
Wear & tear (K81,000 x 100%)	81,000	
<u>Irrigation equipment</u>		
Wear & tear (K94,000 x 100%)	94,000	
<u>Farm dwelling</u>		
Farm improvements		
(Restricted to K100,000 x 100% x2)	200,000	
<u>Toyota Mark-X car</u>		
Wear & tear (K115,000 x 20% x 60%)	13,800	
<u>Borehole</u>		
Farm works (K45,000 x 100%)	45,000	
<u>Office equipment</u>		
Wear & tear (K60,000 x 25%)	15,000	
<u>Water conservation</u>		
Farm works (K101,000 x 100%)	101,000	
<u>Coffee plantation</u>		
Development allowance (K120,000 x 10%)	12,000	
<u>Mitsubishi light truck</u>		
Wear & tear (K140,000 x 25%)	<u>35,000</u>	
		(596,800)
Taxable farming profits		<u>910,200</u>



(c) JOAN

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024

	Non-farming income	Farming income
<u>Non-farming income</u>		
Profit from retail trade	615,000	-
Royalties (K119,000 x 100/85)	<u>140,000</u>	-
	755,000	
Taxable farming profits	-	<u>910,200</u>
Taxable income	<u>755,000</u>	<u>910,200</u>
<u>Income Tax on non-farming income</u>		
On First K61,200 @0%	0	
On Next K24,000 @20%	4,800	
On Next K25,200 @30%	7,560	
On Excess K644,600 @ 37.0%	<u>238,502</u>	
		250,862
<u>Income Tax on farming income</u> (K910,200 x 10%)		<u>91,020</u>
Income tax liability		341,882
Less:		
Provisional income tax		(212,212)
WHT- Royalties (K140,000 x 15%)		<u>(21,000)</u>
Income tax payable		<u>108,670</u>

The amount of tax calculated of K111,395 should be paid on or before 21 June 2025.

## SOLUTION FOUR

### (a) Tax avoidance and tax evasion

- (i) Tax avoidance is the minimization, deferring or elimination of tax that would have legally owed. It involves the taxpayer taking advantage of the loopholes or weaknesses within the tax legislation to minimize the income tax liability.

Tax evasion is the minimization or elimination of tax liabilities through dubious or illegal means. The main aim of tax evasion by the taxpayer is to defraud the government of the tax revenue.

- (ii) The following are the consequences of tax evasion:
1. Loss of revenue for the government that directly affect the debt level and jeopardize its capacity to provide the services
  2. People who comply with the law bear a heavier tax burden than they should because they must compensate for those who evade tax.
  3. Businesses that fulfill their tax obligations face unfair competition from those that do not comply.
  4. Tax evasion is a punishable offence, by penalties or imprisonment, on all taxpayers who practice it.
- (iii) The following are the practices that may constitute tax evasion:
1. Deliberate concealment of income, including overstatement of tax credits or exemptions and suppression of taxable profits.
  2. Deliberate misrepresentation of material fact, manipulation of accounts, disclosure of unreal expenses for deductions etc.
  3. Hiding of relevant documents
  4. Failure maintain complete records of all the transactions
  5. Failure to report taxes such as value added tax, pay as you earn and withholding taxes.

### (b) Chilufya and VAT issues

- (i) All person dealing in taxable supplies with the turnover from taxable supplies of more than K800,000 (Exclusive of VAT) in twelve (12) months period or K200,000 (Exclusive of VAT) in three (3) months period are required to register for VAT by law.
- A trader may also register voluntarily for VAT if that person is dealing in taxable supplies and has an annual turnover of less than K800,000 or quarterly turnover of less than K200,000 (Exclusive of VAT).

- (ii) Chilufya's cumulative sales are as follows:

Month	Monthly sales K	Cumulative sales K
January	82,940	82,940
February	144,670	227,610
March	206,400	434,010
April	268,130	702,140
May	329,860	1,032,000

Chilufya will be required to apply for VAT registration on 1 June 2024. This is so because the annual VAT registration threshold of K800,000 will be exceeded during the month of May 2024. She will be registered effectively by 30 June 2024.

However, if the quarterly VAT registration requirements are applied, then the quarterly registration threshold will be met in February 2023, when the VAT exclusive sales will exceed the quarterly registration threshold of K200,000, in which case she will be required to register by 31 March 2024.

- (iii) The consequences of registering for VAT late are that a penalty of 10,000 penalty units or K3,000 per standard tax period (month) the trader remains unregistered. This means that if Chilufya does not apply for VAT registration by 30 June 2024, she will be charged a penalty of 10,000 penalty units per month she remains unregistered.
- (iv) Conditions for recovery of input VAT
  1. At the time the supply was made, the trader was a registered trader for VAT purposes.
  2. The supply must have been made to the taxable person making the claim.
  3. The supply must be supported by evidence. The evidence is normally in the form of the tax invoice.
  4. The person making the claim must use the goods or services for business. Personal expenses do not qualify for relief.
  5. The amount available for recovery is that which is accurately calculated.
  6. The tax must be the amount that accurately relates to the supply.
  7. The VAT should not be that which is irrecoverable.

## SOLUTION FIVE

(a) Importation of motor vehicle

(i) Computation of import taxes - Nissan Bus

	\$
Cost	18,200
Insurance	15,800
Freight	3,150
Clearing & Forwarding	<u>1,730</u>
	38,880
	<u>X K21.60</u>
Value for duty purposes	<u>K839,808</u>

	K	K
Value for duty purposes	839,808	
Customs Duty @15%	<u>125,971</u>	125,971
	965,779	
Excise Duty @0%	<u>0</u>	0
	965,779	
Import VAT @ 16%	<u>154,525</u>	<u>154,525</u>
Total Cost	<u>1,120,304</u>	
Total import duties		<u>280,496</u>

(ii) The following are the procedures:

1. Presentation of genuine import documents.
2. Payment of customs duty, excise duty, VAT and processing fees.
3. Processing of the declaration in form CE20 customs
4. Revaluation by customs if necessary

(b) The following are the qualities of a good tax system:

1. Taxation should bear lightly as possible on production.
2. Taxes should be easy and cheap to collect, and fall directly on the ultimate payer.
3. Taxes should be certain and easy to understand. If tax rules are complex, they can be evaded.
4. Taxes should bear equally so as to give no individual an advantage. Taxes should be levied on the ability to pay basis.
5. Taxes should be flexible; meaning tax should automatically adjust to changes in the rate of inflation.
6. A tax system should be compatible with the foreign tax system. e.g. SADC and COMESA.
7. A tax system must not hinder efficiency.

(c) Property transfer tax issues:

(1) Sale of commercial plot

Property transfer tax will be charged on the sale of commercial plot at a rate of 5% of the realized value. The realised value of land is the higher of its open market valuation and the agreed contract price.

The realised value of the commercial plot will therefore be K231,200 as this is higher than the agreed contract price. Incidental costs of sale such as estate agents fees are not deductible for the purposes of determining the realised value.

Property transfer tax arising was:  $K295,600 \times 5\% = K14,780$ .

(2) Sale of shares in Kabamba Ltd.

Property transfer tax will arise on the sale of shares in Kabamba Ltd because the company is not listed on the Lusaka Stock Exchange, the realised value of the shares being the higher of the nominal value of the shares and their open market valuation.

The amount of PTT arising is:  $K175,000 \times 5\% = K8,750$ .

(3) Sale of shares in Ziggy Plc the shares in company listed on the Lusaka Securities Exchange are not chargeable to Property Transfer Tax. Therefore, the PPT payable is nil.

(4) There will be no property transfer tax to be charged on the sale of Toyota Hilux. This is so because movable assets do not qualify as property and, therefore, transfer of a movable asset does not attract property transfer tax.

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 11: PRINCIPLES OF AUDITING

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THURSDAY 13 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A –TWO (2) COMPULSORY QUESTIONS**

**Attempt BOTH questions in this section.**

### **QUESTION ONE**

Tall Tree Beverages Ltd is a manufacturer of drinks such as fruitcana, cola drinks and other juices and its year end is 31 March 2023. You are an Audit Manager in Jere & Co and are currently planning the audit of Tall Tree Beverages Ltd. You attended the planning meeting with the Engagement Partner and Finance Director last week and the minutes from the meeting are shown below. You are reviewing these as part of the process of preparing the audit strategy document.

#### **Minutes of planning meeting for Tall Tree Beverages Ltd**

Tall Tree Beverages Ltd trading results have been good this year and the company is forecasting revenue of K85 million, which is an increase from the previous year. The company invested significantly in the fruitcana and cola drinks production processes. This resulted in expenditure of K5 million on updating, repairing and refurbishing a significant number of production equipment.

As the level of production increased, the company expanded the number of warehouses; some are owned by Tall Tree Beverages Ltd and others are rented from third parties. There will be inventory count taking place at all the 15 sites at the year end.

A new accounting system was introduced at the beginning of the year, with the old and new systems being run in parallel for a period of two (2) months. In addition, Tall Tree Beverages Ltd incurred expenditure of K4.5 million on developing a new brand of Fruitcana smoothies.

As a result of the increase in revenue, Tall Tree Beverages Ltd recently recruited a new Credit Controller. The Finance Director thinks it is not necessary to continue to maintain an allowance for receivables and so reversed the opening allowance of K1.5 million.

The Finance Director stated that there was a problem in November in the mixing of raw materials in the production process which resulted in a large batch of cola products being off specification. Part of this production batch was sold; however, due to complaints by customers about the flavour, no further sales were made. No adjustment was made to the valuation of the off specification inventory, which was valued at cost of K1 million at the year end.

As in previous years, management of Tall Tree Beverages Ltd is due to be paid a significant annual bonus based on profit.

The Finance Director requested that the deadline for the 2023 audit be shortened by a month and asked the audit Engagement Partner to consider if this will be possible. The Engagement Partner suggested that in order to meet this new tighter deadline, the audit team should perform audit procedures during the interim and at the year-end audit visits.

#### **Required:**

- (a) Explain audit risk and the components of audit risk. (5 marks)
- (b) Identify and explain five (5) audit risks, and suggest suitable responses, in planning the audit of Tall Tree Beverages Ltd. (10 marks)
- (c) Explain three (3) matters which should be included in the audit strategy document for Tall Tree Beverages Ltd. (3 marks)

- (d) Explain the difference between an interim and final audit. (3 marks)
- (e) Explain three (3) tasks that can be performed during the interim audit of Tall Tree Beverages Ltd and the impact they will have on the final audit. (4 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

Kafue Motor Spares Ltd (KMS Ltd) sells spare parts for different makes of vehicles. The company's computerized stores system was damaged due to a surge in power caused by frequent power outages. The company has not replaced the damaged stores accounting system and all transactions are manually recorded. Furthermore, the company has not yet employed an Information Technology expert and no back-up systems have been put in place.

Management consists of the owner who controls the company 100%. Other members of staff are the Accounts Assistant and a Parts Manager who is a mechanic by profession.

KMS Ltd enjoys good business since it is the Largest parts store on the Copperbelt. However, the business environment has changed which has seen some new companies selling spare parts and other car accessories being established in the same locality in which KMS Ltd operates. Some of these companies offer good conditions of service to their workers and have computerised most of their operations forcing some workers at KMS Ltd to leave. A few of the workers who remained became frustrated as most of them did not have accounting skills except for the Accounts Assistant, the rest were mechanics by profession who offered advice to customers of spare parts.

### **KMS Ltd.'s inventory and accounting systems.:**

The Goods Received Notes currently in use are not pre-numbered. The Assistant Accountant does not have anyone to help with reconciliations of inventory records. The reconciliations were done much later by a friend to the Accounts Assistant who was not a member of the Zambia Institute of Chartered Accounts (ZICA). He was paid an agreed fee per hour. The Accounts Assistant was in charge of recording all receipts and banking, withdrawals as well as preparing weekly cash reports for the Managing Director. Furthermore, it was difficult to reconcile inventory that was held by third party agents of KMS Ltd as it was not recorded in the books of KMS Ltd. In order to reduce the workload of the Sales Assistant, the Human Resources Officer was given extra tasks of selling spare parts to customers during peak times.

The Managing Director has been out of the country for two years now. Upon his return, he established that the company had not conducted any inventory count during this period. However, he heard of the different types of inventory counts such as periodical, before and after year end and perpetual inventory. He is wondering what is involved in each of the methods.

Excel Chartered Accountants has been appointed as auditor of KMS Ltd. It is expected that audit evidence will be collected from internal sources, third parties and management. However, the Engagement Partner cautioned the audit team on the reliability and quality of some of the audit evidence that will be obtained during the audit of KMS Ltd. Excel Chartered Accountants is also expected to conduct both substantive procedures and tests of controls regarding the inventory system.



**Required:**

- (a) Identify five (5) deficiencies in the inventory and accounting system of KMS Ltd. (5 marks)
- (b) Suggest five (5) ways of reducing the weaknesses in (a) above. (5 marks)
- (c)
  - (i) Explain the three (3) possible approaches to inventory counting by KMS Ltd. (3 marks)
  - (ii) Distinguish tests of controls and sustentative audit procedure giving examples. (4 marks)
  - (iii) State one (1) reason why internal controls are relevant to external auditors. (1 mark)
- (d) Comment on the reliability of the following source of audit evidence.
  - (i) Evidence from internal sources. (2 marks)
  - (ii) Evidence from third parties. (2 marks)
  - (iii) Evidence from management of the company. (3 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

**Attempt TWO (2) questions.**

### **QUESTION THREE**

Lusaka Plastic Company (LPC) Ltd has been in the business of manufacturing household kitchen plastic utensils for the past five (5) years.

The Company structure consists of the Board of Directors. The Chief Executive Officer, a Mr. Mbewe is also the Board Chairman. The rest of the senior management team consists of the Production Manager and Head of Research and Development, the Finance Manager and the Human Resources Manager.

Recently, the accounts department was overwhelmed with work. This caused delays in processing of payments to suppliers of raw materials and statutory payments to various bodies such as National Pension Authority (NAPSA) and the Zambia Revenue Authority (ZRA). The company has not renewed its operational license from the Zambia Environmental Management Council (ZEMC).

The company has not been preparing its financial statements on time as most of the transactions are manually processed. Further, the Board Chairman recommended an increase in accounting staff and setting up an audit committee. He was concerned that there was little seriousness going on with regards internal controls. The proposal came as a result of increased suspicious transactions and payments for some of the raw materials purchased. However, one of the board members argued that it was not necessary to have an audit committee and that LPC Ltd should outsource internal audit services to scrutinize all internal accounting related matters including making an assessment on the effectiveness of internal controls. He further, highlighted the challenges the company faced in selecting the right people to committees and the payment of allowances to Non-Executive Directors adding that the current budget may not meet the payments of allowances to Non-Executive Directors (NEDs).

One of the auditors on internship, a Chemical Engineer, was recruited as an expert on assignments relating to chemical industrial companies. He wanted clarity on what constitutes elements of assurance engagements and the meaning of the terms 'Assurance' and 'business risk' in relation to the audit of LPC Ltd.

During his university days, the Engagement Partner was the National Cricket Union President while the Managing Director of LPC Ltd was the Treasurer of the same Cricket Union. Due to increased pressure of work and meeting deadlines on important regulatory payments, the Finance Director of LPC Ltd asked the audit firm to help with the preparation of financial statements. An auditor was assigned from the audit firm to prepare financial statements for LPC Ltd.

In the last ten (10) years, there has been growing pressure on investing in greener technologies and the ban of plastic bags. This forced the Board to recommend investments in such technologies and further reduce production of plastic bags. The liquidity position of LPC Ltd worsened as it no longer sold large quantities of plastic bags. The Board of Directors resolved to outsource internal audit services and this was done. This was against concern of a few members who argued that there are more disadvantages than advantages of outsourcing internal audit services from the same audit firm. Furthermore, the Board of Directors wanted to know if the internal audit reports will be more informative and responsive to the needs of the company.

**Required:**

- (a) (i) Explain five (5) elements of an assurance engagement. (5 marks)
- (ii) Explain the term 'assurance ' (1 mark)
- (b) (i) Describe four (4) drawbacks of having an audit committee on LPC Ltd.'s board. (4 marks)
- (ii) State six (6) disadvantages of outsourcing internal audit services. (3 marks)
- (iii) Explain four (4) responsibilities of directors regarding internal controls. (4 marks)
- (c) (i) Identify and explain two (2) ethical threats and suggest safeguards for the identified threats. (4 marks)
- (ii) State and explain six (6) elements of an internal audit report. (3 marks)
- (d) Define the term business risk. (1 mark)

**[Total: 25 Marks]**

**QUESTION FOUR**

Mwale Enterprises Ltd manufactures and distributes fashion clothing to retail stores. The year-end of Mwale Enterprises Ltd is 31 December 2022. You are the Audit Manager and the year-end audit is due to commerce shortly. Mwale Enterprises Ltd.'s revenue reduced during the year.

Most of the sales are on cash basis. On selected items, the company allows customers to pay a deposit and finish paying for the wear within two (2) months before collecting the items. Mwale Enterprises Ltd is looking at ways of increasing its sales and is of the view that they can start selling second hand clothes to accommodate people with low income.

The following four (4) matters have been brought to your attention:

**1. Supplier statement reconciliations:**

Mwale receives monthly statements from its main suppliers and although these have been retained, none have been reconciled to the payables ledger as at 31 December 2023. The Engagement Partner asked the Audit Senior to recommend the procedures to be performed on supplier statements.

**2. Bank reconciliations:**

During last year's audit of Mwale Enterprises Ltd, bank and cash balances were significant. Cut-off errors were discovered with a number of post year-end cheques being processed prior to the year end with a view to reducing payables. The Finance Director assured the audit Engagement Partner that these have not occurred this year and that the bank reconciliations were being prepared monthly and at the year end. The audit Engagement Partner asked that the bank reconciliation should be comprehensively audited.

### 3. Receivables:

Mwale Enterprises Ltd.'s receivables ledger balance has increased considerably during the year, and the year-end balance is K2.3 million compared to K1.4 million the previous year. The Finance Director of Mwale Enterprises Ltd requested that a receivables confirmation should not be carried out as a number of customers complained about the inconvenience involved in responding to queries. The Engagement Partner agreed to this request, and asked you to use alternative procedures to confirm the existence and valuation of receivables.

### 4. Payroll:

Mwale Enterprises Ltd has 30 employees, who are all paid in cash. The approved timesheets from various supervisors are used as the basis for computing the wages and salaries. There are three (3) Accounts Assistants in the payroll section, and each playing a specific role. The Payroll Supervisor is responsible for the monthly reconciliation of all control accounts relating to payroll. The company uses local standard payroll software. All changes regarding pay rates, overtime, joiners and leavers are authorised by the Human Resources Manager.

### Required:

- (a) (i) Explain four (4) financial statement assertions relevant to classes of transactions and events for the year under review. (4 marks)
- (ii) For each identified assertion, describe a substantive procedure relevant to the audit of revenue. (4 marks)
- (b) Describe substantive audit procedures that should be performed to obtain sufficient and appropriate audit evidence in relation to items 1 to 4 above. (17 marks)

**[Total: 25 Marks]**

## **SQUESTION FIVE**

You are the Manager responsible for the audit of Velepi Co, a large client of your firm, operating in the pharmaceutical industry. The audit work for the year ended 31 December 2023 is nearly complete, and you are reviewing the draft audit report which has been prepared by the Audit Senior.

You are aware that Velepi Co is developing a new drug and has incurred significant Research and Development costs during the year, most of which have been capitalised as an intangible asset. The asset is recognised at a value of K8.8 million, the total assets recognised on the draft statement of financial position are K155 million, and Velepi Co. has a draft profit before tax of K6.1 million.

Having reviewed the audit working papers, you are aware that management has not allowed the audit team access to the results of scientific tests and trials performed on the new drug being developed.

An extract from the draft audit report is shown below:

### **Basis of opinion.**

Evidence available to us in respect of the intangible asset capitalised was limited, because of restrictions imposed on our work by management. As a result of this we have been unable to verify

the appropriateness of the amount capitalised, and we are worried that the asset may be overvalued. Because of the significance of the item, and the lack of integrity shown by management, we have been unable to form an opinion on the financial statements as a whole.

**Opinion.**

Because of the lack of evidence that we could gain over the intangible asset, we are unable to form an opinion as to whether the financial statements are properly prepared in accordance with the relevant financial reporting framework.

ISA 700(Revised) *Forming an Opinion and Reporting on Financial Statements* provides guidance on the form and content of the auditor's report and states the elements that should be contained in the report. In drafting the report, the Engagement Partner requested you to prepare a paper that can be used during the presentation of the training for the new Audit Trainees that have joined your firm. He also wants you to include some points on analytical procedures and how working papers are prepared.

**Required:**

- (a) (i) Critically appraise the draft audit report of Velep Co. for the year ended 31 December 2022, prepared by the Audit Senior. (6 marks)
- (ii) Explain five (5) options the audit team should consider taking in respect of the management's imposed limitation on the work of the auditor. (5 marks)
- (b) Explain five (5) elements of an unmodified auditor's report. (5 marks)
- (c) Explain the three (3) stages in an audit when analytical procedures can be used by the auditor. (3 marks)
- (d) State and explain six (6) items that should be included on every working paper prepared by the audit team. (6 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS

### SOLUTION ONE

#### (a) Audit risk and its components

**Audit risk** is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of two main components being the risks of material misstatement and detection risk. Risk of material misstatement is made up of two components, inherent risk and control risk.

#### **Components of audit risk:**

Inherent risk is the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement which could be material, either individually or when aggregated with other misstatements before consideration of any related controls.

Control risk is the risk that a misstatement which could occur in an assertion about a class of transaction, account balance or disclosure and which could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement which exists, and which could be material, either individually or when aggregated with other misstatements. Detection risk is affected by sampling and non-sampling risk.

#### (b) Audit risks and responses

Audit risk	Auditor response
<p>Tall Tree Beverages Ltd has incurred K5 million on updating, repairing, and replacing a significant amount of the production process machinery.</p> <p>If this expenditure is of a capital nature, it should be capitalised as part of property, plant, and equipment (PPE) in line with IAS 16 Property, Plant and Equipment. However, if it relates more to repairs, then it should be expensed to the statement of profit or loss.</p> <p>If the expenditure is not correctly classified, profit and PPE could be under or overstated.</p>	<p>The auditor should review a breakdown of these costs to ascertain the split of capital and revenue expenditure, and the further testing should be undertaken to ensure that the classification in the financial statement is correct.</p>
<p>Inventory is stored within 15 warehouses; some are owned by Tall Tree Beverages Ltd, and some rented to third parties. Only warehouses owned by Tall Tree Beverages Ltd should be included within PPE. There is a risk of overstatement of PPE and understatement of rental expenses if Tall</p>	<p>The auditor should review supporting documents for all warehouses included within PPE to confirm ownership by Tall Tree Beverages Ltd and to ensure non-current assets are not overstated</p>

Tree Beverages Ltd has capitalised all 15 warehouses.	
A new accounting general ledger system has been introduced at the beginning of the year and the old system was run in parallel for two months. There is a risk of opening balances being misstated and loss of data if they have not been transferred from the old system correctly.	The auditor should undertake detailed testing to confirm that all opening balances have been correctly recorded in the new accounting general ledger system.
In addition, the new accounting general ledger system will require documenting and the controls over this will need to be tested.	They should document and test the new system, They should review any management reports run comparing the old and new system during the parallel run to identify any issues with the processing of accounting information.
<p>Tall Tree Beverages Ltd has incurred expenditure of K4.5 million on developing a new brand of fruitcane Smoothies. This expenditure is research and development under IAS 38 Intangible Assets. The standard requires research costs to be expensed and development costs to be capitalised as an intangible asset.</p> <p>If Tall Tree Beverages Ltd has incorrectly classified research costs as development expenditure, there is a risk that intangible asset could be overstated, and expenses understated.</p>	Obtain a breakdown of the expenditure and undertake testing to determine whether the costs relate to the research or development stage. Discuss the accounting treatment with the finance director and ensure it is in accordance with IAS 38.
The Finance Director of Tall Tree Beverages Ltd has decided to release the opening balance of K1.5 million for allowance for receivables as he feels it is unnecessary. There is a risk that receivables will be overvalued, as despite having a credit controller, some balances will be irrecoverable and so will be overstated if not provided against.	<p>Extend post year end cash receipts testing and a review of the aged receivables ledger to be performed to assess valuation and the need for an allowance for receivables.</p> <p>Discuss with the director the rationale for releasing the K1.5 million opening allowance for receivables.</p>
<p>A large batch of cola products was off specification and will be in inventory at the year end. No adjustment has been made by management.</p> <p>The valuation of inventory as per IAS 2 Inventories should be at the lower of cost</p>	Detailed cost and net realisable value testing to be performed to assess how much the inventory requires writing down by.

and net realisable value. Hence it is likely that this inventory is overstated.	
Due to damaged cola products, a number of customers have complained. There is likelihood that there will be high incidences of disputes with customers which may result in a misstatement of the receivables.	There will be need to confirm receivables and obtain explanation for the exceptions.
The management of Tall Tree Beverages Ltd receives a significant annual bonus based on profit. There is a risk that management might feel under pressure to overstate the profit,	Throughout the audit, the team will need to be alert to this risk. They will need to maintain profession scepticism and carefully review judgement decisions and compare treatment against prior years.  Special attention should be paid to any accounting estimates in the financial statements due to the likely management bias.

(c) **Matters to include in the audit strategy document:**

1. The characteristic of the engagement such as the nature of the business of the client company and any specific reporting requirements that may exist in the industry.
2. The reporting objectives in terms of the timetable for completion of the audit and the audit reporting requirements by the client.
3. Significant factors, preliminary engagement activities such as the determination of the materiality levels.
4. The form of communication between the audit team and the management of Tall Tree Beverages Ltd.
5. The number of locations to be visited by the audit team.
6. The nature, timing and extent of resources both human and financial. Consideration of the skills available and the audit budget.

(d) **Differences between an interim and a final audit:**

**Interim audit**

The interim audit is that part which takes place before the year end. The auditor uses the interim audit to carry out procedures which would be difficult to perform at the year end because of time pressure. There is no requirement to undertake an interim audit; factors to consider when deciding upon whether to have one include the size and complexity of the client company along with the effectiveness of internal controls.

**Final audit**

The final audit will take place after the year end and concludes with the auditor forming and expressing an opinion on the financial statements for the whole year subject to audit. It is important to note that the final opinion takes account of conclusions formed at both the interim and final audit.



(e) **Tasks which could be undertaken during the interim audit include:**

- Review and updating of the documentation of accounting systems at Tall Tree Ltd.
- Discussions with management on the recent growth and any other changes within the business which have occurred during the year to date at Tall Tree Beverages Ltd to update the auditors understanding of the company.
- Assessment of risks which will impact the final audit of Tall Tree Beverages Ltd.
- Undertake tests of controls on Tall Tree Beverages Ltd key transaction cycles of sales, purchases and inventory, and credit control.
- Perform substantive procedures on profit and loss transactions for the year to date and any other completed material transactions.

**Impact of interim audit on the final audit:**

At the final audit, the auditors will only need to perform procedures for the period after the interim audit. The work performed at the interim audit will impact on the nature and extent of procedures to be performed at the final audit.

## SOLUTION TWO

The following are deficiencies & recommendations in internal controls:

(a) Weaknesses	(b) Recommendations
Un-numbered Goods Received Notes-the Goods Received Notes are not pre-numbered. There is a possibility of not having a record of the number of documents. It will be difficult to know whether the documents have been used correctly.	Goods Received Notes should be pre-numbered so that they can keep track of the documents.
Delays in preparing inventory reconciliations - It will be difficult to know what was stolen or missing and even to discover which goods are moving slowly.	The reconciliations of inventory are being done late. It is important to start reconciliations of inventory balance regularly so that any discrepancies are dealt with on time.
Reconciliation of inventory by non-accountants-this is a mistake as they are not able to apply correct accounting treatments in accordance with accounting frameworks. Therefore, they may not even know how to classify expenditure and revenues correctly.	The inventory reconciliations should be done by competent staff to avoid errors which may go undetected.
Lack of segregation of duties- The same Accountant is in charge of receiving cash, deposit it and also withdraw the cash from payments it will be difficult to have confidence in the report of the accountant regarding cash position.	No one person should undertake a task from initiation as is the case with eth Assistant Accountant.
Selling of parts by the Human Resources Manager – this is a weakness as they are not able to advice on sales details and promotions if they are available. They may not know how to account for cash sales as well.	Human resources should not be allowed to conduct sales duties for which they are not trained to perform. There is a need to have someone with relevant skills to perform the right roles.

(c)

(iv) **Approaches to inventory count:**

The following are the common approaches to inventory counts:

- Counting inventory at the end of the year. This is a method of stock taking at the end of the year. Inventory valuation is based on the result of the inventory count at the period end.
- Physical counting of inventory before and after the year end. The reliability of the method depends on the length of time between the physical count and the year end. Reconciliation to the year end has to be done to determine the inventory at the year end.
- Perpetual inventory counting-this is a type of inventory counting which is done on continuous basis. Each line of inventory is counted at least once during the year. Inventory valuation is based on the perpetual inventory count records. .

(v) **Tests of controls**-these are conducted in order to assess the effectiveness of the company internal controls if they are working efficiently and effectively.

For example using a control of checking invoices raised, the auditors will require to examine invoices raised and confirm that they were checked and this is evidenced in writing.

**Substantive procedures** -These are procedures that are carried out in order to discover any material misstatements in the financial statements.

For example receivables confirmation at the year end will test a number of financial statement assertions including existence and valuation.

(vi) **Relevance of internal controls to the external auditors:**

Internal controls are relevant to external auditors because if they are tested and found to be operating effectively they will impact on the nature and extent of further audit procedures that will be performed. For example the external auditors may limit the extent of substantive tests because they will place reliance on the effectiveness of the internal controls.

(d) **Reliability of sources of audit evidence:**

- (i) **Evidence from internal sources.** This will only be reliable if KMS's internal controls are reliable, given a lot of weakness in the system, it is doubtful whether this source could be reliable
- (ii) **Third party evidence**-this will be more reliable because it is coming from independent sources.
- (iii) **Evidence from management** –this can be relied upon as they are the custodian of the affairs of the company on behalf of shareholders. However, it is subjective and that is why external auditors need to conduct further substantive audit procedures. The evidence can be reliable if the control environment in the client accounting system is strong.

## SOLUTION THREE

(a)

- (i) The following are the elements of an assurance audit engagement:
- **A three-party relationship:** this consist of an auditor, the preparer LPC Ltd (management) of financial statement and the user (shareholders)
  - **A subject matter** –this consists of financial statements that have been prepared by the responsible party.
  - **Suitable criteria:** Are standards or measures that are used to reach an audit opinion for instance the Company Act 1994 or IFRS.
  - **Evidence:** this consists of information from financial statements that has been gathered by the assurer which forms the basis of the opinion.
  - **An assurance report:** this is the output of the auditor after analyzing evidence that is obtained from the client.
- (ii) **An assurance** is an opinion given by an expert such as an external auditor to a client after gathering sufficient appropriate audit evidence in order to give confidence to users of financial statements.

(b)

- (i) **The following are drawbacks of an audit committee:**
- Establishing of an audit committee on the board is expensive. This is due to the fact they have to be paid allowances for every sitting.
  - It won't be easy for those charged with governance to select the right balance of skills and experience. They may even choose Non-Executive Directors (NEDs) without sufficient skills and competence.
  - The formalised and standardized structure of reporting may not allow auditors to express their personal judgment on certain important accounting issues.
  - Some of the executive members may not be conformable with the appointment of an audit committee as they may not understand the responsibilities of an audit committee.
- (ii) **Disadvantages of outsourcing:**
- Conflict interest will arise when LPC Ltd uses the same external auditors as internal auditors.
  - It will be expensive for LPC Ltd to outsource internal auditors.
  - Accounting staff at LPC Ltd will resist outsourcing internal auditors for fear of losing their jobs.
  - LPC Ltd may end up losing key internal audit staff out of frustrations.
  - The outsourced staff may not have all the knowledge required of them to perform their functions.
  - Confidential strategic information will come to the attention of outsiders.
- (iii) **The following are the responsibilities of Directors.**
- i. They are responsible for the effective operations of the company's internal controls.
  - ii. They are responsible for setting up procedures that can enable the company to assess possible risks that the company is likely to face.
  - iii. They are responsible for the designing of internal controls
  - iv. They are responsible for ensuring that reviews of internal controls are carried out so that any corrective measures are taken timely.

(c)

(i) **The following are threats and safeguards:**

Threat/explanation	Safe guards
The Finance Director and the Engagement Partner both played cricket together and were in the same committee. This will impair the objectivity and independence. This relationship creates a familiarity threat.	The current Engagement Partner should be removed from this assignment.
The auditors have been asked to prepare financial statements. This will impair the objectivity since the partner had previous work experience with the client. Preparation of financial statements by the auditors creates a self review threat.	The company should engage another firm to come and prepare financial statements.

(ii) **Elements of an internal audit report:**

- Terms of references - explaining the need for the audit to be undertaken and the scope.
- Executive summary-which contains a summary of the major finding whose details are contained in the main body of the report.
- Purpose –this will highlight objectives of the audit engagement.
- Scope-it is a section that will detail what is being audited.
- Results-this should include outcomes from an internal audit.
- Observations- made by internal auditors
- Conclusions – arrived at by internal auditors
- Recommendations – suggesting remedial action to mitigate the observations made.

(d) **Meaning of business risk.**

Business risks are - those types of risks that can affect the achievement of LPC Ltd.'s objectives. These are risks such as compliance risks such that a company can be closed down if it does not comply with laws and regulations. Others could be failure of the company to find market for its product

## **SOLUTION FOUR**

### **(a) (i) & (ii) Assertions and audit procedures for classes of transactions and events:**

#### **1. Occurrence**

The transactions and events that have been recorded have actually occurred and pertain to the entity.

##### **Substantive procedures**

- Select a sample of sales transactions recorded in the sales day book; agree the Details back to a goods dispatched note (GDN)
- Review the monthly breakdown of sales per key product, compare to the prior year and budget and investigate any significant differences.

#### **2. Completeness**

All transactions and events that should have been recorded have been recorded.

##### **Substantive Procedures**

- Select a sample of GDNs raised during the year; agree to the sales invoice and that they are recorded in the sales day book.
- Review the total amount of sales, compare to prior year and budget and investigate any significant differences.

#### **3. Accuracy**

The amounts and other data relating to recorded transactions and events have recorded appropriately.

##### **Substantive Procedures**

- Select a sample of sales invoices and recalculate that the totals and calculation of sales tax is correct.
- For a sample of sales invoices, confirm the sales price stated agrees to the Authorized price list.

#### **4. Cut-off**

Transactions and events have been recorded in the correct accounting period.

##### **Substantive Procedures**

- Select a sample of pre and post year end GDNs and agree that the sale is recorded in the correct periods sales day books.
- Review the post year-end sales returns and agree if they relate to pre year end sales that the revenue has been correctly removed from the sales day book.

#### **5. Classification**

Transactions and events have been recorded in the proper accounts.

##### **Substantive procedures**

- Agree for a sample of sales invoices that they have been correctly recorded within revenue nominal account codes and included within revenue in the financial statements.

### **(b) Substantive audit procedures for items 1-4:**

#### **1. Substantive procedures for supplier statement reconciliation:**

- Select a representative sample of year end supplier statements and agree the balances to the purchases ledger of Mwale Enterprises. If the balance agrees, then no further work is required.
- Where differences occur due to invoices in transit, confirm from goods received notes (GRN) whether the receipt of goods was pre year end, if so confirm that this receipt is included in year-end accruals.
- Where differences occur due to cash in transit from Mwale Enterprises to the supplier, confirm from the cashbook and bank statements that cash was sent pre year end.
- Discuss further adjusting items with the purchase ledger supervisor to understand the nature of the reconciling item, and whether it has been correctly accounted for.

## **2. Substantive procedures for bank reconciliations:**

- Obtain Mwale Enterprises bank account reconciliation and cast to check the additions to ensure arithmetical accuracy.
- Re-perform the year end bank reconciliation.
- Agree the reconciliations balance per cash book to the year-end cash book.
- Agree the balance per bank reconciliation to an original year end bank statement and to the bank confirmation letter.
- Trace all the outstanding lodgments to the pre year end cash book, post year end bank statement and also to paying in book pre year end.
- Trace all unpresented cheques through to a pre year end cash book and post year end statement. For any unusual amounts or significant delays, obtain explanations from management.
- Examine any old unpresented cheques to assess if they need to be written back into the purchase ledger as they are no longer valid to be presented.

## **3. Substantive procedures for receivables:**

- Review the aged receivables ledger to identify any slow moving or old receivable balances, discuss the status of these balances with credit controller to assess whether they are likely to pay.
- Select a significant sample of receivables and review whether there are any after date cash receipts, ensure that a sample of slow moving/old receivable balances is also selected.
- Review customer correspondence to identify any balances which are in dispute or likely to be paid.
- Review board minutes to identify whether there are any significant concerns in relation to payments by customers.
- Calculate average receivable days and compare this to prior year, investigate any significant differences.
- Inspect post year-end sales returns/credit notes and consider whether an additional allowance against receivables is required.
- Select a sample of goods dispatched notes (GDN) before and just after the year end and follow through to the sales ledger to ensure they are recorded in the correct accounting period.
- Select a sample of year-end receivable balances and agree back to valid supporting documentation of GDN and sales order to ensure existence.

**4. Substantive procedures for payroll:**

- Observe and evaluate proper segregation of duties.
- Review and test authorization procedures in place
- Observe employees use of time sheets
- Inspect documentation for evidence of management reviews
- Recalculate benefits and deductions for a sample of employees
- Check a sample of starters and leavers
- Review a sample of reconciliations



## SOLUTION FIVE

(a)

(i) **Appraisal of draft report extract:**

1. The basis for opinion paragraph should come below the opinion paragraph and not above it as in the draft.
2. Since there is a limitation of scope and the auditors are not able to form an opinion, the appropriate opinion will be a disclaimer. The opinion paragraph should have read Disclaimer of opinion.
3. In the same vein, the basis of opinion paragraph should read Basis for disclaimer of opinion.

(ii) **Options of the auditor regarding limitation of scope:**

**1. The audit firm must communicate with those charged with governance for two reasons.**

Firstly, the fact that management has imposed a limitation on the work of the audit firm should be brought to their attention. It is a specific requirement of ISA 260 *Communication with Those Charged with Governance*, that significant difficulties encountered during the audit be reported to those charged with governance, of which a management-imposed limitation on scope is an example.

Secondly, whenever the auditor expects to modify the audit opinion, the circumstances leading to the expected modification, and the expected wording of the modification should be communicated to those charged with governance.

2. The firm should consider if alternative audit procedures may be available to gain evidence as to the capitalisation of the development cost. However, for drugs being developed, the results of scientific tests and trials are crucial, and without this evidence it is difficult to see how capitalisation can be confirmed as the correct accounting treatment.
3. The audit firm should also consider the integrity of management. It is extremely unusual for management to impose a limitation on the work of auditors, as one of the rights of the auditor is to have access to all necessary books and records.

The audit firm may wish to revisit representations made by management in light of this apparent lack of integrity. The firm could also perform an engagement quality review on the audit, due to the higher risk now attached to the engagement.

4. The auditors should consider the impact that the limitation of scope may have on the audit report. This may result in the issue of a qualified opinion if the matters arising from the limitation of scope are material but not pervasive or a disclaimer of opinion where the effect is material and pervasive.
5. Finally, the firm should consider withdrawing from the audit engagement as soon as possible, in order to protect the integrity of the firm. A further consideration is that according to ISA 210 Agreeing the Terms of Audit Engagements, one of the pre-conditions that should be present in order to accept or continue an audit engagement is that management acknowledges and understands its responsibility to provide the auditor with access to all information relevant to the preparation of the financial statements. Even if the audit firm completes the current audit engagement, it should not be continued for the next financial year.

In the event of withdrawing from the audit engagement, the audit firm should consider if the withdrawal, and the circumstances prompting the withdrawal, need to be communicated with any regulatory authority. The audit firm may wish to take legal advice to protect its position.

(b) **Elements of an unmodified auditor's report:**

**Title** – The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor, this distinguishes this report from any other.

**Addressee** – The auditor's report shall be addressed as required by the circumstances of the engagement, it is determined by law or regulation but is usually to the shareholders.

**Introductory paragraph** – The introductory paragraph in the auditor's report shall identify the entity whose financial statements have been audited, state that the financial statements have been audited, identify the title of each statement that comprises the financial statements, refer to the summary of significant accounting policies and other explanatory information, and specify the date or period covered by each financial statement.

**Management's responsibility for the financial statements** – This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of the financial statements. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility** – The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit and that the audit was conducted in accordance with International Standards on Auditing and ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

**Opinion paragraph** – This is the paragraph which contains the opinion of the auditor based on the evidence gathered.

**Other reporting responsibilities** – If the auditor addresses other reporting responsibilities in the auditor's report, these shall be addressed in a separate section in the auditor's report titled 'Report on Other Legal and Regulatory Requirements'.

**Signature of the auditor** – The auditor's report must be signed, this is normally the personal name of the auditor or, if a partner is signing on behalf of the audit firm, then the signature is of the name of the firm.

**Date of the auditor's report** – The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

**Auditor's address** – The auditor's report shall name the location where the auditor practices.

(c) **Use of analytical procedures**

Analytical procedures can be used at all stages of an audit; however, ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and ISA 520 *Analytical Procedures* identify three particular stages.

1. During the planning stage analytical procedures can be used as risk assessment procedures in order to help the auditor to obtain an understanding of the entity and assess the risk of material misstatement.
2. During the process of obtaining evidence, analytical procedures can be used to obtain sufficient appropriate evidence. Substantive procedures can either be tests of detail or substantive analytical procedures.
3. At the final review stage the auditor must design and perform analytical procedures that assist him when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

(d) **Items that should be included in audit working papers:**

- Name of client – identifies the client being audited.
- Year-end date – identifies the year end to which the audit working papers relate.
- Subject – identifies the area of the financial statements that is being audited, the topic area of the working paper, such as receivables circularization.
- Working paper reference – provides a clear reference to identify the number of the working paper, for example, R12 being the 12th working paper in the audit of receivables.
- Preparer – identifies the name of the audit team member who prepared the working paper, so any queries can be directed to the relevant person.
- Date prepared – the date that the audit work was performed by the team member; this helps to identify what was known at the time and what issues may have occurred subsequently.
- Reviewer – the name of the audit team member who reviewed the working paper; this provides evidence that the audit work was reviewed by an appropriate member of the team.
- Date of review – the date the audit work was reviewed by the senior member of the team; this should be prior to the date that the audit report was signed.
- Objective of work/test – the aim of the work being performed, could be the related financial statement assertion; this provides the context for why the audit procedure is being performed.
- Details of work performed – the audit tests performed along with sufficient detail of items selected for testing.
- Results of work performed – whether any exceptions arose in the audit work and if any further work is required.
- Conclusion – the overall conclusion on the audit work performed, whether the area is true and fair.

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 12 : GOVERNANCE AND COMPANY LAW

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FRIDAY 14 JUNE 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A: - TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

### QUESTION ONE

Trade Excel Enterprise is a registered business name running as a sole trading entity. The owner, Sharon is thinking of forming a company because she wants to be separate from the business and have limited liability. As her child she tasked you to inquire on the subject, 'formation of a company' and you have come across this case and its holding:

***Darmouth v. Woodward 17 US 518 (1819)*** 'a company is a person, artificial, invisible, intangible and existing only in the contemplation of the law being a mere creature of the law. It possesses only those properties which the charter of its creation confers upon it, either expressly or incidental to its existence'. Per Marshall, CJ

#### **Required:**

- (a) With the aid of authorities, explain the following attributes of incorporation:
  - (i) Separate legal personality and its implications on Sharon. (5 marks)
  - (ii) Limited Liability and its implications on Sharon. (5 marks)
- (b) When the company is formed, Sharon intends to have it run as a Public Limited Company. Explain to her how she will raise capital on the Stock Market. (10 marks)
- (c) One feature of a company is that it can be wound up by the court under certain circumstances. Explain to Sharon how a company can be wound up by the court. (5 marks)

**[Total: 25 Marks]**

### QUESTION TWO

- (a) With aid of authorities:
  - (i) Define a Share (2 marks)
  - (ii) Explain what is meant by Articles of Association (5 marks)
- (b) Describe at least six (6) attributes of an incorporated limited company. (18 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

### **QUESTION THREE**

- (a) State two (2) circumstances which may trigger the winding up of a company by the court. (2 marks)
- (b) Distinguish voluntary winding up by members from voluntary winding up by the creditors. (8 marks)
- (c) Define and explain ordinary shares? (5 marks)
- (d) Explain the concept of reduction of share capital. (5 marks)
- (e) Explain the role and duties of a company auditor. (5 marks)

**[Total: 25 Marks]**

### **QUESTION FOUR**

Mwinji and Mwila are Directors of a company known as Tizibe Company Ltd. For the past three years they have been trading with a company known as Jinhau of Guanzhou, China. The company has increased its operations to a level which they never expected. Their company lawyer, Exsay, advised them to list their company on the Lusaka Stock Exchange. They are in agreement with his proposal. However, due to the lucrative business that they are currently enjoying, they are skeptical about listing the company on the stock exchange due to regulatory requirements of listing of companies.

#### **Required:**

They have since hired you as an Accountant, who is also a corporate governance expert to render your opinion on the following issues:

- (a) Definition of Corporate Governance. (2 marks)
- (b) Explain on the importance of corporate governance, especially to an economy like the Zambian economy. (10 marks)
- (c) Discuss the nature of the agency relationship that will exists between Directors and shareholders in the event that the company is listed on the stock exchange. (7 marks)
- (d) Explain to Mwinji and Mwila the meaning of the stockholder theory in corporate governance. (6 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

- (a) Explain in what specific circumstances a Director can be disqualified from either being appointed or continuing to hold office of director by a Court order. (10 marks)

- (b) Discuss the three (3) categories qualified to make an application for disqualification of a Director from office. (6 marks)
- (c) Explain the three (3) most important duties of the company secretary. (9 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 12: GOVERNANCE AND CORPORATE LAW SUGGESTED SOLUTIONS

### SOLUTION ONE

(a)

- (i) Separate Legal Personality means that a company is regarded as a legal entity or artificial person distinct from its shareholders or members. Thus, the implication of this is that, the company will be able to buy and sale assets using its own name, without using Sharon's name as a shareholder, the company will be able to be sued or sue using its own name without using the shareholder's name - *Salomon v. Salomon (1897)*
- (ii) Limited Liability means that the shareholder's liability is limited to the amount of capital issued to him (invested) or guaranteed. Thus if the company fails to pay its debts, the shareholders would only lose what they invested in the company or guaranteed amounts. The implication is that Sharon as a shareholder would not lose her personal assets in an event that the company fails to pay its debts. She would only lose her invested or guaranteed amounts in the business.

(b) Sharon would raise capital on the stock exchange when her company is formed as follows:

1. First of all, for her to raise capital on the stock market, her company must be a public limited liability company, meaning members of the general public would be free to invest in the company.
2. The company will issue a prospectus which will advertise the shares available for sale to the public.
3. The offer to buy shares is made to more than 15 people who are outsiders (not employees or shareholders) or more that 50 if insiders.
4. Potential investors apply for shares on a prescribed form.
5. Shares are allotted to the new buyer and once allotted, he becomes a shareholder.
6. The new member pays for the shares (thus money comes into the company) and is entered in the members' register and issued with a certificate of share capital.

(This is **how** she will raise capital on the stock market)

(c) Winding up by the court is also known as compulsory winding up. This happens when the directors of a company are not able to make a declaration that the company will be able to pay its debts within approximately 12 months or where a company has made the declaration but unable to pay debts within stipulated time. If satisfied, the court makes an order to wind up the company. This is how winding up by the court comes up.



## SOLUTION TWO

(a)

(i) **A Share**

Judge Farwell in *Borlands Trustee v Steel Brothers* defines a share as the interest of a shareholder in the company measured by a sum of money, for the purpose of liability in the first place, and interest in the second place.

(ii) **Articles of Association.**

In corporate governance, a company's articles of association (AoA, called articles of incorporation in some jurisdictions) is a document which, along with the memorandum of association (in cases where the memorandum exists) form the company's constitution, and defines the responsibilities of the directors, the kind of business to be undertaken, and the means by which the shareholders exert control over the board of directors.

- (b) Businesses the world over are run in various forms, some are run informally, whilst others are run formally, the reasons for so doing in the respective circumstances can be for various reasons. It must be noted however that there are a number of perks and/or attributes that come with the formalization or incorporation of a company, and some of these are as follows:

**Limited liability**

A company once incorporated has limited liability, this means that the liability of its Members is only limited to the extent of their unpaid up shares, therefore, if a company being wound up, and there is a Member (s) with a certain amount of unpaid up shares, the same will be called upon to contribute to the company for purposes of meeting the latter's liability where the assets are not enough to meet the same liabilities.

**Separate Legal personality**

A company once incorporated begins, from the day of such incorporation to exist as if it were an actual human being, put simply, a company once incorporated begins to exist as an artificial being, capable of dealing with other beings, both natural and artificial. The company will now exist in a separate and distinct fashion from its Members.

Suffice to note that once incorporated, the company enjoys the same rights and powers as a natural being.

**Capacity to sue and be sued**

Upon incorporation, a company assume corporate capacity and can therefore sued or be sued in its own name, instead of its Members.

**Perpetual Succession**

Once incorporated, a company assumes what at law is classified *perpetual succession*. The foregoing basically means that the company's existence is capable of outliving its Members existence, meaning that the Members may dies but new Members will come in and the existence of the company continues.

**Common Seal**

A company once incorporated as above stated begins to exist as an artificial being and can engage in day to day transactions just like a natural human being, however, the same said company being an artificial being is unable to append its signature to a document, and as such must do so by way of affixing a common seal on any document to which it is a Party to.

**Transferability of Shares**

A company once it has been incorporated has initial subscribers to its shares and may also issue out an allotment of shares, by the corporate nature assumed by a company when it has been incorporated, the company's shares become transferable.

**Owning of property in its own name**

A company being an artificial person at law and having the rights and powers of a natural being can own property in its own name, away from the Members of the company, in fact, the Members of a company have no interest in the property of the company.

### SOLUTION THREE

- (a) There are a number of **grounds for winding up by the court**. These include:  
When the company does not commence business within 12 months of incorporation, special resolution by the company to be dissolved by the company, court order in favour of a creditor winding up the company, inability to pay debts, number of shareholders reduced to below two, just and equitable to do so, etc.
- (b) The distinction between voluntary winding up by the members and voluntary winding up by the creditors is that: **Members' Voluntary winding up** occurs where members of a company pass a special resolution to wind up the company and appoint a liquidator. The members must first make a declaration of solvency before winding up, that is, they must declare that they have enough resources to pay off the creditors. Whilst **Creditors' Voluntary winding up** occurs when the company is unable to make a declaration of solvency and unable to pay the debts, thus the creditors appoint a liquidator. The meeting between creditors and shareholders has to be held within 24 hours from the shareholders' failure to make the declaration of solvency.
- (c) **Ordinary shares** are shares in a company that do not carry any extra rights, they carry the most risks and have most of the voting rights at an AGM. They receive fluctuating dividend. They are usually founder shareholders and only receive dividends after preference shareholders have been paid.
- (d) **Reduction in share capital** occurs when a company decides to alter down the amount of share capital it is holding. The company must ensure that there are enough resources to pay creditors before doing so by voting for a reduction with a special resolution. Then an application will have to be made to the court and upon examining the reasons advanced, the court may grant the application or not.
- (e) **The roles and duties of company auditors include:** Include to review financial statements, liaise with external auditors, review internal audit, audit company financial statements, carry out investigations, review the company's risk management, etc.

## **SOLUTION FOUR**

- (a) Corporate governance is defined as, 'the system by which organizations are directed and controlled' (Cadbury report) or; 'a set of relationships between a company's directors, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring the performance, are determined.'" (OECD).
- (b) Corporate governance is important for the following reasons:
- i. It ensures adherence to strategic objectives of the organization thereby aiding effective management.
  - ii. Its promotes integrity in the operations of the company.
  - iii. It provides for an adequate and appropriate system of control in a company.
  - iv. It promotes best practice guidelines thereby enhancing overall performance arising from good supervision and management.
  - v. It promotes ethical and effective pursuit of the company's strategy thereby offering safeguards against resource misuse.
  - vi. It ensures adherence to the law in the conduct of the business of the company.
  - vii. It encourages the infusion of new investments into a company.
  - viii. It promotes accountability in the management of the company.
  - ix. It promotes confidence in the capital markets.
  - x. It promotes the independence of those who scrutinize the behavior of the company and its managers and especially of the external auditors.
- Corporate governance is particularly important to an economy like Zambia in the sense that, once companies are monitored and regulated, the economy also improves. One of the reasons why the economy is poor is due to lack of observance of corporate governance principles.
- (c)
- Agency relationship is a contractual one between the directors (agents) and shareholders (principal). The main aspect of this relationship is trust (fiduciary duty) that the agent owes to the principal. Directors owe a fiduciary duty to their principals through the company to ensure they exercise their powers honestly in the interests of the company. In exercising their powers, directors have a duty to use such power for the proper purpose and such power is restricted to the purpose for which it is given.
  - Besides the fiduciary duty the agent owes the principal, there is equally a duty to perform the agreed responsibilities.
  - The agent has to exercise skill in performance of the duty tasked to them.
  - The agent has a duty to be obedient to the instructions given by the principal.
  - The agent has a duty to avoid any conflict of interest between the agent's interests and those of the principal.
  - Duty of confidentiality.
  - The agent owes a duty to ensure they do not accrue for themselves benefits that are supposed to accrue to the principal.
- (d) Stakeholder theory is the theory that looks at the interest of shareholders. The theory states that shareholders have the legitimate claim or control over the company. The theory stresses the fact that directors are merely agents and have a moral and legal obligation to champion the interest of shareholders. It espouses the view that directors' sole duty to ensure profit

maximization for the benefit of the shareholders. Hence, all the duties of the director as an agent of the shareholders are reduced into this one theory. The relationship between the agent and the principal is always to be for the benefit of the principal and the agent should not do anything that jeopardize the interests of the principal.

## QUESTION FIVE

(a) According to section 92(3) of act No. 10 of 2017, a person may be disqualified from being appointed as director if (s)he is below the age of 18 years, bankrupt, disqualified from the court from being a director, is declared by the courts as being of unsound mind and (or) where he or she fails to match the necessary qualifications of a director as per a company's articles. Additionally, a person may be disqualified as director by the court if it was so found that that person committed an offence or breached any of his duties as a director as per provided for under the act. This is evidenced under section 93 of the company's act, 2017.

(b)

1. Company itself.
2. A creditor of the company.
3. Registrar of companies.

(c)

i. **Arranging meetings of shareholders and the board of directors**

Duties include giving notice of the meeting, issuing the agenda in advance, attending the meeting and ensuring that proper procedures are followed, drafting and circulating the minutes.

ii. **Signing, authentication and maintenance of documents and registers**

The secretary will normally be responsible for completing and signing the annual returns, of the company and delivering various other statutory documents, including the annual accounts, to the authorities. The secretary is also responsible for maintaining the statutory registers.

iii. **General administrative duties**

The secretary may act as the general administrator and head office manager. Tasks include ensuring compliance with the company's constitution, and other statutory and regulatory requirements such as the stock exchange's listing rules. The secretary may also be responsible for maintaining the accounting records required by law, corresponding with legal advisers, tax authorities, trade associations etc. and administering the office.

**END OF SUGGESTED SOLUTIONS**