



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 1: FINANCIAL ACCOUNTING

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MONDAY 10 DECEMBER 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 What is the correct treatment of ordinary share dividends paid under IAS 1?
- A. Dividends paid are included in administrative expenses.
  - B. Dividends paid are deducted from "other comprehensive income".
  - C. Dividends paid are shown on the face of the statement of profit or Loss.
  - D. Dividends paid are deducted from retained earnings.
- (2 marks)

- 1.2 Which one of the following is **NOT** an advantage of cash flow accounting?
- A. It provides a better means of comparing the results of different entities than the other financial statements.
  - B. It directs attention towards an entity's ability to generate cash, which is needed for survival.
  - C. It provides valuable information for creditors and lenders.
  - D. It matches related items in accordance with the accruals concepts.
- (2 marks)

- 1.3 A conceptual frame work is:
- A. A theoretical expression of accounting standards.
  - B. A statement of theoretical principles which form the frame of reference for financial reporting.
  - C. The proforma financial statements.
  - D. A list of key terms used by the IASB.
- (2 marks)

- 1.4 A business had net assets at 1 January 2023 and 31 December 2023 of K235,500 and K271,000 respectively. During the year, the proprietor introduced additional capital of K110,000. The proprietor also made drawings of K52,000.

What profit or Loss was made by the business in 2023?

- A. K93,500 Loss
- B. K93,500 profit
- C. K22,500 Loss
- D. K22,500 Profit

(2 marks)

1.5 The following figures are given: Sales K16,400, Opening inventory K2,600, Closing inventory K1,800, Purchases K12,800, Carriage inwards K400. What is the cost of goods sold?

- A. K13,600
- B. K14,000
- C. K12,400
- D. K13,200

(2 marks)

1.6 Given a purchases invoices showing five (5) items of K800 each, less trade discount of 25 percent and cash discount of 5 percent, if paid within the credit period, your cheque would be made out for how much?

- A. K2,850
- B. K3,000
- C. K2,800
- D. K4,000

(2 marks)

1.7 A firm bought a machine for K16,000. It is to be depreciated at a rate of 25% percent using the reducing balance method. What would be the remaining book value after two years?

- A. K8,000
- B. K12,000
- C. K9,000
- D. K6,750

(2 marks)

1.8 A Bank reconciliation statement is a statement.

- A. Drawn up by us to verify our cash book balance with the bank statement balance.
- B. Drawn up by the bank to verify the cash book balance.
- C. Sent by the bank when the account is overdrawn.
- D. Sent by the bank when we have made an error.

(2 marks)

1.9 If cost price is K900 and selling is K1,200, then ...

- A. Mark-up is 25 per cent
- B. Margin is  $33\frac{1}{3}$  per cent
- C. Margin is 25 per cent
- D. Mark-up is 20 per cent

(2 marks)

1.10 The following records were kept for an inventory item in October 2023.

October 1	100 units in inventory at K100 each
October 5	50 units bought at K120 each
October 15	60 units sold.
October 20	20 units bought at K180 each.
October 29	80 units sold.

(2 marks)

Using the LIFO method, what would be the value of inventory at 31 October 2023?

- A. K3,000
- B. K2,600
- C. K3,400
- D. K2,200

(2 marks)

**[Total: 20 Marks]**

## SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

### QUESTION TWO

- (a) A. P. Mwale, a sole trader, extracted the following trial balance from his books of Accounts on 31 December 2023.

	Dr K	Cr K
Capital		37,250
Drawings	15,000	
Inventories – 1 January 2023	12,500	
Trade receivables	14,750	
Trade payables		13,420
Fixtures and fittings	7,650	
Purchases	25,700	
Sales		37,300
General expenses	4,300	
Discount received		200
Bank	8,300	
Returns outwards		200
	<u>88,200</u>	<u>88,370</u>

**The following Errors and omissions were subsequently discovered:**

1. A purchase of Fixtures and fittings for K1,600 had been debited to Purchases account.
2. A sales invoice of K750 entered in the sales day book had not been posted to Trade receivables control account.
3. A credit note for K150 issued by A. P. Mwale to a customer had been completely omitted from the books.
4. Trade payables' figure in the trial balance is under cast by K80.
5. A credit sale of K500 to a customer was correctly posted to Trade receivables but the double entry was not completed.

**Required:**

- (i) Draw up a journal to correct the errors above (5 marks)
- (ii) Redraft the Trial Balance (10 marks)

- (b) A trade payables control account contains the following entries.

	<b>K</b>
Bank	39,750
Credit purchases	41,600
Discount Received	1,875
Contra with trade Receivables Control Account	2,000
Balance c/f at 31 December 2023	6,460

There are no other entries in the account.

**Required:**

Open a trade payables Control account to determine the opening balance brought forward at 1 January 2023. (5 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

- (a) In relation to accounting for Clubs and Associations, explain the meaning of the following terms:

- (i) Subscriptions (1 mark)
- (ii) Accumulated funds (1 mark)
- (iii) Receipts and payments accounts (1 mark)

- (b) The Bottom Road Musical Club was formed on 1 September 2022. The club has sixty (60) members and the annual subscription is K400 per member. The Club provides musical instruments for members to use. In addition, the Club has a shop selling Compact discs (CDs).

The treasurer provided the following information for the year ended 31 August 2023:

<b>Amounts received</b>		<b>Amounts paid</b>	
	<b>K'000</b>		<b>K'000</b>
Subscriptions	25,200	Purchase of CDs for shop	49,688
Revenue from shop	62,080	Wages	7,400
Loan received on 1 March 2023	80,000	Insurance	4,800
		Rent and rates	13,200
		Purchase of musical instruments	19,200
		Repair of musical instruments	788
		General expenses of club	9,172

Additional information:

- The shop payables were owed K4,448, shop inventory was valued at K7,856.
- Five (5) members had paid their subscriptions for the following financial year.
- Two (2) members had not paid their subscriptions for the current financial year.
- 10% of the insurance relates to the shop.

5. Rent and rates accrued amounted to K1,200. Half of the rent and rates relates to the shop.
6. A loan of K400 to the shop assistant is included in the wages.
7. Interest of 4% per annum was accrued on the loan from music for all.
8. Musical instruments are to be depreciated at 15% per annum on cost.

**Required:**

- (i) Prepare Bottom Road Musical Club Shop's statement of profit or loss for the year ended 31 August 2023.  
(5 marks)
  - (ii) Prepare Bottom Road Musical Club's income and expenditure account for the year ended 31 August 2023.  
(7 marks)
- (c) In modern business operations, most accounting systems are computerized. Therefore, it is imperative that all accountants both in training and in practice should have hands-on skills of computerized accounting packages.

**Required:**

State five (5) advantages of computerized accounting packages.

(5 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Chanda, Sakala and Nebwe are trading as partners. They share profits and losses in the ratio 5:3:2 respectively.

Their capital and current account balances on 1 January 2023 were as follows:

	Capital Accounts K	Current Accounts K
Chanda	120,000	10,000
Sakala	90,000	(5,000)
Nebwe	65,000	7,500

A perusal into the Partnership Agreement and arising from some discussions with partners revealed the following:

1. Interest at 10% per annum is given on fixed capital amounts.
2. Salaries of K40,000 per annum are credited to Sakala and Nebwe.
3. Expansion of the business was hindered by lack of working capital, so Chanda made a personal loan of K100,000 on 1 July 2023. The loan was to be repaid in full after three (3)

years and loan interest at the rate of 12% per annum was to be credited to Chanda's account every half year.

4. The partnership profit (before charging loan interest) for the year ended 31 December 2023 was K315,000 and the partners had made the following drawings: Chanda K80,000, Sakala K82,500 and Nebwe K95,000. Interest on drawings during the year is charged at 8% of the year-end balance.

**Required:**

- (a) Prepare the Partnership profit and loss appropriation account the year ended 31 December 2023. (11 marks)
- (b) Prepare the Partners' Capital accounts as at 31 December 2023. (1½ marks)
- (c) Prepare the Partners' Current accounts as at 31 December 2023. (7½ marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

- (a) The following summarized statements of financial position relate to Back Ltd at 31 December:

	2023 K	2022 K
Non-current assets at cost	13,000	10,000
Less Accumulated depreciation	<u>6,000</u>	<u>4,000</u>
	7,000	6,000
Investments at cost	<u>1,000</u>	<u>4,000</u>
	<u>8,000</u>	<u>10,000</u>
<b><u>CURRENT ASSETS</u></b>		
Inventory	14,000	8,000
Trade receivables	31,000	27,000
Cash and bank	<u>-</u>	<u>2 000</u>
	<u>45,000</u>	<u>37,000</u>
<b>Total Assets</b>	<u>53,000</u>	<u>47,000</u>
<b><u>EQUITY AND LIABILITIES</u></b>		
<b><u>EQUITY:</u></b>		
Ordinary shares of K1 each	15,000	10,000
Share premium	4,000	3,000
Retained earnings	<u>10,600</u>	<u>13,400</u>
	<u>29,600</u>	<u>26,400</u>
<b><u>CURRENT LIABILITIES</u></b>		
Trade payables	18,400	16,000
Bank overdraft	1,200	-
Taxation	<u>3,800</u>	<u>4,600</u>
	<u>23,400</u>	<u>20,600</u>
Total Equity and liabilities	<u>53,000</u>	<u>47,000</u>



### **Additional Information**

1. Profit before tax for the year ended 31 December 2023 was K3,600.
2. During the year to 31 December 2023, some non-current assets originally costing K500 had been sold for K400 in cash. The accumulated depreciation on these non-current assets at 1 January 2023 amounted to K200. Similarly, some of the investments originally costing K3,000 had been sold for cash at their book value.
3. The taxation balances disclosed in the above statements of financial position represent the actual amounts agreed with the Zambia Revenue Authority (ZRA).
4. A dividend of K2,600 was paid during the year to 31 December 2023.
5. During the year to 31 December 2023, the company made a 1 for every 2 shares rights issue of the 5,000, K1 Ordinary shares at 120n per share.

#### **Required:**

Prepare Back Ltd's statement of cash flows for the year ended 31 December 2023 using the Indirect method. (15 marks)

- (b) On 31 January 2024, the bank column of W. Phiri's cash book showed a debit balance of K600.

A bank statement written up to 31 January 2024 disclosed that the following items had not been entered in the cash book:

1. The sum of K1,500 was received from D. Zulu by credit transfer.
2. W. Phiri's had made a transfer of K1,000 from his private bank deposit account into his business bank account.
3. Bank charges for the period amounted to K180.

When the bank statement was further checked against the cash book, the following items were discovered:

1. Cheques amounting to K4,100 had been entered in the cash book but not yet credited by the bank.
2. Cheques drawn in favor of trade payables totaling K8,300 had not yet been presented.

#### **Required:**

- (i) Draw up W. Phiri's adjusted cash book for January 2024 (2½ marks)
- (ii) Prepare W. Phiri's bank reconciliation statement for the month of January 2024 to show the balance as it were at the bank. (2½ marks)

**[Total: 20 Marks]**

## **QUESTION SIX**

Flora is a public company that was incorporated 10 years ago. The company decided to increase its capital by way of the issue of bonus shares and therefore rights issues. This method was used because the company neither wanted to dilute the shareholder's control nor increase its debt.

Below are a list of accounts balances relating to the company, for the financial year ended 31 December 2023.

	K
Profit for the year 31/12/2023	400,000
Retained earnings b/d 1/1/ 2023	80,000
Ordinary share capital (K5 per share) 1/1/2023	500,000
Share premium 1/1/2023	150,000
Interim dividend paid	150,000
General reserve 1/1/2023	90,000

### **Notes:**

1. During the year, the company made a bonus issue of 1 share for every 4 shares held. The company policy is to first use the share premium to finance the bonus.
2. Immediately after the bonus issue, Flora Plc made a rights issue of 2 shares for every 5 shares at K6.20. It is assumed all rights were taken up by the existing shareholders.
3. The directors declared a proposed dividend of K1.50 at the end of the financial year.

### **Required:**

- (a) Flora Plc's statement of changes in equity as at 31 December 2023. (8 marks)
- (b) Explain four (4) distinctions between ordinary shareholders and loan stockholders. (8 marks)
- (c) Describe four (4) features of preference shares. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA1 FINANCIAL ACCOUNTING SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

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

## SOLUTION TWO

(a)(i)

### Journal Proper

		K	K
a	Fixtures and Fittings	1,600	
	Purchases		1,600
b	Trade Receivables	750	
	Suspense		750
c	Sales Returns	150	
	Trade Receivables		150
d	Suspense	80	
	Trade Payables		80
e	Suspense	500	
	Sales		500

(ii) A. P Mwale's

Trial Balance as at 31 December 2023

	Dr K	Cr K
Capital		37,250
Drawings	15,000	
Inventories – 1 January 2023	12,500	
Trade Receivables (14,750+750-150)	15,350	
Trade Payables (13,420+80)		13,500
Fixtures and Fittings (7,650+1,600)	9,250	
Purchases (25,700-1,600)	24,100	
Sales (37,300+500)		37,800
General Expenses	4,300	
Discount Received		200
Bank	8,300	
Returns outwards		200
Returns inwards	150	
	<u>88,950</u>	<u>88,950</u>

(b)

### Trade Payables control Account

Bank	39,750	1 Jan. Balance (Bal. fig.) b/f	8,485
Discount Received	1,875	Purchases	41,600
Trade Receivables (c)	2,000		
Balance c/d	<u>6,460</u>		
	<u>50,085</u>		<u>50,085</u>

### SOLUTION THREE

- (a) - Subscriptions: Are the amounts of money paid by members of a club as confirmation of their membership to that club for a given period and access to facilities provided by the club.
- Accumulated fund: Represents an organisation's net assets or are surplus earnings which accumulate over the years. Accumulated fund is equivalent to capital of a business.
- Receipts and payments account - Is an account summarizing the money received and paid-out by a club during a financial year.

- (b) (i) **Button Road Musical Club**  
**Shop Statement of Profit or Loss for the year ended 31<sup>st</sup> August 2023**

	K	K
Revenue		62,080
<b>Less: Cost of sales</b>		
Purchases (49,688 + 4,448)	54,136	
Less: Closing inventory	<u>(7,856)</u>	
Cost of sales	46,280	
Shop wages (7,400 – 400)	7,000	
Shop insurance (4,800 x 10%)	480	
Shop rent and rates (50% x (13,200 + 1,200))	<u>7,200</u>	
Net profit		<u>(60,960)</u>
		<u>1,120</u>

- (ii) **Button Road Musical Club**  
**Income and Expenditure Accounts for the year ended 31<sup>st</sup> August 2023**

	K	K
<b>Income:</b>		
Subscriptions (25,200 + 800 – 2,000)		24,000
Profit on shop		<u>1,120</u>
		25,120
<b>Expenditure:</b>		
Insurance (4,800 x 90%)	4,320	
Rent and rates 50% x (13,200 + 1,200))	7,200	
Repairs to instruments	788	
General expenses	9,172	
Loan interest (4% x 80,000 x 6/12 months)	1,600	
Depreciation of instruments (15% x 19,200)	<u>2,880</u>	
Deficit		<u>(25,960)</u>
		<u>(840)</u>

- (c) (i) Easy to integrate accounting with non-accounting operations like procurement, HR and payroll.
- (ii) Computerized systems provide more accurate data than manual systems.
- (iii) Non-specialists find the package user friendly.

- (iv) Quicker to process large volumes of data using a computerized system.
- (vi) Input data can easily be analyzed.

## SOLUTION FOUR

### (a) Partnership appropriation account for the year ended 31 December 2023

	K	K
Net profit (K315,000 - K6,000) (W1)		309,000
Add: Interest on Drawings (w3) – Chanda	6,400	
– Sakala	6,600	
– Nebwe	7,600	<u>20,600</u>
		329,600
Less: Partnership Salaries – Sakala	40,000	
– Nebwe	40,000	<u>(80,000)</u>
		249,600
Interest on capitals (w2)– Chanda	12,000	
– Sakala	9,000	
– Nebwe	<u>6,500</u>	<u>(27,500)</u>
		222,100
Share of Residual Profits – Chanda	111,050	
– Sakala	66,630	
– Nebwe	<u>44,420</u>	<u>(222,100)</u>
		<u><u>-</u></u>

### (b) Partners' Capital Accounts

Chanda	Sakala	Nebwe	Chanda	Sakala	Nebwe
			K	K	K
Balances b/f			120,000	90,000	65,000

### (c) Partners' Current Accounts

	Chanda	Sakala	Nebwe		Chanda	Sakala	Nebwe
	K	K	K		K	K	K
Balance b/f		5000		Balances b/f	10,000	-	7,500
Drawings.	80,000	82,500	95,000	Loan Interest	6,000	-	-
Int. on drawings	6,400	6,600	7,600	Salaries	-	40,000	40,000
Balances c/d	52,650	21,530	-	Interest on capital	12,000	9,000	6,500
				Share of profits	111,050	66,630	44,420
				Balance c/d	-	-	4,180
	<u>139,050</u>	<u>115,630</u>	<u>102,600</u>		<u>139,050</u>	<u>115,630</u>	<u>102,600</u>

**Workings**

1. Interest on loan:  $12\% \times 100,000 \times 6/12$  = K6,000

2. Interest on Capitals: Chanda-  $10\% \times 120,000$  = K12,000

Sakala-  $10\% \times 90,000$  = K9,000

Nebwe-  $10\% \times 65,000$  = K6,500

K27,500

3. Interest on Drawings: Chanda-  $8\% \times 80,000$  = K6,400

Sakala -  $8\% \times 82,500$  = K6,600

Nebwe-  $8\% \times 95,000$  = K7,600

K20,600



## SOLUTION FIVE

(a) **Back Ltd's statement of cash flows for the year ending 31 December 2023**

	K	K
<b><u>Cash flows from operating Activities</u></b>		
Profit before tax	3,600	
Adjust for: -		
Depreciation (6,000+200-4,000)	2,200	
Profit on Disposal-NCA	(100)	
<b><u>Movements in working capital</u></b>		
Increase in inventory (14,000-8,000)	(6,000)	
Increase in Receivables (31,000-27,000)	(4,000)	
Increase in Payables (18,400-16,000)	2,400	
<b><u>Cash generated from other operations</u></b>	1,900	
Tax paid	(4,600)	
Net cash outflow from operating Activities		(6,500)
<b><u>Cash flows from investing Activities</u></b>		
Payments to acquire NCA (10,000-500-13,000)	(3,500)	
Proceeds from Disposal of Investments	3,000	
Proceeds from Disposal of NCA.	400	
Net cash outflow from investing activities.		(100)
<b><u>Cash flows from financing Activities.</u></b>		
Issue of new shares (5,000 shares x K1.2)	6,000	
Dividends paid	(2,600)	
Net cash flows from financing activities		3,400
Net decrease in cash and cash Equivalents		(3,200)
Cash at the beginning of period		2,000
Cash at the end of the period.		<u>(1,200)</u>

(b) (i) **W. Phiri's Adjust cash book for January 2023**

	K		K
Balance b/f	600	(iii) Bank charges	180
(i) Direct credit	1,500	Adjusted Balance	2,920
(ii) Capital	<u>1,000</u>		
	<u>3,100</u>		<u>3,100</u>

(ii) **W. Phiri's Bank Reconciliation Statement for month of January 2023**

	K
Adjusted Cash Book Balance (1)	2,920
Add unpresented cheques	<u>8,300</u>
	11,220

Less outstanding lodgments	<u>(4,100)</u>
Bank Statement Balance	<u><u>7,120</u></u>

## SOLUTION SIX

(a) Flora plc's statement of changes in equity as at 31 December 2023

	Ord. Share Capital <b>K</b>	Share premium <b>K</b>	General Reserves <b>K</b>	Retained Earnings <b>K</b>	Total <b>K</b>
Balance b/d at 1/1/2023	500,000	150,000	90,000	80,000	820,000
Changes in equity for 2023					
Interim Dividends				(150,000)	(150,000)
Profit for the year				400,000	400,000
Bonus Issue	125,000	(125,000)			
Right issue	<u>250,000</u>	<u>60,000</u>	<u>      </u>	<u>      </u>	<u>310,000</u>
Balance as at 31/12/2023	<u>875,000</u>	<u>85,000</u>	<u>90,000</u>	<u>330,000</u>	<u>1,380,000</u>

### Disclosures

Proposed final dividend at the year-end was  $K875,000/5 = 175,000 \text{ shares} \times K1.50 =$   
**K262,500**

### **Workings**

	No. of shares	K
1. Bonus issue		
Current number of shares (500,000/5)	100,000	
Bonus $(1/4 \times 100,000) \times K5$	<u>25,000</u>	<b>125,000</b>
2. Rights issue		
share capital after bonus (500,000 + 125,000)	<u>125,000</u>	<u>625,000</u>
Right issue $(2/5 \times 125,000)$ $\times K6,20$	50,000	<b>310,000</b>

### (b) **Explanation of Four (4) distinctions between ordinary shareholders and loan stockholders**

1. Ordinary shareholders are the (equity holders) true owners of the company while loan stockholders are lenders to the company.
2. Ordinary shareholders are entitled to vote at the annual general meeting (AGM) whereas the loan stockholders do not take part in voting at the AGM.

3. Loan stockholders are entitled to a fixed rate of interest on their loan amount while the ordinary shareholders are entitled to dividends as a reward for their investment.
4. Loan stockholders can take legal action if the company defaults in its interest and principal repayments whereas ordinary shareholders cannot take legal action if the company fails to pay them dividends.
5. Loan stockholders have their loans secured on company property whereas the ordinary shareholders do not have their equity stake secured on any company assets.
6. When the company is under liquidation, the bond or loan stockholders are ranked first in terms of payments, whereas ordinary shareholders have residual interest.

**(c) Description of Four (4) features of preference shares**

1. Preference shares are shares that enable the holder to receive a fixed percentage of dividends.
2. These shares entitle the holder to receiving payments first under liquidation before or ahead of the ordinary shareholders.
3. Preference shares unlike ordinary shares do not carry the right to vote at the AGM.
4. Preference shares entitle the holders to receiving dividends first before the ordinary shareholders.

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 2: QUANTITATIVE ANALYSIS

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WEDNESDAY 11 DECEMBER 2024

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

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**INSTRUCTIONS TO CANDIDATES**

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

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

## SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions

### **QUESTION ONE**

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

1.1 Two events are said to be independent if:

- A. Their intersection set is empty
- B. Their union is equal to the sample space
- C. The occurrence of one does not affect the other
- D. They can't occur simultaneously

(2 marks)

1.2 The number of passenger boats arriving in Samfya harbor each day is Poisson distributed with a mean of 5. What is the probability that in two (2) days exactly 10 ships will arrive?

- A. 0.0002
- B. 0.1251
- C. 0.0067
- D. 0.0005

(2 marks)

1.3 An entrepreneur intends to deposit money in order to obtain a future value of K1,000 in 5-years' time at an interest rate of 8 % compounded monthly. How much should he deposit?

- A. K671.20
- B. K1,489.87
- C. K5,000
- D. K992.00

(2 marks)

1.4 A company has a bond issued at par and two (2) years after being issued the bond is being sold for K1,200. The coupon rate on the bonds is 10% and had a maturity of ten (10) years. Find the yield to maturity.

- A. 5.3%
- B. 7.5%
- C. 6.6%
- D. 8.9%

(2 marks)

1.5 K2,000 is invested at compound interest rate of 12.5%. What is the value of the investment at the end of year 8?

- A. K5,131.57
- B. K5,131.75
- C. K5,113.57
- D. K5,113.75

(2 marks)

1.6 The readings of your blood pressure is considered to be:

- A. Discrete data
- B. Continuous data
- C. Random data
- D. Probability data

(2 marks)

1.7 State what  $r^2$ , the coefficient of determination means?

- A. The strength and direction of a linear relationship.
- B. The proportion of variation in the dependent variable being explained by the independent variable.
- C. Is the measure of the absolute strength of the linear relationship.
- D. Both A and B

(2 marks)

1.8 The ten business economists in a sample were asked to predict the percentage growth in the consumer price index over the next year. The forecasts were 4.6, 4.1, 4.9, 4.7, 4.5, 4.7, 4.4, 4.0, 4.6, 4.4.

Find the sample median.

- A. 4.49
- B. 4.55
- C. 4.5
- D. 4.9

(2 marks)

1.9 If the regression equation linking sales (Y) and advertising expenditure (x) is given by  $Y = 15,000 + 5X$ ; determine the money spent on advertising if the sales is K235000.

- A. K11,90,000

- B. K44,000
- C. K44 million
- D. K10,90,00

(2 marks)

1.10 In regression analysis analysis, the correct range of the coefficient of determination is:

- A. 0 and 1
- B. -1 and 0
- C. -1 and 1
- D. Greater than 0

(2 marks)

**[Total: 20 Marks]**



## SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

### QUESTION TWO

- (a) A factory manufactures plastic toys for children. The masses of 500 of these toys were measured to the nearest grams and were grouped in the following table:

Masses	60 - 69	70 - 74	75 - 79	80 - 84	85 - 89
Number of Toys	38	93	120	196	53

#### Required:

- (i) Calculate the mean number of masses for the data. (2 marks)
  - (ii) Estimate the median of the data. (3 marks)
  - (iii) Estimate the mode of the data. (3 marks)
  - (iv) Calculate the number of toys whose mass is less than 78 grams. (2 marks)
  - (v) Calculate the standard deviation of the data. (4 marks)
- (b) Five (5) companies form a group. The sales of each company during the year ending 5 April 2000, are shown in the table below:

Company	Sales (K billions)
Benchu Motors	130
Petsils	55
Alije	60
Takkis	70
Vin-Mas	35

- (i) Construct a pie chart of the data. (4 marks)
- (ii) Construct a bar chart of the data. (2 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) The following table shows data for six vintages of select wine indicating purchases per buyer ( $y$ ) and the buyer's rating in a year ( $x$ ):

**Table 1:** sample data

$X$	3.6	3.2	2.1	4.0	4.1	2.5
$Y$	24	22	23	27	28	25

- (i) Fit the regression line  $y = a + bx$  (11 marks)
- (ii) Calculate the Pearson coefficient of correlation for the given data. (4 marks)
- (b) If K20,000 is invested at 6% interest compounded semi-annually, calculate the number of years it would take to double the K20,000 deposit. (5 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) A sample of ten gas stations in a large city showed the following prices (in kwacha) for a liter of regular unleaded gas for self-service.  
97, 100, 105, 99, 109, 108, 104, 97, 100, 99.
- (i) Find the sample mean (2 marks)
- (ii) Find the standard deviation (4 marks)
- (b) Briefly explain the meaning of your calculated measures in part (a). (4 marks)
- (c) Listed is a series of experiments and associated random variables. In each case, identify the values that the random variable can assume and state whether the random variable is discrete or continuous.

<b>Experiment</b>	<b>Random variable</b>
(i) Contact six customers	Number of customers who place an order
(ii) Operate a bank	Time between customer arrivals in minutes
(iii) Sell a car	Gender of the customer
(iv) Inspect a shipment of 60 radios	Number of defective radios
(v) Work on a project to construct a new lecture theatre	Percentage of project complete after nine months

(10 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) The average age of members of parliament is 55 years with a standard deviation of 6.5 years. If the age is normally distributed:

**Required:**

Calculate the probability that the age of a randomly selected member of parliament:

- (i) Does not exceed 62 years. (3 marks)
- (ii) Is between 45 and 65 years. (4 marks)
- (b) Smart Severs co-operative decides to undertake a project requiring an initial outlay of K400,000 which is guaranteed to produce a return of K650,000 in five (5) years' time. Use the following methods to decide whether this investment is worthwhile if the prevailing market rate is 7.5% compounded annually.
- (i) Net present value (4 marks)
- (ii) Internal rate of return (4 marks)
- (c) Mr. Mwewa invests a principal amount of K70,000 at a rate of 12% compounded annually for his daughter's university costs when she grows up. After how many years will the investment first exceed K500,000? (5 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Production at a firm appears to vary with the day of the week. Production in thousands of figures over the last three (3) weeks has been given as follows:

	<b>Week 1</b>	<b>Week 2</b>	<b>Week 3</b>
Monday	95	92	89
Tuesday	119	120	121
Wednesday	109	107	105
Thursday	135	135	135
Friday	77	74	71

**Required:**

Use five (5) moving average to completely remove the seasonal variation. (16 marks)

- (b) Suppose that your five – year old daughter has just announced her desire to attend college. After some research you determine that you will need about K100,000 on her 18 birthday to pay for four (4) years of college. If you can earn 8% per year on your investments how much do you need to invest today to achieve your goal?

(4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

(a)

Summary statistics table:

Class Limits	$X_i$	$f$	F	$fx$	$fi(X_i - \bar{x})^2$
65 - 69	67	38	38	2451	4878.018
70 - 74	72	93	131	6696	3726.408
75 - 79	77	120	251	9240	212.268
80 - 84	82	196	447	16072	2639.904
85 - 89	87	53	500	4611	3983.952
Total		500		39165	15440.55

i. **Mean:**

$$\frac{1}{n} \sum fx = \frac{1}{500} (39165) = 78.33$$

ii. To find the median, first locate the median class, which is the class that fall on the mid of the values of cumulative frequency, then find the lower limit of the median class and the class width, and calculate using the formula

$$median = L_k + \frac{w}{n_k} \left( \frac{n}{2} - cf_{k-1} \right), \quad k = 3$$

$$75 + \frac{4}{120} \left( \frac{500}{2} - 131 \right) = 78.97$$

iii. **Mode:**

$$Mo = L_k + w \left( \frac{d_1}{d_1 + d_2} \right), \quad k = 4$$

$$Mo = 80 + 4 \left( \frac{76}{76+14} \right) = 81.39$$

**Note:**

$$d_1 = n_k - n_{k-1} = 196 - 120 = 76$$

$$d_2 = n_k - n_{k+1} = 196 - 53 = 143$$

(iv) The number of toys whose mass is less than 78 grams is: 38+93+120=251

(v) **Standard deviation**

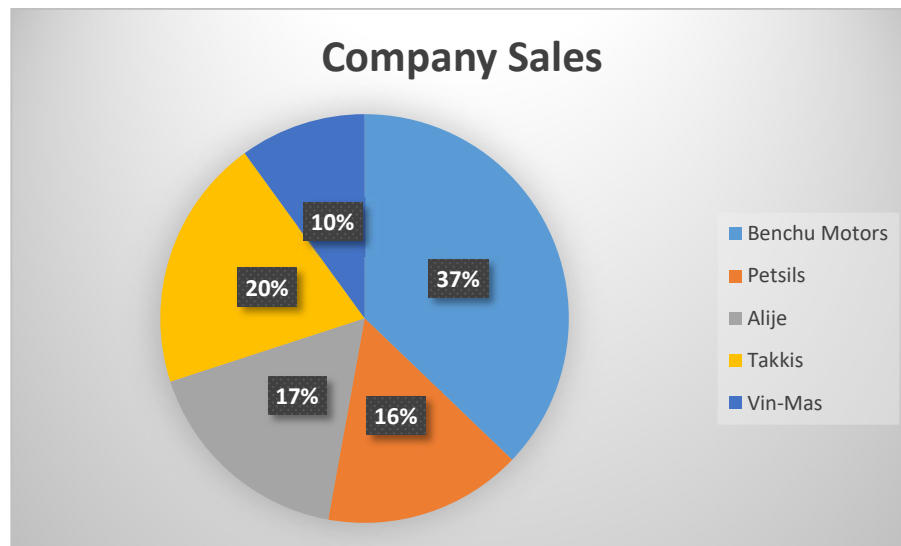
$$s = \sqrt{\frac{\sum f(x - \bar{x})^2}{f - 1}}$$

$$s = \sqrt{\frac{15440.55}{500 - 1}} = 5.56$$

(b)

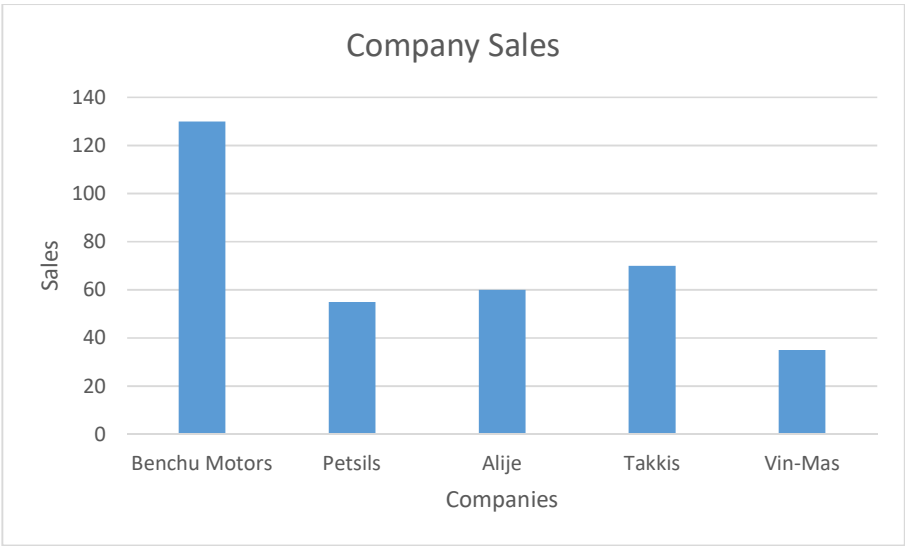
Bench Motors	130	$\frac{130}{350} \times 360^\circ = 134^\circ$
Petsils	55	$\frac{55}{350} \times 360^\circ = 57^\circ$
Alije	60	$\frac{60}{350} \times 360^\circ = 62^\circ$
Takkis	70	$\frac{70}{350} \times 360^\circ = 72^\circ$
Vin-Mas	35	$\frac{35}{350} \times 360^\circ = 36^\circ$
Total	350	

**Pie-chart:**



**NOTE: Alternatively, the students may insert degrees in the pie chart as computed above instead of percentages.**

**Bar-Chart:**





### SOLUTION THREE

(a). (i)

	<b>X</b>	<b>Y</b>	<b>X<sup>2</sup></b>	<b>XY</b>	<b>Y<sup>2</sup></b>
	3.6	24	12.96	86.4	576
	3.2	22	10.24	70.4	484
	2.1	23	4.41	48.3	529
	4	27	16	108	729
	4.1	28	16.81	114.8	784
	2.5	25	6.25	62.5	625
<b>TOTALS</b>	<b>19.5</b>	<b>149</b>	<b>66.67</b>	<b>490.4</b>	<b>3727</b>

$$b = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sum x^2 - \frac{(\sum x)^2}{n}}$$

$$= \frac{490.4 - \frac{(19.5)(149)}{6}}{66.7 - \frac{19.5^2}{6}} \dots\dots\dots$$

$$= \frac{6.15}{3.325} \dots\dots\dots$$

$$\approx 1.85 \dots\dots\dots$$

$$a = \bar{y} - b\bar{x}$$

$$= \frac{149}{6} - (1.85) \left( \frac{19.5}{6} \right) \dots\dots\dots$$

$$\approx 18.8 \dots\dots\dots$$

Therefore the required answer is  $\hat{y} = 18.8 + 1.85x \dots\dots\dots$

(ii)

$$\begin{aligned} r &= \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{\left(\sum x^2 - \frac{(\sum x)^2}{n}\right)\left(\sum y^2 - \frac{(\sum y)^2}{n}\right)}} \\ &= \frac{490.4 - \frac{19.5 \times 149}{6}}{\sqrt{\left(66.67 - \frac{19.5^2}{6}\right)\left(3727 - \frac{(149)^2}{6}\right)}} \\ &= 0.65 \end{aligned}$$

(b).

$$\begin{aligned} fv &= p \left(1 + \frac{r}{n}\right)^{nt} \\ 40000 &= 20000 \left(1 + \frac{0.06}{2}\right)^{2 \times t} \\ 2 &= (1.03)^{2t} \\ \ln 2 &= 2t \ln(1.03) \\ 2t &= \frac{\ln 2}{\ln 1.03} \\ 2t &= 23.45 \\ t &= 11.7 \text{ years} \end{aligned}$$

## SOLUTION FOUR

(a)

(i) sample mean  $\bar{x} = \frac{\sum x}{n} = \frac{1018}{10} = 101.8$

(ii) sample standard deviation 
$$S = \sqrt{\frac{\sum x^2 - \frac{(\sum x)^2}{n}}{n-1}} = \sqrt{\frac{103\,806 - \frac{(1\,018)^2}{10}}{9}}$$
$$= \sqrt{\frac{173.6}{9}} = \sqrt{19.28888889} \approx 4.39$$

(b) The arithmetic mean indicates that the average price is K101.8 for each liter of regular unleaded gas.

The standard deviation measures the variability in the prices for a liter of regular unleaded gas which is K4.39

(c)

	Values assumed	Type of variable
(i)	$x = 0, 1, 2, 3, 4, 5, 6$	Discrete
(ii)	$x \geq 0$	Continuous
(iii)	0 if male or 1 if female	Discrete
(iv)	$x = 0, 1, 2, \dots, 60$	Discrete
(v)	$0 \leq x \leq 100$	continuous

## SOLUTION FIVE

(a)

$$\text{i) } P(X < 62) = P\left(Z < \frac{62-55}{6.5}\right)$$

$$= P(Z < 1.08) = \mathbf{0.8599}$$

$$\text{ii) } P(45 < X < 65) = P\left(\frac{45-55}{6.5} < Z < \frac{65-55}{6.5}\right)$$

$$= P(-1.54 < Z < 1.54) = 1 - (0.0618 + 0.0618) = 1 - 0.1236 = \mathbf{0.8764}$$

(b)

(i) The present value of K650000 in five years' time, based on a discount rate of 7.5%, is found by setting  $S = 650000$ ,  $t = 5$  and  $r = 7.5$  in the formula

$$P = S\left(1 + \frac{r}{100}\right)^{-t}$$

This gives

$$P = K650\,000(1.075)^{-5} = 452768.11$$

The NPV is therefore

$$K452768.11 - K400000 = K52768.11$$

The project is to be recommended because this value is positive.

(ii) To calculate the IRR we use the formula:

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

We are given  $S = 650\,000$ ,  $P = 400\,000$  and  $t = 5$ , so we need to solve

$$650000 = 400000\left(1 + \frac{r}{100}\right)^5$$

$$\frac{13}{8} = \left(1 + \frac{r}{100}\right)^5$$

$$1 + \frac{r}{100} = \left(\frac{13}{8}\right)^{\frac{1}{5}}$$

Hence;

$$\frac{r}{100} = 1.102 - 1 = 0.102$$

and so the IRR is 10.2%. The project is therefore to be recommended because this value exceeds the market rate of 7.5%.

(c)

We want to save a total of K500000 starting with an initial investment of K70000. The problem is to determine the number of years required for this on the assumption that the interest is fixed at 12% throughout this time. The formula for compound interest is

$$\begin{aligned} S &= P \left(1 + \frac{r}{100}\right)^n \\ P &= K500000, \quad S = 70000 \quad r = 20\%, \quad n = ? \\ 500000 &= 70000 \left(1 + \frac{12}{100}\right)^n \\ \left(1 + \frac{12}{100}\right)^n &= 7.143 \end{aligned}$$

$$n \log 1.12 = \log 7.143$$

$$n = \log 7.143 \div \log 1.12$$

$$n = 17.3$$

Therefore it will take approximately 18 years.

## SOLUTION SIX

(a) We use the five moving to completely remove the seasonal variation

Day	Production (Y)	Five moving total (5MA)	Trend ( $\hat{Y}$ )	Indexes		
1	95					
2	119					
3	109	535	107	1.07		
4	135	532	106.4	1.27		
5	77	533	106.6	0.72		
6	92	531	106.2	0.87		
7	120	528	106.2	1.13		
8	107	525	105.6	1.01		
9	135	525	105.0	1.29		
10	74	526	105.2	0.70		
11	89	524	104.8	0.85		
12	121	524	104.8	1.15		
13	105	521	104.2	1.01		
14	135					
15	71					
	Monday	Tuesday	Wednesday	Thursday	Friday	Total
Week 1			1.07	1.27	0.72	
Week 2	0.87	1.13	1.01	1.29	0.70	
Week 3	0.85	1.15	1.01			
Average indexes	0.86	1.14	1.03	1.28	0.71	5

(b)

Here, we have  $FV = K100,000$ ,  $r = 0.08$ . Thus,

$$PV = \frac{FV}{(1+r)^t} = \frac{100,000}{(1.08)^{13}} = K36,769.79$$

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

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DA 3: BUSINESS ECONOMICS

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TUESDAY 10 DECEMBER 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).
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 against each question.

1.1 The consumption of fixed capital is known as....

- A. Capital formation.
- B. Investment.
- C. Depreciation.
- D. Interest.

(2 marks)

1.2 Barter trade lost popularity because....

- A. Transaction costs are minimal.
- B. Goods are always standardised.
- C. Goods are reliable.
- D. Goods are not always divisible.

(2 marks)

1.3 Which of the following tasks falls outside the responsibilities of the Bank of Zambia?

- A. Acting as the lender of the last resort.
- B. Formulating and implementing monetary policies.
- C. Offering loans directly to the public.
- D. Regulating and supervising Financial Intermediaries.

(2 marks)

1.4 What is the minimum partner requirement to start a business?

- A. 10
- B. 2
- C. 5
- D. 20

(2 marks)

1.5 The members of a cooperative society have.....

- A. Unlimited liability.



- B. Limited liability.
- C. Joint liability.
- D. Several liability.

(2 marks)

1.6 Which of the following is not a part of National Income?

- A. The interest amount on the unproductive national debt.
- B. The payment made by household to a firm for buying goods and services.
- C. Income from government expenditure.
- D. Undistributed profits.

(2 marks)

1.7 Which of the following is the correct term for calculating national income at constant prices?

- A. Current income.
- B. Domestic income.
- C. Real income.
- D. Constant income.

(2 marks)

1.8. Which type of unemployment arises when automation replaces workers?

- A. Seasonal unemployment.
- B. Frictional unemployment.
- C. Cyclical unemployment.
- D. Structural unemployment.

(2 marks)

1.9 The main goal of supply-side macroeconomic policies is .....

- A. To directly increase demand in the economy.
- B. To boost an economy's productive capacity.
- C. To manage the money supply in the economy.
- D. To reduce labour supply in the labour market.

(2 marks)

1.10 Which of the following has been a major contributor to the increased interconnectedness of countries in the 21 Century?

- A. Divergent tastes can effectively hinder globalization.
- B. Protected domestic markets promote globalization.
- C. Advances in communication and information technology.
- D. Increased tariffs and other non-quantitative barriers.

(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) (i) Define the term privatization and give one practical example. (4 marks)
- (ii) Outline four (4) benefits of privatization. (4 marks)
- (b) Using graphs, illustrate the short-run (SR) abnormal profits and long-run (LR) equilibrium positions for a company that operates in a perfectly competitive market. (12 Marks)

**[Total: 20 Marks]**

#### **QUESTION THREE**

- (a) The table below illustrates how the various short-run cost of production can be calculated for a given good:

Output per week(units)	Total variable cost(TVC)	Total fixed costs(TFC)	Total cost(TC)	Marginal cost(MC)	Average fixed costs(AFC)	Average total cost (ATC)
0	K0	K300	K300	-	-	-
1	1,500	300	1,800	1,500	300	1,800
2	1,700	300	2,000	200	150	1,000
3	1,,800	300	2,100	100	100	700
4	1,950	300	2,250	150	75	563
5	1,300	300	2,600	350	60	520
6	3,000	300	3,300	700	50	550

Using the data in the table above, draw the following clearly labelled graphs:

- (i) Fixed Cost, Total variable cost and total cost curves using a scale of 500 on the Y-axis. (5 marks)
- (ii) Marginal cost, average total cost and average fixed cost curves using a scale of 200 on the Y-axis. (5 marks)
- (b) Outline any three (3) factors that affect elasticity of supply for a good. (6 marks)
- (c) Explain the meaning of the Law of Diminishing Returns to a business. (4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Use a diagram in each case to illustrate how each of the following events affects the equilibrium price and quantity of pizza.
- (i) The price of cheese goes up. (5 marks)
  - (ii) The health hazards of chicken and chips are widely publicized. (5 marks)
- (b) Using a diagram explain the effect on the equilibrium price and equilibrium quantity traded of product X of a decrease in the price of a complement product? (4 marks)
- (c) Outline three (3) features of the monopolistic competition market. (6 marks)

**[Total: 20 Marks]**

## **2. MACROECONOMICS**

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

#### **QUESTION FIVE**

- (a) The multiplier describes the process of circulation of income in the national economy, whereby an injection of a certain size leads to a much larger increase in national income. Assuming an economy with a marginal propensity to consume of 75% and the initial increase in expenditure of K500 billion:
- (i) Calculate the value of the multiplier (3 marks)
  - (ii) Calculate value of the increase in national income (3 marks)
- (b) A closed economy called the "Land of Work and Joy" is characterized by the following behavioural equations:
- $$C = 320 + 0.9(Y-T)$$
- $$I = 200$$
- $$G = 400$$
- $$T = 150$$
- (i) Explain the concept of a closed economy. (2 marks)
  - (ii) State two (2) disadvantages of a closed economy. (4 marks)
  - (iii) Determine the equilibrium national (Y) for this closed economy. (4 marks)

- (c) Given the consumption spending expressed as  $C = 320 + 0.9Y_d$ :  
What are the values of autonomous consumption ( $c_o$ ) and marginal propensity to  
Consume (MPC); respectively? (4 marks)  
**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Outline any five (5) objectives of monetary policy. (10 marks)
- (b) Explain how a tax cut by the Government can stimulate demand in an economy when Government expenditure is maintained at the same level. (4 marks)
- (c) During the 2023 Teacher Recruitment exercise, the Government recruited over 7,000 teachers out of over 66,000 qualified teachers who applied. This scenario indicates high levels of unemployment in Zambia, even among the qualified teachers.
- Explain any three (3) policy options that the Government can use to create jobs or reduce unemployment in general.

(6 marks)  
**[Total: 20 Marks]**

### **QUESTION SEVEN**

- (a) Economic integration can be achieved via the Customs Union, Common Market and Monetary Union. Describe the three (3) forms of economic integration. (9 marks)
- (b) Traders engaged in international trade are affected by fluctuations in exchange rates.  
Outline any four (4) causes of fluctuations. (8 marks)
- (c) Explain the 'infant industry argument' as a barrier to free trade. (3 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **DA3 BUSINESS ECONOMICS SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

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

## SOLUTION TWO

(a)

- i) Privatization refers to the transfer of ownership, management, and control of assets or activities from the public sector (government) to the private sector (individual or corporate entities).

This can involve:

- **Selling state-owned enterprises** (SOEs): Companies owned and operated by the government are sold to private investors, either through stock offerings or direct sales. For example, airlines, telecommunications companies, and energy utilities have been commonly privatized.
- **Contracting out services**: Instead of directly providing services like waste collection or public transportation, governments contract private companies to deliver them. This is often seen as a way to improve efficiency and reduce costs.
- **Deregulation**: Removing or reducing government regulations on certain industries or activities, allowing private businesses to operate with greater freedom. This can be seen in industries like transportation, healthcare, and finance.

ii) The following are the benefits of privatization:

- Privatization enhances both productive and allocative efficiency
- Output could be produced at a substantially lower cost if output were produced by the private sector rather than the public sector
- Privatization increases Government revenues through the sale of public assets or reduces the budget deficit
- Privatization results in cutting subsidies. The freed revenues can be used to provide other social services such as health and education
- **increased efficiency**: Private companies, driven by the profit motive, are often seen as more efficient than government-run operations. They may be more responsive to market demands and less prone to bureaucratic inefficiencies.
- **Increased investment**: Privatization can attract private investment to sectors that were previously starved of resources due to government budget constraints. This can lead to improved infrastructure and innovation.
- **Reduced government debt**: Selling off assets can generate revenue for governments, helping to reduce debt levels and free up resources for other priorities.
- **Enhanced economic growth**: By boosting efficiency and investment, privatization is believed to promote economic growth and job creation.

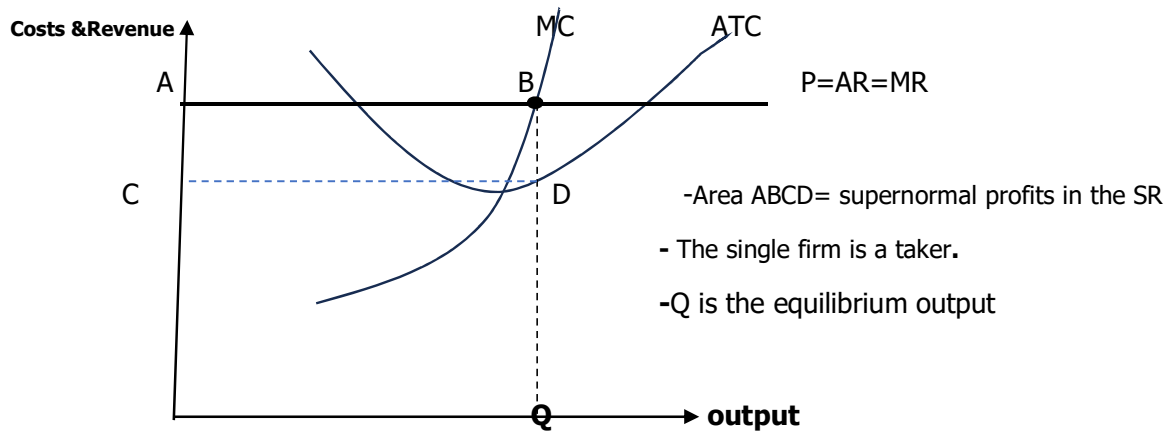
(b).

### Short run

In the short run, a perfect competitor can earn abnormal profits and produce output at a level where profit is maximised. That is at a level of output where marginal revenue is equal to marginal cost.

The optimum or best level of output is the level of output which is produced at the lowest level of the average total cost. It is best because operational costs are at the lowest level. The graph below shows a perfectly competitive firm in short-run equilibrium.

### Short Run equilibrium conditions for a firm in a perfectly competitive market

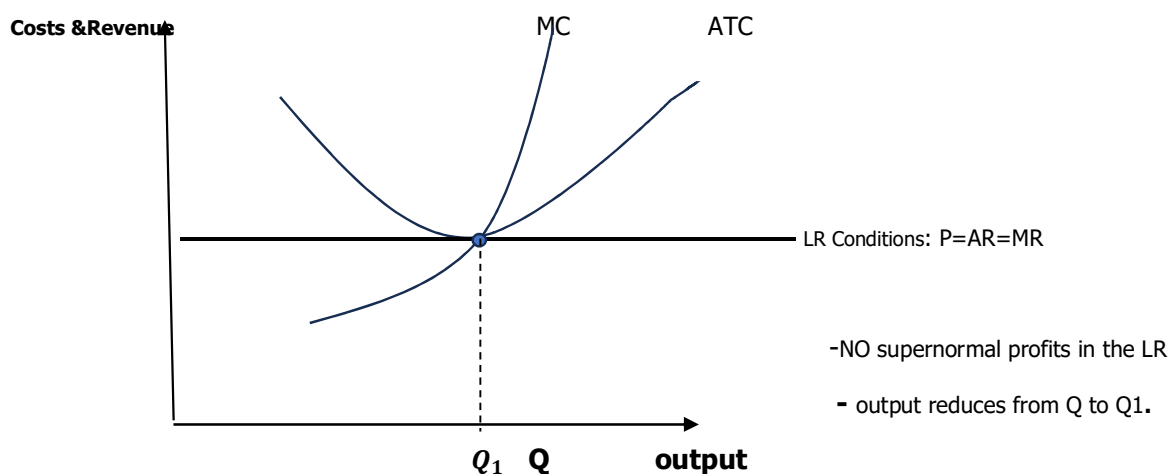


### Long-run

Abnormal profits cannot persist in the long run because other firms will be attracted to enter the industry. As new firms come in, total supply will increase, and this will bring down the market price.

The market price will fall until the abnormal profits disappear. In the long run, the profits maximised are only normal profits due to competition. Individual firms will operate at a level where the average revenue is equal to the average total cost. The graph below shows a perfectly competitive firm in long-run equilibrium.

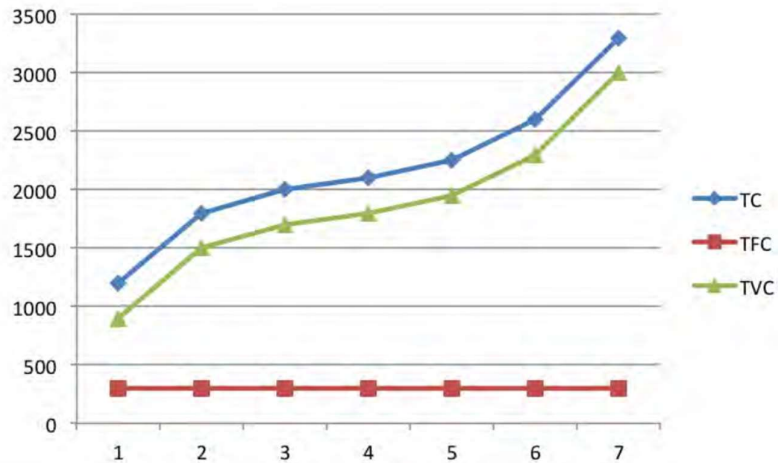
### Long Run equilibrium conditions for a firm in a perfectly competitive market





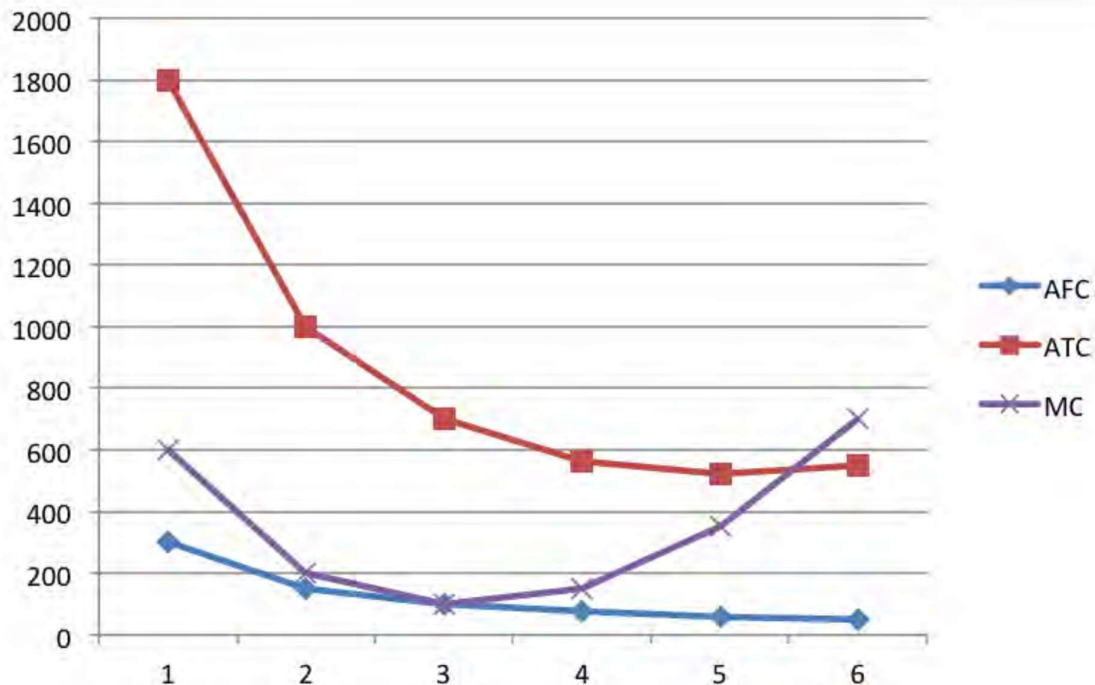
## SOLUTION THREE

(a) Graphs



i) Total

ii) Average cost curves



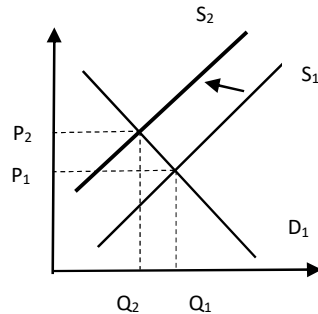
(b) The following are the factors that affect elasticity of supply:

- Perishability: Goods that can rot quickly have inelastic supply. Goods that can be stored for a longer period of time have elastic supply.
- Time: In the short run supply is inelastic, while in the long run supply is elastic.

- Substitutability: A good with close substitutes in production has elastic supply. A good without close substitutes in production has inelastic supply.
- (c) The Law of Diminishing Returns states that if one or more factors of production are fixed, but the input of another is increased, the extra output generated by each extra unit of input will eventually begin to fall. The law of diminishing returns explains why a short-run average cost curve begins to rise at a certain level, and the average cost per unit of production gets higher as more output is produced.
- It is important to appreciate that diminishing returns set in once the rate at which the increase in productivity from adding an extra unit of a factor of production starts to fall. This sets a limit on the variable factor that can be added.

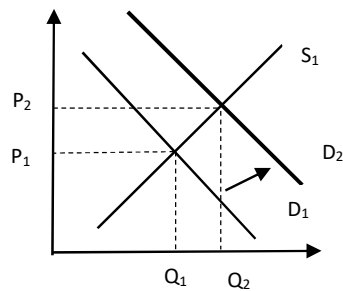
## SOLUTION FOUR

(a) (i)



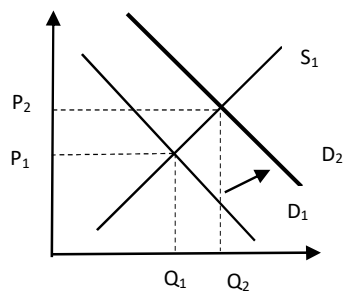
Cheese is an input in the production of pizza. Since the cost of an input has risen, pizza producers will reduce the quantity supplied at any given price, a leftward shift of the supply curve from  $S_1$  to  $S_2$ . As a result, the equilibrium price of pizza will rise and the equilibrium quantity will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

(ii)



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

(b)



Complement goods are bought jointly, with a reduction in price of a complement good, demand for product X will increase. There will be a shift to the right from  $d_1$  to  $d_2$ . R is the new equilibrium point.

There is an increase in price from  $p$  to  $p_1$ , an increase in quantity traded from  $Q$  to  $Q_1$

### (c) Features of Monopolistic Competition Markets

Monopolistic competition is a type of market structure characterized by many small firms offering differentiated products in a competitive environment. Here are some key features:

- **Large Number of Sellers:** There are many firms operating in the market, each with a small share of the overall market. This prevents any single firm from dominating the market and influencing prices or supply significantly.
- **Product Differentiation:** Firms offer products that are similar but not identical, creating some degree of uniqueness and brand loyalty. This differentiation can be based on various factors like quality, features, design, packaging, or marketing.
- **Easy Entry and Exit:** Barriers to entry and exit are generally low, allowing new firms to enter the market if they see profit opportunities and allowing existing firms to leave if they are not profitable. This fosters competition and keeps prices in check.
- **Non-Price Competition:** Since products are differentiated, firms compete beyond just price. They use marketing strategies, advertising, branding, and product innovation to attract customers and gain market share.
- **Downward-Sloping Demand Curve:** Each firm faces a downward-sloping demand curve for its product, meaning that it can increase sales by lowering the price. However, due to product differentiation, the demand curve is not perfectly elastic, allowing some control over price.
- **Excess Capacity:** Firms in monopolistic competition typically operate at a point where marginal cost (MC) is less than average revenue (AR). This leads to excess capacity, which means they are not producing at the minimum efficient scale. This inefficiency is a trade-off for product variety and consumer choice.

## SOLUTION FIVE

(a) Calculations:

- i) Multiplier =  $1/1 - \text{MPC} = 1/1 - 0.75 = 1/0.25 = 4$
- ii) Increase in national income = Increase in initial expenditure/ $1 - \text{MPC} = \text{K}500\text{million}/0.25 = \text{K}2,000 \text{ million}$ .

(b)

- i) A closed economy is a theoretical concept where no international trade occurs. In simpler terms, a closed economy operates as a self-contained system, not engaging in imports or exports of goods and services with other countries.
- ii) **Disadvantages of a closed economy**
  - Limited Production and Innovation: Without access to foreign resources and technologies, the variety and quality of goods and services offered in a closed economy can be limited. This can lead to lower living standards, stagnant economic growth, and inefficiency in production.
  - Reduced Consumer Choice and Higher Prices: Limited competition can lead to higher prices for consumers as monopolies or state-controlled enterprises face little pressure to innovate or lower costs. This can further restrict economic growth and reduce overall welfare.
  - Lack of Knowledge Spillover and Technological Advancement: Closed economies miss out on the knowledge spillover and innovation that comes from interaction with other economies. This can lead to slower technological progress and missed opportunities for adopting new solutions and production methods.
  - Economic Vulnerability and Fragility: Reliance on domestic resources makes closed economies vulnerable to internal shocks such as natural disasters or resource depletion. They lack the diversification and flexibility of open economies that can access resources and markets internationally

iii) Equilibrium occurs when  $Y = C + I + G$   
$$= 320 + 0.9(Y - T)$$
$$= 320 + 0.9(Y - 150) + 200 + 400$$
$$Y - 0.9Y = 785$$

**$Y = 7,850$**  equilibrium national income

(c)  $C = 320 + 0.9Y_d$ :

- Autonomous consumption = **320**
- Marginal propensity to consume = **90% of disposable income**

## SOLUTION SIX

(a) The objectives of monetary policy are:

- To achieve full employment: This means that all those looking for employment must be able to find jobs reasonably quickly.
- To achieve low levels of inflation: Price stability is very important for the economic development of a country
- To achieve economic growth: Growth in the national output is a very important goal that can even help achieve the goal of full employment.
- To achieve balance of payment equilibrium: This means that the country's transactions with other countries must be balanced. Balance of payment deficits are not healthy.
- To achieve equality in income distribution: This means that there should not be any one who is stuck in abject poverty amid riches i.e. there shouldn't be extreme poor and extreme rich citizens
- To achieve economic freedom: This means that the country must be free or independent to pursue its policies without outside influence on economic policy.

(b) If the government kept its own spending at the same level, but reduced levels of taxation, it would stimulate demand in the economy because firms and households would have more of their own money after tax for consumption or saving/investing.

(c) A government can try several options to create jobs or reduce unemployment.

- Spending more money directly on jobs (for example hiring more civil servants)
- Encouraging growth in the private sector of the economy. When aggregate demand is growing, firms will probably want to increase output to meet demand, and so will hire more labour
- Encouraging training in job skills. There might be a high level of unemployment amongst unskilled workers, and at the same time a shortage of skilled workers. A government can help to finance training schemes, in order to provide a 'pool' of workers who have the skills that firms need and will pay for
- Offering grant assistance to employers in key regional areas
- Encouraging labour mobility by offering individuals financial assistance with relocation expenses, and improving the flow of information on vacancies

## SOLUTION SEVEN

- (a) Economic integration refers to the process of removing trade barriers and increasing economic cooperation between countries. This can lead to a number of benefits, such as increased trade, investment, and economic growth. There are three main forms of economic integration, each with its own level of cooperation and complexity:

- **Customs Union**

Description: A customs union is the simplest form of economic integration. In a customs union, member countries agree to eliminate tariffs and other trade barriers on goods traded among themselves, while maintaining their own external tariffs against non-members. This creates a single market for goods within the union, which can lead to increased trade and efficiency.

Example: The European Union (EU) is a customs union, with all member states having no tariffs or quotas on goods traded between each other.

- **Common Market**

Description: A common market builds on the foundation of a customs union by also allowing free movement of factors of production, such as labour, capital, and services. This means that workers, businesses, and investors can move freely between member countries, which can further stimulate economic activity and integration.

Example: The Common Market for Eastern and Southern Africa (COMESA) and the European Economic Area (EEA) are common markets. The common market allows for the free movement of goods, services, capital, and people within the area.

- **Monetary Union**

Description: A monetary union is the most advanced form of economic integration. In a monetary union, member countries adopt a common currency and coordinate their monetary policies. This eliminates exchange rate risks and can further boost trade and investment within the union.

Example: The eurozone is a monetary union, with 19 EU member states sharing the euro as their common currency. This has created a single market for financial services and facilitated cross-border trade and investment.

- (b) Factors that influence the exchange rate for a currency.

- Total Income and expenditure (demand). The aggregate demand determines the demand for goods, which includes imported goods and demand for goods produced in the domestic economy, which may be exported if domestic aggregate demand is insufficient.
- Output capacity and the level of employment. The output capacity and the level of employment in the domestic economy influence the balance of payments (BOP), because if the economy is operating at full employment, the economy may not be able to increase the volume of production for exports.
- The growth in the money supply influences the interest rates and inflation in the domestic economy. From this monetarist perspective, if the government, through the central bank, effects a tight monetary policy, this will result in high interest rates, which will consequently result in high exchange rates.

- Domestic Economy economic prospects affect the exchange rates. For example, if the economic forecasts are bullish (point to economic growth), the speculators in the money markets will be attracted to the domestic economy, thereby increasing the demand for the domestic currency and increasing its exchange rate. The opposite would happen if the economic forecasts were Bearish.
- (c) Infant industry argument is an argument used to support the erection or imposition of barriers to trade. It states that infant industry should be protected from well-established foreign producers.

## **END OF 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 DECEMBER 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)**

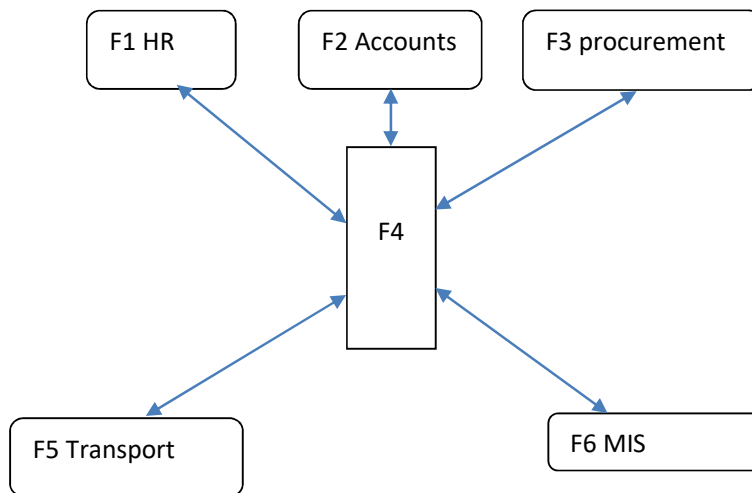
### **Attempt all Ten (10) multiple choice questions**

#### **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 .... best describes data warehousing
- A. Real-time data processing
  - B. Data storage for operational purposes
  - C. Integration and storage of historical data
  - D. Structured data analysis
- (2 marks)
- 1.2 When the computer is turned off, where is most of the data stored?
- A. The microprocessor
  - B. The RAM
  - C. The BIOS
  - D. The disk
- (2 marks)
- 1.3 Which of the following is the correct structure of an =IF() function?
- A. IF (condition, "true","false")
  - B. = IF(condition, "true","false")
  - C. =IF condition, "true","false"
  - D. IF condition, "true","false"
- (2 marks)

- 1.4 The below diagram indicates a network topology implemented by Chifuba Meat Processing Company in which you have been employed as a Finance Director.



Which statement below describes the role of F4 in this topology

- A. Stores software and data which is shared and controls the network.
- B. Able to access data from the central server for further processing.
- C. Converts analogue signals to digital for transmission on a digital channel.
- D. Transmits traffic signal to the remote locations using communication channels.

(2 marks)

- 1.5 Which of the following threats is **NOT** associated with computer networks.

- A. Virus
- B. Worm
- C. DoS
- D. Hacking

(2 marks)

- 1.6 Which element ensures that the message is accurately received in the communication cycle?

- A. Encoding
- B. Feedback
- C. Noise
- D. Channel

(2 marks)

1.7 In a company, which department is responsible for managing internal communication?

- A. Marketing.
- B. Human Resources.
- C. Finance.
- D. IT.

(2 marks)

1.8 State one example of a facial expression.

- A. Faster breathing
- B. Puzzlement
- C. Perspiring
- D. Tremor in the voice

(2 marks)

1.9 Which one of the following is a sender-oriented barrier?

- A. Lack of interest.
- B. Misinterpretation of a message.
- C. Information overload.
- D. Poor listening.

(2 marks)

1.10 Which one of the following is a factor that affects the choice of medium of communication?

- A. Inappropriate language
- B. Behavior
- C. The urgency of the matter
- D. Information overload

(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) Imagine you are a consultant advising a small e-commerce business that recently experienced a security breach resulting in the compromise of customer data. Describe three (3) common threats to data security that businesses like this one might face, by providing examples and suggestions on how to mitigate these threats.

(12 marks)

- (b) Musangole is a mining company involved in processing various minerals in one of the provinces of Zambia. It has currently excavated manganese, copper, gold, and diamond.

Given below is the data captured in excel sheet by Musangole staff.

Mineral Name	Sales K
Gold	140
Silver	500
Manganese	450
Diamond	600
Total Sales	1,690

Mineral	Sales K
Gold	140
Silver	500
Manganese	450
Diamond	600
Total Sale	1,690
Maximum	600
Minimu	140

**Required:**

Write down the formulas in MS-Excel for calculating the following below

- |       |                     |           |
|-------|---------------------|-----------|
| (i)   | Maximum sale amount | (2 marks) |
| (ii)  | Minimum sale amount | (2 marks) |
| (iii) | Average amount      | (2 marks) |
| (iv)  | Total               | (2 marks) |

**[Total: 20 Marks]**

**QUESTION THREE**

- (a) You work for an NGO that has six stand-alone PCs, two in accounts department, two in general administration and two in the sales department. There is regular communication among all departments. The company employs around 25 staff in total. None of them has anything more than basic computer knowledge and doesn't know the benefits of the 'client-server' approach.

State five (5) advantages of client/server computing. (10 marks)

- (b) As a newly recruited Accountant, you are keen on securing your resources including information and data. You have suggested cloud storage to management but they are not sure of its advantages.

Explain three (3) advantages of cloud storage. (6 marks)

- (c) You are working as a Finance Manager for a medium-sized advertising agency that is considering updating its computer systems.

List four (4) operating systems that you would consider other than Windows operating system. (4 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) Windows Operating system comes with a number of useful features that enables effective operation of the computer.

Outline the following features of Windows Operating System.

- |       |             |           |
|-------|-------------|-----------|
| (i)   | Recycle Bin | (2 marks) |
| (ii)  | Multimedia  | (2 marks) |
| (iii) | GUI         | (2 marks) |
| (iv)  | Taskbar     | (2 marks) |

- (b) Financial accounts of business are handled by accountants who are members of Professional bodies and are governed by a code of ethics put in place to regulate their conduct and uphold the principles of adherence to ethical value.

Outline the three (3) common ethics of accounting (6 marks)

- (c) You're working as a financial analyst for a small start-up company that's developing a budgeting spreadsheet to track expenses and revenue projections.

Explain using a practical example when you would use the following in MS-Excel:

(i) Absolute referencing. (3 marks)

(ii) Relative referencing. (3 marks)

**[Total: 20 Marks]**

## **2. COMMUNICATION**

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

### **QUESTION FIVE**

A business letter is the most common form of communication used in organizations.

#### **Required:**

- (a) Mention any four (4) elements of a letterhead for an organization. (4 marks)
- (b) State any two (2) specific purposes of a business letter. (2 marks)
- (c) Give any two (2) characteristics of written communication that business organizations consider as they write business letters. (2 marks)
- (d) Explain any two (2) reasons why a letter is regarded as formal communication. (4 marks)
- (e) Define the following types of letters commonly written in business organizations.
  - (i) A letter of adjustment (2 marks)
  - (ii) A letter of acknowledgement. (2 marks)
  - (iii) A covering letter (2 marks)
  - (iv) A letter of apology (2 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

You are attending a workshop on best practices in accountancy. It has come to your observation that a colleague is failing to concentrate and therefore cannot listen or take notes.

#### **Required:**

- (a) Give any four (4) reasons why it is important to take notes in a workshop. (8 marks)
- (b) Explain how the following challenges might affect your colleagues during a listening experience.
  - (i) Writing exact words from the source (2 marks)
  - (ii) Failing to use abbreviations (2 marks)
  - (iii) Physical noise (2 marks)
  - (iv) Explain any three (3) examples of non-verbal communication that your colleague should use to listen effectively. (6 marks)

**[Total: 20 Marks]**



### **QUESTION SEVEN**

In every business, various documents are written to both members of staff and clients to convey different information. It is important that these documents are drafted carefully to ensure that the receiver of your information understands your message as you intended.

**Required:**

- (a) Identify any five (5) differences between a memorandum and a letter. (10 marks)
- (b) Explain any five (5) receiver-oriented barriers that could occur in the process of decoding a written message. (10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

(a) Three (3) threats to data security that businesses like this one might face :-

- **Malware:** Discuss how malware, including viruses, worms, and ransomware, can infiltrate systems and compromise sensitive data. Offer suggestions on implementing robust antivirus software, regularly updating systems, and educating employees about phishing emails.
- **Insider Threats:** Explain the risk posed by employees or contractors who intentionally or unintentionally misuse data. Provide examples of insider threats, such as data theft or sabotage, and recommend implementing access controls, monitoring user activity, and conducting regular security training sessions.
- **Phishing Attacks:** Describe how phishing attacks target individuals through deceptive emails or messages to obtain sensitive information. Offer advice on identifying phishing attempts, promoting email security best practices, and implementing email filtering solutions.
- **Weak Authentication:** Discuss the importance of strong authentication measures, such as passwords, biometrics, or multi-factor authentication, to prevent unauthorized access to systems and data. Recommend enforcing complex password policies, implementing two-factor authentication, and regularly reviewing user access privileges.
- **Lack of Encryption:** Explain how unencrypted data is vulnerable to interception and unauthorized access. Recommend encrypting sensitive data both at rest and in transit using encryption protocols and secure communication channels.
- **Third-Party Risks:** Highlight the potential risks associated with outsourcing services or relying on third-party vendors for data processing. Suggest performing due diligence on third-party providers, establishing contractual agreements with security requirements, and regularly auditing their security practices.

(b) Write down formulas in MS-Excel for calculations

- i.       =MAX(E5:E8)
- ii.       =MIN(E5:E8)
- iii.       =AVERAGE(E5:E8)
- iv.       =SUM(E5:E8)

## **SOLUTION THREE**

### **(a) Five advantages of using Client/Server computing**

- (i) **Shared programs and data** – Program and data files held on a file server can be shared by all the PCs in the network. With the stand alone computer, each computer has its own data files and there is unnecessary duplication of data. A system where everyone uses the same data will help to improve data processing, communication and decision making
- (ii) **Shared work-loads** – each PC in a network can do the same work. With stand-alone PCs, A does job 1, B does job 2, C does job 3 and so on. In a network, any PC (A,B or C) could do any job (1,2 or 3). This means that in a peak period for job 1, say, two or more people can share the work without having to leave their own desk
- (iii) **Scalability** – A client-server system is highly scalable, when you need more computers, you simply add more clients or another server
- (iv) **Shared equipment** – e.g. five computers might share a single printer, whereas with stand-alone computers, each computer would have to be given its own separate printer, or else not have access to one at all.
- (v) **Communication and time management** – LAN can be linked up to the office communication network, thus adding to the processing capabilities in an office. Electronic mail can be used to send messages, memos and letters from computer to computer.

### **(b) Three (3) advantages of cloud storage**

- Cheaper in terms of hardware resources
- Business continuity even if disaster hits the office premises
- Accessibility from any location
- Enhanced security

### **(c) Four (4) operating systems that you would consider other than Windows operating system.**

- MacOS,
- Linux,
- UNIX,
- ChromeOS,
- Ubuntu,
- Android

## SOLUTION FOUR

(a) Features of Windows Operating System.

- i) **Recycle Bin** - A folder that stores deleted documents
- ii) **Multimedia** - The ability to relay information in different forms such as text audio video etc
- iii) **Graphical User Interface** - User friendly method of interacting with the computer system using on-screen images and point devices
- iv) **Taskbar** – A narrow strip of icons, usually located at the bottom of the screen, that show you which windows are currently open and that allows you to control functions e.g. start button

(b) Common ethics of accounting

- **Confidentiality** – accountant should not disclose financial information to a third party
- **Integrity** – to be honest in their financial dealings
- **Professional competence** – to be knowledgeable and experienced

(c) Using a practical example through explain when you would you use:

- **Absolute referencing.**
  - Absolute referencing refers to fixed cell references that do not change when copied or moved
  - Absolute referencing can be useful for maintaining consistent references to specific cells or ranges within a spreadsheet. Provide an example within the context of the startup's budgeting spreadsheet, such as:
    - Fixed Tax Rate: Explain how an absolute reference to the cell containing the tax rate (e.g., =\$D\$5) ensures that the same tax rate is applied consistently across all calculations, regardless of where the formula is copied or moved within the spreadsheet.
- **Relative referencing.**
  - Relative referencing refers to cell references that adjust automatically based on their relative position
  - The concept of relative referencing, where cell references adjust based on their relative position when copied or moved. Provide an example within the context of the startup's budgeting spreadsheet, such as:
    - Monthly Expenses: Explain how relative references to expense categories (e.g., =B6, =C6, =D6) allow formulas to automatically adjust when copied across different months, referencing the corresponding expense amounts in each month's column.

## SOLUTION FIVE

- (a) Name of a particular organization, Logo, corporate color, contact details of the organization, references
- (b) The characteristics of written communication are:
  - It has a record for future reference
  - Same message can be sent to multiple people
  - It required preparation time
  - It requires no immediate interaction,
- (c) Business letters are written in organizations for the following reasons:
  - To enquire important information
  - To apply for employment
  - To order goods and services.
  - To complain about a service or products
  - To recommend someone for a job.
  - To offer an apology on bad services
  - To make legal claims.
- (d) A letter is regarded as formal communication because:
  - It provides permanent record
  - It is written following a standard format
  - It represents a final thought of the writer
  - It provides a basis for action to be taken
- (e) A **letter of adjustment**- this is a reply to a letter of complaint.
  - (i) A letter of acknowledgement –a letter in response to Letters received or enquired
  - (ii) A covering letter- a letter that accompany an item sent
  - (iii) A letter of apology- a letter that expresses regret for a bad service.

## **SOLUTIONS SIX**

### **A. Importance of note taking**

- Improves focus and attention to detail
- Boosts comprehension and retention
- Keep records for future reference
- For future reference
- To show respect/ regard to the speaker

### **B. How some challenges affected a colleague**

- (i) Writing exact words from an oral source meant that the space at which he /she was writing was slow and couldn't catch up with the presenter who might have been very fast, as a result time was not saved due to long sentences that were written.
- (ii) Lack of using either common or personal abbreviation might have resulted into writing long sentences thus missing other points from the presenter.
- (iii) Physical noise – the noise distractions hindered communication resulting into writing wrong contents or even failing to take notes at all.

### **C. Examples of nonverbal communication that might be used to listen effectively.**

- Remaining silent during the listening experience to get all the incoming messages.
- Maintaining eye contacts to encourage the speaker to speak more
- Avoid distractions , showing the speaker the level of concentration
- Smiling and nodding to show that you are in agreement with the speaker and happy with the discussions.
- The idea of just writing quietly in point form without interrupting the speaker would mean that the listener is very much interested in the discussion.

## SOLUTION SEVEN

(a) Differences between a memo and letter

<b>Memorandum</b>	<b>Letter</b>
a) It is an internal document	a)Can be used both within and outside an organisation
b)May be distributed to multiple recipients simultaneously	b)Generally addressed to a specific individual or organisation
c)Language can be informal depending on the organisational culture	c)Requires formal language and adherence to professional writing standards
d) Has no salutation	d) Has a salutation
e) usually shorter consisting of a few paragraphs or bullet points	e)Comparatively longer depending on the content
f)No complimentary close	f) Complimentary close

(b) Emotional state of the receiver e.g anger, anxiety, sadness, happiness, etc leading to misinterpretation of information

- Lack of interest
- Lack of knowledge on the subject
- Preconceived notions
- Difference in language-the receiver may not have the ability to fully understand the message
- Illiteracy





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 5 COST ACCOUNTING

---

TUESDAY 10 DECEMBER 2024

---

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

---

**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
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**DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

## SECTION A – MULTIPLE CHOICE

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

### QUESTION ONE

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

- 1.1 BMK Ltd has the following budgeted and actual data for the year 2023.

Budgeted fixed overhead costs	K50,000
Budgeted production units	10,000
Actual fixed overhead cost	K55,000
Actual production units	9,750

Calculate the fixed overhead volume variance for BMK Ltd.

- A. K250 (F)
- B. K1,250 (A)
- C. K5,000 (F)
- D. K1,410(A)

(2 marks)

- 1.2 Which of the following best describes a variable cost per unit?

- A. A cost that changes in proportion with the level of activity.
- B. A cost that remains constant even if activity level changes.
- C. A cost that doubles when activity level changes.
- D. An irrelevant cost in decision making.

(2 marks)

- 1.3 Muma Ltd calculates the prices of Jobs by adding overheads to prime cost and adding 20% to total cost as profit. Job M010 was sold for K25,000 and incurred overheads of K11,500.

What was the prime cost of the job?

- A. K13,500
- B. K16,500
- C. K8,500
- D. K20,000

(2 marks)

1.4 A Hotel is best suited to use which of the following costing methods?

- A. Bed space per unit
- B. Service costing
- C. Guest per night
- D. Job costing

(2 marks)

1.5 GBM is paid per piece work hour produced. In a 35-hour week, he produced 2 units of product A and 4 units of product B. The rate of pay is K10 per piece work hour.

The time allowed per unit is:

- Product A     2.5 hours
- Product B     8.0 hours

The employee's pay for the week is:

- A. K340
- B. K12,950
- C. K370
- D. K630

(2 marks)

1.6. A cost identified with a unit produced during the period, included in the value of inventory, and treated as an expense for the period when inventory is actually sold is called:

- A. Product cost
- B. Period cost
- C. Fixed cost
- D. Relevant cost

(2 marks)

1.7 The accounting entries for the issue to production of indirect materials from inventory in a company operating an integrated accounting system would be:

**Debit**

- A. Overhead control
- B. Work in progress control account
- C. Cost of sales account
- D. Finished goods inventory account

**Credit**

- Stores control account
- Stores control account
- Finished goods inventory account
- Work in progress account

(2 marks)

- 1.8 The following information relates to a company's operations in April 2023:

Opening inventory	15,500 units
Closing inventory	17,000 units
Marginal costing profit	K425,250
Absorption costing profit	K477,750
Budgeted fixed costs	K918,750

Determine the budgeted level of activity in units

- A. 52,500
- B. 16,250
- C. 32,500
- D. 26,250

(2 marks)

- 1.9 The following details relate to component ZPP which is sold in boxes of ten (10) Components:

Ordering cost	K32 per order placed
Purchase price	K20 per box of 10 components
Holding cost	10% of purchase price
Monthly demand	1,500 components

What is the economic order quantity in boxes for the component to the nearest whole number?

- A. 22 boxes
- B. 219 boxes
- C. 69 boxes
- D. 155 boxes

(2 marks)

- 1.10 A Ltd produces three (3) products and one (1) by-product. In May 2023, A Ltd spent K270,500 to achieve the following results:

Product	Selling price per unit (K)	Output (Units)
A	18	10,000
B	25	20,000
C	20	20,000
D (By product)	2	3,500

Using the net sales revenue basis for sharing joint costs, what would be the cost per unit of product C?

- A. K4.70
- B. K4.88
- C. K5.00
- D. K5.10

(2 marks)

**[Total: 20 Marks]**

## SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions in this section.

### QUESTION TWO

Lubuto Ltd manufactures beds for students in a private hostel. The following information relates to the activities of the company from January to March 2023.

	<b>K</b>
Selling price per unit of product	20
Variable cost per unit of product	8
Fixed manufacturing overhead costs per month	3,000
Non-manufacturing costs per month	1,000

There was no opening inventory in January.

Normal production level in Lubuto Ltd is expected to be 2,000 beds per month, and production and sales for the period to March 2023 is presented below:

	<b>January</b>	<b>February</b>	<b>March</b>
Units sold	2,000	1,500	2,500
Units produced	2,000	2,000	2,000

#### **Required:**

- (a) Prepare a profit or Loss statement for Lubuto Ltd for each month based on the following methods:
- (i) Marginal costing system (8 marks)
  - (ii) Absorption costing system (8 marks)
- (b) For the purpose of control, responsibility centres may be grouped into four (4):
- (i) Cost Centre
  - (ii) Revenue Centre
  - (iii) Profit Centre
  - (iv) Investment Centre

#### **Required:**

Define each of the above responsibility centres.

(4 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) A University in Kitwe operates a large fleet of assorted motor vehicles through its transport department. The vehicles are used as need arises by various departments of the university. Each month a report is prepared by the transport department comparing actual results with budget. One of the items in the transport department's monthly report is the cost of motor vehicle maintenance which is either outsourced or carried out internally. In order to facilitate control, the University Senate has requested the Transport Manager to show motor vehicle maintenance costs analyzed into fixed and variable costs. Data for the six months from January to June are given below:

	<b><i>Maintenance cost (K)</i></b>	<b><i>Maintenance hours</i></b>
January	435,200	3,150
February	505,600	4,200
March	464,000	3,300
April	518,400	4,500
May	476,800	3,900
June	480,000	3,750

**Required:**

- (i) Calculate an estimate of the fixed cost and variable components of the motor vehicle maintenance costs using the high-low method. (6 marks)
- (ii) Explain the meaning of the term 'cost behaviour' (2 marks)
- (iii) Explain the difference between variable and fixed costs. (2 marks)
- (b) Hillcrest Limited makes a single product in process X. No losses occur during manufacture. At the start of January, 2,000 units were in progress and were 40% complete for conversion costs as well as being valued as follows:

	K
Direct Materials	45,000
Conversion costs	<u>22,000</u>
	<u>67,000</u>

Actual costs incurred in January were:

Direct materials	143,000
Conversion costs	<u>166,700</u>
	<u>309,700</u>

6,500 units were completed during the month of January, at the end of which 1,500 units were still in progress, only 60% complete for conversion costs.

**Required:**

- (i) Prepare a statement of equivalent unit (4 marks)
- (ii) Calculate the value of completed units (1 mark)

- (iii) Calculate the value of closing inventory (2 marks)
- (iv) Prepare process X account for the month of January (3 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) MGK Ltd provides jobbing services to a number of clients in the textile industry. The company is preparing a job cost estimate for the manufacture of student uniforms that will be used to provide a quotation to a potential customer (ABC Ltd). Estimated costs for the job are to be used based on the following:

Direct materials	K2,893
Direct Labour (K8 per hour)	210 hours

Direct production bonus =  $\left( \frac{\text{time allowed} - \text{time worked}}{\text{time allowed}} \right) \times \text{labour cost per job}$

Total time worked	3,400hrs
Time allowed	4,000hrs

Non production overheads are absorbed at 25% of total production cost.

Production overheads are absorbed at 20% of prime cost (including labour bonus) + K9 per direct labour hour.

NOTE: Quoted prices are calculated to provide MGK Ltd with a net profit margin of 20%.

#### **Required:**

- (i) Calculate the total estimated production cost of the job. (14 marks)
  - (ii) Calculate the price that should be quoted for the job. (4 marks)
- (b) List the four (4) characteristics that distinguish service costing from other costing systems. (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

CNK manufactures furniture that is mainly supplied to public institutions. In its production processes, CNK uses 1,670 Kgs of raw materials over a period of 1 month. The material is purchased for K2.50 per kg. The cost of placing an order with the supplier is K60 and the cost of holding a kg of the material is K0.375 per unit per annum.

#### **Required:**

- (a) Calculate, for CNK Ltd, the economic order quantity of the raw material. (5 marks)
- (b) Calculate the total holding cost of the material if the order quantity is 3,000kgs and buffer inventory is 1,000 kgs. (5 marks)



- (c) List three (3) examples of holding costs. (3 marks)
- (d) List three (3) examples of stock out costs. (3 marks)
- (e) Calculate the cost of closing inventory using the cumulative weighted average method (AVCO) of inventory valuation from the following information: (4 marks)

	<b>Kgs</b>	<b>Total cost(K)</b>
Balance b/f	900	10,800
Issues	400	
Receipts	1,000	12,600
Issues	260	
Issues	170	
Issues	370	

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Mpongwe Limited produces a spare part that is used in servicing mining equipment. The budgeted overheads related to activities involved in production include:

Material Procurement	K1,100,000
Materials Handling	K1,850,000
Set-up	K900,000
Maintenance	K2,650,000
Quality Control	K2,300,000
Machining	K3,600,000

The factors that cause a change in the cost of the overheads are:

Number of orders	4,500
Number of material movements	2,750
Number of set-ups	525
Maintenance hours	21,000
Number of inspections	8,500
Number of machine hours	125,000

A batch of 4,200 spare parts had a direct cost of K363,500 and usage activities as follows:

Material Orders	84
Material Movements	49
Set ups	22
Maintenance Hours	610
Inspections	90
Machine Hours	1,060

**Required:**

Using the principles of Activity Based Costing, calculate:

- (i) The cost driver rates for each activity (6 marks)
  - (ii) The cost of the batch of 4,200 spare parts (8 marks)
  - (iii) The cost per spare part (1 mark)
- (b) Activity Based Costing system eradicates some of the major deficiencies of traditional absorption costing system despite its own shortcomings.

**Required:**

State five (5) problems associated with Activity Based Costing system.

(5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

(a)

i) Profit statement using Marginal costing system.

	<u>January</u>		<u>February</u>		<u>March</u>	
	K	K	K	K	K	K
Sales Revenue		40,000		30,000		50,000
Opening inventory	0		0		4,000	
Production cost	16,000		16,000		16,000	
Closing inventory	( 0)		(4,000)		(0)	
Marginal Prod Cost		(16,000)		(12,000)		(20,000)
Contribution		24,000		18,000		30,000
Less: Expenses:						
Fixed manufacturing cost		(3,000)		(3,000)		(3,000)
Non-manufacturing cost		(1,000)		(1,000)		(1,000)
<b>Net profit</b>		<b>20,000</b>		<b>14,000</b>		<b>26,000</b>

ii) Profit statement using Absorption costing

	<u>January</u>		<u>February</u>		<u>March</u>	
	K	K	K	K	K	K
Sales Revenue		40,000		30,000		50,000
Opening inventory	0		0		4,750	
Production cost	19,000		19,000		19,000	
Closing inventory	( 0)		(4,750)		(0)	
Cost of sales		(19,000)		(14,250)		(23,750)
Gross Profit		21,000		15,750		26,250
Less: Expenses:						
Over/(under) absorption of Fixed overheads		0		0		0
Non-manufacturing cost		(1,000)		(1,000)		(1,000)
<b>Net profit</b>		<b>20,000</b>		<b>14,750</b>		<b>25,250</b>

### Workings:

1. Full cost per unit =  $K8 + (K3,000/2,000 \text{ units}) = K9.5 \text{ per unit}$

2. Over / under absorption of manufacturing costas

	January	February	March
	K	K	K
Fixed overheads	3,000	3,000	3,000
Overheads absorbed $K1.5 \times 2,000$	3,000	3,000	3,000
Over/ (under absorption)	0	0	0

(b)

i. Cost Centre

A cost Centre is a function or department within a company which is not directly going to generate revenues and profits to the company but is still incurring expenses to the company for its operations. A cost Centre is a Centre responsible for costs only.

ii. Revenue Centre

A revenue Centre is a Centre or an Operating unit of a business that is responsible for generating sales.

iii. Profit Centre

Profit Centre is a unit of a company that generates revenue and incurs costs, and is responsible for its own profits and loss.

iv. Investment Centre

Investment Centre is a profit Centre with additional responsibility for investing in assets.

### SOLUTION THREE

(a) (i) Calculation of an estimate of fixed costs and variable costs

- Determination of the variable cost per unit

	Costs (K)	Hours
High	518,400	4,500
Low	<u>435,200</u>	<u>3,150</u>
Difference	<u>83,200</u>	<u>1,350</u>

: . Variable cost per unit =  $K83,200 / 1,350 \text{ hours} = \textbf{K61.63}$

- Determination of fixed costs

	K
At 4,500 hours	
Variable costs (4,500 hours x K61.63)	277,335
Fixed Costs	<u>241,065</u>
Total costs	<u>518,400</u>
At 3,150 hours	
Variable costs (3,150 hours x K61.63)	194,135
Fixed Costs	<u>241,065</u>
Total costs	<u>435,200</u>

(ii) Meaning of cost behaviour

Cost behaviour is the way in which costs are affected by changes in the volume of output. The basic principle of cost behaviour is that as the level of activity rises, costs will usually increase.

(iii) The difference between variable and fixed costs

#### Variable costs

A variable cost is a cost which tends to vary directly with the volume of output. The variable cost per unit is the same amount for each unit produced. Usually, all direct costs such as direct materials and labour.

#### Fixed Costs

A fixed cost is a cost which tends to be unaffected by increases or decreases in the volume of output. Examples include rent, depreciation of machinery, salary of a supervisor, etc.

(b) (i) Statement of equivalent units

Item	Materials	Conversion Costs
Completed	6,500 units	6,500 units
Closing inventory	<u>1,500 units</u>	<u>900 units</u>
	8,000 units	7,400 units
Costs	K188,000	K188,700
Cost per element	<b>K23.5</b>	<b>K25.5</b>

Cost per unit **K49**

(ii) Value of complete units = 6,500 units x K49 = K318,500

(iii) Value of closing inventory

Materials = 1,500 units x K23.5 = 35,250

Conversion costs = 900 units x K25.5 = K22,950

Total = K58,200

(iv) Process X Account					
	Units	K		Units	K
Bal b/f	2,000	67,000			
Materials	6,000	143,000	Output	6,500	318,500
C/Costs		<u>166,700</u>	Closing WIP	<u>1,500</u>	
<u>58,200</u>					
	<u>8,000</u>	<u>376,700</u>		<u>8,000</u>	<u>376,700</u>

## SOLUTION FOUR

- (a) (i) Estimated production cost of the job

	K	K
Direct material		<u>2,893</u>
Direct labour:		
Basic (210 hours x K8)	1,680	
Bonus ((4,000 – 3,400) / 4,000 x K8 x 210 hours)	<u>252</u>	
		<u>1,932</u>
Prime cost		4,825
Production overhead:		
20% of prime cost (20% x 4,825)	965	
K9 per direct labour hour (K9 x 210)	<u>1,890</u>	
		<u>2,855</u>
Total production cost		<u>7,680</u>

- (ii) Price that should be quoted for the job

Total production cost	K
	7,680
Non-production overheads (25% x 7,680)	<u>1,920</u>
Total cost	9,600
Profit (9,600 x 20/80)	<u>2,400</u>
Selling price	<u>12,000</u>

- (b)
- Intangibility
  - Simultaneity
  - Heterogeneity



## SOLUTION FIVE

$$(a) \quad EOQ = \sqrt{\frac{(2 \times K \times 60 \times 20,040)}{K0.375}}$$

$$= \underline{2,532\text{Kgs}}$$

$$(b) \quad \text{Average Inventory} = 3000/2 + 1000 = 2500\text{Kgs}$$

$$\text{Holding Cost} = 2500\text{Kgs} \times K0.375 = \underline{\underline{K937.50}}$$

- (c)
- i. Insurance Costs
  - ii. Warehouse Costs
  - iii. Deterioration Costs
  - iv. Theft
  - v. Interest forgone

- (d)
- i. Loss of customer goodwill
  - ii. Lost sales (contribution)
  - iii. Cost of production stoppages

(e)

DETAILS	RECEIPTS			ISSUES			BALANCE		
	Unit	Unit Cost (K)	Total (K)	Units	Unit Cost (K)	Total (K)	Units	Unit Cost (K)	Total (K)
BALANCE	-		-	-	-	-	900	12	10,800
ISSUES	-	-	-	400	12	4,800	500	12	6,000
RECEIPTS	1,000	12.6	12,600	-	-	-	1,500	12.4	18,600
ISSUES	-	-	-	260	12.4	3,224	1,240	12.4	15,376
ISSUES	-	-	-	170	12.4	2,108	1,070	12.4	13,268
ISSUES	-	-	-	370	12.4	4,588	700	12.4	8,680

## SOLUTION SIX

(a) (i) ***Calculation of cost drivers for each activity***

Materials Procurement =  $K1,100,000/4,500$  orders  
= K244.44 per order

Materials Handling =  $K1,850,000/2,750$  Material Movements  
= K672.73 per movement

Set –up =  $K900,000/525$  set ups  
= K1,714 per set up

Maintenance =  $K2,650,000/21,000$  hours  
= K126 per maintenance hour

Quality Control =  $K2,300,000/8,500$  Inspections  
= K270.59 per inspection

Machining =  $K3,600,000/125,000$  machine hours  
= K28.80 per machine hour

(ii) Cost of the batch of 4,200 spare parts

	K
Direct costs	<u>363,500</u>
Overheads:	
84 material orders @ K244.44 per order	20,532.96
49 material movements @ K673.73 per movement	32,977.77
22 set ups @ K1,714 per set up	37,708.00
610 maintenance hours @ K126 per maintenance hour	76,860.00
90 inspections @ K270.59 per inspection	24,353.10
1,060 machine hours @ K28.80 per machine hour	<u>30,528.00</u>
	<u>222,959.83</u>
Batch cost	<u>586,459.83</u>

(iii) Cost per spare part =  $K586,459.83/4,200$  parts  
= ***K139.63***

(b) Although Activity Based Costing has numerous advantages over absorption costing systems, it has a number of problems including: -

- i. Complexity in the choice of cost drivers
- ii. The invariability of direct linear relationship between usage of cost drivers and amount of overheads.
- iii. Apportionment of overheads to cost pools is still based on arbitrary bases.
- iv. It may be expensive and costly to operate numerous cost pools and drivers.
- v. Difficulties in attributing or charging costs to single activities
- vi. Tracing difficulties as it is not apparent which product should carry the traced overheads.

## END OF SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL ONE

---

DA 6: BUSINESS LAW

---

FRIDAY 13 DECEMBER 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. Permanent secretaries belong to the ..... arm of the Government.
- A. Civil Service
  - B. Parliament
  - C. Judiciary
  - D. Executive
- (2 marks)
- 1.2. Which of the following is an example of a common mistake?
- A. Unknowingly buying something that belongs to you.
  - B. Each party believes that there is an understanding with the other and does not realize that there is a misunderstanding.
  - C. One party is mistaken and the other is aware of it.
  - D. Innocent misrepresentation when the contract is made.
- (2 marks)
- 1.3. In ..... ownership is transferred at a later date.
- A. A contractual agreement
  - B. An agreement to sale
  - C. A contract of sale
  - D. A conditional sale
- (2 marks)
- 1.4. Which of the following is not a duty of an employee?
- A. Pay remuneration
  - B. Obey lawful instructions
  - C. Personal performance of the contract
  - D. Duty not to delegate
- (2 marks)

- 1.5. .... is **not** an example of a crime?
- A. Murder
  - B. Rape
  - C. Theft
  - D. Breach
- (2 marks)
- 1.6. Which stage of law making is a bill debated in detail in parliament?
- A. Third reading
  - B. Committee stage
  - C. Second reading
  - D. Report stage
- (2 marks)
- 1.7. One of the rules governing consideration is that, 'Consideration must be sufficient'. This means that:
- A. It needs not be adequate.
  - B. Must be equal in value to the consideration received.
  - C. Must be capable in law of being regarded as consideration by courts.
  - D. Must not be illegal.
- (2 marks)
- 1.8. Where an employee is engaged under an oral contract of a period less than a week. The employer according to the Zambian Employment law must give him notice of termination of employment of up to:
- A. 12 hours notice
  - B. One (1) week notice
  - C. 24 hours notice
  - D. 14 days' notice
- (2 marks)
- 1.9. Which of the following is an example of a judicial way of dissolving a partnership?
- A. Death of a partner.
  - B. Mental incapacity of a partner.
  - C. Bankruptcy of an ordinary partner.
  - D. End of the period for which the partnership was formed.
- (2 marks)

1.10. One of the main purposes of an Arbitration Clause in a partnership deed is .....

- A. To reduce on the costs of litigation by settling matters outside court.
- B. To reduce the cost of litigation by settling matters in fast track courts.
- C. To avoid partners breaching their fiduciary duty to each other.
- D. To have the matters arbitrated upon by the partners or the courts of law.

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

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

### **QUESTION TWO**

Lameck Banda has been working for Eden Mining Limited based on the Muchinga Province of Zambia for the past five (5) years. He was on the 12 July, 2023 served with a letter of termination stating in part, *"you have been relieved of your duties forthwith and you shall receive six (6) months basic pay in lieu of notice....."* Lameck is perturbed with the action of the company and believes that his loss of employment is attributable to the altercation he had with his immediate supervisor regarding his promotion which he thought was long overdue. He threatens to institute legal action against the company and hopes to be reinstated. Meanwhile, Eden Mining Limited has amalgamated with Fix Diamond Mining Limited to form a giant mining company by the name of Gigantic Mining Limited with operations scheduled to start in Zimbabwe as well as South Africa.

Due to the huge scale at which the resultant mine will be operating, the management of the new mine has decided to hire new staff with the requisite skills suited for the new operations. The Managing Director has, however, directed that those willing to continue working for the company should be ready either to go for further skills training or be redeployed elsewhere where their current skills maybe needed. He further stated that for those choosing to be redeployed, he could not guarantee that the terms and conditions would be as good as those they enjoyed in their current positions. *"Change of management entails a lot of strategic repositioning in the market and may have adverse effects on the workers emoluments, this is inevitable,"* said the Managing Director. One excited worker by the name of David Kalumbo, calls his fellow workers by the side telling them that, "I can tell you something for free. My uncle is a lawyer, and what is happening and being suggested in this company constitutes firing of workers through the backdoor. But before we leave, we must demand for our benefits!" The information regarding the pending loss of employment has reached the union who has since given the Management of the company one week to rescind its decision, failure to which workers would proceed on strike. The union is of the view that before such a drastic decision was reached, it ought to have been informed so that it could be heard on the matter.

**Required:**

Citing relevant legal provisions and or case law, explain the circumstances an employer can dismiss an employee. In doing so, briefly explain the remedies available for a dismissed employee (20 marks)

**[Total 20 Marks]**

**QUESTION THREE**

Write brief notes on the following:

- (a) Invitation to treat (5 marks)
- (b) Condition (5 marks)
- (c) Partnership Deed (5 marks)
- (d) Employment Contract (5 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Misozi, Bwembya and Chipampe are in a partnership called Girls Shine (GS). The main business of the partnership is making and selling handbags branded 'Girls Shine – GS'. Their partnership deed provides that, "if any partner is guilty of misconduct, the majority partners must agree to expel that partner". Bwembya and Chipampe misused part of the money raised from the sale of handbags.

**Required:**

- (a) Misozi has come to you for help on whether she can expel the two partners from the partnership following their misconduct. With the aid of statute and or case law, explain to her whether she can do that or not? (10 marks)
- (b) GS handbags are sold at a market price of K3,000 per bag. A new customer by the name of Collins Ngoma sent an email to GS requesting to buy GS handbags at K2,500 each, but GS never replied and sold all the handbags to various customers. Collins Ngoma has come to you pissed by the actions of Girls Shine (GS).

Explain to him the legal implications, if any, of what GS did. (10 marks)

**[Total: 20 Marks]**



### **QUESTION FIVE**

Mr. C. Lombe bought a case of ginger beer drinks during a workshop from Mrs. S. Milupi a known supplier of the drink. After taking the bottles of soft drinks with his two friends Ms. F. Libinga and Mr. J. Kambakamba during a braai at his home, he discovered that there was a cockroach in one of the bottle of Ginger beer. Mr. Lombe had not opened and drunk from the bottle where there was a cockroach. As a result of this incidence, Mr. Lombe and his friends suffered from nausea a result of which they intend to sue the producers of the ginger beer for negligence.

#### **Required:**

- (a) Define the term negligence. (2 marks)
- (b) State the three (3) essential elements of a successful negligence action. (6 marks)
- (c) With the use of one (1) decided case, advise Mr. Lombe whether his negligence action against the producers of the ginger beer will be successful or not. (4 marks)
- (d) Explain four (4) remedies that will follow a successful tort action. (8 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) John offers to sell his car to Sarah for K100,000.00 Sarah accepts the offer and agrees to pay the amount. However, before the deal is finalized, John sells the car to someone else for a higher price.

#### **Required:**

- Advise Sarah as to whether she has any legal recourse in this situation. (12 marks)
- (b) Identify any four (4) sources of law in Zambia. (8 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

1.1. D

1.2. B

1.3. B

1.4. A

1.5. D

1.6. C

1.7. C

1.8. C

1.9. B

1.10. A

## SOLUTION TWO

An employer can dismiss an employee for reasons related to gross misconduct. No dismissal should contravene the provisions of the Employment Code Act or the Industrial and Labour Relations Act. Further, an employer can dismiss an employee for reasons related to the business in an instance where the employer's business ceases or diminishes a need for the employee to carry out work of a particular kind in the place where the employee was engaged. This is for reasons related to redundancy pursuant to section 55(1) of the Employment Code Act.

In the aforementioned circumstances, the employee is entitled to his wages and other accrued benefits due to the employee upon dismissal. With respect to the calculation of compensation, the Supreme Court of Zambia, in the case of ***Spectra Oil Zambia Limited V. Oliver Chinyama APPEAL NO. 18 OF 2018***, stated as follows:

"The case of ***Barclays Bank Zambia Pic V. Weston Luwi and Suzgo Ngulube*** is quite insightful in this regard. The Supreme Court observed that: *At common law the measure of damages for wrongful termination of the contract of employment is determined by the period of notice. The award is equivalent to the salary for the period of notice. However, there are exceptions. The case of Swarp Spinning Mills Limited v Sebastian Chileshe and Others (2002) Z.R 23 which Mr. Lukangaba cited, clearly sets out what some of the exceptions to the normal measure of damages are. At this stage, we take the liberty to correct Mr. Lukangaba's assertion that mental anguish is the only exception. What we said in that case is that the normal measure of damages is departed from where the circumstances and justice of the case so demand. Therefore, termination inflicted in a traumatic fashion causing undue distress or mental suffering is but one example. Loss of employment opportunities is another.*

An employee may be awarded either damages for 12 months' salary, including allowances or perquisites, or 24 months' salary as damages. Additionally, in the case of ***Zambia Railways Limited V. Oswell Simumba (1995) ZR 41***, the Court awarded 36 months' salary as damages.

In the recent case of ***Paul Mwenya Siame V. Industrial Development Corporation Limited and Attorney General Comp/IRC/LK/54/2017***, the Court awarded the complainant three months' salary as damages for unlawful and unfair dismissal.

The awarding of salary as damages is normally at the discretion of the Court.

Lameck Banda An employee) may bring a claim for discrimination, wrongful dismissal or breach of contract on the part of the employer

## **SOLUTION THREE**

### **(a) Invitation to Treat:**

An invitation to treat is an invitation for others to make an offer or start negotiations, rather than being an offer itself.

It is a preliminary communication that indicates a willingness to enter into negotiations or transactions but does not express a definite intention to be bound by any terms.

Examples include advertisements, displays of goods, auctioneer's invitations to bid, and price lists.

Acceptance of an invitation to treat creates an offer, which can then be accepted or rejected by the other party.

The distinction between an invitation to treat and an offer is important in contract law because only offers can be accepted to form a legally binding contract.

### **(b) Condition:**

A condition is an essential term of a contract that must be fulfilled for the contract to be valid and enforceable.

It goes to the root of the contract and directly affects the parties' obligations and rights.

Breach of a condition entitles the innocent party to terminate the contract and claim damages for any losses suffered as a result of the breach.

Conditions can be express (explicitly stated in the contract) or implied (implied by law or custom).

The distinction between conditions and warranties (lesser terms) is important in determining the remedies available for breach of contract.

### **(c) Partnership Deed:**

A partnership deed is a legal document that outlines the rights, duties, responsibilities, and obligations of partners in a partnership.

It serves as the governing document for the partnership, setting out the terms of the partnership agreement.

A partnership deed typically includes provisions regarding profit-sharing, decision-making, capital contributions, management responsibilities, dispute resolution, admission and retirement of partners, and dissolution of the partnership.

While not always legally required, a partnership deed is strongly recommended to clarify the terms of the partnership and prevent disputes among partners.

**(d) Employment Contract:**

An employment contract is a legally binding agreement between an employer and an employee that sets out the terms and conditions of employment.

It outlines the rights and responsibilities of the parties, including job duties, compensation, working hours, benefits, termination procedures, confidentiality obligations, and intellectual property rights.

Employment contracts can be written or oral, although written contracts are preferable as they provide clear evidence of the terms agreed upon.

The terms of an employment contract may be governed by statutory employment laws, collective bargaining agreements, or industry standards.

Breach of an employment contract may result in legal action, including claims for wrongful termination, breach of contract, or other employment-related disputes.

## **SOLUTION FOUR**

- (a) Misozi cannot expel the other two partners as the rules require that it's the majority partners to expel an ailing partner. The majority of the partners must agree to expel the partner. This was held to be the case in **Re A Solicitor's Arbitration (1962)** where it was held that a minority partner can only expel the majority through a joint action with other partners to make the majority decision.
  
- (b) The customer's letter was just a counter offer (**Hyde v Wrench (1840)**) as the GS bags were going for K3, 000 as opposed to his K2, 500 offer. The fact that they did not reply to the letter was in no way a sign that they accepted the offer from Collins Ngoma and were within the law by selling all the bags. By offering K2, 500, Collins rejected the offer from GS and they have no liability to supply him at that price. There was no contract; the counter offer was basically an invitation to treat to GS at a lower price than the handbags' market price.

## SOLUTION FIVE

(a) Define the term negligence.

**Negligence** is a breach of duty that a defendant has/had and as a result of the breach, damage is suffered by the Plaintiff"

(b) Outline the three (3) essential elements of a successful negligence action.

To succeed in an action for negligence the Plaintiff must prove:

- That the defendant was under a duty of care to him;
- That there has been a breach of that duty;
- and That as a result the Plaintiff has suffered damage

(c) With the use of one (1) relevant case, advise Mr. Lombe whether his negligent action will be successful or not.

**Damages for illness caused by nervous shock are usually recoverable:** If the shock is caused by **REASONABLE** fear for one's own safety or the safety of others. In the decided case of **DULIEU V. WHITE [1901] 2 K.B. 669** on the aspect of one's own safety: the Defendant negligently drove a van into a public-house. The Plaintiff, who was pregnant, was taken ill through fright and gave birth prematurely to an idiot. It was held that she could recover damage.

**Damages will be recoverable also in the event that it was reasonably foreseeable that a normally susceptible person would suffer shock by witnessing the accident in question,** the case of **OWENS V. LIVERPOOL CORPORATION [1939] 2 K.B. 394-** where a negligently driven train collided with a hearse and overturned the coffin. Four mourners following in a carriage suffered shock. The affected mourners recovered damage.

However, the Zambia judiciary has deviated from the old law as espoused in **Stevenson v Donoghue**. In the case of **MICHAEL CHILUFYA SATA MP v ZAMBIA BOTTLERS LIMITED (SCZ Judgment No. 1 of 2003)**, where the court held that;

Negligence is only actionable if actual damage is proved. There is no right of action for nominal damages.

There was no injury or damages caused to the appellant by the adulterated drink as he did not consume any part of it.

Therefore, Lombe and his friends may not be awarded damages by the court

## **SOLUTION SIX**

(a) The issue in this scenario is whether John's actions constitute a breach of contract and whether Sarah has any legal recourse.

In contract law, a valid contract is formed when there is an offer, acceptance, consideration, and an intention to create legal relations. Once an offer is accepted, it creates a binding contract between the parties. Breach of contract occurs when one party fails to fulfill their obligations under the contract.

In this scenario, John made an offer to sell his car to Sarah for K100,000.00 and Sarah accepted the offer by agreeing to pay the amount. This created a valid contract between John and Sarah. However, before the deal was finalized, John sold the car to someone else for a higher price. By doing so, John failed to fulfill his obligation under the contract with Sarah, which constitutes a breach of contract.

Based on the analysis, John's actions amount to a breach of contract. Sarah, as the aggrieved party, may have legal recourse against John for the breach. She could potentially sue John for damages to compensate for her losses, such as the difference between the agreed-upon price of k100,000.00 and the value of the car, or any other losses incurred as a result of John's breach of contract.

(b) The Constitution, Legislation, Judicial Precedent, Common Law, Equity, Customary Law, International Law and Text books.

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

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

## **SECTION A – COMPULSORY**

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

### **QUESTION ONE**

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

1.1. Policy formulation is the function of which level of management?

- A. Top level management
- B. Middle level management
- C. Operational management
- D. All of the above

(2 marks)

1.2. Management by Objectives were developed by .....

- A. Peter. F. Drucker
- B. Chester Bernard
- C. Fayol
- D. None

(2 marks)

1.3. Telling people what to do is also be referred to as.....

- A. Directing
- B. Motivating
- C. Supervision
- D. None

(2 marks)

1.4. Effective control depends on .....

- A. Proper direction
- B. Flow of communication
- C. Organization structure
- D. All of the above

(2 marks)

- 1.5. Which of the following is concerned with developing the employees in the present job?
- A. Man power planning
  - B. On-the –job-training
  - C. Job Description
  - D. None of these.

(2 marks)

- 1.6. What does the 'hierarchy' imply to you?
- A. Departmentalization
  - B. A definite ranking order
  - C. Specialization
  - D. None of these

(2 marks)

- 1.7 Which of the following is a special type of plan prepared for meeting the challenges of competitors and other environmental forces?
- A. Policies
  - B. Objectives
  - C. Strategy
  - D. Procedure

(2 marks)

- 1.8. Which one is a systematic way of handling regular events?
- A. Procedure
  - B. Rules
  - C. Policies
  - D. Strategy

(2 marks)

- 1.9. Who said that "Business ethics is related with the test of values or social values?"
- A. Mary Parkett
  - B. Lillian Gilberth
  - C. Peter Drucker
  - D. Elton Mayo

(2 marks)

1.10. The Physical Barriers to communication are .....

- A. Time and distance.
- B. Interpretation of words.
- C. Denotations.
- D. Connotations

(2 marks)

**[Total: 20 Marks]**

## **SECTION B**

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

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

### **QUESTION TWO**

- (a) Sepo Enterprise has engaged you as a Management Expert to conduct an orientation meeting for the newly employed Management Trainees.

**Required:**

In your presentation, explain five (5) functions the newly employed Management Trainees are expected to perform. (10 marks)

- (b) Explain the four (4) expected interests of the Government in a newly opened mining company. (4 marks)
- (c) List three (3) features of a Public Limited Company. (6 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Managers effectively execute their duties in a well structured organizational setting with clearly prescribed roles.

**Required:**

Outline five (5) bases on which an organization is expected to be structured.

(10 marks)

- (b) Explain five (5) ecological factors to be considered in formulating corporate strategic decisions. (10 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

Leadership is viewed from different perspectives; others value charisma, participative, authoritarian style and consensus opinion.

**Required:**

- (a) Explain the term leadership. (4 marks)
- (b) Outline six (6) Characteristics of a Leader. (12 marks)
- (c) List four (4) types of Leadership theories you are familiar with. (4 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) In relation to types of change, describe the following:
- (i) Transformation change (3 marks)
  - (ii) Incremental change (3 marks)
- (b) Recruitment and selection is not a single activity but a process that can be broken into three (3) key stages.

**Required:**

Identify and explain the three (3) stages in recruitment and selection.

(6 marks)

- (c) Describe the following strategies:
- (i) Corporate strategy (4 marks)
  - (ii) Business level strategy (4 marks)

**[Total: 20 Marks]**

### **QUESTION SIX**

- (a) Some studies have concluded that Emotional intelligence (EI) is a better indicator of an individual's leadership qualities than expertise or measure of cognitive intelligence (IQ).

**Required:**

Explain any three (3) component elements that good leaders demonstrate their Emotional intelligence. (6 marks)

- (b) State any four (4) benefits of delegation of authority. (4 marks)
- (c) It is said that participation in organization's activities is not enough to increase the levels of motivation.

**Required:**

Explain any five (5) factors to be taken into account in order to raise the levels of motivation as staff participates in business operations of an organization.

(10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

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

## SOLUTION TWO

- (a) The functions of the Management Trainees are
  - (i) **Planning:** which involves the setting of objectives/goals to be achieved as a department or an organization as a whole and the strategies to be used taking into consideration the business environmental factors.
  - (ii) **Organizing:** this involves putting the plans into practice by allocating the necessary resources required using the organization structure.
  - (iii) **Co-coordinating:** Ensuring that workers effort is directed towards the achievement of the common goal of the organization.
  - (iv) **Motivation:** Leadership positively influences employees towards the achievement of the goals by using both financial and non-financial rewards.
  - (v) **Controlling:** Measuring and correcting the activities of workers to ensure that performance is in line with the planned activities.
- (b) Interests of the government:
  - (i) To ensure that the mining company pays the correct amount of tax at the right time.
  - (ii) To comply with the labor laws.
  - (iii) To comply with the environmental laws.
  - (iv) To provide corporate social responsibility to the local community.
- (c) Features of a Public Limited Company:
  - (i) It has a minimum ownership of two and no maximum.
  - (ii) Shares are traded on the Stock Exchange Market.
  - (iii) The name of a Public Limited Company ends with PLC.
  - (iv) There is no legal restriction on the transfer of shares from one shareholder to the other.



### **SOLUTION THREE**

(a) The basis of forming an organizational structure are:

- (i) The primary goal of the organization: the structure must direct activities towards the attainment of the organizational goal.
- (ii) External Environment: These are variables in the business environment that may change and ultimately affect the structure of the organization.
- (iii) Size of the organization: Size has obvious implications for organization structure. In small organizations the need for a formal structure does not attract much attention. However, increasing size associated with problems of execution of work and management staff, there are likely to be more formalized relationships and greater use of rules and standardized procedures.
- (iv) Technology: operation and production technology. In manufacturing companies' technology employed relate to the type of production: batch, mass or process.
- (v) Tasks to be performed by employees and departments.

(b) Ecological and environmental factors:

- (i) Strategic plans or decisions must comply with the various environmental laws of the country.
- (ii) Must consider the use of renewable and clean energy in the production of goods such solar or hydroelectricity energy.
- (i) In its strategic decisions must consider use of production technology that is environmentally friendly.
- (ii) Must use packaging materials that are biodegradable.
- (iii) Must promote activities that protect and preserve the environment such as planting of trees and nonuse of toxic chemical that have a negative effect on the environment.

## **SOLUTION FOUR**

- (a) 'Leadership' is the process of influencing the behaviour of others towards the accomplishment of goals in a given situation.

'Leadership' is the ability to influence others and enthusiastically making them to achieve the desired results.

'Leadership' is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent.

- (b) Characteristics of a leader include:

1. Inspires trust
2. 'Does the right thing'
3. Innovates and develops
4. long-term in outlook
5. Envisioning
6. Behaviour modelling
7. Involving
8. Promoting learning
9. Promotes Team-building
10. Leadership Produces
11. Tends to produce Change
12. Spend time and effort aligning people so that they understand and accept their visions and strategy

- (c)

1. Great man theory
2. Trait theory
3. Behavioral theory
4. Transformational theory
5. Transactional theory
6. Path Goal theory

## **SOLUTION FIVE**

### **(a) i. Transformation change**

This is major change that requires substantial reorganisation or restructuring of the organisation and has huge impact on the organisation, people within, other stakeholders and on its operations. This requires special management skills to manage it.

### **ii. Incremental change**

This involves small gradual changes over time. This is not normally noticed and is easy to manage as has no serious problems. Therefore, the impact of change on the organisation and people is minimal.

### **(b). Recruitment and selection stages**

#### **1. Defining requirements**

This involves preparing job description, job specifications and person specifications

#### **2. Attracting applicants**

This involves notifying people about the job vacancy in some way such as advertising the job, engaging a specialist recruitment agency etc. and receiving of the applications.

#### **3. selecting**

Finally, appropriate candidates for the job are selected from among applicants using various selection tools such as interviews, aptitude tests etc.

### **(c) (i) Corporate strategy**

This is the long-term overall strategy for the entire organisation concerned with the type of business the organisation is in and developed at top level management. It determines the overall purpose and scope of the organisation and how value will be added to different parts of the business.

### **(ii) Business level strategy**

This is concerned with how an organisation will approach a market. That is, it is concerned with how the organisation will compete in a particular market. Therefore, it involves making decisions about how to compete in the market, nature of the products, the market should serve etc.

## **SOLUTION SIX**

(a) Any Three (3) correct elements of EI of the following responses:

- (i) **-Self-awareness:** usually shown by self-confidence, the ability, the ability to make realistic.
- (ii) **Self-assessments and some sense of humor** -Demonstrated by trustworthiness, integrity and willingness to accept change.
- (iii) **Self-motivation** - demonstrated by a drive to achieve, optimism and a high level of commitment to the organization.
- (iv) **Empathy-** demonstrated by expertise in building and retaining talent in junior staff. A sense of cross cultural issues and providing a service to clients and customers.
- (v) **Social Skills** - demonstrated by an ability to lead efforts to make changes in skills , persuading others and expertise in building and leading teams.

(b) **The benefits of delegation are:**

- (i) It saves managerial time. – less important matters allow senior managers to give more time to strategic issues and others issues of greater importance.
- (ii) Limited time of senior managers- if work is not delegated, there would be too much work or senior managers affecting the efficiency of work operations.
- (iii) It provides an opportunity for staff training and development. This tests the suitability for future roles.
- (vi) Staff can be motivated to be part of decision making process at a higher level.
- (v) It assists to promote decision making at a local level, especially for organizations that are geographically spread.
- (vi) It enables both the managers and junior staff to play their roles effectively towards organizational achievement.

(c) **Factors to consider in order to achieve high levels of motivation**

- (i) Participation should be used only to a certain degree of importance, however if the employee perceives the matter to be of no value or less important, it is likely that the employee's level of motivation will still be low.
- (ii) There is need for feedback to be given to employees all the time and as soon as possible on the outcome of their participation.

- (iii) The participation must be genuine. When staff are asked to participate in work activities, further action should be taken in the light of their involvement.
- (iv) Employees should only be involved in relevant decisions where they have experience and knowledge' anything outside the scope of staff can sometimes just demotivate them.
- (v) Employees should only be involved in decisions for which they have the ability, equipment and willingness to be involved.

## **END OF 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 DECEMBER 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.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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## SECTION A

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

### QUESTION ONE

You are the Accountant of Panza Group Plc. The draft statements of financial position as at 31 March, 2024 for the three (3) companies that make up the group are given below:

	Panza	Sunda	Aka
	K' 000	K' 000	K' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, Plant and Equipment	100,000	40,000	30,000
Investments	<u>50,000</u>	<u>-</u>	<u>-</u>
Total non-current assets	<u>150,000</u>	<u>40,000</u>	<u>30,000</u>
<b>Current assets</b>			
Inventory	10,000	9,000	2,600
Trade Receivables	6,400	4,200	2,200
Bank	<u>-</u>	<u>3,000</u>	<u>1,800</u>
Total current assets	<u>16,400</u>	<u>16,200</u>	<u>6,600</u>
<b>Total assets</b>	<u>166,400</u>	<u>56,200</u>	<u>36,600</u>
<b>Equity</b>			
Equity shares K1 each	80,000	20,000	16,000
Share Premium	30,200	3,000	13,000
Retained earnings	<u>23,000</u>	<u>13,000</u>	<u>2,800</u>
	<u>133,200</u>	<u>36,000</u>	<u>31,800</u>
<b>Non-current liabilities</b>			
10% Loan notes	16,000	10,000	2,000
<b>Current liabilities</b>			
Trade Payables	4,800	6,400	1,800
Taxation	4,600	3,800	1,000
Bank overdraft	<u>7,800</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>17,200</u>	<u>10,200</u>	<u>2,800</u>
<b>Total equity and liabilities</b>	<u>166,400</u>	<u>56,200</u>	<u>36,600</u>

**The following notes below are relevant:**

1. On 1 April 2023, Panza acquired 70% ordinary shares in Sunda. The consideration was made up of:
  - (a) a share for share exchange of 1 share in Panza for every 4 shares in Sunda and
  - (b) a deferred consideration to be paid in exactly two (2) years' time. The value of the deferred consideration amounted to K4,700,000 on 1 April 2023.

The annual cost of capital of Panza is 10%. The market value of one (1) share of Panza and Sunda on 1 April, 2023 was K5 and K3 respectively.

None of the above forms of consideration have been recorded by Panza.

2. The non-controlling interest is to be measured at fair value. The market price per share of Sunda on 1 April, 2023 is deemed to be representative of the fair value of the non-controlling interest.
3. At the date of acquisition, the carrying values of Sunda assets were equal to their fair values with the exception of plant and equipment whose fair value was K2,500,000 more than the carrying value. The plant and equipment had a remaining useful life of five (5) years at the date of acquisition and it is depreciated on a straight-line basis.
4. On 1 December 2023, Panza acquired 35% of the shares in Aka for K4 each. This cash payment is included in the investments value. The investments value also includes investment property of Panza, which has been accounted for correctly.
5. The retained earnings of Sunda on 1 April, 2023 were K10,000,000 and the retained earnings of Aka on 1 December, 2023 were K1,600,000.
6. In the post-acquisition period, Panza sold goods to Sunda at a mark-up of 25%. At the year-end, inventory worth K5,000,000 (at cost to Sunda) received from Panza was still in the closing inventory of Sunda.
7. The current account balance of Panza in the books of Sunda was K800,000 but Panza recognized a balance of K1,000,000. The difference in the current accounts is due to a cheque in transit which Panza did not receive on the last day of the financial year.
8. As at 31 March 2024, goodwill in Sunda was impaired by K700,000 and investment in Aka was not impaired.

**Required:**

Prepare the consolidated statement of financial position for Panza Group as at 31 March, 2024 according to IFRSs/IASs requirements.

(25 marks)

**[Total: 25 Marks]**



## **QUESTION TWO**

The following information has been extracted from the books of accounts of Banja Ltd as at 31 December 2023.

	Dr	Cr
	K' 000	K' 000
Administration expenses	1,210	
Cash at Bank	735	
Lease rental	50	
Cash received on sale of Fittings		15
Corporation tax (over-provision for the previous year)		50
Deferred tax		300
Fixtures, Fittings, tools and Equipment at cost	1,700	
Allowance for Depreciation on Fixtures, Fittings, tools and Equipment (1 January 2023)		660
Distribution costs	275	
Factory closure costs	150	
Retained earnings (1 January 2023)		200
Purchase of Equipment	300	
Purchases	4,275	
Sales		7,500
Ordinary shares of K1 each		2,500
Inventory (1 January 2023)	350	
Trade Payables		320
Trade Receivables	<u>2,500</u>	<u>          </u>
	<u>11,545</u>	<u>11,545</u>

### **Additional Information:**

1. The inventory at 31 December 2023 was estimated to be worth K500,000.
2. Fixtures, fittings, tools and equipment all related to administrative activities. Depreciation is charged on them at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal. During the year to 31 December 2023, the company purchased K300,000 worth of equipment. The company also sold some fittings (which had originally cost K100,000) for K15,000 and for which depreciation of K75,000 had been allocated to the period of use.
3. The corporation tax based on the profits for the year at a rate of 35% is estimated to be K500,000. The deferred tax balance is to increase to K500,000 at the end of the year.
4. Banja entered into a three (3) year lease agreement renting production plant from a third party on 1 January 2023. Under the contract, Banja is obliged to pay a rental of K50,000 per annum on 31 December each year over the lease term. The rent due on 31 December 2023

has been paid and is included in the trial balance above. No other entries have been made in respect of the lease. The interest implicit in the lease is 10% per annum. The plant had a remaining useful economic life of 5 years at 1 January 2023.

**Required:**

- (a) Prepare Banja Ltd's statement of profit or loss for the year ended 31 December 2023. (9 marks)

- (b) Prepare Banja Ltd's statement of financial position as at 31 December 2023. (7 marks)

Note: round off your answers for parts (a) and (b) to the nearest thousand.

- (c) IAS 37 Provisions, contingent liabilities and contingent assets sets out the principles of accounting for these items and clarifies when provisions should and should not be made. Prior to its issue, the inappropriate use of provisions had been an area where companies had been accused of manipulating the financial statements and of creative accounting.

- (i) Explain why there is a need for an accounting standard in this area. Illustrate your answer with three practical examples of how the standard addresses controversial issues. (6 marks)

- (ii) Explain the difference between a provision and a contingent liability. (3 marks)

**[Total: 25 Marks]**

## SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

### QUESTION THREE

Muleleni is a shareholder in Nasa Ltd. He wishes to assess the effectiveness of the management in using its resources. He has asked you (as an accountant) to assist him by analyzing the financial statements of the company for the last two (2) years. The financial statements of Nasa Ltd are set out below.

Nasa Ltd's Statements of Profit or Loss for the year ended 31 December:

	<b>2023</b>	<b>2022</b>
	K' 000	K' 000
Sales	24,500	22,500
Cost of sales	<u>(12,985)</u>	<u>(12,375)</u>
Gross profit	11,515	10,125
Distribution costs	(6,125)	(2,360)
Administration expenses	<u>(2,450)</u>	<u>(3,375)</u>
Profit from operations	2,940	4,390
Finance costs	<u>(805)</u>	<u>(280)</u>
Profit before tax	2,135	4,110
Income Tax expense	<u>(320)</u>	<u>(280)</u>
Profit for the year	<u>1,815</u>	<u>3,830</u>

Nasa Ltd's

Statements of Financial Position as at 31 December:

	<b>2023</b>	<b>2022</b>
	K' 000	K' 000
<b>Non-current assets:</b>		
Property, Plant and Equipment at valuation	40,205	31,000
<b>Current assets:</b>		
Inventories	3,245	1,735
Trade Receivables	1,960	2,025
Cash and cash equivalents	<u>0</u>	<u>395</u>
	<u>5,205</u>	<u>4,155</u>
Total Assets	<u>45,410</u>	<u>35,155</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary shares of K1 each	12,500	12,500
Retained earnings	<u>18,705</u>	<u>16,890</u>
	<u>31,205</u>	<u>29,390</u>

**Non-current liabilities:**

Bank loans	11,500	4,000
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**Current liabilities:**

Trade Payables	1,430	1,485
Income Tax liabilities	320	280
Bank overdraft	<u>955</u>	<u>0</u>
	<u>2,705</u>	<u>1,765</u>
Total Equity and Liabilities	<u>45,410</u>	<u>35,155</u>

**Additional information:**

- During the year ended 31 December 2023, Nasa Ltd disposed of some old plant at a substantial loss and replaced it with new plant so as to increase productivity. The new plant was partly financed by a loan.
- During the year ended 31 December 2023, Nasa Ltd embarked on a program of revising credit terms for its customers by reducing the credit period in a quest to reduce the rate at which customers default.

**Required:**

- (a) Compute the following ratios based on the above financial statement extracts:

- Return on Capital Employed (ROCE)
- Acid Test Ratio
- Trade Receivables collection period in days
- Trade Payables payment period in days
- The Gearing Ratio

(10 marks)

- (b) Prepare a report that comments on the relative financial performance and position of the company over the two (2) years based on the ratios calculated in (a) above.

(15 marks)

**[Total: 25 Marks]**

## **QUESTION FOUR**

You have been presented with the following IFRS related problems presented to you by four clients of your firm. The clients are seeking professional guidance from you.

### **Mwala Plc**

Mwala Plc bought loan notes with a nominal value of K100,000 for K96,394 on 1 January 2023, incurring transaction costs of K450. The loan notes carry interest paid annually on 31 December of 4% of nominal value. The directors have elected to hold the loan notes to maturity. The loan notes are redeemable at par upon maturity. The effective interest rate of the loans is 5.2%. The Directors wish to know how to classify, initially measure and subsequently measure the loan notes above for the year ended 31 December 2023 in accordance with IFRS 9 *Financial Instruments*. (8 marks)

### **Lusungu Holdings**

Lusungu holdings wishes to lease out one of its Tipper Truck on a three-year contract. The economic useful life of each Tipper Truck according to management policy is five (5) years. You are further informed that once the truck is leased out, the lessor will be responsible for the general maintenance and insurance costs relating to the asset. Lusungu Holdings reserves the right to recall the Tipper truck should need arise at any time in the near future. The directors of Lusungu are seeking your guidance on effects of the transaction above on the financial statements in accordance with IFRS 16 *Leases*. (5 marks)

### **Mweetwa Farms Limited**

Mweetwa farms Limited is planning to expand operations by growing Mango and Orange fruits for onward supply to the local and national market. The directors have information that such a move will require comprehensive initial consultancy on the treatment of bearer plants. The directors would like to know the difference between bearer plants and other biological assets with reference to initial and subsequent measurements according to IAS 41 Agriculture. (6 marks)

### **Salifyanji Mining Limited**

Salifyanji Limited operates in a capital-intensive mining sector and has benefited from several tax incentives in the recent past. The company is currently sitting on K5 million worth of carry forward business losses. The tax jurisdiction permits a business to carry forward business losses for a period not exceeding five years and directors are not certain about when the company will break even. However, the directors feel this is the right time to recognize any deferred tax relating to carry forward tax losses before any adverse changes in tax legislation set in. The Directors would like to know whether their proposal is in line with IAS 12. (6 marks)

### **Required:**

Using appropriate IFRSs, explain how the above transactions will be treated in the financial statements of the four clients. **[Total: 25 Marks]**

### **QUESTION FIVE**

- (a) The establishment of the international public sector accounting standards board (IPSASB) speaks to the need for reliable and consistent accounting practices within the public sector. Simply put, the public sector has unique accounting needs and the development and adoption of a suitable public sector framework is logically progressive.

**Required:**

- (i) Explain two (2) differences between private sector and the public sector accounting objectives. (4 marks)
- (ii) Explain three (3) objectives of the international public sector accounting standards board. (6 marks)
- (b) Mr Jere, a renowned legal expert has approached you for advice on revenue recognition matters. He is aware that there is a comprehensive standard which stipulates the recognition, measurement, classification and disclosure of revenue that he needs for more details.

**Required:**

- (i) Briefly explain to Mr Jere, the five-step model for revenue recognition in accordance with IFRS 15 Revenue from Contracts with Customers. (10 marks)
- (ii) A sale is deemed to have occurred when **control** of the promised goods or services move to the customer.

Explain five (5) indicators that show that a sale has taken place in line with IFRS 15. (5 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA 8: FINANCIAL REPORTING SUGGESTED SOLUTIONS

### SOLUTION ONE

#### Panza Plc. Group statement of financial position for the year ended 31 March, 2024

<b>Assets:</b>	<b>K'000</b>
<b>Non-current assets:</b>	
Property, Plant and Equipment [100,000+40,000+2,500 w2 -500 w2]	142,000
Goodwill w3	4,000
Associate w7	22,820
Other investments –Investment property [50,000-22,400 w7]	<u>27,600</u>
Total non-current assets	<u>196,420</u>
<b>Current assets:</b>	
Inventory [10,000+9,000-1,000 w4]	18,000
Trade Receivables [6,400+4,200-1,000 w8]	9,600
Bank [3,000+200 w8]	<u>3,200</u>
Total current assets	<u>30,800</u>
<b>Total assets</b>	<u><b>227,220</b></u>
<b>Equity:</b>	
Equity shares [80,000+3,500 w9]	83,500
Share premium [30,200+14,000 w9]	44,200
Retained Earnings w5	<u>23,210</u>
	<u>150,910</u>
Non Controlling interest w6	18,540
<b>Non-current liabilities:</b>	
10% Loan notes [16,000+10,000]	26,000
Deferred consideration [4,700+470 w5]	<u>5,170</u>
	<u>31,170</u>
<b>Current liabilities:</b>	
Trade Payables [4,800+6,400-800 w8]	10,400
Tax [4,600+3,800]	8,400
Bank overdraft	<u>7,800</u>
	<u>26,600</u>
<b>Total equity and liabilities</b>	<u><b>227,220</b></u>

**Workings:****K' 000**

W1: Group structure: Panza 70% in Sunda, NCI 30% Panza 35% in Aka

**W2: Net assets table of Subsidiary:**

	@acq	@B/Sheet date
Equity shares	20,000	20,000
Share premium	3,000	3,000
Retained Earnings	10,000	13,000
FV adjustments:		
Plant and Equipment	2,500	2,500
Dep [2,500/5yrs]	<u>-----</u>	<u>(500)</u>
	<u>35,500</u>	<u>38,000</u>

Post-acquisition

R/Earnings 38,000 – 35,500 = 2,500

Panza 2,500 x 70% = 1,750

NCI 2,500 x 30% = 750

**W3: Goodwill @ acquisition:**

FV of consideration:

Shares = 20,000 shares x 70% x 1/4 = 3,500 @ K5	17,500
Deferred consideration	4,700
NCI = 20,000 shares x 30% = 6,000 @ K3	18,000
Less FV of net assets @ acq	<u>(35,500)</u>
Goodwill @ acq	4,700
Goodwill impaired	<u>(700)</u>
Goodwill @ SOPF	<u>4,000</u>

**W4: Unrealised profit: Panza sold goods:**

URP 5,000 x 25/125 = 1,000

Panza = - 1,000 Inventory = - 1,000

**W5: Group R/Earnings**

Panza fig	23,000
Post acq retained earnings of Sunda w2(70%*2,500)	1,750
URP w4	(1,000)
Goodwill impaired 700 x 70%	(490)
Interest on deferred consideration [4,700@10%]	(470)
From Aka [2,800 - 1,600] x 35%	<u>420</u>
	<u>23,210</u>

ALTERNATIVE WORKING:**GROUP RETAINED EARNINGS**

	<u>PANZA</u>	<u>SUNDA</u>	<u>AKA</u>
Per financial statements	23,000	13,000	2,800
Less pre acquisition retained earnings		<u>(10,000)</u>	<u>(1,600)</u>
Unadjusted post acquisition retained earnings		3,000	1,200
Fair value depreciation		<u>(500)</u>	
Adjusted post acquisition retained earnings		2,500	
Unwinding of discount (910%*4,700)	(470)		
<u>Share of Sunda (70%*2,500)</u>	<u>1,750</u>		
<u>Share of Aka (35%*1,200)</u>	<u>420</u>		



<u>Goodwill impairment loss (70%*700)</u>	<u>(490)</u>
<u>total</u>	<u>23,210</u>

**W6: NCI**

@acq w3	18,000
From Sunda w2	750
Goodwill impaired                      700 x 30%	<u>(210)</u>
	<u>18,540</u>

**W7: Carrying amount of Investment in Associate: Aka**

@acq = 16,000 shares x 35% x K4	22,400
Post-acq w5	<u>420</u>
	<u>22,820</u>

W8: Inter-company debt

Receivables = - 1,000              Payable = - 800              Bank = + 200

W9: Shares consideration:

Equity shares: 3,500 shares @ K1 = 3,500.              Share premium: 17,500 – 3,500 = 14,000

## SOLUTION TWO

- (a) Banja Ltd's  
Statement of Profit or Loss for the year ended 31 December 2023.

	K' 000	K' 000
Sales		7,500
Cost of sales (w1)		<u>(4,166)</u>
Gross Profit		3,334
Less: Administrative expenses (w3)	1,600	
Distribution expenses	275	
Costs of Discontinued operations (factory closure)	<u>150</u>	<u>(2,025)</u>
Operating Profit		1,309
Finance costs		<u>(12)</u>
Operating profit		1,297
Taxation (w4)		<u>(650)</u>
Profit after tax		<u>647</u>

- (b) Banja Ltd's  
Statement of Financial Position as at 31 December 2023

	K' 000	K' 000	K' 000
<u>NON-CURRENT ASSETS:</u>			
PPE(W2.)	1,900	965	935
ROUA (W4.)			83
<u>CURRENT ASSETS</u>			
Inventory		500	
Trade Receivables		2,500	
Bank		<u>735</u>	<u>3,735</u>
Total assets			<u>4,753</u>
<u>EQUITY AND LIABILITIES</u>			
<u>EQUITY</u>			
Ordinary shares of K1 each		2,500	
Retained earnings (200 + 647)		<u>847</u>	3,347
<u>NON-CURRENT LIABILITIES</u>			
Deferred tax (300 + 200)		500	
Lease liability		45	545
<u>CURRENT LIABILITIES</u>			
Trade Payables		320	
Lease liability		<u>41</u>	
Taxation		<u>500</u>	<u>861</u>
			<u>4,753</u>

(c) (i) The need for IAS 37.

Although provision has been a key area of financial reporting for many years, IAS 37 was the first standard to address this issue. Before IAS 37, there were no rules governing provisions in respect of definition, recognition, measurement, use and presentation. IAS 37 was issued to guide on these areas. IAS 37's definition of a provision as a liability of uncertain timing or amount means that provisions must meet the recognition criteria for liabilities. This means that provisions cannot be created to suit management needs. In the past, provisions were often created and released in order to smooth profits, rather than to provide for a specific liability.

A specific example of this was the creation of provisions for reorganization or restructuring. The charge to set these provisions up could be explained away by management to their investors as one-off exception items, but the release of the provision in the future would boost profits. Under IAS 37, provisions for restructuring can only be recognized if the restructuring has begun or if the restructuring has been announced publicly. The measurement rules have standardized practice in an area where there were genuine differences of opinion.

Under IAS 37 provisions can only be used for the purpose that they were created for: if a provision is no longer needed, it must be released. In the past, provisions were sometimes created for one purpose and then used to cover the costs of another.

IAS 37 includes detailed disclosure requirements, including the movement on provisions during the year and an explanation of what each provision has been created for. This ensures that the rules set out above have been complied with.

(ii)

- A provision, as defined by IAS 37, is a liability of uncertain timing or amount i.e. there is UNCERTAINTY about the timing or amount of the future expenditure.
- A contingent liability, as defined by IAS 37 is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. This liability is not recognized in financial statements but disclosed under the accompanying note while the provision is recognized in the financial statements.

### **Workings**

1.		K '000
Cost of sales: Opening inventory		350
purchases		4,275
Amortisation of ROUA		41
	Less Closing inventory	<u>500</u>
	Cost of sales	<u>4,166</u>
2.	Depreciation on NCA	K '000
	Cost at start	1,700
	Additions	<u>300</u>
		2,000
	Disposals	<u>(100)</u>
		1,900
	Depreciation charge $20\% \times 1,900 = 380$	
	Add loss on Disposal – Net Book Value $100 - 75 =$	25
	Bank	<u>15</u>
	Loss on Disposal	10

$$\therefore \text{Accumulated Depreciation Balance} = 660 + 380 - 75 = 965$$

3.	Total Administrative Expenses		K '000
	As per Trial Balance		1,210
	Add: Depreciation on NCA		380
	Loss on Disposal		<u>10</u>
			<u>1,600</u>
4.			K
	Taxation: Corporation tax at 35% (given)		500
	Transfer to Deferred		<u>200</u>
			700
	Less over provision from last year		<u>(50)</u>
			<u>650</u>
5.	Lease amounts:		
	Initial lease liability/ROUA	50x2.487	<u>124</u>
	Total liability at 31.12.2023	50X1.736	86
	Current portion	50X0.909	41
	Non current portion	50X0.826	41
	Amortisation charge for ROUA	124/3	41
	Carrying amount of ROUA at 31.12.2024	124X2/3	83

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## SOLUTION THREE

### REPORT

TO: Muleleni.

FROM: Accountant

SUBJECT: RELATIVE PERFORMANCE OF NASA LTD

As instructed by you, I have analyzed the financial performance of Nasa Ltd for the given two years. It should be borne in mind that financial ratio analysis is only partial information. There are many other factors which will be borne in mind before a decision can be taken.

(a) The following formulas will be used as requested.

$$(i) \text{ ROCE} = \frac{PBIT}{CE} \text{ or } \frac{\text{Profit before Interest and tax}}{\text{Capital Employed}} \times \frac{100}{1}$$

$$(ii) \text{ Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inv}}{\text{Current Liabilities}}$$

$$(iii) \text{ Trade Receivables collection period in days} = \frac{\text{Trade Receivables}}{\text{Sales}} \times \frac{365}{1}$$

$$(iv) \text{ Trade Payables Payment period in days} = \frac{\text{Trade Payables}}{\text{Cost of Sales}} \times \frac{365}{1}$$

$$(v) \text{ Gearing} = \frac{\text{Long-term borrowing}}{\text{Capital Employed}} \times \frac{100}{1}$$

Calculation of the above ratios.

	2023	2022
(i) ROCE	$\frac{2,940}{42,705} \times \frac{100}{1} = 6.88\%$	$\frac{4,390}{33,390} \times \frac{100}{1} = 13.15\%$
(ii) Acid Test Ratio	$\frac{1,960}{2,705} = 0.72 : 1$	$\frac{2,420}{1,765} = 1.38 : 1$
(iii) Trade Receivables collection period	$\frac{1,960}{24,500} \times \frac{365}{1} = 29.2 \text{ days}$	$\frac{2,025}{22,500} \times \frac{365}{1} = 32.85 \text{ days}$
(iv) Trade Payables Payment period	$\frac{1,430}{12,985} \times \frac{365}{1} = 40.2 \text{ days}$	$\frac{1,485}{12,375} \times \frac{365}{1} = 43.8 \text{ days}$
(v) Gearing Ratio	$\frac{11,500}{42,705} \times \frac{100}{1} = 26.93\%$	$\frac{4,000}{33,390} \times \frac{100}{1} = 11.98\%$

(b) Relative Performance

- ROCE: There is a significant decrease from 2022 ratio of 13% to 7% in 2023. This could be attributed to the increase in distribution costs by over 150%. Further, the loss incurred on disposal of plant which may not have occurred in the previous year may have contributed to the reduction in operating profit and hence the ROCE. Alternatively, the purchase of new plant that may have had the carrying amount higher than that of the disposed plant may have increased the capital employed hence reducing the ROCE.
- Acid Test ratio: This ratio also decreased from 1.38: 1 in 2022 to 0.72 : 1 in 2023. This decrease in the ratio indicates a liquidity problem in Nasa Ltd. The movement in cash and cash equivalent from positive to Bank overdraft is not a healthy position. In addition, the greater portion of current assets is in inventory which when taken out leaves small size of quick assets to cover liabilities. This is worsened by the negative bank balance that increases liabilities in 2023.
- Trade Receivables collection period: There is a slight decrease in the collection period which is a positive performance. This may be due to the adjusted credit terms in the current year that have led to customers paying earlier than in the previous year. The spillover effect appears to be payment of payables whose days are down to 40 days from 43 days. With this, suppliers of Nasa Ltd will not be disgruntled with delayed payments and business relationship will be strengthened. For liquidity purposes however, it would have been wise for Nasa Ltd to increase payable days so as to use the resources to finance operations before paying out. This may not sit well though with relationship aspect with suppliers.
- Gearing Ratio: This ratio increased from 12% in 2022 to 27% in 2023. The increase in long-term loans is one of the contributing factors. The implication is that increase in finance costs may mean less profit from which dividends could be paid. Shareholders may not be happy with this as their annual income will adversely reduce. Nasa needs to consider raising additional finance by issuing shares rather than issuing debt. There was no corresponding increase in the volume of sales and hence profitability ratio also decreased (from 19.5% to 12% in 2023). The increase in borrowing should ideally increase the sales volume for more profits.

**Conclusion**

From the limited Ratios calculated, it is clear that Nasa Ltd's financial performance has worsened during the current year compared to the year 2022 in terms of liquidity, profitability and gearing. It would be necessary to compare Nasa Ltd performance to industry average to establish whether they are experiencing the same poor performance so that appropriate action may be taken.

G M  
Accountant.

## SOLUTION FOUR

Mwala Plc

- Mwala has purchased a financial asset (invested in debt) and elects to hold the instruments to maturity. Such financial instruments are classified as amortised cost assets.
- Initially, the financial asset is measured at fair value plus transactions costs K96,844 (W)
- Subsequently, the financial asset is measured at amortized cost
- During the year 2023 Mwala Plc shall recognize a financial asset of K97,880 (W) in the non-current asset section of the statement of financial position
- Investment income of K5,036 should be credited to the statement of profit or loss

Workings

	K
Initial cost (96394+450)	96,844
Add Effective interest rate (96844*5.2%)	5,036
Less Nominal rate (100,000*4%)	(4,000)
	97,880

## Lusungu Holdings

IFRS 16 states that lessors should initially determine whether a lease is a finance or operating lease. Provided information implies that the lease arrangement is an operating lease.

- The lease contract is for a small portion useful economic life of the asset
- The lessor continues to bear risks arising from ownership of the asset as indicated by the lessor's responsibility to insure the asset.

The fact that Lusungu Holdings reserves the right to recall the Tippar truck should need arise at any time in the near the future may indicate the absence of control over the asset on the side of the lessee.

Lusungu should therefore continue to account for ownership of the asset (do not derecognize the asset). Lusungu must recognize the total minimum lease payments (MLPs) as income in PL on a straightline basis over the lease term.

## Mweetwa Farms Limited

	Biological asset	Bearer Plant
Initial measurement	Measurement at fair value less estimated costs to sale	Initial measurement is done at cost
Subsequent	Measurement at fair value less estimated costs to sale	There is a choice to use fair value or historical cost less depreciation
Movement in value	Changes in value are taken to the statement of profit or loss	Changes in value can be taken to the statement of profit or loss or other comprehensive income depending on interpretation

**Salifyanji Mining Limited**

- Generally, deferred tax arises on temporal differences between an element carrying amount and the equivalent tax base
- Deferred tax assets on trading losses are only recognized to the extent that they are recoverable
- For as long as the company fails to generate taxable profits in the near future, carry forward losses will remain unrelieved
- The recognition of deferred tax asset is only likely to exaggerate net assets and reported profits since the directors are not sure when the company will break even
- The directors proposal is therefore not appropriate and should be rescinded.



## SOLUTION FIVE

(a) Difference between public and private sector accounting objectives

(i)

Public sector	Private sector
<ul style="list-style-type: none"> <li>Information mainly aims to demonstrate accountability and transparency in the use of public resources in service provision</li> </ul>	<ul style="list-style-type: none"> <li>Accounting information mainly aims to highlight owners returns and investment growth</li> </ul>
<ul style="list-style-type: none"> <li>Performance is measured through the statement of income and expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Performance is measured through the statement of profit or loss</li> </ul>
<ul style="list-style-type: none"> <li>Records reserves in a special section called tax payers reserves or accumulated fund</li> </ul>	<ul style="list-style-type: none"> <li>Records owners investment in the statement of changes in equity</li> </ul>

ii) Explain three objectives of the international public sector accounting standards board

- To formulate high quality International public sector accounting standards
- To promote the use of International public sector accounting standards
- To harmonize local public sector financial reporting standards and International public sector accounting standards
- To develop publications on how to use International public sector accounting standards

(b) (i) five step revenue recognition model

S/n	Step	
1	Identify a contract with a customer	<p>A contract is an agreement between two or more parties that creates enforceable rights and obligations and exists where;</p> <ul style="list-style-type: none"> <li>Contracting parties agree to perform their obligations</li> <li>Identifications of parties rights</li> <li>Identification of payment terms</li> <li>Commercial substance (Avoid legal view)</li> <li>Probable collection of consideration (Look out for reasonable price)</li> </ul>
2	Identify the separate performance obligations	<p>Performance obligations are promises to transfer distinct goods or services to a customer.</p> <ul style="list-style-type: none"> <li>An entity may enter into a contract with a customer to sell a car, which includes one year's free servicing and maintenance.</li> <li>An entity might enter into a contract with a customer to provide 5 lectures, as well as to provide a textbook on the first day of the course.</li> </ul>
3	Determine the transaction price	<p>The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.</p> <ul style="list-style-type: none"> <li>Amounts collected on behalf of third parties (such as sales tax) are excluded.</li> <li>The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both</li> </ul>

- In determining the transaction price, an entity must consider if the timing of payments provides the customer or the entity with a significant financing benefit.
  - If there is a significant financing component, then the consideration receivable needs to be discounted to present value using the rate at which the customer would borrow.
- 4      Allocate the transaction price to the separate performance obligations      The total transaction price should be allocated to each performance obligation in proportion to standalone selling prices.
  - The best evidence of a standalone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.
  - If a standalone selling price is not directly observable, then the entity estimates the standalone selling price.
- 5      Recognize revenue as and when performance obligations are satisfied
  - Revenue is recognized when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.
  - For each performance obligation identified, an entity must determine at contract inception whether it satisfies the performance obligation over time, or satisfies the performance obligation at a point in time

ii)      indicators of a sale (control moving to customer)

- The entity (seller) has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity (seller) has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.
- It is probable the consideration shall be received.

## END OF 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 DECEMBER 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

- (a) Nathan Ltd produces and sells a single type of a specialized computer graphics program. Budgeted unit data for the next control period is as follows:

	K per unit
Selling price	19,200
Variable costs:	
• Labour	6,200
• Materials	1,280
• Selling and distribution overheads	320

Budgeted fixed production overheads for the period are expected to be K2,560,000 whereas fixed selling and distribution overheads are expected to be K1,920,000. Estimated sales for the year are expected to be 700 programs.

#### **Required:**

- (i) Calculate the breakeven point in terms of the number of programs to be sold. (4 marks)
- (ii) Calculate the margin of safety as a percentage of estimated sales. (3 marks)
- (iii) State five (5) assumptions of breakeven analysis. (5 marks)
- (iv) State the advantages of the graphical method of the breakeven analysis technique. (3 marks)
- (b) Nathan Ltd also sells hard drives whose anticipated direct costs per unit for the next year are as follows:

	K
Direct materials	1,600
Direct labour (12 hours @ K192)	2,304
Direct expenses	<u>576</u>
Prime cost	<u>4,480</u>

Production overheads for next year are estimated at K11,520,000 and these are absorbed into product cost on the basis of direct labour hours. Due to an increase in demand for this product, estimated direct labour hours for next year will be 80,000 as opposed to the 10,000 originally anticipated.

**Required:**

- (i) Calculate the selling price of a hard drive using the full cost-plus pricing and assuming that it is company policy to add a 25% mark-up. (5 marks)
- (ii) Explain two (2) advantages and three (3) disadvantages of the full cost-plus pricing approach. (5 marks)

**[Total: 25 Marks]**

**QUESTION TWO**

- (a) GAC departmental stores' demand for cash has been quite volatile recently, with the standard deviation in daily cash demand rising to K60,000. The managers of the company are therefore considering using the Miller- Orr- Model to manage its cash flows. The minimum cash balance would be set to K300,000. The annual interest rate is expected to be 18.25% while the cost of trading investments in securities is K10,000 per transaction.

**Required:**

- (i) Compute the cash return point. (5 marks)
- (ii) Compute the upper cash limit (2 marks)
- (iii) Explain how the minimum cash limit, upper cash limit, and cash return point would be used to manage the cash balances of GAC departmental stores. (6 marks)

N.B. Miller-Orr Model formula for the spread:

$$\text{Spread} = 3\left[\frac{3}{4} \times (\text{Transaction cost} \times \text{variance}) \div \text{interest rate}\right]^{\frac{1}{3}}$$

- (b) The founder of a growing technology company has questioned her Chief Finance Officer about the company's holding of cash in demand deposit accounts and on hand when the money could be invested in financial securities for returns.

**Required:**

Explain to the founder three (3) motives for holding cash. (6 marks)

- (c) Annual demand for a product is 10,000 units. The purchase price is K10 per unit and the company's cost of finance is 15% per year. Warehouse storage costs per unit per year are K2 per unit. The supplier charges K200 per order for delivery.

**Required:**

Calculate the total costs of holding and ordering inventory for the year. (6 marks)

**[Total: 25 Marks]**

## SECTION B

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

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

### QUESTION THREE

Garnacho is a private entity specialized in the provision of Continuous Professional Development (CPD) skills for accountants in Zambia. The standard variable cost per delegate attending a particular short course is as follows:

	K
Direct materials (computer consumables)	320
Direct labour: 20 hours @ K480	9,600
Variable overhead: 20 hours @ K24	480
	<u>10,400</u>

Additional budgeted data for the year:

Number of delegates	7,000
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	K
Participation fee per delegate per CPD trainings activity	14,400
Fixed costs	2,800,080

Actual results were:

Number of delegates	6,200
	K
Total revenue	40,672,000
Direct material cost	979,200
Direct labour (60,000 hours @ K576)	34,560,000
Variable overhead	1,481,600
Fixed overhead	2,624,000

### **Required:**

(a) Calculate the following cost variances

(i)	Direct labour rate	(2 marks)
(ii)	Direct labour efficiency	(3 marks)
(iii)	Sales price	(2 marks)
(iv)	Sales volume contribution	(3 marks)
(v)	Variable overhead expenditure	(2 marks)
(vi)	Variable overhead efficiency	(3 marks)
(vii)	Fixed overhead expenditure	(2 marks)

(b) Explain three (3) causes of an adverse material usage variance. (3 marks)

(c) Explain five (5) factors which should be considered when assessing the significance of a variance. (5 marks)

**[Total: 25 Marks]**

#### **QUESTION FOUR**

Ofoloshi Knitters Ltd (OK Ltd) is a wholesale manufacturer of men's wear. Due to a series of machine related accidents at one of its factories, working practices have been revised. This has resulted in a reduction in the number of machine hours available next period to 100,000. Four styles of suits are produced in this particular factory and estimated data for the next period is follows:

	<b><i>Style 1</i></b>	<b><i>Style 2</i></b>	<b><i>Style 3</i></b>	<b><i>Style 4</i></b>
Maximum demand (units)	11,200	9,100	6,720	4,480
	K	K	K	K
	<u>Per unit</u>	<u>Per unit</u>	<u>Per unit</u>	<u>Per unit</u>
Selling price	2,560	3,520	4,640	5,440
Direct materials	384	960	1,120	1,280
Direct labour	512	640	480	640
Production overheads	640	800	1,120	1,280
Selling overheads	320	384	512	576

#### Notes

1. Production overheads are charged to units at a composite absorption rate of K160 per machine hour, comprising of K96 per hour for fixed overhead and the balance for variable overhead.
2. Selling overheads are charged to units at a composite rate of K128 per unit for variable overhead and the balance for fixed overheads.

#### **Required:**

- (a) Calculate the shortfall in machine hours. (4 marks)
- (b) Calculate the contribution per style of suit. (8 marks)
- (c) Calculate the contribution per machine hour. (3 marks)
- (d) Determine the ranking for the production of suits. (2 marks)
- (e) Determine the profit maximizing output/sales plan. (4 marks)
- (f) Explain two (2) ways OK Ltd can resolve the shortage of machine hours. (4 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

Musipu Ltd is a company that is located in Sinda. The company produces organic fertilizer in four differently sized bags as indicated below:

<b>Size of bag</b>	<b>3kg</b>	<b>7kg</b>	<b>13kg</b>	<b>25kg</b>
Production budget (bags)	120,000	100,000	80,000	50,000
Kg of material input per bag	2.4	6.0	12.0	24.0
Hours of labour per bag	0.1	0.2	0.4	0.5

Notes

1. The standard cost per kg of materials is K40 and the amounts of inventory anticipated and desired at the beginning and end of the budget period are 600,000 kgs and 800,000 kgs, respectively.
2. The standard direct labour cost per hour is K28.

#### **Required:**

- (a) Prepare the following:
- (i) Material usage budget for each bag of organic fertilizer. (4 marks)
  - (ii) Material purchases budget in kgs and in Kwacha. (3 marks)
  - (iii) Direct labour budget in hours and in Kwacha. (5 marks)
- (b) State five (5) objectives of budgeting. (5 marks)
- (c) In relation to budgeting, explain the following:
- (i) '*budget manual*'. (2 marks)
  - (ii) '*budget committee*'. (2 marks)
- (d) Explain the difference between incremental budgets and rolling budgets. (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**



## DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

### SOLUTION ONE

(a) Breakeven analysis

(i) Breakeven point = Fixed Costs/Contribution per unit

$$\begin{aligned}\text{Contribution per unit} &= \text{selling price per unit} - \text{variable costs per unit} \\ &= \text{K}19,200 - \text{K}7,800 \\ &= \text{K}11,400\end{aligned}$$

$$\text{Fixed Costs} = \text{K}4,480,000, \text{ i.e. } \text{K}2,560,000 + \text{K}1,920,000$$

$$\begin{aligned}\therefore \text{Breakeven point} &= \text{K}4,480,000 / \text{K}11,400 \\ &= \underline{\underline{393 \text{ programs}}}\end{aligned}$$

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

$$\begin{aligned}&= \frac{700 - 393}{700} \times 100 \\ &= \underline{\underline{44\%}}\end{aligned}$$

(iii) CVP analysis is associated with the following assumptions.

- i. The selling price per unit is assumed to remain constant at all levels of activity.
- ii. The variable cost per unit is assumed to remain constant at all levels of activity.
- iii. It is assumed that the total fixed costs do not change across all levels of production.
- iv. 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)
- v. It requires the budgeted product mix proportions to be known in advance and remain unchanged.

(iv) Two advantages of the graphical method of carrying out the breakeven analysis include: -

- It is easy to understand by non-financial managers because a simple overview is provided.
- It shows a visual relationship between costs, volumes and profits by indicating the breakeven point and the margin of safety.

(b) (i) Full cost – plus pricing

	K
Direct materials	1,600
Direct labour	2,304
Direct expenses	<u>576</u>
Prime costs	4,480
Production overheads ( $K11,520,000/80,000$ hours)= K144/hrs x 12 hrs	<u>1,728</u>
Total production costs	6,208
Profit @25% mark-up	<u>1,552</u>
Selling price	<u>7,760</u>

(ii) Advantages and disadvantages of full cost plus pricing

Advantages

- i. Quick, simple and cheap
- ii. Logical approach
- iii. Covers all fixed costs and makes a profit.

Disadvantages

- i. It fails to recognize a profit-maximizing combination of price and demand.
- ii. Uncompetitive prices in free market economy
- iii. Budgeted output volume needs to be established
- iv. A suitable basis for overhead absorption must be selected

## SOLUTION TWO

(a) i) Cash return point

$$\begin{aligned}\text{Transaction cost} &= \text{K}10,000 \\ \text{Standard deviation} &= \text{k}60,000 \\ \text{Daily interest rate} &= 18.25\%/365 = 0.05\% \\ \text{Spread} &= 3 \left( \frac{3}{4} \times \text{K}10,000 \times 60,000^2 / 0.0005 \right)^{1/3} \\ &= \underline{\underline{\text{K}1,133,928.96}}\end{aligned}$$

$$\begin{aligned}\text{Cash return point} &= \text{lower limit} + (1/3 \times \text{spread}) \\ &= \text{K}300,000 + (1/3 \times 1,133,928.96) \\ &= \underline{\underline{\text{K}677,976.32}}\end{aligned}$$

$$\begin{aligned}\text{ii) Upper cash level} &= \text{K}300,000 + \text{K}1,133,928.96 \\ &= \underline{\underline{\text{K}1,433,928.96}}\end{aligned}$$

iii) With the Miller- Orrcash management model, the cash balance is managed around three critical cash levels: the minimum cash limit, the cash return point, and the upper cash limit.

To implement the Miller-Orr -model, GAC department stores will begin with a cash balance equal to the cash return point (i.e K677,976.32). As the company uses and receives cash in its operations, the cash balance falls and rises. The cash balance is allowed to float around the cash return point but within the spread between the lower and upper cash limits. When the cash balance hits any of the cash limits, action would be taken to restore the balance to the cash return point.

When the cash balance hits or drops below the minimum cash limit (i.e K300,000), the cash balance would be considered too low. The company would then sell off some of its investments in marketable securities to raise additional cash to restore the cash balance to the cash return point.

When the cash balance hits or rises above the upper cash limit (i.e K1,433,928.96), the cash balance would be considered too high. The company would then invest the excess cash in marketable securities and thus bring the cash balance down to the cash return point.

(b) Motives for holding cash

Motives for holding cash refer to the reasons for keeping some amount of cash. Entities holding some amount of cash for certain reasons. The main motives for holding cash are transactions, precautionary, speculative, and compensating balance.

**Transaction balance** is the amount of cash that is kept to facilitate daily business operations. The amount of cash kept for transactions is influenced by several factors including the level of income, the volume of activities, and the time gap between receipts and payments.

**Precautionary balance** is a reserve of cash that is maintained to meet unforeseen cash demands. The level of precautionary cash balance is influenced by factors like the predictability of cash flows and access to loans at short notice. If an entity's cash flows are less predictable and it cannot access borrowed funds at short notice, it would have to keep more cash for speculative reasons.

**Speculative balance** is a reserve of cash held to take advantage of investment opportunities and other bargain purchases that might arise. Cash holdings for borrowed funds. Entities that have limited access to loanable funds would have to reserve more cash for speculative reasons than can borrow funds at short notice.

**Compensating balance** is the amount of cash held in bank accounts usually on the banks demand to meet cash requirements for things like cheque clearing, regular account maintenance charges, and loan repayments and interest deductions.

(c) Total cost.

$$EOQ = \sqrt{2CD/H}$$

$$D = 10,000 \text{ units}$$

$$Co = K200 \text{ per order}$$

$$Ch = K2 + (15\% \times K10) = K3.5$$

$$EOQ = \sqrt{(2 \times K200 \times 10,000 /) K3.5}$$

$$EOQ = \underline{1,069 \text{ units}}$$

$$\begin{aligned}\text{Total costs} &= (\text{K}3.5 \times 1,069/2) + (\text{K}200 \times 10,000/1,069) \\ &= \text{K}1,871 + \text{K}1,871 \\ &= \underline{\underline{\text{K}3,742}}\end{aligned}$$

### SOLUTION THREE

#### (a) Calculation of variances

(i) *Direct labour rate variances*

	K
60,000 hours should have cost x K480	28,800,000
But did cost	<u>34,560,000</u>
	<u>5,760,000 (A)</u>

(ii) *Direct labour efficiency variances*

6,200 delegates should have taken x 20 hours	124,000 hours
But did take	<u>60,000 hours</u>
Efficiency variance in hours	<u>64,000 hours (F)</u>
Valued @ standard rate per hour	<u>x K480</u>
	<u>K30,720,000 (F)</u>

(iii) *Sales price variance*

	K
6,200 delegates should have earned x K14,400	89,280,000
But did earn	<u>40,672,000</u>
	<u>48,608,000 (A)</u>

(iv) *Sales volume contribution variance*

Budgeted sales	7,000 delegates
Actual sales	<u>6,200 delegates</u>
Volume variances in delegates	<u>800 delegates (A)</u>
Valued @ standard contribution per delegate	<u>x K4,000</u>
	<u>K3,200,000 (A)</u>

(v) *Variable overhead expenditure variance*

	K
60,000 hours should have cost x K24	1,440,000
But did cost	<u>1,481,600</u>
	<u>41,600 (A)</u>

(vi) *Variable overhead efficiency variance*

Efficiency Variance in hours (a)(ii)	64,000 hours (F)
Valued @ standard rate per hour	<u>K24</u>
	<u>K1,536,000 (F)</u>

(vii) *Fixed overhead expenditure variance*

	K
Budgeted overheads	2,800,080
Actual overheads	<u>2,624,000</u>
	<u>176,080(F)</u>

#### (b) Causes of an adverse material usage variance

- i. Defective material
- ii. Excessive waste
- iii. Theft

(c) A number of factors which should be considered in assessing the significance of the variance.

**Materiality**

An average expected cost is a small variation between actual and standard is bound to occur.

**Controllability**

Only controllable variances should be investigated. Uncontrollable variances call for a change in plan, not an investigation into the past.

**The type of standard**

The efficiency variance reported in any control period, whether for materials or labour, will depend on the efficiency level set.

**Variance trend**

The trend provides an indication of whether the variance is fluctuating within acceptable control limits or becoming out of control.

**Interdependence between variances**

When two variances are interdependent (interrelated) one will usually be adverse and the other favourable.

**Costs of investigation**

The costs of an investigation should be weighed against the benefits of correcting the cause of a variance.

## SOLUTION FOUR

(a) Calculation of shortfall in machine hours

- Machine hours are a limiting factor.
- Machine hours per unit = production overhead per unit/OAR per machine hour

	Style 1	Style 2	Style 3	Style 4
Production overhead per unit (K)	640	800	1,120	1,280
OAR per machine hour (K)	160	160	160	160
Machine hours per unit	4	5	7	8

	Hours
Style 1 (11,200 units x 4 hours)	44,800
Style 2 (9,100 units x 5 hours)	45,500
Style 3 (6,720 units x 7 hours)	47,040
Style 4 (4,480 units x 8 hours)	<u>35,840</u>
Machine hours required	173,180
Less machine hours available	(100,000)
Shortfall	<u>73,180</u>

(b) Calculation of contribution per unit

- Variable overhead per unit = Machine hours per unit x K64

Style 1: (4 hours x K64) = K256

Style 2: (5 hours x K64) = K320

Style 3: (7 hours x K64) = K448

Style 4: (8 hours x K64) = K512

	Style 1	Style 2	Style 3	Style 4
	K	K	K	K
Selling price	<u>2,560</u>	<u>3,520</u>	<u>4,640</u>	<u>5,440</u>
Direct materials	384	960	1,120	1,280
Direct labour	512	640	480	640
Variable production overhead	256	320	448	512
Variable selling overhead	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>
Total Variable overheads	<u>1,280</u>	<u>1,472</u>	<u>2,048</u>	<u>2,560</u>
Contribution per unit	<u>1,280</u>	<u>1,472</u>	<u>2,464</u>	<u>2,880</u>



(c) Material purchases budget in litres and costs

	Style 1	Style 2	Style 3	Style 4
Contribution per unit (K)	1,280	1,472	2,464	2,880
Machine hours	<u>4</u>	<u>5</u>	<u>7</u>	<u>8</u>
Contribution per machine hour (K)	<u>320</u>	<u>294.40</u>	<u>352</u>	<u>360</u>

(d) Ranking of suits	3	4	2	1
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(e) Profit maximizing output/sales plan

	Hours
Style 4: (4,480 suits x 8 hours)	35,840
Style 3: (6,720 suits x 7 hours)	47,040
Style 1: (4,280 suits x 4 hours)	17,120
Style 2: Nil	-----
Hours available	<u>100,000</u>

(f) Two ways OK Ltd can use to resolve the shortage of machine hours include: -

- *Acquiring additional machinery*- this should certainly solve the problem but maybe costly if machines are to be bought.

*Sub-contract production which cannot be undertaken in-house* this may be cheaper than acquiring additional machinery and avoids the possibility of surplus capacity if demand falls.

## SOLUTION FIVE

(a) (i) Materials usage budget for each fertilizer

	Kgs
2 kg bags: (120,000 bags x 2.4 kgs per bag)	288,000
5 kg bags: (100,000 bags x 6 kgs per bag)	600,000
10 kg bags: (80,000 bags x 12 kgs per bag)	960,000
20 kg bags: (50,000 bags x 24 kgs per bag)	<u>1,200,000</u>
Material usage	<u>3,048,000</u>

(ii) Material purchases budget in kgs and costs

	Kg
Material usage budget	3,048,000
Add closing inventory	<u>800,000</u>
	3,848,000
Less opening inventory	<u>(600,000)</u>
Purchases required	<u>3,248,000</u>
Valued @ standard cost per kg of material	x K40
Material purchases costs	<u>K129,920,000</u>

(iii) Direct labour budget in hours and costs

	Hours
3 kg bags : (120,000 bags x 0.1 hours per bag)	12,000
7 kg bags: (100,000 bags x 0.2 hours per bag)	20,000
13 kg bags: (80,000 bags x 0.4 hours per bag)	32,000
25 kg bags: (50,000 bags x 0.5 hours per bag)	<u>25,000</u>
Hours required	<u>89,000</u>
Valued at standard rate per hour	x K28
Labour cost budget	<u>K2,492,000</u>

(b) The objectives of budgeting are to:

- i. Compel planning.
- ii. Provide a performance benchmark and financial control mechanism.
- iii. Provide motivational impetus.
- iv. Provide a medium of communication.
- v. Promote goal congruence (i.e consistency between the actions of individual managers, departments and overall organizational objectives).
- vi. Instil financial awareness.

(c) **Budget Manual**

- i. A budget manual is a guide or instruction document to assist functional managers with preparing their functional budgets.
- ii. It shows how figures and forecasts for the budget should be calculated, and gives other practical information.

### **Budget Committee**

- i. A budget committee is responsible for preparing the budget and lay down guidelines to functional management for completion of individual departmental budgets.
- ii. The committee will appoints a budget officer, usually an individual with an accounting background.
- iii. He or she issues instructions as contained in the manual and then collects and collates the various budgets into a master budget.

### (d) **Difference between incremental budgets and rolling budgets**

#### **Incremental budgets**

This approach uses prior period figures and adjusts them by an amount to cover inflation and any other known changes. It is the most common approach, it is reasonably quick and for stable companies it tends to be fairly accurate even though one potential problem is that it can encourage errors and past inefficiencies to be carried forward.

#### **Rolling budgets**

This is a budget that is continuously updated by adding a further accounting period (month or quarter) when the earliest accounting period has expired. Its use is particularly beneficial where future costs and/or activities cannot be forecast accurately

**END OF SOLUTIONS**



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 10: TAXATION

---

THURSDAY 12 DECEMBER 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%

<b>Low Cost Housing</b>	<b>(Cost up to K100,000)</b>	
Wear and Tear Allowance		10%
Initial Allowance		10%
<b>Commercial Buildings</b>		
Wear and Tear Allowance		2%
<b>Farming Allowances</b>		
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

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged above 5 years</b>	
	<b>Customs duty 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
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged above 5 years</b>	
	<b>Customs duty 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
<b>Station wagons</b>				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463

**SUVs**

Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

**Aged 2 to 5 years****Aged above 5 years****Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):****Customs duty****Excise duty****Customs duty****Excise duty****K****K****K****K****Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601

**Double cabs**

GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, <b>with spark ignition internal combustion piston engine</b>	33,766	14,632	26,531	11,497

**Panel Vans**

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

**Trucks**

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

**Surtax**

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



## Customs and Excise on New Motor vehicles

### Duty rates on:

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

**Customs Duty:**

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

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%
  
- 2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

**Customs Duty**

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

**Excise Duty:**

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

**Customs Duty:**

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

**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%
  
- 4. Trucks/lorries with gross weight exceeding 20 tonnes**

**Customs Duty:**

Percentage of Value for Duty Purposes	15%
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**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
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## SECTION A

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

Attempt BOTH questions.

### **QUESTION ONE**

TEG Plc is a Zambian resident company engaged in manufacturing. In the year 2024, the company listed its shares on Lusaka Securities Exchange and offered 35 % of its ordinary shares to indigenous Zambians. The company's summarized statement of profit or loss for the year ended 31 December is as follows:

		K
Sales revenue		11,527,400
Cost of sales	(Note 1)	<u>(6,340,000)</u>
Gross profit		5,187,400
Distribution and selling costs	(Note 2)	(989,840)
Administration expenses	(Note 3)	<u>(751,260)</u>
Profit from operations		3,446,300
Investment income	(Note 4)	<u>1,085,400</u>
Profit before taxation		4,531,700
Income tax expense	(Note 5)	<u>(312,687)</u>
Profit for the year		<u>4,219,013</u>

The following additional information is available:

#### **Note 1: Cost of sales**

This comprised the following:

	K
Opening inventory	1,789,482
Purchases	4,543,813
Depreciation	674,100
Loss on sale of old manufacturing equipment	74,100
Closing inventory	<u>(741,495)</u>
	<u>6,340,000</u>

#### **Note 2: Distribution & selling expenses**

These comprised the following:

	K
Entertaining suppliers	98,600
Installation of advertising bill board	158,800
Entertaining customers	105,000
Advertising expenses (TV and newspaper)	246,046

Christmas party for employees	45,800
Repairs of delivery Vans	<u>335,594</u>
	<u>989,840</u>

### **Note 3: Administration expenses**

These comprised the following:

	K
Share issue costs	95,000
Trade debts written off	104,400
Increase in general provision for bad debts	70,680
Accountancy and audit fees	98,100
Loan to former employee previously written off now recovered	(35,100)
Wages & salaries	<u>418,180</u>
	<u>751,260</u>

The wages and salaries include salaries paid to two (2) employees living with disabilities who are registered with Zambia Agency for Persons Living with Disabilities.

### **Note 4: Investment income**

This included the following:

	K
Royalties (net)	650,250
Fixed deposit interest (net)	265,950
Dividends (net)	<u>169,200</u>
	<u>1,085,400</u>

### **Note 5: Income Tax expense**

This is provisional income tax paid by the company during the year 2024 amounting to K312,687

### **Note 6: Implements plant and machinery**

The company held the following implements, plant and machinery with the following income tax values as at 1 January 2024 and original cost.

	Income Tax Value	Original cost
	K	K
Manufacturing equipment	300,000	600,000
Jeep Grand Cherokee SUV (2,700cc)	480,000	600,000

During the course of year ended 31 December 2024, the company undertook the following transactions relating to the assets.

	K
Disposal of old manufacturing equipment	375,000
Purchase of manufacturing equipment	450,000
Purchase of a delivery truck	815,000
Purchase of a Toyota VX Land Cruiser SUV (3500cc)	750,000

The Jeep Grand Cherokee and Toyota Land Cruiser SUVs are used as personal-to-holder cars by the Operations Director and Managing Director respectively

### **Note 7: Buildings**

On 1 July 2024 the company completed the construction of a new building which was immediately brought into use. The factory building was built at a total cost of K2,990,000, comprising land with a cost of K560,000, a staff canteen with a cost of K350,000, administration office with a cost of K950,000 and a factory unit with a cost of K1,130,000.

### **Note 8: Directors accommodation**

The Managing Director and Operations Director were both accommodated in company owned houses for which they do not pay any rent. The market rentals per month for both houses were K15,000 and K10,000 respectively. The annual salaries for the Managing Director and Operations Director were, K144,000 and K120,000 respectively.

### **Required:**

- (a) Calculate the maximum capital allowances claimable by the company for tax year 2024. (9 marks)
- (b) Calculate the taxable business profit for the tax year 2024. (10 marks)
- (c) Calculate the income tax payable for the tax year 2024. (6 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

Musangu Matafwali had been employed as a Systems Engineer at CPU Limited on a permanent and pensionable basis for many years. His basic salary was K47,100 per month payable to him on the last day of each month. In addition to the basic salary, he was entitled to transport allowance of 15% of the basic salary, medical allowance of 2% of the basic salary and education allowance of K6,000 per annum per school going child. He had four (4) school going children.

On 1 May 2024, he was paid a labour day award amounting to K5,400 in cash. On 1 July 2024, he was given a long-term service award in form of a wrist watch valued at K2,200.

On 31 August 2024, he was declared redundant and immediately the company paid him the following benefits:

	K
Pension refund	1,200,000
Compensation for loss of office	121,000
Leave pay	31,200

He had been accommodated in a company owned house, for which he paid no rent, until 31 August 2024 when he was declared redundant. If rented to any other person the company would have earned rentals of K9,200 (gross) per month. The company pays for all maintenance costs in connection with the house. During the year ended 31 December 2024, the company paid utility expenses and general maintenance fess amounting to K1,900 per month and K2,640 per month respectively.

CPU Limited had always deducted employees NAPSA contributions at the rate of 5% of his gross employment earnings and employees NHIMA contributions at a rate of 1% of the basic salary. Musanga paid the following expenses during the year ended 31 December 2024:

	K
Income tax deducted under the pay as you earn system	121,418
Children's school fees	36,200
Subscription to the Engineers Institute of Zambia	6,120
Donation to an approved benefit organization	14,900
Medical expenses	11,400

He also received income from his investments during the year ended 31 December 2024. The income received included dividends from Zambian companies listed on the Lusaka Securities Exchange (LuSE) K10,100, bank interest K8,900, and royalties K23,800. The amounts of investment income represent the actual amounts of cash received. Withholding tax had been deducted where appropriate.

### **Required:**

(a) Explain the meaning of each of the following factors as they are used by the ZRA in establishing whether one is an employee or a self-employed person:

- (i) Control (2 marks)
- (ii) Engagement and dismissal (2 marks)

- (iii) Tools and equipment (2 marks)
- (b) Explain the income tax treatment of each of the investment income received by Musangu during the year ended 31 December 2024. (3 marks)
- (c) Calculate the amount of income tax payable by Musangu for the tax year 2024. You should indicate by the use of zero (0) for all emoluments that are not taxable. (16 marks)

**[Total: 25 Marks]**

## SECTION B

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

### **QUESTION THREE**

- (a) SONTEX Limited is a Zambian resident company that was recently registered for Value Added Tax. The company's turnover has always been below K800,000. However, the company was permitted to register for VAT under voluntary registration.

The following details have been provided to you for the month of April 2024:

- (1) Sales invoices totaling K1,068,000 were issued to customers. The total sales value includes both taxable and exempt supplies. Standard rated sales were K840,000, Zero-rated sales were K121,200 and the remainder were exempt sales. 20% of standard rates were made to customers who are not registered for VAT. The balance relates to sales to companies that are registered for VAT.
- (2) Standard rated purchases for the month amounted to K365,000. Not all these goods were sold in the month. There was closing inventory of K18,250 at 30 April 2024.
- (3) Standard rated operating expenses for the month of April included the following items:

	<b>K</b>
Entertaining customers	68,700
Petrol	90,200
Diesel	56,000
Telephone expenses	24,600
General overheads (VAT inclusive)	58,000

- (4) The operating expenses were incurred in making both taxable and exempt supplies in the proportion of sales.
- (5) The company bought a motor van at a cost K226,200 (VAT inclusive) and Toyota Fortuner car at a cost of K290,000 (VAT inclusive). The Toyota Fortuner is used by the Managing Director on a personal to holder basis. It has a cylinder capacity of 3,200 cc. However, in the same month, the company sold some equipment for K69,600 (VAT inclusive).

NOTE:

Unless otherwise stated, all transactions were VAT exclusive.

#### **Required:**

- (i) Explain three (3) advantages of voluntary VAT registration. (3 marks)
  - (ii) Calculate the VAT payable by SONTEX Limited for the month of April 2024. (7 marks)
- (b) Mr. Chuma imported a second hand Hyundai sedan car from Japan costing \$9,500 in March 2024. The car was manufactured in July 2021 and has a cylinder capacity of

1,900 cc. He incurred insurance charges of \$800 and freight charges of \$1,700. Other incidental costs incurred up to the point of entry was \$2,000. Transportation costs from the point of entry to Mr. Chuma's premises was K5,200.

The exchange rate provided by the Commissioner General at the time of importation of the vehicle was K20.50 per \$. However, the exchange rate quoted by most of the Commercial Banks was K19.40 per \$

**Required:**

Calculate

- (i) The value for duty purposes of the Hyundai car (2 ½ marks)
  - (ii) The total import taxes paid by Chuma on the importation of the car. (3 ½ marks)
- (c) Zambian income tax is chargeable on income of person's resident and ordinarily in Zambia. The term person applies to both individuals and persons other than individuals, such as companies. Persons whose turnover is below K800,000 pay turnover tax.

**Required:**

- (i) Explain the criteria used to determine whether an individual and company are resident in Zambia for tax purposes. (4 marks)
- (ii) Describe any five (5) types of persons who are not liable to turnover tax. (5 marks)

**[Total: 25 Marks]**

**QUESTION FOUR**

- (a) The IFAC Ethical Code provides guidance for professional accountants providing taxation services. Accountants require a professional ethical code because they hold positions of trust, and people rely on them and their expertise.

**Required:**

Explain how the following ethical principles apply in the provision of tax services:

- (i) Integrity (2 marks)
  - (ii) Confidentiality (2 marks)
- (b) The Government of the republic of Zambia like any other government raises its revenue through taxes imposed on the income and gains of Zambian resident persons. However, the choice of taxation policy has wider implications and may be used as a way of addressing social and economic issues. In achieving this objective the Zambia Revenue Authority (ZRA) is responsible for administering these taxes in accordance with the law to ensure that taxes are collected efficiently and effectively.

**Required:**

- (i) Explain four (4) sources of revenue for Central Government apart from taxation. (8 marks)



- (ii) Explain any three (3) qualities of a good tax system. (3 marks)
- (c) Kaloba was retrenched by Twatasha Limited on 30 September 2024 after working for the company for the past 15 years as an electrician. He is now considering starting his own business by 1 January 2024. However, his retrenchment package is not sufficient to enable him start this type of business and to raise the required amount of capital, he has decided to sell some of his assets as follows:
- (1) On 2 October 2024, he sold 20,000 ordinary shares of K1.00 each in Dumbo Limited for proceeds of K76,000 net of transaction costs of K4,000. He had bought 50,000 ordinary shares of K1.00 each in 2020 for K65,000.
  - (2) On 5 October 2024, he sold his commercial plot in Kabangwe area for K240,000. He had bought this plot in 2019 for K90,000 from a Real Estate company in Lusaka.
  - (3) On 12 November 2024 he sold a Fuso Truck to a construction company for K180,000. The truck was acquired at a cost of K230,000 in 2019 from an Auction sale.
  - (4) On 20 November 2024, he sold a residential house in Chalala area to his Daughter who paid K60,000 as consideration for the house. The house is currently worth K450,000.
  - (5) On 31 December 2024, he sold 30,000 ordinary shares of K1.00 each held in Malata Plc for K105,000. He had bought these shares for K45,000 in an initial public offer in 2021. Transaction costs of K4,500 were incurred in the process of selling those shares.

**Required:**

Explain the Property Transfer Tax implications on each of the above transactions and calculate the PTT payable, if any. (10 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

Tidye Zulu is a sole trader based in Chisamba town running a retail trade which buys and sells agricultural related products and farm equipment. He prepares his financial statements to 31 December each year.

For the year ended 31 December 2024, the summarized statement of profit or loss for Tidye Zulu was as follows:

	K	K
Gross profit		2,240,500
Less expenses:		
Rent and rates	(Note 1) 130,600	
Wages and salaries	(Note 2) 364,000	

Depreciation		8,200	
Professional and legal fees	(Note 3)	226,300	
Entertainment expenditure	(Note 4)	25,500	
Repairs and renewals	(Note 5)	18,600	
Motor vehicle running costs	(Note 6)	30,400	
Miscellaneous expenses	(Note 7)	<u>334,000</u>	
			<u>(1,137,600)</u>
			1,102,900
Other income			
Royalties (net) received		<u>8,550</u>	
Net profit			<u>1,111,450</u>

The following additional information is provided:

#### **Note 1: Rent and rates**

It has been agreed with the Commissioner General, 25% of the rent and rates relate to Tidye Zulu's living quarters.

#### **Note 2: Wages & salaries includes**

These included wages for casual workers of K76,000, Tidye Zulu's annual salary of K120,000, annual salary of Tidye Zulu's son whose employed in the business as a sales assistant of K48,000 and annual salaries of four (4) other sales assistants employed in the business totaling K120,000.

#### **Note 3: Professional and legal fees**

These included the following:

	K
Traffic fines in relation to over speeding by Tidye Zulu	2,350
Accountancy and audit fees	58,800
Legal fees- court case for recovery of loan from former employee	8,500
Legal fees in connection with defending title to business assets	65,500
Legal costs for advice in relation to the business taxation liability	<u>91,150</u>
	<u>226,300</u>

#### **Note 4: Entertainment expenditure**

These comprised the following:

	K
Entertaining customers	15,600
Employees Christmas party	<u>9,900</u>
	<u>25,500</u>

**Note 5: Renewals and repairs**

These comprised the following:

	K
Extending a store room	5,200
Painting the shop	4,800
Purchase of a freezer	<u>8,600</u>
	<u>18,600</u>

**Note 6: Motor vehicle running costs**

These expenses were incurred in relation to Tidye Zulu's private car which he uses partly for business purposes. It has been agreed with the Commissioner General that Tidye Zulu's has 45% business use of the car.

**Note 7: Miscellaneous expenses**

These are made up of:

	K
Trade debts written off	8,200
Misappropriation of goods by an employee	2,600
Donation to an approved charity	5,000
Donation to a political party	10,000
Misappropriation of goods by Tidye's wife	4,200
Increase in general provision for bad debt	2,200
Provisional income tax paid	290,500
Revenue allowable expenses	<u>11,300</u>
	<u>334,000</u>

**Note 8: Drawings**

Tidye had taken goods for personal use and these goods whose cost was K3,500 were not recorded at all. Tidye Zulu makes a margin of 25% on all his sales

**Note 9: Capital allowances**

An agreement was reached with the Commissioner General that capital allowances on business assets used in the retail trade for the tax year 2024 were K240,000.

**Other income**

On 1 January 2024, Tidye Zulu decided to diversify his business operations into farming and maintained his farming accounts separate from the retail business accounts. He prepared the first accounts to 31 December 2024 and will prepare his accounts annually to 31 December thereafter. The tax adjusted profits from farming operations before capital allowances for the year ended 31 December 2024 was K1,073,370.

Expenditure relating to the farming operations incurred in year ended 31 December 2024 was made up of:

	K
Stumping and clearing of fields in readiness for planting amounting	15,000
Construction of wire fence around the farm	35,200
Expenditure on the works for the prevention of soil erosion	22,400
Purchase of a delivery van	250,000
Purchase of tractor	450,000
Farm implements	80,000
Construction of farm dwellings for farm employees at K200,000 each	600,000
Development of Banana plantation	250,000

**Required:**

- (a) Calculate Tidye Zulu's final taxable business profit for the tax year 2024 from retail operations. (12 marks)
- (b) Calculate farming operations capital allowances claimable for the tax year 2024. (8 marks)
- (c) Calculate the final taxable business profit from farming operations. (1 mark)
- (d) Calculate the tax payable by Tidye Zulu on the farming and retail operations for the 2024 tax year. (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA10 TAXATION SUGGESTED SOLUTIONS

### SOLUTION ONE

#### (a) CALCULATION OF MAXIMUM CAPITAL ALLOWANCES CLAIMABLE BY TEG LTD For tax 2024

Capital allowances on Buildings

	K
Total cost	2,990,000
Less cost of land	(560,000)
Qualifying cost	2,430,000
10% x K2,470,000	243,000
The cost of administration building amounting to K950,000 exceeds the 10% of the construction cost and as such will be classified as a commercial building.	

	Cost/ITV K	Capital Allowance K
<b>Staff Canteen</b>	350,000	
Initial allowance (K350,000 x 10%)		35,000
Investment allowance (K350,000 x 10%)		35,000
Wear & tear allowance (K350,000 x 5%)	(17,500)	17,500
Itv c/fwd	332,500	
<b>Factory</b>	1,130,000	
Initial allowance (K1,130,000 x 10%)		113,000
Investment allowance (K1,130,000 x 10%)		113,000
Wear & tear allowance (K1,130,000 x 5%)		56,500
<b>Administration Offices</b>	950,000	
Wear & tear allowance (K950,000 x 2%)	(19,000)	19,000
Itv c/fwd	<u>931,000</u>	
<b>Manufacturing equipment</b>	300,000	
Disposal proceeds	<u>375,000</u>	
Balancing charge	(75,000)	(75,000)
<b>Manufacturing equipment</b>	450,000	
Wear & tear allowance (K450,000 x 50%)	<u>225,000</u>	225,000
Itv c/fwd	<u>255,000</u>	
<b>Delivery truck</b>	815,000	
Wear & tear allowance (K815,000 x 25%)	<u>(203,750)</u>	203,750
	<u>611,250</u>	
<b>Toyota VX Land cruiser</b>	750,000	
Wear & tear allowance (K750,000 x 20%)	<u>(150,000)</u>	150,000

Itv c/fwd	<u>600,000</u>	
<b>Jeep car</b>	480,000	
Wear & tear allowance (K600,000 x 20%)	<u>120,000</u>	120,000
Itv c/fwd	<u>344,000</u>	
<b>Bill board</b>	158,800	
Wear & tear (K158,800 x 25%)	<u>(39,700)</u>	39,700
Itv c/fwd	<u>119,100</u>	
Total		1,052,450

(b) TEG

# CALACULATION OF TAXABLE BUSINESS PROFIT FOR TAX YEAR 2024

	K	K
Profit before taxation		4,531,700
Add:		
Depreciation	674,100	
Loss on sale of plant	74,100	
Entertaining suppliers	98,600	
Erection of bill board	158,800	
Entertaining customers	105,000	
Share of issue costs	95,000	
Increase in general provision of bad debts	70,680	
Car benefit personal-to holder:		
Operations Director (Jeep 2000cc)	36,000	
MD (Toyota VX (3000cc)	48,000	
Accommodation benefit:		
MD's (K144,000 x 37.5%)	54,000	
Ops Dir (K120,000 x 37.5%)	<u>45,000</u>	
		<u>1,459,280</u>
		5,990,980
Less:		
Royalties	650,250	
Fixed deposit interest	265,950	
Dividends	169,200	
Disabled employment benefit (K2,000 x 2)	4,000	
Loan to former employee written off now recovered	35,100	
Capital allowances	1,052,450	
		<u>(2,176,950)</u>
Tax adjusted business profit		<u>3,814,030</u>

(c) TEG

INCOME TAX PAYABLE CALCULATION FOR TAX 2024

	K	K
Adjusted business profit		3,814,030
Royalties (K650,250 x 100/85)		765,000
Bank interest (K265,950 x 100/85)		<u>312,882</u>
Total taxable income		4,891,912
Income tax @ 23% x K4,891,912		1,125,140
Less:		
Provisional income tax		(312,687)
WHT-Royalties (K765,000 x 15%)		(114,750)
-Bank interest (K312,882 x 15%)		<u>(46,932)</u>
Income tax payable		<u>650,771</u>

## SOLUTION TWO

(a) Meaning of each one of the following

(i) Control

The work of an employee is controlled by the employer who gives stipulated hours and employee should work, time to report for work and leave the place of work, and the place at which the duties are to be performed from. On the other hand, a self-employed person will decide when to perform the duties and how to perform them.

(ii) Engagement and dismissal

The employer has the power to hire and dismiss employees by giving them an appropriate notice. On the other hand, a self-employed person normally enters into a contract with the client specifying the beginning and will end when the duties have been performed completely.

(iii) Tools and equipment

Employees are normally provided with the necessary tools, by the employer, for them to perform the duties of employment. Self-employed persons, on the other hand, provide their own tools and equipment necessary for them to perform the duties.

(b) Tax treatment of investment income received by Musangu

(1) Dividends

Dividends received from shares listed on the Lusaka Securities Exchange is subjected to withholding tax at a rate of 0% which is the final tax. Musangu will not pay any tax on the dividends.

(2) Bank interest

Interest received by an individual on a bank deposit account is subjected to withholding tax at a rate of 0% which is the final tax. This means that Musangu will not be required to pay any tax on the bank interest.

(3) Royalties

Royalties are subjected to withholding tax at a rate of 15% which is not the final tax. This means that Musangu will be subjected to a further income tax assessment on the royalties.

(c) Income tax payable by Musangu for the tax year 2024

	K	K
Basic salary: $K47,100 \times 8$ months		376,800
Transport allowance: $K376,800 \times 15\%$		56,520
Medical allowance: $K376,800 \times 2\%$		7,536
Education allowance: $K6,000 \times 4 \times 8/12$		16,000
Labour day award		0
Long-term service award		0
Pension refund		0



Compensation for loss of office		0
Leave pay		31,200
Free accommodation		0
Utility expenses: K1,900 x 8 months		15,200
General house maintenance: K2,640 x 8		<u>21,120</u>
		524,376
Royalties: K23,800 x 100/85		<u>28,000</u>
		552,376
Less:		
Fees for children	0	
Medical expenses	0	
Professional subscription	6,120	
Donation to an approved organisation	<u>14,900</u>	
		<u>(21,020)</u>
Taxable income		<u>531,356</u>
Computation		
First K61,200 x 0%		0
Next K24,000 x 20%		4,800
Next K25,200 x 30%		7,560
Excess K420,956 x 37%		<u>155,754</u>
Income tax liability		168,114
Less:		
WHT – Royalties (K28,000 x 15%)	4,200	
Pay as you earn	<u>121,418</u>	
		<u>(125,618)</u>
Income tax payable		<u>42,496</u>

### SOLUTION THREE

- (a) (i) Advantages of voluntary registration
- (1) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable.
  - (2) The impression of a substantial business will be given since traders should only register if the turnover is substantial.
  - (3) The business will compete well with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

(ii) SONTEX LTD

COMPUTATION OF VAT PAYABLE FOR THE MONTH OF APRIL 2024

	K	K
<u>Output VAT</u>		
Standard rated sales (K840,000 X 16%)		134,400
Zero rated sales (K121,200 X 0%)		0
Exempt sales		0
Sale of equipment (K69,600 X 4/29)		<u>9,600</u>
		144,000
<u>Input VAT</u>		
Standard rated purchases (K365,000 X 16%)	58,400	
Business entertainment (irrecoverable)	0	
Petrol (Irrecoverable)	0	
Diesel (K56,000 X 16% X 90%) X 90%	7,258	
Telephone expenses (irrecoverable)	0	
General overheads (K58,000 X 4/29 X 90%)	7,200	
Motor van (K226,000 X 4/29)	<u>31,200</u>	
		<u>(104,058)</u>
VAT payable		<u><u>39,942</u></u>

Working:

$$\begin{aligned}
 \text{Recoverable non-attributable input VAT} &= \frac{\text{Taxable supplies}}{\text{Total supplies}} \times 100 \\
 &= \frac{961,200}{1,068,00} \times 100 \\
 &= 90\%
 \end{aligned}$$

(b)(i) Importation of Hyundai car  
Computation of value for duty purposes

	\$
Cost	9,500
Insurance charges	800
Freight	1,700
Other incidental costs	<u>2,000</u>
CIF	<u>14,000</u>
VDP (\$14,000 x K20.50)	287,000

**(b)(ii)** Computation of import taxes paid

	Values K	Taxes paid K
Value for duty purposes	287,000	
Customs duty	<u>16,545</u>	16,545
	303,545	
Excise duty	<u>21,508</u>	21,508
	325,053	
VAT @ 16%	<u>52,008</u>	52,008
	<u>377,061</u>	
Total taxes paid		<u>90,061</u>

- (c) (i) An individual is resident in Zambia if they are physically present in Zambia for a period of not less than 183 days in a charge year.

Individuals who come to Zambia with the intention of remaining here for more than 12 months are deemed to be resident and ordinarily resident in Zambia from the date of arrival.

A person other than an individual is resident in Zambia if:

That person is incorporated or formed in Zambia or;

The place of effective management of the person's business or affairs is in Zambia.

- (ii) The following persons are excluded from turnover tax:

- (1) Any individual or partnership carrying on the business of public service vehicle for the carriage of persons.
- (2) Any partnership carrying on business irrespective of whether the annual turnover is over K800,000.
- (3) Income of partners arising from the partnership since the partnership producing that profit is excluded from turnover tax.

- (4) Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
- (5) Any person running a business where the annual turnover is not over K800,000 but is voluntarily registered for VAT.
- (6) Any person who is involved in mining operations as provided under the Mines and Minerals Act.

## **SOLUTION FOUR**

### **(a) (i) Integrity**

Members shall be straightforward and honest in all professional and business relationships. The principles of honesty and integrity impose an obligation on the practitioner to ensure straightforwardness, fair dealing, a commitment not to mislead or deceive and truthfulness.

This means that a member providing taxation services must not knowingly be associated with reports, returns, communications or other information where the member believes that the information contains a materially false or misleading statement or calculation or statements or information furnished recklessly.

### **(ii) Confidentiality**

Members shall respect the confidentiality of information acquired as a result of professional and business relationships.

They should therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

A member who acquires confidential information during the course of performing professional tax services for a client shall not use or disclose any such information without proper and specific authority, unless there is a legal or professional right or duty to disclose such information.

### **(b) (i) SOURCES OF REVENUE FOR CENTRAL GOVERNMENT APART FROM TAXATION**

#### **(1) PRIVATISATION OF STATE OWNED ENTERPRISES.**

This is the process of transferring state owned enterprises to the private sector. Huge amounts of revenue can be raised while there are state owned enterprises to sell.

#### **(2) BORROWING FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS.**

Government can borrow from the International Monetary Fund and the World Bank to finance certain projects only.

#### **(3) ISSUING GOVERNMENT SECURITIES / DOMESTIC BORROWING.**

Instead of borrowing from the international financial institutions, the government may be able to borrow locally through the issue of government bonds and treasury bills.

#### **(4) DONOR FUNDING**

Various donor agencies have been set up to provide funding to poor countries. They provide funds for clearly defined projects and cannot provide the funds for government to meet all recurring public expenditure.

(ii) Qualities Of A Good Tax System

- (1) Taxation should bear as little as possible on production. Taxes should not be too high that they make production very expensive.
- (2) Taxes should be cheap and easy to collect and fall directly on the ultimate payer. Resources devoted to tax collection are wasted if the amounts collected are low.
- (3) VAT which is imposed on the sellers and importers is finally borne by the consumers. This makes VAT cumbersome as it does not fall directly on the payer.
- (4) Taxes should be certain . If tax rules are complex they can be subverted and evaded.
- (5) Taxes should bear equally so as to give no individual an advantage. This means that taxes should be levied on the basis of ability of pay.
- (6) A tax should be compatible with foreign tax systems. In Zambia the tax system should be compatible with the tax systems of the SADAC and COMESA member states.
- (7) Taxes should automatically adjust to changes in the rate of inflation. As inflation rises and falls, the tax system should automatically adjust accordingly.
- (8) A tax must not hinder efficiency. Where it is not possible to achieve this, the tax should involve the least loss of efficiency.

- (c)
- (1) The transfer of shares in the company which is not listed on LUSE is chargeable to Property transfer tax. The realised value is the higher of the nominal value and the market value. Therefore, the realised value is K80,000 (K76,000 + K4,000).  
  
Property transfer tax =  $K80,000 \times 5\% = K4,000$
  - (2) The transfer of a commercial plot is chargeable to PTT. The realised value is the higher of the actual price paid and the market value. Therefore the realised value is K240,000.  
  
Property transfer tax =  $K240,000 \times 5\% = K12,000$
  - (3) The transfer of a Fuso Truck is not chargeable to PTT. Property transfer tax is not chargeable on movable properties or chattels.
  - (4) The transfer of property to a member of the immediate family is not chargeable to PTT if no consideration was paid. However, his daughter paid a consideration of K60,000, being the realised value.  
  
Property transfer tax =  $K60,000 \times 5\% = K3,000$
  - (5) The transfer of shares in a company which is listed on LUSE is not chargeable to PTT. Therefore, the realised value is NIL.

## SOLUTION FIVE

(a) TIDYE ZULU's

TAXABLE RETAIL BUSINESS PROFIT FOR THE YEAR ENDED 31 DECEMBER 2024

Details	Calculations	K	K	K
Net profit				1,111,450
Adjustments:		<b>ADD</b>	<b>Subtra ct</b>	
Depreciation		8,200		
Rent and rates	K130,600 x .25	32,650		
Wages and salaries		18,000		
Tidye Zulu salary		120,000		
Tidye Zulu traffic fine		2,350		
Legal fees loan former employee		8,500		
Entertaining customers and suppliers		15,600		
Store room extension		5,200		
Freezer		8,600		
Private use of motor car	30,400 x.55	16,720		
Donation-political party		10,000		
Misappropriation by wife		4,200		
Increase in general provision		2,200		
Drawings	3500x 100/75	4,667		
Provisional tax		290,500		
Royalties			8,550	
Capital allowances			240,000	
		547,387	248,550	298,837
Adjusted business profit				1,410,287
Add Royalties	8,550 x 100/85			10,059
Assessable income				1,420,346

(b) CAPITAL ALLOWANCES CLAIMABLE FOR TAX YEAR 2024:

Expenditure	Rate	Cost K	Capital allowance K
Stumping and clearing	100%	15,000	15,000
Wire fence	100%	35,200	35,200
Soil erosion works	100%	22,400	22,400
Motor van	25%	250,000	62,500
Tractor	100%	450,000	450,000
Farm implements	100%	80,000	80,000
Dwellings	100%	300,000	300,000
Banana plantation	10%	250,000	25,000
			990,100

(c) TIDYE ZULU

TAXABLE FARMING PROFITS FOR THE TAX YEAR 2024

	K	K
Net profit		1,073,370
Less capital allowances		<u>(990,100)</u>
Final actual taxable profit		<u>83,270</u>

(d) TIDYE ZULU

INCOME TAX PAYABLE FOR TAX YEAR 2024:

Details	Farming	Non-farming		Total
Adjusted taxable profit	83,270	1,420,346		
Tax free amount	-	(61,200)		
Taxable amounts	83,270	1,359,146		
Tax Computation:				
-Farming: Tax at 10% on farming	8,327			8,327
- Non Farming:				
K24,000 @ 20%		4,800		4,800
K25,200 @ 30%		7,560		7,560
K1,309,946 @37%		<u>484,680</u>		<u>484,680</u>
Less:				505,367
- Provisional tax			290,500	
- WHT royalties			<u>1,509</u>	<u>(292,009)</u>
				<b><u>213,358</u></b>

**END OF SOLUTIONS**





DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

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LEVEL TWO

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DA 11: PRINCIPLES OF AUDITING

---

THURSDAY 12 DECEMBER 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: 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**

Ruth & Rose Chartered Accountants have been auditors of Kalulushi Plc. for the past five (5) years. The terms of the engagement are that it is for a period of three (3) years subject to renewal at the end of the three (3) year period. This is the second term of three (3) years and this is the second year of the current engagement. The audit of the financial statements of Kalulushi Plc. for the year ended 31 December 2023 is about to commence.

At a meeting of the Board of Directors held on 14 April 2024 to consider the audited financial statements of Kalulushi Plc. for the year ended 31 December 2023 a resolution was passed to terminate the contract for the audit services offered by Ruth & Rose Chartered Accountants. The decision was arrived at because of a disagreement on the accounting treatment of staff pension provisions which resulted in a significant amount being charged against income resulting in the company failing to meet its performance targets. The annual general meeting will be held on 12 May 2024. A letter informing the auditors of the termination of the agreement for the offer of audit services was written by the Company Secretary. Ruth & Rose Chartered Accountants responded to the letter and demanded to be compensated by Kalulushi Plc. for termination of the agreement before the end of the contract period. Kalulushi Plc. responded to the demand for compensation and argued that the company would not pay any compensation on account of the auditors having been professionally negligent in the performance of their work. A search at the Registrar of Companies revealed that there is no notice of the removal of Ruth & Rose Chartered Accountants as auditors of Kalulushi Plc.

Kalulushi Plc. put to tender the offer of audit services for the financial statements for the year ending 31 December 2024. Your firm of chartered accountants, Chanda & Chushi Chartered Accountants, a five (5) partner firm, is considering submitting a bid for the offer of audit services. Kalulushi Plc. is in the hospitality industry and runs a five (5) star hotel in Lusaka. Chanda & Chushi Chartered Accountants has experience in the audit of the financial statements of companies in the hospitality industry and is current auditor of Munsie Pleasure Resorts a company that runs a chain of hotels. The Managing Partner of Chanda & Chushi Chartered Accountants advised that the firm should submit a bid for the offer of audit services subject to the firm complying with all ethical and professional matters that may exist.

After evaluating all the bids received, Kalulushi Plc. offered your firm the contract for the offer of audit services. The offer was made to your firm on the grounds that the proposed audit fee of K1.3 million by your firm was the lowest at 50% of the average fee proposed by the other four (4) bidders. As Manager in charge of client acceptance, you are considering the offer but you wish to confirm that the pre-conditions for an audit exist before your firm could accept appointment. You requested for permission from Kalulushi Plc. to allow you to communicate with Ruth & Rose Chartered Accountants and permission was not granted.

**Additional information about Kalulushi Plc.:**

In the offer letter to your firm, the company requested that as a separate assignment, your firm should offer actuarial services to determine the pension charge that should be recognized in the financial statements. Your firm does have expertise in this field and offers actuarial services to its clients.

Kalulushi Plc. has an internal audit department headed by the Chief Internal Auditor who is a qualified chartered accountant. The role of the internal audit department includes the review of the internal control systems of the company and also perform tests of controls. The department reports to the audit committee of the Board of Directors which evaluates the internal audit reports quarterly and seeks management's responses to the observations made.

The Chief Financial Officer of Kalulushi Plc. is well known by the Managing Partner of Chanda & Chushi Chartered Accountants because they were together at college and they have maintained the family ties over the years and so the firm is not expected to have any difficulties performing the audit and also the firm may use the internal audit department in the conduct of the audit which will enable a further reduction in the audit fee.

**Required:**

- (a) Evaluate the removal of Ruth & Rose Chartered Accountants as auditors of Kalulushi Plc. (6 marks)
- (b)
  - (i) Explain the pre-conditions that should be present before Chanda & Chushi Chartered Accountants can accept appointment as auditors of Kalulushi Plc. (5 marks)
  - (ii) Explain four (4) professional ethical matters that should be considered before Chanda & Chushi Chartered Accountants accepts appointment as auditors of Kalulushi Plc. and explain how the ethical issues should be dealt with. (8 marks)
- (c) Explain, using examples, the two (2) possible uses of the internal audit department of Kalulushi Plc. in the conduct of the audit of the financial statements of Kalulushi Plc. (6 marks)

**[Total: 25 Marks]**

## **QUESTION TWO**

Your firm of chartered accountants has accepted nomination to be auditors of Everest Ltd. The audit for the financial statements of Everest Ltd. for the year ended 30 June 2024 is about to commence. You have been appointed Audit Senior on the audit and you plan to carry out audit procedures during the planning stage and you intend to use a combined approach to auditing which means you may place reliance on the internal controls of Everest Ltd.

Everest Ltd uses a manual accounting system and runs a general ledger with control accounts for receivables and payables. Manual sales invoices are raised by the Sales Assistant for all sales transactions. The company maintains a price list which is used to get prices by the Sales Assistant when raising sales invoices. There are cash and credit sales made and all payments for cash sales are received by the cashier who raises sales receipts to support all cash sales. Credit sale invoices are passed on to the Receivables Accountant who posts the transactions to the sales control accounts and the individual receivables' accounts. Reconciliations of the receivables accounts are done monthly by the Receivables Accountant and the total of the receivables balances is reconciled to the receivables control account. The banking of sales proceeds is done daily by a clerk who is not involved with the receiving of money. Regular bank reconciliations are prepared by the Financial Accountant and are checked and signed by the Chief Accountant.

Everest Ltd maintains a large range of inventory items in its warehouse under the responsibility of the Stores Manager. All inventory items have unique stock numbers and there are stock cards for each line of stock. The company uses a perpetual inventory count system and inventory counts are conducted by staff not involved in the day to day management of inventory. A stock ledger account is maintained in the general ledger representing the value of inventory held in stock. At the period end no physical inventory count is conducted and inventory valuation is based on the perpetual inventory records. Inventory is a material figure in the financial statements of Everest Ltd and you are considering whether or not to rely on the perpetual inventory records for the determination and valuation of the inventory balance in the financial statements.

Included in the figure of administration costs in the profit or loss account is an amount of K1.8 million. This includes the actual payments for electricity consumed to April 2024 of K1.5 million and an accrual of K0.3 million for the remaining two (2) months.

### **Required:**

- (a) Explain two (2) methods the audit team may use to record the accounting system in the audit of the financial statements of Everest Ltd. and for each method explain one (1) disadvantage. (4 marks)
- (b)
  - (i) Explain three (3) substantive procedures that the audit team may use to obtain audit evidence in the audit of the financial statements of Everest Ltd. (3 marks)
  - (ii) Explain the meaning of analytical procedures and explain the three (3) stages in the audit of the financial statements of Everest Ltd that analytical procedures may be used. (4 marks)
- (c) Explain four (4) matters that should be considered by the audit team with regards the use and reliability of perpetual inventory counting by management of Everest Ltd.

(6 marks)

- (d) Explain four (4) substantive audit procedures that should be undertaken on the figure of electricity in the profit or loss account. (8 marks)

**[Total: 25 Marks]**

## SECTION B

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

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

### **QUESTION THREE**

You work for Bruce & Associates a firm of chartered accountants as an Audit Manager. You are currently in charge of four (4) of your firm's clients whose year end is 31 March 2024. The audits of these clients are nearing completion and the audit work is at the final stage.

You are reviewing the audit working papers and the following information has been extracted from the working papers of the four (4) clients:

#### **1. Chisomo Ltd:**

The audit team on the audit of the financial statements of Chisomo Ltd identified that there were significant risks in relation to accounting estimates that were made by management results of which are included in the financial statements for the year under audit. The audit team communicated this to those charged with governance in accordance with the provisions of ISA 260 *Communication with those charged with governance* during the course of the audit. The matter was discussed and resolved with management and there is full and adequate disclosure in the financial statements relating to this.

The audit team obtained sufficient appropriate audit evidence. The Audit Senior is considering including the matter in the audit report. The Audit Senior has proposed that an adverse opinion should be issued on account of the fact that accounting estimates are considered as significant risks. (3 marks)

You have been provided with draft financial statements for the year ended 30 June 2024 and the information below has been extracted from the draft statement of financial position:

	K000
Property, plant & equipment (Note 1)	1 060

#### **Note 1:** (Figures relate to motor vehicles)

Opening balance (Cost)	800
Additions during the year	<u>300</u>
	1 100
Disposals during the year	<u>40</u>
Closing balance at cost	<u>1 060</u>

**2. Agriculture Equipment Manufacturing Plc.**

A group of employees that were dismissed from employment by the company sued the company for wrongful dismissal and are seeking compensation. The case has been ongoing for six (6) months and at the period end a provision of K2.5 million was recognized in the financial statements. Management considered this amount to be significant and felt it was necessary for users of the financial statements to be informed. The matter was disclosed and explained in note five (5) of the financial statements.

The audit team performed the necessary audit procedures regarding the provision against the legal case and concluded that it was adequate. The Audit Senior suggested that a qualified opinion should be issued and further wishes that the matter should be included in the audit report. (3 marks)

**3. Ishmael Wholesalers Ltd:**

This is the first time that your firm is conducting an audit of the financial statements of this client. The previous year financial statements were audited by different auditors, Prudence & Associates. The audit team discovered errors in the valuation of closing inventory for the previous year.

The audit team performed the necessary audit procedures on the opening balances and efforts to have the opening balance for inventory to be corrected failed because management argued that it did not affect the current year financial statements which the firm is auditing. The Audit Senior suggested that an unmodified opinion should be issued because the previous year financial statements were audited by different auditors and that this will be disclosed in the audit report. (3 marks)

**4. Twapenga Ltd:**

The company has a Board of Directors comprising executive and non-executive board members. During the year, the directors obtained fees totaling K4.5 million and a number of them obtained loans from the company which they are required to pay back within a period of five (5) years.

Twapenga Ltd runs a social club for its staff which operates independently of the main business. The company invested K5 million three (3) years ago and the club is under the Human Resources department. It employs its own staff and maintains its own separate financial statements. The club maintains its own bank account and operates on the basis of non-profit making. Its constitution allows non staff to belong to the club on payment of an annual membership fee. Further, the club generates income through running a restaurant and other fund raising ventures which are open to the public.

**Required:**

- (a) State four (4) financial statement assertions for the figure of motor vehicles in the financial statements of Chisomo Ltd and for each assertion suggest an audit procedure that should be performed. (8 marks)
- (b) Suggest four (4) substantive audit procedures in the audit of director's emoluments in the audit of the financial statements of Twapenga Ltd for the year ended 31 March 2024. (4 marks)

(c) Explain the audit procedures with regards the uncorrected misstatements identified during the audit and those at the end of the audit of the financial statements of Twapenga Ltd for the year ended 31 March 2024. (4 marks)

(d) Evaluate the appropriateness of the suggested opinions for each of clients 1 to 3 above and explain how the matters will be included in the audit reports. (9 marks)

**[Total: 25 Marks]**

#### **QUESTION FOUR**

Konkola Ltd is a company that runs a lodge and boutique selling designer cloths targeting the high class in society. The company is owned by Tisa who invested her retirement benefits into the two (2) businesses. The boutique is run by a Manager who is responsible for sales and banking of the daily takings. The boutique offers layby facilities whereby customers are able to pay a deposit and on completion of the amount within three (3) months they collect their goods. The Lodge is independently run by a Manager with a complement of five (5) employees. Tisa is responsible for all procurement for both the boutique and the lodge. Tisa regularly goes out of the country for periods ranging between two (2) weeks and a month to buy inventory for the boutique.

Your firm of chartered accountants, Chris & Associates is auditor of the boutique and the lodge each of which maintains separate financial statements. The boutique uses the same bank account that is used by the lodge for its transactions. Bank reconciliations are prepared by the Lodge Accountant who relies on returns from the boutique Manager. There are instances when Tisa gets cash from the boutique Manager for personal use on the understanding that she would refund the money. Further, there are no receipts issued for sales made and receipts are only issued on request of the customers. This went well with Tisa because she was able to understate her revenue resulting in reduced tax payable. She has refunded money drawn on very few occasions and the only record of cash having been collected by her is a note on the daily cash sales report prepared by the Manager. During the year, Tisa observed that there was a large discrepancy between the daily sales summaries total receipts with the funds deposited in the bank. There was no independent check of the daily sales summary totals and agreeing with the bank deposit. When queried, the Manager claimed that the differences arose from the cash collected by Tisa and not refunded for depositing.

Tisa decided to computerize the accounting system of both the boutique and the lodge. Under the newly computerized system, all sales are generated by the system and numbered invoices and receipts are generated. The system has an input control whereby layby facilities have limits and the system would not allow layby facilities exceeding the set limits. Tisa evaluates all customers requiring credit and sets the credit limits.

You have been assigned Audit Senior on the audit of the financial statements of the boutique for the year ended 31 March 2024. The Audit Manager has expressed happiness on the fact that the company is now computerized and he has demanded that the audit team should take advantage of the computerization and take advantage of the use of Computer Assisted Audit Techniques (CAATs). This will be the first time for your firm to make use of Computer Assisted Audit Techniques in conducting an audit. You are concerned that there are disadvantages of using Computer Assisted Audit Techniques for the firm. The Audit Manager has requested you to share



with him the concerns of the audit team on the use of Computer Assisted Audit Techniques. He said there is on the market audit software that can be acquired off the shelf and used and also the team should easily be able to use test data during the audit. Computer Assisted Audit Techniques can also be used to perform substantive audit procedures which should be performed on all material amounts in the financial statements.

In planning the audit of the financial statements of the boutique and the lodge you are required to undertake a risk assessment. You wish to assign recently recruited Audit Assistants to carry out the risk assessment. The preliminary assessment of the understanding of the Audit Assistants shows that they do not fully understand the difference between business risk and audit risk. They know that audit risk arises from the fact that the auditors may issue an inappropriate audit opinion but they are not familiar with the components of audit risk.

**Required:**

- (a) (i) Explain the meaning of business risk and audit risk, and clearly explain the responsibility of management and the auditor regarding these risks. (4 marks)
- (ii) Explain the importance of business risks in an audit of the financial statements of Konkola Ltd. (1 marks)
- (b) (i) State two (2) disadvantages of the use of Computer Assisted Audit Techniques in the audit of client financial statements by audit firms. (2 marks)
- (ii) Explain the meaning of test data and audit software and describe the use of each one (1) of them in the audit of the financial statements of Konkola Ltd. (8 marks)
- (c) (i) Distinguish between tests of controls and substantive audit procedures in the audit of financial statements. (4 marks)
- (ii) Explain three (3) internal control weaknesses in the operations of Konkola Ltd and make recommendations to remedy the weaknesses explained. (6 marks)

**[Total: 25 Marks]**

**QUESTION FIVE**

Nchanga Ltd is a manufacturing company in the manufacture of domestic appliances. The company produces for the local and export market. The company supplies goods on warranty and repairs or replaces defective appliances bought within three (3) months of sale. At the period end the company holds significant work in progress and finished goods. Mid way during the year 2023, the company changed its information system from using Pastel accounting to Sage. During the year there has been an increase in the level of sales returns most of which are on account of defective appliances supplied. The company spent K1.5 million in repairing defective appliances in the current year compared to K0.60 million the previous year. A warranty provision of K0.8 million has been recognized in the financial statements.

You are Audit Manager in your firm of chartered accountants and you are responsible for the audit of the financial statements of Nchanga Ltd. The audit of the financial statements for the

year ended 31 December 2023 is about to commence. The Audit Senior who has been responsible for this audit over the last three (3) years recently resigned together with three (3) Audit Assistants. Only one (1) junior auditor with less than one (1) year experience is still around. You intend to set up an audit team that should undertake risk assessment in line with the provisions of ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment*. You want the audit team to identify the audit risks that exist at the planning stage of the audit and to enable you respond to any risks appropriately in accordance with the provisions of ISA 330 *The auditor's responses to assessed risks*.

In the past, the audit team attended inventory count at the main warehouse located at Head Office of Nchanga Ltd. Internal audit reports that have been made available to you for the year 2023 show serious internal control lapses in the inventory and sales systems. There were noted significant differences between book records and physical quantities of inventory at three (3) satellite warehouses located in different parts of the country.

You have been given the following inventory count instructions and you are required to evaluate them for appropriateness in the use to conduct the inventory count which will be the basis for the inventory valuation:

1. Inventory count will be conducted over a period of two (2) days beginning on 25 – 26 December 2023.
2. Production will continue during these two (2) days to enable the production department meet its annual production targets.
3. The inventory count will be supervised by the Stores Controller who has many years' experience in inventory control. He will be assisted by stores staff who will direct the counters to the areas that they have been assigned to.
4. There will be ten (10) people taking part in the inventory and each one will be allocated a line of goods to count. The counters will record the details of the items counted on blank paper that will be numbered using a numbering machine by the Stores Controller. The counts will be made in pencil for ease of correction in case of errors.
5. At the end of the count, the Stores Controller will transfer the count details to the machine printed inventory records which show the book stock for each item.
6. Where there are differences between the book stock and the physical stock the Stores Assistants will correct the book stock so that it agrees with the physical count.
7. Damaged items should not be counted by the counters, the Stores Controller will go around and identify damaged goods and record these separately on a separate counting sheet.
8. Work in progress will be valued by an expert engaged by management.

**Required:**

- (a) Explain six (6) deficiencies in the inventory count instructions and suggest improvements to each deficiency explained. (12 marks)
- (b) Explain one (1) method that the audit team members may use to identify audit risks at the planning stage of the audit of the financial statements of Nchanga Ltd. (1 marks)
- (c) Explain four (4) audit risks in the audit of the financial statements of Nchanga Ltd for the year ended 31 March 2024 and suggest suitable responses to each risk. (8 marks)

- (d) Explain four (4) overall (additional) audit responses by the audit team of Nchanga Ltd to the audit risks identified in accordance with the provisions of ISA 330 *The auditor's responses to assessed risks*. (4 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## **DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS**

### **SOLUTION ONE**

**(a) Removal of Ruth & Rose Chartered Accountants from office:**

The removal of Ruth & Rose Chartered Accountants from office is not in line with the procedure that should be followed.

In as much as the company has the right to remove auditors from office before the end of the contract and notwithstanding the terms of the contract, it is the company through passing an ordinary resolution that has the power to remove the auditors from office. In this case a decision to remove the auditors has been made by the Board of Directors who should have made a recommendation to the shareholders to pass the necessary resolution at the AGM to be held on 12 May 2023.

It is a requirement that in removing the auditors from office, a notice should be given to the Registrar of Companies informing it of the resolution to remove the auditors. In this case there is no notice that has been issued and as such the Kalulushi Plc. will be liable to a fine for not issuing the necessary notice to the Registrar.

Finally, the response by Kalulushi Plc. to the demand for compensation by Ruth & Rose Chartered Accountants that no compensation will be paid is incorrect. Ruth & Rose Chartered Accountants are entitled to compensation in respect of the termination of their appointment.

**(b) (i) The preconditions before accepting appointment as auditors:**

- That the financial reporting framework used in the preparation of the financial statements by Kalulushi Plc. is acceptable considering the nature of the industry the company is involved in.
- Acknowledgement by the management of Kalulushi Plc. of its responsibilities for:
  - The preparation of the financial statements in accordance with the applicable financial reporting framework.
  - For putting in place internal control systems that are necessary to enable the preparation of financial statements that are free from material misstatements and
  - Providing the auditors with access to all the information that the auditors will require for the performance of the auditor and that there will be unrestricted access to the entity staff.

**(ii) Ethical & professional matters that should be considered:**

1. Chanda & Chushi Chartered Accountants are auditors of Munsu Pleasure Resorts who are in the same industry and business as Kalulushi Plc. This creates a conflict of interests between clients and either of the clients may not be willing to have its financial statements audited by the same auditors.

**Safeguard:**

Chanda & Chushi Chartered Accountants should inform Kalulushi Plc. that they are currently auditors of Munsu Pleasure Resorts and find out if they will not mind being audited by the firm. Further, the firm should inform Munsu Pleasure Resorts that it has been approached by Kalulushi Plc. and find out if they would accept to be audited by the same firm that is auditor to a competitor.

2. The fee of K1.3 million proposed by the firm is considered lowballing at 50% of the average fees by the other bidders. This may bring about a threat to the objectivity of the audit firm and audit team in that it will want to perform the audit at a profit. The motive for charging a much reduced fee could be in order to win the tender and this may compromise on the quality of the audit.

**Safeguard:**

The firm should conduct the audit in line with the quality control provisions and should show evidence that staff of the right caliber have been assigned to the audit and that sufficient time has been given within which to complete the audit. Peer reviews of the work done by a partner not involved on the audit may be done.

3. Denial of permission to communicate with the previous auditors – It is a professional requirement for incoming auditors to communicate with the previous auditors before accepting appointment as auditors. In this case, permission to communicate with Ruth & Rose Chartered Accountants has been denied by Kalulushi Plc.

**Safeguard:**

Chanda & Chushi Chartered Accountants should decline appointment in the grounds of the refusal to communicate with the previous auditors.

4. Request for offer of actuarial services – The request by Kalulushi Plc. that the firm to be engaged should provide actuarial services which will be used in determining the amounts to be charged to profit or loss will result in a self-review threat to the auditors.

**Safeguard:**

Since Kalulushi Plc. is a public interest entity, the provision of valuation services is prohibited. The firm should make it clear that it will not be in a position to provide the requested service.

5. Managing Partner of Chanda & Chushi friend of the Chief Financial Officer of Kalulushi Plc. – The relationship between the Managing Partner and the Chief Financial Officer of Kalulushi Plc. gives rise to a self-interest and familiarity threats being close friends. This is likely to impact on the objectivity of the Managing partner when auditing the financial statements of Kalulushi Plc.

**Safeguard:**

Since Chanda & Chushi Chartered Accountants is a five partner firm, the Managing Partner should not have anything to do with the audit of the financial statements of Kalulushi Plc. A different partner should be assigned this audit and the peer reviews should be conducted by a different partner and not the Managing Partner.

**(c) Use of internal audit by statutory auditors:****Direct assistance of internal audit:**

This is where the statutory auditors supervise the work the internal auditors are required to undertake. For this purpose the internal auditors are answerable to the external auditors.

**For example:**

The external auditors may request staff from internal audit to attend inventory count at sites that the external auditors may not attend.

**Using the work of internal audit:**

This is where the external auditors rely on work that has been done by the internal auditors. In this case the work should be relevant to the evidence that the external auditors wish to obtain.

**For example**

The external auditors of Kalulushi Plc. may place reliance on the results of the tests of controls performed by the internal auditors in deciding whether to use a combined approach to the audit.

## **SOLUTION TWO**

### **(a) Methods auditors can use to record an accounting system:**

#### **1. Narrative notes:**

This is where the auditors records by way of taking notes their understanding of the system as it is being explained by the staff of the client company.

##### **Disadvantage:**

- In case of changes in the system will require rewriting the system which is cumbersome and time consuming.

#### **2. Questionnaires:**

This is the use of a set of questions to record the system with the questions requiring a Yes or No. In this way the auditors will be able to assess the system in use.

##### **Disadvantages:**

- May be drafted vaguely and hence misunderstood.
- May require specialist skills to draw which may not be readily available.

#### **3. Flowcharts:**

This is the use of graphic illustrations of the physical flow of information the through the recorded accounting system. The flow lines represent the sequence of the system and other symbols are used to represent inputs and outputs.

##### **Disadvantages:**

- Ideal for recording standard systems. Procedures that deal with unusual transactions may not be recorded using this method.
- Amendment in the system may require redrawing which may prove cumbersome and time consuming.

#### **4. Checklists:**

This involves the auditors designing statements instead of questions for the system and ticks are used to test whether the statement is true.

##### **Disadvantages:**

- Statements may be drafter vaguely and therefore subject to misunderstanding.
- Unusual controls may not be covered in the statements on the checklist.

### **(b) (i) Substantive audit procedures to obtain evidence:**

#### **Inspection:**

This involves the inspection of documents or assets of a client company.

In the audit of the financial statements of Everest Ltd this could involve the inspection of invoices raised by the auditor to confirm the correctness of the unit prices used as well as the arithmetical accuracy of the invoices inspected.

#### **Observation:**

This involves observation by the auditors of a procedure.

In the audit of the financial statements of Everest Ltd the auditors may observe that segregation of duties is performed in accordance with the procedures. This

could be in relation to separate individuals being responsible for receipting income and banking the receipts.

**Inquiry:**

This involves the auditor asking management and staff of the client company for any explanations they may want.

In the audit of the financial statements of Everest Ltd auditors may inquire of management and others in gaining an understanding of the entity at the planning stage of the audit.

**Re-performance:**

This involves redoing by the auditor of a procedure that was previously done by the client.

In the case of the audit of the financial statements of Everest Ltd the auditors may re-perform the bank reconciliations by obtaining the bank statements and the relevant accounting records. Auditor generated evidence is more reliable than evidence obtained from the client company.

**(ii) Meaning of analytical procedures:**

In the context of auditing analytical procedures could simply be explained as comparisons of figures with prior period figures or those of entities in a similar industry or industry averages and making meaningful interpretations of the results of the comparisons. The comparisons could be of absolute figures or ratios calculated from the absolute figures of the entity and the comparatives.

**Use of analytical procedures in the audit of the financial statements of Everest Ltd:**

**At planning stage of the audit:**

At the planning stage of the audit and during the process of assessing the risk of material misstatement through understanding the entity and its environment according to ISA 315 one of the methods used in doing so is that of analytical procedures.

The auditors will make comparisons of the audit client with the performance of other similar entities and also of industry figures where they are available. Any significant variations arising from these comparisons will be investigated further by the auditors.

**At the stage of obtaining evidence:**

At the stage of obtaining evidence on possible misstatements of figures contained in the financial statements one of the main procedures used by the auditors is that of analytical procedures. This way the auditors will investigate any unusual relationships that may be identified and be able to determine misstatements of the figures under review.



**At the review stage of the audit:**

At this stage analytical procedures are used during the review and finalization of the audit on the draft financial statements. This is usually done by the Audit Manager and the Engagement Partner and again involves comparisons of figures for expected relationships and also to establish whether or not the financial statements make sense.

**(c) Matters to consider on reliability of perpetual inventory count records:**

- The inventory records maintained:  
This relates to the availability of inventory records for all inventory lines and the updating of the records for all movements in and out. Everest Ltd appears to have in place the required inventory records and also a general ledger account showing the value of the inventory held.
- The frequency of counts of inventory:  
Whose objective is to confirm that all inventory lines are counted at least once during the year. All inventory counted is clearly marked to avoid a recount of inventory previously counted.
- Treatment of differences between counts and records:  
With the aim of confirming that the inventory records are a record of inventory held. The stock records are updated and any discrepancies are recorded and investigated. A record of discrepancies is maintained which shows a decrease in the number of discrepancies experienced.
- Satisfactory procedures for inventory counts:  
That there are strict guidelines on the perpetual inventory counts to be conducted. There should be strict control over movements of items during the counts. Any adjustments to inventory records are closely supervised and can only be done on authority of the Stores Manager.

**(d) Substantive audit procedures on electricity figure:**

1. Obtain a breakdown of the make-up of the amount charged for electricity in the financial statements and cast the schedule for arithmetical accuracy.
2. For a sample of actual bills paid, verify the amount paid and included in the financial statements to the bills for electricity
3. Verify the period for which actual bills have been received and paid to determine period for which accrual should be made at the period end.
4. Obtain explanation for the accrual made and if based on actual bills not paid at the period end, compare amounts to the bills on hand and for this period.
5. For accrual based on estimates on account of there being no bill on hand check post year end payment to confirm adequacy of accrual made at the period end.

### SOLUTION THREE

(a) **Financial statement assertions for M/V and audit procedures:**

	<b>Financial statement assertion:</b>	<b>Audit procedure:</b>
1.	Rights & obligations	For a sample of motor vehicles, inspect the white books and confirm that absolute ownership is in the name of Everest Ltd.
2.	Valuation	For a sample of additions to motor vehicles inspect the purchase invoices and compare amount to the figures in the financial statements.
3.	Existence	Physically inspect a sample of motor vehicles.
4.	Classification:	Review the relevant general ledger account and confirm through inspection that all amounts debited are of a capital nature and no revenue related expenditure such as repairs is capitalized.

(b) **Substantive audit procedures for director's emoluments:**

- Inquire from management details of directors of Twapenga Ltd and those connected to them.
- Review the director's contracts and ensure that the emoluments are in line with the terms of the contracts.
- Obtain a schedule of each director's emoluments split between wages, bonuses, and benefits in kind and other emoluments.
- Check the additions of the schedules for arithmetical accuracy and that amounts agree with the disclosure in the financial statements.
- Agree salaries, fees, and bonuses to payroll records for the individual directors and check amounts paid to bank statements and cash book.
- Review the financial statements for adequacy of disclosures of director's emoluments that they comply with applicable standards and regulatory requirements.

(c) **Audit procedures for uncorrected misstatements:**

ISA 450 *Evaluation of misstatements identified during the audit* gives guidance to the auditors in this area.

- Discuss the identified misstatements identified during the audit with the management of Twapenga Ltd and request that corrections to the financial statements should be made if they have not been made already.
- If management declines to make corrections as is the case here, establish the reasons for the refusal and evaluate the impact of the refusal on the financial statements whether they are free from material misstatement.
- Communicate the uncorrected misstatements and the effect they have on the financial statements to those charged with governance. If those charged with governance consider that the effects of the uncorrected misstatements as immaterial as is the case at hand, request written representations from management and those charged with governance confirming this.

- Consider the impact of uncorrected misstatements at the conclusion of the audit on the audit opinion. The level of the uncorrected misstatements should be evaluated considering the materiality levels at the planning stage of the audit.

**(d) Appropriateness of suggested opinions:**

**Chisomo Ltd:**

The matters to be considered are that:

- The matter has been communicated to management and those charged with governance and agreed that details of the accounting estimates be disclosed in the notes to the financial statements.
- The matter could be considered as a key audit matter having required to be communicated with those charged with governance.
- The proposal for issuing of an adverse opinion by the Audit Senior is incorrect and an unmodified opinion is appropriate under the circumstances.
- The auditors may disclose this matter in the audit report either in Key Audit Matters paragraph or in the emphasis of matter paragraph clearly referring to the disclosure in the financial statements.

**Agriculture Equipment Manufacturing Plc:**

The following observations are made with regards the suggested opinion and disclosures

- This is a matter that has been agreed and correctly accounted for in the financial statements. It is not a matter that should result in the modification of the opinion of the auditor.
- The suggested qualified opinion by the Audit Senior is not correct. The appropriate opinion is an unmodified audit opinion.
- The auditors can include this matter in the emphasis of matter paragraph clearly referring to note five (5) of the financial statements and explaining that the disclosure is not a modification of the opinion.

**Ishmael Wholesalers Ltd:**

The following points are in relation to the evaluation of the suggested opinion in the audit of the financial statements of Ishmael Wholesalers Ltd

- Opening balances have an impact on the current year financial statements. If, therefore, the opening balances are misstated inevitably the current year figures will be misstated.
- The assertion by the Audit Senior that since the prior year financial statements were audited by different auditors as such does not impact current year figures is incorrect. The suggested unmodified opinion is not appropriate because clearly the audit team has not been able to obtain sufficient appropriate evidence and this is as a result of management failing to provide the auditors with the information they required. A disclaimer of opinion in this case will be appropriate.
- The basis for issuing a disclaimer of opinion will be explained in the Basis for disclaimer paragraph below the Disclaimer of opinion paragraph.

## SOLUTION FOUR

(a) (i) **Business risk and audit risk:**

**Business risks** can be explained as any matters that may cause the organization to meet its objectives. In the case at hand the increase in the number of new boutiques selling high quality cloths targeting the same market as that of Konkola Ltd can negatively impact the revenue of Konkola Ltd.

**Management** of Konkola Ltd is responsible for business risk management in the company. Those charged with governance will provide oversight on risks assessment.

**Audit risk** – This is the risk that the auditors may issue an inappropriate audit opinion after the audit. For example when the financial statements are misstated, the auditors may issue an unmodified opinion when a modified opinion is appropriate.

The **auditors** are responsible for the identification and management of audit risk in an audit. They should manage risk and ensure that it is within acceptable levels.

(ii) **Importance of business risk to an audit of financial statements:**

While business risk is a concern of management, some business risks have an impact on the financial statements. This is more the case with business risk that has an impact on the ability of the company as a going concern. The going concern of a business has a bearing on the basis of preparing the financial statements.

If the company is a going concern, the financial statements will be prepared on the historical cost bases while if it is not, the break up basis is appropriate. The concern of the auditors is the appropriateness of the basis of preparing the financial statements.

(b) (i) **Disadvantages of Computer Assisted Audit Techniques:**

- Setting up the software that is needed for use by CAATs can be time consuming and costly to the auditors.
- The audit team members may not be trained in the use of CAATs and may need training to enable them effectively use the CAATs.
- Not all client systems may have systems that are compatible with the CAATs in use by the auditors.
- There is a danger that client live data may be corrupted and even lost during the use of CAATs.

(ii) **Meaning of test data:**

This is data that is prepared by the auditor together with predetermined results of processing and processed in the client computer system the results of which are compared with the predetermined results. The objective of test data is to establish whether or not the computer system is operating as intended.

**Use of test data in the audit of the financial statements of Konkola Ltd:**

The IT system of Konkola Ltd has limits for its customers so that they do not exceed the set credit limits. Test data could be prepared for a number of credit customers with credit limits exceeded. The data will require to be input into the computer system and the expectation is that the system will reject to process sales that will cause the limits to be exceeded. If the system accepts to process sales exceeding the limit then it will be concluded that the system is not operating as expected.

**Meaning of audit software:**

This is the use by the auditor of computers to perform tasks that would otherwise be done by the audit team members. Software is designed to perform the said tasks and this is input in the computer system of the client. Audit software could be bought off the shelf or could be written specifically to meet the objective of the auditors.

**Use of audit software in the audit of the financial statements of Konkola Ltd:**

The audit team on the audit of the financial statements of Konkola Ltd would like to extract samples of sales invoices to test. Audit software could be used to extract random invoices that should be subject to audit procedures. Once the samples have been extracted, auditors may wish to confirm that the correct unit prices were used and also to recalculate the figures on the extracted invoices, this could be done using audit software which can handle much larger samples at high speed.

- (c) (i) **Distinction between tests of controls and substantive audit procedures:**  
**Tests of controls** are performed by the auditors to confirm whether or not the internal control activities put in place by management are operating as expected to help prevent and detect errors. The auditors use the results of the tests of controls to decide on the nature and extent of further audit procedures that should be performed. The auditors will use a combined approach if the results of the tests of controls show that the controls are effective or a substantive audit approach where the results show that the controls are not operating as expected.

**Substantive audit procedures** are performed by the auditors on all material figures in the financial statements to establish whether or not the amounts are materially misstated. The overall conclusion of the substantive audit procedures will be used in arriving at an appropriate audit opinion.

**(ii) Internal control weaknesses in Konkola Ltd:**

	<b>Internal control weakness</b>	<b>Recommendation for improvement</b>
1.	Operating and using the same bank account for two lines of business that prepare separate financial statements may result in difficulties managing funds and	Separate bank accounts should be maintained for the boutique and the lodge.

	misappropriation of funds could easily be concealed.	
2.	The withdrawal of cash by Tisa with no record of withdrawal is a control weakness in that for accountability purposes all movements of cash should be supported by duly authorized documents.	Cash withdrawn by Tisa should be supported by a document duly authorized and which should be retained by the cashier who disbursed the funds.
3.	The fact that receipts for sales made are only issued on request of customers is a control weakness which could lead to misappropriation of sales proceeds by sales staff.	Sales receipts should be issued for all sales and these will be required to help in balancing inventory and also for accounting of daily sales to the banking records.
4.	Lack of independent verification of daily sales to bank deposits could result in the misappropriation of cash by sales staff. This is evidenced by the discrepancies observed and attributed to the cash given to Tisa.	An independent reconciliation of daily sales to bank deposits should be done and any discrepancies investigated promptly.

## SOLUTION FIVE

### (a) Deficiencies in inventory count instructions:

	<b>Deficiency in inventory count instructions:</b>	<b>Suggested improvement:</b>
1.	The movement of inventory during the dates of inventory count may result in incorrect recording of inventory.	Production should cease during the period of inventory count and no movement stock items should be allowed during this period.
2.	The fact that inventory counting will be supervised by the Stores Controller is a weakness in that he has the responsibility for handling of all inventory and may conceal any fraud that may have occurred and may misstate the counts in order to agree with the balances on the inventory records.	An independent person not involved in the management of inventory should be made in charge of the inventory count.
3.	The use of unnumbered counting sheets could result in destruction of counting sheets used in the count and replacing them with others for fraudulent reasons.	Inventory counting sheets should be pre-numbered and accounted for after the inventory count.
4.	The recording of the counts in pencil could result in the alternation of original counts for fraudulent reasons.	All counts should be made in ink and any alterations should be explained to avoid unauthorized changes in the counts made.
5.	Stock records being updated after the count is not appropriate as it could lead into alterations in the quantities in order to conceal any discrepancies between physical counts and book stocks.	The inventory count records should be updated prior to the inventory count and any amendment arising from the inventory count should be duly authorized and properly managed.
6.	The use of stores staff to correct the book stock could result in fraudulent entries to conceal any shortages which they are supposed to explain.	Staff not involved in the handling of stock should be responsible for updating the inventory records with the physical counts.
7.	One counter has been allocated specific areas to do the counting and recording of the counts. It is possible that wrong counts or recording could go undetected on account of the same person doing both tasks.	Counters should be in teams of two people with one counting the items and the other one recording the counts.
8.	Damaged goods should be separated and recorded. This should not be the responsibility the Stores Controller the custodian of inventory who may record goods that are not damaged as damaged for fraudulent reasons.	Inventory count instructions should be specific on the role of the staff involved in counting is concerning damaged goods which should be separately recorded as such.

- (b) Identification of audit risks at planning stage of the audit of the financial statements of Nchanga Limited:

The planning stage of the audit is the stage where the auditors identify and assess the risks of material misstatements through understanding the entity and its environment.

There are various ways in which the auditors gain an understanding including inquiry of management and others within the entity and observations. In the process of gaining an understanding the auditors are expected, using their professional knowledge, expected to identify the risks that could cause the financial statements to be misstated.

**(c) Audit risks in the audit of the financial statements of Nchanga Ltd:**

	<b>Audit risk</b>	<b>Suitable response</b>
1.	Warranty repairs – the provisions for repairing of defective products should be made and this is an accounting estimates. There is a risk the provision may be materially misstated resulting in a misstatement of the financial statements.	Evaluate the basis of arriving at the provision and consider any likely bias in determining this amount. Obtain written representations from management confirming the adequacy of the provision recognized in the financial statements.
2.	Change in information system – Staff of Nchanga Ltd will most likely still be learning the use of the new accounting system. The likelihood of errors is high and these may result in a misstatement of some figures in the financial statements.	Emphasize to the audit team the need for observing professional skepticism throughout the audit. To look out for possible errors that may occur as a result of the introduction of a new system.
3.	Inexperienced audit team – The fact that audit staff with experience in auditing the financial statements of Nchanga Ltd have left the company leaves the firm with no option but to assign new staff with no experience in the audit of this client. The detection risk in this case will be high because undetected misstatements may exist for lack of necessary auditing skills by the new audit team members.	Close supervision of the work that will be done and peer reviews by staff that will not be involved in the audit of the financial statements for the year ended 31 December 2023.
4.	Risk inventory may be misstated due to incorrect adjustments covering the period 27 December 2023 to the period end – There is need for adjustments to be made for the movements in inventory between 27 December and 31 December 2023. Inventory valuation should be based on inventory held on 31 December. There is a risk that these adjustments	Review the instructions for the adjustments that should be made in the interim period. Review the adjustments made for any possible errors in inventory quantities.



	many be incorrectly done resulting in a misstatement of inventory and the financial statements.	
5.	Inventory being misstated on account of poor inventory counting instructions – Inadequate inventory count instructions and following them may result in an inventory count that cannot be relied upon as a basis for determining the inventory value at the period end.	Obtain the inventory count instructions from Nchanga Ltd and review them for any weaknesses. Advise management of any weaknesses observed and request that they should be addressed.
6.	Poor internal controls – Can result in material misstatements remaining undetected and not corrected which could result in the misstatement of the financial statements.	Conduct tests of controls and if the results of the tests of controls show that the internal controls are not operating as expected the audit team should not rely on the internal controls in determining the nature and extent of further audit procedures to be conducted. A substantive approach to auditing should be followed.

**(d) Responding to the identified risks using overall responses in ISA 315:**

- Emphasizing to the audit team the need for maintaining professional skepticism throughout the conduct of the audit.
- Through assignment of staff to audit teams with the necessary skills and competences to conduct the audit considering the level of risk existing. Care should be taken in assembling the audit team and ensure that staff with skills and experience are assigned considering that this will be the first time for them to be on the audit of the financial statements of Nchanga Ltd.
- Close supervision of the work performed by senior staff within the audit team so that potential problems are promptly identified and resolved. The audit working papers should be subject to reviews by staff who will not be involved in the audit.
- Making changes to the nature, timing and extent of audit procedures not following the same methods that the client is familiar with.
- Incorporating unpredictability into the audit procedures. For example in the past the audit team has only attended inventory count at the main warehouse. The audit team may now want to attend inventory count at any of the other satellite locations.

**END OF 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 DECEMBER 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

You are a newly qualified accountant in the office of the Permanent Secretary, Ministry of Finance, Zambia. Following your qualification, you are due for a promotional assessment meeting at which you have been requested by the panel of interviewers to explain to them the following things you have learnt under ZICA D12 Program.

#### **Required:**

Explain to them the following:

- (a) Whether a company can issue shares at a discount? (5 marks)
- (b) The circumstance under which issued share capital of a company can be returned to the shareholders by the company? (5 marks)
- (c) Explain the duties of a Company Secretary in relation to corporate governance. (10 marks)
- (d) Explain class meetings in relation to companies with share capital. (5 marks)

**[Total: 25 Marks]**

### QUESTION TWO

Courts have not religiously followed the judgment in *Salomon and Salomon & Co Limited, 1897*. However, they have demonstrated a willingness to depart from this landmark decision. With the help of decided cases explain how the courts may do this, where:

#### **Required:**

- (a) (i) A company has been formed to evade a legal obligation. (8 marks)
- (ii) It is just and equitable to lift the corporate veil. (8 marks)
- (b) Explain the stages of incorporating a company. (9 marks)

**[Total 25 Marks]**

## **SECTION B**

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

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

### **QUESTION THREE**

Morgan Mwanza is a director at WASHA Company Ltd and is assisted by two other directors. Mr. Mwanza was appointed when the company was being formed, and is therefore, known as the initial director, while the other directors are subsequent directors.

At the time Morgan Mwanza was being appointed, he had no shares in WASHA Company, although, due to his legal background he was given a contract to draft the Articles of WASHA Company and to act as its legal counsel. As he was drafting the articles of associations, he put a clause unknown to the other members of the company to always appoint him as legal counsel.

The company expanded due to good management and a merger was made between WASHA and CHAPA Companies, changing the name of the company to WASHACHAPA Ltd. WASHACHAPA Ltd has since appointed a new legal counsel. Morgan Mwanza is unhappy with this decision and decides to sue WASHACHAPA Company Ltd.

#### **Required;**

- (a) Define Articles of Association. (5 marks)
- (b) Advise Mwanza on his chances of succeeding under his actions. (12 marks)
- (c) Describe the role of the remuneration committee in a company? (8 marks)

**[Total: 25 Marks]**

### **QUESTION FOUR**

- (a) List and explain three (3) types of meetings a company is required to have. (12 marks)
- (b) Explain what is meant by winding up of a company. (5 marks)
- (c) Explain three (3) ways in which a company may be wound up. (6 marks)
- (d) Define a "liquidator". (2 marks)

**[Total: 25 Marks]**

### **QUESTION FIVE**

Bridgepack Investments is a Zambian company owned by an elite family called the Kalimamukwentos of Western province, and belong to the Mpla Group of Companies, a Consortium under the management of yet another elite family of Muchinga province who have, over the years become a household name - the Mpempas.

Bridgepack Investments is embarking on an ambitious project dubbed, The Zambia Goldhub Project, in order to be able to successfully run this project and achieve its intended purpose, Bridgepack Investments will have to raise capital or in fact borrow the total sum of \$67, 000.00.

At a meeting held on the 24 day of January, 2021, the Directors of Bridgepack investments agreed that they would need external funding for the purposes of running this project. They intend on raising this issue at the coming 116 Annual General Meeting in the presence of all the Stakeholders and or stockholders.

It is agreed at the Annual General Meeting that the borrowing process be preceded by the change of Bridgepack Investments from an unlimited company to one limited by shares in order to make it more attractive for borrowing purposes.

Knowing that you are a self-proclaimed expert in matters of this nature, the Directors of Bridgepack Investments approach you for advice.

#### **Required:**

- (i) With your vast knowledge of Governance and Corporate law, compare the concept of Stockholders to that of Stakeholders. (12 marks)
- (ii) Examine the key differences between a Company Limited by shares and an Unlimited Company in terms of liability. (8 marks)
- (iii) Discuss the borrowing powers of a company. (5 marks)

**[Total: 25 Marks]**

**END OF PAPER**

## DA: 12 GOVERNANCE AND COMPANY LAW SUGGESTED SOLUTIONS

### SOLUTION ONE

- (a) No it cannot, ***Ooregum Gold Mining Company of India Ltd v. Roper 1892***. A company cannot issue shares at a discount because one of the conditions for limiting liability in a company is that the shareholders are liable only to the amount they agreed/issued to them/registered against their names and that value of shares is fixed for each particular class of shares no less no more. Thus shareholders are liable to a fixed value according to each value of shares issued to them. Issuing shares at a discount would distort this element of liability, for example, a shareholder owning 10,000 shares of K1 each would be liable up to K10, 000 the amount he invested/shares issued to him. Thus giving shares at a discount of say 20%, i.e. K0.80 per share would reduce his liability to  $10,000 \times K0.80 = K8, 000$  which is less than what he would be liable without a discount. This distorts liability, and companies do not issue shares at a discount for this reason.
- (b) The company as a general rule, cannot return issued shares to shareholders except in a winding up, ***Re Chartly – Whitfield Colliery Ltd***. When doing so, the shareholders with preference rights will get their share capital first, i.e. earlier than ordinary shareholders.
- (c) The position of Company Secretary is a very senior position in a company, ***Panorama Development Ltd v Fidelis Furnishing Fabrics Ltd (1971)***. The company secretary (NOT TYPIST/RECEPTIONIST/SECRETARY) has a number of duties before the meeting, during the meeting, after the meeting and during general administration of the company. His duties include preparing the agenda, writing down minutes, keeping the company's official documents, implementation of the meeting decisions, assisting the meeting chairperson in all aspects of work, signing contracts, etc.
- (d) Class Meetings are provided for under Section 140 of the now repealed CAP 388 of 1994. These are meetings called upon by the directors or at least two or more of the shareholders of a particular class to discuss issues affecting that class of shares. For example, where a company has preference shareholders, ordinary shareholders, etc., a meeting of preference shareholders only would be termed as a class meeting. This is important in company governance because the meetings tend to address the rights or issues affecting a particular type of shareholders and if properly handled, that would promote good corporate governance.

## **SOLUTION TWO**

### **(a) (i). A company formed to evade a legal obligation**

Courts are more likely to lift the corporate veil when a company is established solely to avoid legal obligations of its controllers, demonstrating abuse of the corporate form.

**Sham:** If the company is a facade with no genuine commercial purpose, merely created to circumvent a legal duty, the court can disregard its separate existence. For example, in **Prest v Petrodel Resources Ltd ([1983] 1 WLR 1334)**, a company formed to avoid honoring a personal guarantee was deemed a sham.

**Agency:** If the company acts as an agent or instrument of its controller, the controller might be held personally liable. In **Adams v Cape Industries plc ([1990] 1 WLR 1004)**, the court pierced the veil as the company was solely controlled and used for the personal benefit of its director.

**Group Liability:** Where a group of companies forms a "single economic unit" controlled by a central entity, courts may impose group liability on all companies for the actions of one (**Daimler AG v Continental Castings Corpn ([2014] EWCA Civ 1150)**).

### **(ii). Lifting the veil under "just and equitable" grounds (10 marks):**

Courts have the discretion to pierce the corporate veil when it is "just and equitable" to do so. This broad principle allows judges to consider various factors:

**Misuse of corporate personality:** If the company is used to commit fraud, wrongdoing, or unfairness, the veil might be lifted. In **Tracey v Dean ([1974] 1 WLR 1429)**, the court held the director personally liable for misusing the company to avoid personal debts.

**Oppression of minority shareholders:** Where majority shareholders unfairly prejudice the interests of minority shareholders, the court may intervene to protect them (**Menier v Hooper's Stores Ltd ([1974] 1 WLR 1180)**).

**Insolvency:** To ensure fair distribution of assets among creditors in liquidation, the veil might be lifted if company formation aimed to defraud creditors (**Re Darby ([1911] 1 KB 155)**).

(b) **Stages of incorporating a company are:**

**1. Planning and Preparation:**

**Conceptualize your business:** Define your business idea, target market, and overall strategy.

**Choose a business structure:** Select the most suitable legal structure (sole proprietorship, partnership, corporation) based on your needs and goals.

**Conduct a name search:** Ensure your desired company name is available and complies with regulations.

**2. Name & Legal Structure:**

**Reserve your company name:** Secure your chosen name with the relevant authority (e.g., Registrar of Companies) to prevent others from using it.

**Choose a legal structure:** Formally establish your chosen legal structure by completing necessary documentation and filings.

**Obtain licenses and permits:** Secure any necessary licenses and permits related to your industry and location.

**3. Filing & Documentation:**

**Prepare incorporation documents:** Draft and submit the required documents for incorporation, including the Memorandum of Association and Articles of Association (or equivalent depending on your jurisdiction).

**Pay registration fees:** Settle any required fees associated with the incorporation process.

**Appoint directors and officers:** Designate individuals to hold key positions within your company and fulfill legal obligations.

**4. Compliance & Legal Formalities:**

**Open a business bank account:** Establish a separate bank account for your company to maintain financial transparency.

**Register for taxes:** Obtain tax identification numbers and comply with relevant tax regulations.



**Implement accounting practices:** Set up systems for recording and managing your company's financial transactions.

**5. Launch and Operations:**

**Issue shares (if applicable):** Allocate ownership stakes in the company by issuing shares to shareholders.

**Commence operations:** Officially begin your business activities, adhering to legal and regulatory requirements.

**Maintain ongoing compliance:** Remain compliant with ongoing reporting and filing obligations throughout your company's life.

### SOLUTION THREE

- (a) The Articles of Association is a document that contains rules and regulations setting out how the company is to be managed and administered. It is a company constitution.
- (b) The Articles of Association is a document which normally regulates the internal relationships of a company. The Articles of Association can further be looked at as a contract between, the company and the members; members and company and members and members.

The situation in this scenario symbolizes the relation between the company and members. This entails that the company owes a member of a company certain obligations. In the case of **Eley v Positive Government Security Life Co Ltd [1876]**, E, a solicitor, drafted the original articles and included a provision that the company must always employ him as its solicitor. E became a member of the company some months after its incorporation. He later sued the company for breach of contract in not employing him as solicitor. Held: E could not rely on the articles since it was a contract between the company and its members and he was not asserting an claim as member.

In the same way, since Mr Morgan Mwanza, was not yet a member the time he inserted the clause in the articles of WASHACHAPA Ltd, he cannot succeeded in his cation even if he sues the company.

- (c) The role of the remuneration committee is to play the key role in establishing remuneration arrangements. In order to be effective, the committee needs both to determine the organization's general policy on the remuneration of executive directors and specific remuneration packages for each director. This committee is mainly staffed by non-executive directors.

## **SOLUTION FOUR**

(a)

- (i) Annual General Meeting
- (ii) Class meeting
- (iii) Extraordinary general meeting

(b)

- Annual General Meeting – this is a meeting of shareholders that is held annually. This meeting is supposed to be held at least within three months following the end of the financial year. The business that is transacted at the AGM among other, is the appointment of auditors, declaration of dividends, consideration of accounts, balance sheets and the report of the directors and auditors, election of directors replacing the retiring ones and special business as the case may be.
  - Extraordinary general meeting – this is any general meeting other than the annual general meeting. This meeting may be convened by the directors whenever they think fit or if the articles of the company provides, by any other person in accordance with the provisions. Extraordinary general meetings are convened by directors to deal with urgent matters which may not wait for the annual general meeting.
  - Class meeting – this is a meeting of a class of shareholders. The meeting is convened by the directors whenever they think fit; or by two or more members of that class.

(c)

- Winding up means the closure of a company where it ceases to exist. This is done by the striking off the register of companies at the companies' registration office (PACRA). Winding up is deemed to commence at the time of the presentation of the petition for winding up which is after the passing of a resolution authorizing the said winding up.

(d)

(i) **Winding up by order of the court**

This is also called compulsory winding up by the court because the directors of the company are unable to make a statutory declaration that a company will be able to pay its debts in the approximation of within 12 months.

(ii) **Members' voluntary winding up**

This occurs because members of the company have passed a resolution to wind the company and appoint a liquidator. Here, the directors must make a statutory declaration of solvency that the company is able to pay its debts.

(iii) **Creditors' voluntary winding up**

The creditors here are the ones who push for the winding up and shareholders resolve to put the company into winding up process but can't make a statutory declaration of solvency.

(e)

- A liquidator is a person appointed under the Companies Act to oversee the process of winding up a company. The main objective of the liquidator is to gather all the assets of the company and use them to pay creditors owed by the company before finally winding up the company.

## **SOLUTION FIVE**

### **The Stockholder theory:**

- i. Once a company limited by shares has been incorporated, it is as a matter of law that no one person can or should own all the shares in the said company and as such, there will be numerous shareholders in any given limited company.

Suffice to note that the shareholders of a company are not the persons involved in the day to day running of the company's affairs and therefore will appoint a Board of Directors to oversee the everyday running of the company. The question that arises one too many times is; to whom do the Directors of the company owe a responsibility and or legal duty to?

The preceding question in the aforementioned paragraph perhaps may be answered by what is known as; the *Stockholder theory*, this theory is one that focuses on the interests of the Shareholders. The gist of this theory is that it adopts from the principles of Agency and argues that; the Shareholders are the appointing authority of the Board of Directors and as such, the former are the principal, whereas, the latter are the Agents.

The foregoing being the case, it is argued that only Shareholders would be properly said to have a legitimate claim over the company and its affairs, and that the Directors are legally duty-bound to ensure that the interests of the Shareholders are secured.

### **WHILE;**

### **Stakeholder theory:**

A company once in motion will have various persons and/or group of persons that can affect and are affected by the company achieving its objectives, these may either be; persons, groups and/or non-human entities, the foregoing is what is known as the *Stakeholder theory*.

The Stakeholder theory hinges on the argument that companies are so big and may sometimes have a huge impact on society and as such the said company must be corporately responsible to a larger group of Stakeholders and not only the Shareholders. The King report presses that; when adopting the Stakeholder principle of corporate governance, the Board of Directors ought to take into account the interests and/or legitimate expectations of all the Stakeholders.

In conclusion, it would appear that a comparison between the *Stockholder theory* and the *Stakeholder theory* is that the former seeks to serve and/or advance the interests of the Shareholders of a company and places the Board of Directors under the shadow of the Shareholder, whereas the latter advocates for a broader approach in the manner in which the Board of Directors makes its decisions, the said Stakeholder theory mandates the Board to be able to look at the interest of all Stakeholders involved in the affairs of the company.

(a) The incorporation of a Company takes various forms, these being; a company limited by shares and/or guarantee, an unlimited company, etc. The major difference amongst all these companies mentioned is largely determined by the extent of the liability of the Members of these respective companies, however, for our purposes here, we will focus on a company that is limited by shares and one that is unlimited.

The extent of liability for a company limited by shares is such that; the Members and/or Shareholders are only liable to the extent of their unpaid up shares at such a time that the company is being wound up, whereas for a company of unlimited liability, the Members and/or Shareholders will be called upon to contribute if, at the time of winding up the company, the assets of the company are not enough to meet its liabilities and/or obligations.

(b) Any company that is involved in trade has, bestowed upon it the right to borrow funds and/or charge the assets of the said company for the purposes of running the business of

the said company. This is important to the corporate and business in that companies will normally require external funds to run and grow the business profits.

Further to the above, it must be noted that this power to borrow is bestowed not only by the Act, but also by a company's Articles of Association which *usually* give express power to borrow and charge assets, suffice to note that; there usually will be a limit on how much, and to what extent the company's assets may be charged for purposes of securing a loan facility.

## **END OF SOLUTIONS**