TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 10 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

(a) Define the aim of business management in the business world. (3 marks)

(b) Explain the three (3) common characteristics that are shared by banks, mobile phone service providers, and churches. (6 marks)

(c) A private limited company is a type of company that offers limited liability or legal protection for its shareholders but that places certain restrictions on its ownership.

Required:

What are the three (3) major ownership restrictions that are there in a private limited company. (3 marks)

(d) Block (1993) describes Leadership as a partnership that occurs when control shifts from the leader to the group members in a move away from authoritarianism towards shared decision making.

Required:

List down four (4) things that are necessary for a valid partnership to exist as suggested by Peter Block. (8 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Define the following terms used in marketing:

(i) Market research (3 marks)

(ii) Marketing research (3 marks)

(iii) Test marketing (3 marks)

(iv) Marketing (3 marks)

(b) Today's organizations are characterized by workforce diversity. Therefore recruiters in all settings are being asked to adjust and respond to diversity in a positive way.

Required:

(i) What is the aim of the policy being encouraged in this statement? (2 marks)

(iii) Give three (3) examples of how managers can respond to this policy. (6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain four (4) factors describing the importance of control in an organization. (4 marks)

(b) Define four (4) management practice steps in the control process. (8 marks)

(c) Motivation in management is used to describe the forces within an individual that account for the level, direction and persistence of the effort expended at work.

Required:

Describe the three (3) forces that describes motivation in management. (6 marks)

(d) Define the concept of intrinsic rewards and extrinsic rewards. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

The term business refers to formal and informal organization or enterprising entity engaged in commercial, industrial, or professional activities. The purpose of a business is to organize some sort of economic production of goods or services to meet the stakeholder expectations. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations. It is important that each business carries out a situational analysis.

Required:

(a) Differentiate between formal and informal organisations. (8 marks)

(b) Outline ten (10) stakeholders of an organisation that you know. (10 marks)

(c) What does the acronym SWOT stand for? (2 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) What are the differences between training and development? (4 marks)

(b) It is common belief that best training occur when managers establish an overall climate within which people want to learn and are reinforced for learning. What are the five (5) steps in a receptive learning climate. (10 marks)

(c) List down three (3) barriers to effective communication. (6 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The aim of business management is to produce the greatest quantity and quality of a given product or service at a lowest possible cost.

(b) The following are the common characteristics shared by the three:

i. each organization has a distinct purpose
ii. each is composed of people
iii. they all develop some deliberate structure

(c) The following are the three (3) major ownership restrictions:

i. Shareholders cannot sell or transfer shares without offering them first to other shareholders for purchase.
ii. Shareholders cannot offer shares to the general public over a stock exchange, and
iii. The number of shareholders cannot exceed a fixed figure (commonly 50).

(d) The following are the things Block suggested are necessary for the validity of partnership in leadership:

i. Exchange of purpose
ii. A right to say no
iii. Joint accountability
iv. Absolute honesty
v. Leader must be a collectivist

SOLUTION TWO

(a) The following are the definitions of terms in marketing:

(i) Market research is the investigation in to how to reach, or serve the customers and or the end users in the best way and is concerned with product, price, place and promotion in most circumstances.

(ii) Marketing research is an investigation into aspects of the market size, trends, competition, legislation, and barriers to entry, and all these will assist as basis of all decision making in the audit stages of marketing planning

(iii) Test marketing-is a much more extensive type of research in which a product is launched in a selected area for the purpose of trying it including the marketing methods used.

(iv) Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

(b)

(i) The aim of the policy is to ensure that no job applicant or employee receive less favorable treatment of grounds of race color nationality tribe and many more

(ii) The following are examples in which managers can respond to this policy:

1. By promoting the policy within their hiring practices
2. Raise employees understanding equal opportunities and the need for their commitment to it
3. Remind the employees that this is a legal socially desirable, and morally right thing to do

SOLUTION THREE

(a) The following are the importance of control in an organization.

i. Ensures overall directions of individuals and groups are consistent with short and long- range operational plans.
ii. It helps ensure objectives and accomplishments are consistent with one another throughout organization in proper means-end fashion.
iii. It helps maintain compliance with essential organization rules and policies
iv. It helps to protect individual rights to freedom from sexual harassment at work and other negative behavioral practices.

(b) The following is the management practice steps in the control process.

STEP 1 Establish the performance objective and standards

STEP 2 Measure the actual performance

STEP 3 Compare actual performance with objectives and standards

STEP 4 Take the necessary action

(c) The three (3) forces that describe motivation in management are:

i. Level – how a person works to perform a chosen behavior
ii. Direction –to which of the many potential behaviors that a worker could perform, worker actually performs, workers can be motivated in the functional ways and that the role of the manager is to ensure that the direction of their subordinates' behavior is functional for the organization
iii. Persistence -is how hard a person keeps trying to perform a chosen behavior successfully, in spite of obstacles, roadblocks, and stone walls meaning a motivated person works hard at a job; an unmotivated person does not work as hard.

(d) Intrinsic rewards are natural rewards that are self-administered while extrinsic rewards are externally motivated behaviour characterized by acquiring material or social rewards or to avoid punishment.

SOLUTION FOUR

(a) **Formal organization and Informal organization**

Formal organization

This is the total pattern of working relationships among organization members that is official. This relationship is represented through an organizational chart that shows the hierarchy of authority, tasks, procedures, communication system, reporting system etc. In a formal organization, all activities are well defined and planned. The following are the characteristics:

- Well defined objectives that the organization is pursuing to achieve.
- Well documented policies and other copies
- A well-defined structure where relationships exists
- A formal organization usually has a long life span.
- There is division of work

Informal organization

This is the structure that evolves out of the formal organization. The relationships in an informal organization are not defined and structured. The organization functions irregularly, characterized not by any complex pattered structure but rather by social relationships. The following are the characteristics.

- They come into existence without pre-planning
- The objectives are not clear or well defined.
- The structure is loose where relationships are less defined.
- Informal organizations are usually small
- There is flexibility in terms of changing the rules and regulations.

(b) Potential stakeholders include;
interest groups/pressure groups, Employees, Investors/Shareholders, management, lenders, Prospective customers, Government, communities, media, creditors, bankers, owners, Professional associations, Labor unions Suppliers etc.

(c) Strength, Weakness, Opportunities and Threat (SWOT)

SOLUTION FIVE

(a) The following are the differences between training and development:

i. Training is asset of activities that provides learning opportunities to acquire and improve job-related skills. This applies both to the initial and upgrading or improving someone's skills to meet changing job requirements.

ii. Development focuses upon the activities that the organization employing the individual, or that the individual is part of, may partake in the future and is almost t impossible to evaluate.

(b) The following are the five (5) steps in the receptive training process:

i. Assess the training needs
ii. Identify training objectives
iii. Select training methods
iv. Implement the training program
v. Evaluate and reinforce the results of the training program

(c) The barriers to effective communication are:

i. Poor use of communication channels
ii. Semantic problems
iii. Absence of feedback
iv. Physical distractions
v. Status efforts

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C 2 : ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 12 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
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6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

(a) Define the term Gross National Product (2 marks)

(b) Explain the four (4) components of aggregate expenditure (8 marks)

(c) Outline any three (3) sources of income to the government (3 marks)

(d) Describe the nature of:

(i) expansionary fiscal policy (4 marks)

(ii) contractionary fiscal policy (3 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Explain the four (4) functions of money (8 marks)

(b) State the law of comparative advantage (2 marks)

(c) Describe any two (2) common incoterms used in international trade by stating one (1) responsibility for the buyer and one (1) responsibility for the seller (6 marks)

(d) List any four (4) functions of the Lusaka stock exchange (4 marks)

[Total: 20 Marks]

QUESTION THREE

For ten consecutive months, a factory manager recorded the number of items produced by the factory and the total cost of their production. The following table summarizes the manager's data:

Number of Items (X) Thousands	53	10	79	59	33	13	72	69	22	45
Production Cost (Y) Thousands	71	32	98	79	49	33	91	84	42	63

(a) Draw the scatter plot of the data. (3 marks)

(b) Calculate the equation of the regression line. (11 marks)

(c) Estimate the number of items produce at the cost of 120 thousand. (2 marks)

(d) Compute r and explain what it means. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) One of the cars sold by Jaz car dealership is a very popular Sports Utility Vehicle (SUV) car called Audi Q5. The final sale price of the basic model of this car varies from customer to customer depending on the negotiating skills and persistence of the customer. Assume that these sale prices of this car are normally distributed with a mean of K495,000 and a standard deviation of K8,750. Find the probability that some of the customers would pay:

(i) Less than K485,125 for the Audi Q5? (3 marks)

(ii) More than K507,500 for the Audi Q5? (3 marks)

(iii) Between K475,000 and K520, 000 for the Audi Q5? (5 marks)

(b) A businessman invested K80, 000 with an urban bank at 6.25% annual interest compounded monthly. Calculate the equivalent annual percentage yield (APY). (5 marks)

(c) Calculate the present value of an annuity generating K150,000 a year for the next seven (7) years, given the fixed interest rate of 12%? (4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) An Entrepreneur by the name of Mabuchi has two projects running, A food project (Project A) and Transport project (Project B). The following table shows the net cash flows for the two (2) projects:

		Net Cash Flows			
	Initial Cost	Year 1	Year 2	Year 3	Year 4
Project A	-7000	-5000	3000	5000	7000
Project B	-15000	-8000	9000	11000	13000

Required:

Decide which project is more profitable using the NPV criterion at a discount rate of 9%.

. (10 marks)

(b) Let X represent the number of times a customer visits a super market in a 1-month period. The probability distribution of X is show below:

X	0	1	2	3
P(X)	0.1	0.4	0.4	0.1

Required:

Find:

(i) the probability that the customer's number of visits did not exceed two. (2 marks)

(ii) the expected value of X. (3 marks)

(iii) the standard deviation of X. (5 marks)

[Total: 20 Marks]

END OF PAPER

C 2: ECONOMICS & FINANCIAL MATHEMATICS SUGGESTED SOLUTIONS

QUESTION ONE

(a) **Gross national product** is the value of all products and services produced by the citizens of a country both domestically, and internationally minus income earned by foreign residents.

(b) **Aggregate expenditure** is the sum of all the expenditures undertaken in the economy by the factors during a specific time period. The equation for aggregate expenditure is: **AE = C + I + G + NX.**

- **Consumption (C):** The household consumption over a period of time. It is measured by household's purchases or expenditure of/on durable and non-durable goods.
- **Planned investment (I):** Planned Investment is defined as expenditure on producer and capital goods that can be used to produce final goods and services in the future.
- **Government expenditure (G):** The amount of spending by central and local governments on both Current expenditure (this provides for day to day functions) and Capital expenditure (this provide for future needs, for example, schools, roads or power).
- **Net exports (NX):** It is defined as the total value of goods and services sold overseas minus the value of goods and services bought from overseas. Total exports minus the total imports.

(c) **Sources of income**

- **Tax revenue,** which forms the dominant share of revenue for many government units, is composed of compulsory transfers to the general government sector from its constituents.
- **Grants** are noncompulsory transfers received by government units from other government units or international organizations. Grants may be classified as capital or current and can be received in cash or in kind.
- **Property income** is received when general government units place financial assets and/or non-produced assets at the disposal of other units. Interest, dividends, and rent are the major components of this category.
- **Voluntary Transfers** these are benevolent payments from the private sectors that include donations and gifts.

(d) **Fiscal policy**

- Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty.

(i) Expansionary fiscal policy occurs when the government acts to cut tax rates or increase government spending, shifting the aggregate demand curve to the right. This may lead to increasing consumption by raising disposable income through cuts in personal income taxes or payroll taxes; increasing investments by raising after-tax profits through cuts in business taxes; and increasing government purchases through increased spending by the federal government on final goods and services and raising federal grants to state and local governments to increase their expenditures on final goods and services.

(ii) Contractionary fiscal policy occurs when government raises tax rates or cuts government spending, shifting aggregate demand to the left. This leads to decrease in the level of aggregate demand by decreasing consumption, decreasing investments, and decreasing government spending, either through cuts in government spending or increases in taxes.

SOLUTION TWO

(a) **Functions of money**

- **Medium of exchange.** Money's most important function is as a medium of exchange to facilitate transactions. Without money, all transactions would have to be conducted by **barter**, which involves direct exchange of one good or service for another. in a barter system, exchange can take place *only* if there is a **double coincidence of wants** between two transacting parties. The likelihood of a double coincidence of wants, however, is small and makes the exchange of goods and services rather difficult. Money effectively eliminates the double coincidence of wants problem by serving as a medium of exchange that is accepted in all transactions, by all parties, regardless of whether they desire each other's goods and services.
- **Store of value.** In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. Money is more **liquid** than most other stores of value because as a medium of exchange, it is readily accepted everywhere. Furthermore, money is an easily transported store of value that is available in a number of convenient denominations.
- **Unit of account.** Money also functions as a unit of account, providing a *common measure of the value* of goods and services being exchanged. Knowing the value or price of a good, in terms of money, enables both the supplier and the purchaser of the good to make decisions about how much of the good to supply and how much of the good to purchase.
- **Standard of Deferred Payment:** This function creates credit and allows transactions to be settled in the future. To be a standard of deferred payment, money must be an accepted way to value and settle a debt in the future.

(b) The **Law of Comparative advantage** is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners.

(c) **Modes of transportation**

1. Free Carrier (FCA):

The seller is obligated to;

- To deliver the goods to the carrier named by the buyer at the named place
- Provide the buyer with an invoice for the value of goods

The responsibility for the buyer are;

- To inform the seller about the name of the carrier
- Arrange and pay for contract of carriage from the named place
- Accept delivery of the goods at the named place
- Bear the risks/loss or damages to the goods from the time they are delivered

2. Free on Board (FOB)

The seller has the following responsibilities

- To deliver the goods on board the vessel
- To pay the port loading costs
- Provide the buyer with an invoice for the value of the goods
- Provide the buyer with the proof of delivery

The buyer is obligated to;

- Arrange and pay for the freight charges
- Arrange and pay for the insurance charges

- Bear all risks and loss or damages to the goods once they have been loaded.

3. Cost and Freight (C and F)

The seller has the following responsibilities
- Arrange and pay for freight charges to the named port of destination
- Deliver the goods on board the vessel at the port of shipment
- Pay for loading costs
- Provide the buyer with appropriate transport documents
- Provide the buyer with an invoice for the value of goods

The buyer has the following responsibilities
- Arrange and pay for insurance charges for goods in transit
- Collect the goods at the port of shipment
- Bear all the risks/ loss and damage to the goods once they have been loaded on board
- Pay unloading costs at the port of destination

4. Cost, Insurance and Freight (CIF)

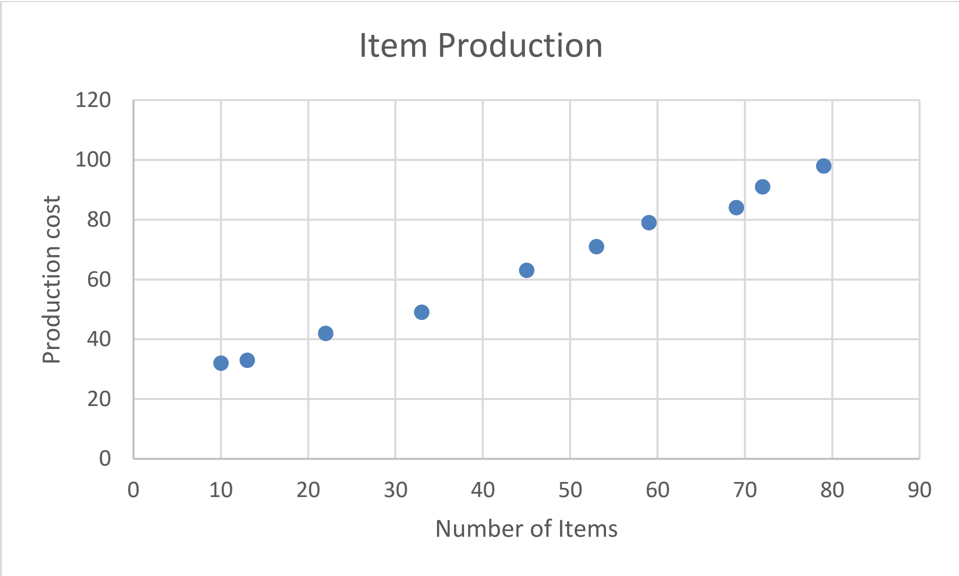
The seller has the following responsibilities
- Arrange and pay for freight charges
- Deliver the goods on board the vessel at the port of shipment
- Arrange and pay for insurance charges for goods in transit
- Pay for loading and unloading costs
- Provide buyer with appropriate transport documentation
- Provide buyer with an invoice for the full value of the goods

The buyer has the following responsibilities
- Collect the goods at the port of destination
- Bear all costs and risks of loss and damage to the goods once they are off-loaded from the vessel at the port of shipment

(d) **Functions of LuSE**
- Empower and create wealth for Zambians through wide ownership of shares
- Encourage local and foreign portfolio investment
- Provide a market place for the secondary trading of securities
- Facilitate the divestiture of Government interest in parastatals
- Create a culture of good corporate governance and good corporate citizenship
- Facilitate a mechanism for the raising of relatively cheaper long-term capital for the private sector.

SOLUTION THREE

(a) Scatter plot:



(b) Summary statistics table:

X	Y	XY	X2	Y2
53	71	3763	2809	5041
10	32	320	100	1024
79	98	7742	6241	9604
59	79	4661	3481	6241
33	49	1617	1089	2401
13	33	429	169	1089
72	91	6552	5184	8281
69	84	5796	4761	7056
22	42	924	484	1764
45	63	2835	2025	3969
455	**642**	**34639**	**26343**	**46470**

Therefore,

$$\beta = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - \left(\sum X\right)^2} = \frac{10\times 34639 - 455\times 642}{10\times 26343 - (455)^2} = 0.96$$

and

$$\alpha = \overline{Y} - \beta\overline{X} = \frac{642}{10} - 0.96\left(\frac{455}{10}\right) = 20.41$$

Hence, the least–squares regression line is

$$y = \alpha + \beta x = 20.41 + 0.96x$$

(c)

$$120 = 20.41 + 0.96x = 104$$

(d)

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

$$= \frac{10(34639) - (455)(642)}{\sqrt{[10(26343) - 455^2][10(46470) - 642^2]}}$$

$$\boldsymbol{r = 0.997}$$

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

SOLUTION FOUR

(a)

(i) $Z = \frac{X-495000}{8750}$

$$P\left[\frac{X-495000}{8750} < \frac{485125-495000}{8750}\right]$$
$$= P[Z < -1.13]$$
$$= 1 - 0.8708 = 0.1292$$

(ii)

$$P\left[\frac{X-495000}{8750} > \frac{507500-495000}{8750}\right]$$
$$= P[Z > 1.43]$$
$$= 1 - 0.9236 = 0.0764$$

(iii)

$$P\left[\frac{475000-495000}{8750} < \frac{X-495000}{8750} < \frac{520000-495000}{8750}\right]$$

$$P[-2.29. < Z < 2.86]$$
$$P[Z < 2.86) - P[Z < -2.29]$$
$$0.9978 - 0.011$$
$$= 0.9868$$

(b) Money invested by the Businessman is P_0 = K80000
Interest rate is r = 6.25% = 0.0625
Number of times compounded in a year m = 12
Let S be the equivalent APY.
The value of the investment at the end of one year with this percentage rate is

$$A = 80000\,(1 + S)$$

Amount accumulated after 1 year = $80000\left(1 + \frac{0.0625}{12}\right)^{(12)(1)}$

[As the interest is compounded continuously.]

$$= 80000\,(1.005208)^{12}$$
$$80000\,(1 + S) = 80000\,(1.005208)^{12}$$

[From the definition of APY.]

$$1 + S = (1.005208)^{12}$$
$$1 + S = 1.0643218$$

$$S = 0.06432 = 6.43\%$$

(c)

The future value of the annuity is

$$\mathrm{A} = R\left[\frac{1-(1+i)^{-n}}{i}\right]$$

$$=150000\left[\frac{\left(1-(1.12)^{-7}\right)}{0.12}\right]$$

$$=K684563.48$$

SOLUTION FIVE

(a)

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

Consider $r = 9\%$

$$PV_A = -5000(1.09)^{-1} + 3000(1.09)^{-2} + 5000(1.09)^{-3} + 7000(1.09)^{-4}$$
$$= -4587.16 + 2525.04 + 3860.92 + 4958.98 = 6757.78$$

Thus the NPV is: $6757.78 - 7000 = -242.22$

$$PV_B = -8000(1.09)^{-1} + 9000(1.09)^{-2} + 11000(1.09)^{-3} + 13000(1.09)^{-4}$$
$$= -7339.45 + 7575.12 + 8494.02 + 9209.53 = 17939.22$$

Therefore, the total present value over the four years is 17939.22.

Thus the NPV is, $17939.22 - 15000 = 2939.22$

Thus, at 9% project B is more profitable than project A.

(b)

X	0	1	2	3
P(X)	0.1	0.4	0.4	0.1

(i) $$P(X \le 2) = P(0) + P(1) + P(2)$$
$$P(X \le 2) = 0.1 + 0.4 + 0.4 = 0.9$$

(ii)
$$E(X) = \sum_x x \quad P(X = x)$$
$$= \sum_{x=0}^{4} P(X = x)$$
$$= 0(0.1) + 1(0.4) + 2(0.4) + 3(0.1)$$
$$= 0 + 0.4 + 0.8 + 0.3$$
$$= 1.5$$

(iii) $$Var(X) = E(X^2) - [E(X)]^2$$
$$E(X^2) = \sum_{x=0}^{4} x^2 P(X = x)$$

$$= 0^2(0.1) + 1^2(0.4) + 2^2(0.4) + 3^2(0.1)$$

$$= 0 + 0.4 + 1.6 + 0.9$$

$$= 2.9$$

$$\therefore Var(X) = E(X^2) - [E(X)]^2$$

$$= 2.9 - 1.5^2$$

$$= 2.9 - 2.25$$

$$= 0.65$$

Thus, standard deviation $= \sqrt{Var(X)}$

$$= \sqrt{0.65}$$

$$= 0.806$$

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C 3 : ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 10 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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8. Present legible and tidy work.

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

Attempt all FIVE (5) questions.

QUESTION ONE

Kaba and Robam are in a partnership business sharing profits and losses equally. Their Trial balance has been prepared as shown below at 31 March 2023. Partners are paid interest of 6% of their opening capital balances.

	Dr	Cr
	K	K
Revenue		1,460,000
Drawings: Kaba	31,600	
Robam	20,000	
Capital Account: Kaba		160,000
Robam		141,200
Bank account		16,000
Trade receivables	174,860	
Trade payables		88,000
Inventory 1 April 2022	59,500	
Purchases	940,480	
Returns inwards	50,400	
Returns outwards		33,500
Rent and rates	84,220	
Wages	261,450	
Motor expenses	21,460	
Allowance for receivables 1 April 2022		6,000
Insurance	4,000	
Land and buildings at cost (land 160,000)	560,000	
Accumulate depreciation - buildings		40,000
Plant and equipment at cost	840,000	
Accumulated depreciation		409,920
Motor vehicles at cost	120,000	

Accumulated depreciation		48,000
Interest paid on loan	350	
Current accounts: Kaba		604,700
Robam		147,000
10% loan from Kaba		14,000
	3,168,320	3,168,320

Additional information available at 31 March 2023.

(i) Partnership inventory was valued at K112,000.

(ii) On 1 January 2022 Robam drew inventory for his personal use at a cost of K1,200. This has not yet been accounted for in the partnership accounting records.

(iii) Rent and rates of K2,220 have been prepaid.

(iv) Loan from Kaba was brought into the partnership business on 1 January 2023.

(v) Interest on drawings for the year is charged at 5% per annum.

(vi) Kaba is to receive a salary from 1 November 2022 of K240,000 per annum.

(vii) Irrecoverable debts of K940 are to be written off and an allowance of 5% of receivables provided for.

(viii) Depreciation on non-current assets is to be provided for as follows:

- Motor vehicles – 5 years' straight line method.
- Buildings – 50 years' Straight line method.
- Plant and equipment - 20% reducing balance method.

(ix) Kaba and Robam made contributions of capital prior to the commencement of trading activities.

Required:

(a) Prepare the partnership statement of profit or loss and appropriation for the year ended 31 March 2023. (17 marks)

(b) Prepare partner's current accounts at 31 March 2023. (3 marks)

[Total 20 Marks]

QUESTION TWO

(a) **Show Red Football Club trial balance as at 31 December 2023:**

	Dr	Cr
	K'000	**K'000**
Sports equipment	127,500	
Club premises	444,000	
Subscriptions I & E		52,981
Sales of party tickets		9,000
Wages for bar staff	71,250	
Furniture and fittings at cost	78,900	
Rates and insurance	28,650	
General expenses	6,075	
Party expenses	3,000	
Accumulated funds 1 January 2023		625,740
Donations received		5,400
Telephone and postage	6,720	
Bank	3,060	
Bar purchases	143,580	
Payables for bar supplies		15,600
Bar sales		252,375
Bar inventory 1 January 2023	48,361	
	961,096	961,096

The following information was also available at that date:

(i) Bar inventory at 31 December 2023 was K35,430,000

(ii) Depreciation was as follows:

- Sports equipment depreciation is calculated at 20% Straight line method.
- Depreciation for furniture and fittings is 25% on cost.

Required:

(a) (i) Prepare the bar trading account for the year ended 31 December 2023. (2½ marks)

(ii) Prepare the income and expenditure account for the year ended 31 December 2023. (5 marks)

(iii) Prepare the statement of financial position as at 31 December 2023. (6½ marks)

(b) Nkana Football Club had the following details dealing with subscriptions during the year ended 31 December 2023:

- Subscriptions prepaid on 31 December 2022 for the year to 31 December 2023 was K4,500.
- Subscriptions Accrued on 31 December 2022 for the year ending 31 December 2022 was K3,000.
- Subscriptions paid into the bank for the year ended 31 Decembers 2023 K67,500.
- Subscriptions for 2024, prepaid at 31 December 2023 were K2,173.
- Subscriptions for 2023, accrued at 31 December 2023 were K4,154.

Required:
Prepare the subscriptions account for the year. (6 marks)

[Total: 20 Marks]

QUESTION THREE

Briefly explain the following accounting concepts under the framework of Financial Reporting.

(a) Business entity concept (4 marks)

(b) The Going concern concept (4 marks)

(c) The Materiality concept (4 marks)

(d) The Prudence concept (4 marks)

(e) The Consistency concept (4 marks)

[Total: 20 Marks]

QUESTION FOUR

The trial balance of Mwami, a sole trader, failed to balance as at 30 September 2023. The following were the totals:

	Dr K	Cr K
Balance total	1,796,100	1,852,817

The drafted statement of profit or loss showed a profit of K141,280 for the year.

A suspense account was opened for the difference. The following errors were discovered.

(i) The balance of K38,260 on the rates account had been omitted from the trial balance.

(ii) Salaries prepaid of K580 at 30 September 2022 had not been taken into account.

(iii) The Returns Day Books totals for the September 2023 had not been posted to the Returns account in the General ledger. The amounts were:

Returns inwards	K836
Returns outwards	K919

(iv) A Motor vehicle which was purchased for K9,600 on 1 April 2023 had been debited to the repairs account. The asset is depreciated at 20% per annum using Straight line method, with proportionate depreciation in the year of purchase.

(v) K8,980 total of discount allowed had been credited to discount received account.

(vi) Rent received of K4,250 from rented office has been correctly recorded in the cash book and credited to discount received account.

Required:

(a) Prepare the journal entries. (13 marks)

(b) Prepare the suspense account showing the correct entries to clear off the difference. (7 marks)

[Total: 20 Marks]

QUESTION FIVE

Nando does not keep a full set of accounting records. However, he was able to provide the following information for the year ended 31 December 2023:

	1 January 2023	**31 December 2023**
	K'000	**K'000**
Property at cost	160,000	160,000
Equipment at NBV	46,000	74,000
15% Bank loan	56,000	56,000
Inventory	24,000	20,000
Trade receivables	16,000	17,000
Trade payables	12,400	11,800
Cash	2,100	900
General expenses due	600	300
General expenses prepaid	400	900

Bank Account

	K'000		K'000
Balance b/f	2,800	Payments to suppliers	113,940
Cash sales banked	17,060	General expenses	153,660
Receipts from customers	291,140	Equipment	40,000
		Balance c/d	3,400
	311,000		311,000

Additional Information:

(i) Cash sales amounted to K134,480,000

(ii) The following cash payments were made:

	K'000
Purchases	K16,860
Drawings	K33,000
General expenses	K65,560

(iii) Nando suspects that an amount of cash had been stolen from the cash till.

(iv) Nando withdrew goods at a cost of K3,600,000 for his personal use. No records were made.

(v) Discount allowed and received were K1,000,000 and K1,800,000 respectively.

Required:

(a) Prepare the statement of profit or loss for the year ended 31 December 2023 for Nando. (10½ marks)

(b) Prepare the statement of financial position as at 31 December 2023 for Nando. (9½ marks)

[Total: 20 Marks]

END OF PAPER

C 3 : ACCOUNTANCY FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Kaba and Robam Statement of Profit and Loss and Appropriation Account for the year ended 31 March 2021**

		K'000	K'000
Revenue			1,460,000
Less: returns inwards			(50,400)
Net sales			1,409,600
Cost of sales:			
Opening inventory		59,500	
Purchases (940,480 – 1,200)		939,280	
Returns outwards		(33,500)	
Closing inventory		(112,000)	
			(853,280)
Gross profit			556,320
Less expenses:			
Rent and rates (84,220 – 2,220)		82,000	
Wages		261,450	
Motor expenses		21,460	
Receivables expenses (w1)		3,636	
Insurance		4,000	
Depreciation:	Buildings (400,000/ 50 years)	8,000	
	Plant and equipment (840,000 – 409,920)x 20%	86,016	
	Vehicles (5% x 120,000)	6,000	
	Loan interest (10% x 1,400 x 3/12)	350	
			472,912
Net profit appropriation			83,408

Less appropriation		
Add: interest on drawings: Kaba (w2)	1,580	
Robam	1,150	
		2,730
		86,138
Less salary: Kaba (240,000÷12 *5 months)	(100,000)	
Interest on capital: Kaba (6% x 160,000)	(9,600)	
Robam (6% x 141,200)	(8,472)	
		(118,072)
		(31,934)
Share of loses: Kaba (4/8 x (31,934)	(15,967)	
Robam (4/8 x (30,934)	(15,967)	
		(31,934)

(b)

Partners Current Accounts

	Kaba	Robam		Kaba	Robam
	K'000	**K'000**		**K'000**	**K'000**
Share of loses	15,967	15,967	Balance b/f	604,700	147,000
Drawings	31,600	21,200	Salary: Kaba	100,000	
Interest on drawings	1,580	1,150	Interest on capital	9,600	8,472
Balance c/d	665,153	117,155			
	714,300	155,472		714,300	155,472

Workings

1. Irrecoverable debt expense:
Allowance for receivables at start 6,000.
Increase in allowance (bal. fig.) 2,696.
Allowance for receivables at end
[174,860 -940 x (5%)] 8,696.
Total expense = 940 + 2,696= 3,636.

2. Interest on drawings:
Kaba [5% x 31,600] 1,580
Robam [5% x 20,000] + [5% x 1,200 x 3/12] 1,150

SOLUTION TWO

(a)

(i) **Show Red Football Club Bar**

Statement of Profit or Loss as at 31 December 2021

	K'000	K'000
Sales		252,375
Less cost of sales:		
Opening inventory	48,361	
Bar purchases	143,580	
Closing inventory	(35,430)	
		(156,511)
Gross profit:		95,864
Less: Expenses		
Bar staff wages		(71,250)
Profit from Bar		24,614

(ii) **Income and Expenditure Account for the year ended 31 December 2021**

	K'000	K'000
Income:		
Profit from the Bar		24,614
Subscriptions		52,981
Donations received		5,400
Profit from party (9,000 – 3,000)		6,000
		88,995
Less: Expenditure:		
Rates and Insurance	28,650	
Telephone and postage	6,720	
General expense	6,075	
Depreciation furniture	19,725	
Depreciation Sports equipment	25,500	86,670
		2,325

(iii) **Statement of Financial position as at 31 December 2021**

Non-Current Assets	**Cost K'000**	**Dep K'000**	**NBV K'000**
Club premises	444,000	-	444,000
Furniture and fittings	78,900	19,725	59,175
Sports equipment	127,500	25,500	102,000
			605,175
Current assets:			
Bar inventory		35,430	
Cash at bank		3,060	38,490
			643,665

Represented by:
Accumulated funds:

1 January 2021	625,740
Add: Surplus	2,325
	628,065
Current liabilities:	
Payables (Bar)	15,600

643,665

(b)

Nkana football club - Subscription Account

		K'000			K'000
31 Jan 2020	Accrual b/f	3,000	1 Jan 2020	Prepaid b/f	4,500
31 Dec 2020	I & E A/C	70,981	31 Dec 2020	Bank	67,500
31 Dec 2020	Prepaid AC	2,173	31 Dec 2020	Accrual c/d	4,154
		76,154			76,154
1 Jan 2021 b/f	Accrual bal	4,154	1 Jan 2021	Prepaid bal b/f	2,173

SOLUTION THREE

(a) **The Business entity concept**

This convention or concept separates the individual(s) behind a business from the business itself, and only records transactions in the accounts that affect the business. It can be interpreted in two ways:

- In the case of a sole trader or partnership, the entity is viewed as a vehicle through which the owner(s) engage in economic activity with a view to profit.
- In the case of a company, the entity is viewed as having a separate identity with its own objectives, the owners merely being other interested parties having claims against the entity.

(b) **The Going concern concept**

The assumption that the financial statements are prepared on the basis that the business is to continue for the foreseeable future and therefore, for example, non-current assets are stated at cost (less accumulated depreciation) as if they will continue to be used, and are not valued as if they are to be disposed of at their fair value. Another example is when calculating accruals and prepayments, it is assumed that there will be a next year.

(c) **The Materiality concept**

Accounting statements are prepared for the benefit of various user groups. It is essential that the information provided is both significant and easily understood. The materiality concept ensures that the information provided is clear by omitting items that are not significant to the user in understanding the overall financial position of the organization. The materiality concept should help to make the financial statements relevant to users.

(d) **The Prudence concept**

When preparing financial statements, there may be some uncertainty about some transactions. This concept requires that caution should be applied when exercising judgment about these uncertainties. In particular, the concept requires that the business should not claim to have made profits or gains before they have been earned with reasonable certainty, but should anticipate fully any losses that are expected to occur. This prevents overstating of assets or profits.

(e) **The Consistency concept**

This concept requires that the accounting treatment of like items should be consistently applied from one accounting period to the next. The usefulness of financial accounting lies to a considerable extent in the conclusions that may be drawn from the comparison of the financial statements of one year with those of a preceding year, or of one company with another. Much of the information thus derived would be useless if the choice of accounting methods were not applied consistently year by year e.g. inventory valuation method.

SOLUTION FOUR

(a) **Journal Entries**

		Dr	Cr
		K	**K**
i.	Trial balance	38,260	
	Suspense Account		38,260
ii.	Prepaid account	580	
	suspense		580
iii.	Returns inwards Account	836	
	Suspense Account		836
	Suspense Account	919	
	Returns outwards Account		919
iv.	Motor vehicles Account	9,600	
	Motor repairs Account		9,600
	Depreciation expense account	960	
	Accumulated depreciation account		960
v.	Discount received Account	8,980	
	Discount allowed Account	8,980	
	Suspense Account		17,960
vi.	Discount received Account	4,250	
	Rent received Account		4,250

(b) **Suspense Account**

	Cr		Cr
Balance b/f	56,717	Returns inwards	836
Returns outwards	919	Salaries prepaid	580
		Rates	38,260
		Discount received	8,980
		Discount allowed	8,980
	57,636		57,636

SOLUTION FIVE

(a) **Statement of profit or loss for the year ended 31 December 2021.**

	K'000	K'000
Revenue (293,140 + 134,480) (W2)		427,620
Less: Cost of sales:		
Opening inventory	24,000	
Purchases	132,000	
Drawings of goods	(3,600)	
Closing inventory	(20,000)	
		(132,400)
Gross profit		295,220
Discount received		1,800
		297,020
Less expenses:		
Depreciation on equipment (W6)	12,000	
Discount allowed	1,000	
General expenses (W5)	218,420	
Interest on loan (15% x 56,000)	8,400	
Stolen cash(W3)	3,200	
		243,020
Net profit		54,000

(b) **Statement of Financial Position 31 December 2021.**

	K'000	K'000
Non-current assets:		
Equipment at NBV		74,000
Property at cost		160,000
		234,000
Current assets:		
Closing inventory	20,000	
Fixed receivables	17,000	
Bank	3,400	
Cash	900	
Other receivables	900	
		42,200
Total assets		276,200
Equity:		
Capital at start (W1)	182,300	
Add: Net profit	54,000	
Less: Drawings	(36,600)	
		199,700
Non-current liabilities:		
15% Bank loan		56,000
Current liabilities:		
Trade payables	11,800	
General expense due	300	

Interest on loan	8,400	
		20,500
Equity and liabilities		276,200

Workings:

1. Capital at start

Assets = 160,000 + 46,000 + 24,000 + 16,000 + 2,100 + 400 + 2,800 = 251,300

Liabilities = 56,000 + 12,400 + 600 = 69,000
.: 251,300 – 69,000 = 182,300

2. Total sales

Trade Receivables Account

	K'000		K'000
Balance b/f	16,000	Receipts	291,140
Credit sales (balance figure)	293,140	Discount allowed	1,000
		Balance c/d	17,000
	309,140		309,140

3. Cash Account

	K'000		K'000
Balance b/f	2,100	Cash sales banked	17,060
Cash sales	134,480	Purchases	16,860
		Drawings	33,000
		General expenses	65,560
		Cash stolen	3,200
		Balance c/d	900
	136,580		136,580

Total sales: 293,140 + 134,480 = 427,620

4. Trade payables Account

	K'000		K'000
Payments	113,940	Balance b/f	12,400
Discount received	1,800	Credit purchases	115,140
Balance c/d	11,800		
	127,540		127,540

5. General Expense Account

	K'000		**K'000**
Balance b/f	400	Balance b/f	600
Cash	65,560	Income statement	218,420
Bank	153,660	Balance c/d	900
Balance c/d	300		
	219,920		219,920

6. Equipment at NBV Account

	K'000		**K'000**
Balance b/f	46,000	Depreciation	12,000
Acquisition	40,000	Balance c/d	74,000
	86,000		86,000

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

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 study the examination paper carefully so that you understand what to do in each question.

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

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

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

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

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

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

8. Present legible and tidy work.

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

10. A taxation table is provided on pages 2, 3 and 4 of this paper.

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to 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%

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%

Industrial Buildings:

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

Low Cost Housing	**(Cost up to K100,000)**	
Wear and Tear Allowance		10%
Initial Allowance		10%

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Property transfer tax

Rate of tax on realised value of land (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%

ATTEMPT ALL FIVE (5) QUESTIONS

QUESTION ONE

(a) Describe the types of persons who are required to pay turnover tax. (3 mark)

(b) State any five (5) types of persons that are not liable to turnover tax. (5 marks)

(c) George Kamocha has been running a business as a sole trader selling assorted goods in Mazabuka Town. The net profit as per account for the business for year ended 31 December 2024 was K948,000.

The net profit figure was arrived at after taking into account the following items of income and expenditure:

(1) Investment income comprising the following:

	K
Dividends from non-mining companies(net)	17,250
Royalties (net)	25,500
Bank interest (gross)	45,000

(2) Repairs and renewals amounting to K35,200, which included K23,500 for fitting burglar bars over the factory windows as a precaution against theft and expenditure incurred on reconditioning a second-hand generator bought during the year amounting to K11,700. These repairs were necessary before the generator could be used in the business.

(2) A loan of K40,000 to a former employee which was written off.

(3) Entertainment of prominent customers for K5,000.

(4) A donation of K15,000 to a political party towards the purchase of campaign t-shirts.

(5) Fees in connection with a new thirty (30) year lease agreement for new business premises of a new branch which was opened in Kabwe during the year.

(6) A speeding offence of K450 incurred by an employee on a business trip to Ndola.

(7) Relocation expenses for a new employee amounting to K6,000.

(8) Employees' salaries amounting to K566,000 which included the annual salary of K102,000 for his daughter. Other employees performing similar duties to those performed by Kamocha's daughter earns K98,500 annually.

(8) The cost of a course in computer skills, amounting to K3,500, for George himself who had no previous computer experience.

Other information

Capital allowances for all company assets used for business purposes for the tax year 2024, were agreed with the Commissioner General to be K42,300.

Required:

Compute the final tax adjusted business profits and the income tax payable by George for the tax year 2024. (12 marks)

[Total: 20 Marks]

QUESTION TWO

TCL Limited is a manufacturing company involved in the recycling, processing of plastic material and manufacture of polythene pipes. The company's summarized profit or loss for the year ended 31 December 2024 is presented below:

		K	K
Gross profit			8,640,000
Income from investments:			
Dividends (gross)		505,000	
Fixed deposit interest (gross)		178,000	
			683,000
			9,323,000
Expenses:			
Depreciation		40,000	
Legal and accountancy fees	(Note 1)	1,420,000	
Entertainment expenses	(Note2)	278,000	
General operating expenses	(Note 3)	3,700,000	
			(5,438,000)
Profit before taxation			3,885,000

The following additional information is available:

Note 1: Legal and accountancy fees

These comprised the following:

	K
Fees for audit & taxation services	1,331,000
Legal fees in connection with acquisition of land	50,000
Fees in connection with recovery of loan from former employees	39,000
	1,420,000

Note 2: Entertainment expenses

These comprised the following:

	K
Entertaining clients	90,000
Entertaining employees during Christmas	90,600
Entertaining suppliers	35,400
Gifts to customers of food & drinks costing K62 each	62,000
	278,000

Note 3: General operating expenses

These included the following:

	K
Trade debts written off	206,000

Salaries & wages	1,380,000
Penalty for late payment of provisional income tax	44,000
Loans to former employee written off	170,000
Sundry allowable expenses	1,900,000
	3,700,000

Note 4: provisional Income Tax

The provisional company income tax paid by the company during the tear was K824, 000.

Note 5: Buildings

The company acquired a second hand factory building during the tax year 2024, which was brought into use on 1 June 2024. The cost of the building was made up of the following:

	K
Land	572,000
Staff welfare building	1,220,000
Factory	1,700,000
Administration offices	800,000
Total costs	4,292,000

Note 6: Implements, plant and equipment

The income tax value and costs of assets qualifying for capital allowances at 01 January 2024 were as follows:

	Income Tax Value	Original Cost
	K	K
Toyota Hilux Van (single cab)	162,500	650,000
Toyota Mark II (1,800cc)	50,000	250,000
Manufacturing equipment	425,000	850,000

During the course of the tax year 2024, the company sold the Toyota Mark II for K80, 000 and purchased a Ford Ranger Double Cab Van (3,200cc) at K700, 000. This Ford Ranger was provided to the Managing Director on a personal to holder basis. Private use by the Managing Director was agreed with the Commissioner General to be 45%.

Required:

(a) Calculate the maximum amount of capital allowances claimable by TCL Ltd for tax year 2024 on:

(i) Buildings (4 marks)

(ii) Implements, plant and machinery (5 marks)

(b) Calculate the final tax adjusted business profit for TCL Ltd for the tax year 2024. (7 marks)

(c) Calculate the income tax payable by TCL limited for tax year 2024. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Property Transfer Tax (PTT) was introduced in an attempt to broaden the tax base. The source of law for property transfer tax is the Property Transfer Act CAP 240 of the laws of Zambia which provides that whenever property is transferred in Zambia, Property Transfer Tax (PTT) is charged upon and collected from the person transferring the property.

Required:

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

(i) Land (2 marks)

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

(iii) Intellectual Property (2 marks)

(b) State any four (4) transactions that are exempt from Property Transfer Tax. (4 marks)

(c) Dan Lee made the following disposals of assets during the tax year 2024:

(1) On 5 January 2024, he sold 2,000, K1 shares he held in DMU Limited, a private company for K13 each. The market value of the shares on the same date was determined to be K16 per share using share valuation methods approved by the Commissioner General. These shares were acquired at a cost of K9 each five (5) years ago.

(2) On 10 March 2024 he sold a plot for K300,000. The open market value of the plot as determined by the government valuation department at the same date was K405,000. He paid K3,000 to the surveyors and K2,500 for the valuations services. He acquired the plot in 2012 for K80,000.

(3) On 1 August 2024, he sold 2500 shares he held in ABZ plc, a Lusaka Securities Exchange (LuSE) listed company for K14 per share, being the price at which the shares were trading on that date. He incurred total costs of K3, 000 to complete the transaction. He acquired these shares two (2) years ago at a cost of K11 each.

(4) On 23 September 2024, he sold a house to his son for K80,000. The house had an open Market value of K650,000.

(5) On 21 October 2024, he sold a Prado Car for K250,000. He had incurred K5,000 repair costs and these repairs were necessary to make the car more marketable and attractive.

Required:

Explain the Property Transfer Tax implications of each of the transactions that Dan undertook in the tax year 2024. Your explanations MUST state the realized value and

MUST include calculations of the amount of any Property Transfer Tax paid where applicable. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

In May 2024, Stephen Ngalande qualified as an Auto Electrician at the Lusaka Trades Institute and is an Associate Member of the Association of International Auto Electricians. On 1 June 2024 he was employed on a two-year renewable contract by NSE Auto Electricians Limited. The contract of employment provided for a gross salary of K318,000 per year, entertainment allowance of K450 per month, education allowance of K600 per month, medical allowance of K10,200 per year and housing allowance of K4,500 per month.

On 1 August 2024, the employment contract was prematurely terminated at a time when Mr. Stephen Ngalande had accumulated only eight (8) days of leave which were commuted at K620 per day. He was also paid a production bonus of K150,500 and a repatriation pay of K12,600.

On 1 September 2024, Mr. Ngalande was offered a more lucrative job at Kalundu Auto Electrics Limited on a two (2)-year renewable contract at an annual salary of K450,000 and his other negotiated benefits included an entertainment allowance of K3,200 per month, education allowance of K650 per month, travelling allowance of K3,500 per month, uniform allowance of K12,300 and a meal allowance of K600 per month. The company also paid his golf club subscriptions amounting to K680 per month and his private medical insurance premiums of K16,500 per year.

During the tax year 2024, the following payments and deductions were made from his gross emoluments

PAYE for the tax year	K79,640
Expenditure on School children's uniforms	K7,850
Donation to an approved charity	K2,400
Donation to a political party	K3,900
Medical expenses for his son	K8,750
Professional subscriptions	K7,650

Required:

Calculate the income tax payable by Mr. Stephen Ngalande for the tax year 2024. (20 marks)

[Total: 20 Marks]

QUESTION FIVE

Chimwemwe and Temwani have ran a partnership business involved in retailing for many years. They have always shared profits and losses in the ratio 3:1 after drawing annual salaries of K324,000 and K306,000 for Chimwemwe and Temwani respectively.

On 1 May 2024, a new partner, Kondwani was admitted to the partnership. With effect from that date, the partnership agreement was amended as follows:

	Chimwemwe		Temwani		Kondwani
Annual salaries	K378,000		K360,000		K342,000
Profit and losses	5	:	3	:	2

The partnership made a tax adjusted business profit of K1,597,000 for the year ended 31 December 2024. This profit was after all necessary adjustments for tax purposes had been made but before capital allowances.

The partnership had the following implements, plant and machinery at 1 January 2024.

	Income tax value	Original cost
	K	K
Shop buildings	400,000	500,000
Delivery vans	84,000	168,000
Fixtures and fittings	90,000	180,000

Chimwemwe and Temwani have their own personal motor vehicles which they use partly for business purposes. It has been agreed with the Commissioner General that each partner has private use of 25% of each individual's vehicle. The details relating to each vehicle are as follows:

Partner	*Motor vehicle*	*Date Purchased*	*Original cost*
Chimwemwe	Toyota Fortuner (2,800cc)	10 April 2021	K900,000
Temwani	Ford Ranger Double cab van (3,200cc)	14 June 2022	K750,000

Required:

(a) Calculate the amount of capital allowances claimable on partnership assets and the final tax adjusted partnership profit for the tax year 2024. (4 marks)

(b) Show the allocation of the tax adjusted partnership profit amongst the partners and compute the amounts of profits on which each partner will be assessed. (10 marks)

(c) Calculate the final amount of income tax payable by each partner for the tax year 2024. (6 marks)

[Total: 20 Marks]

END OF PAPER

C 4: DIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Types of persons chargeable to turnover tax

1. Any person whose annual business earnings are less than K800,000.
2. Any person whose business earnings are subjected to withholding tax where the withholding tax is not the final.
3. Any person carrying on a service business in the gig economy (i.e. the digital economy involving individuals carrying out business using online platform)

(b) The following persons are excluded from turnover tax:

1. Any person carrying on a business where the annual turnover is over K800,000.
2. Any individual or partnership carrying on the business of public service vehicle for the carriage of persons
3. Any partnership carrying on business irrespective of whether the annual turnover is over or not over K800,000.
4. Income of partners arising from the partnership since the partnership producing that profit is excluded from turnover.
5. Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
6. Any person running a business where the annual turnover is not over K800,000 but is voluntarily registered for Value Added Tax.
7. Any person who is involved in mining operations as provided under the Mines and Minerals Development Act.

(c) GEORGE KAMOCHA COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2024

	K	K
Profit before tax		948,000
Add:		
Repairs & renewals –Fitting burglar bars	23,500	
" " - Second hand generator	11,700	
Loan written off	40,000	
Entertaining prominent customers	5,000	
Donation to political party	15,000	
Salary diff (K102,000-K98,500)	3,500	
		98,700
		1,046,700
Less:		
Dividends	17,250	
Royalties	25,500	
Bank interest	45,000	
Less capital allowances	42,300	
		(130,050)
Tax adjusted business profit		916,650
Add: Royalties (K25,500 X 100/85)		30,000
Taxable income		946,650
Income tax:		

First K61,200 X 0%	0
Next K24,000 X 20%	4,800
Next K25,200 X 30%	7,560
Balance K836,250 X 37%	309,413
	321,773
Less WHT –Royalties (30,000 X 15%)	(4,500)
Income tax payable	317,273

SOLUTION TWO

(a)

(i) DETERMINATION OF QUALIFYING COST

	K
Total cost	4,292,000
Less cost of land	(572,000)
Construction cost	3, 720, 000

10% of K3, 720,000=K372, 000

The cost of K800,000 for the administration offices exceeds K372, 000 and therefore does not qualify as an industrial building, it is therefore a commercial building.

COMPUTATION OF CAPITAL ALLOWANCES ON BUILDINGS

Asset	Capital allowance
	K
Administration offices	
(Wear & tear	
(2% x K800, 000)	16,000
Staff welfare building	
Wear and tear allowance	
(K1,220,000 x 5%)	61,000
Factory	
Wear and tear at 5%	85,000
	162,000

(ii) COMPUTATION OF CAPITAL ALLOWANCES ON IMPLEMENTS, PLANT AND MACHINERY

Toyota Hilux Van	K	K
Cost	650,000	
(Wear & tear @ 25% x K650, 000	162,500	162,500
ITV C/F	487,500	
Toyota Mark II		
ITV b/f	50,000	
Disposal value	(80,000)	
Balancing charge	(30,000)	(30,000)
Manufacturing equipment		
Cost	850,000	
(Wear & tear @ 50% K850, 000)	425,000	425,000
ITV c/f	425,000	
Ford Ranger		
Cost	700,000	
(Wear & tear @ 20% x K700, 000)	140,000	140,000
ITV c/f	560,000	
Total		697,500

(b) TCL LIMITED CALCULATION OF TAX ADJUSTED BUSINESS PROFIT FOR TAX YEAR 2024

	K	K
Profit before taxation		3,885,000
Add:		
Depreciation	40,000	
Legal fees in connection with land purchase	50,000	
Legal fees-recovery of former employee loan	39,000	
Entertaining clients	90,000	
Entertaining suppliers	35,400	
Gifts to customers	62,000	
Penalty for late payment	44,000	
Loans to employees written off	170,000	
Personal to holder car benefit	48,000	
		578,400
		4,463,400
Less:		
Dividends	505,000	
Fixed bill deposit	178,000	
Capital allowance (K697,500 +K162,000)	859,500	
		(1,542,500)
Adjusted taxable business profit		2,920,900

(c) TCL COMPANY INCOME TAX COMPUTATION FOR TAX YEAR 2024

	K
Taxable business profit	2,920,900
Fixed deposit interest	178,000
Taxable profit	3,098,900
Company income tax	
(30% x K3,098,900)	929,670
Less Provisional tax	(824,000)
WHT on fixed deposit (K178, 000 x 15%)	(26,700)
Company income tax refundable	(78,970)

SOLUTION THREE

(a)

(i) Realized value of land

This is taken as the higher of

1. The agreed contract price

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

(ii) Shares in a private limited company

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

1. The nominal value of the shares

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

(iii) Intellectual property

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

1. Actual amount realized from the sale of the property

2. Value of the intellectual property determined by the Commissioner General

(b) Exempt transactions from PTT

1. The transactions as a result of the sale or other disposal pf any stock or shale listed on the Lusaka Securities Exchange.
2. Contribution towards the equity for a company. The Commissioner General may treat a transfer of property by a shareholder of a company incorporated under the companies ACT, if such transfer is his contribution towards the equity of that company as a qualifying for exemption.
3. A transfer is not liable to PTT if it is occasioned by death of the transferor to a member of the immediate family.
4. Transfers within a group of companies for the purposes of the internal re-organisation of the group.

(c) Property Tax Transfer transaction implications

1. Property Transfer Tax would be payable on the transfer of shares because the shares are not listed on the Lusaka Securities Exchange (LuSE).

The realized value of the shares will be the open market value being higher than both than the nominal value of K2,000 (K1 x 2,000 shares) and the actual sales proceeds of K26,000.

PTT will be charged on the realized value of K16

K16 x 2000 x 5% =K1, 600

2. Property Transfer Tax would be payable on the transfer of the plot at the rate of 5% of the realized Value of the plot. The realized value in this case is K300, 000. The fees incurred in making the transfer are not deductible for the purposes of computing property transfer tax

   PTT payable will be K300,000 x 5%= K20, 250

3. There would be no property transfer tax charged on the transfer of shares listed on the Lusaka Securities Exchange (LuSE) Transfer of shares listed on the Lusaka Securities Exchange is exempt from property transfer tax

4. Property transfer tax would be payable on the transfer of the house to his Son. The realized value is the actual price received from the son. The realized value of transfer of property to members of immediate family is the actual price received.
   PTT payable K80, 000 X 5% =K4,000

5. This transaction does not have a realized value the motor vehicles are exempted from PTT. Property transfer tax will therefore not be payable on the transfer of the motor vehicle.

SOLUTION FOUR

STEPHEN NGALANDE:
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024:

Emoluments	Calculation		K
NSE Auto Electrics:			
Salary	K318,000/12 x2		53,000
Entertainment allowance	K450 x2		900
Education allowance	K600 x 2		1,200
Medical allowance	K10,200/12 x 2		1,700
Housing allowance	K4,500 x 2		9,000
Leave pay commuted	K620 x 8		4,960
Production bonus			150,500
Kalundu Electronics:			
Salary	K450,000/12 x 4		150,000
Entertainment allowance	K3200 x 4		12,800
Private medical insurance	[16,500/12 x4]		5,500
Education allowance	K650 x 4		2,600
Travelling allowance	K3,500 x 4		14,000
Golf subscriptions	K680 x4		2,720
Uniform allowance			12,300
Meal allowance	K600 x 4		2,400
Allowable deductions:			423,580
Medical expenses		8,750	
Donations to charity		2,400	
Professional subscription		7,650	(18,800)
			404,780
Total taxable income			

Mr. Stephen Ngalande: Income Tax payable computation for tax year 2024:

Taxable income K312,030	Tax payable
Income Tax:	
First K61,200 @ 0%	Nil
Next K24,000 @ 20%	4,800
Next K25,200 @30%	7,560
Balance of K294,380 @37%	108,921
	181,281
Lee PAYE	(79,640)
	41,641

SOLUTION FIVE

(a) COMPUTATION OF FINAL TAX PARTNERSHIP PROFITS AFTER CAPITAL ALLOWANCES

	K	K
Partnership profit before capital allowances		1,597,000
Less capital allowances on partnership assets		
Shop buildings		
Wear & tear allowances		
(K500,000 x 2%)	10,000	
Delivery vans		
(K168,000 x 25%)	42,000	
Fixtures and fittings		
(K180,000 x 25%)	45,000	
		(97,000)
		1,500,000

(b) ALLOCATION OF PROFITS

4 month period to 30.4.2024	Total	Chimwemwe	Temwani	Kondwani
salaries	210,000	108,000	102,000	0
Balance (3:1)	290,000	217,500	72,500	0
4 months profit	500,000	325,500	174,500	0
8 month period to 30.4.2024	Total	Chimwemwe	Temwani	Kondwani
salaries	720,000	252,000	240,000	228,000
Balance (5:3:2)	280,000	140,000	84,000	56,000
8 months profit	1,000,000	392,000	324,000	284,000
Total	1,500,000	717,500	498,500	284,000
Less capital allowances on Toyota Fortuner				
(K900,000 x 20% x 75%)	135,000	135,000		
Ford Ranger				
(K750,000 x 20% x 75%)	112,500		112,500	
	1,252,500	582,500	386,000	284,000

(c) COMPUTATION OF INCOME TAX PAYABLE BY PARTNERS

	K	K	K
Taxable profits	582,500	386,000	284,000
Income Tax			
On first K61,200	0	0	0
On next K24,000 x20%	4,800	4,800	4,800
On next K25,200 x 30%	7,560	7,560	7,560
On excess K472,100/K275,600/K173,600	174,677	101,972	64,232
	187,037	114,332	76,592

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C 5 : INDIRECT TAXES

THURSDAY 13 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged above 5 years**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497

Panel Vans

GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601

Trucks

GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

   Percentage of Value for Duty Purposes for Excise Duty Purposes

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

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

Customs Duty

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

Excise Duty:

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

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

Customs Duty:

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

Excise Duty:

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

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

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

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

Attempt all FIVE (5) questions

QUESTION ONE

(a) VX Tech Ltd produces various domestic appliances on which Value Added Tax (VAT) is chargeable. The following information has been provided for one unit of a product.

List price per appliance (VAT exclusive)	K15,500
Cash Discount	K3,100

Domestic appliances are chargeable to VAT at the standard rate.

Required:

Calculate the VAT chargeable on the product and the VAT inclusive price of the domestic appliance. (3 marks)

(b) Input tax is VAT incurred on purchases and expenses and is normally recoverable. However, input tax on certain supplies is irrecoverable.

Required:

(i) Explain any five (5) supplies on which input VAT is not recoverable. (5 marks)

(ii) Explain how the tax point for VAT on lease rentals is determined. (3 marks)

(c) Explain the principle of Estoppel in VAT cases and give examples of situations where it is applicable. (4 marks)

(d) Explain three (3) advantages and two (2) disadvantages of voluntary registration for VAT. (5 marks)

[Total: 20 marks]

QUESTION TWO

(a) State any two (2) differences between Zero-rated and exempt supplies in relation to VAT. (2 marks)

(b) State five (5) obligations of a VAT registered Supplier. (5 marks)

(c) Explain three (3) circumstances where a credit note issued reduces the amount of VAT payable. (3 marks)

(b) Mwilaba Ltd recently registered for Value Added Tax (VAT) after attaining the VAT registration threshold in the tax year 2024. The company is preparing the first VAT return for the month of May 2024.and has provided you with the following information:

	K
Standard rated sales	2,580,000
Zero rated sales	340,000

Standard rated purchases	1,724,000
Zero rated purchases	143,500

The following additional information is available:

(1) 5% of the above standard rated sales were returned by registered customers and credit notes were issued.

(2) A sales invoice for K44,080 (VAT inclusive) comprising of standard rated sales was omitted in error from the above figures for the month of May 2024.

(2) 25% of purchases of the standard rated purchases were made from suppliers who are not registered for VAT purposes.

(3) The company bought a Mitsubishi Canter delivery van at a cost of K232,000 (VAT inclusive). The motor vehicle is used wholly and exclusively for business purposes.

(4) The company also incurred the following standard rated expenses:

	K
Stationery	97,500
Advertising expenses	124,000
Business entertainment	146,000
General overheads	155,600

(5) The company sold a piece of furniture for K40,000 on 12 May 2024.

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

Required:

Calculate the VAT payable for the month of May 2024. (10 marks)

[Total: 20 marks]

QUESTION THREE

(a) Zambia is a signatory of both COMESA and SADC Treaties which provide that goods shall be eligible for preferential tariff treatment if they originate in the Member state.

Required:

Explain five (5) origin conferring criteria for goods to be accepted as originating in a member state. (10 marks)

(b) Explain the main aim of the African Growth Opportunity (AGOA). (2 marks)

(c) Explain the role of the Customs and Excise Division of the Zambia Revenue Authority (ZRA) in the exportation of goods. (3 marks)

(d) David Mabvuto regularly imports various goods from different parts of the world for sale in his shop in Wusakile, Kitwe. All his imports are chargeable to customs duty and Value Added Tax (VAT).

David recently imported goods from China via Durban South Africa and the port of entry into Zambia was Chirundu. Details relating to the importation of the goods was as follows:

	K
CIF up to Durban South Africa	980,000
Clearing and other incidental costs in Durban	43,000
Transport charges from Durban to Chirundu	140,000
Transport costs from Chirundu to Kitwe	25,000

The Customs Officer at Chirundu informed David that Customs Duty would be at 15%. No excise duty is chargeable on the goods.

Required:

Calculate the value of the goods for Customs Duty Purposes and determine the total Amount import taxes arising on the importation of the goods. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

The Zambian government has prioritized Tourism, Agriculture and mining as being key to the economic development of the country. As a result, a lot of tax incentives have been introduced to entrepreneurs investing in these sectors.

Required:

(a) State any four (4) supplies that are zero rated in the Tourism sector. (4 marks)

(b) State any six (6) agricultural Supplies that are Zero rated. (6 marks)

(c) State any three (3) VAT incentives available in the Mining Sector. (3 marks)

(d) Explain any seven (7) items to be examined during a VAT inspection by a VAT officer. (7 marks)

[Total:20 Marks]

QUESTION FIVE

(a) Explain the meaning of the Transaction Value as it relates to the importation of goods. (3 marks)

(b) Explain the matters that are considered when determining the Transaction Value. (4 marks)

(c) Explain the documents required by the customs officer on the importation of motor vehicles. (5 marks)

(d) Johnson has purchased a brand new 3500cc Mercedes Benz Compressor Sedan car from Germany for his fiancé as a birthday present. The purchase cost was US$75,000 he also paid insurance charges of US$10,290 and freight charges of US$5,000. Other incidental costs up to the port of entry amounting to US$3,080 were paid. Transport costs from Chirundu border to Lusaka were K15,000. The car was manufactured in November 2023.

The Commissioner General provided an exchange rate of K18.50 per US1. However, the Bureau De Changes rate was K18.75 per US$1.

Required:

Calculate the customs and other Taxes paid by Johnson when importing the car. (8 marks)

[Total: 20 Marks]

END OF PAPER

C 5: INDIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Domestic appliance

	K
List price	15,500
VAT @16% x K15,500	2,480
VAT inclusive value	17,980
Less discount	(3,100)
Amount payable by customer	14,480

VAT on the domestic appliance is K2,480

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

Therefore, the undiscounted VAT exclusive price of K17,980 is used to compute the amount of VAT chargeable on the supply.

(b)

(i) Input tax is not deductible on the following expenses:

1. Input VAT incurred on the purchase of motor cars, unless the motor cars are bought for resale or car hire business, or driving school.
2. Input VAT incurred on entertaining customers.
3. Input VAT incurred on entertaining suppliers.
4. Input VAT incurred on expenses for domestic accommodation of directors.
5. Input VAT incurred on telephone and internet services
6. Input VAT incurred on goods from suppliers who are not registered for VAT.

(ii) The lease rentals are taxable suppliers. The tax point is the earliest of the following times:

1. The time when the lease rental payment is received from the lessee.
2. The time the lessor issues a tax invoice or
3. The time the leasing services are rendered which is at the expiry of the lease.

(c) Estoppel is a bar or impediment preventing a party from asserting a fact or a claim inconsistent with a position that party previously took, either by conduct or words, especially where a representation has been relied or acted upon by others.

For example, where there is a dispute about the amount owed by the tax payer to ZRA if the parties agree to a particular sum and the sum paid turns out that the amount paid is less than what the debtor owed, the ZRA cannot claim the amount.

Another example is where a taxpayer is claiming a VAT refund from ZRA of a stated sum. And ZRA agrees to settle the amount. In the course of time the tax payer discovers that the actual amount of the refund is actually higher than that agreed. The tax payer will be stopped from claiming the higher amount because he agreed to a smaller refund.

(d) Advantages of Voluntary registration

1. The impression of a substantial business activity may be created.
2. The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable
3. The business will compete well with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

Disadvantages of Voluntary registration

1. VAT registration results in increased administration. The trader's administration costs will rise as a result of registering for VAT purposes.
2. Non-registered customers who get supplies from the trader will have an increased cost.
3. Penalties will be charged if the trader fails to pay or submit the VATA return.

SOLUTION TWO

(a) Zero-rated supplies are chargeable to Value Added Tax, while exempt supplies are not.

Input VAT can be reclaimed by a trader who provides Zero-rated supplies, while a trader who deals with exempt supplies cannot claim input VAT.

A trader dealing with zero rated supplies can register for VAT, while a trader who deals with exempt supplies cannot register for VAT.

(b) Obligations of a VAT registered trader includes:

1. Notify ZRA when the business starts or circumstances change
2. Display the VAT registration certificate in a public area
3. Charge VAT on taxable supplies
4. Complete and submit returns by the due date and pay VAT by the due date
5. The VAT returns should be completed accurately and honestly and provide tax invoices
6. Maintain sufficient records for at least 5 years
7. Cooperate with ZRA officers
8. Provide information to ZRA officers

(c) A credit note is issued where:

1. The transaction/supply has been cancelled
2. The price charged for goods/services has been varied/charged e.g. on prompt payment by the customer within a credit period
3. The goods have been returned by the customer

(d) **MWILABA**
COMPUTATION OF VAT PAYABLE FOR THE MONTH OF MAY 2024

	K	K
OUTPUT TAX		
Standard rated sales (K2,580,000 – K129,000) X 16%		392,160
Zero-rated sales (K340,000 X 0%)		0
Sales omitted (K44,080 X 4/29)		6,080
Sale of furniture (K40,000 X 16%)		6,400
		404,640
INPUT TAX		
Standard rated purchases (K1,724,000 – 431,000) x 16%)	206,880	
Zero-rated purchases (K143,500 X 0%)	0	
Delivery van (K232,000 X 4/29)	32,000	
Standard rated overheads (K155,600 X 16%	24,896	
Stationery expenses (K97,500 X 16%)	15,600	
Advertising expenses (K124,000 X 16%)	19,840	
		(299,216)
VAT payable		105,424

SOLUTION THREE

(a) The following are the five (5) origin conferring criteria for goods having originated in a Member State:

1. Goods wholly produced in a Member State (i.e. no raw materials from outside the regions have been used in their manufacture), or
2. Goods produced in a Member State and the CIF value of any foreign (i.e. non COMESA or SADC) materials used does not exceed 60% of the total cost of all materials used in the production; or
3. Goods produced in Member States whose value added resulting from the process of production accounts for at least 35% of the ex- factory cost of the goods; or
4. Goods produced in a Member State designated in a list by the Council to be of particular importance to the economic development of the Member State and containing not less than 25% value added notwithstanding the provision in (c) above.

5. Goods satisfying the change of tariff heading resulting from their process of manufacture where some raw materials are imported.

(b) The African Growth Opportunity Act (AGOA) is the trade agreement between the Sub-Saharan Africa and the United States. The AGOA agreement added another 1800 products to the products on the Generalised System of preferences (GSP) to which products could enter the US market duty free.

The main aim of AGOA is to promote two way trades between Sub-Saharan Africa and the United States as well as increase US investment into the Sub-Saharan Africa.

(c) Customs and Excise Division of Zambia Revenue Authority (ZRA) controls all exports to ensure the enforcement of national legislation concerning export prohibition and restrictions.

Restricted goods can only be exported after obtaining an export permit from the concerned ministries or relevant government departments.

On the other hand, Customs collects information needed for preparation of national trade statistics.

(d)

	K
CIF Durban	980,000
Transport to Chilundu	140,000
Clearing costs	43,000
Value for Duty Purpose	1,163,000
Customs duty @ 15%	174,450
Value for VAT	1,337,450
VAT @ 16%	213,992
Amount payable by importer	1,551,442

SOLUTION FOUR

(a) Supplies of services/goods that are Zero rated in the Tourism sector

1. Accommodation in Livingstone district up to 2009
2. Tour packages throughout Zambia.
3. Other tourist services provided to foreign tourists other than those included in tour packages.
4. Refund of VAT for non- resident tourists and visitors on selected goods.

(b) Agricultural Supplies that are Zero rated.

1. Bulbs, seeds and plants for producing agricultural products.
2. Fertilizers, insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant growth regulators.
3. Live cattle, swine sheep, goats, game farm animals and poultry.
4. Stock feed for cattle, swine, sheep, goats, game farm animals and poultry.
5. Empty jute and polypropylene bags
6. Flower seed

(c) VAT incentives in the mining sector

1. Exports of the mines are zero-rated. However, minerals sold locally attract VAT.
2. Hospital charges in mine-run hospitals are zero-rated.
3. Input VAT on supplies such as electricity, coal, haulage services, mining contractor costs, copper concentrates, loader spares and other items directly linked to production including consumable items used in the production process which are standard rated is recoverable.

(d) Items to be examined during a VAT inspection

1. Books of accounts-Purchases and Sales day books, Cash Books and Ledgers
2. VAT-records-the VAT account showing sources of the figures on the Return.
3. Daily Gross Takings for Retailers.
4. Original Copies of Purchases invoices.
5. Sales Invoices and Receipt Books, bank records.
6. The most recent audited accounts and monthly management accounts
7. Import Records (if yiu are an importer)
8. Exportation documents (if you are an exporter)

SOLUTION FIVE

(a) Definition of Transaction Value

This is defined as the price actually paid or payable goods when sold for export to Zambia as adjusted by the Commissioner General where he is of the opinion that the price is affected by the special relationship between the exporter and the Zambian importer. That is the price the importer is charged is not an open market price.

(b) Matters to consider necessary when determining the Transaction Value:

There must be a valid or legally binding contract, legally enforceable against a defaulting party.

1. Determine the price, which in the case of imported goods is the sum of amounts actually paid or payable by the buyer to/for the benefit of the seller in respect of the goods.
2. Make adjustment to the price if the price has been affected by any relationship between the buyer and the seller, the buyer is allowed to make representations to the Commissioner General to the effect that the price is at the arm's length price.
3. Other considerations such as price averaging.

(c) Documents required by customs officers for the importation of motor vehicles.

1. Invoice showing the purchase price.
2. Bill of lading/manifest/packing list.
3. Insurance certificate.
4. Freight statement
5. Contract of sale

(d) Johnson's Customs and other duties paid

		US$
Cost Price		75,000
Insurance		10,290
Freight		5,000
Incidental Costs		3,080
Total		93,370
VDP (US$93,370 x K18.50)		1,727,345
	Value	Tax Paid
	K	K
VDP	1,727,345	
Customs duty (30% x K1,727,345)	518,204	518,204
	2,245,549	
Excise duty (30% x K2,245,549)	673,665	673,665
	2,919,214	
Import VAT (16% x K2,919,214)	467,074	467,074
Total import Taxes paid	3,386,288	1.658,943

END OF SUGGESTED SOLUTIONS

ZiCA
Competence, Integrity and Virtue
Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C 6 : LAW FOR TAX PRACTITIONERS

FRIDAY 14 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

Attempt any FIVE (5) questions.

QUESTION ONE

The Law of contract seeks to protect the vulnerable people from the consequences of their own inexperience and inability, and hence be exposed to hardships. However, it does not equally want to expose the people who deal with these vulnerable people, in good faith and fairly to unnecessary hardship.

Required:

(i) Explain how the law of contract seeks to protect minors from contractual obligations. (5 marks)

(ii) Discuss in detail citing relevant examples, circumstances under which a minor is bound by contracts they enter into. (9 marks)

(iii) Explain *res-extincta* in relation to mistake in contracts. (3 marks)

(iv) Explain agency by estoppel (3 marks)

[Total: 20 Marks]

QUESTION TWO

(a) With reference to the rules of statutory interpretation, explain the following:

(i) The literal rule (2 marks)

(ii) The contextual rule (2 marks)

(iii) The golden rule (2 marks)

(b) Explain the six (6) stages of statute law-making process in the correct order from the time a bill is introduced in parliament to the time it is turned into law. (12 marks)

(c) State two (2) powers of the Lands Tribunal as created by Section 20 of the Lands Act Chapter 184 of the Laws of Zambia. (2 marks)

[Total: 20 Marks]

QUESTION THREE

(a) (i) Explain the doctrine of subrogation in relation to insurance. (2 marks)

(ii) Discuss four (4) circumstances under which an insurance company may refuse to compensate the insured. (8 marks)

(b) (i) State four (4) powers of a liquidator. (4 marks)

(ii) Distinguish a debenture from share capital. (4 marks)

(iii) Define an extra ordinary meeting? (2 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Distinguish Negligent misrepresentation from Fraudulent misrepresentation. (4 marks)

(b) Explain the liability of the Principal to 3 parties in agency law. (3 marks)

(c) Explain stoppage in transit under the Sale of Goods Act. (4 marks)

(d) Differentiate Higher Purchase from installment sale. (3 marks)

(e) Define a certificate of deposit under Banking Law. (4 marks)

(f) Explain the meaning of 'employment contract'. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Companies and partnerships differ a great deal. Discuss three (3) distinctions between a company and a partnership (6 marks)

(b) With reference to misrepresentation, explain the following:

(i) Innocent misrepresentation. (3 marks)

(ii) Negligent Misrepresentation. (3 marks)

(iii) Fraudulent Misrepresentation. (3 marks)

(c) A Carrier (transporter) of goods has both duties and liabilities to the owners of the goods as soon as the goods are under his control.

State any five (5) duties of the carriers arising from the contract to 'carry and deliver' the goods. (5 marks)

[Total: 20 Marks]

END OF PAPER

C 6: LAW FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(i) The Law has developed guides which seek to protect the interest of minors as they are deemed to be of no legal capacity to contract and make sound judgments given their age. They are open to deceit and fraud. **Capacity** refers to the competence to enter into legally binding agreements. Minors and people with diminished mental capacity may lack capacity to contract.

Minors -Minors are people who have not yet reached the **age of majority** according to the law of their province (usually 18). Because minors have less bargaining power than adults, as a general rule, contracts made by minors are not enforced against them but are enforceable by them. <u>This General Rule is meant to protect minors</u>

(ii) There are two exceptions to a minor's immunity from contractual liability: necessaries and beneficial contracts of service.

Necessaries

Contracts made by a minor for the provision of necessaries are binding. To be a necessary, the good must be necessary to this particular minor, and the minor must not already have an adequate supply of it. Although a minor only need pay a reasonable price for necessaries, the contract price is presumed to be reasonable in the absence of evidence to the contrary. The court requires the adult who is supplying goods to establish what is in fact necessary for the minor, and this may be difficult for an adult who does not know of the infant's particular circumstances. The courts have identified food, clothing, lodging, medical attention, legal advice, and transportation (means to get to and from work, but not purchase of a vehicle) as necessaries. Based on the *Sale of Goods Act*, an infant may repudiate a contract even for necessaries where the goods have been ordered but not yet received, since the Act defines necessaries for an infant as goods sold and delivered.

Beneficial Contracts of Service

Beneficial contracts of service made by a minor are binding. These include contracts of employment or apprenticeship when they are found to be for the minor's benefit and no exploitative. However, when a minor is in business for himself, the courts are less likely to consider this as beneficial to the minor.

Cases of **Robert .v. Grey** and **Nash .v. Inman** are helpful in this regard

(iii) *Res extincta* (subject matter has perished) There can be no actual agreement between two parties if the subject matter has ceased to exist at the time the contract was entered into. In **Scott v Coulson (1903) (CA),** the plaintiff (Scott) entered into a contract with the defendant (Coulson) to assign a life insurance policy where, unbeknown to either party, the assured had already died.

(iv) Agency by Estoppel: is when one holds out to a third party that another is authorized to act on the principal's behalf, and the third party deals with the other person accordingly, the principal may not later deny that the other was the principal's agent for purposes of dealing with that third party

SOLUTION TWO

(a) Explanation of rules of interpretation

(i) *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 <u>their natural and ordinary sense</u>.

(ii) *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.

(iii) *The Golden Rule* – This principle states that statutory interpretation may use other words to interpret a meaning of a word in context, but not to interpret deviate from the actual meaning.

(b) The six stages of statute law making are as follows:

- First Reading – This is a formal presentation of the Bill to parliament. The bill is merely introduced.
- Second Reading – At this stage, the minister or a member of parliament who has introduced it explains the purpose of the Bill and there is debate about the Bill.
- Committee Stage – At this stage the Bill is given to a specialised committee which will look at it in detail, make amends, etc.
- Report Stage – At this stage the committee reports back to the House anything that the Committee Stage has done amendments.
- Third Reading – This is a review of the bill in its final state. This is the final stage in the House, once members are ok with it, it goes for presidential assent.
- Presidential Assent – The President if the final passing. Once he signs the Bill, it becomes law.

(c) Powers of the Lands Tribunal would include:

- Power to make awards in matters relating land under the Lands Acts
- Power to make awards for payment of compensation
- Power to make awards in matters affecting land rights and obligations
- Power to make awards in any other matters that can be designed to the tribunal by a Minister.

SOLUTION THREE

(a)

(i) The Doctrine of Subrogation provides that the insured cannot make a profit from his own loss and has to account for any profit made out of the loss to the insurer so as to prevent unjust enrichment (*Castellan v. Preston (1883) 11 QBD 380*). Further, the insurer under subrogation, has the right to sue a third party who causes damage to the insured's property.

(ii) **Circumstances** under which the insurance company may refuse to compensate the insured may include:

1. Where the insured has no insurable interest. For example the insured cannot insure a property that is not his/hers.
2. Where the insured has lied. That is the insured has a duty of utmost good faith to tell the truth to the insurer at times to help the insurer assess the real risk involved and decide whether to take up the risk or not.
3. Where the insured did not do a full disclosure, i.e. has not lied but has not just disclosed all the material information concerning the property to be insured or in the case of life assurance, has not disclosed material facts about his health. This is also a breach of utmost good faith and the insurance company may not compensate.
4. Where the cause of the risk, loss or damage is not within the scope of what was insured. For example, the insured's motor vehicle is insured against damage by fire, he will not be compensated should the motor vehicle be damaged through an accident as it would not have been by insurance policy.
5. Where the insured wants to make profit out of the insurance. For example by deliberately causing the damage so that the insurance company can give you compensation. In this way, once proved that the loss or damage was deliberately caused, the insured will not be compensated as this would be a breach of insurable interest.
6. Where the loss was not reported to the insurance company within a given period of time. For example, if the law provides that a motor accident must be reported within 7 days from the date of the incidence, failure to report within that time entitles the insurance company to refuse compensation on the insured or his insured property.

(b)

(i) **Powers** of a liquidator may include:

1. Take into his control all the property and things in action to which the company is entitled.
2. Cause the preparation of a statement of affairs of the company at the time of winding up.
3. Require any company official to verify the statement of affairs.
4. Carry on the business of the company for the satisfactory winding up during the four weeks following the winding-up order (Section 289 of the Companies Act).
5. Bring or defend an action in the name and on behalf of the company.

(ii) A *Debenture* is a document evidencing or creating a debt to a company. Debentures are loans to a company raised in the same way as shares, different from bank loans. Debentureholders are creditors to a company and will have to be repaid their money with interest. On the other hand, *share capital* is capital of a company raised through the sale of shares. Shareholders, are owners of the company and shares do not have to be repaid to the owners as they (shares) represent permanent capital for the company.

(iii) An extra-ordinary meeting is any meeting of the shareholders or company's members other than the Annual General Meeting. It is held to discuss urgent matters that cannot wait for the Annual General Meeting. It is provided for under Section 139 of the Companies Act, Chapter 388 of the Laws of Zambia.

SOLUTION FOUR

(a) Fraudulent misrepresentation: where a false representation has been made knowingly, or without belief in its truth, or recklessly as to its truth. Negligent misrepresentation: **a representation made carelessly and in breach of duty owed by Party A to Party B to take reasonable care that the representation is accurate**.

(b) **Where an agent concludes a contract within the scope of his apparent authority, then the third party can enforce it directly against the principal**. In strict terms, the principal cannot enforce the contract against the third party if the agent did not have the principal's actual authority**.**

(c) The unpaid seller may exercise his right of stoppage in transit either by taking actual possession of the goods, or by giving notice of his claim to the carrier or other bailee in whose possession the goods are. Such notice may be given either to the person in actual possession of the goods or to his principal

(d) In hire purchase, the ownership transfers from the seller to the financier and then to the buyer on the payment of the last installment. In Installment sale, **The ownership transfers on the first installment from the seller to buyer**.

(e) a certificate issued by a bank to a person depositing money for a specified length of time at a specified rate of interest

(f) An employment contract is a contract that exists between and employer and an employee, where the employe provides service in return for remuneration known as a salary.

SOLUTION FIVE

(a) Distinctions between a company and a partnership.

Company	Partnership
1. Property in the business belongs to the company	1. Property in the business belongs to individual partners.
2. Creditors of the business can only levy (enforce) execution of court orders on the company and not on its members as shareholders (members) have limited liability.	2. Creditors of a firm are also creditors of the partners and can levy (enforce) execution of a court judgment on the property of each partner as partners do not have limited liability.
3. Members cannot dispose of company assets or even incur liabilities on behalf of the company.	3. A partner can dispose of partnership property and incur liabilities on behalf of the firm.
4. A member can contract with the company.	4. A partner cannot contract with the firm.
5. Company restrictions on members' authority are effective as against third parties.	5. Partnership restrictions on partner's authority contained in the partnership agreement are of no avail to third parties.
6. A company has separate legal identity from its members thus it can buy or sell assets in its name, can sue and be sued in its name, etc.	6. A partnership has no separate legal identity from the partners, thus it cannot buy or sell assets in its name, cannot sue or be sued using its name, etc.

(b) In reference with misrepresentation explain:

(i) *Innocent Misrepresentation:-* This is a statement which the maker honestly and reasonably believes to be true. It is a false statement which is neither fraudulent nor negligent, but made in the belief that it is true. The basic remedy is rescission of the contract and sometimes the courts may award damages.

(ii) *Negligent Misrepresentation:-* This is a form of misrepresentation where the person making the false statement has no reasonable grounds for believing the statement he has made to be true. . Negligent misrepresentation is only actionable (one can only successfully sue) where there is a pre-existing contractual relationship between the parties or where the parties were in a 'fiduciary relationship'. The basic remedy in this case are damages, if the injured party has suffered a loss. Other remedies may include rescission of contract, restitution to pre-contract condition, etc

(iii) *Fraudulent Misrepresentation:-* This is where a statement which is known to be false, or made without belief in its truth, or recklessly, not caring whether it is true or not. This constitutes a tort of deceit, and when the innocent party (injured party) has suffered a loss, he may claim damages, based on the tort of deceit, refuse to perform the contract or rescind the purported contract.

(c) Duties of carriers include the following:

1. To carry all goods of the class he professes to carry for anybody who delivers them to him, provided he has room in his carriage and the person offers to pay the proper charges.
2. To carry the goods by his ordinary route and with reasonable diligence and without unreasonable deviation or delay.
3. To deliver the goods to the consignee at the place designated by the consignor, unless the consignee requires delivery at another place, when he may deliver them accordingly.
4. To receive and carry all goods offered for carriage as long as the carrier is not exposed to extra ordinary danger.
5. To take utmost care of goods from the moment of receipt to the place of destination.
6. To deliver the goods within a reasonable time depending on the case by case basis.

END OF SUGGESTED SOLUTIONS

Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D 1 : BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 12 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Answer all FOUR (4) questions.

QUESTION ONE

(a) In day to day operations and management, organizations adopt and use different types of information systems.

(i) Outline five (5) Common problems in using Management Information Systems (MIS) in an organization. (10 marks)

(ii) Explain three (3) levels of management within the organization and their specific information requirements. (6 marks)

(b) Utilization of information and data through computer based information systems within an organization is often subjected with threats.

Distinguish time bomb from logic bomb in computer security. (4 marks)

(c) The Ministry of Community Development is mandated to uplift the livelihood of the underprivileged and vulnerable citizens. In order to carry out this mandate, the Ministry must maintain a database of beneficiaries.

Explain five (5) roles of Database Management Systems (DBMS) in supporting the Ministry of Community Development's programs and initiatives. (5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) In order to assess and priorities Information System actions, it is also necessary to examine the current Information System or Information Technology environment.

(i) State five (5) components you can consider to examine. (10 marks)

(ii) Explain the importance of aligning IS/IT strategy with Business strategy of an organisation (4 marks)

(b) Explain the impact of the rise of e-commerce on taxation policies and revenue collection strategies for a government agency such as Zambia Revenue Authority. Provide examples to support your explanation. (8 marks)

(c) When insourcing, a company usually identifies a specific requirement, deficiency or project with which outside experts may be able to help. Depending on the company's existing capacity, a few particular specialists or a whole team might join the team. The company then decides whether to transfer staff from elsewhere within the same company, i.e. by moving a team from another location or to contact with a third party to gain new team members.

State three (3) advantages of insourcing. (3 marks)

[Total: 25 Marks]

QUESTION THREE

(a) A feasibility study evaluates a project or system development practicality. As part of a feasibility study, the objective and rational analysis of a potential business or venture is conducted to determine its strengthens and weaknesses, potential opportunities and treats, resources required to carry out and ultimate success prospects. Two criteria should be considered when judging feasibility: the required cost and expected value.

Explain the following three (3) types of feasibility studies that need to be conducted when developing a system namely; Technical, Operational and Economical. (12 marks)

(b) Explain the importance of project monitoring and control in the context of an organisation's digital transformation projects. Provide examples to support your explanation. (6 marks)

(c) When the information supports their benefits and understanding, the information is thought to be believable and have good data. There are many characteristics of information quality, some are intrinsic to the nature of the data, including objectivity, believability and reputation.

List seven (7) characteristics of quality information. (7 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Program implementation involves the activities of putting the program into place, from gaining acceptance for the program to making revisions when the program is not working as planned.

Explain two (2) potential sources of data capture that a Government Ministry could utilize to gather information for decision-making and program implementation. (6 marks)

(b) The purpose of system implementation is to convert the physical system specifications into working and reliable software and hardware, document the work that have been done and provide help for current and future users.

Identify four (4) tips for successful system implementation (8 marks)

(c) List four (4) ways an organization such Food Reserve Agency (FRA) could utilize data mining techniques to enhance its decision-making processes and improve on their strategic reserves. (4 marks)

(d) Consider an organization such as Football association of Zambia which is mandated to manage all football affairs in Zambia.
Explain three (3) uses of the intranet and four (4) uses extranets for (FAZ). (7 marks)

[Total: 25 Marks]

END OF PAPER

D 1: BUSINESS INFORMATION MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) Five (5) Common problems in using Management Information Systems (MIS) in an organization.

- **Lack of Strategy** - most common MIS issues can be traced back to a lack of a solid strategy. Information systems leaders are well aware of the many tools available to gather data on their network. But putting that information to use is often a challenge. Inadequate or out dated information, high implementation & training cost
- **Meeting Organizational Needs** - MIS plays an ever-increasing role in organizations, with professionals relying on technology for every aspect of operations. Sales and marketing rely heavily on customer relationship software to track client interactions, for instance, while accounting needs its own software for billing, invoicing and financial tracking.
- **Attracting and Retaining Top Talent** - The growth in technology has outpaced the number of people entering the field. Over the past seven out of 10 years, IT positions have been in the top 10 of jobs with the most hiring challenges, as documented by Manpower Group. The professionals most in demand include developers and programmers, database administrators and IT leaders and managers.
- **Keeping Up with Change** - If one thing is for certain in information technology, it's that nothing will remain the same for long. From one year to the next, innovations mean that software needs to be upgraded and even replaced. In order to remain competitive, businesses have to keep up with this, investing in software that will give them an edge. User resistance to change being introduced in the new system.
- **Integrating New Technologies** - Businesses will inevitably find that they have multiple types of software operating at once. This includes general administrative tools like Microsoft Office, as well as specialized tools for accounting, customer relationship management and project-management tools, among many others. Ensuring all these tools work together is essential since otherwise, employees will find they have to duplicate processes.

(ii) Within the organization, three levels of management and their information requirements are:

Executive Management:

- Strategic planning and decision-making information related to long-term road infrastructure development goals.
- Financial performance reports and budget allocation information.
- High-level project progress summaries and key performance indicators (KPIs) for monitoring overall agency performance.

Middle Management:

- Detailed project management information, including timelines, resource allocation, and progress tracking for individual road infrastructure projects.

- Budget utilization reports and forecasts for specific projects or regions.
- Operational efficiency metrics and performance indicators for optimizing project delivery processes.

Operational Management:

- Real-time data on day-to-day project activities, such as construction progress, material usage, and workforce deployment.
- Resource scheduling information, including equipment availability, labor availability, and material procurement status. Compliance and regulatory information, including environmental impact assessments, safety standards adherence, and legal requirements for project implementation.

(b) **Distinguish time bomb from logic bomb in computer security**

- **Time bomb** is a type of malware that is programmed to execute a malicious action at a specific date and time and doesn't require a specific condition to be met.
- **Logic bomb** is a type of malware that is programmed to execute a malicious action when a specific condition is met. Once the condition is satisfied, the logic bomb is triggered and can perform various malicious actions such as deleting files, corrupting data, etc

(c) Five (5) roles of database management systems (DBMS) in supporting the Ministry of Community Development's programs and initiatives.

- **Data Storage and Retrieval**: DBMS serves as a centralized repository for storing and organizing vast amounts of community-related data, including demographic information, social assistance records, and program performance metrics. For example, a case management system for social welfare programs utilizes DBMS to store client profiles, eligibility criteria, and service delivery histories, enabling caseworkers to access and update information efficiently.

- **Data Integration and Analysis**: DBMS enables the integration of disparate data sources, such as government databases, survey responses, and social media feeds, to create a comprehensive view of community demographics, needs, and trends. For instance, a community development dashboard aggregates data from various sources using DBMS to visualize key performance indicators (KPIs), track program outcomes, and identify areas for intervention or resource allocation.

- **Data Security and Privacy**: DBMS incorporates robust security features, such as access controls, encryption, and audit trails, to protect sensitive information from unauthorized access, manipulation, or disclosure. For example, a citizen portal for accessing social assistance benefits employs DBMS encryption mechanisms to safeguard personal data, ensuring compliance with data protection regulations and maintaining citizens' trust.

- **Decision Support Systems**: DBMS supports decision-making processes within the ministry by providing timely access to accurate and relevant data for analysis and reporting. For instance, an analytics platform powered by DBMS processes community data to generate insights, forecast trends, and evaluate.

- **Data Backup and recovery:** DBMS creates and maintains duplicate copies of data to mitigate the risks associated with potential data loss incidents. This ensures that businesses can swiftly recover their vital information in the event of any adversity.

SOLUTION TWO

(a)

(i) Components you can consider to examine IS/IT:

- Determine whether the infrastructure can sustain the changes required or it needs changing.
- Evaluation of the current IT services and resources
- Establish the gaps which relate to the targeted portfolio, either by enhancement of existing applications or by developing new ones.
- Establish a business manager's perception of the role and current effectiveness of IS/IT
- Establish an understanding of what the business wants to achieve.
- Establish how the other functions and employees of the organization perceives the value and contribution of IS/IT

(ii) Importance of aligning IS/IT strategy with Business strategy of an organization:

- It helps ensure organisation gets technology at the right time and reach its business goals and objectives
- When alignment is missing, the technology might work but not deliver the correct business needs
- It reduces digital friction because it is able to deliver technology that is easy for workers, customers and partners
- It also provides competitive advantage

(b)

- **Taxation Challenges**: E-commerce transactions often cross borders, posing challenges for traditional tax regimes based on physical presence and jurisdictional boundaries. This can result in tax evasion, as online sellers may operate from jurisdictions with lower tax rates or exploit loopholes in existing tax laws.

- **Revenue Loss**: The shift towards online shopping can lead to revenue loss for the government, especially in sectors heavily reliant on brick-and-mortar retail, such as sales tax and value-added tax (VAT). As consumers increasingly opt for online purchases, traditional revenue streams may decline unless taxation policies are adapted to capture e-commerce transactions effectively.

- **Need for Digital Taxation Frameworks**: To address the taxation challenges posed by e-commerce, the MCD may need to collaborate with other government agencies to develop digital taxation frameworks. These frameworks should encompass mechanisms for identifying and taxing online transactions, ensuring fair and equitable taxation across digital and traditional retail channels.
  Examples: For example, the introduction of digital services taxes (DSTs) or value-added taxes (VAT) on e-commerce transactions is becoming increasingly common globally. Countries like France and the UK have implemented DSTs targeting revenues generated by multinational tech giants. Similarly, some jurisdictions have introduced

VAT on digital goods and services purchased online to capture tax revenue from cross-border transactions.

- **Enforcement and Compliance**: Enhancing enforcement mechanisms and promoting tax compliance among e-commerce sellers and platforms are essential for effective revenue collection. This may involve leveraging data analytics and collaboration with international tax authorities to identify tax evaders and ensure compliance with taxation regulations.

Overall, the MCD needs to adapt its taxation policies and revenue collection strategies to address the challenges and opportunities presented by the rise of e-commerce, ensuring that digital transactions contribute equitably to government revenue while supporting economic growth and innovation.

(c) **Advantages of insourcing.**

- It gives control over the work
- Insourcing allows you to build unique competitive advantages. If you outsource something, you will get the same service that other firms receive.
- There is usually significant overhead in selecting and managing outsourcing partners. On top of this, the outsourcing partner is taking a profit on you as a customer.

SOLUTION THREE

(a) **TECHNICAL**

- the technical issues that are raised during the feasibility stage of investigation include queries on whether the intended technology exists
- the proposed system provide adequate response to equerries regardless of the number of users
- the system can be expanded if developed, are there technical guarantees of accuracy, reliability, case of access and data security.
- the hardware functional or absolute and or will need least equipment

OPERATIONAL

- This test of the feasibility asks if the system will work when it is developed or installed.
- It also analyses management support of the project/ users, if current is well liked and whether the users see the need for change hence avoiding resistance to change
- If the current business methods are accepted by the users, whether the users where part/ involved in the planning and the development of the project.
- Questions are asked concerning the harm the proposed system might produce in any area or respect, will there be loss of control, will individual performance be poorer than before and will customers be affected in a negative way?

ECONOMICAL

- The financial costs to the organization in terms of the profits or losses the project will bring.
- The benefits must equal or exceed the costs.
- The system that is developed and installed should be good investment for the organization.
- The questions that are raised are to estimate the following.
  - cost conduct the full system investigation
  - the cost of hardware and software for the class of application

(b) Importance of project monitoring and control in an organisation's digital transformation projects:

- **Resource Allocation**: Monitoring project progress enables organisation to track resource utilization, including staff, budget, and equipment, ensuring efficient allocation and optimization of resources throughout the project lifecycle. For example, the organisation can use project management tools to monitor staffing levels, identify bottlenecks, and reallocate resources as needed to mitigate delays or budget overruns.

- **Risk Management**: Regular monitoring and control activities help the organisation identify potential risks, issues, and dependencies early in the project lifecycle, allowing for timely mitigation measures and contingency planning. For instance, the organisation can conduct risk assessments to identify cybersecurity vulnerabilities, regulatory compliance gaps, or technology integration challenges, proactively addressing these issues to minimize their impact on project outcomes.

- **Quality Assurance**: Monitoring project deliverables and milestones enables the organisation to assess the quality and completeness of work products against predefined criteria and standards. Implementing quality assurance processes, such as peer reviews, testing protocols, and performance metrics, ensures that the organisation's digital transformation projects meet stakeholder expectations and regulatory requirements.

- **Stakeholder Engagement**: Effective project monitoring and control facilitate communication and collaboration among project stakeholders, including hospital leadership, staff, vendors, and end-users. Providing regular progress updates, status reports, and feedback mechanisms fosters stakeholder engagement and alignment with project goals, enhancing transparency, accountability, and support for organisation's digital transformation initiatives.

- Examples: For instance, the organisation can establish project management dashboards displaying key performance indicators (KPIs), project milestones, and resource utilization metrics for stakeholders to monitor progress in real-time. Regular project status meetings and progress reviews enable stakeholders to discuss challenges, make informed decisions, and adjust project plans as needed to ensure successful project outcomes.

(c) Characteristics of quality information:
Accurate:
Complete
Cost effectiveness
Understandable
Reliable
Accessible
Timely

SOLUTION FOUR

(a) Potential sources of data capture that the organisation could utilize to gather information for decision-making and program implementation.

- **Government Databases**: The organisation can leverage existing government databases, such as census data, demographic information, and socio-economic indicators, to gain insights into the needs and demographics of different communities. This data provides valuable context for designing targeted interventions and allocating resources effectively.

- **Social Media Monitoring**: Social media platforms serve as rich sources of real-time information on community sentiments, emerging issues, and public feedback. The organisation can employ social media monitoring tools to capture and analyze relevant conversations, trends, and public opinions, enabling proactive response to community concerns and enhancing stakeholder engagement.

- **Surveys and Feedback Mechanisms**: Implementing surveys, feedback forms, and community consultations allows the or to directly capture insights and preferences from citizens, community leaders, and stakeholders. This qualitative data complements quantitative data sources, providing nuanced perspectives on community needs, preferences, and priorities for informed decision-making.

(b) **Tips for a successful system implementation**

- Pick technology based on your business needs
- Let business needs dictate the technology solution
- Carefully consider the people aspect
- Keep communication channels open
- Don't break your back for false deadlines
- Implement the system in stages

(c) Ways the National Roads Funds Agency (NRFA) can utilize data mining techniques to enhance its decision-making processes and improve road infrastructure project management.

- **Historical Data Analysis**: By storing historical data related to road infrastructure projects, such as project timelines, costs, and performance metrics, in a data warehouse, the NRFA can analyze past trends and patterns using data mining algorithms. This enables them to identify factors contributing to project delays, cost overruns, and inefficiencies, allowing for proactive mitigation measures in future projects.

- **Predictive Analytics**: Data mining techniques, applied to historical project data stored in the data warehouse, can help the NRFA develop predictive models to forecast project outcomes, such as estimated completion dates, budget requirements, and potential risks. These predictive analytics capabilities enable more accurate project planning, resource allocation, and risk management strategies.

- **Performance Monitoring**: By integrating real-time project data, such as construction progress reports, material usage logs, and equipment deployment schedules, into the data warehouse, the NRFA can monitor project performance metrics continuously. Data mining algorithms can analyze this real-time data to identify deviations from planned schedules or budgetary constraints, allowing for timely intervention and corrective actions.

- **Resource Optimization**: Data mining techniques applied to data warehouse repositories can identify opportunities for optimizing resource utilization across multiple road infrastructure projects. By analyzing factors such as workforce availability, equipment usage patterns, and material procurement lead times, the NRFA can allocate resources more efficiently, minimize idle time, and reduce project costs.

- **Trend Analysis**: Data mining algorithms can identify emerging trends and patterns in road infrastructure development, such as shifts in traffic patterns, environmental impact assessments, or technological advancements in construction materials. By leveraging these insights, the NRFA can adapt its strategic priorities, investment decisions, and project management approaches to align with evolving market dynamics and stakeholder needs.

(d) **Uses of intranets and extranets for FAZ.**

- **Intranets**
  - Improves internal communication
  - Encourages knowledge sharing
  - Provides organizational clarity
  - Simplifies employee onboarding
  - Helps employees find information
  - Reduces emails and meetings
- **Extranets**
  - Data sharing with customers or external partners
  - Business enablement, clients are able to place orders
  - Increased collaboration for both internal and external users and sharing news of common interest
  - Customization, allowing you to portray your brand and values
  - Training time is minimal and jointly developing training programs with other companies

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY 14 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

Attempt All the FOUR (4) Questions

QUESTION ONE

SDG Ltd has annual sales of K30 million. Cash sales account for 15% of sales as most customers prefers credits. The average annual receivables are K6.38 million which the Directors have expressed concern. The Directors' position is that the average annual receivables should come down to K2.13 million. Therefore, the management of SDG Ltd are considering offering a discount of 4% to achieve the directors' position. SDG Ltd has an overdraft on which it pays interest of 20% per year. The company has also a loan secured on the assets. The interest cover is 1.2 times and gearing ratio of 61%. The earnings per share is K0.71 per share compared with competitors' average earnings per share of K4 per share.

Required:

(a) Calculate the effective percentage cost per year of the discount and advise whether SDG Ltd should offer the discount or not. (15 marks)

(b) Assess the potential for SDG Ltd to acquire an additional loan from a banker or attract equity investors. (10 marks)

[Total: 25 Marks]

QUESTION TWO

Jahman Ltd is considering buying an equipment costing K500,000 to produce a new soft drink. If its purchase is approved now, the equipment can be bought and production can commence. The project team spent K205,000 on research and development work. The projections of revenue and cost arising from the operation of the new equipment are shown below:

Year	1	2	3	4	5
Sales price per unit (K)	30	35	50	45	40
Sales volume (units)	8,000	15,000	17,000	16,000	12,000
Variable costs per unit (K)	10	15	18	20	24
Fixed costs (K'000)	30	30	30	30	30

When Jahman Ltd procures the equipment, sales of some existing products will be lost, and this will result in a loss of contribution of K120,000 a year over its life. Annual depreciation amounting to K10,000 is included in fixed costs. In addition, allocated fixed overheads of K9,000 per year have been include in the depreciation. However, additional fixed overheads amounting K11,000 per year will be incurred if the project is implemented. The production would require additional working capital of K90,000 immediately and increase by 10% per year. The company accepts projects with a payback period of 2.2 years and the minimum expected rate of return is 13%.

Ignore taxation.

Required:

(a) Calculate the payback period of the proposed investment and advise whether it should be accepted or not. (13 marks)

(b) Calculate the Net Present Value of the proposed investment and advise whether it should be accepted or not. (5 marks)

(c) Calculate the Internal Rate of Return of the proposed investment and advise whether it should be accepted or not. (7 marks)

[Total: 25 Marks]

QUESTION THREE

In the year 2022, Sidelio Plc Board of Directors decided to diversify from the supplying cellphone parts to supplying of essential components for electric trains. This was in response to the Ministry of Transport's decision to construct electric trains for urban transportation to reduce traffic jams. The project for Sidelio Plc supplying the essential components for the electric trains is for a period of three (3) years from 2021. Due to the increased demand of these components, the company has started receiving orders from neighboring countries. The components are sold in units.

The Chief Finance Officer (CFO) prepared a cash budget for one (1) year on quarterly basis for the year 2024 as follows for both local and international sales.

QUARTER	1	2	3	4
Units expected to be sold	20	20	30	50

The price for each unit has been selling at K200,000 and this price will remain unchanged in 2024 in spite of the anticipated 5% depreciation of the local currency.

The company receives cash sale proceeds of 2% in the quarter of sale and the balance received in the next quarter. The company sponsored some of its trainee staff for international training in 2023. In 2024, these employees were employed on full-time basis with a total salary of K70,000 per quarter.

Variable expenses are incurred and paid in the quarter they have been incurred at the rate of 10% per unit sold. In each quarter, the company will continue payment of rent and insurance at K7,000 and K1,600 respectively (fixed costs). In January, 2023, the company obtained a loan from a local bank totaling K800, 000 for capital investments. The interest on this loan was 12% per annum. This interest was payable on quarterly basis and the company is not expected to default on this payment when due.

The company is expected to pay its tax outstanding tax liability totaling K50,000 in the third quarter of 2024. It is further expected to honor its outstanding earned gratuity payments to all two of its staff members affected of K1million in the fourth quarter.

In order to meet its other liabilities, the company decided to dispose some of its buildings for K500,000, the cash proceeds were to be received equally in the second and third quarters in 2024.

The opening cash balance as at first quarter 2024 was a deficit of K40,000.

Required:

(a) Prepare a quarterly cash budget for the four (4) quarters in 2024. (15 marks)

(b) Explain the importance of a cash flow forecast and discuss the following positions that it may show:

(i) Short-term surplus and deficit (5 marks)

(ii) Long-term surplus and deficit (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Scenario One

(a) WED Plc is considering making a bid for the acquisition of JJB Electronics Ltd, a medium sized company in the IT sector. The company has in issue two million shares. A dividend of K7.01 per share for has just been paid. The pattern of recent dividends is as follows:

Year	1	2	3	4 (Current)
Dividends per share (ngwee)	585	652	689	701

The current risk-free rate of return is 8% and the average equity risk premium is 9%. JJB Electronics Ltd pays profit tax at a rate of 30% per year and has an equity beta of 1.18. The investment will be financed by the existing internal resources.

Required:

Estimate the current market value of JJB Electronics Ltd's equity. (7 marks)

Scenario Two

(b) Mpongwe Development_Corporation (MDC) Plc acquired 70% of Chilanga Riviera Farms (CRF) Ltd three years ago, when CRF's retained earnings were K430 Million.

The Financial Statements of two companies for the year ended 31 December 2023 are as follows:

Income Statement for the year ended 31 December 2023.

Item	MDC Plc	CRF Ltd
	K'Million	K'Million
Revenue	1,000	260
Cost of Sales	(750)	(80)
Gross Profit	250	180
Operating Expenses	(60)	(35)
Profit from operations	190	145
Finance Costs	(25)	(15)
Investment Income	20	-
Profit Before Tax	185	130

Tax	(100)	(30)
Profit for the Year	85	100

The following information relates to both MDC Plc and CRF Ltd:

(1) CRF had plant in its Statement of Financial Position at the date of acquisition with a carrying value of K100 Million, but a fair value of K120 Million. The plant had a remaining life of 10 years at acquisition. Depreciation is charged to cost of sales.

(2) The MDC Group values the non – controlling interests at fair value. The fair value of the non – controlling interests at the date of acquisition was K250 Million. Goodwill is to be impaired by 30% at the reporting date, of which a third relates to the current year.

(3) At the start of year, MDC transferred a machine to CRF for K15 Million. It had a remaining useful economic life of three years at the date of transfer. It had a carrying value of K12 Million in the books of MDC at the date of the transfer.

(4) During the year, CRF sold some goods to MDC Plc for K60 Million at a mark – up of 20%. 40% of the goods remained unsold at the year - end. CFR's books showed a receivables balance of K6 Million as being due from MDC Plc. This differs with the payables balance of K1 Million in MDC's books due to MDC having sent a cheque to CRF shortly before the year, which CFDRR had not received.

(v) CFR Ltd paid a dividend of K20 Million on 1 December 2023.

Required:

(a) Prepare the MDC Group consolidated Income Statement for the year ended 31 December 2023. (14 marks)

(b) Describe the different ways a Venture capitalist can provide long-term capital in the form of share and loan finance to a small business. (4 marks)

[Total: 25 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

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

Two asset portfolio

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

The Capital Asset Pricing Model

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

The asset beta formula

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

The Growth Model

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

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Modified Internal Rate of Return

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

The Black-Scholes option pricing model

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

Where:

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

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

The Put Call Parity relationship

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

Present Value Table

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

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

Discount rate (r)

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

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

Annuity Table

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

Where r = discount rate
n = number of periods

Discount rate (r)

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

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

Standard normal distribution table

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

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

D 2: FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Current credit sales = K30 million x (1-0.15) = K25.5 million
Current receivables period = K6.38m/K25.5m x 12 months = 3 months
Proposed receivables period = K2.13m/K25.5m x 12 months = 1 month
Invoice with discount: 1 month = K25.5m x (1-0.04) =K24.48m
Discount: K25.5m x 4%= K1.02m
Invoice without discount: 3 months =K25.5m

Effective cost = $\frac{1.02}{24.48}$ x 100% =4.1667% over 2 months

= [(1.041667) ^12/2 – 1] = 0.2775= 27.75%

Conclusion: 27.75% > 20% therefore, it is better not to offer the discount.

(b)

- A banker may be unenthusiastic about lending money to the business. The gearing ratio of 61% is rather high, and would leave the bank in an exposed position. The company may fail to pay future interest payments.
- The existing loan is already secured on the business's assets, and it is not clear whether the business is in a position to offer an attractive form of security for the new loan.
- The interest cover ratio of 1.2 times is also rather low. If the business is unable to achieve the expected returns or profit, it would fail to pay interest on loan.
- Ordinary share investors may need some convincing that it would be worthwhile to make further investments in the business. The earnings per share is low compared to the competitors.
- The equity investors may also be concerned with the high gearing ratio and low investor cover as this may be no profits remaining to pay dividend.

SOLUTION TWO

(a) Payback Period

Year	Cashflow	Balance
0	- 590,000	- 590,000
1	20,000	- 570,000
2	159,100	- 410,900
3	402,110	- 8,790
4	257,021	248,231
5	192,769	

3 + 0.03 = 3.03 Years

The Project should be rejected because it gives a higher payback period compared to the company policy of 2.2 years.

(b) Net Present Value

Year	0	1	2	3	4	5
Net Cashflow	- 590,000	20,000	159,100	402,110	257,021	192,769
Discount@13%	1.000	0.885	0.783	0.693	0.613	0.543
Present Value	- 590,000	17,700	124,575	278,662	157,554	104,674
NPV	**93,165**					

(c) Internal Rate Return

Year	0	1	2	3	4	5
Net Cashflow	- 590,000	20,000	159,100	402,110	257,021	192,769
Discount@20%	1.000	0.833	0.694	0.579	0.482	0.402
Present value	**-590,000**	**16,660**	**110,415**	**232,822**	**123,884**	**77,493**
NPV	**(28,726)**					

IRR= 13% + [93165/93165+28726] [20%-13%]
IRR= 18.35%

WORKINGS

Project statement of Cash flow

	0	1	2	3	4	5
Contribution	-	160,000	300,000	544,000	400,000	192,000
Incremental Fixed Costs	-	11,000	11,000	11,000	11,000	11,000
Taxable Cashflow	-	149,000	289,000	533,000	389,000	181,000
Working Capital	- 90,000	- 9,000	- 9,900	- 10,890	- 11,979	131,769

Opportunity cost		- 120,000	- 120,000	- 120,000	- 120,000	- 120,000
Initial Cost	- 500,000	-	-	-	-	-
Net Cashflow	- 590,000	20,000	159,100	402,110	257,021	192,769

Sales price per unit (K)		30	35	50	45	40
Variable costs per unit (K)		10	15	18	20	24
Contribution per unit		20	20	32	25	16
Sales volume (units)		8,000	15,000	17,000	16,000	12,000
Contribution		160,000	300,000	544,000	400,000	192,000

Working Capital

Cost	90,000	99,000	108,900	119,790	131,769	144,946
Incremental	- 90,000	- 9,000	- 9,900	- 10,890	- 11,979	- 131,769

SOLUTION THREE

(a)

Quarterly Cash Budget for Sidelio plc:

	Quarter 1	2	3	4
	(K'000)	(K'000)	(K'000)	(K'000)
Receipts:				
Cash Fees	80	80	120	200
Credit Fees		3,920	3,920	5,880
Sale of Assets		250	250	
Total receipts	80	4,250	4,040	6,080
Payments				
Salaries (Including gratuity)	70	70	70	70 1,000
Expenses	8	8	12	20
Fixed Overheads	8.6	8.6	8.6	8.6
Taxation			50	
Interest	96	96	96	96
Total Payments	**182.6**	**182.6**	**236.6**	**1,194.6**
Net Cash Flow	(102.6)	4,067.4	3,803.4	4,885.4
Opening Balance	(40)	(142.6)	3,924.8	7,751.4
Closing Balance	(142.6)	3,924.8	7,751.4	12,636.8

(b) The cash flow forecast statement is very important for a company to prepare. It reflects the cash movement and facilitates the appropriate disbursement of cash and hence facilitates effective cash management by the firm. It gives management on when cash can be available, where it can be obtained to finance payments and anticipated cash surpluses and deficits.

Different cash positions and management actions therein.

The cash positions can be shown as below:

Cash Position	Necessary Management Action

(i)	Short-term surplus	Pay accounts payable early to obtain discount Attempt to increase sales by increasing accounts receivable and inventories Make short-term investments
	Short-Term deficit	Increase accounts payable Reduce accounts receivable Arrange an overdraft
(ii)	Long-Term surplus	Make long-term investments Expand business by procurement of fixed assets Diversify
	Long-term deficit	Raise long-term finance (for example issue of share capital) Consider shutdown /disinvestment opportunities

SOLUTION FOUR

(a) Cost of equity=8%+1.18(9%)

= <u>18.62%</u>

$P_0 = D(1+g)/K_e$

$G = \sqrt[3]{\frac{7.01}{5.85}} - 1$ = 0.062 or <u>6.2%</u>

$P_0 = 7.01(1.062)/0.1862$

=K <u>39.98 per share</u>

Value of equity = 2m x 39.98 =<u>K79.96million</u>

(b)

(a)

Consolidated Income Statement for the year ended 31 December 2023

	K'Million
Revenue (1,000 + 260 - 60)	1,200
Cost of Sales (750 +80 - 60 +2(Dep'n) +4(PURP) +2(PURP)	(778)
Gross Profit	422
Operating Expenses (60 + 35 + 35 (IMP)	(130)
Profit from operations	292
Finance Costs (25 +15)	(40)
Investment Income (20 - (70% x 20))	<u>6</u>
Profit before tax	258
Tax (100 + 30)	(130)
profit after tax	**128**
Attributable to:	_
Non - Controlling Interests (W4)	18
parent shareholders	110.3
	128

Workings

`1) **Group structure**	%
MDC Plc in CFR Ltd (3 years)	70
Non - controlling interest (NCI)	<u>30</u>
	<u>100</u>
Date of acquisition/ control: 1/01/2023	

Date of reporting: 31/12/2023	

2. Net Assets of Subdiary (CFR)

	Acquisition date 01/01/2023	Reporting date 31/12/2023	Post - acquisition profits
	K'Million	K'Million	K'Million
Stated capital issued	150	150	
Retained Earnings	430	700	270
Fair value adjustment: Machine (120 - 100)	20	20	
Depreciation adj: Machine (20 X 3/10)		(6)	(6)
PURP on inventory (W7) (20/120 × 60 X 40%		(4)	(4)
	600	**860**	**260**

3. Goodwill	
	K'Million
Cost of Investment at fair value	700
Fair value of NCI at acquisition	250
	950
Less: Net Assets at acquisition (W2)	-600
	350
Impairment	**-105**
A third(105/3) K35million of total to be charged to consolidated P & L	245

4. Non - Controlling Interest - CIS

	K'Million
Profit after tax	100
Dep'n (20 × 1/10)	-2
PURP (W7)	-4.0
	94
NCI share x 30%	28.2
impairement(30% x 35)	-10.5
	17.7

5. Intra - group trading

	K'Million	K'Million
Cancel intra-group sales/purchases:		
Sales	60	
Purchases (cost of sales)		60
Eliminate unrealised profit:		
Cost of sales ((15 – (15 x 1/3)) - ((12 - (12 x 1/3 yrs))	2	
Fixed Assets (SOFP)		2
Cost of sales ((20/120 x 60) – (60% 10) realised profit to give unrealised profit	4	
Inventories (SOFP)		4

7. PURP - Inventory

	K'Million
Profit on sale (60 X 20/120)	10
Profit on sold stock (60 X 20/120 x 60%)	-6
Unrealised Profit on Inventory (60 X 20/120 x 40%)	**4**

(b) Venture capitalists provide long-term capital in the form of share and loan finance for different situations, including:

1. Start-up capital. This is available to businesses that are not fully developed. They may need finance to help refine the business concept or to engage in product development or initial marketing. They have not yet reached the stage where they are trading.
2. Early stage capital. This is available for businesses that are ready to commence trading.
3. Expansion capital. This is aimed at providing additional funding for existing, growing businesses.
4. Buy-out or buy-in capital. This is used to fund the acquisition of a business either by the existing management team ('buy-out') or by a new management team ('buy-in'). Management buy-outs (MBOs) and buy-ins (MBIs) often occur where a large business wishes to divest itself of one of its operating units or where a family business wishes to sell out because of succession problems.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D 3 : BUSINESS TAXATION

WEDNESDAY 12 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to 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%

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%

Industrial Buildings:

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

Low Cost Housing	**(Cost up to K100,000)**	
Wear and Tear Allowance		10%
Initial Allowance		10%

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Property transfer tax

Rate of tax on realised value of land (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

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

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

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

	Aged 2 to 5 years		**Aged above 5 years**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497

Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

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

   Excise Duty:

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

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

   Customs Duty

Percentage of Value for Duty Purposes	15%

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

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

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

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

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

Attempt All Four (4) Questions.

QUESTION ONE

Jacob Kambombo is a manufacturer of clothes and prepares his accounts to 31 December each year.

The statement of profit or loss for the year ended 31 December 2024 is as follows:

	Notes	K	K
Gross profit			1,140,600
Add other income			
Dividends (net)		36,800	
Royalties (net)		31,900	
Bank interest (gross)		58,000	
126,700			
			1,267,300
Expenses			
Depreciation		47,600	
Electricity charges	(1)	30,500	
Insurance and rates	(1)	69,700	
Motor expenses	(2)	94,400	
Professional fees	(3)	46,300	
Repairs and renewals	(4)	16,980	
Sundry expenses	(5)	35,880	
Wages and salaries	(6)	167,600	
			(508,960)
Net profit			758,340

Note 1- Private accommodation

Jacob and his wife live in a flat that is situated above the clothing shop. 40% of the expenditure on electricity, insurance and rates included in the profit and loss account relates to the flat.

Note 2 – Motor expenses

During the year ended 31 December 2024, Jacob drove a total of 12,000 km, of which 9,000 km were for private journeys.

Note 3 – Professional fees

Professional fees are as follows:	K
Fees for accountancy services	15,400
Legal fees in connection with the purchase of the building	12,500
Debt collection costs	14,000
Legal fees in connection with recovery of loan from former employee	4,400
	46,300

Included in the figure for accountancy services is K5,000 which is in respect of personal tax work for the previous tax year.

Note 4 – Repairs and renewals

The figure of K16,980 for repairs and renewals includes K6,600 for decorating the clothing shop during September 2024, and K10,380 for decorating the private flat during October 2024. The building was in a usable state when it was purchased.

Note 5 – Sundry expenses

The figure of K35,880 for sundry expenses includes K16,400 for gifts to customers of food hampers costing K120 each, K13,200 for gifts to customers of pens carrying an advertisement for the clothing shop costing K10 each, K6,280 for a donation to an approved public benefit organisation.

Note 6 – Wages and salaries

The figure of K167,600 for wages and salaries includes the annual salary of K90,000 paid to Jacob's wife. She works in the clothing shop as a Sales Assistant. The other Sales Assistants doing the same job are paid an annual salary of K54,000.

Additional Information

Note 1 – Goods for own use

During the year ended 31 December 2024, Jacob took clothes out of the shop for personal use without paying for them. The cost of these clothes was K10,700 and they had a selling price of K12, 300. This transaction was not recorded in preparing the statement of profit or loss.

Note 2 – Building, implements, plant and machinery

The building which houses the clothing shop and clothing factory was acquired as a second hand building during the year 2023. The cost of the building was made up as follows:

	K
Land	200,000
Factory	970,000

Design office	180,000
Showroom and retail shop	300,000
Staff welfare building	550,000
	2,200,000

The original costs and income tax values of assets qualifying for capital allowances at 1 January 2024 were as follows:

	Income Tax Value	Original Cost
	K	K
Toyota Allion car	60,000	150,000
Manufacturing equipment	275,000	550,000
Furniture	123,000	165,000

The Toyota Allion was sold during the year for K65,000 and was replaced by a Toyota Camry costing K185,000. The private use of the Toyota Camry is 20% as determined by the Commissioner General.

Required:

(a) Calculate the maximum amount of capital allowances claimable by Jacob Kambombo for the tax year 2024. (9 marks)

(b) Calculate the tax adjusted business profit for the tax year 2024. (11 marks)

(c) Calculate the income tax payable by Jacob Kambombo for the tax year 2024. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Dextus limited is a Zambian resident company which manufactures washing and cleaning detergent. The company sells the cleaning materials to wholesalers and retailers across the country. Dextus limited prepares their accounts annually to 31 December. The company's profit before tax shown in the statement of profit or loss was K2,048,000 after accounting for the following items of income and expenditure.

1. Debenture interest received of K102,000 (net). The debenture interest was received from another Zambian company during the year.

2. Dividends received from another Zambian company amounting to K136,000 net.

3. Patent royalties of K238,000 (net) received from another Zambian company which was recently granted the trade mark by Dextus limited to manufacture and market the same cleaning detergent on condition that the quality was not compromised.

4. Profit on sale of office furniture of K90,000 which was sold at 148,000, whose book value was K58,000. The ITV of this furniture was nil.

5. Wages and salaries amounting to K1,620,000. This figure includes the salary of the Marketing Director amounting to K288,000 per annum and is accommodated in a company owned house, while the remainder comprised emoluments of all employees. The company has employed two (2) persons living with disabilities who have been working as telephone operators since 2023. Depreciation charge for the year was K86,000.

6. Legal fees paid during the year of K113,000. Included in this figure were share issue costs of K31,600, costs of drafting employees' service contracts of K59, 000 and incidental costs incurred on the disposal of the furniture referred to in note (iv) above of K22,400.

7. General expenses of K134.000. This figure included K50,000 for a speeding offence committed by a member of staff who travelled to Kasama for a business trip and K16,000 for entertaining clients, while the remainder consists of allowable expenses.

8. Sundry expenses incurred during the tax year amounted to K109,440. This figure included the cost of gifts of calendars to customers valued at K240 per customer totalling K28,800, Christmas gifts to employees of K24,320 and a donation to a public benefit organisation of K24,000. The approved public benefit organisation is not yet approved by the Minister of Finance and National Planning. The remainder of sundry expenses were all allowable expenses.

9. Bad debts charged to the statement of profit or loss which were arrived at as shown in the bad debts account below:

	K		K
Trade debts written off	74,000	Balance b/f:	
Loans to employee written off	51,000	Specific provision	15,000
Balance C/F:		General provision	55,500
Specific provision	18,000	Profit or loss	107,300
General provision	34,800		
	177,800		177,800

The following additional information is also available:

The company held the following implements, plant and machinery as at 1 January 2024.

Asset	Income tax Value	Original cost
	K	K
Manufacturing machinery	280,000	560,000
Computers	22,500	90,000
Toyota Allion pool car	72,000	360,000
Ford Ranger 3,000cc motor car	94,000	470,000

The Ford Ranger has been provided to the Marketing Director on a personal to holder basis. The Marketing Director has private use of 25%.

Unrelieved Tax loss

On 1 January 2024 the company had an unrelieved tax loss of K350,000, from the previous tax year caused by economic recession in business activities.

Required:

(a) Explain when a company is considered to be resident in Zambia. (2 marks)

(b) Calculate the maximum capital allowances claimable by Dextus Ltd for tax year 2024. (5 marks)

(c) Calculate the taxable business profit for the company for tax year 2024. (11 marks)

(d) Calculate the company income tax payable by Dextus Ltd for the tax year 2024. (7 marks)

[Total: 25 Marks]

QUESTION THREE

Dig Out Minerals (DOM) Ltd is a company engaged in the extraction of Copper in the North western province of Zambia. DOM Ltd is a wholly owned subsidiary of Intergraded Copper Mines Plc a multinational company.

The following is the Statement of Profit or loss of DOM ltd for the year ended 31 December 2024.

		K'000
Revenue	(Note 1)	77,000
Cost of sales	(Note 2)	(50,050)
Gross profit		26,950
Operating expenses	(Note3)	(13,528)
Profits from operations		13,422
Investment income	(Note 4)	700
Profit before taxation		14,122
Income tax expense	(Note 5)	(4,236)
Profit for the year		9,886

The following additional information is available:

Note 1: Revenue

The gross sales figure is shown in the statement of profit or loss. The average copper price per metric ton for the year 2024 was US$8,352 as quoted on London Metal Exchange (LME) a mineral royalty tax of K6, 545,000 has not been accounted for in the above statement of profit or loss.

Note 2: Cost of Sales

Included in the cost of sales is depreciation of non-current assets amounting to K5, 560,000 construction of road within the mine site amounting to K6, 800 000, extension to the community hospital in a mine township amounting to K3,400 000 and a donation to the ministry of health towards the fight against the Malaria amounting to K4,780 000. The balance comprises revenue expenses which are all allowable.

Note 3: Operating expenses

Included in operating expenses are annual salaries for the Chief Executive Officer, Chief Information officer and Operations Director of K2, 600 000, K1, 960 000 and K1, 800 000 respectively. The balance of operating expenses constitutes revenue expenses which are allowable for tax purposes.

The above directors are accommodated in company owned houses for which they do not pay rent, the houses were purchased by the company four (4) years ago at a cost of K2,200 million each. The company is contemplating putting all the three (3) houses on rent effective January 2025 at an annual gross rental of K216,000 each. The directors will then be paid housing allowance to enable them make personal arrangements.

Note 4: investment Income

This includes royalties of K204,000 (net) received from a non- mining company, profit on disposal of plant K410,000 and dividends K86,000. Withholding tax was already deducted at source where appropriate.

Note 5: income tax expense

This represents provisional income tax of K4,236,000 paid by the company for the tax year 2024.

During the course of 2024 tax year, DOM ltd made into the following capital transactions.

	Cost/proceeds
	K'000
Constructed community school in the mine township	5,000
Bought new plant and equipment	10,000
Bought two (2) 3800cc Toyota land Cruisers vans	
Each costing K3 million)	6,000
Sold old equipment	(1,360)

The old equipment was acquired six (6) years ago at a cost of K3,200,000 million. The Toyota land cruiser vans are used by the Operations Director and Mine Manager on a personal –to holder basis. It was agreed with the commissioner General that each director has 40% private use on the respective vans.

Required:

(a) Explain how the term 'Norm Value' can be calculated (3 marks)
(b) Explain the tax treatment of Hedging income or loss (2 marks)
(c) Calculate the company income tax payable by DOM Ltd for the tax 2024. (20 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) TopCredit Bank Plc, is a Zambian resident company engaged in the provision of financial services. The following is an extract of the statement of profit or loss for the year ended 31 December 2024:

	Notes	K
Net interest income		28,760,000
Non-interest income	1	1,270,000
Loan losses expenses	2	(4,120,000)
Non-interest expenses	3	(12,800,600)
Income before tax		13,109,400
Income tax expense	4	(1,912,400)
Net income after tax		11,197,000

The following information is relevant:

(1) Non-interest income comprises profit on FOREX transactions of K678,000, royalties of K340,000 (net), dividends from Zambian companies listed on the LuSE of K190,000 (gross) and translation loss arising from translating an investment held in foreign currency of K62,000.

(2) Loan losses expenses comprises of loan losses written off of K2,980,000, increase in general allowance in loan losses of K812,100, increase in specific allowance in loan losses of K1,642,000 and loan losses previously written off now recovered of K1,314,100.

(3) Non-interest expenses are made up of the following:

	K
Entertaining customers	151,200
Salaries & wages	8,117,300
Employer's NAPSA contributions	308,100
Employer's NHIMA contributions	54,100
Skills development levy	40,590
Depreciation charge for the year	819,710
Donations to political parties	311,900
Donations to approved public benefit organisations	401,200
Fines for breach of labour laws	119,400
Other revenue allowable expenses	2,477,100
	12,800,600

The Salaries & wages figure includes salaries of K2,400,000 for the Chief Executive Officer who is accommodated in a company owned house for which he pays no rent.

(4) Income tax expense in the statement of profit or loss represents the amount of provisional income tax paid during the year ended 31 December 2024.

(5) Withholding tax deducted on interest income amounted to K2,155,200 during the year ended 31 December 2024.

(6) Non-current assets:
As at 1 January 2024, the company had the following assets:

Date brought into use	Asset	Original cost
		K
1 April 2017	Head office building	14,800,000
20 May 2022	Fixtures & fittings	2,900,000
30 June 2023	Motor (pool) cars	3,000,000

During the year ended 31 December 2024, the company acquired the following assets:

Date of purchase	Asset	Original cost
		K
15 March 2024	Two (2) Personal -to-holder cars (2,900cc)	920,000
21 June 2024	Office equipment	430,000
30 September 2024	Buildings for new branches	6,100,000

The personal-to-holder cars are used by the Finance Director and Marketing Director respectively. The private use in the each of the cars by each Director is 60%.

Required:

Compute the amount of income tax payable by TopCredit Bank Plc for the tax year 2024.
(18 marks)

(b) Juliet Kaputa is the Chief Executive Officer of TopCredit Bank Plc. During the year ended 31 December 2024, she imported a second-hand Toyota Mark II car (2,400cc) for her first-born daughter. The Toyota Mark II car's cost was $6,000 free on board. Insurance charges and freight charges amounted to $2,700 and $3,100. Other incidental costs incurred up to the point of entry into Zambia amounted to $1,800. Other costs and motor vehicle registration costs amounted to K11,600 which were incurred within Zambia. The Toyota Mark II car is classified as a Sedan, and was manufactured in 2022.

The exchange rate quoted by the Bank of Zambia and approved by the Commissioner General at the date of importation was K18.60 per $1. Juliet paid for the vehicle at an exchange rate of K18.90 per $1.

Required:

Calculate the amount of import taxes paid by Juliet on the importation of the Toyota Mark II car.
(7 marks)

[Total: 25 Marks]

END OF PAPER

D 3: BUSINESS TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) JACOB KAMBOMBO

COMPUTATION OF CAPITAL ALLOWANCES FOR THE YEAR ENDED 31DECEMBER 2024

IMPLEMENTS, PLANT AND MACHINERY

	Cost/ITV	Capital allowance
	K	K
Toyota Allion		
ITV b/f	60,000	
Disposal proceeds	(65,000)	
Balancing charge	(5,000)	(5,000)
Toyota Camry		
Purchase cost	185,000	
Wear and tear (185,000 X 20%)	(37,000) X 80%	29,600
ITV c/f	148,000	
Manufacturing equipment		
ITV b/f	275,000	
Wear and tear (550,000 X 50%)	(275,000)	275,000
ITV c/f	Nil	
Furniture		
ITV b/f	123,000	
Wear and tear (165,000 X 25%)	(41,250)	41,250
ITV c/f	81,750	
Total capital allowances		340,850

INDUSTRIAL BUILDINGS CAPITAL ALLOWANCES

	K
Factory	
Wear and tear (K970,000 X 5%)	48,500
Staff welfare building	
Wear and tear (K550,000 X 5%)	27,500
Design office	

Wear and tear (K180,000 X 5%)	9,000
COMMERCIAL BUILDING	
Showroom and retail office	
Wear and tear (K300,000 X 2%)	6,000
	91,000

Total capital allowances for the year (340,850 + 91,000) = K431,850

Workings

	K
Total cost	2,200,000
Less cost of land	(200,000)
Construction cost	2,000,000

10% X 2,000,000 = K200,000

The cost of showroom exceeds 10% of the total construction cost of the building. As such, the administrative office will not qualify as an industrial building.

(b) JACOB KAMBOMBO

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2024

	K	K
Profit before taxation		758,340
Add:		
Depreciation	47,600	
Electricity charges (30,500 X 40%)	12,200	
Insurance and rates (69,700 X 40%)	27,880	
Motor expenses (9,000/12,000 X 94,400)	70,800	
Legal fees – purchase of building	12,500	
Legal fees – recovery of loan	4,400	
Personal tax	5,000	
Repairs and renewals	10,380	
Gifts of food to customers	16,400	
Excess salary (90,000 – 54,000)	36,000	
Goods for private use	12,300	

		255,460
		1,013,800
Less:		
Dividends	36,800	
Royalties	31,900	
Bank interest	58,000	
Capital allowances (w)	431,850	
		(558,550)
Tax adjusted business profit		455,250

(c) JACOB KAMBOMBO

COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2024

	K
Tax adjusted business profit	455,250
Add: Royalties (31,900 X 100/85)	37,529
Taxable profit	492,779
Income tax:	
First K61,200 X 0%	0
Next K24,000 X 20%	4,800
Next K25,200 X 30%	7,560
Balance K382,379 X 37%	141,480
	153,840
Less: WHT- royalties (K37,529 X 15%)	(5,629)
Final income tax payable	148,211

SOLUTION TWO

(a) Definition of residence of a company:

A company is resident in Zambia for taxation purposes if:

1. The company is incorporated in Zambia
2. The company is effectively controlled and managed in Zambia

(b) DEXTUS

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2024

Asset	Cost/ITV	Capital allowance
	K	K
Machinery equipment	560,000	
Wear & tear @50% x K560, 000	280,000	280,000
ITV C/F	280,000	
Computers	90,000	
Wear & tear @25% x K90, 000	22,500	22,500
ITV C/F	67,500	
Toyota Allion	360,000	
Wear & tear @ 20% x K360, 000	72,000	72,000
It C/F	288,000	
Ford Ranger	470,000	
Wear & tear @ 20% x K470, 000	94,000	94,000
ITV C/F	376,000	
Total		468,500
Furniture itv	nil	
Disposal (balancing charge	148,000	(148,000)
		320,500

(c) CALCULATION OF TAXABLE BUSINES PROFIT FOR THE YEAR ENDED 31ST DECEMBER 2024

	K	K
Profit before tax		3,048,000
Add:		
Free accommodation (K288.000 x 37%)	108,000	
Depreciation	186,000	
Cost of shares	31,600	
Cost of disposal of equipment	22,400	
Gift of calendars (K140 x 120)	16,800	
Donation to an unapproved charity	24,000	
Loan to employee written off	51,000	
Entertainment of clients	16,000	
Marketing Director car benefit	48,000	
		403,800

		2,451,800
Less:		
Debenture interest (net)	102,000	
Royalties (net)	136,000	
Dividends (net)	238,000	
Profit on disposal	90,000	
Decrease in general provision (K55, 500-K34, 800)	20,700	
Differently abled persons' allowance (K2, 000 x2)	4,000	
Capital allowances	320,500	
		(911,200)
Tax adjusted business profit		1,540,600
Less tax loss brought forward		(350,000)
Final taxable business profit		1,190,600

(d) DEXTUS

COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR THE TAX YEAR 2024

	K
Taxable business profit	1,190,600
Royalties (K136, 000 X 100/85)	160,000
Debenture interest (K102, 000 X 100/85)	120,000
Total taxable business profit	1,470,600
Company income tax (K1,470,600 X 30%)	441,180
Less WHT	
Royalties (K85, 000 X 15%	(24,000)
Debenture interest (K120, 000 x 15%)	(18,000)
Final income tax payable	399,180

SOLUTION THREE

(a) Explanation of 'NORM VALUE'

1. The monthly average London Metal Exchange Cash price per metric tonne multiplied by the quantity of the metal of the metal or recoverable metal sold.
2. The monthly average Metal Bulletin cash price per tonne multiplied by the quantity of the metal sold or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange.
3. The monthly average cash price per metric tonne of any other exchange market approved by the commissioner General multiplied by the quantity of the metal recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange or Metal bulletin.

(b) Tax treatment of Hedging income/losses

Hedging is recognised as a separate source of income from the Mining Operations being carried on.

Hedging income shall be taxed separately, but using the tax rate applicable to all other income

When a loss is incurred in any Tax year on Hedging, the loss shall only be deducted from the income from hedging in the future.

The loss can only be carried forward for a period not exceeding five tears as it is not treated as a loss from mining.

(c) COMPANY INCME TAX PAYABLE BY DOM FOR THE TAX YEAR 2024

	K'000	K'000
Profit before tax		14,122
Add:		
Depreciation	5,560	
Construction of road	6,800	
Extension of Community school	3,400	
Free accommodation:		
CEO (K2, 600M x 37%)	975	
CIF (K1, 960M X 37%)	735	
OPD (K1, 800M x 37.5)	675	
Personal –to holder vehicle: (K48, 000 X 2)	96	
		18,241
		32,363
Less:		
Royalties	204	
Dividends	86	
Profit on disposal	410	

Mineral royalty tax	6,545	
		(7,245)
		25,118
Capital allowances:		
Construction of community school		
(K5, 000,000X 20%)	1000	
New plant & equip (K10,000,000 X 20%)	2,000	
Toyota Land Cruiser (K3,000,000 x 2 x 25%)	1,500	
Construction of road (K6,800,000 X 20%)	1,360	
Disposal of old equipment	(1,360)	
Adjusted mining profit		(4,500)
Add Royalties (K204,000 x 100/85)		240
Total taxable income		20,858
Income tax on mining profits (K20,858,000 X 30%)		6,257
Less:		
Provisional income tax		(4.236)
WHT –Royalties (K240 x 15%)		(36)
Income tax payable		1,985

SOLUTION FOUR

(a) Income tax payable by TopCredit Bank Plc for the tax year 2024

	K	K
Income before taxes		13,109,400
Add:		
Increase in general allowance	812,100	
Entertaining customers	151,200	
Depreciation	819,710	
Donations to political parties	311,900	
Fines for breach of labour laws	119,400	
Free accommodation benefit:		
(K2,400,000 x 37%)	900,000	
Personal-to-holder car benefit:		
Finance Director	48,000	
Marketing Director	48,000	
		3,210,310
		16,319,710
Less:		
Royalties	340,000	
Dividends	190,000	
Translation loss	62,000	
capital allowances	2,034,500	
		(2,626,500)
Adjusted business profit		13,693,210
Add:		
Royalties (K340,000 x 100/85)		400,000
Taxable income		14,093,210
Company income tax (K14,093,210 x 30%)		4,227,963
less:		
Provisional income tax		(1,912,400)
WHT- interest income		(2,155,200)

WHT – Royalties (K400,000 x 15%)	(60,000)
Income tax payable	100,363

Workings

Capital allowances

	K
Head office building	
Wear & tear allowance (K14,800,000 x 2%)	296,000
Fixtures & Fittings	
Wear & tear allowance (K2,900,000 x 25%)	725,000
Pool motor cars	
Wear & tear allowance (K3,000,000 x 20%)	600,000
Personal-to-holder cars	
Wear & tear allowance (K920,000 x 20%)	184,000
Office equipment	
Wear & tear allowance (K430,000 x 25%)	107,500
Buildings for new branches	
Wear & tear allowance (K6,100,000 x 2%)	122,000
Total capital allowances	2,034,500

(b) Import taxes paid by Juliet

	$
Cost	6,000
Insurance	2,700
Freight charges	3,100
Incidental costs	1,800
VDP in $	13,600
Exchange rate	x K18.60
VDP in K	252,960

	Value of the vehicle	import taxes
	K	K
Value for duty purposes	252,960	
Customs duty	16,545	16,545
	269,505	
Excise duty	21,508	21,508
	291,013	
Import VAT @16%	46,562	46,562
Total value	337,575	
Total import taxes		84,615

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D 4 : PERSONAL TAXATION

TUESDAY 11 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided on pages 2,3 and 4

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to 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%

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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Property transfer tax

Rate of tax on realised value of land (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%

Attempt all the questions in this paper.

QUESTION ONE

Kabwe and Chibwe got married in 1998 in Zambia. They had their first-born son Mambwe in 2001 and immediately left Zambia for employment in a country known as Beltonia where Mambwe lived with his parents. The couple had one other child Kasuba who was born in Beltonia and is now seventeen years old.

During their period of stay in Beltonia, Kabwe made investments in shares and bonds of companies resident in that country. Kabwe also held the rights to several literal works which he published whilst in Beltonia, from which he receives Beltonian royalties.

Kabwe returned to Zambia with his entire family on 20 December 2023 and on 1 January 2024, he took up a management position with a Zambian resident company at an annual salary of K600,000. On commencement of his employment contract, he was paid a settling in allowance of K50,000 and additionally received a payment to agree to a restrictive undertaking of K155,000.

His contract of employment further provided him with an annual housing allowance of 30% of his annual basic salary and an annual utility allowance of 5% of his annual basic salary.

The following additional information relates to the tax year 2024:

(1) In January 2024, the company paid his annual professional subscription fees to the Institute of Directors amounting to K7,500.
(2) Upon completion of his probation, he was awarded a salary increment of 15% of his annual basic salary as from 1 April 2024.
(3) He was provided with a 3000cc Toyota Fortuner car on a personal to holder basis on 1 January 2024 and the company paid motor car running expenses of K8,000 per month throughout the year.
(4) In June 2024, the company paid for the medical bills of his sick son which amounted to K15,000.
(5) He received the following income from Zambian sources during the year:

	K
Gross income from letting of property	240,000
Consultancy fees (net)	63,750
Gross fixed deposit interest	57,000
Gross dividends from LuSE listed companies	35,700

(6) In December 2024, the following income was credited to his Zambian bank account in respect of the investments he owns in Beltonia:

	K
Dividends	72,000
Royalties	96,000
Bond interest	57,000

The dividends and royalties were net of withholding tax deducted at the rate of 20% in Beltonia, whilst the bond interest was net of withholding tax at the rate of 5% deducted in Beltonia.

(7) Under the Double Taxation Agreement which Zambia has with Beltonia, dividends and royalties from Beltonia are subjected to Zambian income tax at the rate of 15% of the gross amount of the income arising, whilst interest income from Beltonia is subjected to Zambian tax at 10% of the gross amount arising.

(8) The following payments and deductions were made from his gross earnings during the tax year 2024:

- Monthly tithes to Christian Faith Church which is an approved public benefit organisation of K8,000.
- Fitness Gym monthly subscriptions of K1,500.
- PAYE deducted from his earnings for the year amounted to K359,490.
- Employee's NHIMA contributions of 1% of his basic salary
- Employee's NAPSA contributions of 5% of his gross earnings
- Advance Income Tax of K10,500 which he paid on the importation of a second Ranger Rover from Japan for his wife.

Required:

(a) Explain the meaning of domicile and advise Kabwe of his domicile status and that of each member of his family. (5 marks)

(b) Explain the reason why an individual who is domiciled in a foreign country may be chargeable to Zambian tax. (2 marks)

(c) Calculate the income tax payable by Kabwe for the tax year 2024. (18 marks)

[Total: 25 Marks]

<u>QUESTION TWO</u>

You are employed in a tax practice company where you dealt with the tax affairs of the following clients for whom you are required to provide tax advice accordingly:

Prestel Ltd

Prestel Ltd is planning to set up a share option schemes in order to motivate and retain the services of its highly skilled employees. The directors of the company are interested in knowing the tax treatment of share option schemes.

Wiseman Banda

Wiseman Banda recently took early retirement from a Zambian resident company, where he was employed for over fifteen (15) years and was paid hefty retirement package. He wishes to invest some of his money in different investment schemes and is keen to know what the taxation implications of investing some of his money in Certificates of Deposits, Government of Zambia (GRZ) bonds and ordinary shares of companies would be.

Required:

(a) Advise the directors of Prestel Ltd of the tax consequences to an employee arising on each of the following events, if the share option scheme run by the employer is not approved for tax purposes:

(i) the grant of the share options (2 marks)

(ii) The exercise of the options over the shares (2 marks)

(iii) The subsequent sale of shares acquired in the scheme (2 marks)

(b) Advise the directors of Prestel Ltd of the income tax treatment for an employee of a grant of share options from a share option scheme that is approved for tax purposes by the Zambia Revenue Authority. (4 marks)

(c) Explain for the directors of Prestel Ltd seven (7) conditions that must be met for a share option scheme to be approved for tax purposes. (7 marks)

(d) Advise Wiseman Banda of the taxation implications arising for him from making investments in the following types of investments:

(i) Certificates of deposits (2 marks)

(ii) Government of Zambia bonds (2 marks)

(iii) Shares of companies listed on the LUSE (2 marks)

(iv) Shares in a private limited company (2 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Describe the types of taxpayers who are required to pay turnover tax. (4 marks)

(b) Maliwe has run a retail business for many years preparing accounts to 31 May each year. The turnover from the business has always exceeded K800,000. However, due to poor health, Maliwe decided to cease trading on 31 December 2024. The tax adjusted profit before capital allowances for the final period of trading from 1 June 2023 to 31 December 2024 was K475,000.

The income tax values of assets qualifying for capital allowances at 1 June 2023 and their original costs were as follows:

Assets	Income Tax Value at 1 June 2023	Original Cost
	K	K
Toyota Fortuner SUV (2,800cc)	120,000	600,000
Fixtures and fittings	125,000	250,000
Retail Shop buildings	210,000	700,000

Maliwe has always had private use of the Toyota Fortuner car of 50%.

On 31 December 2024, Maliwe sold all the business assets realising K900,000 for the retail shop buildings, K40,000 for the fixtures and fittings, and K180,000 for the Toyota Fortuner. Maliwe had no other income in the tax year 2024.

Required:

(i) Explain the basis of assessment for the profits generated by Maliwe in the final two tax years of trading. (5 marks)

(ii) Compute the final taxable profits for the two (2) final tax years of trading and the income tax payable by Maliwe for each relevant tax year. **You should assume that the tax rates for tax year 2024 apply to both tax years**. (16 marks)

[Total: 25 Marks]

QUESTION FOUR

For the purposes of this question you should assume that today's date is 20 December 2023

Chawezi has been approached by a construction and property management company which would like to use his services on a number of one off construction projects which the company has received from its clients. The company wishes to engage Chawezi either as an employee or as an independent self-employed contractor on a one-year contract, which will commence on 1 January 2024 and end on 31 December 2024.

Employment

If Chawezi is taken on as an employee, the following conditions of service will apply:

(1) He will be entitled to a basic monthly salary of K75,000.

(2) His end of contract gratuity will be 25% of the cumulative basic salary earned over the contract period, payable on the expiry of the contract, on 31 December 2024.

(3) He will be provided with a Ford Ranger Double Cab van (3,200cc) which the company acquired a year ago at a cost of K850,000, which he will use for for both, employment and private purposes. His private use of the car will be 40%. The company will incur motor car running expenses of K12,000 per month.

(4) Employee's NHIMA contributions at the rate 1% of basic salary will be deducted from his basic salary.

(5) Employee's NAPSA contributions of 5% of his gross earnings will be deducted from his salary.

The earnings ceiling for NAPSA contributions purposes for the tax year 2024 is K357,792 per annum.

Self-employment

If Chawezi is taken on as an independent self-employed contractor, then the following will apply:

(1) He will invoice the company a fixed contract price of K75,000, at the end of each month, for the work he will do on the projects assigned to him each month throughout the year.

(2) He will be paid an additional commission of 25% of the total contract price for the year on successful completion of the contract on 31 December 2024.

(3) Chawezi will use his own personal Ford Ranger Double cab van (3,200cc) which he acquired a year ago at a cost ok K850,000, partly for business purposes on the contract and partly for private purposes. It has been agreed with the Commissioner General that his business use of the vehicle will 60%.

(4) He will incur motor car running expenses of K12,000 per month in relation to the vehicle.

(5) He will not be required to make any NAPSA nor NHIMA contributions under this option.

Required:

(a) Assuming that Chawezi is taken on as an employee:

(i) Compute the amount of the gratuity he will receive on the expiry of the contract and explain its income tax treatment. (2 marks)

(ii) Calculate his income tax, employee's NHIMA and employee's NAPSA contributions payable in the tax year 2024. (6 marks)

(b) Assuming that Chawezi is taken on as an independent self-employed contractor:

(i) Explain how he will be assessed to income tax in the tax year 2024. (3 marks)

(ii) Compute his income tax liability for the tax year 2024. (7 marks)

(c) Advise Chawezi as to whether it will be beneficial to be engaged as an employee or an independent self-employed contractor from a taxation point of view. **Your answer should be supported by appropriate computations of the net income which will arise under each option.** (7 marks)

[Total: 25 Marks]

END OF PAPER

D 4: PERSONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The term domicile refers to an individual's permanent home. Domicile can be determined with reference to the country of birth or the country an individual chooses to be their permanent home upon reaching the age of 16 years.

Kabwe, Chibwe and Mambwe are all domiciled in Zambia, where they were born as there is no information indicating that they renounced their Zambian domicile to adopt that of Beltonia.

Kasuba is domiciled in Beltonia where he was born, although he can decide to renounce it and choose Zambia as his domicile of choice given that he is seventeen years old.

(b) An individual domiciled in a foreign country may be liable to Zambian tax if that individual has generated income from Zambian sources, or income deemed to be from Zambian sources.

This is because Zambia operates a source-based taxation system, where income is chargeable to Zambian tax if it is generated from Zambian sources or deemed to be from Zambian sources.

(c) KABWE'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024

Income from Zambian Employment		
Salary		
(K600,000 x3/12) + (K600,000 x 115%) x 9/12		667,500
Settling in allowance		50,000
Restrictive undertaking payment		155,000
Housing allowance (K667,500 x 30%)		200,250
Utility allowance (K667,500 x 5%)		33,375
		1,106,125
Investment income from Zambian Sources		
Consultancy fees (K63,750 x 100/85)		75,000
		1,181,125
Less allowable deductions:		
Donation to PBO - Tithes (K8,000 x 12)		96,000
		1,085,125
Income Tax		
On first K61,200 x 0%		0
On next K24,000 x 20%		4,800
On next K25,200 x 30%		7,560
On excess K974,725 x 37%		360,648
		373,008
Income tax on income from foreign sources		
Dividends (K72,000 x100/80) x 15%)	13,500	
Royalties (K96,000 x 100/80) x 15%	18,000	
Bond interest (K57,000 x100/95) x 10%	6,000	

	37,500
Total Tax liability	410,508
Less Tax already paid:	
PAYE	(359,490)
WHT on consultancy fees (K75,000 x 15%)	(11,250)
Advance Income Tax	(10,500)
	29,268

Tax on rental Income:

First K12,000 @ 0% Nil

K288,000 @4%

K9,120

SOLUTION TWO

(a) Tax implications of the following:

(i) The Grant of options

On the grant of shares to an employee in a share option scheme that is not approved, the exercise price is compared with the open market value of the shares on the date the options are granted.

If options over shares are granted with an exercise price that is less than the market value, an income tax charge can arise on the difference between the market price per share and the exercise price.

(ii) the exercise of options over shares

On the exercise of the options, the individual pays the agreed amount in return for the specified number of shares in the company. The exercise price paid is compared with the open market value at that time, and if less, the difference is charged to income tax.

(iii) The subsequent sale of shares acquired from unapproved scheme

On the sale of shares acquired by an employee through a share option scheme which is not approved, in an unlisted company, Property Transfer Tax is payable on the realised value of the shares sold.

(b) Tax Treatment for employees

The benefit for the individual employee is that any benefit/gain which arises to that individual on allotment or acquisition of shares under an approved share option scheme is exempt from income tax.

Specifically,

1. There is no Income Tax charge when the share options are granted at an exercise price that is less than the market value at the time of grant.
2. There is no income tax charge when the share options are exercised.
3. No PTT will arise on any subsequent sale of the shares

(c) Conditions for approval of share option scheme

For the Commissioner General to approve a share option scheme, the following requirements must be met:

1. The scheme must be established in Zambia and the employer must be carrying on business wholly or partly in Zambia.
2. The scheme should provide for the participation of all eligible employees (including directors).
3. An employee participating in the scheme should not acquire more than one fifth (20%) of the shares to be issued under the scheme.
4. Only ordinary shares of the company may participate in the scheme.
5. The scheme entitles an employee to acquire a set number of shares at a fixed price.
6. The employee must be restricted to a set period of time to use an option to buy shares.

7. The employees must be citizens or permanent residents of Zambia regardless of where they perform their duties.

(d)

(i) Tax Implications of Certificates of Deposits (CDs)

1. For an individual any interest receivable on these investments is subject to withholding tax at the rate of 15% which is a final tax.
2. There are no property transfer tax on the on the transfer of CDs as they do not fall under for the scope property transfer tax.

(ii) Tax implications of GRZ Bonds

1. For an individual, any interest receivable from these investments is subject to withholding tax at the rate of 15% which is a final tax.
2. There is no property transfer tax on the transfer of government bond as they do not fall under for the scope property transfer tax.

(iii) Tax implications of Shares listed on LUSE

1. For an individual, any dividends received from these investments is subject to withholding tax at the rate of 0% which is a final tax.
2. There is no property transfer tax on the transfer of shares in a company listed on LUSE as they do not fall under for the scope property transfer tax.

(iv) Tax implications of shares from a private limited company

1. For an individual, any dividends receivable from these investments is subject to withholding tax at the rate of 15% which is a final tax.
2. Property transfer tax will arise on the transfer of such shares based on the realised value which is the higher of their nominal value and their open market value.

SOLUTION THREE

(a) Persons required to pay turnover tax

These include:

1. Any person carrying on a business with an annual turnover of K800,000 or less
2. Any person whose income consists of amounts, which are subjected to withholding tax, where withholding tax is not the final tax.
3. Any person whose income is from artisanal and small-scale mining.
4. Any person carrying on a service business in the gig economy i.e. any person conducting their business through digital platforms such as independent (freelance) contractors working as content developers, online marketers, and online traders.

(b)

(i) BASIS OF ASSESSMENT

Since the final period of account is made up of nineteen months from 1 June 2023 to 31 December 2024, the period will be split into two notional accounting periods for tax purposes.

This will result in a twelve month period ending on 31 May 2024 and a seven months period, starting on 1 June 2024 and ending on 31 December 2024.

Profits, as adjusted for taxation purposes but before capital allowances will then be apportioned on a time basis to these two periods on a pro-rata basis.

The normal rules will then be applied to determine when profits the first period will be assessed. This will be the current year basis since the accounting date for this period falls between 1 April and 31 December.

Therefore, the profits for the 12 months period ended 31 May 2024 will be assessed in the tax year 2024 being the basis period for the same tax year.

The profits for the seven-month period to 31 December 2024 will be assessed in the following tax year which is the tax year 2025 and will be the basis period for the same tax year.

(ii) COMPUTATION OF FINAL TAXAXBLE PROFITS FOR THE TAX YEAR 2024

	K
Tax adjusted profits before capital allowances	
(K475,000 x 12/19)	300,000
Capital allowances (W1)	(136,500)
Final taxable profit	163,500
Income Tax	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess K53,100 x 37%	19,647
	32,0076

COMPUTATION OF FINAL TAXAXBLE PROFITS FOR THE TAX YEAR 2025

	K
Tax adjusted profits before capital allowances	
(K475,000 x 7/19)	175,000
Balancing charge	571,500
Final Taxable profits	746,500
On first K61,200	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On Excess K636,100 x 37%	235,357
	247,717

WORKINGS

(1) COMPUTATION OF CAPITAL ALLAWANCES FOR THE TAX YEAR 2024

	K
Toyota Fortuner	
Wear and tear allowance	
(K600,000 x 20%) x 50%	60,000
Fixtures & fittings	
Wear and tear allowance	
(K250,000 x 25%)	62,500
Retail shop buildings	
Wear and tear allowance	
(700,000 x 2%)	14,000
	136,500

(2) COMPUTATION OF CAPITAL ALLAWANCES FOR THE TAX YEAR 2025

	K		K
Toyota Camry car			
ITV b/f (K120,000 – K120,000)	Nil		
Proceeds	(180,000)		
Balancing charge	(180,000)	x 50%	(90,000)
Fixtures & fittings			
ITV b/f (K125,000 - K62,500)	62,500		
Proceeds	(40,000)		
Balancing allowance	22,500		22,500
Shop buildings			
ITV b/f (K210,000 – K14,000)	196,000		
Proceeds (restricted to cost)	700,000		
Balancing charge	(504,000)		(504,000)
Net balancing charge			(571,500)

SOLUTION FOUR

(a)

(i) Gratuity

1. The gratuity will be:
   (K75,000 x 12) x 25% = K225,000.
2. The gratuity will be exempt from income tax being a pension benefit

(ii) CHAWEZI

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024

	K
Salary (K75,000 x 12)	900,000
Income Tax	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess K769,600 x 37%	292,192
	300,192
Employee's NHIMA Contributions	
(K900,000 x 1%)	9,000
Employee's NAPSA Contributions	
(K357,792 x 5%)	17,890

(b)

(i) If Chawezi is taken on as a self-employed, independent contractor, the income he will generate will not be classified as emoluments subject to tax under PAYE, but as turnover.

His annual turnover will be K900,000 (K75,000 x 12).

Since this is above K800,000 he will be assessed to normal income tax under the self-assessment and provisional income tax and not turnover tax.

(ii) CHAWEZI

COMPUTATION OF TAXABLE PROFIT AND INCOME TAX PAYABLE

	K	K
Contract price (K75,000 x 12)		900,000
Commission (K900,000 x 25%)		225,000
		1,125,000
Less allowable deductions:		

Motor car running expenses		
(K12,000 x 12) x 60%	86,400	
Capital allowances		
(K850,000 x 20%) x 60%	102,000	
		188400
		936,600

Income Tax

On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess K826,200 x 37%	305,694
	318,054

(c) COMPARISON OF NET INCOME IF CHAWEZI IS TAKEN ON AS:

	Employee	Self-employed
	K	K
Gross income (K900,000 +K225,000)	1,125,000	1,125,000
Income tax payable	(300.192)	(318,054)
Employee's NHIMA contributions	(9,000)	0
Employee's NAPSA contributions	(17,890)	0
Motor car expenses (K12,000 x 12)	0	(144,000)
Net income	797,918	662,946

It will be more beneficial for Chawezi to be taken on as an employee as this option gives a higher net by K134,970 (K797,918 – K662,946).

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D 5: INTERNATIONAL TAXATION

THURSDAY 13 JUNE 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided on pages 2, 3 and 4.

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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%

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%

Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Property transfer tax

Rate of tax on realised value of land (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%

Attempt all FOUR (4) questions.

QUESTION ONE

Joseph was born on 15 January 1980 in a foreign country Known as CultureLand from Zambian parents who migrated to CultureLand many years ago. The currency of CultureLand is the CultureLand Dollar (CL$). He has always lived there until 1 March 2024 when he decided to come and stay with his parents in Zambia. His parents returned to Zambia in 2016. On 1 June 2024, he was employed by BMC Mining Zambia Limited, as a manager at an annual salary of K499,200, payable to him at the end of each month. He is also entitled to transport allowance at a rate of 15% of the basic salary and utility allowance of 10% of the basic salary. As a manager, he is paid weekend allowance of K1,400 per week. There are four working weeks in a month.

He is accommodated in a company owned house for which he pays no rent. If rented, the company would have charged gross monthly rentals amounting to K16,000. During the year ended 31 December 2024 the company paid maintenance expenses, in connection with the house, amounting to K1,800 per month.

He uses his privately owned motor car in the performance of his duties of employment. He bought the motor car on 10 March 2024 at a cost of K200,000. During the year ended 31 December 2024 he incurred monthly motor car expenses amounting to K2,000. He uses the motor car 40% in the performance of his duties of employment.

He paid income tax under the pay as you earn system amounting to K103,268 and employee NAPSA contributions amounting to K16,104 during the year ended 31 December 2024. He also made a donation amounting to K14,000 to an approved public benefit organisation.

On 10 December 2024, he received dividends from shares held in companies resident in CultureLand amounting to CL$2,250 and interest on corporate bonds of companies resident in CultureLand amounting to CL$2,600. The amounts of dividends and interest are net of withholding tax deducted in CultureLand at the rate of 25% and 35% respectively. He also received rental income, from letting out of his house in CultureLand, amounting to CL$5,100. The rental income is net of withholding tax deducted in CultureLand at a rate of 15%.

There is no double taxation convention between Zambia and CultureLand. Any double taxation relief is given unilaterally in Zambia by way of tax credit. During the year ended 31 December 2024, the exchange rate averaged K18.90 per CL$1.

Required:

(a) Explain, with reasons, whether Joseph will be regarded as a resident in Zambia for the tax year 2024. (2 marks)

(b) Explain three (3) methods of giving double taxation relief. (6 marks)

(c) Calculate the amount of income tax payable by Joseph for the tax year 2024. Indicate by the use of zero (0) any amounts of income that are exempt from Zambian income tax. (17 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Multinational Enterprises (MNEs) are companies which own and control production facilities or subsidiaries or service facilities in more than one country. These enterprises normally get involved in Foreign Direct Investment (FDI) for various purposes. FDI is a category of international investments where a resident in one economy obtains an interest in another country.

Required:

(i) Explain three (3) types of foreign direct investment that a multi-national enterprise may use. (6 marks)

(ii) State any four (4) tax incentives and four (4) non-tax incentives that multinational enterprises may benefit from foreign direct investment. (4 marks)

(b) Globalization is the term used to describe the growing of interdependence of the world's economies, cultures and populations which is brought by cross-border trade in goods and services, technology and flows of investment. Globalization comes with associated costs (risks) and benefits on individual economies around the world.

Required:

(i) Explain three (3) benefits of globalization on the Zambian economy. (6 marks)

(ii) Explain any two (2) risks of globalization on the Zambian economy. (4 marks)

(c) Regional economic groupings are groups of individual countries in a sub-region that come together for the purpose of achieving greater economic integration. This results in reduction or elimination of regional barriers to trade.

Required:

Explain five (5) advantages of regional economic groupings. (5 marks)

[Total: 25 Marks]

QUESTION THREE

Money laundering is the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived from a legitimate source. Criminals try to control the funds without attracting attention. As a result, they move funds to places where they are not likely to attract attention, such as tax havens. This makes it very difficult for governments to combat money laundering. The Financial Action Task Force on money laundering made recommendations to help combat money laundering. Revenue authorities have also formed cooperation models in order to work to their mutual benefit in order to reduce tax evasion internationally.

Required:

(a) Explain any five (5) recommendations made by the Financial Action Task Force on money laundering that helps to combat money laundering and tax evasion. (10 marks)

(b) Explain any two (2) cooperation models between revenue authorities. (4 marks)

(c) Explain four (4) factors used to identify tax havens according to the OECD. (8 marks)

(d) Explain the difference between the factual approach and interpretive approach as they apply in international anti – avoidance tax rules. (3 marks)

[Total: 25 Marks]

<u>QUESTION FOUR</u>

Indirect taxes in international taxation are influenced by a number of principles and guidelines laid down by international bodies such as GATT (General Agreement on Tariffs and Trade), WTO (World trade organization), OECD (Organization of Economic Co-operation and Development) and various conventions.

Required:

(a) Explain the difference between the origin principle and destination principle as they apply in international indirect taxes. (4 marks)

(b) Explain the European Convention on Human Rights (ECHR) and Taxation in relation to:

(i) Property right and taxation (4 marks)
(ii) Freedom of travel and taxation (4 marks)

(c) Explain the limitations of Border Tax Adjustments (BTAs). (3 marks)
(d) Explain the GATT rules on Border Tax Adjustments. (6 marks)
(e) Explain the benefits of a cross-border merger. (4 marks)

[Total: 25 Marks]

END OF PAPER

D 5: INTERNATIONAL TAXATION SUGGESTED

SOLUTION ONE

(a) An individual is regarded as a resident in Zambia if that individual is physically present in Zambia for a period of more than one hundred eighty three (183) days excluding the date of arrival and departure.

An individual is also regarded as a resident in Zambia if that individual comes to Zambia for a purpose that will take more than twelve (12) months, or he/she comes to Zambia with the intentions of establishing permanent residence in Zambia. In this case the individual is regarded as a resident in Zambia upon arrival.

Joseph will therefore be regarded as a resident in Zambia for the tax year 2024 as he has decided to come live in Zambia permanently. He was also physically present in Zambia for a period of more than one hundred eighty three (183) days during the tax year 2024.

(b) The following are the methods of giving double taxation relief:

1. Treaty relief
   This is an agreement between two or more states on how the income generated from on contracting state will be treated for income tax purposes if that income is remitted in the other contracting state and vice-veca.

   The treaty specifies how the double taxation relief will be given, mostly by exemption in the state in which the income is remitted or by treating the foreign tax paid as a tax credit in the state in which the income is remitted.

   The double taxation relief is given according to the provisions of the treaty.

2. Unilateral credit relief
   Unilateral credit relief which applies where there is no double taxation convention (treaty) between the two states. Under this relief, double taxation relief is granted unilaterally in one country by the tax authorities in that country allowing a credit against the local tax of the lower of the foreign tax paid and the local tax payable on the foreign income. This means that the amount to be given as a relief in Zambia is the lower of:
   (i) Foreign tax paid and;
   (ii) Equivalent Zambian tax on foreign income.

3. Unilateral expense relief
   Unilateral expense relief is the relief where the amount of foreign tax paid is treated as an allowable expense in the country in which the income is remitted. This also applies where there is no double taxation convention between the two states.

(c) Joseph

Income tax payable for the tax year 2024

	K	K
Zambian income		
Salary (K499,200 x 7/12)		291,200
Transport allowance (K291,200 x 15%)		43,680
Utility allowance (K291,200 x 10%)		29,120
Weekend allowance (K1,400 x 4 x 7)		39,200
House maintenance expenses (K1,800 x 7)		12,600
		415,800
Foreign income		
Rental income	0	
Dividends (CL$2,250 x 100/75 x K18.90)	56,700	

Interest (CL$2,600 x 100/65 x K18.90)	75,600	
		132,300
		548,100
Less:		
Donations	14,000	
Capital allowances (K200,000 x 20% x 40%)	16,000	
Motor car running expenses (K2,000 x 7 x 40%)	5,600	
		(35,600)
Taxable income		512,500

Computation	
First K61,200 @0%	0
Next K24,000 @20%	4,800
Next K25,200 @30%	7,560
Excess (K512,500 – K110,400) @37%	148,777
	161,137
Less:	
Double taxable relief	
Dividends	(14,175)
Interest	(23,870)
PAYE	(103,268)
Income tax payable	19,824

Workings

Double taxation relief

Dividends

Foreign tax paid: K56,700 x 25% = K14,175

Equivalent Zambian tax

Gross foreign income x Zambian tax charge
Total assessable income

K56,700 x K161,137
K512,500
= K17,827

The double taxation relief is K14,175 which is the lower of the Zambian tax.

Interest

Foreign tax paid: K75,600 x 35% = K26,460

Equivalent Zambian tax
K75,600 x K161,137
K512,500
= K23,870

The double taxation relief is K23,870 which is the lower of the foreign tax.

SOLUTION TWO

(a) Multinational enterprises and foreign direct investments

(i) The following are the types of foreign direct investments:

1. Horizontal foreign direct investment
   This is a foreign direct investment where a multinational enterprise duplicates its home-based activities at the value stage in a host country (a country in which the investment is made).

2. Platform foreign direct investment
   This is a foreign direct investment where a multinational enterprise invests in a host country for the purposes of exporting goods to a third country. This means that the country in which the investment is made is used as a platform for exporting goods to another country.

3. Vertical foreign direct investment
   This is a foreign direct investment where a multinational enterprise moves upstream or downstream in different value chains in a host country. This means that the investing firm performs value-adding activities stage by stage in a vertical fashion in a host country.

(ii) Incentives available multinational enterprises for investing through foreign direct investment:

Tax incentives

1. Low corporate income tax rates
2. Low individual income tax rates
3. Tax holidays
4. Preferential tariffs on imports and exports
5. Other types of tax concessions such as VAT refunds

Non-tax incentives

1. Special economic zones such as the multi-facility economic zones
2. Export processing zones
3. Free land or land subsidies
4. Relocation and expatriation
5. Infrastructure subsidies
6. Research and development support

(b) Globalization

(i) Benefits of globalization are as follows:

1. Foreign direct investments
   Foreign direct investments tend to increase at a much greater rate than growth in world trade, which helps boost technology transfers, industrial restructuring, and the growth of global companies.

2. Technological innovation
   There is increased competition from globalization which helps stimulate new technological developments, and this improves economic output by making processes more efficient.

3. Economies of scale

Globalization enables large companies to realize economies of scale that reduce costs and prices, which support further economic growth.

(ii) Risks of globalization are as follows:

1. Interdependence
   Globalisation leads to interdependence between nations, which could cause regional or global instabilities, if local economic fluctuations end up impacting a large number of countries relying on them.
2. National sovereignty
   Some people see the rise of nation states, multinational or global firms and other international organisations as a threat to sovereignty. Ultimately this could lead to some leaders become nationalistic or xenophobic.
3. Equity distribution
   The benefits of globalisation can be unfairly skewed towards rich nations or individuals, creating greater inequalities and leading to potential conflicts both nationally and internationally as a result.
4. Tariffs and other forms of protectionism
   Some countries may implement tariffs and other form of protectionism designed to contain the risks in the financials systems in order to make any crisis less damaging. This puts the benefits of globalisation to question.

(c) The following are the advantages of the regional economic groupings:

1. There in an increase in foreign direct investment as a result of trade groupings and this benefit the economies of participating nations.
2. There are larger markets created through trading groups and these markets allow economies of scale. This results in decrease in average cost of production due to mass production.
3. Trade groupings eliminate tariffs, hence, driving the cost of imports down. As a result demand changes and consumers make purchases based on the lowest prices, allowing firms with a competitive advantage to thrive.
4. Trade groupings bring manufacturers in numerous countries closer and this brings greater competition which promotes greater efficiency within firms.
5. There is market efficiency arising from increased consumption experienced with changes in demand which results into greater amounts of products being manufactured.

SOLUTION THREE

(a) The following are the recommendations by the Financial Action Task Force (FATF):

1. Demanding full transparency from financial institutions to provide all information concerning their activities in offshore supervisory authorities. In this respect financial institutions must be discouraged or, if necessary, prohibited from operating in territories that feature on the black lists of the FATF, OECD and the World banks StAR (Stolen Assets Recovery Initiative).

2. Establishing an interconnected and well integrated system of legal shareholder registries encompassing economic blocs and their member states, which will feature all necessary information concerning the shareholders of corporations operating within the economic blocs.

3. Creating a regularly-updated beneficial owner registry. Information of this kind should be either exchanged or coordinated across member states without any obstacle. This can avoid instances of fiscal dumping and eliminate an opportunity for criminals to make use of legal loopholes in a manner that is sophisticated, structured and systematic abuse of the system.

4. Strengthening the requirements on the function of corporate directors. Directors should be held accountable for failing to take reasonable steps to prevent money-laundering, this should apply regardless of whether they are nominees or not.

5. Reconsidering and reinforcing the rules regarding the due diligence that corporate registries and financial institutions should perform, always on an accurate risk-based approach, in an attempt to verify that all information pertaining to the beneficial ownership is correct and that no margin for fraudulent or corrupt activity is allowed.

6. Introducing requirements for enhanced due diligence in cases where politically exposed people are identified, with the option of rendering void or otherwise limiting the transaction in question.

7. Forming a Financial Intelligence Unit (FIU) whose role shall be to monitor, assess and analyse suspicious transaction reports and contracts. This entity could operate within the context of the Single Supervisory Mechanism that would be incorporated within the range of responsibilities of the Central Bank.

(b) The following are the cooperation models of revenue authorities:

1. Formation of joint investigation teams which enables agencies with common interests to work together in an investigation. This enables an investigation team to draw a wider range of skills and experience from investigators with different backgrounds and training.
2. Inter-agency intelligence centers which are typically established to centralize processes for information gathering and analysis for a number of agencies. These help to focus on a specific geographical area or type of criminal activity.
3. Secondments and co-location of personnel which is an effective way of enabling skills to be transferred while allowing personnel to build contacts with their counterparts in other agencies.

4. Use of shared databases, dissemination of strategic intelligence products such as newsletters, setting up of joint committees to coordinate policy in areas of shared responsibility. Inter-agency meetings and trainings can also be implemented.

(c) The following are the factors used to identify a tax haven:

1. No or only nominal taxes
   It means that there is no or nominal tax on the relevant income, usually capital. This is the first necessary condition to identify a tax haven but it is not sufficient because a country may be competing fairly or adopting preferential regime.

2. Lack of effective exchange of information
   Tax havens typically have in place laws or administrative practices under which businesses and individuals can benefit from strict secrecy rules and other protections against scrutiny by tax authorities thereby preventing the effective exchange of information on tax payers benefiting from the low tax jurisdiction.

3. No substantial activities
   The jurisdiction facilitates the establishment of foreign owned entities without the need for a local substantive presence. This is what makes doubtful how small islands can host billions of dollars in foreign direct investment if they apparently do not have the necessary resources to yield production.

4. Lack of transparency
   Lack of transparency may be attractive for those who want to hide the origins of their income or keep them undeclared in their source countries. For example the details of the regime and/or its application are not apparent, or there is inadequate regulatory supervision or financial disclosure.

(d) The factual approach is where the domestic general anti-avoidance rule forms part of the domestic tax laws that determine which facts of the transaction give rise to income tax liability. Under this approach, it is unlikely to cause conflict between the domestic rules and the double taxation agreement because the anti-avoidance rule itself is being used to identify the factual basis on which tax liability is based.

On the other hand, interpretive approach there is no provision under domestic laws to recharacterise the income, which results in abusive transaction to be disregarded. This approach means that tax legislation will not be interpreted to apply to transactions that lack economic substance within the domestic law and treaty forms.

SOLUTION FOUR

(a) The origin principle is the principle of charging indirect taxes which states that, internationally traded commodities are taxed at the rates prevailing in the country where the goods are produced. This means that the goods are taxed and revenue collected by the exporting country. The origin principle exempts imports from taxation and tax exports.

On the other hand, the destination principle states that internationally traded commodities are at the rates prevailing in the country where final consumption of the goods takes place. This means that the goods are taxed and revenue collected by the importing country.

(b) The European Convention on Human Rights.

(i) Property right and taxation

It states that every natural or legal person is entitled to the peaceful enjoyment of his possessions, at the same time recognizing the taxation power of the government on the individual's rights.

No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law.

However, this does not in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or secure the payment of taxes or other contributions or penalties.

(ii) Freedom of travel and taxation

It states that everyone can freely move within a country once lawfully there and have a right to leave any country, which may be subject to limitations in order to maintain national security, public security, public order, or to prevent crime or to protect well-being, morals and the rights and freedoms of others.

An individual may, however, be stopped from leaving the country if that individual is owing significant amounts of tax liabilities, as this will be done in the interest of the public.

The amount owed should be taken into account as it will be inconveniencing to ban someone owing a small amount of income tax from leaving the country.

(c) The following are the limitations of BTAs:

The term ''Border Tax adjustment" is somewhat confusing because it suggests that a fiscal measure is applied at the border, which is not always the case.

Although in many cases imports are taxed on entry, certain countries apply a tax to imports after the goods have crossed the border and have been sold to other merchants or consumers.

The OECD has noted that certain tax systems do not tax exports at all and make no adjustment at the border. As a result, the OECD Working Party has recommended the replacement of the term ''Border tax adjustment" with ''tax adjustment applied to goods entering into international trade".

(d) The following are the GATT rules on BTAs:

1. Policies addressing climate change should be adopted. Carbon taxing countries imposes import fees on goods manufactured by non-carbon taxing countries motivating factor for these measures is at least, in theory, internalise the real costs of producing goods and

services with respect to international climate change regulation, thereby leveling the playing field between producers of like products from different countries.

2. BTAs should tax imported goods the equivalent of what the producers would have had to pay to produce them in the home market they are entering. Under this system, domestic producers in countries with carbon taxes will not face costly climate change measures that foreign producers do not face in their home countries.

3. An alternative approach would be to impose taxes on imported goods that are equivalent to the enforcement of emissions allowance trading.

4. Therefore, in order to import products from a nation that does not comply with the carbon taxes applied in the importing country, an importer of goods would be required to purchase emission rights in his country, compensating for the difference.
(2 marks per valid point up to 6 marks)

(e) The following are the benefits of a cross – border merger:

1. It provides legal certainty as once the merger is approved by the competent authority in a member state it cannot be subsequently deemed null and void.
2. Liquidation is avoided as the transferor company will be dissolved automatically once the merger is effected, thereby providing significant cost savings.
3. The assets and liabilities of the transferor companies transfer automatically by operation of law, which eliminates the need for any additional documentation.

END OF SUGGESTED SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS
DIPLOMA LEVEL

D 6 : TAX AUDIT AND INVESTIGATIONS

MONDAY 10 JUNE 2024

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

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On income from mining operations	30%
On income of Banks and other Financial Institutions	30%

Mineral Royalty

Mineral Royalty on Copper

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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

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Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:	
Wear and Tear Allowance	5%
Initial Allowance	10%
Investment Allowance	10%

Low Cost Housing	**(Cost up to K100,000)**	
Wear and Tear Allowance		10%
Initial Allowance		10%

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

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

Property transfer tax

Rate of tax on realised value of land (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%

Attempt all four (4) questions.

QUESTION ONE

MDB ltd is fast growing company dealing in a variety of business activities namely construction, agricultural supplies and general merchandise. The company has just received a notice from Zambia Revenue Authority that they will be coming to conduct tax audits.

Required:

(a) Explain the meaning of a Tax audit. (3 mark)

(b) Explain the assurances a qualitative tax audit provides (4 marks)

(c) Explain any five (5) types of tax audits (10 marks)

(d) Explain any eight (8) sources of information that a tax auditor may use to discover hidden income. (8 marks)

[Total: 25 Marks]

QUESTION TWO

You recently graduated from the Copperbelt University and joined Mulungushi Chartered Accountants firm. The partner Mr Munkombwe has assigned you to go through the books of Mununga Mining Plc and Gampa Telecommunication Ltd. Both companies are clients of Mulungushi Chartered Accountants. The partner has tipped you that ZRA is about to visit both clients and that there is need to put things in place.

He has emphasised the importance of you verifying that tax treatment of capital allowances and environmental expenditure was appropriate, when dealing with Mununga Mining company. He has further instructed you to verify that the mineral royalty tax paid to the ZRA by the mining company during the year 2024, of K26 million was based on the correct norm value.

With respect to Gampa Telecommunication Ltd, Mr Munkombwe has instructed you to pay attention to VAT on inter-connection charges and other related transactions.

Mr Munkombwe has mentioned to you that the ZRA always focuses on income verification when conducting tax audit as most taxpayers like to understate revenue or income.

Required:

(a) Explain the five (5) indirect methods that are used to verify income. (10 marks)

(b) Explain the meaning of "Norm Value" with respect to Mineral Royalty. (3 marks)

(c) Explain the circumstances under which a mining company is allowed to index losses and capital allowances. (4 marks)

(d) In relation to taxation of telecommunication companies;

(i) Explain the consequences of inter-connection charges on VAT liability. (2 marks)

(ii) Explain the tax treatment of roaming charges and income. (3 marks)

(iii) Explain the tax treatment of discounts given to airtime dealers. (3 marks)

[Total: 25 Marks]

QUESTION THREE

Blueberry Bank Ltd is a Zambian resident company that was incorporated 10 years ago. The company is a 100% owned subsidiary of Afro Bank Plc. Afro Bank Plc is a multinational company which is resident in the country called Leyland. Leyland is considered to be tax haven country and corporate tax in the country is charged at 5%.

On 1 January 2024, Afro Bank Plc decided to buy four (4) latest ATM machines from Blueberry bank Ltd which had excess ATMs. Blueberry bank Ltd charged K75,000 for each ATM. The open market price of this type of ATMs is K105,000 each due to their durability and high technological progression. Blueberry bank Ltd accounted for the sale of four (4) ATM machines under non-interest income as per company's policy.

On 1 November 2024, Blueberry bank Ltd obtained a loan of K900,000 from Afro Bank Plc at an annual interest rate of 40%. Blueberry bank Ltd has accounted for the interest payable to Afro Bank Plc and is included in the finance costs figure of K2,100,000. On 1 November 2024 the open market rate of interest on loans from local lenders averaged 20%.

On 31 December 2024, Afro Bank Plc charged Blueberry Bank Ltd K130,000 management fees and these have been accounted for as non-interest expenses in the books of Blueberry Bank Ltd. This figure is made up of dividends paid to Afro Bank Plc in Leyland. Blueberry Bank Ltd remits funds to Afro Bank Plc in form of management fees every year.

Blueberry bank Ltd had made a profit before tax of K1,050,000 in the statement of profit or loss for the year ended 31 December 2024. This figure was arrived at after considering the following:

(1) Interest income of K30,800,000. The total withholding tax deducted from the interest income during the charge year 2024 amounted to K500,000.

(2) Provision for loan losses which comprised the following:

	K,000
Increase in general provision for loan losses	3,264
Increase in specific provision for loan losses	628
Loans written off	3,240
Loans previous written off now recovered	(1,100)
Total provision	6,032

(3) Non- interest expenses which included the following:

	K000
Depreciation charges	372
Employees' salaries	2,770
Staff canteen expenses	200
Management fees	130
Entertainment expenditure for customers	170
Legal cost for recovery of loans	280
Donations to approved public benefit organization	1,860
Miscellaneous allowable general business expenses	14,120
Total	19,902

(4) Non-interest income is composed of the following:

	K,000
Dividends received	1,096
Realized foreign exchange gains	712
Unrealized foreign exchange gains	500
Fees from foreign exchange transactions	3,426
Profit on disposal of non-current assets	180
Total	5,914

(5) Provisional income tax paid during the tax year 2024 which amounted to K214,000.
(6) Finance cost for the year amounted to K400,000.
(7) Capital allowances on other implements, plant and equipment for the year amounting to K150,000.

Other information

No entries have been made in the financial statements in relation to the following transactions entered into by the bank during the tax year 2024:

(i) Annual operating lease rentals of K100,000 paid by the bank relating to an operating lease agreement for a building used by the bank which the company entered into in January 2022.This transaction was not accounted for in Blueberry Bank Ltd's books.

(ii) Finance lease
The bank entered into an agreement with one of the companies that hire motor vehicles and obtained three motor vehicles under a finance lease as shown below.

Items	**Date leased**	**Original cost K**
Tipper Truck	1 January 2024	240,000
Nissan Truck	12 January 2024	280,000
Mitsubishi Truck	31 December 2022	300,000

Required:

(a) List any five (5) enterprises that would be subjected to a transfer pricing audit.

(5 marks)

(b) Explain the income tax implications on Blueberry Bank arising from the transactions it entered into with Afro Bank Plc. Your answer should show the adjustments to be made in the computation of Blueberry Bank Ltd.'s taxable profit. (7 marks)

(c) Calculate the amount of income tax payable by Blueberry Bank Ltd for the tax year 2024. (13 marks)

[Total: 25 Marks]

QUESTION FOUR

The primary objective of a tax audit is to establish whether the taxpayer has declared the correct amount of tax liability to Zambia Revenue Authority. The tax auditor therefore performs a preliminary review of financial statements in order to accumulate audit evidence. In order to achieve the strategic objectives of tax administration, most revenue authorities have embarked on increasing compliance risk management process. At the end of the tax audit, the tax auditor is required to produce an audit report which communicates the results of the audit.

Required:

(a) Explain three (3) principal activities of the preliminary review of financial statements. (3 marks)

(b) Explain the importance of compliance risk management. (5 marks)

(c) Explain any seven (7) guidelines a tax auditor can use to assess the quality of audit evidence. (7 marks)

(d) Explain five (5) standards to be met when writing an audit report. (10 marks)

[Total: 25 Marks]

END OF PAPER

D 6 :TAX AUDIT AND INVESTIGATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) A tax audit is an examination of tax returns and supporting books of accounts and any other related information submitted by a taxpayer to Zambia Revenue Authority.

The tax audit examines whether the tax payer has correctly assessed the tax liability and general tax compliance of the tax payer.

A tax audit may be called due to some perceived irregularity in one or two returns. Sometimes, a tax audit may be done simply as part of a random sampling.

(b) Assurances qualitative audit provides.

1. The tax payers' accounts and records have been reviewed in stuffiest depth to reach a supportable conclusion regarding all items of a material consequence.
2. That appropriate income tests have been performed where necessary to ensure the proper and complete reporting of income regardless of the source.
3. That the responsibilities of the tax payer regarding the filing of the tax returns have been ascertained.
4. That the conclusions expressed are documented in sufficient details to enable the reader to comprehend the process thereby such conclusion are reached.

(c) The following are the types of tax audits:

1. Full audits- the scope of a full audit is encompassing. It typically entails a comprehensive examination of all information relevant to the calculation of a tax payer's tax liability for a given period. The objective is to determine the correct tax liability for a tax return as a whole.

2. Limited scope audits or (issued based Audit)-limited scope audits are confined to specific issues on tax return and/or a particular tax scheme arrangement employed by the tax payer. The objective is to key potential risk areas of non-compliance. These audits consume relatively fewer resources than full audits and allow for an increased coverage of a tax payer population.

3. Single issue audits-single issue audits are confined to one item of potential non-compliance that may be apparent from examination of tax payer's return. Given their narrow scope , single issue audits typically take less time to perform and can be used to review large numbers 0f tax payers involved in schemes to conceal non-compliance.

4. Deregistration audit- conducted when a business is pending deregistration from being a VAT registered supplier. The aim is to establish the final VAT liability/refund position.

5. Education audits-These audits are normally done when there is a major change in the tax law that is complex.

6. Credibility audits- for instance under VAT, credibility audit is aimed at checking the correctness of a claim for a VAT refund

(d) In order to discover any income that could be hidden, the auditor needs to collect certain information as below:
1. Tax return (Income tax, VAT and Property Transfer Tax)
2. Savings accounts and money market funds.
3. Checking accounts statements and cancelled cheques
4. Life style analysis
5. Bank statements to analyse deposits of cash and cheques, ATM withdrawals and which cheques are written to.
6. Cash flow procedures in a business
7. Credit card receipts.
8. Offshore accounts
9. Loan applications and personal net worth statements at Banks

SOLUTION TWO

(a) The following are the five (5) indirect methods that are used to verify income:

1. Source and application of funds method (T- account method).
   This method involves reconstructing income to determine the actual tax liability and is an analysis of a tax payer's cash flows and comparison of all known expenditures with receipts for the period. Net increases and decreases in assets and liabilities are considered along with non-deductible expenditures and non-taxable income over the sum of reported and unreported taxable income. It is suitable when the expenditure appears out of proportion to the income reported.

2. Bank deposit and cash expenditure method-
   Under this method, we compute income by analysing what happened to a tax payer's funds. It is based on the theory that if a tax payer received money, only two things can happen, it can either be deposited or spent. This assumes that the proof of the deposit into the bank, after certain adjustments have been made for non-taxable receipts, constitutes evidence of taxable receipts. This method can be used in the examination of income tax returns.

3. Mark-up method
   This method is based on the use of ratios or percentages considered typical for the business under examinations, in order to make the actual determination of the tax liability. It consists of the application of appropriate percentage of mark-up to arrive at the tax payer's gross receipts. This method can overcome the weaknesses of the bank deposit/cash expenditure methods and others, which do not effectively reconstruct income when cash is not deposited and the total cash outlays cannot be determined unless volunteered by the tax payer. The method is recommended when inventory are the principal income producing factor and the tax payer has non-existent or unreliable records.

4. Unit and volume method.
   In many instances, gross receipts may be determined or verified by applying the sales price to the volume of the business done by the tax payer. The number of units or volume of business done by the tax payer might be determined from the tax payer's books or records. The records under examinations may be adequate regarding cost of sales and expenses. In some cases information may be obtained from third parties.

5. Net worth method-
   This method is based on the theory that increases in tax payer's net worth during a tax year, adjusted for non- deductible income may result from taxable income. The method requires that the reconstruction of the tax payer's financial history, since all assets and liabilities need to be accounted for during the relevant period.

(b) "Norm Value" with respect to mineral royalty tax means:

1. The monthly average London Metal Exchange Cash price per metric tonne multiplied by the quantity of the metal or recoverable metal sold;

2. The monthly average Metal Bulletin cash price per tonne multiplied by the quantity of the metal or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange; or

3. The monthly average cash price per metric tonne of any other exchange market approved by the Commissioner-General multiplied by the quantity of the metal or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange or Metal Bulletin."

(c) Indexation of mining losses and capital allowances

A mining company may be allowed to index its mining losses because they are allowed to prepare their financial statements in US Dollars under the Income Tax Act, where at least 75% of their gross sales is from outside Zambia. Hence, in order to avoid exchange losses, since their tax return is submitted in kwacha, indexation of losses provided.

A mining company is also allowed to index capital allowances if the non-current assets on which capital allowances are being claimed where acquired from foreign suppliers and the price of those assets where paid for in Zambian Kwacha.

(d) Taxation of telecommunication businesses

(i) Inter-connection charges

The first consequence of interconnections charges on VAT liability is the fact that this can make the tariffs expensive, consequently it can lead to increase in VAT and eventually tax evasion and avoidance schemes can escalate.

While most of telecommunication is in the informal sector, it is important that government regulates this in order to collect tax revenues from these sectors.

(ii) Tax treatment of roaming charges

Making a call to someone on roaming facility entails charging both the person making the call as well as the one receiving the call.

The tax treatment of these charges will be determined by establishing where the income arising from this service facility is recorded or accrued.

When the roaming charges are receivable by a company resident here in Zambia, then that income will be subjected to the Zambian laws regarding VAT and Income tax.

(iii) Tax treatment of discounts given to airtime dealers

A discount is an allowance given for either prompt payment or buying in bulk or in fulfilling any terms of an agreement between trading parties.

A discount does not form part of the gross sales revenue that the airtime manufacturer gives to airtime dealers.

This means that a discount will be a reduction in the amount of taxable income that an air time manufacturer would record for a given tax year.

SOLUTION THREE

(a) The following are the circumstances that would trigger a Transfer Pricing Audit.

1. Enterprises which have significant amount of or various types of related party transactions;
2. Enterprises which have been in long-term consecutive losses, low profitability, or fluctuating profit and loss situations;
3. Enterprises whose profit levels are lower than those in the same industry;
4. Enterprises showing an obvious mismatch between their profit levels and their functional and risk profile;
5. Enterprises which have business dealings with related parties in tax havens;
6. Enterprises which have not complied with the reporting of their related party transactions or preparation of contemporaneous documentation; and
7. Enterprises obviously violating the arm's length principle.

(b) The following are the income tax implications.

1. Transfer of ATM machines
   Blueberry Bank Ltd and Afro Bank Plc are associated enterprises; therefore, the transfer of the ATM machines will be subjected to transfer pricing rules. The transactions between Blueberry Bank Ltd and Afro Bank Plc should be at arm's length basis.

   The ATM machines were sold to Afro Bank Plc at a price lower than the open market value; therefore, the difference between the transfer value and open market value will be added to Blueberry Ltd.'s taxable business profit.

   The amount to be added is as follows:

	K
Market price (K105,000 x 4)	420,000
Transfer value (K75,000 x 4)	(300,000)
ecrease in taxable profits	120,000

2. Loan from Afro Bank Plc
   When the loan is provided by a related party resident in a foreign country, the rate of interest on that loan should reflect the local market interest rates. Blueberry Bank Ltd obtained a loan from its parent at an interest rate of 40% when the local lending rates on the market averaged 20%.

   This means that the commercial rate was not used and so the taxable profits of Blueberry Bank Ltd would be reduced by the difference between the actual interest paid and the interest that they should have paid if the loan was borrowed from within (Zambia).

The difference between the actual interest paid and the interest calculated at market rates should be added back to the taxable business profit of Blueberry Bank Plc.
The amount to be added back is as follow:

	K
Actual interest paid (K900,00 x 40% x 2/12)	60,000
Interest based on market rates	
(K900,000 x 20% x 2/12)	(30,000)
Decrease in taxable profits	30,000

3. Management fees
   Management fees charged under related part companies are considered to be a case of transfer pricing and should always be verified. In the case of Blueberry Bank Ltd, the company wrongly declares dividends and hide the figure in the name of management fees. This should be added back to the profit.

(c) Computation of income tax payable by Blueberry Bank Ltd. For the tax year 2024

	K'000	K'000
Loss before tax		1,050
Add:		
Increase in general provision	3,264	
Depreciation	372	
Entertaining customers	170	
Staff canteen expenses	200	
Management fees (dividends)	130	
Sale of ATM machines	120	
Loan interest-related party	30	
		4,286
		5,336
Less:		
Dividends received	1,096	
Unrealized exchange gains	500	
Profit on disposal of assets	180	
Lease rentals	100	
Capital allowances on leased Vehicles:		
Tipper Truck (K240,000 x 25%)	60	
Nissan Truck (K280,000 x 25%)	70	
Mitsubishi Truck (K300,000 x 25%)	75	
Capital allowances on other assets	150	
		(2,231)
Adjusted business profit		3,105
Company income tax: (K3,105,000 x 30%)		932
Less:		
Provisional income tax		(214)

Withholding tax on interest income	(500)
Income tax payable	218

SOLUTION FOUR

(a) The following are the principal activities of preliminary review of financial statements:

1. Develop and maintain auditing and assurance standards and guidance for engagements that are performed in public interest.
2. Monitor and seek to influence international standards and guidance and policy developments that may affect audit and assurance services.
3. Undertakes and commission research on matters of relevance to audit and other assurance engagements that are performed in public interest.

(b) The importance of the compliance risk management:

1. It helps achieve equal treatment of taxpayers.
2. It focusses the burden of audit on to non-compliant taxpayers
3. It makes best use of the available human, financial and technical resources
4. It increases the level of voluntary compliance of taxpayers
5. It adjusts the available resources to the level of risks
6. It weighs the possibilities that a compliant taxpayer could become non-compliant.

(c) The following are the guidelines the tax auditor can use:

1. Evidence corroborated by several different sources is more valid and sufficient.
2. Evidence collected by several tax auditors, applying the same methodology is more reliable.
3. Evidence that is old and does not reflect changes might not be relevant
4. Evidence that is too expensive to obtain may not be reasonable and sufficient.
5. Evidence collected from sources having a vested interest in the outcome might become less valid.
6. Evidence collected from non-representative samples is not valid for the whole population and therefore, insufficient.
7. Evidence from first hand informers is more valid than the same information obtained indirectly.
8. Evidence obtained from knowledgeable independent sources is less biased and therefore, usually more valid than that obtained from within the audited organisation.
9. Evidence from statements made by officials of the audited taxpayer is more reliable when confirmed in writing.

(d) The following are the standards of an audit report:

1. Timeliness
   The audit report should be prepared and issued in a timely manner in order to be of greatest use to readers and users, particularly to the audited taxpayer which helps them to take corrective actions if necessary.

2. Completeness
   The audit report should contain all information and arguments needed to fulfill the audit objective and provide answers to the audit questions. This means that the relationship between audit objectives and findings need to be verifiable, complete and clearly stated.

3. Accuracy
   The audit report should present the evidence which is true and comprehensive and all findings should be logically and correctly portrayed. This is based on the need to assure the readers of the report that the reported is credible and reliable.

4. Objective and logical
   The report should be presented in a balanced manner in terms of content and tone. Tax auditors need to be aware of the risk of exaggeration and overemphasis of the deficient performance.

5. Clarity
   The audit report should be clear and easy to understand, written to suit the capabilities, interests and time constraints of the audience. The language used in the report should be as simple as the subject matter allows.

END OF SUGGESTED SOLUTIONS