



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 Which of the following is an enhancing qualitative characteristic of financial information according to the conceptual framework?

- A. Materiality
- B. Accruals
- C. Timeliness
- D. Relevance

(2 marks)

- 1.2 Mwale Co. acquired a property on 1 January 2011 for K500,000, being K400,000 for the building and K100,000 for the land. The building was judged to have a useful life of 50 years. On 1 January 2021 the property was independently revalued which resulted in an increase of K200,000 to the carrying amount of the building and K100,000 to the carrying amount of the land. The useful life is unchanged. What is the depreciation charge for the year ended 31 December 2021?

- A. K13,000
- B. K15,000
- C. K12,500
- D. K17,500

(2 marks)

- 1.3 Busiku keeps records identifying those business debts he has met personally and those debts met using business assets.

By doing this, Busiku is trying to make sure that when he prepares his accounts, he does so in accordance with which principle or concept:

- A. Historical cost
- B. Business entity
- C. Accruals
- D. Going concern

(2 marks)

- 1.4 A business had net assets at 1 January 2023 and 31 December 2023 of K151,200 and K147,600 respectively. During the year, the proprietor introduced additional capital of K35,400 and withdrew cash to the value of K32,600. What profit or loss was made by the business in 2023?

- A. K800 Loss
- B. K800 Profit
- C. K6,400 Profit
- D. K6,400 Loss

(2 marks)

- 1.5 In the year to 31 December 2023, A. Mwale, a sole trader recorded some expenditure on assets as expenses charged to Profit or Loss.

What is the effect on his profit for the year to 31 December 2023 and his net assets at that date?

Profit	Net asset
A. Understated	Overstated
B. Overstated	Overstated
C. Understated	Understated
D. Overstated	Understated

(2 marks)

- 1.6 We originally sold 25 items at K120 each, less $33\frac{1}{3}$ percent trade discount. Our customer now returns 4 of them to us. What is the amount of credit note to be issued?

- A. K320
- B. K480
- C. K360
- D. K300

(2 marks)

- 1.7 A firm bought a machine for K80,000. It is expected to be used for five years then sold for K5,000. What is the annual amount of depreciation if the straight line method is used?

- A. K16,000
- B. K15,500
- C. K18,750
- D. K15,000

(2 marks)

- 1.8 A cheque issued by the business, but not yet passed through the banking system is?

- A. A dishonored cheque
- B. Unpresented cheque
- C. A standing order cheque
- D. A credit transfer

(2 marks)

- 1.9 Given opening trade receivable of K23,000, credit sales of K96,000 and receipts from trade receivables of K90,000, the closing trade receivable total should be?
- A. K17,000
 - B. K29,000
 - C. K27,000
 - D. K37,000

(2 marks)

- 1.10 Banda, a sole trader, is preparing his bank reconciliation statement. The bank balance in his general ledger is K5,400 credit. There are two items he is yet to deal with:

- (1) A cheque for K6,200 was sent to a supplier but is not yet showing on the bank statement.
- (2) A bank charge of K280 was made by the bank, but was not recorded by Banda.

What is the closing balance on Banda's bank statement assuming there are no other errors or adjustments?

- A. K11,320 overdrawn
- B. K11,880 overdrawn
- C. K520 credit
- D. K1,080 credit

(2 marks)

[Total: 20 Marks]

SECTION B

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

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

QUESTION TWO

A summary cash book of the bank column of Gold Lake Company for the month of December 2022 stood as follows:

	K' 000		K' 000
Balance b/d	200	Payments	420
Receipts	<u>1,000</u>	Balance c/d	<u>780</u>
	<u>1,200</u>		<u>1,200</u>

Upon receipt of the bank statement, the statement showed a closing balance of K942,000 on the credit, which was different from the cash book balance.

On investigation for the cause of the differences, the following were revealed:

1. The opening balance of the cash book was overstated by K10,000.
2. Cheques drawn and recorded in the cash book of K100,000 relating to various suppliers had not been presented at the bank.
3. A standing order for water bills to BWS company amounting to K12,000 was deducted by the bank and recorded on the bank statement. However, no entry was made in the cash book.
4. There was no entry for Credit transfer of K80,000 paid directly into the bank.
5. A cheque receipt for rentals amounting to K28,000, was wrongly entered on the payment side of the cash book.
6. Bank charges of K4,000 were entered on the bank statement but no entry was made in the cash book.
7. A cheque received from a customer of K130,000 was recorded in the cash book and then deposited into the bank. However, the bank did not credit the amount until 5th January 2023.
8. Dividends received of K70,000 for some investments were paid directly into the bank but no entry was made in the cash book.
9. The payments total shown in a summary cash book includes a payment for rates of K12,000 that was recorded twice by error.

Required:

- (a) Explain five (5) errors which are not disclosed by the trial Balance. (5 marks)
- (b) Prepare Gold Lake Company updated cash book. (10 marks)

- (c) Prepare Gold Lake Company's bank reconciliation statement as of 31 December 2022.
(5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) The financial year of Moba Limited is 31 December 2023. At 1 January 2023, the company had in use equipment with a total accumulated cost of K272,000 which had been depreciated by a total of K162,000. During the year ended 31 December 2023, Moba Limited purchased new equipment costing K98,000 and sold off Equipment which had originally cost K70,000 and which had been depreciated by K54,000 for K12,000.

The company policy is to depreciate equipment at 25% using reducing balance method. A full year's depreciation is provided for on all Equipment in use by the company at the end of each year.

Required:

Show the following ledger accounts for the year ended 31 December.

- | | | |
|-------|--|------------|
| (i) | The Equipment account. | (2½ marks) |
| (ii) | The Equipment Accumulated Depreciation Account | (5½ marks) |
| (iii) | The Equipment Disposal Account | (2 marks) |

- (b) During the month of July 2023, the following information was made available by Moba Limited.

1 July 2023, sales ledger balances – Debit	K100,200
– Credit	K280

Activities during the month of July are as follows: -

- | | |
|--|----------|
| - Cheques from credit customers | K599,650 |
| - Sale on credit | K623,000 |
| - Irrecoverable Receivables | K1,020 |
| - Discount allowed | K17,400 |
| - Discount Received | K14,250 |
| - Returns Inwards | K5,315 |
| - Returns Outwards | K1,200 |
| - Sales ledger credit balances at 31 July 2023 | K185 |
| - During the month of July, debit balances in the sales ledger, amounting to K2,190, were transferred to the purchases ledger. | |

Required:

Prepare the Trade Receivables Control Account for the month of July 2023.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

Kwena is a businessman that runs a business which has two departments: Jewelry and Shoes. He instructed his accountant to prepare the departmental accounts so that a decision could be made whether to close one department or not.

Below are the balances relating to the books of accounts of Kwena business as of 31 March 2023:

		K'000
Sales revenue	Jewelry	500,000
	Shoes	350,000
Purchases	Jewelry	280,000
	Shoes	210,000
Carriage inwards	Jewelry	8,000
	Shoes	2,000
Opening inventory	Jewelry	5,000
	Shoes	20,000
Wages and salaries	Jewelry	50,000
	Shoes	100,000
Other expenses	Jewelry	4,000
	Shoes	50,000
Premises at cost		180,000
Motor vehicles at cost		120,000
Allowance for depreciation:		
Premises		18,700
Motor vehicles		24,000
Light and heating		10,000
Insurance		12,000
Rates		9,000

Additional notes:

1. Closing inventory as at 31 March 2023: Jewelry K40,000,000, Shoes K60,000,000.
2. Depreciation is to be charged per annum as follows:
 - a. Premises at 5% on cost and
 - b. Motor vehicles at 20% using the diminishing balance method.
3. Rates paid above includes a prepayment up to 30 June 2023.
4. Premises is to be apportioned in the ratio; 2:3 for Jewelry and Shoes.
5. Insurance is to be apportioned in the ratio; 3:2 for Jewelry and Shoes respectively.
6. Light and heating and rates are apportioned in the ratio 1:3 between Jewelry and Shoes.
7. Motor vehicles are shared equally between the two departments.

Required:

- (a) Prepare Kwena's departmental statement of profit or loss for the year ended 31 March 2023. (16 marks)
- (b) Based on your solution to (a) above, explain two reasons why the business may decide not to close-off a loss-making department. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

The following trial balance was extracted from the books of Amuna Ltd a manufacturing and trading company, as at 31 December 2023:

	Dr K	Cr K
Ordinary shares of K1 each		400,000
Share premium		200,000
Retained earnings		298,500
Freehold land at cost	540,500	
Factory plant and equipment at cost	150,000	
Accumulated depreciation – Plant and equipment		68,500
Furniture and fixtures at cost	50,000	
Accumulated depreciation – Furniture and fixtures		15,750
Motor vehicles at cost	75,000	
Accumulated depreciation – Motor vehicles		25,000
10% Loan notes		100,000
Trade receivables	177,630	
Trade payables		97,500
Bank overdraft		46,130
Inventories – Raw materials	108,400	
– Finished goods	184,500	
– Work-in-progress	32,750	
Purchases of Raw materials	761,100	
Manufacturing wages	250,000	
Manufacturing overheads	125,000	
Sales		1,532,500
Administrative expenses	212,200	
Selling and distribution expenses	116,800	
	<u>2,783,880</u>	<u>2,783,880</u>

Additional Information.

- (i) Inventories at 31 December 2023 were:

	K
Raw materials	112,600
Work-in-progress	37,800
Finished goods	275,350

- (ii) Depreciation for the year is to be charged as follows:

Plant and equipment	8% on cost; charged to production.	
Furniture fixtures	10% on cost.	
Motor vehicles	20% Reducing Value	Charged to administration expenses

- (iii) Income tax on the profits for the year is estimated at K40,000 and is due for payment on 31 March 2024.

Required:

Prepare the following, for Amuna Ltd's:

- (a) Manufacturing account for the year ended 31 December 2023. (4½ marks)
- (b) Statement of profit or loss for the year ended 31 December 2023. (5½ marks)
- (c) Statement of financial position as at 31 December 2023. (10 marks)

[Total: 20 Marks]

QUESTION SIX

Buumba, a sole trader based in Choma, has provided you with the following trial balance as at 31 December 2023:

	Dr K	Cr K
Capital		515,720
Trade payables		55,960
Buildings	500,000	
Buildings - Accumulated depreciation		200,000
Plant and machinery	453,040	
Accumulated depreciation – Plant and equipment		268,300
Trade receivables	106,020	
8% Loan note		300,000
Bank	195,480	
Loan interest paid	12,000	
Sales		1,176,800
Purchases	839,240	
Returns inwards	11,280	
Returns outwards		15,560
Distribution costs	108,860	
Selling expenses	30,000	
Administrative expenses	95,780	
Inventories as at 1 January 2023	<u>180,640</u>	
	<u>2,532,340</u>	<u>2,532,340</u>

Additional Information

1. The inventories at the close of business on 31 December 2023 were valued at K157,560.
2. Depreciation is to be charged as follows: -
 - Buildings at 2% on cost.
 - Plant and machinery at 5% using reducing method.
3. Accruals of K8,720 on administrative expenses are to be provided while selling expenses have been prepaid by K900.
4. A customer has owed Buumba K2,520 for the last six (6) months and has moved away from the address given to Buumba. Buumba has decided to write off this debt and of the remaining trade receivables, he has decided to make an allowance for receivables of 5%.

Required:

- (a) Prepare Buumba's statement of profit or loss for the year ending 31 December 2023. (11 marks)
- (b) Prepare Buumba's statement of financial position at 31 December 2023. (9 marks)

[Total: 20 Marks]

END OF PAPER

DA 1: FINANCIAL ACCOUNTING – SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Four (5) Errors not Disclosed by the Trial Balance

- (1) Error of omission: This is an error in which a transaction is completely omitted from the books of accounts.
- (2) Error of commission: This is an error in which the correct amount is entered in the correct account class but wrong account name.
- (3) Error of principle: This is a type of an error in which the correct amount is entered in the wrong class of account.
- (4) Error of original entry: This is the type of an error in which an incorrect figure is picked from the source document and yet the double entry is completed with that incorrect figure in both accounts.
- (5) Error of complete reversal: This is a type of an error in which the account to be credited is debited and account to be debited is credited.
- (6) Compensating errors: These are errors that cancel out or compensate each other out.

(b) Gold Lake Company's Updated Cash Book for month of December 2022

	K'000		K'000
Balance b/d	780	Opening balance overcast	10
Credit transfer	80	Standing order	12
Rent received error	56	Bank Charges	4
Dividends received	70		
Rates payment error	<u>12</u>	Balance c/d	<u>972</u>
	<u>998</u>		<u>998</u>

(c) Gold Lake Company's Bank Reconciliation Statement at 31 December 2022

	K'000
Balance as per revised cash book	972
Add: Unpresented cheques	<u>100</u>
	1,072
Less: uncredited cheques	<u>130</u>
Balance as per bank statement	<u>942</u>

SOLUTION THREE

(a) (i) Equipment Account

		K			K
Jan 1	Balance b/f	272,000	Dec	Disposal	70,000
Dec 31	Bank		31	Balance c/d	
		<u>98,000</u>	Dec		<u>300,000</u>
			31		
		<u>370,000</u>			<u>370,000</u>

(ii) Equipment Accumulated Depreciation Account

		K			K
Dec 31	Disposal	54,000	Jan 1	Bal b/f	162,000
	Balance c/d		Dec	Balance	<u>48,000</u>
		<u>156,000</u>	31		<u>210,000</u>
		<u>210,000</u>			

(iii) Equipment Disposal Account

		K			K
31 Dec	Equipment	70,000	31	Accumulated	54,000
			Dec	depn	12,000
			31	Bank	
		<u>70,000</u>	Dec	Profit or loss	<u>4,000</u>
					<u>70,000</u>

(b) Trade Receivables Control Account

		K			K
1 July	Balance b/f	100,200	1 July	Balance b/f	280
31 July	Sales	623,000	31 July	Bank	599,650
31 July	Balance c/d	185	31 July	Irrecoverable	1,020
			31 July	Discount allowed	17,400
			31 July	Returns inwards	5,315
			31 July	Trade payables C	2,190
			31 July	Balance (bal fig) c/d	<u>97,530</u>
		<u>723,385</u>			<u>723,385</u>

Workings 1

1. Closing balance at cost on equipment	K
Opening balance	272,000
Additions	<u>98,000</u>
	<u>370,000</u>

Less Disposals	(70,000)
Closing balance	<u>300,000</u>

2. Depreciation expenses charge	K
Closing balance	300,000
Less Accumulated dep'n (162-54)	(108,000)
Net book value	<u>192,000</u>
∴ Depreciation expense 25% x 192,000 = K48,000	

SOLUTION FOUR

(a) Kwena's Departmental statement of profit or loss for the year ended 31 March 2022

		<u>Jewelry</u>		<u>Shoes</u>	<u>Total</u>
	K'000	K'000	K'000	K'000	K'000
Sales revenue		500,000		350,000	850,000
Less cost of sales:					
Opening inventory	15,000		20,000		
Purchases	280,000		210,000		
Add carriage inwards	<u>8,000</u>		<u>2,000</u>		
Total inventory available	303,000		232,000		
Less closing inventory	<u>(40,000)</u>		<u>(60,000)</u>		
Cost of sales		<u>(263,000)</u>		<u>(172,000)</u>	<u>(435,000)</u>
Gross profit		237,000		178,000	415,000
Direct expenses:					
Wages and salaries	50,000		100,000		
Other expenses	<u>4,000</u>		<u>50,000</u>		
		<u>(54,000)</u>		<u>(150,000)</u>	<u>(204,000)</u>
Contribution		183,000		28,000	211,000
Less Expenses					
Lighting and heating (10,000) 1:3	2,500		7,500		
Insurance (12,000) 3:2	7,200		4,800		
Rates (9,000 -1,800) 1:3	1,800		5,400		
Depreciation:					
Premises (180,000 ×0.05) 2:3	3,600		5,400		
Motor vehicles (120,000-24,000)×0.2)÷2	<u>9,600</u>		<u>9,600</u>		
Total expenses		<u>(24,700)</u>		<u>(32,700)</u>	<u>(57,400)</u>
Net profit/(loss)		<u>158,300</u>		<u>(4,700)</u>	<u>153,600</u>

(b) Two Reasons why Kwena may not close-off the Shoes Department

- (1) The shoes department made a positive contribution of K28,000,000 despite a net loss. There could be hope of turning the net loss into profit in the future. The loss could have been due to higher fixed costs.
- (2) Kwena might not sell the shoes department if this could lead to loss of customers. The department may have been contributing to an increase in the number of customers for the Jewelry department.

SOLUTION FIVE

(a) Amuna Ltd's manufacturing account for the year 2023

	K	K
Opening inventory	108,400	
Purchases		
	<u>761,100</u>	
Less closing Inventory	869,500	
Cost of Raw materials used.		756,900
Add manufacturing wages	<u>(112,600)</u>	
		<u>250,000</u>
		1,006,900
<u>Add factory overheads</u>		
Manufacturing overheads		
Depreciation on factory Plant (8%*150,000)		
	125,000	
<u>Adjust for Work-In-Progress</u>	<u>12,000</u>	<u>137,000</u>
Opening inventories		1,143,900
Closing inventories		
Cost of Production	32,750	
	<u>(37,800)</u>	
		<u>(5,050)</u>
		<u>1,138,850</u>

(b) Amuna Ltd's statement of profit or loss for the year ended 31 December 2023.

	K	K
Sales		1,532,500
Opening inventory	184,500	
Cost of Production	<u>1,138,850</u>	
	1,323,350	
less Closing inventory		
Gross Profit	<u>(275,350)</u>	<u>(1,048,00)</u>
		484,500
<u>Other Expenses</u>		
Administrative expenses	212,200	
Depreciation – furniture	5,000	
– motor vehicles	<u>10,000</u>	
Selling and distribution	227,200	
Operating profit		
Finance cost 10% x 100,000	<u>116,800</u>	<u>(344,000)</u>
Profit before tax		140,500
Income tax		<u>(10,000)</u>
Profit for the year		130,500
		<u>(40,000)</u>
		<u>90,500</u>

(c) Amuna Ltd's statement of financial position as at 31 December 2023.

	Cost	Accum'd Depn	NBV
	K	K	K
Freehold land	540,500	-	540,500
Factory Plant and Equipment	150,000	80,500	69,500

Furniture	50,000	20,750	29,250
Motor vehicles	75,000	35,000	
			<u>40,000</u>
<u>Current Assets</u>			679,250
Inventories – Raw materials	112,000		
W.I.P	37,800		
Finished Goods		425,750	
Trade Receivables	<u>275,350</u>	177,630	
Total Assets			<u>603,380</u>
<u>Equity and liabilities</u>			
Ordinary shares of K1 each			<u>1,282,630</u>
Share Premium			
Retained Earnings (298,500+90,500)			400,000
			200,000
<u>Non-Current Liabilities</u>			<u>389,000</u>
10% Loan notes			989,000
<u>Current Liabilities</u>			100,000
Trade Payables		97,500	
Accrued interest			
Tax		10,000	
Bank overdraft			
Total Equity and liabilities		40,000	
		<u>46,130</u>	
			<u>193,630</u>
			<u>1,282,630</u>

SOLUTION SIX

- (a) Buumba's
Statement of profit or loss for the year ended 31 December 2023

	K	K
Sales (1,176,800 – 11,280)		1,165,520
Opening Inventory	180 640	
Purchases (839,240 – 15,560)	<u>823,680</u>	
	1,004,320	
Less closing Inventory	<u>(157,560)</u>	
Cost of sales		<u>(846,760)</u>
Gross Profit		318,760
Less Depreciation – Buildings (2% x 500,000)	10,000	
- Plant 5% x (453,040-268,300)	9,237	
Administration (95,780+8,720)	104,500	
Selling expenses (30,000-900)	29,100	
Distribution costs	108,860	
Irrecoverable Receivables	2,520	
Allowance for Receivables 5% x (106,020-2,520)	5,175	
Interest on loan (8% x 300,000)	<u>24,000</u>	
		<u>(293,392)</u>
		<u>25,368</u>

- (b) Buumba's
Statement of financial position as at 31 December 2023.

NON-CURRENT ASSETS

	K Cost	K Accum'd Depn	K NBV
Buildings	500,000	210,000	290,000
Plant and Equipment	453,040	277,537	<u>175,503</u>
			<u>465,503</u>

CURRENT ASSETS

Inventories			
Trade Receivables (106,020 - 2,520 - 5,175)			
Bank		157,560	
Prepaid selling expenses		98,325	
Total assets		195,480	
		<u>900</u>	<u>452,265</u>
			<u>917,768</u>

Financed By

Capital			
Add net Profit			
		515,720	
		<u>25,368</u>	541,088
			300,000

NON-CURRENT LIABILITIES

8% Loan notes			
---------------	--	--	--

CURRENT LIABILITIES

Trade payables			
Accruals – Administration			
– Loan Interest	8,720	55,960	
Total Capital and liabilities	<u>12,000</u>	<u>20,720</u>	<u>76,680</u>
		<u>20,720</u>	<u>917,768</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATION

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 11 JUNE 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 measures risk?

- A. Coefficient of variation.
- B. Standard deviation.
- C. Expected value.
- D. All of the above are measures of risk.

(2 marks)

1.2 The mean of five numbers 3, 6, 7, a , 14 is 8. Calculate the standard deviation.

- A. 3.74
- B. 2.83
- C. 4.18
- D. 4.80

(2 marks)

1.3 The real estate firm is contracted to estimate values of properties in a given town. They formulate a regression model as $Y = 4500 + 15X$ in which Y =value of property and X =area of property. Find the Value of a property with floor area of 2,500 square meters.

- A. K37,500
- B. K42,000
- C. K60,000
- D. K2,500

(2 marks)

1.4 Given a set of grouped data for sales of products distributed as follows:

Price (kwacha)	40 - 50	50 - 60	60 - 70	70 - 80
frequency	5	12	19	13

What is the mean of the scores?

- A. 60
- B. 49

- C. 3094.99
- D. 63.16

(2 marks)

- 1.5 The conditional probability of two events A and B are such that $P(A/B) = 0.64$. If the Probability of event B is $P(B) = 0.5$; Find the probability $P(A \cap B)$

- A. 0.24
- B. 0.78
- C. 0.14
- D. 0.32

(2 marks)

- 1.6 What is the equivalent effective annual rate of interest rate of 18% payable four times a year?

- A. 18%
- B. 4.5%
- C. .45%
- D. 19.25%

(2 marks)

- 1.7 Which of the following is a property of all linear programming problems?

- A. Alternative courses of action to choose from.
- B. Minimization of some objective.
- C. A computer program.
- D. Usage of graphs in the solution.

(2 marks)

- 1.8 If 9 is the mean of a Poisson distribution, the standard deviation is given by

- A. 3
- B. 81
- C. 9
- D. 4.5

(2 marks)

- 1.9 Mr. Mwale deposited K2,000 in a bank that had an interest rate of 9% compounded monthly. How much cash will be in his account after five (5) years.

- A. K10,000
- B. K2,018
- C. K1131.36
- D. K3131.36

(2 marks)

1.10 In net present value (NPV) analysis, what discount rate is commonly used?

- A. Inflation rate
- B. Risk –free rate
- C. Cost of capital rate
- D. Market interest rate

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section. Attempt any FOUR (4) questions.

QUESTION TWO

The table presents sample data relating the number of study hours spent by students outside of class during a three (3) week period for a course in business statistics and their scores in an examination given at the end of that period.

Hours spend studying (X)	12	13	15	19	20	21	25	30
Exam score (Y) (%)	30	25	40	40	60	70	65	80

Required:

- (a) Draw the scatter plot of the above data. (3 marks)
- (b) Fit the regression model $y = a + bx$. (11 marks)
- (c) Calculate the hours spent studying when the exam score is 100. (2 marks)
- (d) Calculate the coefficient of correlation and interpret the result appropriately. (4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) The provincial crop output (in tonnes) in the Copperbelt region for three years was as shown in the table below:

CROPS	Year		
	2022	2023	2024
Cereals	3600	3000	3900
Oil seeds	1000	1150	1800
Cotton	500	680	750
Others	2000	1900	2200

Required:

- (i) Construct a component bar chart to represent this data. (5 marks)
 - (ii) What was the percentage of yield of cotton in the 2023 farming season. (3 marks)
- (b) The table below represents the percentages obtained by candidates in a quantitative examination.

64	55	51
58	50	43
26	36	70
17	53	25
60	45	15

Required:

- (i) The range of the data (2 marks)
- (ii) The arithmetic mean (3 marks)
- (iii) The standard deviation (4 marks)
- (iv) Coefficient of variation (3 marks)

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

- (a) A project requiring an initial outlay of K25,000 is guaranteed to produce a return of K30,000 in three (3) years' time. Use
- (i) Net Present Value (NPV)
 - (ii) Internal Rate of Return (IRR)

Methods to decide whether this investment is worthwhile if the prevailing market rate is 6%? Is this investment viable? (11 marks)

- (b) Mr. Tembo took a loan of K90,000 payable in 10 semi - annual installments with the rate of interest being 9% per annum compounded semiannually, find
- (i) The amount of each payment (4 marks)
 - (ii) The finance charge (Total interest) (2 marks)
- (c) Find the amount needed to be deposited into an account today that will yield pension payments of K45,000 at the end of each year for the next ten (10) years, if the account earns interest at a rate of 7.5% per annum. (3 marks)

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

A manufacturer of deodorants is about to expand production capacity to make a new product. Four alternative productive processes are available. The table below shows the estimated profits, in kwacha, for these processes for each of three possible demand levels for the product.

	Levels of demand		
Production Process	Low	Moderate	High
A	10,000	35,000	90,000
B	15,000	40,000	60,000
C	26,000	39,000	56,000

Required:

Determine the production process he would choose using:

- (a) Maximax criterion (4 marks)
- (b) Maximin criterion (4 marks)
- (c) Minimax Regret criterion (6 marks)
- (d) Hurwicz criterion using $\alpha = 0.2$ (6 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) The minimum and the maximum of the monthly salaries paid to the employees of a computer firm are K8,000 and K40,000. The frequency distribution of the monthly salary of the employees of the firm is presented in the table below.

Monthly salary (K)	Number of employees
8,000 – 12,000	400
12,000 – 16,000	350
16,000 – 20,000	325
20,000 – 24,000	250
24,000 – 28,000	200
28,000 – 32,000	150
32,000 – 36,000	75
36,000 – 40,000	25

Required:

Determine

- (i) The mean monthly salary (5 marks)
 - (ii) The median monthly salary (3 marks)
 - (iii) The modal monthly salary (4 marks)
- (b) The manufacturer of a new brand of Lithium battery claims that the mean life of a battery is 3,800 hours with a standard deviation of 250 hours. Given that the data is normally distributed;
- (i) What percentage of the batteries will last for less than 4,000 hours? (3 marks)
 - (ii) If 700 batteries are supplied, how many should last between 3,500 and 4,000 hours? (5 marks)

[Total: 20 Marks]

END OF PAPER

DA 2: QUANTITATIVE ANALYSIS – SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 D

1.2 C

1.3 B

1.4 D

1.5 D

1.6 D

1.7 A

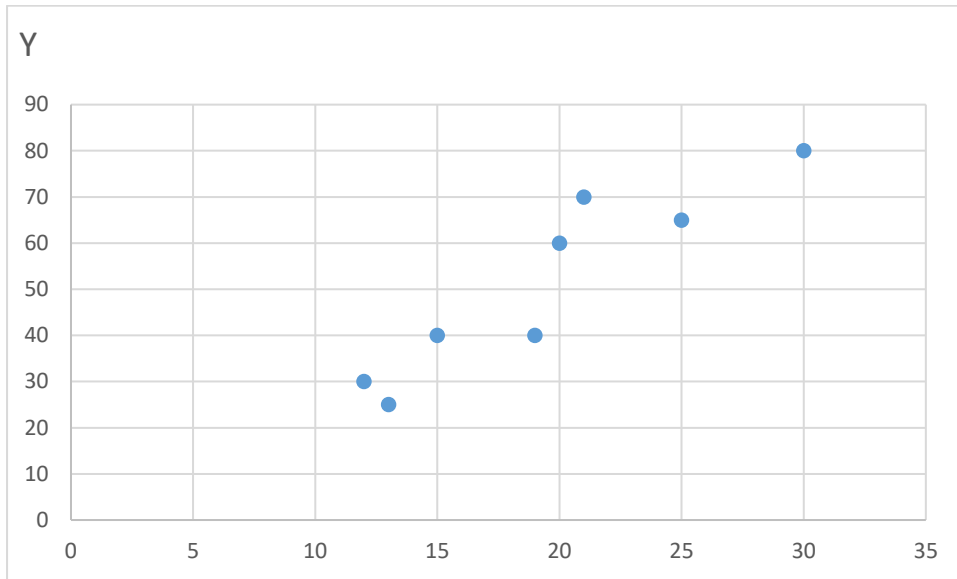
1.8 A

1.9 D

1.10 C

SOLUTION TWO

(a)



(b)

X	Y	X^2	XY	Y^2
12	30	144	360	900
13	25	169	325	625
15	40	225	600	1600
19	40	361	760	1600
20	60	400	1200	3600
21	70	441	1470	4900
25	65	625	1625	4225
30	80	900	2400	6400
155	410	3265	8740	23850

$\sum x = 155$	$\sum y = 410$	$\sum x^2 = 3265$	$\sum xy = 8740$	$\sum y^2 = 23850$
----------------	----------------	-------------------	------------------	--------------------

$$\begin{aligned}
 b &= \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sum x^2 - \frac{(\sum x)^2}{n}} \\
 &= \frac{8740 - \frac{(155)(410)}{8}}{3265 - \frac{(155)^2}{8}} \\
 &= \frac{796.25}{261.875}
 \end{aligned}$$

$$\approx 3.04$$

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

$$= \frac{410}{8} - (3.04) \left(\frac{155}{8} \right)$$

$$\approx -7.65$$

Therefore the required answer is $\hat{y} = -7.65 + 3.04x$

Note: Award marks for correct use of their sums in the expressions for a and b.

$$(c) \hat{100} = -7.65 + 3.04x$$

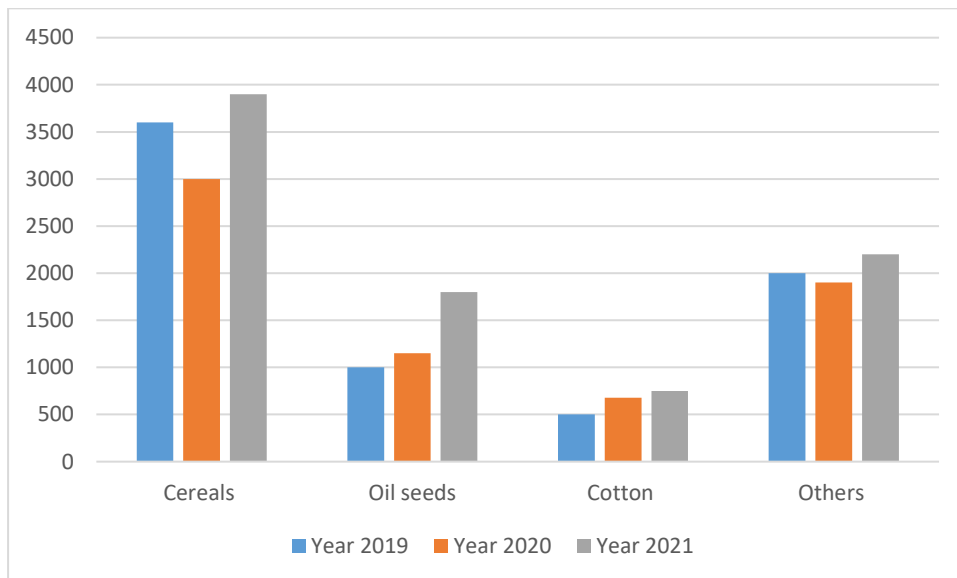
$$x = \frac{100 + 7.65}{3.04} = 35.41$$

(d)

$$\begin{aligned} r &= \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{\left(\sum x^2 - \frac{(\sum x)^2}{n} \right) \left(\sum y^2 - \frac{(\sum y)^2}{n} \right)}} \\ &= \frac{8740 - \frac{155 \times 410}{8}}{\sqrt{\left(3265 - \frac{155^2}{8} \right) \left(23850 - \frac{(410)^2}{8} \right)}} \\ &= \frac{796.25}{\sqrt{(261.875)(2837.5)}} = \frac{796.25}{\sqrt{743070.3125}} = 0.9237 \end{aligned}$$

SOLUTION THREE

(a) (i)



(ii) Total production of crops in 2020:

$$3000 + 1150 + 680 + 1900 = 6730$$

Percentage of cotton; $680/6730 \times 100 = 10.1\%$

(b)

(i) $Range = 70 - 15 = 55$

(ii) The mean $= \frac{1}{n} \sum x = \frac{1}{15} (25 + 15 + 28 + \dots)$
 $= \frac{1}{15} (668) = 44.53$

(iii) Standard deviation

$$\sum x = 64 + 55 + 51 + \dots = 668$$

$$\sum x^2 = 25^2 + 15^2 + 28^2 + \dots = 33880$$

$$\begin{aligned}
 S^2 &= \frac{\sum x^2 - \frac{(\sum x)^2}{f}}{f - 1} = \frac{33880 - \frac{(668)^2}{15}}{15 - 1} \\
 &= \frac{33880 - 29748.26}{14} \\
 &= \frac{4131.74}{14} = 295.12
 \end{aligned}$$

$$S = \sqrt{\frac{\sum x^2 - \frac{(\sum x)^2}{f}}{f-1}} = \sqrt{295.12} = 17.18$$

(iv)

$$CV = \frac{S}{\mu} = \frac{17.18}{44.53} = 0.386$$

SOLUTION FOUR

(a)

(i) NPV; the present value of K30 000 in three years time is given by:

$$P = 30\,000(1.06)^{-3} = K25\,188.58. \text{ Thus, the NPV of this project is;}$$

$25\,188.58 - 25\,000 = K188.58$. Which implies that the investment is viable NPV is positive.

(ii) for the IRR of the project

$$30\,000 = 25\,000(1 + r)^3, \text{ we make } r \text{ the subject,}$$

$$\frac{30}{25} = (1 + r)^3$$

$$\frac{6}{5} = (1 + r)^3$$

$$(1 + r) = \left(\frac{6}{5}\right)^{\frac{1}{3}}$$

$$r = \left(\frac{6}{5}\right)^{\frac{1}{3}} - 1 = 1.062658569 - 1 = 6.27\%$$

this is larger than the current interest rate of 6%. Hence the investment is viable.

(b) (i) We are given the following information,

$$A = K90\,000, \quad n = 10, \quad r = 9\%.$$

$$i = \frac{.09}{12} = 0.0075$$

$$R = \frac{Ai}{1 - (1 + i)^{-n}} = \frac{90\,000 \left(\frac{.09}{12}\right)}{1 - \left(1 + \frac{.09}{12}\right)^{-10}} = \frac{675}{0.071996846} \approx K9\,375.41$$

(ii) *Finance Charge* = $nR - A = 10(9\,375.41) - 90\,000 = 93\,754.10 - 90\,000 = K3\,754.1$

(c) This is the present value and is given by $A = R \left[\frac{1 - (1 + r)^{-n}}{i} \right]$

We are given, $R = 45\,000$, $i = .075$, $n = 10$, substituting in the formula, we get,

$$A = 45\,000 \left[\frac{1 - (1.075)^{-10}}{.075} \right] = 45\,000(6.864080956) \approx K308\,883.64$$

SOLUTION FIVE

(a)

	Levels of demand			
Production Process	Low	Moderate	High	MAXIMUM
A	10000	35000	90000	90000
B	15000	40000	60000	60000
C	26000	39000	56000	56000

Under the Maximax criteria, A must be chosen

(b)

	Levels of demand			
Production Process	Low	Moderate	High	MINIMUM
A	10000	35000	90000	10000
B	15000	40000	60000	15000
C	26000	39000	56000	26000

Under the Maximini criteria, C must be chosen

(c)

	Levels of demand		
Production Process	Low	Moderate	High
A	10000	35000	90000
B	15000	40000	60000
C	26000	39000	56000
Maximum	26000	40000	90000

	Levels of demand			
Production Process	Low	Moderate	High	MAXIMUM
A	16000	5000	0	16000
B	11000	0	30000	30000
C	0	1000	34000	34000

Under the minimax criteria, A must be chosen

(d)

Weighted average = $a(\text{maximum in row}) + (1-a)(\text{minimum in row})$

	Levels of demand			Weighted average
Production Process	Low	Moderate	High	
A	10000	35000	90000	26000
B	15000	40000	60000	24000
C	26000	39000	56000	32000

Under the Hurwicz using $\alpha = 0.2$, C must be chosen

SOLUTION SIX

(a)

Weekly Salary(K)	f	Mid –point x	fx	cf
8000 – 12000	400	10000	4,000,000	400
12000 – 16000	350	14000	4,900,000	750
16000 – 20000	325	18000	5,850,000	1075
20000 – 24000	250	22000	5,500,000	1325
24000 – 28000	200	26000	5,200,000	1525
28000 – 32000	150	30000	4,500,000	1675
32000 – 36000	75	34000	2,550,000	1750
36000 – 40000	25	38000	950,000	1775
	$\sum f = 1775$		$\sum fx = 33,450,000$	

$$(i) \quad \bar{x} = \frac{\sum fx}{\sum f} = \frac{33,450,000}{1775} = \text{K}18,845.10$$

$$(ii) \quad \text{Median} = \ell + \left(\frac{\frac{n}{2} - cf}{f} \right) \times h$$

$$= 16000 + \left(\frac{\frac{1775}{2} - 750}{325} \right) \times 4000$$

$$= 16,000 + 1,692.31$$

$$= \text{K}17,692.31$$

$$(iii) \quad \text{Mode} = \ell + \left(\frac{f_1 - f_0}{2f_1 - f_0 - f_2} \right) \times h$$

$$= 8000 + \left(\frac{400 - 0}{2(400) - 0 - 350} \right) \times 4000$$

$$= 8,000 + 3,555.56$$

$$= \text{K}11,555.56$$

(b) $X \sim N(3800, 250^2)$

We standardize X so that $Z = \frac{X - 3800}{250}$

$$\begin{aligned} \text{(i)} \quad P(X < 4000) &= P\left(\frac{X - 3800}{250} < \frac{4000 - 3800}{250}\right) \\ &= P(Z < 0.8) \\ &= F(0.8) \\ &= 0.7881 \times 100\% \\ &= 78.81\% \end{aligned}$$

$$\begin{aligned} \text{(ii)} \quad P(3500 < X < 4000) &= P\left(\frac{3500 - 3800}{250} < \frac{X - 3800}{250} < \frac{4000 - 3800}{250}\right) \\ &= P(-1.2 < Z < 0.8) \\ &= F(0.8) - F(-1.2) \\ &= F(0.8) - [1 - F(1.2)] \\ &= 0.7881 - [1 - 0.8849] \\ &= 0.7881 - 0.1151 \\ &= 0.6730 \end{aligned}$$

The number of batteries between 3500 and 4000 hours is:

$$700(0.673) = 471.1 \approx 472$$

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 10 JUNE 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.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 Which of the following is included in the calculation of national income?

- A. Transfer payments.
- B. Household production.
- C. Black market transactions.
- D. Government spending on goods and services.

(2 marks)

1.2 If a country's GDP is K1,000 billion, its income from abroad is K200 billion, and foreign income within the country is K150 billion, what is its GNP?

- A. K1,050 billion.
- B. K1,200 billion.
- C. K1,250 billion.
- D. K1,000 billion.

(2 marks)

1.3 Which of the following determines among others the quantity demanded for money?

- A. The required reserve ratio.
- B. The price level.
- C. The money multiplier.
- D. The policies of the Treasury.

(2 marks)

1.4 Suppose the Central Statistical Office does not include discouraged workers as part of the unemployed when it computes its unemployment rate. This decision **not** to include discouraged workers results in:

- A. The unemployment rate in Zambia being higher than it would be if the discouraged workers were included.
- B. The unemployment rate in Zambia being lower than it would be if discouraged workers were included.
- C. No impact on the unemployment rate.

- D. The employment rate in Zambia being lower than it would be if the discouraged workers were included.

(2 marks)

- 1.5 In the circular-flow diagram, which of the following items flows from firms to households through the markets for the factors of production?

- A. Wages, rent, and profit.
- B. Land, labor, and capital.
- C. Dollars spent on goods and services.
- D. Goods and services.

(2 marks)

- 1.6 If net exports is a negative number for a particular year, then;

- A. The value of firms' inventories declined over the course of the year.
- B. Consumption exceeded the sum of investment and government purchases during the year.
- C. The value of goods sold to foreigners exceeded the value of foreign goods purchased during the year.
- D. The value of foreign goods purchased domestically exceeded the value of goods sold to foreigners during the year.

(2 marks)

- 1.7 A change from ZMW24 = \$1 to ZMW22 = \$1 indicates that the Kwacha is.....

- A. Appreciating.
- B. Depreciating.
- C. Neither (a) and (b).
- D. Either (a) or (b).

(2 marks)

- 1.8 An increase in government spending will likely cause.....

- A. An increase in output.
- B. No change in output.
- C. An uncertain effect on output.
- D. A decrease in output.

2 marks)

- 1.9 Which one of the following characteristics is not shared by the market structures of perfect competition and monopolistic competition?
- A. A large number of buyers.
 - B. A large number of sellers.
 - C. Low barriers to entry.
 - D. Identical products.

(2 marks)

- 1.10 When the central bank wants to increase the money supply in the economy it can?
- A. Decrease the required reserve ratio or increase the discount rate.
 - B. Decrease the required reserve ratio or decrease the discount rate.
 - C. Increase the required reserve ratio or decrease the discount rate.
 - D. Increase the required reserve ratio or increase the discount 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) Explain the rationale of a market economic system. (4 marks)
- (b) Describe how the market mechanism influences the following;
 - (i) Price determination (3 marks)
 - (ii) Allocation of resources (3 marks)
- (c) With the use of diagrams, distinguish change in demand and change in quantity demanded. (10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Complete the table below for total variable cost (TVC), marginal cost(MC) and average total cost(ATC): (5 marks)

Output	Total Cost	TVC	MC	ATC
0	100			
1	150			
2	300			
3	600			

- (b) Explain the relation between MC and ATC with help of a diagram (6 marks)
- (c) Define fixed costs and give one example. (3 marks)
- (d) Distinguish between vertical integration and horizontal integration. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Compare and contrast the features of monopoly and oligopoly market structure in terms of number of firms, market power, barriers to entry, product differentiation, and efficiency. (10 marks)
- (b) Suppose an oligopoly firm faces fixed cost of K800, Variable costs, K10 per unit. Assume that it earns K3,000 after selling 150 units. Calculate its profits. (5 marks)
- (c) Explain the concept of a cartel under oligopoly. (5 marks)

[Total: 20 Marks]

2. MACROECONOMICS

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

QUESTION FIVE

- (a) Define the following concepts
- (i) National Income (3 marks)
 - (ii) Net National Product (3 marks)
 - (iii) Disposable Income (3 marks)
- (b) Explain the concept of deflationary gap with the help of diagram. (6 marks)
- (c) Suppose you are given the following information about an economy. Consumption (C): K500 billion, Investment (I): K150 billion, Government spending (G): K200 billion, Exports (X): K100 billion, Imports (M): K75 billion.
- Calculate GDP using the appropriate method (5 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) List any four (4) characteristics of money. (2 marks)
- (b) State any two (2) problems of barter system and explain how money solves these problems. (4 marks)
- (c) Differentiate between M1 and M2 measures of money supply. (4 marks)
- (d) Outline any two (2) roles of financial institutions. (4 marks)
- (e) Describe how the government can influence economic activity through supply side policies. (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Outline any three (3) reasons countries engage in international trade (6 marks)
- (b) Differentiate between trade surplus and trade deficit (4 marks)
- (c) Explain any three (3) effects of exchange rate fluctuations on international trade (6 marks)
- (d) Outline any two (2) macroeconomic objectives. (4 marks)

[Total: 20 Marks]

END OF PAPER

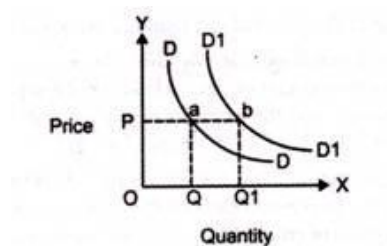
DA 3 BUSINESS ECONOMICS -SUGGESTED SOLUTIONS

SOLUTION ONE

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

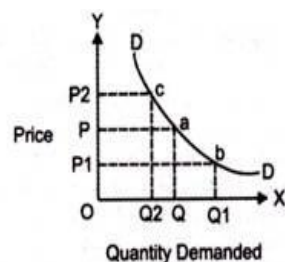
SOLUTION TWO

- (a) A market economic system, also known as a market economy or capitalism, is an economic system in which economic decisions and the pricing of goods and services are guided by the interactions of citizens and businesses in the marketplace. The primary rationale behind a market economic system is the belief that voluntary exchange and the forces of supply and demand in a free market lead to efficient allocation of resources, innovation, and economic growth.
- (b)
- (i) **Price Determination:** The market mechanism plays a crucial role in determining the prices of goods and services through the interaction of supply and demand. The equilibrium price is determined by the intersection of the demand and supply curves. If the market price is above the equilibrium price, there will be a surplus, leading producers to lower prices to clear the excess supply. If the market price is below the equilibrium price, there will be a shortage, leading producers to raise prices to ration the limited supply.
 - (ii) **Allocation of Resources:** The market mechanism also plays a fundamental role in the allocation of resources, determining how resources such as labor, capital, and raw materials are distributed across different uses in the economy. Prices serve as signals to both producers and consumers. High prices indicate strong demand or limited supply, signaling producers to allocate more resources to the production of that good.
- (c) **Change in demand and change in quantity demanded**
- (i) Change in demand refers to increase or decrease in demand of a product due to changes in various determinants of demand, except own price of a product. Changes in demand are measured by shifts in demand curve. The curve either shift rightwards to show an increase or leftwards to show a decrease. The graph below shows a rightward shift in the demand curve.



- (ii) Change in quantity demanded refers to change in the quantity purchased due to increase or decrease in the price of a product. Changes in quantity demanded can be measured by the movement along a demand curve. Both price and quantity demanded

Change as shown below:



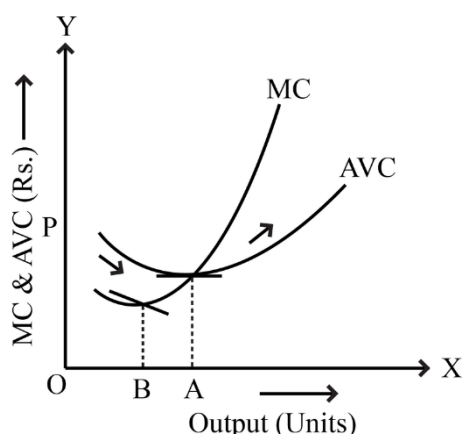
SOLUTION THREE

(a) The complete table is as shown below:

Output	Total Cost	TVC	MC	AC
0	100	0	-	-
1	150	50	50	150
2	300	200	150	150
3	600	500	300	200

(b) The relationship between average variable cost (AVC) and marginal cost (MC) is as follows:

- (i) When MC is less than AVC, AVC falls with increase in the output.
 - (ii) When MC is equal to AVC i.e. when MC and AVC curves intersect each other at point A, AVC is constant and at its minimum point.
 - (iii) When MC is more than AVC, AVC rises with increase in output.
 - (iv) Thereafter, AVC and MC rise but MC increases at a faster rate as compared to AVC.
- As a result, MC curve is steeper as compared to AVC curve.



- (c) Fixed Costs are costs that remain constant regardless of the level of production or sales volume. They do not vary with the quantity of goods or services produced and are incurred even if the production level is zero. For example, rent, depreciation costs, fixed salaries for permanent employees etc...
- (d) Vertical integration refers to a strategy where a company expands its operations into different stages of production or supply chain within its own industry. It involves either acquiring or merging with companies that are involved in different steps of the production process, from raw materials to final product delivery.

Horizontal integration refers to a strategy where a company expands its operations into the same stage of production or industry by acquiring or merging with other companies at the same level of the supply chain. This involves combining with competitors or companies offering similar products or services.

SOLUTION FOUR

(a) Compare and contrast.

Feature	Monopoly	Oligopoly
Number of firms	A monopoly is a market structure where there is only one firm or producer that dominates the entire market.	An oligopoly consists of a small number of large firms that dominate the market.
Market power	A monopolist has significant market power, allowing it to set prices above the marginal cost of production.	In an oligopoly, firms have substantial market power, but it is not as absolute as in a monopoly. Pricing in an oligopoly can be more complex due to strategic interactions between firms. competition
Barriers to entry	High barriers to entry are a defining feature of a monopoly. These barriers can include control of a key resource, government regulation, patents, economies of scale, which prevent other firms from entering the market and competing.	Oligopolistic markets also have significant barriers to entry, though they are typically lower than in monopolies. Barriers might include economies of scale, high capital requirements, brand loyalty, and access to distribution channels.
Product Differentiation	In a monopoly, product differentiation is generally not a major issue because there is only one product or service available.	Oligopolies often feature both homogeneous and differentiated products. Firms in an oligopoly may use branding, advertising, and product features to differentiate themselves from competitors.
Efficiency	Monopolies are often considered inefficient from both allocative and productive perspectives.	Oligopolies may also experience allocative and productive inefficiencies, but to a lesser extent than monopolies.

(b) Total Cost (TC)=Fixed Costs +TVC

Total Variable Cost (TVC)=Variable Costs per unit × Quantity
 $=K\$10 \times 150 = K1,500$

Total Cost (TC) =Fixed Costs +TVC
 $=K800 + K1,500$
 $=K2,300$

Profit: =Total Revenue–Total Cost
 $=K3,000 - K2,300 = K700$
 The firm's profit is K700.

- (c) A cartel is a formal agreement among competing firms in an oligopoly market structure to coordinate their actions, particularly regarding prices, production levels, and market sharing. The aim of the cartel is to maximize the firms' collective profits at the expense of competition. Cartels are a way for firms to reduce uncertainty and avoid the price wars that can erode profits in an oligopoly, where only a few large firms dominate the market.

SOLUTION FIVE

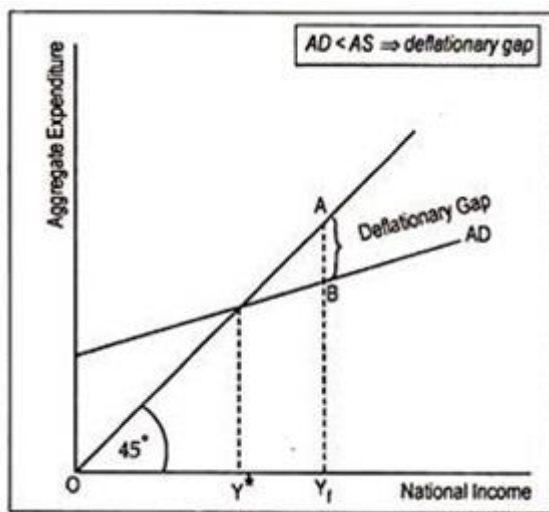
(a)

(ii) National income is the total value of all goods and services produced by a country over a specific period, usually one year.

(iii) Net National Product (NNP) is the total value of goods and services produced by the residents of a country, minus depreciation (the wear and tear on capital goods).

(iv) Disposable income is the amount of money that households have available for spending and saving after income taxes have been deducted.

(b) A deflationary gap occurs when the actual output of an economy is lower than its potential output at full employment, leading to unemployment and downward pressure on prices. In simpler terms, it represents a situation where aggregate demand (AD) is insufficient to purchase all the goods and services that the economy is capable of producing at full employment levels, resulting in underutilized resources, particularly labor.



(c) The appropriate method is the expenditure approach.

$$GDP = C + I + G + (X - M)$$

$$GDP = 500 + 150 + 200 + (100 - 75)$$

$$GDP = 500 + 150 + 200 + 25$$

$$GDP = 875 \text{ billion Kwacha}$$

SOLUTION SIX

(a) Characteristics of money

- (ii) Rare
- (iii) Acceptable
- (iv) Durable
- (v) Divisible
- (vi) Portable

(b) Problems of barter system

- (ii) Double coincidence of wants: This means that for a transaction to occur, both parties must have what the other wants and be willing to exchange those goods or services directly. Money eliminates this problem because it acts as a medium of exchange, allowing people to sell their goods or services for money and then use that money to buy what they need
- (iii) Lack of Common unit of account: In a barter system, there is no standard unit of account of different goods and services. This makes it difficult to determine how much of one good should be exchanged for another. Money provides a standard unit of account, allowing the value of goods and services to be measured and compared easily.
- (iv) Indivisibility of Goods: Some goods are not easily divisible into smaller units without losing value. For instance, it is hard to divide a cow into smaller parts to exchange for various goods without destroying its usefulness. Money is easily divisible into smaller units, which can be used to purchase goods of varying values.

(c) Difference between M1 and M2:

- (ii) M1: Includes the most liquid forms of money, such as currency in circulation, demand deposits (checking accounts), and other checkable deposits.
- (iii) M2: Includes all of M1 plus less liquid forms of money, such as savings accounts, time deposits (certificates of deposit), and money market mutual funds

(d) Roles of financial institutions

- (ii) Intermediaries: Financial institutions act as intermediaries between savers and borrowers. They channel funds from individuals and businesses with surplus funds to those with a deficit of funds.
- (iii) Liquidity Provision: By accepting deposits and providing loans, financial institutions offer liquidity to the economy, allowing businesses and individuals to meet their short-term financial needs and invest in opportunities.
- (iv) Risk Management: Financial institutions provide various financial products and services that help manage and mitigate risks, such as insurance and derivatives.
- (v) Financial Stability: Regulatory bodies, such as central banks and financial regulators, oversee these institutions to ensure their soundness and protect depositors and investors.

- (vi) Payment Systems: Financial institutions facilitate transactions and payments through electronic banking, payment systems, and clearinghouses, ensuring the smooth functioning of the economy and enhancing economic efficiency.

(e) Supply Side Policies

Supply-side policies are measures taken by the government to influence aggregate supply. They may include;

- (ii) Deregulation: removing excessive regulations can lower the costs of compliance for businesses, making it easier and cheaper for them to operate. This can foster a more dynamic and competitive business environment, leading to increased efficiency and innovation.
- (iii) Improving Education and Training: By improving the quality of education and providing better training programs, the government can enhance the skills and productivity of the workforce. A more skilled workforce can drive innovation, efficiency, and economic growth.
- (iv) Investing in Infrastructure: Government spending on infrastructure projects such as roads, bridges, ports, and telecommunications can reduce costs for businesses, improve transportation and logistics, and increase the efficiency of economic activities. Better infrastructure can also attract private investment, further boosting economic growth.
- (v) Reducing Unemployment Benefits: Lowering unemployment benefits or shortening the duration for which they are available can encourage job-seeking behavior, reduce unemployment, and increase labor market efficiency.
- (vi) Promoting Competition: Strengthening antitrust laws and reducing monopolistic practices can foster competition in the market. Increased competition leads to better quality goods and services, lower prices, and greater innovation, all of which contribute to economic growth.

QUESTION SEVEN

(a) Reasons for international trade

- (ii) Increased Variety of Goods: Countries can access a broader range of products that are not available domestically.
- (iii) Economic Efficiency: Trade allows countries to specialize in the production of goods where they have a comparative advantage, leading to more efficient resource use.
- (iv) Increased Competition: Exposure to international markets fosters competition, which can lead to lower prices and higher quality products.
- (v) Economic Growth: Trade can stimulate economic growth by opening new markets for businesses and creating job opportunities.

(b)

- (ii) A trade surplus occurs when a country's exports exceed its imports, resulting in a positive balance on the trade account.
- (iii) A trade deficit occurs when a country's imports exceed its exports, leading to a negative balance on the trade account.

(c) Effect of exchange rate fluctuations on international trade

- (ii) Import & Export Prices: A depreciation of a country's currency makes its goods and services cheaper for foreign buyers, and it raises the cost of imported goods. An appreciation makes exports more expensive and could reduce export volumes, lowers import costs, potentially increasing imports, it also lowers import costs, potentially increasing imports.
- (iii) Currency Risk: Businesses engaged in international trade face currency risk, which is the risk of exchange rate fluctuations affecting the profitability of their operations. For example, if a company exports goods priced in a foreign currency, a depreciation of that currency could reduce the company's profits when converted back to the domestic currency.
- (iv) Imported Inflation: A depreciation of the domestic currency can lead to imported inflation, where the higher cost of imported goods raises the overall price level in the economy. This can affect consumer purchasing power and increase production costs for businesses that rely on imported inputs.
- (v) Deflationary Pressure: an appreciation of the domestic currency can exert deflationary pressure by reducing the cost of imports. While this can be beneficial for consumers, it might negatively impact domestic producers who face increased competition from cheaper foreign goods.
- (vi) Currency fluctuations can affect the attractiveness of investing in a country. A depreciated currency may attract foreign investors looking to take advantage of lower asset prices, while an appreciated currency might deter investment due to higher costs.

(d) Macroeconomic objectives

- (ii) Economic growth refers to the increase in the production of goods and services in an economy over a period of time, typically measured by the growth of Gross Domestic Product (GDP). It indicates the economy's ability to improve its standard of living and provide better opportunities for its citizens
- (iii) Full employment occurs when all individuals who are willing and able to work can find employment at prevailing wage rates, with only frictional and structural unemployment present. It signifies an economy where job opportunities are available for everyone who wants to work.
- (iv) Price stability refers to the absence of excessive inflation or deflation in an economy. Inflation is the general increase in prices, while deflation is the general decrease in prices. Maintaining price stability ensures that the purchasing power of money remains relatively constant over time.
- (v) The balance of payments (BOP) is a record of all economic transactions between residents of a country and the rest of the world. Stability in the BOP means that a country is able to maintain a sustainable level of international payments without excessive deficits or surpluses.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 11 JUNE 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 the ten (10) multiple choice questions in this section.

QUESTION ONE

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

- 1.1 Which type of malware copies itself from one machine to another machine?
- A. Logic bomb
 - B. Trojan
 - C. Worm
 - D. Spyware
- (2 marks)
- 1.2 Data that is held on alternative storage medium for use in case of data loss is called
- A. Saved data
 - B. Backed up data
 - C. Archived data
 - D. Stored data
- (2 marks)
- 1.3 An attribute in the context of a relational database may be defined as:
- A. A table
 - B. A File
 - C. A row
 - D. A Column
- (2 marks)
- 1.4 Which of the following key combination is equivalent to support the ability to undo multiple changes?
- A. Shift + P
 - B. Ctrl + V
 - C. Ctrl + Z
 - D. Shift + S
- (2 marks)
- 1.5 Super computers are
- A. Are rarely used by researchers due to their lack of computing capacity.
 - B. Are common in majority of households.
 - C. Are of the same size as laptops.
 - D. Contain thousands of microprocessors.
- (2 marks)

1.6. In the communication cycle, what does 'decoding' mean?

- A. Receiving the message.
- B. Interpreting the message.
- C. Transmitting the message.
- D. Filtering the message.

(2 marks)

1.7. State one example of a medium of communication.

- A. Oral communication
- B. Minutes
- C. Reports
- D. Notices

(2 marks)

1.8. Listening is always an activity that is _____

- A. Passive.
- B. Passive and active.
- C. Active and boring.
- D. Active.

(2 marks)

1.9. Which of the following can be encoded during the communication process?

- A. Email
- B. Discussion
- C. Words
- D. A letter

(2 marks)

1.10. Which of the following is **NOT** part of the mnemonic '**PASS**'?

- A. Audience
- B. Style
- C. Purpose
- D. Schedule

(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) Company websites are among the greatest assets of a business and they can similarly be a key vulnerability. All the effort invested to generate traffic and promote the brand and business online could end up in a disaster if no cyber security measures are put in place.

Required:

Explain five (5) common network security threats to a business with online presence stating a solution for it. (10 marks)

- (b) Databases are important to an Accounting Information System.
State five (5) reasons an AIS needs a database. (5 marks)
- (c) Outline five (5) ways an Information System can contribute to the success of an organisation's value chain. (5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Specialized input devices are the devices that enable people with different abilities, developers, trainers and presenters use computers/interfaces in ways that maximize their usability that would not otherwise be possible.

List five (5) specialised scanners for inputting information. (5 marks)

- (b) Computer software utilities perform specific tasks to enhance productivity, efficiency, functionality, or maintenance of a computer system. These utilities are designed to assist users in managing and optimizing their computing experience.

Explain the following types of computer software utilities that are used in a computer system.

- (i) File defragmentation. (2 marks)
- (ii) File conversion. (2 marks)
- (iii) Device drivers. (2 marks)
- (iv) Spam blocker. (2 marks)
- (v) Data compression. (2 marks)

- (c) In today's consumer centric market, organisations have to evaluate data to understand the customer's desires in order to develop and shift their strategies accordingly. With this in mind, accurate and current data is essential.

State five (5) benefits of having good data quality in an organisation. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) By embracing a distributed computing model, an e-business organisation can serve multiple clients across different time zones.

Explain five (5) new capabilities available for e-businesses using distributed computing setups that take advantage of unused bandwidth and resources. (10 marks)

- (c) List five (5) commands found the MS Excel/MS Word's File tab.

(5marks)

- (c) You are in the middle of a video presentation on one of the projects you are attached to as an accountant. Suddenly the computer locks up freezing the screen making it difficult for you to interact with the application. You are therefore unable to continue with your presentation.

Explain five (5) possible causes of computer lock-ups in this scenario. (5 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Formal communication usually occurs in different situations, mostly through oral, written and non-verbal communication. However people do not pay much attention to nonverbal communication.

Required:

- (a) State four (4) examples of non-verbal communication. (4 marks)
- (b) Explain any four (4) reasons non-verbal communication is an important aspect in business organizations. (8 marks)
- (c) Explain any four (4) types of questions that can be used to get information in formal situations. (8 marks)

[Total: 20 Marks]

QUESTION SIX

John is employed at Mooba Consultants as an accounting officer. He discovered that there was an unauthorized deduction on his bank account. He was advised to go to the nearest branch of the bank to resolve the issue. He asked his manager for permission to go to the bank, but permission was denied. However, John went to the bank without his boss's permission.

Required:

- (a) State any three (3) reasons why it is important for John to seek permission from the Manager. (6 marks)
- (b) Outline any four (4) things the Manager should have considered when refusing to grant permission to John. (8 marks)
- (c) Describe any three (3) instances in which a Manager may be required to seek permission. (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

You are the Union Chairperson at RENO Financial Solutions. Many members of staff have complained to you about lack of running water and hand sanitizers in toilets and offices, as well as inadequate bins around the premises. With the prevailing cholera epidemic that the country is facing, members of staff are at risk of catching the disease. You have decided to investigate the matter and present your findings to the higher authorities.

Required:

Write a report for the Managing Director, informing him about your investigations of the members' complaints and include recommendations which you would like management to adopt.

(20 marks)

[Total: 20 Marks]

END OF PAPER

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION - SUGGESTED SOLUTIONS

SOLUTION ONE

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

SECTION B

SOLUTION TWO

(a) Common network security problems with a solution for it.

(1). Ransomware:

This malicious software encrypts a business's data, rendering it inaccessible, and demands a ransom payment for decryption.

- Solution: Implement strong access controls, regularly back up data, keep software updated, and educate employees about the dangers of opening suspicious files or links.

(2). Phishing:

Cybercriminals use deceptive emails or messages to trick users into revealing sensitive information, such as passwords or financial details.

- Solution: Provide security awareness training to employees on how to identify and avoid phishing attempts, and implement multi-factor authentication.

(3). Malware:

Malicious software designed to disrupt, damage, or gain unauthorized access to computer systems.

- Solution: Employ reputable antivirus and anti-malware software, keep systems updated, and monitor network traffic for suspicious activity.

(4). DDoS Attacks:

These attacks flood a network or server with traffic, making it unavailable to legitimate users.

- Solution: Invest in a strong firewall, use a content delivery network (CDN), and consider DDoS mitigation services.

(5). Insider Threats:

These threats originate from within the organization, whether intentional or accidental.

- Solution: Implement strong access controls, monitor user activity, conduct regular security audits, and foster a culture of security awareness

(b) Five (5) reasons why an AIS needs a database?

- (i) Storing of important information
- (ii) Managing large data files with efficiency
- (iii) To make data secure and reliable
- (iv) Less prone to error
- (v) Storing of customer data
- (vi) Tracking of income and expenses
- (vii) Record of assets and liabilities
- (viii) Easier for backup and recovery

- (c) A well designed AIS can contribute to the organisation's value chain by:
- (i) Improving the quality and reducing the costs of products or services. It also reduces the amount of wasted materials and the costs of having to rework
 - (ii) Improving the efficiency and effectiveness of the organisation's supply chain by allowing customers to access the company's inventory and sales order entry system
 - (iii) Sharing knowledge and expertise improve operations and even provide a competitive advantage
 - (iv) Improving the internal control structure which can protect system from fraud, errors, equipment and software failure, natural and political disasters
 - (v) Improving decision making. The system can improve assistance in all phases of decision making i.e. identifying the problem, collecting and interpreting, evaluating ways to solve the problem, selecting a solution methodology and implementing the solution

SOLUTION THREE

(a) Specialised scanners for inputting information

- (i) Optical mark recognition (OMR)
- (ii) Optical character recognition (OCR)
- (iii) Bar-code/optical character readers
- (iv) Magnetic ink character recognition (MICR)
- (v) Biometric scanner

(b) Computer system utilities

- (ii) File defragmentation – converts a fragmented file stored on the hard disk into one that will load and be manipulated more rapidly
- (iii) File conversion – translates a file from one format to another, so it can be used by any application other than the one used to create it
- (iv) Device drivers – allows new hardware added the computer system to function with the operating system
- (v) Spam blocker – monitors the incoming email messages and filters or blocks unwanted messages from arriving
- (vi) Data compression – compresses data by submitting a short code for frequently repeated patterns of data, allowing more data to be used to create it.

(c) Benefits of having good data quality in an organisation

- (i) It enables organisations to reduce the cost of identifying and fixing bad data in their systems
- (ii) Organisations are able to avoid operational errors
- (iii) Businesses can prevent breakdowns that can increase operating expenses
- (iv) Increase revenues
- (v) It increases the accuracy of analytics application which leads to better business decision making
- (vi) It gives organisations a competitive edge over rivals

SOLUTION FOUR

(a) New capabilities for e-business for peer-2-peer network systems

- (i) Connecting and enabling the links that make up a complete supply chain
- (ii) Distributing information, content, or software more effectively in a cascading manner – similar to turning a single pipe into an ever expanding network of connections
- (iii) Keeping details that are needed for e-commerce but occupying large amounts of storage, or likely to change in time, on their original node. A central directory or a search capability can refer queries to the source. This is useful for estates agents, catalogues, classified advertising, auctions and many other e-commerce activities
- (iv) Providing a natural foundation on which to develop online community games that are not centrally controlled. The developers can focus on the game's features, instead of the interface to the communications protocol.
- (v) Overcoming the problems of stale data and a single source for answering inquiries by searching directly across the horizon of the community.

(b) Commands found in MS Excel and MS Word's file tab

- (i) Open
- (ii) New
- (iii) Save
- (iv) Save As
- (v) Print

(c) Common causes of computer lock-ups include:

- (i) Too many programs running at the same time
- (ii) Not enough memory to support the running programs
- (iii) Corrupt (damaged) or incorrectly installed software
- (iv) Improper operating temperatures and humidity levels
- (v) Hardware failure
- (vi) Corrupt device drivers
- (vii) Virus which has infected the computer

SOLUTION FIVE

- (a) Examples of nonverbal communication include:
 - (i) Nodding
 - (ii) Eye contact
 - (iii) Smiling
 - (iv) Dressing
 - (v) Friendly gesture
 - (vi) Posture

- (b) Reasons nonverbal communication is important:
 - (i) It establishes a desired atmosphere eg friendly look or smile, appropriate facial expressions.
 - (ii) Provides appropriate feedback to the sender of the message for example an applause, nodding or fidgeting.
 - (iii) It assists to identify potential problems eg refusing to work or perpetual absenteeism.
 - (iv) It assists to resolve conflicts ie willingness to listen and understand others other than talking and shouting when some tasks have not been done.
 - (v) It assists to shows respect and empathy such as active listening with appropriate facial expressions

- (c) Types of questions:
 - (i) Open questions: These require longer responses and tend to open up conversations and discussions.
 - (ii) Leading questions: This type of question usually suggests the expected answer. It aids someone to answer the person who asks a question in a certain way.
 - (iii) Funneling question: A funneling question consists of multiple open questions asked once in a roll.
 - (iv) Probing questions: these are questions asked to obtain more detailed information.
 - (v) Closed question: This type of a question requires short and simple responses only. They just require a simple piece of information for choices to be made.

SOLUTION SIX

(a) Why permission

- (i) Fosters respect and trust
- (ii) Promotes ethical conduct in interactions with others
- (iii) For planning purposes
- (iv) It is being polite
- (v) It covers both parties in case of accident while away

(b) Factors to consider when refusing permission

- (i) If standard procedure was followed
- (ii) Has a good case been made
- (iii) Will giving permission mean that a budget has been exceeded
- (iv) Are there alternatives that could work as successfully whilst saving organisational
- (v) What will be the effect of refusing permission

(c) Managers seeking permission

- (i) Larger amounts of expenditure on non-current issues
- (ii) Employing additional resources (including staff)
- (iii) Overseas trips
- (iv) Advertising promotions

SOLUTION SEVEN

RENO FINANCIAL SOLUTIONS REPORT ON POOR SANITATION

1. TERMS OF REFERENCE

As requested by the managing director on 15th February 2024, a research was conducted to ascertain the state of sanitation at Reno Financial Solutions.

2. PROCEEDURE

Interviews – a number of members of staff were interviewed during the period of investigations

Observation – a close observation of the premises was done for a period of one week

Experiment –some experiments were done on some members of staff.

3. FINDINGS

- (i) Lack of running water– five members of staff were interviewed separately. They complained bitterly about the lack of running water in the company's toilets and expressed that the company had not received running water for close to two months now.
- (ii) Lack of proper toilet facilities – After close observation of the premises for a week, it was discovered that employees run to the nearby bush to answer their call of nature. Senior members of staff and a few employees that could afford went to a fee paying toilet on the market which is a few kilometers from the company.
- (iii) Symptoms of Cholera among staff – a team of health workers collected some blood samples for experiments. It was discovered from the samples that some members of staff already had symptoms of cholera in them.

4. CONCLUSIONS

It can be concluded that:

- (i) The company lacks running water and that most toilets are not in use
- (ii) The company had not put in so many measures such as providing waste bins and hand washers to ensure proper hygiene within the company premises
- (iii) The epidemic is not very far from the company as some members of staff are already showing symptoms of cholera.

5. RECOMEMDATIONS

It is therefore highly recommended that management should consider the following:

- (i) Providing clean and safe running water
- (ii) Putting up washing facilities such as hand washers on most of the entrances
- (iii) Sending officers who have shown symptoms of cholera on leave so that they can go to hospitals

Signature (C. Banda)

Sitali chungu Banda

Union chairperson

26th February 2024

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5 COST ACCOUNTING

TUESDAY 10 JUNE 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.
2. This paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – MULTIPLE CHOICE

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

QUESTION ONE

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

- 1.1 Jane is a medical student at the High Mark University. She recently moved into a boarding house near the university. The Landlord charges a fixed rate of K1,000 per month but increases it by K500 every three months.

What is the correct classification of the rental cost incurred by Jane?

- A. Fixed Costs.
- B. Variable Costs.
- C. Stepped Costs.
- D. Mixed Costs.

(2 marks)

- 1.2 JG started a retail business selling cement in Kalingalinga. He buys 50,000 bags of cement annually from a cement company. The purchase price per bag of cement is K300. The holding cost of one bag of cement for the period is 15% of purchase cost while the cost of placing an order is K500.

Calculate Economic Order Quantity (**EOQ**) of cement for JG business.

- A. 1,054 Bags
- B. 1,000 Bags
- C. 1,111 Bags
- D. 2,222 Bags

(2 marks)

- 1.3 DJ water Co. had 200 employees on 1 January 2022 and 160 employees on 31 December 2022. It was reported that 80 employees had left the company during the period and 40 of them were replaced.

What is the labour turnover rate for DJ Company?

- A. 23.33%
- B. 25.00%
- C. 20.00%
- D. 22.22%

(2 marks)

1.4 When is it acceptable to use variable costs as a minimum price when negotiating for a job order?

- A. When the company has idle production capacity.
- B. When marginal cost accounting is in use.
- C. When the full cost is higher than marginal cost.
- D. When the use of this pricing basis secured a previous order from the same customer.

(2 marks)

1.5 The Manager for Jumba Co. budgeted to produce 10,000 units for K50,000 fixed overhead costs. The actual units produced during the period was 9,750 units for K55,000 fixed overhead costs. The budgeted and actual selling price for the period was K6 and K8 per unit respectively.

Calculate fixed overhead volume variance for Jumba Co.

- A. K250 (F)
- B. K1,250 (A)
- C. K500 (F)
- D. K1,410 (A)

(2 marks)

1.6 ZC Co. operates an integrated accounting system. How should ZC Co. account for the return of unused direct material from production?

Debit	Credit
A. Work in progress account	Stores control account
B. Stores control account	Work in progress account
C. Stores control account	Overheads control account
D. Finished goods inventory account	Work in progress account

(2 marks)

1.7 A brick making company operates at two activity levels of brick production at 27,000 and 31,900 with corresponding overhead costs of K169,730 and K195,700 respectively. What would be the estimated overheads costs if 36,600 bricks are produced.

- A. K193,980
- B. K110,305
- C. K365,430
- D. K220,610

(2 marks)

- 1.8 Jika Co. achieved a marginal costing profit of K144,600. The opening inventory was 600 units and the closing inventory was 1500 units. The fixed production overhead absorption rate was calculated at K5/per unit.

What was the profit under absorption costing?

- A. K149,100
- B. K140,100
- C. K149,850
- D. K140,850

(2 marks)

- 1.9 Gin Co. is facing a temporal production problem and over time is being considered as a result. The amount of overtime premium will be classified as:

- A. Direct Cost.
- B. Administration Overhead.
- C. Production Overhead.
- D. Unclassified Overhead.

(2 marks)

- 1.10 In process costing, abnormal losses are valued at....

- A. Their scrap value.
- B. The same value as, good units produced.
- C. The cost of raw materials.
- D. The same as normal losses.

(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 detergent paste processing company produces a single product through softening process and hardening process. The following information is given about the two processes.

Process	Softening	Hardening	
Closing work in progress	0	2,500 kg (50% conversion costs)	
Normal loss	25%	0	
Input raw material	15,000 kg	12,250 kg @ K12.60	K154,350
Additional material	-	3,000 kg @ K8.50	K25,500
Output	12,250 kg	12,750kg	
Conversion costs.	-		K75,600

Required:

- (a) Calculate normal loss units. (2 marks)
- (b) Calculate the abnormal gain or loss in kgs in softening process. (4 marks)
- (c) Prepare the hardening process account. (10 marks)
- (d) Distinguish between joint and by product. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Bomba Boarding School is located in Chongwe. Pupils from surrounding communities are enrolled as day scholars and are given 40% of available spaces for each grade and these spaces are utilized at full capacity for each grade.

The following information relates to grade 10 to 12 pupils as at 31 December 2023.

<u>Activity</u>	<u>Grade 10</u>	<u>Grade 11</u>	<u>Grade 12</u>
Number of pupils in boarding	1,600	1,500	1,900
Available spaces per grade	5,000	4,000	5,500
School costs:	K	K	K
Breakfast food staffs	1,800,000	1,600,000	1,300,000
Lunch food staffs	2,100,400	1,750,200	2,400,175
Dinner food Staffs	1,200,300	2,700,100	1,900,000
General operational costs.	<u>1,000,000</u>	<u>1,200,000</u>	<u>500,000</u>
Total	<u>6,100,700</u>	<u>7,250,300</u>	<u>6,100,175</u>

Note: 20% of general costs relates to costs donated by one of the parents to the community rural clinic for the construction of mother's shelter.

Required:

- (a) Calculate the number of pupils day schooling for each grade. (3 Marks)
- (b) Calculate occupancies percentage for all the pupils per grade. (8 Marks)
- (c) Calculate cost per unit of service for pupils in boarding per grade. (3 Marks)
- (d) Explain four (4) features of service industry. (6 Marks)

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

- (a) Define the following concepts as used in inventory management system.
 - (i) Economic Order Quantity. (1 marks)
 - (ii) Maximum inventory level. (1 marks)
- (b) The following data was extracted from the books of Amantia Ltd. on one of the major materials used in production.
Items received during the month of February 2023.

Date	Quantity (Units)	Unit cost (K)
2 February 2023	1,000	12
6 February 2023	800	14
12 February 2023	1,200	18
20 February 2023	700	16

Items issued out for production during the month:

Date	Quantity (units)
10 February 2023	650
14 February 2023	1,300

Required:

Calculate the total value of closing inventory using:

- (i) First-In-First-Out (FIFO) (6 marks)
- (ii) Last-In-Last-Out (LIFO) (6 marks)
- (iii) Cumulative Weighted Average Cost (AVCO) (6 marks)

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

[Total: 20 Marks]

QUESTION FIVE

Kizito Ltd wishes to produce a medical equipment for a local hospital as Job ET 100. The following are expected costs of Job ET 100:

	K
Direct materials	121,216
Direct labour	35,200
Direct expenses	13,504

Production overheads are absorbed on a machine-hour basis on account of the budgeted information below:

Budgeted production overheads	K19,200,000
Budgeted machine hours	50,000

Administrative overheads are recovered at the rate of 20% of factory costs. The number of machine hours spent on this job is 120.

Required:

- (a) Compute the price of Job ET 100 given that the company makes a profit margin of 10% on each job. (8 marks)
- (b) State three (3) features that are associated with each of the following methods of costing.
 - (i) Job Costing (3 marks)
 - (ii) Contract costing (3 marks)
 - (iii) Process costing (3 marks)
- (c) Explain the difference between direct and indirect costs, giving an example of each. (3 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Natasha and Moola are machine operators in a company which manufactures motor bike spare parts in Mazabuka. The basic working week is 40 hours and over-time is paid at time and a half. The company operates a bonus scheme. Half of the hours saved against a standard time allowed are paid at the basic rate of K8 per hour. The following details relate to the two jobs undertaken by the operators during week 10:

Natasha

Job PD2 component PX	110 units
Hours worked on Job PD2	38 hours
Hours booked to idle time	4 hours
Hours to be paid	40 hours
Allowed time per unit of PX	24 minutes

Moola

Job DP3 component DX	160 units
Hours worked on Job DP3	43 hours
Hours to be paid	43 hours
Allowed time per unit of DX	18 minutes

Units rejected upon inspection are 16 for Natasha and 12 for Moola respectively and these are not included in the output above.

Required:

Calculate separately for Natasha and Moola:

- (i) Amount of bonus payable (6 marks)
 - (ii) Total gross wage (4 marks)
- (b) State six (6) main responsibilities of a cost accountant (6 marks)
- (c) In cost classification, a code is defined as '*a system of symbols designed to be applied to a classified set of items, to give a brief accurate reference facilitating entry, collation and analysis.*'

Required:

State four (4) features of a good coding system.

(4 marks)

[Total: 20 Marks]

END OF PAPER

DA 5 COST ACCOUNTING – SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) Input material = $15,000 \times 0.25\%$ = 3,750 units
- (b) Expected Output = Input 15,000 - 3750 = 11,250 units
 Actual Output = 12,250 units
 Abnormal Units = 12,250 - 11,250 = 1,000 units

- (c) Process Hardening

Description	Kg	Per Unit	Cost	Description	Kg	Per Unit	Cost
Raw Material	12,250	12.60	154,350	Output	12,750	17.19	219,216
Addition Materials	3,000	8.50	25,500	Closing WIP	2,500	14.49	36,234
Conversion Costs			75,600				
Total	15,250		255,450	Total	15,250		255,450

Workings:	Materials	Conversion costs	
Equivalent Units (Kg)	12,750	12,750	
Closing WIP (Kg)	2,500	1,250	
TOTAL	15,250	14,000	
Costs	Materials	Conversion	Costs
Costs	$(154,350 + 25,500) = 179,850$	75,600	255,450
Units	15,250	14,000	
	$179,850 / 15,250$	$75,600 / 14,000$	
Cost/ Equivalent units	K11.79	K5.40	K17.19

1. Valuation
- | | | |
|------------------|-----------------------|------------|
| Output units | $12,750 \times 17.19$ | = K219,216 |
| Closing WIP | $2,250 \times 11.79$ | = K29,484 |
| Conversion costs | $1,250 \times 5$ | = K6,750 |

- (d)

- (i) Joint Product are principal product while by product are incidental to the process
- (ii) Joint Products have significant value while by product are of small value compared to principal products
- (iii) Joint products are separately costed while by product are not separately costed
- (iv) Joint product can still be further processes while by product are sold as they are without necessary incurring more costs and the revenue from by product are a bonus to the organization

SOLUTION THREE

(a)	Grade 10	Grade 11	Grade 12
Available spaces per grade	5,000	4,000	5,500
Day school occupancy rate 40%	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Number of day school pupils.	2,000	1,600	2,200

	Grade 10	Grade 11	Grade 12
(b)			
Number of pupils in boarding	1,600	1,500	1,900
Number of pupils day schooling	<u>2,000</u>	<u>1,600</u>	<u>2,200</u>
Total Pupils in school	<u>3,600</u>	<u>3,100</u>	<u>4,100</u>
Occupancy in pupils	3,600	3,100	4,100
	3,600/5,000	3,100/4,000	4,100/5,500
	= 0.72	=0.775	=0.745
Occupancy %	= 72%	=77.5%	=74.5%
(c)	G10	G11	G12
Total	6,100,700	7,250,300	6,100,175
Less Clinic donation (20% G Costs)	= <u>(200,000)</u>	<u>(240,000)</u>	<u>(100,000)</u>
Adjusted total Cost.	= <u>5,900,700</u>	<u>7,010,300</u>	<u>6,000,175</u>
Cost per pupil in boarding	<u>5,900,700</u>	<u>7,010,300</u>	<u>6,00,175</u>
Pupils in boarding	1,600	1,500	1,900
Cost/pupil in boarding	<u>K 3,687.94</u>	<u>K4,673.53</u>	<u>K3,157.99</u>

(d) Four characteristics of service industry includes:

- (i) Intangibility -the output cannot be touched or felt
- (ii) Heterogeneity -the service is not the same at any given service delivery
- (iii) Inseparability or Simultaneity -you cannot separate service delivery from output and consumption take place at the same time
- (iv) Perishability -service delivered cannot be stored.

SOLUTION FOUR

(a) (i) Economic Order Quantity

This is the quantity of items that should be bought such that total inventory cost will be at minimum.

(ii) Maximum inventory level

This is the level above which stocks should not normally be allowed to rise when the order is placed.

(b) (i) First-in-First-out (FIFO)

Date	Details	Receipts			Issues			Balance	
		Units	Price	value	Units	price	value	Units	Value
02/02/2023	Purchases	1,000	12	12,000				1,000	12,000
06/02/2023	Purchases	800	14	11,200				<u>800</u>	<u>11,200</u>
								1800	23,200
10/02/2023	Issues				650	12	7,800	<u>(650)</u>	<u>(7,800)</u>
								1,150	15,400
12/02/2023	Purchases	1,200	18	21,600				<u>1,200</u>	<u>21,600</u>
								2,350	37,000
14/02/2023	Issues				350	12	4,200		
					800	14	11,200		
					<u>150</u>	18	<u>2,700</u>		
					1,300		18,100	<u>(1,300)</u>	<u>(18,100)</u>
								1,050	18,900
20/02/2023	Purchases	700	16	11,200				<u>700</u>	<u>11,200</u>
								<u>1,750</u>	<u>30,100</u>

(ii) Last-in-First-out (LIFO)

Date	Details	Receipts			Issues			Balance	
		Units	Price	value	Units	price	value	Units	Value
02/02/2023	Purchases	1,000	12	12,000				1,000	12,000
06/02/2023	Purchases	800	14	11,200				<u>800</u>	<u>11,200</u>
								1800	23,200
10/02/2023	Issues				650	14	9,100	<u>(650)</u>	<u>(9,100)</u>
								1,150	14,100
12/02/2023	Purchases	1,200	18	21,600				<u>1,200</u>	<u>21,600</u>
								2,350	35,700
14/02/2023	Issues				1,200	18	21,600		
					<u>100</u>	14	<u>1,400</u>		
					1,300		23,000	<u>(1,300)</u>	<u>(23,000)</u>
								1,050	12,700
20/02/2023	Purchases	700	16	11,200				<u>700</u>	<u>11,200</u>
								<u>1,750</u>	<u>23,900</u>

(iii) Weighed average cost

Date	Details	Receipts			Issues			Balance		
		Units	Price	Value	Units	price	value	Units	Price	Value
02/02/2023	Purchases	1,000	12	12,000				1,000	12	12,000
06/02/2023	Purchases	800	14	11,200				<u>800</u>	14	<u>11,200</u>
								1800	13	23,200
10/02/2023	Issues				650	13	8,450	<u>(650)</u>	13	<u>(8,450)</u>
								1,150	13	14,750
12/02/2023	Purchases	1,200	18	21,600				<u>1,200</u>	18	<u>21,600</u>
								2,350	15	36,350
14/02/2023	Issues				1,300	15	19,500	<u>(1,300)</u>	15	<u>(19,500)</u>
								1,050	16	16,850
20/02/2023	Purchases	700	16	11,200				<u>700</u>	16	<u>11,200</u>
								<u>1,750</u>	16	<u>28,050</u>

SOLUTION FIVE

(a) Price of Job ET 100

	K
Direct materials	121,216
Direct labour	35,200
Direct expenses	<u>13,504</u>
Prime Costs	169,920
Production Overheads (120 hours x K384 per machine hour)	<u>46,080</u>
Production Costs	216,000
Administrative costs	<u>43,200</u>
Total costs	259,200
Profit (10/90 x K259,200)	<u>28,800</u>
Selling price	<u>282,764</u>

OAR = K19,200,000/50,000 machine hours = K384 per machine hour

(b) Costing methods are techniques and procedures used in cost and management accounting to obtain the costs of products, services, processes and cost centres. Each cost method is associated with the following features.

Job Costing

- (i) Production or works are based on customers' requirements.
- (ii) Each order is of comparatively short duration
- (iii) Works undertaken at customer's premises
- (iv) Magnitude of the job is relatively small

Contract Costing

- (i) Undertaken according to customer's special requirements
- (ii) Long duration
- (iii) Constructional in nature
- (iv) Contract size is usually large

Process Costing

- (i) There may be losses in a process
- (ii) Output from one process is output to the next until a final product is made
- (iii) Output maybe a single product, joint-products and by-products.

(c) Difference between direct and indirect costs

Direct costs

A direct cost is a cost that can be traced in full to the product, service or department that is being costed. Examples of direct costs include component parts, specific workers for a job, hire of machinery.

Indirect costs

An indirect cost (or overhead) is a cost that is incurred in the course of making a product, providing a service or running a department, but which cannot be traced directly and in full to the product, service or department. Examples of indirect costs include indirect materials, indirect labour and utilities.

SOLUTION SIX

(a) (i) Calculation of bonus payable

	Natasha	Moola
Units produced	110	160
Time allowed for each unit	24 min	18 min
Time allowed in hours (total)	44	48
Time taken	38	43
Time saved	6	5
Bonus hours @50%	3	2.5
Bonus payment @K8 per hour	<u>K24</u>	<u>K20</u>

(ii) Total Gross Wages

	Natasha	Moola
Hours worked	40	43
	K	K
Basic pay @K8	320	344
Bonus	<u>24</u>	<u>20</u>
Gross pay	<u>344</u>	<u>364</u>

(b) The main responsibilities of a cost accountant in typical organization may include the following: -

- (i) Maintaining costing records
- (ii) Establishing standards costs
- (iii) Preparing production budgets
- (iv) Preparing product costs
- (v) Reporting variances
- (vi) Undertaking inventory valuations
- (vii) Undertaking cost allocations

(c) Four (4) features of a coding system include: -

- (i) Uniqueness
- (ii) Clear symbolism
- (iii) Distinctiveness
- (iv) Uniformity
- (v) Brevity, i.e. brief as possible

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 13 JUNE 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.
2. 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 Which court deals with matters bordering on interpretation of the Zambian Constitution?

- A. The Supreme Court
- B. The Court of Appeal
- C. The Constitutional Court
- D. Local Courts

(2 marks)

1.2 Which of the following rule strictly provides that words of a statute must be interpreted in their ordinary meaning?

- A. The Golden Rule
- B. The Mischief Rule
- C. The Ordinary meaning Rule
- D. The Literal Rule

(2 marks)

1.3 Which one of the following have only the essential elements of a contract?

- A. Offer, Acceptance, consideration and intention to create legal relations.
- B. Agreement, Parol Evidence rule, Legality and Consideration.
- C. Offer, Acceptance, Consideration, Capacity and Damages.
- D. Offer, Acceptance, Agreement, Privity of contract and invitation to treat.

(2 marks)

- 1.4 Mulenga aged 12 years stays with his parents in Kalundu. He is a lover of video games and has just seen the latest edition from a shop next to their home. He approached the shop owner and insisted that he be given the video game and his parents would pay after work. Now the parents have declined to pay stating that they never agreed. The shop owner is in your office and want to understand whether there was a contract at all.

Is this a valid contract?

- A. Yes, Mulenga is bound.
- B. No, because Mulenga has not provided any consideration.
- C. No, because Mulenga is a minor and the video game is a luxury not a necessity.
- D. Yes, because there was ***consensus ad idem*** between the Parties.

(2 marks)

- 1.5 In a partnership business, property is owned by?

- A. Limited liability partner.
- B. All the partners.
- C. The managing partner.
- D. Partner by estoppel.

(2 marks)

- 1.6 Which of the following warrants summary dismissal?

- A. Gross misconduct at work.
- B. Gross misconduct at a party.
- C. Insubordination at work.
- D. Facing off your boss on work issues.

(2 marks)

- 1.7 Which of the following is not a duty of an agent?

- A. Duty to pay commission.
- B. Duty to obey lawful instructions.
- C. Duty to exercise reasonable care.
- D. Duty to avoid conflict of interest.

(2 marks)

- 1.8 The tort by which a third party becomes liable for the wrongs of another is known as?
- A. Negligence.
 - B. Strict liability.
 - C. Proof of damage.
 - D. Vicarious liability.

(2 marks)

- 1.9 Muriel entered into an unconditional contract for the sale of specific goods in a deliverable state. No agreement was reached as to when title passed to Muriel. When does the Sale of Goods Act 1893 provide that title shall pass?
- A. When goods are appropriated to the contract.
 - B. When Muriel takes possession of the goods.
 - C. When Muriel states that she accepts the goods.
 - D. When Muriel pays for the goods.

(2 marks)

- 1.10 Which of the following types of dismissal occurs when no notice is given to the employee?
- A. Immediate Resignation
 - B. Summary dismissal
 - C. Unfair dismissal
 - D. Wrongful dismissal

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section.

Attempt any four (4) questions.

QUESTION TWO

Charlse and Changu are sole traders who are specialized in charcoal supply business. They recently heard the Zambian President make mention of the joint ventures in energy sector and are desirous of reaping fruits from it thereof. They have approached the ministry of energy with a brilliant idea of energy farming through solar plants across the country. One of the key requirements of the project is a partnership agreement between a Zambian local entity and a foreign entity investing in energy sector. They have approached you with the following questions and are in need of your guidance;

Required:

- (a) Explain to them the nature of partnership businesses in Zambia. (4 marks)
- (b) Advise them on the ways a partnership business can be dissolved in Zambia. (4 marks)
- (c) Guide them on the aspect of:
 - (i) Profit sharing for partners (4 marks)
 - (ii) Ownership of assets in a partnership (4 marks)
 - (iii) Duties of partners in a partnership business. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Mulenga is a businessman who is organising a music festival, Lyte Festival. The music festival is on 15 May on a remote island in the British Virgin Islands. One of the contracts that Mulenga enters into is with Great Stages (GS), to construct the stage that the musicians will perform on for a total contract price of ZMW 500,000. The price reflects not only the cost of constructing the stage, but also transporting via ship it to the island which Lyte Festival is taking place on. The terms of the signed and written contract, which is dated 1 February, include the following: Clause 10: Mulenga must pay GS ZMW100,000 as a deposit for the stage by 1 March. Clause 20: GS must complete construction of the stage by 1 May. Clause 30: Mulenga must pay GS the remaining ZMW400,000 by 5 May. Clause 40: GS must begin transport of the stage by 7 May. Mulenga pays GS the deposit, and GS duly completes the construction of the stage on time. However, on 5 May, Mulenga fails to pay the remaining ZMW400,000. GS threatens to terminate the contract on the basis of Mulenga's breach, but on 7 May, after some negotiation, Mulenga and GS agree to vary the terms of their contract via a telephone call. Under the new contract, Mulenga agrees to pay GS an extra ZMW200,000, with the payment (totalling ZMW600,000) to take place on 16 May the day after the festival.

GS also agrees to use a quicker and more expensive boat to make sure the stage arrives in time, given the delay caused by Mulenga's non-payment. The next boat available leaves on 11 May, giving just enough time for it to arrive at the festival ready for 15 May. GS does in fact begin delivery of the stage on time, by placing it on the boat leaving 11 May. However, before the stage can reach the island that Lyte Festival is on, it is intercepted and seized by customs authorities of the British Virgin Islands. The customs authorities assess the import tax of the stage at ZMW10,000. However, Mulenga owes the customs authorities another £1 million in import taxes from the other festival-related items he has brought to the British Virgin Islands for the music festival. The customs authorities refuse to release the stage until the full amount owing to them is paid, and Mulenga cannot afford to pay it. As a result, the stage is not delivered in time for the festival. After the festival, Mulenga does not pay and GS sues Mulenga, seeking the ZMW600,000 they believe is owing to them. However, Mulenga counter-sues for the £100,000 deposit he originally paid, claiming that the contract was frustrated and he is entitled to a return of his deposit.

Required:

- (a) With the aid of authorities, advise the parties whether the contract was frustrated or not. In your answer, highlight the circumstances where the doctrine of frustration will not apply. (15 marks)
- (b) Assuming that the contract was discharged, discuss whether Malambo can recover the ZMW100,000 deposit under the relevant law relied on (a) above. (5 marks)

QUESTION FOUR

- (a) Distinguish unlawful dismissal from unfair dismissal. (4 marks)
- (b) Explain the various ways a contract of employment may come to an end. (4 marks)
- (c) Explain judicial precedents as a source of Law in Zambia. (3 marks)
- (d) Distinguish a contract of sale from an ordinary simple contract. (4 marks)
- (v) Explain the exact stage risk passes in a contract of sale. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) There are several remedies available to the injured party when a term of the contract has been breached. Proceed to list and briefly explain at least two (2) remedies you know.

(6 marks)

- (b) Explain in detail the rights and duties of the Principal in an agency relationship.

(8 marks)

- (c) Distinguish the *Golden rule* from the *mischief rule* in statutory interpretation.

(6 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Explain in detail, strict liability torts. (8 marks)

- (b) Discuss incidents which may cause one to be vicariously liable for the torts of another person. (5 marks)

- (c) Explain the following defences to an action in tort.

(i) Consent (3 marks)

(ii) Contributory negligence (4 marks)

[Total: 20 Marks]

END OF PAPER

DA 6: BUSINESS LAW-SUGGESTED SOLUTIONS

SOLUTION ONE

1. C
2. D
3. A
4. C
5. B
6. A
7. C
8. A
9. A
- 10.C

SOLUTIONS TWO

(a)

A partnership firm is a form of business organization where two or more individuals join together to carry on a business with a shared objective of making a profit. The partners contribute capital, share responsibilities, and have a mutual understanding as outlined in a partnership deed.

(b) illegality, death, effluxion of time, agreement of the parties, court order.

(c) (i) There are three common methods: equal sharing, ratio sharing, and salary plus sharing. Equal sharing means that all partners receive the same amount of profit, regardless of their contributions. Ratio sharing means that each partner receives a percentage of the profit based on their contribution value.

(ii) A Partnership is not its own legal entity; therefore, the Partnership cannot own the legal title to a property. Instead, the legal title to the property will be 'owned' by each individual Partner. The Partners will be named on the legal title but they will hold the property on trust for the Partnership.

(iii) Duties of a Partner:

(i) Every partner should carry on the business to the greatest common advantage. He must perform his duties honestly and diligently.

(ii) A partner is not entitled to get remuneration for the conduct of business, unless otherwise it is specially mentioned in the partnership deed.

(iii) A partner must indemnify the firm for loss suffered because of his fraudulent conduct or willful neglect.

(iv) A partner is bound to keep and render true and correct accounts of the business.

(v) A partner cannot carry on a competing business. If he carries on such business he shall account for and pay to the firm all profits made by him in that business.

(vi) A partner is bound to act within the scope of his authority.

(vii) No partner can make a secret profit of the partnership business by way of commission, etc. If he does so, he must return the money to the firm.

SOLUTION THREE

(a)

As a general rule, the doctrine operates to discharge the contract where:

- (i) it appears from the nature of the contract and the surrounding circumstances that the parties have contracted on the basis that some fundamental thing or state of things will continue to exist, or that some particular person will continue to be available, or that some future event which forms the basis of the contract will take place; and
- (ii) an event in relation to this underlying basis of the contract renders performance impossible or only possible in a very different way from that contemplated, but without default of either party.

The party seeking to apply the doctrine needs to show that there has been a failure at the heart of the contract and that the relationship contemplated by the parties is fundamentally altered by events outside their control. It is not enough to demonstrate that the party has been deprived of some benefit or that the changed circumstances will create hardship or inconvenience. In the context of Contract-questions to consider are:

- (i) Is performance simply delayed for the duration of the Level 4 lockdown?
 - (ii) Are parties able to resume the contracted relationship in substantially the same manner once lockdown is eased?
 - (iii) Can the parties find an alternative means of carrying out the obligations in the contract?
- Self-Induced Frustration The doctrine cannot be invoked for events which the parties are responsible for. If the other party to a contract wishes to enforce the contract, the burden of proof rests with them to demonstrate that the frustrating event being relied on was self-induced.

(b) Compensatory Damages. Compensatory damages compensate the non-breaching party for the actual financial losses suffered as a direct result of the breach of contract. ...

- (i) Consequential Damages. ...
- (ii) Incidental Damages. ...
- (iii) Punitive Damages. ...
- (iv) Nominal Damages.

SOLUTION FOUR

(a)

Unlawful dismissal

It refers to a situation where an employer dismisses an employee without notice or with insufficient notice.

It refers to a situation where an employer dismisses an employee without notice or with insufficient notice. This is contrasted with 'unfair' dismissal which is said to concentrate both on procedure and substance

Unfair Dismissal,

Unfair dismissal is when an employee is dismissed from their job in a harsh, unjust or unreasonable manner.

(b)

- (i) Death
- (ii) Resignation
- (iii) Retirement
- (iv) Dismissal

(c)

Judicial precedents are decisions of courts. The decisions of superior courts bind all courts below them and this becomes a source of law in Zambia. Their decisions must be followed unless varied or departed from.

(d)

A contract of sale refers to the transfer of property in goods from the seller to the buyer which takes place at the time of the contract without conditions or under certain conditions at some time in the future. Whereas a simple contract is an agreement that specifies certain legally enforceable rights and obligations pertaining to two or more parties.

(e) The moment the goods are identified and appropriate to the contract. In all commercial transactions, unless agreed by the parties themselves, risk passes immediately ownership of goods changes. The parties may address the passing of risk (or the shift of ownership) in their contract expressly or by implication in the use of an Incoterm.

SOLUTION FVE

(a)

- (i) Compensatory Damages in Contract Law. ...
- (ii) Specific Performance as a Contract Remedy. ...
- (iii) Legal Injunctions in Contract Disputes. ...
- (iv) Rescission for Material Breach of Contract. ...
- (v) Liquidated Damages in Contract Cases. ...
- (vi) Awarding Nominal Damages in Contract Violations

(b)

Principals, in turn, possess rights including the expectation of performance, access to information, the ability to terminate the relationship, and seeking damages for breaches of duty. Their duties encompass compensation, acting in good faith, cooperation, and honesty.

(c)

The literal rule

Under this rule the judge actually looks at what the statute says rather than what it might mean. The literal rule says that, the intention of Parliament is best found in the ordinary and natural meaning of the words. In the English case of *Duport Steers v Sirs* (1980) Lord Diplock once noted;

"Where the meaning of the statutory words is clear and unambiguous, it is not then for the judges to invent fancied ambiguities as an excuse for failing to give its plain meaning because they consider the consequences of doing so would be inexpedient or even unjust or immoral."

In Zambia the use of the literal rule was illustrated in the case of *Mutale v The Attorney General* (1979) 139 Mr Honorable Justice Bweupe had this to say:

"It seems to me, therefore, that in the construction of the statute words should be given their literal meaning which is not necessarily the dictionary sense in which the words are used in common parlance."

Whereas; The Golden rule is the modification of the literal rule, it states that if the literal meaning of the words leads to absurdity then the court should look for another meaning of the words to avoid that absurd result. This canon of interpretation was closely defined by Lord Wensleydale in the case of *Grey v Pearson* (1857) HL Cas 61, who stated that;

"The grammatical and ordinary sense is to be adhered to, unless that would lead to some absurdity or repugnance or inconsistency with the rest of the instruments in which the ordinary and grammatical sense may be modified to avoid that absurdity and inconsistent but no further."

In Zambia, the use of the golden rule was illustrated in the case of *The Attorney General and Movement for Multi Part Democracy v. Lewanika & 4 others* S.C.J no 2 of 1994 wherein the supreme court stated that;

"It follows that whenever strict interpretation gives rise to an unreasonable and unjust situation. It is our view that judges can and should use there good common sense to remedy it, that is by reading words in if necessary so as to do what Parliament would have done if they had the situation in mind."

SOLUTION SIX

(a)

A strict liability tort is a type of personal injury case in which you as the defendant are held liable regardless of whether you were negligent or not. This means that you don't have to have done anything wrong to be held liable. One of the most common types of strict liability tort is product liability.

(b)

vicarious liability, or imputed liability, is a legal rule that holds a person or company responsible for actions committed by others or by their employees. Typically, it applies to those who are in control of people who cause harm to victims. So in tort, an employer is liable for the torts of the employee.

(c)

(i) Defence of consent, also known as ***volenti non fit injuria***, is a legal principle where a person who voluntarily consents to the risk of harm cannot claim damages if they suffer any harm as a result of the risk they knowingly and willingly accepted.

(ii) Contributory negligence is a legal doctrine that prohibits victims from recovering compensation in a personal injury claim if they were even 1% responsible for their own injuries. For example, a plaintiff who was driving 30 mph over the speed limit was hit by the defendant who swerved into their lane.



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 9 JUNE 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 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 Formal authority flows from upwards to downwards in.....

- A. Informal organization.
- B. Business or organization.
- C. Formal organization.
- D. Strategic organization.

(2 marks)

1.2 Michael Porter, in explaining corporate strategy, identified four (4) generic strategies. Which of the following is one of these strategies?

- A. Accountability.
- B. Cost focus.
- C. Fairness.
- D. Feedback.

(2 marks)

1.3 According to Lewin's theory of force field analysis and organizational change, which one of the following statements is true.

- A. Anxiety about job security is a force for change.
- B. Getting individuals to recognize that change is desirable.
- C. Groups/businesses that manage who have an interest in and are affected by the goals, operations or activities of the organization.
- D. To make a change successfully it is more effective to try reducing restraining forces than to try making stronger the drivers for change.

(2 marks)

1.4 Which of the following functions of management were identified by Henri Fayol (1841-1925).

- A. Planning, organizing, commanding, coordinating, controlling.

- B. Planning, processing, monitoring, directing, decisional.
- C. Managing, labeling, controlling, sorting, computing.
- D. Communication, computing, commanding, managing, decisional.

(2 marks)

1.5 Which of the following is NOT a content theory?

- A. Vroom's expectancy theory.
- B. Maslow's need hierarchy.
- C. McClelland's acquired needs theory.
- D. Herzberg's two-factor theory.

(2 marks)

1.6 What are the factors responsible for the growth of HRM.

- A. The problem of how the available human resource could effectively minimize the cost and maximize the production.
- B. Development of scientific management and awakened sense of social responsibility.
- C. Technical factors, awakening amongst workers, attitude of the government, cultural and social system.
- D. All the above.

(2 marks)

1.7 A Government company is a company in which the paid-up capital held by the Government is not less than

- A. 26 per cent.
- B. 51 per cent.
- C. 75 per cent.
- D. 50 per cent.

(2 marks)

1.8 Identify the four (4) main styles of leadership displayed by the manager identified in Tannenbaum and Schmid's continuum of possible leadership behavior.

- A. Tells, help, Joins and leads.
- B. Commands, sells, consults and resists.
- C. Tells, sells, consults and joins.
- D. Commands, help, joins and leads.

(2 marks)

1.9 Which two (2) of the following are the key factors taken into account in achieving job enrichment.

- I. Permitting workers greater freedom and control over the scheduling and pacing of their work as opposed to machine pacing.
- II. Providing workers with the opportunity to have greater direct contact with clients, consumers or users of the product or service.
- III. Providing workers with an opportunity to exercise different skills and perform different operations.
- IV. Providing workers with an opportunity to exercise discretion or self-management.

- A. I and III
- B. II and IV
- C. I and II
- D. I and IV

(2 marks)

1.10. What questionable assumptions underpin the prescriptive approach to strategic change?

- A. Change is unpredictable and discontinuous.
- B. Change is an organic and fundamentally about managing culture.
- C. Change is predictable, sequential and controllable by management.
- D. Change is a continuous process.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

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

Required:

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

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

Required:

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

(10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Discuss the theory of motivation developed by Victor H Vroom. (12 marks)
- (b) Explain the following human resource terms.
- (i) Job analysis. (4 marks)
- (ii) Job Description. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Describe the leadership style as depicted in the Blake and Mouton's management grid. (10 marks)
- (b) Explain five (5) external factors that may cause change in an organization.

(10 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Define the term induction. (1 mark)
- (b) State six (6) purposes of induction. (6 marks)
- (c) Explain any four (4) approaches to individual development. (8 marks)
- (d) State any five (5) key features of a non-governmental organization. (5 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Explain five (5) aspects that leaders acting as 'change agents' should consider in defining projects and proposals in a way that is acceptable. (10 marks)
- (b) State three (3) attributes of change. (3 marks)
- (c) Give an example of change that is triggered in a micro environment. (2 marks)
- (d) State five (5) characteristics of a public sector organization. (5 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 A
- 1.5 A
- 1.6 C
- 1.7 B
- 1.8 C
- 1.9 C
- 1.10 C

SOLUTION TWO

(a)

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

(b) The benefits of delegation are:

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

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

- (i) Participation should be used only to a certain degree of importance, however if the employee perceives the matter to be of no value or less important, it is likely that the employee's level of motivation will still be low.
- (ii) There is need for feedback to be given to employees all the time and as soon as possible on the outcome of their participation.
- (iii) The participation must be genuine. When staff are asked to participate in work activities, further action should be taken in the light of their involvement.
- (iv) Employees should only be involved in relevant decisions where they have experience and knowledge' anything outside the scope of staff can sometimes just demotivate them.

- (v) Employees should only be involved in decisions for which they have the ability, equipment and willingness to be involved.

SOLUTION THREE

(a)

The motivation theory developed by V.H. Vroom falls under process theories of motivation which attempts to identify the relationships among the dynamic variables that make up motivation and the actions required to influence behaviour and action. Vroom's expectancy theory of motivation argues that people choose among alternative behaviours according to their expectations that a particular behaviour will lead to one or more desired outcome.

The core of the theory relates to how a person perceives the relationship among effort, performance and rewards. Vroom theory is based on three key variables or factors that influence motivation: Expectancy, Instrumentality and Valence.

- (i) Expectancy: The extent of an individual's perception or belief that a particular act will produce a particular outcome.
- (ii) Instrumentality: The extent to which an individual perceives that effective performance will lead to desired rewards.
- (iii) Valence: The strength of the belief that attractive rewards are potentially available.

Expectancy

Instrumentality → **Effort** → **Performance** → **Rewards**

Valence

According to Vroom rewards are classified into two categories which are Intrinsic and extrinsic rewards.

(b)

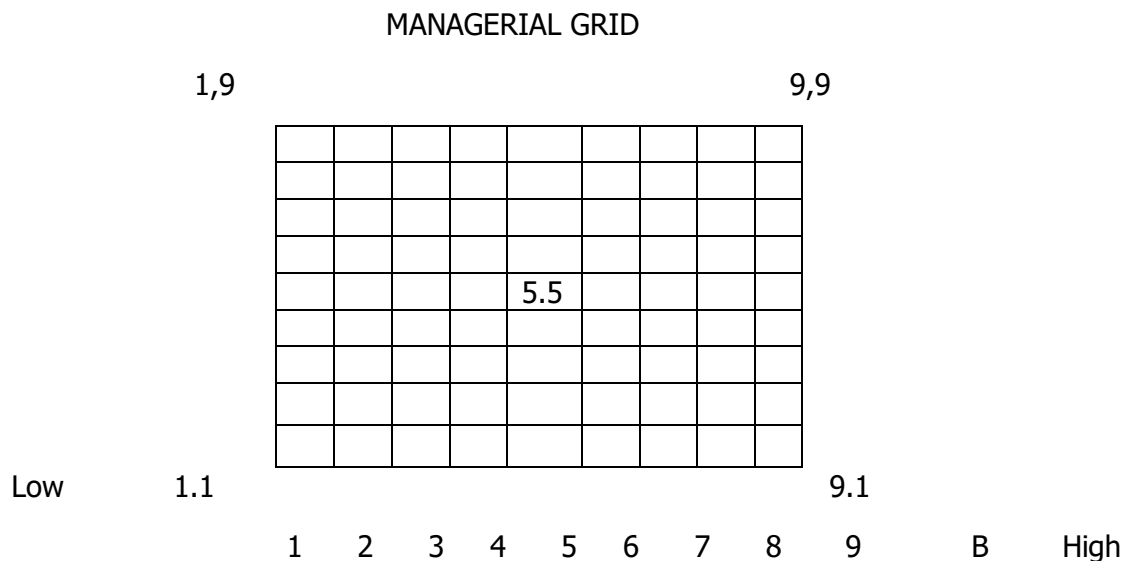
(i) Job analysis is the collection of information of the job vacancy to be created and the helps to develop a job description. The information needed is as follows:

- (i) The attributes of the job holder: skills, technical knowledge, working experience, personal qualities etc
- (ii) Tasks or duties to be performed
- (iii) Education qualifications
- (iv) Position of the job

(ii) Job Description: A full description of the Job, set out in writing as a formal document. Purpose of the Job Responsibilities, Accountabilities and main tasks the job holder carries out.

SOLUTION FOUR

- (a) Robert Blake and Jane Mouton developed the managerial grid of leadership that has two dimensions. The managerial grid shows a leaders behavior either concern for production on the horizontal axis (B) or concern for people on the vertical axis (A)



- (i) 1.1 Impoverished: This point shows that the manager has little concern for both workers and production, he/she is lazy.
- (ii) 1.9 Country Club: The manager is employee oriented which means he/she pays more attention to employees than production or task.
- (iii) 9.1 Task: The manager is more concerned with tasks to be performed than relationships with employees.
- (iv) 5.5 Middle of the road: The manager is at the middle where he/she shows equal concern for production and employees.
- (v) 9.9 Team Management: This is the ideal leadership style where the manager shows high concern for production and employees.

(b)

- (i) Political:

This refers to the political stability in the country and the policy direction of the ruling party on both economical and social aspects. Changes in economical or social policies may affect the operations of the business either positively or negatively. For changes in tax policy may increase cost of production. Also consideration should be given to potential opposition political party's manifestos concerning economical and social policies.

(ii) Economy:

The macro economical indicators or fundamentals have an influence on consumer purchasing power. Therefore, management should critically analyze the economic indicators to determine how they affect strategic planning and eventually the demand of its products. The economic factors that need analysis are

- (i) Gross domestic product
- (ii) Inflation rate
- (iii) Foreign exchange rates
- (iv) Interest rates
- (v) Employment levels etc

(iii) Social:

Management should analyze the cultural, demographics and lifestyle of the society that have an influence on the demand for goods and services the company is producing. Culture of the society includes beliefs and values. Demographics consists of population density, age distribution, gender composition, race etc. Lifestyle consider changes in family structures, an increasing number in career women, effects of diet on health etc.

(iv) Technology:

There has been a rapid advancement in technology which has affected production/operation processes and systems in the production of goods or services. This has improved the quality of goods and services supplied to customers. Changes in computer technology has resulted into e-business and e-commerce where Customers are able to buy goods or services using the internet globally by.

(v) Legal:

The government makes laws that regulate business conduct among business organization. Therefore, organizations are expected to comply with the various laws that affect their operations. These are labour laws, company law, environmental laws, consumer and protection laws that the government may change to protect businesses and consumers.

SOLUTION FIVE

- (a) Induction is a process whereby a person is formally introduced and integrated into an organization or system.
- (b) The purposes of induction
 - (i) To support new staff in beginning performance.
 - (ii) To identify the skills gaps. (Training and development needs)
 - (iii) To help new staff to find their bearings
 - (iv) To socialize new employees into the culture and norms of the team/organization
 - (v) To avoid initiating problems at induction stage where new staff can feel unwelcome and gets discouraged.
 - (vi) To provide clarity on roles, responsibilities, and performance expectations.
- (c) The Four approaches to individual development include:
 - (i) More training to acquire new skills.
 - (ii) Taking up more responsibilities to enlarge the job and enhance job satisfaction.
 - (iii) Aspiring for higher positions.
 - (iv) Exhibiting higher levels of commitment to duties and tasks.
- (d) Key features of a Nongovernmental organization
 - (i) They are usually "informal" in their approach
 - (ii) They are usually a nonprofit organization, although they may earn income from their activities.
 - (iii) Cost effective organizations that ensure that unnecessary costs are reduced.
 - (iv) Initial capital is raised through member's contribution or donors.
 - (v) The main goal of a Non-Governmental Organization is to serve the public in goods and services
 - (vi) Administrative structures are generally informal and simple.

SOLUTION SIX

- (a) Aspects that leaders acting as 'change agents that define' projects and proposals in a way that is acceptable.
 - (i) Reversible – the change can be reversed if it does not work
 - (ii) Divisible – change can be done in parts. ie if one part does not work, it can be reversible and adopt the part that is workable.
 - (iii) Triable – change can be tried out by means of trial test or pilot test, before the full – scale introduction.
 - (iv) Concrete – the change must be expressed in concrete form
 - (v) Congruent- the change should be something that fit in with the rest of the organization and be consistent with existing policies and practices.
 - (vi) Familiar –the change should be something that people should recognize and be familiar with.
- (b) Attributes of 'change adept' organization
 - (i) Openness to collaborate
 - (ii) Professionalism to perform
 - (iii) Imagination to innovate.
- (c) Example of change that is triggered in a micro environment.
 - (i) Need or desire to respond to competitive threats.
 - (ii) Law demand of products as a result of them reaching the end of the cycle.
 - (iii) Response to competition and issues of globalization of businesses and threats from foreign multinational companies.
- (d) Characteristics of a public sector organization.
 - (i) Transparency
 - (ii) Accountability
 - (iii) Decentralization
 - (iv) Funding is by government
 - (v) Commercialization
 - (vi) The prime objective is serving the interest of the public

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 9 JUNE 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

On 1 July 2023, Banda Ltd acquired the following non-current asset investments:

- 80% of the equity share capital of Mumba Ltd at a cost of K272,000.
- 50% of Mumba Ltd's 10% Loan notes at par.
- 32,000 equity shares in Bama Ltd at a cost of K6.25 per share.

The summarized draft statements of financial position of the three companies at 31 December 2023 are:

	Banda Ltd K	Mumba Ltd K	Bama Ltd K
Assets:			
Non-current assets:			
Property, Plant and Equipment	400,000	170,000	330,000
Investments	520,000	-	30,000
	920,000	170,000	360,000
Current Assets	300,000	160,000	220,000
Total Assets	<u>1,220,000</u>	<u>330,000</u>	<u>580,000</u>
Equity and liabilities:			
Equity:			
Equity shares of K1.00 each	200,000	60,000	80,000
Retained Earnings	740,000	160,000	400,000
	940,000	220,000	480,000
Non-current liabilities:			
8% Loan note	80,000	-	-
10% Loan note	-	40,000	-
Current liabilities	200,000	70,000	100,000
Total Equity and Liabilities	<u>1,220,000</u>	<u>330,000</u>	<u>580,000</u>

The following additional information is relevant.

1. The fair values of Mumba Ltd's assets were equal to their carrying amounts with the exception of Land and Plant. Land had a fair value of K8,000 in excess of its carrying amount and Plant had a fair value of K32,000 in excess of its carrying amount. The plant had a remaining life of four years (straight line depreciation) on the date of acquisition.
2. In the post-acquisition period Banda Ltd sold goods to Mumba Ltd at a price of K120,000. These goods had cost Banda Ltd K80,000. Half of these goods were still in the inventory of Mumba Ltd at 31 December 2023. Mumba Ltd had a balance of K30,000 owing to Banda Ltd at 31 December 2023 which agreed with Banda Ltd's records.
3. The net profit after tax for the year ended 31 December 2023 was K40,000 for Mumba Ltd and K160,000 for Bama Ltd. Assume profits accrued evenly throughout the year.
4. An impairment test at 31 December 2023 concluded that consolidated goodwill on acquisition of Mumba was impaired by K8,000 and the investment in Bama Ltd was impaired by K4,000.
5. No dividends were paid during the year by any of the companies.
6. It is group policy to value non-controlling interest at acquisition at fair value. The Directors valued the non-controlling interest at acquisition at K60,000.

Required:

Prepare the consolidated statement of Financial Position for Banda Ltd's group as at 31 December 2023.

[Total: 25 Marks]

QUESTION TWO

The following list of account balances relates to Ngala Ltd at 31 December 2023.

	K' 000	K' 000
Sales revenue (Note 1)		716,900
Cost of sales	370,100	
Distribution costs	57,400	
Administration expenses	30,000	
Lease Rentals (Note 2)	40,000	
Loan Interest paid	4,000	
Dividends paid	24,000	
Property at cost	400,000	
Plant and Equipment at cost	309,600	
Accumulated Depreciation on Plant 1 Jan. 2023		69,600
Development Expenditure (Note 4)	60,000	
Profit on disposal of Non-current assets		90,000
Trade Receivables	110,000	
Inventories 1 January 2023	56,480	
Bank	21,320	
Trade Payables		58,800
Taxation		4,400
Equity shares of 50n each		300,000
8% Loan notes		100,000
Retained Earnings – 1 January 2023		143,200
	<u>1,482,900</u>	<u>1,482,900</u>

Additional information:

- Included in sales revenue is K54m which relates to sales made to customers under consignment agreements. Ngala Ltd can request the return of those goods at any time until 31 January 2024. Ngala Ltd has charged a mark-up of 20% on cost for these sales.
- A lease rental of K40 million, the first of the five (5) annual payments in advance was paid on 1 January 2023 for the rental of an item of plant. The present value of the future lease payments at 1 January 2023 amounted to K120 million. The implicit interest rate in the lease is 12% per annum. Leased assets are depreciated on a straight-line basis over the lease term. The lease has a term of five (5) years.
- On 1 January 2023, Ngala Ltd acquired a new property at a cost of K400 million. For the purpose of calculating depreciation only, the asset has been separated into the following elements;

<u>Separate asset</u>	<u>Cost</u> K'000	<u>Life</u>
Land	100,000	Freehold
Heating system	40,000	10 years
Lifts	60,000	15 years
Buildings	200,000	50 years

The depreciation of the elements of the property should be calculated on a straight-line basis. The new property replaced an existing one that was sold on the same date for K190 million. It had cost K100 million and had a carrying value of K160 million at the date of sale. The profit on this property has been calculated on the original cost. It had not been depreciated on the basis that the depreciation charge would not be material. Plant and machinery is depreciated at 20% on the reducing balance basis.

4. The development expenditure in the trial balance represents the amounts deferred in previous years in respect of the development of a new product. Unfortunately, during the current year, a new legislation has been introduced which effectively bans this type of product. As a consequence of this, the project has been abandoned. The directors of Ngala Ltd have since recommended the writing off of the development expenditure, as opposed to its previous deferment.
5. A provision for income tax for the year to 31 December 2023 of K30 million is required. The balance on the taxation account represents an under or overprovision for the previous period.

Required:

- (a) Prepare Ngala Ltd's statement of Profit or Loss for the year to 31 December 2023.
(9 marks)
- (b) Prepare Ngala Ltd's statement of changes in equity for the year ended 31 December 2023.
(4 marks)
- (c) Prepare Ngala Ltd's statement of financial position as at 31 December 2023 in accordance with International Financial Reporting Standards (IFRSs) as far as the Information permits.
(12 marks)

[Total: 25 Marks]

SECTION B

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

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

QUESTION THREE

Niko Ltd has been owned by the founding shareholders, the Niko family, for several years. However, following the death of the influential member of the Niko family, the heirs and remaining shareholders in Niko Ltd have agreed that their holdings in the company must be sold. Consequently a potential buyer has been found.

You are a financial analyst. You have been approached by the potential buyer to analyse the recent financial performance and position of Niko Ltd. The potential buyer requires analysis to be benchmarked against other entities in the same industry as Niko Ltd.

You have been provided with the following information, extracted from the books of Niko Ltd:

Statement of Profit or Loss (extracts only) for the year ended 31 December 2023.

	K' 000
Revenue	56,000
Cost of sales	<u>(42,300)</u>
Gross profit	<u>13,700</u>
Net Profit before tax	2,325
This is after charging the following expenses:	
Depreciation	1,800
Loan note interest	400
Interest on bank overdraft	75
Audit fee	60

Statement of Financial Position as at 31 December 2023.

Non-Current Assets	K' 000	K' 000
Property, Plant & Equipment at valuation		9,250
<u>Current Assets</u>		
Inventories	3,200	
Trade Receivables	6,150	
Cash and cash equivalents	<u>400</u>	<u>9,750</u>
Total Assets		<u>19,000</u>
<u>Equity and Liabilities</u>		
Equity: Ordinary shares of K1 each	4,000	
Retained earnings	<u>6,550</u>	10,550
 <u>NON-CURRENT LIABILITIES</u>		
10% Loan stock		4,000
 <u>CURRENT LIABILITIES</u>		
Bank overdraft	550	
Trade Payables	3,750	
Taxation	<u>150</u>	<u>4,450</u>
Total equity and liabilities		<u>19,000</u>

The following are the latest industry average ratios.

- ROCE	18.50%
- Quick Ratio	1.27
- Trade Receivables-collection period	52 days
- Trade Payables payments period	49 days
- Gearing	32.71%

Required:

- (a) Calculate comparable ratios (to two decimal places where appropriate) for Niko Ltd for the year ended 31 December 2023. All calculations must be clearly shown together with formula used. (10 marks)
- (b) Write a report to the potential shareholder analyzing the financial performance and position of Niko Ltd against the industry average. (15 marks)

[Total 25 Marks]

QUESTION FOUR

You are the Accountant of Mukula Limited and you are required to deal with the items below.

Note: The financial year end in each scenario [(a), (b), (c) and (d)] is 31 March 2024.

- (a) On 1 April 2023, Mukula entered into a five (5) year lease for a piece of equipment. The equipment has a useful life of six (6) years. The annual lease payments are K37,500 per annum payable at the beginning of the year commencing 1 April 2023. To obtain the lease Mukula incurred initial direct costs of K7,500 as lease arrangement fee but received a lease incentive of K3,750. The rate of interest implicit in the lease is 5%. The present value of all the lease payments is K170,475.

Required:

Explain with suitable calculations the accounting treatment of this transaction according to IFRSs/IASs.

(7 marks)

- (b) On 1 April 2023, Mukula sold a computerized machine and will provide a technical support package over two (2) years. The combined machine and technical support contract sells for K1,200,000. The customer paid this amount and collected the machine on 1 April 2023. If sold separately the machine is sold for K1,125,000 and the technical support for K375,000. Technical support for the year ending 31 March 2024 has been provided

Required:

Explain with suitable calculations the accounting treatment of this contract according to IFRSs/IASs.

(6 marks)

- (c) Mukula has a growth strategy of acquiring poor performing entities and turning them into profitable entities. To finance these acquisitions, Mukula issued 1,000,000 4% convertible loan notes on 1 April 2023 at a par value of K100 each. The loan notes are redeemable at par after three (3) years. The holders can choose to convert each note into 20 K1 shares at any time after three (3) years. The rate of interest on similar debt with three (3) year term but without the conversion option is 6%.

Discount factors are as follows:

End of year	4%	6%
1	0.962	0.943
2	0.925	0.890
3	<u>0.889</u>	<u>0.840</u>
3 years cumulative	<u>2.776</u>	<u>2.673</u>

Required:

Explain with suitable computations the accounting treatment of this transaction according to IFRSs/IASs.

(6 marks)

- (d) On 1 July 2023, Mukula committed itself to selling a property that is not being utilised following the economic downturn. The asset is actively marketed but there are no reasonable offers to purchase the asset because Mukula has not reduced the selling

price of the asset despite the economic downturn. On 1 July 2023, the property sales expert advised Mukula that the property will not be sold in the next 12 months.

Required:

Using relevant criteria, explain whether this asset qualifies to be classified as a 'Non-current asset held for sale' according to IFRSs/IASs. (6 marks)

[Total: 25 Marks]

QUESTION FIVE

Chitambo limited has a central warehouse at head office and nine retail selling branches spread across the country, in each of the nine provincial capitals of Zambia.

Branches are notified of the expected selling price of goods sent from head office and prices can be reduced only by agreed procedure, head office being informed of the details.

All accounting records are kept at head office. Credit up to an agreed limit can be given at the branches, the head office sending out invoices and statements following advice from branches.

Accounts are kept in such a way as to enable actual inventory (at selling price) to be checked at intervals. Whilst head office has information accessible on the cost price as well as the selling price of goods sent to branches, for other purposes an average mark up of 50% on cost is assumed.

The following figures relate to one of the branches of Chitambo limited for the year ended 31 December 2023.

	Selling price K'm
Opening inventory 1 January 2023 (cost K61,000 million)	91,500
Goods from head office (cost K548,200 million)	822,300
Transfer to other branches	7,500
Transfer from other branches	6,000
Returns to head office	12,000
Increases in selling price for goods already at branch as Notified by head office	4,300
Reductions in selling price notified to head office	22,500
Credit sales at branch	106,500
Returns by credit customers to branch	3,000
Cash sales	662,000
Notified by head office	4,300
 Closing inventory (actual)	 107,100

Required:

(a) Prepare the following branch accounts:

- | | | |
|-------|---------------------------|-----------|
| (i) | Branch inventory account. | (6 marks) |
| (ii) | Goods sent to branch. | (2 marks) |
| (iii) | Branch mark up account. | (3 marks) |

(b) Explain briefly two (2) main approaches used to account for inventory loss or damage under branch accounts. (4 marks)

- (c) Explain any five (5) key differences between public and private sector entities.

(10 marks)

[Total: 25 Marks]

END OF PAPER

DA 8: FINANCIAL REPORTING – SUGGESTED SOLUTIONS

SOLUTION ONE

Banda Ltd's Group's

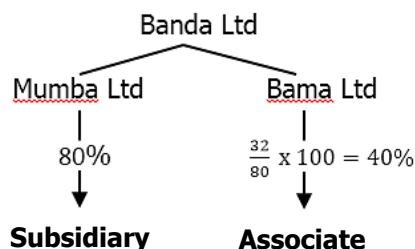
Consolidated statement of Financial Position as at 31 December 2023

<u>NON-CURRENT ASSETS</u>	K	K
Property, Plant and Equipment (400,000 + 170,000 + 36,000) (w7)		606,000
Goodwill (w2)		84,000
Investment in associate (w3)		228,000
Investment in others (w8)		<u>28,000</u>
		946,000
Current Assets (300,000 + 160,000 – 20,000 (w6) – 30,000) (note 2)		<u>410,000</u>
		<u><u>1,356,000</u></u>
<u>EQUITY AND LIABILITIES</u>		
Share capital	200,000	
Retained earnings (w5)	<u>754,400</u>	954,400
Non-controlling interest (w4)		61,600
<u>NON-CURRENT LIABILITIES</u>		
8% Loan note	80,000	
10% Loan note (50% x 40,000)	<u>20,000</u>	100,000
Current Liabilities (200,000 + 70,000 – 30,000) (note 2)		<u>240,000</u>
Total Equity and Liabilities		<u><u>1,356,000</u></u>

Note: the loan note in the above consolidated statement of financial position is the balance after the intra group cancellation.

Workings

- Group structure



- Goodwill calculation

- Consideration transferred	K	K
- NCI (given)		<u>272,000</u>
		60,000
		<u>332,000</u>
Less Fair value of Net assets at acquisition		
Share capital	60,000	
Pre-acquisition retained earnings (160,000 – 20,000)	140,000	
Fair value adjustment - Land	8,000	
- Plant	<u>32,000</u>	240,000
Goodwill at acquisition		<u>92,000</u>
Less Impairment loss		<u>8,000</u>
Goodwill carrying value		<u><u>84,000</u></u>

- Associate – Bama Ltd

K

Cost of investment 32,000 shares x K6.25	200,000
Share of post-acquisition 40% x (160,000 ÷ 2)	<u>32,000</u>
	232,000
Less impairment losses	<u>(4,000)</u>
Carrying value	<u>228,000</u>

4. Non-Controlling Interest (NCI)

	K
NCI at acquisition	60,000
NCI share of post-acquisition (20% x 16,000)	3,200
NCI share of impairment losses (20% x 8,000)	<u>(1,600)</u>
	<u>61,600</u>

5. Group retained earnings

	Banda Ltd	Mumba Ltd	Bama Ltd
	K	K	K
Per statement of Financial Position	740,000	160,000	400,000
Additional Depreciation (32,000 ÷ 4yrs) x $\frac{6}{12}$	-	(4,000)	-
Unrealised Profit (120,000 – 80,000) ÷ 2	(20,000)	-	-
Pre-acquisition retained earnings (w2)	<u>720,000</u>	<u>(140,000)</u>	<u>(320,000)*</u>
	720,000	16,000	80,000
Group share – Mumba Ltd (80% x 16,000)	12,800		
– Bama Ltd (40% x 80,000)	<u>32,000</u>		
	764,800		
less impairment – Mumba Ltd (80% x 8,000)	(6,400)		
– Bama Ltd	<u>(4,000)</u>		
	<u>754,400</u>		

*Pre-acquisition Earnings 400,000 – (160,000 ÷ 2) = K320,000

6. Unrealized Profit

	K
Banda Ltd sale of Goods to Mumba Ltd	120,000
Cost to Banda Ltd	<u>80,000</u>
∴ Total Profit	40,000
Unrealized Profit (50% x 40,000 = K20,000)	

7. Fair value adjustments

	Acquisition date	Movement	Reporting date
	K	K	K
Land	8,000	-	8,000
Plant	32,000	(4,000)	28,000
	<u>40,000</u>	<u>(4,000)</u>	<u>36,000</u>

8. Investments: Banda Ltd (given)	520,000
Investment in Mumba (given)	(272,000)
Investment in Bama Ltd (32,000 x K6.25)	(200,000)
Intra-group loan notes	<u>(20,000)</u>
Other investments	<u>28,000</u>

SOLUTION TWO

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

	K' 000
Sales revenue (716,900 – 54,000)	662,900
Cost of sales (w1)	<u>(417,100)</u>
Gross Profit	245,800
Distribution costs	(57,400)
Administration expenses	(30,000)
Profit on disposal of property (190,000 - 160,000)	30,000
Research cost abandoned	(60,000)
Finance cost (w3)	<u>(22,400)</u>
Profit before tax	106,000
Income tax (30,000 – 4,400)	<u>(25,600)</u>
Profit for the year	<u><u>80,400</u></u>

- (b) Ngala Ltd's
Statement of changes in Equity for the year ended 31 December 2023

	Equity K' 000	Retained earnings K' 000	Total K' 000
Opening Balances b/f	300,000	143,200	443,200
Revaluation surplus (160,000 – 100,000)		60,000	60,000
Dividends paid		(24,000)	(24,000)
Profit for the year	<u> </u>	<u>80,400</u>	<u>80,400</u>
Closing Balance	<u><u>300,000</u></u>	<u><u>259,600</u></u>	<u><u>559,600</u></u>

- (c) Ngala Ltd's
Statement of Financial Position as at 31 December 2023

Non-current assets:	K' 000	K' 000
Property (400,000 – 12,000(w2))	388,000	
Plant and Equipment (469,600 – 149,600(w4))	<u>320,000</u>	708,000
Current assets:		
Inventories (56,480 + 45,000) (w1)	101,480	
Trade Receivables (110,000 – 54,000)	56,000	
Bank	<u>21,320</u>	<u>178,800</u>
Total assets		<u>886,800</u>
Equity and liabilities:		
Equity:		
Ordinary shares of 50n each	300,000	
Retained earnings (Part b)	<u>259,600</u>	559,600
Non-current liabilities:		
Leasing liabilities (w5)	94,400	
8% loan notes	<u>100,000</u>	194,400
Current liabilities:		
Trade and other accounts Payables (w6)	102,800	
Income tax	<u>30,000</u>	<u>132,800</u>
		<u>886,800</u>

Workings

1. Cost of sales:	Balance as per question	K' 000
	Less Goods on consignment ($54,000 \times \frac{100}{120}$)	370,100
	Add Depreciation (w2)	(45,000)
		<u>92,000</u>
		<u>417,100</u>
2. Depreciation:	Property – Buildings (200,000 ÷ 50 yrs)	K' 000
	– Heating system (40,000 ÷ 10 yrs)	4,000
	– Lifts (60,000 ÷ 15 yrs)	4,000
	Leased Plant 160,000 ÷ 5 yrs	4,000
	Owned Plant (309,600 – 69,600) x 20%	32,000
		<u>48,000</u>
		<u>92,000</u>
3. Finance costs:	Loan interest (100,000 x 8%)	K' 000
	Lease interest (160,000 – 40,000) x 12%	8,000
		<u>14,400</u>
		<u>22,400</u>
4. Plant and Equipment:	Cost – owned	K' 000
	– Lease	309,600
		<u>160,000</u>
		469,600
	Owned Plant Accum'd Depreciation (69,600 + 48,000) (w2)	(117,600)

Leased Plant Depreciation (160,000 x 20%)	(32,000)
	<u>320,000</u>
5. Lease Liabilities	K' 000
Cash Price	160,000
Less Instalment paid	<u>(40,000)</u>
	120,000
At 31 December 2023 interest due (12% x 120,000)	<u>14,400</u>
Balance c/d	<u>134,400</u>
Due within one year	40,000
Due after one year	94,400
6. Trade and other payables	K' 000
Balance as per trial Balance	58,800
Lease liability (w5)	40,000
Accrued Loan interest (8% x 100,000) – 4,000	<u>4,000</u>
	<u>102,800</u>

SOLUTION THREE

$$\begin{aligned} \text{(a)(i) ROCE} &= \frac{\text{Profit before Interest and tax}}{\text{Capital Employed}} \times 100 \\ &= \frac{2,325+400}{19,000-4,450} \times 100 \\ &= \frac{2,725+400}{14,550} \times 100 \\ &= \underline{\underline{18.73\%}} \end{aligned}$$

$$\begin{aligned} \text{(ii) Quick Ratio} &= \frac{\text{Current assets} - \text{Inventory}}{\text{Current Liabilities}} \\ &= \frac{9,750 - 3,200}{4,450} \\ &= \frac{6,550}{4,450} \\ &= \underline{\underline{1.47 : 1}} \end{aligned}$$

$$\begin{aligned} \text{(iii) Trade Receivables collection period} &= \frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365 \text{ days} \\ &= \frac{6,150}{56,000} \times \frac{365}{1} \\ &= \underline{\underline{40.1 \text{ days or } 40 \text{ days } 2.4 \text{ hrs}}} \end{aligned}$$

$$\begin{aligned} \text{(iv) Trade Payables Payment period} &= \frac{\text{Trade Payables}}{\text{Cost of Sales}} \times 365 \text{ days} \\ &= \frac{3,750}{42,300} \times 365 \text{ days} \\ &= \underline{\underline{32.36 \text{ days}}} \end{aligned}$$

$$\begin{aligned} \text{(v) Gearing} &= \frac{\text{Long-term borrowing}}{\text{Shareholders funds} + \text{long-term borrowing}} \times 100 \text{ days} \\ &= \frac{4,000}{10,550 + 4,000} \times \frac{100}{1} \\ &= \underline{\underline{27.49\%}} \end{aligned}$$

(b) **REPORT**

TO: Board of Directors

FROM: Accountant

SUBJECT: Performance analysis of Niko Ltd

This report should be read together with the ratios calculated in part "a" above. The ratios are partial indicators to Niko Ltd's performance as they are based on the statement of Financial position figures capable of changing in future.

Return On Capital Employed (ROCE)

This ratio is slightly above the industry average meaning Niko Ltd's return on capital is higher than that of industry average. This ratio is more informative when compared with the cost of borrowing. Since the cost of borrowing is 10% compared to 18.73%, Niko Ltd has performed well compared to other entities in the industry. It is important to however note the limitation of industry average may not represent any actual performance of a single entity and so could be misleading. Further, the entities may have different policies of accounting for components used in calculation of ROCE hence distorting the ratio.

Quick Ratio

This ratio is higher than the industry average. This being a liquidity indicator, Niko Ltd is able to meet its short term credits even if all came at short notice i.e. it is in a position to pay off all current liabilities. It is above (1:1) what is generally regarded as satisfactory. However, if other factors are considered such as Nico having just overstocked goods up in readiness for new buyer to have adequate stock, this may appear good when in fact not as cash would be tied up in goods.

Trade Receivables collection period

This period of 40 days is shorter than the industry average of 52 days which indicates efficiency debt management. This means that there is probably little opportunity to reduce this period further. In future, there may be pressure from customers to increase the period of credit given towards the industry average.

Trade Payables payment period

This period of 32 days is shorter than the industry average of 49 days. Niko Ltd should try to negotiate with its suppliers for a longer period preferably more than 40 days to make it possible to finance additional receivables.

Gearing

The gearing level is below the industry average. Since ROCE is nearly twice the rate of interest on the loan stock, profitability is likely to be increased by a modest increase in the level of gearing.

Overall Niko Ltd is performing well in respect of the ratios calculated.

Signed: Accountant

SOLUTION FOUR

(a) Lease transaction

At 31 March 2024, in the income statement

- (i) Depreciation amounting to K34,845 (w1) will be reported.
- (ii) Finance cost amounting to K6,649 (w3) will be reported.

At 31 March 2024, in the statement of financial position

- (i) Carrying value amounting to K135,380 (w2) will be reported.
- (ii) Current liability amounting to K37,500 and non-current liability amounting to K102,124 (139,624 – 37,500) will be reported.

W1: Right-of-use asset = $170,475 + 7,500 - 3,750 = 174,225$

W2: Depreciate = $174,225 / 5 \text{ yrs} = 34,845$.
N.B.V: $174,225 - 34,845 = 139,380$

W3: Amortisation Cost Table

Year 1: Opening Balance	(Payment)	Finance cost@5%	Closing Balance
170,475	(37,500)	6,649	139,624

(b) Revenue from contracts with customers

At 31 March 2023, in the income statement

- (i) Revenue amounting to K900,000 (w2) from the sale of the machine will be recognised at the point the machine is collected by the customer on 1 April 2023.
- (ii) Revenue from the technical support is recognised over time, so only K150,000 (w3) will be recognised for the year ending 31 March 2024.

At 31 March 2024, in the statement of financial position

- (i) Deferred income amounting to K150,000 (w3) will be reported as current liability.

W1: Determine the transaction price: combined contract price = K1,200,000

W2: Allocate transaction price to performance obligation

Machine: $1,125,000 / 1,500,000 \times 1,200,000 = K900,000$

W3: Allocate transaction price to the performance obligation:

Technical support : $375,000 / 1,500,000 \times 1,200,000 = K300,000$

(c) Convertible loan notes

At 31 March 2024, in the income statement

- (i) Finance cost amounting to K5,681,520 (w2) will be reported.

At 31 March 2024, in the statement of financial position

- (i) Equity amounting to K5,308,000 will be reported and this will not change.

- (ii) Liability amounting to K96,373,520 (w2) will be reported, this is the amortised present value.

W1: Present value of liability (debt)

Principal = 100,000,000 x 0.840 =	84,000,000
Coupon = 100,000,000 x 4% = 4,000,000 x 2.673 =	<u>10,692,000</u>
Liability(debt) present value	94,692,000
Equity (balancing figure)	<u>5,308,000</u>
Net proceeds	<u>100,000,000</u>

W2: Amortisation table

O/balance	interest@6%	(Payment)	C/balance
94,692,000	5,681,520	4,000,000	96,373,520

(d) Non-current asset held for sale

Criteria

- (i) Sale should be highly probable – this sale is not highly probable as the selling price has not been reduced despite economic downturn.
- (ii) Asset should be immediately available for sale – this property is immediately available for sale.
- (iii) Locate the buyer by taking necessary actions– the property is actively marketed to locate the buyer.
- (iv) Complete the sale in the next 12 months from the date of classification – this property will not be sold in the next 12 months from 1 July 2023.

Conclusion

- (i) This asset does not qualify to be classed as a `Non-current asset held for sale` because of sale is not highly probable; and further the sale will not be completed in the next 12 months from 1 July 2023.

SOLUTION FIVE

(a) (i) Branch inventory account

	K'm		K'm
Balance b/d	91,500	Transfers to other Branches	7,500
Goods from H/Q	822,300	Returns to head office	12,000
Transfers from other Branches	6,000	Branch mark up: Price reductions	22,500
Branch mark up: Price increase	4,300	Trade receivables – credit sales	106,500
		Cash sales	662,000
Trade receivables - Returns	3,000	Branch mark up – Normal inventory loss	9,500
		Balance c/d	107,100
	<u>927,100</u>		<u>927,100</u>

(ii) Goods sent to branch a/c

	K'm		K'm
Transfers to other branches	5,000	Branch inventory a/c	548,200
Returns to head office	8,000	Transfers from other branches	4,000
Purchases a/c	<u>539,200</u>		
	<u>552,200</u>		<u>552,200</u>

(iii) Branch mark up account

	K'm		K'm
Transfers to other Branches	2,500	Balance b/d	30,500
		Branch inventory a/c	274,100
Returns to head office	4,000	Transfers from other Branches	2,000

Branch inventory a/c: price reductions	22,500	Branch inventory a/c: price increase	4,300
Branch inventory a/c – Normal loss:	9,500		
Inc/statement (balance)	236,700		
Balance c/d	35,700		
	<hr/> 310,900 <hr/>		<hr/> 310,900 <hr/>

(b) Inventory may be lost or damaged. The value lost will be a charge against the Income statement. There are two possible treatments for damaged or lost inventory.

- (i) Normal losses – if a loss is a normal one, inevitable in trade carried on, the branch inventory account is credited with the selling price of the goods lost and the branch markup account debited with the full selling price amount. The entry on the branch inventory account has the effect of reducing the balance to the true inventory amount, while the debit to branch markup account has two effects:
 1. It eliminates the profit element on the goods lost, previously credited to the account.
 2. It charges the cost of the inventory lost against the branch gross profit in the markup account.
- (ii) Abnormal losses. If the loss is abnormal, as when a whole consignment of inventory is destroyed for some reason, it is still necessary to debit the mark up account with the profit element on the goods, but the cost of the inventory is debited direct to profit or loss so that the branch gross profit is not distorted.

(c) Differences between public and private entities.

- (i) Statutory obligation – public sector bodies exist because parliament says they should, this carries with it a few statutory requirements. A company, on the other hand, exists because the shareholders want it, there is no statutory obligation for it to exist.
- (ii) Non-profit trading – most (but not all) public sector organizations are non-trading entities, so they provide services without charging at point of service.
- (iii) Motivation – the primary objective of most companies is to make a profit. Public sector organizations generally have the objective of providing services rather than making a financial return.
- (iv) Financing – a company gets its money from revenues (fees and charges) and capital (debt and equity). Public sector organizations with the objective of service provision will largely finance spending from taxation. The main distinction here is that the money given to a company is by choice (i.e. a customer does not need to buy, a shareholder does not need to invest). Taxation on the other hand is extracted, and those liable have no legal choice. This gives rise to the idea of

public money and the public sector should be accountable for amounts which have been levied on the taxpayer.

- (v) Management – the management of a company is its board of directors, which is appointed by the shareholders. Decisions in public service organizations are largely made by a political grouping e.g. MPs or councilors.
- (vi) Stewardship- the directors of a company have a stewardship role in the interest of the shareholders. The management of a public sector organization has a stewardship role for public money, which has wider implications for accountability including the requirement to demonstrate value for money.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 10 JUNE 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

Mutayi Ltd manufactures quality tiles for both local and international market. Previously the company operated an absorption costing system but has now adopted a standard marginal costing system. Below is the data for its last quarter ending 31 March 2024:

Cost card	
Selling price	K9 per tile
Direct material:	
A	1.5kgs @ K1.30 per kg
B	1kg @ K1.25 per kg
Direct labour	2 hours @ K0.30 per hour

Budgeted sales for the quarter are 31,250 tiles.

Variable overheads are absorbed at the rate of K0.25 per direct labour hour.

Fixed production overhead for the quarter are estimated to be K39,250.

The following actual results were recorded for the quarter just ended 31 March 2024.

Production:	30,000 tiles
Sales:	29,000 tiles @ K8.5 per tile
Direct material:	
A	75,000 kg were bought and used at K180,000
B	54,500 kg were bought and used at K163,500
Direct labour	54,000 hours were worked at a cost of K45,200
Variable overheads	K12,960
Fixed production overheads	K40,000

Required:

- (a) Calculate the following variances for the quarter just ended 31 March 2024:
- (i) Sales volume and sales price variances. (2 marks)
 - (ii) Price and usage variances for each material. (2 marks)
 - (iii) Mix and Yield variances for each material. (7 marks)
 - (iv) Labour rate and efficiency variances. (2 marks)
 - (v) Variable overhead expenditure and efficiency variances. (2 marks)
- (b) Variances are **interdependent** and in the context of variances computed in (iv) above, explain the impact of interdependence of variances. (2 marks)

- (c) Modern management scholars are of the view that measuring managerial performance using standards is outdated and that modern methods need to be used in modern times.

Required:

Explain four (4) types of standards and suggest one which is closer to the reality (actual results).

(8 marks)

[Total: 25 Marks]

QUESTION TWO

Makeni Co. is considering the preparation of budgets for the forthcoming period in line with the policy of compiling budgets 90 days before the start of the latest budget period. The practice in recent past has been that each department and/or unit of the company is requested to submit resource requirements in terms of standard resource usage and resource prices.

Sales, stores and production departments submitted the following expectations for the forthcoming period: -

Sales Department

Product	Quantity (units)	Unit selling price (K)
A	3,600	180
B	7,200	234
C	5,400	270

Stores Department

Inventories of raw materials:

	Wood (Kg)	Varnish (litres)
Opening inventory	25,200	12,000
Closing inventory	21,600	10,800

Inventories of finished goods:

Product	A Units	B Units	C Units
Opening	600	960	840
Closing	720	1,200	960

Production Department

Standard usage of raw materials:

	Wood (Kg/unit)	Varnish (litres/unit)
Product A	9	4
Product B	6	4
Product C	4	2

Standard cost of raw materials is K15 per kg of wood and K8 per litre of varnish respectively.

Standard usage of labour:

Product	A	B	C
Standard hours per unit	4	6	8

Labour is paid at the rate of K26 per hour

Required:

Prepare the following for Makeni Co for the forthcoming budget period

- (a) Sales budget (quantity and value) (3 marks)
- (b) Production budget (units) (6 marks)
- (c) Material usage budget (quantities) (6 marks)
- (d) Material purchases budget (quantities and value) (6 marks)
- (e) Labour budget (hours and value) (4 marks)

[Total: 25 Marks]

SECTION B

There are **THREE (3)** questions.

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

QUESTION THREE

APM Ltd manufactures four (4) products on site 1 and one (1) product on site 2. It operates under strict Just-In-Time (JIT) principles and does not hold any inventory of either finished goods or raw materials.

APM Ltd has a long standing agreement to supply its main customer with 100 units of each of its products produced on site 1. No negotiations are possible and the contract must be fulfilled.

Details of the company's additional, non-contracted related production on site 1 are as follows:-

Products	A	B	C	D
Selling Price (K)	120	140	160	180
Direct labour, at K16 per hour (K)	32	16	24	32
Direct material X at K6 per litre (K)	9	6	0	6
Direct material Y at K10 per kg (K)	10	0	30	20
Variable overheads, labour related (*) (K)	2.5	1.25	1.875	2.5
Variable overheads, machine related (*) (K)	2.5	4.0	1.50	2.0
Machine hours per unit.	5	8	3	4
Maximum demand per week (units)**	900	950	950	900

(*) An analysis of the variable overhead shows that some of it is caused by the number of labour hours and the remainder is caused by the number of machine hours.

(**) Excluding the agreement to supply its main customer.

All the above products use the same materials X and Y. Currently, the company also purchases a component, component Z, from an external supplier at K100. A single unit of this component is used in producing product E, the company's only other product, on site 2. Product E yields a positive contribution and does not use any materials used by the other production on site 1.

APM Ltd could manufacture component Z on site 1, but to do so would require 2 hours of direct labour, half an hour of machine time as well as 1.5 kilograms of material Y.

The purchasing director has recently advised you that the availability of direct materials X and Y is to be restricted to 5,000 litres and 6,000 kilograms every week respectively. This restriction is unlikely to change in the near future, but no restrictions are expected on any other resources.

Required:

- (a) Advise APM Ltd whether it should make or continue to purchase component Z and state any other issues that may be considered before the final decision is reached. (10 marks)
- (b) Prepare a statement to show the optimum weekly usage of site 1st available resources showing clearly the optimum contribution per week. (15 marks)

[Total 25 Marks]**QUESTION FOUR**

- (a) For a business to grow and remain profitable, it is imperative that managers understand the importance of breakeven analysis. You are the Management Accountant of CM Ltd and recently, management sponsored you to attend a workshop in South Africa organised by that country's Association of Manufacturers. Top on the agenda was Break-Even Point, Contribution and Margin of Safety. As a Management Accountant you have been requested to give feedback on the output from the workshop before conducting a mini workshop with colleagues in your department.

Required:

Write a report that explains the significance of Contribution, Break-Even Point and Margin of Safety and how to compute them. The report should incorporate computations of these components on the agenda. (10 marks)

- (b) CM is a boot manufacturer. Its main raw material is leather from cattle skin as well as rubber from a tree called Muzwili. The budgeted data below relates to the selling price and cost of a boot:

Sales (5,000 units)	K100,000
Direct material-skin	K4/ unit
Direct material-muzwili	K3/unit
Other variable production costs	K6/unit
Fixed production and selling costs	K70,000
Budgeted boots to be produced	13,500

Required:

- (i) Calculate contribution per unit. (2 marks)
- (ii) Calculate break-even point in units and sales value. (3 marks)
- (iii) Calculate margin of safety in units and percentage. (3 marks)
- (iv) Compute the number of units to be produced in order to achieve a target profit of K15,000 assuming variable costs have increased by K3 and other costs constant. (3 marks)
- (v) State four(4) limitations of cost-volume-profit (CVP) analysis. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Maguire is a Small and Medium sized Enterprise that is involved in the production and sale of ladies chitenge outfit. As a new entrant into this industry, management has noted the intensity of competition that is prevalent amongst the players within the market who are all striving to increase market share. Ultimately, there is price war applied by most small competitors who charge lower prices for similarly designed women chitenge outfit in order to increase sales. As a result, management is in the process of reviewing its pricing policy.

The standard cost card for a ladies chitenge outfit is as follows.

Direct materials 4 metres @ K30 per metre
Direct wages 5 hours @ K20 per hour
Variable production overheads 5 hours @ K4 per hour

Additional information is also available for the company's budgetary control system.

1. Budgeted overhead expenditure related to the production of ladies chitenge outfit for the next quarter is set at K375,000.
2. It is estimated that Maguire could obtain a minimum contribution of K140 per machine hour on producing men's suits instead of ladies chitenge outfit. The standard hours for the sewing machines used in the production of the men's suit are 7,500.
3. Maguire wishes to make a profit of 25% on full production cost from the ladies chitenge outfit and a marginal cost plus of 40%.
4. Fixed production overheads are absorbed based on budgeted machine hours.

Required:

Calculate appropriate selling prices for the ladies chitenge outfit for Maguire based on:

- | | | |
|-------|------------------------------|-----------|
| (i) | Full cost-plus pricing model | (6 marks) |
| (ii) | Variable cost-plus model | (4 marks) |
| (iii) | Relevant cost-plus model | (5 marks) |
- (b) Onana has been a top-notch dealer of pharmaceuticals to both private and public sector health facilities across the country. Onana's sales are mostly on credit terms as it is his expectations that clients will eventually pay to save lives. However, an analysis of his latest trade receivables aging schedule revealed a serious concern regarding the increase of debts that are over 180 days. The Internal Auditors of Onana have recommended among other things in their recent audit report that the finance

manager must ensure that an assessment of customer credit worthiness is undertaken before processing orders in favour of the clients.

Required:

State five (5) ways of assessing customers creditworthiness. (5 marks)

- (c) A product's life cycle costs are incurred from its design stage through development to market launch, production and sales, and finally to its eventual decline and withdrawal from the market.

Required:

Identify any five (5) costs that are commonly incurred over the life of the product. (5 marks)

[Total: 25 Marks]

END OF PAPER

DA 9: MANAGEMENT ACCOUNTING - SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) Sales volume	K	
Budgeted units		31 250
Actual units		<u>29 000</u>
		2 250
Std profit		<u>x 4.7</u>
		<u>10 575 A</u>

Sales price variance

29 000 units should sale for x K9 = 261 000
 But were sold for (29,000@K8.5) 246 000
14 500 A

(ii) Material price variance – A

75 000kgs should cost x 1.3	97,500
But did cost	<u>180,000</u>
	<u>82 500 A</u>

Material price variance – B

54500 kgs should cost x 1.25	68 125
Did cost	<u>163 500</u>
	<u>95 375 A</u>

Usage variance – A

30 000 units should use x 1.5	45 000
But did use	<u>75 000</u>
	30 000
Std price	<u>x 1.3</u>
	<u>39 000 A</u>

Usage variance – B

30 000 units should use x 1kg	30 000
But did use	<u>54 500</u>
	24 500
Std price	<u>x 1.25</u>
	<u>30 625 A</u>

(iii) Mix and yield variance

Mix variances	Actual kgs	Std kgs	Variance	Std price	variance
A	75 000	77 700	2700	1.30	3510F
B	<u>54 500</u>	<u>51 800</u>	<u>2700</u>	1.25	<u>3375 A</u>
	<u>129 500</u>	<u>129 500</u>	<u>0</u>		<u>135 F</u>

Yield variance

129 500 should have yielded /2.5k/unit

But did yield

51 800 kgs

30 000 kgs

21 800 kgs

x K3.2

69 760 A

(iv) Labour rate variance

54 000 ours at K0.3

16,200

But did cost

45,200

29,000 A

(v) Labour efficiency variance

30 000 should use x 2 hours

60,000

But did use

54,000

6,000

x 0.3

1,800 F

VOH expenditure

54000 should cost x 0.25

13,500

But did cost

12,960

540 F

VOH efficiency

30 000 should use x 2 hours

60,000

But did use

54,000

6,000

x 0.25

1,500 F

(b) Interdependence of variances

It means a favourable or adverse variance in one area may have an impact elsewhere on another variance. For example labour rate variance is adverse indicating that the company paid more to its workers than it was actually budgeted for. It is possible that skilled manpower could have been used than budgeted and this has led to the favourable variance in labour efficiency. This clearly explains how variances are interdependent on each other.

(c) Types of standards

1. Ideal standard

It is a standard that is based on perfect working conditions that is no allowance for wastages, no idle time. The standard is set at a good level and employees may not achieve the target and in the process frustrate employees.

2. Attainable standard

This is a standard that is based on perfect working conditions after an allowance for idle time and wastages is provided. Since it is attainable it motivates employees to work hard.

3. Current standard

It is a standard that is based on current working conditions that is current efficiencies and inefficiencies. It is easy to achieve and no much effort is required from an employee. Therefore, it is may not be good as it does not provide an opportunity for growth and improvement.

4. Basic standard

It is a standard that has remained unchanged for a longer period of time. It is unrealistic.

Based on the above points raised an attainable standard is recommended if a company is to achieve its objectives.

SOLUTION TWO

(a) Sales budget (quantity and value)

Product	Calculation	Value K
A	3,600u x K180 per unit	648,000
B	7,200u x K234 per unit	1,684,800
C	5,400u x K270 per unit	<u>1,458,000</u>
		<u>3,790,800</u>

(b) Production budget (units)

Product	A	B	C
Sales	3,600	7,200	5,400
Opening inventory	(600)	(960)	(840)
Closing inventory	<u>720</u>	<u>1,200</u>	<u>960</u>
Production	<u>3,720</u>	<u>7,440</u>	<u>5,520</u>

(c) Material usage budget (quantities)

	Wood	Varnish
Product A	3,720u x 9 = 33,480	x 4 = 14,880
Product B	7,440u x 6 = 44,640	x 4 = 29,760
Product C	5,520u x 4 = <u>22,080</u>	x 2 = <u>11,040</u>
	<u>100,200kgs</u>	<u>55,680 litres</u>

(d) Material purchases budget (quantities and value)

	Wood	Varnish
Usage	100,200	55,680
Opening inventory	(25,200)	(12,000)
Closing inventory	<u>21,600</u>	<u>10,800</u>
	<u>96,600kg</u>	<u>54,480 litres</u>
Valued at standard cost per kg	x K15	x K8
	<u>K1,449,000</u>	<u>K435,840</u>

(e) Labour budget (hours and value)

Product	No. of units	Hours per unit	Rate/hour	Value K)
A	3,720	4	26	386,880
B	7,440	6	26	1,160,640
C	5,520	8	26	<u>1,148,160</u>
				<u>2,695,680</u>

SOLUTION THREE

(a) Internal relevant cost of production of component Z

	K
Direct material y (1.5kg x K10)	15.00
Direct labour (2 hrs x K16)	32.00
Variable overheads (labour related) (2hrs x K1.25)	2.50
Variable overheads (m/c related) (0.5hrs x K0.5)	<u>0.25</u>
Total relevant cost	<u>49.75</u>
Outside purchase	100.00
Savings / contribution per component Z	50.25

It is clearly cheaper to internally make components Z (K100 Vs K49.75)

Other issues

Contribution per limiting factor on material y

($K50.25 \div 1.5\text{kg} = K33.5$) should be compared with other products contribution per limiting factor.

Contribution per limiting factor statement.	Product A K	product C K	product D K	Comp. Z K
Contribution per unit (sp. - Vc) / savings	64.00 1	102.625 3	117.5 2	50.25 1.5
Usage of material y (kg)	64	34.21	58.75	33.5
Contribution per unit	1	3	2	4
Ranking				

Product b is ignored because it doesn't use material y.

Recommendation

Since component Z is the lowest ranked usage of material Y, APM Ltd should continue to purchase the component so that the available material Y (i.e binding constraint (wi)) can be used to manufacture products on site.

(b) Step 1: Determine the limiting factor for direct materials

Products	A	B	C	D	Total
Materials x (qty x usage / unit)	1,500	1,050	-	1,000	3,550
Material y (qty x usage/unit)	1,000	-	3,150	2,000	6,150
∴ material y is the binding limiting factor (6150kgs > 6000kg available)					

Step 2: Determine the contribution per limiting factor

Products	A K	B K	C K	D K
Selling Price/unit	120	140	160	180
Less variable cost ∴				
- Material x	(9)	(6)	(0)	(6)
- Material y	(10)	(0)	(30)	(20)
- Direct labour	(32)	(16)	(24)	(32)
- Variable overheads-Labour	(2.5)	(1.25)	(1.875)	(2.5)
- Variable overheads-machine	<u>(2.5)</u>	<u>(4.0)</u>	<u>(1.50)</u>	<u>(2.0)</u>

Contribution per unit	64	112.75	102.625	117.5
Material y usage/unit	<u>1</u>	<u>N/A</u>	<u>3</u>	<u>2</u>
Contribution per LF	<u>64</u>	<u>N/A</u>	<u>34.21</u>	<u>58.75</u>
Ranking	1	N/A	3	2

Step 3: Draw up a production Plan/Mix.

Product	Production volume usage	Total usage of materials	Cumulative usage Kg
A	(100+900) 1000x1kg	1000	1000
B	(100+950) 1050	-	-
D	(100+900) 1000x2	2000	3000
C	(6000-3000)÷3 = 1000	3000	6000

* Only 1000 of product c will be made including existing contract requirement.

Step 4: Optimum contribution

Products	a	b	c	d	Total K
Total output (units)	1000	1050	1000	1000	
Contribution /unit (wz)	K64	K112.75	102.62	117.5	
Total contribution	64,000	118,387.5	102,620	117,500	519,997

SOLUTION FOUR

(a) Report

To: Management of CM Limited

From: management accountant

Date: Date of examination

Subject: Break-even point, contribution and Margin of Safety

Break Even Point

It is a point at which neither profit nor loss is made. An organization should identify its break-even point so that it may know how much to increase its production and sales in order to make profit and avoid losses. Production planning will be easy.

BEP is computed as Fixed costs/contribution per unit.

Contribution

Is the difference between sales and variable costs of a product. It represents the amount that is contributed towards fixed costs. Contribution is an important factor when it comes to making decision on either buying a product or selling it. As long as a product gives contribution, it becomes necessary to make as entity will be able to cover some costs with it. It is computed by deducting variable costs from sales.

Margin of safety

Margin of safety (MOS) is the level of production where a company starts making profits. It shows management by how much sales will have to fall before the business can begin to experience losses and therefore management tries to maintain the level of sales so that losses are not experienced. It is computed by deducting break-even point units in sales from the budgeted units.

(b)

(i) Contribution per unit

Selling price per unit = 100 000/5000

K20/unit

Variable costs	K	
Direct material – skin		4
Direct material- muzwili		3
Other variable costs		<u>6</u>
		<u>13</u>

Contribution per unit = Sp/unit- vc /unit

= 20- 13

= K7/unit

(ii) BEP in units and value

BEP in units = Fixed costs/ contribution

= 70 000/ 7 = 10 000 units

BEP in sales value = 10 000 units x K20

= K200 000

(iii) Margin of safety(MOS)

$$\begin{aligned}\text{MOS in units} &= \text{budgeted units} - \text{units at BEP} \\ &= 13500 - 10\,000\end{aligned}$$

$$= 3500 \text{ units}$$

$$\begin{aligned}\text{Or } &= 3500 / 13500 \times 100 \\ &= 26\%\end{aligned}$$

(iv) Units to achieve target profit

$$\begin{aligned}\text{No. units to achieve target profit} &= \frac{\text{FC} + \text{target profit}}{\text{Contribution/unit}} \\ &= \frac{70\,000 + 15\,000}{20 - 16} \\ &= 21\,250 \text{ units}\end{aligned}$$

(v) Limitations of BEP

- It assumes a constant selling price per unit throughout the period
- It assumes that variable cost per unit will remain constant
- It assumes that fixed costs will be constant over the period
- It assumes that the company has a single product

SOLUTION FIVE

(a) Calculation of appropriate selling prices for the ladies chitenge outfit for Maguire based on:

(i) Full cost-plus cost model

K

Direct materials 4 metres@K30 per metre	120
Direct wages 5 hours@K20 per hour	100
Variable production overheads 5 hours@K4 per hour	20
Fixed production overheads (w)	<u>250</u>
Full production cost	490
Profit @25%	<u>122.5</u>
Selling price	<u>612.5</u>

Workings:

FOAR = K375,000/7,500 hrs = K50/hr

FOAR/Unit = K50 x 5hrs = K250

(ii) Variable cost-plus model

K

Direct materials 4 metres@K30 per metre	120
Direct wages 5 hours@K20 per hour	100
Variable production overheads 5 hours@K4 per hour	<u>20</u>
Variable production cost	240
Profit @40%	<u>96</u>
Selling price	<u>336</u>

(iii) Relevant cost-plus model

K

Direct materials 4 metres@K30 per metre	120
Direct wages 5 hours@K20 per hour	100
Variable production overheads 5 hours@K4 per hour	20
Opportunity cost	<u>140</u>
Total costs	380
Profit @40%	<u>152</u>
Selling price	<u>532</u>

(b) Five (5) ways of assessing customers' creditworthiness include:-

- (i) Trade references
- (ii) Bank references
- (iii) Credit reference agencies
- (iv) Published accounts.
- (v) Information from the financial media
- (vi) Undertaking visits

(c) Five (5) component of a product's costs over its life cycle include any of the following.

- (i) Research and development costs
- (ii) The cost of purchasing any technical data required.
- (iii) Training costs.
- (iv) Production costs, when the product is eventually launched in the market
- (v) Distribution costs.
- (vi) Marketing and advertising costs.
- (vii) Inventory costs.
- (viii) Retirement and disposal costs.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 12 JUNE 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: There are two (2) compulsory questions.
Section B: There are three (3) questions. Attempt any two (2) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A Taxation table is provided from page 2 to page 6 of the question paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K61,200	first K61,200	0%
K61,201 to K85,200	next K24,000	20%
K85,201 to K110,400	next K25,200	30%
Over K110,400		37%

Income from farming for individuals

K1 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 and agro-processing	10%
On income from mineral processing	30%
On income from mining operations	30%

Mineral Royalty

Mineral Royalty on Copper

Price range per tonne	Taxable amount	Rate
Less than US\$4,000 per tonne	First US\$3,999	4.0%
US\$4,000 or more but less than US\$5,000 per tonne	Next US\$1,000	6.5%
US\$5,000 or more but less than US\$7,000 per tonne	Next US\$2,000	8.5%
US\$7,000 or more per tonne	Balance	10.0%

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Cobalt and vanadium	8% on norm value
Base metals (other than copper, cobalt and vanadium)	5% on norm value
Energy and industrial minerals	5% on gross value
Gemstones	6% on gross value
Precious metals	6% on norm value

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%

Non-commercial vehicles

Wear and tear allowance	20%
-------------------------	-----

Industrial buildings:

Wear and tear allowance	5%
Initial allowance	10%
Investment allowance	10%

Low cost housing	(Cost up to K100,000)	
Wear and tear allowance		10%
Initial allowance		10%

Commercial buildings:		
Wear and tear allowance		2%

Farming allowances		
Development allowance		10%
Farm works allowance		100%
Farm improvement allowance		100%

Presumptive Taxes

Turnover Tax

Annual turnover

First K12,000	0%
K12,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K12,000	First K12,000	0%
K12,001 to K800,000	Next K788,000	4%
Above K800,000		16%

Presumptive Tax for transporters

Seating capacity	Tax per annum	Tax per quarter
	K	K
Less than 12 passengers and taxis	1,296	324
From 12 to 17 passengers	2,592	648
From 18 to 21 passengers	5,184	1,296
From 22 to 35 passengers	7,776	1,944
From 36 to 49 passengers	10,368	2,592
From 50 to 63 passengers	12,960	3,240
From 64 passengers and over	15,552	3,888

Property Transfer Tax

On the realised value of land (including buildings, structures or improvements thereon)	8%
On the realised value of shares	8%
On the realised value of intellectual property	8%
On the realised value of a mining right for an exploration license	8%
On the realised value of a mining right for a mining licence	10%
On the realised value tax on realised value of a mineral processing licence	10%

Value Added Tax

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

Customs and Excise duties on used motor vehicles

Aged 2 to 5 years	Aged over 5 years
-------------------	-------------------

Motor vehicles for the transport of ten or more persons, including the driver	Customs duty	Excise duty	Customs duty	Excise duty
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	20,090	25,112	10,045	12,556
Sitting capacity exceeding 14 but not exceeding 32 persons	43,984	0	15,639	0
Sitting capacity of 33 but not exceeding 44 persons	97,742	0	21,992	0
Sitting capacity exceeding 44 persons	122,177	0	48,871	0
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	Aged 2 to 5 years Customs duty	Excise duty	Aged over 5 years Customs duty	Excise duty
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514
	Aged 2 to 5 years	Aged over 5 years		
	Customs duty	Excise duty	Customs duty	Excise duty
Motor vehicles for the transport of goods				
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0

NB: Import VAT is added to the sum of VDP, customs duty and excise duty. It is determined at the standard rate of 16%

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

- 1. Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**
Customs Duty:
Percentage of Value for Duty Purposes 30%
Minimum Specific Customs Duty K6,000

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

SECTION A

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

QUESTION ONE

Mukuma Plc. is a Zambian resident manufacturing company. The company is registered for Value Added Tax (VAT). In the tax year 2024, the company listed its shares on the Lusaka Securities Exchange (LuSE) and none of the shares of the company were subscribed for by indigenous Zambians in that year. However, in the tax year 2025, the company issued over 40 % of its shares to indigenous Zambians.

The company prepares its accounts to 31 December each year and in the financial year ended 31 December 2025, it made a profit after tax of K2,566,400. This profit after tax figure was arrived at after taking into account the following expenses and income:

- (1) The income tax expense for the year of K326,200, which is also the amount of provisional income tax paid in the tax year 2025.
- (2) Depreciation on non-current assets of K167,400.
- (3) Salaries and wages of K18,570,000. This included emoluments of two (2) directors who were accommodated in company owned houses. The emoluments per annum for each director is K547,000. The remainder of salaries and wages related to all other employees.
- (4) Bad debts expenses for the year amounting to K63,200. This amount included an increase in general provision amounting to K23,645 and an increase in specific provision of K15,350. The remaining balance related to trade debts written off during the year.
- (5) Legal expenses comprising legal costs relating to the issue of shares of K8,960 and legal costs relating to the acquisition of land amounting to K9,425.
- (6) Expenses incurred in entertaining customers amounting to K39,250.
- (7) Motor vehicle running expenses amounting to K129,500.
- (8) Loss on sale of a Toyota Hilux single cab van amounting to K25,000. The Toyota Hilux Van was acquired in 2023 at a cost of K130,000 (VAT exclusive) and was sold for disposal proceeds of K22,000 (VAT exclusive). The income tax value of the van at 1 January 2025 was K65,000
- (9) Profit on the sale of a Ford Ranger single cab van amounting to K32,100. The van was acquired in 2023 at a cost of K98,000 (VAT exclusive) and was sold for disposal proceeds of K61,100 The income tax value of the van at 1 January 2025 was K49,000.
- (10) Investment income received by the company during the year comprising debenture interest of K59,200 (net), bank interest of K25,600 (gross) and dividends from a non-mining company of K31,680 (gross).

Additional information:

- (i) In the year ended 31 December 2025, the company acquired two (2) Nissan Navara double cab vans each with a cylinder capacity of 2,900cc, at a cost of K240,000 (VAT inclusive) each. These cars are used on a personal to holder basis by two of the company's directors.
- (ii) During the year ended 31 December 2025, the company also acquired a Nissan Atlas truck at a cost of K296,000 (VAT inclusive) and a Mitsubishi Canter truck at a cost of K375,400 (VAT inclusive).
- (iii) During the year ended 31 December 2025, the company acquired a second-hand building which was brought into use on 1 November 2025. The cost was made up of the following items:

	K
Land	234,000
Administration offices	2,955,000
Factory	<u>24,250,000</u>
Total cost	<u>27,439,000</u>

Required:

- (a) Calculate the amount of capital allowances claimable on buildings, implements plant and machinery by Mukuma Plc for the tax year 2025.
(10 marks)
- (b) Calculate the tax adjusted business profit for Mukuma Plc for the tax year 2025.
(9 marks)
- (c) Calculate the income tax payable by Mukuma Plc for the tax year 2025.
(6 marks)

[Total: 25 Marks]

QUESTION TWO

Valentino Kabali had been employed at Vubwi Plc as a Management Accountant at an annual salary of K372,000, payable to him monthly at the end of every month. He was awarded a salary increment of 10.50% of the annual basic salary with effect from 1 June 2025. He is also entitled to an annual transport allowance of 12% of his annual basic salary and a management allowance of K2,100 per month.

The company paid, on his behalf, school fees for his children amounting to K1,200 per month, per school going child, except for the months when school is closed. He has three (3) school going children. He received a Christmas bonus amounting to K2,000 that was declared on 24 December 2024, but was only paid to him on 1 March 2025.

On 1 May 2025, the company paid him a labour day award comprising of cash amounting to K3,000 and a smart phone valued at K6,000. In addition to the labour day award, the company paid him cash amounting to K6,000 as reimbursement for medical services he paid for the medical treatment of his sick mother.

On 30 September 2025, he opted for early retirement and retired from employment. Until the date of retirement, he had been accommodated in a company owned house for which

he paid no rent. The company acquired the house in 2024 at a cost of K1,500,000. If rented, the company could have charged gross monthly rentals of K11,200. The company had always maintained the house and for the year ended 31 December 2025, the company paid security expenses amounting to K1,600 per month, cleaner's wages amounting to K2,000 per month and utility expenses amounting to K1,400 per month.

Upon retirement, he received the following payments:

	K
Pension refund	1,200,000
Severance pay	43,100
Accrued service bonus	66,000
Leave pay	111,675

Mr Kabali has some investments within Zambia from which he received the following income during the year ended 31 December 2025:

	K
Dividends from KKJ Plc, a LuSE listed company	11,500
Dividends from FG Limited	17,850
Bank interest	8,000
Royalties	57,800
Interest on GRZ bonds	38,250

The above amounts of investments income represent the actual cash received by Mr. Kabali.

The following payments and deductions were made from his employment income during the year ended 31 December 2025:

	K
Income tax paid under Pay As You Earn	167,216
Donation to an approved public benefit organisation	16,000
Profession subscription	3,500
NAPSA contributions	16,104
NHIMA contributions	3,083
Travelling expenses from home to place of work	24,000
Subscription to a local gym	6,000

Required:

- Calculate the amount of withholding tax paid by Mr Kabali on the investment income he received for the tax year 2025. (4 marks)
- Calculate the amount of income tax payable by Mr Kabali for the tax year 2025. You should indicate using a zero (0) any emoluments that are not taxable. (18 marks)
- Explain the meaning of the receipts basis as it applies to taxation of income from employment. (3 marks)

[Total: 25 Marks]

SECTION B:

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

QUESTION THREE

The following information relates to four (4) Zambian resident individuals:

(1) Mr Kafukula is a commercial farmer in the Mkushi Farming block. He is also employed on a part-time basis as an agricultural extension officer. His final taxable farming profits for the tax year 2025 was K480,000, whilst his gross earnings from his part time employment was K40,000 in the tax year 2025. He also receives a sitting allowance as a councillor. The amount received as sitting allowance for 2025 was K2,500 per month.

(2) Mr Ngúni lets out property for commercial purposes. In the tax year 2025, he let out four (4) furnished residential houses receiving gross monthly rentals of K10,500 from each house per month. He incurred maintenance expenses of K1,500 per month on each house.

He also let out five (5) retail shops receiving gross monthly rentals of K16,500 for each shop per month. He incurred utility bills of K500 for each shop per month and other maintenance costs for the shops amounts to K600 per shop per month.

(3) Mr Chisenga is self-employed and owns a grocery that produced a final taxable business profit of K356,000 from a turnover of K5,100,000 for the year 2025.

He also owns two vehicles, a twenty-eight (28) Seater Rosa Bus and a sixteen (16) passenger seater Toyota Hiace bus, which are both used in his public passenger transportation business.

The Rosa bus became operational on 1 February 2025 and was used every day up to the end of the tax year 2025, generating gross income of K380,000 and incurring operating expenses of K86,000 for the period.

He bought the Toyota Hiace bus in August 2025. It became operational on 20 August 2025 and was used every day up the end of the tax year. It generated gross income of K195,000 and incurred operating expenses of K64,000 for the period.

(4) Wiza runs a retail shop. In the tax year 2025, the business generated a profit as per accounts of K142,000 from a turnover of K492,000 which was generated evenly throughout the tax year 2025. The net profit figure was arrived at after deducting Wiza's annual salary of K84,000, employees' salaries of K50,000, insurance for business premises of K9,500, marketing expenses of K6,800, entertainment of major customers of K10,200, NAPSA penalties of K3,500, and other expenses incurred wholly and exclusively for business purposes of K186,000. The annual turnover from her business has always averaged K492,000.

Required:

(a) Explain, with reasons, which of the above individuals will be required to pay provisional income tax and which ones will not, stating how the income generated by each person will be assessed to tax in the year 2025. (9 marks)

(b) Compute the amount of tax paid by each of the above persons on the income they generated in the tax year 2025:

- (i) Mr Kafukula (4 marks)
- (ii) Mr Ng'uni (4½ marks)
- (iii) Mr Chisenga (4½ marks)
- (iv) Wiza (3 marks)

[Total: 25 Marks]

QUESTION FOUR

Namonje started running a retail business making standard rated supplies on 1 June 2024. She has heard that a business is required to register for Value Added Tax (VAT) when the sales reach a certain level, but she is not sure whether she is required to register her business for VAT.

Namonje sometimes sell goods on a sale or return basis and also allows some customers to pay in instalments, but she is not sure of how the tax point of such sales will be determined if the business is registered for VAT.

She has provided you with the following information relating to the monthly VAT exclusive sales her business has been generating since she commenced trading:

Year	Month	Sales K	Year	Month	Sales K
2024	June	41,000	2025	April	51,700
	July	45,300		May	79,100
	August	51,000		June	75,600
	September	63,000		July	77,900
	October	67,400		August	88,800
	November	39,500		September	66,600
2025	December	62,200		October	97,100
	January	56,800		November	51,300
	February	48,300		December	92,300
	March	66,800			

In June 2025, Namonje purchased a second hand Fuso delivery truck having a gross weight of twenty (20) tonnes from Japan at a price of US\$10,500 for the transportations of goods. The truck was manufactured in January 2016. The charge for insurance was US\$2,000 and freight up to the port of Dar es salaam was \$3,500, where clearing and forwarding costs of US\$500 were incurred. She further incurred incidental costs of transporting the vehicle from the Nakonde border post to Lusaka amounting to \$1,500. In Lusaka, Interpol clearance fee was K250, vehicle registration fees were K2,500, comprehensive motor car insurance costs were K6,000 and Road tax was K600. The value for duty purposes (VDP) of the motor vehicle was determined to be K120,506 for import Value Added Tax (VAT) purposes.

The exchange rate provided by the Commissioner General at the time of importation of the vehicle was K19.50 per US\$. However, the exchange rates quoted in a local Bureau De Change was K19.45 per US\$.

Required:

- (a) Explain, giving reasons supported with appropriate computations, when Namonje will be required to register for VAT:

- (i) If the quarterly VAT registration threshold was applied. (4 marks)
- (ii) If the annual VAT registration threshold was applied. (5 marks)
- (b) Explain how the basic tax point is determined. Your answer should also explain two (2) situations in which the basic tax point can be amended. (3 marks)
- (c) Explain how the tax point for the following supplies is determined:
 - (i) Goods on sale or return (2 marks)
 - (ii) Sales under hire purchase (2 marks)
 - (iii) Staged payments (2 marks)
- (d) Compute the Customs Value (Value for Duty Purposes) of the Fuso delivery truck and the total import taxes paid by Namonje on the importation of the vehicle. (7 marks)

[Total: 25 Marks]

QUESTION FIVE

Alicia and Felicia are in partnership preparing partnership accounts each year to 31 December and sharing profits and losses in the ratio 3:2 respectively. This is after allowing for partnership salaries of K240,000 per annum for Alicia and K192,000 per annum for Felicia. The partners are also entitled to annual interest on capital at the rate of 15% per annum and 10% per annum respectively, on each individual's capital balance at the start of the year.

Their capital balances at 1 January 2025 were as follows:

	Alicia	Felicia
Capital balances as at 1 January 2025	K900,000	K600,000

On 1 May 2025, a new partner, Leticia, was admitted to the partnership. Leticia contributed capital amounting to K300,000 on joining the partnership on 1 May 2025.

The partnership agreement was changed with effect from 1 May 2025, after Leticia joined the partnership and provided for the following:

- (1) Annual partnership salaries for Alicia and Felicia were revised to K300,000 and K252,000 respectively, whilst Leticia was to be entitled to an annual salary of K240,000.
- (2) Alicia's and Felicia's annual interest on their opening capital balances was increased to 20% and 15% respectively.
- (3) Leticia was to be entitled to interest of 10% per annum on the capital balance she contributed on joining the partnership.
- (4) Any balance of profits or losses were to be shared amongst Alicia, Felicia and Leticia in the ratio 5:3:2 respectively.

The final tax adjusted profits for the partnership for the year ended 31 December 2025 was K1,860,000.

Additional information

- (1) For the year ended 31 December 2024, the partnership incurred a tax adjusted loss and the following unrelieved tax losses allocated to each partner were brought forward as at 1 January 2025:

	Alicia	Felicia	Leticia
Share of Tax loss at 1 January 2025	K742,000	K465,600	Nil

(2) **Other income**

The partners received the following income from other sources in their own personal capacity in the tax year 2025.

	Alicia	Felicia	Leticia
	K	K	K
Dividends from private Ltd companies	59,500	19,125	27,200
Fixed Deposit interest	8,250	10,200	4,200
Consultancy fees	44,200	19,125	Nil

Required:

- (a) Prepare a computation of the allocation of the taxable profit to each partner in the tax year 2025. Your answer should show how the losses brought forward at 1 January 2025 will be relieved and the balance of tax losses, if any, at 31 December 2025. (14½ marks)
- (b) Calculate each partner's income tax payable for the tax year 2025. (10½ marks)

[Total: 25 Marks]

END OF PAPER

DA 10 TAXATION -SUGGESTED SOLUTIONS

SOLUTION ONE

(a) COMPUTATION OF CAPITAL ALLOWANCES CLAIMABLE FOR THE TAX YEAR 2025

Buildings	K
<u>Factory</u>	
Wear & tear (K24,250,000 x 5%)	1,212,500
<u>Administration offices</u>	
Wear & tear (K2,955,000 x 2%)	59,100
Total	<u>1,271,600</u>
Implements, plant & machinery	
<u>Ford Ranger Van</u>	
Balancing charge (K49,000 – K61,100)	(12,100)
<u>Toyota Hilux van</u>	
Balancing allowance (K65,000 – K22,000)	43,000
<u>Nissan Navara motor double cab vans</u>	
Wear & tear (K240,000 x 2 x 20%)	96,000
<u>Nissan Atlas Truck</u>	
Wear & tear (K296,000 x 25/29 x 25%)	63,793
<u>Mitsubishi Canter Truck</u>	
Wear & tear (K375,400 x 25/29 x 25%)	80,905
	<u>271,598</u>
Total capital allowances (K1,271,000 + K271,598)	<u>1,543,198</u>

Workings	
Qualifying expenditure	K
Total cost	27,439,000
Less:	
Cost of land	(234,000)
	<u>27,205,000</u>
K27,205,000 x 10% = K2,720,500	

The administrative cost should be classified as a commercial building (non-industrial) for the purposes of calculating capital allowances on the buildings. This is so because its cost is more than 10% of the total qualifying expenditure.

(b) MUKUMA PLC.

COMPUTATION OF ADJUSTED BUSINESS PROFITS FOR THE TAX YEAR 2025

	K	K
Profit after tax		2,566,400
Add:		
Loss on disposal (Toyota Hilux)	25,000	
Depreciation	167,400	
Free accommodation benefit (K547,000 x 2 x 37%)	404,780	

Legal expenses land	9,425	
Legal expenses shares	8,960	
Entertaining customers	39,250	
Car benefit (K57,600 x 2)	115,200	
Increase in general provision	23,645	
Provisional income tax	<u>326,200</u>	
		<u>1,119,860</u>
		3,686,260
Less:		
Profit on disposal Ford Ranger	32,100	
Dividends	31,680	
Debenture interest	59,200	
Bank interest	25,600	
Capital allowances (part a)	<u>1,543,198</u>	
		<u>(1,691,778)</u>
Tax adjusted business profit		<u>1,994,482</u>

(c) MUKUMA PLC.

COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K	K
Tax adjusted business profit		1,994,482
Add:		
Debenture interest (K59,200 x 100/85)		69,647
Bank interest		<u>25,600</u>
Total taxable income		<u>2,089,729</u>
Company income tax [K2,089,729 x (30% - 5%)]		522,432
Less:		
Provisional tax	(326,200)	
WHT debenture interest (K69,647 x 15%)	(10,447)	
WHT bank interest (K25,600 x 15%)	<u>(3,840)</u>	
		<u>(340,487)</u>
Income tax payable		<u>181,945</u>

SOLUTION TWO

(a) Withholding tax paid for the tax year 2025

	K
Dividends from KKJ plc	Nil
Dividends from FG Limited ($K17,850 \times 15/85$)	3,150
Bank interest	Nil
Royalties ($K57,800 \times 15/85$)	10,200
Interest on GRZ bonds ($K38,250 \times 15/85$)	<u>6,750</u>
Total withholding tax	<u>20,100</u>

(b) KABALI

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K	K
<u>Income from employment</u>		
Salary		
$(K372,000 \times 5/12) + (K372,000 \times 1.105 \times 4/12)$		292,020
Transport allowance ($K292,020 \times 12\%$)		35,042
Management allowance ($K2,100 \times 9$)		18,900
School fees for his children ($K1,200 \times 3 \times 7$)		25,200
Christmas bonus		0
Labour day award		0
Medical expenses reimbursed		0
Free accommodation		0
Security expenses ($K1,600 \times 9$)		14,400
Cleaner's wages ($K2,000 \times 9$)		18,000
Utility expenses ($K1,400 \times 9$)		12,600
Pension refund		0
Severance pay		0
Accrued service bonus		66,000
Leave pay		<u>111,675</u>
		593,837
<u>Investment income</u>		
Royalties ($K57,800 \times 100/85$)		<u>68,000</u>
		661,837
Less:		
Donations to approved PBO	16,000	
Professional subscription	<u>3,500</u>	
		<u>(19,500)</u>
Taxable income		<u>642,337</u>
On First K61,200 @0%		0
On Next K24,000 @20%		4,800
On Next K25,200 @30%		7,560
On Excess K531,937 @37.0%		<u>196,817</u>
		209,177
Less:		
WHT- Royalties ($68,000 \times 15\%$)		(10,200)
PAYE		<u>(167,216)</u>
Income tax payable		<u>31,761</u>

- (c) The receipt basis means that the emoluments are taxable when received. This means that employment income is taxed in the month in which it is received.

Employment income is deemed to have been received on the earlier of:

- (i) The time when an employee becomes entitled to the emoluments and;
- (ii) The time when the emoluments are actually received by the employee

SOLUTION THREE

(a) The status of the various taxable persons is as follows:

- (i) Mr Kafukula will be required to pay provisional income tax on his taxable profit from farming since this income for the year will exceed K61,200 and that income is not in the form of emoluments from employment that are taxable under the Pay As You Earn system.

However, he will not be required to pay provisional income tax on his income from part time employment as this constitutes income in the form of emoluments from employment. Income tax on the emoluments from employment is chargeable under the Pay As You Earn system.

Mr Kafukula will also not be required to pay provisional income tax on the sitting allowance as a councilor as this income is exempt from tax.

- (ii) Mr Ng'uni will not be required to pay provisional income tax because all of his income is from letting out real property. Income tax from letting of property is subjected to rental income tax.
- (iii) Mr Chisenga will be required to pay provisional income tax on his income from the grocery because his total taxable income for the year exceeds K61,200 and the annual turnover is above K5,000,000.

The income from the transportation business will be assessed under presumptive taxes for transporters.

- (iv) Wiza will not be required to pay provisional income tax because the annual turnover from his business is below K5,000,000. Provisional income tax applies to businesses generating annual turnover over K5,000,000.

Wiza will taxable under turnover tax based on the gross turnover arising from his business.

(b) (i) MR KAFUKULA'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	Total	Non farming income	Farming income
	K	K	K
<u>Non-farming income</u>			
Employment income	40,000	40,000	-
Farming profits	<u>480,000</u>	-	<u>480,000</u>
	520,000	40,000	480,000
Less tax-free income	<u>(61,200)</u>	<u>(40,000)</u>	<u>(21,200)</u>
	<u>458,800</u>	<u>0</u>	<u>458,800</u>
Income tax on farming income			
K458,800 x 10%			<u>45,880</u>

- (ii) MR NG'UNI
COMPUTATION OF RENTAL INCOME TAX PAYABLE FOR THE TAX YEAR 2025

<u>Gross Rental income</u>	K
Residential houses (K10,500 x 4 x 12)	504,000
Retail shops (K16,500 x 5 x 12)	<u>990,000</u>
	<u>1,494,000</u>
<u>Rental income Tax</u>	
On first K12,000 x 0%	0
On next (K800,000 - K12,000) x 4%	31,520
On excess (K1,494,000 - K800,000) x 16%	<u>111,040</u>
	<u>142,560</u>
Rental income tax per month (K142,560/12)	<u>11,880</u>

- (iii) MR CHISENGA'S
COMPUTATION OF TAX PAYABLE ON PROFITS FOR THE TAX YEAR 2025

	K
Taxable business profits	<u>356,000</u>
<u>Income Tax</u>	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess K245,600 x 37.0%	<u>90,872</u>
	<u>103,232</u>

- MR CHISENGA'S
COMPUTATION OF PRESUMPTIVE TAXES PAID FOR THE TAX YEAR 2025

	K
Rosa Bus (K1,944 x 4)	7,776
Toyota Hiace bus (K648 x 2)	<u>1,296</u>
	<u>9,072</u>

- (iv) WIZA COMPUTATION OF TURNOVER TAX PAYABLE IN THE TAX YEAR 2025

Monthly Turnover (K492,000/12)	K <u>41,000</u>
<u>Turnover Tax</u>	
On first K1,000 x 0%	0
On excess (K41,000 - K1,000) x 5%	<u>2,000</u>
	<u>2,000</u>
Total turnover tax for the year (K2,000 x 12)	<u>24,000</u>

SOLUTION FOUR

- (a) (i) The quarterly VAT registration threshold is K200,000. This threshold will have been exceeded in June 2025.

This is because the cumulative sales for the period of 3 months from 1 April 2025 to 30 June 2025, will be:

$$K51,700 + 79,100 + K75,600 = K206,400$$

Namonje should inform the ZRA by the end of July 2025 and her VAT registration will have been effective as of 1 August 2025, or from an earlier agreed date.

- (ii) The annual VAT registration threshold is K800,000. The sales will exceed the annual VAT registration limit of K800,000 in October 2025.

This is because the cumulative sales for the 12-month period from November 2024 to October 2025 will be:

$$K39,500 + K62,200 + K56,800 + K48,300 + K66,800 + K51,700 + K79,100, \\ K75,600 + K77,900 + K88,800 + 66,600 + 97,100 = K810,400$$

Namonje should inform the ZRA by the end of November 2025 and her VAT registration will have been effective as of 1 December 2025, or from an earlier agreed date.

- (b) The basic tax point is the time when goods are delivered, collected, or made available to the customer, or when the services are performed.
The basic tax point is amended in the following situations:

- (i) Where a tax invoice is issued or payment is made before the basic tax point, the date of issue of the invoice or the date when payment is made is the tax point whichever is earlier.
- (i) Where a tax invoice is issued within a period of 14 days after the basic tax point, the tax point is the time when the invoice is issued.

- (c) (i) Goods on sale or return

The tax point for these goods is the earliest of:

- (1) the time when the sale is adopted by the customer,
- (2) the date of the tax invoice being issued and
- (3) payment being made

- (ii) Sales under hire purchase

The time of supply for the full value of the goods is determined on the basis of the normal rules.

This time will be one of the following: when goods are collected, when goods are delivered, when goods are made available to the customer, when payment is made or when the tax invoice is issued.

(ii) Staged payments and part payments

The tax point is the time of receipt of the staged payment or the part payment.

(d) COMPUTATION OF VDP

Purchase price	\$10,500
Insurance	\$2,000
Freight charges	\$3500
Clearing & forwarding	<u>\$500</u>
VDP in US\$	\$16,500
Exchange rate	<u>x K19.50</u>
VDP in ZMW	<u>K321,750</u>

COMPUTATION OF IMPORT TAXES

	Value K	Import Taxes K
Value for duty purposes	321,750	
Specific Customs Duty	<u>13,271</u>	13,271
	335,021	
Specific Excise Duty	<u>10,174</u>	10,174
VDP for import VAT	345,195	
Import VAT (K120,506 x 16%)	<u>19,281</u>	19,281
	364,476	
Surtax Charge	<u>2,000</u>	2,000
Total value	<u>366,476</u>	
Total import taxes		<u>44,726</u>

SOLUTION FIVE

(a) ALLOCATION OF PARTNERSHIP PROFITS AND COMPUTATION OF FINAL TAX PAYABLE BY EACH PARTNER

<u>1.01.2025 – 30.04.2025</u>	Total	Alicia	Felicia	Leticia
	K	K	K	K
Partnership salaries	144,000	80,000	64,000	0
Interest on capital	<u>65,000</u>	<u>45,000</u>	<u>20,000</u>	0
Total appropriations	209,000	125,000	84,000	0
Balance (3:2)	<u>411,000</u>	<u>246,600</u>	<u>164,400</u>	0
	<u>620,000</u>	<u>371,600</u>	<u>248,400</u>	0
<u>1.05.2025 – 30.12.2025</u>				
Partnership salaries	528,000	200,000	168,000	160,000
Interest on capital	<u>200,000</u>	<u>120,000</u>	<u>60,000</u>	<u>20,000</u>
Total appropriations	728,000	320,000	228,000	180,000
Balance (5:3:2)	<u>512,000</u>	<u>256,000</u>	<u>153,600</u>	<u>102,400</u>
	<u>1240000</u>	<u>576,000</u>	<u>381,600</u>	<u>282,400</u>
Totals	<u>1,860,000</u>	947,600	630,000	282,400
Less loss relief		(473,800)	(315,000)	Nil
Final Taxable profit		<u>473,800</u>	<u>315,000</u>	<u>282,400</u>
Income Tax				

The loss to be relieved against the taxable business profits are restricted to 50% of the taxable business profits for that year in which the loss is to be relieved.

Therefore, the loss will be relieved as follows:

	Alicia	Felicia
	K	K
Tax losses at 1 January 2025	742,000	465,600
Loss to be relieved in 2025 restricted to 50% of taxable business profits (K947,600 x 50%) (630,000 x 50%)	<u>(473,800)</u>	<u>(315,000)</u>
Tax losses carried forward to 2026	<u>268,200</u>	<u>150,600</u>

(b) PERSONAL INCOME TAX COMPUTATIONS FOR THE TAX YEAR 2025:

	Alicia	Felicia	Leticia
	K	K	K
Partnership profit	473,800	315,000	282,400
Consultancy fees			
K44,200/K19,125 x 100/85	<u>52,000</u>	<u>22,500</u>	<u>0</u>
	<u>525,800</u>	<u>337,500</u>	<u>282,400</u>
<u>Income Tax</u>			
On first K61,200 x 0%	0	0	0
On next K24,000 x 20%	4,800	4,800	4,800
On next K25,200 x 30%	7,560	7,560	7,560
On excess			
K415,400/K227,100/K172,000 x 37%	<u>153,698</u>	<u>84,027</u>	<u>63,640</u>
	166,058	96,387	76,000
Less WHT K52,000/K22,500 x 15%	<u>(7,800)</u>	<u>(3,375)</u>	<u>0</u>
	<u>158,258</u>	<u>93,012</u>	<u>76,000</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTING PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 12 JUNE 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.
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 compulsory question in this section. Attempt Both Questions.

QUESTION ONE

Tumba and Selako are Partners running a Football Academy (T & S Academy) as a partnership business. Being a former football player in the Zambia National team, Tumba performs the role of Football Administrator while Selako works as a specialist in identifying new football talent for T & S Academy. Tumba is also the Managing Partner and chairman of T & S Academy. T & S Academy does not have an internal audit function and Audit Committee.

Derrick, an Accountant, performs all the functions in the accounts department. He works independently and is responsible for cash collections from ticket sales, banking and withdrawing cash for approved payments.

Tumba went on annual leave and when he came back from leave he was not pleased with financial management of T & S Academy and this was brought to the attention of Selako. Tumba managed to convince Selako to appoint an independent auditor to audit the financial statements of the academy. Selako had earlier refused the proposal to appoint an independent auditor, because he felt it was not necessary as it is not mandatory for a partnership to have its financial statements audited by an independent auditor. Attext Chartered Accountants was appointed as independent auditor.

The Engagement Partner at Attext Chartered Accountants emphasised that during the audit it is important to observe fundamental ethical principles as he was not pleased with the behaviour of audit interns. Further, he advised the audit team to communicate with those charged with governance throughout the audit as this is required by *ISA 260 Communication with those charged with Governance*.

The Engagement Partner is married to the sister of Tumba. The Audit Manager in charge of the audit of T & S Academy recently resigned from T & S Academy as Finance Manager. Selako's wife has been running an online business with one (1) of the senior members of the audit team. Derrick has just sat for ZICA Chartered Accountant (CA) advisory level examinations, which he is yet to pass. Since the accountant is not qualified and experienced, Attext Chartered Accountants has been requested to help with the finalization of the preparation of financial statements so that they are available for the current year's audit.

T & S Academy has been summoned by the Zambia Revenue Authority (ZRA) for not paying taxes and Attext Chartered Accountants has been asked by Tumba to represent T & S Academy in this case.

In one of the meetings, Selako expressed his concern over the lack of an internal audit function and the accountant was tasked to come up with a list of factors that should be taken into account before establishing an internal audit function.

Required:

- (a) (i) Explain briefly four (4) advantages of T & S Academy having its financial statements audited. (4 marks)
- (ii) Explain one (1) disadvantage of T & S Academy having its financial statements audited. (1 marks)
- (b) (i) Identify and explain four (4) threats which may affect the independence and objectivity of the auditor during the audit of T & S Academy. (4 marks)
- (ii) Suggest four (4) appropriate safeguards to the threats explained in (b) (i) above. (4 marks)
- (c) (i) Explain two (2) corporate governance weaknesses faced by T & S Academy. (4 marks)
- (ii) Explain three (3) reasons why it is important to communicate to those charged with governance throughout the audit. (3 marks)
- (iii) Explain three (3) factors that should be considered before setting up an internal audit function. (3 marks)
- (d) Explain two (2) benefits of planning an audit of T & S Academy. (2 mark)

[Total: 25 Marks]

QUESTION TWO

Glitters Ltd is a company that sells custom built cars for celebrities and top businessmen in the country. The cars are fitted with Carmel leather seats and the reams of the vehicles are gold plated. Customers pay eighty-percent (80%) up front before the vehicles are delivered to the customers. Customers are allowed to preview the final design of the cars via video link with the suppliers. This allows customers to recommend any adjustments to the initial designs before the cars are finally delivered to Zambia.

A contractor was engaged and given seven days (7) days within which to complete all the works to the showroom. The works included extensions and repairs at the same time. In order to meet the cost of refurbishment, Glitters Ltd, borrowed K250 million from the Development Bank of Business (DBB) at high interest rate since maturity time was reduced to one (1) year. The loan attracted collateral security in form of titles to the building housing the newly refurbished showroom.

In order to motivate senior managers such as finance and sales directors, Glitters Ltd, offered a bonus of 30% based on profit before tax if the sales exceed K4.5 million in the first quarter of 2024. To achieve this, the Finance Director engaged in false accounting and understated the provisions recognised in the financial statements.

During an internal audit, it was discovered that senior managers took some expensive laptops for their family use.

Due to a slump in the economy, most businesses are finding it difficult to survive leading to reduction in disposable incomes. This has affected customers of Glitters Ltd as they are unable

to pay the balances on their custom built cars. This has led to Gliters Ltd to use an overdraft facility in order to meet its monthly obligations.

The decrease in sales in 2024 has led to liquidity problems and eminent going concern uncertainties. The receivables accountant resigned and the one who took over has not performed receivables ledger reconciliations for the past four (4) months.

Your firm, Max Chartered Accountants, has been appointed as auditor. The immediate task is to conduct an assessment of audit risks in order to come up with appropriate responses to any identified risks. In addition, you have noted that narrative notes have been used to document the internal control system of Gliters Ltd however, its management intends to change this and document the system using flowcharts.

Preliminary assessment of internal controls indicated some weaknesses confirming that control activities in place are not functioning effectively given the prevalence of fraudulent activities at Gliters Ltd.

Required:

- (a) (i) Identify and explain five (5) audit risks in planning the audit of Gliters Ltd.
(5 marks)
- (ii) Suggest five (5) appropriate responses to the risks identified in (a) (i) above.
(5 marks)
- (b) Discuss, giving an example, why professional skepticism and professional Judgment will be important during the audit of Gliters Ltd. (4 marks)
- (c) (i) Explain the difference between audit risk and business risk in relation to Gliters Ltd. (4 marks)
- (ii) Identify and explain two (2) types of fraudulent activities in relation to Gliters Ltd. (3 marks)
- (d) Explain three (3) advantages and one (1) disadvantage of flowcharts as a method of documenting internal control system for Gliters Ltd. (4 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Kafue Clothing Limited (KCL) manufactures clothes for all age groups and sells these clothes on cash and credit basis.

Owing to its large number of customers, KCL Sales Assistants approve credit limits and later make follow-ups on verification of customer details after goods have been dispatched. Large customers are required to pay 10% of the total purchase price of each transaction as cash deposit before they take goods from the shop. All members of the accounts department have the same password which is also known by the Sales Assistants and the Shop Manager.

During the year, the Credit Controller resigned. He took with him a laptop containing information regarding receivables age analysis and customer contact details. The only back up left contained details of customers with small amounts owed to the business. Efforts to locate and retrieve the laptop proved futile.

A new Credit Controller has been employed, but has no previous experience in managing a similar credit department. However, he has recommended that the company puts in place both General and Application controls in order to reduce incidences of fraudulent activities. Management strongly suspects that fraudulent activities are taking place and that it was time to appoint external auditors.

Yanges Chartered Accountants has since been appointed. The first task is to perform risk assessment procedures and tests of control. During a planning meeting, it was agreed that directional testing be considered as a substantive procedure. However, some interns wanted further clarification on directional testing as well as examples of directional testing. The need for clarification is necessary before an interim audit on plant and equipment and payables is conducted.

Required:

- (a) Identify five (5) weaknesses in the internal control system of KCL, and explain the implication of each weakness. (5 marks)
- (b) For each weakness, recommend an appropriate internal control to overcome the weakness. (5 marks)
- (c)
 - (i) Briefly describe five (5) tests of control that can be performed to assess whether the internal controls of KCL are operating effectively. (5 marks)
 - (iii) Briefly explain the difference between General Controls and Application Controls in relation to the audit of KCL. (2 mark)
- (d)
 - (i) Explain four (4) audit procedures that external auditors can perform in order to obtain audit evidence in relation to trade receivables. (4 marks)

- (ii) Explain directional testing, giving two (2) examples of how directional testing can be used to detect errors and omissions. (4 marks)

[Total: 25 marks]

QUESTION FOUR

Mukushi Hardware Ltd (MH) is a leading retailer of different hardware brands mostly used in the construction industry. The company has branches in each province of Zambia. Each branch has a computerised accounting system which is connected to a server at Head office in Kabwe. This makes it possible for senior management at Head Office to have access to inventory records maintained by each branch.

In order to gain an understanding, auditors have requested financial statements for the last two (2) years which they will analyse using analytical procedures. An initial assessment has shown a worrying trend with regards to account balances for rent, interest, rates and payroll costs. The audit Engagement Partner has also suggested that the audit team should consider the use of statistical and non-statistical sampling owing to the fact that MH has a large number of inventory items. He is also concerned with sampling and non-sampling risks. Further he has advised that the team should concentrate on high value items, and certain items above K250, 000. The balances have been selected so that they can be used to test the client's internal control procedures.

Computer Audit Assisted Techniques (CAATs) will be used in order to help external auditors since the client is fully computerised. One (1) of the members on the audit team is concerned with the challenges that come with the use of CAATs during the audit especially that this will be the first time for interns to use CAATs.

A sample will be obtained from a population of inventory using random and stratified sampling methods. However, some new members on the audit team are asking for further clarifications regarding the two (2) sampling methods.

Required:

- (a) (i) Briefly explain two (2) analytical techniques that can be used to obtain sufficient and appropriate audit evidence. (2 marks)
- (ii) Explain how external auditors can use analytical procedures in relation to the rent and payroll costs. (4 marks)
- (iii) Explain the difference between sampling and non-sampling risks and give an example of each. (3 marks)
- (b) (i) Explain four (4) disadvantages that are associated with using CAATs. (4 marks)
- (ii) Explain the differences between random and stratified sampling. (3 marks)
- (c) Explain the difference between general purpose audit software and customized audit software. (3 marks)
- (d) Explain the reasons why the balances of high value items and all items above a certain amount were chosen. (6 marks)

[Total: 25 Marks]

QUESTION FIVE

Luangwa Corridors of Hope (LCH) was formed after a worrying trend of orphans and vulnerable children living on the streets. A Board of Trustee has been put in place to run the affairs of LCH. LCH has orphanages in all the ten (10) provinces. LCH receives donations from Child Care Orphanage (CCO) in Europe.

In order to reduce on donations, LCH has set up a solar milling plant in Lusaka. The mealie meal manufactured is distributed to all orphanages across the country and any excess is sold to the public. LCH has built an additional milling plant in Kabwe in order to increase mealie meal production and meet the market demand.

Some of the mealie meal is sold on credit to boarding schools while some is sold on cash basis. The current year's draft financial statements include receivables of K76,000. Internal controls on credit sales are effective as evidenced by the result of tests of control performed. Further, LCH has a low risk of misstatements in the financial statements. Most of the accounts receivable balances consist of small but homogenous account balances and the rate of confirmations have been good.

The money raised from mealie meal sales is used to meet orphanages obligations such as allowances for staff, who are volunteers from faith based organisations such as churches.

In the recent past, management has been overriding internal controls resulting in fraudulent activities which have resulted in theft of large amounts of donor funds. The donors have confirmed that they will not provide further funds until stringent measures to curb embezzlement of funds are put in place.

Most of the critical programmes such as feeding programmes have been affected and some of the orphans have run away and gone back to the streets. Employees at all the branches have not been paid their salaries for the past four (4) months resulting in low morale. Some of the major suppliers have cut off their services due to non-payments. This has forced the donors to engage your firm as external auditors to assess the extent of fraud taking place and ascertain how much money has gone missing. As external auditors, you will attend inventory count at the milling plants. In addition, you are expected to verify the number of bales of second hand clothes that were recently donated to LCH.

LCH had engaged an agent to sell some of the clothes and the value of inventory being held by the agent is significant. The donors have also asked your firm to ascertain whether LCH is a going concern. Your audit partner had asked management of LCH to extend going concern assessment for the next twelve (12) months to which they objected. One (1) of your audit juniors has suggested that management's failure to extend going concern assessment for the next twelve (12) months is a Key Audit Matter (KAM), therefore, either an adverse opinion or a disclaimer of opinion should be given.

Required:

- (a) Explain five (5) substantive procedures that should be performed in relation to the new milling plant constructed. (5 marks)
- (b) Explain four (4) factors that should be considered by auditors prior to attending the inventory count. (4 marks)
- (c) Explain three (3) reasons why a negative confirmation will be appropriate in relation to receivables of K76, 000. (3 marks)

- (d) (i) Explain the meaning of Key Audit Matters (KAM). (2 marks)
- (ii) Explain the circumstances in which unmodified opinion, qualified opinion, an adverse opinion and a disclaimer of opinion are given. (6 marks)
- (e) (i) Explain three (3) factors that indicate that LCH is having going concern problems. (3 marks)
- (iii) Suggest the appropriate audit opinion to be given, if management of LCH refuses to extend the going concern assessment. (2 marks)

[Total: 25 Marks]

END OF PAPER

DA 11: PRINCIPLES OF AUDITING - SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Advantages of having audited financial statements for Tumba and Selako Academy:

- (1) Tumba will be able to accept the payments made to him without suspicion since the financial statements will have been audited by an external auditor.
- (2) Any disputes that can arise, with regards to lack of accountability and transparency can be resolved through since the financial statements shall be audited.
- (3) The financial statements of T & S Academy can be accepted by the bank to support an application for a loan if it wished to get a loan.
- (4) Tax assessments made by the partners out of profits will be acceptable to the tax authority since external auditors would have verified the authenticity of the transactions.
- (5) In case T & S Academy will be sold in future, the prospective buyer will be able to agree the value of the net assets as the financial statements were audited by an external auditor.

(ii) Disadvantages of having an external audit for T & S Academy:

- (1) It will be expensive for T & S Academy to pay audit fees to external auditors.
- (2) Strategic information meant for internal use will be made available to outsiders the auditors and there is a risk that this information may end up in the hands of unintended parties.

(b) (i) Threats

(ii) Safeguards

1. Engagement partner marrying Tumba's sister. This will compromise the independence of the auditor and can result in familiarity threat.	The Engagement partner should not have any task to perform in relation to T & S Academy since he is too close to Tumba.
2. The audit manager worked as finance manager of this client. This will create familiarity threat.	The audit manager should not be on the audit team for T & S Academy's audit. Some one independent should be appointed.
3. The wife of Selako are running a business with one of the auditors for T & S Academy. This will compromise the auditor's objectivity which can result in self or financial interest threat.	There will be a need to dispose of the interest or remove the concerned auditor.
4 External auditors were asked to represent the client in the tax case. This will create an advocacy threat as the auditors may be seen to be on the side of the client.	The auditors should not accept this task as it will compromise their independence. They should refuse politely.
5 The request that the audit firm should assist in the finalization of preparing the financial statements is an ethical issue that creates a self-review threat.	The request to assist in the finalization of the financial statements of T & S Academy should be declined unless a separate team from the assurance engagement team can do this.

- (c) (i) The following are governance weaknesses in T & S Academy:
 - (1) Tumba is a Managing Partner responsible for the running of the business and is also Chairman of the academy. These roles should be held by different people because the board is supposed to provide oversight on management.
 - (2) Lack of internal audit and audit committee – The partnership should on an annual basis consider and evaluate the need for introducing an internal audit function which can contribute positively in running the academy.
- (ii) Importance of communicating with those charged with governance during the audit:
 - (1) Attest Chartered Accountants will have to communicate any significant challenges that they experienced during the audit of T & S Academy.
 - (2) Communication to those charged with governance will be important for the sake of obtaining information and explanations.
 - (3) Attest Chartered Accountants will be able to communicate their roles and responsibilities during the audit of T & S Academy.
- (iii) Factors to consider when setting up an internal audit function at T & S Academy:
 - (1) The cost involved – The Academy needs to weigh the cost of setting up an internal audit against the benefits to be derived from setting it up.
 - (2) The availability of the right Staff-T & S Academy will have to consider the availability of trained accounting staff who can execute the duties impartially.
 - (3) They should also consider whether the setting up of an audit function will reduce the audit fees.
 - (4) Whether the external auditors may wish to seek assistance of the internal audit function in conducting the audit.
- (d) Benefits of planning the audit of T & S Academy:
 - (1) It will help external auditors to assess the risk during the audit of T & S Academy
 - (2) It will help the auditor to conduct an orderly and efficient audit.
 - (3) Planning an audit will help the auditor to allocate experienced and appropriate audit staff for the audit of T & S Academy.

SOLUTION TWO

(a) Audit risks and responses in the audit of the financial statements of Gliters Ltd:

(i) Audit risks	(ii) Audit responses
1. Selling expensive custom built cars to celebrities. There is a risk that inventory will not be recorded at their correct value when celebrities change or stop buying the cars from Gliters Ltd. Consequently inventory will not be recorded at the correct net realizable value due to a fall in demand /market value.	Auditor need to review the year end values of inventory of cars for evidence of slow moving inventory.
2. Customers paying 80% up front before cars are even delivered. There is a risk that revenue will be overstated as it will include revenues that are yet to be recognized.	<ul style="list-style-type: none"> ○ Obtain a sample of sales of cars recorded before the end of the year and agree the transactions relating to end year sales. ○ Obtain a sample of contracts or GDN's and verify the revenue recognized on cars sold.
3. Extensive refurbishment and modernization. There is a possibility of recording revenues expenditure as capital expenditure and vice versa. This can result into a misstatement of assets and profits for the year.	Auditors need to obtain the details cost of on refurbishment and examine in details for proper classification of costs.
4. Award of a bonus of 30% on profit before tax to Senior Managers. There is a risk that managers will be engaged in creative accounting in order to achieve profit objectives.	<ul style="list-style-type: none"> ○ Obtain details and balances on accounts that have been provided for or estimates relating to payments to directors. ○ Test policies that have been applied in the year regarding revenue recognition.
5. The company has engaged itself in large borrowings. This will expose certain assets of the business to be tied as collateral. There is a risk of going concern if the assets are taken away from the business.	<ul style="list-style-type: none"> ○ Obtain contract documents from the bank regarding borrowings. ○ Confirm whether there has been any extension of credits form the bank that the company owes money. ○ Obtain correspondents form the bank to confirm if there have been assets that have been used as collateral.
6. There is a risk that the financial statements may be misstated on account of judgment being made in determining accounting estimates.	The audit team should observe professional skepticism and look out for any possible management bias in determining accounting estimates.

(b) Imporatnce of professional skepticism & professional judgment during the audit:

Professional skepticism will be required during the audit as there is an opportunity for Finance Director to manipulate financial information. For example, Finance Director is engaged in false accounting as this will misstate the amount of bonuses paid out.

There is a weakness in internal controls. For example, there is information that assets such as laptops have gone missing in the company.

Professional judgment is important in the audit of the financial statements of Gliters Ltd in a number of areas where it will be applied including the following areas:

- (1) In setting up the materiality levels to be used in the conduct of the audit based on the results of the risk assessment at the planning stage.
 - (2) In deciding on the level of substantive audit tests.
 - (3) In making conclusions based on the audit procedures conducted and the evidence gathered and
 - (4) In concluding the audit and forming an opinion at the end of the audit.
- (c) (i) Difference between audit and business risks:
- Audit risk is the risk that the auditor may issue an inappropriate audit opinion after conducting an audit.
- Business risk on the other hand includes risks that may cause the business to fail and not achieve its intended objectives. Business risk is a concern of management.
- (ii) Fraudulent activities in Gliters Ltd:
- Fraudulent financial reporting by the Finance Director- The Finance Director is engaged in false accounting, which have the potential of causing material misstatements in the financial statements.
- Misappropriation of assets –Gliters Ltd has been experiencing theft of laptops which belong to the company. This can lead to misstatements in the net assets of the business
- (d) Advantages of flow charts:
- (i) Through the use of flowcharts, information is presented in a standard form making them easy to follow.
 - (ii) With a little experience, flowcharts are easy to draw as compared to other methods of recording internal control systems.
 - (iii) Flowcharts eliminate the need for extensive narrations of internal control systems and easily help highlight salient points of control and deficiencies in systems.
 - (iv) Through the use of flowcharts, entire systems can be recorded from beginning to end.
- Disadvantages of flow charts:
- (i) Amendments is done by redrawing the all flowchart.
 - (ii) Flowcharts are suitable for recording and describing standard systems. Systems that are unusual are less likely to be recorded using flowcharts as narrative notes are more appropriate.
 - (iii) Some areas that may be charted using flowcharts may have little or no audit significance.

SOLUTION THREE

(a)/ (b) Weaknesses in internal controls and recommendations:

(a) Weaknesses	(b) Recommendations for improvement
1. The sales assistant performed credit worthiness of the customers after the goods were taken by the customers. This increases the risk of errors and frauds.	Customer credit checks should be done before goods are delivered or taken by customers.
2. Large customers paying 10% deposit. This can result in loss of revenue should they fail to pay the remaining balance of 80%.	The deposit being paid by large customers is very small. Management need to raise the amount of deposit to above 50% for each transaction in order avoid loss of revenue when customers default.
3. Sharing of password between the sales assistants and shop manager .This will make it difficult to identify who could have tempered with information if the assets should it go missing	Passwords should not be shared between staff. It should only be known by the shop manager and sales assistants. He should also change it frequently so that is becomes difficult for fraudster to know which password is in use.
4. Lack of adequate backups will lead to loss data. The company should not have been worried of the resignation of the credit controller taking away the computer files containing information on large amounts owing if backups were kept.	Management needs to keep backup copies so that if one copy gets lost or destroyed, a backup can be used in order to avoid disrupting operations.
5. The appointment of inexperienced credit controller to manage the Credit Department. The company will end up with a lot of unpaid credits .This could be as a result of giving credits to customers who are not credit worthy.	The company should employ an experienced person so that they seal up all loopholes in the credit system.

(c) (i) Tests of controls of KCL:

- (1) Inquiries – external auditors need to ask questions to management about the operations of the systems in KCL Ltd. The questions should include the flow of documents in KCL Ltd.
- (2) Re-performance – when management has prepared reconciliations such as bank reconciliations; external auditors will have to re-perform the reconciliation in order to confirm whether the final balances agree with what management calculated.
- (3) Inspections of documents- Yanges Chartered Accountants need to inspect various documents and examine them in details. They should also ascertain whether documents are raised for each transaction that has occurred.
- (4) Reviews of documents- Yanges Chartered Accountants need to review various documents and examine them in details.
- (5) Observations – This involves observing the procedure been done.

(ii) Difference between general and application controls in relation to the audit of KCL:

General IT controls –these are policies and procedures that KCL should put in place that can affect a lot of applications and help the effective functioning of KCL's information system continue to operate smoothly. Examples include control over data center network and any changes and maintenance and access control.

On the other hand, Application controls are a type of controls that are embedded into specific computer packages and are there to protect the integrity of computer programs. For instance, one cannot access the files on a computer without having a correct password or the computer will not process information if the input is not in the correct format acceptable by that system.

(d) (i) Audit procedures in the audit of trade receivables:

- (ii) Obtain and cast the receivables age analysis for arithmetical accuracy.
- (iii) Confirm that the total of the receivables age analysis agrees with the balance in the receivables ledger control account.
- (iv) Agreeing a sample of individual receivables accounts balances to the receivables aged listing.
- (v) External auditors need to perform a receivables confirmation on a sample of receivables at the year end.
- (vi) Review sales around the period end and ensure that they have been recorded in the correct accounting period. This will be done by examining a sample of invoices and delivery notes noting the date and confirming they have been recorded in the correct accounting period.
- (vii) Review the allowance for receivables and confirm it has been computed in accordance with applicable accounting standard.

(ii) Directional testing is the use of the double entry book keeping principles in deciding how to test transactions and balances for overstatement and understatement.

Using the principles of directional testing, debit balances representing expenses and assets are primarily tested for overstatement only. By so doing, the corresponding credit entries are tested for overstatement.

Similarly the credit balances representing income and liabilities are primarily tested for understatement. Using the principle of directional testing the corresponding debit entries are tested for understatement.

Using the above principles, both debits and credits are tested for both understatement and overstatement once directly and also indirectly.

SOLUTION FOUR

(a) (i) Analytical procedures that can be used in obtaining evidence:

Ratio analysis – it is important to perform ratios on account balances in the profit or loss account and balances in the statement of financial position in order to verify that the result is reasonable.

Trend analysis –external auditors will need to compare the current payments and receipts and other account balances with the previous period.

Comparisons/Reasonableness test –this involves calculating the expected value of an item and comparing it with the actual values.

(ii) Use of analytical procedures to audit rent and payroll costs:

Rent – external auditors should compare the amount of rent paid this year with the amount paid last year. A tenancy agreement or contract between the client and its landlord can help in this regard.

Payroll costs – external auditors need to compare the increase/decrease in number of employees with increase/decrease in percentage term of payroll costs over the same period. This should be done in order to verify plausible relationship between the two figures (number of staff and payroll costs).

(iii) Difference between sampling and non-sampling risks:

Sampling risk – This is the risk that the auditors may issue an inappropriate audit opinion on account of relying on results samples rather than testing 100% of the population.

Non – sampling risk - this is the risk that can cause an auditor to reach at an erroneous conclusion for any reasons other than those related to the sample selected.

(b) (i) Disadvantages of using CAATs:

- (1) The audit firm will have to incur the cost of training its staff in the use of CAATs.
- (2) There is a possibility that the client data can be corrupted and lost during the use of CAATs.
- (3) Setting up the software for CAATs which can be expensive and time consuming.
- (4) In certain clients, CAATs may not be compatible with what the auditors have, this will result in underutilization of resources invested in CAATs.

(ii) Difference between random and stratified sampling:

Random sampling – it is a sampling method in which all the items in a given population have an equal chance of being picked. This can be done by using random number tables or random number generators.

Stratified sampling – This is a process by which a population is divided into sub-populations each of which is a group of sampling units that have a similar characteristics. Samples are then extracted from each subgroup using chosen sampling methods.

(c) Difference between general purpose audit software and customized audit software:

General purpose audit software is a type of software that allows auditors to perform tests on computer files and data bases such as reading and extracting data from client systems for further testing and performing arithmetic calculations on data.

Customized audit software – Is software that is written by the auditors for performing tasks that general purpose audit software cannot perform.

- (d) The reasons why the following balances were chosen:
- (i) High value items-High value items are sampled for testing because they are prone to error and also any misstatements of these amount may significantly impact the financial statements. Misstatements of high value amounts are more likely to result in the misstatement of the financial statements.
 - (ii) All items over a certain amount-By testing items above a certain amount, the auditors will be able to test a large proportion of the population. This may be done by testing a few items. The results from samples obtained this way cannot be projected onto whole populations.

SOLUTION FIVE

- (a) The five (5) audit procedures to be performed on additional plant:
- (1) Recalculate annual depreciation using the applicable depreciation rate to verify accuracy.
 - (2) Inspect documentation such as invoices or title deeds to verify ownership.
 - (3) Obtain documentation of expenditure and review for appropriate classification of expenditure into capital and revenue
 - (4) Inspect the new plant to verify existence.
 - (5) Inspect the building to confirm if it is in good condition and that it is being
 - (6) used for the intended purpose.
 - (7) Obtain the cash book and review the payments that are recorded by the accounts department to verify whether such payments were actually made.
- (b) The following factors needed to be considered prior to attending inventory count:
- (1) The location of place of inventory counts – this will help external auditors to plan for to plan for logistics of how to reach there.
 - (2) Appropriate audit staff- the external auditors will be able to allocate appropriate staff with relevant experience in the retail and hardware businesses.
 - (3) To receive and review count instructions in advance
 - (4) Obtain conformation of inventory held by third (agents)
- (c) A negative confirmation is suitable for the following reasons:
- (ii) The internal controls on credit sales are effective as evidenced by the results of tests of controls performed.
 - (iii) The population of accounts receivables consists of small and homogeneous account balances.
 - (iv) The rate of confirmations has been good in the past.
- (d) (i) Meaning of Key Audit Matters:
These are matters that are in the auditor's professional judgment were of most significance in the audit of the financial statements of the period under audit. These are selected by the auditor from matters communicated to those charged with governance.
- (ii) Circumstances leading to the following audit opinions:
- Unmodified opinion – This is issued when the auditors has no matters of concern and concludes that the financial statements have in all material respects been prepared in accordance with the applicable financial reporting framework. The auditors conclude that the financial statements show a true and fair view.
- Qualified opinion – This form of opinion can be issued under any of the two circumstances as follows:
- Sufficient appropriate evidence was obtained* and the auditors have a matter of concern which is material but not pervasive to the financial statements.
- Where there is a limitation of scope* and the auditors consider this to be material but not pervasive.
- Adverse opinion – This is where the auditors conclude that the financial statements do not show a true and fair view. It is issued when the auditors have obtained sufficient appropriate evidence and concludes that the matter of concern is both material and pervasive.
- Disclaimer of opinion – This is where the auditors conclude that they are not in a position to form an opinion. It is issued when there is a limitation of scope

and the auditors conclude that the matter leading to this is both material and pervasive.

- (e) (i) Indicators of going concern problems in LCH:
 - (1) The suppliers of LCH have stopped extending credits and that can cripple the operations of LCH.
 - (2) The LCH lost a lot of assets through fraudulent acts which negatively smooth operations of LCH.
 - (3) Donors have also cut of funding due to misuse of financial resources.
- (ii) Suggested audit opinion if management refuses to extend assessment:

In view of the fact that management of LCH has declined the request to extend its assessment of going concern to 12 months this may lead the auditors to issue a modified opinion. The auditors may issue a qualified or disclaimer of opinion.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 13 JUNE 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 question in this section.

Attempt both questions.

QUESTION ONE

The Board of Directors of Mekato Travels and Tours Limited have indicated that they intend to float a proposal to the company's shareholders to increase their salaries and other distributions (payments, provision, benefits, assistance). Zembo a curious car cleaner who works within the company stumbles upon such information and has approached you for help on the following:

Required:

- (a) With reference to the relevant law in the Companies Act No. 10 of 2017 proceed to explain to the directors and Zembo on the procedure the directors must follow in order for the two (2) proposals to be actualized. (10 marks)
- (b) With reference to the Companies Act No. 10 of 2017 and in relation to the other distributions, explain on the safeguards that the shareholders must apply when making other distributions to the directors, as proposed. (5 marks)
- (c) Explain the three (3) types of resolutions that a company like Mekato Travels and Tours limited can make. (10 marks)

[Total: 25 Marks]

QUESTION TWO

Malamulo Chikankata is a shareholder in Rosana Company and holds preference shares in Rosana Company. Two (2) weeks ago, she received a notification that there was a class meeting being called due to some irregular dealings being undertaken by the company. In view of this, some members of the company are even suggesting that the veil of incorporation be lifted.

Required:

- (a) Explain to Malamulo the circumstances under which a class meeting can be held, and the purpose of it thereof. (12 marks)
- (b) Elaborate any two (2) ways through which lifting of the veil of incorporation can be done. (8 marks)
- (c) Define nominal share capital. (5 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) Questions in this Section.

Attempt any Two (2) questions.

QUESTION THREE

Your former school mate in secondary school at a social event has come to you to help him understand the below issues.

- (a) Explain to him in detail the following:
 - (i) Insider dealing with regard to stock markets. (5 marks)
 - (ii) Companies limited by guarantee. (5 marks)
 - (iii) Voluntary disclosure with regard to companies. (5 marks)
- (b) The veil of incorporation can be lifted either by Statute or Courts of Law. Explain to him five (5) ways by which a veil of incorporation can be lifted by the Courts. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

Balawallow limited was incorporated in 2013 and its main object was to supply sport kits to football teams. The company has been making profits from inception. Challenges came in when Covid 19 restrictions were put in place and football teams could not afford to purchase the kits as there were no games and supporters were in lockdown as well. Machi, one of the shareholders is of the view that the company must be wound up since Directors are not able to make statutory declarations that the company will be able to pay its debts within twelve (12) months. He has come to your office for advice.

Required:

- (a) Advise him on the best winding up mode in this instance. (2 marks)
- (b) Explain to him the grounds for compulsory winding up. (10 marks)
- (c) Explain to him the advantages of dissolution by striking off the register. (3 marks)
- (d) Suppose they wanted to sale their shares to the public, explain to him the contents of a prospectus. (10 marks)

[Total: 25 Marks]

QUESTION FIVE

Greenbell Company Plc is a fast growing company dealing in the manufacture of leather boots. Due to its expansion works, the company needs to raise more capital, and this will be achieved by issuing of new shares through the stock market. You have been hired as investment advisor by Greenbell Company. You have been asked to write a short report on the Greenbell Company which will be shared with all potential shareholders. The following information must be included in the report:

Required:

- (a) Explain the meaning of the letters 'Plc' in the scenario above (2 marks)
- (b) Elaborate the importance of Greenbell issuing a prospectus in the process of issuing new shares. (5 marks)
- (c) Discuss the effect of the omissions or untrue statements on the prospectus issued by this company. (8 marks)
- (d) Other than resignation, explain five (5) other ways through which a Director may vacate office. (10 marks)

[Total: 25 Marks]

END OF PAPER

DA: 12 GOVERNANCE AND COMPANY LAW – SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

It is trite law under section 118 of the Companies Act No 10 of 2017 that remuneration of directors of a company shall be proposed by the board of directors and approved by the shareholders of the company through a special resolution.

Additionally, it is prima facie evident under section 119(1) that the directors may propose additional payments to themselves for bonuses, gratuities and other allowances and this can only be made possible where the shareholders agree through a special resolution. This can also be seen from the case of J.R. Patel & Sons Private Ltd v Commissioner of Income Tax. However notwithstanding the above, it is also important for the Board of Directors of Mekato Travels to note that pursuant to section 119(2), the proposal can only be accepted if it can be established that after distribution, the company may pass the solvency test.

(b)

As per section 119(2), before considering as to whether or not to accept the directors' proposal, the company's shareholders need to decipher as to whether after distribution loss will incur. This is done to safeguard the company from insolvency.

(c) There are three different types of resolution as stated below;

(i) Ordinary resolution

An ordinary resolution is one passed by a bare majority of members present and voting at a general meeting. Any business may be determined by such a resolution except where an extraordinary or special resolution is required by legislation or by the articles. Examples of the use of an ordinary resolution are to adopt the report and accounts of directors and to elect directors.

(ii) Extraordinary Resolution

An extraordinary resolution is one passed by a majority of not less than three-fourths of such members, as being entitled so to do, vote in person or, where proxies are allowed, by proxy. The resolution has to be passed at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary has been duly given.

(iii) Special resolution

A special resolution requires a similar majority as is required for the passing of an extraordinary resolution. It requires not less than twenty-one day's notice, specifying the intention to propose the resolution as a special resolution.

SOLUTION TWO

(a)

A meeting of members of a particular class may be convened:

- (i) By the directors when they think fit; or
- (ii) By two or more members of that class, holding not less than one-twentieth of the total Voting rights of all the members having a right to vote at meetings of that class.
- (iii) The Act provides for the holding of a general meeting of holders of a class of shares for the purpose of varying the rights attached to that class of shares.
- (iv) -The quorum for class meetings is two persons, holding one-third of the issued Shares of the class.

(b) Lifting of the veil of incorporation can be done in two main ways:

- (ii) By the judiciary-a judge can use a tactic to counter fraud, sharp practice, oppression and illegality.
- (iii) By statute-there are a number of ways through which the veil can be lifted by statute, the common one being where the number of members falls below the statutory requirement for more than six months.

(c) Nominal share capital is the total amount of share capital, which the company is authorized to issue by the clause of its memorandum. This total must be divided into shares of fixed amount (called the 'nominal' or 'par' value of the shares).

SOLUTION THREE

(a)

(i)

Insider Dealing is the use of inside information by the company employees/directors to gain from buying or selling shares in a stock market. It is the use of information not yet available to the public, but only those in the company, to manipulate or gain from the trading in shares/stocks, taking advantage of one's position at the company. Insider Dealing is specific and precise information that has not yet been made public, and if made public, it would have a significant effect on the share price (as it is price-sensitive information). For this reason, Insider Dealing is a crime in Zambia as it has the effect of distorting share prices on the market and directors of companies would be absolved with taking advantage of the sensitive information affecting prices for their own benefit at the expense of the company.

(ii)

Companies limited by guarantee are provided for under Section 19 of CAP 388 of 1994. Under such companies, the liability of members is limited to the amount they agree/pledge to contribute towards the company's debts in an event that the company is wound up. Companies limited by guarantee do not have share capital and receive their funds through donations, subscriptions, grants, endowments, etc.

(iii)

Voluntary Disclosure is the giving of information by a company to stakeholders way above what is required by the statute and other regulations. The company decides to give extra information to stakeholders even if the statute or regulations demand for less information. This is done by the company voluntarily to keep stakeholders informed, to maintain a good image with them, to outline its future strategies and direction to stakeholders, allows investors to get the information which may be more beneficial to them than ordinary reporting. Voluntary disclosure may include the company's response to environmental challenges, much more detailed reports, etc.

(b) The Veil of Incorporation can be lifted the courts under the following ways:

- (i) Public Interest – The Court can lift the veil of incorporation to safeguard the country or members of the public, i.e. to safeguard them from enemies and enemy States hiding their real motives through incorporation, *Daimler Co. Ltd. v. Continental Tyre and Rubber Co. (GB) Ltd. 1917*.
- (ii) Evasion of Liability – The Court can lift the veil of incorporation where the company is evading its liabilities such as payment of debts using the separation between the company and its true owners (separate legal identity). It can be lifted to see the real beneficiaries of such evasions and have them punished. The shareholders/owners of these companies are mainly the beneficiaries, where the company records show that the company doesn't have money to pay its debts, but the revenue from the company is used to finance other companies owned by the same shareholders or the revenue is used to finance lavish life styles of its owners, *Re H and Others 1996*.

- (iii) Evasion of Taxes – The Court can lift the veil of incorporation of a company where the owners are evading tax using the company. The purpose of such lifting of the veil is to see where the company resources are being diverted to and charge the culprits with the offence of evading tax, the owners will then, using their own personal resources settle the company's debts, *Unit Construction Co. Ltd, v. Bullock 1960*.
- (iv) Quasi – Partnership (Half Partnerships): - The Court lift the veil of incorporation where the company is run like a partnership, though registered as a limited liability company. In such a case, the Court can order removal of the veil to see the actual relationship between the company and its shareholders (in the actual sense may be operating as partnership without distinction between owners and the business). This is meant to enhance corporate governance as companies, having limited liability must be run in a different way from partnerships. The owners must not run the company as a half partnership and half company, *Ebrahimi v. Westbourne Galleries Ltd 1973*.
- (v) Just and Equitable Ground:- The Court can lift the veil of incorporation when it is just and equitable to do so. This is done for the benefit of stakeholders who may suffer at the hands of 'incorporation'. *Ebrahim v. Westbourne Galleries 1973*
- (vi) To Counter Fraud:- The veil of incorporation may be lifted by the Court to counter or stop fraud being perpetrated by hiding in the veil, e.g. commission of corporate crimes such as fraud, using incorporation, *Kitwe Supermarket v. Southern Africa Trade Limited 2011*.

SOLUTION FOUR

(a)

Voluntary Winding Up. This is a non-court based process by which a company's assets are realized for the benefit of its creditors. A voluntary winding up does not involve court proceedings and is instead instigated by the company passing a resolution . This method is quick and cost effective.

(b)

The following are the grounds for compulsory winding up of a company.

- (i) Failure to pay debts
- (ii) Fraudulent activities
- (iii) Company has ceased business operations
- (iv) Oppression of minorities
- (v) When a company fails insolvency test.

(c)

Dissolution by striking off the register is a process where a company is removed from the official register of companies and is subsequently dissolved. This typically happens when the company is no longer active or carrying on business. The registrar, having reasonable cause to believe the company is inactive, initiates the striking off procedure. The registrar may initiate the process if they believe the company is no longer operating or carrying on business. This can include situations where the company has failed to pay fees, file required documents, or has become dormant. The registrar publishes a notice in the official gazette (or similar publication) of their intention to strike off the company. This notice provides a period for objections from interested parties (like creditors or shareholders). If no valid objections are received, the registrar will strike the company off the register. A further notice is then published, confirming the company's dissolution.

Below are the Consequences:

The company ceases to exist and loses its legal status.

Creditors may still pursue debts, and the company could be reinstated if necessary.

Directors may have responsibilities regarding the company's closure and record-keeping.

The advantages of this mode is that is quick, cost effective and protects the interest of all stakeholders.

(d)

The following are the contents of a prospectus;

Details of the company, such as name, registered office address, and objects.

Details of signatories to the Memorandum and their shareholding particulars.

Details of the directors.

Details of shares offered and the class of the issue as well as voting rights.

SOLUTION FIVE

(a)

Letters PLC stands for "Public Limited Company"

(b)

A public limited company is a limited liability company that offers its securities (stock/shares, bonds/loans, etc.) for sale to the general public, typically through a stock exchange, or directly in the financial markets. Public companies can be either unlisted or listed on a stock exchange depending on their size and local legislation. By issuing a prospectus, a public company may invite the public to subscribe to its shares whereas a private company cannot extend such invitation to the public. This means that new share will be available to the Public for sale.

(c)

Prospectus is mirror of the company. One can estimate the value of the company by seeing the prospectus of a company. So, before the issuing of a share or investing in the company everyone should look the prospectus of the company. Read and understand the prospectus of a company is primary and basic responsibility of everyone who authorize the issue of the company. Everyone should not only read the prospectus but also judge the prospectus. The consequences of issuing a prospectus with untrue statements is as follows; Everyone who is a director at the time the prospectus is issued will be liable. Further, the following will equally be liable; Every person who is a director of the company at the time of the issue of the prospectus; Every person who has authorized himself to be named and is named in the prospectus either as director or as having agreed to become a director either immediately or after an interval of time; Every person who is a promoter of the company and Every other person who has authorized the issue of the prospectus. The prospectus which contains mis-statements or misleading statements, is called Misleading Prospectus. In a nutshell, any person induced to invest in the company by fraudulent statement in a prospectus can sue the company and person responsible for damages. The shares should be first surrendered to the company before the company is sued for damages.

(d)

A company director can be removed from office through several means, including a shareholder vote, board resolution (if allowed by the company's articles), or by court order in cases of misconduct. Common grounds for removal include breaches of fiduciary duty, conflicts of interest, insolvency, and health issues.

Brief explanation on the Grounds for Removal:

(i)

Breaches of Fiduciary Duty:

Directors owe a duty of care and loyalty to the company. Examples of breaches include misuse of company information, failing to disclose conflicts of interest, or acting against the company's best interests.

(ii)

Conflicts of Interest:

Directors must avoid situations where their personal interests conflict with the company's interests.

(iii)

Insolvency:

A director who becomes bankrupt may be removed.

(iv)

Criminal Conviction:

Conviction of a crime, particularly one related to the company's business, can be grounds for removal.

(v)

Health Issues:

If a director's health prevents them from fulfilling their duties, they may be removed.

(vii)

Negligence:

Failure to exercise reasonable care and diligence in managing the company's affairs can lead to removal.

END OF SUGESTED SOLUTIONS