TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C1: BUSINESS MANAGEMENT

MONDAY 9 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.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

(a) Explain any four (4) advantages of cooperatives (8 marks)

(b) Define the Matrix structure and List any three (3) advantages and any three (3) disadvantages of Matrix Structures. (8 marks)

(c) In Divisional Structure, what is the difference between a Product Structure and a Time structure? (4 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Describe the communication process that will enable an organization to achieve effective communication. (12 marks)

(b) In order to maintain and improve business performance, organizations usually invest in employees through the provision of training.

Required:

By giving four (4) examples of each, explain:

(i) On-the-job training (4 marks)

(ii) Off-the-job training (4 marks)

[Total: 20 Marks]

QUESTION THREE

A young entrepreneur is excited to set up a new business venture and is keen to start his business. The operation of an organization is affected by the general and uncontrollable external factors.

Required:

(a) Explain how PESTEL factors influence the decision making process in a business. (12 marks)

(b) Discuss any four (4) hygiene factors of Herzberg's theory applied to motivate employees. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

Katongo joined a garment factory as a plant supervisor in Rufunsa. He observes that the output of some workers is very low as compared to the standards set for their performance. On analysing the reasons for the same, he finds out that a lot of the workers' time is wasted in getting the requisite materials issued from the store. Whereas on asking, the store keeper complains that there is no harmony in the working of the Production Department as a whole. Every day the workers approach him at the last minute to procure different kinds of threads, laces, mirrors, buttons etc. If it is not available in the store then he has to place an order with the purchase officer. As a result, a lot of time of the workers is wasted. So, in order to integrate the various production activities, henceforth, Katongo ensures that the store keeper is informed well three days in advance about the requisite material. Consequently, the store keeper is able to keep the materials ready for the workers every morning in accordance with their requirements.

Required:

(a) Explain the quality management approaches that Katongo has introduced in the working of the Production Department as a corrective measure to control the output of the workers. (4 marks)

(b) State briefly any two (2) points highlighting the importance of quality of management identified above. (8 marks)

(c) Outline any eight (8) Principles of management by Henri Fayol which Katongo must consider to improve the working of the production department. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) In the administration of tax, it is the responsibility of management to ensure that it adheres to good Corporate Governance practices.

Required:

In line with the above statement, explain five (5) principles of good corporate governance. (10 marks)

(b) Marketing in an organization plays a pivotal role in generating sales revenue and profits that is subjected to tax. Identify and explain any five (5) elements of the marketing mix. (10 marks)

[Total: 20 Marks]

END OF PAPER

C1: BUSINESS MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Identify four advantages of cooperatives

(i) Cooperatives are easy to form. Any ten adults can join together and form a cooperative society. The procedures are easy and no much legal formalities for the formation of a cooperative.

(ii) Anyone can join unless specifically debarred. No body is obstructed to join on the basis of religion, caste, creed, sex, color etc. anyone can join when they want and leave when they want.

(iii) In most cases, the liability of members is limited to the extent of the contribution made by them. Hence they are relived from the fear of attachment of their private property, in case the society suffers financial losses.

(iv) Members are provided with better goods and services at a reasonable price. The society also provides members with financial help at concessional rates.

(v) A cooperative cannot be dissolved by death, insolvency, lunacy, permanent incapability of the members. Therefore, it has stable life and continue to exist for a long period.

(vi) The operations carried on by the Cooperative are economical due to the elimination of the middlemen. The services of middlemen are provided by members at minimal cost.

(vii) Government provides special assistance to the societies to enable them achieve their objectives successfully. Government sometimes extends many subsidies to cooperatives societies to strengthen their financial stability and sustainability.

(b) What is a Matrix Structure? List three advantages and three disadvantages of Matrix Structures

Matrix Structure

A matrix organizational structure is a cross-team effort to bring different roles together and create a grid-like reporting structure instead of a traditional hierarchy. This approach represents how work actually gets done, since the day-to-day of employees is rarely limited to interaction only within their functional group (e.g. Marketing, Sales, and Finance). Notably, a matrix organizational structure requires a different management style, with both functional and divisional management. Hence it is sometimes referred to as a "Two-boss" structure. It is typically used in manufacturing (aerospace, pharmaceuticals etc.) service (retailing) and professional settings (accounting, advertising and law).

Advantages

- More inter-functional cooperation
- Flexibility
- Better Accountability
- Improved decision making (forces decision-making to team level where the best information is available); and
- Improved strategic management (frees top management from routine decisions).

Disadvantages

- Power struggles: The "two boss" system can result in power struggles functional managers and program managers.
- Anarchy: unless great care is taken to clarify the "two boss" system, team members may become confused when unable to identify appropriate task directions.
- Excessive cost: the matrix adds costly overhead in extra salaries for the programme managers these costs must be well justified by offsetting high performance benefits.

(c) In Divisional Structure, what is the difference between a Product Structure and a Time Structure

(i) Product Structure- These group together jobs and activities working on a single product or service

(ii) Time Structure- these group together jobs and activities that are performed on the same work shift, for example hospitals, leisure facilities.

SOLUTION TWO

(a) Communication is the giving, receiving or exchanging of information, opinions or ideas by writing, speech or visual means, so that the material communicated is completely understood by everyone concerned.

The communication process

(i) Sender

This is the individual who conceives and sends a message. The sender should consider the person to whom the message is addressed to for communication to be effective.

(ii) Encoding

This involves the translation of information to be transmitted into a series of symbols such as words and gestures to be understood by the receiver.

(iii) Channel

This is the method used to transmit the message from one person to another.eg letters, telephone etc.

(iv) Decoding

This is the process by which the receiver interprets the message and translates it into meaningful information.

(v) Receiver

This is the person who receives the message from the sender and decodes it.

(vi) Feedback

For communication to be effective it needs the receiver to acknowledge that he/she has received the message by sending
feedback to the sender.

(vii) Noise

Anything that interferes with the normal flow of information from sender to receiver and back to sender.

(b)

(i) On-the-job training

This is the training of an employee on how to perform a job by providing the experience and skill at a work place by an experienced employee. This could be done by:

- Coaching- where an experienced employee guides the trainee.

Demonstration- where an experienced employee demonstrates to the trainee on how to perform a task.

(ii) Job rotation- Moving one employee from one job to another so that a new employee has a wider experience.

Mentoring- young managers are being guided by experienced managers.

(iii) Off-the-job training

This is training conducted away from the work place such as sending employees for further studies at colleges or universities.

This could be done by:

- Short courses- that involve the acquisition of specific skills
- Long education-based courses- This involves the acquisition of professional qualifications through distance learning- evening classes or full time.
- Seminars and workshops- acquisition of new developed skills or knowledge in the area of specialization of employees.
- Attachments/secondments to other similar organizations for a limited time period.

SOLUTION THREE

(a) **PESTEL FACTORS**

(i) **Political:**

Political factors are concerned with how government intervenes in the business environment through the enactment of laws that require organizations to comply i.e. government policy on privatization of state owned businesses and the stability of the political system.

(ii) **Economical**

This environment consists of the impact of economic variables on business such as interest rates, rate of inflation, foreign exchange rate, rates of taxation, employment levels etc.

(iii) **Social**

The organization operates in an environment that influences the behavior of employees, customers and other stake-holders. The factors that influence the social cultural environment includes the attitudes and values of customers, employees and general public. Influence of religion and religious beliefs, education background , impact of HIV/ AIDS and so forth

(iv) **Technological**

Advancement in technology has resulted into new methods of production, improved customer service through use of ICT e.g. internet banking.

(v) **Ecological**

These factors deal with environmental protection i.e companies are looking for ways to develop their businesses that protect the environment and to ensure long term sustainability by going green.

(vi) **Legal**

This involves the formulation of laws by the government that governs the operations of the business. There are many laws and regulations that affect business such company law, employment law, health and safety laws, tax laws, environmental laws, law of contract and so forth.

(b) **Hygiene Factors**

These are factors when present remove job dissatisfaction of employees. Examples are:

(i) Interpersonal relations

(ii) Company policy and administration

(iii) Working conditions

(iv) Salary

(v) Job security

(vi) Type of supervision

Therefore, a manager can apply hygiene factors to motivate employees by:

(i) Inter-personal relations

This can be done to motivate employees by interacting and relating well with subordinates.

(ii) Company policy

Developing policies that are fair and favorable to employees, such as the human resource policies on grievances reward and so on.

(iii) **Working conditions**

Improving working conditions such as provision of safety clothing, health Services, accommodation, transport and so forth, to employees.

(iv) Salary

Paying employees a salary that enables to meet the food basket and save some money for investment.

(v) Job security

Employees must be offered employment contracts to sign that are permanent in nature or of a fixed term contract.

SOLUTION FOUR

(a) Coordination is the quality of management that Katongo has introduced in the working of the production department as a corrective measure to control the output of the workers. Coordination is the process which helps to integrate the efforts of different individuals with diverse needs to secure a unity of action in the pursuit of common goals.

(b) The two points highlighting the importance of coordination are stated below:

(i) Growth in the size: With the growth in the size of an organization, there is a proportionate increase in the number of its employees. So there is a greater need to unify the efforts of diverse individuals towards the realization of organizational goals.

(ii) Functional differentiation: As a result of functional differentiation in an organization, its people and activities get divided into small departments on the basis of functions like marketing, finance etc. Since each department tends to formulate its own objectives, policies etc, there is a need to reconcile the goals pursued by each of such departments with the goals of the organization as a whole.

(c) **Management Principles according to Henri Fayol include:**

(i) Division of Work

(ii) Authority and Responsibility

(iii) Discipline

(iv) Unity of Command

(v) Unity of Direction

(vi) Subordination of Individual Interest

(vii) Remuneration

(viii) Centralization

(ix) Scalar Chain

(x) Order

(xi) Equity

(xii) Stability

(xiii)Initiative

(xiv) Esprit de Corps

SOLUTION FIVE

(a) **Corporate governance**

Corporate governance is defined as a set of structures and processes of relationships among a company's management board of directors and shareholders to enhance its competitiveness towards business prospects and long term shareholders value by taking into consideration other stakeholders. Corporate governance entails the principles of trust, ethics, moral values and confidence of top management owed to stakeholders in running the organization. The underlying principles of good corporate governance are:

(i) Transparency

This is the act of disclosing true and full information concerning the operations of the company to interested stakeholders as is the case with the disclosure of audited financial accounts by an independent auditor.

(ii) Accountability

The top management is expected to report to the board of directors concerning the performance of the company.

(iii) Exercise reasonable skill and care Management should exhibit high levels of diligence and competency in discharging their duties to ensure that the organization achieves its goals.

(iv) No conflict of interest

Management should not engage in any activity to make secret profits at the expense of the company. This means that management should not take advantage of their position to secure benefits for themselves.

(v) Compliance with the law

Managements should comply with the various laws that govern the operations of the business organization. For instance labour law, company law, environment law etc.

(b) **Marketing mix**

Marketing mix is a set of controllable factors that are manipulated to help make marketing decisions with the purpose of satisfying customers and building a strong customer relationship. Originally the marketing mix consisted of the four variables known as the 4Ps which are product, price, promotion and place. However, additional variables have been included such as People, processes and physical evidence. The following are the variables or elements of the marketing mix:

(i) Product

These are goods and services combinations the business organization offers to its target customers. Product will take into consideration quality, features, design, packaging etc.

(ii) Place

These are company activities that ensure that the product is made available to the final customer through a distribution channel. These include channel members, transport, coverage, warehousing etc

(iii) Price

This is the amount of money customers have to pay in order to purchase a product. Price will include discounts offered, credit terms, payment period etc

(iv) Promotion

These are activities that communicate the benefits of the product and persuade customers to buy. These activities include advertising, personal selling, sales promotion and public relations.

(v) People

This includes the training and motivation of employees who are involved the marketing activities.

(vi) Processes

The systems used in the marketing activities to ensure that the product is readily made available to the target market.

(vii) Physical evidence

This refers to what the customer is able to physically see concerning the product and the company itself such as general appearance the organizations premise, quality of advertising leaflets, catalog etc.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C2: ECONOMICS & FINANCIAL MATHEMATICS

WEDNESDAY 11 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.

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

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

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

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

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

7. Present legible and tidy work.

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

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

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

Attempt all five (5) questions.

QUESTION ONE

(a) Distinguish between microeconomics and macroeconomics. (4 marks)

(b) Outline any two (2) determinants of price elasticity of demand. (2 marks)

(c) Explain any two (2) advantages and any two (2) disadvantages of a freely floating exchange rate system. (8 marks)

(d) Outline any three (3) examples of indirect taxes in Zambia. (6 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Outline any four (4) reasons countries engage in international trade (4 marks)

(b) Describe the current account of the balance of payments. (4 marks)

(c) Explain any four (4) functions of commercial banks (12 marks)

[Total: 20 Marks]

QUESTION THREE

(a) A survey reviewed that the number of accidents occurring in a week in a certain factory follows a Poisson distribution with variance 3.2. Compute the following:

(i) The most likely number of accidents in a given week. (3 marks)

(ii) The probability that at most four (4) accidents happen in a given week. (3 marks)

(iii) The probability that at least three (3) accidents happen in a given week. (3 marks)

(b) Don bank Corporation decides to spend K20,000 on one (1) of two (2) projects A or B. The revenue obtained from these projects is listed in the table below.

	Revenue (K)	
End of Year	**Project A**	**Project B**
1	4,000	2,000
2	4,000	2,000
3	6,000	4,000
4	6,000	12,000
5	6,000	8,000

Which of these two (2) projects would you advise the company to invest in, assuming that the discount rate is 12% compounded annually? (11 marks)

[Total: 20 marks]

QUESTION FOUR

(a) The table below shows the marks obtained by 10 students in Accountancy and statistics.

Student	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**
Marks in Accountancy (y)	20	25	60	45	80	25	55	65	25	75
Marks in Statistics (x)	52	50	55	50	60	70	72	78	80	63

Required:

(i) Obtain the regression equation (7 marks)

(ii) Calculate the coefficient of correlation (3 marks)

(iii) Calculate the coefficient of determination (1 mark)

(b) Suppose that a K3,950 deposit is made at the end of each month and the money in the account is compounded monthly at 8.5% interest for 25 years.

(i) How much is in the account after 25 years? (5 marks)

(ii) What is the total amount deposited? (2 marks)

(iii) What is the total amount of interest earned? (2 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) What is an annuity? (2 marks)

(b) Find the future value of an annuity due if payments of K850 are made at the beginning of each quarter for 11 years, in an account paying 3% compounded quarterly. (5 marks)

(c) The mean and standard deviation of the wages of 6,000 workers engaged in a factory are K1,200 and K400 respectively. Assuming the distribution to be normally distributed estimate:

(i) The percentage of workers getting wages above K1,600 (2 marks)

(ii) The percentage of workers getting wages between K600 and K900. (2 marks)

(iii) The number of workers getting wages between K1,100 and K1,500. (3 marks)

(d) A certain firm uses large fleet of delivery vehicles. Their records over a long period of time (during which their fleet size utilization may be assumed to have remained constant) show that the average number of vehicles serviced per day is three (3).

Required:

Estimate the probability that on a given day.

(i) No vehicle will be serviceable (2 marks

(ii) At most three (3) vehicles will be serviceable (2 marks)

(iii) More than two (2) vehicles will be serviceable (2 marks)

[Total: 20 Marks]

END OF PAPER

C2: ECONOMICS AND FINANCIAL MATHEMATICS

SOLUTION ONE

(a) **Microeconomics** is the study of the behaviour of individual economic agents, for example, consumers and producers.

Macroeconomics is the study of aggregate economic behaviour focussing on national income, employment, inflation to mention a few.

(b) **Determinants of price elasticity of demand**

- Ease of substitution
- Possibility of postponing purchase
- Time period
- Proportion of total expenditure

(c) **Freely floating exchange rate system:**

Two advantages of floating exchange rates:

- Governments do not have to spend or even hold foreign currency reserves
- Balance of payments deficits or surpluses are automatically corrected. A deficit will result in the exchange rate falling; this will improve competitiveness, raise exports and restore equilibrium
- Governments need not adopt economic policies that may be undesirable for other reasons to maintain exchange rates
- Encourage efficient allocation of resources since exchange rates will reflect economic conditions.

Two disadvantages of floating exchange rates

- If exchange rates appreciate too much under a floating rate system, then firms' international competitiveness may be reduced, and output and employment may fall across the economy
- Uncertainty surrounding fluctuations in exchange rate could deter trade
- If exchange rates fall too much, import prices, and hence inflation, will rise.
- Currency risk will be maximised under a system of floating exchange rates
- The freedom afforded governments by (c) in the advantages above may mean governments do not pursue domestic policies which they should.

(d) **Examples of indirect taxes in Zambia**:

- Customs duties which are levied on imports and some exports of goods
- Sales tax levied on final sales
- Excise taxes levied on sale of certain goods such as alcohol, tobacco
- Value-added-tax levied only on the value added of each stage. Business can deduct taxes for intermediary goods or raw materials.

SOLUTION TWO

(a) **Reasons for international trade**

- Uneven allocation of natural resources: because countries are endowed differently with natural resources, they sell what they produce and buy what they cannot.
- Climatic differences: differences in climatic conditions mean that different crops will grow in different countries, thereby, making trade essential.
- Differences in human skills and productivity: differences in skills and productivity will result in differences in the quality and quantity of goods that they produce.
- Technological differences: Technological endowment promotes creativity or innovation and lowers the cost of production. This results in efficiency and improved productivity. The Excess goods or services are then exported to the countries that may not be technologically advanced.
- Differences in demand: the differences in demand for goods and services between trading partners makes it necessary for countries to engage in international trade.

(b) **The current account:**

This is a record of all international transactions relating to;

- Trade in goods: visible account
- Trade in services: invisible account consists of transport, tourism and insurance etc.
- Net Income flows: Income flows consist of wages, interest and profits flowing into and out of the country.
- Current transfers of money: Government contributions to, and receipts from international organisations and international transfers of money by private individuals and firms.

(c) **Functions of commercial banks**

- Banks provide a payment mechanism and a place to store surplus money; they also provide means of obtaining and selling foreign exchange.
- Commercial banks advise and assist companies in the issue of shares, and give investment unit trust advice and business.
- They also engage in financial leasing, debt factoring or collection management, including executorships (trustee) services.
- Banks finance import and export operations and investments.
- The most profitable business of commercial banks is lending money in the form of overdrafts, discounting bills of exchange and loan facilities. This particular function is always expanding because banks create credit, create deposit and therefore create money.

SOLUTION THREE

(a)

$$P(x) = \frac{\lambda^x e^{-\lambda}}{x!},$$

(i) $E(X) = Var(x) = \lambda = 3.2$

(ii) $P(X \leq 4) = P(0) + P(1) + P(2) + P(3) + P(4$

$$= \frac{3.2^0 e^{-3.2}}{0!} + \frac{3.2^1 e^{-3.2}}{1!} + \frac{3.2^2 e^{-3.2}}{2!} + \frac{3.2^3 e^{-3.2}}{3!} + \frac{3.2^4 e^{-3.2}}{4!}$$
$$= 0.04076 + 0.1304 + 0.2087 + 0.2226 + 0.1781$$
$$= 0.78056$$

(iii) $P(X \geq 3) = 1 - P(X < 3) = 1 - [P(0) + P(1) + P(2)]$

$$1 - [0.04076 + 0.1304 + 0.2087] = 0.62014$$

(b)

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

The present value of the cash outflow is the initial outlay of K400 000. The present value of cash inflows is calculated by summing the present value of each cash inflow as follows:

i) Consider $r = 12\%$

$$NPV_A = -20000 + 4000(1.12)^{-1} + 4000(1.12)^{-2} + 6000(1.12)^{-3} + 6000(1.12)^{-4} + 6000(1.12)^{-5} = -20000 + 18248.56 = -1751.44$$

Thus the NPV is

$$18248.55 - 20000 = -1751.45$$

As the NPV is negative, the firm should not invest in this project.

Considering $r = 12\%$

$$NPV_B = -20000 + 2000(1.12)^{-1} + 2000(1.12)^{-2} + 4000(1.12)^{-3} + 12000(1.12)^{-4} + 8000(1.12)^{-5} = -20000 + 18392.85 = -1607.15$$

Therefore, the total present value over the four years is 18392.85

Thus the NPV is

$$18392.853 - 20000 = -1607.15$$

As the NPV is Negative, the firm should not invest in this project either.

The investment is not cost effective at 12% discount rate compounded annually. However, Project B is better than project A.

SOLUTION FOUR

(a)

i.

Student	x	y	x^2	y^2	xy
A	52	20	2704	400	1040
B	50	25	2500	625	1250
C	55	60	3025	3600	3300
D	50	45	2500	2025	2250
E	60	80	3600	6400	4800
F	70	25	4900	625	1750
G	72	55	5184	3025	3960
H	78	65	6084	4225	5070
I	80	25	6400	625	2000
J	63	75	3969	5625	4725
	$\sum x = 630$	$\sum y = 475$	$\sum x^2 = 40,866$	$\sum y^2 = 27,175$	$\sum xy = 30,145$

$$\bar{x} = \frac{\sum x}{n} = \frac{630}{10} = 63, \quad \bar{y} = \frac{\sum y}{n} = \frac{475}{10} = 47.5$$

$$SS_{xx} = \sum x^2 - \left(\frac{\sum x}{n}\right)^2 = 40866 - \frac{630^2}{10} = 1176$$

$$SS_{yy} = \sum y^2 - \left(\frac{\sum y}{n}\right)^2 = 27175 - \frac{475^2}{10} = 4612.5$$

$$SS_{xy} = \sum xy - \frac{\left(\sum x\right)\left(\sum y\right)}{n} = 30145 - \frac{(630)(475)}{10} = 220$$

$$\beta_1 = \frac{SS_{xy}}{SS_{xx}} = \frac{220}{1176} = 0.19$$

$$\beta_0 = \bar{y} - \beta_1 \bar{x} = 47.5 - 0.19(63) = 35.53$$

Therefore, the regression equation is

$y = \beta_0 + \beta_1 x$

$y = 35.53 + 0.19x$

ii. $$r = \frac{SS_{xy}}{\sqrt{SS_{xx} SS_{yy}}} = \frac{220}{\sqrt{1176 \times 4612.5}} = 0.094$$

iii. $r^2 = 0.094^2 = 0.009$

(b)

i. Here $R=850,\ \ R=\text{K}3{,}950,\ n=12(25)=300$

$$r=\frac{0.085}{12}=0.0071$$

The future value of the annuity is

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

$$=3950\left[\frac{(1+0.0071)^{300}-1}{0.0071}\right]$$

$$=\text{K}4{,}090{,}072.10$$

ii. The total amount deposited is

$$3{,}950(12(25))=\text{K}1{,}185{,}000$$

iii. The total amount deposited is

$$4{,}090{,}072.10-1{,}185{,}000=\text{K}2{,}905{,}072.21$$

SOLUTION FIVE

(a) An annuity is a series of equal payments made at regular intervals.

(b) In 11 years, there are $n = 44$ quarterly periods. $R = 850, \; r = \frac{3\%}{4} = 0.0075$

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

$$= 850\left[\frac{(1+0.0075)^{44+1} - 1}{0.0075} - 1\right]$$

$$= 850\left[\frac{(1.0075)^{45} - 1}{0.0075} - 1\right]$$

$$= \mathrm{K}157,780$$

(c)

$X \sim N(1200, 400^2)$

We standardize X so that $\mathrm{Z} = \frac{\mathrm{X} - 1,200}{400}$

i. $$\mathrm{P}(\mathrm{X} > 1,600) = \mathrm{P}\left(\frac{\mathrm{X} - 1,200}{400} > \frac{1,600 - 1,200}{400}\right)$$

$$= \mathrm{P}(\mathrm{Z} > 1)$$

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

$$= 1 - F(1)$$

$$= 1 - 0.8413$$

$$= 0.1587 \times 100\%$$

$$= 15.87\%$$

ii. $$\mathrm{P}(600 < \mathrm{X} < 900) = \mathrm{P}\left(\frac{600 - 1200}{400} < \frac{\mathrm{X} - 1200}{400} < \frac{900 - 1200}{400}\right)$$

$$= \mathrm{P}(-1.5 < \mathrm{Z} < -0.75)$$

$$= F(-0.75) - F(-1.5)$$

$$= F(1.5) - F(0.75)$$

$$= 0.9332 - 0.7734$$

$$= 0.1598 \times 100\%$$

$$= 15.98\%$$

iii. $$\mathrm{P}(1100 < \mathrm{X} < 1500) = \mathrm{P}\left(\frac{1100 - 1200}{400} < \frac{\mathrm{X} - 1200}{400} < \frac{1500 - 1200}{400}\right)$$

$$
\begin{aligned}
&= P(-0.25 < Z < 0.75) \\
&= F(0.75) - F(-0.25) \\
&= F(0.75) - [1 - F(0.25)] \\
&= 0.7734 - [1 - 0.5987] \\
&= 0.7734 - 0.4013 \\
&= 0.3721
\end{aligned}
$$

The number of workers is given by

$$
\begin{aligned}
E(X) &= np \\
&= 6000 \times 0.3721 \\
&= 2,233
\end{aligned}
$$

(d)

i. Here $\lambda = 3$

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

$$
\begin{aligned}
P(X = 0) &= \frac{e^{-3}3^{0}}{0!} \\
&= 0.0498
\end{aligned}
$$

ii.

$$
\begin{aligned}
P(X \le 3) &= P(X = 0) + P(X = 1) + P(X = 2) + P(X = 3) \\
&= 0.0498 + \frac{e^{-3}3^{1}}{1!} + \frac{e^{-3}3^{2}}{2!} + P\frac{e^{-3}3^{3}}{3!} \\
&= 0.0498 + 0.1494 + 0.2240 + 0.2240 \\
&= 0.6472
\end{aligned}
$$

iii.

$$
\begin{aligned}
P(X > 2) &= 1 - P(X \le 2) \\
&= 1 - [P(X = 0) + P(X = 1) + P(X = 2)] \\
&= 1 - 0.4232 \\
&= 0.5768
\end{aligned}
$$

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 9 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.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

Attempt all FIVE (5) questions.

QUESTION ONE

The financial statements for Spare Enterprise are as follows:

Statement of profit or loss for the year ended 31 December 2023.

	K' 000	K' 000
Operating profit		338
Dividends received		40
Interest payable	(28)	
Interest receivable	12	
		(16)
Profit before tax		362
Tax		(88)
		274

Statement of financial position as at 31 December 2023

	2023	**2022**
Non-Current Assets	K' 000	K' 000
Tangible non-Current asset	1,088	784
Intangible non-current assets	54	60
	1,142	844
Current Assets		
Inventories	520	580
Trade Receivables	560	500
Cash	364	92
Total assets	2,586	2,016
Equity and Liabilities		
Ordinary shares 25 ngwee	488	360
Reserves	830	608
Non-Current Liabilities	320	360
Current Liabilities	948	688
Total Equity and Liabilities	2,586	2,016

The following information is also available.

1. Dividends paid during the year amounted to K48,000.

2. The proceeds from the disposal of tangible non-current assets during the year was K84,000. These assets had a carrying value before disposal of K76,000. Depreciation charged on all tangible non-current assets during the year was K148,000.
3. During the year K40,000 worth of bonds were converted into 352,000 25 ngwee equity shares.

4. Spare Enterprise also issued 160,000 25 ngwee shares for 32.5 ngwee cash during the year.

5. There was no purchase or disposal of intangible non-current assets during the year.

Current liabilities as at 31 December 2022 and 2023 were as follows:

	2023	**2022**
	K' 000	K' 000
Bank overdraft	32	80
Trade payables	852	536
Tax	64	40
Dividends	-	32
	948	688

Required:

(a) Prepare a statement of cash flows for Spare Enterprise for the year ended 31 December 2023 in accordance with IAS 7 "Statements of cash flows". (15 marks)

(b) List three (3) internal stakeholders and seven (7) external stakeholders for a large business organization. (5 marks)

[Total: 20 Marks]

QUESTION TWO

Ulendo and Panotuli are business Partners who run a Hardware business and they share profits and losses in the ratio 3:2. They have also agreed to earn interest on Capital at 4% and to charge interest on Drawings at 2% per annum. Ulendo is entitled to an annual salary of K48,019.

The following trial balance was extracted from the business' general ledger for the first year of trading ending 31 December, 2023:

	DR K'	CR K'
Capital		
Ulendo		192,000
Panotuli		128,000
Current account		
Ulendo	14,555	
Panotuli		6,897
VAT payable		8,999
Revenue		1,023,000
Stationery and Postage	7,100	
Telephone	25,000	
Fixtures and fittings at cost	400,400	
Carriage inwards	55,000	
Fixtures and fittings accumulated depreciation		72,000
Purchases	400,000	
Discount allowed	6,331	
Drawings		
Ulendo	11,000	
Panotuli	8,000	
Inventory 1 January 2023	93,100	
Trade receivables	66,844	
Bank	59,566	
Trade payables		44,200
5% Loan - Ulendo		80,000
Patent	100,000	
Staff Wages	308,200	
	1,555,096	**1,555,096**

The following year-end adjustments should be included in the final draft accounts:

1. Closing inventory is to be valued at K86,200.
2. Ulendo advanced a loan to the business amounting to K80,000 at 8% annual interest on 1 July 2023. No entry has been made for this transaction.
3. The Patent was awarded on 1 April and will expire in five (5) years' time.
4. Fixtures and fittings is to be depreciated at 15% on cost.

Required:

(a) Prepare the partnership profit or loss statement for the year ended 31 December, 2023. (8 marks)

(b) Prepare the partnership appropriation account. (4 marks)

(c)	Prepare the partners' current account	(6 marks)
(d)	Prepare the partners' capital account	(2 marks)

[Total: 20 Marks]

QUESTION THREE

(a) The IASB conceptual framework brings out a number of principles that influence the preparation of accounting information. The adoption of the principles in the IASB framework will logically promote consistency in financial accounting.

Required:

In line with the IASB conceptual framework, briefly explain the meaning of the following:

(i)	Relevance	(2 marks)
(ii)	Faithful representation	(2 marks)
(iii)	Comparability	(2 marks)
(iv)	Understandability	(2 marks)
(vi)	Timeliness	(2 marks)

(b) Hope Limited manufactures quality leather shoes. Hope Limited management has asked you to prepare accounting reports from the following data:

	K'000
Carriage inwards – raw materials	20,000
Sales Returns	10,000
Royalties costs	5,000
Purchases Raw materials	210,000
Opening work in progress	3,540
Closing inventory – raw materials	8,900
Closing Work in Progress	5,870
Opening inventory- raw materials	1,210
Supervisors Salary	6,000
Factory workers wages	44,210
Plant at cost	200,000
Accumulated depreciation	100,000
Revenue	897,000
Closing stock- finished goods	870
Opening stock- finished goods	350

Notes:

(i) Plant is depreciated at 10% on reducing balance basis.

(ii) Factory wages amounting to K1,000,000 remain outstanding.

Required:

Prepare the following for Hope Limited:

(a) Manufacturing account for the year ended 30 September 2024. (6 marks)

(b) Trading account for the year ended 30 September 2024. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

David Zulu is a sole trader in Nyimba who has not kept proper books of accounts. The following is a summary of his bank account for the year ended 31 December 2023.

Bank Account

	K		K
Balance 1/01/23	8,200	Payments to Trade Payables	134,720
Receipts from Trade Receivables	182,380	Rent	7,900
Balance 31/12/23	12,600	Selling Expenses	16,400
		Insurance	2,940
		Sundry Expenses	1,220
		Drawings	40,000
	203,180		203,180

All of the business takings have been paid into the bank with the exception of K34,800. Out of this, David Zulu has paid wages of K22,520, Drawings of K2,400 and Purchase of goods K9,880.

The following additional information is available.

Details	**01/01/2023**	**31/12/2023**
	K	**K**
Inventory	21,600	24,400
Trade Payables	25,400	28,200
Trade Receivables	42,400	39,600
Insurance Prepaid	840	880
Rent owing	780	-
Fixtures at valuation	3,600	3,200

Required:

(a) Draw an opening journal to calculate capital at start. (4 marks)

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

(c) Prepare a statement of financial position for David Zulu as at 31 December 2023. (5½ marks)

[Total: 20 Marks]

QUESTION FIVE

(a) A trial balance was extracted on 31 December 2023 but failed to balance. The credit side was less by K500. You have investigated the balance on the suspense account and discovered some errors that need to be corrected. There are also some year-end adjustments to be made.

1. Administration expenses of K820 were debited to the purchases account. The credit entry was correct.

2. (i) Equipment costing K2,500 was purchased for cash during the year. The correct entry was made to the Bank, but no other entries were made.
   (ii) Depreciation needs to be provided on this new equipment for the year ended 31 December 2023 at 30% straight line method. A full year's depreciation is charged in the year of purchase.

3. Accrued advertising expenses of K1,500 were debited to the advertising expenses account twice. No other entries were made.

4. The figure for closing Inventory needs to be adjusted. You have the following information:
   - Closing inventory at cost from the computerized inventory system is K43,500
   - Obsolete items included in this figure cost K4,200 but were later sold for K1,700.

Required:

Prepare the following:

(i) Journal entries to correct the above errors. (6 marks)

(ii) A suspense account. (2 marks)

(b) The financial year of Hara Ltd ended on 31 December 2023. At 1 January 2023, the company owned motor vehicles that cost K620,000 and had been depreciated by a total of K440,000. On 1 July 2023, Hara Ltd sold motor vehicles which had cost K270,000 and had been depreciated by K245,000, for K19,500 and purchased new motor vehicles costing K355,000.

It is Hara Ltd's policy to depreciate its motor vehicles at 25% per annum using the reducing balance method. A full year's depreciation is charged on all motor vehicles in use at the end of each year. No depreciation is charged on assets disposed of during the year.

Required:

Show the following accounts

(i) Motor vehicles at cost account. (3 marks)

(ii) Allowance for depreciation on motor vehicles account. (5½ marks)

(iii) Motor vehicle disposal account. (3½ marks)

[Total: 20 Marks]

END OF PAPER

C3: ACCOUNTANCY FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Statement of cash flows for Spare Enterprises for the year ended 31 December 2023.

	K' 000	K' 000
Cash flows from operating activities:		
Profit before tax		362
Adjustment for:		
Depreciation	148	
Impairment (60 - 54)	6	
Interest paid	28	
Interest received	(12)	
Dividends received	(40)	
Profit on sale	(8)	
Cash from operating activities.		122
Movement in working capital:		484
Decrease in inventory (520 - 580)	60	
Increase in trade receivables (560 - 500)	(60)	
Increase in trade payables (852 - 536)	316	
		316
		800
Tax paid (40 + 86 - 64)	(64)	
Interest received	12	
Dividends received	40	
Interest paid	(28)	
		(40)
Net cash flows from operating activities:		760
Cash flows from investing activities:		
Payments to acquire tangible non-current assets (working 1)	(528)	
Sale of non-current assets	84	
Net cash flow in investing activities:		(444)
Cash flow from financing activities:		
Dividends paid	(48)	
Issue of shares (working 2)	52	
Net cash flow from financing activities:		4
Increase in cash balances		320
Opening cash (92 - 80)		12
Closing cash (364 - 32)		332

Working 1.

	K'000
Tangible non-current assets 31.12.2023	784
Depreciation	(148)
	636
Disposal	(76)
	560
Additions (Difference)	528
Balance as at 31 December 2023	1,088

Working 2.

160,000 x 32.5 ngwee = 5,200 ÷ 100 = 52

(b) Internal stakeholders:

- Managers of the company
- Employees
- Directors

External stakeholders:

- Shareholders
- Trade payables
- Providers of finance
- Trade unions
- Financial analysis & advisors
- Government & their agencies
- The public
- Trade receivables

SOLUTION TWO

a) **Ulendo and Panotuli**
Statement of profit or loss for the year ended 31 December 2022

	K	K
Revenue		1,023,000
Opening inventory	93,100	
Purchases	400,000	
Carriages inwards	55,000	
	548,100	
Less closing inventory	(86,200)	
Cost of sales		(461,900)
Gross profit		561,100
Less Expenses:		
Depreciation (400400*15%)	60,060	
Amotisation(100000/5)*9/12	15,000	
Loan interest (80000*8%)*	3,200	
Stationery and Postage	7,100	
Telephone	25,000	
Discount allowed	6,331	
Staff Wages	308,200	(424,891)
Net profit		136,209

b) **Ulendo and Panotuli**
Appropriation account for the year ended 31 December 2022

	K	K
Profit		136,209
Add Interest on drawings		
Ulendo (11000*2%)	220	
Panotuli (8000*2%)	160	
		380
Less Interest on Capital		
Ulendo (192000*4%)	7,680	
Panotuli (128000*4%)	5,120	(12,800)
Salary - Ulendo		(48,019)
Residual profit		75,770
Ulendo (3/5)	45,462	
Panotuli (2/5)	30,306	

(75,770)

c) Ulendo and Panotuli

Current account for the year ended 31 December 2022

	Ulendo	Panotuli
	K	K
Opening balance	(14,555)	6,897
Drawings	(11,000)	(8,000)
Interest on drawings	(220)	(160)
Interest on Capital	7,680	5,120
Salary	48,019	
Loan interest	3,200	
Profit	45,462	30,308
Closing balance	78,586	34,165

d) Ulendo and Panotuli

Capital account for the year ended 31 December 2022

	Ulendo	Panotuli
	K	K
Opening balance	192,000	128,000
Add current account closing balance	78,586	30,308
Closing balance	270,586	162,165

SOLUTION THREE

(a) Conceptual framework terms

(i) Relevance – information is capable of making a difference, is material and possess the confirmatory and predictive values
(ii) Faithful representation – information is reliable and is complete, error free and neutral
(iii) Comparability – information is capable of being subjected to analytical procedures. This is made possible through consistency and disclosure
(iv) Understandability – users should be able to perceive the importance of provided information
(v) Timeliness – information should be provided in time to make a difference

b) Hope Limited
Manufacturing account for the year ended 30 September 2022

	K'000	K'000
Opening inventory raw materials	1,210	
Purchases raw materials	210,000	
Add Carriage inwards	20,000	
	231,210	
Less closing inventory raw materials	(8,900)	
Cost of raw materials consumed		222,310
Add		
Direct labour (44,210+1,000)	45,210	
Direct expenses	5,000	50,210
Prime cost		272,520
Overheads		
Dep'n of factory plant (200,000-100,000*10%)	10,000	
Supervisors Salary	6,000	
Total overheads		16,000
		288,520
Add Opening WIP		3,540
Less Closing WIP		(5,870)
Total cost of production		286,190

(c) Hope Limited
Manufacturing trading account for the year ended 30 September 2022

	K'000	K'000
Revenue		897,000
Opening inventory	350	
Cost of production	286,190	
Less closing inventory	(870)	
Cost of sales		(285,670)
Gross profit		611,330

SOLUTION FOUR

(a) Opening Journal

		K	K
ASSETS:	Bank	8,200	
	Trade Receivables	42,400	
	Inventory	21,600	
	Fixtures	3,600	
	Prepaid Insurance	840	
LIABILITIES:	Accrued Rent		780
	Trade Receivables		25,400
	∴ Capital		50,460
		76,640	76,640

(b) David Zulu's
Statement of Profit or Loss Account for the year ended 31 December 2023

	K	**K**
Sales (182,380+34,800+39,600-42,400)		214,380
Opening inventory	21,600	
Purchases (134,729+9,880+28,200-25,400)	147,400	
	169,000	
Less Closing inventory	(24,400)	(144,600)
Gross Profit		69,780
Less – Depreciation on Fixtures (3,600 – 3,200)	400	
Rent (7,900-780)	7,120	
Insurance (2,940+840-880)	2,900	
Selling expenses	16,400	
Sundry expenses	1,220	
Wages	22,520	(50,560)
Net Profit		19,220

(c) David Zulu's
Statement of Financial Position as at 31 December 2023

NON-CURRENT ASSET	**K**	**K**
Fixtures (3,600 - 400)		3,200
CURRENT ASSETS		
Inventory	24,400	
Trade Receivables	39,600	
Prepaid Insurance	880	64,880
		68,080
Financed by		
Capital (part a)	50,460	
Net Profit	19,220	
Drawings (40,000 + 2,400)	(42,400)	27,280
CURRENT LIABILITIES		
Trade Payables	28,200	
Bank overdraft	12,600	40,800
		68,080

SOLUTION FIVE

a. (i). Journal

		K	K
a.	Administration expenses	820	
	Purchases		820
b. (i)	Equipment	2,500	
	Suspense		2,500
(ii)	Depreciation expense/Profit or Loss (30% x 2,500)	750	
	Allowance for Depreciation		750
c.	Suspense (1,500 x 2)	3,000	
	Advertising expense		1,500
	Accrual expense		1,500
d.	Profit or Loss (4,200 – 1,700)	2,500	
	Closing Inventory		2,500

(ii). Suspense Account

		K			K
c.	Advertising	3,000		Difference in books	500
			b (i)	Equipment	2,500
		3,000			3,000

b. (i). Motor vehicles Account

		K			K
Balance	b/f	620,000	Disposals		270,000
1 July Bank		355,000	Balance	c/d	705,000
		975,000			975,000

(ii). Allowance for Depreciation on motor vehicles Account

		K			K
Disposal		245,000	Balance	b/f	440,000
Balance	c/d	322,500	Depreciation expense (w1)		127,500
		567,500			567,500

(iii). Motor vehicles Disposal Account

	K		K
Motor vehicles	270,000	Accumulated Depreciation	245,000
		Bank	19,500
		Profit or Loss – Loss on Disposal	5,500
	270,000		270,000

<u>Working</u>

			K	
(1).	Old vehicles – cost		620,000	
	less Disposal		<u>(270,000)</u>	
			350,000	
	less Accum'd Dep. (440 - 245)		<u>(195,000)</u>	
			155,000	
	Depreciation expense	25% x 155,000 =		38,750
	Depreciation on new vehicle	25% x 355,000 =		<u>88,750</u>
				<u>127,500</u>

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C4: DIRECT TAXES

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.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

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

(C4: Direct Taxes Taxation Table for 2024 Examinations)
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Attempt ALL FIVE (5) questions.

QUESTION ONE

Chanda Mukulu is a retired civil servant who runs a business as a sole trader in Kasama district. His business specialises in supplying farming equipment and inputs. The statement of profit or loss for the business for the year ended 31 December 2024 is as follows:

		K	K
Gross profit			1,932,870
Less expenses:			
Bad debts	(note 1)	35,600	
Legal expenses	(note 2)	55,100	
Rent and rates	(note 3)	111,950	
Repairs and renewals	(note 4)	30,860	
Salaries and wages	(note 5)	159,000	
Entertainment	(note 6)	116,040	
Depreciation		20,050	
Utility expenses	(note 7)	66,580	
Miscellaneous expenses	(note 8)	220,000	
			(815,180)
Net profit			1,117,690

The following additional information is provided:

Note 1: Bad debts

These included the following:

	K
Trade debts written off	31,000
Decrease in specific provision for bad debts	(9,100)
Increase in general provision for bad debts	17,100
Loan to former employee written off	25,200
Trade debts previously written off now recovered	(28,600)
	35,600

Note 2: Legal expenses

These included the following:

	K
Legal fees in connection with acquisition of land	26,200
Legal fees in connection with recovery of loans from former employee	28,900
	55,100

Note 3: Rent and rates

Two thirds (2/3) of the expenditure relates to rent and rates for the house occupied by Chanda Mukulu and his family.

Note 4: Repairs and Renewals

These included the following:

	K
Repainting the main shop	5,200
Breaking and extension of the shop	20,460
Other repairs and maintenance all allowable	5,200
	30,860

Note 5: Salaries and wages

These comprised the following:

	K
Chanda Mukulu's salaries	96,000
Employees' salaries	63,000
	159,000

Included in the employees' salaries figure was Chanda Mukulu's son's annual salary. His son's annual salary was K28,800. Other employees performing similar work in the business are paid annual salaries of K18,000 each.

Note 6: Entertainment expenses

These included the following:

	K
Entertaining suppliers	27,050
Entertaining customers	46,400
Team building event for employees	33,840
Gifts of shopping vouchers given to customers (worth K250 each)	8,750
	116,040

Note 7: Utility expenses

One quarter (¼) of the utility expenses relate to business premises and the rest for Chanda Mukulu home residence.

Note 8: Miscellaneous expenses

These included the following:

	K	
Advertising expenses	67,066	
Leasing and hire charges for assets used in business	92,934	
Donation to a political party	60,000	
		220,000

Note 9: Capital allowances

Capital allowances for the tax year 2024, have been agreed at K220,000.

Required:

(a) Calculate the tax adjusted business profit for Chanda Mukulu for tax year 2024. (10 marks)

(b) Calculate the final income tax payable by Chanda Mukulu for tax year 2024. (3 marks)

(c) Chanda Mukulu was also involved in the public passenger transport business during the tax year 2024. He operated a fleet of five (5) taxis, each with a seating capacity of four (4) passengers. Each taxi was operational for seven (7) days a week, every month from January 2024 up to the last day of the first quarter of 2024. After the end of the first quarter he sold all the taxis.

Required:

(i) Calculate the presumptive taxes paid for tax year 2024. (2 marks)

(ii) Explain five (5) benefits of presumptive taxes. (5 marks)

[Total: 20 Marks]

<u>QUESTION TWO</u>

(a) Explain the sources of tax laws and regulations in Zambia. (8 marks)

(b) Dan and Ken are former university graduates who have come together and formed a partnership dealing in mobile telephone accessories. They commenced trading on 1 January 2024 and prepared the first accounts to 31 December 2024 and will prepare accounts annually thereafter. They agreed to be sharing profits and losses in the ratio of 2:1 after allowing for annual partnership salaries of K144,000 and K180,000 for Dan and Ken respectively.

On 1 July 2024, Joe, a marketer, joined the partnership to improve the sales of the business. Upon the admission of Joe as a new partner, the annual salaries and profit sharing ratios were adjusted as follows:

	Dan	**Ken**	**Joe**
Annual salaries	K72,000	K60,000	K48,000
Profit sharing ratio	3:	2:	1

In January 2024, the business bought a computer desk top set at a cost of K125,000 and office furniture at a cost of K120,000. The tax adjusted profit before capital allowances for the partnership for the year ended 31 December 2024 was K1,200,000.

Required:

(i) Calculate the partnership's final adjusted taxable business profit for the tax year 2024. (3 marks)

(ii) Calculate each partners' final taxable income for the tax year 2024. (9 marks)

[Total: 20 Marks]

QUESTION THREE

Kalusha Banda had been employed as a Senior Internal Auditor of PZ Ltd for five (5) years but was retrenched due to the adverse impact of the Corona Virus Pandemic on the business on 30 September 2024. His annual basic salary had been K324,000. In addition he was entitled to the following allowances per annum:

	K
Medical allowance	7,200
Entertainment allowance	17,400
Transport allowance	7,500
Housing allowance	15,000
School children allowance per child	6,150

Kalusha has three children, who are still young and school going. The company also paid him a bonus of K8,200 for his hard work and leave pay of K13,800 in the tax year 2024.

Other income received by Kalusha in the tax year 2024, was as follows:

	K
Treasury bills interest	6,350
Consultancy fees	39,800
Royalties	14,600
Bank deposit interest	7,800
Dividends from Zambian companies listed on the LuSE	10,620

All of these figures represent the actual amounts received. Withholding tax had been deducted at source at the appropriate tax rates.

During the tax year 2024, Kalusha made the following payments:

	K
Income tax paid under Pay As You Earn	99,400
Subscription to the Institute of Internal Auditors	4,500
NAPSA	15,100
School fees for children	35,850
Donation to a local approved public benefit organisation	8,250
Contribution to a political party	6,200

Required:

(a) Explain the tax treatment of subscriptions paid by an employee. (2 marks)

(b) Calculate the total amount of income tax payable by Kalusha for the tax year 2024 (18 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The Zambia Revenue Authority (ZRA) uses some tests to establish whether or not a trade is being carried on. These tests are known as badges of trade.

Required:

Briefly explain five (5) badges of trade which can be used to establish whether or not a trade exists. (10 marks)

(b) Turnover Tax is tax paid on turnover by all persons whose annual turnover is K800,000 or less.

Required:

(i) State the types of persons who are chargeable to turnover tax. (2 marks)

(ii) State any five (5) persons who are not required to pay turnover tax in Zambia. (4 marks)

(iii) Explain four (4) problems associated with turnover tax from the tax payers' point of view. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Property Transfer Tax (PTT) arises whenever property is transferred in Zambia and is governed by the Property Transfer Tax Act.

Required:

(i) State any two (2) documents required for the purposes of assessing property transfer tax on the transfer of shares in a company that is not listed on the Lusaka Securities Exchange. (2 marks)

(ii) Explain the rules used to determine the realized value of land and mining rights for the purposes of assessing PTT. (4 marks)

(iii) Describe any three (3) transactions which are exempt from PTT. (3 marks)

(b) MM Plc is a Zambian resident company that prepares its annual financial statements to 31 December. The company listed its shares on the Lusaka Securities Exchange in January 2024 and offered 40% of its shares to indigenous Zambians.

The adjusted taxable business profits for year ended 31 December 2024 amounted to K1,280,500 before capital allowances.

At 1 January 2024, the income tax values and original costs of non-current assets qualifying for capital allowances were as follows:

	Income Tax Value	Original Cost
	K	K
Toyota Van	225,000	300,000
Toyota Corona car	56,000	280,000
Manufacturing Equipment	500,000	1,000,000

The Toyota Corona car which had a cylinder capacity of 1800cc was sold during the year for K60,000 and was replaced by a Toyota Camry car which was acquired at a cost of K400,000 and has a cylinder capacity of 2,000cc.

The provisional income tax paid by the company during the year amounted to K89,200.

Required:

(i) Calculate the maximum capital allowances claimable by the MM Plc in year ended 31 December 2024. (5 marks)

(ii) Compute the income tax payable by MM Plc for tax year ended 31 December 2024. (6 marks)

[Total: 20 Marks]

END OF PAPER

C4 DIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Calculation of adjusted business profit for Chanda Mukulu for the tax year 2024

		K
Net profit		1,117,690
Add:		
Increase in general provision for bad debts	17,100	
Loan to former employee written off	25,200	
Legal fees in connection with land acquisition	26,200	
Legal fees in connection with recovery from former employee	28,900	
Rent & rates for Chanda's house two thirds (2/3 x K111,950)	74,633	
Breaking and extending the shop	20,460	
Chanda Mukulu's salary	96,000	
Difference in salary	10,800	
Entertaining suppliers	27,050	
Entertaining customers	46,400	
Gifts to customers	8,750	
Donation to a political Party	60,000	
Utility expenses (3/4 x K66,580)	49,935	
Depreciation	20,050	
		511,478
		1,629,168
Less		
Capital allowances		(220,000)
Adjusted business profit		1,409,168

(b) CHANDA MUKULU
PERSONAL INCOME TAX COMPUTATION FFOR TAX YEAR 2024:

	K	K
First (61,200 @ 0%)	0	
Next (K24,000 @ 20%)	4,800	
Next (K25,200 @ 30%)	7,560	
Final (K1,298,768 @ 37%	480,544	
Total income tax payable	492,904	

(c) (i) The presumptive tax paid by Chanda Mukulu for tax year 2024.

Since the taxis were only operational for one quarter, the amount of presumptive taxes paid is:

K270 x 5 = K1,350

(ii) Benefits of presumptive taxes

- Simplified process
  The process of dealing with taxes has been simplified.
- Cash flow friendly
- The taxes payable are predictable therefore resulting in easing of cash flow
  The operators find it easier to pay in small broken amounts of either daily, weekly or monthly depending on their preference. This does not disrupt their cash flow
- No need or professional consultancy services
  Paying levies is straight forward and a driver or conductor may easily do it. There is no need to hire a professional to do so on their behalf.
- Equity
  The system is simpler such that each transporter is expected to pay their part as compared to the previous system.
- Allowance for break down
  The tax is charged for vehicles that are on the road during the tax accounting period.

SOLUTION TWO

(a) The sources of tax law include:

(1) **Statutes or Acts of parliament -** Statutes are laws enacted by parliament. Statutes make it legal for taxes to be levied.

(2) **Statutory instruments** - These are form of delegated registration issued by a government minister. They have the same effect as statutes.

(3) **Case Law** – Judges use past decided cases in taxation in the interpretation of particular statutes which relates to the specific circumstances of a case.

(4) **Practice notes** – These are issued by the Zambia Revenue Authority to indicate the ZRA's interpretation of statute. They have no legal effect.

(b) Calculation of Dan, Ken and Joe, the partnership's final adjusted taxable business profit for tax year 2024

Final adjusted taxable profit:

	K	K
Business profit before capital allowances		1,200,000
Less capital allowances:		
Computer desk top set (K125,000 x 25%)	31,250	
Office furniture (K120,000x 25%)	30,000	
		(61,250)
Final adjusted business profit		1,138,750

(c) COMPUTATION OF PARTNER'S FINAL TAXABLE PROFITS

	Total	Dan	Ken	Joe
1st 6 months	K	K	K	K
Salaries				
(K144,000+K180,000) x 6/12	162,000	72,000	90,000	
Balance: 2:1(407,375x2/3)	407,375	271,583	135,792	
Total	569,375	343,583	225,792	
Last 6 Months				
Salaries				
(72,000+60,000+48,000) x 6/12	90,000	36,000	30,000	24,000
Balance: 3:2:1	479,375	239,687	159,792	79,896
Total	569,375	275,687	189,792	103,896
Total allocation	1,138,750	619,270	415,584	103,896

SOLUTION THREE

(a) Subscriptions paid by employee to any trade, profession or technical association that is relevant to the duties of the employee are allowed. Those that are paid to associations which are not relevant to the duties of the employee are not allowed.

(b) INCOME TAX COMPUTATION FOR THE TAX YEAR 2024:

Details	K		K
Earned Income:			
Salary	K324,000 x 9/12)		243,000
Medical allowance	K7,200 x 9/12)		5,400
Entertainment allowance	(K17,400 x 9/12)		13,050
Transport allowance	(K7,500 x 9/12)		5,625
Housing allowance	(K15,000 x 9/12)		11,250
School fees allowance	(K6,150x9/12 x3)		13,838
Bonus			8,200
Leave pay			13,800
Total earned income			314,163
Add investment income			
Gross audit consultancy	(K39,800 x 100/85)	46,824	
Gross royalties	(K14,600 x 100/85)	17,176	64,000
Total gross income			378,163
Less allowable deductions			
Subscriptions		4,500	
Donations		8,250	
			(12,750)
Assessable income			**365,413**

Tax Computation:

	K	Tax
Taxable Amount	365,413	
Tax Free amount	(61,200)	-
Balance taxable	307,813	
Tax @ 20%	24,000	4,800
Tax @ 30%	25,200	7,560
Tax @ 37%	255,013	94,355
		106,715
Less PAYE		
WHT		(99,400)
WHT	46,824 x 15%	(7,024)
Income tax payable	17,176 x 15%	(2,576)
		2,285

SOLUTION FOUR

(a) The following are the badges of trade:

1. **The subject matter of realization**
   The nature of the goods sold is considered. If the goods sold are normally held as trading stock then the presumption that one is in trade is very high.

2. **The length of the period of ownership**
   The goods that are held as trading stock are held for a short period of time. If the goods sold were held by the tax payer for a short period, the presumption that a trading transaction took place will be high.

3. **The frequency of similar transactions**
   If the tax payer engages in similar transactions more often, the presumption that there is trade going on is high.

4. **Supplementary work and marketing**
   If goods are acquired when there are in poor state and supplementary work is carried out to improve the goods by making them more marketable, then the presumption that there is trade is high when the goods are sold.

5. **Circumstances giving rise to realization**
   The circumstances giving rise to a transaction are considered. If a tax payer sold goods in order to sort out a financial problem, the presumption that there is trade is low.

6. **The tax payer's intention**
   The intention to make a profit does not always constitute trade, but the intention to trade purely consists of trade.

(b) (i) Types of persons chargeable to turnover tax

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

(ii) Persons not required to pay Turnover tax :

1. Any person whose annual turnover is more than K800,000.
2. Any person whose annual turnover is less than K800,000 but has registered voluntarily for Value Added Tax (VAT).
3. Any person carrying on the mining operations in the Republic of Zambia.

4. Any partnership irrespective of whether or not the turnover is more than K800,000.
5. Any person whose income constitutes income generated from partnership or partnership profits.

(ii) The following are the problems of Turnover tax:

1. Turnover tax is paid irrespective of whether a profit is made or not.
2. Expenses are not taken into account when calculating the taxable income.
3. No capital allowances are claimed on assets used wholly and exclusively for business purposes.
4. There is no carrying forward of losses by a person under turnover tax.

SOLUTION FIVE

(a) (i) Required documentation for the transfer of shares

- share transfer form 27
- latest financial statements of the company in which the shares are held. Shareholders resolution.

(ii) Realised value of land

The realised value of any land transferred is that the realised value is the greater of;

- The open market value of the property transferred; &
- The actual price paid, if any.

Realised value of mining rights or an interest in mining rights

the realized value shall be the higher of:

- The actual price of the mining right or an interest in mining rights at the time of the actual transfer or

- The value as determined by the Commissioner General.

(iii) Exempt transactions

1. Any transaction involving the sale or other disposal of any stock or share listed on Lusaka Stock Exchange.
2. Any transaction involving the transfer of property to a company in order to satisfy the transferor's contribution towards that company's equity if that company is incorporated under the Companies Act. It is the Commissioner General to determine that the transfer is exempt.
3. Any transfer of property that is occasioned by death of the transferor to a member of the immediate family.

(b) (i) MM Plc Company allowances computation FYE 2024:

Asset	Toyota Van	Toyota Corona car	Manufacturing quipment	Toyota camry	Total allowances
Date	2021	2018	2021	2024	
Cost	300,000	280,000	1,000,000	400,000	
Rate CA	25%	20%	50%	20%	
ITV b/f	225,000	56,000	500,000	400,000	

Disposal proceds		60,000			
Capital allowances	75,000	(4000)	500,000	80,000	651,000
ITV c/f	150,000	-	NIL	320,000	

(b) <u>(ii) Computation of tax computation FYE 2024</u>

Tax Taxable profit	1,280,500
Capital allowances	<u>(651,000)</u>
Taxable profit	629,500
Company tax @ 30%-2-5 =23%	144,787
Less provisional tax	<u>(89,200)</u>
Tax payable	<u>55,585</u>

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C5: INDIRECT TAXES

THURSDAY 12 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.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

Low Cost Housing	**(Cost up to K100,000)**	
Wear and Tear Allowance		10%
Initial Allowance		10%
Commercial Buildings		
Wear and Tear Allowance		2%
Farming Allowances		
Development Allowance		10%
Farm Works Allowance		100%
Farm Improvement Allowance		100%

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

Registration threshold	K800,000

Standard Value Added Tax Rate (on VAT exclusive turnover) 16%

Customs and Excise duties on used motor vehicles

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

	Aged 2 to 5 years		Aged above 5 years	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598

Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged above 5 years**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

   Percentage of Value for Duty Purposes 30%

   Minimum Specific Customs Duty K6,000

	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FIVE (5) questions.

QUESTION ONE

(a) Zambia Revenue Authority (ZRA) officials of the Customs and Excise Division have powers conferred on them under the Customs and Excise Act for the protection of revenue and proper tax administration.

Required:

(i) State four (4) powers of the Customs and Excise officials provided to them by the Act. (4 marks)

(ii) Explain the role of the Customs and Excise Division in the exportation of goods. (3 marks)

(iii) Explain the term "Currency Declaration" and the consequence on any person who refuses to make a declaration or makes an incorrect or false declaration. (3 marks)

(b) The household and personal effects including one motor vehicle of a deceased Zambian abroad may be imported by a duly appointed administrator of the estate of the deceased provided the administrator meets certain conditions and the Commissioner General is satisfied.

Required:

Explain four (4) conditions which must be met in order for the appointed administrator to import the personal effects of the deceased person. (4 marks)

(c) Zambia is a member of certain international and regional bodies such as COMESA and SADC and as such has entered into some international agreements where goods originating from member states shall be eligible for preferential tariff treatment for the benefit of importers and exporters.

Required:

Explain any three (3) origin conferring criteria for goods to be accepted as originating in a member state. (6 marks)

[Total: 20 Marks]

QUESTION TWO

(a) A business which has been registered for Value Added Tax (VAT) is required to keep full and accurate accounting records. It is important to keep copies of all invoices or receipts and all the VAT that has been paid. Records must not be kept in any set way, but they must be complete and up to date. They must also be easy for ZRA to inspect and the figures that have been used to fill the VAT return must be easy to access. If a business has been transferred as a going concern, the new owner is required to keep the records of the acquired business.

Required:

Explain the VAT implications in the circumstances where:

(i) Errors and omissions are discovered after the VAT return has already been filed with ZRA for the previous tax period. (2 marks)

(ii) Errors and omissions are discovered during the audit visits by ZRA officers.

(2 marks)

(iii) A business is transferred as a going concern. (4 marks)

(b) The Revenue Appeals Tribunal was set up under the Appeals Tribunal Act to deal with matters where there is a disagreement between the Zambia Revenue Authority and the taxable suppliers in cases where matters have not been resolved by ZRA.

Required:

Explain the matters that can be lodged to the Revenue Appeals Tribunals where there is a dispute between the taxable supplier and ZRA. (5 marks)

(c) The Government of the Republic of Zambia through the Zambia Revenue Authority has been making efforts to broaden the tax base in order to maximise revenue collection. In this regard a number of sectors have been incorporated into the Value Added Tax (VAT) scope such as the Banking and Financial services sector. Consequently, fee-based banking services have become standard rated for VAT purposes.

Required:

List any Seven (14) banking services that are currently standard rated for VAT.

(7 marks)

[Total: 20 Marks]

QUESTION THREE

Chuchu operates a fleet of taxis in Kabwe and in the recent past his business has expanded so much that he wishes to extend it to other parts of the country. In the month of March 2024, he imported the following motor vehicles:

(1) He bought a second hand Toyota Runx (sedan) with a cylinder capacity of 1,300cc from Japan at a cost of $3,700 which was manufactured in 2021. He paid insurance and freight charges of $400 and $600 respectively. Other incidental costs incurred from Dar-es-Salaam to Nakonde border post were $300. Chuchu incurred further costs amounting to $700 from Nakonde to Kabwe.

(2) He bought a brand new Toyota Ipsum with a cylinder capacity of 2,400cc from Japan at a cost of $10,500. He paid insurance charges of $900 and shipping costs of $1,100 from Japan

up to Nakonde border. Incidental costs amounting to $700 were paid up to Nakonde border post. Transportation costs of K9,500 were incurred from Nakonde border post to Lusaka.

The motor vehicles arrived at the border on 28 May 2024 and all the import taxes were paid. On the date of arrival at the border, the Commissioner General's approved exchange rate was K25 to $1 although some Bureau currency dealers had quoted their exchange rates at K25.50 to $1.

Required:

(a) State four (4) conditions that should be met in order for the transaction value method to be used (4 marks)

(b) Calculate the total amount of import duties paid by Chuchu on each motor vehicle imported. (16 marks)

[Total: 20 Marks]

QUESTION FOUR

Mumba runs a business dealing in assorted taxable supplies based in central business of Lusaka. He Has been trading in this type of business for a number of years.

The business has been registered for Value Added Tax as the annual turnover is well above

K800,000.

During the month of June, 2024, the business undertook the following transactions:

1. Sales amounting to K625,000, out of which 85% were standard rated, 10% exempt and the balance was zero rated.

2. Purchases amounting to K275,000 out of which 5% were from unregistered VAT suppliers.

3. Bought a delivery VAN for K250,000 to replace an old van which was sold off for K80,000. Both of these transactions are VAT inclusive.

4. Held a cocktail function for clients and spent K10,500.

5. Bought diesel for K7,200 and diesel K4,500.

6. Overheads expenses amounted to K20,200 which were incurred to generate both taxable and exempt supplies.

7. The bad debts amounting to K35,000 were written off in June 2024, the payment for the original sales was due by 7 August 2022.

Unless otherwise stated, all the figures above are exclusive of VAT indicate a zero (0) for exempt and zero rated items.

Required:

(a) Explain the five (5) obligations of Mumba's business as a VAT registered supplier. (5 marks)

(b) Explain the four (4) steps to be followed in claiming bad debt relief. (4 marks)

(c) Calculate the amount of VAT payable or refundable for the month of June 2024. (11 marks)

[Total:20 Marks]

QUESTION FIVE

(a) The year 2023 saw Zambia's economy underperforming. The downward trend in the shrinking of the economy was attributed to lack of foreign exchange inflow. This led to the depreciation of the Zambia kwacha and a rise in the cost of goods and services. In order to improve the inflow of foreign income, the Government of the Republic of Zambia encourages business to export more through organisation such as COMESA, SADC and AGOA

Required:

(i) Explain the Duty Drawback Mechanism (DDB). (4 marks)

(ii) List five (5) major factors Customs Union is focused on. (5 marks)

(iii) Explain mechanisms to promote intra region integration. (3 marks)

(b) A bonded warehouse is a building or an installation or an area licensed in terms of Section 55 of the customs and Excise Act in which goods may be stored without payment of import duties.

Required:

(i) Explain any three (3) requirements which must be met for an application by a client or occupier to be approved. (6 marks)

(ii) Explain any two (2) advantages of a bonded warehouse (2 marks)

[Total: 20 Marks]

END OF PAPER

C5: INDIRECT TAXES SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) **Powers of the Customs and Excise Division provided by the Customs and Excise Act includes the following:**

(1) Power to stop and search any person, including any person within or upon any ship, aircraft, or vehicle, whom he has good reason to suspect of having secreted about him or in his possession any dutiable goods or any goods in respect of which there has been a convention of the law.

(2) Power to enter any shop, office, store, structure or enclosed area for making such examination and enquiry, as he considers necessary.

(3) Power to demand for any book, document or thing which is required under the Act.

(4) Power to examine and make extracts from copies of such books and documents.

(5) Power to take with him onto such premises an Assistant who may be a police officer.

(ii**) Roles of the Customs and Excise Division in the exportation of goods:**

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

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

(3) Customs and excise division collects information needed for preparation of national trade statistics.

(iii) **Currency declaration:**

Currency declaration means that any person importing into or exporting from Zambia currency notes, in any currency, exceeding in value of five thousand United States Dollars (Us$5,000) shall make a declaration in the Customs and Excise Currency Declaration form (CE 10) as provided for under the Customs and Excise Act.

Where a person refuses to make a declaration or makes an incorrect or false declaration, and is found with currency notes in excess of the specified amount, the currency notes in excess of that amount shall be seized and forfeited to the state.

(b) **Conditions to be met for appointed administrator to import personal effects of a deceased person:**

(1) The deceased person was a Zambian citizen by decent or naturalization

(2) The death of the deceased person was certified by a duly qualified medical practitioner.

(3) The household goods and personal effects were the property of the deceased person before the date of death.

(4) The household and personal effects were imported by the administrator at the time of arrival of the remains in Zambia or if there is a delay between the arrival of the goods or where the remains were buried or cremated outside Zambia.

(c) **The following are the five (5) origin conferring criteria for goods to be accepted as originating in a Member State:**

(1) Goods wholly produced in a Member State (i.e. no raw materials from outside the regions have been used in their manufacture), or

(2) Goods produced in a Member State and the CIF value of any foreign (i.e. non COMESA or SADC) materials used does not exceed 60% of the total cost of all materials used in the production; or

(3) Goods produced in Member States whose value added resulting from the process of production accounts for at least 35% of the ex- factory cost of the goods; or

(4) Goods produced in a Member State designated in a list by the Council to be of particular importance to the economic development of the Member State and containing not less than 25% value added notwithstanding the provision in (c) above.

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

SOLUTION TWO

(a) (i) A taxable supplier may discover errors in the returns already filed with the ZRA for a previous tax period. The errors may be under-declarations or over-declarations. The VAT law requires the taxable supplier to include on the next VAT return all under-declarations and over-declarations he or she discovers. So there is no implication if the taxable supplier follows the requirement of the law.

The Commissioner General has to be notified of the circumstances relating to the correction.

(ii) Errors and omissions discovered during audit visits by ZRA officers attract interest at the Bank of Zambia discount rate plus 2% on amounts under-declared on VAT returns.

(iii) The transfer of business as a going concern is outside of the scope of VAT. There is no VAT charge if a business is sold as a going concern to another taxable person or a person who immediately becomes taxable person as a result of the transfer.

If a transfer of a going concern is from a VAT registered trader to a new owner who is not VAT registered then it is possible to apply to transfer the registration number of the previous owner to the new owner.

(b) The Revenue Appeals Tribunal hears the following matters raised by taxable suppliers:

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

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

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

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

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

(c) Most of the banking services are now standard rated and includes the following:

- Commissions on drafts and transfers.
- Commissions on foreign drafts and transfers.
- Commissions on certified vouchers, managers'/bank cheque.
- Standing orders.
- Commission on status enquiry.
- Excess withdrawal fees.
- Administrative charge imposed on customer exceeding overdraft limit.

- Commission on invoices discounted.
- Stop payments.
- Commission on on-line and TT transactions.
- Own acceptances.
- Commission on lost connect cards.
- Commission on guarantees negotiated.

SOLUTION THREE

(a) **The following conditions should be met I order of the transaction value method to be used:**

(1) There should be no restrictions to the use of the goods.

(2) There should be no conditions to deter determination of the VDP.

(3) No part of the proceeds on resale would accrue to the seller, unless included in the value.

(4) No relationship exists to influence the value.

(b) **IMPORTATION OF TOYOTA RUNX**

COMPUTATION OF VALUE FOR DUTY PURPOSES

	$
Cost	3,700
Insurance charges	400
Freight	600
Other incidental costs	300
CIF	5,000
VDP (5,000 x K25)	125,000

COMPUTATION OF IMPORT TAXES PAID

	Values	Taxes paid
	K	K
Value for duty purposes	125,000	
Customs duty	16,058	16,058
	141,058	
Excise duty	13,917	13,917
	154,975	
VAT @ (16% x K154,975)	24,796	24,796

	179,771	______
Total taxes paid		54,771

IMPORTATION OF TOYOTA IPSUM

COMPUTATION OF VALUE FOR VALUE FOR DUTY PURPOSES

	$
Cost	10,500
Insurance charges	900
Freight	1,100
Other incidental costs	700
CIF	13,200
VDP (13,200 x K25)	330,000

COMPUTATION OF IMPORT TAXES PAID

	Values	Taxes paid
	K	K
Value for duty purposes	330,000	
Customs duty @30%	99,000	99,000
	429,000	
Excise duty @30%	128,700	128,700
	557,700	
VAT @ 16%	89,232	89,232
	646,932	670,132
Total taxes paid		316,932

SOLUTION FOUR

a) Obligations of a VAT registered supplier.
   (i) Notify Zambia Revenue Authority (ZRA) when business starts or circumstances change.
   (ii) Charge VAT on taxable supplies.
   (iii) Display the VAT registration certificate.
   (iv) Complete and submit returns by the due date which is specified by ZRA and pay VAT promptly by the due date.
   (v) The VAT returns should be completed accurately and honestly provide tax invoices.
   (vi) Maintain sufficient records for at least five (5) years
   (vii) Co-operate with ZRA officers by providing information to them.

b) Steps to be followed in claiming bad debt relief:
   (i) The supplier must make a claim from the administrator/Receiver/liquidator for VAT inclusive amount that he is owed by the insolvent debtor.
   (ii) Obtain a written statement from the administrator/Receiver/Liquidator to the effect that the debtor is insolvent and that he cannot pay the debt.
   (iii) Claim a credit for the amount of VAT remitted in respect of the bad debt by adding the bad debt to the input tax incurred on domestic purchase in the appropriate box of VAT return.
   (iv) Evidence that the VAT claimed as Bad Debt Relief had been remitted to Zambia Revenue Authority.
   (v) Copies of correspondences regarding the Bad Debt.

c) Mumba's VAT payable/refundable for the month of June 2024.

	K	K
OUTPUT VAT		
Sales:		
Standard rated (K625,000x 85% x 16%)		85,000
Exempt (K625,000 x 10%)		0
Zero rated (K625,000 x 5%) x 0%		0
Sale of Van (K80,000x 4/29)		<u>11,034</u>
		96,034
INPUT VAT		
Purchases:		
Standard rated (K275,000 x95% x 16%)	41,800	
Purchase of delivery Van (K250,000 X 4/29)	34,483	
Bad Debt Relief (K35,000 x 16%)	5,600	
Petrol NIL	0	

Diesel (K7,200 x 16%) x 90%	1,037	
Overheads (K20,200 x 16/100 x 90%)	2,909	
		<u>88,829</u>
VAT payable/refund (K96,034- K86,263)		10,205

SOLUTION FIVE

a) (i) Duty Draw back (DDB) mechanism

1. This is an export support program by the government that enables the local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export.
2. The government pays back the direct and implied taxes through Zambia Revenue Authority (ZRA) upon proof of export by the producer.
3. Duty Drawback (DD) scheme benefits exporters by reducing the export price thereby increasing competiveness of local products on the export market.
4. For exporters to benefit from duty drawback, it is important to file duty drawback claims with Zambia Revenue Authority (ZRA) quickly and accurately.

(ii)Five (5) major factors of which Customs Union focuses on:

1. The international free trade area.
2. Relations with third countries including the application of the CET.
3. Trade remedies.
4. Export promotion.
5. Dispute settlement.

(ii)) Mechanisms to promote intraregional integration.

1. Stock exchange to bring about a capital market in the region which is an equity fund subscribed by western Institutional investors to facilitate investment in the region.
2. Revolving fund for supporting women in business with targeted capitalization of US$360 million.
3. US$130 million reserve fund under the PTA Bank to support the operations of the clearing house

(b) Bonded warehouse:

(i) conditions for accepting an application from clients for bonded warehouse:

- The warehouse must be conveniently situated of within 20km from the controlling station

- the warehouse must be secure

-The doors of the warehouse must be strong

- access to the warehouse must be restricted

(ii) Advantages of a bonded warehouse:

- Goods are stored without payment of duty
- Duty can be paid according to demand of the goods

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C6: LAW FOR TAX PRACTITIONERS

FRIDAY 13 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.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FIVE (5) questions.

QUESTION ONE

Alfred aged 20, advertised his grandfather's clock in the Post newspaper for a quick sale. Mulenga, aged 16 years, read the advertisement and came to Alfred's house on June 1 to see the clock and said he would buy it for K4 million because it was good for his sporting activities at school. Alfred replied that he would like some time to think about it and promised to let Mulenga know within a few days. On June 4, Alfred posted a letter to Mulenga in which he wrote that he agreed to sale the clock for K4 million. Later that day Clive came to Alfred's house and said that he would buy the clock for K5 million. After sending a telegram to Mulenga saying "ignore letter: clock no longer for sale" , Alfred allowed Clive to take the clock away in return K5 million cash. The telegram was delivered to Muleng'as house on the evening of June 4 and Alfred's letter arrived on June 5.

Required:

(a) With the aid of authorities, advise Mulenga on the prospects of his success if he sues Alfred and in doing so, consider the rules governing the aspect of capacity to contract in relation to the scenario above. (10 marks)

(b) Explain various incidents; a principal may ratify acts of an agent. (5 marks)

(c) Explain the powers of trustees in bankruptcy proceedings. (5 marks)

[Total: 20 Marks]

QUESTION TWO

(a) Discuss an instance of garden leave in accordance with the Employment law in Zambia and common law principles, if any. (8 marks)

(b) State and explain briefly, the duties of a company secretary at law. (4 marks)

(c) Explain when restrictive covenants become enforceable at law and the period for their enforcement? (4 marks)

(d) Distinguish a limited partner from a nominal partner. (2 marks)

(e) List any three (3) categories of employees who enjoy special protection against dismissal in Zambia? (2 marks)

[Total: 20 Marks]

QUESTION THREE

Munjiboza has taken out a life assurance policy with Elite Insurance Zambia Ltd. The policy is to provide a lumpsum to his dependants in case of his death and pay for any sickness to himself during the subsistence of the policy. At the time of signing the policy, one of the questions asked to him was, 'whether he suffered from diabetes'? His answer was in the negative, but in fact he was diabetic. He also insured his best friend, Ronald's 'Mercedes Benz X - Class, 2024 Model, Bullet Proof', with the same insurance company. He said to himself that in an event that the car is stolen or damaged, his friend would suffer some huge loss and may end up dying from depression.

Required:

(a) Owing to his diabetic condition, Munjiboza has developed a condition which needs his leg to be amputated. Following the principle of *utmost good faith*, Explain whether Elite Insurance should pay for his medical bills for amputation. (8 marks)

(b) Was Munjiboza right in insuring his friend's car? Explain your answer. (6 marks)

(c) To raise money for his rentals last year, Munjiboza decided to sell some of his clothes to Nawa Sikananu who has up to now not paid anything. When he went to ask for his money, Nawa Sikananu told him that he was insane at the time of buying the clothes, and does not remember what really happened. His neighbour confirmed the insanity of Nawa, saying he had been like that for the past four (4) years.

Munjiboza wants to sue Nawa for the money, will he succeed at court? Explain your answer. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

With the aid of authorities, Explain:

(a) The remedies for the victim of innocent misrepresentation? (5 marks)

(b) The legal concept of 'duress, coercion, undue influence and mistake'. (5 marks)

(c) The remedy of rescission and the circumstances the right to rescind is lost. (5 marks)

(d) Define the following terms:

(i) Law (1 mark)

(ii) Causation (2 marks)

(iii) Negotiable instrument (2 marks)

[Total: 20 Marks]

QUESTION FIVE

GJC is a joint venture owned by two businesses namely, Gwenani Holdings and James Chomba Enterprises which came together to enjoy the benefits of being a joint venture enterprise. In their signed agreement, they divided their work as follows: Gwenani Holdings was to specialise in all wooden products, whilst James Chomba Enterprises was to specialise in electronics – based products like fridges, television sets, stoves, etc.

Since the inception of the joint venture partnership, GJC has been selling products on credit sales, hire purchase and cash sales basis. According to the manager, they have made more sales using hire purchase and credit sales in the recent past.

Required;

(a) State five (5) advantages of having a joint venture like GJC. (5 marks)

(b) Explain the distinction between hire purchase and credit sale as used by GJC Joint Venture. (10 marks)

(c) Why do you think, GJC had to prepare a partnership agreement? (5 marks)

[Total: 20 Marks]

END OF PAPER

C6: LAW FOR TAX PRACTITIONERS SUGGESTED SOLUTIONS

SOLUTION ONE

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

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

Scenario 1: Mulenga is 16 and a Schoolboy:

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

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

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

Scenario 2: Mulenga is 18 and a Travelling Salesman:

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

CASE LAW.

Minors' Capacity to Contract:

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

"Necessaries" for Minors:

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

(b) **An agency relationship that arises when a principal acknowledges the acts of a party as being the acts of his or her agent**, even if there was no agency relationship when the agent acted. The conditions are; **The agent must purport to act on behalf of the principal; The principal must be in existence at the time of the contract**; and. The principal must have capacity to enter into the contract.

(c) A trustee in bankruptcy is an insolvency practitioner tasked to deal with the complex situations that can arise when someone becomes insolvent. The trustee in bankruptcy effectively **takes control of the assets of an insolvent person and distributes funds to creditors** according to the law.

SOLUTION TWO

(a) There is no specific provision in the Employment Code Act providing for garden leave. However, section 48 of the Employment Code Act may somewhat be said to encompass garden leave as it refers to forced leave. Section 48 states as follows:

(1) An employer shall, where the employer sends an employee on forced leave, pay the employee basic pay during the period of the forced leave.

(2) The Minister may, by statutory instrument, prescribe the circumstances under which an employee is required to be sent on forced leave.

An instance of garden leave was elucidated in the case of **Barclays Bank PLC v. Zambia Union of Financial Institutions and Allied Workers SCZ JUDGMENT NO 12 OF 2007**, where it was stated as follows:

"There was evidence on record that the parties intended to continue with the employer/employee relationship until such time that a compulsory redundancy agreement was agreed upon, notwithstanding that the affected employees were placed on garden leave pending determination of the compulsory redundancy package."

(b) A company secretary is responsible for—

(i) providing the directors, collectively and individually, with guidance as to their duties, responsibilities and powers;

(ii) informing the board of directors on—

1. legislation relevant to or affecting the meetings of members and the board;
2. the reports relating to the operations of the company; and
3. submission of documents to relevant authorities, as required by statute, as well as the implications of failure to comply with such requirement;

- ensuring that minutes of the members' meetings and of the meetings of the board of directors are properly recorded and registers are properly maintained;
- ensuring that the company maintains and updates information on the beneficial ownership of all the shares of the company and their associated voting rights;
- ensuring that the company is in compliance with this Act in relation to lodging of documents with the Registrar; and
- bringing to the attention of the board of directors any failure on the part of the company or a director to comply with the articles or this Act.

(c) For restrictive covenants to be enforceable, they should meet the following requirements:
i. a valid interest which the party imposing the restraint is trying to protect;
ii. the restraint must be no more extensive than is reasonable to protect that interest; and
iii. the restraint must not be contrary to the public interest.

Each of these requirements needs to be considered separately. With respect to the period, in the case of **J. K. Rambai Patel V. Mukesh Kumar Patel (1985) Z.R. 220**, it was stated as follows:

"It is usual to find as reasonable covenants by employees leaving their master's employment not to practice or take employment in the same capacity within a reasonable period and within reasonable geographical limitation... In this particular case we have no hesitation in finding that the period of two years' restraint imposed upon the defendant was not unreasonable."

(d) A Nominal Partner **does not contribute** capital. Neither does he take active part in the management. His contribution in a partnership is limited to allowing the other partners to make use of his name. Whereas, limited partner is **a part-owner of a company whose liability for the firm's debts cannot exceed the amount** that an individual invested in the company. Limited partners are often called silent partners.

(e) Yes and these include employees on;
i. maternity leave,
ii. sick leave (for a certain period) and
iii. compassionate leave.

SOLUTION THREE

(a) *Utmost Good Faith:-* This is a principle of insurance which states that parties to an insurance contract must disclose all material facts that affect the contract of insurance to each other. Each party owes a mutual duty of utmost good faith to the other. This means that, should the insured person give false information, the insurance company is discharged from liability. The same duty extends to the insurer, the insurer must disclose all material facts at the time of filling in the proposal form to the insured party *(Banque Financier De La Cite v Westgate Insurance Co. Ltd (1991)*

In the case at hand, Munjiboza did not disclose his status of having diabetes which was material to the contract under the principle of utmost good faith. Therefore the Elite Insurance is not bound to pay the medical bills for his amputation. He gave false information, thus the insurance company will not pay.

(b) ***Insurable Interest*** is a principle of insurance which states that the insured must have a particular relationship with the subject matter of the insurance to which he might be exposed. It means the insured must suffer financial loss personally should the risk occur. This means only those who are directly affected by the occurrence of the risk must insure, e.g. owners of the properties being insured.

In the case at hand, Munjiboza's insurance of his friend Ronald's car is against this principle of insurance. He has no insurable interest, he shall suffer no loss even if the car was to be damaged. Thus he was not right in doing so and will receive any compensation should it be stolen or damaged as the car was not his. He had no insurable interest.

(c) Nawa Sikananu is a mental patient. He has *mental incapacity* which is governed by the Mental Health Act 1983. However, under the Sale of Goods Act 1979, where mentally sick persons are supplied with necessities, they must pay a reasonable price. However, where a contract is entered into with the other party knowing that a person is insane, such a contract is not binding. In the case at hand, Munjiboza did not know that Nawa was insane, therefore, Nawa must pay a reasonable price, not a market price, as the clothes are necessaries. Thus Munjiboza can succeed only if he can prove that he did not know of Nawa's status at the time of contracting.

SOLUTION FOUR

A good answer will explain the following.

(a) **Remedies for Innocent Misrepresentation:**

While not as severe as fraudulent misrepresentation, innocent misrepresentation (where the statement is untrue but the party making it believes it is true) still entitles the victim to potential remedies:

Rescission of Contract: Similar to fraudulent misrepresentation, the victim can choose to cancel the contract and be restored to their pre-contractual position.

Damages: Unlike fraudulent misrepresentation, damages for innocent misrepresentation are limited to losses directly caused by the misrepresentation, typically not including consequential losses.

Rectification: Similar to fraudulent misrepresentation, the court may order rectification of the contract to reflect the value or terms intended without the misrepresentation.

<u>Case Law</u>:

Kasama Balances Ltd. v. Patel & Sons Ltd. [1972] ZR 141: This case acknowledges the possibility of rescission and damages for innocent misrepresentation.

(b) **Duress, Coercion, Undue Influence, and Mistake:**

Duress: The use of threats or unlawful pressure to force someone into a contract.

Coercion: A milder form of duress, using persuasion or pressure to overcome someone's will.

Undue Influence: Taking advantage of a person's vulnerability or dependence to manipulate them into a contract.

Mistake: Entering a contract based on a fundamental misunderstanding about the nature or terms of the agreement.

All these concepts can potentially render a contract voidable, allowing the victim to rescind the contract.

<u>Case Law</u>:

Zambia Consolidated Copper Mines Ltd v. Anglo American Corporation of South Africa Ltd [1993] ZMSC 8: This case highlights the elements of duress and its impact on contract enforceability.

(c) **Rescission and Loss of Right:**

Rescission allows the victim of a breach of contract, misrepresentation, duress, or mistake to cancel the contract and be restored to their pre-contractual position. However, the right to rescind can be lost in certain circumstances:

Affirmation: Delaying in seeking rescission or acting in a way that suggests acceptance of the contract can waive the right to rescind.

Third-party rights: If a third party acquires rights under the contract in good faith, rescission might be impossible or subject to their interests.

Change in circumstances: If the situation has changed significantly, making it impractical or unfair to restore the pre-contractual position, rescission might be denied.

Case Law:

Chilanga Cement Ltd. v. Zambia National Commercial Bank Plc [2004] ZMSC 58: This case emphasizes the importance of timely action when seeking rescission and the potential limitations due to changed circumstances.

A good answer will state as follows.

d) (i) Law can be defined as a set of rule used to regulate conduct.

(ii) Causation is the connection between the defendant's wrongful act and the damage suffered by the claimant.

(iii) A negotiable instrument is an instrument signed by the maker or drawer of the instrument that contains an unconditional promise or order to pay an exact sum of money on demand or at an exact future time to a specific Peron, or order to its bearer.

SOLUTION FIVE

(a) The five advantages of having a joint venture like GJC include:

- The pooling together of resources
- Greater capacity of business
- Increased technical expertise
- Easy access towel established markets and distribution channels
- Increased innovation
- Increased productivity
- Sharing of risks and cost
- More capital and hence there may be no need for borrowing.

(b) The distinction between Hire Purchase and Credit Sale is that: ***Hire purchase*** is an agreement where the hirer obtains immediate use of the goods on hire upon payment of a deposit and rest in installments over a given period of time. He does not become the legal owner of the goods even if he is free to use them, until the final installment is paid. Additionally, the hirer is not free to sell the goods as they are not his legally, they still belong to the seller. Thus property in goods remains with the seller until the final installment is paid. Under hire purchase, in case of default, the seller gets the goods from the hirer and the hirer loses the already paid installments.

Whilst a ***Credit Sale*** is a contract for the sale of goods whereby, ownership and possession of goods passes to the buyer immediately after paying the deposit. The property in the goods passes to the buyer, the buyer becomes the owner and is free to resell them even if he has not finished paying for them. Further, in case of default in payment, the seller cannot repossess the goods, but can only sue for the price.

(c) ***A partnership deed or agreement*** is a document which lays down the rules and regulations regarding the management of the firm and the rights and duties of the partners. It is important in that it sets out the rules or procedures on how the partnership is to be run. It specifies what type of business the partnership will venture in and how the profits or losses of a partnership are to be shared. The partnership deed reduces or eliminates confusion as it gives direction to the partnership.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D1: BUSINESS INFORMATION MANAGEMENT

WEDNESDAY 11 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.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

Attempt all FOUR (4) questions.

QUESTION ONE

The University Teaching Hospital (UTH) is the largest tertiary care hospital in the country, providing specialized medical services, research, and training to healthcare professionals. With a significant influx of patients and complex medical cases, UTH is undergoing a digital transformation to improve patient care, streamline operations, and enhance efficiency. As part of this initiative, UTH is implementing new information systems and technologies to support its healthcare delivery processes.

Required:

(a) Identify five (5) negative impacts of technology on workplaces in an organization like UTH. (10 marks)

(b) Explain the importance of following a structured Information Systems (IS) development process in the context of the University Teaching Hospital's digital transformation initiatives. State three (3) examples to support your explanation. (6 marks)

(c) Outline two (2) technologies that can be used for collaborative work at UTH. (4 marks)

(d) Explain the concept Total Quality Management (TQM) to UTH management as they pursue their digital transformation project. (5 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Implementation and deployment of new technology is one of the most challenging things that an organization such as Zambia Institute Chartered Accountants (ZICA) can go through. It's fraught with potentially costly errors that could cause a project to be delayed beyond deadline or, worse, disengage employees and make their jobs more difficult instead.

Required:

(i) Explain the stages of project management. (10 marks)

(ii) State three (3) critical success factors that could be influenced by information technology that is essential for the Zambia Institute of Chartered Accountants to achieve its strategic objectives effectively. (3 marks)

(iii) Explain the importance of systems and user acceptance testing for the Zambia Institute of Chartered Accountants when implementing new information systems or software solutions. (4 marks)

(b) A relational database is a type database that stores and provides access to data points that are related to one another. They are based on the relational model, an intuitive, straightforward way of representing data in tables.

Outline the four (4) types of relationships that exist in a relational database design.

(8 marks)
[Total: 25 Marks]

QUESTION THREE

(a) The National Roads Fund Agency (NRFA) is in the process of developing a business strategy to enhance its operations and achieve its objectives efficiently. They are also considering integrating Information Systems/Information Technology (IS/IT) solutions into their operations.

(i) Outline any five (5) key considerations the NRFA should take into account when aligning its business strategy with IS/IT solutions. (10 marks)

(ii) State three (3) concepts of CIA in relation to computer security as the agency's intended IS/IT solutions. (6 marks)

(b) Explain the term 'globalization' when applied to business. (3 marks)

(c) Knowledge management has become one of the main objectives in modern business organizations as knowledge is now viewed as a sustainable source of competitive advantage.
Mention six (6) knowledge management techniques that could be beneficial to the organization. (6 marks)
[Total: 25 Marks]

QUESTION FOUR

(a) Monitoring and Evaluation tools are instruments that help effect planning, data collection, analysis and reporting of projects.
Mention five (5) techniques that can be used to monitor and evaluate activities that are being done on a project. (10 marks)

(b) Explain with examples, the importance of implementing security and legal requirements in the context of an organisation's digital transformation efforts, by giving three (3).
(6 marks)

(c) Decision support systems are prominent information systems that you will find in data driven organizations.

(i) Define decision support system. (2 marks)

(ii) List three (3) types of Decision Support Systems. (3 marks)

(d) Outsourcing and insourcing are methods of dispersing work among different departments or companies for strategic reasons or Business Process Re-engineering.
Distinguish Insourcing from Outsourcing (4 marks)

[Total: 25 Marks]

END OF PAPER

D1: BUSINESS INFORMATION MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Five (5) negative impacts of technology on workplaces in an organization like UTH. Negative impacts of technology on workplaces

- Job loss and automation driven unemployment
- The challenges of keeping up with rapid Technological change
- Workplace distraction and decreased focus
- Cyber security risks and data breaches
- Burnout and Workplace Stress

(b) Importance of following a structured Information Systems (IS) development process in the context of the University Teaching Hospital's digital transformation initiatives. Several key reasons highlight the importance of this process:

- **Alignment with Business Objectives**: A structured IS development process ensures that information systems align with UTH's strategic goals, operational needs, and stakeholder requirements. For example, conducting a comprehensive needs assessment, feasibility study, and requirements analysis helps prioritize IS projects that deliver the greatest value and address critical business challenges, such as improving patient care, enhancing operational efficiency, or complying with regulatory requirements.

- **Risk Management**: Following a structured IS development process enables UTH to identify, assess, and mitigate potential risks and uncertainties associated with technology implementations. For instance, conducting risk assessments, feasibility studies, and impact analyses helps anticipate technical challenges, resource constraints, and organizational barriers that may affect project outcomes, enabling proactive risk mitigation measures and contingency planning.

- **Quality Assurance**: A structured IS development process incorporates quality assurance mechanisms, such as coding standards, testing protocols, and peer reviews, to ensure that information systems meet predefined quality criteria and performance standards. For example, implementing version control, code documentation, and automated testing frameworks helps identify and rectify software defects, security vulnerabilities, and performance bottlenecks early in the development lifecycle, minimizing rework and ensuring system reliability.

- **Stakeholder Engagement**: Engaging stakeholders throughout the IS development process fosters collaboration, communication, and buy-in for digital transformation initiatives at UTH. For example, conducting stakeholder workshops, requirements elicitation sessions, and prototype demonstrations enables stakeholders to provide feedback, validate assumptions, and shape system requirements iteratively, enhancing user satisfaction and ownership of IS projects.

- **Project Governance and Oversight**: Following a structured IS development process establishes clear roles, responsibilities, and accountability mechanisms for project governance and oversight. For instance, defining project charters, milestones, and deliverables, and establishing project management frameworks, enables UTH to monitor progress, track expenditures, and ensure adherence to project timelines and budget constraints, promoting transparency, efficiency, and accountability in project execution.

- Examples: UTH can adopt various IS development methodologies, such as waterfall, agile, or iterative approaches, depending on the nature and complexity of IS projects. For instance, using agile methodologies for EHR system development allows UTH to deliver incremental updates, gather user feedback, and adapt to changing requirements iteratively, improving system usability, functionality, and user satisfaction over time.

(c) **Collaborative technologies include**:

- **Internet-based collaboration environment:** Employees work together from many different locations around the world need tools to support workgroup collaboration. These tools provide storage space for team documents, a space separate from corporate e-mail for team communication, group calendars and an audio-visual environment where members can "meet" face to face in a live video conference.

- **E-mail and Instant messaging (IM) :** Electronic mail and instant messaging have been embraced by corporations as a major communication and collaboration tool supporting interaction jobs in business networks

- **Smartphones:** The mobile platform have emerged coordinating and running the business in motion for e-mail, text messaging, instant messaging and wireless internet connections, which supports professionals and other employees whose primary job is talk with one another, with customers and vendors or managers.

- **Social networking:** Social networks such as LinkedIn.com provide networking services to business professionals. Users are able to set up profiles, blog, tag documents of interest and use online forums to communicate with other co-workers about their interests and projects. They are quickly becoming a corporate tool for sharing ideas and collaborating among interaction-based jobs in the firm

- **Wikis:** Wikis are a type of website that makes it easy for users to contribute and edit text content and graphics without any knowledge of web page development or programming techniques. They are ideal tools for storing and sharing company knowledge and insights.

(d) **Total Quality Management:**

- This is the philosophy that seeks to integrate all organizational functions to focus on meeting customer needs and organizational goals
- It is an organization wide effort of detecting and reducing or eliminating errors.
- TQM is a description of culture, attitude and organization of a company that strives to provide customers with products and services that meet their needs
- In doing so, both management and employees become involved in the continuous improvement of the production of goods and services.

- TQM views an organization as a collection of processes
- The simple objective of TQM is "Do the right things, right the first time, every time".

SOLUTION TWO

(a) (i) **Stages in project management**

- **Project initiation**: this is the first phase of a project life cycle where the project value is determined and a feasibility of the project accessed. Managers build and business case and carry out a feasibility study
- **Project planning:** this is the stage at which the scope of the project is defined. The budgets and work breakdown are also carried out during this phase.
- **Project execution**: this is the real work of building the product (deliverable) takes place. The plans are put into action and the product is produced.
- **Project Monitoring and Controlling** : Ensures that objectives and project deliverables met
- **Project closure**: After the deliverables have been successfully built and delivered the project can officially come to a close.

(ii) **Three (3) critical success factors that could be influenced by information technology that are essential for the ZICA strategic objectives effectively.**

- **Quality of Education and Training Programs**: ZICA's success relies on the quality of its education and training programs for aspiring accountants. Ensuring rigorous curriculum development, qualified faculty members, and modern teaching methodologies are critical success factors in preparing candidates for professional certification exams and equipping them with relevant skills and knowledge.

- **Regulatory Compliance and Standards Adherence**: Compliance with regulatory requirements and adherence to international accounting standards are essential for maintaining ZICA's credibility and authority within the accounting profession. Establishing robust mechanisms for monitoring and enforcing compliance with professional standards ensures accountability and trust among stakeholders.

- **Professional Development and Continuous Learning**: Promoting ongoing professional development and continuous learning opportunities for practicing accountants is crucial for staying abreast of emerging trends, technologies, and regulatory changes in the accounting profession. Providing access to relevant training resources, workshops, and networking events fosters a culture of lifelong learning and professional excellence among ZICA members.

- **Stakeholder Engagement and Collaboration**: Effective communication, collaboration, and engagement with stakeholders, including government agencies, educational institutions, industry partners, and the public, are vital for ZICA's success. Building strategic partnerships, soliciting feedback, and addressing stakeholders' concerns enhance transparency, credibility, and support for ZICA's initiatives and programs.

(iii) Systems and user acceptance testing are crucial for the Zambia Institute of Chartered Accountants (ZICA) when implementing new information systems or software solutions for several reasons:

- **Quality Assurance**: Systems testing ensures that the new information systems or software solutions meet ZICA's functional requirements, performance benchmarks, and usability standards. By conducting rigorous testing procedures, ZICA can identify and rectify any defects, errors, or inconsistencies before deployment, minimizing disruption to operations and ensuring a seamless user experience.

- **Risk Mitigation**: User acceptance testing assesses the readiness and suitability of the new information systems or software solutions from end-users' perspectives. By involving stakeholders in the testing process, ZICA can uncover potential usability issues, workflow disruptions, or resistance to change early on, allowing for proactive mitigation measures and adjustments to implementation plans.

- **Compliance and Regulatory Requirements**: Testing ensures that the new information systems or software solutions comply with regulatory requirements, data protection standards, and industry best practices relevant to ZICA's operations. For example, testing may verify data integrity, security protocols, and audit trails to safeguard sensitive financial information and maintain regulatory compliance with accounting standards.

- **User Training and Adoption**: User acceptance testing provides valuable feedback on user interfaces, functionalities, and features, informing the development of user training programs and support materials tailored to ZICA's specific needs. For instance, testing may reveal opportunities to simplify user interfaces, customize workflows, and enhance user engagement, thereby facilitating user adoption and maximizing the return on investment in new technology initiatives.

- **Continuous Improvement**: Testing serves as a feedback mechanism for continuous improvement and refinement of information systems and software solutions over time. By capturing user feedback, performance metrics, and lessons learned from testing cycles, ZICA can iterate on design enhancements, functionality updates, and usability enhancements to optimize system performance and user satisfaction iteratively.

(b) **Four (4) types of relationships that exist in a relational database design.**

- **one to one** - where one table record relates to another record in another table
- **one to many** - where one table record relates to multiple records in another table
- **many to one** - where more than one table record relates to another table record
- **many to many** - where multiple records relate to more than one record in another table

SOLUTION THREE

(a) i) Five (5) key considerations the NRFA should take into account when aligning its business strategy with IS/IT solutions.

- **Strategic Objectives Alignment**: Ensure that IS/IT initiatives support NRFA's strategic objectives, such as improving road infrastructure, optimizing fund allocation, and enhancing transparency in operations.

- **Stakeholder Engagement**: Involve stakeholders from various departments and external stakeholders, such as contractors and government agencies, to understand their requirements and ensure buy-in for IS/IT implementations.

- **Technology Infrastructure**: Assess the current technology infrastructure of NRFA and identify any gaps or areas for improvement to support the planned IS/IT initiatives effectively.

- **Data Management and Integration**: Develop strategies for collecting, storing, and integrating data from various sources, such as project progress reports, financial records, and geographic information systems (GIS), to provide a holistic view for decision-making.

- **Risk Management**: Evaluate potential risks associated with IS/IT implementations, such as cybersecurity threats, data breaches, and system failures, and develop mitigation strategies to safeguard NRFA's operations and data.
- **Change Management**: Implement change management processes to facilitate the smooth transition to new IS/IT solutions, including training programs for employees, communication plans, and monitoring progress.

- **Performance Measurement**: Define key performance indicators (KPIs) to measure the effectiveness of IS/IT solutions in achieving NRFA's strategic objectives, such as project completion rates, fund utilization efficiency, and stakeholder satisfaction levels.

ii) Concepts of CIA in relation to computer security.

- **Confidentiality** : the system and information should only be accesses by authorized users
- **Integrity**: information in the system should be protected from illegal modification
- **Availability**: information should be accessed by legitimate users when needed.

(b) **The term 'globalization' when applied to business**

- Globalization is the tendency of organization, products and services to proliferate without regard to national boundaries. Organizations are increasingly recognizing the world as their target market, and products and services are being marketed with consistent selling messages in all markets using the internet

(c) **List six knowledge management techniques that an organization could use.**

- Identification of critical knowledge
- Knowledge-retention tools
- Knowledge mapping
- Communities of practice
- Idea management
- Best-practice sharing
- Lesson learned

SOLUTION FOUR

(a) Five (5) techniques that can be used to monitor and evaluate activities that are being done on a project.

- Sampling-related methods
- Core M & E methods
- Discussion methods for groups
- Methods for spatially-distributed information
- Methods for time-based patterns of change
- Methods for analyzing linkages and relationships
- Methods for ranking and prioritizing

(b) Implementing security and legal requirements is crucial for the University Teaching Hospital (UTH) to safeguard patient confidentiality, protect sensitive medical data, and comply with regulatory standards. Several key reasons highlight the importance of this implementation:

- **Patient Confidentiality**: UTH must ensure that patient health information remains confidential and protected from unauthorized access or disclosure. Implementing security measures such as encryption, access controls, and user authentication mechanisms safeguards patient privacy and prevents data breaches.

- **Data Integrity**: Maintaining the integrity of medical records and healthcare data is essential for accurate diagnosis, treatment, and continuity of care. By implementing data validation checks, audit trails, and backup procedures, UTH can mitigate the risk of data corruption, manipulation, or loss, ensuring the reliability and trustworthiness of medical information.

- **Regulatory Compliance**: UTH must comply with various regulatory frameworks and standards governing healthcare data security and privacy, such as the Health Insurance Portability and Accountability Act (HIPAA) or the General Data Protection Regulation (GDPR). Failure to adhere to these regulations can result in legal liabilities, fines, and reputational damage for the hospital.

Examples: For instance, UTH can implement role-based access controls to restrict employees' access to patient records based on their job responsibilities and clearance levels. Encryption protocols can be applied to protect data transmitted over networks or stored in databases, preventing unauthorized interception or tampering. Regular security audits and compliance assessments ensure that UTH's information systems align with industry best practices and regulatory requirements, minimizing the risk of security breaches or data non-compliance incidents.

(c) (i) A DSS is an Information system that is used to improve a company's decision-making capability by facilitating the analysis of large amounts of data.

(ii) **Three types of types of Decision Support Systems.**

- Model-driven DSS

- Data-driven DSS
- Document-driven DSS
- Knowledge-driven DSS:
- Communication-driven DSS

(d) Distinguish between Insourcing and Outsourcing

- **Insourcing** - involves assigning a project or work to a person or department within the company instead of hiring an outside person or company to do the work.

- **Outsourcing** - is a method of dispersing certain work functions to an outside vendor/party instead of having it performed by an in-house employee or department.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D2: FINANCIAL MANAGEMENT

FRIDAY 13 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.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. Formulae, Present Value, and Annuity tables are provided at the end of this question paper.

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

Attempt All the FOUR (4) Questions.

QUESTION ONE

As the Accountant for AgriTec Corporation, you have been assigned to resolve two unrelated financial management cases.

Case One

(a) AgriTec Corporation is appraising the purchase of a new machine, costing K1.5 million, to replace an existing machine which is becoming out of date and has no resale value. The forecast levels of production and sales for the goods produced by the new machine, which has a maximum capacity of 400,000 units per year, are as follows:

Year	**1**	**2**	**3**	**4**
Sales volume (units/year)	350,000	380,000	400,000	400,000

The new machine will incur fixed annual maintenance costs of K145,000 per year. Variable costs are expected to be K3.00 per unit and selling price is expected to be K5.65 per unit. These costs and selling price estimates are in current price terms and do not take account of general inflation, which is forecast to be 4.7% per year.

It is expected that the new machine will need replacing in four years' time due to advances in technology. The resale value of the new machine is expected to be K200,000 at that time, in future value terms.

The purchase price of the new machine is payable at the start of the first year of the production. Working capital investment of K150,000 is available from the existing operations. This investment in working capital is expected to increase in nominal terms in line with the general rate of inflation.

AgriTec Corporation pays corporation tax one year in arrears at an annual rate of 27% and can claim 25% reducing balance tax-allowable depreciation on the purchase price of the new machine. The company has a real after-tax weighted average cost of capital of 6% and a nominal after-tax weighted average cost of capital of 11%.

Required:

Using a nominal terms net present value approach, evaluate whether purchasing the new machine is financially acceptable. (13 marks)

Case Two

(b) AgriTec Corporation is partly financed by 7% loan notes which are redeemable at their nominal value of K1,000 per loan note in eight years' time. Alternatively, the loan notes are convertible after seven years into 110 ordinary shares of AgriTec Corporation per loan note. The ordinary shares of AgriTec Corporation are currently trading at K6.50 per share on an ex dividend basis. The current cost of debt of the convertible loan notes is 8%.

Required:

(i) Justifying any assumptions which you make, calculate the current market value of the loan notes of AgriTec Corporation, using future share price increases of:

1) 4% per year; and (4 marks)

2) 6% per year. (4 marks)

(ii) Discuss the limitations of the dividend growth model as a way of valuing the ordinary shares of a company. (4 marks)

[Total: 25 Marks]

QUESTION TWO

The following are extracts from the financial statements of Iolanda Plc.

	K'000	K'000
Equity and reserves		
Ordinary shares	23,000	
Reserves	247,000	
		270,000
Non - Current Liabilities		
5% Preference shares	5,000	
6% Loan notes	11,000	
Bank loan	3,000	
		19,000
		289,000

The ordinary shares of Iolanda Plc are currently trading at K4.26 per share on an ex dividend basis and have a nominal value of K0.25 per share. Ordinary dividends are expected to grow in the future by 4% per year and a dividend of K0.25 per share has just been paid.

The 5% preference shares have an ex dividend market value of K0.56 per share and a nominal value of K1.00 per share. These shares are irredeemable.

The 6% loan notes of Iolanda Plc are currently trading at K95.45 per loan note on an ex interest basis and will be redeemed at their nominal value of K100 per loan note in five years' time.

The bank loan has a fixed interest rate of 7% per year. Iolanda Plc pays corporation tax at a rate of 25%.

Required:

(a) Calculate the after-tax weighted average cost of capital of Iolanda Plc on a market value basis. (8 marks)

(b) Discuss the connection between the relative costs of sources of finance and the creditor hierarchy. (3 marks)

(c) Explain two (2) reasons a company may choose to finance a new investment by an issue of debt finance. (4 marks)

(d) Distinguish between weak form, semi-strong form and strong form stock market efficiency, and discuss the significance to a listed company if the stock market on which its shares are traded is shown to be semi-strong. (10 marks)

[Total: 25 Marks]

QUESTION THREE

GREI Plc is considering a bid for DEL Ltd, a medium sized company. The following financial data relates to DEL Ltd:

Current market price at year end	K17
Dividend per share at year end	K1.8
Annual expected growth rate in dividends and earnings	12%
Average markets return	18%
Risk-free rate of return	8%
Asset beta factor of DEL Ltd equity shares	0.81
Pre-tax cost of debt	12%
Gearing ratio (Debt to Equity)	40%
Annual Corporate Tax	30%

Required:

(a) Calculate the cost of equity using the dividend growth model. (4 marks)

(b) Calculate the cost of equity using the capital asset pricing model. (6 marks)

(c) Calculate the weighted average cost of capital based on (a) and (b) above. (5 marks)

(d) Discuss the reasons why investment finance may be limited, even when a company has attractive investment opportunities available to it. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

Commercial Development Corporation (CDC) Plc acquired 70% of Kafue Riviera Resorts (KRR) Ltd three years ago, when KRR's retained earnings were K430 Million.

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

Statements of Financial Position as at 31 December 2023.

	CDC	KRR
	K'Million	K'Million
Non-current assets		
Property, plant and equipment	900	400
Investment in KRR at cost	700	-
Current assets	300	600
Total assets	**1,900**	**1,000**
Share capital (K1)	250	150
Retained earnings	1,350	700
	1,600	850
Non-current liabilities	100	90
Current liabilities	200	60
Total Liabilities	**1,900**	**1,000**

The following information relates to both companies:

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

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

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

4. During the year, KRR sold some goods to CDC Plc for K60 Million at a mark – up of 20%. 40% of the goods remained unsold at the year - end. KRR's books showed a receivables balance of K6 Million as being due from CDC Plc. This differs with the payables balance

of K1 Million in CDC's books due to CDC having sent a cheque to KRR shortly before the year, which KRR had not received.

5. KRR Ltd paid a dividend of K20 Million on 1 December 2023.

Required:

(a) Prepare the CDC Group consolidated Statement of Financial Position as at year ended 31 December 2023, and (20 marks)

(b) Discuss the conditions which should be satisfied for a company acquired by a group to be considered as either an "associate" or a "subsidiary" of the group. (5 marks)

[Total: 25 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

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

Two asset portfolio

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

The Capital Asset Pricing Model

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

The asset beta formula

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

The Growth Model

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

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Modified Internal Rate of Return

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

The Black-Scholes option pricing model

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

Where:

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

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

The Put Call Parity relationship

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

Present Value Table

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

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

Discount rate (r)

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

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

Annuity Table

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

Where r = discount rate
n = number of periods

Discount rate (r)

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

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

Standard normal distribution table

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

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

D2: FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

1 (a) (i)

Evaluation of purchase of new machine using net present value method:

Year	1	2	3	4	5
	K'000	K'000	K'000	K'000	K'000
Sales income	2,072	2,352	2,596	2,716	
Variable cost	(1,099)	(1,250)	(1,376)	(1,444)	
Contribution	973	1,102	1,220	1,272	
Maintenance cost	(152)	(159)	(166)	(174)	
Cash flow before tax	821	943	1,054	1,098	
Tax		(222)	(255)	(285)	(297)
Depreciation benefits	_	101	76	57	117
Cash flow after tax	821	822	875	870	(180)
Working capital	(7)	(7)	(8)	(8)	
Resale value				200	
Net cash flow	814	815	867	1,062	(180)
Discount at 11%	0.901	0.812	0.731	0.659	0.593
Present values	733	662	634	700	(107)
	K'000				
PV of future cash flows	2,622				
Initial investment	(1,500)				
Net present value	**1,122**				

The investment project is financially acceptable, given its positive NPV of **K1,122, 000**

Workings

Year	1	2	3	4
Selling price (K per unit)	5.92	6.19	6.49	6.79
Sales volume (units/year)	350,000	380,000	400,000	400,000
Sales income (K000/year)	2,072	2,352	2,596	2,716
Year	**1**	**2**	**3**	**4**
Variable cost (K per unit)	3.14	3.29	3.44	3.61
Sales volume (units/year)	350,000	380,000	400,000	400,000
Variable cost (K000/year)	1,099	1,250	1,376	1,444
Year	**1**	**2**	**3**	**4**
	K'000	K'000	K'000	K'000
Tax-allowable depreciation	375	281	211	433*
Tax benefits at 27%	101	76	57	117
*(1,500,000 – 200,000) – 375,000 – 281,000 – 211,000				

Year	1	2	3	4
Working capital (K'000)	157	164	172	180
Incremental working capital (K'000)	7	7	8	8

(b)(i)

If share prices increase by 4% per year, the share price in seven years' time will be K8.55 per share (K6.50 x 1.047) and the conversion value will be K940 per loan note (K8.55 x 110).

This conversion value is less than the nominal value of K1,000 per loan note and less than the expected market value of K990.82 per loan note at the end of seven years (0.926 x K1,070). On financial grounds, holders of the loan notes are likely to hold them until redemption after eight years.

The market value of the loan notes will be (70 x 5.747) + (1,000 x 0.540) = 402.29 + 540.00 = K942.29 per loan note. This is also referred to as the floor value of the loan notes.

If share prices increase by 6% per year, the share price in seven years' time will be K9·77 per share (6·50 x 1·067) and the conversion value will be K1,075 per loan note (9.77 x 110). Holders of the loan notes are likely to prefer conversion, as the conversion value is now greater than nominal value of K1,000 per loan note and the expected market value of K990·82 per loan note at the end of seven years.

The current market value of the loan notes will be (70 x 5.206) + (1,075 x 0.583) = 364.42 + 626.73 = K991.

15 per loan note.

(b)(ii)

The dividend growth model (DGM) values the ordinary shares of a company as the present value of its expected future dividends and the model makes the assumption that these future dividends increase at a constant annual rate.

The main problem with the DGM is that while predictions can be made of future dividends, future dividends cannot be known with certainty. In fact, experience shows that directors take many factors into account when making dividend decisions and dividends do not increase at a constant annual rate in the real world. It is therefore extremely unlikely that future dividends will increase at a constant annual rate in perpetuity.

The DGM also assumes that the cost of equity is constant. In reality, the cost of equity will change as economic circumstances change. The capital asset pricing model suggests that the cost of equity will vary with changes in systematic risk, whether business risk or financial risk. It is therefore unrealistic to expect that the cost of equity will remain constant in the future.

Dividends are of great importance to many shareholders, however, and the value placed on shares will often reflect the value of expected future dividend income. The DGM offers shareholders a way of estimating the value of future dividend income, provided that the assumptions of the model are accepted.

SOLUTION TWO

(a) Cost of equity
The dividend growth model can be used to calculate the cost of equity:

Ke = ((0.25 x 1.04)/4.26) + 0.04 = 10.1%

Cost of preference shares

Kp = (0.05 x 1.00)/0.56 = 8.9%

Cost of debt of loan notes

After-tax annual interest payment = 6 x (1 – 0.25) = 6 x 0.75 = K4.50 per year

Year	Cash Flow (K)	5% discount	PV	6% discount	PV
0	(95.45)	1.000	(95.45)	1	(95.45)
1–5	4.50	4.329	19.48	4.212	18.95
5	100.00	0.784	78.40	0.747	74.70
			2.43		**(1.80)**

After-tax cost of debt of loan notes

K_d = 5 + (1 x 2.43)/(2.43 + 1.80) = 5 + 0.57 = 5.6%

Cost of debt of bank loan

The after-tax fixed interest rate of the bank loan can be used as its cost of debt. This will be 5.25% (7 x 0.75). Alternatively, the after-tax cost of debt of the loan notes can be used as a substitute for the after-tax cost of debt of the bank loan.

Market values

	K'000
Equity: 4.26 x (23,000,000/0.25)	391,920
Preference shares: 0.56 x (5,000,000/1.00)	2,800
Loan notes: 95.45 x (11,000,000/100)	10,500
Bank loan	3,000
	408,220

After-tax weighted average cost of capital (WACC)

((10.1 x 391,920) + (8.9 x 2,800) + (5.6 x 10,500) + (5.25 x 3,000))/408,220 = 9.9%

(b) The creditor hierarchy refers to the order in which financial claims against a company are settled when the company is liquidated. The hierarchy, in order of decreasing priority, is secured creditors, unsecured creditors, preference shareholders and ordinary shareholders. The risk of not receiving any cash in a liquidation increases as priority decreases. Secured creditors (secured debt) therefore face the lowest risk as providers of finance and ordinary shareholders face the highest risk.

The return required by a provider of finance is related to the risk faced by that provider of finance. Secured creditors therefore have the lowest required rate of return and ordinary shareholders have the highest required rate of return. The cost of debt should be less than the cost of preference shares, which should be less than the cost of equity.

The cost of equity is the return required by ordinary shareholders (equity investors), in order to compensate them for the risk associated with their equity investment, i.e. their investment in the ordinary shares of a company. If the risk of an investment increases, the return expected by the investor also increases. If the risk of a company increases, therefore, its cost of equity also increases.

If a company is liquidated, the order in which the claims of creditors are settled is a factor in determining their relative risk.

The claims of providers of debt finance (debt holders) must be paid off before any cash can be distributed to ordinary shareholders (the owners). The risk faced by shareholders is therefore greater than the risk faced by debt holders, and the cost of equity is therefore greater than the cost of debt.

Interest on debt finance must be paid before dividends can be paid to ordinary shareholders, so the risk faced by ordinary shareholders is greater than the risk faced by debt holders, since the necessity of paying interest may mean that dividends have to be reduced.

Pecking order theory suggests that companies have a preferred order in which they seek to raise finance, beginning with retained earnings. The advantages of using retained earnings are that issue costs are avoided by using them, the decision to use them can be made without reference to a third party, and using them does not bring additional obligations to consider the needs of finance providers.

Once available retained earnings have been allocated to appropriate uses within a company, its next preference will be for debt. One reason for choosing to finance a new investment by an issue of debt finance, therefore, is that insufficient retained earnings are available and the investing company prefers issuing debt finance to issuing equity finance.

Debt finance may also be preferred when a company has not yet reached its optimal capital structure and it is mainly financed by equity, which is expensive compared to debt. Issuing debt here will lead to a reduction in the WACC and hence an increase in the market value of the company. One reason why debt is cheaper than equity is that debt is higher in the creditor hierarchy than equity, since ordinary shareholders are paid out last in the event of liquidation. Debt is even cheaper if it is secured on assets of the company. The cost of debt is reduced even further by the tax efficiency of debt, since interest payments are an allowable deduction in arriving at taxable profit.

Debt finance may be preferred where the maturity of the debt can be matched to the expected life of the investment project.

Equity finance is permanent finance and so may be preferred for investment projects with long lives.

(d) Stock market efficiency usually refers to the way in which the prices of traded financial securities reflect relevant information. When research indicates that share prices fully and fairly reflect past information, a stock market is described as weak-form efficient. Investors cannot generate abnormal returns by analysing past information, such as share price movements in previous time periods, in such a market, since research shows that there is no correlation between share price movements in successive periods of time. Share prices appear to follow a 'random walk' by responding to new information as it becomes available.

When research indicates that share prices fully and fairly reflect public information as well as past information, a stock market is described as semi-strong form efficient. Investors cannot generate abnormal returns by analysing either public information, such as published company reports, or past information, since research shows that share prices respond quickly and accurately to new information as it becomes publicly available.

If research indicates that share prices fully and fairly reflect not only public information and past information, but private information as well, a stock market is described as strong form efficient. Even investors with access to insider information cannot generate abnormal returns in such a market. Testing for strong form efficiency is indirect in nature, examining for example the performance of expert analysts such as fund managers. Stock markets are not held to be strong form efficient.

The significance to a listed company of its shares being traded on a stock market which is found to be semi-strong form efficient is that any information relating to the company is quickly and accurately reflected in its share price. Managers will not be able to deceive the market by the timing or presentation of new information, such as annual reports or analysts' briefings, since the market processes the information quickly and accurately to produce fair prices. Managers should therefore simply concentrate on making financial decisions which

SOLUTION THREE

a) Cost of equity = $\frac{D_o (1+g)}{P_o} + g$

$= K1.8(1+0.12)/17 + 0.12 = 24\%$

b) $Ba = Be \times Ve/[Ve+Vd(1-t)]$

$0.81 = Be \times 0.6/[0.6+0.4(1-0.3)]$

$Be=1.19$

Cost of equity = $R_f + \beta(R_m - R_f)$

$= 8\% + 1.19\ (18\% - 8\%) = 19.9\%$

(c) Cost of debt = 12% x (1-0.3) = 8.4%

WACC = (24% x 0.6) x (8.4% x 0.4)

=17.76%

WACC = (19.9% x 0.6) x (8.4% x 0.4)

=**15.3%**

(d)

Theoretically, a company should invest in all projects with a positive net present value in order to maximise shareholder wealth. If a company has attractive investment opportunities available to it, with positive net present values, it will not be able to maximise shareholder wealth if it does not invest in them, for example, because investment finance is limited or rationed.

If investment finance is limited for reasons outside a company, it is called 'hard capital rationing'. This may arise because a company is seen as too risky by potential investors, for example, because its level of gearing is so high that it is believed it may struggle to deliver adequate returns on invested funds. Hard capital rationing could also arise if a company wants to raise debt finance for investment purposes, but lacks sufficient assets to offer as security, leading again to a risk-related problem.

During a time of financial crisis, investors may seek to reduce risk by limiting the amount of funds they are prepared to invest and by choosing to invest only in low-risk projects. It is also true to say that companies could struggle to secure investment when the capital markets are depressed, or when economic prospects are poor, for example, during a recession.

If investment funds are limited for reasons within a company, the term 'soft capital rationing' is used. Investing in all projects with a positive net present value could mean that a company increases in size quite dramatically, which incumbent managers and directors may wish to avoid in favour of a strategy of controlled growth, limiting the investment finance available as a consequence. Managers and directors may limit investment finance in order to avoid some consequences of external financing, such as an increased commitment to fixed interest payments if new debt finance were raised, or potential dilution of earnings per share if new equity finance were raised, whether from existing or new shareholders.

Investment finance may also be limited internally in order to require investment projects to compete with each other for funds. Only robust investment projects will gain access to funds, it is argued, while marginal projects with low net present values will be rejected. In this way, companies can increase the likelihood of taking on investment projects which will actually produce positive net present values when they are undertaken, reducing the uncertainty associated with making investment decisions based on financial forecasts.

(e) The dividend growth model has the following limitations:

- The model does not explicitly incorporate risk.
- It assumes that dividend will grow smoothly which is not the case in reality and therefore g is only an approximation.
- The model fails to take capital gains into account, however it is argued that a change of share ownership does not affect the present value of the dividend stream.
- No allowance is made for the effects of taxation although the model can be modified to incorporate tax.
- It assumes there are no issue costs for new shares.

The advantages of capital asset pricing model include the following:

- It considers only systematic risk, reflecting a reality in which most investors have diversified portfolios from which unsystematic risk has been essentially eliminated.
- It generates a theoretically-derived relationship between required return and systematic risk which has been subject to frequent empirical research and testing.
- It is generally seen as a much better method of calculating the cost of equity than the dividend growth model in that it explicitly takes into account a company's level of systematic risk relative to the stock market as a whole.

SOLUTION FOUR

Consolidated Statement of Financial Position as at 31 December 2023

	CDC
	K'Million
Non-current assets	
Goodwill (W3)	245
Property, plant and equipment (900 + 400 +20 (REV) – 6 (W2) - 2 (PURP)	1,312
Current assets (300 + 600 - 4 (PURP) - 5(CIT) - 1(REC) + 5(CIT)	895
	2,452
	-
Share capital (K1)	250
Retained earnings (W5)	1,457
	1,706.5
Non - Controlling Interests (W4)	296.5
	2,003
Non - current liabilities (100 +90)	190
Current liabilities (200 + 60 - 1(PYBL))	259
	2,452

Workings

`1) **Group structure**	%
CDC Plc in KRR Ltd (3 years)	70
Non - controlling interest (NCI)	30
	100
Date of acquisition/ control: 1/01/2023	
Date of reporting: 31/12/2023	

2. Net Assets of Subdiary (KRR)

	Acquisition date 01/01/2023	Reporting date 31/12/2023	Post - acquisition profits
	K'Million	K'Million	K'Million
Stated capital issued	150	150	
Retained Earnings	430	700	270
Fair value adjustment: Machine (120 - 100)	20	20	

Depreciation adj: Machine (20 X 3/10)		(6)	(6)
PURP on inventory (W7) (20/120 × 60 X 40%		(4)	(4)
	600	**860**	**260**

3. Goodwill

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

4. Non - Controlling Interest - CAFP

	K'Million
Fair value of NCI at acquisition (W3)	250
Add: NCI's share of post - acquisition profit (W2) (30%×(860 - 600)	78
NCI Share of Impairement (30% x 105)	-31.5
	296.5

5. Group Retained Earnings

	K'Million
Parent retained earnings	1,350
PURP (W6)	-2
Sub post acq profit (70% x 860 - 600)	182
Impairment (70% x 105)	**-73.2**
	1,456.8

6. Intra - group trading

	K'Million	K'Million
Cancel intra-group sales/purchases:		
Sales	60	
Purchases (cost of sales)		60
Eliminate unrealised profit:		

Cost of sales ((15 – (15 x 1/3)) - ((12 - (12 x 1/3 yrs))	2	
Fixed Assets (SOFP)		2
Cost of sales ((20/120 x 60) – (60% 10) realised profit to give unrealised profit	4	
Inventories (SOFP)		4

7. PURP - Inventory

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

8. Fixed Assets

	K'Million	
CV in KRR books (15 - (15 x 1/3 years)	10	
CV in CDC books (12 - (12 x 1/3 years)	-8	
PURP	2	
PPE (Fair Value Adj)	20	
Net Assets of Sub (70% - group earnings)		14
Net Assets of Sub (30% - NCI - CSFP)		6

9. Cash in Transit (CIT) - KRR

	K'Million	K'Million
	Dr	Cr
Receivables		5
Cash	5	

(b)
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A group company can be assumed to have significant influence over a subsidiary if it owns between 20% to 50% of the shares of the subsidiary. A subsidiary is an entity that is controlled by another entity known as the parent. Control is usually established based on ownership of more than 50% of the voting power of the subsidiary. However, there are other situations in which control can exist. This is when WED Plc has power:

(i) To govern the financial and operating policies of the subsidiary under a statute or an agreement.
(ii) To appoint or remove the majority of the members of the board of directors.

(iii)Over more than half of the voting rights by virtue of agreement with other investors.
(iv)To cast the majority of votes at a meeting of the board of directors.

An associate is an entity over which the investors have significant influence and that is neither a subsidiary nor an interest in a joint venture.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D3: BUSINESS TAXATION

WEDNESDAY 11 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.

2. This question paper consists of FOUR (4) questions of twenty (25) marks each. You MUST attempt all the FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

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

Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

	Aged 2 to 5 years		**Aged above 5 years**	
Motor vehicles for the transport of goods - with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801

GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

1.	**Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	30%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions.

QUESTION ONE

(a) ADC Bank is a Zambian resident bank which is listed on the Lusaka Securities Exchange (LUSE). The bank has grown rapidly by opening up a number of branches in all provincial headquarters of Zambia.

The bank made a net income before tax of K10,500,000. This figure was arrived at after accounting for the following:

(1) **Interest income**

The amount of interest income of K230,000 (gross) was received and the withholding tax was deducted at source during the year ended 31 December 2024.

(2) **Interest expenses:**

The interest expenses comprised of the following:

	K
Interest on deposits paid to customers	5,560,000
Interest paid on the late payment of taxes	9,700,000

(3) **Provision for loan losses”**

The provision for loan losses included irrecoverable loans written off amounting to K2,300,000, decrease in specific provision of K250,000 and an increase in general provision of K445,000.

(4) **Other income**

The other income comprised of royalties of K102,000 (net) and profit on disposal of office equipment of K30,000.

(5) **Non-interest expenses**

These were made up of the following:

	K
Depreciation	1,400,000
Entertaining suppliers	700,000
Staff salaries	5,600,000
Donation to an approved charity	500,000
Penalty for non-compliance with financial services rules	260,000

Gifts to customers of calendars costing K125 each	340,000
Other allowable expenses	112,000

(6) **Income tax expense**

The amount of income tax charged for the year of K845,000 represents the provisional income tax paid by the bank during the year ended 31 December 2024.

(7) **Implements, plant and machinery**

As at 1 January 2024, the company had the following non-current assets:

	ITV b/f	**Original cost**
	K	**K**
Motor cars	480,000	600,000
ATM machines	350,000	700,000
Computers	200,000	400,000

(8) During the year ended 31 December 2024, the company sold an old equipment for K90,000 reporting a profit on disposal in note (4) above. It had an income tax value of K60,000 and an original cost of K80,000. The company bought a new equipment for K200,000 in replacement for the old equipment sold.

(9) Included in motor cars figure is a cost of Toyota Prado amounting to K140,000 which was used by the Finance director on a personal to holder basis. It has a cylinder capacity of 2,900cc and it has been agreed with the Commissioner General that the private use of the car is 25%.

Required:

(i) Calculate the capital allowances for tax year 2024. (5 marks)

(ii) Calculate the adjusted business profit of ADC Bank Plc for the year ended 31 December 2024. (7 marks)

(iii) Calculate the amount of income tax payable by ADC Plc for the tax year 2024. (6 marks)

(b) Mr. Hamanjanji is a farmer based in Kalomo district of Southern province of Zambia. He has always prepared his accounts to 31 December annually. The taxable farming profit for the year ended 31 December 2024 was K380,000.

For the tax year 2023, Mr. Hamajanji made a taxable farming profit of K90,000. This profit figure was much lower than that of the tax year 2024 due to excessive rains that caused floods which washed away most of the crops.

Mr. Hamanjanji now wishes to make an irrevocable election to average the income of the tax years 2023 and 2024.

Required:

(i) State, with explanation, the date by which the irrevocable election to average farming income in the circumstances given above should be made by Mr. Hamanjanji. (1 mark)

(ii) Assuming that Mr Hamanjanji is successful in making the election, calculate the income tax payable on the farming income for the tax year 2023. (3 marks)

(iii) Explain the meaning of farm improvements and farm works, giving one example of each. (3 marks)

[Total: 25 Marks]

<u>QUESTION TWO</u>

(a) Jack and Jane are in partnership sharing profits and losses in the ratio of 3:2 respectively. On 1 May 2024, James was admitted to the partnership and the profit and loss sharing ratio was changed to 5:3:2 for Jack, Jane and James respectively. Partnership salaries were K90,000 for each of the partners before the admission of James. From that date, the partners' salaries were K90,000 per annum for each of Jack and Jane and K30,000 per annum for James.

The partnership made a loss of K450,000 for the tax year ended 3.12.2024.

Required:

(i) Explain how the capital allowances on assets owned by individual partners are treated in the partnership business. (1 mark)

(ii) Show how the profits and losses will be shared between the partners for the tax year 2024. (10 marks)

(b) The Zambia Revenue Authority (ZRA) may use indicators of trade also known as badges of trade to establish whether there is a trade being carried on.

Required:

Explain any five (5) badges of trade used by the Zambia Revenue Authority (ZRA) to determine the existence of trade for tax purposes.

(10 marks)

(c) There is a general perception that a company is liquidated when it goes bankrupt. However, this is not always the case. Liquidation can be an effective way of extracting the final value from the company especially where the net assets of the company are worth more than the shares on a going concern basis, or no one wishes to buy the shares in the company.

Required:

Explain the process of liquidating a company. (4 marks)

[Total: 25 Marks]

QUESTION THREE

FortyTop is a VAT registered Zambian resident company engaged in manufacturing. The Directors of the company intend to acquire two (2) assets, Toyota Fortuner Car which will be imported from Japan and Mitsubishi Delivery Truck which will be acquired from local vendors.

Importation of Toyota Fortuner Car

The motor car will be imported on 31 March 2024 and provided to the Managing Director on personal-to-holder basis. The car will cost $30,000 (free on board).The company will incur insurance costs and freight charges up to the port of Dar Es Salaam amounting to $6,600 and $12,300 respectively. Other incidental costs to be incurred up to Nakonde Border Post will amount to $1,800. Initial motor vehicle registration costs will amount to K10,000 which is part of the total value of motor vehicles for capital allowances purposes. The cylinder capacity of the motor vehicle was 2700cc and was brand-new.

The exchange rate quoted by the Bank of Zambia and approved by the Commissioner General is expected to be K27.10 per $1 as at 31 March 2024. The projected exchange rate by the business community is K27.90 per $1 as at 31 March 2024.

The company intends to finance the acquisition of the Toyota fortuner car through a bank loan. The company will apply for this loan on 1 January 2024. The loan amount will be equivalent to the total cost of the motor vehicle including the initial registration costs of K10,000, and will carry an interest rate of 27.20% per annum. The loan will be repaid over a period of four (4) years at the end of each year.

Mitsubishi Delivery Truck.

The motor vehicle will be acquired on 30 April 2024 from a local supplier at a cash price of K628,720 (VAT inclusive). The purchase of this motor vehicle will be financed by a hire purchase agreement. FortyTop will be required to make an initial deposit of K251,480 on 30 April 2024, followed by monthly installments of K64,668 up to 30 November 2024.

Other information

The company's adjusted business profit for the year ended 31 December 2024 is expected to be K2,110,000. This profit is after deducting interest on bank loan and hire purchase but before adjusting for depreciation and capital allowances on the above transactions. Depreciation charge on the Toyota Fortuner Car and Mitsubishi Delivery Truck will amount to K271,000 and K117,000 respectively for the year ended 31 December 2024.

Required:

(a) Calculate the amount of import taxes to be paid by the company on the importation of Toyota Fortuner Car. Your answer should include a computation of total cost of the motor vehicle qualifying for capital allowances. (8 marks)

(b) Explain the taxation implications of using the bank loan to acquire the Toyota Fortuner Car. Your answer should include relevant calculations where appropriate.

(4 marks)

(d) Explain the taxation implications of using the hire purchase to acquire the Mitsubishi Delivery Truck. Your answer should include relevant calculations where appropriate.

(4 marks)

(e) Calculate the amount of income tax payable by the company for the tax year 2024.

(9 marks)

[Total: 25 Marks]

QUESTION FOUR

Mongu Mining Corporation is a Zambian resident company engaged in mining in Western Province. The company's statement of profit or loss for the year ended 31 December 2024 showed a profit before tax of K48,100,000. This profit figure was arrived at after taking into account of the following:

Other Income

Which included dividends from shares held in Zambian mining companies K510,000 (gross), royalties K1,258,000 (net) and bank deposit interest K220,000 (net).

Expenses

(1) Salaries and wages
Salaries and wages amounted to K244,800,000. This figure includes K2,160,000 salary for the Managing Director who is accommodated in a company owned house. The Director pays no rent for the accommodation.

(2) Other operating expenses
Operating expenses amounted to K261,100,400. These expenses comprised of the following:

	K
Construction of school in a mine township	8,400,000
Construction of clinic in a mine township	12,200,000
Construction of road in a local council township	10,000,000
Depreciation charges	11,900,000
Amortization of mining licenses	12,900,000
Maintenance and repairs	46,400,000
Other revenue allowable expenses	159,300,400
	261,100,400

(3) Finance costs
Finance costs charged in the statement of profit or loss amounted to K67,100,000. This figure comprises of interest on loans from financial institutions not related to Mongu Mining Corporation.

Other information

(1) Mineral royalty
The mineral royalty tax paid during the year ended 31 December 2024 has not been accounted for in the statement of profit or loss. The following is the breakdown of the revenue recognized in the statement of profit or loss:

	K	
Revenue from sale of copper	401,200,000	Norm value
Revenue from sale of precious metals	177,000,100	Norm value
Revenue from sale of Gemstones	288,080,000	Gross value
Total revenue	866,280,100	

The price of copper averaged US$3,600 per metric ton throughout the year ended 31 December 2024.

(2) Provisional income tax
Provisional income tax paid by the company amounted to K21,110,600 for the year ended 31 December 2024.

(3) Non-current assets
At 1 January 2024, the company had the following assets qualifying for capital allowances:

	Original cost	Year of purchase
	K	
Mining equipment	21,600,000	2022
Conveyor belt	13,100,000	2023

The mining equipment and conveyor belts were acquired from foreign suppliers and paid for in US Dollars.
During the year ended 31 December 2024, the company acquired head office building at a cost of K6,100,000 including the cost of land amounting to K1,300,000.

(4) Exchange rate
The average mid-year exchange rates of Zambian Kwacha per US$1 are as follows:

Year	Exchange rate per US$1
2022	K24.40
2023	K26.80

Required:

(a) Calculate the amount of mineral royalty tax paid for the year ended 31 December 2024. Your answer should include an explanation of the tax treatment of mineral royalty.

(4 marks)

(b) Calculate the company's taxable mining profit for the year ended 31 December 2024.

(16 marks)

(c) Calculate the company's income tax payable for the tax year 2024.

(5 marks)

[Total: 25 Marks]

END OF PAPER

D3: BUSINESS TAXATION

SOLUTION ONE

(a)

(i) Capital allowances

	K'000
Motor cars (K600,000 X 20%)	120
ATM machines (K700,000 X 25%)	175
Computers (K400,000 X 25%)	100
New equipment (K200,000 X 25%)	50
Old office equipment (K80,000 – K60,000)	(20)
	425

(ii) **ADC Bank Plc**

Computation of tax adjusted business profit for the tax year 2024

	K'000	K'000
Net income before tax		10,500
Add:		
Interest paid on late payment of taxes	9,700	
Increase in general provision	445	
Depreciation	1,400	
Entertaining suppliers	700	
Penalty for non-compliance of financial services rules	260	
Gifts of calendars to customers (2,720 X K25)	68	
Personal to holder car	48	
		12,621
		23,121
Less:		
Royalties	102	
Profit on disposal of equipment	30	
Capital allowances (w)	425	
		(557)
Tax adjusted business profit		22,564

(iii) **Computation of income tax payable for the tax year 2024**

	K'000
Business profits	22,564
Add:	
Royalties (K102,000 X 100/85)	120
Taxable income	22,684
Company income tax (K22,684 X 30%)	6,805
Less:	
WHT – Royalties (120,000 X 15%)	(18)
WHT – Interest (230,000 X 15%)	(35)
Provisional income tax	(845)
Final income tax payable	5,907

(b) (i) Mr. Hamanjanji should make the irrevocable election to average the income of the tax years 2023 and 2024 not later than 31 December 2025, which is the end of the tax year following the tax year 2024.

(ii) Farm improvements are permanent works that are used for farming purposes. Examples include farm dwellings, fencing and buildings used for the welfare of employees.

Farm works are works in respect of which expenditure is incurred on farming land for farming purposes. Examples are expenditure on carrying out aerial and geographical survey, expenditure on sinking boreholes, expenditure on stumping and clearing and so on.

(iii) Income tax is payable on the average farming income. The average farming income is:

	K
Profit for 2024	380,000
Add profit for 2023	90,000
	470,000
Average profit = K470,000/2	235,000
Less exempt income	(61,200)
	173,800
Income tax payable @ 10%	17,380

SOLUTION TWO

(a) (1) Partners may own assets which they use in the partnership. Capital allowances on the personal assets of partners used for business purposes are deductible from their share of profits.

(2) **Jack, Jane and James**

Allocation of partnership profits and losses for the tax year 2024

	Total	Jack	Jane	James
	K	K	K	K
Period: 01.01.2024 – 30.04.2024				
Salaries	60,000	30,000	30,000	-
Balance	(210,000)	(126,000)	(84,000)	-
	(150,000)	(96,000)	(54,000)	-
Period: 01.05.2024 – 31.12.2024				
Salaries	140,000	60,000	60,000	20,000
Balance	(440,000)	(220,000)	(132,000)	(88,000)
	(300,000)	(160,000)	(72,000)	(68,000)
Total	(450,000)	(256,000)	(126,000)	(68,000)

(b) The main badges of trade are as follows:

(1) **The subject matter of realization**

Some assets are normally held as trading stock while others are not. If the asset that has been sold is one which is normally held as trading stock the presumption that a trade is being conducted will be greater.

(2) **The length of the period of ownership**

Trading stock is not normally held for a long period of time. As a result of a person who disposes off an asset that he/she held for a long period of time, it will be quite difficult to determine whether the asset had been held as trading stock. Assets held for long periods of time are normally investments.

(3) **The frequency of similar transactions**

If the frequency of similar transactions is high, chances of classifying a taxpayer as a trader are high. Where the frequency is low chances of trade are also low.

(4) **Supplementary work and marketing**

If an asset is acquired when it is in a poor state and supplementary work is carried out to improve the asset by making it more marketable, then such an asset when sold will give rise to trading profit. The argument is that supplementary work is performed so that the assets could be sold at a higher price than its value just acquired.

(5) **Circumstances giving rise to realization**

It is not always that whenever an asset has been sold, that asset will give rise to taxable profits. Circumstances that gave rise to the sale are also taken into account. If a tax payer disposes off an asset in order to raise money to help solve some financial problems, it will be difficult to establish whether the asset was trading stock.

(6) **The Tax payer's intention**

Intention to trade clearly constitutes trading. However, intention to make a profit may not constitute trading. As such it has to be established as to whether a taxpayer sold an asset because the intention was to trade.

(c) The process of liquidation is normally as follows:

(1) The liquidator is appointed, and the trade ceases

(2) The assets of the company are sold, the receivables collected, and the liabilities paid.

(3) There will be corporation tax due on any profits and gains made on the disposal of the assets, and this must be paid.

(4) The liquidator pays out the balance of the funds to the shareholders, and shares are cancelled.

(5) The shareholders pay any tax due on the amounts received.

SOLUTION THREE

(a) Import taxes to be paid on the importation of Toyota Fortuner Car

Customs value	$
Cost	30,000
Insurance costs	6,600
Freight charges	12,300
Other incidental costs	1,800
VDP in US$	50,700
Exchange rate	K27.10
VDP in ZMW	1,373,970

	Value of the vehicle	Import taxes
	K	K
VDP	1,373,970	
Customs duty @30%	412,191	412,191
	1,786,161	
Excise duty @30%	535,848	535,848
	2,322,009	
Import VAT @16%	371,521	371,521
Total value of the vehicle	2,693,530	------------
Total import taxes		1,319,560
Initial motor vehicle registration costs	10,000	
Total cost of the vehicle	2,703,530	

(b) The following are the taxation implications of using a bank loan to acquire a Toyota Fortuner Car:

(1) The input VAT to be incurred on the purchase the motor vehicle will not be recoverable as input VAT.
(2) The interest cost to be incurred on the loan is an allowable expense restricted to 30% of tax earnings before interest, tax, depreciation and amortization (EBITDA).
(3) The interest cost will be: K2,703,530 x 27.20% = K735,360.
(4) The company will be able to claim capital allowances on the motor vehicle at a rate of 20% of the VAT inclusive cost.
(5) The capital allowances to be claimed will be: K2,703,530 x 20% = K540,706.

(c) The following are the taxation implications of using hire purchase arrangement to acquire a Mitsubishi Delivery Truck:

(1) The company will be able to claim the input VAT on the purchase of a Mitsubishi truck as this is a commercial vehicle.
(2) The input VAT claimable is: K628,720 x 4/29 = K86,720.
(3) The hire purchase interest to be incurred is an allowable deduction restricted to 30% of the tax earnings before interest, tax, depreciation and amortization (EBITDA).
(4) The hire purchase interest will be: [K251,480 + (K64,668 x 7)] – K628,720 = K75,436.

(5) The company will be able to claim capital allowances on the Mitsubishi delivery truck at a rate of 25% of the VAT exclusive cost.
(6) The capital allowances claimable is: K628,720 x 25/29 x 25% = K135,500.

(d) Company income tax payable for the tax year 2024

	Workings	K	K
Business profit			2,110,000
Add:			
Depreciation on Fortuner car		271,000	
Depreciation on delivery truck		117,000	
			388,000
			2,498,000
Less:			
Capital allowances (540,706 + 135,500)	1		(676,206)
Adjusted profit before interest			1,821,794
Disallowed interest			Nil
Total taxable business profits			1,821,794
Company income tax (K1,821,794 x 30%)			546,538
Workings			
Tax EBITDA and disallowed interest			
Adjusted profit			1,821,794
Add:			
Depreciation			388,000
Interest cost (735,360 + 75,436)	2 and 3		810,796
Tax EBITDA			3,020,590
Gross interest expense			810,796
Allowable interest (K3,020,590 x 30%)			906,177
Disallowed interest			Nil

The gross interest expense in less than 30% of the tax EBITDA, therefore whole the interest is allowable for tax purposes.

Workings:		K
1.	628,720 x 100/116 x 25%	= 135,500
	2,703,530 x 20%	= 540,706
	Total	= 676,206
2.	27.20 x 2,703,530	=735,360
3.	Deposit	=251,480
	Instalments 7x64,668	=452,676

Total HP price	=704,156
Cash price	=628,720
HP Interest	= 75,436

SOLUTION FOUR

(a) Mineral royalty tax paid for the year ended 31 December 2024

	K
Copper (K401,200,000 x 4.0%)	16,048,000
Precious metals (K177,000,100 x 6%)	10,620,006
Gemstones (K288,080,000 x 6%)	17,284,800
Total mineral royalty paid	43,952,806

Mineral royalty paid is treated as an allowable deduction when computing the taxable mining profits. This means that the mineral royalty of K43,952,806 paid by the company will be deducted from the taxable business profits.

(b) (i)Capital allowances

	K
Mining equipment	
[1 + (K26.80 – K24.40)/K24.40] x K21,600,000 x 20%	4,744,918
Conveyor belts	
[1 + (K26.80 – K24.40)/K24.40] x K13,100,000 x 20%	2,877,705
Head office building	
(K6,100,000 – K1,300,000) x 2%	96,000
School in mine township	
(K8,400,000 x 20%)	1,680,000
Clinic in a mine township	
(K12,200,000 x 20%)	2,440,000
Total capital allowances	11,838,623

(c) EBITDA and disallowed interest

	K
Profit before tax	46,530,571
Add:	
Royalties (K1,258,000 x 100/85)	1,480,000
Bank interest (K1,401,693.95 x 100/85)	258,824
	48,269,395
Depreciation	11,900,000
Amortization	12,900,000
Interest cost	67,100,000
Tax EBITDA	140,169,395
Gross interest expense	67,100,000
Allowable interest (K140,169,395 x 30%)	(42,050,819)
Disallowed interest	25,049,181

(d) Adjusted mining profit before tax for the year ended 31 December 2024

	K	K
Profit before tax		48,100,000
Add:		
Free accommodation benefit:		
Managing Director (K2,160,000 x 37.5%)	810,000	
Construction of school	8,400,000	
Construction of clinic	12,200,000	
Construction of road	10,000,000	
Depreciation	11,900,000	
Amortization of mining licenses	12,900,000	
		56,210,000
		104,310,000
Less:		
Dividends (gross)	510,000	
Royalties (net)	1,258,000	
Bank deposit interest (net)	220,000	
Mineral royalty paid (a)	43,952,806	
Capital allowances	11,838,623	
		(57,779,429)
Adjusted profit before interest		46,530,571
Disallowed interest		25,049,181
Taxable business profits		71,579,752

(e) Company income tax payable for the tax year 2024

	K	K
Taxable mining profit		71,579,752
Add non-mining income		
Royalties	1,480,000	
Bank interest	258,824	
		1,738,824
Total taxable income		73,318,576
Company income tax		
Mining (K71,579,752 x 30%)		21,473,926
Non-mining (K1,738,824 x 30%)		521,647
Income tax liability		21,995,573
Less:		
WHT – royalties (K1,480,000 x 15%)	222,000	
WHT – bank interest (K258,824 x 15%)	38,824	
Provisional income tax paid	21,110,600	
		(21,371,424)
Income tax payable		624,149

END OF SOLUTIONS

Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D4: PERSONAL TAXATION

TUESDAY 10 DECEMBER 2024

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2,3 and 4

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Attempt all FOUR (4) questions.

QUESTION ONE

Kasonde Mutale has been employed at DXL Ltd. which is engaged in the installation and sale of software, computers and other computer accessories on a three-year renewable fixed term contract which commenced on 1 January 2022 at an annual salary of K264,000. She was entitled to an annual housing allowance of 20% of her annual basic salary and an annual Medical allowance of 5% of her annual basic salary. On 1 March 2024, Kasonde was awarded a salary increment of 10% of her basic salary which took effect on that date.The company additionally paid her annual golf club subscriptions of K2,000 in the tax year 2024.

During the tax year 2024, the company provided to Kasonde with the following additional benefits:

(1) Free airtime credit worth K500 per month for the sole use in making business calls.

(2) A company fuel card, which she used to purchase fuel from specific filling stations costing K1,500 per month. She used the fuel on her own personal Isuzu double cab motor van when travelling wholly and exclusively in the performance of the duties of her employment. She acquired the vehicle two years ago at a cost of K1,250,000. Her employment use of the car was 40%. She incurred other motor car running expenses in relation to the vehicle amounting to K5,000 per month. The company reimburses her the full amount of the expenses at the end of each month.

(3) Free staff refreshments costing K800, per month whilst performing the duties of her employment.

(4) The company sold a laptop to Kasonde at a price of K5,000. The open market commercial selling price of the laptop to the customers of the company is K12,000.

(5) In June 2024, she was paid a sales bonus of 2% of her basic monthly salary.

PAYE amounting to K94,276 was deducted from her emoluments during the year.

Kasonde received the following additional income from Zambian and foreign sources in the tax year 2024.

Investment income from Zambian Sources

Dividends of K18,000 (net) from shares she held in KXP plc a Zambian resident company which is listed on the Lusaka Securities Exchange (LuSE), treasury bill discount of K13,600 (net) and Royalties of K68,000 (net).

Investment income from foreign Sources

Kasonde, holds shares in a company that is resident in a foreign country known as the Republic of Chambia and also holds a fixed deposit account with a bank that is resident in the Republic of Chambia. During the tax year 2024, She received the following income from these investments:

(1) Dividends of K74,400 from her investments in shares of companies in the foreign country. This amount was net of withholding tax at the rate of 38% of the gross amount deducted in the foreign country.
(2) Bank interest from a bank that is resident in the foreign country of K13,500. This amount is net of withholding tax at the rate of 25% of the gross amount which was deducted in the foreign country.

There is no double taxation agreement between Zambia and the Republic of Chambia. Any double taxation relief available must be given by means of unilateral credit relief in each case.

Required:

Compute the income tax payable by Kasonde for the tax year 2024.

[Total: 25 Marks]

QUESTION TWO

For the purposes of this question, you should assume that today's date is 12 December 2023 and that the earnings ceiling for the purposes of NAPSA contributions is K357,792.

Peter wishes to commence in business running a chain of stores on 1 January 2024. He intends to engage his sister, Grace, in the business but he does not know whether to engage her as a partner and run the business as a partnership, or incorporate the business and run it as a limited company.

Regardless of whether the business is ran as a partnership or limited company, two (2) Toyota Prado Cars will be acquired by the business at a cost of K200,000 each on 1 January 2024. The cylinder capacity of each car will be 2,900 cc and the motor cars will be used by Peter and Grace for both business and private purposes. It is estimated that the business use by each individual is 60%. The business will also acquire office equipment at a cost of K80,000 and a Mitsubishi Light Truck at a cost of K220,000 on 23 February 2024. The annual turnover of the business, regardless of how it is run, is expected to be K1,800,000.

Partnership

If the business is run as a partnership, Peter will take on Grace as a partner and each of them will draw annual salaries amounting to K350,000 and K300,000 respectively. National Pension Scheme Authority (NAPSA) Contributions will not be payable under this option. The balance of profits will be shared between Peter and Grace in the ratio 3:2 respectively.

The net profit as per accounts for the year ended 31 December 2024 is expected to be K1,000,000. This profit figure will be before taking into account any expenses relating to each individual. NAPSA contributions will not be payable under this option. All the expenses deducted in arriving at the net profit figure of K1,000,000 will be allowable for tax purposes.

Limited company

If the business is run as a limited company, it will trade under the name 'Pegra Limited'. Peter and Grace will be the only shareholders of the company and full-time working directors in the company. Peter and Grace will draw annual directors' emoluments amounting to K350,000 and K300,000 respectively. NAPSA contributions will be payable where applicable by both directors and Pegra Limited at a rate 5% of the gross employment earnings of each director.

The net profit as per accounts for the year ended 31 December 2024 is expected to be K1,000,000. This net profit figure is before deducting any expenses relating to each individual and NAPSA contributions where applicable. All the expenses deducted in arriving at a profit figure of K1,000,000 are allowable for tax purposes.

Required:

(a) Calculate the amount of income tax payable by Peter and Grace for the tax year 2024 if the business is run as a partnership. (9 marks)

(b) Assuming that the business is run as a limited company:

(i) Calculate the amount of income tax and NAPSA contributions payable by Peter and Grace for the tax year 2024. (5 marks)

(ii) Calculate the amount of income tax and NAPSA contributions payable by Pegra Limited for the tax year 2024. (6 marks)

(c) Advise Peter whether he should run the business as a partnership or incorporate the business and run it as a limited company. Your answer should include a computation of net income under each option after deducting all statutory deductions and other relevant expenses. (5 marks)

[Total: 25 Marks]

<u>QUESTION THREE</u>

Chikondi, who was recently retrenched by his employers, commenced in business in May 2024, running a transportation business using his retrenchment package.

On 1 May 2024, he bought the following vehicles:

(1) Three (3), Rosa buses each with a seating capacity twenty- six (26) passengers at a cost of K450,000 each.

(2) Five (5) Taxis each with a seating capacity of four (4) passengers at a cost of K80,000 each.

(3) Two (2) Tata buses each with a seating capacity of thirty- two (32) passengers at a cost of K800,000 each.

Chikondi bought all the above vehicles from a local vehicle dealer and employed three (3) Rosa drivers, five (5) taxi drivers and two (2) Tata bus drivers. He paid to each of the drivers a monthly salary of K4,000, K2,500 and K5,000 respectively and contributed 5% of each employee's salary as NAPSA contribution. Each driver also contributed a 5% of the salary as NAPSA contributions. The total revenue (turnover) for the tax year 2024 amounted to K760,000. Other operating costs amounted to K20,500 per month. Chikondi's fleet of vehicles started operating every month from 1 July 2024 to 31 December, 2024. Chikondi also received rental income of K3,500 per month in the 2024 tax year.

Required:

(a) Explain the tax treatment of the expenses Chikondi will incur wholly and exclusively in running the transportation business. (3 marks)

(b) Compute the amount of tax payable by Chikondi for tax year 2024, in respect of his transportation business. (7 marks)

(c) Explain five (5) benefits of presumptive taxes. (5 marks)

(d) Explain the Tax appeals process a tax payer should follow for an objection against an income tax assessment made by the Zambia Revenue Authority (ZRA). (7 marks)

(e) Explain the tax treatment of rental income. (3 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) A share option scheme is a scheme under which the employer grants options to employees to buy shares in that employer's company in the future at a price determined now.

Required:

Explain the tax implications of participating in a share option scheme that is not approved for tax to the:

(i) Employer (3 marks)

(ii) Employee (6 marks)

(b) Explain the reasons why it is important to distinguish between employees and self-employed persons for income tax and NAPSA contributions purposes. (4 marks)

(c) Discuss any Six (6) tests used by the ZRA to distinguish self-employment from employment. (12 marks)

[Total: 25 Marks]

END OF PAPER

D4: PERSONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) KASONDE

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2023

	K	K
Zambian Employment Income		
Salary		
(K264,000 x 2/12) +(K264,000 x 1.10 x 10/12)		286,000
Housing allowance (K286,000 x 20%)		57,200
Medical allowance (K286,000 x 5%)		14,300
Golf club subscriptions		2,000
Laptop (K12,000 - K5,000)		7,000
Bonus (K24,200 x 2%)		484
Reimbursement of motoring expenses (K5,000 x 12)		60,000
		426,984
Less allowable deductions:		
Capital allowances on motor vehicle		
(K1,250,000 x 20%) x 40%	100,000	
Motoring expenses		
(K5,000 x 12) x 40%	24,000	
		124,000
		302,984
Zambian Investment income		
Copyright royalties		
(K68,000 x 100/85)		80,000
		382,984
Income from foreign sources:		
Dividends		
(K74,400 x 100/62)	120,000	
Fixed deposit interest		
(K13,500x 100/75)	18,000	
		138,000
Income chargeable to income tax		520,984
Income Tax		
On first K61,200 x 0%		0
On next K24,000 x 20%		4,800
On next K25,200 x30%		7,560
On excess (K410,584 x 37%)		151,916
Zambian Income Tax charge		164,276
Less tax already paid		
PAYE		(94,276)
WHT on copyrights		

(K80,000 x 15%)		(12,000)
Less Unilateral credit relief on:		
- Dividends	46,600	
- Fixed deposit	4,500	
		(51,100)
Final income tax payable		6,900

SOLUTION TWO

(a) COMPUTATION OF FINAL TAX ADJUSTED PARTNERSHIP PROFIT FOR THE TAX YEAR 2023

		K
Business profit		1,000,000
Less:		
Capital allowances:		
Toyota Prado cars		
(K200,000 x 2 x 20% x 60%)	48,000	
Office equipment		
(K80,000 x 25%)	20,000	
Mitsubishi Light truck		
(K220,000 x 25%)	55,000	
		(123,000)
Adjusted business profit		877,000

ALLOCATION OF PROFITS

	Peter	Grace	Total
	K	K	K
Salaries	350,000	300,000	650,000
Balance 3:2	136,200	90,800	227,000
Total	486,200	390,800	877,000
PART			
Income Tax			
First K61,200 @0%	0	0	
Next K24,000 @20%	4,800	4,800	
Next K25,200 @30%	7,560	7,560	
Excess			
(K375,800/K280,400 x37%)	139,046	103,748	
Income tax payable	151,406	116,108	

(b) Limited company

(i) PETER AND GRACE
PERSONAL INCOME TAX COMPUTATIONS FOR THE TAX YEAR 2023

	Peter	Grace
	K	K
Salary	350,000	300,000
Income Tax		
First K61,200 @0%	0	0
Next K24,000 @20%	4,800	4,800
Next K25,200 @30%	7,560	7,560
Excess		
(K239,600/K189,600 @37%	88,652	70,152

Income tax payable	101,012	82,512
Employee's NAPSA K350,000/K300,000 x 5%)	17,500	15,000

(ii) Pegra Limited
Income tax payable for the tax year 2023

	K
Business profit	1,000,000
Add:	
Personal to holder car benefit (K48,000 x 2)	96,000
	1,096,000
Less:	
Directors' emoluments (350,000 + 300,000)	(650,000)
Employer's NAPSA	(32,500)
Capital allowances:	
Toyota Prado car (K200,000 x 20% x 2)	(80,000)
Office equipment (K80,000 x 25%)	(20,000)
Mitsubishi Light truck (K220,000 x 25%)	(55,000)
Adjusted business profit	258,500
Company tax @ 30%	77,550

(c) Net income

	Partnership K	Limited company K
Business profit	1,000,000	1,000,000
Less:		
Income tax payable:		
Peter	(151,406)	(101,012)
Grace	(116,108)	(82,512)
Pegra Ltd	-	(77,550)
Employees' NAPSA	-	(32,500)
Employer's NAPSA	-	(32,500)
Net income	732,486	673,926

It will be beneficial for Peter to engage Grace in the business as a partner and run the business as a limited company. This is so because the net income under partnership option is higher by K58,560 (K732,486 – K673,926).

SOLUTION THREE

(a) Explanation of the tax treatment of the expenses incurred wholly for business purposes.

- Chikondi will be running a business of Public transportation for the carriage of persons. He will therefore be liable to pay Presumptive tax as a transporter which is levied on quarterly basis depending on the seating capacity of the vehicle.
- Expenses that Chikondi incurs wholly and exclusively for business will not be deducted in computing the presumptive tax because presumptive is not calculated on the taxable profit, but on a quarterly fixed charge.
- Capital allowances on the motor vehicles used wholly and exclusively in the transport business will not be claimed.

(b) Computation of the amount of tax payable for tax year 2023

ROSA BUSES	K
K1620 x 2	9,720
TAXIS	
K270 x 2	2,700
LUXURY BUSES	
K1,620 x 2 x 2	6,480
Total tax payable	18,900

(c) Benefits of Presumptive tax system

- Simplifies process
  The process of dealing with taxes has been simplified. There is no requirement to file returns, no requirement to keep proper business and accounting records and the taxes paid are predictable and therefore resulting in easing the cash flow planning process.
- Cash flow friendly
  Since operators find it fairly easy to pay a whole range of fees on a daily basis, such as loading fees. Because the accounts look small and do not seriously disrupt their daily cash flow position, the same principle of small regular payments of tax has been adopted in the presumptive tax approach.
- No need for professional consultancy services
  Paying the levies is straight forward as paying loading fees or other fees currently in place. Hence very little intellectual or professional effort required. The driver and/or conductor make arrangements for presumptive tax to be paid without involving the proprietor
- Equity
  As the system is made simpler, all transporters are expected to pay their part. As presumptive tax is a levy, there will no longer be need to keep records for tax purposes and as such no audits will be conducted on a transporter's business. The only requirement will be for the transporter to pay his presumptive as stated in the law.

- Allowance for breakdown
  The levies are only charged for vehicles that are on the road during the tax accounting period.

(d) Tax appeals process

- The tax payer may make an objection to the notice of assessment, stating the reasons for making the objection.
- He/she should make the objection in writing and should be addressed to the commissioner General
- The Commissioner General may entertain the objection and the matter may be settled immediately, with the tax payer agreeing to pay the final tax determined.
- In the event that the Commissioner General does not entertain tax payer's objection, the tax payer r may make an appeal to the Tax Appeals Tribunal on a point of fact, law or mixed fact and law.
- The Tax Appeals Tribunal would make a decision either in tax payer's favour or in the Commissioner General's favour.
- Either party that is not satisfied with the decision of the Tax Appeals Tribunal may make an appeal to the high court on a point of law or mixed law and fact.
- A final appeal may be made by either party to the Supreme Court on a point of law only

(e) **Tax treatment of rental income**

Rental income received by both individuals, is chargeable to Turnover Tax at the rate of 4% if the rental income is K800,000 per annum or less after allowing a t6ax free amount of K12,000 per annum.

Where the rental income for an individual or a company exceeds K800,000 per annum, then it is subjected to tax at the rate pf 12.5% annum after allowing a tax free amount of K12,000 per annum.

Rental income is accounted for on a monthly basis by the landlord and is payable on the 14^{th} day following the end of the month to which it relates

SOLUTION FOUR

(a) (i) Tax implications for the employer

The tax benefits associated with an approved share option scheme are not available, specifically:

(1) Costs incurred on setting up and administering such a scheme will not be allowable for taxation purposes
(2) Any income generated by the company from such a scheme will be taxable
(3) PTT will arise on the transfer of shares under the scheme provided the company is not listed on the LuSE

(ii) Tax implications for the employee

For the employee there are three events that have tax consequences, the grant of the options, the exercise of the options and sale of the shares.

(1) Grant

On the grant of shares to an employee in a share option scheme that is not approved, the exercise price is compared with the open market value of the shares on the date the options are granted.

If options over shares are granted with an exercise price that is less than the market value, an income tax charge can arise on the difference between the market price per share and the exercise price.

(2) Exercise

On the exercise of the options, the individual pays the agreed amount in return for the specified number of shares in the company. The exercise price paid is compared with the open market value at that time, and if less, the difference is charged to income tax.

(3) Sale

On the sale of shares acquired by an employee through a share option scheme which is not approved, in an unlisted company, Property Transfer Tax is payable on the realised value of the shares sold, if the company is not listed on the LuSE.

(b) Importance of the distinction between employees and self- employed

The main reason why it is important to distinguish between employees and the self-employed contractor is to enable a smooth classification of how the earnings would be classified and also how any taxes arising would be payable.

Where an individual is held to be an employee, then the earnings will be classified as emoluments for income tax purposes. The emoluments would be subjected to income tax under the Pay As You earn (PAYE) system. Under this system the employer will be responsible for calculating and deducting income tax from the emoluments.

The employee will be required to pay NAPSA contributions and the employer will be required to pay employer's NAPSA contributions.

On the other hand, if an individual is held to be self-employed, then the earnings will be classified as turnover. This turnover would be subjected to turnover tax if it were not more than K800,000 per annum. In the event that the turnover was to exceed K800,000 per annum, the self-employed individual would be subjected to income tax under the self-assessment system. The self- employed individual will be personally responsible for making the calculations of income tax and for making the payments.

Payment of NAPSA contributions for the self-employed is not mandatory.

(c) The Zambia Revenue Authority (ZRA) would consider several factors in establishing whether someone is employed or self-employed.

(1) **Type of contract**

If there is a **contract of service**, it will indicate the existence of a legal relationship of master and servant. A **contract for services** will indicate the existence of self-employment.

The contract may be written or it may be oral. Where the contract is a written one, a copy should be obtained and the contents of that particular contract should be studied. In the case of oral contracts, the parties to the contract should be interviewed to establish what has been agreed upon.

Care should still be taken when examining written contracts, as they are not likely to contain all the relevant points. It is always important to use several other methods of gathering the relevant information.

(2) **Work performance**

Employees must perform the duties assigned to them themselves, while the self-employed may hire other people to perform the work for them.

If a person does not have a right to hire helpers, that is likely to lead to the conclusion that there is employment. The self-employed persons will normally have a right to hire their own helpers.

In contracts of service, personal performance is always required, while in the case of contracts for services there may be personal performance or there may not be one. In other words, personal performance is not normally a must in contracts for services.

(3) **Control**

The work of an employee is controlled by the employer who will normally stipulate working hours, the place at which the duties are to be performed, how the work is to be performed and other conditions.

A self-employed person will decide when to perform the duties and how to perform them.

Where there is an absence of the right of control, employment may still be present. In certain employments, it is not usually possible for the employer to tell the employee what to do, when to do it and the place at which that is to be done.

(4) **Payment and financial risk**

Employees are paid an agreed salary on a monthly or weekly basis and incur no form of financial risk. In order to earn an extra sum, employees will have to work overtime. Also, employees are going to get any other additional pay or variation in pay if they meet a set target in which case they will receive a bonus or a commission.

Employees do not assume any form of financial risk and they cannot profit from sound financial management.

Self-employed persons are normally paid a proportion of the contract price based on the amount of work performed. They will also bear the full financial risk of their business. If they manage their affairs well, they are going to profit from them.

Care is required in handling certain types of employment as the absence of financial risk will not always indicate that there is employment.

The fact that a casual worker runs the risk of being unable to find work when a particular engagement ceases is not relevant to the determination of whether employment exists or not.

(5) **Place of work**

Employees will normally be told where the duties are to be performed. This is normally at the employer's premises or at the premises of the client.

In most employment, the premises from which the duties are to be performed are those of the employer.

Self-employed persons will perform the duties at a place of their choice.

If the person performing duties can only do so at the employer's chosen premises, then that person is an employee. If the person can choose a place from where to perform the duties, that person is self-employed.

(6) **Tools and equipment**

An employer will provide the tools and equipment which the employees are to use. However, the fact that the employer does not provide the tools and equipment will not be conclusive. In certain types of employment, the employees will normally be required to provide their own tools and equipment.

Self-employed individuals will provide their own tools and equipment.

(7) **Correction of work**

Employees will normally rectify any faulty work during the normal working hours and they will still be paid for those hours.

Self-employed persons will rectify any faulty work outside the contract time and they will not be paid for that extra work.

If the person performing duties is not paid for the time spent on correcting work, then that person is self-employed. On the other hand, if the person is paid for the time spent on correcting work, then that person is an employee.

(8) **Engagement and dismissal**

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

A self-employed person will normally enter into a contract with a client specifying the beginning and end. The contract normally ends when the work has been performed completely and accurately.

(9) **Insurance**

Employers will normally provide insurance cover for the actions of their employees. This is because they are vicariously liable for the offences committed by their employees.

Self-employed persons will have to provide for their own insurance needs. The hirer is not vicariously liable for the offences committed by the hired self-employed contractors.

If the person who is performing the duties takes insurance cover personally, then that person is self-employed. But, if insurance cover is not taken by the person performing the duties personally, then that person is an employee. The employer will have taken insurance cover on behalf of that employee.

(10) **Exclusivity**

Employees normally work for only one employer. A self-employed person will normally work for a number of clients.

(11) **Integration Test**

The courts will also consider whether an individual's activity is fully integrated within the organisation. And if this was the case, it would be difficult for an individual to prove that they are self-employed.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D5: INTERNATIONAL TAXATION

THURSDAY 12 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.
2. This question paper consists of **FOUR (4)** questions of Twenty Five (25) marks each. You must attempt all the **FOUR (4)** questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided on pages 2, 3 and 4.

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Attempt All FOUR (4) Questions

QUESTION ONE

Geofrey Chitewu, a Zambian resident, has been in business for many years trading as a sole trader. He has always prepared his financial statements to 31 December each year and he is registered for Value Added Tax.

During the year ended 31 December 2024, Geofrey Chitewu engaged David Akusu, a consultant resident in a country known as Zambica to come and perform some management consultancy services of a technical nature. Geofrey Chitewu was charged a management consultancy fee of K130,000 (gross). David Akusu took this opportunity to invest the fees in a bank savings deposit account with a Zambian bank. The amount of bank interest received by David Akusu from Zambian bank amounted to K70,000 (gross) during the year ended 31 December 2024.

For the year ended 31 December 2024, Geofrey made a profit of K510,000. This profit figure is after all tax adjustments but before capital allowances and the cost of the management consultancy services imported from David Akusu.

The only assets owned by Geofrey Chitewu as at 1 January 2024 were as follows:

	Income tax value	Original cost
Toyota Camry car	K42,000	K105,000
Computers	K20,000	K40,000

All the assets are used wholly and exclusively for the purpose of the business.

Geofrey Chitewu has made investments in Zambica. The currency of Zambica is the Zambican dollar (Z$). During the year ended 31 December 2024, Geofrey Chitewu received investment income from Zambica which included rental income of Z$15,200, dividends of Z$9,000 and management consultancy fees of Z$3,600. The amounts of investment income represent the actual cash received. Withholding tax has been deducted in Zambica at a rate of 20%, 25% and 10% on rental income, dividends and management consultancy fees respectively.

The only other income received by Geofrey from Zambian sources during the tax year 2024 includes:

1.	Gross salary from part-time employment. (PAYE deducted from the salary was K15,000)	K40,000
2.	Royalties	K51,850 (Net)
3.	Bank interest	K3,700 (gross)
4.	Dividends from X Limited	K13,600 (Net)

There is no double taxation convention between Zambia and Zambica. Credit is available against foreign income tax paid when computing Zambian income tax. The Bank of Zambia exchange rate averaged K14.40 per Z$1.

Required:

(a) Explain the circumstances on which reverse VAT will apply to a supply. (2 marks)

(b) Explain the VAT treatment for Geofrey Chitewu of the training services imported from David Akusu and compute the amount of any VAT arising. (4 marks)

(c) Explain the tax treatment of income earned by David Akusu from Zambian sources for the tax year 2024 and compute his income tax payable for the year. (4 marks)

(d) Compute the amount of income tax payable by Geofrey Chitewu for the tax year 2024. (15 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Globalization is a process of interaction and integration among the people, companies and governments of different nations which is driven by international trade and investment and aided by information technology. This process has effects on the environment, culture, political systems, economic development and prosperity, and human physical wellbeing in societies around the world. This has led to an increase in the number of Foreign Direct Investments in Zambia by foreign Multinational Enterprises and also Zambian Multinational Enterprises investing in foreign countries.

Required:

(i) Explain three (3) benefits and three (3) risks of globalization on the Zambian economy. (6 marks)

(ii) Explain the reasons why multinational enterprises make Foreign Direct Investments (FDI). (5 marks)

(iii) Explain any four (4) methods of Foreign Direct Investment (FDI). (4 marks)

(b) Explain the difference between the concept of source and concept of residence as they are applied in international taxation. (4 marks)

(c) Explain the main areas of interaction between human rights law and tax law in international taxation. (4 marks)

(d) Explain what is meant by regional economic grouping. (2 marks)

[Total: 25 Marks]

QUESTION THREE

(a) Mupco Plc is a Zambian resident company which has experienced rapid growth through the establishment of subsidiaries in different countries. Recently it acquired a 100% investment in a company based in the United States of Amoa which provides raw materials for the product manufactured by Mupco Plc. This undertaking has excited the Chief Executive Officer (CEO) because in the past the company had faced a lot of challenges in sourcing these materials. The shareholders are also considering merging with another multinational company so that the product can be supplied to the Amoa market.

The financial statements of Mupco Plc for the year ended 31 December 2024 showed the following results:

	K
Net profit for the period	5,830,000
Dividends received from foreign subsidiary	340,000
Royalties received (net) from a Zambian company	170,000

The net profit for the year ended 31 December 2024 was arrived at after deducting the following expenses:

	K
Depreciation	400,000
Entertaining suppliers of raw materials	125,000
Legal fees for recovery of loan from former employee	26,000
Wages and salaries	76,000

Note:

The dividends were received net of withholding tax at the rate of 20%.

Required:

(i) Explain three (3) different ways by which a company can merge with another company through cross- border mergers. (6 marks)

(ii) Explain any two (2) benefits of cross-border merging. (4 marks)

(iii) Calculate the income tax payable by Mupco Plc for the tax year 2024. (11 marks)

(b) Multinational organisations operating in several jurisdictions use transfer pricing strategies to shift profits form jurisdictions where tax rates are perceived to be high to jurisdictions where the tax rates are low thereby reducing the overall tax liabilities of the group as a whole. The OECD guidelines recommend the use of the arm’s length principle in setting transfer prices to address such practices.

Required:

Explain the main problem of the arm's length principle and how it has been dealt with by the OECD. (4 marks)

[Total 25 Marks]

QUESTION FOUR

(a) Explain any five (5) roles of double taxation treaties. (5 marks)

(b) Money laundering is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived from a legitimate source.

Required:

(i) Explain the meaning of money laundering and give four (4) indicators of money laundering activities. (6 marks)

(ii) Explain the application of money laundering legislation to foreign tax offences. (6 marks)

(c) Some countries have developed models for enhanced co-operation between revenue authorities in order to work to their mutual benefit.

Required:

Explain the four (4) main co-operation models between revenue authorities. (8 marks)

[Total: 25 Marks]

END OF PAPER

D5: INTERNATIONAL TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Reverse VAT is the transfer of liability to account for and pay VAT from the person making the supply to the person receiving the supply. Reverse VAT is levied on all imported services provided by a non-resident supplier where a tax agent has not been appointed.

A service is considered imported if it is:

1. Performed or undertaken in Zambia
2. Utilised (or if the benefit of its supply is for a recipient) in Zambia regardless of where it was performed.

(b) Geofrey Chitewu imported the services which were performed in Zambia by David Akusu a non-resident supplier. Therefore, Geofrey Chitewu should have raised an invoice based on the value of the services received from a non-resident supplier.

He will add the VAT at 16% of the value of the services and include it as output VAT on the VAT return.

The output VAT payable by Geofrey Chitewu was therefore; K130,000 x 16% = K20,800.

The VAT payable by Geofrey Chitewu on imported services cannot be recovered as input VAT since there is no tax agent appointed to represent David Akusu in Zambia.

(c) An individual who is not a Zambian resident is not liable to pay income tax in Zambia. However, any income received by a non-resident individual from sources that are within the Republic of Zambia is taxable.

In the case of David Akusu, the management consultancy fees and bank interest were generated from within Zambia and, therefore, taxable in Zambia at a rate of 20% of the gross income which is the final tax.

DAVID AKUSU
COMPUTATION OF TAX PAID FOR THE TAX YEAR 2024

	K
Management Consultancy (K130,000 x 20%)	26,000
Bank interest (K70,000 x 20%)	14,000
	40,000

(d) GEOFREY CHITEWU

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2024

	K	K
Business profit		510,000
Less:		
Consultancy services	130,000	
Reverse VAT	20,800	
Capital allowances:		
Toyota Camry car: K105,000 x 20%	21,000	
Computers: K40,000 x 25%	10,000	
		(181,800)
Taxable business profit		328,200
Salary from part-time employment		40,000
Royalties: K51,850 x 100/85		61,000
		429,200
Foreign income		
Dividends: Z$9,000 x 100/75 x K14.40	172,800	
Management fees: Z$3,600 x 100/90 x K14.40	57,600	
		230,400
Taxable income		659,600
Income Tax		
First K61,200 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Balance K549,200 @37.5%		203,204
Income tax liability		215,564
Less:		
PAYE	15,000	
WHT-Royalties (K61,000 x 15%)	9,150	
Double taxation relief:		
Dividends (w1)	43,200	
Management fees (w2)	5,760	
		(73,110)
Income tax payable		142,454

Workings

Double taxation relief

1. Dividends

   Foreign tax paid: K172,800 x 25% = K43,200

   Zambian tax

   Gross foreign income x Zambian tax charge

   Total assessable income

K172,800 x K217,964 =K55,749
675,600

The double taxation relief is K43,200

2. Management fees
   Foreign tax paid: K57,600 x 10% = K5,760

   Zambian tax
   K57,600 x K217,964 = K18,583
   K675,600

   The double taxation relief is K5,760

3. Total assessable income:

	K
Taxable income	659,600
Zambian dividends (K13,600 x 100/85)	16,000
	675,600

4. Total Zambian tax charge:

Zambian Tax liability	215,564
WHT on Zambian dividends (K16,000 x 15%)	2,400
	217,964

SOLUTION TWO

(a) Globalization

(i) Benefits of globalization are as follows:

1. Foreign Direct Investment tends to increase at a greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring and the growth of global companies
2. Increased competition from globalization helps stimulate new technological development, particularly with the growth in foreign direct investment
3. Globalization enables large companies to realize economies of scale that reduce costs and prices which in turn support further economic growth.

Risks of Globalization

1. Globalization leads to interdependence between nations which could cause regional or global instabilities if local economy fluctuations end up impacting a large number of countries relying on them.
2. Rise of nation states, multinational or global firms and other international organisations may be seen as a threat to sovereignty which may lead to some leaders becoming nationalistic or xenophobic.
3. The benefits of globalization can be unfairly skewed towards rich nations or individuals creating greater inequalities and leading to potential conflicts both nationally and internationally.

(ii) The following are the reasons of making a Foreign Direct Investment:

1. Firms will engage in Foreign Direct Investment either to meet local demand or as a way of exporting to markets other than the home market.
2. Raw material seeking which means that firms will extract materials in the places where they can be found, whether for export or for further processing and sale in the host country.
3. Production efficiency seeking which involves locating production where one or more factors of production are cheap relative to their productivity.
4. Knowledge seeking; firms choose to set up operations in countries in which they can gain access to technology or management expertise.
5. Political safety seeking; firms which are seeking political safety will require or set up operations in those countries which are thought to be unlikely to expropriate or interfere with private enterprise.

(iii) The following are the methods of foreign direct investment

1. By incorporating a wholly owned subsidiary or company anywhere; or
2. By acquiring shares in an associated enterprise; or

3. Through a merger or acquisition of an unrelated enterprise; or
4. Participating in an equity joint venture with another investor or enterprise.

(b) Concept of source

Under this concept income tax is imposed on income in the state in which the sources of that income are based. The concept of source considers the relationship between the income and the taxing state.

Concept of residence
Under this concept income tax is imposed on the residents of the republic on all their income irrespective of the source. The concept of residence considers the relationship between the taxpayer and the taxing state.

(c) The tax law and human rights law may interact in the following areas:
1. Taxation may interfere with international human rights standards in the process of enforcing the tax laws. E.g pursuing tax offenders in their place of residence or home country.
2. Taxation may be used as a tool to enforce the general social and legal values of the nation beyond its borders. These values include human rights.

(d) A regional economic grouping is a group of individual countries inn a sub-region that come together for the purpose of achieving greater economic integration. This might be in the form of intergovernmental organisation where the regional barriers to trade are eliminated or reduced among the participating countries.

SOLUTION THREE

(a) Mupco Plc

(i) A company can merge with another company through cross border merging in the following ways:

1. Merger by absorption, whereby an existing company acquires all the assets and liabilities of its wholly owned subsidiary. On being dissolved and without going into liquidation, the subsidiary transfers all of its assets and liabilities to its parent.
2. Merger by acquisition, whereby a company acquires all of its assets and liabilities of another company in exchange for the issue to the members of the transferor company of securities or shares in the acquiring company, either with or without any cash payment. The transferor company is then dissolved without going into liquidation.
3. Merger by formation of a new company, whereby two or more companies on being dissolved without going into liquidation) transfer all of their assets and liabilities to a successor company that they form in exchange for the issue to their members of securities or shares representing the capital of that new company, with or without any cash payment.

(ii) The benefits of cross-border mergers are as follows:

1. Liquidation is avoided as the transferor company will be dissolved automatically once the merger is affected, thereby providing significant cost savings.

2. The assets and liabilities of the transferor companies transfer automatically by operation of law thereby eliminating the need for any additional documentation.

(iii) MUPCO PLC

COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2024

	K	K
Net profit per accounts		5,830,000
Add:		
Depreciation	400,000	
Entertaining suppliers	125,000	
Legal fees – recovery of loan	26,000	
		551,000
Adjusted business profit		6,381,000
Investment income:		
Foreign dividends (340,000 x 100/80)		425,000
Royalties (170,000 x 100/85)		200,000
Taxable income		7,006,000
Company income tax (7,006,000 x 30%)		2,101,800
Less:		
Double Taxation Relief (DTR) (W)		(85,000)
WHT- Royalties (200,000 x 15%)		(30,000)
Final company tax payable		1,986,800

Workings:
Double taxation relief:
Lower of:
Foreign tax paid on dividends = K425,000 X 20% = K85,000

Zambian tax charge on foreign income =

$$\frac{\text{Gross foreign dividends}}{\text{Total assessable income}} \times \text{Zambian tax charge}$$

$$\frac{425{,}000}{7{,}006{,}000} \times 2{,}452{,}100 = K148{,}750$$

(b) Transfer pricing
The main problem of the arm's length principle is the increasing integration of the activities of corporate groups, the growing importance of unique intragroup intangibles and services, and the sophistication of their financing operations mean, however, that the application of the arm's- length standard is becoming more difficult, both conceptually and practically.

The problem has been addressed in part by the OECD, which has expanded its guidance on this issue. The OECD standards represent the internationally accepted norms giving content to the arm's-length principle.

SOLUTION FOUR

(a) The following are roles of double taxation treaties:

1. Protect against the risk of double taxation where the same income is taxed in two states
2. Provide certainty of treatment for cross-border trade and investment
3. Prevent excessive foreign taxation and other forms of discrimination against business interests abroad.
4. Protect the Government's taxing rights and protect against attempts to avoid or evade tax
5. They contain provisions for the exchange of information between national taxation authorities
6. Seek to encourage and maintain an international consensus on cross-border economic activity and to promote international trade and investment.

(b) (i) Money laundering money laundering is where criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived from a legitimate source.

Indicators of money laundering activities include:

(1) Secrecy over transactions
(2) Excessive use of wire transfers
(3) Transactions routed through several jurisdictions
(4) Large currency or bearer instrument transactions

(ii) When criminal activity generates substantial profits, individuals or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. This effectively results in massive tax evasion.

Regional economic blocs should take effective measures against tax offences. This could include all deliberate illegal attempts, and should also be interpreted in a broad light to encompass those sophisticated, structured and/or systematic uses of legal means for tax avoidance, those methods of fiscal engineering that foster aggressive tax planning.

In addition, it should be made a practice that a corporation originating in one-member state should comply with the rules and regulations that apply in its country of origin even when it holds operations at other member states, even though the ideal would be to introduce harmonized or common rules across economic bloc member states.
The rationale is to discourage malevolent use of existing asymmetries in tax regimes and supervisory practices, which distorts competition among private entities within the single market and which engenders unfair fiscal competition between member states.

(c) The following are the co-operation models

1. Joint investigation teams
   This enables agencies with a common interest to work together in an investigation which enables an investigation team to draw on a wider range of skills and experience from investigators with different backgrounds and training.

2. Inter-agency intelligence centers

These are established to centralize processes for information gathering and analysis for a number of agencies. They can focus on a specific geographical area or type of criminal activity, or have a wider role in information sharing.

3. Secondments and co-location of personnel
   This is an effective way of enabling skills to be transferred while allowing personnel to build contacts with their counterparts in another agency

4. Use of shared data base, dissemination of strategic intelligence products such as newsletters and intelligence briefs, joint committees to coordinate policy in areas of shared responsibility, and inter-agency meetings and training sessions.

END OF SOLUTIONS

TAXATION PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

D6: TAX AUDIT AND INVESTIGATIONS

MONDAY 9 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.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

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

TAXATION TABLE
Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

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

Company income tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital Allowances

Implements, plant and machinery and commercial vehicles:

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

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

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

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

Commercial Buildings	
Wear and Tear Allowance	2%

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

Presumptive Taxes

Turnover Tax

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

Rental income Tax

Rental income band	**Taxable amount**	
K0.01 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
On income above K800,000		12.5%

Presumptive tax for transporters

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

Property transfer tax

Rate of tax on realised value of land (including buildings, structures or improvements thereon)	5%
Rate on realised value of intellectual property	5%
Rate on realised value of mining right for an exploration licence	5%
Rate of tax on realised value of a mining right for a mining licence	10%
Rate of tax on realised value on a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

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

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Aged 2 to 5 years Customs duty K	Excise duty K	Aged above 5 years Customs duty K	Excise duty K
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687
Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc	22,561	29,329	18,049	23,463

SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463
	Aged 2 to 5 years		**Aged above 5 years**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004
GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

1.	**Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	30%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
2.	**Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**	
	Customs Duty	
	Percentage of Value for Duty Purposes	15%
	Minimum specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
3.	**Buses/coaches for the transport of more than ten persons**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
4.	**Trucks/lorries with gross weight exceeding 20 tonnes**	
	Customs Duty:	
	Percentage of Value for Duty Purposes	15%
	Excise Duty:	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

Attempt all FOUR (4) questions.

QUESTION ONE

Palani Tembo is an Audit Officer working in the Tax and Audit unit of the Zambia Revenue Authority. He and other officers were recently assigned to undertake a tax audit on a client. Their superiors emphasized on the importance of developing the tax audit plan so that the audit is conducted in an orderly and effective manner, and achieve a quality tax audit

Required:

(a) State the contents and description of an audit plan. (3 marks)

(b) State the contents of the information to be briefed by the tax audit team to the tax payer during the introduction meeting. (6 marks)

(c) Explain the categorization of audit evidence. (3 marks)

(d) Explain any five (5) activities the tax auditors should carry out to finalise the tax audit. (10 marks)

(e) Explain any three (3) assurances a qualitative tax audit provides. (3 marks)

[Total: 25 Marks]

QUESTION TWO

The administration of a tax system effectively depends on the audit programme that is followed and will also have a bearing on the legal framework in place that affects the level and intensity of the type of audit that is carried out.

Required:

(a) Explain any five (5) main roles of a taxpayer audit programme. (10 marks)

(b) Explain any five (5) types of tax audits. (10 marks)

(c) State any five (5) elements of a tax legal framework as it relates to the tax audit function. (5 marks)

[Total: 25 Marks]

QUESTION THREE

You are the tax auditor dealing with the tax affairs of InvestPro Bank Plc for the year ended 31 December 2024.

InvestPro Bank is a Zambian resident company engaged in the provision of banking and other financial services. The company listed its shares on the Lusaka Securities exchange in the year ended 31 December 2021. The company has classified a significant amount of loans to its customers as non-performing loans.

The company has provided you with the following extract of the statement of profit or loss for the year ended 31 December 2024:

		K
Net interest income		49,200,800
Non-interest income	(Note 1)	2,400,000
Non-interest expenses	(Note 2)	(12,850,000)
Net income before tax		38,750,800
Income tax expense	(Note 3)	(11,625,240)
Net income after tax		27,125,560

The following additional information is available:

(1) Non-interest income is made up of unrealised foreign exchange gain K241,000, realised foreign exchange gain K880,600, royalties received K683,400 (net) and dividends received K595,000 (net).

(2) Non-interest expenses figure is made up of the following:

	K
Salaries & wages	5,600,000
Commissions paid to agents	1,400,000
Depreciation of non-current assets	1,800,000
Penalties for late payment of provisional income tax	201,310
Donations to the less privileged persons	110,200
Other revenue allowable expenses	3,738,490
	12,850,000

(3) The amount of income tax expense in the statement of profit or loss was calculated in accordance with IAS 12 – income taxes. The provisional income tax paid during the year ended 31 December 2024 amounted to K4,288,220. Withholding tax deducted at source from interest income during the year ended 31 December 2024 amounted to K3,220,100.

(4) The company held the following non-current assets as at 1 January 2024:

Asset	Original cost	Date brought into use
Automated Teller Machines	K12,600,000	30 April 2022
Pool Motor Cars	K14,000,000	31 August 2022
Office Equipment	K4,200,000	31 March 2023

During the year ended 31 December 2024, the company constructed the head office building at a cost of K15,000,000 including the cost of land of K1,500,000. The building was brought into use on 1 May 2024.

Future plans

The Directors of InvestPro Bank have indicated that they are considering diversifying by investing in the Telecomunication Sector. However, they are not sure of the income tax implications of some transactions entered into the Telecom Company.

Required:

(a) Explain the meaning of non-performing loans. (2 marks)

(b) Explain the income tax treatment of foreign exchange differences. (4 marks)

(c) Calculate the amount of income tax payable by InvestPro Bank Plc for the tax year 2024. (13 marks)

(d) Explain the tax treatment of the following as they apply in the telecommunications sector:

(i) Discounts to airtime dealers (2 marks)

(ii) Discounts to subscribers (2 marks)

(iii) Roaming charges and income (2 marks)

[Total: 25 Marks]

QUESTION FOUR

Bupilo Intel Plc is a Zambian resident company that is specialized in car tire manufacturing and other motor vehicle spares .The tire manufacturing business requires a reasonable amount capital in the business. During the year ended 31 December 2024, the company made a taxable business profit, after capital allowances, of K12,600,000. The company has acquired assets both under a finance lease and an operating lease.

Bupilo Intel Plc holds 55% of the issued equity shares of Ncabane Plc, a company resident in a country known as TreeLand. The corporation income tax rate in TreeLand is 15%.

During the year ended 31 December 2024, Bupilo Intel Plc sold goods to Ncabane Plc for K24,500,000. If these goods were sold to any other company not related to Bupilo Intel Plc, they would have fetched K31,200, 000 at that date. Bupilo Intel Plc has received a notice of a tax audit from the Zambia Revenue Authority.

Required:

(a) Explain the term transfer pricing and Arm's length principle. (6 marks)

(b) Advise the Directors of Bupilo Intel Plc of the income tax implications arising from sale of goods to Ncabane Plc. (2 marks)

(c) Compute the amount of income tax payable by Bupilo Intel Plc for the tax year 2024. (3 marks)

(d) Explain any five (5) types of Enterprises on which a tax investigation can be conducted regarding Transfer Pricing. (10 marks)

(e) Explain the income tax implications, for Bupilo Intel Plc, of acquiring assets under each of the following:

  (i) Operating lease (2 marks)

  (ii) Finance lease (2 marks)

[Total: 25 Marks]

END OF PAPER

D6: TAX AUDIT AND INVESTIGATIONS SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are the contents and description of an audit plan
- (1) The planned nature, timing, and extent of risk assessment.
- (2) The planned nature, timing, and extent of tests of controls and substantive procedures.
- (3) Other planned audit procedures required to be performed so that the engagement complies with the relevant auditing standards.

(b) Contents to be briefed to the auditee during the introduction meeting
- (1) Purpose of the main study.
- (2) Time schedule for the main study.
- (3) Members of the audit team.
- (4) Methods that will be used in the audit.
- (5) The information that will be requested from the tax payer.
- (6) The need to appoint or confirm the contact person.

(c) Audit evidence may be categorized as follows:
- (1) Physical evidence - evidence that is obtained by direct observation of people, buildings and events.
- (2) Testimonial evidence - obtained through enquiries, interviews or questionnaires.
- (3) Documentary evidence – consist of all sorts of written documents, e.g reports, research papers, records and statistical data.

(d) The following are the activities to be carried out by the tax auditors:
- (1) Planning: planning and controlling audit work is essential to performing work to the required high standard of skill and care.
- (2) Ascertain accounting systems: tax auditors should enquire and ascertain the client's accounting system and internal controls in order to understand how accounting data is prepared.
- (3) Test controls and transactions: controls must be tested if the auditor intends to rely on them. Accounting and other records should also be tested to obtain evidence that they6 are a reliable basis.
- (4) Verify figures of assets and liabilities that are appearing in the financial statements of the client and financial statements should also be reviewed.
- (5) Obtain management representation: the tax auditor should seek management to confirm formally the truth and fairness of certain aspects of financial statements.
- (6) Sign auditors report: the tax auditor should summarise all the findings in an audit report which he/she should sign.

(e) The following are the assurances a qualitative tax audit provides:

    (1) The tax payers' accounts and records have been reviewed in sufficient depth to reach a supportable conclusion regarding all items of a material consequence.
    (2) That appropriate income tests have been performed where necessary to ensure the proper and complete reporting of income regardless of source.
    (3) That the responsibilities of the tax payer regarding the filing of all tax returns have been ascertained.
    (4) That the conclusions expressed are documented in sufficient details to enable the reader to comprehend the process thereby such a conclusion was reached.

SOLUTION TWO

(a) The following are the roles of a taxpayer audit programme:

(1) Promotion of voluntary compliance-by reminding the tax payer of the risks of non-compliance and inculcating confidence in the tax payer, serious abuses can be minimized through dissemination of such tax information.

(2) Detection of non-compliance by tax payer-significant omissions and understatements can be detected through a tax audit programme.

(3) Collection of tax information on behalf of the tax payer: as details are gathered by the use of the audit programme, certain pattern of risk that emerges can be documented and analysed by the tax auditor .In the final end appropriate audit procedures as such as risk based procedures can be designed to deal with tax evasion /avoidance schemes that can prevent such abuses from happening in future.

(4) Gather intelligent information-the information on tax evasion and avoidance can be used to come up with counter measures such as strict inspections and anti- tax squads can be set up.

(5) Educating tax payers-audits can assist to clarify the application of the law for individual tax payers and to identify improvements required for record keeping and thus may contribute to improved compliance by the tax payers in the future.

(6) Identify areas of the law that requires clarification-audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus required further efforts by ZRA to clarify and educate the tax payer.

(b) The following are the main types of tax audits that can be conducted on a tax payer:

(1) Full audits: This entails a comprehensive examination of a tax payer's tax liabilities for a given period. The purpose is to determine the tax liability for a tax return as a whole.

(2) Limited scope audit (Issue based audit): These are specific in nature and mainly done to examine key potential risk areas of non-compliance. In this case, few resources are used as opposed to a full scale audit.

(3) Single – Issue based audit – These are tax audits confided to one potential item of non-compliance that may be apparent from examination of a tax payer's return.

(4) Deregistration audits – These are usually conducted in an event that the business would like to file for deregistration for VAT. It normally happens when an entity's turnover falls below the VAT annual registration threshold of K800,000 or the entity no longer makes taxable supplies or the legal status of the business has changed.

(5) Educational audits – The public needs to be sensitized in terms of knowing the importance of paying taxes to the government. It can also be done in an event that ZRA has introduced new tax legislation. An educational visit can be facilitated in order that tax payer know how such legislation will affect them.

(6) Credibility audits – This a type of audit aimed at checking the correctness of certain claim for VAT refunds as it happened with the mines at the time they were claiming VAT refunds from the ZRA.

(c) The following are the elements of a tax legal framework:

(1) Taxpayer's record keeping obligations
(2) Giving tax officials access to taxpayer's financial statements and other records.
(3) Giving tax officials access to third party information sources.
(4) Obtaining information from other countries' tax authorities.
(5) Powers of tax authorities to amend tax returns submitted by taxpayers.
(6) Impose sanctions on the taxpayer for non-compliance.

SOLUTION THREE

(a) A non-performing loan is a loan on which the borrower is not making interest payments or repaying any principal amount, and eventually may turn into an irrecoverable loan. Banks normally set aside money to cover potential losses on loans and irrecoverable loans written off in their statement of profit or loss.

(b) A foreign exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. The difference can either be a gain or a loss.

The income tax treatment of these differences is as follows:

(1) Foreign exchange gain is only taxable if the gain is realised. Where the exchange gain is not realised, it is exempted from income tax.

(2) Foreign exchange loss is only treated as an allowable deduction if it has been realised. Where the loss is not realised, then it will be added back when computing the taxable business profits.

(c) InvestPro Bank

Income tax payable for the tax year 2024

	K	K
Income before tax		38,750,800
Add:		
Depreciation	1,800,000	
Penalties	201,310	
Donations	110,200	
		2,111,510
		40,862,310
Less:		
Unrealised foreign exchange gain	241,000	
Royalties	683,400	
Dividends	595,000	
Capital allowances (W1)	7,270,000	
		(8,789,400)
Adjusted business profit		32,072,910
Add:		
Royalties (K683,400 x 100/85)		804,000
Total taxable income		32,876,910
Company income tax		
(K32,876,910 x 30%)		9,863,073
Less:		
Provisional income tax paid	4,288,220	
WHT – Interest income	3,220,100	
WHT – Royalties (K804,000 x 15%)	120,600	

	(7,628,920)
Income tax payable	2,234,153

Workings

(1) Capital allowances

	K
Automated Teller Machines (K12,600,000 x 25%)	3,150,000
Pool Motor cars (K14,000,000 x 20%)	2,800,000
Office Equipment (K4,200,000 x 25%)	1,050,000
Head office building	
(K15,000,000 – K1,500,000) x 2%	270,000
Total capital allowances	7,270,000

(d) The following is the tax treatment of:

(i) Discounts to airtime dealers

The discounts to airtime dealers are deducted from the gross sales value when determining the taxable sales value for the manufacturer of airtime. This means that the discounts will not form part of the gross sales revenue.

(ii) Discounts to subscribers

Discounts given to subscribers reduce the cost of purchases for the subscriber. Therefore, this increases the amount of income tax payable by the subscriber and reduces the amount of taxable income for the dealer.

(iii) Roaming charges and income

Income earned on roaming charges is only taxable in Zambia if they are received by a company resident in Zambia, and it is subjected to both Value Added Tax and Income Tax.

SOLUTION FOUR

(a) Transfer pricing refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control.
Because of the potential for cross – border controlled transactions to distort taxable income, tax authorities in many countries can adjust intragroup transfer prices that differ from what would have been charged by unrelated enterprises dealing with the entity at arm’s length.

The "arm's-length principle" of transfer pricing states that the amount charged by one related party to another for a given product must be the same as if the parties were not related.
An arm's-length price for a transaction is therefore what the price of that transaction would be on the open market.
In general, determining the true taxable income of a controlled taxpayer, the standard to be applied in every case is that of a taxpayer dealing at arm's length with an uncontrolled taxpayer.
A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances (arm's length result).

(b) The taxation implications of transfer pricing are that if the goods are sold to a related party at a price lower than the open market value, the difference between the actual price charged and the open market value is added to the taxable business profits. Therefore, Bupilo Intel Plc’s taxable business profits will be increased by the difference between K31,200,000 and K24,500,000.

(c) Bupilo Intel Plc
Income tax payable for the tax year 2024

	K
Business profits	12,600,000
Add:	
Transfer pricing adjustment	
(K31,200,000 – K24,500,000)	6,700,000
Total taxable business profit	19,300,000
Company income tax	
(K19,300,000 x 30%)	5,790,000

(d) The following are enterprises on which a tax investigation can be conducted in respect of transfer pricing:
(1) Enterprises which have significant amount of or various types of related party transactions. Transactions between companies that can take place may involve large amounts of values on which each one of them depends. It could also involve large amounts of transfer of raw material from one subsidiary or related company to another at a low price. Thereafter when these goods are manufactured, they are later sold at higher price in jurisdiction in which taxes are low but higher selling prices.

In this case, such companies will not be trading at arm's length or according to market rules. In order to provide a solution to the problem, any costs or value of intangible assets that have been transferred should be allocated between these relate parties using market rules.

(2) Enterprises which have been in long-term consecutive losses, low profitability or fluctuating profit and loss situations. When an enterprise receives from a related party debt or loans in form of investments, in a ratio that exceeds the prescribed level, the interest shall not be deductible when calculating income of such enterprise. When ZRA discovered that such transactions have taken place, a tax investigator will demand all relevant documents and information from all parties concerned in order to make a decision.

(3) Enterprises whose profit levels are lower than those in the same industry. If an enterprise carries out any other business arrangements without reasonable business purposes resulting in reduction of its taxable revenue or income, the tax authority shall be empowered to make adjustments using reasonable methods.

(4) Enterprises showing an obvious mismatch between their profit levels and their functional and risk profile. It may happen that the company's operating performance appears to be lower than those in the same industry. This may raise suspicions and especially that its scale of operations may not match with its revenues and profits. If the business provides insufficient information, tax investigators can demand information from both related parties so they can assess taxpayer's taxable income in accordance with the law.

(5) Enterprises that have business dealings with related parties in tax havens Tax havens have low tax rates. This is the likely place in which management would like to establish their head office so as to pay less tax. If the resident fails to include the expected dividends, then such undistributed income will be included in the revenue of the resident enterprise in the current period

(e) The following are the income tax implications:

(i) Operating lease

(1) The company will not be able to claim capital allowances on those assets as the legal owner of the assets will be the one to claim capital allowances.

(2) The lease rentals are treated as allowable deductions when computing the taxable business profits.

(ii) Finance lease

(1) The company will be able to claim capital allowances on the assets acquired under this type of lease.

(2) The interest on finance lease is an allowable deduction provided it does not exceed 30% of the tax earnings before interest, tax, depreciation and amortisation.

END OF SOLUTIONS