



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 1: FINANCIAL ACCOUNTING

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MONDAY 9 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A – (Compulsory)**

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

#### **QUESTION ONE**

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

1.1. Which of the following constitutes the main elements of financial statements.

- A. Assets, liabilities, cashflow, expenses and equity.
- B. Statement of financial position, Assets, liabilities, equity, and expenses.
- C. Assets, liabilities, incomes, expenses, and equity.
- D. Statement of profit and loss, liabilities, assets, equity, and expenses.

(2 marks)

1.2. A sale of goods on credit to Chola of K120,000 was recorded in two places of accounts as K129,000. How should the error be corrected in the journal?

- A. Dr Chola, K120,000 and Cr Sales, K120,000
- B. Dr Chola, K9,000 and Cr sales, K9,000
- C. Dr Sales, K120,000 and Cr Chola, K120,000
- D. Dr Sales, K9,000 and Cr Chola, K9,000

(2 marks)

1.3. On 31 March 2022, Lina Ltd's total individual balances listing on the sales ledger was K120,000. However, the receivable control account showed a closing balance of K180,000. Upon investigation, the following errors were discovered:

The total of the returns inwards journal of K25,000 was omitted from the control account and at the same time, sales of K35,000 were omitted from the total list of the sales ledger.

Calculate the correct receivable balance as of 31 March 2022.

- A. K120,000
- B. K180,000
- C. K205,000
- D. K155,000

(2 marks)

1.4. Which of the following statements is true?

- A. The total of the sales journal is posted to the sales account in the general ledger.
- B. The total of the sales journal is posted to the sales account in the sales ledger.
- C. The total of the sales journal is posted to the purchases account in the general ledger.
- D. The total of the sales journal is posted to the sales account in the payable ledger.

(2 marks)

1.5. XYZ Company wanted to expand their business and therefore, in March 2022, the company constructed a building at a total cost of K1,000,000. In June 2023, the company decided to carry out some works by extending the building and repainting the old building. The total cost of extending the building was K200,000 whereas the total cost of repainting the building was K100,000. The legal fees that were paid in relation to extension of the building amounted to K30,000.

What is the correct amount of capital expenditure on the building to be shown in the statement of financial position for the year ended 31 December, 2023?

- A. K1,200,000
- B. K1,330,000
- C. K1,300,000
- D. K1,230,000

(2 marks)

1.6. In relation to a company's capital structure, what is a rights issue?

- A. These are shares that are offered to the general public at a higher price.
- B. These are share that are offered to existing shareholders in proportion to their holding at a discount or cheaper price.
- C. These are shares that are offered to existing shareholders in proportion to their holding at no cost.
- D. These are shares that are issued to new shareholders in proportion to their holding at no cost.

(2 marks)

1.7. CBT company had the following balances in its books of accounts:

	<b>2021</b>	<b>2022</b>
	<b>K'000</b>	<b>K'000</b>
Depreciation	45,000	55,000
Inventory	15,000	10,000
Receivables	20,000	34,000
Payables	18,000	26,500

Given the information that the company's profit before tax for the year ended 31 December 2022 was K96,000,000, calculate the figure for net cash flows from operating activities for the year ended 31 December 2022.

- A. K85,500,000
- B. K105,500,000
- C. K95,500,000
- D. K116,500,000

(2 marks)

1.8. Which of the following make up total prime cost?

1. Direct materials
2. Direct expenses
3. Factory overheads
4. Direct labor

- A. 1, 2 and 4
- B. 1, 2 and 3
- C. 2, 3 and 4
- D. 3, 4 and 1

(2 marks)

1.9. The company opening inventory is K15,000, Purchases figure is K30,000 and closing inventory is K25,000. Calculate the sales figure, given a margin of 25%?

- A. K20,000
- B. K6,667
- C. K15,000
- D. K26,667

(2 marks)

1.10 Mwaka's financial year end is 31 December 2022. On 31 December 2021 the business had a closing balance of rates prepaid of K45,000. During the year 2022 the business paid rates by cheque of K65,000. Rates owing on 31 December 2022 was K14,000.

How much rates should be shown in the statement of profit or loss for the year ended 31 December 2022.

- A. K96,000
- B. K124,000
- C. K93,000
- D. K34,000

(2 marks)

**[Total: 20 Marks]**

## SECTION B

Attempt any **FOUR (4)** questions out of **FIVE (5)** in this section.

### QUESTION TWO

- (a) Ben and Tom formed a partnership on 1 January 2023.

**The following information is available:**

1. On 1 January 2023 Ben contributed K90,000 capital and Tom contributed K60,000. On 1 July 2023 Ben contributed a further K10,000 as capitals.

Interest on capital is allowed at the rate of 3% per annum.

2. Tom is entitled to an annual salary of K9,000 per annum for the first four (4) months of the first financial year. After that date the salary was to increase to K12,000 per annum.
3. During the year ended 31 December 2023, Ben's drawings amounted to K9,800 and Tom's drawings amounted to K20,800.
4. Interest on drawings for the year ended 31 December 2023 amounted to K490 for Ben and K1,040 for Tom.
5. Profits and losses are shared in the ratios 2/3 to Ben and 1/3 to Tom.
6. On 1 January 2023 Tom made a loan of K15,000 to the business. The loan is repayable on 31 December 2027, and loan interest of 4%, per annum is to be credited to Tom's current account.
7. The profit for the year ended 31 December 2023 (after loan interest) was K27,920.

**Required:**

Prepare the profit and loss appropriation account for the year ended 31 December 2023.  
(7 marks)

- (b) Further to transactions in (a) above, Ben and Tom provided the following information on 31 December 2023:

	<b>K'000</b>
Premises at net book value	95,000
Machinery and equipment at net book value	46,500
Inventory	28,750
Trade receivables	30,360
Trade payables	32,170
Other payables	1,390
Bank balance	5,870 debit

**Required**

Prepare the Partnership Statement of Financial Position as at 31 December 2023.

(10 marks)

(c) State 3 advantages of going into partnership as a business.

(3 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

DCM Limited owned three (3) trucks at 1 January 2023. Motor Vehicles Account is to be maintained at cost. Depreciation is charged annually at 20 percent on cost on all vehicles in use at the end of the year. No residual value is expected.

- Truck A purchased on 21 May 2019 for K624,000
- Truck B purchased on 20 June 2021 for K392,000
- Truck C purchased on 1 October 2022 for K976,000

During the year ended 31 December 2023, the following transactions occurred:

- (i) 1 July 2023, Truck B was involved in an accident and considered to be a write-off by the insurance company which paid K210,000 in settlement.
- (ii) 30 September 2023, Truck D was purchased for K656,000
- (iii) 15 October 2023, Truck A was sold for K140,000
- (iv) 30 October 2023, Truck E was purchased for K780,000

**Required:**

Prepare the following ledger Accounts for the year ended 31 December 2023.

- (a) Motor Vehicles Account at cost (5½ marks)
- (b) Motor Vehicles Accumulated Depreciation Account (9½ marks)
- (c) Motor Vehicles Disposal Account for each vehicle disposed of. (5 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

At the end of March 2023, the bookkeeper of Kende Limited extracted a trial balance that included a number of errors. The trial balance is shown below:

	<b>Dr</b> <b>K'000</b>	<b>Cr</b> <b>K'000</b>
Purchases	39,600	
Sales		140,250
Rent	1,500	
Wages	3,300	
General expenses	1,950	
Carriage inwards		2,100
Carriage outwards	2,700	

Salaries	5,250	
Premises	93,000	
Fixtures and fittings	2,580	
Receivables		2,220
Payables	630	
Bank overdraft	570	
Cash	330	
Drawings		720
Capital		<u>13,800</u>
	<u>151,410</u>	<u>159,090</u>

Further investigations have shown the following additional errors:

- (i) K480,000 in respect of salaries had been incorrectly charged to the wages account.
- (ii) Cash sales of K300,000 had been entered in the bank account instead of the cash account.
- (iii) K120,000 had been entered in the general expenses account instead of the carriage outwards account.
- (iv) No entry had been made to record cash receipts of K180,000 from receivables.
- (v) Fixtures and Fittings costing K1,500,000 had been posted to the premises account rather than the fixtures and fittings account.

**Required:**

- (a) Identify which of the above figures are on the wrong side of the trial balance. (5 marks)
- (b) Prepare journal entries to record the corrections of the above errors (narrations are NOT required). (5 marks)
- (c) Prepare a revised trial balance that incorporates your adjustments in (a) and (b) above. (8 marks)
- (d) Define what an Asset is and what Equity is. (2 marks)

**[Total 20 Marks]**

**QUESTION FIVE**

Mary Banda, a sole trader, extracted the following trial balance on 31 December 2023:

	<b>Dr K'000</b>	<b>Cr K'000</b>
Capital at 1 January 2023		39,150
Receivables	61,500	
Cash in hand	2,250	
Payables		51,750
Fixtures and fittings at cost	63,300	
Discount allowed	1,953	
Discount received		1,800

Inventory at 1 January 2023	27,690	
Sales		731,325
Purchases	569,385	
Motor vehicles at cost	68,595	
Light and heat	9,150	
Motor expenses	4,875	
Rent	16,125	
General expenses	14,213	
Bank overdraft		30,150
Provision for depreciation:		
Fixtures and fixtures		3,300
Motor vehicles		22,938
Drawings	<u>41,377</u>	
	<u>880,413</u>	<u>880,413</u>

**The following information as at 31 December 2023 is also available:**

- (i) K780,000 is owing for motor expenses.
- (ii) K675,000 has been prepaid for rent.
- (iii) Depreciation is to be provided for the year as follows:  
         Motor vehicles: 20% on cost.  
         Fixtures and fittings: 10% reducing balance method.
- (iv) Inventory at the close of business was valued at K30,375,000.
- (v) Mary took some goods costing K1,200,000 from inventory for her own use.

**Required:**

- (a) (i) Explain the effect, on profit, of the adjustment in notes (i) to (iii) above. (3 marks)
  - (ii) Show the net effect of these adjustments. (1 mark)
  - (b) Prepare Mary Banda's statement of profit or loss for the year ended 31 December 2023. (8½ marks)
  - (c) Prepare Mary Banda's statement of financial position as at 31 December 2023. (7½ marks)
- [Total: 20 Marks]**

**QUESTION SIX**

Bill Sante maintains his own accounting records records of cash and bank transactions. His transaction for the month of March 2024 were as follows:

March 1 Cash in hand K1,000, cash at bank K15,000.

- 4 Sante received a cheque of K3,000 from W. Akobwa which was paid directly into the bank account. This represented sales.



- 6 Paid cash wages of K150.
- 8 Sold goods for cash K750.
- 10 Received cheque from G. Smart for K1,500, in full settlement of a debt of K1,600 directly paid into the bank account.
- 11 Paid sundry expenses in cash, K120.
- 14 Purchased goods by cheque for K3,500.
- 18 Paid J. Sand a cheque of K475 in full settlement of a credit of K525.
- 23 Withdrew K63 from the bank to pay the company engaged to clean the office.
- 24 Paid wages for cash, K150.
- 26 Sold goods for cash worth K950.
- 28 Paid salaries by cheque, K600.
- 31 Kept cash amounting to K1,500 and paid the remainder into the bank.

**Required:**

- (a) Prepare Sante's bank account, cash account, sales and purchases accounts. (10 marks)
- (b) Prepare ledger accounts for: W. Akobwa, G. Smart, J. S and sundry expenses. (3 marks)
- (c) Prepare the wages accounts, salaries account, office cleaning account and discount received and discount allowed accounts. (3 marks)
- (d) Using the information from the ledger accounts above, prepare the statement of profit or loss for the month of March. (4 marks)

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

### (a) Ben and Tom

#### Profit and Loss Appropriation Account for the year ended 31 December 2023.

		K	K
Profit for the year			27,920
<b>Add:</b> Interest on drawings:	- Ben	490	
	- Tom	<u>1,040</u>	
			<u>1,530</u>
			29,450
<b>Less:</b> Interest on capital:	Ben:		
	3% x 90,000 x 6/12	1,350	
	3% x 100,000 x 6/12	<u>1,500</u>	
		2,850	
	Tom:		
	3% x 60,000	<u>1,800</u>	
		4,650	
<b>Less:</b> Partnership salary	Tom:		
	(3,000 + 8,000)	<u>11,000</u>	
Residual profit			<u>(15,650)</u>
			13,800
Share of profit	Ben: $\frac{2}{3} \times 13,800$	9,200	
	Tom: $\frac{1}{3} \times 13,800$	<u>4,600</u>	
			<u>(13,800)</u>
			<u>-</u>
or Ben's Interest on capital			
3% x 90,000	2,700		
3% x 10,000 x 6/12	<u>150</u>		
	<u>2,850</u>		

### (b) Ben and Tom

#### Statement of financial position as at 31<sup>st</sup> December 2023

	K	K
<b>Non-Current Assets:</b>		
Premises at cost		95,000
Machinery equipment		<u>46,500</u>
		141,500
<b>Current Assets:</b>		
Inventory	28,750	
Trade receivables	30,360	
Bank	<u>5,870</u>	<u>64,980</u>
		<u>206,480</u>

**Total Assets:**

Capital and liabilities:

Capital accounts:	- Ben	100,000	
	- Tom	<u>60,000</u>	160,000
<b>Current Accounts</b>	- Ben	1,760	
	- Tom	<u>(3,840)</u>	(2,080)
<b>Non-Current liabilities:</b>			
Loan – Tom			15,000

**Current liabilities:**

Trade payables	32,170	
Offer payables	<u>1,390</u>	
		<u>33,560</u>
		<u>206,480</u>

**Working 1**

		<b>Current Accounts</b>					
		Ben	Tom			Ben	Tom
2023		<b>K</b>	<b>K</b>	2023		<b>K</b>	<b>K</b>
31 Jan	Drawings	9,800	20,800	31 Jan	Interest on loan		600
	Interest on drawings	490	1,040		Interest on loan	2,850	1,800
	Balance c/d	1,760			Salary		11,000
					Profit share	9,200	4,600
					Balance c/d		3,840
		<u>12,050</u>	<u>21,840</u>			<u>12,050</u>	<u>21,840</u>

(c) Any Three (3) advantages of going into partnership business

1. Increased financial base.
2. Necessitates share of tasks and responsibilities.
3. Additional skills/knowledge/expertise brought about by fine blend of partners.
4. Decision making is easy.
5. Risks are shared or spread.
6. Losses are shared between partners.

### SOLUTION THREE

(a) Motor Vehicles Account

		<b>K</b>			<b>K</b>
1 Jan	Balance (w1) b/f	1,992,000	1 July	Disposal-Truck B	392,000
30 Sep	Bank	656,000	15 Oct	Disposal-Truck A	624,000
30 Oct	Bank	<u>780,000</u>	31 Oct	Balance c/d	<u>2,412,000</u>
		<u>3,428,000</u>			<u>3,428,000</u>

(b) Motor Vehicles Accumulated Depreciation Account

		<b>K</b>			<b>K</b>
1 July	Disposal-truck B	156,800	1 Jan	Balance (w2)	851,200
15 Oct	Disposal-truck A	499,200	31 Dec	Depreciation exp (w3)	482,400
31 Dec	Balance c/d	<u>677,600</u>			
		<u>1,333,600</u>			<u>1,333,600</u>

(c) Disposal Account – Truck B

		<b>K</b>			<b>K</b>
31 Dec	Motor vehicles	392,000	31 Dec	Accum'd Depn	156,800
			31 Dec	Insurance-Bank	210,000
			31 Dec	Loss on disposal	<u>25,200</u>
		<u>392,000</u>			<u>392,000</u>

Disposal Account – Truck A

		<b>K</b>			<b>K</b>
31 Dec	Motor vehicles	624,000	31 Dec	Accum'd Depn	499,200
31 Dec	P/Loss-Profit on Dis	<u>15,200</u>	31 Dec	Bank	<u>140,000</u>
		<u>639,200</u>			<u>639,200</u>

### Workings

1. Motor Vehicle opening balance = 624,000+392,000+976,000=K1,992,000

2. Accumulated depreciation balance.

Truck A 20% x K624,000 x 4 yrs = K499,200

Truck B 20% x K392,000 x 2 yrs = K156,800

Truck C	20% x K976,000	=	<u>K195,200</u>
			<u>K851,200</u>
3. Current year Depreciation charge.			
Truck C	20% x 976,000		K195,200
Truck D	20% x 656,000		K131,200
Truck E	20% x 780,000		<u>K156,000</u>
			<u>K482,400</u>
4. Truck A Disposal			
	Cost		K624,000
	Accumulated Depn (w2)		(K499,200)
	Sale proceeds		<u>(K140,000)</u>
	∴ Profit on Disposal		<u>(K15,200)</u>
5. Truck B Disposal			
	Cost		K392,000
	Accumulated Depn (w2)		(K156,800)
	Insurance Refund		<u>(K210,000)</u>
	∴ Loss on Disposal		<u>K25,200</u>

## SOLUTION FOUR

(a)	Carriage inwards	K2,100
	Receivables	K2,220
	Payables	K630
	Bank overdraft	K570
	Drawings	K720

### (b) Journal Entries

	Dr	Cr
	K'000	K'000
1. Salaries	480	
Wages		480
2. Cash	300	
Bank		300
3. Carriage outwards	120	
General expenses		120
4. Cash	180	
Receivables		180
5. Fixtures and fittings	1,500	
Premises		1,500

### (c) Revised Trial Balance

	Dr	Cr
	K'000	K'000
Purchases	39,600	
Sales		140,250
Rent paid	1,500	
Wages	2,820	
General expenses	1,830	
Carriage inwards	2,100	
Carriage outwards	2,820	
Salaries	5,730	
Premises	91,500	
Fixtures and fittings	4,080	
Receivables	2,040	
Payables		630

Bank overdraft		870
Cash	810	
Drawings	720	
Capital		<u>13,800</u>
	<u>155,550</u>	<u>155,550</u>

- (d) An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Equity is the residual interest in the assets of the entity after deducting all its liabilities.



## SOLUTION FIVE

(a)

(i) The effects on profit are as follows:

1. Motor expenses amount to K780,000 is additional expense and reduces profits.
2. Rent prepayment of K675,000 is a reduction in expenses and so increases profit.
3. Depreciation of K19,719,000 is additional expense and so reduces profit.

(ii) Total effect on net profit:

$$- 780 + 675 - 19,719 = 19,824 \text{ reduction.}$$

(b)

### Mary Banda's statement of profit or loss for the year ended 31<sup>st</sup> December 2023

	K	K
Revenue		731,325
<b>Cost of sales:</b>		
Opening inventory	27,690	
Add: Purchases	569,385	
Less: closing inventory	(30,375)	
Less: Goods for personal use	(1,200)	
		<u>(565,500)</u>
Cash profit		165,825
Add: Discount received		1,800
		<u>167,625</u>
<b>Less: Expenses</b>		
Discount allowed	1,953	
Light and heat	9,150	
Motor expenses (4,875 + 780)	5,655	
Rent (16,125 – 675)	15,450	
General expenses	14,213	
Depreciation:		
Motor vehicles (68,595 x 20%)	13,719	
Fixtures and fittings (10% x 63,300 – 300)	<u>6,000</u>	
		<u>(66,140)</u>
<b>Net profit</b>		<u>101,485</u>

(c) **Mary Banda Statement of financial position as at 31<sup>st</sup> December 2023:**

	Cost K	Dep'n K	NBV K
<b>Non-current assets:</b>			
Fixtures and liabilities	63,300	(9,300)	54,000

Motor vehicles	<u>68,595</u>	<u>(36,657)</u>	<u>31,938</u>
	<u>131,895</u>	<u>(45,957)</u>	85,938
<b>Current assets:</b>			
Inventory		30,375	
Receivables		61,500	
Prepayments		675	
Cash in hand		<u>2,250</u>	
			<u>94,800</u>
			<u>180,738</u>
<b>Capital:</b>			
At 1 January 2023			39,150
Profit for the year			<u>101,485</u>
			140,635
Less: Drawings (41,377 + 1,200)			<u>(42,577)</u>
			98,058
<b>Current liabilities:</b>			
Payables		51,750	
Accruals		780	
Bank overdraft		<u>30,150</u>	
			<u>82,680</u>
			<u>180,738</u>

**SOLUTION SIX**

(a)

**Bank Account**

	<b>K</b>		<b>K</b>
Balance b/f	15,000	Purchases	3,500
W. Akobwa	3,000	Office cleaning	63
G. Smart	1,500	J. Sand	475
Cash	780	Salaries	600
		Balance c/d	<u>15,642</u>
	<u>20,280</u>		<u>20,280</u>

**Cash Account**

	<b>K</b>		<b>K</b>
Balance b/f	1,000	Wages	150
Sales	750	Sundry expenses	120
sales	950	Wages	150
		Bank (bal. figure)	780
		Balance c/d	<u>1,500</u>
	<u>2,700</u>		<u>2,700</u>

**Sales Account**

	<b>K</b>		<b>K</b>
Balance c/d	4,700	W. Akobwa	3,000
		Cash	750
		Cash	<u>950</u>
	<u>4,700</u>		<u>4,700</u>

**Purchase Account**

	<b>K</b>		<b>K</b>
Bank	<u>3,500</u>	Balance c/d	<u>3,500</u>

**J. Sand Account**

	<b>K</b>		<b>K</b>
Bank	475	Balance b/d	525
Discount received	<u>50</u>		
	<u>525</u>		<u>525</u>

(b)

**W. Akobwa's Account**

K		K	
Sales	<u>3,000</u>	Bank	<u>3,000</u>

**G. Smart's Account**

K		K	
Balance b/f	1,600	Bank	1,500
	<u>      </u>	Discount allowed	<u>100</u>
	<u>1,600</u>		<u>1,600</u>

**Sundry Expenses Account**

K		K	
Cash	<u>120</u>	Balance c/d	<u>120</u>

(c)

**Wages Account**

K		K	
Cash	150	Balance c/d	300
Cash	<u>150</u>		<u>      </u>
	<u>300</u>		<u>300</u>

**Salaries Account**

K		K	
Bank	<u>600</u>	Balance c/d	<u>600</u>

**Office Clearing Account**

K		K	
Bank	<u>63</u>	Balance c/d	<u>63</u>

### Discount Received Account

	K		K
Balance c/d	<u>50</u>	J. Sand	<u>50</u>

### Discount Allowed Account

	K		K
G. Smart	<u>100</u>	Balance c/d	<u>100</u>

(d) **Bill Sante's Statement of Profit or Loss for the month ended 31 March.**

	K	K
Sales		4,700
<b>Less: Cost of goods sold</b>		
Purchases		<u>(3,500)</u>
Gross profit		1,200
Add: discount received		<u>50</u>
		1,250
<b>Less: Expenses</b>		
Wages	300	
Discount allowed	100	
Sundry expense	120	
Office expenses	63	
Salaries	<u>600</u>	
		<u>(1,183)</u>
Net profit		<u>67</u>

**END OF SUGGESTED SOLUTIONS**



ZICA PROGRAMME EXAMINATIONS

DIPLOMA IN ACCOUNTANCY

DA 2 QUANTITATIVE ANALYSIS

WEDNESDAY 11 SEPTEMBER 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 paper is divided into TWO (2) sections:  
Section A: Ten (10) compulsory multiple choice questions.  
Section B: One (1) compulsory scenario question.  
Plus Four (4) scenario questions. Attempt any Three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A mathematical standard formulae book must be provided to you. Request for one if not given by the Invigilator.

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

## SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions

### QUESTION ONE

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

- 1.1 A researcher is gathering data from four geographical areas designated: South =1; North =2; East =3; West =4. The designated geographical regions represent
- A. Qualitative data
  - B. Quantitative data
  - C. Label data
  - D. Either quantitative or qualitative data
- (2 marks)
- 1.2 Calculate the approximate amount the principle will grow by the end of year four (4), if a single sum of K25,000 is invested at 12 percent per annum with interest compounded quarterly.
- A. K35,644.02
  - B. K39,337.98
  - C. K45,667.12
  - D. K40,177.66
- (2 marks)
- 1.3 A student taking six (6) courses obtains the following scores in his first tests: 70%, 66%, 53%, 45%, 80%,  $x\%$ . What would be the score  $x\%$  if the average score obtained was 64.
- A. 35
  - B. 64
  - C. 70
  - D. 80
- (2 marks)
- 1.4 Suppose that the weights of furniture in a shop are normally distributed with mean 50kg and standard deviation 7kg. What is the probability of a weight being less than 55kg?
- A. 0.7611
  - B. 0.2389
  - C. 0.6141
  - D. 0.7410
- (2 marks)

- 1.5 A financial company lends money to clients and requires them to pay-back in instalment classifications of periodical equal payment with interest. The periodical series of payments made is classified as;

A. marginal payment  
B. effective payment  
C. annuity  
D. nominal payment

(2 marks)

- 1.6 An upcoming entrepreneur is pricing goods based on demand. The probability distribution of sales is given in the table below:

Price of Product (X) (kwacha)	100	150	220
Probability P(x)	0.4	0.3	0.3

The expected monetary value (EMV) of the sales is:

A. K151.00  
B. K150.00  
C. K156.67  
D. K100.00

(2 marks)

- 1.7 The unemployment level last quarter was 565,000. The trend figure for that quarter was 570,000 and the seasonal factor using the multiplicative model was 1.02. What is the seasonally adjusted unemployment figure to the nearest whole for the last quarter?

A. 553,922  
B. 558,824  
C. 565,000  
D. 570,000

(2 marks)

- 1.8 Due to the increase in fuel price, transport fare from Lusaka to Nakonde has risen from K550 to K900. Express the increase as a percentage of the original.

A. 61%  
B. 39%  
C. 64%  
D. 62%

(2 marks)

- 1.9 Suppose a regression equation for two variables is equal to  $\hat{y} = a + bx$ . Which of the following best describe the values of  $a$  and  $b$  respectively.

A. Independent variable, dependent variable  
B. Slope, regression coefficient



- C. Correlation, intercept
- D. Intercept, slope

(2 marks)

1.10 The amounts of rain in five districts for the month January was recorded as follows; 50mm, 40mm, 70mm, 90mm and 45mm. The standard deviation of the rains obtained is:

- A. 59
- B. 17.20
- C. 429.99
- D. 20.74

(2 marks)

**[Total: 20 Marks]**

## SECTION B

Attempt any **FOUR (4)** questions out of **FIVE (5)** in this section.

### QUESTION TWO

- (a) Mr Phiri decides to get a loan of K60,000 to finance his business. Find the amount of money Mr Phiri will be owing after two (2) years at an interest rate of 15% compounded annually. (5 marks)
- (b) A company that has a large number of supermarket grocery stores claims that customers who pay by personal check spend an average of \$87 on groceries at these stores with a standard deviation of \$22. Assume that the expenses incurred on groceries by all such customers at these stores are normally distributed.

#### **Required:**

- (i) Find the probability that a randomly selected customer who pays by check spends more than \$114 on groceries. (3 marks)
- (ii) What percentage of customers paying by check spend between \$40 and \$60 on groceries? (4 marks)
- (iii) What percentage of customers paying by check spend between \$70 and \$105? (4 marks)
- (iv) Is it possible for a customer paying by check to spend more than \$185? Explain (4 marks)

**[Total: 20 Marks]**

### QUESTION THREE

- (a) (i) State the difference between an Annuity and a Perpetuity (2 marks)
- (ii) Define the term 'compound interest' (2 marks)
- (b) How long would it take a deposit of K5,000 to grow to K12,500 at an interest rate of 8% compounded quarterly? (6 marks)
- (c) Robben Construction runs two entities. The first one (A) supplies plumbing materials and the second entity (B) supplies electrical accessories. The cash flows of two projects A and B are shown in the table below:

YEAR	1	2	3
Entity A	500	600	300
Entity B	500	900	700

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

**[TOTAL: 20 Marks]**

#### **QUESTION FOUR**

The table below shows the percentage returns over four (4) years of eighty corporate bond funds.

Percentages range	Frequency
5 – 10	7
10 - 15	10
15 – 20	14
20 – 25	22
25 – 30	15
30 – 35	9
35 - 40	3

**Required:**

- (a) Calculate the mean percentage of the bond funds. (5 marks)
- (b) Calculate the standard deviation from the data in the table above. (4 marks)
- (c) Determine the Mode (4 marks)
- (d) Find the median. (4 marks)
- (e) Find the coefficient of variation and interpret the result (3 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

A panel of judges *A* and *B* graded seven debaters and independently awarded the following marks:

Debater	1	2	3	4	5	6	7
Marks by <i>A</i> , <i>x</i>	40	34	28	30	44	38	31
Marks by <i>B</i> , <i>y</i>	32	39	26	30	38	34	28

**Required:**

- (a) Find the least squares line for the data (11 marks)

- (b) An eighth debater was awarded 36 marks by judge *A* while judge *B* was not present. If judge *B* was also present, how many marks would you expect him to award to the eighth debater assuming that the same degree of relationship exists in their judgement? (2 marks)
- (c) Find the coefficient of correlation for the data (4 marks)
- (d) Find the coefficient of determination for the data and interpret the result. (3 marks)

**[Total: 20 Marks]**

**QUESTION SIX**

- (a) The quarterly sales of Ching'omba's hair dressing company of 2022, and 2023 are given in the table below:

Sales in K'000				
	Quarter 1	Quarter II	Quarter III	Quarter IV
2022	220	160	180	90
2023	240	180	160	80

**Required:**

Calculate:

Using a multiplicative model,

- (i) The four – quarter centered moving average trend. (8 marks)
- (ii) The seasonal variations values. (4 marks)
- (b) The outbreak of cholera has affected the government programs in Zambia. The following data represents monthly provincial total number of cases in the year 2024.

Name of city	Number of babies
Lusaka	203
Eastern	80
Western	70
Central	290
Luapula	77

- (i) Draw a bar chart to illustrate this information (3 marks)

(ii) Draw a pie chart to illustrate this information

(5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

1.1 A

1.2 D

1.3 C

1.4 A

1.5 C

1.6 A

1.7 A

1.8 C

1.9 D

1.10 D

## SOLUTION TWO

(a)

$$P_2 = P_0 \left(1 + \frac{r}{100}\right)^t$$

$$P_2 = 60000 \left(1 + \frac{15}{100}\right)^2$$

$$P_2 = 60000(1.3225)$$

$$K79,350$$

(b)

(i)  $Z = \frac{X-87}{22}$

$$P(X > 114)$$

$$P\left[\frac{X-87}{22} > \frac{114-87}{22}\right]$$

$$= P[Z > 1.23]$$

$$= 1 - 0.8907$$

$$= 0.1093$$

(ii)

$$P\left[\frac{40-87}{22} < \frac{X-87}{22} < \frac{60-87}{22}\right]$$

$$P[-2.14 < Z < -1.23]$$

$$P[Z < -1.23] - P[Z < -2.14]$$

$$0.1093 - 0.0162$$

$$= 0.0931$$

Therefore, the percentage is:

$$0.0931 \times 100 = 9.31\%$$

(iii)

$$P\left[\frac{70-87}{22} < \frac{X-87}{22} < \frac{105-87}{22}\right]$$

$$P[-0.77 < Z < 0.82]$$

$$P[Z < 0.82] - P[Z < -0.77]$$

$$0.7939 - 0.2206$$

$$= 0.5733$$

Therefore, the percentage is:

$$0.5733 \times 100 = 57.33\%$$

(iv)  $P(X > 185)$

$$P\left[\frac{X - 87}{22} > \frac{185 - 87}{22}\right]$$

$$= P[Z > 4.45]$$

$$= 0$$

It's not possible for a customer paying by check to spend more than \$185 because the probability of that happening is zero.



### SOLUTION THREE

(a)

- (i) **An annuity** makes regular payments through a specific time frame but has an expiration date. **Perpetuity** makes payment indefinitely. So not all annuities are perpetuities but all perpetuities are annuities.
- (ii) **Compound interest:** Compound interest (or compounding interest) is the interest on a loan or deposit calculated based on both the initial principal and the accumulated interest from previous periods.

(b)

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

$$12500 = 5000 \left( 1 + \frac{0.08}{4} \right)^{4t}$$

$$\frac{12500}{5000} = \left( 1 + \frac{0.08}{4} \right)^{4t}$$

$$2.5 = (1.02)^{4t}$$

$$\ln(2.5) = (4t)\ln(1.02)$$

$$4t = \frac{\ln(2.5)}{\ln(1.02)}$$

$$t = 11.6 \text{ years}$$

(c)

#### Entity A

YEAR	CASH	DF	C(DF)	PV
1	500	$1.1^{-1} = 0.9090$	$500(0.9091)$	454.55
2	600	$1.1^{-2} = 0.8264$	$600(0.8264)$	495.84
3	300	$1.1^{-3} = 0.7513$	$300(0.7513)$	225.39
<b>TOTAL</b>				1175.78

$$\text{NPV} = 1175.78 - 1600 = \text{K}-424.22$$

#### Entity B

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

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

**Entity B is optimum**

## SOLUTION FOUR

Percentages range	Mid point x	Frequency n	Cumulative frequency	nx	n(x-mean)^2
5 – 10	7.5	7	7	52.5	1409.493
10 - 15	12.5	10	17	125	844.561
15 – 20	17.5	14	31	245	245.7854
20 – 25	22.5	22	53	495	14.4342
25 – 30	27.5	15	68	412.5	506.3415
30 – 35	32.5	9	77	292.5	1051.705
35 - 40	37.5	3	80	112.5	749.8683
TOTAL		80		1735	4822.188

(a) Mean  $\bar{X} = \frac{1}{n} \sum nx = \frac{1}{80} (1735) = 21.69$

(b) Standard deviation =  $\sqrt{\frac{1}{n-1} \sum ni(xi - \bar{X})^2} = \frac{1}{80-1} (4822.188) = 7.8$

(c) Mode:  $= L_k + w \frac{d_1}{d_1 + d_2}$

K=4

Mode =  $20 + 5 \left( \frac{8}{8+7} \right) = 20 + 2.666$

**Mode = 22.667**

(d) **Median** =  $L_k + \frac{w}{n_k} \left( \frac{n}{2} - CF_{k-1} \right)$

**K=4**

$$= 20 + \frac{5}{22} (40 - 31)$$

$$= 20 + 2.045 = 22.045$$

(e) **Coefficient of variation** =  $\frac{sd}{mean} \times 100 = \frac{7.8}{21.69} \times 100 = 35.9\%$

## SOLUTION FIVE

(a)

Debater	$x$	$y$	$x^2$	$y^2$	$xy$
1	40	32	1600	1024	1280
2	34	39	1156	1521	1326
3	28	26	784	676	728
4	30	30	900	900	900
5	44	38	1936	1444	1672
6	38	34	1444	1156	1292
7	31	28	961	784	868
	$\sum x = 245$	$\sum y = 227$	$\sum x^2 = 8,781$	$\sum y^2 = 7,505$	$\sum xy = 8,066$

$$\bar{x} = \frac{\sum x}{n} = \frac{245}{7} = 35; \quad \bar{y} = \frac{\sum y}{n} = \frac{227}{7} = 32.4$$

$$SS_{xx} = \sum x^2 - \frac{(\sum x)^2}{n} = 8,781 - \frac{245^2}{7} = 206$$

$$SS_{yy} = \sum y^2 - \frac{(\sum y)^2}{n} = 7,505 - \frac{227^2}{7} = 143.7$$

$$SS_{xy} = \sum xy - \frac{(\sum x)(\sum y)}{n} = 8,066 - \frac{(245)(227)}{7} = 121$$

$$\beta_1 = \frac{SS_{xy}}{SS_{xx}} = \frac{121}{206} = 0.59$$

$$\beta_0 = \bar{y} - \beta_1 \bar{x} = 32.4 - 0.59(35) = 11.75$$

Therefore, the regression equation is given by

$$y = \beta_0 + \beta_1 x$$

$$y = 11.75 + 0.59x$$

(b)  $y = 11.75 + 0.59x$

$$y = 11.75 + 0.59(36)$$

$$y = 11.75 + 21.24$$

$$y = 32.99$$

$$y = 33$$

(c) The coefficient of correlation is

$$r = \frac{SS_{xy}}{\sqrt{SS_{xx}SS_{yy}}} = \frac{121}{\sqrt{206 \times 143.7}} = 0.70$$

(d) The coefficient of determination is

$$r^2 = 0.70^2 = 0.49$$

INTERPRETATION: changes in variable x cause 49% variation in y

## SOLUTION SIX

(a)

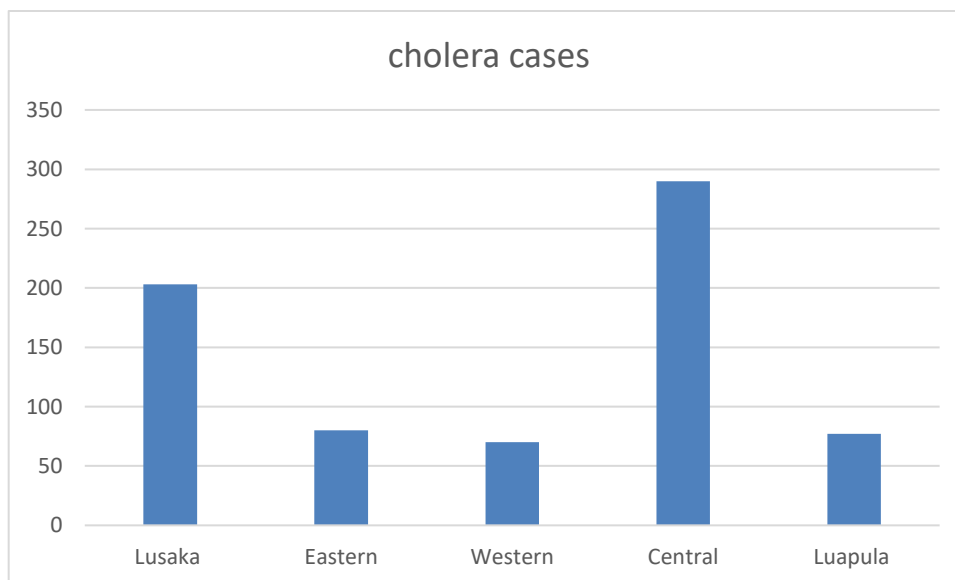
$t$	$y$		$\hat{y} = 4CMA$	$s = \frac{y}{\hat{y}}$
1	220			
2	160	650		
3	180	670	165	1.1
4	90	690	170	0.5
5	240	670	170	1.4
6	180	660	166.25	1.0
7	160			
8	80			

Summarized seasonal indices

	I	II	III	IV
2022			1.1	0.5
2023	1.4	1.0		

(b)

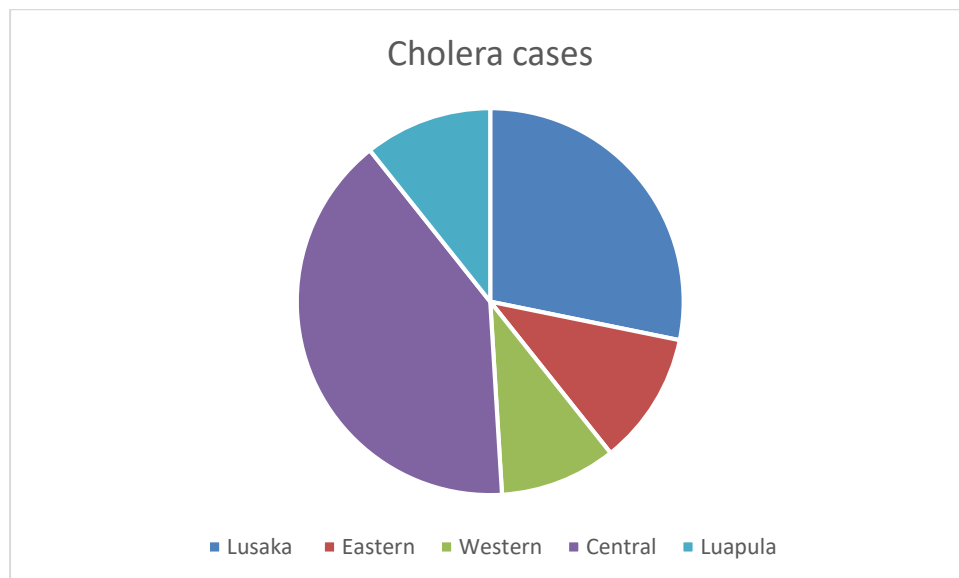
(i)



(ii)

Name of city	Number of babies	degrees
Lusaka	203	101.5
Eastern	80	40

Western	70	35
Central	290	145
Luapula	77	38.5



**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 3: BUSINESS ECONOMICS

---

TUESDAY 10 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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## Section A: - (Compulsory)

Attempt all ten (10) multiple choice questions

### QUESTION ONE

#### MULTIPLE CHOICE (ANSWER ALL QUESTIONS)

- 1.1 A peak in the business cycle:
- A. Occurs when unemployment is highest
  - B. Is a temporal maximum point.
  - C. Is a temporal minimum point.
  - D. Occurs when inflation is at its lowest
- (2 marks)
- 1.2 When calculating national income using the income method, government statisticians add together all the rewards of the factors of production. Which of the following is the reward for capital?
- A. Interest
  - B. Profit
  - C. Salaries and wages
  - D. Rent
- (2 marks)
- 1.3 .....is a total ban on trade between two countries arising from serious differences/conflict.
- A. Tariff
  - B. Quota
  - C. Embargo
  - D. Exchange controls
- (2 marks)
- 1.4 Given that the simple multiplier in the economy is 4 and that investment spending increases by K10 billion, what happens to the equilibrium income and the marginal propensity to spend?
- A. Equilibrium income increases by K40 billion while marginal propensity to spend increases by 0.75.
  - B. Equilibrium income increases by K10 billion while marginal propensity to spend increases by 0.25.
  - C. Equilibrium income decreases by K40 billion while marginal propensity to spend decreases by 0.75
  - D. Equilibrium income decreases by K10 billion while marginal propensity to spend decreases by 0.25.
- (2 marks)
- 1.5 Which one of the following would lead the demand curve for an inferior good to shift to the left when it changes?
- A. Increase in the selling price



- B. Increase in income
- C. Decrease in income
- D. Increase in the price of a substitute

(2 marks)

1.6 A Newspaper headline states: "Real GDP falls again as the economy slumps". This condition is likely to produce what type of unemployment?

- A. Structural
- B. Natural
- C. Frictional
- D. Cyclical

(2 marks)

1.7 At the point of production  $Q=7$  units, Average revenue  $AR=317$ , Marginal revenue  $MR=143$ , Marginal cost  $MC=143$

What is the profit maximizing price?

- A.  $MR=143$
- B.  $MC=143$
- C.  $AR=317$
- D.  $Q=7$

(2 marks)

1.8 In perfect competition, each seller is described as a price-taker. This means that.....

- A. The seller has influence over the selling price
- B. Demand is perfectly elastic
- C. The seller has no influence over the selling price
- D. Demand is perfectly inelastic

(2 marks)

1.9 If the Bank of Zambia wishes to reduce the excess reserves of commercial banks in order to fight inflation, which of the following actions would be recommended?

- A. The Bank of Zambia sells bonds to the public
- B. The Bank of Zambia sells bonds to commercial banks
- C. The Bank of Zambia buys bonds from commercial banks
- D. The Bank of Zambia decreases the discount rate.

(2 marks)

1.10 Consider the table below:

Quantity demanded	Price	Quantity supplied
52	K50	73
62	45	62

72	40	51
82	35	42
92	30	33

What is the name Economists would call a government set-maximum price of K40?

- A. Price ceiling
- B. Price floor
- C. Equilibrium price
- D. Fair price

(2 marks)

**[Total: 20 Marks]**

## SECTION B

This section has **TWO (2) PARTS. Part 1 Microeconomics and Part 2 Macroeconomics.**

### 1. MICROECONOMICS

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

#### QUESTION TWO

- (a) Explain how division of labour and specialization enhance production in an advanced society. (4 marks)
- (b) Outline the four (4) factors of production. (4 marks)
- (c) When drawing the demand curve, Economists make Ceteris Paribus assumption. Explain clearly the meaning of the term "Ceteris Paribus" (4 marks)
- (d) Explain any four (4) features of a Private Limited Company. (8 marks)

**[Total: 20 Marks]**

#### QUESTION THREE

XYZ produces special components or parts for planes (Aircrafts). The company desires to minimize the cost of production so as to maximize profit and, hence, increase its market share in the aviation industry. At zero output, the total cost of production is K1,500. The table below shows a summary of production.

#### **Summary of components or parts for Planes of XYZ**

Total output of Steel(units)	Sale Price (Average Revenue, AR)/unit in Kwacha, K	Total Revenue (TR) in Kwacha, K	Marginal Revenue (MR) in Kwacha	Total Cost (TC) in Kwacha, K	Marginal Cost (MC) in Kwacha
0	-	-		1,500	
1	5,000			2,000	
2	4,700			5,000	
3	4,300			8,500	
4	4,000			12,500	
5	3,500			14,500	
6	3,300			15,200	

#### **Required:**

- (a) Calculate the total revenue for each level of steel output. (3 marks)
- (b) By calculating MR and MC in the table above, determine the price and level of output that maximizes the profit for XYZ. (10 marks)

- (c) Identify the market structure where plane manufacturers belong. (3 marks)
- (d) With the aid of a diagram, illustrate the long run equilibrium position of monopolistic competition. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Use a diagram in each case to illustrate how each of the following events affects the equilibrium price and quantity of pizza.
  - (i) The incomes of consumers rise (assume pizza is an inferior good). (4 marks)
  - (ii) Consumers expect the price of pizza to fall in the near future. (4 marks)
- (b) Explain the reason why the demand curve facing a perfect competitor is perfectly elastic (horizontal straight-line)? (4 marks)
- (c) Is the perfect competition type of market structure allocatively efficient? Explain your answer. (2 marks)
- (d) Using a graph, explain the 'kinked demand curve' of oligopoly. (6 marks)

**[Total: 20 Marks]**

## 2. MACROECONOMICS

Attempt any TWO (2) questions out of the three (3) questions from FIVE TO SEVEN.

### QUESTION FIVE

Gross domestic product, (GDP), measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in each period of time. Theoretically, GDP can be viewed in three different ways or approaches: The value-added, Expenditure and Income methods, respectively.

#### **Required:**

- (a) Outline the three (3) approaches to measuring GDP. (6 marks)
- (b) Compute the equilibrium national income if the consumption function is  $C=250+0.2Y$  where Y is the change in national income, and injection (J) in the economy is 400. (6 marks)
- (c) Distinguish between the marginal propensity to consume (MPC) and the marginal propensity to Save (MPS). (4 marks)
- (d) Distinguish between structural and demand-deficient unemployment. (4 marks)

**[Total: 20 Marks]**

### QUESTION SIX

Assume we have two countries - Country X and Y. Each country produces two goods - Fruit juice and Mobile phones, as shown in the table below.

#### **Production Mix of Country X and Country Y**

Product	Country X	Country Y
Fruit Juice:1000 units	4 labor hours	2 labor hours
Mobile Phones:100 units	2 labor hours	8 labor hours

#### **Required:**

- (a) (i) Distinguish between concepts of Absolute Advantage and Comparative Advantage. (2 marks)
- (i) Determine the country that has a comparative advantage in producing Fruit Juice and Mobile Phones, respectively, and comment on the pattern of trade. (8 marks)

- (b) In practice, many barriers to free trade exist because Governments try to protect home industries against foreign competition.
- (i) List any five (5) ways the Governments can protect home industries from foreign competition. (5 marks)
- (ii) The relationship between a single currency (monetary union) and international trade is a trendy topic among trading blocs around the world. However, there are potential benefits and drawbacks to this policy.
- State five (5) advantages of a single currency. (5 marks)

**[Total: 20 Marks]**

### **QUESTION SEVEN**

- (a) Money as a store of value introduces the concept of liquidity. Explain what you understand by the term liquidity. (3 marks)
- (b) Describe any three (3) tools or instruments of monetary policy. (9 marks)
- (c) Outline the three (3) general basic functions of commercial banks as Financial Intermediaries (FIs). (6 marks)
- (d) List any two (2) financial institutions (2 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

#### **SOLUTION ONE**

1.1 B

1.2 A

1.3 C

1.4 A

1.5 B

1.6 D

1.7 C

1.8 C

1.9 B

1.10 A

## SOLUTION TWO

- (a) Through the division of labour and specialization, the population within a given geographic region, instead of being self-sufficient and producing the full range of goods and services wanted, can concentrate its energies and time in the production of only a few goods and services in which its efficiency is greatest. Thus, specialization and division of labour allow greater output. By then exchanging some of the goods and services so produced for different goods and services produced similarly within a different geographic region, the regions' populations as a whole end up consuming a larger number and greater diversity of goods and services than would otherwise be the case
- (b) The factors of production are:
- Land: The economy's natural resources such as land, trees, sunshine and minerals
  - Labour: The mental and physical ability of individuals in a society
  - Capital: Good used in the production of other goods such as factories, tools and machinery
  - Entrepreneurship: Organization of the other 3 factors of production
- (c) **Ceteris Paribus** simply means holding other factors constant. When analyzing demand for a good we hold all other factors that affect demand constant with the exception of own price. This is the only way a demand curve can be drawn.
- (d) **Features of a Private Limited Company**
- Members– To start a company, a minimum number of 2 members are required and a maximum number of 200 members as per the provisions of the companies act.
  - Limited Liability– The liability of each member or shareholders is limited. It means that if a company faces loss under any circumstances then its shareholders are liable to sell their own assets for payment. The personal, individual assets of the shareholders are not at risk.
  - Perpetual succession– The company keeps on existing in the eyes of law even in the case of death, insolvency, the bankruptcy of any of its members. This leads to the perpetual succession of the company. The life of the company keeps on existing forever.
  - Index of members– A private company has a privilege over the public company as they don't have to keep an index of its members whereas the public company is required to maintain an index of its members.
  - A number of directors– When it comes to directors a private company needs to have only two directors. With the existence of 2 directors, a private company can come into operations.
  - Name– It is mandatory for all the private companies to use the word private limited after its name.



### SOLUTION THREE

#### (a) Total Revenue and Total Cost Schedule for XYZ

Total output of Steel(units)	Sale Price (Average Revenue, AR)/unit K	Total Revenue (TR) K	Marginal Revenue (MR) in Kwacha K	Total Cost (TC) K	Marginal Cost (MC) in Kwacha K
0	-	-		1500	
1	5000	<b>5000</b>	<b>5000</b>	2000	<b>500</b>
2	4700	<b>9400</b>	<b>4400</b>	5000	<b>3000</b>
3	4300	<b>12,900</b>	<b>3500</b>	8500	<b>3500</b>
4	4000	<b>16000</b>	<b>3100</b>	12500	<b>4000</b>
5	3500	<b>17,500</b>	<b>1500</b>	14500	<b>2000</b>
6	3300	<b>19,800</b>	<b>2300</b>	15200	<b>1700</b>

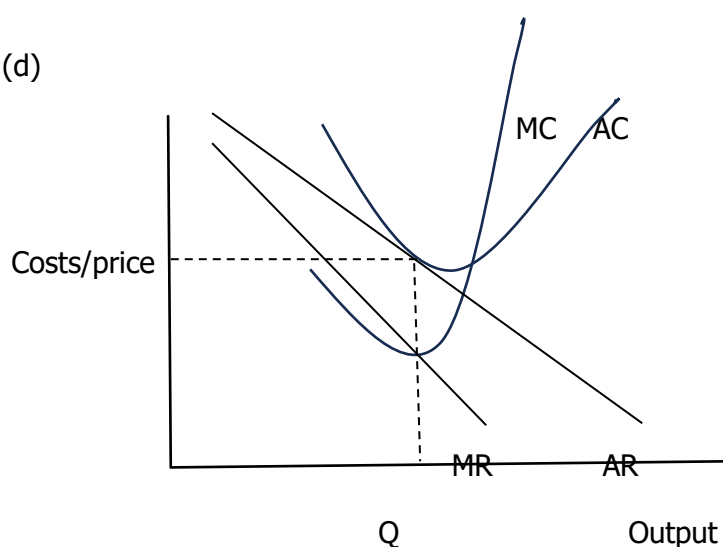
- (b) At output 3,  $MR = TR_3 - TR_2 = 12900 - 9400 = 3500$   
 $MC = TC_3 - TC_2 = 8500 - 5000 = 3500$

**Condition for profit maximization  $MR = MC = K3,500$**

- (c) The aviation industry is likely to belong to an Oligopolistic Market structure. The following are some of the reasons why it is likely to be so:

- High Barriers to Entry:
- Limited Number of Firms:
- Product differentiation:
- Economies of scale:
- Non-price competition:

(d)

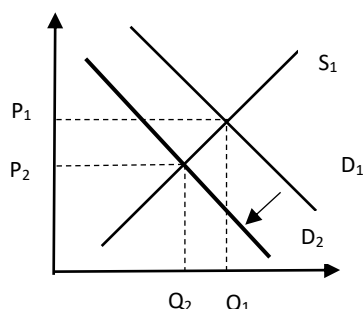


In the long run, firms operating in monopolistic competition only make normal profits. As can be seen in the diagram above, at the profit maximizing level of output,  $MR=MC$ , average revenue and average cost are equal ( $AR = AC$ ). This is because abnormal profits in the short run attract new entrants, who compete away the abnormal profits, and losses make firms exit the industry.

## SOLUTION FOUR

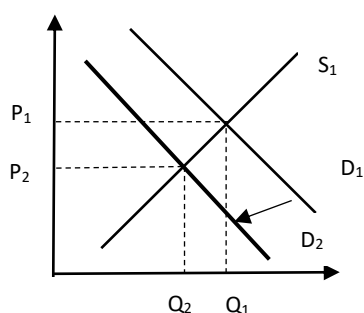
(a)

(i)



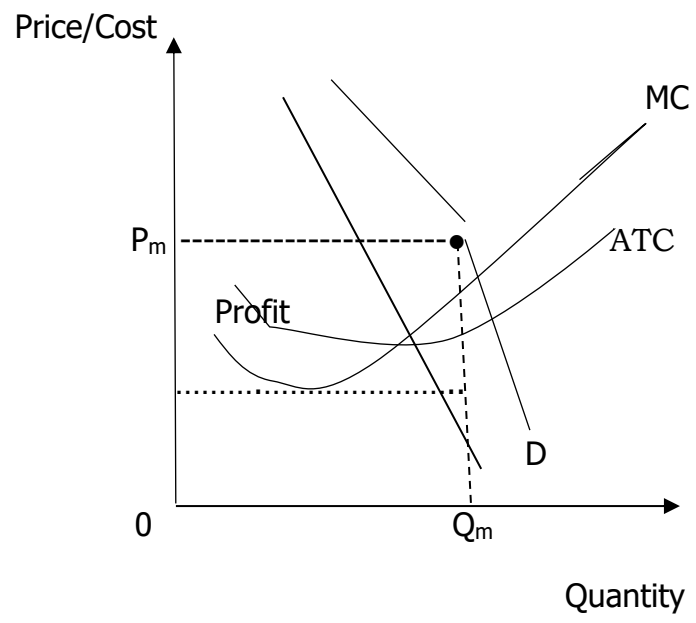
The demand for an inferior good decreases when the incomes of consumers rise. So a rise in consumer incomes produces a leftward shift of the demand curve from  $D_1$  to  $D_2$ , resulting in a lower equilibrium price and quantity as the equilibrium changes from  $Q_1$  to  $Q_2$ .

(ii)



Consumers will delay their purchases of pizza today in anticipation of consuming more pizza next week. As a result, the demand curve shifts leftward from  $D_1$  to  $D_2$ , resulting in a lower equilibrium price and quantity as the equilibrium changes from  $Q_1$  to  $Q_2$ .

- (b) The demand curve facing a perfect competitor is perfectly elastic because each firm is a price taker. No single firm has market power to influence the price of the good. The market clears at the given price. If one firm tries to increase the price, no one will buy from that firm.
- (c) A perfectly competitive market structure is said to be efficient in terms of allocating resources. This is because the market equates marginal cost and marginal benefit to society to reach equilibrium.
- (d) Kinked demand curve: This arises because of the interdependency of firms under oligopoly. Pricing starts at a kink (bend). When one firm reduces the price of the good in order to win a larger market share, other firms will follow suit in order to defend their market share. The result is a kinked demand curve as shown below:



## SOLUTION FIVE

(a) Theoretically, GDP can be measured in three different ways:

- **The *production approach/Value added*** sums the “**value-added**” at each stage of production, where value-added is defined as total sales less the value of intermediate inputs into the production process. For example, flour would be an intermediate input and bread the final product; or an architect’s services would be an intermediate input and the building the final product.
- **The *expenditure approach*** adds up the value of purchases made by final users—for example, the consumption of food, televisions, and medical services by households; the investments in machinery by companies; and the purchases of goods and services by the government and foreigners.
- **The *income approach*** sums the incomes generated by production—for example, the compensation employees receive and the operating surplus of companies (roughly sales less costs)

(b) Equilibrium occurs when  $E=Y$  and  $E=C+J$

$E$ =expenditure;  $Y$ =income;  $C$ = consumption;  $J$ = injection

$$E=C+J=250+0.2Y=Y$$

$$=650+0.2Y=Y$$

$$650=0.8Y$$

$$Y=812.5 \text{ equilibrium national income}$$

(c)

- **Marginal Propensity to Consume (MPC)** refers to the proportion of an additional unit of income that a consumer spends on goods and services.
- **Marginal Propensity to Save (MPS)** represents the proportion of an additional unit of income that a consumer saves instead of spending.

(d)

- **Structural unemployment** is a type of unemployment which results from permanent dislocations within labor markets, such as a mismatch of skills acquired between those unemployed and the jobs available in the market. One cause of structural unemployment is the advancement in technology in the manufacturing industry where unskilled workers have been replaced by robots. These workers must obtain training in computer operations to be retained in the same industry.
- **Cyclical (demand deficiency) unemployment;** is a kind of unemployment which changes with the economic cycle. During an economic boom, more jobs are created and the unemployment falls instantly and when the same economy goes into recession, the firms will have to lay off their workers leading to a demand deficient unemployment.

## SOLUTION SIX

(a)

(i) both absolute advantage and comparative advantage are crucial concepts in economics, explaining why trade between countries can be mutually beneficial. However, while they are related, they focus on different aspects of production and trade:

- **Absolute Advantage** refers to the ability of a producer (country, business) to produce a good or service at a greater quantity or with fewer resources compared to its trading partner.
- **Comparative Advantage** refers to the ability of a producer to produce a good or service at a **lower opportunity cost** than another producer.

(ii) The opportunity cost/comparative advantage of producing juice.

Country X

$$\frac{4 \text{ hours}}{2}$$

$$= 2$$

Country Y

$$\frac{2}{8}$$

$$0.25$$

**Country Y has a lower opportunity cost (higher comparative advantage) of producing juice.**

The opportunity cost of producing Mobile phone:

Country X

$$\frac{2}{4}$$

$$= 0.5$$

Country Y

$$\frac{8}{2}$$

$$4$$

**Country X has a lower opportunity cost/ higher comparative advantage in producing Mobile Phones than Y.**

Therefore, country X should specialize in producing Mobile phones and trade with country Y, while country Y should specialize in producing juice and trade with X

Even though X can produce both goods in less time than Y, the concept of comparative advantage suggests it would be more effective if X specializes in Mobile Phones and Y specializes in Fruit Juice. This results in the efficient allocation of resources and mutually beneficial trade.

(b)

(i) **Protectionist Methods**

- Tariffs or customs duties
- import Quotas
- Embargoes
- Hidden subsidies for exporter and domestic producers

- Import restrictions
- Public Procurement practices that favour domestic over foreign (government departments deliberately buying from domestic firms in preference to overseas firms).

(ii) **Advantages of a Single Currency**

- The removal of exchange rate risk makes international trade and investment easier.
- The removal of conversion fees paid by businesses and individuals to banks when converting to different currencies makes transactions within the currency zone/monetary union cheaper.
- Financial markets are opened up across the region and are more flexible.
- Price parity lowers prices across the area or among countries in the monetary union.
- Funding is easier to obtain as there is potential for increased cross-border borrowing in the single currency area.
- Economic Stability within the zone is thought to benefit not just the member countries of the zone but also the world economy as well.

## **SOLUTION SEVEN**

- (a) Liquidity is defined as the easy with which an asset can be converted into cash quickly and without loss of face value. The most liquid asset is cash and it earns zero interest. The least liquid asset such as government bond earns interest.
- (b) The following are the tools of monetary policy:
- Open market operation (OMO): This is the buying and selling of government securities on the operation market by the Bank of Zambia. To increase money supply the government will buy securities on the open market. To reduce money supply the government will sell securities on the open market.
  - Discount rate policy: The discount rate is the interest rate that central banks charge to commercial bank that borrow from it. To increase money supply the government will reduce the discount rate, this increases the reserves of commercial banks which allows them to step up their lending activities. To reduce money supply the central banks will increase the discount rate.
  - Required reserve policy: The required reserves is the fraction of the deposits that every deposit accepting institutions is required to keep with central bank in order for to meet it legal obligations. To increase money supply the central bank will reduce the required reserves ratio. To reduce money supply the central bank will raise the required reserve ratio and this will discourage commercial bank lending.
- (c) Financial Institutions:
- Five (5) general basic functions of FIs:
- Facilitating payment and settlement
  - Promoting financing
  - Reducing transaction costs
  - Improving/reducing information asymmetry
  - Transferring and managing risks.
- (d) **Financial Institutions**
- Commercial banks
  - Investments banks
  - Mortgage companies
  - Brokerage firms
  - Insurance companies

## **END OF SUGGESTED SOLUTIONS**





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

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WEDNESDAY, 11 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (COMPULSORY)

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

#### QUESTION ONE

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

1.1 The speed of the processor is measured in ...

- A. Hertz
- B. Bytes
- C. Cycles
- D. Pulses

(2 marks)

1.2 Which of the following is a cloud technology?

- A. Mainframe
- B. Wireless-Fidelity
- C. Uniform Resource Locator
- D. Software As a Service

(2 marks)

1.3 .... is the potential control issue might arise from the introduction of a network?

- A. Data redundancy
- B. Unauthorized access
- C. Improved communication
- D. Simplified workflow

(2 marks)

1.4 Which of the following symbols represents "**NOT EQUAL TO**" in an excel formula?

- A. <=
- B. !=
- C. <>
- D. =!

(2 marks)

1.5 Which of the following are examples of input controls?

- A. Batch totals
- B. Arithmetic checks during updating
- C. Comparing values with report
- D. Authorized distribution of documents

(2 marks)

1.6 Which communication skill is crucial for active listening?

- A. Speaking loudly
- B. Interrupting

- C. Empathy
- D. Monologuing

(2 marks)

1.7 Give one (1) reason why the **KISS** concept is appreciated in business communication.

- A. It prevents unnecessary details which might interrupt the smooth flow of information.
- B. It assists in knowing the audience's characteristics.
- C. It presents an aspect of politeness when communicating.
- D. It provides an idea of how the other person would respond to the message.

(2 marks)

1.8 Which section of a report interprets data?

- A. Conclusion
- B. Recommendations
- C. Suggestions
- D. Findings

(2 marks)

1.9 What is the information sent by the receiver of a message called?

- A. Encoded message
- B. Data
- C. Feedback
- D. Message

(2 marks)

1.10 Which of the following is an example of external communication?

- A. A Memo and a letter
- B. A Press Release and a Letter
- C. A Report and a Memo
- D. A Memo and Report

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

### **1. INFORMATION TECHNOLOGY**

### **2. COMMUNICATION**

### **1. INFORMATION TECHNOLOGY**

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

#### **QUESTION TWO**

- (a) At the dawn of globalization era, rapid technological development plus numerous and varied changes in customer demand indirectly has made companies around the world get encouraged to enhance their company's ability in creating and offering more value so that it can control and maintain the market. Therefore, companies nowadays are constantly searching for ways to gain more profit than their competitors and having the right management control system.

**Required:**

Explain five (5) benefits of using ERP system in an organisation. (10 marks)

- (b) Visual presentations put across an immediate message. Images are emotive and can deliver a story much faster than words; visuals are processed 60,000 times faster in the brain than text. An image that can share an idea can be more memorable than trying to remember very specific terminology. A visual presentation is more interesting and simplifies understanding.

**Required:**

Outline five (5) key principles to consider when designing a chart or graph for presentation in a spreadsheet. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION THREE**

- (a) People tend to disregard their devices security and often, it's already too late before they realise how important it is knowing the various types of computer viruses and how they work is vital to containing and eliminating them.

State four (4) symptoms of virus infection on a computer system. (4 marks)

- (b) Decision Support Systems (DSS) are systems that seek to provide Managers with direct assistance in their work, especially decision-making.

Explain the three (3) functional components DSS has. (6 marks)

- (c) A Database is a logical collection of interrelated data that is structured and designed in such a way that many applications in organisations use it.

Outline three (3) benefits of using of databases in organisations. (6 marks)

- (d) The introduction of electronic Government (e-government) by the Zambian government and the use of electronic mail (email) and social media applications (app) have brought new ways of working in most organisations in Zambia.

(i) Define the term email. (2 marks)

(ii) State two (2) examples of email client applications. (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Mulilo Ltd is a company in ten (10) provinces of Zambia dealing in garbage disposal and road maintenance services. It generates revenue from these services for its operations. However, it intends to introduce an Accounting Information System (AIS) to produce various financial reports for decision making.

**Required:**

Describe three (3) benefits to Mulilo Ltd in implementing an AIS (6 marks)

- (b) Describe in detail the following security controls.

(i) Firewalls (4 marks)

(ii) Authentication (4 marks)

- (c) Spreadsheet controls are measures a business's accounting team uses to safeguard the integrity and accuracy of its bookkeeping practices and of financial records. It is an ongoing effort to rapidly detect and resolve errors and maintain the security of all data.

**Required:**

Outline three (3) controls that you would put in spreadsheet to prevent unauthorised deletion of the spreadsheet data. (6 marks)

**[Total: 20 Marks]**

## **SECTION B**

### **2. COMMUNICATION**

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

#### **QUESTION FIVE**

As a supervisor of Accounts Department, it has come to your attention that there is a Cholera outbreak in the area where your offices are located. This might affect your work environment too.

You have decided to raise awareness about the dangers of cholera outbreak and provide guidelines required in order to fight this problem through a memo to your staff.

#### **Required:**

- (a) Explain any four (4) purposes of a memo. (8 marks)
- (b) Write a memorandum to all staff in your department about the Cholera outbreak. In your memo, include any three (3) guidelines to be followed in order to fight this problem. (12 marks)

**[Total: 20 Marks]**

#### **QUESTION SIX**

Communication is sharing of information from the sender to the receiver usually illustrated using a cycle which has some important elements.

#### **Required:**

- (a) Define the following elements of the communication cycle.
  - (i) Sender (2 marks)
  - (ii) Feedback (2 marks)
  - (iii) Encoding (2 marks)
  - (iv) Decoding (2 marks)
  - (v) Medium of communication (2 marks)
- (b) Describe any five (5) patterns of communication networks that may be used to achieve the desired communication in an organisation. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION SEVEN**

Public presentations are common in places of work to disseminate information during meetings and workshops, among others. As the Finance Manager at INKTEC Limited, you are required to

make a presentation to the board of management, indicating the profit which the company made in the just ended year.

**Required:**

- (a) Explain five (5) factors you would consider when preparing and delivering your presentation? (10 marks)
- (b) Explain any three (3) things which you need to do in order to maintain the interest of your audience. (6 marks)
- (c) State any four (4) visual aids you can use for your presentation. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

1.1 A

1.2 D

1.3 B

1.4 C

1.5 A

1.6 C

1.7 A

1.8 A

1.9 D

1.10 B



## **SOLUTION TWO**

### **(a) Benefits of using ERP system in an organisation**

1. ERP tools help in managing accounts, employee records and internal and external factor affecting the company.
2. It reduces cost in the long term by increasing the productivity.
3. Reduces the time and effort of managing records as compared to the paper records.
4. The merger of financial and operational information allows the company to analyse the business needs and act in a more effective manner.
5. By combining all the records in one whole, ERP makes the management of data easier and more productive.
6. Apart from records, ERP also helps in the management of material and ensures that no material is lost or stolen. It would also automate the process of buying and maintaining material after analyzing the stock.
7. Helps the company to predict market trends and decide the course of action accordingly.

### **(b) Five key principles to consider when designing a chart or graph for presentation in a spreadsheet**

1. Show the data clearly
2. Use simplicity in design of graphs
3. Use alignment on a common scale
4. Keep the visual encoding transparent
5. Use standard forms that work
6. Adding titles for the chart

## **SOLUTION THREE**

(a) **Symptoms of virus infection on a computer system.**

1. The computer becomes slower
2. Files are corrupt
3. Files missing
4. Pop up messages
5. Files failing to open
6. Hanging /freezing of programs

(b) **A DSS has three functional components**

1. Data storage – stores large amounts of data relevant to problems the DSS has been designed to tackle.
2. Model-based Management System (MBMS) – transforms data from the DBMS into information that is useful in decision making.
3. Dialogue Generation and Management System (DGMS) – provide a user-friendly interface between the system and the manager who do not have extensive computer training.

(c) **Three benefits of using databases in organisations**

1. Reduces the amount of time you spend managing data
2. Analyse data in a variety of ways
3. Promote a security approach to data management
4. Turn disparate information into a valuable resource
5. Improve the quality and consistency of information
6. Centralised storage that allows different users to access the same data

(d)

- (i) An email is a communication method that uses electronic devices to deliver messages across computer networks.
- (ii) Examples of email client applications are google, yahoo, iCloud, outlook, Mozilla Thunderbird, etc

## **SOLUTION FOUR**

- (a) The benefits to Mulilo company of having a computerised Accounting Information System includes the following
1. accuracy in processing Mulilo accounting data
  2. the data is processed at a faster rate for immediate usage by management
  3. less manpower is required by Mulilo company hence reduction in some employees
  4. information is easily integrated into other information system for use by this system i.e DSS and ESS.

(b)

(i) **Firewalls**

A firewall is a software or hardware which is installed in a network infrastructure to protect the data resources from external and internal unauthorised access with malicious intent. It can be used to check incoming and outgoing traffic and permits that traffic which is important.

(ii) **Authentication**

Authentication is a technique used when sending or receiving a message to ensure that the message is from a legitimate sender. The message contains additional data agreed between the sender and the receiver which could be used to authentic the message. The process of determining whether someone of something is who or what they say or identifying the user of the system.

(c) **Three (3) controls include**

1. **Formula cells are locked** – key cells in a spreadsheet , such as formulas, should be locked so that users can't purposefully or accidentally modify cells.
2. **Access is restricted** – only authorised individuals should be able to access the spreadsheet from the drive on the network. Access should require login credentials of username and password.
3. **Backup on the network** – spreadsheets should be stored on the network and included in any regular/routine backups the company would perform for any key information that the company maintains.
4. **Track spreadsheet changes** – Any changes made to the spreadsheet should be tracked. This includes changes in access, changes to key formulas.

## **SOLUTION FIVE**

- (a) Purposes of memos
  - 1. To raise awareness on a matter of concern to staff
  - 2. To invite people for a meeting
  - 3. To give instructions
  - 4. To warn staff about negative behavior
  - 5. To share any important information.

- (b) **BM TECHNOLOGY LIMITED**

**MEMORANDUM**

**To:** All staff Accounts Department

**From:** The Finance Manager

**Subject: Cholera outbreak**

This serves to inform you that there is a Cholera outbreak in Lusaka. The most unfortunate thing about this outbreak is that it is even much closer to us than expected because just near our work premises at Moyo Holdings, three cases have been recorded in the last 48 hours.

You are therefore reminded to take extra care and effort to prevent this pandemic.

In view of this situation, you are expected to conduct preventive and monitoring activities that would address this situation. Therefore, ensure that the following measures are taken into consideration during our business transactions:

- 1. Washing hands each time we visit the toilet
- 2. Drinking chlorinated or boiled water
- 3. Avoid buying food stuff from the streets
- 4. Ensure that the food that you eat is warm
- 5. Ensure that your surroundings are clean whether home or at the office.

Take this as official notification. Your cooperation in this matter will be highly appreciated. Thank you.

Sender's signature

## SOLUTION SIX

- (a) Elements of the communication process:
- (i) Sender - A person who originates the message by establishing the purpose of communication to the intended target audience
  - (ii) Feedback - is a reply or response given by the receiver to the sender of the message.
  - (iii) Encoding – selecting suitable words or language that is simple for the recipient to understand.
  - (iv) Decoding - has to do with interpreting the information correctly.
  - (v) Medium of communication - is the form in which information is transmitted such as oral, written or visual/ nonverbal communication.
- (b) Patterns of communication networks
1. **The Y network-** Members A and B can send information to C, but cannot receive any information from D except through Members can also directly communicate to their managers
  2. **Circle-** All members of the group can interact, however the flow of communication is very slow as it requires passing through stages.
  3. **The wheel-** One central person or unit acts as a hub of information and communication while other members are connected to the unit, but not to each other. Members are allowed to directly communicate to their superiors without any form of restrictions.
  4. **The Chain** – The chain is a sequence of messages that are transmitted in a chronological order from the top to the bottom of the chain. It is a centralized structure with many levels of authority.
  5. **The network pattern-** information flows in all directions. it tends to be very fast as information finds its way in all directions.

## **SOLUTION SEVEN**

- (a) Factors to consider when preparing and delivering your presentation
  - 1. Decide on the key purpose of your presentation
  - 2. Consider the use of visual aids
  - 3. Rehearse your presentation and time it
  - 4. Research adequately on the topic
  - 5. Dress accordingly
  - 6. Consider giving your audience handouts + any other suitable answer.
  - 7. Engage the audience as much as possible.
  - 8. Do not go beyond your time limit.
  - 9. Allow time for questions
- (b) Things to do in order to maintain interest in your audience
  - 1. Keep your presentation short and simple
  - 2. Use visual aids but do not over use (or even use) special effects and animations
  - 3. Engage the audience throughout your presentation e.g storytelling, humor, questions, exercises, etc.
  - 4. Let your presentation be interactive.
  - 5. Be passionate and excited about your topic.
  - 6. Any other suitable answer
- (c) visual aids to use in presentations
  - 1. Bar charts, Table, Line graph, Pie chart for statistical data presentations
  - 2. PowerPoint
  - 3. Handouts and samples of important documents.
  - 4. Video clips
  - 5. Pictures
  - 6. Diagrams.

## **END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 5 COST ACCOUNTING

---

TUESDAY 10 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:  
Section A: One (1) Compulsory question.  
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
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**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE THE INVIGILATOR.**

## SECTION A

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

### QUESTION ONE

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

1.1 BA Ltd has following data relating to a particular stores item.

Average daily usage	400 units
Maximum daily usage	520 units
Minimum daily usage	180 units
Lead time for replenishment of inventory	10 to 15 days
Reorder quantity	8,000 units

What is the reorder level (unit units) which avoids stock out (running out of inventory)?

- A. 5,000 units
- B. 6,000 units
- C. 7,800 units
- D. 8,000 units

(2 marks)

1.2 Nyimba Meat Co. uses process costing to value its output and all materials are input at the start of the process.

The following information relates to the process of one month:

Input	3,000 units
Opening inventory	400 units
Normal loss	10% of input is expected to be lost.
Closing inventory	200 units

How many good units were output from the process if actual losses were 400 units?

- A. 2,800 units
- B. 2,900 units
- C. 3,000 units
- D. 3,200 units

(2 marks)

1.3 Kantu factory based in Luanshya has three (3) departments which occupies the following spaces in sq. metres:

Department X 2,000 sq. metres  
Department Y 2,500 sq. metres  
Department Z 500 sq. metres



Annual rent is K40,000

What is the combined rent apportioned to Department X and Y?

- A. K16,000
- B. K20,000
- C. K24,000
- D. K36,000

(2 marks)

- 1.4 Chanda Co. manufactures a product called "Kuku cables". Relevant data for December 2023 is as follows:

	<b>Budget/Standard</b>	<b>Actual</b>
Production units	1,800	1,900
Labour hours	9,000	9,400
Fixed production overhead	K36,000	K39,480

The fixed production overhead volume capacity and efficiency variances for December 2023 are:

<b>Capacity</b>	<b>Efficiency</b>
A. K1,600 (A)	K400 (A)
B. K1,600 (F)	K400 (F)
C. K1,600 (A)	K400 (F)
D. K1,600 (F)	K400 (A)

(2 marks)

- 1.5 A manufacturing company is currently facing temporal production problems and consequently overtime is being worked.

The amount of overtime premium being paid is classified as...

- A. Production overhead
- B. Administration overhead
- C. Direct cost
- D. Direct expense

(2 marks)

- 1.6 A famous lodge in Livingstone recorded a total of K570 laundry costs when 340 guests stayed for one night. Fixed laundry costs are K400 per night. What are the total laundry costs for the lodge for a night when 380 guests are expected to stay?

- A. K0.50
- B. K170
- C. K190
- D. K590

(2 marks)

- 1.7 Job KB50, requires 630 productive labour hours. Idle time is expected to be 10% of the total hours paid for the job. The wage rate is K12 per hour. Material issues to the

job are estimated to be valued at K10,000 in total, with production overheads absorbed at a rate of 105% of direct labour cost.

What is the total estimated cost for job KB50 to the nearest Kwacha?

- A. K8,820
- B. K27,220
- C. K27,136
- D. K8,732

(2 marks)

- 1.8 In a period of rising prices, a company changes from First-In-First-Out (FIFO) to Last-In-First-Out (LIFO) method of inventory valuation. What is the effect of this change on closing inventory value and on profit?

- A. Higher closing inventory value and higher gross profit.
- B. Lower closing inventory value and higher gross profit.
- C. Lower closing inventory value and lower gross profit.
- D. Higher closing inventory value and lower gross profit.

(2 marks)

- 1.9 The following information is available for contract H5:

Contract price	K15,000,000
Value of certified work	K8,400,000
Cost of work to date	K5,040,000
Estimated costs to completion	K3,960,000

The amount of profit to be recognized on the contract using the proportion of cost incurred to the total cost is....

- A. Nil
- B. K3,360,000
- C. K6,000,000
- D. K1,560,000

(2 marks)

- 1.10 A company absorbs overheads on the basis of machine hours. In the month of September, 2023 the actual machine hours were 19,325 and the actual overheads incurred were K569,500. There was an under absorption of K13,250.

What is the absorbed overheads for the month?

- A. K582,750
- B. K556,250
- C. K588,825
- D. K32,575

(2 marks)

**[Total: 20 Marks]**



Standard selling price per unit		K129
Standard production costs:		
		K
Direct material	3kg at K24 per kg	72
Direct labour	4 hours at K7 per hour	28
Variable overheads	4 hours at K5 per hour	20

Anticipated production and sales for March were 600 units  
On 1 April the following actual figures were determined:

Sales	650 units at K127.50
Production units	650 units
Direct material	800 kg at K24.80 per kg
Direct labour	2,500 hours at K15.60 per hour
Variable overheads	K14,000

There was no opening inventory of the product.

**Required:**

- (i) Calculate the sales price and volume contribution variances. (4 marks)
  - (ii) Calculate the direct material price and usage variances. (4 marks)
  - (iii) Calculate the direct labour rate and efficiency variances. (4 marks)
  - (iv) Calculate the variable expenditure and efficiency variances. (4 marks)
- (b) State four (4) types of performance standards according to the principles of standard costing (4 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

DK enterprise manufactures two types of soft drinks **Coke (C)** and **Doke (D)**. It is the company policy to absorb overheads using labour hours. DK enterprises uses traditional absorption costing and Activity Based Costing (ABC) to cost its products. The following information relates to the month of January 2023.

<b>Details:</b>	<b>Coke</b>	<b>Doke</b>	
Units	9,621	7,851	
Labour hours	2,490	2,490	
Direct material Cost	K3,900	K2,970	
Direct labour Cost	K13,101	K15,471	
Specific direct Cost	K1,500	K750	
<b>Overheads costs:</b>			<b>K</b>
Machine cost			K10,600
Material handling			K6,500

Stores cost	K9,500
Inspection	K7,100
Set up costs	K15,500
Engineering costs	<u>K13,000</u>
Total	<b><u>K62,200</u></b>

<b>Drivers</b>	<b>Coke</b>	<b>Doke</b>	<b>Basis</b>
Machine Cost	600	300	Hours
Material Handling	140	200	Orders
Stores Cost	66	50	Requisitions
Inspection	15	20	Inspections
Set Up Costs	22	26	Set ups
Engineering Costs	80	59	Jobs done

**Note:** specific direct cost relates to Activity Based Costing only.

**Required:**

- Calculate the cost per unit using absorption costing for Coke and Doke. (6 marks)
- Calculate the cost per unit using Activity Based Costing for Coke and Doke. (10 marks)
- Explain two (2) advantages and two (2) disadvantages of an integrated system. (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

- Explain four (4) features of service costing. (8 marks)
- Edwin Ltd manufactures aviation components and parts to order, and the following are budgeted overheads for the year based on normal activity levels:

<b>Departments</b>	<b>Budgeted overhead (K)</b>	<b>Budgeted labour hours</b>
Welding	12,000	3,000
Assembly	20,000	2,000

Selling and administration overheads are 25% of factory cost.

An order for 350 units of engine parts, Job X 01, incurred the following costs:

Material cost:	K24,000
Labour: Welding	200 hours @ K5 per hour
Assembly	400 hours @ K2 per hour

K1,000 was paid for the hiring of a special X- ray machine for testing the welds.

The company uses 20% margin to arrive at the selling price.

**Required:**

Calculate the selling price of Job X01

(12 marks)

**[Total: 20 Marks]****QUESTION SIX**

- (a) Piece rate or hourly rate are some of the methods used by entities to remunerate employees for their services.

**Required:**

In reference to the statement above, state three (3) jobs for which:

- (i) Piece rate may be used. (3 marks)
- (ii) Hourly rate may be used. (3 marks)
- (b) Ruth Champo enterprise uses the hourly rate to pay her employees. The current rate is K6 per hour. However, employees are paid 1.5 times for each overtime hour worked. Each employee is to work a minimum of 40 hours a week without a guaranteed payment. Any extra hour will attract overtime rate.

Extract from the time sheet for a week has been provided below:

Name	Staff Number	Hours worked
Muma Champo	H1356	56
Mwansa Champo	H3456	38
Bukata Champo	H2254	48
Bubu Mulenga	H8645	50

**Required:**

Calculate the basic pay for each of the staff.

(8 marks)

- (c) Mwamba Mutale makes Twin-Desks for local schools in Mansa. To facilitate control, the owner of the shop has asked you to assist him in analyzing costs into fixed and variable elements.

Below is his four (4) year financial information:

Year	No. of Twin-Desks	Sales revenue K	Profit K
2020	1,700	22,000	6,200
2021	1,600	20,300	5,800
2022	2,100	26,200	8,000
2023	2,050	21,800	6,800

**Required:**

Calculate the total cost when 3,000 Twin-Desks are produced using the high-low method.

(6 marks)

**[Total: 20 Marks]****END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

(a)	<b>Product K</b>	<b>Product N</b>
Sales Revenue	K24,000	K56,000
Joint Cost	<u>K15,600</u>	<u>K36,400</u>
Gross profit	8,400	19,600
Gross profit per Unit	K4.20	K5.60
<b>Workings:</b>		
Revenue		
	$2,000 \times K12 = K24,000$	$3,500 \times K16 = 56,000$
	$24/80 \times K52,000 = K15,600$	$56/80 \times 52,000 = K36,400$

- (b)
- (i) A cost center is a collecting place for costs before they are further analyzed.
  - (ii) A cost object is something that you ask for its price (or what it costs)
  - (iii) A cost unit is something to which costs can be ascertained (Accumulated)
  - (iv) A profit center is a center that is responsible for revenue and costs.
  - (v) A responsibility center is an individual part of a business whose manager has personal responsibility for its performance.
  - (vi) A revenue center is a center in charge of revenue collection.
  - (vii) Normal loss is anticipated loss (expected loss in a process)
  - (viii) Abnormal loss is loss in excess of normal loss. In other words, it is a loss that is made when actual output is less than expected output in a process.
  - (ix) Abnormal gain is gain made when actual output is more than expected output in a process.
  - (x) Scrap value is the value that a non-current asset has at the end of its useful life. Also known as residual value or resale value.



### SOLUTION THREE

#### (a) Calculation of variances

##### (i) Sales Price and Volume Variances

650 units should have earned x K129	K	83,850
But did earn		<u>82,875</u>
<i>Sales price variance</i>		<u>975 (A)</u>
 Budgeted Volume Variance		600 units
Actual Volume variance		<u>650</u> units
Volume variance in units		50 units (F)
Valued @ contribution per unit		<u>x K9</u>
<i>Sales volume variance</i>		<u>K450</u>

##### (ii) Direct Material Price and Usage Variances

800 kgs should have cost x K24	K	19,200
But did cost		<u>19,840</u>
<i>Price Variance</i>		<u>640 (A)</u>
 650 units should have used x 3kg		1,950kgs
But did use		<u>800kgs</u>
Usage variance in kgs		1,150kgs (F)
Valued at standard price/kg		<u>x K24</u>
<i>Usage variance</i>		<u>K27, 600(F)</u>

##### (iii) Direct Labour Rate and Efficiency Variances

2,500 hours should have cost x K7	K	17,500
But did cost		<u>39,000</u>
<i>Rate Variance</i>		<u>21,500 (A)</u>
 650 units should have taken x 4 hours		2,600 hours
But did take		<u>2,500</u> hours
Efficiency variance in hours		100 hours (F)
Valued at standard rate per hour		<u>x K7</u>
<i>Efficiency variance</i>		<u>K700 (F)</u>

##### (iv) Variable Overhead Expenditure & Efficiency Variance

2,500 hours should have cost x K5	K	12,500
But did cost		<u>14,000</u>
<i>Expenditure variance</i>		<u>1,500(A)</u>
 Efficiency variance in hours		100 hours (F)
Valued at standard rate per hour		<u>x K5</u>

- (b) Four (4) types of performance standards according to the principles of standard costing are set out of follows: -
1. Idea standards
  2. Attainable standards
  3. Current standards
  4. Basic standards

## SOLUTION FOUR

### (a) Absorption Costing

$$\text{Labour OAR} = \frac{62,200}{4,980} = 12.49 = \underline{\underline{12}}$$

	<b>Coke</b>	<b>Doke</b>
Direct material cost (K)	3,900	2,970
Direct labour cost (K)	13,101	15,471
Oh cost(K)	31,100	31,100
Total batch cost	48,101	49,541
Cost per unit (K)	<u>48,101</u>	<u>49,541</u>
	9,621	7,851
	<b>5.00</b>	<b>6.31</b>

### (b) Activity Based Costing

<b>Description</b>	<b>Coke</b>	<b>Doke</b>	<b>Total</b>
Output in units	9,621	7,851	
Direct material cost (K)	3,900	2,970	6,870
Direct labour cost (K)	13,101	15,471	28,572
Specific direct costs	1,500	750	2,250
Overhead cost (K)	<u>K</u>	<u>K</u>	<u>K</u>
Machine related costs	7,066.67	3,533.33	10,600
Material handling and dispatch	2,676.47	3,823.53	6,500
Stores	5,405.17	4,094.83	9,500
Inspection and quality control	3,042.86	4,057.14	7,100
Set up	7,104.17	8,395.83	15,500
Engineering support	<u>7,482.01</u>	<u>5,517.99</u>	<u>13,000</u>
Total	<b>51,278</b>	<b>48,614</b>	<b>99,892</b>
Total	<u>51,278</u>	<u>48,614</u>	
Output in units	9,621	7,851	
<b>Cost per Unit</b>	<b>5.33</b>	<b>6.19</b>	

### Workings:

Machine Cost =  $600/900 \times K10,600 = 7,066.67$  &  $300/900 \times K10,600 = 3,533.33$

Basis - machine hours

Material Handling =  $140/340 \times K6,500 = 2,676.47$  &  $200/340 \times K6,500 = 3,823.53$

Basis - number of orders

Stores Cost =  $66/110 \times K9,500 = 5,405.17$  &  $50/110 \times K9,500 = 4,094.83$

Basis - number of requisitions

Inspection =  $15/35 \times K7,100 = 3,042.86$  &  $20/35 \times K7,100 = 4,057.14$

Basis - Inspections

Set Up Costs =  $22/48 \times K15,500 = 7,104.17$  &  $26/48 \times K15,500 = 8,395.83$

Basis - Set ups

Engineering Costs =  $80/139 \times K13,000 = 7,482.01$  &  $59/139 \times K13,000 = 5,517.99$

Basis -Jobs done

(c) Advantages of integrated systems

1. Saving in the administrative efforts as only one set of the account is used
2. It avoids maintaining two separate accounts as result no duplication of work
3. It avoids errors of having different figures of the same transaction in different accounts

Disadvantages of integrated Systems

1. One account is expected to fulfil two purposes which are different. The two purposes are stewardship of business and external reporting and provision of internal management information.
2. Conflicting requirement by different users may not be suitable for integrated systems. E.g. Inventory valuations where it may need to be valued differently. Management purposes may want to value inventory using replacement costs, marginal costing etc.

## SOLUTION FIVE

### (a) Features of a service

- **simultaneity.** Production and consumption of a service is simultaneous, for example, a haircut service is used immediately as the service provided ends.
- **Heterogeneity.** Services provided can vary from one provider to the other through, the service in question is unique and similar in nature.
- **Intangibility.** Unlike products that are tangible that you can feel and touch, service is intangible, you cannot feel and touch the presence of a service.
- **Perishability.** Services are not perishable as does products hence you cannot buy and store services. Services cannot be made in advance and kept in store in anticipation of heavy demand for it, as there is, no work in progress in service organizations.

### (b) Total cost of a Job and the selling price

OAR = Total budgeted overhead / Total budgeted activity level

OAR (Welding) = K12,000/3,000 hours = K4 per hour

OAR (Assembly) = K20,000 /2,000 hour = K10 per hour

	K	K
Direct materials		24,000
Direct Labour: Welding	200 hours @ K5	1,000
Assembly 400 hours @K2	<u>800</u>	
		1,800
Direct expenses		<u>1,000</u>
<b>Prime cost</b>		26,800
Production overheads: welding	200 hours @K4	800
Assembly 400 hours @K10	<u>4,000</u>	
		4,800
<b>Production cost</b>		31,600
Selling and administration (25% X K31,600)		<u>7,900</u>
<b>Total cost</b>		<b>39,500</b>
Profit margin 20/80 * 39,500		<u>9,875</u>
Selling price		<b><u>49,375</u></b>

## SOLUTION SIX

(a)

(i) Task that may use piece rate as a mode payment;

- Molding of blocks.
- Production of pieces of furniture
- Sewing of dresses
- Baking of bread

(ii) Tasks that may use Hourly rate as a mode of payment;

- Dressing of hair at the saloon
- Clerical work at the office
- Servicing of cars
- Maintenance of machines
- Repair of equipment.

(b) Computation of basic pay.

### Muma Champo

H1356	56 X 6	= 336
Premium	16 X 3	= <u>48</u>
		<b><u>384</u></b>

### Mwansa Champo

H3456	38 X 6	= <b><u>228</u></b>
-------	--------	---------------------

### Bukata Champo

F2254	48 X 6	= 288
Premium	8 X 3	= <u>24</u>
		<b><u>312</u></b>

### Bubu Mulenga

F8645	50 X 6	= 300
Premium	10 X 3	= <u>30</u>
		<b><u>330</u></b>

(c) Total costs at 3,000 level of activity.

Year	No. of Twin-Desks	Sales revenue K	Profit K	Total cost K
2020	1,800	22,000	6,200	15,800
2021	1,600	20,300	5,800	14,500
2022	2,100	26,200	8,000	18,200
2023	2,050	21,800	6,800	15,000

$$\begin{aligned}\text{Variable cost per unit} &= \text{K}18,200 - \text{K}14,500 / 2,100 - 1,600 \\ &= \text{K}3,700/500 \\ &= \mathbf{\text{K}7.4}\end{aligned}$$

$$\text{Total Fixed costs} = \text{K}18,200 - (7.4 \times 2100)$$

$$\begin{aligned} &= \text{K}18,200 - \text{K}15,540 \\ &= \textbf{K2,660} \\ \text{Total cost} &= \text{Variable costs} + \text{Fixed costs} \\ &= (\text{K}7.4 \times 3,000) + \text{K}2,660 \\ &= 22,200 + 2,660 \\ &= \textbf{K24,860} \end{aligned}$$

**END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 6: BUSINESS LAW

---

FRIDAY 13 SEPTEMBER 2024

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

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



## SECTION A – (COMPULSORY)

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

#### QUESTION ONE

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

- 1.1. In a limited liability partnership, a partner with limited liability .....
- A. Has no power to bind the firm
  - B. Takes part in the management of the firm
  - C. Does not give advice on management of the firm to other partners
  - D. Has no power to inspect the firm's books of accounts
- (2 marks)
- 1.2. Contributory negligence is a defence under the law of .....
- A. Contract
  - B. Tort
  - C. Defamation
  - D. Obligations
- (2 marks)
- 1.3. The other name for an agent's ostensible authority is .....
- A. Implied authority
  - B. Express authority
  - C. Ratification authority
  - D. Apparent authority
- (2 marks)
- 1.4. A contract of employment may be frustrated by .....?
- A. Resignation
  - B. Death
  - C. Dismissal
  - D. Performance
- (2 marks)
- 1.5. Which of the following is **not** a means of delivery of goods from one party to another?
- A. Involuntary transfer of possession
  - B. Physical transfer of possession
  - C. Transfer of means of control
  - D. Transfer of documents of title
- (2 marks)
- 1.6. A cheque is an example of a contract that must be .....?
- A. Evidenced in writing

- B. In form of a deed for it to be valid
- C. Signed by the parties
- D. In writing

(2 marks)

1.7 As a general rule, domestic agreements of commercial nature .....?

- A. Have no intention to create legal relations
- B. Are not binding on family members
- C. Are binding on third parties
- D. Have intention to create legal relations

(2 marks)

1.8 In the case of ***Zambia Sugar PLC v. Fellow Nanzaluka (2001)***, it was held that the position of International Law as a source of law in Zambia is that, it is .....?

- A. Applicable only after it has been domesticated by parliament
- B. Not applicable to the Republic of Zambia
- C. Deemed to be applicable to the Republic of Zambia
- D. Applicable to the Republic before being ratified or domesticated.

(2 marks)

1.9 The rule in ***Heydon's Case*** is that, the judge looks at the legal position before the Act was enacted and that Act's intended remedy. This is a rule of statutory interpretation known as .....

- A. The context rule
- B. The golden rule
- C. The mischief rule
- D. The literal rule

(2 marks)

1.10 The effect of the principal's ratification of a contract entered into by the agent is that .....

- A. The third party may sue the agent
- B. The principal may sue or be sued by the third party
- C. The agent may sue or be sued by the third party
- D. The agent is still liable for exceeding his authority

(2 marks)

**[Total 20 Marks]**

## **SECTION B**

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

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

### **QUESTION TWO**

Build – We – See Ltd is a Lusaka based company specialized in selling building materials and construction. On the 4 of October, 2023, the company entered into an agreement with Kawambwa Forestry Co – operative (KFC) based in Luapula Province, to be selling plunks on KFC's behalf in Lusaka and surrounding areas. The agreed commission rate was 15% per plunk sold.

The Managing Director of Build – We – See Ltd has come to you wanting to know the rights of Build – We – See Ltd against Kawambwa Forestry Co-operative.

#### **Required:**

- (a) Explain to the Managing Director any two (2) of those rights to him. (10 marks)
- (b) The Chief Accountant for Build – We – See Ltd phoned the Sales Manager for Kawambwa Forestry Co-operative (KFC) to supply them with 20 truckloads of fresh plunks saying that, they would sell within two weeks. However, the business has been slow for the past two months, including at the time the order was being made. In his statement to the Sales Manager, he said, "according to market trends, there was high demand for timber, kindly supply us with 20 truckloads, it will be sold within one week to two weeks". The following day after the call, on 19 October, 2023, KFC supplied the 20 truckloads on agreement that they would be paid after all the plunks were sold which was 14 days from the date of delivery. Two months from the date of delivery, only two (2) truckloads had been sold, the rest had not been sold and being fresh plunks, they have gone bad. KFC were paid for the two sold truckloads only.

The Sales Manager for KFC has come to you saying, "had it not been for the Chief Accountant's statement that business was ok in Lusaka when in fact not, he wouldn't have supplied the said plunks". He has come to find out if Build – We – See Ltd could be held liable for the Chief Accountant's statement and if he can recover payment for his 18 truckloads that have gone to waste.

#### **Required:**

Explain to him the legal position on the above issues. (10 marks)

**[Total 20 Marks]**

### **QUESTION THREE**

- (a) John and Alice decided to start a small business together, providing marketing services to local businesses. They have a verbal agreement to share profits equally and to contribute their respective skills to the business. However, they did not formalize their partnership with a written agreement. After a few months, a disagreement arises regarding the

allocation of resources and decision-making authority. Discuss the legal implications of their situation and advise them on how they should proceed. (10 marks)

- (b) Compare and contrast the different types of authority that an agent may possess. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Explain the four (4) general duties that agents have towards their principals. (8 marks)
- (b) With reference to case law, distinguish between a Contract of Service and Contract for Service. (8 marks)
- (c) It is almost impossible for employers to contest the imposition of vicarious liability on them for wrongs committed by their employees.

Stating your reasons, do you agree or disagree with the above assertion. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

- (a) Explain how the "reasonable person" standard in negligence cases is applied in determining whether a defendant breached their duty of care. (8 marks)
- (b) Explain the difference between an offer and counter offer making reference to decided cases. (12 marks)

**[Total: 20 Marks]**

#### **QUESTION SIX**

Mukuma Chipawa and Susan Mwamba Besa entered into a partnership business whose aim was fishing bream and tiger fish in the Zambezi river. They named their partnership as Zambezi Bream Harvesters. In their well – drawn up partnership deed, they have spelt out how profits and losses are to be shared, the amount of capital each is to contribute, and that Susan was to be a salaried partner, whilst Mukuma was to be a general partner.

#### **Required:**

- (a) Explain why the two prepared a partnership deed? (5 marks)
- (b) What are the implications of 'Mukuma being a general partner? (5 marks)
- (c) Explain Mukuma and Chigati's statutory duties in respect to:
- (i) Duty to render true accounts and full information. (5 marks)
- (ii) Duty to account for private profits. (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

1.1. A

1.2. B

1.3. D

1.4. B

1.5. A

1.6. D

1.7. D

1.8. A

1.9. C

1.10. B

## SOLUTION TWO

- (a) Build – We – See Ltd is an agent for Kawambwa Forestry. In this regard, they have the right to:
1. *Remuneration* – that is Build – We – See Ltd must be paid the commission agreed of 15% for everything that they have sold on behalf of KFC. This right is implied in a commercial transaction if not agreed upon by the parties.
  2. *Indemnity and set off* – This right means that an agent is entitled to be reimbursed and indemnified against expenses incurred in the course of performing their duties. Thus, should Build – We – See Ltd incur any costs in the performance of their duties, KFC must reimburse them.
- (b) The chief accountant's statement was professionally negligent as he knew the position of the plunks sales at the time. He owed a duty of care as per **Donoghue v Stevenson** to Kawambwa Forestry Ltd. In **Hedley Byrne's case** it was held that negligent misstatements causing the other party that has believed the statement and acted on it would be entitled to compensation. Therefore, seeing the chief accountant, being in possession of a special skill his statement was fraudulent and not factual. Build – We – See Ltd is liable and must compensate Kawambwa Forestry Co-operative for financial loss for the 18 truckloads which have gone bad without being sold.

### SOLUTION THREE

- (a) In this scenario, John and Alice have formed a general partnership by conducting business together with the intent to make a profit. Despite the absence of a written agreement, they have a verbal partnership agreement, which is legally valid but may be difficult to enforce due to the lack of clarity on certain terms. As general partners, they share profits equally and have joint authority to manage the business.

However, without a written agreement specifying the terms of their partnership, disputes like the current disagreement over resource allocation and decision-making authority can arise. To resolve the issue and avoid future conflicts, John and Alice should consider drafting a formal partnership agreement that clearly outlines their respective roles, responsibilities, decision-making processes, profit-sharing arrangements, and procedures for resolving disputes. By doing so, they can establish a clear framework for their partnership and minimize the risk of misunderstandings or disagreements in the future.

**Cox v. Hickman (1860)**, In this case, the court emphasized the importance of having a clear partnership agreement, whether written or oral, to avoid disputes among partners. Even in the absence of a written agreement, the court may infer the existence of a partnership based on the conduct of the parties.

- (b) **Actual Authority:** Actual authority refers to the authority explicitly granted to an agent by the principal, either orally or in writing. It can be express or implied. Express authority is directly conferred by the principal, while implied authority arises from the nature of the agency relationship or the agent's actions. For example, if a principal instructs an agent to sell their car for a minimum price of \$10,000, the agent has express authority to act within those parameters. Implied authority may arise if the agent is given the authority to perform certain tasks necessary to fulfill their duties as an agent, even if not explicitly stated.

**Apparent Authority:** Apparent authority arises when a principal leads a third party to reasonably believe that an agent has authority to act on their behalf, even if the agent does not actually possess such authority. This can occur through the principal's words, actions, or the agent's position or conduct. For example, if a principal allows an employee to negotiate contracts with suppliers on their behalf, third parties dealing with the employee may reasonably believe that they have authority to enter into contracts on behalf of the principal, even if they do not.

**Ratification:** Ratification occurs when a principal affirms or adopts an agent's unauthorized actions after the fact, thereby retroactively conferring authority on the agent. For ratification to be valid, the principal must have full knowledge of the agent's actions and must voluntarily choose to ratify them. For example, if an agent enters into a contract on behalf of a principal without authorization, the principal may choose to ratify the contract by accepting its benefits or explicitly affirming it.

Each type of authority has different legal implications for the principal, the agent, and third parties. Actual authority binds the principal to the agent's actions within the scope of their authority. Apparent authority protects third parties who reasonably rely on the agent's apparent authority to their detriment. Ratification allows the principal to retroactively validate an agent's unauthorized actions, subject to certain conditions.

## **SOLUTION FOUR**

(a)

1. The duty not to allow conflict of interest
2. Duty not to disclose confidential information
3. Duty to obey instructions
4. The duty to show proper skill and care• Fiduciary duties
5. Duty to avoid a conflict of interest
6. Duty not to make a secret profit
7. Duty not to take a bribe
8. Duty to account
9. Duty not to delegate

(b)

1. The basis of the employer/employee relationship is the contract of employment, which in general is an agreement whereby an employee agrees to provide work or a service in return for remuneration by the employer. The contract of employment is a contract of service and not for services. Under a contract of service a person places his or her labour at the disposal of another and a relationship is constituted which in past days was called that of master and servant.
2. In the contract for services, on the other hand, a person who operates an independent business agrees to carry out a task for another and the relationship is that of employer and independent contractor's chauffeur is her employee, but a taxi-driver is an independent contractor. If Y wants to build a garage on his land, he has two courses open: he can employ a bricklayer and other tradespeople under contracts of employment or he can entrust the work to a builder as an independent contractor.

- (c) Vicarious liability is where an employer is liable for damage caused to another by his employee while the employee was carrying out his work (or while he was in the course of employment as it is called). The principle applies whether the injury was to an outsider or to a fellow employee. The employer is liable even though he was not in any way at fault and this rule which seems at first sight to be unfair to the employer is based upon law and policy. The candidate should be able to give the position whether he agrees with the above statement or not and give reasons for the answer. The candidate should be able to the reasons and support his or her answer given.



## SOLUTION FIVE

- (a) The "reasonable person" standard is an objective measure used to determine whether a defendant's actions constituted a breach of duty of care. It asks what a hypothetical reasonable person would have done in similar circumstances. If the defendant's actions fall below the level of care that a reasonable person would exercise, then they may be found to have breached their duty of care.

In the case of **Vaughan v. Menlove (1837)**, the defendant stacked hay in a manner that posed a risk of fire. Despite being warned by neighbors, he took no action. A fire occurred, causing damage to the plaintiff's property. The court held that the defendant's actions were negligent because a reasonable person would have taken precautions after being warned about the risk.

- (b) An offer and a counteroffer are distinct concepts in contract law, each with its own legal implications.

### **Offer:**

An offer is a proposal made by one party to another, indicating a willingness to enter into a legally binding agreement on specific terms. It represents a clear expression of intent to be bound by those terms upon acceptance by the other party. Once accepted, an offer creates a binding contract between the parties.

### **Carlill v. Carbolic Smoke Ball Company (1893)**

In this landmark case, the Carbolic Smoke Ball Company advertised that they would pay £100 to anyone who used their product as directed and still contracted influenza. Mrs. Carlill used the smoke ball as directed but still got sick. When she attempted to claim the reward, the company refused. The court held that the company's advertisement constituted a unilateral offer that was accepted by Mrs. Carlill's performance, thus forming a binding contract.

### **Counteroffer:**

A counteroffer occurs when the offeree responds to an offer with a proposal that varies the terms of the original offer. A counteroffer effectively rejects the original offer and becomes a new offer, putting the original offeror in the position of the offeree. It terminates the original offer unless the counteroffer is expressly accepted by the original offeror.

### **Hyde v. Wrench (1840)**

In this case, Mr. Wrench offered to sell his farm to Mr. Hyde for £1000. Mr. Hyde responded with a counteroffer, offering to purchase the farm for £950 instead. Mr. Wrench rejected the counteroffer. Later, Mr. Hyde attempted to accept the original offer of £1000, but Mr. Wrench refused to sell. The court held that Mr. Hyde's counteroffer constituted a rejection of the original offer, and Mr. Wrench was not obligated to sell the farm to Mr. Hyde at the original price.

### **Key Differences:**

**Formation of Contract:** An offer, once accepted, forms a binding contract between the parties. A counteroffer, on the other hand, rejects the original offer and creates a new offer.

**Termination of Original Offer:** A counteroffer effectively terminates the original offer, unless the counteroffer is expressly accepted by the original offeror.

**Legal Consequences:** While an offer can lead to the formation of a contract upon acceptance, a counteroffer alters the terms of the original offer and may lead to negotiation or further offers and counteroffers until both parties reach a mutual agreement.

## SOLUTION SIX

- (a) A *partnership deed* or *agreement* governs a partnership business. It is important to have a partnership deed, though not legally necessary to have one for the following reasons: It lays down the details as to how the partnership would run such as amount of capital, management of the partnership, how the partners are to relate to each other, sharing of profits, etc. A partnership deed will reduce confusion in the running of a partnership. That is the reason Mukuma and Susan prepared it for Zambezi Bream Harvesters.
- (b) A *General Partner* is one who has no specific role in a partnership business and is the usual (most common) type of partners. He has the right to take part in the management of the business, usually oversees the day to day running of the business, can legally bind the business and is personally liable for debts of the business, unless the partnership agreement states to the contrary. Thus, the implications of Mukuma being a general partner are that, he will take part in the management of the partnership, he will bind the partnership, etc unless there is a provision in the partnership deed to the contrary.
- (c) Statutory duties of partners are those provided for in the Partnership of 1890.
  - (i) *Duty to render true accounts and full information:-* This is a statutory duty that partners (Mukuma and Susan) must disclose their incomes arising from the partnership business and must inform the other partner(s) of anything that is material to the partnership, i.e. that affects the partnership or the partners. Failure to do so renders the transaction voidable (*Law v Law [1905]*) (**Correct explanation 5 marks**)
  - (ii) *Duty to account for private profits:-* This is a statutory duty that every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning the firm or from any use of the partnership property or business connection. It simply means Mukuma Chipawa and Susan Mwamba Besa must not make secret profits from the partnership, should any one of them make any such profits, he/she must disclose/account to the other partner.

## END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 7: PRINCIPLES OF MANAGEMENT

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MONDAY 9 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – COMPULSORY

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

#### QUESTION ONE

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

- 1.1. PESTEL model is used to identify macro and uncontrollable factors in organisation's external environment. Which one of the following is **NOT** an economic variable in PESTEL analysis?

- A. Employment law
- B. Tax policy
- C. Interest rate
- D. Income level

(2 marks)

- 1.2. Martin, who owns a small bookshop has lost his personal vehicle to a supplier of ZICA accounting books for failure to pay for them despite selling all the books. This is because Martin as a sole trader has

.....

- A. Personal relationship with customers
- B. No capital
- C. Unlimited liability
- D. Limited liability

(2 marks)

- 1.3. In his contribution to management theory, Henri Fayol suggested five (5) functions of management. Which of the following is **NOT** one of functions of management identified by Fayol?

- A. Organising
- B. Planning
- C. Commanding
- D. Motivating

(2 marks)

- 1.4. Matrix structure is a combination of functional and project based organisations. The following are advantages of matrix structure **EXCEPT** .....

- A. Dual authority
- B. Greater flexibility
- C. Interdepartmental Skill transfer among the staff
- D. Improved communication

(2 marks)

- 1.5. "Forget about leadership because you have no leadership qualities," the manager told his subordinate. Which theories of leadership does this manager support?

- A. Content theories
- B. Style theories
- C. Trait theories
- D. Contingency theories

(2 marks)

- 1.6. You are working for an accounting firm and you have observed that your supervisor is interested in recognition, status, respect and independence. Using your management knowledge on Maslow's hierarchy of needs, which level of needs is your supervisor trying to satisfy?

- A. Social/love needs
- B. Physiological needs
- C. Self-actualisation needs
- D. Esteem needs

(2 marks)

- 1.7. Adapting to change is key to any organisation's survival. According to Lewin's three (3) stage management model, which one of the following consists of the stages in change management?

- A. Unfreeze, change and refreeze
- B. Freeze, change and refreeze
- C. Develop, change and refreeze
- D. Unfreeze, change and report

(2 marks)

- 1.8. Following the outbreak of cholera, you have been given a task to prepare a statement of the key duties, tasks and reporting responsibilities of the job of the new health officer, in readiness for the interviews.

What is the name given to such a statement?

- A. Job analysis
- B. Job description
- C. Personnel specification
- D. Job evaluation

(2 marks)

- 1.9. According to Kotter and Schlesinger, an individual's resistance to change can be caused by any of the following EXCEPT .....

- A. Parochial self interest
- B. Fear of the known
- C. Misunderstanding
- D. Low tolerance to change

(2 marks)

- 1.10. Which one of these is **NOT** the main objective of a public sector organisation?

- A. To serve public interest

- B. To fill the gap left by private sector
- C. To make profit
- D. To ensure fairness

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

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

### **QUESTION TWO**

Rajeev is a middle level manager. He keeps all his subordinates under a lot of discipline. His employees however complain of wastage of time and efforts as they feel that nothing is being assigned in a proper way and a proper place, also no proper schedule is made for working.

**Required:**

- (a) Which principle of management is violated here? (6 marks)
- (b) Explain what an organizational structure is. (4 marks)
- (c) State the five (5) main Objectives of an Organizational Structure. (5 marks)
- (d) State five (5) elements of an organisational structure. (5 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Understanding the environment by Business Managers enables them not only to identify and evaluate, but also to react to the forces external to their firm.

**Required:**

- (a) Explain by giving any five (5) reasons why in the present day competitive market with various players, it is essential for a business enterprise to remain alert and aware of its environment. (10 marks)
- (b) Explain SWOT and mention its purpose (10 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

Change management as a discipline has evolved and matured over the past quarter of a century. Prosci research tells us that for changes to be successful, we must prepare, equip and support individuals moving through changes so that they successfully adopt the changes. Without adoption, changes will not be successful and we will not deliver the desired outcomes.

**Required:**

- (a) Describe the incremental and the transformational types of change. (8 marks)
- (b) Identify any six (6) reasons as to why employee resist change. (12 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

Chanda, after completing his entrepreneurship course from Sweden returned to India and started a coffee shop 'Aroma coffee can' in a famous mall in New Delhi. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Chanda was keen to find out the reason. He appointed Mutale, an MBA graduate from a reputed University, as a Manager to find out the causes for the same. Mutale took feedback from the clients and found out that they loved the



special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions in between which could be eliminated. She fixed a standard time for processing the order. She also realized that there were some flavours whose demand was not enough. So, she also decided to stop the sale of such flavours. As a result, within a short period Mutale was able to attract the customers.

**Required:**

- (a) Identify and explain any two (2) techniques of scientific management used by Mutale to solve the problem. (10 marks)
- (b) Describe five (5) of the challenges of scientific management from the worker's viewpoint. (10 marks)

**[Total: 20 Marks]**

**QUESTION SIX**

Motivational theories can help employees and management staff determine the best way to achieve a business goal or work towards an outcome. Successfully applying motivation theories can also help managers support their employees efficiently. From your knowledge of management and understanding of motivational theories, answer the following questions

**Required:**

- (a) Distinguish extrinsic motivation and intrinsic motivation. (4 marks)
- (b) Outline any six (6) benefits of a motivated workforce. (12 marks)
- (c) State any four (4) theories of motivation you are familiar with. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

1.1 A

1.2 C

1.3 D

1.4 A

1.5 C

1.6 D

1.7 A

1.8 B

1.9 B

1.10 C

## **SOLUTION TWO**

- (a) The principle of management which is violated here is the Fayol's principle of 'order'. Fayol's principle of order says that everything has a place and everything should be at its place.
- (b) An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization.
- (c) The main objectives for creating organizational structures.
  - 1. Ensure proper integration of rules, roles, and responsibilities among all organizational members.
  - 2. Establish a clear authority-responsibility relationship.
  - 3. Develop a system of work accomplishment.
  - 4. To increase organizational efficiency and effectiveness.
  - 5. To ensure effective and efficient goal achievement.
  - 6. To reduce role ambiguity among employees.
- (d) Elements of an organisational structure
  - 1. Job Design
  - 2. Departmentalism
  - 3. Delegation of Authority
  - 4. Chain of Command
  - 5. Span of Control

### **SOLUTION THREE**

(a) Importance of business environment:

1. Identify opportunities and get first mover advantage: Early identification of opportunities help the firm to be the first to exploit them instead of losing them to competitors.
2. Identify threats and early warning signals: Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
3. Tap useful resources: A business firm assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc. from its environment.
4. Assist in planning and policy formulation: Since business environment provides both opportunities and threats for the firm, its understanding and analysis can be the basis for planning and policy formulation.
5. Helps in coping with rapid changes: Managers must understand and examine the environment and develop suitable courses of action to cope with rapid change in business environment.

(b) A SWOT analysis discusses:

- The Strength of a business i.e. the areas of the organization that should be exploited by suitable strategies
- The Weaknesses of a business i.e. area of the organisations which need strategies to improve them
- The Opportunities that the environment may provide – the external appraisal involving identifying opportunities that can be exploited by the organization's strength
- The Threats that the environment may provide. Threats that might affect the organization or its micro environment such as competition.
- Strength and weaknesses analysis is intended to shape the organization's approach to the external world. A SWOT analysis brings together an organization's internal strength and weaknesses as well as external opportunities and threats so that strategies may be developed and assessed

## SOLUTION FOUR

- (a) **Incremental change** fairly small change: this type of change happens without the need for a major reorganisation or restructuring of the organisation. Incremental change should not be a serious problem for management.

**Transformational change** is a major change that requires a substantial reorganisation or restructuring of the organisation and its systems. Transformational has a big effects on the organisation and the people working in it, and exceptional management skills are need to implement the change successfully.

(b)

1. **Misunderstanding about the need for change/when the reason for the change is unclear** — if staff do not understand the need for change you can expect resistance. Especially from those who strongly believe the current way of doing things works well...and has done for twenty years!
2. **Fear of the unknown** — one of the most common reasons for resistance is fear of the unknown. People will only take active steps toward the unknown if they genuinely believe – and perhaps more importantly, **feel** – that the risks of standing still are greater than those of moving forward in a new direction
3. **Organizational Politics**- Some resist change as a political strategy to “prove” that the decision is wrong. They may also resist to show that the person leading the change is not up to the task. Others may resist because they will lose some power in the organizational. In these instances, these individuals are committed to seeing the change effort fail.
4. **Lack of competence** — this is a fear people will seldom admit. But sometimes, change in organizations necessitates changes in skills, and some people will feel that they won’t be able to make the transition very well
5. **Connected to the old way** — If you ask people in an organization to do things in a new way, as rational as that new way may seem to you, you will be setting yourself up against all that hard wiring, all those emotional connections to those who taught your audience the old way – and that’s not trivial
6. **Low trust** — When people don’t believe that they, or the company, can competently manage the change there is likely to be resistance
7. **Temporary fad** — When people belief that the change initiative is a temporary fad
8. **Not being consulted** — if people are allowed to be part of the change there is less resistance. People like to know what’s going on, especially if their jobs may be affected. **Informed employees** tend to have higher levels of job satisfaction than uninformed employees
9. **Poor communication** — its self-evident isn’t it? When it comes to change management there’s no such thing as too much **communication**.
10. **Changes to routines** — when we talk about comfort zones we’re really referring to routines. We love them. They make us secure. So there’s bound to be resistance whenever change requires us to do things differently

11. **Exhaustion/Saturation** — don't mistake compliance for acceptance. People who are overwhelmed by continuous change resign themselves to it and go along with the flow. You have them in body, but you do not have their hearts. Motivation is low
12. **Change in the status quo** — Resistance can also stem from perceptions of the change that people hold. For example, people who feel they'll be worse off at the end of the change are unlikely to give it their full support. Similarly, if people believe the change favours another group/department/person there may be (unspoken) anger and resentment
13. **Benefits and rewards** — when the benefits and rewards for making the change are not seen as adequate for the trouble involved

## SOLUTION FIVE

(a)

1. **Time study:** It seeks to determine the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes and determine labour costs. By using time measuring devices for each element of task the standard time is fixed for the whole of the task by taking several readings.
2. **Standardisation and Simplification:** Simplification aims at eliminating superfluous diversity of products in terms of varieties, sizes and dimensions. It not only helps to reduce inventories but also save cost of labour, machines and tools. Thus, it helps to increase turnover by ensuring optimum utilization of resources.
3. **Motion study:** Motion study refers to the study of movements of limbs of a worker while doing a particular task. It seeks to divide all such movements into three categories namely:
  - i. Motions which are required
  - ii. Motions which are necessary
  - iii. Motions which are incidental

(b)

1. **Unemployment** - Workers feel that management reduces employment opportunities from them through replacement of men by machines and by increasing human productivity less workers are needed to do work leading to chucking out from their jobs.
2. **Exploitation** - Workers feel they are exploited as they are not given due share in increasing profits which is due to their increased productivity. Wages do not rise in proportion as rise in production. Wage payment creates uncertainty & insecurity (beyond a standard output, there is no increase in wage rate).
3. **Monotony** - Due to excessive specialization the workers are not able to take initiative on their own. Their status is reduced to being mere cogs in wheel. Jobs become dull. Workers loose interest in jobs and derive little pleasure from work.
4. **Weakening of Trade Union** - To everything is fixed & predetermined by management. So it leaves no room for trade unions to bargain as everything is standardized, standard output, standard working conditions, standard time etc. This further weakens trade unions, creates a rift between efficient & in efficient workers according to their wages.
5. **Over speeding** - the scientific management lays standard output, time so they have to rush up and finish the work in time. These have adverse effect on health of workers. The workers speed up to that standard output, so scientific management drives the workers to rush towards output and finish work in standard time devices for each element of task the standard time is fixed for the whole of the task by taking several readings.

## **SOLUTION SIX**

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

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

(b)

1. Increased employee engagement.
2. Higher productivity and performance.
3. Greater levels of creativity and innovation.
4. Improved manager-employee relationships.
5. Better customer service.
6. Great company culture.
7. Positive company reputation.
8. Lower employee absenteeism and turnover.

(c)

1. Maslow's hierarchy of needs.
2. Herzberg's two Factor
3. Vroom's expectancy theory
4. McGregor's theory X and Y
5. McClelland's theory of needs
6. Likert's organizational management styles
7. Adam's Equity theory
8. Locke and Latham's Goal setting theory

## **END OF SUGGESTED SOLUTIONS**





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 8: FINANCIAL REPORTING

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MONDAY 9 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A:

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

Attempt **BOTH** questions.

### **QUESTION ONE**

On 1 May 2023, Sun Plc acquired 60% of the ordinary shares of Moon Plc as part of its long-term strategic resource. The market price of Sun Plc and Moon Plc on the acquisition date were K5 and K4 respectively. The consideration paid to acquire control of Moon Plc was made up of the following:

- Deferred cash consideration of K1 per share to be paid on 30 April 2025.
- Immediate cash payment of 50 Ngwee per share acquired.
- Share exchange of 2 shares in Sun Plc for every 3 shares acquired in Moon.

The cost of capital for Sun Plc is 10%.

Sun Plc acquired 30% of the equity share capital of Star Plc on 1 January 2023 paying K2.5 per share.

The equity share capital of Star and Moon were composed of 18 million and 16 million K1.00 ordinary shares respectively. Moon Ltd's share premium and retained earnings balances on the date of acquisition amounted to K4 million credit and K7.4 million debit respectively.

The summarised statements of profit or loss for the three companies for the year ended 31 December, 2023 are given below:

	<b>Sun Plc</b>	<b>Moon Plc</b>	<b>Star Plc</b>
	K'000	K'000	K'000
Revenue	108,000	55,200	60,100
Cost of sales	(40,800)	(23,100)	(33,400)
Gross profit	67,200	32,100	26,700
Distribution costs	(12,200)	(9,200)	(5,700)
Administration expenses	(4,300)	(1,100)	(900)
Other income	200	90	-
Finance cost	(80)	-	-
Profit before tax	50,820	21,890	20,100
Income tax expense	(14,500)	(6,400)	(5,900)
Profit for the year	36,320	15,490	14,200
Other Comprehensive income:			
Revaluation surplus	500	-	-
Total comprehensive	36,820	15,490	14,200

**The following notes are relevant:**

- (i) On the date of its acquisition, the fair value of the net assets of Moon Plc were equal to their carrying values with the exception of a Right of Use Asset (ROUA) whose fair value was greater than the carrying amount by K20 million. The remaining useful economic life of the ROUA at 1 May 2023 was 4 years.
- (ii) On 31 December 2023, Moon Plc declared a dividend of 1 ngwee per share to be paid to its ordinary shareholders. The share of dividend has been credited to Sun Plc's other income in full.
- (iii) Moon Plc made sales of K200,000 per month to Sun Plc evenly throughout the year. Moon made a mark-up on cost of 15% on these sales. As at 31 December, 2023 Sun Plc held K0.5 million worth of inventory purchased from Moon Plc.
- (iv) Moon group policy is to value non-controlling interest at fair value and the share price of Moon Plc should be used for this purpose.
- (v) Goodwill in Moon Plc has been impaired by K5.2 million.
- (vi) All items in the above statements of profit or loss and other comprehensive income are deemed to accrue evenly over the year unless otherwise indicated.
- (vii) All numbers should be rounded to the nearest thousand Kwacha.
- (viii) Sun Plc has accrued the deferred consideration in respect its acquisition of Moon, including accounting for the unwinding of the discount, in its separate financial statements.

**Required:**

- (a) Calculate the carrying amount of goodwill in Moon Plc as at 31 December 2023. (7 marks)
- (b) Calculate the carrying amount of investment value in Star as at 31 December 2023 for inclusion in the group statement of financial position. (2 marks)
- (c) Prepare the consolidated statement of profit or loss and other comprehensive income for the Sun Plc Group for the year ended 31 December 2023. (16 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

The following trial balance relates to Mercury Ltd at 31 December 2023:

	K'000	K'000
Revenue		732,000
Inventories at 1 January 2023	65,380	
Purchases	575,200	
Interest on overdraft	490	

Distribution expenses	19,880	
Administration costs (including K33.6 million dividend paid)	64,960	
Investment income		1,120
Property at cost	70,000	
Plant and equipment	62,300	
Accumulated amortisation/depreciation at 1 January 2023:		
- Property		14,000
- Plant and Equipment		20,300
Financial Asset: equity investments	25,200	
Equity shares of K1.00		70,000
Retained earnings at 1 January 2023		47,040
Deferred tax		3,780
Trade receivables	46,970	
Trade payables		38,920
Bank		<u>3,220</u>
	<u>930,380</u>	<u>930,380</u>

The following information is also made available:

1. Mercury's closing inventory was valued at a cost of K76,720,000 but had a net realizable value of K85,432,000.
2. During the year, Mercury engaged Bukata Ltd, a local renowned contractor based in Chipata, to manufacture plant at a total cost of K95.2 million. This cost is included in the purchases figure in the trial balance. Mercury's plant was commissioned on 1 June 2023 when it also commenced full scale production and a completion certificate issued by the contractor.

All plant and equipment is depreciated at 20% per annum using the reducing balance method with time apportionment in the year of commissioning.

On 1 January 2023, Directors of Mercury engaged a certified independent surveyor to revalue the leasehold property in line with current economic conditions. The property was revalued to K67.2 million on this date and was being depreciated over an original life of 20 years which had not changed. Mercury does not make any transfer to retained earnings in respect of excess depreciation. Ignore deferred tax implications on revaluation gains.

No depreciation has been charged on any non-current asset for the current year. Depreciation is charged to cost of sales.

3. Mercury accounts for equity instruments at fair value through profit or loss in accordance with *IFRS 9: Financial Instruments*. The equity instruments had a fair value of K24,360,000 on 31 December 2023. There were neither purchases nor disposals of equity instruments during the year.
4. Included in revenue are goods sold in December 2023 for K3,360,000 on a two months' sale or return agreement and Mercury is uncertain as to whether any of these goods will be returned within the stipulated period. A gross profit margin of 25% was used on these goods.
5. A provision for income tax of K34,020,000 for the year ended 31 December 2023 is required. Mercury's net assets' carrying amounts exceeded their tax base by K15 million on 31 December 2023. Mercury's income tax rate is 30%.

**Required:**

- (a) Prepare for Mercury, statement of profit or loss and other comprehensive income for the year ended 31 December 2023. (13 marks)
- (b) Prepare the statement of financial position for Mercury as at 31 December 2023. (12 marks)

**[Total: 25 Marks]**

## SECTION B:

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

Attempt **ANY TWO (2)** questions only.

### QUESTION THREE

Kangwe is a publicly listed company. Details of its financial statements as at 31 March 2023 and 2024 are shown below together with other relevant information.

Statement of Financial Position as at 31 March 2024 and 2023

<b>Assets:</b>	2024 K` 000	2023 K` 000
<b>Non-current assets:</b>		
Property, plant and equipment	327,000	264,000
<b>Current assets:</b>		
Inventories	123,000	176,000
Trade receivables	95,000	87,000
Cash and cash equivalents	<u>94,000</u>	<u>30,000</u>
Total current assets	<u>312,000</u>	<u>293,000</u>
<b>Total assets:</b>	<u>639,000</u>	<u>557,000</u>
<b>Equity:</b>		
Equity Shares @ K1 each	200,000	120,000
Share premium	30,000	–
Revaluation surplus	66,000	97,000
Retained earnings	<u>71,000</u>	<u>41,000</u>
	<u>367,000</u>	<u>258,000</u>
<b>Non-current liabilities:</b>		
5% Loan notes	100,000	150,000
<b>Current liabilities:</b>		
Trade payables	126,000	92,000
Interest payable	7,000	3,000
Income tax payable	<u>39,000</u>	<u>54,000</u>
Total current liabilities	<u>172,000</u>	<u>149,000</u>
<b>Total Equity and liabilities:</b>	<u>639,000</u>	<u>557,000</u>

Statement of profit or loss for the year ended 31 March 2024

	K' 000
Revenue	473,000
Cost of sales	<u>(229,000)</u>
Gross profit	244,000
Operating expenses	<u>(124,000)</u>

Finance costs	<u>(11,000)</u>
Profit before tax	109,000
Income tax expense	<u>(47,000)</u>
Profit for the year	<u>62,000</u>

**The following notes below are relevant:**

- (i) During the year ended 31 March 2024, plant and equipment with a carrying value of K28,000,000 were disposed of, resulting in a loss of K6,000,000.
- (ii) The depreciation charge for the year, included in the operating expenses, is K43,000,000.
- (iii) On 1 July 2023, Kangwe made a bonus issue of 1 share for every 4 existing shares in addition to an issue of shares at fair value on 1 October 2023. The bonus was financed by the retained earnings reserve.
- (iv) Kangwe's gross profit for the year to 31 March 2023 was as follows:

	K'000
Revenue	354,750
Cost of sales	<u>(183,200)</u>
Gross profit	<u>171,550</u>

**Required:**

- (a) Using the information provided above, prepare a statement of cash flows for Kangwe for the year ended 31 March 2024 using the indirect method. (15 marks)
- (b) Using the ratios listed below in addition to the cash flow information in (a) above, analyse Kangwe's liquidity performance during the year to 31 March 2024:
  - (i) Current ratio
  - (ii) Trade receivables collection period
  - (iii) Trade payables payment period
  - (iv) Inventory holding period

(10 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

Rambo is a publicly listed company. The Finance Director wishes to include details of non-current assets in the published financial statements, and has asked you to prepare relevant notes for his information on the following matters in (a), (b) and (c) below:

- (a) An item of production equipment has a carrying amount of K34,000. If the entity that owns the equipment continues to use it, it will generate cash flows of K36,400 over the next 5 years with a present value of K33,800. Identical items of equipment have recently been

sold at equipment auctions for K35,000; in auction sales, the seller receives 96% of the selling price, with 4% charged as an auctioneer's fee.

**Required:**

Explain how the recoverable amount of an asset is measured and quantify the impairment loss on the item of equipment above. (6 marks)

- (b) The following relate to Rambo Ltd at 1 January 2023:

Details of Rambo's non-current assets at 1 January 2023 were:

	Property	Plant	Equipment	Mobile phone licence	Total
	K' 000	K' 000	K' 000	K' 000	K' 000
Cost / Valuation	5,600	3,000	1,780	6,000	16,380
Accumulated Depreciation / Amortization	(800)	(2,100)	(1,300)	(600)	(4,800)
Carrying amount	4,800	900	480	5,400	11,580

The following information is relevant:

1. The Property were revalued on 1 January 2018 with K1,600,000 attributable to the land and K4,000,000 to the building. At that date, the estimated remaining life of the building was 25 years. A further revaluation was not needed until 1 January 2023 when the land and building were valued at K1,700,000 and K3,600,000 respectively. The remaining estimated life of the building at this date was 20 years.
2. Plant is depreciated at 20% per annum on cost with time apportionment where appropriate. On 1 July 2023 New plant costing K900,000 was acquired. In addition, the installation and commissioning of the plant cost a total of K100,000. No plant is more than five years old.
3. Equipment is depreciated at 15% per annum on a reducing balance basis. On 31 December 2023 Rambo sold equipment that had been acquired on 1 January 2022 at a cost of K240,000.
4. The Mobile Phone licence was bought from the government on 1 January 2022 and has a 10 year life. It is amortised on a straight-line basis. In December 2023, a review of the sales of products related to the licence showed them to be very disappointing. As a result of this review, the estimated recoverable amount of the licence at 31 December 2023 was estimated at only K2,000,000.

There were no other disposals of non-current assets during the year to 31 December 2023, except the one mentioned in note 3 above.

**Required:**

Prepare extracts from the Statement of Financial Position relating to Rambo's non-current assets as at 31 December 2023, together with any disclosures, under current International Financial Reporting Standards. (15 marks)

- (c) On 1 January 2023, Rambo Ltd borrowed K3.5 million to finance the production of two assets, X and Y, both of which were expected to take one year to build. Work started immediately in January 2023, and only half of the funds were drawn immediately



construction started until the beginning of the second half of the year. The loan facility was drawn down and incurred on 1 January 2023, and was utilized as follows, with the remaining funds invested temporarily.

	<b>X asset K' 000</b>	<b>Y asset K' 000</b>
1 January 2023	750	1,000
1 July 2023	750	1,000

The loan rate was 10% and Rambo Ltd can invest surplus funds at 8% annum.

**Required:**

Calculate the borrowing costs which must be capitalized for each of the assets as at 31 December 2023. (4 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

IAS 33 *Earnings per Share* sets out requirements for the calculation and presentation of earnings per share in financial statements of listed entities. The requirements include the disclosure of basic earnings per share and, where an entity has potential ordinary shares in issue, the additional disclosure of diluted earnings per share in certain circumstances. The Conceptual Framework for Financial Reporting identifies faithful representation as a fundamental qualitative characteristic of useful financial information.

You are the Financial Accountant of Bestservices, a listed entity on Lusaka Securities and Exchange Commission which prepares financial statements in accordance with International Financial Reporting Standards (IFRSs). The profit after tax for Bestservices for the year ended 30 September 2023 was K15 million. At 1 October 2022 the company had in issue 36 million equity shares and a K10 million 8% convertible loan note. The loan note will mature in 2024 and will be redeemed at par or converted to equity shares on the basis of 25 shares for each K100 of loan note at the loan-note holders' option. On 1 January 2023 Bestservices made a fully subscribed rights issue of one new share for every four shares held at a price of K2.80 each. The market price of the equity shares of Bestservices immediately before the issue was K3.80. The basic earnings per share (EPS) reported for the year ended 30 September 2022 was 35 ngwee. The corporate income tax rate is 25%.

The Chief Financial Officer has suggested that the company issues further convertible loan stock in order to raise funds for a new project. The Chief Executive Officer is against this idea and argues that convertible instruments always have a bad effect on diluted earnings per share and the market reacts badly, knowing that earnings per share would drop in the future.

**Required:**

- Explain the meaning of the term 'potential ordinary shares' and provide three (3) examples of potential ordinary shares. (3 marks)
- Explain why the diluted earnings per share must be disclosed. (3 marks)
- Comment on the validity of the Chief Executive Officer's comments. (6 marks)

- (d) Calculate the (basic) EPS figure for Best services (including comparatives) and the diluted EPS (comparatives not required) that would be disclosed for the year ended 30 September 2023. (7 marks)
- (e) Explain how IAS 33 reflects the characteristic of comparability. (2 marks)
- (f) Distinguish between fundamental and enhancing qualitative characteristics, giving an example of each. (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 8: FINANCIAL REPORTING SUGGESTED SOLUTION

### SOLUTION ONE

(a) <b>Goodwill on acquisition of moon</b>	K'000	K'000
Cost of investment		
Deferred consideration ( $16m \times 60\% \times K1 \times (1.1)^{-2}$ )		7,934
Cash consideration ( $16m \times 60\% \times K0.5$ )		4,800
Share Exchange ( $16m \times 60\% \times \frac{2}{3} \times K5$ )		32,000
Fair value of NCI ( $16 \times 40\% \times K4$ )		<u>25,600</u>
		<b>70,334</b>
Less net assets at acquisition		
Equity capital	16,000	
Share premium	4,000	
Retained earnings	(7,400)	
FV on Right of use asset	<u>20,000</u>	
		<u>(32,600)</u>
Goodwill at acquisition		37,734
Impairment		<u>(5,200)</u>
CV of goodwill		32,534

(b) <b>Associate - star Plc</b>	K'000
Cost ( $18m \times 30\% \times K2.5$ )	13,500
Share of profit for the year ( $14200 \times 30\%$ )	<u>4,260</u>
CV	17,760

(c)	
Sun Group	
Statement of profit or loss and other comprehensive for the year ended 31 December 2022	

	K'000
Revenue ( $108,000 + 55,200 \times \frac{8}{12} - (200 \times 8)$ )	143,200
Cost of sales ( $40,800 + 23,100 \times \frac{8}{12} - 1600 + 65 + 5,000$ )	<u>(59,665)</u>
Gross profit	83,535
Distribution costs ( $12,200 + 9,200 \times \frac{8}{12}$ )	(18,333)
Administration expenses ( $4,300 + 1,100 \times \frac{8}{12} + 5,200$ )	(10,233)
Other income ( $200 - 96$ ) $+ 90 \times \frac{8}{12}$	164
Finance cost	(80)
Sun's share of star ( $30\% \times 14,200$ )	<u>4,260</u>
Profit before tax	59,312
Income tax expense ( $14,500 + 6,400 \times \frac{8}{12}$ )	<u>(18,767)</u>
Group Profit for the year	40,545
Other comprehensive income	
Revaluation surplus	<u>500</u>
Total comprehensive income	<u>41,075</u>

Profit for the year attributable to:	
NCI	
Parent bal fig (40,575-4,421)	36,154
	<u>4,421</u>
	40,545
OCI	
Parent bal fig (41,075-4,421)	36,654
Non - controlling interest (15,490*8/12-65-5,000)*40%	<u>4,421</u>
	41,045

## SOLUTION TWO

### (a) Mercury Ltd

#### Statement of Comprehensive Income - Year Ended 31 December 2023

	K'000
Revenue (732,000 - 3,360 goods on sale or return)	728,640
Cost of sales (w1)	<u>(488,260)</u>
Gross profit	240,380
Distribution expenses	(19,880)
Administration costs (64,960 - 33,600 Dividends paid)	(31,360)
Investment income	1,120
Fair Value loss of equity instrument (25,200 - 24,360)	(840)
Finance costs	<u>(490)</u>
Profit before tax	188,930
Taxation [34,020 + (4,500 - 3,780)]	<u>(34,740)</u>
Profit for the year	154,190
Other comprehensive income	
Gain on revaluation of leasehold property (w4)	<u>11,200</u>
Total comprehensive income for the year	<u>165,390</u>

### (b) Mercury Ltd

#### Statement of financial position as at 31 December 2023

Assets:	K'000	K'000
Non-Current assets :		
Property, Plant and Equipment (w4)		182,280
Financial asset - equity instrument		<u>24,360</u>
		206,640
Current assets		
Inventory (w2)		79,240
Trade receivables (46,970 - 3,360 goods on sale or return)		<u>43,610</u>
<b>Total Assets</b>		<b><u>329,490</u></b>
<b>Equity and Liabilities</b>		
<b>Equity:</b>		

Equity shares of K1.00 each	70,000
Revaluation reserve	11,200
Retained earnings (47,040 + 154,190 - 33,600 div. paid)	<u>167,630</u>
Total equity	248,830
<b>Liabilities</b>	
<b>Non-current Liabilities</b>	
Deferred tax (15,000 x 30%)	4,500
<b>Current liabilities</b>	
Trade payables	38,920
Bank overdraft	3,220
Current tax payable	<u>34,020</u>
<b>Total equity and liabilities</b>	<b><u>329,490</u></b>

## **WORKINGS.**

**1.**

<b>Cost of Sales</b>	<b>K'000</b>
Opening inventories	65,380
Purchases	575,200
Factory costs capitalised	(95,200)
Amortisation of leased property	4,200
Depreciation of PPE (w3)	17,920
Closing inventories (w2)	<u>(79,240)</u>
	<u>488,260</u>

**2. Inventory**

Per count	76,720
Add: Cost of goods on sale or return (3,360 x 75%)	<u>2,520</u>
	<u>79,240</u>

**3. Depreciation K'000**

Old Plant and Equip. [(62,300 - 20,300) x 20%]	8,400
New Plant [95,200 x 20% x ½ year]	<u>9,520</u>
	<u>17,920</u>

**4. Non-current assets at carrying amount**

Property (67,200 - 4,200)	63,000
Old Plant and Equipment (62,300 - 20,300 - 8,400]	33,600

New Property [95,200 - 9,520]	<u>85,680</u>
	<u>182,280</u>
Property at valuation (70,000 - 14,000)	56,000
Revalued amount	<u>(67,200)</u>
Gain on valuation to revaluation reserve	<u>(11,200)</u>

## SOLUTION THREE

### (a) Kangwe statement of cash flows for the year ended 31 March 2024

	K`000	K`000
<b>Cash flows from operating activities</b>		
Profit before taxation	109,000	
Depreciation	43,000	
Loss on disposal	6,000	
Finance cost	<u>11,000</u>	
Cash flow before working capital changes	169,000	
Decrease in inventories (176,000 – 123,000)	53,000	
Increase in trade receivables (87,000 – 95,000)	(8,000)	
Increase in trade payables (126,000 – 92,000)	<u>34,000</u>	
Cash generated from operations	248,000	
Interest paid (3,000+11,000 – 7,000)	(7,000)	
Income taxes paid (54,000 + 47,000 – 39,000)	<u>(62,000)</u>	
Net cash from operating activities		179,000
 Cash flows from investing activities		
Purchase of property, plant and equipment (W1)	(165,000)	
Proceeds from sale of P.P.E (28,000 – 6,000)	<u>22,000</u>	
Net cash used in investing activities		(143,000)
 <b>Cash flows from financing activities</b>		
Proceeds from share issue (W3.)	80,000	
Proceeds from loan notes (100,000 – 150,000)	(50,000)	
Equity dividends paid (W2.)	<u>(2,000)</u>	
Net cash from financing activities		<u>28,000</u>
Net increase in cash and cash equivalents		64,000
Cash and cash equivalents 2023		<u>30,000</u>
 Cash and cash equivalents at end of the period		<u>94,000</u>

#### W1: Plant and Equipment K`000

O/balance	264,000
Rev surplus/(loss)	(31,000)
Depreciation	(43,000)
N.B.V of disposed asset	(28,000)
Cash paid for new asset	<u>165,000</u> bal figure
C/balance	<u>327,000</u>

#### W2. Dividends paid:

RE Reserve A/c:	K'000	
Bal b/d	41,000	
Profit for the year		62,000
Bonus issue		(30,000)
	<u>73,000</u>	
Dividends paid (balance)	<u>2,000</u>	
Bal c/d	<u>71,000</u>	



W3. Issue of shares:

S/C and S/P A/cs:	K'000
Bal b/d (120000+0)	120,000
Bonus issue 120000X1/4	30,000
	<hr/>
	150,000
Cash received (balance)	80,000
	<hr/>
Bal c/d (200000+30000)	230,000
	<hr/>

(b)

### ANALYSIS OF KANGWE'S LIQUIDITY

Kangwe's cash flow for the year to 31 March 2024 was good as indicated by its current ratio of 1.8:1 which about a benchmark of 2:1.

The company's ability to generate cash was good as evidenced by the cash flow from operating activities of K179 million. Overall there's an increase in the company's position by K64 million. The improved cash position is consistent with the liquidity and working capital management efficiency ratios. The overall cash cycle reduced from 256.9 days the previous year to 68.5 days during the year to 31 March 2024.

### Appendix – Ratios

Ratio	Formula	2024	2023
Current	Current assets/Current liabilities	312000/172000 = <b>1.8</b>	293000/149000 = <b>2.0</b>
Inventory days	CI inventoryX365/COS	123000x365/229000 = <b>196</b>	176000x365/183200 = <b>350.7</b>
Receivables days	CI receivablesX365/Revenue	95000x365/473000 = <b>73.3</b>	87000x365/354750 = <b>89.5</b>
Payable days	CI payablesX365/COS	126000x365/229000 = <b>200.8</b>	92000x365/183200 = <b>183.3</b>

## SOLUTION FOUR

(a) Under IAS 36, para 6, the recoverable of an asset should be measured as the higher value of:

- The asset's fair value less costs of disposal; and
- Its value in use.

1. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
2. The value in use of an asset is measured as the present value of estimated future cash flows (inflows minus outflows) generated by the asset, including its estimated Net disposal value if any

	K		K
- Fair value	35,000 x 96%	=	33,600
- Value in use (PU)		=	33,800
∴ The recoverable amount is K33,800 which is higher.			
Impairment loss = carrying amount – value in use			
= K34,000 – K33,800			
= K200			

(b) Statement of Financial Position (Extract) at 31 December 2023

<u>NON-CURRENT ASSETS</u>	K' 000
Property, Plant and Equipment (w 1)	6,554.60
Other Intangible assets (w 4)	<u>2,000.00</u>
	<u>8,554.60</u>

(c)	X asset	Y asset
	K' 000	K' 000
Initial Expenditure	1,500	2,000
Net borrowing costs (w5)	<u>120</u>	<u>160</u>
Total Capital Expenditure	<u>1,620</u>	<u>2,160</u>

## Workings

Note 1 Property, Plant and Equipment

	Property K' 000	Plant K' 000	Equipment K' 000	Total K' 000
Opening cost / valuation 1.1.23	5,600	3,000	1,780	10,380
Additions (900 + 100)	-	1,000	-	1,000
Revaluation (400-100) (4,000 – 3,600) – (1,600 – 1,700)	(300)	-	-	(300)
Disposal	<u>-</u>	<u>-</u>	<u>(240)</u>	<u>(240)</u>
Closing cost /valuation 31.12.23	<u>5,300</u>	<u>4,000</u>	<u>1,540</u>	<u>10,840</u>
Opening Accumulated Depreciation 1.1.23	800	2,100	1,300	4,200
Charge for year (w2)	180	700	72	952
Revaluation	(800)	-	-	(800)

Disposals	<u>-</u>	<u>-</u>	<u>(66.6)</u>	<u>(66.6)</u>
Closing Accumulated Depreciation at 31.12.23	<u>180</u>	<u>2,800</u>	<u>1,305.4</u>	<u>4,285.4</u>
Carrying value at 31 Dec. 2023	5,120	1,200	234.6	6,554.6

Note 2.	Depreciation charge		K
	Buildings	$3,600 \div 20\text{yrs}$	= 180
	Plant: Old	$20\% \times 3,000$	= 600
	New	$20\% \times 1,000 \times \frac{6}{12}$	= 100
	Equipment yr 1	$15\% \times (1,780 - 1,300)$	= 72

Note 3.	Accumulated Depreciation on Disposals	
	Cost	240,000
	Yr 1 Depreciation charge @ 15%	(36,000)
	NBV	204,000
	Yr 2 Depreciation charge @ 15%	(30,600)
	∴ Total accumulated Depreciation on Disposals	
		$36,000 + 30,600 = 66,600$

Note 4	Mobile Phone license – Intangible asset impairment	
	Cost	K'000
		6,000
	Accumulated amortization $\frac{6,000}{10\text{yrs}} \times 2\text{ yrs}$	<u>1,200</u>
	Net Book value	4,800
	Recoverable amount @ 31 Dec. 2023	<u>2,000</u>
	∴ Impairment loss	<u>2,800</u>

The closing carrying value must not exceed the impaired value of K2,000,000 (6,000 – 4,000) : therefore the accumulated depreciation must be fixed at K4,000,000. This in turn gives the impairment charge as a balancing figure of K2,800,000.

Note: The new carrying value of K2,000,000 will be depreciated over the remaining 8 year life of the license.

### Part C working

#### Working 5

	X asset K' 000	Y asset K' 000
Borrowing costs $(1,500 \times 10\%) (2,000 \times 10\%)$	150	200
Investment income $(750 \times 8\%) (1,000 \times 8\%) \times \frac{6}{12}$	<u>(30)</u>	<u>(40)</u>
Capital interest	<u>120</u>	<u>160</u>

## SOLUTION FIVE

- (a) Potential ordinary shares are financial instruments or other contracts which may entitle the holder to ordinary shares. Examples of potential ordinary shares include convertible preference shares, share options, convertible loans and contingently issuable shares.
- (b) The diluted earnings per share is calculated by computing what the earnings per share figure would have been if the potential ordinary shares had been converted into ordinary shares on the first day of the accounting period, or from their date of acquisition by the holder, if the potential ordinary shares were acquired during the current accounting period.

Diluted earnings per share must be disclosed so that existing and potential shareholders would know the future likely impact (acts as a future warning). The purpose of financial statements is not only to provide historical and current position and performance, but also to aid users to assess the future prospects of a company.

- (c) The Chief Executive Officer is incorrect on two accounts:
- She assumes that convertible instruments always have a bad effect on diluted EPS. This is not the case. Diluted EPS assumes that a conversion takes place and as a result there are additional earnings, being the cost saving related to interest, and additional shares. If the additional earnings per additional share (i.e. additional earnings/additional shares) is greater than basic earnings per share, then the convertible instruments are anti-dilutive. In this case they would increase rather than decrease basic earnings per share on conversion. Antidilutive convertible instruments are not taken into account when calculating diluted earnings per share.
  - She further assumes that the 'the market will react badly, knowing that earnings per share will drop in the future'. EPS will only drop in the future if the instruments are converted (assuming that profit does not increase proportionately as a result of the new project). Diluted EPS gives a worst case scenario outcome, however it is not a definite outcome.

In reality, it is possible that the convertible loan notes, or a proportion of them, will be redeemed for cash which would not cause a dilution, however, IAS 33 *Earnings per Share* requires that maximum possible dilution has to be assumed when calculating the diluted EPS.

Despite this, the CEO seems mistaken as to what the diluted EPS figure actually means; it does not mean that this will be the EPS in the near future (or at the time of redemption). The future EPS will be based on future earnings and the (weighted average) number of shares actually in issue in that future year. Rather, the diluted EPS figure should be seen as a sort of warning. It is saying that, based on existing circumstances, if the dilution had already taken place, i.e. that the convertible shares had already been redeemed for equity (at the maximum possible number of new shares), the diluted EPS as disclosed would have been the figure reported as the actual (basic) EPS.

- (d) Theoretical ex-rights price will be:

4 shares at K3.80 = 15.2

1 share at K2.80 = 2.8

$$18.0 / 5 = K3.60$$

Weighted average calculation:

<i>Date</i>	<i>Narrative</i>	<i>No. shares (m)</i>	<i>Time period</i>	<i>Bonus fraction</i>	<i>Weighted average</i>
1.10.2022	b/d	36 ×	3/12 ×	K3.80/K3.60	9.5
1.1.2023	Rights issue	<u>9</u>			
	45 ×	9/12	nil	<u>33.75</u>	
	43.25				

Basic EPS for the year ended 30 September 2023 is therefore:

$$K15m/43.25m = 34.7ngwee$$

$$\text{Comparative EPS} = 35ngwee \times 3.6/3.8 = 33.2ngwee$$

Diluted EPS:

The additional earnings will be K800,000 (K10m × 8%) less 25% tax = K600,000

The additional shares will be (10m / 100) × 25 = 2.5m

The net effect is therefore K600,000 / 2.5m = 24ngwee. This is below basic EPS and therefore dilutive.

$$\text{Earnings} = K15.6m$$

$$\text{Shares} = 43.25 + 2.5 = 45.75$$

$$\text{Diluted EPS} = 34.1ngwee$$

- (e) IAS 33 provides a methodology for the calculation of basic and diluted EPS, so ensuring that one company's calculation of EPS is comparable with another's. In addition it requires comparatives to be restated where there has been a bonus or rights issue in the year on the basis that the same number of 'free shares' were in issue in the previous year.
- (f)
- The Conceptual Framework for Financial Reporting implies that the two fundamental qualitative characteristics (relevance and faithful representation) are vital as, without them, financial statements would not be useful, in fact, they may be misleading. As the name suggests, the four enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) improve the usefulness of the financial information. Thus financial information which is not relevant or does not give a faithful representation is not useful (and worse, it may be misleading);
  - Financial information which does not possess the enhancing characteristics can still be useful, but not as useful as if it did possess them. For financial statements to be

useful to users (such as investors or loan providers), they must present financial information faithfully, i.e. financial information must faithfully represent the economic phenomena which it purports to represent (e.g. in some cases it may be necessary to treat a sale and repurchase agreement as an in-substance (secured) loan rather than as a sale and subsequent repurchase).

Faithfully represented information should be complete, neutral and free from error. The substance is not identified as a separate characteristic because the IASB says it is implied in a faithful representation such that faithful representation is only possible if transactions and economic phenomena are accounted for according to their substance and economic reality.

## **END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 9: MANAGEMENT ACCOUNTING

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TUESDAY 10 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt **BOTH** questions in this section.

### QUESTION ONE

Z Ltd manufactures product B using three (3) different raw materials. The product details are as follows:

Selling price per unit @ K500 per unit

Material X: 3 kgs @ K7.00 per kg.

Material Y: 2 kgs @ K10.00 per kg

Material Z: 4 kgs @ K9.00 per kg.

Direct labour: 8 hours @ K16.00 per hour.

The company is considering its budgets for next year and has made the following estimates of sales demand for product B for January to April 2024:

January	500 units
February	400 units
March	550 units
April	450 units

It is company policy to hold inventories of finished goods at the end of each month equal to 40% of the following month's sales demand, and it is expected that the inventories at the start of the budget period will meet this policy.

At the end of the production process, the products are tested for quality. It is expected that 10% of units tested will be faulty. It is not possible to rectify these faulty units.

Raw material inventories are expected to be as follows on 1 January, 2024:

Material X:	1,000 kgs
Material Y:	400 kgs
Material Z:	600 kgs

Inventories are to be increased by 20% in January, and then remain at this new level for the next six (6) months.

### **Required:**

- (a) Prepare the following budgets for the first quarter to 31 March 2024:
- (i) Sales budget in units and value. (2 marks)
  - (ii) Production budget in units (4 marks)
  - (iii) Raw material usage budget in kgs (4 marks)
  - (iv) Raw material purchases budget in kgs and value. (5 marks)
  - (v) Labour requirement budget in hours and value. (4 marks)
- (b) Explain what is meant by "incremental budgeting" **and** discuss its suitability for budgeting rent costs and advertising costs. (6 marks)

**[Total: 25 Marks]**



## **QUESTION TWO**

Muleli Ltd produces cocoa drink by mixing three (3) ingredients; K, Y and Z in the proportions 5:3:2, respectively.

The production process does not always mix the ingredients in these proportions, but the drink can be sold if the mixture is within certain limits. The standard prices for the ingredients are:

Ingredient K	K2.40 per litre
Ingredient Y	K2.00 per litre
Ingredient Z	K 2.88 per litre

There is 10% normal loss during the process such that the expected yield is 90%.

During the last period, the output of the cocoa drink was 184,000 litres.

The inputs were:

92,000 litres of K at K2.52 per litre
68,000 litres of Y at K1.88 per litre
42,000 litres of Z at K2.92 per litre

### **Required:**

Calculate the following variances:

- (a) (i) Materials Mix variance (3 marks)  
(ii) Material Yield variance (3 marks)  
(iii) Material usage variance (3 marks)
- (b) Explain the following variances:  
(i) Planning variance (2 marks)  
(ii) Operational variance (2 marks)
- (c) Morden Ltd produces chairs for schools and churches. The information below relates to sales and profit figures for the years 2022 to 2024.

<b>Years</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Quantities (units)	1,500	1,700	3,000
Sales revenue (K)	300,000	340,000	600,000
Profits (K)	70,000	60,000	200,000

Note: The selling price per unit is constant at any given level of activity.

### **Required:**

Using the information provided, compute the following:

- (i) The breakeven point in units and value. (7 marks)
- (ii) The sales units required to achieve a profit of K30,000. (1 marks)

- (d) Explain four (4) limitations of the breakeven analysis technique. (4 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

### **QUESTION THREE**

A church in Lusaka is proposing to hold a national fund-raising event for the construction of a conference centre and is considering two venues. The church overseer proposed the government complex whilst the church council proposed the Mulungushi centre as a venue. The following information is available.

#### ***Government Complex***

It is estimated that the total funds to be raised will amount to K9,600,000. However, the church overseer will need to travel to this venue and stay there before and during the fundraising event, at a cost of K52,500. Various materials and volunteer staff will need to be delivered to this venue, and the church will use its own vehicles for this. These vehicles were originally purchased for K1,920,000 and are depreciated at K320,000 per annum. The use of vehicles in this way means that other vehicles will need to be hired to provide transport for some of the church beneficiaries and the cost will be K128,000. In the event that the church overseer does not like the facilities at the government complex, there will be need to rent them out for K128,000. The church will provide refreshments for K64,000.

#### ***Mulungushi Centre***

If the event was to be held at this venue, the anticipated total funds raised will amount to K8,960,000 and no extra costs associated with the venue will be incurred.

#### ***Other information***

The purchase cost of certain materials necessary for the fund-raising event will be K960,000 and the church overseer's out-of-pocket allowance for the period of the event will be K48,000. Printing of promotional materials will cost K192,000.

#### **Required:**

- (a) Identify the financial data relevant to a decision about where to hold the fund-raising event and give reasons why such costs are relevant or irrelevant. (11 marks)
- (b) State four (4) assumptions of relevant costing. (4 marks)
- (c) Determine the net relevant cost or net relevant benefit of holding the fund-raising event at the government complex and advise the church accordingly. (4 marks)
- (d) Explain any three (3) potential problems associated with relevant costing in decision making. (6 marks)

**[Total: 25 Marks]**

### **QUESTION FOUR**

Quick Cash Ltd (QC Ltd) is a new company involved in lending money to small enterprises. The shareholders of Quick Cash Ltd are concerned about cash flow management. The accountant has provided you with performance records for two years.

QC Ltd launches new products so often to ensure every customer has a product that suits their needs and budget. It uses life cycle costing techniques to ensure all products launched are tracked and recorded accordingly.

**QC Ltd's Statement of Income (extract) for Years Ended 31 December(extract):**

	2023	2022
	K	K
Sales revenue	30,500	28,900
Cost of sales	<u>(17,400)</u>	<u>(14,850)</u>
Gross profit	<u>13,100</u>	<u>14,050</u>
<b>QC Ltd's balance sheet (extract) as at</b>	<b>31 December:</b>	
Current assets:		
Inventories	2,500	3,900
Accounts receivables (Note 1)	11,700	10,430
Short term investments	5,200	4,790
Cash at bank and in hand	<u>4,820</u>	<u>4,800</u>
	<b><u>24,220.0</u></b>	<b><u>23,920.00</u></b>
Accounts Payable in a year:		
Loans and Overdrafts	4,910	3,530
Corporation Taxes	6,200	4,670
Dividend	1,900	1,430
Accounts Payables (Note 2)	<u>3,700</u>	<u>3,240</u>
Total Payables due within Year	<b><u>16,710</u></b>	<b><u>12,870</u></b>
Net Current Assets	<b><u>7,510</u></b>	<b><u>11,050</u></b>
<b>Notes</b>	2023	2022
	K	K
1 Trade accounts receivable	11,000	10,000
2 Trade accounts payable	3,500	3,100

**Required:**

- (a) Calculate the following:
- (i) Current and quick ratio (4 marks)
  - (ii) Accounts receivables payment period (2 marks)
  - (iii) Inventory turnover period (2 marks)
  - (iv) Accounts payables turnover period (2 marks)

- (v) Sales revenue/Net working Capital (2 marks)
- (b) Explain the four (4) main objectives of working capital management. (8 marks)
- (c) Explain how life cycle costing can help the company maximize returns. (5 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

- (a) Lweendo Ltd is a car and van-hire company which offers three categories of vehicle hire to clients in major airports and hotels around the country. Details for the next budget period are as follows.

	Car	Minibus	Van
Number of full day hire	12,000	6,000	10,000
Charge per full day hire	K960	K1,600	K1,200
Variable costs per full day hire	K128	K800	K400

Total fixed costs for the period are estimated at K13,440,000.

**Required:**

- (i) Calculate Lweendo Ltd's breakeven point in revenue. (10 marks)
- (ii) Calculate the margin of safety in percentage terms. (3 marks)
- (iii) State any two (2) assumptions upon which breakeven analysis is based. (2 marks)
- (b) Management Accounting can be defined as the provision of information to support management in their planning, control and decision making activities.

**Required:**

- Explain any five (5) characteristics of useful information. (5 marks)
- (c) In pricing decisions, Management Accountants are important in the provision of quantitative information required in arriving at the price of the product or service. In addition to quantitative information, other qualitative factors are considered before arriving at the final price.

**Required:**

- Explain any five (5) factors other than cost which may be considered before arriving at the final price of a product or service. (5 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

### SOLUTION ONE

(a)

(i) Sales budget

	January K	February K	March K
Sales forecast (units)	500	400	550
Budgeted selling Price (K)	<u>500</u>	<u>500</u>	<u>500</u>
Total Budgeted sales (K)	<u>250,000</u>	<u>200,000</u>	<u>275,000</u>

(ii) Production budget (in units)

	January	February	March
Sales forecast	500	400	550
Planned closing inventory	<u>160</u>	<u>220</u>	<u>180</u>
(40%)	660	620	730
	<u>(200)</u>	<u>(160)</u>	<u>(220)</u>
Less opening inventory	460	460	510
Net production requirement 90%	<u>51</u>	<u>51</u>	<u>57</u>
Add production losses 10%	<u>511</u>	<u>511</u>	<u>567</u>
Gross Production requirement (100%)			

(iii) Raw material usage budget in kg

	January	February	March	Total
Production Requirements	511	511	567	-
Material X (x 3 kgs)	1,533	1,533	1,701	4,767 kgs
Material Y (x 2 kgs)	1,022	1,022	1,134	3,178 kgs
Material Z (x 4 kgs)	2,044	2,044	2,268	6,356 kgs

(iv) Raw materials purchases budget for the quarter

Material type	X	Y	Z
	kg	kg	kg
Usage Requirement	4,767	3,178	6,356
Add: Planned closing Inventory (x 1.2)	<u>1,200</u>	<u>480</u>	<u>720</u>
	5,967	3,658	7,076
Less opening Inventory	<u>(1,000)</u>	<u>(400)</u>	<u>(600)</u>
Purchases Requirements (kgs)	4,967	3,258	6,476
Planned Purchase Price (K)	<u>7</u>	<u>10</u>	<u>9</u>
Total materials cost (K)	<u>34,769</u>	<u>32,580</u>	<u>58,284</u>

(v) Labour cost budget

	January	February	March
Production requirement (units)	511	511	567
Labour hour requirements (hrs)	8	8	8
	4,088	4,088	4,536
Labour rate (K)	<u>16</u>	<u>16</u>	<u>16</u>
Total labour cost (K)	<u><u>65,408</u></u>	<u><u>65,408</u></u>	<u><u>72,576</u></u>

(b) **Meaning of Incremental Budgeting**

This is a method of setting budgets whereby the latest period's budget is used as a base for preparing the budget for the forthcoming period. Adjustments are made for any expected changes e.g. changes in the level of activity.

**Appropriateness**

Incremental budgeting may be appropriate for budgeting for rent because the rent cost for the forthcoming period can be estimated on the basis of the current rent plus an increment for the annual rent increase.

Incremental budgeting might not be appropriate for budgeting for advertising expenditure because such expenditure is not so easily quantifiable and is more discretionary in nature. Using incremental budgeting for advertising expenditure could allow slack and wasteful spending to creep into the budget. Simply adding an increment to the current year's budget does not force managers to question whether the current level of expenditure is necessary. Furthermore, there will be a tendency for the relevant manager to ensure that the current budget is spent, in case the allowance is removed for the forthcoming year, if it is not spent this year.

## SOLUTION TWO

(a)

(i) Materials mix variance

$$5/10 \text{ K } (92,000 - 101,000) \times \text{K}2.40 = \text{K}21,600(\text{F})$$

$$3/10 \text{ Y } (68,000 - 60,600) \times \text{K}2.00 = \text{K}14,800 (\text{A})$$

$$2/10 \text{ Z } (42,000 - 40,400) \times \text{K}2.88 = \text{K}4,608 (\text{A})$$

$$\text{Total Mix variance} = \text{K}2,192(\text{F})$$

(ii) Materials yield variance

		Kg
Standard usage	184,000x100/90	204,444
Actual usage		<u>202,000</u>
		<u>2,444(F)</u>
		x
		K2.376
	Material yield variance	<b>K5,807(F)</b>

(iii) Material usage variance

$$\text{K } (102,222 - 92,000) \times \text{K}2.40 = \text{K}24,533 (\text{F})$$

$$\text{Y } (61,333 - 68,000) \times \text{K}2.00 = \text{K}13,334 (\text{A})$$

$$\text{Z } (40,889 - 42,000) \times \text{K}2.88 = \text{K}3,200 (\text{A})$$

$$\text{Material usage variance} = \text{K}7,999 (\text{F})$$

(b)

(i) Planning variance

- Planning variances measure the extent to which the original plan was faulty and is uncontrollable by operational managers. It tests management's forecasting skills by comparing the original budget with the revised budget.

(ii) Operational variance

- It measures management's operating efficiency by comparing actual results with a revised standard. This variance is controllable by operational managers.

(c)

(i) Breakeven point in units and value

$$\text{BEP (units)} = \text{K}61,000/\text{K}87$$

$$= \text{701 units}$$



$$\text{BEP (value)} = 701 \text{ units} \times \text{K}200 = \underline{\underline{\text{K}140,200}}$$

**Workings:**

Units	1,500	1,700	3,000
Sales revenue	300,000	340,000	600,000
Profit	<u>(70,000)</u>	<u>(60,000)</u>	<u>(200,000)</u>
Total costs	<b><u>230,000</u></b>	<b><u>280,000</u></b>	<b><u>400,000</u></b>

W.1      Variable cost per unit =  $(\text{K}400,000 - \text{K}230,000) / (3,000 - 1,500)$   
 $= \text{K}170,000 / 1,500$   
 $= \underline{\underline{\text{K}113.33}}$

W.2      Total fixed costs                      =  $\text{K}400,000 - (\text{K}113 \times 3,000)$   
 $= \text{K}400,000 - \text{K}339,000$   
 $= \underline{\underline{\text{K}61,000}}$

W.3      Contribution per unit                =  $\text{K}200 - \text{K}113$   
 $= \underline{\underline{\text{K}87}}$

(ii) Sales units required to achieve profit of K30,000  
 $= (\text{K}61,000 + \text{K}30,000) / \text{K}87$   
 $= \text{K}91,000 / \text{K}87$   
 $= \underline{\underline{1,046 \text{ Units}}}$

(d) Four (4) limitations of breakeven analysis

1. It can only apply to a single product or a single mix of a group of products.
2. A breakeven chart may be time consuming to prepare.
3. It assumes fixed costs are constant at all levels of output
4. It assumes that variable costs are the same per unit at all levels of output.
5. It assumes that sales prices are constant at all levels output.
6. It assumes production and sales are the same.
7. It ignores the uncertainty in the estimates of fixed costs and variable cost per unit.

### SOLUTION THREE

(a) The financial data relevant to a decision about where to hold the fund-raising event include:

- Total funds raised at government complex of K9,600,000 are relevant because it is an incremental future cash flow.
- The church overseer's travel and accommodation expenses of K52,200 are incremental future cash flows ; and ,therefore, relevant.
- The original cost of vehicles of K1,920,000 is irrelevant because it is a sunk costs
- Depreciation of vehicles of K320,000 is not relevant because it is not a cash flow.
- Hire costs of K128,000 are relevant costs because they are incremental future cash flows.
- Rent of premises valued at K128,000 is a relevant costs because it is an incremental future cash flows.
- Costs of refreshments amounting to K64,000 are relevant because they are incremental future cash flows.
- Funds raised at Mulungushi Centre of K8,960,000 are relevant because they are incremental future cash flows.
- Purchases of materials of K960,000 are irrelevant as they are not incremental future cash flows.
- The out of pocket allowance of K48,000 for the overseer is irrelevant because it will incurred under both options.
- Printing of promotional materials of K192,000 is irrelevant because it is not incremental costs.

(b) Assumption underlying the operation of relevant costing

1. The purchase cost of materials, the church overseer's allowance and printing of promotional posters are costs which will arise irrespective of the venue chosen and are thus irrelevant.
2. All items identified as relevant in part (a) above are cash flows.
3. Estimates are accurate
4. No relevant costs/benefits exist apart from those listed in the question

(c) The net relevant cost/benefit of holding the event at Government Complex.

	K	K
Relevant benefit		
Additional funds raised		
(K9,600,000 – K8,960,000)		640,000
Relevant Costs		
Overseer's travel, etc	52,500	
Hire of transport	128,000	

Rent of premises	128,000	
Refreshments	<u>64, 000</u>	
		<u>372,500</u>
Net relevant benefit		<u>267,500</u>

Advice

The government complex venue yields a net relevant benefit of K267,500. This option is better on financial grounds.

- (d) Using the concept of relevance may involve certain problems which can be summarised as follows: -
1. Short-term/one – off decisions in nature
  2. Obtaining financial data maybe challenging
  3. Consideration of qualitative factors
  4. Persuading and convincing other managers to accept the business rational based on relevant costing.

## SOLUTION FOUR

(a)

(i)	• <b>Current Ratio</b>	<u>24,220 x365</u>	<u>23,920 x365</u>
		16,710.00	12,870
		<b><u>1.45</u></b>	<b><u>1.86</u></b>
	• <b>Quick Ratio</b>	<u>21,720x365</u>	<u>20,020 x365</u>
		16,710	12,870
		<b><u>1.30</u></b>	<b><u>1.56</u></b>
(ii)	<b>Account Receivables Payment Period</b>	<u>11,000.00 x365</u>	<u>10,000 x365</u>
		30,500	28,900
	<b>Days</b>	<b><u>132</u></b>	<b><u>126</u></b>
(iii)	<b>Inventory Turnover Period</b>	<u>2,500.00 x365</u>	<u>3,900.00 x365</u>
		17,400	14,850
	<b>Days</b>	<b><u>52</u></b>	<b><u>96</u></b>
(iv)	<b>Accounts Payable Turnover Period</b>	<u>3,500.00 x365</u>	<u>3,100.00 x365</u>
		17,400	14,850
	<b>Days</b>	<b><u>73</u></b>	<b><u>76</u></b>
(v)	<b>Sales/Net Working Capital Ratio</b>	<u>30,500</u>	<u>28,900</u>
		(Current Asset-Current Liabilities) 7,510	11,050
		<b><u>4.06</u></b>	<b><u>2.62</u></b>

(b) **Objectives of Working Capital Management:**

Some objectives of working capital management include:

### 1. Optimization of Working Capital Operating Cycle

In simple terms, working capital cycle starts from the day raw materials are acquired and completes when the finished products are sold. One of the major objectives of working capital management is to ensure that there is no hindrance during the above mentioned process.

**2. Balance Working Capital**

The good net working capital is required to stay in a stable equilibrium. The ratio of current assets and current liabilities should be optimized. The lower value of this ratio implies that company is not financially stable to clear its current debts ; whilst the higher value is also not an indication of prosperity: it suggests that company has too many inventories and they are not investing in excess cash.

**3. Minimize Cost of Capital:**

Working capital management focuses on minimizing cost of capital, the rate of interest in some special cases. Utilization of long-term funds is one way of minimizing capital cost. The fundamental principle of financial management should be followed sincerely while deciding the finance mix. The principle states that long term sources should finance fixed assets and permanent assets. Also, the short-term or temporary assets should be financed by short-term sources of finance.

**4. Assists the Business to Avoid Over-borrowing:**

Over-borrowing is among the quickest techniques towards business growth as well as business failure. The objectives of working capital management out of over-borrowing leads to mismanagement of finance as well as assets. Their business goes far beyond their financial goals which leads towards financial failure for a business. A proper working capital management will definitely give you a warning sign where you can put your control towards business expansion.

**5. Optimal Return on Current Asset Investment**

The return on the investment infused on short term assets must exceed the average cost of capital to ensure wealth maximization. In other words, the rate of return earned from the investment in short term assets should exceed the rate of interest or cost of capital. Objectives of working capital management aims to extract maximum from an investment in current assets to ensure higher profitability.

**6. Expansion of Company's Investment:**

Money you saved from effective working capital management tactics is being an inexpensive source of finance that can be used for your business expansion, funds for existing projects or company's investment toward expansion of their idea and vision towards growth of an organization.

**7. Healthy Relation with Suppliers / Providers:**

When a business has defined objectives of working capital and engaging its best management concerning its working capital along with other financial indicators, then lenders, suppliers, non-trade creditors as well will be more interested in carrying a business with you. Their understanding of the business, management setup will definitely boost confidence within the business as well as in the transactions of a company.

**(c) Life cycle can help in maximizing return on the product by:**

1. Design the cost of the product which is by keeping costs to the minimum throughout the life cycle of the product.
2. Minimise the time to market the product. The time from conception to its launch should be kept short.
3. Minimise the break-even time (BET) of the product. The longer it takes to recover the costs on the products the costlier and most likely to make losses.
4. Minimising product proliferation- if product is updated too quickly and shorter life cycle such that it is cut short before costs are full recovered.
5. Manage the product cash flows.

## SOLUTION FIVE

(a)

(i) Breakeven point in revenue

	K
<i>Total sales</i>	
Car hire (12,000 @ K960)	11,520,000
Minibus hire (6,000 @ K1,600)	9,600,000
Van hire (10,000 @ K1,200)	<u>12,000,000</u>
	<u>33,120,000</u>
<i>Total contribution</i>	
	K
Car hire (12,000@K960-K128)	9,984,000
Minibus hire (6,000@ K1,600-K800)	4,800,000
Van hire (10,000@ K1,200 – K400)	<u>8,000,000</u>
	<u>22,784,000</u>

*Weight Average Contribution Sales (CS) Ratio*

$$= \frac{\text{Total contribution}}{\text{Total Sales}} \times 100$$

$$= \frac{K22,784,000}{K33,120,000} \times 100$$

$$= \underline{\underline{69\%}}$$

$$\therefore \text{Breakeven point} = \frac{\text{Total fixed costs}}{\text{Weighted average C/S Ratio}}$$

$$= \frac{K13,440,000}{0.69}$$

$$= \underline{\underline{K19,478,260.89}}$$

$$(ii) \text{ Margin of safety} = \frac{\text{Budgeted sales} - \text{Breakeven sales}}{\text{Budgeted sales}} \times 100$$

$$= \frac{K33,120,000 - K19,478,261}{K33,120,000}$$

$$= \underline{\underline{41.2\%}}$$

(iii) Assumptions upon which breakeven analysis is based include: -

1. The selling price per unit is assumed to remain constant at all levels of activity.
2. The variable cost per unit is assumed to remain constant at all levels of activity. It is assumed that the total fixed costs do not change across all levels of production.
3. It is assumed that the production volume is equal to sales volume in the period (i.e. there are no changes in the levels of inventory)
4. It requires the budgeted product mix proportions to be known in advance and remain unchanged.

- (b) Characteristics of useful information that can support the provision of information to management include:
1. *Relevance*. Information must be relevant to the purpose for which a manager wants to use it. In practice, far too many reports fail to 'keep to the point' and contain irrelevant paragraphs which only annoy the managers reading them.
  2. *Completeness*. An information user should have all the information they need to do their job properly. If they do not have a complete picture of the situation, they might well make bad decisions.
  3. *Accuracy*. Information should obviously be accurate because using incorrect information could have serious and damaging consequences
  4. *Clarity*. Information must be clear to the user. If the user does not understand it properly they cannot use it properly.
  5. *Volume*. There are physical and mental limitations to what a person can read, absorb and understand properly before taking action
  6. *Timing*. Information which is not available until after a decision is made will be useful only for comparisons and longer-term control, and may serve no purpose even then.
  7. *Cost*. Information should have some value; otherwise it would not be worth the cost of collecting, distributing and storing it.
- (c) A number of factors may be considered before arriving at the final price of a product or service including: -
1. Quality - Customers tend to judge quality by price.
  2. Intermediaries - Likely to deal with a range of suppliers and their aims concern their own profits rather than those of suppliers.
  3. Competitors - In some industries (such as petrol retailing) pricing moves in unison; in others, price changes by one supplier may initiate a price war.
  4. Suppliers – A rise in the price of a product from a supplier will affect a firm's prices.
  5. Inflation - In periods of inflation the organisation may need to change prices to reflect increases in the prices of supplies
  6. Availability of substitutes or complementary products - Products are often interrelated, being complements to each other or substitutes for one another
  7. Ethics - Ethical considerations may be a further factor, for example whether or not to exploit short-term shortages through higher prices.

## **END OF SUGGESTED SOLUTIONS**





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 10: TAXATION

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THURSDAY 12 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## TAXATION TABLE

### Income Tax

#### Standard personal income tax rates

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

#### Income from farming for individuals

K0.01 to K61,200	first K61,200	0%
Over K61,200		10%

#### Company income tax rates

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

### Mineral Royalty

#### Mineral Royalty on Copper

Norm price range per tonne	Incremental value	Mineral Royalty rate
Less than US\$4,000	First \$3,999	4.0% of norm value
From US\$4,000 but less than US\$5,000	Next \$1,000	6.5% of norm value
From US\$5,000 but less than US\$7,000	Next \$2,000	8.5% of norm value
US\$7,000 and above	Over \$7,000	10% of norm value

#### Mineral Royalty on other minerals

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

### Capital Allowances

#### Implements, plant and machinery and commercial vehicles:

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

#### Non- commercial vehicles

Wear and Tear Allowance	20%
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#### Industrial Buildings:

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

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

Wear and Tear Allowance	10%
Initial Allowance	10%

**Commercial Buildings**

Wear and Tear Allowance	2%
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**Farming Allowances**

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

**Presumptive Taxes****Turnover Tax****Annual Turnover**

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

**Rental income Tax****Rental income band****Taxable amount**

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

**Presumptive tax for transporters****Seating capacity****Tax per annum****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	
<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0
	Aged 2 to 5 years		Aged above 5 years	
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Customs duty K</b>	<b>Excise duty K</b>	<b>Customs duty K</b>	<b>Excise duty K</b>
<b>Sedans</b>				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
<b>Hatchbacks</b>				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642

**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, <b>with spark ignition internal combustion piston engine</b>	33,766	14,632	26,531	11,497

**Panel Vans**

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

**Trucks**

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

GVW exceeding 20 tonnes, <b>with spark ignition internal combustion piston engine</b>	37,086	28,432	13,907	10,662
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**Surtax**

On all motor vehicles aged more than five (5) years from year of manufacture	K2,000
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**Customs and Excise on New Motor vehicles**

**Duty rates on:**

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

**Customs Duty:**

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

**Excise Duty:**

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

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

**Customs Duty**

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

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
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**3. Buses/coaches for the transport of more than ten persons**

**Customs Duty:**

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

**Excise Duty:**

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

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

**Customs Duty:**

Percentage of Value for Duty Purposes	15%
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**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
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## SECTION A – TWO (2) COMPULSORY QUESTIONS

Attempt BOTH questions in this section.

### **QUESTION ONE**

Desk and Top are in partnership sharing profits and losses in the ratio 2:1 after allowing for annual salaries of K253,680 and K273,360 respectively.

On 1 May 2024, Tablet was admitted to the partnership and with effect from that date the partnership agreement changed as follows:

	<b>Desk</b>	<b>Top</b>	<b>Tablet</b>
Annual partners' salaries	K271,800	K277,200	K254,760
Share of profits & losses	5:	3:	2

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

		K	K
Gross profit			1,618,600
Less:			
Salaries	(Note 1)	420,000	
Legal and professional expenses	(Note 2)	108,400	
Gifts and entertainment	(Note 3)	122,000	
Irrecoverable debts	(Note 4)	48,100	
General expenses	(Note 5)	<u>321,000</u>	
			<u>(1,019,500)</u>
Net profit for the year			<u>599,100</u>

### **Additional information:**

#### **Note 1:**

Salaries include salaries for partners amounting to K56,200, K40,300 and K31,800 for Desk, Top and Tablet respectively, the balance is made up of salaries paid to employees.

#### **Note 2:**

Legal and professional expenses are made up of legal fees incurred on purchase of land K17,600, accountancy fees K43,200, legal fees in connection with defense of title to existing assets K47,600.

#### **Note 3:**

Gifts and entertainment are made up of gifts to customers of calendars bearing the business name (each costing K90) K22,500, gifts to customers of food hampers (each costing K250)

K52,500, entertaining employees on a staff Christmas party K21,300 and entertaining suppliers K25,700.

**Note 4:**

Irrecoverable debts expenses include trade debts written off K11,100, loans to former employees written off K29,400, increase in specific allowance for receivables K14,300 and decrease in general provision for receivables K6,700.

**Note 5:**

General expenses are made up of the following:

	K
Depreciation	60,210
Donations to political parties	12,400
Marketing expenses	51,110
Theft of cash by an employee	16,600
Loss on disposal of assets	11,190
Other revenue allowable expenses	<u>169,490</u>
	<u>321,000</u>

**Note 6:**

Capital allowances on partnership assets for the year ended 31 December 2024 amounted to K112,300.

**Note 7:**

Provisional income tax paid by the partners for the year ended 31 December 2024 amounted to K66,185 for Desk, K64,119 for Top and K21,115 for Tablet.

**Required:**

- (a) Calculate the final taxable business profits for the partnership for the year ended 31 December 2024. (7 marks)
- (b) Calculate the amount of taxable business profits on which each partner will be assessed for the tax year 2024. (7½ marks)
- (c) Calculate the amount of income tax payable by each partner for the tax year 2024. (10½ marks)

**[Total: 25 Marks]**

**QUESTION TWO**

Peter Kwamana had been employed by Kamulanga Limited as a Marketing Manager for the past twenty (20) years. In the recent past the company had not been performing well and has declared



most of its employees redundant and Peter Kwamana is one of those employees who were declared redundant on 1 September 2024.

His contract of employment had provided for the following:

- (1) A basic salary of K24,400 per month and was paid by the end of each month. In addition to the salary, he was paid the following allowances:

	K
Housing allowance per month	4,900
Transport allowance per annum	21,600
Medical allowance per annum	14,400
Education allowance per term	2,500

The education allowance is for his three (3) school going children who are all in boarding schools in Southern Province.

- (2) The following expenses were reimbursed by the company on 30 September 2024:

	K
Electricity bills	36,300
Water bills	8,400

- (3) On 1 May 2024, Peter was given a labour day award in cash of K10,000 as the most hard working employee in the company and a long service award of K25,000.

- (5) On being declared redundant on 1 September 2024, Peter received the following terminal benefits:

	K
Commutation of accrue leave days	33,500
Repatriation pay	18,000
Severance pay	34,000
Salary in lieu of notice	73,500

- (6) Throughout his employment with Kamulanga Limited, the company had always deducted NAPSA contributions of 5% of his basic salary and the other 5% for NAPSA was contributed by his employer on his behalf.

- (7) Peter Kwamana had also made some investments and he received, bank interest of K9,600 (gross), Management and consultancy fees of K12,750 (net) and as a good composer of gospel music he received royalties of K8,500 (net).

- (8) During the tax year 2024, the following payments and deductions were made from his gross emoluments:

	K
Subscriptions to Zambia Institute of Marketing	2,800
Donations to an approved benefit organisation	3,600
Subscriptions to squash club	2,200
School fees for his children	12,500
Tax already paid under PAYE	58,200

**Required:**

- (a) Calculate the income tax payable by Peter Kwamana for the tax year 2024. (19 marks)
- (b) Explain the tax consequences of the late payment of income tax deducted from emoluments under the Pay As You Earn system. (3 marks)
- (c) State any three (3) obligations an employer has under the Pay As You Earn system. (3 marks)

**[Total: 25 Marks]**

## SECTION B

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

### QUESTION THREE

Mindolo Farms Plc is a Zambian resident company engaged in farming operations. The company listed its shares on the Lusaka Securities Exchange (LuSE) in January 2024. The company has issued share capital comprising 25,000,000 ordinary shares and 8,750,000 of these shares were issued to indigenous Zambians.

The actual tax adjusted farming profit before capital allowances and any loss relief for the charge year 2024 was K17,600,000.

At 1 January 2024, Mindolo Farms Plc had the following implements, plant and machinery qualifying for capital allowances:

<b>Asset</b>	<b>Cost K</b>	<b>Income Tax Value (ITV) K</b>
Delivery truck	500,000	125,000
Toyota Hilux Double Cab van	1,600,000	960,000
Farm implements	250,000	0

The Toyota Hilux Double cab van has a cylinder capacity of 3,000 cc and is used on a personal to holder basis by the Farm Operations Manager. His private use of the vehicle is 60%.

The following expenditure, acquisitions and disposals of capital assets were made in the year ended 31 December 2024:

	<b>Cost/(Proceeds) K</b>
Delivery truck	(150,000)
General plant	840,000
Farm implements	(300,000)
Irrigation equipment	5,600,000
Three (3) dwelling houses (costing K250,000 each)	750,000
Expenditure on Banana plantation	350,000

During the year ended 31 December 2024, Mindolo Farms Plc received the following additional income:

	<b>K</b>
Final taxable profits from retail operations	1,250,000
Interest income on Government of Zambia bonds	595,000
Dividends from a company listed on the LuSE	255,000
Management fees	552,500

The interest income and dividend income represent the actual amounts received. Withholding tax was deducted at source and paid on the relevant due dates.

At 1 January 2024, Mindolo Farms Plc had a tax adjusted farming loss brought forward of K15,600,000. The tax adjusted farming loss was incurred in the tax year 2023.

Provisional income tax paid for tax year 2024 was K248,500.

**Required:**

- (a) Describe the circumstances under which a business carrying on farming operations can make an election to average income from farming and state the due date for making such an election. (3 marks)
- (b) Calculate Mindolo Farms Plc's maximum capital allowances for the tax year 2024. (8 marks)
- (c) Calculate Mindolo Farms Plc's final adjusted farming income. You should calculate the amount of any tax loss remaining unrelieved at 31 December 2024. (6 marks)
- (d) Calculate the amount of company income tax payable for the tax year 2024. (8 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) Fraglam Limited is a Zambian resident company registered for value added tax. The following information has been extracted from the books of the company for the month of March 2024:
  - (1) Sales revenue for the month amounted to K1,081,000. This figure was made up of exempt sales amounting to K151,340, zero-rated sales amounting to K216,200 and standard-rated sales amounting to K713,460. The figure for standard-rated sales includes sales amounting to K214,038 made to customers who are not registered for VAT. Sales returns issued in respect of standard rated sales amounted to K11,900.
  - (2) Purchases amounted to K411,600. Included in this figure is K57,624 for exempt purchases and K82,320 zero-rated purchases. The balance is made up standard-rated purchases out of which 20% were received from suppliers who are not registered for VAT.
  - (3) Standard rated operating expenses amounted to K316,100 (VAT inclusive). These expenses include entertainment expenses for employees of K22,156, staff refreshments of K17,771, utility expenses for directors' houses K25,387, telephone expenses of K16,402, general cleaning expenses K27,910, motor vehicle servicing

expenses K55,912 and other general expenses of K150,562. All of the expenses were incurred in making both taxable and exempt supplies.

(4) The company made the following purchases of non-current assets during the month:

	<b>Cost (VAT nclusive)</b>
	K
Toyota cars	475,600
Fixtures & fittings	77,314
Delivery truck	255,200

The pool cars are exclusively used for business purposes. All the assets are used to make both taxable and exempt supplies.

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

**Required:**

- (i) Calculate the amount of VAT payable by Fraglam Limited for the month of March 2024. You should indicate by the use of zero (0) all items on which VAT is not chargeable or recoverable. (14 marks)
  - (ii) State the date when the VAT for the month of March should have been paid and the consequences of paying this tax late. (2 marks)
  - (iii) State any three (3) conditions that should be met for input VAT to be claimed by the trader. (3 marks)
- (b) Bornface Masuku commenced letting of property business on 1 January 2024. He let out two (2) properties as follows:

**Shopping complex**

The shopping complex consists of eleven (11) shops which were let out at gross rentals of K4,800 per month per shop. He incurred total maintenance expenses amounting to K800 per month and utility expenses amounting to K2,220 per month in respect of all the houses.

**Residential flats**

He let out ten (10) residential flats at gross rentals of K3,100 per month per flat. He incurred total general maintenance expenses amounting to K1,200 per month and utility expenses amounting to K1,900 per month in respect of all the residential flats.

**Required:**

Calculate the amount of tax payable by Bornface for the year ended 31 December 2024, clearly stating how this tax was paid. (6 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

- (a) James, a sole trader, imported a brand-new 1,800cc Toyota Allion Sedan car at a cost of \$10,000 (free on board). He incurred freight charges amounting to \$4,100 and insurance costs amounting to \$3,400 up to the port of Dar es Salaam. Other incidental costs incurred up to Nakonde Border Post amounted to \$1,100. Transportation costs and insurance costs incurred to transport the motor vehicle from Nakonde to Lusaka amounted to K2,800 and K800 respectively. Motor vehicle registration expenses amounted to K3,100.

The exchange rate quoted by the Bank of Zambia and approved by the Commissioner General amounted to K27.10 per \$1 at the date of importation. The exchange rate on the same date as quoted by other Bureau De Change was K26.85 per \$1. The Toyota Allion Car is classified as a sedan for the purposes of import taxes.

**Required:**

- (i) State the four (4) conditions to be met for customs officers to use the transaction value method to determine the value of imports. (4 marks)
- (ii) Calculate the total amount of import taxes paid by James on the importation of the motor vehicle. (7 marks)
- (b) Orange is a Zambian resident company engaged in manufacturing. The company sold the following assets in order to raise additional finance for its expansion programme:
- (1) Sold a piece of land for cash proceeds amounting to K412,000 (gross) incurring transaction costs amounting to K6,000. This land was acquired in the year 2020 at the cost of K192,000. The open market value of land on the same date amounted to K450,000.
- (2) Sold an office building to its subsidiary for cash proceeds amounting to K220,000 (gross) incurring transaction costs of K2,000. The open market value of the building on the same date was K1,400,000. The transfer of the building was necessary as it was part of the group's reorganization strategy.
- (3) Sold 130,000 equity shares it held in Pineapple Limited, a Zambian unquoted company, at a price of K8.90 per share. The shares have a nominal value of K1.0 each and they were acquired at a cost of K2.40 in 2015. The open market value of the shares on the date of sale was K6.40 each.

- (4) Sold 41,000 equity shares it held in Grape plc, a Zambian resident quoted company, at a price of K15.60 per share. The shares have a nominal value of 25 Ngwee each and they were acquired in 2010 at a cost of K4.80 each.
- (5) Sold its second-hand machinery at a price of K601,000 (gross) incurring transaction costs amount to K11,000. The machinery was acquired in 2018 at a cost of K1,602,000. The open market value of the machinery on the date of sale amounted to K620,000.

**Required:**

Explain the property transfer tax implications arising from the transfer of the above assets. Your answer should include a computation of property transfer tax payable on each transaction. (7 marks)

- (c) Magret, a sole trader, runs a public transportation business. He owns a Higer bus with a sitting capacity of forty-two (42) passengers and a Toyota Belta Car taxi with a sitting capacity of four (4) passengers. The Higer bus was operational from 1 May 2024 while the Toyota Belta taxi has been operational since 2021. During the year ended 31 December 2024, the Higer bus earned monthly ticket sales amounting to K114,000 while the Toyota Belta taxi earned monthly ticket sales amounting to K7,900. Operating expenses incurred in connection with the Higer bus and Toyota Belta taxi amounted to K49,600 per month and K2,110 per month respectively during the year ended 31 December 2024.

**Required:**

Compute the amount of tax payable by Magret for the tax year 2024. (3 marks)

- (d) The International Ethics Standards Board for Accountants (IESBA) is a body of IFAC that lays down fundamental principles in the Code of Ethics for Professional Accountants. The Code states that public interest is the main reason accountancy bodies produce ethical guidance.

**Required:**

Explain the meaning of integrity and objectivity as they apply in the provision of taxation services. (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 10: TAXATION SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) Partnership's final taxable business profits for the year ended 31 December 2024

	K	K
Net profit as per accounts		599,100
Add:		
Partners' salaries:		
Desk	56,200	
Top	40,300	
Tablet	31,800	
Legal fees – purchase of land	17,600	
Gifts to customers of food hampers	52,500	
Entertaining suppliers	25,700	
Loans to former employee written off	29,400	
Depreciation	60,210	
Donations to political parties	12,400	
Loss on disposal of assets	<u>11,190</u>	
		<u>337,300</u>
		936,400
Less:		
Decrease in general provision	6,700	
Capital allowances	<u>112,300</u>	
		<u>(119,000)</u>
Taxable business profits		<u>817,400</u>

(b) Allocation of taxable business profits for the year ended 31 December 2024

	Desk	Top	Tablet	Total
First 4 months to 1/04/2024	K	K	K	K
Salaries	84,560	91,120	Nil	175,680
Balance 2:1	<u>64,525</u>	<u>32,262</u>	<u>Nil</u>	<u>96,787</u>
(K817,400 x 4/12)	<u>149,085</u>	<u>123,382</u>	<u>Nil</u>	<u>272,467</u>
Last 8 months to 31/12/2024				
Salaries	181,200	184,800	169,840	535,840
Balance 5:3:2	<u>4,547</u>	<u>2,728</u>	<u>1,818</u>	<u>9,093</u>
(K817,400 x 8/12)	<u>185,747</u>	<u>187,528</u>	<u>171,658</u>	<u>544,933</u>
Total	<u>334,832</u>	<u>310,910</u>	<u>171,658</u>	<u>817,400</u>



(c) Income tax payable by each partner for the tax year 2024

	Desk K	Top K	Tablet K
Share of taxable profits	<u>334,832</u>	<u>310,910</u>	<u>171,658</u>
Computation			
First K61,200 x 0%	0	0	0
Next K24,000 x 20%	4,800	4,800	4,800
Next K25,200 x 30%	7,560	7,560	7,560
Excess – K224,432 x 37%	83,040		
Excess – K200,510 x 37%		74,189	
Excess – K61,258 x 37%	<u>-----</u>	<u>-----</u>	<u>22,665</u>
Income tax liability	95,400	86,549	35,025
Less:			
Provisional income tax paid	<u>(66,185)</u>	<u>(64,119)</u>	<u>(21,115)</u>
Income tax payable	<u>29,215</u>	<u>22,430</u>	<u>13,910</u>

## SOLUTION TWO

(a) PETER KWAMANA

### PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024

	K	K
<u>Earned income</u>		
Basic salary (K24,400 X 8)		195,200
Housing allowance (K4,900 X 8)		39,200
Transport allowance (K21,600 X 8/12)		14,400
Medical allowance (K14,400 X 8/12)		9,600
Education allowance (K2,500 X 2 X 3)		15,000
Electricity bills		36,300
Water bills		8,400
Commutation of accrued leave days		33,500
Long service award		<u>25,000</u>
		376,600
<u>Investment income</u>		
M & C fees (K12,750 X 100/85)	15,000	
Royalties (K8,500 X 100/85)	<u>10,000</u>	
		<u>25,000</u>
		401,600
Less allowable deductions:		
Subscriptions to ZIM	2,800	
Donation to approved PBO	<u>3,600</u>	
		<u>(6,400)</u>
Taxable income		<u>395,200</u>
Income tax:		
First K61,200 X 0%		0
Next K24,000 X 20%		4,800
Next K25,200 X 30%		7,560
Balance K284,800 X 37%		<u>105,376</u>
		117,736
Less:		
WHT – M & C fees (K15,000 X 15%)		(2,250)
WHT- Royalties (K10,000 X 15%)		(1,500)
PAYE		<u>(58,200)</u>
Final income tax payable		<u>55,786</u>

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

1. A penalty at the rate of 5% of the unpaid tax is chargeable per month or part thereof; and

2. Interest on overdue tax is charged at the Bank of Zambia discount rate plus 2% per annum. This interest covers the period from the due date to the date when tax is actually paid.
- (c) The employer's obligations under Pay as You Earn are:
1. To correctly calculate taxable emoluments of employees.
  2. To calculate and deduct Income tax from the emoluments at source.
  3. To pay the amount of Income Tax deducted from the emoluments to the Zambia Revenue Authority not more than 10 days after the end of the month in which the emoluments were paid to employees.

### SOLUTION THREE

(a) Income from farming or fishing may be averaged if:

1. It is for two consecutive tax years and it is such that one year's income is substantially greater than the income of the other year; or
2. One year has a loss while the other has a profit.

The due date for making the irrevocable election is before the end of the charge year that follows the second consecutive charge year.

(b) COMPUTATION OF CAPITAL ALLOWANCES

	K	K
<u>Delivery Truck</u>		
ITV b/f	125,000	
Proceeds	<u>150,000</u>	
Balancing charge	<u>(25,000)</u>	(25,000)
<u>Toyota Hilux</u>		
ITV b/f		
Wear & Tear allowance (K1,600,000 x 20%)		320,000
<u>Farm implements</u>		
ITV b/f	0	
Proceeds (restricted to cost)	<u>(250,000)</u>	
Balancing charge	<u>(250,000)</u>	(250,000)
<u>General plant</u>		
Wear & Tear allowance (K840,000 x 25%)		210,000
<u>Irrigation equipment</u>		
Wear & Tear allowance (K5,600,000 x 100%)		5,600,000
<u>Dwelling houses</u>		
Wear & Tear allowance (K100,000 x 100%) x 3		300,000
<u>Banana Plantation</u>		
Wear & Tear allowance (K350,000 x 10%)		<u>35,000</u>
		<u>6,190,000</u>

(c) MINDOLO PLC  
COMPUTATION OF TAXABLE FARMING PROFIT

	K	K
Taxable farming profit before capital allowances		17,600,000
Less capital allowances		<u>(6,190,000)</u>
Adjusted farming profit before loss relief		11,410,000
Less loss relief		<u>(11,410,000)</u>
Final taxable farming profit		0
<u>Loss Relief</u>		
Loss b/f		15,600,000
Less loss relieved		<u>(11,410,000)</u>
Unrelieved loss c/.f		<u>4,190,000</u>

(d) MINDOLO PLC  
COMPUTATION OF TAXABLE INCOME AND TAX PAYABLE

	K	K
Taxable farming profit		Nil
Add non-farming income		
Interest from Government of Zambia bonds (K595,000 X 100/85)	700,000	
Management fees K552,500 x 100/85)	650,000	
Profits from retail operations	<u>1,250,000</u>	
Total Taxable income		<u>2,600,000</u>
		<u>2,600,000</u>
Company income tax		
K2,600,000 X 23% (30% - 2% - 5%)		598,000
Less tax already paid		
Provisional income tax		(248,500)
WHT on Management fees (K650,000 x 15%)		(97,500)
WHT on Government bonds (K700,000 X 15%)		<u>(105,000)</u>
Final company income tax repayable/refund		<u>147,000</u>

## SOLUTION FOUR

(a)

(i) VAT payable by Fraglam Limited for the month of March 2024

	K	K
Output VAT		
Exempt sales		0
Zero-rated sales		0
Standard rated sales (K713,460 x 16%)		114,154
Sales returns (K11,900 x 16%)		<u>(1,904)</u>
		112,250
Input VAT		
Exempt purchases	0	
Zero-rated purchases	0	
Standard-rated purchases		
(K411,600 – K57,624 – K82,320) x 80% x 16%	34,772	
Entertainment expenses	0	
Staff refreshments	0	
Utility expenses	0	
Telephone expenses	0	
General cleaning (K27,910 x 4/29 x 86%)	3,311	
Motor vehicle expenses		
(K55,912 x 4/29 x 86%)	6,632	
Other general expenses		
(K150,562 x 4/29 x 86%)	17,860	
Toyota cars	0	
Fixtures (K77,314 x 4/29 x 86%)	9,171	
Delivery trucks (K255,200 x 4/29 x 86%)	<u>30,272</u>	
		<u>(102,018)</u>
VAT payable		<u>10,232</u>

Working

Claimable non-attributable input VAT

Taxable supplies x 100

Total supplies

(K216,200 + K713,460) x 100

K1,081,000

= 86%

- (ii) The due date for payment of VAT is the 18<sup>th</sup> day of the month following the month to which the VAT relates. In this case, Fraglam Limited should have paid the VAT not later than 18<sup>th</sup> April 2024.

If the VAT is paid late, the penalty is 0.5% of the VAT payable per day the tax remains unpaid, plus interest on overdue tax at Bank of Zambia discount rate plus 2%.

- (iii) The following are the conditions to be met for input VAT to be recoverable:
1. The trader should have been registered at the time the input VAT was incurred.
  2. The supply on which input VAT was incurred should have been made to the taxable person making the claim
  3. The goods or services must have been used for business by the person making the claim.
  4. The input VAT claim should be supported by evidence which is normally a tax invoice.
  5. The amount of input VAT claimable should be one which is accurately calculated and should relate to the supply.
  6. The input VAT should be one which is recoverable.

- (b) Boniface will be liable to pay rental income tax as his income constitute income from letting of property. The total rental income for the year ended 31 December 2024 is:

	K
Shopping complex (K4,800 x 11 x 12)	633,600
Residential flats (K3,100 x 10 x 12)	<u>372,000</u>
Total rental income	<u>1,005,600</u>

Income tax payable for the tax year 2024

	K
First K12,000 x 0%	0
Next (K800,000 – K12,000) x 4%	31,520
Balance (K1,005,600 – K800,000) x 12.5%	<u>25,700</u>
Income tax payable	<u>57,220</u>

This tax was paid on a monthly basis not later than 14<sup>th</sup> of every month. The monthly rental income tax was: K57,220/12 = K4,768.33

## SOLUTION FIVE

### (a) Import taxes

(i) The following are the conditions to be met for the customs officers to use the transaction value method:

1. There should be no restrictions to the use of the goods.
2. There should be no conditions to deter the determination of the customs value (VDP).
3. There should be no relationship to influence the value of the goods imported.
4. No part of the resale proceeds should accrue to the seller, unless if it is included in the value.

(ii) Import taxes payable on the importation of the motor vehicle

	\$
Cost	10,000
Insurance costs	3,400
Freight charges	4,100
Other incidental costs	<u>1,100</u>
VDP in US\$	18,600
Exchange rate	<u>K27.10</u>
Customs value in ZMW	<u>504,060</u>

	Value of the vehicle K	Import taxes K
Customs value	504,060	
Customs duty @30%	<u>151,218</u>	151,218
	655,278	
Excise duty @30%	<u>196,583</u>	196,583
	851,861	
Import VAT @16%	<u>136,298</u>	136,298
Total value of the vehicle	<u>988,159</u>	-----
Total import taxes		<u>484,099</u>

(b) The following are the property transfer tax implications:

- (1) Property transfer tax will be payable on the transfer of land at a rate of 5% of the realised value. The realised value is whichever is higher between the actual proceeds received and the open market value.

In this case, the realised value is K450,000. PTT will therefore be:  $K450,000 \times 5\% = K22,500$ .



(2) Where a property is transferred to another person (company) within the same group, such a transfer is deemed to have a realised value of nil if the Commissioner General is satisfied that the transfer was made for the purposes of internal reorganization of the group. In this case there will be no property transfer tax since the transfer of the building was part of the internal reorganization strategy.

(3) Property transfer tax will be payable on the transfer of shares as these shares are not listed on the Lusaka Securities Exchange. Property transfer tax is charged at a rate of 5% of the realised value. The realised value is determined as whichever is higher between the actual proceeds received or open market value; and the nominal value.

The realised value in this case is:  $130,000 \text{ shares} \times K8.90 = K1,157,000$ . PTT is therefore;  $K1,157,000 \times 5\% = K57,850$ .

(4) Property transfer tax will not be payable on the transfer of shares held in Grape Plc as these shares are listed on the Lusaka Securities Exchange. Transfer of shares listed on the Lusaka Securities Exchange is exempt from PTT.

(5) There will no property transfer tax to be charged on the transfer of plant and machinery as these do not meet the definition of property under the property transfer tax Act.

(c) Presumptive tax payable by Magret for the tax year 2024

	K
Toyota Belta taxi ( $K270 \times 4$ quarters)	1,080
Higer bus ( $K2,160 \times 3$ quarters)	<u>6,480</u>
Total presumptive tax paid	<u>7,560</u>

(d) The principle of integrity imposes an obligation on the member to be honest, straight forward and a commitment not to mislead. Therefore, this means that a member providing tax services should not knowingly be associated with reports, tax returns or other information, statements and tax calculations that are believed to be materially false or misleading.

The principle of objectivity requires a member providing tax services to be impartial and not to allow prejudice or bias and not allow conflict of interest or the influence of others to override their objective judgement. The members have an obligation not to mislead and to safeguard their professional judgements.

## **END OF SUGGESTED SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 11: PRINCIPLES OF AUDITING

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THURSDAY 12 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## **SECTION A – TWO COMPULSORY QUESTIONS**

**Attempt Both questions in this section.**

### **QUESTION ONE**

Bangweulu Ltd is an importer of a wide range of household goods which it supplies to retailers. The company has a large warehouse located in the light industrial area of Lusaka under the responsibility of the Warehouse Manager. The purchasing department is based at Head Office where the Purchasing Manager operates from. The company has procedure manuals for all the operations that contain the control activities under each area. There is a manual of finance standing instructions which contains control activities and procedures for all accounting aspects. The internal audit department conducts routine operational and financial audits and issues internal audit reports of its findings.

Bangweulu Ltd is owned by three (3) shareholders with only one who is involved in the management of the company. Currently, Bangweulu Ltd. falls below the threshold requiring independent audits of financial statements. The company has not had its financial statements audited by independent auditors since inception. At the last annual general meeting, shareholders raised concern over corporate governance matters in the company and the lack of independent audit of the financial statements. It was resolved at this meeting that the Board of Directors considers the need to set up an Audit Committee and also consider appointing external auditors to audit the following year's financial statements.

The consideration for the appointment of external auditors and the appointment of an audit committee were on the agenda of board meeting to be held after the annual general meeting. The board requested your firm to make a presentation to it, describing the benefits of an external audit to Bangweulu Ltd when it is not legally required to have its financial statements audited by external auditors. The board members also wish to know the duties that the proposed audit committee will perform in running Bangweulu Ltd.

Bangweulu Ltd has an internal audit unit that reports to the Director of Finance who decides on the annual work plan for the unit. The accounts department prepares quarterly financial statements which are considered by the Board of Directors. The annual financial statements are also audited by the internal audit unit which does not issue an opinion but merely checks the accuracy of the figures in the financial statements. The internal audit unit is also responsible for business risk management in Bangweulu Ltd and recommends mitigations to remedy the identified risks.

Bangweulu Ltd appointed your firm of chartered accountants to offer consultancy on the matters that will be considered by the board. You have been requested to attend the board of directors meeting at which you are expected to address the concerns of the board regarding external audits and the responsibilities of the proposed audit committee. Your firm's partner requested you to

discuss the importance of effective internal controls in a company and how they can impact external audits and the related costs.

**Required:**

- (a) Explain four (4) benefits of external audits to Bangweulu Ltd. (6 marks)
- (b) Explain six (6) possible roles of the proposed audit committee of the Board of Directors. (6 marks)
- (c)
  - (i) Explain the use of internal controls of Bangweulu Ltd and the extent to which they will impact the nature and extent of further audit procedures. (5 marks)
  - (ii) Explain four (4) techniques that can be used by an audit team to record the internal control systems of Bangweulu Ltd. (4 marks)
- (d) Explain the differences between audit and business risks. (4 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

You are an Audit Senior in Handsworth a firm of Chartered Accountants. You have been invited by Mikado Ltd, one of your firm's audit clients, to give a talk to newly recruited trainee accountants on two (2) matters of concern as follows:

1. The importance of internal controls for the company and the form of reporting by the auditor on internal control weaknesses observed during the audit.
2. The fundamental ethical principles and the effects of not complying with them by the accountants.

The training was necessitated by information that funds and assets have been misappropriated by certain accounting staff. In addition, there have been leakages of confidential information from the client to the media without prior permission of the company by a responsible person. Some of the accountants have been found in questionable situations that have cast doubts on their professional standing in society. This has left the public wondering whether they are worthy being called accountants. There is also information that some accounting staff have been supplying services to the client without the knowledge of those charged with governance. During the training with the newly recruited accountants, you were asked to explain your role as external auditors regarding the internal controls of the company and the type of communication that you need to make with regards to internal controls. Further a draft letter to management will be submitted to management.

Mikado Ltd is a company that produces and sells carpets locally. Business for carpets has not been good due to cheap imports from neighboring countries. Consequently, the company decided to commence the selling of its carpets on credit. A majority of the credit customers defaulted in

paying their amounts due resulting in a significant amount of receivables being old and overdue. At the end of the year, management made an allowance of 8% on the receivables balance.

The audit team considers the allowance for receivables to be significant and needs further investigations. Mikado Ltd generates internal documentation that allows the company information to flow smoothly. It also uses external information from various marketing agents. Some of the documents are kept in original form while some are photocopies where such information is required in the future. The Engagement Partner is questioning the reliability and quality of audit evidence that is being obtained from Mikado Ltd.

The bank balance in the draft statement of financial position is K800,450 for which no audit work has been done. This amount is made of balances in three (3) bank accounts held with three (3) different banks.

**Required:**

- (a) Explain five (5) effects of non-compliance with the fundamental ethical principles by accounting staff of Mikado Ltd. (5 marks)
- (b)
  - (i) Explain, giving an example, the meaning of control activities and tests of controls in the audit of the financial statements of Mikado Ltd. (2 marks)
  - (ii) Explain the matters that the auditor will include in the reports to management after the audit of the financial statements of Mikado Ltd. (5 marks)
- (c)
  - (i) Explain four (4) generalizations that will help assess the reliability of audit evidence in the audit of the financial statements of Mikado Ltd. (4 marks)
  - (ii) Explain three (3) audit procedures to be performed on the allowance for receivables in the audit of the financial statements of Mikado Ltd. (3 marks)
- (d)
  - (i) State three (3) financial statement assertions that can be used by external auditors during the audit of the bank balance of K800,450. (3 marks)
  - (ii) Explain one (1) audit procedure for each of the three (3) financial statement assertions in (d) (i) above. (3 marks)

**[Total: 25 Marks]**

## **SECTION B**

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

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

### **QUESTION THREE**

Agos Ltd is a manufacturer of ceramic products which it sells locally and exports some to neighboring countries. The company has an internal audit department headed by the Chief Internal Auditor who reports to the Finance Director. The internal audit department's annual work plan is drafted by the Chief Internal Auditor and approved by the Finance Director. The internal audit department conducts a number of audits including financial and operational audits. Currently, except for the Chief Internal Auditor, none of the staff in the department has knowledge of finance.

Agos Ltd has a strong control environment but despite this, there has been a noted increase in cases of fraud involving staff stealing finished products. This usually involves staff in the purchasing and stores departments who misappropriate inventory. The stores department is divided into two divisions, one (1) for finished goods and the other for spares and components for the plant.

The following procedures relate to the operations of the spares and components divisions of stores:

1. All the spares and components bought, are written off to the profit or loss at the time of purchase and are issued to user departments on verbal authority.
2. The only record of inventory of spares is un-numbered stock cards that show the running balance of inventory on hand.
3. Periodic monthly inventory counts are made by stores staff under the supervision of the Stores Manager and any discrepancies are amended on the stock cards by the Stores Supervisor.
4. Spares and components are delivered directly to stores by the suppliers. There has been a noted increase in wrong and defective spares having been received. Returns to suppliers have been rejected on account of delays in returning the items and no comments put by the receiving officer on the delivery note that wrong or defective items were delivered.
5. Annual inventory count is conducted on the last day of the financial year. Inventory count is conducted by stores staff that know the inventory lines and are able to identify items easily.
6. The only evidence of receipt of items is the entry on the stock card by the receiver. There is no documentation to confirm receipt of the items.

During the year, Agos Ltd got a loan of K20 million from its bankers for use in the construction of a bigger warehouse as well as the replacement of old equipment with modern equipment. In the year under review, the company spent K8 million on the construction of the warehouse and K4 million on replacement of equipment. The equipment bought is specialized and required transport to the construction site where it is located.

You are the Audit Senior on the audit of the financial statements of Agos Ltd for the year ended 31 December 2023. The audit is in the final stages and in the exit meeting with the Audit Committee, one (1) of the members expressed concern that your firm has issued unmodified opinions despite the high incidences of fraud in the company.

**Required:**

- (a) Explain six (6) internal control weaknesses in the purchasing and stores systems of Agos Ltd and suggest improvements for each weakness. (12 marks)
- (b)
  - (i) Explain three (3) limitations of the internal audit department of Agos Ltd. (3 marks)
  - (ii) Explain the responsibilities of the internal audit function in Agos Ltd for the prevention and detection of fraud and errors. (3 marks)
- (c) Explain the expectation gap using the information in the scenario. (1 marks)
- (d) Describe three (3) audit procedures to be performed on the construction of the warehouse. (3 marks)
- (e) Describe three (3) audit procedures to be performed on the additions to equipment in the year. (3 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

Your firm Quick & Co chartered accountants has been engaged as external auditor for Mukushi Commodities Ltd. The company has been operating without a Board of Directors since the previous Board was dissolved.

The company operates a shop for different agricultural produce that it sells on behalf of farmers on commission basis. Most of its customers are hospitals and shopping malls. The Accounts department maintains receivables and payables ledgers for customers and suppliers respectively. Initial information obtained from management shows that the company has been experiencing shortages of cash and theft of assets such as laptops. The loss has been assessed as significant and needed to be investigated further.

During the year, it was established that a Director authorized a payment to a supplier purporting that different commodities had been supplied when in fact not. In addition, the Finance Director

approved a transfer of funds to a bit coin bank as an investment in securities. The expectation was that the benefit would triple in form of interest to be accrued to the company which later turned out to be a scam and a complex financial transaction. The Bank of Zambia warned companies not to invest in bit coins as the financial assets are new and that those investing in them are doing so at their own risk. The Sales Manager supervises staff offloading the produce from the trucks. He is in charge of approving credit to customers and debt collection. A week later the money is given to the cashier. The internal auditor suggested that duties should be segregated in order to enhance good co-operate governance and guarantee fair reporting.

The drought in the last two (2) years has not spared farmers that are major suppliers of Mukushi Commodities Ltd. As a result, very few products have been supplied to Mukushi Commodities Ltd. Sales revenue dropped and consequently the company is not able to meet its obligations such as salaries and payments to suppliers on time.

The company obtained a loan from Lima Bank Plc. with a view to diversifying into agro-processing activities. The project failed due to unforeseeable circumstances. The loan interest has been outstanding for a year now. The current draft financial statements are indicating negative cash flows and negative net current assets. A lot of suppliers have sued Mukushi Commodity Ltd. The company lawyer advised the company to start preparing payments for compensation as the cases appear to be in favor of famers who have sued the company.

You are the Audit Senior on the audit of the financial statements of Mukushi Commodities Ltd for the year ended 31 December 2023. You are planning the selection of samples for testing for purchases and sales transactions and considering the sample selection method to use.

**Required:**

- (a) (i) Explain the meaning of significant risks and the importance of identifying the significant risks in an audit of financial statements. (2 marks)
- (ii) Explain any four (4) factors that indicate significant risks in Mukushi Commodities Ltd. (4 marks)
- (b) (i) Explain three (3) ways in which tasks of the Sales Manager can be segregated. (3 marks)
- (ii) Explain one (1) corporate governance weakness in Mukushi Commodities Ltd. (2 marks)
- (c) Explain any four (4) sample selection methods from which you will choose a sample for testing during the audit of the financial statements of Mukushi Commodities Ltd. (8 marks)
- (d) (i) Explain two (2) indicators that Mukushi Commodities Ltd is experiencing going concern problems. (2 marks)



- (ii) Suggest audit procedures to be performed in order to determine whether Mukushi Commodities Ltd is going concern. (4 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

Mangani Ltd manufactures washing products that it sells locally. This is the first time for your firm to audit a company in the manufacturing industry. Management has already prepared draft financial statements for the year ended 31 December 2023.

The Engagement Partner suggested that analytical procedures should be used at all the three (3) stages of the audit. For some of the audit staff on the audit team of Mangani Ltd, it will be the first time they will be using analytical procedures and are seeking further clarifications on how analytical procedures can be used during the audit of the financial statements of Mangani Ltd.

The audit is at finalization stage and you have been presented with the audit working papers for your review. The following information has been extracted from the working papers and you are required to consider the accounting treatment for the items below:

1. Mangani Ltd extended its building at a cost of K152,000. The cost of extension has been included in the cost of repairs to the building as at 31 December 2023.
2. The cost of upgrades on the computerized accounting software is of K18, 000. The company spent K7,000 on training accounting staff in order to acquaint them with the new accounting software. The cost of training has been included in the cost of computers and depreciation on computers has already been calculated and reflected in the draft financial statements for the current year.
3. The Stores Manager was tasked to value inventory that has been discovered and was not included in the draft financial statements. It has been discovered that he used the net realisable value which was higher than the cost by K13.65 per unit.
4. Computer accessories such as modems, flush disks have been classified as non-current assets and depreciated.

Furthermore, a review of the final working papers revealed that there is a matter not included in the financial statements but is considered important to users of financial statements. During discussions with management, it was agreed that the matter does not need to be included in the financial statements. The Audit Assistant suggested that this matter should be reported in the Emphasis of Matter paragraph of the audit report.

In order to acquaint audit staff with the revised format of the new audit report, the firm organized an in-house training for all audit staff. The training was necessary as the new audit report includes new paragraphs such as the Emphasis of Matter paragraph, Other Matter paragraph and key Audit Matters paragraph.

Mangani Ltd maintains several bank accounts with different commercial banks. Some are operating while some have been closed. For those that are operating, the Engagement Partner requested that bank confirmations be obtained. However, the Audit Junior did not know the procedure for obtaining a bank confirmation.

**Required:**

- (a) Explain how analytical procedures can be used in the audit of the financial statements of Mangani Ltd at each of the three (3) stages of the audit. (6 marks)
- (b)
  - (i) For each of the items on the audit file numbered 1 to 4 above, comment on whether the accounting treatment by management is appropriate. (4 marks)
  - (ii) Describe audit work to be performed and the evidence required to verify the value of assets. (4 marks)
- (c) Explain the procedures involved when obtaining bank confirmations. (4 marks)
- (d)
  - (i) Comment on the Audit Assistant's suggestion that the matter should be included in the emphasis of matter paragraph and make any other recommendation as appropriate. (3 marks)
  - (ii) Recommend the appropriate paragraph giving reasons for your recommendation. (3 marks)
  - (iii) State whether an emphasis of matter paragraph can lead to a modification of the audit opinion. (1 mark)

**[Total: 25 Marks]**

**END OF PAPER**

## **DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

(a) The benefits of an external audit to Bangweulu Ltd:

Bangweulu Ltd is below the threshold for financial statements to be audited. However, the owners can benefit from an independent audit of its financial statements in the following way:

1. In the event that there are disputes amongst the owners of the company of audited financial statements may be a means of settling such disputes as compared to financial statements that are not audited.
2. Audited financial statements are more acceptable to the taxation authorities when dealing with tax matters.
3. When the company wishes to negotiate for a loan with financial institutions, banks will consider favorably requests from entities whose financial statements are audited by independent auditors.
4. Those who have shares in Bangweulu Ltd but do not take part in the day to day running of the company will have confidence in the financial statements that have been audited by independent auditors.
5. In the case of the sale of the business, audited financial statements are a good base for negotiations on the true worth of the company.
6. The audit committee plays a role in the selection of external auditors.

(b) Responsibilities of the audit committee:

1. The committee improves the quality of the financial statements in that it reviews the financial statements on behalf of the board of directors.
2. The very existence of the audit committee reduces the opportunity for fraud.
3. The committee comprises non-executive directors, this enables them to contribute an independent judgement and play a positive role in the running of the company.
4. The audit committee strengthens the position of the internal auditors by providing a greater degree of independence. The internal audit function reports to the audit committee rather than management.
5. Provides a framework within which the external auditor can assert his independence in the event of a dispute with management.
6. The external auditor can channel matters of concern during the conduct of the audit.
7. The committee helps the Finance Director in the event of issues of concern that would not be resolved or are difficult to solve.

(c)

(i) Use of internal controls in an audit:

Internal controls are put in place by management and their main purpose is to help prevent and to detect fraud and error. If the internal control activities operate effectively the risk of misstatement of the financial statements is reduced.

The auditors may rely on internal controls in designing the nature and extent of audit procedures to be conducted.

External auditors record the internal control systems and perform tests of controls and based on the results of the tests of controls, will take the following actions:

- If the results of the tests of controls in a particular system are found to be operating effectively, the auditors will use a combined approach and place reliance on the effectiveness of the control and reduce on the extent of further audit procedures. The auditors will test fewer transactions than if the controls were assessed as ineffective.
- If on the other hand the results of the tests of controls are found to confirm that the controls are not operating effectively, then a substantive audit approach will be followed and no reliance will be placed on the internal controls. More testing in terms of sample sizes will be made when controls are ineffective.

(ii) Techniques that may be used to record an internal control system:

1. Narrative notes:

These are written notes that describe the accounting system. They are fairly easy to prepare especially if the accounting system does not change so much over a period of time. However, narrative notes are tedious and time consuming when the accounting system of clients changes.

2. Flow charts:

These are in a form of diagrams that describe the movement of information in the business or accounting system. They are fairly easy to draw even when the accounting system changes, they can be redrawn. They also show the movement of documents throughout the accounting system.

3. Questionnaires:

Questionnaires are a set of questions that are set around internal controls that the client needs to answer. Questions are easy to phrase if the auditors are experienced. However, there is possibility that the client can overstate internal controls by agreeing to most of the questions.

4. Checklists-they contain a series of questions and a provision for ticking in the box to record a system. A set of questions on a system will be prepared and the answers will either be YES or NO. an evaluation of the answers will give an understanding of the system

(d) Differences between business and audit risks:

Audit risk is the risk that the auditor may, having collected all the evidence required, issue an inappropriate audit opinion. For example, the auditor may modify the opinion when they should not have done so and vice versa.

A business risks arises due to both internal and external factors that affect the business in such a way that it fails to achieve its objective. These could be as result of changes in the laws or product failure in the market. Identification of business risk is the responsibility of management and those charged with governance.

## **SOLUTION TWO**

(a) Effects of non-compliance to fundamental ethical principles:

1. Integrity - lack of integrity will cause auditors not to be honest and can lead to accepting bribes and preparing false audit reports.
2. Confidentiality - failure to observe confidentiality will result in auditors disclosing company secrets to competitors which can work against the company.
3. Professional behavior - accountants work in the public interest. If their behavior is frowned upon by the public, trust and confidence expected of them will be lost. This brings the name of the profession in disrepute.
4. Professional competence and due care - accepting work and performing below standard can lead to poor quality audits and inappropriate conclusions and opinion being reached.
5. Objectivity – lack of being objective will result in being influenced or preparing accounting information which is biased in making professional judgement.

(b)

- (i) Control activities – these are policies and measures that are put in place so as to assist the company in the prevention and detection of errors and fraud.

An example of a control that could be used in Mikado Ltd is the preparation and checking of monthly bank reconciliations. Tests of controls are performed by the auditor to test the effectiveness of the controls put in place by management.

The test of control for the preparation and checking of the bank reconciliations is to inspect the bank reconciliations during the period and confirming they have been checked by an authorized person.

- (ii) Matters that must be included in the reports to management:

### **Introduction:**

A brief introduction stating that the internal control deficiencies included in the letter are those that came to the attention of the auditors and that other deficiencies may exist.

### **Observations made:**

Related to the deficiencies that were observed during the audit in a clear manner to enable management to understand the matter of concern.

### **Implications of the observations:**

This is the impact of the weakness on the operations of the company if not remedied.

### **Recommendations:**

Made by the auditor to remedy the deficiency to avoid the risk of the weakness.

### Responses of the management:

This is the response from management on the observations made and the possible action that management will take.

(c)

(i) Generalizations on reliability of audit evidence:

1. **Entity evidence** – Obtained from the entity's records in more reliable when the related internal control systems operate effectively.
2. **External evidence** – Evidence from external sources such as receivable's confirmation is more reliable than evidence obtained internally because it is coming from independent sources.
3. **Original copies** –these are kept for future reference and are proof of transactions that took place. Original copies are more reliable as compared to duplicate copies.
4. **Written evidence** – Is more reliable than oral evidence that could be retracted. This could be in the form of documents, in paper or electronic form, or written representations obtained from management.
5. **Auditor generated evidence** is more reliable because it is obtained directly by the auditors compared to evidence that is obtained indirectly..

(ii) Audit procedures for allowances for receivables:

1. Review the age analysis for receivables and identify old uncleared amounts.
2. Review the basis for the allowances made by management of Mikado Ltd and confirm inclusion of old balances not paid.
3. Review correspondence with major receivables for evidence of amounts disputed by the receivables.
4. Confirm that the allowances for receivables have been determined in accordance with the relevant accounting standard IFRS 9.
5. Obtain written representations from management confirming adequacy of the allowance for receivables.
6. Review post year end receipts from receivables for information giving evidence that existed at the period end.

(d) Financial statement assertions & audit procedures for bank balance:

(i) Assertions	(ii) Audit procedures
○ Existence	Obtain confirmation from the bank and agree amount to the figure in the statement of financial position.

○ Cut-off	Obtain the deposit slips or paying in slips and compare dates with dates on the bank statement. They should be checked against the current accounting period.
○ Accuracy	Re-perform the bank reconciliation for the period end and investigate any differences.
○ Completeness	Confirm that all bank balances are included in the bank balances in the financial statements.



### SOLUTION THREE

(a) Internal control weaknesses in purchasing & sales systems of Agos Ltd:

Internal control weakness

Recommendation for improvement

IC Weakness

Recommendation

1	Issue of spares & components based on verbal request. This could result in unauthorized issues of items and a loss to the company.	All issues of stores items should be on the basis of authorized accountable documents.
2	The stock cards used for details of inventory are not numbered. This means a card could be destroyed and a new one raised to conceal fraud.	Stock cards should be pre-numbered and the users should be made to account for all cards issued and used.
3	The monthly inventory count conducted and supervised by stores staff and supervised by the Stores Manager – these are the custodians of the inventory and any fraud that may have taken place could easily be concealed.	The inventory count should be supervised by staff that do not handle inventory.
4	Lack of quality control checks on receipt of items into stores. This is evidenced by the increase in defective goods which are not returned upon delivery.	There should be quality control checks on receipt of goods into stores. The checking should be evidenced in writing.
5	The annual stock take should be conducted by the custodians of inventory and any fraud that may have taken place could be concealed.	The inventory count should include staff that are not involved in the custody or recording of inventory.
6	The receipt of items into stock is evidenced only by a record on the stock card. The lack of documentation such as a Goods Received Note can lead to a loss of goods.	A Goods Received Note should be raised to confirm receipt of all items received.
7	The writing off of the cost of spares to profit on acquisition could result in the theft & non-accountability of spares that have not been used during the year.	Spares should only be expensed when they have been issued and used. The value of spares not yet issued should be represented in an inventory account for such spares.

(b)

(i) The following are limitations of internal audit function:

1. The Chief Internal Auditor reports to the Director of Finance whose department is subject to audits by internal audit. The department could be intimidated in the performance of its functions.
2. The internal audit department should be free to decide its own work plan as against the Finance Director having to approve the plan. He may not agree with the work plan and not consider the priorities of the department.
3. Although there is no requirement that internal auditors should have specific accounting qualifications, lack of financial knowledge limits the work that the department can do regarding the accounting systems.

(ii) Internal auditors have the following responsibilities regarding fraud and errors:

1. They can be called up on to carry out investigations and make recommendations so that management can prevent such activities in future.
2. They can carry out an assessment of whether the measures that have been put in place are sufficient to prevent fraud and errors.
3. The existence of an internal audit department in Agos Ltd will lead to reduction in fraud and errors as accounting staff will know that they are being checked by internal auditors.

(c) The expectation gap:

An expectation gap exists when management 's expectation of auditor's work is not what the auditors do. In this case management expects auditors to detect fraud that takes place in the company.

The objective of the auditor is to form an opinion on the financial statements and management has the primary responsibility for fraud detection and prevention.

(d) Audit procedures for cost of self-constructed assets:

1. Obtain the documents for the payments of material, labour and any related indirect costs incurred and compare with recorded amounts in the books account of AGO Ltd.
2. Obtain a chart of accounts or total of the payments and analyse it to verify if expenditure has been classified appropriately as capital and revenue expenditure by AGOS Ltd.'s accounting staff.
3. Obtain detail about the loans and recalculate the amount of loan interest and verify that the amount of interest has been capitalized to the cost of the self-constructed plant.
4. Review costs to ensure that no profit amount has been included.

- (e) Audit procedures on additions to plant & equipment:
1. Physically inspect a sample of equipment procured in the year for existence.
  2. Confirm that the additions have been authorized in accordance with the company policy.
  3. Examine the supporting documents for the acquisition including the invoices for accuracy and that they are in the name of Agos Ltd.
  4. Establish the policy of the company regarding depreciation and confirm that it is followed. If the policy is to charge depreciation in proportion to the time the asset is held recalculate the depreciation charge.
  5. Review the draft financial statements and confirm disclosures of the additions have been correctly made.

## **SOLUTION FOUR**

(a)

(i) **Meaning of significant risks:**

These are identified and assessed risks that could result in the material misstatements of figures in the financial statements.

**Importance of identifying significant risks:**

Significant risks identified by the auditor will require special audit consideration because of the likely impact that they will have on the financial statements.

(ii) The following factors indicate significant risks:

1. The company has been experiencing significant cash shortages leading to failure to meet its obligations.
2. The Director of Finance made a payment of K5, 000 to unknown supplier in unclear circumstances. This should raise suspicions during the audit of the company.
3. Complex financial transaction: The Finance Director entered into a financial transaction involving bit coins. The Bank of Zambia warned companies not to engage into such transactions until it gives a go ahead. However, the Finance Director did not follow this advice.
4. The company has been offering credits to customers and the amounts seem impossible to recover.

(b)

(i) Three (3) ways in which segregation of duties of the Sales Manager can be done are as follows:

1. The duty of the Sales Manager is not to inspect trucks that are loaded with farm produce. A separate function should be created for others to perform this function.
2. Various stages in the carrying out of transactions should be segregated as well. The Sales Manager should not be the one to collect cash and taking cash to the cashier. There is a possibility of some cash missing before taking it to the cashier.
3. The Sales Manager should not be the one to perform reconciliations. This will not reveal any discrepancies in the amounts recorded and that which is being checked.

(ii) Governance weakness in Mukushi Commodities Ltd:

There is no oversight board as the company has been without a Board Directors being constituted since the dissolution of the previous board. Lack of a board of directors may mean that major decisions are not approved and there will be no direction and supervision of management at the top.

- (c) The auditors will use the following same selection methods when auditing Mukushi Commodities Ltd:
1. Random selection – this a type of sample selection in which the first item of evidence to be picked randomly. It will be suitable to use when external auditors want to reduce biasness.
  2. Systematic section - this is a system in which the first item to be picked will be at random then successive items are obtained at intervals that are of the same as the first one.
  3. Haphazard selection-this is a sample section in which the sample so chooses without any pattern. The external auditors will pick items of audit evidence in which they have experience.
  4. Block selection – this is the same in which items of the same characteristics are picked and examined all at once. A sample of a batch of invoices can be obtained and examined at once.
- (d)
- (i) The following situations indicate that Mukushi Commodities Ltd is experiencing going concern uncertainty:
1. Failing to pay suppliers -this is likely to be cut for the services and products that the company gets from suppliers on credit as a source of finance.
  2. Negative working capital - The company has experienced a negative working capital which will impact negatively on its debt payments.
- (ii) The following audit procedures can be performed to determine whether Mukushi Commodities Ltd:
1. External auditors need to discuss with those charged with governance relevant cash flows and status of Mukushi Commodities Ltd.'s profit or loss.
  2. Auditors need to review loan agreement and review conditions attached there in
  3. Review minutes of meetings for a discussion of any financial challenges relating to financing activities.
  4. Inquire from Mukushi Commodity Ltd.'s lawyers on the possible payment regarding law suits against the company.

## SOLUTION FIVE

### (a) Use of analytical procedures in the three stages of an audit:

#### At the planning stage:

Analytical procedures are used at the planning stage of the audit when assessing the risk of misstatement through understanding the entity and its environment. It is one of the methods included in ISA 315. Ratios will be used to compare with industry and similar entities.

#### When performing substantive audit procedures:

Analytical procedures can be used when performing substantive audit procedures. It is an efficient way of obtaining evidence. For example, depreciation for a class of assets could be computed in total and the result compared with the figure in the financial statements.

#### At the review stage of the audit:

At the end of the audit when the draft financial statements have been prepared and audited. Analytical procedures are used to see if the figures conform with reality and are showing results that are in line with the evidence obtained through other means.

### (b) Accounting treatment and audit procedures:

(i) Comment	(ii) Audit procedure
The cost of extension amounts to K152 000 should not have been included in repair is to buildings. This should have been capitalized. There is possibility of overstating assets	Obtain the list of expenditure and review whether each has been posted to the correct account. Recalculate the amount of depreciation for the current year and compare with the previous year, obtain the profit or loss account for the expenditures for repair to confirm if it has been recorded in the profit and loss.
Cost of training must not be included in the asset account or to be capitalized. This is against the accounting standard IAS 16 Property plant & equipment. This was expected to be recorded as revenue expenditure.	Review the cost of the non-current asset to verify if it includes any training costs. If it does ensure this is corrected by management.
	Recalculate the value of asset to confirm that it does not include training costs
The valuation of inventory at a value greater than the cost is not allowed. According to IAS	Obtain the cost and information that is used to calculate the net realisable value. Compare the value at which inventory was

2 Inventories, inventory should be valued at the lower of cost and net realizable value.	valued in order to determine whether the correct valuation was used.
Computer accessories such as adapters, flush disks. This should be expensed in the profit or loss account	Obtaining invoices of all loose tools and trace to the respective accounts in the general ledger. Obtain the value of non-current assets and review whether the non-current assets include the value revenue expenditure.

- (c) The auditors should use the following audit procedure when requesting bank confirmations:
1. Request Mangani Ltd to write to the bank that the firm will be seeking to confirm balances and authorize the bank to respond.
  2. When writing to the bank, auditor will have to refer to the letter of authority sent to the bank.
  3. The request made by external auditor should reach the bank at least one month in advance of the client's year end.
  4. Review details for the reply from the bank to confirm if all information requested by the auditor has been given.
- (d)
- (i) This is a matter that is not presented in the financial statements but important for the users of financial statements. It refers to the matter that is not in the financial statements. If the matter is not presented in the financial report, it should have been reflected in the other matter paragraph.
- (ii) The appropriate paragraph where this item should be reported is the other matter Paragraph as the matter is not one of those presented in the financial statements. The content need to show that the matter is not expected to be presented and disclosed in the financial statements but includes details that are permitted by law or other standards.
- (iii) An emphasis of matter paragraph does not amount to a modification of the audit opinion. It, however, leads to a modification of the audit report because it is not a part of the standard unmodified audit report.

## END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 12 GOVERNANCE AND COMPANY LAW

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FRIDAY 13 SEPTEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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



## **SECTION A: - TWO (2) COMPULSORY QUESTIONS.**

### **ANSWER BOTH QUESTIONS**

#### **QUESTION ONE**

Precious Mukuba Plc is a company which mines sugilite and gold in Itezhi Tezhi District of the Republic of Zambia. The company is jointly owned by the Community of Itezhi Tezhi and Foreign Investors. The Community of Itezhi Tezhi owns 49% preference shares, whilst the Foreign Investors own 51% ordinary shares in Precious Mukuba Plc.

The price of sugilite and gold on the international market has been very good in the past two (2) years making the government to start thinking of ways by which it can take over the company so that benefits from the sugilite and gold sold by the company can be shared across the country. An opportunity for the takeover has just arisen – *‘the waste from the mines has accidentally been disposed of into the nearby dam causing severe disease to both the local people and the animals’*. The government spokesperson announced on national television and was quoted as saying, ‘We shall not wait to follow any procedure, we are taking over Precious Mukuba Plc. Our duty is to protect our citizens from the dangers emanating from foreign – run companies like what this company has done to our people. We are getting the 51% shares owned by the foreign investors in Precious Mukuba PLC’. Immediately the announcement was made, the police sealed off the mine stopping any foreign shareholder, management or workers from entering the premises of Precious Mukuba PLC. Production at the mine has stalled.

The foreign investors, as shareholders of the 51% ordinary shares the government wants to takeover, in their individual capacity, have sued the government claiming compensation for losses incurred by the company during its closure.

#### **Required:**

- (a) Identify five (5) stakeholders in the case study above. (5 marks)
- (b) What are the rights of the Local Community of Itezhi Tezhi as preference shareholders holding 49% in Precious Metals PLC. (5 marks)
- (c) Are the foreign shareholders right in suing the government in their individual capacity on behalf of the company? Explain your opinion. (5 marks)
- (d) The company is considering members’ voluntary winding up before the government takes over the company. The extraordinary general meeting was held yesterday at which it was resolved by a special resolution that Precious Mukuba PLC be wound up.
  - (i) What will be the effect of the company’s decision to wind up? (5 marks)
  - (ii) What is meant by a Special Resolution? (5 marks)

**[Total 25 Marks]**

## **QUESTION TWO**

- (a) Describe the rules regarding notice of a general meeting. (9 marks)
- (b) With the aid of statute and or decided cases, explain the principle of separate legal personality. (10 marks)
- (c) Explain the following:
  - (i) Annual General Meetings (2 marks)
  - (ii) Extraordinary General Meetings (2 marks)
  - (iii) Class meetings (2 marks)

**[Total: 25 Marks]**

## **SECTION B**

**There are THREE (3) Questions in this Section. Answer any Two (2). Questions.**

### **QUESTION THREE**

Corporate Governance is a set of relationships between a company's Directors, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring performance, are determined. For Corporate Governance to be effective, there are certain core principles which must be upheld.

#### **Required:**

With reference to the corporate governance:

- (a) Identify any five (5) principles of Corporate Governance. (5 marks)
- (b) Explain the five (5) principles of corporate governance you have identified in (a) above. (20 marks)

**[Total: 25 Marks]**

### **QUESTION FOUR**

- (a) Pastor 'B' is a well-known pastor in Kitwe's Parklands township. He also runs a consultancy business of registration of companies. He wins himself a small contract to have a company registered as a hotel business. He managed to have the company registered, and before he was issued with the certificate of incorporation, he decides to order some non-alcoholic wine for the hotel to on credit. The suppliers are demanding for payment for the wines they supplied.

#### **Required:**

- (i) Advise the owners of the company on Pastor 'B's liability. (6 marks)
  - (ii) Explain to Pastor 'B' how he can avoid this liability. (5 marks)
- (b) Distinguish between share capital and loan capital. (8 marks)
- (c) Explain the two (2) ways through which lifting of the veil of incorporation can be done. (6 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

- (a) John Stephen has been running a grocery in Lusaka's Soweto Market since 2010. He has a friend who operates a store at Lusaka Lubama market, and has been borrowing money from Bank ABC, and now he is even about to go into a joint venture. When John Stephen asked his friend how he managed to run a successful business, he was told among other

things that formally registering a business has a lot of advantages ensuing from it. John Stephen is curious to know how a business can be registered.

**Required:**

Outline the procedure to be followed when registering a Business Name in Zambia.

(8 marks)

- (b) Stakeholder theory presupposes corporate accountability to a broad range of stakeholders. The King's Report emphasizes the stakeholder model of governance, the need for the board to take into account the legitimate **expectations and interests of** stakeholders when making decisions. There is considerable dispute about whose interests should be taken into account. There are three (3) categories of stakeholders namely internal, connected and external stakeholders.

**Required:**

- (i) Identify and explain at least three (3) classes of stakeholders. (6 marks)

In relation to corporate finance, explain the following:

- (ii) Debenture (3 marks)

- (iii) Dividend (4 marks)

- (iv) Floating charge (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 12: GOVERNANCE AND CORPORATE LAW SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) **Stakeholders** in the case study include:

1. Owners/shareholders of the mine (Itezhi Tezhi District community)
2. Workers
3. Management
4. Local community (living around the mine area)
5. Government
6. The police
7. Customers who buy the company's products

(b) The **foreign investors** were wrong in suing in their individual capacities on behalf of the company. The company is a separate legal entity from the shareholders ***Salomon v. Salomon***, thus only the company has capacity to sue for wrongs done to it. Shareholders can only sue to enforce their individual rights, not those of the company.

(c) The following are the rights of the local community of Itezhi Tezhi as preference shareholders:

- Right to payment of a fixed rate of dividend, before any ordinary shareholder is paid his dividend. That is preference shareholders have a prior right over ordinary shareholders.
- Preference shareholders have a prior claim over the company's assets in case of winding up (liquidation), thus will be given the remainder of the assets before preference shareholders.
- They have no voting rights at an annual general meeting.
- Preference shareholders have no right to share in the remainder profits once they are fully paid their fixed rate of dividend, unless they are type of preference shareholders known as participating preference shareholders. Participating preference shareholders have the right to participate in the remainder dividends.

(d)

(i) **Effect of winding up include:**

- The liquidator is appointed who will have a task of managing the company until totally wound up
- Any transfer of disposition of the company's assets during liquidation without approval of the court or any laid down procedure is void
- The assets of the company will be distributed to pay off debts

- The powers of the directors are terminated and they are dismissed.
  - The company is wound up
- (ii) A **special resolution** is a decision (resolution) of a meeting done by at least 75% or  $\frac{3}{4}$  of the members present at the meeting or proxies and voting in favour of the motion. It requires not less than 21 days' notice, specifying the intention to propose the resolution as special resolution. Usually matter requiring special resolution would be provided for in the company's articles.

## **SOLUTION TWO**

- (a) The rules regarding notice of a general meeting are crucial for ensuring fair and proper participation of all members. Here's a breakdown of the key aspects:

### **Who is responsible for giving notice?**

Company secretary

### **Who needs to be notified?**

All members with voting rights at the meeting must be notified. This typically includes ordinary shareholders, but may also include other classes of shareholders depending on the company's articles.

### **What information must be included in the notice?**

The date, time, and place of the meeting

The purpose of the meeting

The agenda of the meeting, including any resolutions to be proposed

Information on how to vote and appoint proxies

A deadline for submitting motions or nominations (if applicable)

### **How must the notice be given?**

The most common methods include:

Written notice sent by post or email

Publication in a designated newspaper

Electronic communication through a secure platform

Displaying the notice on the company website

### **What is the minimum notice period?**

This varies depending on the company's articles of association and applicable laws. It's typically between 14 and 21 days, but can be longer in certain cases.

### **Are there any exceptions to the notice requirement?**

Yes, in some limited circumstances, a shorter notice period or even no notice may be allowed, such as:

If all members consent in writing

If the meeting is called to deal with an urgent matter

### **What happens if the notice is invalid?**

If the notice is not given properly, any decisions made at the meeting may be challenged and declared invalid.

- (b) The principle of separate legal personality is a cornerstone of company law, granting corporations an independent legal existence distinct from their members (shareholders, directors). This means the company, and not its members, is generally liable for its debts and obligations. Let's explore this principle through relevant authorities and case law:

**Legislative Foundation:**

Companies Act: Many countries have codified the principle in their company laws. In the UK, Section 16 of the Companies Act 2006 states that a company "has the capacity to act like an individual." This grants the company the ability to enter contracts, own property, sue and be sued in its own name. And **section 22 of act no.10 of 2017**

**Landmark Cases:**

**Salomon v. Salomon & Co Ltd (1897):** This landmark case established the separate legal personality principle. Even though Mr. Salomon owned all the shares of the company, the court held him not personally liable for its debts, recognizing the company as a distinct entity.

**Exceptions and Lifting the Veil:**

Despite the principle, courts can pierce the corporate veil and hold individuals liable in certain situations:

**Fraud or Misrepresentation:** If the company is used to commit fraud or deceive creditors, the courts may lift the veil to hold individuals accountable (e.g., *Prest v Petrodel Resources Ltd*).

**Oppression of Minority Shareholders:** When majority shareholders unfairly harm the interests of minority shareholders, the veil may be lifted to protect their rights (**e.g., *Menier v Hooper's Stores Ltd***).

**Insolvency:** To ensure fair distribution of assets during liquidation, the veil may be lifted if the company formation aimed to defraud creditors (e.g., ***Re Darby***).

(c)

(i) **Annual General Meeting (AGM):**

**Frequency:** Held once a year, typically within 18 months of the previous AGM.

**Purpose:**

- Review and approve the company's financial statements.
- Appoint or re-appoint directors and auditors.
- Vote on resolutions proposed by the directors or members.
- Discuss company matters and future plans.

**Attendance:** Open to all members with voting rights (usually ordinary shareholders).



**Requirements:**

- Notice of the meeting must be given to all members with required information and agenda.
- Quorum requirements must be met for the meeting to be valid (minimum number of members present or represented by proxy).
- Decisions are made by vote, typically by a simple majority.

(ii) **Extraordinary General Meeting (EGM):**

**Frequency:** Held as and when needed, outside of the regular AGM schedule.

**Purpose:**

- Deal with urgent matters that cannot wait for the AGM.
- Approve specific transactions or changes to the company's structure.
- Address unforeseen situations or crises.

**Attendance:** Similar to AGM, open to all members with voting rights.

**Requirements:**

- Similar to AGM, with specific triggers for calling an EGM often specified in the company's articles of association.
- Notice requirements may be shorter for EGMs depending on the urgency.
- Voting procedures similar to AGMs.

(iii) **Class Meetings:**

**Frequency:** Held for specific classes of shareholders with different rights and interests.

**Purpose:**

- Vote on matters affecting their specific class rights (e.g., dividend payments, changes to class rights).
- Discuss issues relevant to their class concerns.

**Attendance:** Restricted to members of the specific class being addressed.

**Requirements:**

- Notice of the meeting and its purpose must be given to members of the relevant class.
- Quorum requirements specific to the class may apply.
- Voting procedures determined by the company's articles of association and relevant regulations.

### SOLUTION THREE

Corporate governance is a system by which organizations are directed and controlled. There are a number of principles that underpin corporate governance. The following are some of the principles.

(a)

1. Independence
2. Integrity
3. Probity/honesty
4. Accountability
5. Transparency
6. Fairness

(b)

1. **Independence** – This Principle ensures that the board of directors/management is composed of independent non – executive directors who shall promote the interests of shareholders and other stakeholders. They provide effective monitoring of the company in conjunction with independent external auditors.
2. **Integrity** – This principle means that the board and management of the company must be of high moral character and straightforward dealing in their relationships. They must be of high levels of integrity.
3. **Probity/honesty** – This principle means that management/board must be truthful in their reporting and must not mislead other stakeholders. They must not be involved in taking of bribes, must be honesty at all times.
4. **Accountability** – requires that the board, shareholders, management etc. act responsibly to all stakeholders, they must be accountable or answerable for their actions. They must be answerable to all stakeholders, thus must act in the accountable manner they make their decisions and act.
5. **Transparency** - This principle means that the board, management, shareholders, etc. must be open and clear in their disclosure of key information to stakeholders. It means they must not conceal any material information to them. The principle encourage voluntary disclosure of information to stakeholders.
6. **Fairness** - This principle means that the decisions of the company's directors and everyone else must be fair and balanced taking into account everyone who has legitimate interest and protect their interest. The board must take into account all stakeholders.

## **SOLUTION FOUR**

(a)

(i) Pastor 'B' is known as a promoter. A promoter is an individual who takes all the necessary steps to have the company registered. Promoters usually incur expenses in formation of a company. The type of contract that Lawrence entered into is known as a pre-incorporation contract. Since the company was not yet duly registered, Pastor 'B' will incur personal liability on the contract.

(ii) However, this liability can be avoided in the following ways:

- The contract can remain a draft until the company is formed
- If the contract has to be finalized before incorporation it must contain a clause that personal liability of promoters is to cease if the company, when formed, enters a new contract on identical terms.

(b) The main difference between share capital and loan capital is that loan capital is the money that an organization borrows from financial institutions and pays back with interest, while share capital is the money that an organization realizes after selling shares to shareholders and dividends are paid out to the shareholders.

(c) Lifting of the veil of incorporation can be done in two main ways:

1. By the judiciary-a judge can use a tactic to counter fraud, sharp practice, oppression and illegality.
2. By statute-there are a number of ways through which the veil can be lifted by statute, the common one being where the number of members falls below the statutory requirement for more than six months.

## SOLUTION FIVE

- (a) Before a business name is registered someone will have conceived the idea to form it either alone or in association with others. The person/ firm required to register under the Act must deliver to the Registrar of Business Names a completed application form, which is prescribed under the Act together with the application fee. The applications forms can be obtained from the Registrar of Business Names. The particulars required to complete these forms are:

- The proposed business name
- The general nature of the business
- The present Christian and surnames of the person (or individual) or those of the partners (if a firm) or corporate name (if a corporation).

- (b) **(i) Internal:** Employees, Management

**Connected:** Shareholders, Customers, Suppliers, Lenders, Trade Unions, Competitors

**External:** The Government, Local Government, the Public, Pressure Groups, Opinion Leaders.

**(ii) Debenture:** A debenture is a document stating the terms on which a company has borrowed money.

**(iii) Dividend:** A dividend is a distribution of reward paid out of the company's net profit, usually paid out to shareholders in the proportion of their shareholdings.

**(iv) Floating Charge:** A floating charge is a charge on a class of assets of a company, both present and future.....which class is in the ordinary course of the company's business, changing from time to time until the holders enforce the charge, the company may carry on business and deal with the assets charged.

## END OF SUGGESTED SOLUTIONS