

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 17 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

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

9. Graph paper (if required) is provided at the end of the answer booklet. DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 Which one of the following calculates a sole trader's net profit for a period?
 - A. Closing net assets + drawings capital introduced opening net assets.
 - B. Closing net assets drawings + capital introduced opening net assets.
 - C. Closing net assets drawings capital introduced opening net assets.
 - D. Closing net assets + drawings + capital introduced opening net assets.

(2 marks)

- 1.2 Which of the following explains the imprest system of operating petty cash?
 - A. Weekly expenditure cannot exceed a set amount.
 - B. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
 - C. All expenditure out of the petty cash must be properly authorized.
 - D. Regular equal amount of cash is transferred into cash at intervals.

(2 marks)

- 1.3 Which of the following statements are true of a limited liability companies?
 - 1. The company's exposure to debts and liability is limited.
 - 2 Financial statements must be produced.
 - 3 A company continues to exist regardless of the identity of its owners.
 - A. 1 and 2 only.
 - B. 1 and 3 only.
 - C. 2 and 3 only.
 - D. 1, 2, and 3.

1.4 A company's statement of profit or loss for the year ended 31 December 2005 showed a net profit of K83,600. It was later found that K18,000 paid for the purchase of a motor van had been debited to the motor expenses account.

It is the company's policy to depreciate motor vans at 25% per year on the straight-line basis, with a full year's charge in the year of acquisition.

What would the net profit be after adjusting for this error?

- A. K106,100
- B. K70,100
- C. K97,100
- D. K101,600

(2 marks)

1.5 Xena has the following liquidity and working capital ratios:

	2023	2022
Current ratio	1:2:1	1:5:1
Receivables days	75 days	50 days
Payables days	30 days	45 days
Inventory turnover	42 days	35 days

Which of the following statements is correct?

- A. Xena's liquidity and working capital has improved in 2023.
- B. Xena is receiving cash from customers more quickly in 2023 than in 2022.
- C. Xena is suffering from a worsening liquidity position in 2023.
- D. Xena is taking longer to pay suppliers in 2023.

- 1.6 Which of the following statements is/are correct?
 - 1. A statement of cash flows prepared using the direct method produces a different figure for net cash from operating activities from that produced if the indirect method is used.
 - 2. Rights issues of shares do not feature in a statement of cash flows.
 - 3. A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows.

- 4. A profit on the sale of a non-current asset will appear as an item under cash flows from investing activities in the statement of cash flows.
 - A. 1 and 3 only.
 - B. 3 and 4 only.
 - C. 2 and 4 only.
 - D. 3 only.

(2 marks)

1.7 A company receives rent from a large number of properties. The total received in the year ended 30 April 2023 was K481,200. The amounts of rent in advance and in arrears at respective year-ends were:

					30 April 2022	30 April 2023
					K	K
Rent r	eceiv	ved in adva	ance		28,700	31,200
Rent	in	arrears	(all	subsequently	21,200	18,400
receiv	ed)					

What amount of rental income appear in the company's statement of profit or loss for the year ended 30 April 2023?

- A. K486,500
- B. K460,900
- C. K501,500
- D. K475,900

- 1.8 Which of the following are differences between sole traders and limited liability companies?
 - 1. A sole trader's financial statements are private and never made available to third parties while a company's financial statements are sent to shareholders and may be publicly filed.
 - 2. Only companies have share capital.
 - 3. A sole trader is fully and personally liable for any losses that the business might make.
 - 4. Drawings would only appear in the financial statements of a sole trader.
 - A. 1 and 4 only.
 - B. 2, 3 and 4 only.

C. 2 and 3 only.

D. 1, 3 and 4 only.

(2 marks)

1.9 The following transactions relate to Rash's electricity expense ledger account for the year ended 30 June 2023:

550
5,400
650

What amount should be charged to the statement of profit or loss in the year ended 30 June 2023 for electricity?

- A. K6,600
- B. K5,400
- C. K5,500
- D. K5,300

2 marks)

1.10 At 30 June 2022 a company's allowance for receivables was K39,000. At 30 June 2023 trade receivable totaled K517,000. It was decided to write off debts totaling K37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.

What figure should appear in the statement of profit or loss for the year ended 30 June 2023 for receivables expense?

- A. K61,000
- B. K52,000
- C. K22,000
- D. K37,000

(2 marks) [Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

After calculating the net Profit for the year ended 31 December 2023, XY has the following trial balance:

Trial Balance as at 31 December 2023

	Dr	Cr
	К	К
Buildings – Cost	20,000	
Buildings – Accum'd Depreciation at 31 December		4,000
2023	24,000	
Plant and Equipment – cost		6,000
Plant and Equipment – Accum'd Depreciation at 31	5,000	
Dec	3,000	
Closing Inventory	16,500	
Trade Receivables		3,400
Bank	800	
Trade Payables		600
Rent Prepaid		38,800
Wages accrued		
Capital	69,300	<u>19,500</u>
Profit for the year ended 31 December 2023		
		72,300

A suspense account was opened for the difference in the trial balance. Immediately after production of the above, the following errors were discovered:

- A credit sale of K600 had been debited to trade payables control Account. (1)However, it had been correctly recorded in the sales account.
- The Heat and Light account had been credited with gas paid K300. (2)
- Gogo had been credited with a cheque received from Grogo for K1,600 in the (3) individual list of receivables balances (Memorandum Accounts)

- (4) The insurance account contained a credit entry for insurance prepaid of K1,000, but the balance had not been carried down and hence had been omitted from the above trial balance.
- (5) Purchases returns had been overcast by K1,400.

Required:

- (a) Draw up journal entries necessary to correct each of the above errors. (5 marks)
- (b) Write up the suspense account showing the correction of the errors. (4 marks)
- (c) Show adjustments to the profit figure in the trial balance. (3¹/₂ marks)
- (d) Prepare XY's statement of financial Position as at 31 December 2023. (7¹/₂ marks)

[Total: 20 Marks]

QUESTION THREE

A bookkeeper was tasked by the accountant to complete the books of accounts and verify the ledger accounts to enable the accountant to prepare the financial statements that were required to be presented at a management meeting.

Required:

(a) Explain the six (6) main books of prime entry and their source documents.

(9 marks)

(b) Differentiate between the receivables ledger and the payables ledger.

(4 marks)

(c) The cashier prepared the receivables ledger control account whose balance failed to agree with the listing of the receivables ledger accounts as a lot of errors were made when posting.

Receivables ledger control account

Opening balance b/d	18,000	Sales		140,000
		Cash receipts	from	
Irrecoverable receivables	10,000	customers		50,000
		Interest charged	on late	
Discount allowed	12,000	a/cs		6,000
Returns inwards	15,000			
Purchases ledger contra	20,000			
Balance c/d	<u>75,000</u>			
	<u>196,000</u>			<u>196,000</u>

Required:

Prepare the corrected receivable ledger control account from the information above.

(7 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Frank and Freddie are in partnership sharing profits and losses in the ratio 3:2. The following is their trial balance as at 31 December 2023.

	Dr K	Cr K
Capitals: Frank		50,000
Freddie		37,500
Sales		181,500
Purchases	105,000	
Buildings – cost	105,000	
Accumulated Depreciation on Buildings		25,000
Fixture – cost	4,100	
Accumulated Depreciation on Fixtures		2,100
Trade Receivables	30,700	
Trade Payables		13,295
Cash at Bank	3,050	
Inventory at 1 January 2023	31,350	
Carriage outwards	1,705	
Discount allowed	310	
Interest paid	1,950	
Office Expenses	2,380	
Salaries	28,900	
Irrecoverable Receivables	800	
Allowance for Irrecoverable		700
6% Loan note		32,500
Current accounts – Frank		2,050
Freddie		600
Drawings – Frank	15,900	
Freddie		
	<u>14,100</u>	345,245
	<u>345,245</u>	

Additional Information

-

- (1) Inventory at 31 December 2023, was K37,105.
- (2) Expenses to be accrued are as follows: Office Expenses K105

- Salaries K360

- (3) Depreciation is to be provided as follows:
 - Buildings at 2% on cost
 - Fixtures at 10% reducing balance method.
- (4) Reduce allowance for irrecoverable receivables to K625.
- (5) Partnership salary of K15,000 to Frank is to be provided.
- (6) Interest on capital account balances is at 5%.

(7) Interest on drawings, were: Frank K450; Freddie K300

Required:

(a) Prepare the partnership statement of Profit or Loss appropriation account.

	(14½ marks)
(b) Prepare the partners' current accounts.	(5 ½ marks)

[Total: 20 Marks]

QUESTION FIVE

The following summarized statements of financial position relate to Chabu Ltd at 31 December.

	2023	2022
	К	K
NON-CURRENT ASSETS		
Property, Plant and Equipment – cost	31,920	31,200
Less Accumulated Depreciation	6,360)	(4,480)
·	25,560	26,720
CURRENT ASSETS	,	,
Inventory	480	400
Trade Receivables	1,520	1,160
Bank	,	1,120
	960	2,680
Total Assets	2,960	29,400
	28,520	
EQUITY AND LIABILITIES		
Equity and Reserves:		
Ordinary shares of K1 each		6,800
Share Premium	7,200	480
Retained Earnings	720	10,280
5	14,320	17,560
	22,240	
NON-CURRENT LIABILITIES		
Loan notes		10,000
	4,000	
CURRENT LIABILITIES		
Trade Payables		120
Taxation	240	<u>1,720</u>
	<u>2,0</u> 40	1,840
Total Equity and Liabilities	2,280	29,400
	28,520	

Additional Information

- (1) Profit before tax for the year 2023 was K7,840.
- (2) During the year to 31 December 2023, some property, plant and equipment (PPE) which originally cost K1,080 had been sold for K240 in cash. The accumulated depreciation on the disposed of PPE at January 2023; was K480.
- (3) The tax charge for the year 2023, was K2,480.
- (4) Interest paid during the year 2023, was K560.
- (5) Dividends paid during the year 2023, totaled K1,320.

Required:

Prepare Chabu Ltd's statement of cash flows for the year ended 31 December 2023 using the indirect method. [Total: 20 Marks]

QUESTION SIX

Peter Katongo, a sole trader, had the trial balance extracted from the business leger accounts as follows:

Peter Katongo			
Trial balance as at 31 March 2023	K′000	K′000	
Premises at cost	140,000		
Equipment at cost	90,000		
Allowance for depreciation as at 1/4/2022:			
Premises		8,400	
Equipment		·	8,000
Sales revenue			540,000
Purchases	220,000		
Returns inwards	10,000		
Inventory as at 1 April 2022	60,500		
Discount's received			8,900
Returns outwards		14,300	
Wages and salaries	76,000	-	
Discount allowed	9,100		
Irrecoverable debt	5,000		
Allowance for receivables	-	7,500	
General expenses	12,000		
Interest on loan	2,400		
Cash in hand	50,000		
12% Bank loan (obtained on 1 April, 2022)		40,000	
Cash at bank	100,000	-	
Capital	-	230,000	
-			

<u>950,400</u>	<u>950,400</u>
<u>_150,000</u>	
	93,300
25,400	
	25,400 _ <u>150,000</u> 950,400

Additional information as at 31 March 2023

(1) The cost of inventory at the end of the financial year was valued at K 70,000,000.

(2) General expenses prepaid were K5,000,000.

(3) Half of the bank loan interest was accrued at the close of the business.

(4) Make an allowance for receivables of 8% on year-end receivables.

- (5) During the year, Katongo withdrew K500,000 cash from the business for personal reasons. No record was made in the books of accounts.
- (6) Depreciation is to be provided as follows:
 - Premises at 2% on cost per annum.
 - Equipment has a useful life of 20 years and a scrap value of K10,000,000.

Required:

(a) Prepare Peter Katongo's statement of profit or loss for the year ended 31 March 2023.

(10 marks)

(b) Prepare Peter Katongo's statement of financial position as at 31 March 2023. (10 marks)

[Total: 20 Marks]

END OF PAPER

DA 1: FINANCIAL ACCOUNTING SOLUTIONS

DA1 SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) XY's JOURNAL ENTRIES

	к	к
Trade Receivables	600	IX.
Trade Payables		600
Heat and Light	600	
Suspense		600
Gogo	1,600	
Grogo		1,600
Insurance prepayment	1,000	
Suspense	-	1,000
Purchase Returns	1,400	•
Suspense		1,400
	Trade Receivables Trade Payables Heat and Light Suspense Gogo Grogo Insurance prepayment Suspense Purchase Returns Suspense	KTrade Receivables600Trade Payables600Heat and Light600Suspense1,600Grogo1,600Insurance prepayment1,000Suspense1,400Suspense1,400

(b)		XY's Su	uspen	se Account	
		К	-		К
	Difference in Books	3,000	(ii)	Heat and Light	600
			(iv)	Insurance	1,000
			(v)	Purchases Returns	1,400
		3,000	. ,		3,000

(c) XY's Profit Adjustment Statement

-	К
Balance as per trial Balance	19,500
Less: Purchases Returns	(1,400)
Heat and Light	(600)
Adjustment Net Profit	<u> 17,500</u>

(d) XY's statement of Financial Position as at 31 December 2023

XY's statement of Financial Position as at 31 December 2023			
		K	K
NON-CURRENT ASSETS			
Buildings	20,000	4,000	16,000
Plant and Equipment	<u>24,000</u>	<u>6,000</u>	18,000
			34,000
Current Assets			
Inventories		5,000	
Trade Receivables (3,000 + 600)		3,600	
Bank		16,500	
Prepayments – Insurance	1,000		
– Rent	800		
	-	1,800	
			26,900
			60,900
Financed by:			
Capital		38,800	
Adjusted Net Profit	_	17,500	

56,300

4,600

Current Liabilities

Trade Payables (3,400 + 600) Accrued wages

4,000 600 60,900

SOLUTION THREE

(a) Six main books of prime entry and their use

- 1. **Cash book:** A cash book is a book in which the business records the cash transactions. The source document for the cash book are receipts, cash sale invoice and cheques.
- 2. **Sales journal (sales daybook):** The sales journal is a book of prime entry in which the business records credit sales. Its source document is the sales invoice.
- 3. **Purchases journal:** The purchases journal is a book where the business records credit purchases. The source document is the purchases invoice.
- 4. **Sales returns journal:** The sales returns journal is the book in which we record goods that were initially sold to the customers that have been returned to the firm. The source document is the credit note.
- 5. **Purchases returns journal:** This is a book of prime entry in which we record goods returned to the suppliers. The source document is the debit note.
- 6. **Journal:** This is the book which is used to correct errors and recording opening entries. The source document is the cross-referenced cash book and ledgers and sundry correspondence.
- 7. **Petty cash book:** This is a book which is used to record expenditure on smaller items. The source document is the petty cash voucher and petty cash receipts.

(b) Difference between receivables and payables ledger

Receivables ledger is a record of personal accounts of customers. The total listing gives us the total figure of receivables which is required when preparing the statement of financial position.

Payables ledger is a record of personal accounts of suppliers. The total listing of the ledger accounts balances gives us the total figure for payables.

c) Updated receivable control account

	K'000		K'000
Opening balance b/d	18,000	Cash receipts from customers	50,000
Sales	140,000	Irrecoverable receivables	10,000
Interest charged on late a/cs	6,000	Returns inwards	15,000
		Discount allowed	12,000
		Purchases ledger contra	20,000
		Balance c/d	<u>57,000</u>
	<u>164,000</u>		<u>164,000</u>

SOLUTION FOUR

(a) Frank and Freddie's

Statement of Profit or Loss and appropriation account for year ended 31 December 2023

	Sales				К	K 181 <i>.</i> 500
	Opening Inventory				31,350	
	Purchases				105,000	
					136,350	
	less Closing Inventory				(37,105)	
	····· j ····· ,					(99,245)
	Gross Profit					82.255
	Add: Decrease in Allow	ance for Irr	ecoverable	(700 - 625)		75
				(,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		82.330
	Less: Depreciation – Bu	uildinas (2%	x 105 000)	2 100	02,000
	– Fix	dures (10%	x (4 100 -	, - 2 100)	200	
	Carriage outwards		, , 1, 100	2,100)	1 705	
					310	
	Loan Interest				1 950	
	Office expenses (2	380 ± 105			2 485	
	Salaries (28 000 \pm	3601 103)			2,705	
	Irrocovorablo Poco	jupploc			29,200	
		IVables				(20.010)
	Trading Profit					<u>(30,010)</u> 43 520
	Trading Front					43,520
	Add: Interest on Drawing	ngs: - Fran	k		450	
		- Fred	die		300	
						750
						44,270
	Less: Partnership Salar	y - Frank				(15,000)
	•					29,270
	Interest on capita	ls - Frank (5% x 50,00	0)	2,500	
	·	- Freddie	(5% x 37,	500)	1,875	
			· ·	,		(4,375)
						24,895
	Share of Profits:	- Frank	^{3/} 5 x ^{24,895}		14 027	,
		- Freddi	e ^{2/} 5 x ^{24,895}		14,937	
					9,958	
						(24,895)
(h)			Partnei	s' Current Accounts		
(5)		Frank	Freddie		Frank	Freddie
		K	K		K	K
	Drawings	15 900	14 100	Balances h/d	2 050	600
	Interest on drawings	13,300 450	200	Salary	15 000	-
	Ralance c/d	12 127	500	Interest on Capital	2 5,000	1 875
		10,137		Share of Profite	2,300 1/ 027	1,075
				Balance c/d	1,30/	3,300 1 067
		24 407	14 100		74 407	1/30/
		J4,40/	14,100		J4,40/	14,100

SOLUTION FIVE

2.

Chabu Ltd's Statement of Car	sh flows for the year ending 31 Decem	her 2023	
Cash flows from	Operating Activities	K	К
Profit before tax		7,840	
Adjust for:-			
Depreci	ation (w2)	2,360	
Loss on	Disposal (w3)	360	
Interest	:	560	
Movement in wo	rking capital		
Increase in Invento	ory (480 -400)	(80)	
Increase in Receiva	ables (1,520 – 1,160)	(360)	
Increase in Payable	es (240 – 120)	120	
Cash generated	from other operations:		
Interest	: paid	(560)	
Tax pai	d (w4)	(2,160)	
Net cash inflow fro	m operating Activities		8,080
Cash flows from	Investing Activities		
Paymer	ts to acquire PPE (w1)	(1,800)	
Proceed	ls from PPE Disposal	240	
Net cash flows from	m Investing Activities		(1,560)
Cash flows from	Financing Activities		
Issue of	f New shares (w5)	640	
Repaym	nent of Loan notes (10,000 – 4,000)	(6,000)	
Dividen	ds paid	(1,320)	
Net cash outflows	from Financing Activities		<u>(6,680</u>)
Net decrease in Ca	sh and Cash Equivalent		(160)
Cash and cash equ	ivalent at 1 January 2023	-	1,120
Cash and Cash Equ	ivalent at 31 December 2023	=	960
Workings			
1.	PPE Account at Cost		
	К	К	

K		K
31,200	Disposal	1080
1,800	Balance c/d	31,920
33,000		33,000
	K 31,200 1,800 33,000	K 31,200 Disposal 1,800 Balance c/d 33,000

Accumulated Depreciation on PPE Account

	Disposal Balance c/d	K 480 Balance b/f <u>6,360</u> Depreciation Exp (Bal fig) <u>6,840</u>	K 4,480 <u>2,360</u> <u>6,840</u>
3.		PPE Disposal Account K	к

	ĸ		ĸ
PPE	1,080	Accum'd Depreciation	480
		Bank	240
		∴ Loss on Disposal	360
	1,080		1,080

4.

Taxation Account

	К	К
Bank – tax paid	2,160 Balance b/f	1,720
Balance c/f	2,040 Profit or Loss	2,480
	4,200	4,200

5. Issue of new shares = Closing Balances – Opening Balances = K(7,200) - K(6,800 + 480)= K7,920 - K7,280= K640

SOLUTION SIX

(a) Peter Katongo's		
Statement of profit or loss for the year	r ended 31st March K'000	2023 K'000
Sales revenue (540,000-10,000)		530,000
Less: cost of sales:		
Opening inventory	60,500	
Purchases	220,000	
Less: returns outwards	<u>(14,300)</u>	
Total inventory available	266,200	
Less: closing inventory	<u>(70,000)</u>	
Cost of sales		<u>(196,200)</u>
Gross profit		333,800
Add: income:		
Discount received		<u>8,900</u>
Total income		342,700
Less expenses		
Wages and salaries	76,000	
Discount allowed	9,100	
Irrecoverable receivables	5,000	
Increase in allowance for receivables	4,500	
General expenses (12,000 - 5,000)	7,000	
Interest on loan (2,400 + 2,400)	4,800	
Depreciation:		
Premises (140,000) X 0.02	2,800	
Equipment (90,000 - 10,000)/20yrs	<u>4,000</u>	
Total expenses		<u>(113,200)</u>
Net profit		<u>229,500</u>

Workings to the statement of profit or loss

1. Allowance for receivables

	K'000
Balance as per trial balance	7,500
New Allowance (8% X 150,000)	<u>12,000</u>
Increase in allowance	<u>4,500</u>

b) Peter Katonyo S statement or mancial pu	Siliuii as al	SI March 20	21.
	Cost	Acc. Dep	NBV
Non-current assets:	K'000	K'000	K'000
Premises	140,000	11,200	128,800
Equipment	<u>90,000</u>	<u>12,000</u>	<u>78,000</u>
	<u>230,000</u>	<u>23,200</u>	206,800
Current assets:			
Closing inventory		70,000	
Receivables (150,000 - 12,000)		138,000	
Cash at bank		100,000	
Cash in hand (50,000 - 500)		49,500	
General expenses prepaid		<u>5,000</u>	
			<u>362,500</u>
Total assets			<u>569,300</u>
Equity and liabilities:			
Financed by:			
Capital		230,000	
Add net profit		<u>229,500</u>	
		459,500	
Less: drawings (25,400 + 500)		(25,900)	
			433,600
Non-current liabilities:			
12% bank loan			40,000
Current liabilities:			
Payables		93,300	
loan interest accrued		2,400	
			<u>95,700</u>
Total equity and liabilities			<u>569,300</u>

b) Peter Katongo's statement of financial position as at 31 March 2021

END OF SUGGESTED SOLUTIONS



LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 19 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:

Section A: Ten (10) compulsory multiple choice questions. Section B: FIVE (5) optional questions. Attempt any FOUR (4) questions.

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

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

- 1.1 Which of the following variables can be classified as discrete data?
 - A. The number of saving accounts in a bank.
 - B. The time taken by an athlete to complete a 100 meters race.
 - C. The floor area of a newly opened shop at a shopping mall.
 - D. The age of a job applicant.

(2 marks)

- 1.2 If A and B are two mutually exclusive events such that P(A) = 0.3 and P(B) = 0.6, then find $P(A \cup B)$.
 - A. 0.30
 - B. 0.18
 - C. 0.73
 - D. 0.90

(2 marks)

- 1.3 Suppose that the weights of furniture in a shop are normally distributed with mean 50kg and standard deviation 7kg. What is the probability of a weight being less than 55kg?
 - A. 0.7611
 - B. 0.2389
 - C. 0.6141
 - D. 0.7410

1.4 An investment records the following cash flow over a 2 year period with prevailing interest of 9% and an initial project capital of K850.

YEAR	1	2
CASHFLOW	K650	K700

The net present value (NPV) of the project is:

- A. K 650.00
- B. K 335.5
- C. K596.31
- D. K1185.5

(2 marks)

- 1.5 With which component of a time series would you associate with the price inflation?
 - A. Random
 - B. Trend
 - C. Cyclical variation
 - D. Seasonal variation

(2 marks)

- 1.6 If 16 is the mean of a Poisson distribution, the standard deviation is given by;
 - A. 4
 - B. 81
 - C. 9
 - D. 4.5

- 1.7 Which of the following measures are NOT dependent on the exact value of every measurement?
 - A. Mean deviation
 - B. Variance
 - C. Range
 - D. Coefficient of variation

- 1.8 Chipo and Nyambe save K1,000 at the end of each month towards a new house. The nominal rate is 12% payable monthly. How much will have accrued after three (3) years.
 - A. K43,076.88
 - B. K43,067.88
 - C. K3,374.40
 - D. K3,374,04

(2 marks)

- 1.9 Which of the following techniques is an analysis of the relationship between two (2) variables to help provide the prediction mechanism?
 - A. Standard error
 - B. Correlation
 - C. Regression
 - D. None of the above

(2 marks)

- 1.10 A checkpoint is mounted for traffic checking on the Great North road. The average number of cars passing a check point in a minute is 5. If the car movements at the check point is Poisson distributed, the probability that less than 2 cars passes the check point in a minute is:
 - A. 0.04
 - B. 0.0067
 - C. 0.0337
 - D. 1

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

- (a) A cooperative applies to the Constituency Development Committee for funds for a project requiring an initial outlay of K20,000 which is guaranteed to produce a return of K30,000 in three (3) years' time. Using the Internal Rate of Return (IRR), decide whether this investment is worthwhile if the prevailing market rate is 7% compounded monthly. (5 marks)
- (b) The cost of constructing three bedroomed upstairs houses in a new residential area was estimated to be at an average of K20.5 million with a standard deviation of K5 million.
 - (i) What is the probability that the cost of construction would be less than K30 million. (4 marks)
 - (ii) What is the probability that the cost of construction would be between K15 and K25.5 million. (5 marks)
 - (iii) The probability is 0.33 that the cost of construction is less than how much?

(6 marks) [Total: 20 Marks]

QUESTION THREE

(a) The number of trucks arriving hourly at a warehouse facility has been found to follow the probability distribution in the table below.

Number of trucks arriving	0	1	2	3	4
(<i>x</i>)					
Probability $P(x)$	0.2	0.09	0.3	0.25	0.16

(i) Calculate the probability that at most three (3) tracks arrived in an hour.

(3 marks)

- (ii) Calculate the average number of trucks arriving per hour. (4 marks)
- (iii) Calculate the standard deviation of the number of trucks arriving per hour. (5 marks)

- (b) On average, five (5) people per hour conduct transactions at a special services desk in a commercial bank. Assuming that the arrival of such people is Poisson distributed.
 - (i) What is the probability that exactly six (6) people conduct transactions?

(2 marks)

(ii) What is the probability that less than four (4) people conduct transactions?

(3 marks)

(iii) What is the probability that more than two (2) people conduct transactions?

(3 marks) [Total: 20 Marks]

QUESTION FOUR

(a) An investor wants to make a decision on the following decision alternatives; A1, A2 and A3. He can only choose on the above named alternatives. The economic condition or states of nature of the alternatives are classified as E1, E2 and E3. The table below shows the output that can be obtained for each decision alternative.

Economic condition						
Alternatives	E1	E2	E3			
A1	50	55	15			
A2	80	40	8			
A3	63	50	3			

Required:

Determine the best decision alternative using:

- (i) Maximax criterion
 (ii) Maximin criterion
 (iii) Minimax regret criterion
 (5 marks)
- (b) Five percent of ten (10) Zambian truck drivers are women. Suppose that ten (10) truck drivers are selected randomly to be interviewed about quality of work condition, what is the probability that:
 - (i) Two (2) of the drivers will be women? (2 marks)

(ii) At le	ast one (1) of the	drivers w	will be a	woman?
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(iii) At most two (2) of the drivers will be women?

(3 marks) (3 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) A bank auditor selects eleven (11) checking accounts and records the amount in each of the accounts. The 10 observations are as follows:

235, 175, 300, 150, 195, 240, 275, 290, 250, 200

Required:

(i)	Calculate the mean number of computer monitors.	(2 marks)
(ii)	Determine the median number of the data.	(2 marks)
(iii)	Calculate the standard deviation.	(4 marks)

(b) A newspaper girl has the following probabilities of selling a magazine:

No. of copies sold	Probability
9	0.15
10	0.10
11	0.25
12	0.30
13	0.20
Total	1.00

The cost of a copy is K10 and sale price is K15. She cannot return unsold copies.

- (i) Construct a payoff table. (11 marks)
- (ii) Find the most profitable number of copies should she order. (1 mark)

[Total: 20 Marks]

QUESTION SIX

For a certain type of car, yearly repair costs in kwachas (Y) are approximately linearly related

to the age in years (X) of the car. The following data show these data for 10 cars:

Repair	1600	198	158	276	340	280	228	166	188	220
costs(Y)										
Age(X)	2	3	1	7	10	8	4	1	2	5

Required:

(a)	Plot the data on a scatter diagram.	(3 marks)
(b)	Determine the linear regression of Y on X and graph it.	(11 marks)
(c)	Estimate the repair costs of a 6-year old car.	(2 marks)
(d)	Calculate the coefficient of correlation r.	(4 marks)

[Total: 20 Marks]

END OF PAPER

DA 2: QUANTITATIVE ANALYSIS SUGGESTED SOLUTIONS

SOLUTION ONE

SOLUTION ONE

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

SOLUTION TWO

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

 $30000 = 20000\left(1 + \frac{r}{12}\right)^{12 \times 3}$
 $\frac{30000}{20000} = \left(1 + \frac{r}{12}\right)^{36}$
 $(1.5)^{\frac{1}{36}} = 1 + \frac{r}{12}$
 $\frac{r}{12} = 1.0113 - 1$
 $\frac{r}{12} = 0.0113$
 $r = 0.1356 = 13.56\%$

Since 13.56% is greater than 7% the project is profitable and worth doing 4 marks for working and 1 mark correct answer

(b) (i).
$$P(X < 30) = P\left(Z < \frac{30-20.5}{5}\right)$$

= $P(Z < 1.9)$
= $1 - 0.0287$
= 0.9713

(ii)
$$P(15 < X < 25.5) = P\left(\frac{15-20.5}{5}Z < \frac{25.5-20.5}{5}\right)$$

= $(-1.1 < Z < 1)$
 $1 - 0.1357 - 0.1587$
= 0.7056

(iii)
$$P\left(Z < \frac{X - 20.5}{5}\right) = 0.33$$

at probability of 0.33, Z=-0.44

$$\frac{X - 20.5}{5} = -0.44$$
$$X - 20.5 = -2.2$$
$$X = 18.3$$

SOLUTION THREE

(a) (i)
$$P(X \le 3) = P(0) + P(1) + P(2) + P(3)$$

= 0.2 + 0.09 + 0.3 + 0.25 = 0.84

(ii) $E(x) = \sum xP(x) = 0(0.2) + 1(0.09) + 2(0.3) + 3(0.25) + 4(0.16) = 2.08$

(iii) standard deviation

$$sd(x) = \sqrt{E(x^2) - [E(x)]^2}$$
$$E(x^2) = \sum x^2 P(x) = 0^2(0.2) + 1^2(0.09) + 2^2(0.3) + 3^2(0.25) + 4^2(0.16) = 6.1$$
$$sd(x) = \sqrt{E(x^2) - [E(x)]^2} = \sqrt{6.1 - (2.08)^2} = 1.33$$

(b) (i)
$$P(X = 6) = \frac{e^{-\mu}\mu^{x}}{x!} = \frac{e^{-5}5^{6}}{6!} = 0.1462$$

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

= $\frac{e^{-\mu}\mu^{x}}{x!} = \frac{e^{-5}5^{0}}{0!} + \frac{e^{-5}5^{1}}{1!} + \frac{e^{-5}5^{2}}{2!} + \frac{e^{-5}5^{3}}{3!}$
= 0.0067+0.0337+0.0842+0.1404 = 0.265

(iii)
$$P(X > 2) = 1 - P(X \le 2) = P(0) + P(1) + P(2)$$

= 1 - (0.0067+0.0337+0.0842)
= 0.8754

SOLUTION FOUR

(a)	(i)
(-·)	· · /

	Econon	Economic condition				
ALTERNATIVES	E1	E2	E3	MAXIMUM		
A1	50	55	15	55		
A2	80	40	8	80		
A3	63	50	3	63		

Under the Maximax criteria, A2 must be chosen

(ii)

	Economic o			
ALTERNATIVES	E1	E2	E3	MINIMUM
A1	50	55	15	15
A2	80	40	8	8
A3	63	50	3	3

Under the Maximin criteria, A1 must be chosen

(iii)

	Economic condition				
ALTERNATIVES	E1	E2	E3		
A1	50	55	15		
A2	80	40	8		
A3	63	50	3		
MAXIMUM	80	55	15		

	Economic			
ALTERNATIVES	E1	E2	E3	MAXIMUM
A1	30	0	0	30
A2	0	15	7	15
A3	17	5	12	17

Under the Minimax regret rule, A2 must be chosen

(b)
(i)
$$n = 10, p = 0.05 \text{ and } q = 0.95$$

 $P(X = x) = {n \choose x} p^x (1-p)^{n-x}$
 $P(X = 2) = {10 \choose 2} (0.05)^2 (0.95)^{10-2}$
 $= 0.0746$

(ii)
$$P(X \ge 1) = 1 - P(X < 1)$$

= $1 - P(X = 0)$
= $1 - {\binom{10}{0}} (0.05)^0 (0.95)^{10-0}$
= $1 - 0.5987$
= 0.4013

(iii)
$$P(X \le 2) = P(X = 0) + P(X = 1) + P(X = 2)$$

= 0.5987 + $\binom{10}{1}$ (0.05)¹ (0.95)¹⁰⁻¹ + 0.0746
= 0.5987 + 0.3151 + 0.0746
= 0.9884

QUESTION FIVE

(a)

(i) Mean:

$$\bar{X} = \frac{1}{n} \sum x = \frac{150 + 175 + 195 + 200 + 235 + 240 + 250 + 275 + 290 + 300}{10} = \frac{2310}{10} = 231$$

(ii) Median

150, 175, 195, 200, 235, 240, 250, 275, 290, 300

$$Md = \frac{235 + 240}{2} = 237.5$$

(iii) Standard deviation

$$S = \sqrt{\frac{\sum x^2 - f\bar{x}^2}{f - 1}}$$
$$S = \sqrt{\frac{556200 - 10(231)^2}{10 - 1}} = 50.1$$

(b) (i) We construct the payoff table using the following formula

Total Profit = Revenue - Cost

At order 9

Demand		profit
9	9(15) - 9(10) = 135 - 90	45
10	9(15) - 9(10) = 135 - 90	45
11	9(15) - 9(10) = 135 - 90	45
12	9(15) - 9(10) = 135 - 90	45
13	9(15) - 9(10) = 135 - 90	45

Etc.,

We get the following payoff

Possible	Probability	9 copies	10	11	12	13
demand	P(X)		copies	copies	copies	copies
(no. of						
copies)						
(x)						
9	0.15	45	35	25	15	5
10	0.10	45	50	40	30	20
11	0.25	45	50	55	45	35
12	0.30	45	50	55	60	50
13	0.20	45	50	55	60	65
Profit		45	47.75	49	46.5	40

The expected profit is calculated as $\sum xP(x)$, where X is the possible demand.

(ii) Therefore 11 copies at K49.00
SOLUTION SIX

(a) (i)



(ii) using a calculator, we get $\sum x^2 = 273$, $\sum y^2 = 3\ 057\ 628$, $\sum xy = 14\ 078$

$$\sum x = 43$$
, $\sum y = 3654$

$$a = 445.162,$$
 $b = -18.549$

 $\hat{y} = 445.162 - 18.549x$

(iii)

When
$$x = 6$$
, $\hat{y} = 333.866$,

(iv)

$$r = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{\left(\sum x^2 - \frac{(\sum x)^2}{n}\right)\left(\sum y^2 - \frac{(\sum y)^2}{n}\right)}}$$

$$\frac{1478 - \frac{43 \times 3654}{8}}{\sqrt{\left(273 - \frac{143^2}{8}\right)\left(3057628 - \frac{(3654)^2}{8}\right)}} = -0.133$$

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 18 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to carefully study the examination paper so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:

Section A: Ten (10) compulsory multiple choice questions.

Section B: Any two (2) of three (3) optional questions on Microeconomics.

Any two (2) of three (3) optional questions on Macroeconomics.

- 3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
- 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.
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- 8. Present legible and tidy work.

9. Graph paper (if required) is provided at the end of the answer booklet. DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 Which one of the following is not a good characteristic of good money?
 - A. Portability.
 - B. Profitability.
 - C. Durability.
 - D. Acceptability.

(2 marks)

- 1.2 The rules relating to the internal management of the company is contained in the.....
 - A. Memorandum of Association.
 - B. Business prospectus.
 - C. Articles of Association.
 - D. Business plan.

(2 marks)

- 1.3 Which of the following statements about short run costs of production is INCORRECT?
 - A. Marginal cost is equal to average variable cost when average variable cost is at a minimum.
 - B. Average fixed cost always falls as output rises.
 - C. Marginal cost cannot exceed average total cost.
 - D. Average total cost exceeds average variable cost by an amount that declines with increasing output.

(2 marks)

- 1.4 Which of the following is NOT an argument in support of use of barriers in international trade?
 - A. Infant industry.
 - B. Protect home employment.
 - C. Military self-sufficient.
 - D. Increase government revenue.

(2 marks)

1.5 Which of the following would happen if the Bank of Zambia (BOZ) sells 9-month Treasury Bills worth K2,000 million in the Open Market Operations (OMOs)?

A. The money supply increases, interest rates decrease, and investment increases.

B. The money supply decreases, interest rates increase, and investment increases.

C. The money supply decreases, interest rates increase, and investment decreases.

D. The money supply decreases, interest rates decrease, and investment increases.

(2 marks)

(2 marks)

- 1.6 Which of the following does NOT form part of a country's Gross Domestic Product?
 - A. Salaries of school teachers.
 - B. Net income from abroad.
 - C. Company profits.
 - D. Investment expenditure.
- 1.7 Which of the following is a fiscal policy that would increase Aggregate Demand?
 - A. A decrease in personal taxes.
 - B. A decrease in government spending.
 - C. A purchase of bonds by the central bank.
 - D. A sale of bonds by the central bank.

(2 marks)

- 1.8 When money supply increases in an economy, the value of money decreases and the price_____.
 - A. Decreases
 - B. Increases
 - C. Remains constant
 - D. None of the above

(2 marks)

- 1.9 Which of the following is NOT an assets of a commercial bank?
 - A. Cash.
 - B. Customer loans.
 - C. Customer deposits.
 - D. Loans to other banks.

(2 marks)

- 1.10 Voluntary unemployment occurs when:
 - A. A job is available but the worker has not yet found it.
 - B. The level of national income is at or above the economy's potential output.
 - C. A person is willing to accept a job at the going wage rate but cannot find one.
 - D. A worker is not willing to accept an available job at the going wage rate.

(2 marks) [Total: 20 Marks]

SECTION B

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

1. MICROECONOMICS

Attempt any TWO (2) questions out of the THREE (3) questions.

QUESTION TWO

- (a) Distinguish between Microeconomics and Macroeconomics supported by two (2) examples of topics studied under each category. (6 marks)
- (b) In discussing market equilibrium analysis, outline the meaning of:

(i)	Equilibrium price.	(2 marks)
(1)	Equilibrium price.	

- (ii) Equilibrium quantity. (2 marks)
- (c) Use supply and demand curves to illustrate how each of the following events would affect the equilibrium price and equilibrium quantity of a named good:
 - (i) A devastating flood that destroys the maize fields on mealie meal price.

(5 marks)

(ii) An increase in consumer income levels assuming an inferior good.

(5 marks)

[Total: 20 Marks]

QUESTION THREE

(a) State any three (3) characteristics of oligopoly type of market structure.

(6 marks)

- (b) Outline any four (4) causes of oligopoly type of market structure. (8 marks)
- (c) Describe any three (3) barriers to entry for oligopoly market structure.

(6marks) [Total: 20 Marks]

QUESTION FOUR

(a) The table below shows the quantity of good X with corresponding total variable cost and total cost produced at XYZ Industries:

Output per week(units)	Total variable cost(TVC)	Total cost(TC)	Marginal cost(MC)	Average variable costs(AVC)	Average total cost (ATC)
0	K 0	K300			
1	50	350			
2	90	390			
3	120	420			
4	400	450			
5	500	490			
6	600	540			

Required:

- (i) Complete the columns for Marginal Cost (MC), Average variable cost (AVC) and average total cost (ATC).(10 marks)
- (iii) State the two (2) formulae for calculating Average Total Costs (ATC).

(4 marks)

(b) Outline any three (3) advantages of partnership type of business. (6 marks)

[Total: 20 Marks]

2. MACROECONOMICS

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

QUESTION FIVE

(a) Outline any three (3) supply side policies that can be used to deal with unemployment.

(6 marks)

- (b) Explain how the Zambian government can use monetary and fiscal policies to control inflation. (6 marks)
- (c) In connection with international trade theory, explain the following concepts:

(i)	Absolute advantage theory.	(4 marks)
(ii)	Comparative advantage theory.	(4 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Distinguish between Nominal Gross Domestic Product and Real Gross Domestic Product. (6 marks)
- (b) List any two (2) limitations of using GDP as an index of welfare of a country.

(2 marks)

(b) Outline any three (3) reasons for computing national income data.

(3 marks)

- (d) Given the following data about an economy, C = 200 + 0.5 Y is the consumption function and Investment expenditure is 1,500. Calculate
 - (i) Equilibrium level of national income. (3 marks)
 - (ii) Total consumption expenditure at equilibrium level of national income.

(2 marks)

(e) Draw a hypothetical Keynesian Aggregate Expenditure model depicting AE=Y. (4 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Distinguish between Narrow Money and Broad Money. (4 marks)
- (b) Explain how net property income is accounted for when calculating Gross National Product (GNP) from Goss Domestic Product (GDP). (4 marks)
- (c) State the contents of the following Balance of Payments components:

		[Total: 20 Marks]
(iii)	Official reserves account.	(4 marks)
(ii)	Capital account.	(4 marks)
(i)	Current account.	(4 marks)

END OF PAPER

DA 3 BUSINESS ECONOMICS SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) Microeconomics is the part of economics concerned with such individual units within the economy. Examples of microeconomics topics include demand and supply for a good, costs of production, market structures, etc.
 Macroeconomics on the other hand is the part of economics concerned with the economy as a whole. Macroeconomic topics include inflation, national income accounting, unemployment, money supply, etc.
- (b) Equilibrium:
 - Equilibrium price is the price where the quantity demanded and quantity supplied are equal; where there is neither a shortage nor a surplus; and where there is no tendency for price to rise or fall
 - (ii) Equilibrium quantity is the quantity where there is no shortage or surplus of goods in a market.
- (c) Effect of changes
 - (i) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point E(Q,P). A devastating flood affects the supply of maize. This flood leads to shortage of maize used to produce mealie meal. This pushed the mealie meal prices upwards thereby shifting the supply curve of mealie meal to the left. The new equilibrium is $E_1(Q_1,P_1)$. At this point the equilibrium price has increased from P to P₁ while the equilibrium quantity has decreased from Q to Q₁ as shown below:



(ii) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point E(Q,P). For an inferior good, an increase in average income will result in people buying less of it thereby shifting the demand curve for good leftwards from D to D1. The new equilibrium is $E_1(Q_1,P_1)$. At this point the equilibrium price has decreased from P to P₁ and the equilibrium quantity has decreased from Q to Q₁ as shown below:



SOLUTION THREE

(a) The following are the characteristics of oligopoly:

- There are only a few large sellers who dominate the market
- The product may be homogenous or differentiated
- There is mutual interdependent of firms i.e. Each firm's profits will depend not only on its pricing strategy but also on that of its rivals.
- Each of the firm is a "price searcher". This arises from the fact that firms are interdependent.
- There are barriers to entry

(b) The causes of oligopoly include the following:

- Economies of scale: Technological improvements have real to the attainment of economies of scale in many industries. As technology improves and economies of scale become more pronounced less alert or less aggressive firms fell by the way side and few producers emerge. Note that economies are not as pronounced as in pure monopoly.
- Ownership of control of scarce resource: The ownership or control of basic raw materials explains the historical dominance such as entry barriers.
- Patents: In the electronics, chemicals, photographic equipment, office machine, and pharmaceuticals industries patents have served as entry barriers.
- Capital Investment: A closely related barrier is that capital investment required to enter certain industries – the cost of obtaining necessary plant and equipment- is so great as to discourage entry. The banking, construction, steel and automobile industries are all characterized by huge capital requirements. Prodigious advertising outlays may provide a financial barrier to entry.
- Government regulation: The government may limit the number of producers though it's licensing, they will be the only suppliers of a named product. For example, high minimum requirements that must be met before a firm is given a license to operate as a bank has been a major barrier to entry into the banking industry in Zambia.
- Mergers: Firm merges may also give rise to oligopoly. Combining two or more competing firms by merger may increase their market share substantiality, enabling the new and larger production unit to achieve greater economies of scale. Another motive underlying the "urge to merge" is market power. A firm that is a larger both absolutely and relative to the market may have power. A firm controls the market for and the price of its product than does a smaller, more competitive producer. Also the large size which merger entails may give the firm the advantage of being a 'big buyer' and permit it to demand and obtain lower prices (cost) from point input suppliers.

(c) Barriers to entry in oligopoly

- **Product differentiation**: an oligopolist can exploit his position as supplier of an established, unique product. This may act as a barrier to entry or new firms, as they would have to offer better products if they have to compete.
- **Economies of scale**: these exist where the long run average cost curve is downward sloping and where the minimum level of production needed to achieve the greatest economies of scale is is high. New firms may not have sufficient market share to enable them achieve economies of scale.
- **Legal barriers**: some companies maybe protected by law, e.g patents. This acts as a barrier for new entrants.
- **Absolute cost barriers**: there exist when an oligopolist has access to cheaper raw materials. This may give the firm an advantage over new entrants.

SOLUTION FOUR

(a) (i) The table is given below:

Output per week(units)	Total variable cost(TVC)	Total cost(TC)	Marginal cost(MC)	Average Variable costs(AVC)	Average total cost (ATC)
0	K0	K300	-	-	-
1	50	350	50	50.00	350.00
2	90	390	40	45.00	195.00
3	120	420	30	40.00	140.00
4	400	450	30	100.00	112.50
5	500	490	40	100.00	98.00
6	600	540	50	100.00	90.00

(ii) Average Total Cost is calculated using either of the following:

- ATC Average Fixed Cost + Average Variable Cost
- ATC = TC/Q

(b) Advantages of Partnership

- Business is easy to establish and startup costs are low
- More capital is available for the business since partners pool resources together
- Access to knowledge, skills and experience of each partner
- Less formal with fewer legal obligations
- Better decision making because partners can put their heads together.
- Division of labour is possible.

SOLUTION FIVE

(a) **Supply side policies**

- Improving the flexibility of the labour market. This can involve measures such as reducing the power of trade unions, which can make it easier for employers to hire and fire workers, and reducing the level of unemployment benefits, which can encourage people to look for work.
- Improving the skills and qualifications of the workforce. This can involve measures such as increasing spending on education and training, and providing incentives for people to gain new skills. These policies can help to reduce the level of structural unemployment, by ensuring that workers have the skills that employers need.
- Encouraging investment in new technologies and industries. This can involve measures such as providing tax incentives for research and development, and reducing regulations that can hinder innovation.

(b) The following are the approaches that government can use to control inflation:

- Restrictive or contractionary or tight monetary and fiscal policies, Monetary
 policies are about the control over interest rates, exchange rates, money
 supply and credit creation. To control inflation interest rates will be raised
 exchange rates controlled and increase in both money supply and credit
 creation by commercial banks will also be restricted. Fiscal policy is about
 government expenditure and taxation to control inflation the tax rates are
 raised and there is a cut in government expenditure. The total effect of
 these policies is to reduce the amount of money in circulation hence
 controlling inflation.
- (c) Theories of international trade:
 - (i) Absolute advantage: This is the ability of a country to produce a good using fewer resources than its trading partner. The country would then specialise in the good of its absolute advantage and export the excess to another country for beneficial trade
 - (ii) Comparative advantage: This is the ability of a country to produce a good at a lower opportunity cost than its trading partner. The country would then specialise in the good of its comparative advantage and export the excess.

SOLUTION SIX

(a)

Nominal GDP: this is GDP where changes in inflation are not taken into account. It is calculated using current prices or values.

Real GDP: this is GDP that takes into account changes in inflation. It is calculated using the base period prices or values

(b) Limitations of using GDP as an indicator

- GDP does not take into account changes in inequalities in the distribution of income. So welfare of the people may not rise as much as the rise in GDP.
- Change in prices: If increase in GDP is due to rise in prices and not due to increase in physical output then it will not be reliable index of economic welfare.
- Non-monetary exchanges: Many activities in an economy are not evaluated in monetary terms. For example- non-market transactions like services of housewife kitchen gardening leisure time activities etc. are not included in GDP due to non-availability of data.
- Externalities: Externalities refers to benefits or harms of an activity caused by a firm or an individual for which they are not paid or penalized.

(c) Reasons for measuring national income

- National income figures are an important tool of macroeconomic analysis and policy.
- National income estimates are the most comprehensive measures of aggregate economic activity in an economy.
- National income statistics are the most important tools for long-term and short-term economic planning.
- National income studies help us to compare the standards of living of people in different countries and of people living in the same country at different times.
- National income figures enable us to know the relative roles of public and private sectors in the economy.

(d)

(i) Equilibrium level of national income (Y)

At equilibrium, Y = C + I

Y = 200 + 0.5 Y + 1500

Y - 0.5 Y = 1,700

Y = 3400

(ii) Consumption expenditure at equilibrium level of national income. Putting value of national income of 3400 in consumption function, we get;

 $C = 200 + 0.5 \times 3400$

C = 1900

(e) Keynesian AE model



SOLUTION SEVEN

- (a) Narrow money (M1) is the most narrow definition of money. It includes notes and coins in circulation and demand deposits in local currency.
 Broad money (M2) is a broad definition of money. It includes Narrow Money plus demand deposits in foreign currency and time deposits in both local and foreign currency.
- (b) Net property income measures income earned in a given country in return for contribution to current production. To obtain GDP we have to add receipts by domestic citizens of dividends, interest and profits from assets which they own but which are located overseas, and subtract dividends, interest and profits earned on assets located in the domestic country but owned abroad
- (c) Balance of Payments components:
 - (i) Current Account: Exports of goods and services, imports of goods and services, unilateral transfers
 - (ii) Capital Account: Direct investment, portfolio investment, other investments
 - (iii) Official Reserves Account: Gold, foreign currencies, reserve positions at IMF

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 19 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:
 - Section A: Ten (10) compulsory multiple choice questions. Five (5) on Information Technology and five (5) on Communication.
 - Section B: There are three (3) questions on **Information Technology.** Attempt any two (2) questions.

There are also three (3) questions on **Communication.** Attempt any (2) questions.

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

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 is a key difference between off-the-shelf applications and written-fromscratch applications.
 - A. Customizability
 - B. Cost-effectiveness
 - C. Performance
 - D. Security

1.2 Pre-defined and built in formulas in excel are known as?

- A. Auto sheets
- B. Functions
- C. Charts
- D. Tables

(2 marks)

(2 marks)

- 1.3 Which of the term below is used to determine the printing speed of a printer?
 - A. MHz
 - B. Megabyte
 - C. Dots per inch
 - D. Pages Per second

(2 marks)

(2 marks)

- 1.4 Which of the following is **NOT** a type of data processing?
 - A. Online Processing
 - B. Transaction Processing
 - C. Multiprocessing
 - D. Batch processing

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1.5 The staff of Mwingijam Company has been illegally downloading software from the internet and changing it for their own benefits.

Which specific law below have been violated in relation to software?

- A. Copyright.
- B. Unauthorised access to a database.
- C. Trade secrets.
- D. Patents.

(2 marks)

- 1.6 What type of communication pattern does **<u>NOT</u>** involve information flowing in a linear direction from one point to another?
 - A. Circular.
 - B. Vertical.
 - C. Horizontal.
 - D. Diagonal.

(2 marks)

- 1.7 Which section of a report typically summarizes the main points and findings?
 - A. Introduction.
 - B. Conclusion.
 - C. Recommendations.
 - D. Executive summary.

(2 marks)

- 1.8 What is feedback?
 - A. Communication from subordinates only.
 - B. A reply to the sender by the receiver of information.
 - C. Communication from senior managers only.
 - D. Activities from all levels in the organization.

(2 marks)

- 1.9 Which of the following rarely makes use of the 7C's of communication?
 - A. Oral communication.
 - B. Written communication.
 - C. Non-verbal communication.
 - D. Both written and oral communication.

(2 marks)

- 1.10 Which of the following is a 6x6 rule concerning the use of PowerPoint presentations?
 - A. You can use as many special animations as possible.
 - B. Write in point form.
 - C. Include many graphics as possible.
 - D. Write notes for clarity purposes.

(2 marks) [Total: 20 Marks]

SECTION B

This section has TWO (2) parts:

1. INFORMATION TECHNOLOGY 2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

QUESTION TWO

(a) Computers have been part of our society in one way or another since the mid of 1940s. Today, computers have evolved well beyond that original model and even beyond personal laptops and office machines. Some even fit in our pockets with amazing processing power. Computers perform key tasks for most business sectors.

Explain three (3) types of computers. (6 marks)

(b) Lukundo Solutions is a financial institution with intentions to introduce an Accounting Information System (AIS) to produce various financial reports for decision making.

State with examples four (4) types of AIS you would find at Lukundo Solutions. (12 marks)

(c) Explain Area Networks (AN).

(2 marks) [Total: 20 Marks]

QUESTION THREE

(a) As an Accountant, your proficiency in spreadsheet is a must.

Consider the extract of an excel workbook below and answer the questions that follow:

	А	В	С	D	Е	F	G
1	ABX LIMITED						
2	EMPLOYEE PAYMENT SYSTEM						
3							
4	Name	Basic	Allowances	Gross	NAPSA	PAYE	Net pay

		Pay		Pay		
5	Julius					
	Mwiya	9,550	2,500			
6	Joulin					
	Lubeta	6,700	1,500			
7	Mwaka					
	Lunda	8,500	2,000			
8	Julie					
	Chibesa	4,500	1,500			
9	Lute					
	Mwakoi	3,500	2,000			
10	Vannessa					
	Phiri	12,300	2,500			
11	Lucas Chiti	11,200	2,500			
12						
13	NAPSA	5%				

Required:

- (i) Write down the formula for finding Gross Pay (2 marks)
- (ii) Using absolute referencing write the formula for calculating NAPSA (3 marks)
- (iii) Write down the formula for calculating Net pay (2 marks)
- (iv) Write the formula for calculating PAYE if the following bands are used:

Gross pay	tax	
Less than 5000	0%	
5001- 8000	20%	
8001 above	30%	(5 marks)

(b) Describe in detail the following **security controls** that would be put in place to mitigate data breaches occurring.

Required:

(i) Electronic signatures.(4 marks)(ii) Encryption.(4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) An Information System is a powerful tool that can bring many different functions together, by connecting systems components, it enables IT departments to

collect, store and process information in an efficient way and distribute it for a variety of purposes. The system can also produce reporting in different formats and to a variety of devices. Reports can include text files, spreadsheets, graphics and complex data visualizations.

Outline five (5) types of Information Systems found in an organisation stating the level of the hierarchy they are found. (10 marks)

- (b) Distinguish a web browser from a search engine. (4 marks)
- (c) Being a victim of cyber-crime can cost a business more than just the cost of repairs, it can also cost the customers as they will be regarded as not safe to deal with.

State three (3) ways the business can protect itself from computer crimes.

(6 marks) [Total: 20 Marks]

SECTION B

2. COMMUNICATION

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

QUESTION FIVE

Effective oral communication requires one to be a good speaker and listener, as well as being able to ask questions when one is not clear. Note taking is a skill which one can use to record information so that they can study it later. To do this, one needs to be a good listener.

Required:

- (a) Explain any five (5) strategies to follow for effective listening. (10 marks)
- (b) Outline any three (3) reasons people prefer making notes from a spoken source to just mere listening. (6 marks)
- (c) With examples, explain the following types of questions:
 - (i) Open questions. (2 marks)

(ii) Leading questions.

(2 marks)

[Total: 20 Marks]

QUESTION SIX

As an Accountant for Lusaka Coffee Ltd, you have been requested to verify financial statements for Chongwe Outgrowers, a firm you wish to acquire. You are told to organise a board meeting where you will discuss the merits of this possible acquisition.

Required:

	[Tota	l: 20 Marks]
(b)	Outline any four (4) functions of the secretary of the board meeting.	(8 marks)
(a)	Prepare a notice for the board meeting.	(12 marks)

QUESTION SEVEN

(a) Expla	in any three (3) ways to overcome barriers to effect	tive communication that
exist	in organizations.	(6 marks)
(b) Distir	auish between the followina:	
(i)	Informal and formal communication	(2 marks)
(ii)	Internal and external Communication	(2 marks)
(iii)	Vertical and diagonal communication	(2 marks)
(iv)	Interpersonal and intrapersonal communication	(2 marks)
(v)	Group and Mass communication	(2 marks)
(vi)	Lateral and written communication	(2 marks)
(vii)	Nonverbal and visual communication	(2 marks)
		[Total: 20 Marks]

END OF PAPER

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) **Types of computers**

- Micro-computers also recognised as a personal computer. They are small computers incorporating a microprocessor, central processing unit, memory, storage area, input unit and an output unit. It's a general purpose computer that is outlined per personal use. Such computers are made with minimum circuitry board. They are fit for personal work that may be making an assignment, at the office for office work., e.g. desktop, laptop, tablet, smartphone, etc.
- Mini-computers are comparatively smaller than mainframe computers and bigger than the micro-computer. These are multi-user computers with the connection of more than one CPU. The multiple users can work on these computers simultaneously and are used for billing, accounting and record management.
- Main-frame computers are used by large organisations to manage bulk data and multi-programming, high performance and multi-user computers. The storage capacity of the mainframe is enormous, with a high-speed data process as well. The main purpose of such a type of computer manages customer statistics and other data in a single device. They are mainly used in commercial organisations like banks, scientific research, etc.
- Super-computers are the biggest, fastest, powerful and most expensive type of computer for processing data type and are designed to process an immense amount of data and has thousands of interconnected processors. They are specifically used in scientific and engineering applications such as weather forecasting, climate & simulations research, etc where a high level of performance is required.

•

(b) Types of Accounting Information System:

- Financial accounting is the standard accounting used to provide information about an organisation's performance. Legal and generally accepted accounting principles guidelines are provided in the recording process. Internal control and auditing are part of this system
- Tax accounting ensures that the organisation is paying what is due or what it owes to the government in form of taxes. This applies to individuals, partnerships and corporations, estates and trusts, international taxation and special tax issues.

- Cost accounting includes product costing and activity –based costing, focuses on activities involved in production, the service process, the departmental units an organisation as well as other resources.
- Management accounting it is principally for the internal use of management of the business, specifically for planning, monitoring and decision making. Managerial accounting looks more at the future for planning and such as, is integrated with other disciplines.
- Payroll accounting rules established who is an employee, how long they can work for, minimum wages, when overtime is to be paid, what deductions are made, when to pay an employee and when taxes are paid. Lack of compliances with these laws and regulations can result in both fines and back-pay awards.

(c) Area networks (ANs) are a category of networks that connect devices within a specific

geographical area, ranging from a single building to multiple sites across different regions.

SOLUTION THREE

(a) As an Accountant, your proficiency in spreadsheet is a must.

Consider the extract of an excel workbook below and answer the questions that follow:

(i) = C5 + D5

(iii) =D5-(E5 + F5)

(iv) =IF(D5 > 8000, D5*30%, IF (D5 > 5000, D5*20%, D5))

(b)

(i) Electronic signatures

The electronic signature is a secure signature as opposed to the manual one. It ensures that a digital certificate is generated and attached to the digital document to protect it from data breaches. Documents sent online could be protected from unintended recipients by additionally using a public key and cryptograph technology. A digital representation of a person's intent to agree to or approve a document or transaction service as a legally binding alternative to a handwritten signature.

(ii) Encryption

The process of converting information or data into a code, especially to prevent unauthorised access. Data being transmitted on a communication link is susceptible from interception by hackers and other unauthorised individual in the process called eavesdropping. Through encryption the data is scrambled and only unscrambled when it reaches the destination.

SOLUTION FOUR

- (a) Outline the types of Information Systems found in an organisation stating the level of the hierarchy they are found.
 - Transaction Processing System is found at the operational level. It's essential to helping businesses perform daily operations. Transactions are defined as any activity or event that affects the company and include things like deposits, withdrawals, placing orders and it supports business transactions.
 - Knowledge Work System is found at the Knowledge level. It's a specialised system that expedites knowledge creation and ensures that the business's technical skills and knowledge are correctly applied. It aids workers in creating and disseminating new information using graphics, communication and document management tools.
 - Management Information System found at the Tactical level. Middle managers handle much of the administrative works for day-to-day routines and performance monitoring, ensuring that all the work is aligned with the organisation's need, decision-making,, planning and control the workflow.
 - Decision Support System found at the Tactical level. Its and interactive computer-based information system that helps managers to make decisions. It gives middle management the information necessary to make informed, intelligent decisions to analyse or summarise large pieces of data into an easyto-use form that makes it easier for managers to compare and analyse information in form of charts and tables.
 - Executive Support System found at the Executive level. It provides greater telecommunication, better computing capabilities and more efficient display options than the DSS. It's used to make effective decisions through summarised internal data taken from DSS and MIS and external sources. It also helps monitor performance, track competitors, spot opportunities and forecast on future trends.
- (b) A web browser is software application that allows users to access and view contents on the world wide web or that is used to access information from the internet. When the computer user requests for some information, the web

browser fetches the data from a web server and then displays the webpage on the user's screen.

- A search engine is a software that helps people find the information they are looking for online using keywords or phrases, e.g, google, yahoo, bing, etc. They provide hyperlinks to web pages and other relevant information on the web in response to a user.

(c) How business can be protected from computer crimes

- Make sure to install and update security software it should come equipped with anti-virus, anti-phishing, anti-spyware and intrusion prevention software to keep out malicious people and programs. The security software also should come with backup and restore ability so that the company can recover any information it might lose.
- Do not open unknown e-mails, visit unknown websites of click on suspicious links or attachments – if people are even slightly unsure about a link or attachment, they should not open it. It is not worth the risk to the business or customers.
- Create smart passwords All passwords should be at least eight characters long and should incorporate both letters and numbers. Use different passwords for each account and change them regularly. Do not share passwords or write them down where other people could access them.
- Encrypt your data Anytime you are storing important data, when the data is at rest, which means it is not being transmitted over any network it has to be encrypted.
- Secure your hardware For criminals who are scared off by security alarms and motion detectors, physically locking down computers makes their job tougher.
- Educate employees The biggest risk to the security of a business cyber security. Implement regular training sessions for employees so that they become familiar with security measures they can take.

 Create a contingency plan – the company should have a contingency plan prepared in case the business becomes the victim of a cyber-attack.

SOLUTION FIVE

- (a) Strategies to follow when listening
 - Prepare to listen
 - Avoid distractions
 - Ask for clarification if needed
 - Avoid prejudgment
 - Resist the temptation of finishing sentences (for the speaker)
 - Make eye contact
 - Any other suitable answer
- (b) Reason people prefer taking notes to just mere listening
 - To have a record of the discussion
 - To record questions for clarification
 - To seek further details later on.
 - To have a record for future reference
 - To stay active and engaged during a discussion
 - To make it easy to remember the contents under discussion
 - To understand what you are learning and clarify your thinking
 - It increases creativity
- (c) Types of questioning
 - (i) Open questions- Require longer responses and tend to open up discussions/ conversations e.g How do you think we can improve our sales?
 - (ii) Leading questions- These suggest the expected answer e.g Tell me about your relationship with your supervisor.
SOLUTION SIX

(a) Notice

Lusaka Coffee LTD NOTICE

Acquisition of Chongwe Outgrowers

In light of recent developments and strategic considerations, a crucial meeting has been scheduled to discuss the potential acquisition of Chongwe Outgrowers. This meeting aims to gather insights, assess opportunities, and formulate a comprehensive strategy for the potential acquisition.

Date: 29th April, 2024

Time: 09:00 hours

Venue: Taj Pamodzi Hotel, Conference Hall

Attendance is mandatory for all relevant team members. Your input and expertise are crucial to the success of this strategic initiative. Please come prepared with any insights or information that may contribute to the discussion. Should you have any questions or concerns before the meeting, please feel free to contact Lusaka Coffee LTD at <u>lusakacoffee@gmail.com</u> or 09.

Your cooperation and active participation are highly valued.

Thank you.

M. M Maya Malesu

Accounts Officer

23rd April, 2024

(b) Functions of secretary of board meeting

- Ensure relevant documents are distributed
- Take notes during the meeting
- Ensure the agenda is followed
- Clarify and summarise points
- Receive apologies

SOLUTION SEVEN

(a) Ways to overcome barriers to effective communication are:

- Use Language
- Using the right of medium of communication that suits the sender and the recipient's needs.
- Provide enough information for the receiver to understand the message
- Avoid noise places or move to a quiet place
- Concentrate on the subject under discussion

(b) Distinctions between the two

- (i) Formal communication is official while informal is not official.
- (ii) Vertical communication consists of upward and downward communication while diagonal communication cuts across several levels of the hierarchy in the organisation.
- (iii) Internal communication takes place within an organization while external communication takes place between the organization and other stake holders such as suppliers, government entities and many more.
- (iv) Interpersonal communication takes place between two individuals while intrapersonal communication takes place within an individual.
- (v) Group communication is the interactive process that occurs among three or more people of reasonable number to achieve a certain purpose; communication is usually a two-way process while mass communication takes place among a large number of people, in most cases communication tends to be one way and is facilitated by media such as radio, newspaper, TV and now online publications.
- (vi) Lateral is the type of communication that takes place among employees at the same level within the organization, while written communication is a form in which information can be communicated and this done by writing.
- (vii) Nonverbal communication is communication a form in which information is conveyed and this is without any use of words such as facial expressions and gestures, while visual communication is the art of conveying information and ideas using visual elements like images, graphics, symbols and designs. The key aspects of visual communication involve diagrams, graphs and charts and other visual aspects to communicate making communication more engaging and memorable.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

TUESDAY 18 MARCH 2025

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

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

SECTION A – Multiple Choice

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

QUESTION ONE

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

- 1.1 Which one of the following statements is NOT correct regarding business transactions that will appear in the financial accounts but not in the cost accounts?
 - A. Purchases of raw materials used in the production of products by a manufacturing business.
 - B. Financial charges such as interest on loans, share issue expenses, losses on sale of non-current assets and similar financial transactions.
 - C. Financial income such as dividends received, interest received on loans and term deposits and profits from sale of non-current assets.
 - D. Appropriations of profits such as dividends paid, transfers to reserves and taxation.

(2 marks)

1.2 Kalahari has the following budgeted and actual data:

Budgeted fixed production overheads	K200,000
Budgeted production (units)	40,000
Actual fixed production overheads	K220,000
Actual production (units)	39,000

The fixed production overhead volume total variance is ...

- A. K1,000 adverse
- B. K5,000 adverse
- C. K20,000 adverse
- D. K35,000 adverse

(2 marks)

1.3 During a period 2,800 units of a product were produced and sold at K20 per unit. Total production costs were K35,000. Arising from the main production process 120 units of a by-product were produced and sold at K16. Special packing and distribution costs of K4.40 per unit were incurred for the by-product.

What were the net production costs and gross profit for the period?

	Net Production Costs	Gross Profit
A.	K56,000	K21,000
В.	K33,608	K22,392
C.	K35,000	K22,392
D.	K33,608	K21,000

(2 marks)

1.4 Martinez manufactures a single product. The budgeted selling price and variable cost details are as follows:

	K
Selling price	150
Variable costs per unit:	
Direct materials	35
Direct labour	40
Variable overhead	20

Budgeted fixed production overhead costs are K600,000 per annum charged at a constant rate each month. Budgeted production is 45,000 units per annum. The full absorption cost per unit is

- A. K108.33
- B. K41.69
- C. K95.00
- D. K55.00

(2 marks)

1.5 Kalulushi absorbs overheads on the basis of direct labour hours. The overhead absorption rate for the period has been based on budgeted overheads of

K1,500,000 and 50,000 direct labour hours. During the period, overheads of K1,800,000 were incurred and 60,000 direct labour hours were worked.

Which of the following statements is correct?

- A. Overheads were K300,000 over-absorbed.
- B. Overheads were K300,000 under-absorbed.
- C. No under or over-absorption occurred.
- D. None of the above.

(2 marks)

- 1.6 Which of the following is NOT a typical reason for labour turnover?
 - A. Redundancy.
 - B. Dissatisfaction over prospects, pay, hours and other conditions of service.
 - C. Health issues.
 - D. Increase in sales.

(2 marks)

- 1.7 Which one of the following describes the weighted average method of inventory valuation which is required for the determination of the cost of issues and closing inventory?
 - A. The issue price is recalculated after each receipt taking into consideration of both quantities and total value.
 - B. The price of charging out issues is at the buying in price on the day of issue and inventory count.
 - C. Issues are charged out at the price of the most recent batch received and continue to be charged thus until a new batch is received.
 - D. Issues are priced at the price of the oldest batch in inventory until all units of the batch have been issued when the price of the next oldest is used

(2 marks)

- 1.8 A cost which varies with a measure of activity is...
 - A. Fixed costs.
 - B. Semi-variable costs.
 - C. Administration costs.
 - D. Variable costs.

- 1.9 The process of grouping costs according to their common characteristics such as nature or purpose is known as
 - A. Cost coding.
 - B. Cost classification.
 - C. Cost apportionment.
 - D. Cost centre.

(2 marks)

- 1.10 Which of the following is a *best* description of a cost?
 - A. A unit of product or service in relation to which costs are ascertained.
 - B. The amount of expenditure incurred on or attributable to a specific object or activity.
 - C. The total of all direct costs.
 - D. A production or service location, function, activity or item of equipment for which costs are accumulated

(2 marks) [Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions in this section.

QUESTION TWO

(a) Kate Ltd manufactures a single type of fruit blender at its factories in Lusaka and estimated costs for the next quarter period are:

	Per unit (K)
Selling price	3,840
Variable costs:	
Direct materials	1,280
Direct labour	640
Production overhead	320
Selling overhead	160

Production and sales will be 18,000 units and there was no inventory at the beginning but output increased by 6,000 units during the quarter.

Fixed costs for the quarter:

	K
Production overhead	9,216,000
Selling and distribution overhead	3,840,000
Administration	4,960,000

The company absorbs fixed production overhead using a cost unit rate derived from annual budgeted volume.

Required:

(b)

(i)	Calculate an overhead absorption rate	(2 marks)
(ii)	Calculate the full production cost per unit	(3 marks)
(iii)	Calculate marginal cost per unit	(2 marks)
(iv)	Calculate the contribution per unit	(2 marks)
(v)	Prepare a profit statement using the principles of marginal cos	ting for the
	quarter	(7 marks)
Explai	n Two (2) differences between cost and financial accounting.	

(4 marks)

[Total: 20 Marks]

QUESTION THREE

Bupe Mutale manufactures a special product, with a standard cost of K80 made up as follows:

Κ

Direct materials	15 sq meters @ K3 per sq meter	45.00	
Direct Labour	5 hours @ K4 per hour		20.00
Variable Overheads	5 hours @ K2 per hour		10.00
Fixed Overheads	5 hours @ K1 per hour		5.00
		80.00	

• The standard selling price of the product is K100.

• The monthly budget projects production and sales of 1,000 units.

Actual figures for the month of July are as follows:

- Sales 1,200 units at K102 each
- Production 1,400 units
- Direct Material 22,000 sq. meters @ K4 per sq. meter
- Direct wages 6,800 hours at K5 per hour
- Variable overheads K11,000
- Fixed overheads K6,000

Required:

(a) Calculate the following variances.

(i) Material price and usage variances.

(4 marks)

(ii) Labour rate and efficiency variances.

(4 marks)

(iii)Variable overhead expenditure and efficiency variances.

(4 marks)

(iv)Fixed overhead expenditure and volume variances.

(4 marks)

(b) Prepare the cost reconciliation statement for the period. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Inventory is basically goods and materials that a business holds for the ultimate goal of resale, production or utilization in the near future. Inventory could be in the form of raw materials, work in progress and finished goods.

Required:

State two (2) reasons actual inventory counted may be different from the balance in the inventory records. (2 marks)

(b) The following transactions have been recorded at the stores of KK Musonda Ltd for the month of January 2023 relating to material B.

Date	Receipts	Issues
2/01/2023	1,000 units at K40 per unit	
5/01/2023	600 units at K45 per unit	
10/01/2023		800 units
11/01/2023		150 units
20/01/2023	1,200 units at K42 per unit	
25/01/2023		850 units
30/01/2023	900 units at K48 per unit	

Required:

Prepare a statement clearly showing the closing balances at the end of each transaction using the following valuation methods:

(i) First-in-First-out method (FIFO)	(6 marks)
(ii) Last-in-first-out method (LIFO)	(6 marks)
(iii)Cumulative Weighted Average Cost (AVCO)	(6 marks)

[Total: 20 Marks]

Note: the unit price to be rounded off to the nearest whole number.

QUESTION FIVE

-

Mandondo Ltd is a company that is involved in the manufacturing of building equipment. It has three (3) production departments and a service department and has produced the following budgeted cost of production for the year ended 31 December:

		ĸ	ĸ
Production cost	Direct materials	480,000	
	Carriage inwards	20,000	
	Direct wages	<u>400,000</u>	900,000
Indirect wages	Machining department	16,000	
	Assembly department	24,000	
	Paint shop	36,600	
	General service departme	ent <u>13,400</u>	90,000
Other costs	Consumable stores	64,000	
	Rent	42,000	
	Light and heat	28,000	
	Power	72,000	
	Depreciation	160,000	
	Insurance – Machinery	4,000	<u>370,000</u>
			<u>1,360,000</u>

The following is a set of data relating to the physical and performance aspects of the company:

Department	Machining	Assembly	Paint	Shop Servi	ice
Area m ²	30,000	45,00	0	40,00	0
25,000					
Book value of plant	280,000	360,000	20,000)	
140,000					
Stores requisitions	180	120	100	-	
Effective horse power	160	200	10	30	
Labour hours	100,000	80,000		220,000	-
Direct labour cost (K)	100,00	0 120,0	00	180,000	-
Machine hours	70,000	90,00	0	10,00	0

The service department costs are apportioned to the production departments on the basis of stores requisitions.

The company received an order to undertake a special job for a construction firm that is engaged by the Ministry of Local Government. The direct materials and labour costs related to the special job are K325,500 and K208,550, respectively. One of the critical

tools the company uses in its production process recently got damaged and the company decided to hire it from somewhere else at a cost of K50,600. Direct labour hours and machine hours amounted to 170 hours and 95 hours, respectively. Selling, distribution and administration overheads amounted to about K225,450 for this special job. It is company policy to add 15% mark-up on total costs of the job.

Required:

- (a) Prepare an overhead analysis sheet for the departments, showing clearly the basis of apportionment. (11 marks)
- (b) Calculate overhead absorption rates for each production department. (3 marks)
- (c) Calculate the selling price of the special job

(6 marks) [Total: 20 Marks]

(2 marks)

QUESTION SIX

You work for TLC as a Cost Accountant. You just returned from the workshop where different remuneration systems and other labour matters were explained. You have been requested to share the knowledge with colleagues in the department.

(a) Explain the following remuneration systems

(i)	Piece work system	(2 marks)
(ii)	Guaranteed piece work system	(2 marks)
(iii)	Differential piece work system	(2 marks)
(iv)	Hourly pay system	(2 marks)

- (b) (i) What is labour turn over.
 - (ii) List two (2) avoidable and two (2) unavoidable causes of labour turn over. (2 marks)
 - (iii) Explain the two (2) costs associated with labour turn over giving two (2) examples of each. (6 marks)
- (c) GUP uses a differential piecework system in which output up to 1,000 units is paid at K120 per unit and output above 1,000 units is paid at K200 per unit. The premium rate only apply to additional units over the previous threshold.

Calculate the total wages if output is 2,500 units. (2 marks)

[Total: 20 Marks]

END OF PAPER

DA 5: COST ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i)	OAR = <u>Budgeted Production Overhead</u> Budgeted output = K9,216,000/18,000 units = K512 per unit			
(ii)	Full production cost per unit		14	
	Direct materials Direct labour Prime Cost Variable production overhead Fixed production overhead		K 1,280 <u>640</u> 1,920 320	<u> 512</u>
(iii)	Marginal production cost per unit		<u> </u>	
	Direct materials Direct labour Variable production costs		K 1,280 640 <u>320</u> 2,240	
(iv)	Contribution per unit Selling price per unit Less variable costs (2,240 + 160)		<u>1,440</u>	K 3,840 (<u>2,400)</u>
(v)	Profit statement using Marginal Costing Princip	les		
	Sales revenue (18,000 units x K3,840) Opening inventory	K′000 -		K′000 69,120
	Marginal production costs (24,000 units x K2,2 Less closing inventory	40) (<u>13,44</u> 40 32	53,760 <u>0)</u> 0)
	Add :Selling & Distribution overheads	2,88	0	
	Contribution Less: Fixed Costs			25,920
	Production Overheads Administration Overheads Selling & Distribution Overhead	4,960 <u>3,840</u>	9,216	<u>(18,016)</u>
	Profit			7,904

- (b) Two differences between cost and financial accounting include the Following:
 - (i) Cost accounting is the preparation of financial reports for internal use whilst financial accounting is the preparation of financial reports for external use.
 - (ii) It is not a legal requirement to prepare cost accounts but it is a legal requirement to prepare financial accounts.
 - (iii) The format of preparing cost accounts is not based on special formats whilst formats are followed in the preparation of financial reports.

SOLUTION THREE

(a) (i) <u>M</u> 22 Bi Va ()	<u>aterial price variance</u> 2,000 sq. metres should have cost 2 ut did cost ariance A)	X K3 per sq metre X K4 per sq metre	H = 66,00 = <u>88,00</u>	<)0 <u>)0</u> 22,000
<u>М</u> 1, Ві	<u>aterial usage variance</u> ,400 units should have used X 15 so ut did use	q. metres	=	21,000 22,000 1,000
(A St Va	A) td price per unit ariance		<u>)</u> <u>K</u>	<u>(K3</u> 3,000 (A)
(ii) <u>L</u> 6, Bi Va	<u>abour rate variance</u> ,800 hours should have cost x K4 p ut did cost x K5 p ariance	er hour er hour	K = 	27,200 <u>34,000</u> 5,800 (A)
<u>La</u> 1, bo Bo <u>ho</u> Va St Va	abour Efficiency variance ,400 units should have taken x 5 ho ours ut did take <u>ours</u> ariance in hours td rate per hour ariance	ours	= = 200 h X	7,000 <u>6,800</u> ours (F) <u>K4</u> <u>K800 (F)</u>
(iii) <u>Va</u> 6, Bi Va (I	ariable overhead expenditure variar ,800 hours should have cost x K2 p ut did cost ariance E)	<u>ıce</u> er hour	K =	13,600 = <u>11,000</u> 2,600
<u>Va</u> 1, ho Bi ho	ariable overhead efficiency variance ,400 units should have taken x 5 ho ours ut did take ours	<u>2</u> ours	=	7,000 <u>6,800</u>

Variance				200 hours
(F) Std rate per bour				v V2
Varianco				<u>X NZ</u>
Valiance				<u></u>
(iv) <u>Fixed overhead ex</u> Budgeted fixed co But did cost Variance (A)	<u>(penditure vai</u> osts(1,000 uni	<u>riance</u> tst X K5 per unit)		K = 5,000 = <u>6,000</u> <u>1,000</u>
Fixed overhead vo	olume varianc	<u>e</u>		
Budgeted product	ion units			= 1,000
units				
Actual production	units			= <u>1,400</u>
<u>units</u> Varianco				400
units (F)				-00
Std cost per unit				X K5
Variance				K2,000
<u>(F)</u>				
(b) <u>Reconciliation sta</u>	tement_			К
Budgeted cost (K	30 X 1,400 un	its)		112,000
		F	А	
Cost variances		К	K	
Material price		-	22,000	
Material usage		-	3,000	
Labour rate		-	6,800	
Labour efficiency	10	800	-	
Variable On Exper	nditure	2,600	-	
	ency	400	-	
Fixed On Expendi Fixed Oh Volume	luie	- 2 000	1,000	
		<u>5,800</u>	<u>32,800</u>	<u>27,000</u>
<u>(A)</u>				
Actual Cost				<u>139,000</u>

SOLUTION FOUR

(a) Causes of discrepancies in closing inventory

- Theft by staff
- Evaporation in the case of liquids and gas
- Error in counting
- Wrong classification/coding

(b) (i) statement of inventory movement (FIFO)

Date	Details	Receipts		Issued		Balance	9
		Units Price va	alue	Units Pri	ce value	Units	value
2/01/2023	Purchase	1,000 K40 4	40,000			1,000	40,000
5/01/2023	Purchase	600 K45 2	27,000			600	27,000
						1,600	67,000
10/01/2023	Issues			800 40	32,000	(800)	(32,000)
						800	35,000
11/01/2023	Issues			150 40	6,000	(150)	(6,000)
						650	29,000
20/01/2023	Purchase	1,200 K42 5	0,400			1,200	50,400
						1,850	79,400
25/01/2023	Issues			50 40	2,000		
				600 45	27,000		
				200 42	8,400		(27.400)
						(850)	(37,400)
						1,000	42,000
30/01/2023	Purchases	900 48 43	3,200			900	43,200
	Closing					1900	85,200

(ii) statement of inventory movement (LIFO)

Date	Details	Receipts	Issued	Balance
		Units price value	Units price value	Units Value
2/01/2023	Purchase	1,000 K40 40,000		1,000 40,000
5/01/2023	Purchase	600 K45 27,000		600 27,000
				1,600
				67,000
10/01/2023	Issues		600 45 27,000	
			200 40 8,000	
				(800)
				(35,000)
				800 32,000
11/01/2023	Issues		150 40 6,000	(150) (6,000)

						650	26,000
20/01/2023	Purchases	1,200 K42	50,400			1,200	50,400
						1,850	
						76,400)
25/01/2023	Issues			850 42	35,700	(850)	(35,700)
						1 000	40 700
						1,000	40,700
30/01/2023	Purchases	900 48	43,200			900	43,200
	Closing					190	00
							83,900

(iii) Statement of inventory movement (AVCO)

Date	Details	Receipts		Issued		Balance	
		Units Price	value	Units pr	ice value	Units	value
2/01/2023	Purchase	1,000 K40	40,000			1,000	
						40,000	
5/01/2023	Purchase	600 K45	27,000			600	
						27,000	
						1,600	
						67,000	
10/01/2023	Issues			800 42	33,600	(800)	
						(33,600)
						800	
						33,400	
11/01/2023	Issues			150 42	6,300	(150)	
						(6,300)	
						650	
						27,100	1
20/01/2023	Purchases	1,200 K42	50,400			1,200	
						50,400	
						1,850	
						77,500	1
25/01/2023	Issues			850 42	35,700	(850)	
						(35,700)
						1,000	
						41,800	
30/01/2023	Purchases	900 48 4	43,200			900	
	Closing					43,200	
	_					1900	
						85,000	
1	1	1		1		-	

SOLUTION FIVE

(a) Overhead Analysis Sheet

Item	Basis of Apportionment	Machining	Assembly	Paint Shop	Service Dept	Total
		K′000	K′000	K′000	K′000	K′000
Indirect Wages	Actual	16,000	24,000	36,600	13,400	90,000
Consumable s Stores	Stores Requisitions	28,800	19,200	16,000	-	64,000
Rent	Area m ²	9,000	13,500	12,000	7,500	42,000
Light & Heat	Area m ²	6,000	9,000	8,000	5,000	28,000
Power	Horse Power	28,800	36,000	1,800	5,400	72,000
Depreciatio n	BV of plant	56,000	72,000	4,000	28,000	160,000
Insurance	BV of plant	1,400	1,800	100	700	4,000
		146,000	175,500	78,500	60,000	460,000
Service Costs	Stores Requisitions	27,000	18,000	15,000	(60,000)	-
Total		173,000	193,500	93,500	-	460,000

(b) Calculation of Overhead of Absorption Rates

Machining Department = K173,000/100,000 labour hours = K1.73 per labour

hour

Assembly Department = K193,500/90,000 machine hours = K2.15 per machine

hour

Paint Shop = K93,500/220,000 labour hours = K0.425 per labour hour

(c) Calculation of Selling Price for the special job

5 1 5	К
Direct Materials	325,500
Direct Labour	208,550
Direct Expenses	<u>50,600</u>
Prime Costs	584,650
Production Overheads:	
Machining Dept (170 labour hours @K1.73)	294.10
Assembly Dept (95 machine hour @K2,15)	204.25
Paint Shop (170 labour @ K0.425)	72.25
	585,220.60
Administration Overheads	<u>225,450</u>

	810,670.60
Profit	121,600.59
Selling price	932,271.19

SOLUTION SIX

- (a) Remuneration systems
 - (i) It is a system in which works are paid based on output (units).it is calculated as basic pay per unit multiplied by number of units produced.
 - (ii) It is a system where workers are paid based on their output with a fixed minimum payment that will be paid if the employee has produced few units for reasons of not their own.
 - (iii) It is a system of payment that is incremental in situations of increased production. An employee will be paid more for an extra unit produced.
 - (iv) It is also called the basic pay system. An employee is paid based on the hours worked.

(b)

(i) Labour turnover is the rate at which employees leave an organization and are being replaced.

Avoidable		Unavoidable	
•	Poor	•	relocation
	management		
•	Lack of growth	•	retirement
	opportunities		
•	Low wages	•	Health issues

(ii) Avoidable causes & unavoidable causes

(iii) **Preventative costs**

- Cost of medical services
- Cost of administrations (making good relationships)
- Cost of paying high salaries

Replacement cost

- Training costs of new employees
- Costs of selection and placements
- Inefficiency of new employees

(c) Calculation of total wages:

	120.000
First 1,000 units (*K120)	120,000
Next 1,500 units (K200)	<u>300,000</u>
Total wages	<u>420,000</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 21 MARCH 2025

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

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

SECTION A- (COMPULSORY)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 The effect of ratification of a contract by the principal is?
 - A. The principal may sue or be sued by the third party.
 - B. The agent may sue or be sued by the third party.
 - C. The agent is liable for exceeding his authority.
 - D. The principal must not pay the agent his remuneration.

(2 marks)

- 1.2 Which of the following defines an invitation to treat?
 - A. An offer made to the Public.
 - B. An invitation to receive offers from the public.
 - C. An offer to sell.
 - D. All of the above.

(2 marks)

- 1.3 The definition of a contract of Sale has been defined differently by so many scholars, which one of the following is the most acceptable one:
 - A. The purchaser makes the contract with the vendor, even if the vendor still has something to do to put the goods into a deliverable state.
 - B. The purchaser notifies the vendor he is ready to receive delivery.
 - C. The Seller transfers or agrees to transfer the property in the goods to the buyer for a money consideration called the price.
 - D. Passing of property has occurred.

(2 marks)

- 1.4 Which one (1) of the following is not a vitiating factor?
 - A. Mistake.

- B. Frustration.
- C. Misrepresentation.
- D. Undue influence.

(2 marks)

- 1.5 This remedy requires payment of a reasonable amount to cover work done, even though there was no agreed upon sum or the work is less than what was contracted for:
 - A. Specific performance.
 - B. Injunction.
 - C. Rescission.
 - D. Quantum meruit.

- 1.6 Which of the following is not true about limited companies?
 - A. They have legal capacity to enter into contracts.
 - B. They have directors as its agents.
 - C. They are not exempt from tax.
 - D. They do not need court orders to alter their share capital.

(2 marks)

- 1.7 Which of the following is not true about Partnerships?
 - A. They are regulated by the law.
 - B. Law firms do not qualify as Partnership.
 - C. Limited liability partnership has partners as agents of the form.
 - D. All of the above.

(2 marks)

1.8 A lien on the goods is?

97

- A. Right to retain the goods so long as they are in the seller's possession.
- B. Right to rebuy the goods in case not paid for.
- C. Right to stoppage in transit.
- D. Right to resale in certain circumstances.

(2 marks)

- 1.9 In a strict liability tort, it is necessary to prove that:
 - A. The other person intended to do the specific act.
 - B. The other person intended to do the specific act and, in some cases, that the person intended harm.
 - C. A reasonable person would not have acted that way.
 - D. The specific act occurred.

(2 marks)

- 1.10 Which one (1) is true about customary law as a source of Law?
 - A. It is judge made.
 - B. It is based on indigenous practices of citizens.
 - C. Customs and International customary law are the same.
 - D. The Parliament must approve it.

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section. Attempt any four (4) questions <u>QUESTION TWO</u>

- (a) A couple was married in Lusaka six (6) months ago. When they were getting married, the groom's father and the bride's father promised to buy the couple a house two (2) months after their wedding. Unfortunately, the groom's father passed away and the groom intends to sue his executrix. Analyse this situation and advise what is the likely outcome of the case. (12 marks)
- (b) State the four (4) main duties of an employer towards his employee and four (4) duties of an employee towards his employer in employment law. (8 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) A Constitution is defined as a document which is used to govern the people, and by which the people have agreed to be governed. The constitution of Zambia Act No.2 of 2016 is known as the supreme law of the land. With the aid of case law, explain why the Constitution is known as the supreme law of the land. (10 marks)
- (b) Sabina and Wanzi went out on a date at the famous Chicago Restaurant at East Park Mall in Lusaka. They ordered a pizza and before they could take their sumptuous meal, they realised that there was a fly on their plate. They also happened to be law students, and now started a heated debate on the course of action to take against the restaurant.

Required:

With the aid of case law, advise them as to how liability will arise in this case.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) In the law of agency, explain the circumstances under which a principal be may bound by a contract entered into by an agent on his behalf without his express authority. Support your answer with case law. (10 marks)
- (b) Distinguish between a contract of service and a contract for services, and why this distinction is important. Support your answer with case law. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) With reference to intention to create legal relations as an element of a contract, distinguish between commercial and domestic agreements. (15 marks)
- (b) Define a contract of sale.

(5 marks) [Total: 20 Marks]

QUESTION SIX

- (a) Explain your understanding of any five (5) provisions of the Sale of Goods Act 1893 as they relate to a contract of sale of goods. (10 marks)
- (b) Loreen has been running a sole proprietorship business for the past four (4) years. As he was discussing with a colleague one day, she discovered that a partnership business can benefit her more than a sole proprietorship. She now approaches you to advise her on the elements of a partnership.

Required:

Explain to her any two (2) essential elements of a partnership business. (10 marks)

[Total: 20 Marks]

END OF PAPER

DA 6: BUSINESS LAW SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) A contract is a legally binding agreement where one makes an offer and the other accepts unconditionally. There are four main elements of a contract are offer; acceptance, consideration and intention to create legal relations. A contract only bind parties to it according to the doctrine of privity. In the case of **Tweddle v Atkinson**, **(1861) 1 B&S 393.**

Facts

The son and daughter of the parties involved in this dispute were getting married. As such, the father of the groom and father of the bride entered into an agreement that they would both pay sums of money to the couple. Unfortunately, the father of the bride died before he paid the money to the couple and the father of the son died before he could sue on the agreement between the parties. As a result of this, the groom brought a claim against the executor of the will for the payment that was previously agreed between the fathers.

Issue

The primary issue for the court was whether or not the son could, as a third party to the agreement, enforce the contract between the fathers, which was ultimately for the benefit of him and his wife. It was argued that the intention of the agreement between the fathers was for the couple to derive a benefit from the payment of the money. Moreover, it was argued that preventing the son from being able to enforce the contract would effectively ignore the intention of the fathers.

Outcome / Decision

The groom's claim was rejected by the court. It was held that the groom was not a part of the agreement between the fathers and he did not provide any consideration for the promise made by the father of the bride. Also, as a stranger to the contract, the son could not enforce it. On this basis, the court found in favour for the executor of the will.

In the same way as in the current case, the groom will not succeed.

- (b) Employers duty towards employees:
 - (i) Duty to pay wages
 - (ii) Duty to exercise reasonable care towards employees
 - (iii) Duty to provide grievance procedure
 - (iv) Duty of mutual trust and confidence towards employees.

Employees duty towards employers:

- (i) Duty to obey instructions
- (ii) Duty to adapt to working conditions stipulated by employer
- (iii) Duty to exercise due care when performing employment duties
- (iv) Duty of good faith in executing employment duties.

SOLUTION THREE

(a) The Constitution is the primary source of all laws in the country. It provides for the three institutions of government and confers on them the functions they are to perform in the governance of the country and how they are to perform the function conferred by the constitution. The Constitution asserts its supremacy over all other laws made by other institutions in the country in article (1(3) this constitution is the supreme law of the land and should any other law be inconsistent to this constitution, that other law should be declared null and void to the extent of the inconsistency). **Christine Mulundika and 7 Others (1996)** is instructive on the relationship of the constitution and other laws passed by parliament. In the case, the High Court held the provisions of the Public Order Act to have contravened articles of the constitution and to that extent, they were adjudged unconstitutional and recommended to parliament for the amendment of the same sections.

(b) The action in this scenario falls under the law of tort. In tort liability arises by imposition of the law. The law of torts through **negligence has imposed a general duty of care** that all individuals owe others to ensure they do not do something that would bring about injury to others or omit to do something which **omission**, would lead to **others suffering damage**. In tort damages are **unliquidated meaning** it is not readily ascertainable or **quantifiable how much damage has been suffered until determined by the courts**.

Facts in Donoghue v Stevenson

On August 26 1928, Mrs Donoghue's friend bought her a ginger-beer from Wellmeadow Café [1] in Paisley. She consumed about half of the bottle, which was made of dark opaque glass, when the remainder of the contents was poured into a tumbler. At this point, the decomposed remains of a snail floated out causing her alleged shock and severe gastro-enteritis.

Mrs Donoghue was not able to claim through breach of warranty of a contract: she was not party to any contract. Therefore, she issued proceedings against Stevenson, the manufacture, which snaked its way up to the House of Lords.

Issues in Donoghue v Stevenson

The question for the HoL was if the manufacturer owed Mrs Donoghue a duty of care in the absence of contractual relations contrary to established case law.[2] Donoghue was effectively a test case to determine if she had a cause of action, not if she was owed compensation for any damages suffered.

SOLUTION FOUR

(a)

There are three occasions where a principal may be bound by a contract entered into by an agent on his behalf but without his express authority. These are agency of necessity, agency with implied authority and agency involving apparent (or ostensible) authority. An agency relationship between principal and agent can arise by operation of law if very strict conditions apply. This is agency by necessity. It applies where the 'principal' entrusts goods to the 'agent' for some purpose (usually carriage) and an emergency arises while the goods are in the agent's possession, in circumstances where it is impossible to contract the principal for instructions. This emergency must cause the agent to take some action to protect the principal's interest; it must not be action taken for the agent's own convenience: *Sachs* v *Miklos* (1948).

If these conditions are satisfied, then the principal is bound by the contract made by the agent (for example, for the feeding and care of livestock left in the agent's care: *Great Northern Railway* v *Swaffield* (1874)).

An agent may also have apparent (or ostensible) authority. A former agent may continue to bind his principal if the third party with whom the agent deals is unaware of the agent's loss of authority. Similarly, if the agent purports to act on the principal's behalf and the principal, aware of this, does nothing to deny this, the principal cannot refuse to be bound by the contract: *In Pickering v Busk (1812)*. A broker was employed by a merchant to buy hemp. After he had completed the purchase the broker retained the hemp at his wharf, at the request of the merchant. He then sold the goods. The purchaser was held to have obtained a good title to the goods because the broker was apparently an agent to sell, and the merchant was estopped by his conduct from denying the agency.

A contract made by the agent without the principal's authority may be adopted as the principal's contract by ratification. The principal must exist when the contract is made (*Kelner* \vee *Baxter* (1866)) and must be identified as a party to the contract by the agent (*Keighley Maxstead & Co* \vee *Durrant* (1900)). The contract is not binding until ratified. Ratification is of retrospective effect but must be done before the contract is to come into effect. The principal must be aware of all the facts relevant to the contract for effective ratification.

(b)

A person employed under a contract of service is an employee, while a person employed under a contract for service is an independent contractor. The employee puts his services at the disposal of the employer. He operates under the authority, control and supervision of the employer, who may prescribe what work is to be done; how, when and where it should be performed; and who may supervise the performance. The employer provides the employee with the goods required to perform his work. The employer is vicariously liable for the delicts committed by the employee against third parties in the course of employment.

A contract for services (*locatio conductio operis*). The independent contractor undertakes to perform a certain job but does not operate under the control and supervision of the employer; he uses his own tools and discretion regarding the manner and time in which to complete the job. The means of achieving the task are left entirely up to the independent contractor. He does not operate under the employer's orders except in ensuring that the end product is acceptable to the employer. In this type of contract, the independent contractor is regarded as able to negotiate on an equal footing with the employer, and he therefore does not need the protection offered by employment law.

Tests for distinguishing the two types of contract

The parties are expected to reach an express understanding as to whether there is a contract of employment, but their express intentions do not necessarily prevail. There are also borderline cases where it is not entirely clear whether the contract is a contract of service or one for services. The courts have on several occasions been called upon to

resolve this issue and various tests have been laid down in different cases from various jurisdictions. These tests are the control test; the organisation test; and the multiple tests. In Mersey Docks and *Habour Board v. Coggins and Griffiths Ltd [1946]* it was held that the Board exercised sufficient control over how the operator of the crane did his job. According to this test, the employer must be able to control what work is done as well as where, when and how it is done. The importance of the distinction-The distinction is of crucial significance because different legal consequences flow from the two types of contracts. These consequences include the following:

(i) An employer must provide insurance for employees, but not for independent contractors.

(ii) An employee is protected by the Employment Act as regards hours of work, number of leave days and maternity leave, but an independent contractor has no such protection.

(iii) An employer must deduct tax on a PAYE basis from an employee's salary, but not from payments to an independent contractor.

(iv) An employer is vicariously liable for acts of an employee, but not for acts of an independent contractor: *Bartonshill Coal Co. V. Mcguire* [1853]

(v) A dispute between an employer and an employee may be decided by the Industrial Relations Court, but the Industrial Relations Court has no jurisdiction to hear disputes involving independent contractors.

SOLUTION FIVE

(a) **Commercial Agreements** 'subject to contract' where there is commercial agreement it is presumed that parties intend to create legal relations. However, if the parties expressly deny intention by stating that negotiations are 'subject to contract. Or that any agreement is to be 'binding in honour only' then there is no contract.

In Jones v Vernons Pools (1938) P claimed that he had sent D a football coupon on which the draws he had predicted entitled him to dividend. D denied having received the coupon. They relied on a clause printed on a coupon, which states that the transaction should not 'give rise to any legal relationship ... but ... be binding in honour'. It was held that this clause was a bar to an action court.

Domestic Agreements-Where there is a domestic agreement the presumption is that legal relations are not intended. For **example an agreement by a man to pay his wife** £50 per week 'housekeeping' money. However, it is possible for a man to make a binding contract with his wife, **for example as part of a separation agreement.**

In **Merritt v Merritt (1970)**. A husband left his wife and when pressed by her to make arrangements for the future agreed that if he would pay the outstanding mortgage installments, when all the payments had been made, transfer the house into her name. It was held that there was a binding contract since the presumption that legal relations are not intended does not apply if husband and wife are separated or about to separate.

In **Balfour v Balfour (1919),** Mr. Balfour promised to pay his wife £30 per month if she stayed in England while she was working in Ceylon. Mrs. Balfour was to remain in England for medical reasons. The couple later separated. Mrs. Balfour claimed £30 per month pursuant to Mr. B's promise. The legal issue in question was whether this promise by a husband to his wife amounted to a contract. Held-in its ruling the court considered the view that an agreement to pay £30 per month

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existed because at the time they were living in amity and there was no intention to create legal relations.

(b) A contract of sale may be defined as contract between a buyer and a seller; where the seller agrees to transfer the property in the goods for money consideration known as the price.

SOLUTION SIX

(a) The following are the provisions of the Sale of Goods Act of 1893

Time of performance (s10)

(b) It depends on the terms of the contract whether time of performance is of the essence. In commercial contracts for the supply of goods for business or industrial use, it will readily be assumed that time is of the essence even where there is no express term to that effect. If it is, then breach of its breach of a condition, which entitles the injured party to treat the contract as discharged.

Title

Section 12 (1) implies into contracts for the sale of goods as undertaking to title.

'In a contract of sale... there is an implied condition on the part of the seller that in the case of a sale, he has a right to sell the goods, and in the case of an agreement to sell, he will have such a right at the time when the property is to pass.'

Sale by Description

Section 13 applies to all sales and is not limited to sales in the course of a business.

'Where there is a contract for the sale of goods by description, there is an implied condition that the goods correspond with the description. If the sale is by sample, as well as by description, it is not sufficient that the bulk of the goods correspond with the sample if the goods do not also correspond with the description.

If a description is applied to the goods by the contract, it is a sale by description even though the buyer may have inspected the goods.

Quality or Fitness

S 14 of the 1893 Act provides as follows:

There is no implied warranty or condition as to the quality or fitness for any particular purpose of goods supplied under a Contract of Sale, except as:

• Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are required, so as to show that the buyer relies on the seller's skill or judgments and the goods are of a description which it is in the course of the seller's business to supply (whether he be the manufacturer or not), there is an implied condition that the goods shall be reasonably fit for such purposes, provided that in the case of a contract for the sale of a specified article under its patent or other trade name, there is no implied condition as to its fitness for any particular purpose.

Price

Quality may be extended to include not only the physical condition of the goods but also other qualities.

Fitness for Purpose

S 14 (1) implies a condition that the goods be fit for any particular purpose which the buyer expressly or by implication makes known to the seller.

Where the seller goods in the course of a business and the buyer, expressly or by:

- to the seller, or
- where the purchase price or part of it is payable by installments and the goods were previously sold by a credit-broker to the seller, to that creditbroker.

Sale by Sample

Under S 15 of the Act there are requirements in a sale by sample. In the case of a contract for sale by sample there is an implied condition that:

- The bulk will correspond with the sample in quality;
- The buyer will have a reasonable opportunity of comparing the bulk with the sample; and
- The goods shall be free from any defect rendering them unsatisfactory which would not be apparent on reasonable examination of the sample.

Transfer of Property and Risk

Risk

Under s 20, the prima facie rule is that risk passes with property. Unless otherwise agreed, the goods remain at the seller's risk until the property in them is transferred to the buyer, but when the property in them is transferred to the buyer, the goods at the buyer's risk whether delivery has been made or not. No inference is drawn merely because the seller is still in possession; the goods may nevertheless be owned by the buyer. Similarly, even though the buyer is in possession the seller still being the owner of the goods.

(b) A Partnership is a relationship of **two or more people** who come together **with a common** purpose of carrying on business with **a view to profit**. It is important that for a partnership to qualify, there must be a common agenda. Therefore where persons purport to form a partnership but with different agendas, it cannot qualify for one.

There are three elements pre-requisite for a partnership to be formed being:

(i) There **must be more than one person**. Therefore, **a sole trader** cannot be qualified as a partnership as the first pre-requisite is that there **must be more than one person i**n the business for it to be considered a partnership.

(ii) There must be a **common agenda between** the intending partners. Where two or more **persons purport to form a partnership but of different business agendas**, such cannot be considered a partnership for purposes of section 1(1) Partnership Act. Therefore, it **would be qualified to a partnership where two persons** with different professions one a lawyer and another a medical doctor or accountant forming a firm and call **it a partnership when their trades are not in common**.

(iii)The last element for a partnership to exist is that it must be with a **view to profit**. Therefore, where a purported partnership is established and its main aim of that **of**

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charity work or being an NGO or any non profit making organization then such would not qualify to be called a partnership. It does not however mean that when a partnership is not making a profit because **business may not be good then it** ceases to be a partnership but that **the intention of the partners should have as** one of the main reasons, to make a profit in the course of business.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 17 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO sections:

Section A: One (1) Compulsory question. Section B: Five (5) Optional Questions. Attempt any four (4) questions.

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

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

SECTION A - COMPULSORY

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 The theory of management which emphasizes on human relations is associated with which scholar.
 - A. Max Weber.
 - B. Chester Bernard.
 - C. Elton Mayo.
 - D. Frederick Taylor.

(2 marks)

- 1.2 What type of an organization allows its shares to be traded on the Stock Exchange Market.
 - A. Coorporative.
 - B. Public Limited Company.
 - C. Public Corporaton.
 - D. Private Limited Company.

(2 marks)

- 1.3 In every organization, it must be decided how many subordinates a superior can manage but the exact number will depend upon underlying factors, all of which affect the difficulty and time requirements of managing. Which of the following terms best explains the statement.
 - A. Unity of Command.
 - B. Solar of chain.
 - C. Delegation.
 - D. Span of management.

(2 marks)

- 1.4 Flex Bakery Company intends to increase its market share by 10% in three (3) years time. What type of strategy is the company pursuing to achieve?
 - A. Business Strategy.
 - B. Functional Strategy.
 - C. Tactical Strategy.
 - D. Corporate Strategy.

(2 marks)

- 1.5 Which leadership theory emphasizes the situation as a dominant feature in considering the characteristics of effective leadership?
 - A. Trait Theory of Leadership.
 - B. Contingency Theory of Leadership.
 - C. Behavioural Theory of Leadership.
 - D. Style Theory of Leadership.

(2 marks)

- 1.6 Which theory of motivation proposes that employees who perceive themselves as either under-rewarded or over-rewarded will experience distress and that this distress leads to efforts to restore parity?
 - A. Equity Theory.
 - B. Goal Setting Theory.
 - C. Expectancy Theory.
 - D. Hierarchy of Needs Theory.

(2 marks)

- 1.7 Creating opportunities in a working environment for sporting activities would be an endorsement of Maslow's need.
 - A. Physiological
 - B. Self-Esteem
 - C. Safety and Security
 - D. Love and Belongingness

(2 marks)

- 1.8 Which behavior modification stage deals with reinforcement of human behavior in the change process according to Kurt Lewin?
 - A. Restraining.
 - B. Movement.
 - C. Refreezing.
 - D. Unfreezing.

(2 marks)

- 1.9 The assessment of employee's achievements against the set targets is......
 - A. Performance evaluation.
 - B. Human Resource Audit.
 - C. Job-Specification.
 - D. Job evaluation.

(2 marks)

- 1.10 Which one of the following is not a prime objective of a public sector organization in Zambia?
 - A. Creation of employment.
 - B. Maximize on profits.
 - C. Provide goods.
 - D. Stabilize price of fertilizer.

(2 marks) [Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

- (a) Briefly explain five (5) Fayol's functions in management? (10 marks)
- (b) F.W Taylor argued that management should be based on well organized, clearly defined and fixed principles instead of depending on more or less hazy ideas.

Required:

Define four (4) principles of Taylors engineering efficiency approach to management.

(8 marks)

(c) What are the two (2) advantages of the matrix structure. (2 marks) [Total: 20 Marks]

QUESTION THREE

- (a) Explain five (5) formal relationships that exists in organizations? (10 marks)
- (b) Discuss any five (5) features of a cooperative organization? (10 marks) [Total: 20 Marks]

QUESTION FOUR

- John Adair argued that in any situation the leadership style of a manager should depend on three (3) issues of concern. Name the three (3) issues and list the concerns under each issues as illustrated by Adair. (9 marks)
- (b) Muka the Manager at Gateway company complains about lack of cooperation in the work groups at the company. This has resulted in low productivity and is worrisome to him as a leader and the shareholders too.

Required:

Suggest to the Manager the three (3) key variables by Fiedler that work groups should depend on to become effective in an organization. (3 marks)

(c) The most important role of a Manager is to take responsibility and organize people to get things done in the organization. It is therefore important to understand the terms mostly associated with managerial roles and how they facilitate growth in organizations.

Required:

Briefly describe the following managerial terms and their contributions in an organization.

		[Total: 20 Marks]
(iv)	Responsibility	(2 marks)
(iii)	Accountability	(2 marks)
(ii)	Authority	(2 marks)
(i)	Delegation	(2 marks)

QUESTION FIVE

A visit to one of the institutions by Mr. Zulu revealed that workers are not happy with management's attitude or luck of care and recognition for their contributions and have resolved to all kinds of unbecoming behavior towards work. Some report late, drunk or stay home without permission. When he asked the Manager why the situation had gone down his answer was that they don't listen and have no regard for him or his ideas. The workers further accused the Manager of luck of drive and innovation and prefer to mind their business.

Required:

(a) Illustrate any four (4) factors of participation as postulated by Herzberg's work on motivation of employees would help the Managers improve the organization as a whole.

(12 marks)

(b) How can the quality circles assist to improve the situation in this company? (3 marks) (c) Identify benefits will the organization get through the involvement of operational staff in the quality circles decision-making process? (5 marks)

[Total: 20 Marks]

QUESTION SIX

(a) When significant changes are introduced, employees may react either in a positive or negative way. Explain the internal sources of change in an organization.

(8 marks)

- (b) State any three (3) changes may be brought about by developments within the organization. (6 marks)
- (c) Indicate three (3) ethical considerations that should be taken into account by management which may arise as a result of change. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 7 PRINCIPLES OF MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) The following are the contributions of Fayol's functions to management and development of the organization.
 - (i) Planning-involves making decisions about the objectives, strategies, policies and procedures to help achieve all these plans.
 - (ii) Organizing-establishment of a structure of tasks to be performed how by who and the provision of good reliable systems of information.
 - (iii) Commanding-giving of instructions to help subordinates carry out their responsibility in an orderly manner. Lessens confusion and lack of responsibility by all involved.
 - (iv) Co-ordinating-brings about harmony of all the organization activities and the people involved in the activities while management monitors the differences in all activities being carried out.
 - (v) Controlling-measuring and correcting all the activities to ensure they are performed according to plans.
- (b) The following is Taylor's engineering efficiency approach to management.
 - (i) Development of the true science of work in practice work study techniques used to analyze tasks in order to use the most efficient methods to use.
 - (ii) The application of techniques, to plan, measure and control work for maximum productivity.
 - (iii) The constant and intimate co-Operation between management and works: the relations between employers and men form without question the most important part of this art.
- (c) The following are the two (2) advantages of the matrix structure.
 - (i) Creates responsibilities for individuals' customers or projects as well as for functional improvement of activities. It improves the coordination of activities between functions and allows the efficiency and effectiveness in an organization where cooperation is critical.
 - (ii) Managers can specialize in particular products, projects or customers.

SOLUTION THREE

- (a) Formal relationships in organization
 - Functional relationships the relationship between a function or person with the organization and another function or person who provides specialized advice.
 - Line relationship A relationship that exists when there is a direct line of authority in the chain of command between a manager and subordinates.
 - Lateral relationship a relationship between individuals at the same level in different departments or sections.
 - Staff relationship A relationship between a senior person in an organization and individual who is appointed to provide assistance to the senior person.
 - Project relationship are a combination of line, lateral, functional about activities relating a common project.

Features of a cooperative organization.

They are democratic organizations. Members make one vote only despite the number of share one might have.

There is usually cooperation between different types of cooperative.

They aim to make profit which is shared among the members.

They are open organizations which means other people can join any time by buying shares.

Cooperatives sets rules for its activities and hold regular meetings for effective productivity.

Members join a cooperative by buying shares in it with a maximum number that any individual can own.

Cooperatives can offer expert advice to members on how to run their businesses more successfully. In some cases training can be offered too.

SOLUTION FOUR

(a) The following are the issues and concerns the leadership style of managers should depend on in any situation as argued by Adair,

Task roles	Group maintenance	Individual maintenance
Initiating	Roles	Roles
Information seeking	Encouraging	Goal setting
Diagnosing	Peace keeping	Feedback
Opinion seeking	Clarifying	Recognition
Decision making	Standard seeking	Training

(b) The following are the key variables suggested by Fielder that work groups should depend on to become more effective in organizations:

- (i) The relationship between the leader and the group which should be of trust, respect and so on.
- (ii) The extent to which the task is defined and structured.
- (iii) The power of the leader in relation to the group authority, and power to reward and punish.
- (c) The following are the description of the managerial terms and their contribution to the organization growth.
 - (i) Authority-power is the ability of the manager to do something whereas authority is right to do something and if put to responsible use can create a good, innovative manager.
 - (ii) Accountability-having to explain actions or performance to the person from whom authority has been delegated. In business managers are accountable to their superiors for their actions and performance and this will make them more responsible.
 - (iii) Responsibility-ability of a person to discharge certain duties in sort the obligation to do something therefore the enthusiasm of the manager will impact on how others will perform their duties.
 - (iv) Delegation-handing authority down from a high level of management to management at a lower level the process of entrusting authority and responsibility to other throughout the level of organization.

SOLUTION FIVE

- (a) The following work by Herzberg work illustrate participation, responsibility and recognition as important motivating factors to help the manager improve the organization.
 - (i) Employee should be involved into relevant decisions where they have experience and knowledge. If decisions relate to areas outside the scope of the employees work it is likely that motivation will decrease and not increase as a result of participation.
 - (ii) Participation should only be used of a certain degree of importance if the employees perceive the matter as trivial it is unlikely that they will be motivated.
 - (iii) Feedback on the outcome of the decision must be provided to the employees as soon as possible without which they will lose the morale.
 - (iv) The participation must be genuine to prevent misunderstanding, truthfulness must prevail, roles of who will say or do anything must be straight so that no one feels cheated.
 - (v) Employees should only be involved in decisions for which they have the ability, equipment and willingness to be involved in.
- (b) The quality circles will improve the situation by asking management to review existing processes and identify improves that can be made.
- (c) The following benefits that will come out of involving the operational staff.
 - (i) More workable and effective solutions will be identified
 - (ii) staff will feel value and
 - (iii) have improved perception of both the organization and management it will directly impact on the staff turnover
 - (iv) will promote unity.

SOLUTION SIX

- (a) The following are the sources of internal changes in an organization:
 - (i) Change in organizational structure and management responsibilities
 - (ii) Change in technology
 - (iii) Change of physical setting for business operations.
 - (iv) Moving people.
- (b) The following are changes triggered by development within the organization:
 - (i) Change in senior management
 - (ii) Acquisitions
 - (iii) Reorganization or down sizing
- (c) The following are the ethical consideration to be made by management:
 - (i) will change mean loss of jobs
 - (ii) will change affect the living condition of people
 - (iv) If change will mean recruiting skilled workers, should the organization be offering job and training to people in the local community.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 17 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:

Section A: There are two (2) compulsory questions. Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

SECTION A:

There are TWO (2) Compulsory questions in this section. Attempt both questions.

QUESTION ONE

Musonda Plc holds investments in Mulenga Plc and Bwalya Plc. Given below are summarized draft financial statements for the three companies.

Profit or Loss Statements for the year ended 31 December 2023

	Musonda	Mulenga	Bwalya
	K'm	K'm	K'm
Revenue	80,000	28,000	21,000
Cost of sales	<u>(58,000)</u>	<u>(21,000)</u>	<u>(13,000)</u>
Gross profit	22,000	7,000	8,000
Operating expenses	<u>(7,000)</u>	(1,000)	<u>(3,000)</u>
Profit before tax	15,000	6,000	5,000
Income tax expense	<u>(4,000)</u>	(2,000)	(1,500)
PROFIT FOR THE YEAR	<u>11,000</u>	4,000	<u> </u>

Statements of financial position as at 31 December 2023

	Musonda K'm	Mulenga K'm	Bwalya K'm
Non-current assets			
Property, plant and equipment	23,000	15,600	10,400
Investments	6,500		
	29,500	15,600	10,400
Current assets	18,000	8,400	4,600
Total assets	47,500	24,000	15,000
Equity			
Share capital – ordinary shares of K1 each	7,000	2,000	2,000
Retained earnings	31,000	19,000	10,200
-	38,000	21,000	12,200
Current liabilities	9,500	3,000	2,800
Total equity and liabilities	47,500	24,000	15,000

The following information is relevant:

- (1) Musonda acquired 500 million K1 ordinary shares in Bwalya on 1 July 2021 at a cost of K4.40 per share when the retained earnings of Bwalya stood at K4,000 million. Musonda has significant influence over the operations of Bwalya.
- (2) During the year Bwalya sold goods to Musonda for K1,800 million. These goods were sold at a mark-up on cost of 20%. As of 31 December 2023, Musonda still held all of these goods in its inventories.
- (3) Musonda acquired 1,200 million K1 ordinary shares in Mulenga on 1 January 2021 on the following terms:
 - an immediate cash payment of K4,300 million; and
 - a share exchange of two (2) shares in Musonda for every three (3) shares acquired in Mulenga.

The stock market price of Musonda's shares on 1 January 2021 was K10 per share. At that date Mulenga had retained earnings of K10,500 million.

The immediate cash payment (above) has been recorded in Musonda's financial statements, but the share issue has not been recorded.

- (4) The fair value of Mulenga's assets was equal to their carrying amounts at the date of acquisition apart from its plant which had a fair value of K2,000 million more than its book value. The remaining life of the plant had been 5 years at the date of acquisition and this period has not changed because of the acquisition. Depreciation of plant is to be applied on a straight-line basis and is charged to cost of sales. Mulenga has not adjusted the value of its plant because of the fair value exercise.
- (5) Group policy is to measure non-controlling interests at the date of acquisition at fair value. The non-controlling interests on the acquisition of Mulenga were measured at their fair value of K8 per share.
- (6) During the year Mulenga sold goods to Musonda at a selling price of K8,000 million. These sales were made at a profit margin of 25%. On 31 December 2023 one quarter of these goods were still in the inventories of Musonda.
- (7) On 31 December 2023 the directors of Musonda carried out an impairment review and determined that the recognized goodwill in Mulenga had been impaired by K200 million, but no impairement loss arose on the investment in Bwalya.
- (8) All items of income and expenditure are deemed to accrue evenly throughout the period unless otherwise stated.

Required:

- (a) Discuss how the investments made by Musonda in Mulenga and Bwalya should be treated in Musonda's consolidated financial statements.
 (5 marks)
- (b) Prepare the consolidated statement of profit or loss for the year ended 31 December 2023, for the Musonda Group. (10 marks)
- (c) Prepare the consolidated statement of financial position as at 31 December 2023, for the Musonda Group. (10 marks)

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[Total 25 Marks]
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QUESTION TWO

After preparing a draft statement of profit or loss for the year ended 31 March 2024 which has been added to retained earnings (excluding any adjustments in the notes (i) to (vii)). The summarized trial balance of kafupi Plc as at 31 March 2024 is as follows:

	Dr	Cr
	K′000	K′000
Equity shares of K1 each at 1 April 2023		150,000
Retained earnings at 31 March 2024		105,100
Trade receivables	84,000	
Other current assets	28,900	
Current liabilities		53,100
Interest paid	6,000	
5% convertible loan notes		120,000
Leasehold property at cost (original life 50 years)	225,000	
Plant and equipment at cost	216,300	
Accumulated depreciation at 1 April 2023:		
Leasehold property		45,000
Plant and equipment		84,300
Current tax	2,300	
Deferred tax		9,600
Investments	4,600	
	567,100	567,100

The following additional information is relevant:

(1) The Directors of Kafupi Plc decided to revalue the leasehold property for the first time on 1 October 2023 to K198.9 million. Kafupi Co does not make an annual transfer to retained earnings from the revaluation surplus to reflect the realization of the revaluation gain. However, the revaluation will give rise to a deferred tax liability at Kafupi Plc's tax rate of 30%. The leasehold property is depreciated on a straight line basis whilst plant and equipment is depreciated at 15% per annum on a reducing balance basis.

No depreciation has yet been charged on any non current assets for the year ended 31 March 2024.

(2) Kafupi Plc issued 1.2 million K100 5% convertible loan notes on 1 April 2023 at par. Interest is payable annually in arrears on 31 March each year. The loan notes can be converted to equity shares on the basis of 60 shares for every K100 loan note on 31 March 2026 or redeemed at par for cash on the same date. An equivalent loan without conversion rights would have required an interest rate of 8%.

The present value of K1 receivable at the end of each year based on discount rates of 5% and 8% are:

End of year	5%	8%
1	0.95	0.93
2	0.91	0.86
3	0.86	0.79
3 years cumulative	2.72	2.58

The interest paid, included in the trial balance above, was in respect of these loan notes.

- (3) The investments in the trial balance are equity investments that are held at fair value and the trial balance amount represents the fair value of the investments at 1 April 2023. At 31 March 2024, the fair value of the investments was K6.4 million. There were no acquisitions or disposals of these investments during the year to 31 March 2024.
- (4) A provision for current income tax of K8.1 million is required, for the year to 31 March 2024. The balance on current tax in the trial balance is the under/over provision of tax for the previous year to 31 March 2023. In addition to the temporary differences relating to the information in note (i), at 31 March 2024, the carrying amounts of Kafupi Plc's net assets were K36 million more than their tax base. Kafupi is liable to income tax on its taxable profits at 30%.
- (5) On 4 April 2024, Directors of Kafupi Plc discovered fraud in which K2.1 million of receivables balance relating to the year ending 31 March 2024 had been received and stolen by an employee. The Directors have been advised by their lawyer that the loss is unlikely to be compensated by the company's insurers due to a technical difficulty involved.

- (6) Kafupi Plc paid an interim dividend of K0.10 per share on 30 September 2023 and a final dividend of K0.05 per share on 30 March 2024.
- (7) Kafupi Plc made a rights issue in the proportion of 2 rights shares for every 5 existing shares at a price of K1.5 per share on 1 April 2023.
- (8) All dividend payments and the issue of new shares are yet to be accounted for.
- (9) Kafupi's retained earnings balance brought forward at 1 April 2023 was K50 million.

Required:

- (a) Prepare a schedule of adjustments required to the retained earnings of Kafupi Co as at 31 March 2024. (5 marks)
- (b) Prepare a statement of changes in equity extract for Kafupi Plc for the year ended 31 March 2024. (3 marks)
- (c) Prepare a statement of financial position as at 31 March 2024 for Kafupi Plc.

(17 marks)

[Total: 25 Marks]

SECTION B:

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

(a) The following summarized statement of Financial Position relates to Owen Limited:

		2023	2022
NON-CUR	<u>RENT ASSETS</u>	K′ 000	K′ 000
Property, P	lant and Equipment at cost	2,600	2,000
Less Accum	nulated Depreciation		
		<u>1,200</u>	<u>800</u>
		1,400	1,200
Investment	ts at cost		
		200	<u>800</u>
		<u>1,600</u>	<u>2,000</u>
CURRENT	ASSETS		
Inventory		2,800	1,600
Trade Rece	eivables	6,200	5,400
Bank			
		<u>0</u>	<u>400</u>
		<u>9,000</u>	<u>7,400</u>
Total asset	S		
		10,600	<u>9,400</u>
EQUITY A	ND LIABILITIES		
Equity:	Ordinary shares of K1 each	3,000	2,000
	Share premium	800	600
	Retained earnings		
		<u>2,120</u>	<u>2,680</u>
		<u>5,920</u>	<u>5,280</u>
CURRENT	LIABILITIES		
Trade Paya	bles	3,680	3,200
Taxation		760	920
Bank overd	Iraft		

Owen Ltd's Statements of Financial Position as at 31 December:

<u>240</u>	<u>0</u>
<u>4,680</u>	<u>4,120</u>
<u>10,600</u>	<u>9,400</u>

Additional information

- (1) During the year to 31 December 2023, some non-current assets originally costing K100,000 had been sold for K80,000 in cash. The accumulated depreciation on these Non-current assets at 1 January 2023 amounted to K40,000. Similarly, some of the investments that originally cost K600,000 had been sold for cash at their carrying amount.
- (2) The taxation balances disclosed in the above statements of financial position represent the actual amounts agreed with Zambia Revenue Authority. All taxes were paid on their due dates.
- (3) A dividend of K520,000 was paid during the year ended 31 December 2023.

Required:

- (a) Prepare Owen Ltd's statement of cash flows for the year to 31 December 2023 in accordance with the requirement of IAS 7 using the Indirect method. (18 marks)
- (b) Briefly define the objective of financial reporting by public sector entities, and explain the types of information which users may require according to IPSASB's conceptual framework for financial reporting by public sector entities.

(7 marks) [Total: 25 Marks]

QUESTION FOUR

(a) EX Construction Limited had the following outstanding matters at the end of the year to 31 December, 2023. EX Construction publicly made known two major plans as indicated below.

Plan one

The plan involved downscaling of operations at the head office owing to economic downturn which according to management was partly driven by recurring health pandemics and devaluation of the local currency leading to slow economic and business growth. This plan would see 250 employees losing employment and management confirmed that all affected employees had been briefed accordingly. The plan would cost the company K7.5 million. Of the mentioned amount, K2.5 million would go towards retraining costs, K3 million to employee compensations packages and K2 would go towards lease termination costs.

Plan two

The plan involved future intentions to automate most of the operational processes which had been labor intensive in the recent past at a total cost of K6 million. Redundancy cost for this plan were estimated at K4 million and K2 million for employee development.

Required:

(i) Discuss the different bases used in measuring provisions in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(6 marks)

- Explain with suitable computations where appropriate, the treatment of the two (2) plans above in the books of Ex Construction Limited in accordance with IFRSs.
- (b) IAS 10, *Events After The Reporting Period* contains requirements for when events after the end of the reporting period should be adjusted in the financial statements thereby promoting consistency in the way period end adjustments are treated within the financial statements. Major Suppliers Limited had encountered four (4) matters for which they now seek professional guidance.

Major Suppliers Limited year end is 31 December 2022 and the financial statements were authorized for issue on 28 February, 2023.

- (1) On 5 January 2023 a receivable AZ, who owed Major limited a K1.5 million filed for bankruptcy and there are no prospects of receiving any amount from this receivable
- (2) On 1 March 2023 Major Limited received legal notification from the lawyers of former senior employee who has sued the company for unfair dismissal. The notice contains a claim of K0.6 million.
- (3) On 15 February 2023 the company's equity investment market price, fail by 25%. The carrying value of this financial asset stood at K4 million on 31 December 2022.
- (4) On 9 February 2023 1000 units of inventory with a unit cost of K250 each were sold at a price K150 per unit. All units of this inventory line were sold at once in a clearance sale.

Required:

For each case above, explain with reasons whether the event is an adjusting or non-adjusting event and state effects if any on the financial statements for the year ended 31 December 2022. (8 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) You work for Yanga Limited and you are required to deal with the matters below:

You are aware that International Accounting Standards Board (IASB) revised "The Conceptual Framework for Financial Reporting " in 2018.

Required:

- (i) Explain Two (2) enhancing qualitative characteristics of useful financial information. (2 marks)
- (ii) Explain the meaning of `Going Concern Concept` and `Substance Over Form`. (3 marks)
- (iii) Explain Three (3) main advantages of International Financial Reporting Standards (IFRSs). (3 marks)
- (iv) Explain the difference between `Historical Cost` and `Current Value` as measurement basis for the elements of the financial statements.

(2 marks)

(b) You are a Public Sector Organisations Expert and you lead a Public Sector Team at Yanga.

Required:

Briefly, explain with examples how the performance of a Public University can best be measured. (6 marks)

(c) You work for PQM Limited as an Accountant. PQM purchases goods for resale from foreign suppliers. On 1 March 2024, PQM bought goods from a foreign supplier based in the United States of America for \$500, 000, when the exchange rate was K25 to \$1. The amount has not been paid as at 31 March 2024. The closing exchange rate as at 31 March 2024 is K26.50 to \$1.

Required:

Explain how your entity should account for this foreign currency transaction for the period ending 31 March 2024 according to the relevant IASs/IFRSs.

(5 marks)

(d) Your entity has been engaged by the client to provide consultancy on `Biological assets` and `Impairment of assets`.

Required:

Briefly explain the phrases Biological asset and Impairment of asset and give an example of a Biological asset and one internal indicator of Impairment asset.

(4 marks)

[Total: 25 Marks]

END OF PAPER

DA 8: FINANCIAL REPORTING SOLUTIONS SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Musonda controls 1,200 million of the K1 ordinary shares in Mulenga which is a 60% holding. Normally such a holding would give Musonda control of Mulenga meaning that Musonda has the ability to direct the operating and financial policies of Mulenga. If, as is likely, this is the case then Mulenga would be a subsidiary of Musonda. In which case Musonda must prepare consolidated financial statements for itself and Mulenga as though they were a single economic entity. Full consolidation method will be used to incorporate Mulenga into the consolidated financial statements. This entails all assets and liabilities and incomes and expenses (in the post acquisition period) of Mulenga will be added to those of Musonda 100%. Only parent company's share capital will be recognized in the consolidated statement of financial position.

Musonda also owns 500 million of the K1 ordinary shares in Bwalya which gives Musonda a 25% holding. This will not in normal circumstances allow Musonda to have control over Bwalya but it will normally mean that Musonda has significant influence over Bwalya's operating and policy decisions which would mean that Bwalya will be an associate of Musonda. According to IAS 28 *Investments in Associates and joint ventures Bwalya* will be included in the consolidated financial statements of Musonda using the equity method of accounting. Musonda will recognize only 25% of Bwalya's post acquisition profits.

(b)

Musonda Group

Consolidated income statement for the year ended 31 December 2023

	K'm
Revenue (80,000 + 28,000 – (W3) 8,000)	100,000
Cost of sales (58,000 + 21,000 - (W3) 8,000 + (W3) 500 + (W2) 400)	(71,900)
Gross profit	28,100
Impairment of goodwill	(200)
Operating expenses (7,000 + 1,000)	(8,000)
Share of profit of associate ((3,500 x 25%) – (W3) 75)	800

Profit before tax	20,700
Income tax expense $(4,000 + 2,000)$	(6,000)
PROFIT FOR THE YEAR	14,700
Profit attributable to:	
Owners of the parent (balance)	13,460
Non-controlling interests [(4,000 – (W3) 500 – (W2) 400) x 40%] - (W7)80	1,240
	14,700

(c)

Musonda Group

Consolidated statement of financial position as at 31 December 2023

	K'm
Non-current assets	
Property, plant and equipment $(23,000 + 15,600 + (W2) 800)$	39,400
Goodwill (W4)	4,000
Investment in associate (W5)	3,675
	47,150
Current assets (18,000 + 8,400 - (W3) 500)	25,900
	72,975
Equity attributable to owners of the parent	
Share capital – ordinary shares of K1 (7000 + W4 800)	7,800
Share premium W4	7,200
Retained earnings (W6)	36,435
	51,435
Non-controlling interests (W7)	9,040

	60,475
Current liabilities (9,500 + 3,000)	12,500
	72,975

Workings

1) Group structure



Mulenga

Bwalya

2. Fair value adjustments

	Acquisition	Movement	Year end
	K'm	K'm	K'm
Plant	2,000	*(1,200)	800
	2,000	(1,200)	800

* 2,000m/5 years = K400m per annum x 3 years

3. Intragroup trading

Cancel intragroup sale/purchase:

			K'm
DR Group revenue		8	3,000
CR Group cost of sales		8	3,000
Eliminate unrealized profit:			
			K'm
DR Cost of sales/retained earnings of Mulenga (8,000 1/4)) x 25% x		500
CR Group inventories			500
			K'm
DR Cost of sales of Bwalya/Group retained earnings (20%/120% x 25% share)	(1,800 x		75
CR Group inventories (as Musonda holds the inventor	ries)		75
4.Goodwill in Mulenga			
	K'm	K'm	
Consideration transferred			
Cash		4,300	
Shares (2/3x1,200mx10)		8,000	
Non-controlling interests (800m shares x K8)		6,400	
Fair value of identifiable net assets at acq'n:			
Share capital	2,000		
Retained earnings	10,500		
Fair value adjustment (W7)	2,000		
		(14,500)	
Goodwill at acquisition		4,200	-

Less: impairment loss		(200)	
Goodwill at year end	-	4,000	_
	-		-
Share issue will be recorded as follows (in Musonda books)	i's K'm	I	
DR Investment	8,000)	
CR Share capital (2/3x 1,200 x 1)	800	1	
CR Share premium (2/3x 1,200 x 9)	7,200)	
5. Investment in associate			
	K'm	ł	
Cost of associate	2,200)	
Group share of post-acquisition profits (W6) (1550- 75)		;	
	3,650		
6. Retained earnings			
Musor	nda Muler	nga Bwa	alya
k	('m k	('m l	۲'m
Per question 31,0	000 19,0)00 10,2	00
Provision for unrealized profit (W3)	75) (50	00)	
Fair value movement (W2)	(1,20	00)	
Pre-acquisition retained earnings	(10,500)) (4,0)	00)
	6,8	300 6,2	200

Group share of post acq'n ret'd earnings:

Mulenga (6,800 x 60%)	4,080
Bwalya (6,200 x 25%)	1,550
Impairment loss (60%x200)	(120)
	36,435

7.Non-controlling interests

	K'm
NCI at acquisition (W4)	6,400
NCI share of post acq'n ret'd earnings (6,800 W6 x 40%)	2,720
NCI share of goodwilll impairment (200x 40%)	(80)
	9,040

SOLUTION TWO

(a) Schedule of adjustments to retained earnings of Kafupi Co as at 31 March 2024

		K′000
Retained earnings per trial balance	e	105,100
Depreciation expense(2,250+2,51	18+19,800)	(24,568)
Finance costs (W2)		(8,822)
Fair value gain of financial asset	(6400-4600)	1,800
Income tax expense (W4)		(11,600)
Receivable fraud		<u>(2,100)</u>
		59.810

(b) Kafupi Co's statement of changes in equity for the year ended 31 March 2024.

	Equity	Share	Equity	Rev	Retained	Total
	shares	premium	option	surplus	earnings	
	K′000	K′000	K′000	K′000	K′000	K'000
Balance b/f	150,000	-	-	-	50000	200,000
Share issue (W6)	60,000	30,000	-	-	-	90,000
Conv loan equity			9,720			9,720
(W2)						
Dividends paid (W7)					(25,500)	(25,500)
Total comprehensive				14,805	9810	24615
income (W1)						
	210,000	30,000	9,720	14,805	34,310	298,835

(c) Kafupi Co statement of financial position as at 31 March 2024

Assets	K′000
Non current assets:	
Property, plant and equipment (W1)	308,582
Financial asset equity instrument (W3)	6,400
Total non current assets	314,982
Current assets:	
Trade receivables (84,000-2,100)	81,900
Other current assets (28,900+90,000-25,500)	93,400
Total current assets	175,300
Total assets	490,282
Equity and liabilities:	
Equity:	
Equity shares of K1 each(150,000+60,000 W6)	210,000
Share premium (W6)	30,000
Revaluation surplus (W1)	***14,805
Equity option of convertible loan note (W2)	9,720
Retained earnings (answer (b))	34,310
	298,835
Non current liabilities:	
5% convertible loan notes (W2)	113,102
Deferred tax (W4)	17,145
--------------------------------------	---------
Total non current liabilities	130,247
Current liabilities(53,100+8,100) W4	61,200
Total equity and liabilities	490,282

WORKINGS

1. Property, plant and equipment

	Leasehold	Plant and	Total
	property	equipment	
	K′000	K′000	K′000
Cost/valuation b/f	225,000	216,300	441,300
accumulated dep'n	<u>(45,000)</u>	<u>84,300</u>	<u>(129,300)</u>
Carrying amt b/f	180,000	132,000	312,000
Dep'n to 1 oct 23	<u>*(2,250)</u>	<u>-</u>	<u>(2,250)</u>
CA at rev date	1//,/50	132,000	309,750
Rev surplus	<u>21,150</u>	-	21,150
Revalueu 1 Oct 25 Dop'n to $31/3/24$	198,900 **(2 519)	132,000 ****(10,900)	220,900 (22 212)
$C\Delta c/f$	196 382	112 200	308 582
* Depreciation before revaluation	of leasehold	112,200	<u> 300,302</u>
Depreciation = 225,000/50vears >	$\frac{6}{12} = 2,250$		
** Depreciation after revaluation	of leasehold pro	pertv	
Depreciation = 198,900 /39.5year	S	/	
= 5,035 × ⁶ / ₁₂			
= <u>2,518</u>			
*** Net revaluation surplus			
Revaluation surplus	21,150		
Less deferred tax @30%	<u>6,345</u>		
	<u>14,805</u>		
**** Depreciation expense for pla	ant and machine	ry	
Cost		216	,300
Less accumulated deprec	tiation	84,300	
Carrying amount b/f		132,000	
Depreciation expense (15	5% × 132.000)	19	.800
2. Convertible loan notes:		K′000	,
Splitting the loan:			
PV of redemption proceeds (K120	.000*0.79)	94.8	300
PV of interest(5%*K120 000*2 58	() 15	5 480	
Liability component	110 280	<u>100</u>	
Equity option(bal figure)	110,200	720	
Total procood	 1 7	<u>,,, 20</u> 00 000	
Amortization of liability come	<u>12</u>	.0,000	

Balance b/f Ef

Effective

Nominal

		K′000	finance @8% K'000	e cost	interest paid@5% K'000	K'0(00
	Year/end 31/3/2024	110,280	8,822		(6,000)	113	,102
3.	Financial asset	equity instr	ument:		К'000		
Fair value	per trial balance	ce	4,600				
Fair value	gain			<u>1,800</u>			
Fair value	c/f		<u>6,400</u>				
4.	Income tax pay	yable accour	nt:				
			K′000				K′000
	Balance b/f:cu	rrent tax	2,300	Balanc	e b/f:deferred	l tax	9,600
	Balance c/f:		0 100	Profit o	or loss		11,600
	Deferred		8,100 10 800				
	Deletted	-	21,200				21,200
Deferred	tax total on 31	March 2024			K′000		
On revalu	ation surplus (v	v1)			6,345		
On other	temporary diffe	rences(30%	*36 millio	n	<u>10,800</u>	<u>)</u>	
Total				<u>17,145</u>			
5.	Fraud						
Fraud disc	overed after th	e reportina	date whos	e recov	erv is unlikelv	to he	accounte

Fraud discovered after the reporting date whose recovery is unlikely to be accounted for per IAS 10 events after the reporting period. Therefore the amount to be expensed in the profit or loss and receivables at reporting date to be reduced as follows:

Dr profit and loss 2,100 Cr receivables 2,100 6. Issue of shares Existing shares (K150,000/K1) =150,000 shares New shares (150,000 shares/5*2) = 60,000 shares

To equity capital = K60,000 (60,000 shares*K1) To share premium = K30,000 (60,000*K0.5) Required accounting entries: Dr Bank 90,000 Cr equity shares 60,000 Cr share premium 30,000 7. Dividends paid On 30 September 2023 15,000(150,000 shares*K0.10) On 30 March 2024 10,500(150,000 shares+60,000 shares*K0.05) Total div paid K25,500 Required accounting entries:Dr retained earningsK25,500Cr BankK25,500

SOLUTION THREE

(a) Owen Ltd's

Statement of Cash flows for the year ended 31 December 2023

Cash flows from Operating Activities	K′ 000	K′ 000
Profit before tax (w1)	720	
Adjust for:		
Depreciation (w3)	440	
Profit on Disposal (w4)	(20)	
Movements in working capital		
Increase in Inventory (2,800 – 1,600)	(1,200)	
Increase in Receivables (6,200 – 5,400)	(800)	
Increase in Payables (3,680 – 3,200)	480	
Cash generated from operating activities		
Tax paid	(920)	
Net cash outflow from operating activities		(1,300)
Cash flows from Investing Activities		
Payments to acquire PPE (w2)	(700)	
Receipts from Investment disposal	600	
Receipts from PPE disposal	80	
Net Cash outflow from Investing Activities		(20)
Cash flows from Financing Activities		
Issue of new shares (3,800 – 2,600)	1,200	
Dividends paid	(520)	
Net cash inflow from financing activities		
		<u>680</u>
Net decrease in cash and cash equivalents		(640)
Opening Balance		
		<u>400</u>
Closing Balance		
		<u>(240)</u>

- (b) The main objective of most public sector financial reporting include:
 - Accountability- provide information to stakeholders (citizens) on how public resources have been used and managed thorough various financial reports.
 - Promote good governance- for the effective management of public resources.
 - Ensure effective delivery of public services rather than to make profits.

Users of the financial reports of public sector entities need information that helps them

to assess:

- Whether the entity provided services to constituents in an efficient and effective manner
- The resources currently available for future expenditure, and to what extent there are restrictions or conditions attached to their use
- To what extent the burden on future year taxpayers of paying for current services has changed
- Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.
- The performance evaluation, ie the efficiency, effectiveness and economy of public programs and services
- Whether public institutions comply with legal and regulatory requirements
- Whether management of public institutions act responsibly in as far as management of public resources are concerned.

<u>Workings</u>

1.

Profit before tax	K′ 000
Closing Balance of Earnings	2,120
Add back: Tax charge	760
Dividends paid	520
	3,400
Less Opening Balances of Earnings	<u>2,680</u>
Profit before tax	720

2. Purchase of Non-Current Assets

PPE Account					
		K′ 000			K′ 000
Balance	b/f	2,000	Disposal		100
Bank – Additions*			Balance	c/d	
		<u>700</u>			<u>2,600</u>
		<u>2,700</u>			<u>2,700</u>

3.	Accumulated Depreciation Account			
		K′ 000		K′ 000
	Disposal	40	Balance	800
			b/f	

	Balance c/d	<u>1,200</u>	∴ Depreciation charge*	<u>440</u>	
		<u>1,240</u>		<u>1,240</u>	
4.		PPE Dispo	osal Account		
		K′ 000		K′ 000	
	PPE	100	Accumulated	40	
			Depreciation		
	*P/Loss - Profit on		Bank		
	Disposal	<u>20</u>		<u>80</u>	
		<u>120</u>		<u>120</u>	
	l		1	I I	

SOLUTION FOUR

(a) (i) provision liability estimate measurement basis

- Past experience
- Where there is a large population use expected values
- Single obligation most likely outcome
- Future provisions should be discounted at an appropriate rate (i.e. pretax rate)

(a) (ii) IAS 10 explanations on provided events **Plan one**

- IAS 37 Provisions, Contingents assets and Liabilities states that provisions should be made on expenses which relate to discontinued operations and not continuing operations.
- Accordingly, a provision on staff redundancy cost of K3 million and lease termination costs of K2 million should be provided for
- The K3 million retraining costs should not be provided for as this cost relates to continuing operations and should therefore be treated as a normal expense

Total provisions is therefore:

	K'm
Redundancy	3
Lease termination	2
Retraining	-
-	5

Plan two

- IAS IAS 37 Provisions, Contingents assets and Liabilities requires a provision to meet the definition of a liability.
- Costs relating to future plans lack the requirement of a past obligating event
- There is therefore no need to make a provision on plan two
- A contingent liability can be recognized if future outflow of resources from this plan is considered materially probable.

•

(b) (i) treatment of events

Event	Explain
1	- Irrecoverable debts on receivables outstanding at the year end but
	arising within the active period, qualify to be treated as an adjusting

	event.
	- The effect of the transaction is to debit Statement of profit or loss
	and credit the receivables with a K1.5 million.
2	 A legal case whose amount is only determined after the active period
	is not an adjusting event.
	- The 31 December 2022 financial statements will require no
	adjustments as the K0.6 claim will be recognized in the 2023
	financial statement
3	- A change in the investment value of a financial asset is not an
	adjusting event
	- This change does not provide evidence of conditions existing on the
	reporting date
	 The loss of K1 million will affect the 2023 financial statements only
4	- Where inventory held at the year-end is sold at an amount below
	purchase price we have an adjusting event
	- In this event, a loss of K0.1 million (250-150*1000) needs to be
	recognized

SOLUTION FIVE

(a) (i) **Enhancing qualitative characteristics**

Comparability

Similar accounting transactions should be given similar accounting treatment from one accounting period to the next.

Understandable

Financial statements should be understandable to users with reasonable accounting, business and economic knowledge.

Timeliness

Information will only be relevant to users of financial statements if it is provided timely. Information provided late is irrelevant.

Verifiability

Information is verifiable if independent and knowledgeable observers can agree/reach a consensus.

(ii) Going Concern concept and Substance Over Form

Going Concern concept

The business is assumed that it will continue in its operations for a foreseeable future (at least for the next 12 months) and there is no intention to materially curtail its operations.

Substance Over Form

The transaction should reflect its economic or commercial substance and not its legal form so that it represents what it purports to represent.

(iii) Advantages of International Financial Reporting Standards

- 1. Comparability Financial statements are more comparable.
- 2. Consistency There will be consistency and fewer variations among the standards.
- 3. Financial statements that are IFRSs compliant are more credible.
- 4. Increased investors/public confidence in the financial statements.
- 5. With financial statements that are compliant, it is easy to list on international stock exchange.
- 6. With financial statements that are IFRSs compliant, it is easy to raise finance on international market. etc.

(iv) Historical Cost and Current Value

Historical Cost

Transactions are recorded at their original or transaction amounts/values in the financial statements.

Current Value

The transactions are recorded at their current cost or fair value or value in use in the financial statements.

(b) Public sector performance measurement

Measuring economy

Economy means acquiring requisitess at a lowest possible cost without compromising the quality of the items acquired.

E.g. Acquiring text books at the lowest cost without compromising the quality of text books.

Measuring efficiency

Efficiency means using minimum inputs to achieve a given output, or maximising outputs for a given level of input.

E.g. Lecturers lecturing more students per session than other public universities

Measuring effectiveness

Effectiveness means achieving the intended objectives using given resources/inputs.

E.g. Lecturers achieving good pass rates.

(c) Foreign currency transaction

In the income statement (profit or loss), the foreign exchange loss of K750,000 (w3) will be reported at 31 March 2024.

In the statement of financial statement, the carrying amount of K13,250,000 (w2) will be reported as at 31 March 2024 as a trade payable.

Working

W1:	1.3.2024	\$500,000 x K25	= K12,500,000
W2:	31.3.2024	\$500,000 X k26.50	= K13,250,000
W3:	31.3.2024	K13,250,000 - K12,500,0	00 = K750,000

Biological asset and impairment

(i) Biological asset Means any living animal or plant. E.g. a mango tree or cow, etc

(ii) Impairment

Means the recoverable amount or value in use is less than the carrying amount. An indicator of impairment is physical damage to the asset.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 18 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:

Section A: There are two (2) compulsory questions. Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

(a) The opening cash balance on 1 January, 2025 was expected to be K60,000. The budgeted sales were as follows:

	K
November 2024	160,000
December 2024	180,000
January 2025	150,000
February 2025	150,000
March 2025	160,000

Analysis of the records showed that trade receivables were to be settled according to the following patterns:-

60% within the month of sale 25% the month following sale 12% two months following sale

Extracts from purchases budget were as follows:

	K
December 2024	120,000
January 2025	110,000
February 2025	90,000
March 2025	110,000

Notes:

- (1) All purchases are on credit and past experience shows that 80% are settled in the month of purchase and the balance settled the month after purchase.
- (2) Wages are K30,000 per month and overheads of K40,000 per month (including K10,000 depreciation) are settled monthly.
- (3) Taxation of K16,000 has to be settled in January 2025 and the company will receive settlement of an insurance claim of K50,000 in March 2025.

Required:

Prepare a cash budget for January 2025, February 2025 and March 2025. (16 marks)

(b) For a number of years, the smelter division of KCM Ltd has produced its annual budgets using incremental budgeting techniques. The company is now under new management and the annual budget for 2025 is to be prepared using Zero Based Budgeting (ZBB) techniques.

Required:

Explain the differences between incremental and Zero Based Budgeting techniques. (6 marks)

(c) A company manufactures a product that requires machine time of 1.5 hours per unit. Machine time is a bottleneck resource due to the limited number of machines available. There are ten (10) machines available and each machine can be used for up to forty (40) hours each week. The product is sold for K850 per unit and the material cost per unit is K425. Total operating expenses excluding material costs are K80,000 each week.

Required:

Calculate the throughput accounting ratio

(3 marks) [Total: 25 Marks]

QUESTION TWO

Mabisi is a renowned operator of a series of restaurants in southern province of Zambia in major towns such as Mazabuka, Monze, Choma and Livingstone. The restaurants prepare a tasty soup which is unique and delicious to the liking of most of its customers.

The tasty soup has a standard direct material (vegetables) cost of 4 kg of material at K5 per kg. Due to disruption of supply of vegetables to the market because of drought which led to erratic water supply, the average market price for vegetables during the period was K5.5 per kg, and it was decided to revise the material standard cost to allow for this. During the month, 6,000 cups of the taste soup were prepared and sold to customers. These cups of the tasty soup required 26,300 kg of vegetables which cost K139,390.

Required:

(a) Calculate for the tasty soup the following:

	(i) The material (vegetables) price planning variance	(3 marks)
	(ii) The material (vegetables) price operational variance	(2 marks)
	(iii)The material (vegetables) usage (operational) variance	(3 marks)
	(iv)The total cost variance for the tasty soup	(2 marks)
(b)	Explain four (4) types of performance standards.	(8 marks)
(c)	Explain two (2) similarities of a standard and a budget.	(2 marks)

(d) During a management meeting convened to discuss the contents of the operating statement for the latest control period, the deliberations of causes of the usage variance drifted to inventory management matters and you as the Management Accountant referred to topics such as *re-order level, stock-outs, buffer stock, lead time and economic order quantity* in your submissions.

Required:

Explain to members of the management meeting the meaning of all the terms referred to in (d) above. (5 marks)

[Total: 25 Marks]

SECTION B

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

QUESTION THREE

(a) Decision making is a vital component of management accounting. In a quest to make proper decisions costs have to been differentiated between **relevant** and **irrelevant** costs.

Required:

Distinguish between **relevant** and **irrelevant** costs and cite two (2) examples under each. (6 marks)

(b) GAC Plc is a farming company that grows fodder which is used by cattle farmers to feed their animals especially during dry spells. An enquiry requesting the company to supply 400 batches of fodder has been received from farmers on the Copperbelt predominantly Lufwanyama and Mpongwe districts.

Farmers are willing to pay K20,000,000 for 400 fodders. The management accountant of GAC Plc has provided you with the following details relating to the costs involved in the growing of fodder:

- (1) Each batch of fodder will require 50 seedlings. The company has 4,000 of seedlings in inventory and if they are not used in the fodder growing, they will be wasted. The original purchase price for the seedlings in inventory was K20 per seed. The replacement cost of a seed is K25 per seed. The net realizable value of the seed in inventory is K70 per seed.
- (2) Each batch will also require 14 hectares of a special type of soil. The current purchase price of a hectare is K1,500. The company has 15,000 hectares of land which was acquired at a cost of K2,000 per hectare and 4,000 hectares are idle.
- (3) Additionally, the company will require two more boreholes to accommodate the production of fodder because the current boreholes are used by the farm. The cost of constructing a borehole is K50,000.
- (4) The growing of the fodder will require a combination of skilled and unskilled labour. Each fodder will require 170 skilled labour hours and 80 unskilled labour hours. The skilled labourers are paid K78 per hour and the unskilled labourers are paid 90% of the skilled hourly rate. If this contract does not

go ahead, there will be 140 skilled idle hours and the company is reluctant to make redundancies.

- (5) The project will require a project manager to oversee the work. GAC Plc currently employs a manager with this required experience. This manager currently earns K85,000. GAC Plc will pay him an extra K19,000 due to the size of the project. The manager will be replaced by a less experienced manager who will earn K45,000.
- (6) Variable overheads are absorbed at a rate of K97 per skilled labour hour.
- (7) Incremental fixed overheads are absorbed at a rate of K72 per skilled labour hour.

Required:

Should GAC accept the order or not based on relevant costing principles. Support your answers with computations as well as comments on the inclusion and non-inclusion of the costs tabulated above. (19 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) A summary of manufacturing company's budgeted profit statement for its next financial year, when it expects to be operating at 75% capacity, is given below.

Budgeted Profit Statement				К	К
Sales (12,000 units)					360,000
Less:- Direct materials				67,500	
Direct wages				90,000	
Production overheads -	Fixed			42,000	
- `	Variables			22,500	<u>(222,000</u>
)
Gross profit					138,000
Less:- Administration, selling a	nd distribution	costs:			
	– Fixed			36,000	
	 Varying 	with	sales	<u>33,750</u>	<u>(69,750)</u>
volume					
Budgeted net profit					<u>68,250</u>

It has been estimated that:

(1) If the selling price per unit were reduced to K25, the increased demand would utilize 90% of the company's capacity without any additional advertising expenditure. (2) To attract sufficient demand to utilize full capacity would require a 15 per cent reduction in the current selling price and a K5,000 special advertising campaign.

Required:

- (i) Calculate the breakeven point both in units and sales value, based on the original budget. (5 marks)
- (ii) Calculate the breakeven points and profits which would result from each of the two (2) alternatives and compare them with the original budget. (14 marks)
- (iii) Calculate the number of units to be sold to achieve a profit of K45,500 if the manufacturing company decided to proceed with the original budget. (2 marks)
- (b) Explain overtrading and give two (2) symptoms of overtrading. (4 marks) [Total: 25 Marks]

QUESTION FIVE

The following information is provided in respect to the affairs of JB Limited which prepares its account on the calendar year basis.

	2024		2023	
	К		К	
Sales	600,	000	500,0	000
Purchases	400,000	350,00	00	
Cost of goods sold	360,000	330,00	00	
Inventory at 31 December	100,000	0	60,000	
Receivables at 31 December	98,	,000	102,000	
Payables at 31 December	40,000	25,0	00	
Total assets at 31 December	300,	000	185,000	

Inventory and receivables at 1 January 2023 amounted to K70,000 and K98,000,

respectively.

Required:

- (a) Calculate the inventory turnover for the years 2023 and 2024 expressed:
 (i) As a ratio. (4 marks)
 (ii) In days. (4 marks)
- (b) Calculate the receivables collection period in days, for each of the years 2023 and 2024. (4 marks)

(c) Calculate the payables payment period in days for each of the years 2023 and 2024.

(4 marks)

(d) Calculate the cash operating cycle for each year and comment on the results. (9 marks)

[Total: 25 Marks]

END OF PAPER

DA 9: MANAGEMENT ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) CASH BUDGET FOR THE FIRST QUARTER OF 2025				
<u>MONTH</u>	Jan	Feb	March	
RECEIPTS:	К	К	К	
Sales (W1)	154,200	149,100	151,500	
Insurance Income	-	-	50,000	
Total Receipts	154,200	149,100	201,500	
PAYMENTS	112,000	94,000	106,000	
Purchases (W2)	30,000	30,000	30,000	
Wages	30,000	30,000	30,000	
Overheads (40,000 – 10,000)	16,000		-	
Taxation	188,000	154,000	166,000	
Net cash flow	(33,800)	(4,900)	35,500	
Opening Balance	60,000	26,200 _	21,300	
Closing balance	26,200	21,300	56,800	

WORKINGS

Note 1 Sales Receipts Schedule:

Month	NOV	DEC	JAN	FEB	MARC H
	К	К	Κ	Κ	Κ
Total sales	160,000	180,00	150,00	150,00	160,00
Cash sales 60%		0	0	0	0
One-month credit 25%	96,000	108,00	90,000	90,000	96,000
Two months' credit 12%	-	0	45,000	37,500	37,500
Total Receipts	-	40,000	<u> 19,20 </u>	_21,60	_18,00
		-	<u>0</u>	<u>0</u>	<u>0</u>
			<u>154,20</u>	<u>149,10</u>	<u>151,50</u>
			<u>0</u>	<u>0</u>	<u>0</u>
Note 2 Purchases Payment	t Schedule				
Month		DEC	JAN	FEB	MARCH
		Κ	Κ	Κ	Κ
Total Purchaser		120,000	110,000	90,000	110,000
Cash Purchases 80%		96,000	88,000	72,000	88,000
One-month credit 20%		-	<u>24,000</u>	<u>22,000</u>	<u>18,000</u>
Total Payments		-	<u>112,000</u>	<u>94,000</u>	<u>106,000</u>

(b) An incremental budget starts off with last year's budget or last year's actual results and adds on a certain percentage to take account of expected inflation and / or any expected changes in the level of activity. It is a very simple, quick and cheap method of budgeting, but it does not promote a questioning attitude. Activities are undertaken without thought. They are simply incorporated into the next budget because they were in the last budget and nobody has given any thought as to whether the activity is still really worthwhile.

With ZBB, each manager sets out what he or she wishes to accomplish over the forthcoming period. For each to undertake, they look at different ways of achieving the objective and they look at providing the service at different levels. They estimate the costs and benefits and the activity only takes place if the benefits exceeds the costs. Also once all the activities have been evaluated, they can be ranked against each other and the company's resources directed to the best activities.

 (c) Step 1 Calculate the throughput per bottleneck machine hour. Throughput per machine hours = (K850 - K425) ÷ 1.5 Hrs = K283.33/per machine hour

Step 2 Calculate the operating expenses per bottleneck machine hours. Operating expenses per bottleneck m/c Hrs = $K80,000 \div 400$ Hrs = K200

SOLUTION TWO

(A)

(a) Calculation of variances for taste soup

(i)	Material price planning variance	V
	Original standard cost (26,300kg@K5)	к 131,500
	Revised standard cost (26,300kg@K5.5)	<u>144,650</u> <u>13,150</u> (A)
(ii)	Material price operational variance	
	Revised standard price (26,300kg@K5.5) Actual standard price (26,300kg@K5.3)	K 144,650 <u>139,390</u> <u>5,260</u> (F)
(iii)	Material usage operational variance	
	6,000 cups at standard kg per cup x 4 kg Actual usage Usage variance (operational) in kgs	24,000 kgs <u>26,300</u> kgs 2,300kgs
	Original standard price/kg	<u>x K5.5</u> <u>K12,650 (A)</u>
(iv)	Total material cost variance	к
	6,000 cups@ original unit cost x K20 (4kgxK5) But did cost (actual)	120,000 <u>139,390</u>

19,390(A)

(b) An explanation of four (4) types of standards in a standard cost system which can have an impact on employee's motivation are set out as follows.

- (i) *Ideal Standard* An ideal standard is a standard which can be attained under perfect operating conditions: no wastage, no inefficiencies, no idle time, no breakdowns.
- (ii) Attainable Standard

An attainable standard is a standard which can be attained if production is carried out efficiently, machines are properly operated and/or materials are properly used. Some allowance is made for wastage and inefficiencies.

- (iii) *Current Standard* A current standard is a standard based on current working conditions (current wastage, current inefficiencies).
- (iv) Basic Standard

A basic standard is a long-term standard which remains unchanged over the years and is used to show trends.

- (c) Two (2) similarities of a standard and a budget include:-
 - (i) Both involve looking to the future and forecasting what is likely to happen given a certain set of circumstances.
 - (ii) They are both used for control purposes. A budget aids control by setting financial targets or limits for a forthcoming period. A standard also achieves control by comparison of actual results against a predetermined target.
- (d) Explanation of terms related to inventory management to members of the management committee.
 - (i) Re-order level

When inventories reach this level, an order should be placed to replenish inventories. The reorder level is determined by consideration of the maximum rate of consumption and the maximum lead time.

(ii) Stock-outs

Stocks-outs means running out of stock. It is an additional type of cost which may arise due to factors such as lost contribution from lost sales, loss of future sales due to disgruntled customers, and loss of customer goodwill, etc.

(iii) Buffer stock

Buffer stock is additional stored volume of inventory which is kept to meet any sudden future demand or supply fluctuations. It is a backup stock, which retains some kind of buffer to protect in case of future uncertainty. It is kept as an extra backup to prepare for any uncertain business situations.

(iv) Lead time

This is the time it takes after placing an order for the goods to be delivered by the supplier with the appropriate position being that the shorter lead time and lower the costs.

(v) Economic order quantity

The economic order quantity (EOQ) is the order quantity which minimises inventory costs.

SOLUTION THREE

(a) **Relevant and irrelevant costs**

Relevant costs

Relevant costs are costs that are directly related to a specific decision or project, and will be affected by the decision.

Examples

- 1. Incremental future cash flows
- 2. Variable costs
- 3. Avoidable costs

Relevant costs help managers make informed decisions by considering only costs that are directly impacted by the decision.

Irrelevant costs

Irrelevant costs are those that are not affected by the decision. They remain the same regardless of the decision made.

Examples

- 1. Past costs/sunk costs
- 2. Committed costs
- 3. Fixed costs

Irrelevant costs should be ignored when making the decisions.

(b) Relevant cost statement

1.	SEEDLINGS	K′000	K′000
Buy:	16,000 seedlings x K25= [incremental cost]		400
2.	LAND		
	Hectares required: 400 batches x 14		
	hectares = 5,600 hectares		
	 Less : idle land (4,000) 		
	• Buy extra land 1,600 x K1,500		2,400
3.	BOREHOLES		
	2 boreholes X K50,000/ borehole		100
4.	LABOUR		
	 Skilled: 170 hrs x 400 fodders= 	5,293.0	
	[68,0000-140] x K78	8	
	• Unskilled: 80 hrs x 400 fodders= 32,000 x	<u>2,246.4</u>	
	K78 x 90% =	<u>0</u>	
			7,539.48
5.	PROJECT MANAGER		
	 Current manager- extra pay 	19	
	Replacement manager- incremental cost	<u>45</u>	64
6.	VARIABLE OVERHEADS		
	67,860 hrs x K97		6,582.42

7.	FIXED OVERHEADS (Incremental)	
	67,860 hrs x K72	<u>4,885.92</u>
	TOTAL Relevant cost	<u>(21,971.82</u>
)
	Value of contract	20,000.00
	Expected loss	(1,971.82
)

Decision

The contract should not be accepted as it is expected to result in a loss..

Comment on the notes.

- 1. The project will require 16, 000 seedlings at K25 and since this a cash flow it is a relevant cash flow. The 4,000 seedlings will not be sold if used to grow the fodder. Therefore, the relevant cost iss crap value.
- 2. The project will require hectares of land amounting to 1,600 at K1,500. It is a relevant cost and must be included.
- 3. Construction of boreholes- the project will require two boreholes and these must be but at a cost of K100, $000 (2 \times 50, 000)$
- 4. Skilled labour- this contract will also require specialized or skilled manpower and these have to be employed
- 5. Unskilled labour- this contract will also require specialized or skilled manpower and these have to be employed
- 6. Extra pay- an extra pay is an incremental cash flow and therefore relevant
- 7. Experienced manager an experienced manager will be required and be paid K45,000.
- 8. Variable overhead it is a relevant cost because it is an incremental cost.
- 9. Fixed overheads since it is incremental cost

SOLUTION FOUR

(a)(i) Step 1: Calculate contribution per unit.

	К	К
Selling price		30.00
Less: Direct material (K67,500÷12,000)	5.63	
Direct wages (K90,000÷12,000)	7.50	
Variable Production overheads	1.88	
(K22,500÷12,000)	<u>2.81</u>	<u>(17.82)</u>
Variable selling (K33,750÷12,000)		12.18
.: Contribution per unit		

Step 2: Calculate the	contribut	tion sales	s ratio. (C/s ratio)
C/S Ratio	$=\frac{12.18}{30}$ x	$\frac{100}{1} = 40$.60%	

Solution 2

- Break-even Point (units) = $\frac{Fixed Cost}{Contn/unit}$

$$=\frac{42000+36000}{K12.18}$$

= <u>6,404 units</u>

- Break-even Point (Sales value) = $\frac{Fixed Cost}{\frac{Contn}{Sales}Ratio}$

K42,000 +36,000/0.406= K78,000 /0.406 = **K192,118**

(ii) Alternative 1

Step 1: Calculate the new contribution per unit. New contribution = 25 - 17.82 =**K7.18**

Step 2: Calculate the new Production volume New sales volume = $\frac{90\%}{75\%} \times \frac{12,000}{1} =$ **14,400 units**

Solution

BEP (units) = $\frac{78,000}{K7.18}$ = **<u>10,863 units</u>** BEP (Sales value) = $\frac{k78000}{7.18 \div 25}$ = **<u>K271,575</u>**

Possible profit = contribution – fixed costs = $(K7.18 \times 14,400) - K78000$ <u>**K25,392**</u>

Alternative 2

Step 1: New selling price = 85% x K30 = **K25.50**

Step 2: New contribution per unit

Contribution/unit = K25.50 - K17.82 = **K7.68**

Step 3. New volume = $\frac{100}{75} \times \frac{12000}{1} =$ **<u>16,000 units</u>**

Solution BEP (units) = $\frac{78000+5000}{7.68}$ = 10,807 units BEP (sales value) = $\frac{83,000}{(7.68 \div 25.5)}$ = K275,586 Possible Profit = Contribution - Fixed costs = (K7.68 x 16,000) - (78000 + 5000) = 122,880 - 83,000 = K39,880

Comment

Neither of the two alternative proposals is worthwhile. They both result in reduced net profits. In addition, they will both increase the break-even points and will therefore increase the risk associated with the company's operations.

(iii) BEP (with TP) = $\frac{Fixed \ post+TP}{Contr+unit}$

$$= \frac{78000+45500}{K12.18}$$

= 10,140 units

(b) Overtrading is when a business tries to do too much too quickly with too little longterm capital, so that it is trying to support two large a volume of trade with the capital resources at its disposal.

Symptoms

- There is a rapid increase in sales revenue.
- There is a rapid increase in the volume of current assets.
- Any other symptom is welcome.

SOLUTION FIVE

(a) (i) inventory Turnover	= Cost of sales /Avera	age inventory	
	2023	2024	
inventory turnover =	<u>330</u>	= <u>360</u>	
	(70 + 60)/2	(60+100)/2	
= 5	5.1 times	= 4.5 times	
(ii) Inventory holding pe	riod = average inven	ntory/ inventory turnover	
	2023	2024	
	= 330/5	= 360/4.5	
	= 72days	= 81 days	
(b) Receivables collection pe	eriod = average rece	ivables/ credit sales x 360 days	
	2023	2024	
Average collection period	= <u>(98 + 102)/2</u>	x 365 = $(102 + 98)/2$	x 365
	500	600	
	= 73 days	= 61 days	
(c) payables payment period	d = Average payables	/ credit purchases x 360 days	
	2023	2024	
Payables payment period	= 25/350 x 365	= 40/400 x 365	
	= 26 days	= 37 days	

(d) cash operating cycle is the time that alapsed between payment of raw material purchases on credit and receipt of cash on goods sold on credit.

2023

Days

Inventory holding period = 72

172

Receivables period	= 73
Payables period	= <u>(26)</u>
Cash operating cycle	<u>119</u>
	2024
	Days
Inventory holding period	= 81
Receivables period	= 61
Payables period	= <u>(37)</u>
Cash operating cycle	<u>105</u>

e) The cash operating cycle declined by 14 days due to:

- > Significant decline in receivables period by 12 days. This means the firm adopted a tight credit period which led to decline in inventory turnover in 2024.
- > Increase in receivables payment period which means the firm has to pay supplier after 37 days (2023) compared to 26 days in 2024.
- > The decrease in cash operating cycle is meant to improve the liquidity of the firm.

CASH BUDGET FOR THE FIRST QUARTER OF 2025 (e)

WORKINGS

Note 1 Sales Receipts Sch	edule:				
Month	NOV	DEC	JAN	FEB	MARC H
	К	Κ	Κ	Κ	Κ
Total sales	160,000	180,00	150,00	150,00	160,00
Cash sales 60%		0	0	0	0
One-month credit 25%	96,000	108,00	90,000	90,000	96,000
Two months' credit 12%	-	0	45,000	37,500	37,500
Total Receipts	-	40,000	_19,20	_21,60	_18,00
		-	<u>0</u>	<u>0</u>	<u>0</u>
			<u>154,20</u>	<u>149,10</u>	<u>151,50</u>
			<u>0</u>	<u>0</u>	<u>0</u>
Note 2 Purchases Pa	ayment Sche	dule			
Month		DEC	JAN	FEB	MARCH
	1	.73			

	K	K	K	K
Total Purchaser	120,000	110,000	90,000	110,000
Cash Purchases 80%	96,000	88,000	72,000	88,000
One-month credit 20%	-	<u>24,000</u>	<u>22,000</u>	<u>18,000</u>
Total Payments	-	<u>112,000</u>	<u>94,000</u>	<u>106,000</u>

(f) An incremental budget starts off with last year's budget or last year's actual results and adds on a certain percentage to take account of expected inflation and / or any expected changes in the level of activity. It is a very simple, quick and cheap method of budgeting, but it does not promote a questioning attitude. Activities are undertaken without thought. They are simply incorporated into the next budget because they were in the last budget and nobody has given any thought as to whether the activity is still really worthwhile.

With ZBB, each manager sets out what he or she wishes to accomplish over the forthcoming period. For each to undertake, they look at different ways of achieving the objective and they look at providing the service at different levels. They estimate the costs and benefits and the activity only takes place if the benefits exceeds the costs. Also once all the activities have been evaluated, they can be ranked against each other and the company's resources directed to the best activities.

(g) Step 1 Calculate the throughput per bottleneck machine hour. Throughput per machine hours = (K850 - K425) ÷ 1.5 Hrs = K283.33/per machine hour

Step 2 Calculate the operating expenses per bottleneck machine hours. Operating expenses per bottleneck m/c Hrs = $K80,000 \div 400$ Hrs

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 20 MARCH 2025

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

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

TAXATION TABLE Income Tax

Standard personal income tax rates		
Income band	Taxable	Rate
	amount	
K0.01 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37.5%
Income from farming for		
individuals		
K0.01 to K61,200	first K61,200	0%
Over K61,200		10%
Company income tax rates		
On income from manufacturing and other		30%
On income from farming		10%
On income from mineral processing		30%
On income from mining operations		30%
On income of Banks and other Financial Institutions		30%
Mine	ral Royalty	

Mineral Royalty on Copper Norm price range per tonne

	value	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

Incremental

Mineral Royalty on other minerals

Type of mineral

Cobalt and Vanadium Base Metals (Other than Copper, Cobalt and Vanadium) Energy and Industrial Minerals Gemstones

Mineral Royalty Rate

Mineral Royalty

8% of norm value 5% of norm value 5% of gross value 6% of gross value

Capital Allowances

Implements, plant and ma Wear and Tear Allowance –	achinery and commercial vehicles: Standard wear and tear allowance Used in manufacturing and leasing Used in farming and agro-processing Used in mining operations	25% 50% 100% 20%
Non- commercial vehicles Wear and Tear Allowance		20%
Industrial Buildings: Wear and Tear Allowance Initial Allowance Investment Allowance		5% 10% 10%
Low Cost Housing Wear and Tear Allowance Initial Allowance	(Cost up to K100,000)	10% 10%
Commercial Buildings Wear and Tear Allowance		2%
Farming AllowancesDevelopment AllowanceFarm Works AllowanceFarm ImprovementAllowance		10% 100% 100%
	Presumptive Taxes	
Turnover Tax Annual Turnover K0.01 to K12,000 K12,001 to K800,000		0% 4%
Rental income Tax		
Rental income band K0.01 to K12,000 K12,001 to K800,000	Taxable amount First K12,000 Next K788,000	0% 4%

Presumptive tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	К	Κ
Less than 12 passengers and		270
taxis	1,080	
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	5%
improvements thereon)	
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	o 5 years	Aged al yea	oove 5 rs
Motor vehicles for the transport of ten or more persons, including the driver	Custom s duty K	Excise duty K	Custom s 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
Mater are and other meter vehicles	Aged 2 to	o 5 years	Aged al yea	oove 5 rs
principally designed for the transport of persons including station wagons	Custom s duty	Excise duty	Custom s duty	Excise duty
	к	к	к	K
Sedans cylinder capacity not exceeding 1000 cc Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	12,490 16,058	10,824 13,917	7,136 8,564	6,185 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 Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	10,705 14,274	9,278 12,371	7,136 8,564	6,185 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 Station wagons	19,553	25,419	12,032	15,642
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 Aged 2 to	37,150 5 years	18,049 Aged al yea	23,463 Dove 5 Irs
Motor vehicles for the transport of	Custom	Excise	Custom	Evciso
internal combustion piston engine	s duty	duty	s duty	duty
	К	к	к	К
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	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
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 GVW exceeding 1.0 tonne but not	13,353 15,348	5,786 6,651	7,630 8,770	3,061 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	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
 37,086
 28,432
 13,907
 10,662

 ignition internal combustion piston
 engine
 6
 6
 6

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 Minimum Specific Customs Duty	30% K6,000
	Excise Duty: Percentage of Value for Duty Purposes for Excise Duty Purposes Cylinder capacity of 1500 cc and less Cylinder Capacity of more than 1500 cc	20% 30%
2.	Pick-ups and trucks/lorries with gross weight not exceeding 20 tones: Customs Duty	
	Percentage of Value for Duty Purposes Minimum specific Customs Duty Excise Duty:	15% K6,000
	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%
	Excise Duty:	К6,000
	Percentage of Value for Duty Purposes for Excise Duty Purposes	
	Seating Capacity of 16 persons and less	25%
	Sealing 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%
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

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

QUESTIONE ONE

Du Ramu Plc is a VAT registered company that manufactures a variety of industrial chemical packaging drums. The company prepares its financial statements to 31 December each year. On 1 January 2024, the company listed its shares on the Lusaka Securities Exchange and forty-two percent (42%) of the ordinary shares were offered and fully subscribed for by indigenous Zambians.

For the charge year ended 31 December 2024, the company's summarised statement of profit or loss reported a net profit after tax of K219,892 after taking into account the following items:

(1) Operating expenses amounting to K98,780 which were made up of:

	К
Penalties for late submission of tax returns	3,860
Donation to a political party	9,600
Depreciation	9,740
Share issue fees	10,350
Wages and salaries	29,730
Motor vehicle expenses	2,850
(K1,240 of the motor vehicle expenses related to private usage by the	
Managing director)	
Allowable general expanses	32,650

- (2) Advertising and marketing expenses amounting to K14,870.
- (3) Provisional income tax paid for the tax year amounting to K29,350.
- (4) Royalties, bank interest and dividend income received of K39,620, K9,740 and K9,380 respectively. These figures represent the actual amounts received by the company in each case, withholding tax was deducted at source at the applicable rates.
- (5) Profit on disposal of the old Nissan Atlas delivery Van amounting to K3,600

Additional information:

- (1) The company's Financial Controller, Sales Manager and Human Resources Manager are accommodated in company houses which were acquired by the company at a cost of K2, 600,000 each. The gross annual emoluments of each of the above managers in the tax year 2024 were K360,000, K340,000 and K280,000 respectively.
- (2) The company constructed a building in the tax year 2020 at a cost of K863,700 and brought it into use on 1 January 2020 which comprised of:

	К
Land	75,000
Factory	495,000
General office	102,000
Staff canteen	191,700

(3) As at 1 January 2024, the income tax value of all the implements, plant and machinery qualifying for capital allowances was zero.

During the tax year 2024, the company incurred the following capital expenditure on implements plant and machinery:

...

	K
Purchase of Toyota Camry (VAT inclusive)	98,300
Purchase of Range Rover Van (VAT inclusive)	171,400
Purchase of manufacturing plant (VAT inclusive)	246,400

The Toyota Camry motor car bought during the year had a cylinder capacity of 3,000 cc and was used by the Managing Director on a personal to holder basis.

In the year 2024, an old Nissan Atlas delivery van that had been acquired in 2017 for K85,000 (VAT exclusive) was sold for K36,200 (VAT exclusive), resulting in a profit on disposal of K3,600 reported in the statement of profit or loss.

There were no other purchases or disposals of implements, plant and machinery during the year.

(4) The company has employed three (3) persons living with disabilities The employees have worked for the company for three years and the gross annual emoluments of each employee is K90,000 each per annum.

- (a) Calculate the maximum capital allowances that DuRamu Plc Company can claim for the tax year ending 31 December 2024. (9 marks)
- (b) Compute the tax adjusted business profits for DuRamu Plc Company for the tax year ending 31 December 2024. (10 marks)
- (c) Compute tax payable(refundable) for DuRamu Plc for tax year ending 31 December 2024. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Wana Wana, was employed as Marketing Manager at LBE Plc for many years. On 31 May 2024, Wana decided to take early retirement from employment. During the period of his employment in the tax year 2024, he was entitled to an annual basic salary of K360,000 payable on the last day of each month. He was also entitled to a housing allowance of 20% of his annual basic salary and a fuel allowance of 5% of his annual basic salary.

In January 2024, he was required to attend a job-related workshop for five (5) days in Livingstone. The company paid him an accommodation and meals allowance of K4,500 per day and a transport allowance totalling K1,500 to enable him attend the workshop.

On his retirement on 31 May 2024, he was paid his early retirement package comprising a lumpsum pension of K3.5 million, repatriation pay of K25,000 and accrued leave pay of K8,000. PAYE deducted from his employment income was K35,640.

During the period of employment, he used his own personal Isuzu Double Cab Van (3,200cc) partly for employment purposes. He bought the vehicle a year ago at a cost of K600,000. He incurred motor car running expenses totalling K4,500 per month. It has been agreed with the Commissioner General that his employment use of the vehicle in the tax year 2024, was 60%.

The following payments and deductions were made from his employment earnings during the tax year 2024:

Golf club subscriptions of K10,000 Professional subscriptions to the Institute of Marketing of K5,000 PAYE deducted from his earnings for the year amounted to K30,892. Employee's NHIMA contributions of K492 per month. Employee's NAPSA contributions of K1,491 per month. Donation to an approved public benefit organisation of K7,000.

Other Income

In the tax year 2024, Wana generated the following additional income:

	K
Retail business profit	240,000
Treasury bill discount	28,900
Royalties	39,100
Dividends from a LuSE listed company	32,300
Management fees	68,000

The above amounts represent the actual cash received. Withholding tax had been deducted and paid at source where appropriate.

Required:

(a) Compute the amount of the final income tax payable by Wana Wana for the charge year 2024. You should indicate using a zero (0) all employment benefits received by Wana that are exempt from tax. (17 marks)

(b) State the due date for the payment of the income tax deducted from the employment income during the year and explain the consequences of paying the tax late. (4 marks)

(c) Explain the tax treatment of the treasury bill discount and dividend income received by Wana during the tax year 2024. (4marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this Section.

Attempt any TWO (2) questions.

QUESTION THREE

Mulima Limited is a Zambian resident company engaged in farming and retail trading. The company prepares its accounts to 31 December of each year.

The statement of profit or loss for the year ended 31 December 2024 showed a net profit of K952,000 from farming operations which was arrived at after taking into account the following items:

(1) Depreciation charged on non-current assets was K28,800.

(2) General expenses of K135,500. This figure includes K20,500 for travelling expenses of staff including directors, K35,000 incurred on entertaining customers and gifts of Mulima Ltd calendars to customers valued at K160 per customer totaling K80,000.

(3)	Repairs and renewals, which were made up as follows:	
		К
	Redecorating existing business premises	22,100
	Repairs to farm implements	<u>18,600</u>
		<u>40,700</u>
(4)	Legal and professional charges:	
		К
	Debt collection costs	11,400
	Fees for recovery of loans from former employee's	8,900
	Audit and accountancy fees	<u>15,600</u>
		<u>35,900</u>
(5)	Subscriptions and donations included the following:	
		K
	Donation to a new political party	15,000
	Staff professional subscriptions	25,000
	Subscriptions to Association of Farmers	36,500
	Sports facilities for farm workers	<u>40,000</u>
		<u>80,500</u>
(6)	The other income received which included the following:	
		К

Bank interest received (net)	38,250
Dividends received from Zambian companies (gross)	43,200
Royalties (net)	46,750
Profit on sale of combined harvester	<u>30,800</u>
	159,000

Κ

Additional information

(1) Farming related expenditure

The following farming expenditure was incurred during the year:	
---	--

Construction of two (2) farm dwellings for use by staff260,000Expenditure on digging of boreholes at the farm50,000Expenditure of stumping and clearing90,500Expenditure incurred on water conservation10,700Expenditure on development of coffee plantations27,200Expenditure incurred on construction of fence146,300

(2) Implements, plant and machinery

The company acquired the following implements plant and machinery which were used in farming operations during the year:

	К
Purchase of Toyota Vanguard car	360,000
Purchase of delivery truck	520,000
Purchase of manufacturing equipment	70,500

The Toyota Vanguard has a cylinder capacity of 2,200 cc and was used by the Farm Manager as a personal to holder car. The private use of the car is 20% as agreed with

the Commissioner General.

(3) Final taxable profits from retail operations

The final taxable adjusted business profit from retail trading operations for the tax year 2024 was of K225,000.

- (a) Explain what is meant by farm improvements and farm works and give two (2) examples for each type of expenditure. (4 marks)
- (b) Calculate farming capital allowances claimable during 2024 tax year.

(9 marks)

(c) Calculate the tax adjusted farming profit for the tax year 2024.

(7 marks)

(d) Calculate the company income tax for the tax year 2024

(5 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Koko imported a second hand twenty-six (26) seater Mitsubishi Rosa bus from Japan. It was manufactured in 2021. The purchase price of the bus was \$5,340. He paid insurance and freight charges amounting to \$1,762 and \$1,121 respectively in transit to the port of Dar es Salaam. Port charges and other incidental costs of transporting the bus from Dar es salaam to the Nakonde border post were \$908. Koko paid \$450 to transport the bus from Nakonde to Lusaka. A further amount of K3,500 was paid for registration of the bus at Road and Safety Agency (RATSA).

The exchange rate in the Bureau De Changes in Lusaka was K27.04 per \$1. The exchange rate as approved by the Commissioner General was K26.96 per \$1.

Required:

- (i) Explain the circumstances which may lead Zambia Revenue Authority to revalue the imported bus. (2 marks)
- (ii) Calculate the total import duties paid on the importation of the Rosa bus.

(8 marks)

- (b) Drill Ltd is a Value Added Tax registered business dealing with both taxable and exempt supplies. During the month of April 2024, the business entered into the following transactions:
 - (1) Sales amounted to K650,000 out of which 20% were zero rated, 5% exempt with the remaining balance being standard rated.

- (2) Drill sold an old delivery van for K120,000 (VAT inclusive).
- (3) Standard rated purchases amounted to K320,000 out of which 20% were from non- registered suppliers.
- (4) Standard rated operating expenses for the month amounted to K134,900 and comprised the following items:

	К
Entertaining suppliers	65,000
Entertaining customers	35,000
Advertising expenses	2,500
Telephone bills	2,600
Diesel	10,000
Petrol	4,800
General business overheads	15,000
	134,900

- (5) Bad debts amounting to K20,500 were written off on 1 September 2024. This figure consists of two invoices of K10,250 each in respect of payment which was due on 2 May 2021 and 30 December 2023.
- (6) Unless specifically stated otherwise all the above figures are Exclusive of VAT.

- (i) Explain the meaning and importance of the Tax Point for the purposes of VAT. (3 marks)
- (ii) Calculate the amount of VAT payable/refundable by Drill for the month of April 2024. (12 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) Explain how the following ethical principles apply to tax practitioners.

(i)	Integrity	(2 marks)
(ii)	Confidentiality	(2 marks)
(iii)	Professional behaviour	(2 marks)

- (b) Chilufya Mulenga entered into the following transactions during the tax year 2024:
 - (1) In March 2024, he sold a farm land receiving net proceeds of K380,000 after deducting estate agent fees of 5% of the gross proceeds. He acquired the plot ten (10) years ago at a cost K170,000. The open market value of the commercial plot as determined by the Commissioner General was K390,000 on the date of the transfer.
 - (2) In April 2024, he sold 120,000, K1 shares he held in DHT Ltd, a private limited company for K6 per share. He acquired the shares five (5) years ago at a total cost of K180,000. The market value of the shares determined using approved valuation methods was K7.50 per share.
 - (3) In June 2024, he sold his residential plot of land in Lusaka to his son Kalenga for K50,000. The open market value of the plot on that date was K550,000. He acquired the plot six (6) years ago at cost of K160,000.
 - (4) In August 2024, he gifted his residential house in Ndola to his niece as a wedding present. The open market value of the house as assessed by the Commissioner General on that date was K450,000. He acquired the house seven years ago at a cost of K200,000.
 - (5) In September 2024, he sold his Toyota Fortuner SUV for K840,000 to an unconnected third party being the open market value of the vehicle. The amount of K840,000 is after deducting the agent's fee of K5,000. He acquired the Toyota Fortuner two (2) years ago at a cost of K700,000.

Calculate, giving reasons, the amount of any property transfer tax arising on each of the above transactions. (9 marks)

(c) You are employed in tax practice and have been provided with the following information relating to two clients of your firm who are seeking tax advice:

Zangi Kahilu

Zangi will let out the following properties from 1 January 2024, throughout the year.

Property	Rentals per month	Maintenance costs per month
5 Residential houses	K4,500 per house	K1,100 per house
10 Retail shops	K6,000 per shop	K800 per shop

Nswana Nsama

Nswana will buy three motor vehicles in the tax year 2024 to be used for the transportation of public passengers. The details relating to each vehicle are as follows:

Date of		Total Gross	Total operating
commencement of	Type of	Income	costs
operations	Vehicle	К	К
1 March 2024	48-Seater Fuso	350,000	90,000
	bus		
1 June 2024	16-Seater Hiace	150,000	65,000
	bus		
1 October 2024	28-Seater Rosa	250,000	80,000
	Bus		
		750,000	<u>235,000</u>

Each vehicle was operational every day from Sunday to Saturday.

Required:

Explain, with reasons, how each of the following individuals will be assessed to tax in the tax year 2024 and compute the amount of tax arising on the income generated by each person in the tax year 2024:

(i) Zangi	(6 marks)
(ii) Nswana	(4 marks)

[Total: 25 Marks]

END OF PAPER

DA10 TAXATION SUGGESTED SOLUTIONS

SOLUTION ONE

Preliminary workings:

- 1. Buildings: General office 10% test:
 - Total cost K863,700
 - Less land cost <u>K 75,000</u>
 - Net K788,700
 - 10% K 78,870
 - General office K 102,000
 - Therefore, General office is treated as a commercial building

(a) Capital allowances computation for tax year ending 31st December 2024:

Date	2020	2020	2020	2024	2024	2024	2017	
				Тоуо	Range			
		Gener	Staff	ta	Rover	Manufactur	Nissan	
<u>Asset</u>	Factor	al	<u>cante</u>		<u>van</u>	ing	<u>Atlas</u>	
	у	<u>office</u>	<u>en</u>	Camr		<u>plant</u>	<u>van</u>	
				у				
				<u>car</u>				
CA rate	5%	2%	5%	20%	25%	50%	25%	
Cost	495,0	102,0	191,7	98,3	147,7	212,414	85,000	
(K)	00	00	00	00	59			
ITV b/f	346,5	93,84	134,1	98,3	147,7	212,414	-	
	00	0	90	00	59			
Dispos	-	-	-	-	-	-	36,200	
al								
CA/	24,75	2,040	9,585	19,6	36,94	106,207	(36,20	162,9
(charge	0			60	0		0)	82
s)								
ITV c/f	321,7	91,80	124,6	67,7	118,2	133,200	nil	
	50	0	05	93	07			

(b) Computation of tax adjusted business profit:

Details	Workings		К	
Profit after tax			219,892	

Adjustments:		Add(K)	Deduct(K)		
Penalty		3,860			
Donation politics		9,600			
Depreciation		9,740			
Provisional tax		29,350			
Share issue fees		10,350			
Royalties			39,620		
Bank interest			9,740		
Dividends			9,380		
Profit on disposal			3,600		
Housing benefits:					
-FC	.375 x	135,000			
-SM	K360,000	127,500			
-HRM	.375 x	105,000			
	K340,000				
	.375 x				
	K280,000				
Capital			162,982		
allowances					
Car benefit	3,000cc	48,000			
Disability	K2,000 x 3		6,000		
allowance					
		478,400	231,322	<u>247,078</u>	
				466,970	

(c) Tax computation for tax year ended 31st December 2024:

Company tax rate;

- 30%-2%-5% = 23%

		К	К	
Adjusted business			466,970	
profit				
Add Royalties	(100/85 X 39,620)		46,612	

Add Royalties	(100/85 X 39,620)	<u>46,612</u>	
TOTAL		<u>513,582</u>	
TAX AT 23%		118,124	
Less:			

- provisional tax		29,350		
- WHT royalties	15/100 x 46,612	6,992	<u>(36,342</u>)	
Tax payable			<u>81,782</u>	

SOLUTION TWO

(a)	WANA WANA			
PERSONA	AL INCOME TAX	COMPUTATION	FOR THE CH	ARGE YEAR 2024

Business profits		240,000
Basic s salary (K360,000 x 5/12) Housing allowance (K150,000 x 20%) Fuel allowance (K150,000 x 5%) Per diem- accommodation and meals		150,000 30,000 7,500
allowance		0
Per diem- transport allowance		0
Pension		0
Repatriation pay		0
Accrued leave pay		<u> </u>
Less allowable deductions Capital allowances on Isuzu Double cab (K600,000 x 20%) x 60%	72,000	
Motor vehicle running expenses. (K4,500x 5) x 60% Professional subscriptions	13,500 5,000	
Donation to approved PBO	7,000	
Taxable employment income Investment/Other income		<u>(97,500)</u> 338,000
Royalties (K39,100 x 100/85) Management fees (K68,000 x100/85)	46,000 <u>80,000</u>	
Total income		<u>126,000</u> <u>464,000</u>
<u>Income Tax</u> On first K61,200 x 0% On next K24,000 x 20% On nextK25,200 x 30% On excess (K464,000 - K110,400) x 37%		0 2,400 7,560 <u>130,832</u> 140,792
Less tax already paid WHT on Royalties (K46,000 x15%) WHT on Management fees (K80,000 x 15%) PAYE Income Tax payable		(6,900) (12,000) (<u>30,892)</u> 91,000

- PAYE is due on the 10th day following the end of the month in which it was deducted.
 Late payment of PAYE attracts:
 - (1) a penalty of 5% of the PAYE paid late per month or part thereof
 - (2) Interest at the BOZ discount rate plus 2% per annum Tax treatment of investment income
- (c) Treasury Bill discount

Treasury bill discount income was subjected withholding tax at 15% deducted at source which is a final tax. Wana will therefore not be subjected to any further income tax on the interest.

Dividends from the LuSE listed company

The dividends from the LuSE listed company was subjected to withholding tax at 0% which is a final tax. Wana will therefore not be subjected to any further income tax on the dividends.

SOULTION THREE

(a) Farm improvements are permanent works that are used for farming purposes. Examples 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 purposes. Examples are aerial geophysical surveys, boreholes and stumping

(b) <u>Computation of capital allowances:</u>

Expenditure			Capital	
		Cost	allowance	
	Rate	K	K	
Stumping and clearing	100%	90,500	90,500	
Farm dwelling 100,000 x 2	100%	200,000	200,000	
Fencing	100%	146,300	146,300	
Boreholes	100%	50,000	50,000	
Water conservation	100%	10,700	10,700	
Coffee plantation	10%	27,200	2,720	
Toyota Vanguard	20%	360,000	72,000	
Delivery van	25%	520,000	130,000	
Manufacturing equipment	50%	70,500	35,250	
			<u>737,470</u>	

(c) MULIMA LIMITED

COMPUTATION OF TAXABLE FARMING PROFIT FOR THE TAX YEAR 2024					
	Κ	К			
Net profit per accounts		952,000			
Add:					
Depreciation	28,800				
	,				
Entertaining customers	35,000				
y					
Gifts of calendars (K500 X K60)	30,000				
Recovery of loans	8,900				
Donation to political party	15 000				
Denation to pontical party	10,000				
Personal to holder car	36,000				
	<u>23/000</u>				

		<u> 153,700</u> 1,105,700
Less: Bank interest	38,250	
Dividends received	43,200	
Royalties	46,750	
Profit on sale of combined harvester	<u>30,800</u>	
Less capital allowances Taxable farming profit		<u>(159,000)</u> 946,700 <u>(737,470)</u> <u>209,230</u>

(d) MULIMA LIMITED

COMPUTATION OF COMPANY INCOME TAX FOR THE TAX YEAR 2024

	К
Profit from retail trade	225,000
Bank interest (K38,250 X 100/85)	45,000
Royalties (K46,750 X 100/85)	55,000
Total non-farming income	325,000
Farming profits	<u>209,230</u>
Taxable income	<u>534,230</u>
Company income tax on non- farming incom	ne:
30% X K325,000	97,500
Company income tax on farming income:	
10% X K209,230	20,923
	118,423
Less:	
WHT- Bank interest (K45,000 X 15%)	(6,750)
WHT- Royalties (K55,000 X 15%)	<u>(8,250)</u>
Final company income tax payable	<u>103,423</u>

SOLUTION FOUR

(a) Circumstance sunder which Zambia Reve imported bus.	enue Authority will revalue the
(i) The importer or Customs Clearing unsatisfactory information.	Agent provides insufficient or
(ii) The vehicle is acquired in circums of trade	tances other than the normal course
(b) Total import taxes paid of motor vehicle	
Cost price	5,340
Insurance	1,762
Freight	1,121
Incidental	908
Total	9,131
VDP US\$9,131 x K26.96 =K246,172	

	Value	Import
		Taxes
	К	К
VDP	246,172	
Customs duty	<u>38,924</u>	38,924
	285,096	
Excise duty	0	0
	285,096	
Import VAT(16% x K285,096)	45,615	45,615
Carbon surtax		<u>2,000</u>
Total taxes	330,711	86,539

(i) Meaning and importance of a Tax point

This is the time when the supply is deemed to have taken place. It is important to establish the tax point in respect of VAT purposes because:

The tax point is used for determining the tax period in which VAT relating to the supply should be accounted for.

The tax point is used to decide which scheme or VAT rate will apply to a supply when there is a change in the VAT scheme or VAT rate.

(ii) Drill Ltd VAT return for April 2024

OUTPUT VAT	K K
Standard rated (K650,000 x 75% x 16%)	78,000
Zero rated (K650,000 x 20% x 0%)	0
Exempt	0
Sale of a Van (K120,000 x 4/29)	<u>16,552</u>
	94,552
INPUT VAT	
Standard rated purchase (K320,000 x 80% >	(16%) 40,960
Entertaining customers	0
Entertaining employees	0
Telephone expenses	0
Advertising expenses (K2,500 x 16% x.95)	380
Diesel expenses (K10,000 X 16% x .95)	1,520
Bad debt relief (K10,250x 16%)	10,250
Petrol	0
General overheads (K15,000 x 16% x 95%)	<u>2,280</u>
	55,390
VAT Payable/refundable (K94,552 –K55,490)) 39,162

SOLUTION FIVE

(a) Fundamental Principle of the Code of Ethics

Integrity

Members shall be straightforward and honest in all professional and business relationships. The principles of honesty and integrity impose an obligation on the practitioner to ensure straightforwardness, fair dealing, a commitment not to mislead or deceive and truthfulness.

This means that a member providing taxation services must not knowingly be associated with reports, returns, communications or other information where the member believes that the information contains a materially false or misleading statement or calculation or statements or information furnished recklessly.

Confidentiality

Members shall respect the confidentiality of information acquired as a result of professional and business relationships.

They should therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

A member who acquires confidential information during the course of performing professional tax services for a client shall not use or disclose any such information without proper and specific authority, unless there is a legal or professional right or duty to disclose such information.

Professional behaviour

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession.

Members shall act in a manner consistent with the good reputation of the Institute and the tax profession, refraining from any conducts that might bring the Institute and/or tax profession into disrepute.

Members should conduct themselves professionally with due consideration towards clients, third parties, other members of the tax profession, staff, employers and the general public. All professionals who provide tax services shall do so in accordance with appropriate standards of

professional and ethical conduct.

(b) Property Transfer Tax Implications

(1) The realised value of the land is the higher of

- its open market value of K390,000; and
- The agreed contract price which are the gross proceeds before deducting estate agent fees and this amounted to:

K380,000 x100/95 = K400,000; and

The realised value of the commercial plot will therefore be K400,000 as this is higher than the agreed contract price.

Property transfer tax arising was: $K280,000 \times 5\% = K14,000$

(2) Sale of shares

Property transfer tax will arise on the sale of shares in DHT Ltd because the company is not listed on the Lusaka Stock Exchange. The realised value of the shares will be the higher of the nominal value of the shares and their open market valuation.

Therefore, the realised value will be the highest of:

- The nominal value of the shares is: $K1 \times 120,000$ shares = K120,000

- Actual sales proceeds were K6 x 120,000 shares = K720,000

- The open market value was K7.50 x 120,000 = K900,000

The realised value of the shares is therefore K900,000.

PTT arising is: K900,000 x 5% = K45,000

(3) Gift of Residential plot

This is a transfer to an immediate family member because his son is a member of Mulenga's immediate family.

The realised value is the actual consideration received by Mulenga and this is K50,000. The open market value of K550,000 is irrelevant.

The amount of PTT arising is therefore:

5% x K50,000 = K2,500

(4) Gift of Residential house

Property transfer tax will arise on transfer of the residential plot to as his niece is not Kalenga's immediate family member.

The realised value of the house will be taken as the higher of the actual consideration received by Mulenga of nil and The open market value of the property which is K450,000

The realised value of the property is therefore K450,000. The amount property transfer tax arising is therefore:

K450,000 x 5% = K22,500

(5) Sale of Toyota Fortuner

The sale of a Toyota Fortuner is not a transfer of property for the purposes of Property Transfer Tax purposes. There is therefore no realized value since there is no transfer of property and Mwiya is not required to pay Property Transfer Tax.

(c) The status of the various taxable persons is as follows:

(i) Zangi

Zangi will be assessable to rental Income tax as he is generating income from letting of real property which is subjected to rental income tax. The rental will be charged on gross monthly rental and payable by the 14th day following the end of each month.

The amount of rental income tax arising each month in the tax year 2024, will be computed as shown below:

Gross annual rental	К
Residential houses	
(K4,500 x 5 x 12)	270,000
Retail shops	
(K6,000 x 10 x12)	<u>720,000</u>
	<u>990,000</u>
Rental income Tax	
On first K12,000 x 0%	0
On next (K788,000 x 4%)	31,520
On excess (K190,000 x 12.5%	<u>23,750</u>
	<u>55,270</u>
Rental income tax per month	
K55,270/12	<u>4,606</u>

(ii) **Nswana**

The income from the transportation business will be assessed under presumptive taxes for transporters, because he is an individual running a public passenger transportation business. The presumptive taxes arising from the public passenger transportation will be based on the seating capacity of the buses. He will not be assessed on the profits arising from this business and therefore both the income and expenses arising from this business will be irrelevant for the purposes of determining the amount presumptive taxes arising.

K

COMPUTATION OF PRESUMPTIVE TAXES

	IX IX
Fuso Bus	
(K2,160 x 4 quarters)	8,640
<u>Toyota Hiace Bus</u>	
(540 x 3 quarters)	1,620
Rosa Bus	
(K1,620 x 1 quarter)	1,620
Total amount of presumptive tax for the year	11,880
(540 x 3 quarters) <u>Rosa Bus</u> (K1,620 x 1 quarter) Total amount of presumptive tax for the year	1,620 <u>1,620</u> <u>11,880</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 20 MARCH 2025

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

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

SECTION A

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

Attempt Both questions.

QUESTION ONE

Buffalo Ltd is a privately owned company that has been operating for the past ten (10) years. The company has grown over the years and requires recapitalization. Two (2) years ago, the shareholders resolved that the company obtains a stock exchange listing to enable it raise the much-needed capital for expansion. The Directors are concerned about poor corporate governance systems whereby the major shareholders did whatever they wished mostly not in line with best practice of corporate governance. One (1) significant matter of concern is the relationship management had with the previous auditors. The previous auditors resigned during the audit of the financial statements for the year ended 31 December 2022. The major cause of the misunderstanding with management was the difficulties that the audit team faced in obtaining evidence. Staff referred the auditors to the Chief Executive Officer who was the majority shareholder and he decided on the information that should be given to the auditors. Efforts by the senior members of the audit firm to resolve the matters with management failed leading to the decision by the auditors to resign from the engagement.

The application to the securities exchange for listing of the shares of Buffalo Ltd was approved and following a prospectus in the press the shares on issue were fully subscribed for. During the year 2023 a new Board of Directors was constituted.

Buffalo Ltd. has an internal audit department headed by the Chief Internal Auditor who reports to the Director of Finance. The Board of Directors of Buffalo Ltd. has an audit committee comprising executive directors. The extent of management implementing the recommendations made by the internal audit department is low and recent internal audit reports show the same weaknesses previously observed in earlier audit reports. One (1) of the board members recently expressed concern on the need for Buffalo Ltd. to have an internal audit department that is clearly ineffective. He recommended that the internal audit department should be closed and instead the company should outsource internal audit services. This matter was referred to the Board of Directors for review and final decision on which way to go.

At a recent Board of Director's meeting held a number of resolutions were made some of which will ensure that the company will be compliant with the listing rules.

Below are brief details of the resolutions made by the Board of Directors:

- (1) The company name to be changed to Buffalo Plc. and the memorandum and articles of association to be changed as required.
- (2) With effect from the year 2023 a Risk Committee of the company to be established which will be responsible for risk identification and management.

The board resolved that the auditors to be appointed following the resignation of the previous auditors should play a significant role in the establishment of internal control systems in the company.

- (3) The Audit Committee was tasked to review the need to outsource internal audit services and to make any recommendations that could make the existing internal audit department effective. The committee will require to report back to the board within one (1) month.
- (4) Management of Buffalo Plc. will be changed resulting in most of the senior management team members going on voluntary separation. The Board of Directors resolved that the firm to be appointed should assist in the recruitment of the Finance Director and that in order to speed up the finalization of the audit of the financial statements for the year ended 31 December 2023 the firm should second staff, from among the audit team, to assist in the preparation and finalization of the financial statements.

Following the resignation of the previous auditors, the offer of audit services was put to tender by the company. You work for Alex & Morgan Associates a firm of chartered accountants and you are responsible for client acceptance. You are considering submitting a bid for the offer of audit services considering that your firm has experience in auditing the financial statements of companies in the industry that Buffalo Plc. operates in because one (1) of your firm's major clients is in the same industry. Alex & Morgan Associates has a small complement of audit staff most of whom have been with the firm for less than two (2) years. The firm has a number of clients with the same period end as that of Buffalo Plc. most of which have tight reporting deadlines.

Required:

(a)	(i)	Explain why it is important for the audit team of the financia	al
		statements of Buffalo Plc. to have rights.	(2 marks)

- (ii) Explain four (4) rights of the audit team in the audit of the financial statements of Buffalo Plc. (4 marks)
- (b) (i) Explain the importance of risk management for the management of BuffaloPlc (2 marks)
 - (ii) Explain the responsibilities of management and the auditors for the design and operations of systems and controls in Buffalo Plc.

(3 marks)

(c) Suggest three (3) recommendations that should be considered in justifying the call for continued existence of the internal audit department against

outsourcing the internal audit services of Buffalo Plc.

(6 marks)

(d) Describe four (4) ethical and professional issues that you should consider in deciding to bid and accept the offer for audit services to Buffalo Plc. and suggest suitable safeguards that should be applied. (8 marks)

[Total: 25 Marks]

QUESTION TWO

Bamboo Ltd is a company that imports various household goods from China and sells the goods at wholesale prices to retailers. The company has been in existence for five (5) years and during this period its records have been manual. The company holds significant quantities of goods at its rented warehouse in Lusaka where the Head Office is located. The company also leases warehouse space at locations outside Lusaka under the control of the Head Office Warehouse Manager.

Two (2) years ago, the company established an internal audit department which is responsible for setting up internal controls. In conjunction with the warehouse and sales departments, a procedural manual was established by the company. Among the controls that are in place is that all transfer of goods leaving the satellite depots must be supported by a duly signed Goods Transfer Note (GTN). The GTN should be signed by the Head Office Warehouse Manager and countersigned by the Sales Manager. The two (2) are longtime friends who were employed by Bamboo Ltd at its inception. There have been occasions where goods have been moved from the satellite warehouse on verbal instructions of the Warehouse Manager who would promise that the necessary documentation and authorization would be done later. There are many instances where the required authorization has not been obtained in line with the procedures that should be followed.

During the year 2023, the company acquired a computer system and embarked on the computerization of most of its systems. The inventory and sales systems have been fully computerized. There are control systems that have been put in place including the automatic generation of orders on reaching set reorder levels. All transfers of goods from the satellite depots will only be made based on a computergenerated Transfer Note which is activated when the reorder level is reached.

The following figures were extracted from the draft financial statements of Bamboo Ltd:

	2023 K'000	2022 K′000
Authorized share capital (Note 1) Issued share capital (Note 2)	1 000 1 000	1 000 D
Share premium	40	-

Reserves	2 400	1 800
Long term loan (Note 3)	8 000	5 000

Notes:

- (1) The authorized share capital comprises 1 million shares of K1 each.
- (2) During the year under review, 200,000 shares were issued at a premium for K1.20 per share.
- (3) The long-term loan includes a brought forward loan from the previous year and a new loan of K4 million obtained in the current year that is secured on the tangible non-current assets of the company. A breakdown of the loan balances for the previous and current periods has been provided to the audit team. All loans are subject to board approval and the term of the first loan has a limitation clause that the loans obtained by Bamboo Ltd shall not exceed 5% of the profit before tax failure to which the loan shall become immediately repayable.

You have been assigned to the audit of the financial statements of Bamboo Ltd for the year ended 31 December 2023 as Audit Senior. You have a very short time to complete the audit. The Engagement Partner suggested that through the use of directional testing and making use of Computer Assisted Audit Techniques (CAATs) you should be able to speed up the completion of the audit. Furthermore, the sample sizes should be based on your assessment of audit risk and sufficient enough for you to reach an appropriate audit opinion. The Engagement Partner emphasized the need to ensure that your extraction of sample items for testing should enable you to test for errors and omissions that may exist. The use of directional testing will ensure that transactions and balances are tested for both over and understatement.

Required:

- (a) Explain four (4) limitations of the internal controls in the operations of Bamboo Ltd. (4 marks)
- (b) (i) Explain the sample selection approach that should be followed inSelecting sample items to be tested for errors and omissions. (3 marks)
 - (ii) Explain the meaning of directional testing and describe how it may be used in the audit of the financial statements of Bamboo Ltd.

(4 marks)

(c) (i) Explain three (3) audit procedures each for the share capital issue and the reserves in the financial statements of Bamboo Ltd. (6 marks)

Explain four (4) audit procedures for the long-term loan obtained by (ii) (8 marks) [Total: 25 Marks] Bamboo Ltd.

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

You are the Audit Senior on the audit of the financial statements of Luapula Plc for the year ended 31 December 2023. The rest of the audit team members under your supervision comprises of newly recruited Audit Assistants who will require guidance and close supervision during the audit.

Luapula Plc. is a manufacturing company involved with the manufacturing of a wide range of goods including food products and other household goods such a cleaning materials and soaps. The company holds large stocks of raw materials and finished goods in its large warehouse at Head Office. The bulk of the finished goods comprising edible foods have a limited shelf life and cannot be sold for consumption after the expiry dates. Luapula Plc. has contracts with distributors of its products based in the provincial headquarters of all the provinces where goods are transferred on consignment and until they are sold, they remain the property of Luapula Plc. At the end of the year, significant quantities of goods held on consignment are in stock.

The major customers of Luapula Plc. are wholesale companies that sell to retailers. The bulk of the sales are on credit and the company has significant receivables balances at the period end. As part of obtaining evidence on the receivables balance, you intend to seek third party confirmations from a sample of receivables. Luapula Plc. has five (5) bank accounts with three (3) different banks. You plan to seek bank confirmation on some of the bank balances. You are required to explain the procedure that should be followed by the audit team in seeking third party confirmation to the Audit Assistant assigned to perform these procedures.

One (1) week before the period end there was a fire caused by an electrical fault that affected one (1) of the production lines of Luapula Plc. This resulted in significant damage to production equipment which will be off use for the next six (6) months and will have an impact on the revenue in the line of business concerned. The working papers show that management decided to disclose this matter in the notes to the financial statements for the benefit of the users of the financial statements. This matter has been adequately disclosed in note five (5) of the draft financial statements.

A review of the audit working papers shows that at the period end there were significant stocks of finished goods nearing expiry that were valued at cost. Further, there was a provision of K1.5 million in the statement of financial position. This is an estimate that management made on account of litigation against the company by a consumer of one (1) of Luapula Plc.'s products that was suspected to have been poisonous. The case was due to be concluded by the High Court within the month of

January 2024. The audit should be finalized and concluded soon and the audit report will be signed on 15 February 2024.

Required:

(a)

(i)

Explain the procedure that should be followed in seeking direct confirmation of bank balances in the audit of the financial statements of Luapula Plc. (4 marks)

(ii)

State two (2) matters that should be included in the bank confirmation letter in the audit of the financial statements of Luapula plc.

(2 marks)

(b) (i)

Explain the procedures that should be followed in seeking third party Confirmation of receivables balances. (4 marks)

(ii)

Suggest, with reasons, a suitable form of confirmation that should have been used in the receivable's confirmations for the audit of the financial statements of Luapula Plc.

(2 marks)

(C)

(i)

Explain the subsequent events that should be considered in the audit of the financial statements of Luapula Plc. for the year ended 31 December 2023.

(3 marks)

(ii)

Explain the responsibilities of the auditors with regards subsequent events that take place between the period end and the date of signing the audit report. (4 marks)

Explain the emphasis of matter and other matter paragraphs and describe their use in the audit of the financial statements of Luapula Plc. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

Spark Ltd is a company involved in the manufacturing of a wide range of domestic electrical appliances. The company has been your firm's audit client for the past three (3) years. In the past, the audit of the financial statements was concluded and finalized within two (2) months of the following year. The company has a new Board of Directors and at its first quarter meeting for the financial year ended 31 March 2024, the board resolved to come up with a tight schedule for the financial audit and requires that the audit should be finalized within the first one (1) month of the following financial year. This tight timetable has put pressure on the audit firm to conclude the audit within this period and the firm has other clients with the same year end and most of the firm's audit staff is busy with other audits.

You have been assigned Audit Senior on the audit of the financial statements of Spark Ltd for the year ended 31 March 2024. The Engagement Partner has requested you to come up with an audit plan on how you intend to complete the audit within the set timetable without impacting the completion of other audits with the same period end. You intend to carry out risk assessment procedures in planning the audit in accordance with the provisions of ISA 315 (Revised) *Identifying and assessing the risk of material misstatement through understanding the entity and its environment.* You are also planning to use a combined approach to the audit where you may place reliance on the effectiveness of internal controls in deciding on the nature and extent of further audit procedures to be performed. In view of the intended use of the combined approach to the audit, emphasis was made to the audit team members to document any internal control weaknesses observed during the audit because there will be need to issue a letter of weakness to management after the audit.

Spark Ltd prepares interim financial statements and the interim financial statements for the half year to 30 September 2023 include the profit or loss account for the half year and the statement of financial position as at 30 September 2023. The current assets at the 30 September 2023 amount to K5 million and there have been additions and disposals of tangible non-current assets during the first six (6) months of the year. The receivables balance at 30 September 2023 amount to K2.5 million and a schedule of the make-up of this amount will be made available to the audit team.

The financial statements of Spark Ltd for the year ended 31 March 2024 contained an amount of K1.2 million described as a warranty provision. Spark Ltd carries out repairs of any defective items sold within three (3) months of sale and in some cases replaces the items if they cannot be repaired. Annually, the amount of provision is estimated based on past experience of actual repairs and replacements and the amount is estimated by the Production Manager.

(a) (i)

State two (2) matters that should be contained in the audit plan document in the audit of the financial statements of Spark Ltd.

(2 marks)

- (ii) Explain three (3) benefits of planning the audit of the financial statements of Spark Ltd. (3 marks)
- (b) Explain how results of tests of controls impact the nature and extent of audit procedures that will be undertaken by the audit team.

(4 marks)

- (c) Explain four (4) pieces of information that the audit team should include in the letter of weakness to management of Spark Ltd. (6 marks)
- (d) (i)

Explain why auditing warranty provision is a high risky area for the auditors.

(2 marks)

(ii)

Explain, using an example of warranty provision, the meaning of financial statement assertions. (2 marks)

- (iii) Describe the audit procedure that should be performed on warranty provisions considering the financial statement assertion explained in (ii) above. (2 marks)
- (iv) Suggest four (4) audit procedures for the warranty provision figure in the financial statements of Spark Ltd. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

Mangoche Ltd. is an importer of sports equipment which it sells to retailers across the country. The bulk of the sales of Mangoche Ltd are on credit and the company extends credit to any retailer that has two (2) references and shows evidence that they have credit balances with the bank for a continuous period of six (6) months and submits a guarantee from their bank. During the year ended 30 June 2024, there has been a noted increase in sales revenue arising from increased extension of credit to the receivables resulting in a significant increase in the receivables balance from K2.5 million in the previous year to K5.0 million. The increase in the extension of credit was motivated by the board's decision to introduce a performance-based payment system for management.

Mangoche Ltd also operates a gym which has a clientele of one hundred (100) members that pay annual membership subscription fees in advance. The Gym is under the supervision of a Manager, five (5) trainers and a cashier. Clients that wish to use the facility on short term basis are able to pay cash to the cashier according to the daily rates determined by the Manager. At the end of each day, the cashier raises a cash sales receipt for the total cash received in the day. The cash is handed over to the Manager who deposits the cash into the company bank account once a week on Fridays. Once a client has paid the annual subscription or paid for the one (1) off daily use of the gym, there is no independent verification done by the trainers and clients simply walk in and out of the gym.

The increase in receivables has negatively impacted the liquidity of the company resulting it in relying on an overdraft facility for the past one (1) year and the bank has indicated that it may not renew the facility.

Your firm of chartered accountants has been appointed auditor of the financial statements of Mangoche Ltd for the year ended 30 June 2024. This will be the first time that Mangoche Ltd will have its financial statements audited by external auditors. You have been assigned Audit Senior on the audit and you are required to design working papers. It is necessary that the audit team should obtain sufficient appropriate audit evidence which should be evidenced by the working papers contained in the working paper files.

During the pre-audit team meeting with the audit team, the Audit Manager requested you to explain to the team the matters that should be contained in typical audit working papers and also to explain the benefits and importance of audit documentation in an audit.

Required:

(a) Explain four (4) audit risks in the audit of the financial statements of Mangoche Ltd. and suggest suitable responses for each audit risk. (8 marks)

(b) (i)

State four (4) matters that should be contained in a typical audit working paper. (2 marks)

(ii)

Explain three (3) benefits of audit documentation to the audit team in the audit of the financial statements of Mangoche Ltd. (3 marks)

(c) (i) Suggest four (4) control activities in the sales system of Mangoche Ltd.

(4 marks)

- (ii) Explain the control objective for each of the control activities suggested in (c) (i)above. (4 marks)
- (iii) Suggest a suitable test of control for each of the control activities in (c) (i) above. (4 marks)

[Total: 25 Marks]

END OF PAPER
DA 11: PRINCIPLES OF AUDITING SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) **Importance of auditor rights in the audit of Buffalo Plc:**

Rights are important in an audit of financial statements such as those of Buffalo Plc. because the auditors require to obtain sufficient appropriate audit evidence to enable them for an opinion on the financial statements. The previous auditors of Buffalo Plc. faced challenges in obtaining evidence which forced them to resign from the engagement.

One of the rights of auditors is that they have a right to any information they feel necessary in the audit of financial statements. Because this is a right, the audited entity staff have no choice but to provide the auditors with all the information that they require. The auditors need to have the rights in order to enable them carry out their duty effectively.

(ii) **Rights of the auditors:**

- 1. Access to records of the accounting records and other records without any restriction as the auditors may require.
- 2. Right to information and explanations From the officers of the company require information and explanations on any matters as the auditors deem necessary in the conduct of the audit.
- 3. Right to receive notice and attend general meetings at which the financial statements will be considered.
- 4. Right to speak at general meetings on matters that concern them as auditors.

It is important to note the above rights of the auditors are set out in law and specifically the Companies Act 1994 s 173 sets out the above rights.

(b) (i) Importance of risk management for management of Buffalo Plc.:

Risk management is important for management of Buffalo Plc. so that it identifies the risks that could cause the company not to meet its objectives and respond appropriately to the risks identified.

The response that management will take will include putting in place appropriate internal controls that will help avoid the risks that have been identified. There is a connection between risks and internal controls put in place by management. (ii)

Responsibilities for the design and operation of internal controls:

Management of Buffalo Plc. has the primary responsibility for designing and putting in place internal control in running the company.

The auditors may choose to rely on the effectiveness of the internal controls in place in designing the audit procedures that should be performed. Auditors will perform tests of controls and depending on the results of the tests of control they will decide on the approach to the audit whether to take the combined approach or the substantive audit approach.

(c)

Recommendations that should be considered in justifying the continued existence of the internal audit department:

1. The current reporting arrangement whereby the Head of Internal Audit reports to the Finance Director should be changed. It is likely that the Chief Internal Auditor may be intimidated and hence lose objectivity when performing audits.

The department should report to the Audit Committee of the board of directors.

- 2. The composition of the current Audit Committee comprising of executive directors should be reviewed. A recommendation by the committee should suggest a balance of member of the audit committee with the at least half being independent non-`executive directors.
- 3. Non implementation of the recommendations of the internal audit reports brings into question the relevance and effectiveness of the department. The Audit Committee should ensure that management responds and implements the internal audit recommendations.
- 4. The Audit Committee should hold management responsible for implementing the internal audit recommendations.
- (d)

Ethical issues in the audit of Buffalo Plc.:

	Ethical issue:	Safeguard:	
1.	Involvement in setting up internal control systems in Buffalo Plc. – in view of the fact that the firm will be involved in the audit of the financial statements of Buffalo Plc. accepting to design internal controls will result in	The firm should decline the request to design internal controls for Buffalo Plc. in view of the threat that can be created.	
	the firm assuming management responsibilities and will also result in a		

	self-interest and self-review threats.	
2.	Outsourcing of internal audit services from the same firm that will audit the financial statements will create an independence and objectivity threat. The auditors will not be objective during the audit and this may result in self-review threats in that the work performed by internal audit may be relied upon in the performance of the audit.	The firm should not accept to offer non audit services to Buffalo Plc. unless safeguards such as having different teams perform each of the functions namely internal audit work and conducting the audit.
3.	Recruitment of Finance Director – the request that the firm to be appointed should be involved in the recruitment of the Finance Director is an ethical issue that gives rise to a self-interest threat. This will impact on the objectivity of the auditors.	The firm should not assume management responsibility. The firm should end at shortlisting candidates and let the management of Buffalo Plc. decide on the candidate to pick as Finance Director.
4.	Assisting in the finalization of the financial statements by audit staff will result in a self- review threat and impact on the objectivity of the audit staff.	The firm should not accept the request to assist in the finalization of the financial statements unless suitable safeguards such as separate teams being involved in the finalization of the financial statements and having in place quality control reviews by a partner that is not going to be involved in the audit.
5.	There exists a conflict of interest in that the firm has a client in the same industry as Buffalo Plc. and either of the companies may not be willing to have its financial statements audited by the same firm. A conflict of interest will arise in the interest of two competing companies.	The firm should seek clearance from both companies that they do not mind being audited by the same firm. If either is not willing to be audited by the same firm then the firm should decide on which company to enter into an assurance engagement with.
6.	The firm should consider whether it has the necessary resources to undertake the audit including the time within which to conduct the audit. The fact that the firm has other audits with the same period end as that of Buffalo Plc. and they have tight deadlines suggests that the firm may not have the time to conduct a quality audit.	The firm should consider employing add1itional audit staff to ensure that it has staff enough to undertake the existing audits and the audit of the financial statements of Buffalo Plc. The firm may consider undertaking an interim audit of the financial statements

	of Buffalo Plc. if this will rec	
the pressure at the		the pressure at the period end
		and result in a quality audit
		being undertaken.

SOLUTION TWO

(a)

Limitations of internal control systems:

- 1. Internal controls are limited to routine matters and so for non-routine matters they may not exist.
- 2. The cost of setting up the internal control outweighing the benefits of the internal controls.
- 3. Internal controls could be overridden by management and hence rendered ineffective.
- 4. Staff may collude in order to avoid the controls whereby two members of staff to do something wrong which internal controls could have prevented or detected.
- 5. Despite there being controls in place there is a potential for human error.

(b) (i) Sample selection approach to test for errors & omissions:

In order to extract a sample meant to test for errors, the sample items should be extracted from the accounting records. An inspection of the supporting document will determine whether or not there has been an error in recording the transaction.

To extract a sample meant to test for omissions, the sample should be extracted from outside the accounting system. For example to test for the omission of the recording of goods received in the accounting records, the sample could be extracted from gate records or goods received notes and traced to the accounting records.

(ii) Meaning of directional testing:

This is a method of testing assets/expenses and liabilities/income for overstatement and understatement directly and testing the opposite transaction for over or understatement considering the double entry principle which states that for every debit there is a corresponding credit.

Use of directional testing on conducting an audit:

Primarily, assets and expenses are tested for overstatement only. By so doing, the corresponding credit is indirectly being tested for overstatement.

Liabilities and income are primarily tested for understatement which indirectly tests the corresponding debit entry for understatement.

Through the double entry principles explained here, assets/expenses and liabilities/income are tested for both over and understatement directly and indirectly using the double entry principle.

(c) (i) Audit procedures for share capital:

- 1. Verify that the issue was duly authorized by reviewing the general or board meeting minutes.
- 2. Where issued by board resolution, verify that the issue is within the authority of the board.
- 3. Confirm that cash has been received and accounted for in the cash book.
- 4. Verify that only the nominal amount is credited to share capital and that the share premium has been correctly credited to share premium account.

Audit procedures for reserves:

- 1. Confirm the opening balance on the reserves account to the previous year financial statements and audit working papers.
- 2. Agree movements in the reserves account to supporting authority.
- 3. Confirm that there is a clear distinction between distributable reserves and non-distributable reserves.
- 4. Ensure appropriate disclosures of movements on reserves are made by inspecting the financial statements.

(ii) Audit procedures for long term loan:

- 1. Obtain or prepare a schedule of the outstanding loans at the period end and cast the schedule for arithmetical accuracy.
- 2. Agree totals on the schedule to the relevant general ledger account balances.
- 3. Confirm repayments of the loans are in accordance with the loan agreement.
- 4. For the secured loan, verify that it has been entered in the register of charges.
- 5. Inspect authorization of the newly acquired loans by reviewing the board approval.
- 6. Verify that borrowing limits have not been exceeded in accordance with the loan agreement.
- 7. Review draft accounts to ensure that disclosures for non-current liabilities have been made in accordance with the relevant accounting standards

SOLUTION THREE

(a)(i)

Procedure for bank confirmation:

- 1. The audit team should decide which banks it wishes to request confirmations from.
- 2. Luapula Plc. will require to write to the banks authorizing them to respond to the letter that will be written by the company requesting for information.
- 3. The auditors should write a letter to the bank, making reference to the letter of authority from Luapula Plc., stating the information it they will require on the specified bank accounts.
- 4. The response from the bank should be sent directly to the auditors who will check to ensure the requested information has been provided.

(ii) Matters that should be included in bank confirmation letter:

- 1. Balances at the period end for the accounts held by the bank.
- 2. Confirmation that holding title deed for property being security for a loan.
- 3. Information about the account that was closed during the year and showing that there are no funds in the said account.
- 4. Any right of set off of credit and debit balances for different accounts held with the same bank.
- 5. Any guarantees that the client has entered into with the bank.

(b) (i) **Procedure for receivables confirmations:**

- 1. Obtain the age analysis of the receivable's balances and extract a sample of receivables to confirm.
- 2. Request management of Luapula Plc. to write letters of confirmations using the company letter head.
- 3. The signed confirmation letters should be obtained from management and should be posted by the auditors.
- 4. Compare responses from the receivables to confirmed balances and obtain explanations for any differences that may exist.
- 5. Follow up any non-responses with the relevant receivables with the help of management of Luapula Plc.

(ii) Suitable form of confirmation of receivable's balances of Luapula Plc.:

In view of the differences in receivable's balances with the balances per receivables ledger, a positive form of confirmation will be recommended. This is where the receivables will be required to respond to the confirmation whether or not they are in agreement with the balance being confirmed.

The positive form of confirmation has the advantage that there will be evidence in the working papers of the balance confirmed by the receivables contrary to the negative method where non responses are assumed to be confirmations in agreement of the confirmed balance.

(c) (i)

Subsequent events in the audit of financial statements for the year ended 31 March 2024.

- 1. The sales of any of the inventory that was nearing expiry date should be reviewed for the impact this will have on inventory valuation at the period end.
- 2. The final determination of the case which resulted in the provision at the period end of K1.5 million. The determination by the court subsequent to the period end may necessitate a revision of the provision made at the period end.

(ii)

Responsibilities of auditors regarding subsequent events to date of signing the audit report:

The auditors are required to conduct procedures on subsequent events in accordance with the provisions of ISA 560 *Subsequent events*. The auditors have an active duty to look out for subsequent events between the period end and the date that the audit report will be signed.

The auditors should perform the following procedures during this period:

- 1. Inquire from the management of Luapula Plc. on the status of items involving subjective judgment that existed at the period end.
- 2. Inquire from management whether there have been:
 - Any sales or destruction of assets
 - Developments regarding risk areas including provisions and contingencies.
 - Any unusual accounting adjustments
 - Litigations against the company or claims on the company.
- 3. Review the management procedures for identifying subsequent events to ensure that such events are identified.

- 4. Obtain evidence (with client permission) concerning any litigation from B & S Legal Practitioners.
- 5. Obtain written representations from management that all events occurring subsequent to the period end which need adjustment or disclosure have been adjusted or disclosed as necessary.

(d) Emphasis of matter and the other matter paragraphs:

ISA 706 *Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* gives guidance on the use of these two paragraphs in the audit report.

Emphasis of matter paragraph and its use in the audit of the financial statements of Luapula Plc.:

This is a paragraph that the auditors may use to emphasize a matter that is contained in the financial statements and is correctly accounted for which the auditor feels is fundamental and that they need to make reference to the matter.

Application in the scenario:

The matter relating to the electrical fire that resulted in damage to production equipment that will impact on revenue can be included in the emphasis of matter paragraph of the audit report. The auditors will make reference to note 5 in the notes to the financial statements in referring to this matter.

Other matter paragraph and its use in the audit of the financial statements of Luapula Plc.:

This is a paragraph in the audit report where the auditors may wish to bring to the attention of the users of the financial statements a matter that need not be included in the financial statements but which they feel is relevant and they need to bring it to the attention of the users of the financial statements.

Application in the scenario:

Since this is the first time for the firm to audit the financial statements of Luapula Plc. this means that the previous year financial statements were audited by different auditors. This will not be included in the financial statements prepared by management but the auditors may bring this matter using the other matter paragraph and stating expressly that the previous financial statements of Luapula Plc. were audited by different auditors.

SOLUTION FOUR

(a) (i) Matters that should be contained in the audit plan:

- The planned timetable for the audit including when the planned interim audit will be conducted and also the start of the final audit at the period end.
- The audit procedures planned to be conducted for the major accounting areas of inventory, receivables and cash and bank balances.
- The audit procedures to be done during the risk assessment at the planning stage of the audit.
- The materiality level set for the financial statements as a whole and the performance materiality and how they have been determined.

(ii) Importance of planning in the audit of the financial statements of Spark Ltd:

- 1. Planning the audit helps the senior people in the audit team to devote their time and effort to important areas with high risk.
- 2. Through planning the auditors will be able to identify problem areas early and to appropriately respond to them.
- 3. Planning helps the audit to be conducted in an efficient and effective manner.
- 4. Planning audits facilitate the supervision and review of the work that is performed.
- 5. Planning of audits helps in assigning staff to audits considering their skills and competences and the risks that exist in the client company.

(b) Use of results of tests of controls in the audit of the financial statements of Spark Ltd.:

Internal controls in a client company can be used by the statutory auditors in planning and conducting an audit of the financial statements. The use of internal controls will depend on the results of the tests of controls that the auditors will perform as explained below:

If the results of the tests of controls performed by the auditors show that the internal controls were operating effectively, then the auditors may adopt a combined approach whereby they will rely on the effectiveness of the controls and reduce on the extent of further audit procedures that will be performed. This means that the auditors will extract for testing less sample sizes than if the control were found to be ineffective. This will result in a reduction in the time taken to conduct the audit.

If on the other hand the results of the tests of controls conducted show that the internal controls were not operating as expected, the auditors will adopt a substantive audit approach and place no reliance on the internal controls. This will result in larger sample sizes and more time taken to perform the audit procedures.

(c) Pieces of information that should be contained in letter of weakness:

Executive summary:

This is a summary of the key findings made and is usually used by the Chief Executive Officer who may not have the time to go through the main body of the report.

Internal control weaknesses observed:

This paragraph gives the details of the internal control weakness as observed. **The implications of the internal control weaknesses:**

Here are the details of the weaknesses to the operations of the organization if the remain unresolved.

Recommendations to remedy the weakness:

Action that requires to be taken by management to remedy the weakness.

Response of management to the weakness:

In this paragraph will be the comments or responses of management to the weakness observed. Before the issuance of the report the matters will have been discussed with management and the response of management obtained for inclusion in the report under this paragraph.

(d) (i) Why warranty provision is a risky area to audit:

There is no precise way that are used in determining accounting estimates in the preparation of financial statements. The amount provided for depends on the estimate in terms of how much will be spent to repair/replace items sold in the current year. This requires management estimates and there is a risk of management bias in determining the amount.

(ii) The meaning of financial statement assertions:

These are claims made by management relating to the figures contained in the financial statements. Generally the assertions are in relation to the correct preparation and presentation of financial statements in accordance with the international financial reporting standards.

For example in relation to the provision for warranty one of the assertions is completeness suggesting that all provisions that should have been included have been appropriately included.

(iii) Use of financial statement assertion to design audit procedures:

In designing audit procedures, the auditors will take into consideration the assertions being tested. The audit procedure designed should be relevant to the claim being made by management.

Using the example of the completeness assertion of the provision for warranty, one of the appropriate audit procedures will be to determine the actual amount spent in the subsequent period to the date of the audit report and compare this amount to the provision made at the period end.

(iv) Audit procedures for warranty provision:

- 1. Inquire from management on how warranty provisions in the financial statements have been determined.
- 2. Obtain written representations from management confirming the adequacy of the warranty provision in the financial statements.
- 3. Examine the actual payments subsequent to the period end and compare with the provision made and request for any changes if necessary.
- 4. Review the previous year provision against actual expenditure on repairs and replacements to determine management's ability in making the provisions.

SOLUTION FIVE

(a) Audit risks in the audit of the financial statements of Mangoche Ltd:

	Audit risk	Suitable response to audit risk	
1.	First time audit – This being the first time that the company will be subject to an external audit, there is a risk that the company may not have maintained financial statements meeting the necessary accounting standards and the audit team may face problems gathering evidence.	The need to observed professional skepticism should be emphasized to the audit team during the pre-audit meeting. Close supervision of the work to be done will be necessary so that any problems may be identified early and acted upon.	
2.	Opening balances – Being the first time that the company will be audited there is a risk that the opening balances may be misstated which could impact the current year financial statements under audit.	Specific procedures should be done to confirm the opening balances.	
3.	Recoverability of receivables – the significant increase in the receivables balance and the lack of strict credit vetting brings into doubt the recoverability of the receivables. Allowances for receivables may be understated especially considering that a new performance based payment system has been introduced for management.	Look out for any management bias in determining the allowances for receivables and consider third party confirmations for a sample of receivables.	
4.	Liquidity of the company – the poor liquidity compounded by the refusal by the bank to renew the overdraft facility has implications on the ability of the company as a going concern. The basis of preparing the financial statements is dependent on the going concern ability of the company. In the event that the company is not a going concern, the financial statements should be prepared on the alternative break up basis and not the	The audit team members should be alert and look out for indicators of going concern as they gather audit evidence. The audit team should inquire from management the reasons for preparing financial statements on a going concern basis and evaluate the reasons given for reasonableness.	

	historical cost basis appropriate	
	for going concerns.	
5	Depositing funds once a week on Fridays could be an audit risk in that company funds may be used for personal gain and in order to conceal this, figures may be falsified resulting in a misstatement of the financial statements.	The audit team should perform audit procedures on the deposits made to ensure all funds received were banked. The audit team members should remain alert for any possible fraud regarding cash received.
6	Introduction of performance based pay for management could result in a misstatement of the financial statements to enable the set targets to be met. This may particularly involve the determination of accounting estimates.	The auditors should be alert with regards any accounting estimates and look out for any management bias aimed at understating expenditure.

(b)(i)

Matters that should be included in a typical audit working paper:

- 1. The working paper reference.
- 2. The client name
- 3. The year end of the period under audit.
- 4. Subject under consideration.
- 5. Details of preparer of the working paper and date
- 6. Details of the reviewer of the working paper and date.
- 7. The aim of the work done
- 8. Details of work done.
- 9. Results of the work done
- 10. Conclusions reached on evaluation of work done.

(ii) **Benefits of audit documentation:**

- 1. The documentation is the basis upon which the audit opinion will be arrived at.
- 2. Documentation of work facilitates review of the work done in line with the standards on quality control.
- 3. Documentation helps the engagement team to plan and perform the audit in an effective manner.

- 4. It enables audit team members to be accountable for the work that they have done.
- 5. In case of litigation and the auditors being sued, the documentation serves as a basis of the work that has been done in defense.
- 6. Documentations enable quality control reviews to be done.

(c) (i)(ii)(iii) Control activities, control objectives and tests of controls:

	(i) Control activity:	(ii) Control	(iii) Test of control
		objective	
1.	Authorization of credit limits – there should be procedures for vetting customers before authorizing credit and the authority must be evidenced in writing by a responsible official.	To avoid customers that are not creditworthy from being extended credit which may become irrecoverable.	For a sample of credit customers, examine the authorization and ensure in lien with guidance and given by authorized official.
2.	Cash sale receipts should be raised and issued for all funds received from clients.	To ensure accountability of all cash received.	Observe the issuance of receipts by cashier as payments are made by customers.
3.	Cash received should be banked daily or the following day at the latest.	To avoid cash been stolen or misappropriated before banking.	Review deposits into the bank and confirm that they relate to daily cash sales and the two should be reconciled.
4.	All advance payment clients to the gym should provide evidence of payment before use of the facility. Alternatively a records of all advance customers with expiry dates should be maintained at entry point against which clients will be confirmed before being allowed in.	To avoid customers who have used up their advance payment using the facility without paying for the services.	Review adequacy of procedures for advance payments and observe use of the facility by clients who paid in advance.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND COMPANY LAW

FRIDAY 21 MARCH 2025

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

INSTRUCTIONS TO CANDIDATES

- 1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
- 2. This paper is divided into TWO (2) sections:

Section A: There are two (2) compulsory questions. Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

SECTION A

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

Attempt Both questions.

QUESTION ONE

Muwe Gas Ltd is a company that deals in supply of petroleum products. One of its aims is to ensure that the company is run based on the latest Corporate Governance Principles so as to effect high performance and conformity with the laid down rules of both Company Law and the laws of the country.

In its quest to expand, the company is of the view that some of the duties being performed by its Chief Executive Officer be given to a new person who shall be appointed as a Company Chairman at the next general meeting of members. The company however, is still not clear as to what roles the Chairman will perform. The auditor of the company has come to you for help on the principles of corporate governance that Muwe Gas's management must adhere to and on the issue of the Chairman and Chief Executive Officer.

Required:

(a) (i)

State five (5) principles of corporate governance that Muwe Gas Ltd should be governed on. (5 marks)

- (ii) Explain the five (5) principles of Corporate Governance you identified in
 (a) (i) above. (10 marks)
- (b) Distinguish between the roles of a Chairman and those of a Chief Executive Officer in modern corporate governance principles that Muwe Gas Ltd wants to adopt.

(10 marks) [Total: 25 Marks]			
(a)	Define a promoter?	(3 marks)	
(b)	Discuss the duties of promoters when forming a company	. (10 marks)	
(c)	Discuss the liabilities of promoters, if any.	(6 marks)	
(d)	Discuss the rights of promoters in a company	(6 marks)	

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

- (a) Discuss the main characteristics of **Rules Based** and **Principles Based** theories of corporate governance. (16 marks)
- (b) Explain the main criticisms of the Principles Based approach. (9 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Explain the mechanisms in company law that a company uses to raise capital using equity and debt financing.(8 marks)
- (b) Explain the significance of the case of Erlanger v New Sombrero Phosphate Co (1878) 3 App in relation to company promotors conflict of interest.

(5 marks)

(c) Discuss the differences between a fixed charge and a floating charge.

(8 marks)

(d) State any (4) four roles of the audit committee. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) A reduction of share capital diminishes creditor's security. Explain at least any three (3) ways through which a company may reduce capital. (12 marks)
- (b) State any four (4) contents of the Directors Report. (4 marks)
- (c) Explain the difference between Executive and Non-Executive Directors and the roles that they play. (9 marks)

[Total: 25 Marks]

END OF PAPER

DA 12: GOVERNANCE AND COMPANY LAW SUGGESTED SOLUTIONS DA12

SOLUTION ONE

(a) (i) Principles of Corporate Governance include:

- Honesty/probity
- Integrity
- Independence
- Responsibility
- Accountability
- Transparency
- Fairness

(ii) The above principles are explained below:

- Honesty/Probity This principle of corporate governance entails that management of a company must be honesty and tell the truth at all times. They should avoid misleading the shareholders or other stakeholders and should not receive bribes. They must work to the best interest of a company.
- Integrity This means management must be straightforward in their dealings, and should have high moral calibre who will not be corrupted at any point.
- *Independence* The management of the company must work independently, without bias or external influence from shareholders or other external forces. They must be able to make their own decisions based on their judgments.
- *Fairness* Management must act fairly. This is meant to protect the interest of all stakeholders especially members of the community, minority shareholders, etc. Management will have to protect their rights.
- Responsibility Good management must be able to accept the credit or blame for government decisions. Avoid blaming others and be ready to be corrected or accept the blame for their mistakes.
- *Accountability* must provide true, unbiased financial information to stakeholders e.g shareholders, government, community, etc.
- *Transparency* Management must provide open and clear disclosure of relevant information to shareholders and other stakeholders. The information must be given to the right people, not anyone.

(b) The Roles of a Chairman and a Chief Executive Officer

Roles of a Chairman in Muwe Gas Ltd

- Running the board of directors and setting its agenda. The chairman should lead the board and give them direction and ensure its effectiveness.
- Ensuring that the board of directors receives accurate and timely information from management.
- Ensuring effective communication with shareholders on what is going on in the company.
- Ensuring that sufficient time is allowed for discussion of controversial issues to allow members of the board to think through.
- Taking the lead in board development e.g. through training of board members if need be on management issues.
- Facilitating board appraisal e.g. evaluation or assessment of company performance.

Roles of a Chief Executive Officer in Muwe Gas Ltd

- Running the company on a day-to-day basis
- Implementing the decisions of the board of directors by running the company effectively.
- Develops business strategy for the company to ensure that its objectives are achieved.
- Examining major investments, capital expenditure, acquisitions, and disposals and identifies new initiatives/investment areas.
- Responsible for risk management of the company and thus ensures that investments that would injure the company are avoided.
- The Chief Executive Officer develops the main policy statements and reviewing the business' organizational structure.

SOLUTION TWO

(a) Promoters are individuals who play a crucial role in the conception and birth of a company. They pave the way for its official existence, juggling various duties, liabilities, and rights while navigating the legal and practical landscape. Let's delve into their multifaceted role:

(b) Duties:

- 1. **Ideation and Development**: Promoters conceive the business idea, conduct feasibility studies, and develop a business plan.
- 2. **Resource Mobilization:** They secure funding, find investors, and negotiate financing arrangements.
- 3. **Company Formation**: They prepare legal documents, register the company, and obtain necessary licenses and permits.
- 4. **Building the Team**: Promoters recruit directors, managers, and key personnel to spearhead operations.
- **5. Public Relations and Marketing:** They may generate pre-launch publicity and attract initial customers or clients.

(c) Liabilities:

- Fiduciary Duty: Promoters owe a duty of good faith and fair dealing to the company and its future members. They cannot use their position for personal gain or engage in activities detrimental to the company's interests.
- Contractual Liabilities: They are personally liable for any contracts entered into on behalf of the company before its incorporation, unless proper disclosure and ratification occurs.
- **3. Misrepresentation:** They can be held liable for any misleading statements made to attract investors or partners.

(d) Rights:

1. **Remuneration:** Promoters may be entitled to remuneration for their services, as agreed upon with the company or investors. This can be fixed

fees, commissions, or shares in the company, depending on the specific arrangements.

- 2. **Expense Recovery**: They can claim reimbursement for reasonable expenses incurred while forming the company, provided proper records are maintained and supported by receipts.
- **3. Founders' Shares**: In some cases, promoters may be awarded founders' shares as recognition for their role in establishing the company.

The following cases may be referred to:

Erlanger v New Sombrero Phosphate Co (1878):

Gluckstein v Barnes (1900)

Lagunas Nitrate Co v Lagunas Syndicate (1919):

Old Dominion Copper Co v Bigelow (1909):

Tracey v Dean (1974):

Re Darby (1911):

Menier v Hooper's Stores Ltd (1974)

Kelner v. Baxter (1866)

SOLUTION THREE

(a) Rules-Based Approach to Corporate Governance is based on the view that companies are required by law (or by some other form of compulsory regulation) to comply with established principles of good corporate governance. The rules might apply only to some types of companies and not all of them, such as major stock market companies. However, for the companies to which they apply, the rules must be obeyed and few (if any) exceptions to the rules are allowed.

Advantages

- Companies do not have the choice of ignoring the rules.
- All companies are required to meet the same minimum standards of corporate governance.
- Investor confidence in the stock market might be improved if all the stock market companies are required to comply with recognised corporate governance rules.

Disadvantages

- The same rules might not be suitable for every company, because the circumstances of each company are different. A system of corporate governance is too rigid if the same rules are applied to all companies.
- There are some aspects of corporate governance that cannot be regulated easily, such as negotiating the remuneration of directors, deciding the most suitable range of skills and experience for the board of directors, and assessing the performance of the board and its directors.

Whereas,

Principles-Based Approach to Corporate Governance is an alternative to a rules-based approach. It is based on the view that a single set of rules is inappropriate for every company. Circumstances and situations differ between companies. The circumstances of the same company can change over time. This means that: - the most suitable corporate governance practices can differ between companies, and - the best corporate governance practices for a company might

change over time, as its circumstances change. It is therefore argued that a corporate governance code should be applied to all major companies, but this code should consist of principles, not rules.

The principles should be applied by all companies. Guidelines or provisions should be issued with the code, to suggest how the principles should be applied in practice.

As a rule, companies should be expected to comply with the guidelines or provisions. However, the way in which the principles are applied in practice might differ for some companies, at least for some of the time. Companies should be allowed to ignore the guidelines if this is appropriate for their situation and circumstances.

Further, when a company does not comply with the guidelines or provisions of a code, it should report this fact to the shareholders and explain its reasons for non-compliance. This approach is sometimes called comply or explain. It applies in most common law jurisdictions such as Zamia. With a comply or explain approach, stock market companies are required to present a corporate governance statement to their shareholders in which they clearly indicate that they have complied with all the provisions or guidelines in the code for applying the principles in practice, or - explain their non-compliance with any specific provision or guideline

(b) Criticism of the Principles-based Approach

As already highlighted above, principles-based approach to corporate governance relies on a set of broad principles and guidelines that provide flexibility and discretion to companies in implementing governance practices. However the same the same has been criticised for the following reasons.

- Lack of Clarity: The broad nature of principles-based approaches can lead to ambiguity and lack of clarity in governance expectations. This ambiguity may result in inconsistent interpretations and application of governance principles and thereby affect company operations and growth.
- Subjectivity: The discretionary nature of principles-based approaches allows companies to exercise judgment in implementing governance practices. This subjectivity can lead to variations in governance standards and potential conflicts of interest. And affects companies negatively.

• Enforcement Challenges: Further, principles-based approaches may face challenges in enforcement due to the absence of specific rules. Regulators usually find it difficult to assess compliance and take enforcement actions consistently which affect companies in a negative way.

SOLUTION FOUR

(a) To raise capital for business needs, companies primarily have two types of financing as an option: equity financing and debt financing. Most companies use a combination of debt and equity financing, but there are some distinct advantages to both. Principal among them is that equity financing carries no repayment obligation and provides extra working capital that can be used to grow a business. Debt financing on the other hand does not require giving up a portion of ownership. (Please take note of that difference). Companies usually have a choice as to whether to seek debt or equity financing.

The choice often depends upon which source of funding is most easily accessible for the company, its cash flow, and how important maintaining control of the company is to its principal owners. The debt-to-equity-ratio shows how much of a company's financing is proportionately provided by debt and equity.

Equity financing involves selling a portion of a company's equity in return for capital. For example, the owner of Company ABC might need to raise capital to fund business expansion. The owner decides to give up 10% of ownership in the company and sell it to an investor in return for capital. That investor now owns 10% of the company and has a voice in all business decisions going forward. The main advantage of equity financing is that there is no obligation to repay the money acquired through it. Of course, a company's owners want it to be successful and provide the equity investors with a good return on their investment, but without required payments or interest charges, as is the case with debt financing. Equity financing places no

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additional financial burden on the company. Since there are no required monthly payments associated with equity financing, the company has more capital available to invest in growing the business. But that doesn't mean there's no downside to equity financing. In fact, the downside is quite large. In order to gain funding, you will have to give the investor a percentage of your company. You will have to share your profits and consult with your new partners any time you make decisions affecting the company. The only way to remove investors is to buy them out, but that will likely be more expensive than the money they originally gave you.

(b)

Erlanger v New Sombrero Phosphate Co

In this case, the House of Lords unanimously held that the relationship between a promoter and a newly formed company attracts a fiduciary relationship.

• A promoter owes duties of good faith and honesty to the company. • Erlanger should have declared any conflicting interests to the company promoted and cannot make any "secret profits".

• A promoter who breaches any duty to the company by failing to disclose to the company conflicting interests would be liable. The company is able to seek remedies such as rescission of contract and recovery of profits.

Or

SIGNIFICANCE OF THE CASE

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This case reinforces the fact that a relationship between a promoter and a company is fiduciary in nature and as such there should be mutual trust and confidence as between the promoter and the company. Due to this fiduciary relation, duties on the part of the promoter arise pertaining to the company. This case further reinforces the consequences for breaching ones duty as a promoter. This case further eludes to the fact that promoters performs range of activities including drafting of prospectus, signing technology transfer agreement, agreement related with procurement of raw materials and stock in trade, listing, corporate financing, corporate governance, disclosures and winding up of the affairs of the company. Additionally, it is a settled principle in the case that the legal position of promoters is that he is neither agent nor employee of the company but he stands in fiduciary capacity.

(C)

1. Floating Charge

A floating charge has been defined in the celebrated case of *Re: Yorkshire Woolcombers Association Limited 1903* as being:

"A charge on a class of assets of a Company, present and future, which class is, in the ordinary course of the Company's business, charging from time to time. Until the Holders enforce the charge, the Company may carry on business and deal with the assets charged"

Suffice to note that a floating charge is not restrictive in nature as it hovers over both present and future assets of the company and does not attach to any one particular asset of the Company, until such a time that it shall have crystalized.

2. Fixed Charge

A fixed charge, unlike a floating charge attaches to a particular asset of a Company and give the Holder the right of enforcement against an identified asset of the Company. This kind of a charge attaches as soon as it is created.

This kind of a charge is best suited for assets that can properly be described as long- term assets that a company is likely to hold, e.g. real property. A mortgage is an example of a fixed charge. Should the Company for any reason decided to dispose of an asset the subject of a fixed charge, the company will have to pay off the debt out of the proceeds of the sale or hand over the asset.

In conclusion, it is clear that a fixed charge differs from a floating charge in the sense that the former attaches to a particular asset of the Company, whereas the latter hovers over the assets of the Company, until such a time that shall have crystalized and attached to a particular asset.

(d)

Any of the 4 roles below:

- 1. Investigations
- 2. To review financial statements and systems
- 3. Liaise with external Auditors
- 4. Review of Risk Management
- 5. Review of an Internal audit
- 6. Review of internal control

SOLUTION FIVE

- (a) The ways in which a company may reduce share capital are through the company's purchase of its own shares; assisting purchase of own shares; issuing shares at a discount and returning share capital to shareholders.
- (b) The main contents of the Director's Report are:
 - Changes in the business
 - Information of the Directors of the company
 - Assets
 - Share and Debenture issues
- (c) A non-executive director is a member of a company's board of directors who is not part of the executive team. A non-executive director typically does not engage in the day-to-day management of the organization but is involved in policymaking and planning exercises. In addition, non-executive directors' responsibilities include the monitoring of the executive directors and acting in the interest of the company stakeholders.

Non-executive directors are also known as external directors, independent directors or outside directors, are put in place to challenge the direction and performance of a company as well as its existing team. Since non-executive directors do not hold managerial positions, they are thought to understand the interests of the company with greater objectivity than the executive directors, who may have an agency problem or conflict of interest between management and stockholders or other stakeholders. Additionally, non-executive directors are often installed on a firm's board for public relations for several reasons. For instance, a particular non-executive director's community standing, record of philanthropy, and prior experience could provide positive exposure and symbolic value for the firm.

END OF SUGGESTED SOLUTIONS