



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 8 SEPTEMBER 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 should appear in a company's statement of changes in equity?

- (1) Total comprehensive income for the year.
- (2) Amortization of capitalized development costs.
- (3) Surplus on revaluation of non-current assets.

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

(2 marks)

- 1.2 The following bank reconciliation statement has been prepared by a Trainee Accountant:

	K'000
Overdraft per bank	7,720
Less: Unpresented cheques	<u>18,320</u>
	10,600
 Add: Outstanding lodgments	 33,380
Cash at bank	<u>43,980</u>

What should be the correct balance per the cash book?

- A. K43,980 balance at bank as stated.
- B. K7,340 balance at bank.
- C. K22,780 balance at bank.
- D. K7,340 overdrawn.

(2 marks)

- 1.3 The IASB's Conceptual Framework for Financial Reporting identifies characteristics which enable financial information faithfully represent what it purports to represent.

Which of the following are examples of those characteristics?

- (1) Accruals.
- (2) Completeness.
- (3) Going concern.
- (4) Neutrality.

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

(2 marks)

- 1.4 The following control account had been prepared by a Trainee Accountant:

<u>Receivables Ledger Control Account</u>			
	K'000		K'000
Opening balance	617,200	Cash	294,400
Credit sales	308,400	Discount allowed	2,800
Cash sales	176,200	Interest charged on overdue accounts	4,800
Contras	9,200	Irrecoverable debts	9,800
		Allowances for receivables	5,600
		Closing balance	<u>793,600</u>
	<u>1,111,000</u>		<u>1,111,000</u>

What should be the closing balance after correcting the errors made in receivables ledger control account above?

- A. K790,400.
- B. K608,600.
- C. K619,000.
- D. K614,200.

(2 marks)

1.5 Which of the following material events after the reporting date and before the financial statements are approved are adjusting events?

- (1) A valuation of property providing evidence of impairment in value at the reporting date.
- (2) Sale of inventory held at the reporting date for less than cost.
- (3) Discovery of fraud error affecting the financial statements.
- (4) The insolvency of a customer with a debt owing at the reporting date which is still outstanding.

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

(2 marks)

1.6 A company values its inventory using the FIFO method. At 1 May 2023 the company had 700 engines in inventory, valued at K190 each. During the year ended 30 April 2024, the following transactions took place:

2023

- 1 July Purchased 500 engine at K220 each.
- 1 November Sold 400 engines for K160,000.

2024

- 1 February Purchased 300 engines at K230 each.
- 15 April Sold 250 engines for K125,000.

What is the value of the company's closing inventory of engines at 30 April 2024?

- A. K188,500.
- B. K195,500.
- C. K166,000.
- D. K106,000.

(2 marks)

- 1.7 Amy is a sole trader and has assets of K1,138,800 and liabilities of K825,680 on 1 January 2024. During the year ended 31 December 2024 she paid K130,000 capital into the business and she paid herself wages of K1,600 per month. At 31 December 2024, Amy had assets of K1,228,260 and liabilities of K739,540.

What is Amy's profit for the year ended 31 December 2024?

- A. K64,800.
- B. K47,200.
- C. K45,600.
- D. K175,600.

(2 marks)

- 1.8 Buumi Company extracted the trial balance for the year ended 31 December 2024. The total of the debits exceeded the credits by K300.

Which of the following could explain the imbalance?

- A. Sales of K300 were omitted from the sales day book.
- B. Returns inward of K150 were extracted to the debit column of the trial balance.
- C. Discounts received of K150 were extracted to the debit column of the trial balance.
- D. The bank ledger account did not agree with the bank statement by a debit of K300.

(2 marks)

- 1.9 At 31 December 2023 a company's capital structure was as follows:

	K
Ordinary share capital (500,000 shares of 25n each)	125,000
Share premium account	100,000

In the year ended 31 December 2024 the company made a rights issue of one (1) share for every two (2) held at K1 per share and this was taken up in full. Later in the year the company made a bonus issue of one (1) share for every five (5) held, using the share premium account for the purpose.

What was the company's capital structure at 31 December 2024?

Ordinary Share Capital	Share Premium Account
A. K450,000	K25,000
B. K225,000	K250,000
C. K225,000	K325,000
D. K212,500	K262,500

(2 marks)

- 1.10 The plant and machinery account (at cost) of a business for the year ended 31 December 2024 was as follows:

Plant and Machinery – Cost			
2024	K	2024	K
1 Jan Balance b/f	480,000	31 Mar Disposal a/c	120,000
30 Jun Purchase of plant	<u>320,000</u>	31 Dec Balance c/f	<u>680,000</u>
	<u>800,000</u>		<u>800,000</u>

The company's policy is to charge depreciation at 20% per year on the straight-line basis with proportion depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 31 December 2024?

- A. K136,000.
- B. K128,000.
- C. K122,000.
- D. K110,000.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Banda and Chanda are in partnership sharing profits and losses in the ratio 3:2 respectively.

The partnership's trial balance as at 31 December 2024 was as follows: -

	Dr K	Cr K
Sales		550,000
Purchases	290,000	
Capital Accounts - Banda		50,000
- Chanda		40,000
Drawings Accounts - Banda	27,000	
- Chanda	25,000	
Distribution costs	8,250	
Administration expenses	25,350	
Bank	10,125	
Cash	2,200	
Depreciation expense	21,400	
Equipment at cost	27,500	
Equipment accumulated depreciation		9,750
Fixtures and fittings at cost	131,500	
Fixtures and fittings accumulated depreciation		13,150
Inventory – 1 January 2024	36,000	
Wages and salaries	52,000	
Trade payables		38,250
Rent	56,500	
VAT		11,675
	<u>712,825</u>	<u>712,825</u>

Additional Information

- (1) Closing inventory at 31 December 2024 of K43,500 includes obsolete items which cost K4,200 which can only be sold at K1,700.
- (2) Accrued administration expenses of K1,500 are to be provided.

- (3) Banda is paid a partnership salary of K25,000 per annum, and interest on capitals is 5% per annum, while 5% interest is also charged on drawings.

Required:

- (a) Prepare a partnership statement of profit or loss account and appropriation account for the partnership for the year ended 31 December 2024. (11½ marks)
- (b) Prepare a partnership statement of financial position as at 31 December 2024. (8½ marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Mrs Nyangu, a sole trader, had been advised that her capital account for the year ended 31 December 2024 was as follows: -

Details	K
Opening balance	23,000
Net profit for the year	<u>11,500</u>
	34,500
Less drawings	<u>(9,800)</u>
Closing balance	<u>24,700</u>

Further investigations revealed that Mrs Nyangu's books contained the following errors:

- (1) A motor vehicle costing K2,200 had been incorrectly debited to inventory purchases account. Depreciation on the vehicle should have been provided at 20% on cost.
- (2) Wages of K200 paid to employees had been incorrectly debited to drawings account.
- (3) Mrs Nyangu had taken K150 of goods from the business for her own use. No entries had been made in the books.
- (4) Cash sales of K1,900 had been omitted from sales Account.
- (5) Rent expense account had been debited with an amount of K100 instead of the correct amount of K1,000.

Required:

- (i) Prepare journal entries to record the necessary corrections (Narrations are not required). (6 marks)
 - (ii) Prepare a statement that shows the adjustments to the net profit. (3½ marks)
 - (iii) Make necessary adjustments to drawings balance and the adjusted capital balance. (2½ marks)
- (b) On examining the books of Macha Ltd, you ascertain that on 1 January 2025, the trade receivables ledger balances were K40,120 debit and K285 credit, and the trade payables ledgers balances on the same date K31,175 credit and K525 debit.
- For the month ended 31 January 2025, the following particulars are available.

	K
Sales	318,640
Purchases	199,870
Cash from trade receivables	276,060
Cash to trade payables	186,535
Discount received	7,375
Discount allowed	11,640
Returns in wards	5,010
Returns outwards	2,675
Irrecoverable debts written off	1,630
Cash received in respect of debit balances in payables ledger	525
Settlement by contra	2,170
Allowances to customers on goods damaged in transit	1,060

On 31 January 2025 the only credit balances in the trade receivables ledger were those outstanding on 1 January 2025, and there were no debit balances in the trade payables ledger.

Required:

- (i) Prepare the trade receivables control account. (4½ marks)
- (ii) Prepare the trade payables control account. (3½ marks)

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

The following list of balances were extracted from Hanyinda's books at 31 December 2024.

	K'000
Sales	200,000
Purchases	80,000
Returns outwards	2,000
Opening inventory	20,000
Closing inventory	10,000
Carriage inwards	4,000
Advertising	9,000
Drawings	18,000
Discount received	23,000
Discount allowed	11,500
Land and building	187,500
Furniture	25,000
Cash at bank	13,000
Receivables	26,000
Payables	18,000
Cash in hand	7,000
Motor car	42,500
Commission received	8,500
Stationery	12,000
Wages and salaries	16,500
Capital	130,500
Mortgage	90,000

Additional Information:

- (1) Depreciation is calculated on all the non-current assets at 20% per annum.
- (2) Wages and salaries amounting to K3,500 are outstanding.
- (3) Prepaid stationery amounted to K150.

You are required to prepare:

- (a) Statement of Profit or Loss Account for the year ended 31 December 2024. (7 marks)

- (b) Statements of Financial Position as at 31 December 2024. (10 marks)
- (c) State three (3) objectives of preparing a cash flow statement. (3 marks)
- [Total: 20 Marks]**

QUESTION FIVE

- (a) At 31 December 2024, the following balances were available from the ledger accounts of MB Ltd, a logistics company.
- Motor vehicles at cost K125,000
 - Accumulated depreciation on 1 January 2024, K74,000

During the year to 31 December 2024, the following events took place.

- (1) A car which had cost K5,000 and which had an accumulated depreciation balance of K3,000 was traded in for a new model car priced at K8,000. A trade in allowance of K1,500 was received. Only the net cost of K6,500 has been entered into the books.
- (2) A car which cost K4,000 and had a written down value of K1,250 was sold for K1,600.
- (3) A delivery Van was sold for K2,500. It had cost K10,000 and a loss of K750 was made on its sale. The proceeds have been credited to the motor vehicle account.
- (4) The depreciation charge for the year is K25,000.

Required:

- (i) Prepare the motor vehicles account at cost. (3½ marks)
 - (ii) Prepare the allowance for depreciation on motor vehicles account. (4½ marks)
 - (iii) Prepare the motor vehicles disposal account. (5 marks)
 - (iv) Show an extract in statement of financial position on the motor vehicles. (2 marks)
- (b) On 1 June 2023, J. Daka's statement of financial position showed that he had paid rates in advance by K600. On 17 November 2023 J. Daka paid his rates for the second half of the rating year to 31 March 2024 of K900. On 13 May 2024, J. Daka paid an instalment

of rates K1,200 which covered the period 1 April to 30 September 2024. J. Daka's financial year ended on 31 May 2024.

Required:

Write up his rates account for the year, showing clearly the amount to be charged to the statement of profit or loss account, and the amount to be carried forward to the next year.

(5 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) BK Ltd's statement of profit or loss for the year ended 31 December, 2024 and statements of financial position as at 31 December 2024 were as follows:

BK Ltd's

Statement of profit or loss for the year ended 31 December, 2024

	K'000
Sales	224,000
Cost of sales	<u>(123,200)</u>
Gross Profit	100,800
Profit on disposal of PPE	2,240
Distribution costs	<u>(47,040)</u>
Administration Expenses	<u>(22,400)</u>
Profit from operations	33,600
Finance Costs	<u>(525)</u>
Profit before tax	33,075
Income tax	<u>(14,420)</u>
Profit for the year	<u>18,655</u>

BK Ltd's

Statements of Financial position as at 31 December

	<u>2024</u>	<u>2023</u>
<u>Non - Current Assets:</u>	<u>K'000</u>	<u>K'000</u>
Property, plant and equipment (PPE) at valuation	139,450	106,700
<u>Current Assets:</u>		
Inventory	29,570	24,640
Trade receivables	22,400	26,880
Cash and cash equivalents	2,185	-
	<u>54,155</u>	<u>51,520</u>
Total Assets	<u>193,605</u>	<u>158,220</u>

Equity and Liabilities**Equity**

Share capital	22,500	15,000
Share premium	15,000	10,000
Retained earnings	<u>121,865</u>	<u>103,210</u>
	<u>159,365</u>	<u>128,210</u>

Non – Current Liabilities

Long-term loans	7,500	2,500
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Current Liabilities

Trade payables	12,320	22,175
Tax liability	14,420	4,435
Bank overdraft	<u>-</u>	<u>900</u>
	<u>26,740</u>	<u>27,510</u>
Total Equity and Liabilities	<u>193,605</u>	<u>158,220</u>

Additional information

- (1) The total depreciation charge for the year was K22,290 000.
- (2) During the year, Property costing K4,390,000 with an accumulated depreciation of K1,670,000 was sold.
- (3) All sales and purchases were on credit. Other expenses were paid in cash.

Required:

- (i) Prepare a statement of cash flows for BK Ltd for the year ended 31 December, 2024 in accordance with the requirement of 1AS 7, using the indirect method. (14 marks)
 - (ii) State what BK Ltd's net cash flows from operations is and briefly discuss the importance of the *net cash flows generated from operations figure*, with specific reference to BK Ltd's statement of cash flows. (1 mark)
- (b) At the close of business on 31 December, 2024, John Banda's bank balance according to his cash book was K15,740. This does not agree with the balance at bank as shown by the Bank Statement. The following items account for the entire specified difference:
- (i) One of Banda's receivables had paid the sum of K1,460 direct into Banda's banking account. This had not been entered in the cash book although it was recorded in the Bank Statement on 30 December, 2024.

- (ii) A bankers standing order for a trade subscription of K500 was paid by the bank during December, 2024 but the transaction had not yet been shown in JB Lt's cash book.
- (iii) Cheques drawn by J. Banda payable to trade suppliers and not yet presented amounted to K2,540 by the close of business on 31 December, 2024.
- (iv) The sum of K2,240 was paid into his banking account by Banda on 30 December, 2024 but this item did not appear on his Bank statement until after that date.

Required:

Prepare a statement that reconciles John Banda's bank balance as at 31 December, 2024.

(5 marks)

[Total: 20 Marks]

END OF PAPER

DA1 FINANCIAL ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) **Banda and Chanda's statement of profit or loss and appropriation account for the year ended 31 December 2024.**

	K	K
Sales		550 000
Opening Inventory	36 000	
Purchases	<u>290 000</u>	
	326 000	
Closing Inventory (43,500 – 2,500)	<u>(41 000)</u>	<u>(285 000)</u>
Gross Profit		265 000
Less: Depreciation	21 400	
Distribution costs	8 250	
Administration expenses (25,350 + 1,500)	26 850	
Wages and salaries	52 000	
Rent	<u>56 500</u>	<u>(165 000)</u>
Net Profit		100 000
Add interest on drawings - Banda (5% x 27,000)	1 350	
- Chanda (5% x 25,000)	<u>1 250</u>	<u>2 600</u>
		102 600
Less: Partnership salary - Banda		<u>(25 000)</u>
		77 600
Interest on capitals - Banda (5% x 50,000)	2 500	
- Chanda (5% x 40,000)	<u>2 000</u>	<u>(4 500)</u>
		<u>73 100</u>
Share of Profit - Banda $\frac{3}{5}$ x 73,100	43 860	
- Chanda $\frac{2}{5}$ x 73,100	<u>29 240</u>	<u>73 100</u>

(b) **Banda and Chanda's**

Statement of financial position as at 31 December 2024

Non-Current Assets	K	K
Equipment (27,500 – 9,750)	17 750	
Fixtures and fittings (131,500 – 13,150)	<u>118 350</u>	136 100
Current Assets		
Inventory (43,500 – 2,500 (stock loss))	41 000	
Bank	10 125	
Cash	<u>2 200</u>	<u>53 325</u>

189 425

Financed By

Capitals	- Banda	50 000	
	- Chanda	<u>40 000</u>	90 000
Current Accounts	- Banda (w1)	43 010	
	- Chanda (w1)	<u>4 990</u>	48 000

Current Liabilities

Trade Payables	38 250	
VAT	11 675	
Accrued Advertising expenses	<u>1 500</u>	<u>51 425</u>

189 425

Working 1

Current Account

			Banda	Chanda			
			K	K			
Interest on Drawings			1 350	1 250	Interest on capitals	2 500	2 000
Drawings			27 000	25 000	Partnership salary	25 000	-
Balances	c/d		<u>43 010</u>	<u>4 990</u>	Share of profits	<u>43 860</u>	<u>29 240</u>
			<u>71 360</u>	<u>31 240</u>		<u>71 360</u>	<u>31 240</u>

SOLUTION THREE

(a) (i) **Journal entries**

		Dr K	Cr K
1	Motor vehicles	2 200	
	Purchases		2 200
2	Depreciation expenses	440	
	Allowance for depreciation		440
3	Wages	200	
	Drawings		200
4	Drawings	150	
	Purchases		150
5	Suspense	1 900	
	Sales		1 900
6	Rent	900	
	Suspense		900

(ii) **Net Profit adjustment statement**

	K	K
Unadjusted balance		11 500
Add:- Motor Vehicle expenses	2 200	
Drawings	150	
Sales under cast	<u>1 900</u>	<u>4 250</u>
		15 750
Less: Depreciation expense	440	
Wages	200	
Rent	<u>900</u>	<u>(1 540)</u>
Adjusted Profit		<u>14 210</u>

(iii)

Capital adjustment statement

	K
Unadjusted balance	23 000
Add net profit (part II)	14 210
Less drawings (9 800+150-200)	<u>(9 750)</u>
	<u>27 460</u>

b (i) **Trade receivables control account**

1 Jan. Balance	b/f	40 120	1 Jan. Balance	b/f	285
31 Jan. Sales		318 640	31 Jan. Bank		276 060
31 Jan. Balance	c/d	285	31 Jan. Discount allowed		11 640
			31 Jan. Returns inwards		5 010

	31 Jan. Irrecoverable Debts	1 630
	31 Jan. Contra set off	2 170
	31 Jan Allowances	1 060
	31 Jan. Balance	c/d <u>61 190</u>
<u>359 045</u>		<u>359 045</u>

(ii)

Trade payables control account

1 Jan. Balance	b/f	525	1 Jan. Balance	b/f	31 175
31 Jan. Bank		186 535	31 Jan. Purchases		199 870
31 Jan. Discount Received		7 375	31 Jan. Bank		525
31 Jan. Returns outwards		2 675			
31 Jan. Contra set off		2 170			
31 Jan. Balance	c/d	<u>32 290</u>			
		<u>231 570</u>			<u>231 570</u>

SOLUTION FOUR

(a) **Hanyinda**

Statement of Profit and Loss for the year 31 December 2024

	K'000	K'000	K'000
Sales			200,000
Cost of goods:			
Opening inventory		20,000	
Purchases	80,000		
Less: Returns outwards	<u>(2,000)</u>		
Net purchases	78,000		
Add: Carriage inwards	<u>4,000</u>		
Total purchases		<u>82,000</u>	
Total inventory		102,000	
Less: Closing inventory		<u>(10,000)</u>	
Cost of goods sold			<u>(92,000)</u>
Gross profit			108,000
Add: Income			
Discount received		23,000	
Commission received		<u>8,500</u>	
Total income			<u>31,500</u>
Total Gross profit			139,500
Less Expenses:			
Depreciation(37,500+5,000+8,500)		51,000	
Discount allowed		11,500	
Advertising		9,000	
Stationery (12,000 – 150)		11,850	
Wages and salaries (16,500+3,500)		<u>20,000</u>	
Total expenses			<u>(103,350)</u>
Net profit			<u>36,150</u>

(b) **Hanyinda**

Statement of financial position as at 31 December 2024

	K'000	K'000	K'000
Assets:			
Non-Current Assets:	Cost	Dep'n	NBV
Land and Building	187,500	37,500	150,000
Furniture	25,000	5,000	20,000
Motor Car	<u>42,500</u>	<u>8,500</u>	<u>34,000</u>
	<u>255,000</u>	<u>51,000</u>	204,000
Current Assets:			
Closing inventory		10,000	
Receivables		26,000	
Prepaid stationery		150	
Cash at bank		13,000	
Cash in hand		<u>7,000</u>	
			<u>56,150</u>
			<u>260,150</u>
Financed by:			
Capital		130,500	
Add: Net profit		<u>36,150</u>	
		166,650	
Less: Drawings		<u>(18,000)</u>	
			148,650
Add: Long term Liabilities:			
Mortgage			90,000
Current Liabilities:			
Payables			18,000
Accrual (wages and salaries)			<u>3,500</u>
			<u>21,500</u>
			<u>260,150</u>

(c) **Objectives of cash flow statements**

1. provide critical information on an organization by assessing solvency and liquidity positions when predicting the future:
2. eliminate all effects of different accounting methods and improve the comparability of different firm's operating performances.
3. provide data to assess equity, liabilities and asset changes.
4. lead to the probability of assuming, timing, and amount of future cash flows when used as a basis for trends.
5. aid in the planning of financial activities in the short term.
6. Enhance or support efficient cash management.
7. aid in the development of cash budget and sound business policies.

SOLUTION FIVE

(a) (i)

Motor Vehicles Account

		K		K
Balance	b/f	125 000	Disposal (1)	5 000
Disposal (1)		1 500	Disposal (2)	4 000
Bank (3) error		2 500	Disposal (3)	10 000
			Balance	c/d 110 000
		<u>129 000</u>		<u>129 000</u>

(ii)

Allowance for Depreciation on MV Account

		K		K
Disposal (1)		3 000	Balance	b/f 74 000
Disposal (2) (4000-1250)		2 750	Depreciation expense	25 000
Disposal(3) (10000-(2500+750))		6 750		
Balance	c/d	86 500		
		<u>99 000</u>		<u>99 000</u>

(iii)

Motor Vehicles Disposal Account

	K		K
Motor Vehicle (1)	5 000	Accumulated Depn (1)	3 000
Motor vehicles (2)	4 000	Moto Vehicles – Part exchange	1 500
Motor vehicles (3)	10 000	Accumulated Depn (2)	2 750
		Bank	1 600
		Accumulated Depn (3)	6 750
		Bank (Motor vehicles)	2 500
		Net loss on Disposal - SPL	900
	<u>19 000</u>		<u>19 000</u>

(iv) Statement of financial position (extract only).

	Cost	Accum'd Depn	NBV
Non-Current ssets			
Motor vehicles	K110 000	K86 500	K23 500

(b)

Rates expenses account

		K		K
June 1 Balance	b/f	600	SPL-Bal. fig	1 900

Nov. 17 Bank	900	Balance (4/6 x 1,200)	c/d	800
May 13 Bank	1 200			
	<u>2 700</u>			<u>2 700</u>

SOLUTION SIX

(a)(i) BK Ltd's

Statement of cash flows for the year ended 31st December, 2024

	K'000	K'000
Cash flows from operating Activities		
Profit before tax		33 075
Adjust for: Depreciation	22 290	
Profit on Disposal of PPE	(2 240)	
Finance Costs	<u>525</u>	<u>20 575</u>
Movements in working capital		
Increase in inventories (29570 – 24640)	(4 930)	
Decrease in Receivables (22400 – 26880)	4 480	
Decrease in Payables (12320 – 22175)	(9 855)	<u>(10 305)</u>
	43 345	
Cash Generated from other operations		
Tax paid (4,435 + 14,420 – 14,420)	(4 435)	
Finance Costs	(525)	<u>(4 960)</u>
Net cash inflows from operating activities		38 385
Cash flows from investing Activities		
Payments to acquire PPE (W1)	(57 760)	
Proceeds from sale of PPE (W2)	<u>4 960</u>	
Net cash outflows from investing Activities	(52 800)	
Cash flows from financing Activities		
Issue of new shares (37 500 – 25 000)	12 500	
New Loan notes (7 500 – 2 500)	<u>5 000</u>	
Net cash inflows from financing Activities		<u>17 500</u>
Net increase in cash and cash equivalents		3 085

Opening Balance	(900)
Closing Balance	<u>2 185</u>

(a)(ii) BK Ltd's cash generated from operations is a positive figure of K38,385. This figure is important because it informs us that BK Ltd is able to generate sufficient, positive cash flows from its normal operations. This means survival and ability to meet operational cash needs.

Workings

1. Non – Current Asset Account

	K'000		K'000
Balance ^{b/f}	106 700	Depreciation	22 290
Bank – (Bal. fig)	57 760	Disposal (4390 – 1 670)	2 720
Balance ^{b/f}			<u>139 450</u>
	<u>164 460</u>		<u>164 460</u>

2. Total Receipt	K'000
Cost	4 390
Accumulated Dep'n	<u>1 670</u>
Net book value	2 720
Profit on Disposal	<u>2 240</u>
Total Proceeds	<u>4 960</u>

(b) Bank Reconciliation Statement

Adjusted cash book Balance (15740 +1460 – 500)	16 700
Add unpresented cheques	<u>2 540</u>
	19 240
Less outstanding lodgements	<u>(2 240)</u>
Balance as per Bank statement	<u>17 000</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 10 SEPTEMBER 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 The number of days (X) a builder will take to construct a house is shown in the following probability distribution table:

X	4	5	6	7
$P(X)$	0.13	0.24	0.55	0.08

Find the expected value of the number of days it will take to construct the house.

- A. 5.58
- B. 7
- C. 4.5
- D. 22

(2 marks)

- 1.2 Which of the following statement is true about the collection of data?

- A. The usage of data helps to save both time and money.
- B. The usage of secondary data helps to save both time and money.
- C. The usage of primary data helps to save both time and money.
- D. The usage of information helps to save both time and money.

(2 marks)

- 1.3 The time required to finish this examination paper can be considered to be:

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

(2 marks)

- 1.4 A sum, when invested at 20% simple interest per annum, amounts to K2,880 after three (3) years. What is the simple interest (in K) on the same sum at the same rate in two (2) years?

A. K2,880
B. K360
C. K1,440
D. K720

(2 marks)

- 1.5 An investor intends to deposit money in an account that offers 8% annual interest rate to get a future value of K10,000 after five (5) years compounded annually. How much should he deposit?

A. K10,000
B. K6,807.35
C. K14,690.00
D. K3,192.65

(2 marks)

- 1.6 Company X produces 10% defective products, Company Y produces 20% defective products and Company Z produces 5% defective products. If choosing a company is an equally likely event, then find the probability that the product chosen is defective.

A. 0.11
B. 0.21
C. 0.22
D. 0.12

(2 marks)

- 1.7 If the annual rate of inflation is 7%, find the price of a good at the end of a year if its price at the beginning of the year is K200.

A. K214
B. K340
C. K186
D. K118

(2 marks)

1.8 The standard deviation for 16, 23, 28, 10, 22, 15, 10 is:

- A. 6.43
- B. 6.34
- C. 6.30
- D. 6.40

(2 marks)

1.9 In the regression equation $y = a + bx$, the x variable is called

- A. Continuous variable.
- B. Independent variable.
- C. Dependent variable.
- D. None of the above.

(2 marks)

1.10 A company manufactures two products X and Y and the profit contribution is K100 and K200 per unit respectively. They require two machines A and B. The following table explain the constraints.

Machine	Time in hours		Total available hours
	X	Y	
A	5	1.5	400
B	1	1	150

Determine the quantity X and Y to be produced to maximize profit.

- A. (50, 60)
- B. (0, 150)
- C. (100, 0)
- D. (100, 50)

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

- (a) A business man has three (3) alternatives open to him each of which can be followed by any of the three possible events. The conditional pay-offs for each action-event combination are given below:

	Pay-offs (Conditional events)		
Alternative	A	B	C
X	40	80	70
Y	60	50	90
Z	50	55	100

Required:

Determine which alternative the businessman should choose using:

- (i) Maximax criterion. (4 marks)
 - (iii) Minimax regret rule. (6 marks)
- (b) The average price of gas for cooking by dealers is K60 with a standard deviation of K6.5. It is noted that the data that was used is normally distributed.

Required:

Calculate the probability that the price of the gas:

- (i) Does not exceed K60. (3 marks)
- (ii) Is more than K65. (3 marks)
- (iii) Between K50 and K70. (4 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Given the following cash flow projections based on a required rate of 12.5%

Year	0	1	2	3	4
Cash flow	(15,000)	40,000	52,500	60,000	67,000

Required:

- (i) Calculate the net present value (NPV). (7 marks)
 - (ii) Is this a good project for the business to accept? Why or why not? (2 marks)
- (b) A company estimates the net profit on a new product, it is launching, to be K3 million during first year, if it is 'successful', K1 million, if it is 'moderately successful', a loss of K1 million if it is 'unsuccessful'.

The company assigns the following probabilities to first year prospects for the product: Successful; 0.20, moderately successful 0.35, and unsuccessful 0.45.

Required:

- (i) What is the expected value of the first year net profit for the product? (3 marks)
- (ii) What is the standard deviation of the first year net profit for the product?
(5 marks)
- (iii) What is the expected value of net profit if there is a fixed cost of K0.3 million, whatever the success status is assuming that the next profit follows a linear function?
(3 marks)

[Total: 20 Marks]

QUESTION FOUR

The following table shows the weekly wages (in Kwacha) of each of the 100 cotton factory workers in Kabwe, Central province of Zambia:

Mark (x)	Frequency
$500 < x \leq 600$	10
$600 < x \leq 700$	16
$700 < x \leq 800$	15
$800 < x \leq 900$	26
$900 < x \leq 1000$	25
$1000 < x \leq 1100$	8

Required:

- (a) Calculate the mean wage of the data. (5 marks)
- (b) Calculate the median wage of the data. (3 marks)
- (c) Calculate the modal wage of the data. (3 marks)
- (d) Calculate the standard deviation of the data. (6 marks)
- (e) Comment on the distribution of the data. (3 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) A chain of department stores wants to examine the effectiveness of its part-time employees. Data on the sales as well as the number of hours worked during a one (1)-week period was collected for twelve (12) randomly selected part-time sales persons as shown in the table below.

Person	1	2	3	4	5	6	7	8	9	10	11	12
Number of hours worked (x)	61	39	70	63	83	75	48	72	54	22	67	60
Number of sales (y)	83	83	76	77	89	74	48	78	76	51	63	79

Required:

- (i) Write down the regression equation relating the number of sales (y) to the number of hours worked (x). (8 marks)
- (ii) Compute and interpret the coefficient of correlation. (3 marks)
- (iii) What is the number of sales do you predict for an employee who has worked for 123 hours? (2 marks)
- (b) Service is an important factor in making a business profitable. For a sample of 25 tables of customers, the Manager of a restaurant kept track of how long they waited from arrival to receipt of their main course. The following waiting times (minutes) were recorded.

34	24	43	56	74	45	23	43	56	67	30	19	36
32	65	36	24	54	39	43	67	54	32	18	97	

Required:

- (i) Compute the five (5)-number summary of the data. (4 marks)
- (ii) Comment on the shape of the distributing and interpret it. (3 marks)

[Total: 20 Marks]

QUESTION SIX

- (a) Personal savings, as a percentage of personal disposable income over a three (3) year period (2002 – 2004), is given below:

	Q_1	Q_2	Q_3	Q_4
2002	9.6	8.1	7.5	5.3
2003	12.1	7.1	7.1	5.7
2004	11.4	8.2	7.8	6.7

Required:

Using the multiplicative model and the method of moving averages:

- (i) Obtain the trend using four (4) moving average. (6 marks)
 - (ii) Determine the average seasonal variations. (3 marks)
 - (iii) Interpret the average seasonal variations obtained in (ii) above. (2 marks)
 - (iv) Forecast the percentage of personal disposable income in the third quarter of 2005. (3 marks)
- (b) Mr. Tembo a university qualified member and his wife a professional qualified member attended an interview for two (2) vacancies for the post of college Finance Officer at a private university. The probability of the interview panel selecting the man is $\frac{1}{7}$ and that of the wife is $\frac{1}{5}$.

Required:

Assuming that the event of selecting a man and selecting his wife are independent, determine the probability that:

- (i) Both of them will be selected (2 marks)
- (ii) Only one (1) of them will be selected (2 marks)
- (iii) None of them will be selected (2 marks)

[Total: 20 Marks]

END OF PAPER

DA 2 – QUANTITATIVE ANALYSIS

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i)

	Pay-offs (Conditional events)			
Alternative	A	A	A	MAXIMUM
X	40	80	70	80
Y	60	50	90	90
Z	50	55	100	100

Under the Maximax criteria, Z must be chosen

(ii)

	Pay-offs (Conditional events)		
Alternative	A	A	A
X	40	80	70
Y	60	50	90
Z	50	55	100
MAXIMUM	60	80	100

Regret table

	Pay-offs (Conditional events)			
Alternative	A	A	A	maximum
X	20	0	30	30
Y	0	30	10	30
Z	10	25	0	25

Under the Minimax regret rule, Z must be chosen

$$(b) (i) P(X < 60) = P\left(Z < \frac{60-60}{6.5}\right)$$

$$= P(Z < 0) = 0.5$$

$$(ii) P(X > 65) = P\left(Z > \frac{65-60}{6.5}\right)$$

$$= P(Z > 0.769) = 0.2206$$

$$\begin{aligned}
 \text{(iii) } P(50 < X < 70) &= P\left(\frac{50-60}{6.5} < Z < \frac{70-60}{6.5}\right) \\
 &= P(-1.54 < Z < 1.54) = 1 - (0.0618 + 0.0618) = 1 - 0.1236 = 0.8764
 \end{aligned}$$

SOLUTION THREE

(a) (i)

$$NPV = -15 + 4(1.125)^{-1} + 5.25(1.125)^{-2} + 6(1.125)^{-3} + 6.7(1.125)^{-4}$$

$$NPV = -15 + 3.556 + 4.148 + 4.214 + 4.183$$

$$NPV = 1.101$$

(ii) Since $NPV > 0$ the project is good for business to accept.

(b)

Let X be net profit on the new product in the 1st year (K'million). Given that

x	3	1	-1
$P(x)$	0.2	0.35	0.45

(i) Expected net profit, $E(X) = \sum xp(x)$

$$E(X) = \sum XP(X) = 3(0.2) + 1(0.35) + (-1)(0.45) = 0.5 \text{ Million}$$

(ii) Standard deviation = $\sqrt{\text{variance}}$

$$Var(X) = E(X^2) - [E(X)]^2$$

$$E(X^2) = 3^2(0.2) + 1^2(0.35) + (-1)^2(0.45) = 2.6$$

Therefore,

$$Var(X) = 2.6 - (0.5)^2 = 2.35$$

$$\text{Standard deviation} = \sqrt{\text{variance}} = \sqrt{2.35} \approx 1.53 \text{ million}$$

(iii) If there is a fixed cost of K 0.3 Million, then the expected net profit is:

$$E(X - 0.3) = E(X) - 0.3 = 0.5 - 0.3 = 0.2 \text{ Million}$$

SOLUTION FOUR

Summary statistics table:

Class Limits	X_i	f	fx	F	$fi(X_i - \bar{x})^2$
500 - 600	550	10	5500	10	696960
600 - 700	650	16	10400	26	430336
700 - 800	750	15	11250	41	61440
800 - 900	850	26	22100	67	33696
900 - 1000	950	25	23750	92	462400
1000 - 1100	1050	8	8400	100	445568
Totals		100	81400		2130400

(a) **Mean:**

$$\frac{1}{n} \sum fx = \frac{1}{100} (81400) = 814$$

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

$$\text{Median} = L_k + \frac{w}{n_k} \left(\frac{n}{2} - cf_{k-1} \right), \quad k = 4$$

$$800 + \frac{100}{26} \left(\frac{100}{2} - 41 \right) = 834.6$$

(c) **Mode:**

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

$$Mo = 800 + 100 \left(\frac{11}{11+1} \right) = 891.7$$

Note:

$$d_1 = n_k - n_{k-1} = 26 - 15 = 11$$

$$d_2 = n_k - n_{k+1} = 26 - 25 = 1$$

(d) **Standard deviation**

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

$$s = \sqrt{\frac{2130400}{100 - 1}} = 146.7$$

(e) Coefficient of Skewness

$$S_k = \frac{3(M_d - \bar{X})}{S} = \frac{3(834.6 - 814)}{146.7} = 0.42$$

The data is skewed to the right.

SOLUTION FIVE

(a)

i.

x	y	x^2	y^2	xy
61	83	3721	6889	5063
39	83	1521	3844	2418
70	76	4900	5776	5320
63	77	3969	5929	4851
83	89	6889	7921	7387
75	74	5625	5476	5550
48	48	2304	2304	2304
72	78	5184	6084	5616
54	76	2916	5776	4104
22	51	484	2601	1122
67	63	4489	3969	4221
60	79	3600	6241	4740
$\sum x = 714$	$\sum y = 856$	$\sum x^2 = 45,602$	$\sum y^2 = 62,810$	$\sum xy = 52,696$

$$\bar{x} = \frac{\sum x}{n} = \frac{714}{12} = 59.5; \quad \bar{y} = \frac{\sum y}{n} = \frac{856}{12} = 71.33$$

$$SS_{xx} = \sum x^2 - \frac{(\sum x)^2}{n} = 45,602 - \frac{714^2}{12} = 3,119$$

$$SS_{yy} = \sum y^2 - \frac{(\sum y)^2}{n} = 62,810 - \frac{856^2}{12} = 1,748.67$$

$$SS_{xy} = \sum xy - \frac{(\sum x)(\sum y)}{n} = 52,696 - \frac{(714)(856)}{12} = 1,764$$

$$\hat{\beta}_1 = \frac{SS_{xy}}{SS_{xx}} = \frac{1764}{3119} = 0.566$$

$$\hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x} = 71.33 - 0.566(59.5) = 37.65$$

Therefore, the regression equation is

$$\hat{y} = \hat{\beta}_0 + \hat{\beta}_1 x$$

$$\hat{y} = 37.65 + 0.566x$$

ii. The coefficient of correlation is given by

$$r = \frac{SS_{xy}}{\sqrt{SS_{xx}SS_{yy}}} = \frac{1764}{\sqrt{3119 \times 1746.67}} = 0.76$$

Interpretation:

There is a 76% strength between the number of sales made by a part-time employee and the number of hours worked.

iii. $y = 37.65 + 0.566x$

$$y = 37.65 + 0.566(123)$$

$$y = 107.27$$

(b)

i. The five – number summary gives the lower quartile Q_1 , the median Q_2 , the upper quartile Q_3 , the minimum value and maximum value.

Re – arranging the data in numerical order gives:

18, 19, 23, 24, 24, 30, 32, 32, 34, 36, 36, 36, 39, 43, 43, 43, 45, 54, 54, 56, 56, 65, 67, 67, 97

$$\begin{aligned}\text{Lower quartile}(Q_1) &= \frac{1}{4}(n+1)^{th} \\ &= \frac{1}{4}(25+1)^{th} \text{ value} \\ &= 6.5 \\ &= 7^{th} \text{ value}\end{aligned}$$

$$\therefore Q_1 = 32$$

$$\begin{aligned}\text{Median } (Q_2) &= \frac{1}{2}(n+1)^{th} \text{ value} \\ &= \frac{1}{2}(25+1)^{th} \text{ value} \\ &= 13^{th} \text{ value}\end{aligned}$$

$$\therefore Q_2 = 39$$

$$\text{Upper quartile}(Q_3) = \frac{3}{4}(n+1)^{th} \text{ value}$$

$$= \frac{3}{4}(25+1)^{th} \text{ value}$$

$$= 21^{th} \text{ value}$$

$$\therefore Q_3 = 56$$

Minimum value = 18 , Maximum value = 97

$$Q_2 - Q_1 = 39 - 32 = 7$$

$$\therefore Q_3 - Q_2 > Q_2 - Q_1$$

$$17 > 7$$

- ii. The distribution has a positive skew or is skewed to the right. In this context, the interquartile range (24 Minutes) is probably wider than desirable, and efforts should be made to make services times more consistent.

SOLUTION SIX

(a)

i. Using 4 moving average

Year	Quarter	Actual Data (Y)	4 Q Moving Totals X	4 Q Moving average $\frac{X}{4}$	2 Central Average (Trend)	$\frac{Y}{T}$
2002	1	9.6				
	2	8.1	30.5	7.625	7.938	0.945
	3	7.5	33	8.25	8.125	0.652
	4	5.3	32	8	7.95	1.522
2003	1	12.1	31.6	7.9	7.95	0.893
	2	7.1	32	8	7.925	0.896
	3	7.1	31.4	7.85	7.975	0.715
	4	5.7	32.4	8.1	8.188	1.392
2004	1	11.4	33.1	8.275	8.4	0.976
	2	8.2	34.1	8.525		
	3	7.8				
	4	6.7				

ii. Seasonal variations

Year	Q_1	Q_2	Q_3	Q_4
2002			0.945	0.652
2003	1.522	0.893	0.896	0.715
2004	1.392	0.976		
Total	2.914	1.869	1.841	1.367
Average Seasonal variations	1.457 =1.5	0.9345 =0.9	0.9205 =0.9	0.6835 =0.7

iii. Interpretation of the seasonal variations

Quarter	Interpretation
1	The seasonal component for this quarter is 50% above the data value
2	The seasonal component for this quarter is 10% below the data value
3	The seasonal component for this quarter is 10% below data value
4	The seasonal component for this quarter is 30% below data value

iv. Forecasting = *trend* $\times$ *corresponding seasonal variation*

$$\begin{aligned}
 \text{Change in trend} &= \frac{\text{highest trend} - \text{lowest trend}}{\text{Interval between highest and lowest trend}} \\
 &= \frac{8.4 - 7.925}{10 - 7} \\
 &= 0.158
 \end{aligned}$$

$$\text{The trend for third quarter} = 8.4 + 5(0.158) = 9.19$$

$$\text{Seasonal variation for third quarter} = 0.9$$

$$\text{Forecast sales} = 9.19 \times 0.9 = 8.27$$

(b) Let M = an event of selecting a man

W = an event of selecting his wife

We are given,

$$P(M) = \frac{1}{7}, P(M^c) = 1 - \frac{1}{7} = \frac{6}{7}$$

$$P(W) = \frac{1}{5}, P(W^c) = 1 - \frac{1}{5} = \frac{4}{5}$$

i. The probability of both being selected is

$$P(M \cap W) = P(M) \times P(W)$$

$$= \frac{1}{7} \times \frac{1}{5}$$

$$= \frac{1}{35}$$

ii. The probability of only one been selected is given by

$$P(\text{only one selected}) = P(M \cap W^c) \cup P(M^c \cap W)$$

$$= \left(\frac{1}{7} \times \frac{4}{5} \right) + \left(\frac{6}{7} \times \frac{1}{5} \right)$$

$$= \frac{10}{35}$$

iii. The probability that none is selected is given by

$$P(\text{none is selected}) = P(M^c) \times P(W^c)$$

$$= \frac{6}{7} \times \frac{4}{5}$$

$$= \frac{24}{35}$$

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 9 SEPTEMBER 2025

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

INSTRUCTIONS TO CANDIDATES

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Any two (2) of three (3) optional questions on Macroeconomics.
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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

- 1.1 Identify which of the following is **NOT** an example of 'invisible item' under Current Account of the Balance of Payments transactions:

- A. Air and sea transport.
- B. Postal and courier services.
- C. Education-related travel.
- D. Merchandise linked transactions.

(2 marks)

- 1.2 From National Income Accounting, subtracting an allowance for depreciation of fixed capital from gross domestic product yields.....

- A. Real GDP.
- B. Nominal GDP.
- C. National income.
- D. Net national product.

(2 marks)

- 1.3 In a closed economy with no Government, which of the following will occur when the economy is in equilibrium?

- A. $S = I$
- B. $C = Y$
- C. $S = C$
- D. $AE = C + I + S$

(2 marks)

- 1.4 Which one of the following is a leakage from the circular flow model of income?

- A. An increase in consumption spending.
- B. Transfer payments made by the Government.
- C. An increase in imports.
- D. An increase in investment spending.

(2 marks)

1.5 Inflation imposes especially large burdens on people who:

- A. Receive social security benefits.
- B. Owe huge fixed interest rate mortgages on their houses.
- C. Work under union contracts with cost of living adjustments built in.
- D. Rely on fixed income for their retirement.

(2 marks)

1.6 Which of the following items is NOT included when computing narrow money supply (M1)?

- A. Coins in circulation.
- B. Notes in circulation.
- C. Savings accounts.
- D. Current accounts.

(2 marks)

1.7 If a bank has total deposits of K100,000 with K10,000 set aside to meet reserve requirements of the Bank of Zambia, its required reserve ratio is.....

- A. K10,000
- B. 10%
- C. 0.1%
- D. 1%

(2 marks)

1.8 Which of the following market structures is more likened to a game of chase in its pricing strategy?

- A. Monopoly.
- B. Oligopoly.
- C. Monopolistic competition.
- D. Perfect competition.

(2 marks)

1.9is not one of the reasons why countries engage in international trade.

- A. Differences in resource endowments.
- B. Differences in climatic conditions.
- C. Differences in productivity of workers.
- D. Long distance.

(2 marks)

1.10 The short run is best described as.....

- A. time period when one factor of production is fixed.
- B. time period when all factors of production are variable.
- C. time period when there are no variable costs.
- D. time period there are no fixed costs.

(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 THREE (3) from (2-4)

QUESTION TWO

- (a) The data in the table below shows the demand and supply for solar lamps at various prices.

Price (ZMW)	Quantity demanded	Quantity supplied
10	30	180
9	60	160
8	90	140
7	120	120
6	150	100
5	180	80
4	210	60
3	240	40

- (i) Discuss any four (4) determinants of supply of solar lamps. (8 marks)
- (ii) Illustrate with the use of a diagram what would happen if the price is set at K10 and at K4. (6 marks)
- (b) Explain any three (3) factors of production. (6 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Consider the following cost data for a perfectly competitive firm in the short run:

Output per week(units)	Total fixed cost (TFC)	Total cost variable (TVC)
1	100	120
2	100	200
3	100	290
4	100	430
5	100	590
6	100	820

Required:

If the market price is K150,

- (i) How many units should this firm produce in order to earn maximum profits in the short run? (4 marks)
 - (ii) Determine the exact amount of economic profit or loss. (4 marks)
 - (iii) At how many units does the firm breakeven? (4 marks)
- (b) Consider the statement: "when marginal revenue is equal to marginal cost, total revenue is equal to total cost, and the firm makes zero profits". Do you agree or disagree? Explain your answer. (4 marks)
- (c) Explain the reason why economists distinguish between fixed costs and variable costs. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Market structures are grouped under perfect competition, monopolistic competition, oligopoly, duopoly and monopoly. Outline any four (4) characteristics that are used to distinguish monopolistic competition from monopolies. (8 marks)
- (b) Explain why the demand curve under monopoly is downward sloping. (4 marks)
- (c) Many entrepreneurs in Zambia are being encouraged to convert their small unregistered businesses into a limited liability company.

Required:

Outline four (4) disadvantages of a limited liability form of business organisation?

(8 marks)

[Total: 20 Marks]

2. MACROECONOMICS

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

QUESTION FIVE

- (a) Describe consumption function. (3 marks)
- (b) Explain why the marginal propensity to consume (MPC) and the marginal propensity to save (MPS) must always add up to one. (4 marks)
- (c) Suppose a country's consumption function has the formula $C = 1,000 + 0.8Y$ where Y is the change in national income, and injections are 750.
 - (i) Calculate the equilibrium national income. (5 marks)
 - (ii) Determine the multiplier. (3 marks)
- (d) One of the limitations of national income accounting is related to 'underground economy'. Explain the meaning of 'underground economy' supported by an example.

(5 marks)

[Total: 20 Marks]

QUESTION SIX

As a stabilisation policy available to the Government:

- (a) Define:
 - (i) Fiscal policy. (2 marks)
 - (ii) Monetary policy. (2 marks)
- (b) Explain how (i) fiscal policy and (ii) monetary policy can be used to stabilise the economy during a recession. (4 marks)
- (c) With reference to Government financial management, explain the concept of "balanced budget". (3 marks)
- (d) Explain the three (3) objectives of commercial banks. (9 marks)

[Total: 20 Marks]

QUESTION SEVEN

- (a) Define the term 'balance of payment'. (3 marks)
- (b) Suppose a country has a persistent balance of payment deficit, outline the three (3) measures that a country can take to correct or rectify the deficit. (9 marks)
- (c) Outline any four (4) consequences of unemployment. (8 marks)

[Total: 20 Marks]

END OF PAPER

DA3 – QUANTITATIVE ANALYSIS

SUGGESTED SOLUTIONS

SOLUTION ONE

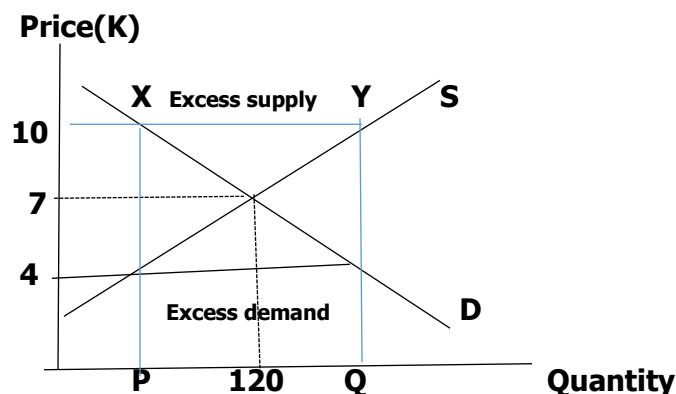
- | | |
|------|---|
| 1.1 | D |
| 1.2 | D |
| 1.3 | A |
| 1.4 | C |
| 1.5 | D |
| 1.6 | C |
| 1.7 | B |
| 1.8 | B |
| 1.9 | C |
| 1.10 | A |

SOLUTION TWO

(a) (i) Determinants of supply of solar lamps

- **Change in input costs:** An increase in input costs shifts the supply curve to the left. Conversely, if input costs decline, firms respond by increasing output.
- **Increase in technology:** An increase in technology shifts the supply curve to the right. With the advancement of technology, the supply curve for goods and services shifts to the right.
- **Change in size of the industry:** If the size of an industry grows, the supply curve shifts to the right. In short, as more firms enter a given industry, output increases even as the price remains steady. Conversely, the supply curve shifts to the left as the size of an industry shrinks.
- **Prices of other goods:** If prices of other goods change, firms would switch to supply those goods whose price is higher on the market. This may lead to a reduction in the supply of solar lamps.
- **Changes in weather conditions:** Changes in weather conditions has a direct effect on supply

(ii) Graph



Given that the equilibrium price is K7 and equilibrium quantity is 120 units, setting the price at K10 will cause excess supply. The quantity supplied at K10 will be **Q** units while quantity demanded will be **P** ($Q > P$). Setting the price at K4 will result in excess demand. The quantity supplied at K4 will be **Y** units but quantity demanded will be **X** units ($Y > X$).

(b) The four (4) factors of production are:

- **Land:** refers to all natural resources used in production, including land itself, minerals, water and forests
- **Labour:** this represents the human effort used in production, including the skills and abilities of workers.

- **Capital**-this represents all man-made goods used in production like machinery, equipment and buildings.
- **Entrepreneurship** refers to the initiative and creativity needed to combine the other factors of production to create new business or product.

SOLUTION THREE

(a) The table is given below:

Output per week(units)	Total fixed cost(TVC)	Total cost variable(TVC)	Total Cost (TC)	Total revenue(TR)	Profit (P)
1	100	120	220	150	(70)
2	100	200	300	300	0
3	100	290	390	450	60
4	100	430	530	600	70
5	100	590	690	750	60
6	100	820	920	900	(20)

- (i) At a price of K150, the firm produces 4 units
 - (ii) Economic profit is K70 ($\text{Profit} = \text{TR} - \text{TC} = \text{K}600 - \text{K}530$).
 - (iii) The firm breaks even at an output of 2 units (where $\text{TR} = \text{TC}$)
- (b) The statement is incorrect. A firm can earn maximum profit (or minimum loss) when marginal revenue is equal to marginal cost. The confusion is between 'marginal concepts'.
- (c) Fixed costs are costs that do not vary with the level of activity; they are incurred even when nothing is produced and sold. Variable costs, on the other hand, vary with the level of activity. When nothing is produced, variable costs are not incurred. Economists distinguish between these two because they have different effects on the firm's decision regarding how much to produce.

SOLUTION FOUR

(a) Differences between monopolistic competition and monopolies

- Monopoly refers to a market structure dominated by one large seller/producer whereas monopolistic competition is a market structure where there are many sellers competing to capture a share of the market.
- Number of Sellers- In a monopoly, there is only one seller whereas in monopolistic competition, there are many sellers.
- Product differentiation- In a monopoly, there are no close substitutes for the product while in monopolistic competition, products are differentiated with unique features allowing for some price flexibility
- Barriers to entry- Monopolies typically have high barriers to entry, making it difficult for new firms to enter the market, whereas monopolistic competition has relatively low barriers to entry.
- Shape of demand curve: Monopolies have steep demand curves whereas monopolistic competitive firms have flat demand curves

(b) The demand curve under monopoly is downward sloping because a single firm has the power to influence the price. The firm is a price maker. Demand is not perfectly elastic. A firm that may raise the price of the product without losing all its customers.

(c) Disadvantages of a limited liability form of business

- Cost and complexity of legal requirement
- Profits are shared among the shareholders as opposed to sole traders where all profits accrue to an individual.
- Business pays taxation profits and shareholders pay tax on dividends
- Unlike publicly traded corporations, private limited companies may struggle to attract large investments from other outside investors.
- Complex management structure-depending on the operating agreement structure especially with multiple members requiring careful decision-making and potential internal disputes.

SOLUTION FIVE

- (a) Consumption function is the graph or table that shows the amount households spend for goods and services at different levels of disposable income.
- (b) Consumers have only two options for any extra disposable income they receive. Marginal propensity to consume and the marginal propensity to save must always add up to one because the portion of extra income that is not spent must be saved.
- (c) Equilibrium national income
- (i) The level of national income is:
 $Y = C + I$
But $C = 1,000 + 0.8Y$
 $Y = 1,000 + 0.8Y + 750$
 $Y = 1,750 + 0.8Y$
 $Y - 0.8Y = 1,750$
 $Y(1 - 0.8) = 1,750$
 $Y = \mathbf{K8,750}$
- (ii) The multiplier, K is defined as: $K = 1/1 - MPC = 1/1 - 0.8 = \mathbf{5}$
- (d) The underground economy is a set of economic activities that are hidden from the government and not subject to official regulation. It is also known as the black market, shadow economy or informal economy. Examples of these activities include selling illegal drugs, prostitution, human trafficking, and illegal currency transactions.

SOLUTION SIX

(a) Stabilisation policies:

- (i) Fiscal policy is a government economic policy concerned with control over taxation, government spending and borrowing to achieve economic objectives
- (ii) Monetary policy is a government economic policy concerned with control over money supply, interest rates, exchange rates and credit creation by banks to achieve economic objectives

(b) A recession occurs when the economy is not doing fine as output is low and unemployment rate is high. During a recession, the government will undertake expansionary fiscal and monetary policies as follows:

- Fiscal Policy: Cut down tax rates and increase government spending
- Monetary policy: Increase money supply, allow credit creation and reduce interest rates

(c) A balanced budget is a budget where government revenues from taxation are exactly equal to government expenditure. This is not an easy fit to achieve.

(d) The following are the objectives of commercial banks:

- **Profitability** – commercial banks are private owned and like any other private firms. The share-holders want some form of return from their investment in turns of dividends. The share-holder can only receive dividends if the commercial banks is profitable. The most important source of profit for a commercial bank is lending.
- **Liquidity** – a commercial bank is expected to keep as much as possible of its assets in liquidity form. This is done by the commercial bank keeping till money and other short term assets like bank bills, certificate of deposits etc. Which can be converted into cash very quickly? Liquidity is very important if a commercial bank is to meet the demands of cash withdrawals by consumers and also to avoid bank run.
- **Security** – is very important for the commercial banks as a way of reducing the incidents of bad debts i.e. non-performing loans. Thus, a security should be an ideal one that a bank should easily turn onto it when bad debt is expected profitability.

SOLUTION SEVEN

- (a) A balance of payment is defined as a bookkeeping record of all the international transactions between a country and other countries during a given period of time.
- (b) A country with a persistent balance of payment may correct it by:
- Allowing the domestic currency to depreciate: Devaluation of the domestic currency or depreciation encourages exports as domestic goods became cheaper to foreigners while at the same time discouraging imports as they became very expensive to local residents. However, for this policy to work both the elasticity of demand for imports and exports must be elastic, that is, highly responsive to price changes.
 - Using direct measures to restrict imports: These are the barriers to trade which include tariffs, quota, trade embargoes, VERs, exchange control, etc. These will have a direct effect of reducing imports.
 - Using deflationary measures: These are the policies that are aimed at reducing inflation in the country. On the fiscal policy side, the government can raise tax rates and reduce its expenditure. On the monetary policy side, the government can restrict credit creation, raise interest rates, restrict increase in money supply and tightly control exchange rates
- (c) The following are the consequences of unemployment:
- Loss of output. If labour is unemployed, the economy is not producing as much output as it could. Thus, total national income is less than it could be, because economic resources are not being fully used.
 - Loss of human capital. If there is unemployment, the unemployed labour will gradually lose its skills, because skills can only be maintained by working.
 - Increasing inequalities in the distribution of income. Unemployed people earn less than employed people, and so when unemployment is increasing, the poor get poorer.
 - Social costs. Unemployment brings social problems of personal suffering and distress, and possibly also increases in crime such as theft and vandalism.
 - Increased burden of welfare payments. This can have a major impact on government fiscal policy, because governments will have to pay out more in State benefits while collecting less through tax revenue

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 10 SEPTEMBER 2025

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

INSTRUCTIONS TO CANDIDATES

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

Section A: Ten (10) compulsory multiple choice questions. Five (5) on Information Technology and five (5) on Communication.

Section B: There are three (3) questions on **Information Technology**. Attempt any two (2) questions.

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

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions

QUESTION ONE

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

- 1.1 Which of the following functions can be used to count the number of cells in a range that contain numbers?

- A. =COUNTA().
- B. =COUNT().
- C. =COUNTIF().
- D. =COUNTBLANK().

(2 marks)

- 1.2 Which of the following is designed to control the operations of a computer?

- A. Application Software.
- B. System Software.
- C. Utility Software.
- D. User.

(2 marks)

- 1.3 Which of the following refers to malicious programs that can be introduced by opening email attachments or downloading software from the internet?

- A. Spam filters.
- B. Operating systems.
- C. Utility.
- D. Virus.

(2 marks)

1.4 Which of the following is not a font style?

- A. Bold.
- B. Italics.
- C. Regular.
- D. Superscript.

(2 marks)

1.5 In Excel, what is the purpose of the \$ symbol in a formula (e.g., \$A\$1)?

- A. To create a relative reference.
- B. To create an absolute reference.
- C. To create a mixed reference.
- D. To reference another worksheet

(2 marks)

1.6 In a report, what does the term "appendix" refer to?

- A. Additional documents.
- B. Main body of the report.
- C. Conclusions.
- D. Recommendations.

(2 marks)

1.7 In a network communication pattern, individuals communicate with:

- A. Only their immediate supervisor.
- B. Everyone in the organization.
- C. Only peers at the same level.
- D. Only external stakeholders.

(2 marks)

1.8 What is a leading question?

- A. The type of question that requires long responses.
- B. The type of question that requires short responses.
- C. The type of question that suggests an expected answer.
- D. The type of question that opens up discussions.

(2 marks)

1.9 Which of the following does **NOT** influence the medium used in communication?

- A. Confidentiality.
- B. Language used by the sender.
- C. Resources available.
- D. Distance.

(2 marks)

1.10 Which communication method would be the most appropriate to remind members of staff about correct procedure to air out grievances within an organisation.

- A. Letter.
- B. Memorandum.
- C. Report.
- D. Brochure.

(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) Information Systems have revolutionized the workplace, enabling employees to significantly enhance their productivity by streamlining tasks, reducing manual effort, and improving overall efficiency.

(i) Explain five (5) main elements of Information systems. (10 marks)

(ii) State four (4) significance of an ERP system. (4 marks)

(b) It is apparent that the internet has significantly enhanced institutions' ability to bring services closer to the people, making access more convenient and efficient than ever before.

(i) State three (3) practical uses of the internet. (3 marks)

(ii) List three (3) email client applications. (3 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Computer software and hardware go hand in hand. Without hardware, the software cannot work and vice versa.
- (i) Explain the terms Computer Software and Computer Hardware. (4 marks)
 - (ii) Distinguish between input devices and output devices. (4 marks)
 - (iii) Mention two (2) examples of input and output devices. (4 marks)
- (b) Vitro Computing uses a database to efficiently manage its Accounting Information Systems.
- (i) State two (2) types of accounting information systems. (2 marks)
 - (ii) Explain three (3) roles of a database to Vitro Computing. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) During Covid-19, many businesses closed their physical stores and turned to online services. This created an opportunity for e-commerce to thrive again. For example, if you sold IT equipment, you could still operate online even though your physical shop was closed, but you had to be wary of security threats.
- (i) State four (4) major security threats that could compromise this kind of shift. (4 marks)
 - (ii) Describe three (3) ways in which you could mitigate the threats identified in (i) above. (6 marks)
- (b) At Zambia Wildlife Authority (ZAWA), employees access resources and services through a client-server architecture. Meanwhile, a group of friends shares files directly between their devices using peer to peer, facilitating informal collaboration.
- State two (2) differences between Peer-to-Peer and Client Server networks. (4 marks)
- (c) Spreadsheets are one of the key applications Accountants use in their work.
- (i) List two (2) Spreadsheet softwares you know. (2 marks)
 - (ii) Explain the role of the CountA() and SumIF() functions in spreadsheets. (4 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Zambia Institute of Chartered Accountants (ZICA) recently drafted a memorandum warning all illegal practitioners to register with the association before the law takes its course. Your organization is already a registered firm. However, most of the staff in the Accounts Department do not have practicing licenses.

Required:

- (a) Explain any three (3) reasons why a memo to your staff would be appropriate in this situation. (6 marks)
- (b) Write a memorandum to your staff, asking them to submit the relevant documents so that you can have their licenses processed. (14 marks)

[Total: 20 Marks]

QUESTION SIX

You have been tasked with mentoring an intern. The Board has asked you to present a financial report. Public presentation skills are required for this activity. You wish to share some important aspects of a presentation to the intern who also happen to show interest on some tips on presentations for future experiences.

Required:

- (a) Outline to him or her any five (5) qualities of a good public speaker. (10 marks)
- (b) Explain any five (5) aspects to consider if a presenter wishes to deliver a presentation using PowerPoint. (10 marks)

[Total: 20 Marks]

QUESTION SEVEN

A successful business meeting requires proper and thorough organization or arrangements of meeting activities including the distribution of meeting documents such as minutes, agenda and notices for meetings.

Required:

- (a) State any four (4) types of formal meetings that are commonly used in organizations. (4 marks)
- (b) Outline any four (4) duties of a member of a meeting. (4 marks)
- (c) Explain the proceedings during a meeting for the following parts of a standard agenda:
 - (i) Opening remarks. (3 marks)
 - (ii) Minutes of the last meeting. (3 marks)
 - (i) Matters arising. (3 marks)
 - (ii) Fresh business. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA 4 - INFORMATION TECHNOLOGY

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 B

1.2 B

1.3 D

1.4 D

1.5 B

1.6 A

1.7 B

1.8 C

1.9 B

1.10 B

SOLUTION TWO

- (a) (i) Elements of Information Systems
- **Hardware:** Physical devices and equipment used in information processing, such as computers, servers, input/output devices, and storage media.
 - **Software:** Programs and applications that run on the hardware, enabling users to perform tasks, process data, and manage information.
 - **Data:** Raw facts and figures that are processed into meaningful information. Data is crucial for decision-making and analysis.
 - **People:** Users and IT professionals who interact with the information system, including developers, system administrators, and end-users.
 - **Processes:** Procedures and rules that govern the operation and use of the information system, ensuring data integrity, security, and efficiency in achieving organizational goals.
- (ii) significance of an ERP system – pick any four
- **Improved Collaboration:** The features of ERP applications can vary slightly depending on the program you are using, but generally, all systems improve collaboration in some way. As mentioned before, the centralized database is an integral part of what makes an ERP unique
 - **Better Analytics & Decision making:** A central database of information also aids in improving your analytics and reporting. Since an ERP records and stores all the data users input, it makes for an excellent business intelligence tool. As long as your vendor provides strong functionality, ERP software makes it easier and faster for your team to generate various reports
 - **Improved Productivity:** An ERP software eliminates redundant tasks such as data entry and allows the system to perform advanced calculations within minutes. This frees up your team members' time to do more thoughtful work,. From this, ERP increases your organization's productivity, efficiency and profitability.
 - **Accounting:** the enterprise resource planning helps the organization to record financial transactions pertaining to a business and recording of business transactions.
 - **Supply chain operation:** gives the organization the systems, structure and processes to plan and execute the flow of goods and services to the customer.
 - **Happier Customers:** The best way to improve customer satisfaction is to provide client-centred goods and services. ERP provides this in a few different ways. First, most ERP are equipped with a customer relationship management (CRM) tool or can be easily integrated with one.
 - **Risk management:** helps the organization to identify, assessing and control treats to an organization's capital and gains.
- (b) (i) Practical uses of the internet
- **Communication:** Email, instant messaging, and video conferencing.
 - **Information Retrieval:** Accessing news, research papers, and educational resources.
 - **E-commerce:** Online shopping, banking, and financial transactions.
 - **Entertainment:** Streaming movies, music, online gaming, and social media.

(ii) Email Client Applications

- Microsoft Outlook
- Mozilla Thunderbird
- Apple Mail
- Gmail
- Yahoo mail

SOLUTION THREE

- (a) (i) **Computer software** - Software is a general term used for computer Programs. A computer program is a planned, step by step set of instructions that directs the Computer what to do and how to do.

Computer hardware - Physical parts of the computer, including processor and memory chips, input/output devices, tapes, disks, modems, cable.

(ii) **Input Devices:**

Input devices are the component of the computer system that accepts incoming data and instructions and converts them into a pattern of electrical signals in binary code that is understandable to a digital computer.

Output Devices:

Output devices are the component of computer system that converts the digitized signals into a form understandable to the user. The output devices are generally known as reverse of input devices. Output devices also send data from one computer system to another. (2 marks)

- (iii) **Example of input devices:** Keyboard, mouse.

Example of output devices: Monitor, printer.

(b)

(i) **Types of AIS**

- Financial reporting systems
- Auditing systems
- Cost management systems

(ii) **Roles of Database**

- Data Storage, Retrieval, and Update: Efficiently stores large volumes of data, retrieves specific data upon request, and updates data as needed.
- Data Manipulation: Supports Data Manipulation Language (DML) for inserting, updating, deleting, and retrieving data. (2 marks x 3)
- Data Security and Integrity: Enforces access controls, authentication, and authorization to ensure data security, along with constraints and rules to maintain data integrity.
- Backup and Recovery: Provides mechanisms for data backup and restoration to protect against data loss or corruption.

SOLUTION FOUR

(a) E-commerce Security Threats and Mitigation Strategies

(i) **Major Security Threats:**

- **Phishing Attacks:** Deceptive emails or websites designed to steal sensitive information.
- **Malware:** Malicious software such as viruses, worms, or ransomware that can damage or control your systems.
- **Data Breaches:** Unauthorized access to sensitive customer or business data.
- **DDoS Attacks:** Distributed Denial of Service attacks that overwhelm and disrupt online services.

(ii) **Mitigation Strategies:**

- **Implement Strong Authentication:** Use multi-factor authentication (MFA) to enhance login security and reduce the risk of unauthorized access.
- **Regular Software Updates and Patching:** Keep all software and systems updated to protect against known vulnerabilities and malware.
- **Data Encryption:** Encrypt sensitive data both in transit and at rest to protect against data breaches and ensure confidentiality.

(b) Networking and Extranet Benefits

(i) **Differences Between Peer to Peer and Client-Server Networks:**

- (ii) **Network Architecture:** In Peer to Peer, each device acts as both a client and a server, sharing resources directly while in Client-Server, Centralized servers provide resources and services to client devices.
- (iii) **Scalability:** Peer to Peer is less scalable due to direct connections between devices. While Client-Server is more scalable, with central servers managing increased loads.
- (iv) **Control and Management:** Peer to Peer is decentralized, with each device independently managed while Client-Server has centralized control, with servers managing resources and security.

(c) Spreadsheet.

(i) **Spreadsheet software**

- MS Excel
- Google sheets
- Smartsheet
- Lotus

- (ii) **=SumIF()** sums cells in the range that meet the specified condition

=CountA() Counts cell that contain values from the given range of alphabetic letters

SOLUTION FIVE

- (a) Reason sending a memo to staff is appropriate
 - (i) For internal circulation only
 - (ii) It deals with non-personal information, mostly deals with work related issues
 - (iii) It is convenient to send to many recipient at the same time
 - (iv) It leaves a record for future reference and that staff were informed the important information
- (b) Name of organisation

ABC BUSINESS CONSULTANTS

MEMORANDUM

To: All members of the accounts department

From: Professional membership officer

Date: any correctly written date during examination time

Subject: **Submission of Professional Qualifications for Processing of ZICA Licenses**

This is to inform you that you are all required to submit relevant documents so that your ZICA licensees can be processed. As you are all aware, to practice as an accountant you need to be affiliated to the Zambia Institute of Chartered accountants.(ZICA)

The organisation itself is in good standing in this respect, but we do notice that some of our staff are not.

It is for this reason that we take this opportunity to remind you to submit your professional qualifications so that we facilitate the processing of your practicing license.

We look forward to your cooperation in this respect if you do not yet have your ZICA license. Failure to do so may attract disciplinary action against you.. Those in good standing with ZICA may ignore may ignore this reminder.

Signature

Senders name.

SOLUTION SIX

(a) Qualities of good public speaker

- Knowing how to dress
- Confidence
- Voice modulation
- Master one's body language
- Good storyteller

(b) Tips using PowerPoint Presentation

- 6 X 6 rule
- Do not have too many slides
- Do not write whole sentences
- Do not read the slides
- Do not over use special effects and animations
- Use graphics

SOLUTION SEVEN

(a) Types of meeting held in organizations

- Problem solving meetings
- Project meetings
- Decision making meetings
- Disciplinary and grievance meetings
- Staff appraisal meetings.

(b) Duties of a committee member of a meeting

- To attend the meeting
- Help to prepare the agenda in advance
- Contribute positively during meetings
- Check and read the minutes for approval

(c) Proceedings during a meeting

(i) Opening remarks

- The meeting is usually called to order by the chair person.
- Apologies are given at this stage.
- The chairperson provides a summary of the main business of the meeting
- Members are encouraged to participate during the meeting.

(ii) Minutes of the last meeting

- Corrections of errors on the minutes of the last meeting are made.
- Once corrected they are then adopted as a true record of the previous discussions of a meeting after they are proposed and seconded by members.

(iii) Matters arising

- This is unfinished business from the last meeting, pending issues from the last meeting and any other reports are shared and resolved or clarification is given to members on issues that are not clear.

(iv) Fresh business

- Discusses the main purpose for a meeting, decisions.
- Planning and problem resolutions are done on issues of concern.
- Voting can also take place on an issue where members fail to agree.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

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

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

SECTION A

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

QUESTION ONE

Each of the following questions has only one (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 How is revenue from normal scrap sales treated?

- A. As a bonus to employees.
- B. As an addition to sales revenue.
- C. As a reduction in costs of processing.
- D. Any of the above.

(2 marks)

1.2 When a contract is not completed at the end of an accounting year, profit on incomplete contract is transferred to statement of:

- A. Profit or loss.
- B. Cash flow.
- C. Profit or loss and work-in-progress.
- D. Financial position.

(2 marks)

1.3 Director's remuneration and related expenses are part of

- A. Production overheads.
- B. Distribution overheads.
- C. Selling overheads.
- D. Administration overheads.

(2 marks)

- 1.4 Which of the following best describes cost accounting?
- A. It is exactly like financial accounting.
 - B. It is based on estimates and therefore, must be satisfied with reasonable accuracy.
 - C. Analyses historical costs only.
 - D. Deals only with future costs and ignores historical costs.
- (2 marks)

- 1.5 Which of the following is **NOT** a functional classification of cost?
- A. Selling and distribution cost.
 - B. Semi-fixed cost.
 - C. Research and development cost.
 - D. Production cost.
- (2 marks)

- 1.6 Which one is a suitable cost unit that could be used to aid control for a lodge with 20 double rooms and 10 single rooms?
- A. Tonne/mile.
 - B. Patient/night.
 - C. Outpatient visit.
 - D. Bed occupied/night.
- (2 marks)

- 1.7 The valuation department of a local authority wishes to develop a method of predicting its total costs in a period. The following past costs have been recorded at two activity levels.

	Number of valuations (V)	Total cost (TC)
		K'000
Period 1	420	2,466.00
Period 2	515	2,708.25

Which of the following represents the total cost model?

- A. Total Cost = K1,395,000 + 2,550V
- B. Total Cost = K1,260,000 + 2,550V
- C. Total Cost = K1,395,000 – 2,550V
- D. Total Cost = K1,545,000 – 2,550V

(2 marks)

1.8 Which of the following is not a specific order costing method?

- A. Job costing.
- B. Process costing.
- C. Contract costing.
- D. Batch costing.

(2 marks)

1.9 An ideal standard is one which is

- A. Based on perfect operating conditions with no wastage, no spoilage, no inefficiencies, no idle time, no breakdowns.
- B. Based on the hope that a standard amount of work will be carried out efficiently, machines properly operated, or materials properly used.
- C. Based on current working conditions such as current wastage and current inefficiencies.
- D. Kept unaltered over a long period of time, and may be out of date.

(2 marks)

1.10 Which one of the following is appropriate cause of an adverse material price variance?

- A. Use of apprentices or other workers at a rate of pay lower than standard.
- B. Output produced more quickly than expected because of work motivation, better quality of equipment or materials, or better methods.
- C. Material used of lower quality than standard.
- D. Unexpected increases in the price of materials.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this Section.

Attempt any FOUR (4) questions.

QUESTION TWO

- (a) ABC Limited manufactures a product 'AM25' using material 'CEE'. The following information is available regarding material 'CEE':

Purchase price per unit	K300
Cost of placing an order	K150
Carrying cost per unit per annum	6% of purchase price
Consumption of material 'CEE' per annum	194,400 units
Lead time	Average 6 days, Maximum 8 days Minimum 4 days

Maximum consumption of material 'CEE' per day is 200 kg more than the average consumption per day.

Note: There are 360 days in a year.

Required:

Calculate the following in relation to material 'CEE'.

- (i) Economic order quantity. (4 marks)
 - (ii) Re-order level. (5 marks)
 - (iii) Maximum stock level (Assume 360 days in a year). (6 marks)
- (b) Define and explain any four (4) benefits of using Just-In-Time system. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Lifelink Limited manufactures a single product for use in hospitals across the world to support cardiac patients. The financial details for the product are as follows:

	Per unit K
Selling price	270
Direct materials	60
Direct labour	24
Variable overheads	15

Annual fixed production overheads are budgeted at K2,400,000 and Lifelink Limited expects to produce 1,280,000 units of the product each year. Overheads are absorbed on a unit basis. Actual overheads are K2,400,000 for the year. Budgeted fixed selling costs are K480,000 per quarter.

Actual sales and production units for the first quarter of 2025 are given below:

	January - March
Sales	240,000
Production	280,000

There is no opening inventory at the beginning of January.

Required:

- (a) Calculate the overhead absorption rate per unit. (4 marks)
- (b) Determine the under/over absorption of overheads. (3 marks)
- (c) Prepare statements of profit or loss for the quarter, using:
 - (i) Marginal costing. (4 marks)
 - (ii) Absorption costing. (6 marks)
- (d) Outline any three (3) reasons in favour of marginal costing. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) FM Limited provides the following figures for a four (4)-week period. In this period there was a special one-day holiday due to national event.

Standard working - 8 hours per day, 5 days in a week

Maximum capacity - 50 employees

Actual working - 40 employees

Actual hours expected to be worked in 4 weeks - 6,400 hours

Standard hours expected to be earned in 4 weeks - 8,000 hours

Actual hours worked over the four-week period – 6,000 hours

Standard hours earned in the four-weeks – 7,000 hours

Required:

Calculate the following:

- | | | |
|-------|--|-----------|
| (i) | Labour efficiency ratio. | (2 marks) |
| (ii) | Labour activity ratio. | (2 marks) |
| (iii) | Labour capacity utilization ratio. | (2 marks) |
| | | |
| (b) | State any five (5) reasons for high labour turnover. | (5 marks) |
| (c) | List any five (5) problems of standard costing. | (5 marks) |
| (d) | Explain the following in relation to overtime payment for employees: | |
| (i) | Overtime premium. | (2 marks) |
| (iii) | Shift premium. | (2 marks) |

[Total: 20 Marks]

QUESTION FIVE

- (a) The following cost and production data relates to Komando Ltd:

	K
Materials (3,200 units)	17,980.00
Labour	13,376.00
Overheads	<u>10,500.00</u>
Total	<u>41,856.00</u>

Production was made up of 2,800 fully completed units and 400 partly completed units.
The degree of completion of the 400 units were as follows:

Materials	75% complete
Labour	60% complete
Overheads	50% complete

Required:

Prepare the process account for Komando Ltd. (10 marks)

- (b) Kamando Ltd manufactures a product called 'Sugar oil'. The quantities produced and associated costs for the first quarter of 2024 were as follows:

Month	Quantity (units)	Total costs (K)
January	200	11,650
February	400	12,800
March	800	15,100

Required:

Calculate the total cost for the month of April if the units produced are 1,200. (6 marks)

- (c) Explain the terms variable and fixed costs, giving an example of each. (4 marks)

[Total: 20 Marks]

QUESTION SIX

MK Ltd is a manufacturing company based in Ndola town and it produces a product called Telescope.

The standard cost card for the product is as follows:

		K
Direct material	2 Kg @ K15.0 per Kg	30
Direct labour	4 hours @ K8.5 per hour	34
Variable production overheads	4 hours @ K2.0 per hour	8
Fixed production overheads	4 hours @ K3.0 per hour	<u>12</u>
Total production cost		<u>84</u>

The cost card is based on production and sales of 450 units in each period and the company values its inventories at standard cost.

Actual results for the period were:

Production: 430 units made

Materials: 1,075 kg were used.

1,200 kg of materials were purchased at a cost of K17,700

Direct labour: 1,700 hours were worked at a cost K14,637

Variable production overhead expenditure: K3,870

Fixed production overhead expenditure: K4,850

Required:

(a) Calculate the following variances for MK Ltd:

- (i) Material price and usage variances. (4 marks)
- (ii) Labour rate and efficiency variances. (4 marks)
- (iii) Variable overhead expenditure and efficiency variance. (4 marks)
- (iv) Fixed overhead expenditure and volume variance. (4 marks)

(b) Explain any two (2) types of performance standards. (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 D
- 1.7 A
- 1.8 B
- 1.9 A
- 1.10 D

SOLUTION TWO

- (a) (i) Economic order quantity (EOQ)

$$Ch = 6\% \times K300 = 18$$

$$Co = 150$$

$$D = 194,400 \text{ kgs}$$

$$EOQ = \sqrt{\frac{2 \times 150 \times 194,400}{18}}$$

$$EOQ = \mathbf{1,800 \text{ kgs}}$$

- (ii) Re-order level (ROL) = Maximum usage x maximum lead time
= 740×8
= **5,920 kg**

$$\text{Maximum consumption} = \text{average consumption} + 200 \text{ kg}$$

$$= 194,400/360 + 200 = 540 + 200 = \mathbf{740 \text{ kg}}$$

- (iii) Maximum inventory level = ROL + Q - (mini usage x mini lead time)
= $1,800 + 5,920 - (340 \times 4)$
= $7,720 - 1,360$
= **6,360 kg**

$$\begin{aligned} \text{Minimum consumption} &= (2 \times \text{average consumption}) - \text{maximum consumption} \\ &= (2 \times 540) - 750 \\ &= 1080 - 740 \\ &= \mathbf{340 \text{ kgs}} \end{aligned}$$

- (b) Definition and benefits of Just-in-time system

This is a series of manufacturing and supply chain techniques that aim to minimise inventory levels and improve customer service by manufacturing not only at the exact time customers require, but also in the exact quantities the need and at competitive prices.

Benefits of JIT system.

- Reduction in inventory holding costs
- Reduction in manufacturing lead times.
- Improved labour productivity.
- Reduced scrap / rework / warranty costs.
- Reduction in capital tied up in inventory.
- A smooth flow of work through the manufacturing plant

SOLUTION THREE

(a) Calculation of an overhead absorption rate per unit

- Overhead absorption rate = $\frac{\text{Budgeted fixed Budgeted}}{\text{Budgeted Volume}}$
- Budgeted overheads (quarterly) = $\frac{\text{K2,400,000}}{4 \text{ quarters}} = \text{K600,000}$
- Budgeted production (quarterly) = $\frac{1,280,000 \text{ units}}{4} = 320,000 \text{ units}$
- ∴ Overhead absorption rate per unit = $\frac{\text{K600,000}}{320,000 \text{ units}} = \text{K1.875 per unit}$

(b) Determination of the under/over absorption of overheads

Actual production	280,000 units
Budgeted production	<u>320,000</u> units (see (a) above)
Under-production	40,000 units
Valued @ OAR	x K1.875
: . Under absorbed overheads	<u>K75,000</u>

(c) Preparation of profit statements for the quarter

Item	Marginal costing		Absorption costing	
	K'000	K'000	K'000	K'000
Sales revenue (240,000 @ K270)		64,800		64,800
Less cost of sales				
Opening inventory		-		-
Add Production Costs				
280,000 @ K99	27,720			
280,000 @ K100.875			28,245	
Less Closing inventory				
40,000 @ K99	(3,960)		(4,035)	
40,000 @ K100.875		<u>(23,760)</u>	24,210	
Add under-absorbed O/H			75	<u>(24,285)</u>
Contribution		41,040		
Gross Profit				40,515
Less				
Fixed production O/H	600			

Fixed selling O/H	480	480	
	(1,080)		(480)
Net profit	39,960		40,035

Notes & workings

1. Calculate total cost per unit

$$\begin{aligned}
 \text{Total cost per unit (absorption costing)} &= \text{Variable cost} + \text{fixed production cost} \\
 &= (60 + 24 + 15) + 1.875 \\
 &= \text{K}100.875
 \end{aligned}$$

2. Total cost per unit (marginal costing) = Variable cost per unit = K99

(d) Reasons in favour of marginal costing

- (i) Simple to operate
- (ii) No apportionments of fixed costs
- (iii) Fixed costs = period costs unchanged at all output volumes
- (iv) Closing inventory realistically valued at variable production cost per unit
- (v) Size of contribution provides management with useful information about expected profits
- (vi) Absorption costing encourages management to produce goods in order to absorb allocated overheads instead of meeting market demands
- (vii) Under/over absorption of overheads is avoided
- (viii) It is a great aid to decision making

SOLUTION FOUR

- (a) (i) Efficiency ratio $= \text{Standard hour} / \text{Actual hours} \times 100\%$
 $= 7,000/6,000 \times 100$
 $= \mathbf{117\%}$
- (ii) Activity ratio $= \text{Standard hours} / \text{Budgeted hour} \times 100\%$
 $= 7,000/6,400 \times 100\%$
 $= \mathbf{109\%}$
- (iii) Capacity utilization ratio $= \text{actual hours} / \text{Budgeted hours} \times 100\%$
 $= 6,000/6,400 \times 100$
 $= \mathbf{94\%}$
- (b) Reasons for high labour turnover:
- Illness or accidents;
 - A family moves away from the locality, marriage, pregnancy or difficulties with child care provision;
 - Retirement or death;
 - Paying a lower wage rate;
 - Unsafe working conditions;
 - Lack of opportunity for career development
- (c) Problems of standard costing
- The problem of setting accurate standards
 - Revision of standards is costly, and some firms ignore it.
 - In case of small concerns, it is expensive to operate standard costing system
 - Sometimes it becomes difficult to set up standard costs in view of the uncertain economic conditions, for example, high fluctuations in price.
 - Standard costing facilitates only cost control and not cost reduction
 - It is time consuming to install.
- (d) (i) overtime premium
This is the rate over and above the normal rate at which an employee will be paid for working in excess of the normal expected hours. (It may apply to payment itself.
- (ii) The extra pay an employee receives for working during unsocial hours such as over night or weekend.

SOLUTION FIVE

(a) Workings:

Work-in-process (WIP)

Materials: 75% x 400 units = 300 units

Labour: 60% x 400 units = 240 units

Overheads: 50% x 400 units = 200 units

Equivalent units

Cost elements	Completed units	WIP (units)	Equivalent units	Total costs	Cost per unit
Materials	2,800	300	3,100	17,980.00	5.8
Labour	2,800	240	3,040	13,376.00	4.40
Overheads	2,800	200	3,000	10,500.00	3.50
					13.7

Valuation of WIP:

Material: 300 units x K5.8 = 1,740

Labour: 240 units x K4.40 = 1,056

Overheads: 200 units x K3.50 = 700

Total value **3,496**

Valuation of completed output = 2,800 units x K13.70 = **K38,360**

Process account

	Units	Value		units	Value
Materials	3,200	<u>17,980</u>	output	2,800	38,360
Labour		<u>13,376</u>	WIP	400	3,496
Overheads	-	10,500		-	-
	3,200	41,856		3,200	41,856

(b) Variable cost per unit = $\frac{K15,100 - K11,650}{800 - 200}$

$$= \frac{K3,450}{600}$$

=K5.75

Total fixed costs = K15,100 – (K5.75 X 800 units)
 = K15,100 – K4,600)
= K10,500

Total cost when the level activity is 1,200 units

Total cost = K5.75 X 1,200 + K8,964
 = K6,900 + K10,500
= K17,40

- (c) Variable costs are costs which varies in total with the changes in the level of activity.
When the level of activity increase variable costs also increases. e.g. electricity expense.

Fixed costs are costs which do not vary in total with the changes in the level of activity.
e.g. rent.

SOLUTION SIX

(a) (i) Material price and usage variances

Material price variance

$$\begin{array}{rcl} 1,200 \text{ Kg should have cost } \times \text{ K15 per kg} & = & 18,000 \\ \text{But did cost} & = & \underline{17,700} \\ \text{Variance} & & \underline{\underline{300 (F)}} \end{array}$$

Material usage variance

$$\begin{array}{rcl} 430 \text{ units should have used } \times 2 \text{ Kg per unit} & = & 860 \text{ kg} \\ \text{But did use} & = & \underline{1,075 \text{ kg}} \\ \text{Variance in Kg} & & 215 \text{ kg (A)} \\ \text{Std price per kg} & & \underline{\times \text{ K15}} \\ \text{Variance} & & \underline{\underline{\text{K3,225 (A)}}} \end{array}$$

(ii) Labour rate variance

$$\begin{array}{rcl} 1,700 \text{ hours should have cost } \times \text{ K8.5 per hour} & = & 14,450 \\ \text{But did cost} & = & \underline{14,637} \\ \text{Variance} & & \underline{\underline{187 (A)}} \end{array}$$

Labour efficiency variance

$$\begin{array}{rcl} 430 \text{ units should have taken } \times 4 \text{ hours per unit} & = & 1,720 \text{ hours} \\ \text{But did take} & = & \underline{1,700 \text{ hours}} \\ \text{Variance in hours} & & 20 \text{ hours (F)} \\ \text{Std rate per hour} & & \underline{\times \text{ K8.5}} \\ \text{Variance} & & \underline{\underline{\text{K170 (F)}}} \end{array}$$

(iii) Variable production overhead expenditure variance

$$\begin{array}{rcl} 1,700 \text{ hours should have cost } \times \text{ K2 per hour} & = & 3,400 \\ \text{But did cost} & = & \underline{3,870} \\ \text{Variance} & & \underline{\underline{470 (A)}} \end{array}$$

Variable production overhead efficiency variance

$$\begin{array}{rcl} 430 \text{ units should have taken } \times 4 \text{ hours per unit} & = & 1,720 \text{ hours} \\ \text{But did take} & = & \underline{1,700 \text{ hours}} \\ \text{Variance in hours} & & 20 \text{ hours (F)} \\ \text{Std rate per hour} & & \underline{\times \text{ K2}} \\ \text{Variance} & & \underline{\underline{\text{K40 (F)}}} \end{array}$$

(iv) Fixed production overhead expenditure variance

$$\begin{array}{rcl} 450 \text{ units should have cost } \times \text{ K12 per unit} & = & 5,400 \\ \text{But did cost} & = & \underline{4,850} \\ \text{Variance} & & \underline{\underline{550 (F)}} \end{array}$$

Fixed production overhead volume variance

Budgeted production units	450 units
Actual production units	430 units
Variance in units	20 units (A)
Std cost per unit	<u>X K12</u>
Variance	<u>K240 (A)</u>

(b) Types of performance standards

Ideal standards

These are standards which can be achieved under perfect working conditions. Under ideal standards there is not allowance for inefficiencies, idle time, wastages and breakdowns.

Attainable standards

Attainable standards are standards which are achieved if production is carried out efficiently, if materials are properly used and if machinery is operated properly.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 12 SEPTEMBER 2025

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

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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1. There is a counter-offer when?

- A. The offeree gives conditions for acceptance.
- B. The offeror makes a fresh offer.
- C. The offeree makes some query.
- D. The offeree accepts it.

(2 marks)

1.2. Specific performance may be ordered by the court when _____

- A. The contract is voidable.
- B. Damages are an adequate remedy.
- C. Damages are not an adequate remedy.
- D. The contract is uncertain.

(2 marks)

1.3. In a sale by sample as well as by description, the implied condition is that the goods shall correspond with.

- A. Sample.
- B. Description.
- C. Both sample and description.
- D. Either sample or description.

(2 marks)

1.4. The doctrine of caveat emptor applies

- A. In case of implied conditions and warranties.
- B. When the buyer does not intimate the purpose to the seller and depends upon his own skill and judgment.
- C. When goods are sold by sample.
- D. When goods are sold by description.

(2 marks)

1.5. The case of ***Caparo Industries plc v Dickman*** established the requirements for the existence of a duty of care. Which one of the following is NOT a requirement?

- A. In order for a duty of care to arise, the damage sustained by the claimant must be foreseeable.
- B. In order for a duty of care to arise, the defendant must realise that his actions could cause harm to another.
- C. In order for a duty of care to arise, the claimant must be sufficiently proximate.
- D. In order for a duty of care to arise, it must be fair, just and reasonable to impose a duty.

(2 marks)

1.6. The principle whereby a principal subsequently accepts an unauthorized action of an agent is called_____

- A. Acceptance.
- B. Ratification.
- C. Agreement.
- D. Ramification.

(2 marks)

1.7. Consideration must be sufficient but need to be_____

- A. Consistent.
- B. Approved.
- C. Equivocal.
- D. Adequate.

(2 marks)

1.8. A partner who does not participate in the day to day running of a partnership business is_____

- A. Sleeping Partner.
- B. Unaccepted partner.
- C. Distance Partner.
- D. Executive Partner.

(2 marks)

1.9. The type of agency created in an emergency for the benefit of a person whose authority cannot be obtained is called?

- A. Agency of Need.
- B. Emergency Agency.
- C. Agency of Necessity.
- D. Agency of Admission.

(2 marks)

1.10. Costa and Costain entered into a contract whereby Costa agreed to sell to Costain an illegal substance at K1, 000 per kilogram. This is an example of a:

- A. Quasi contract.
- B. Void contract.
- C. Voidable contract.
- D. Secondary beneficiary

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Sleep Tight Beddings Ltd is an incorporated business that sells beds, bed sheets, mattresses and home décor. Their sales representative, Ningi took a sample of one kind of a mattress to would be customers. One customer by the name of Malasa liked the sample of the mattress she was shown and ordered seven (7) beds and five (5) mattresses, and all the goods were delivered the same day three weeks ago. The terms of the contract were that she should pay after seven (7) days from the date of delivery. The mattresses that were delivered were like the sample Ningi showed Malasa in every aspect. However, the mattresses have a latent defect that once a person sleeps on them for three days, the middle part of the mattress forms a depression which fails to go back to normal position of a mattress even after one has risen out of it. This has angered Malasa.

Required:

- (a) Malasa has come to you to find out what action she can take, if any, against Sleep Tight Ltd. Explain your answer with the aid of case law and or statute. (10 marks)
- (b) Malasa has refused to pay for the beds, saying the mattresses were defective, thus can't pay for the beds only. Explain the remedies available to Sleep Tight Ltd against Malasa under the Sale of Goods Act. (6 marks)
- (c) How would the exception in the *nemo dat rule* apply to Ningi? (4 marks)

[Total 20 Marks]

QUESTION THREE

- (a) Identify four (4) sources of Law in Zambia. (8 marks)
- (b) The Sale of Goods Act of 1893 deals with situations where a seller who has no right to the goods can transfer goods title to a third party.

Required:

Explain three (3) exceptions to the "nemo dat quod non habet rule. (6 marks)

- (c) Monde Nalishuwa delivers a consignment of goods which she has contracted to sell to David Mwale. The goods are off-loaded in Mwale's premises by Nalishuwa's driver. Later that day Mwale examines the goods and discovers that they do not comply with the contract description.

Required:

Advise Mwale on his rights. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Using examples, state six (6) ways under which a contract can be discharged. (12 marks)
- (b) With the aid of practical examples, explain the following principles under the law of contract;
- (i) Consideration must be sufficient but need not to be adequate. (4 marks)
- (ii) Consideration may be executed or executory but must not be past. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

Muna has just been elected as a union secretary general. However, as he was reading around his role, he came across the following and needs your help. Candidly, explain the following to him:

- (a) Redundancy. (5 marks)
- (b) Termination of contract of employment by frustration. (5 marks)
- (c) Divisions of the High Court for Zambia. (5 marks)
- (d) Persuasive precedents (5 marks)

[Total: 20 Marks]

QUESTION SIX

Write short notes on the following:

- (a) Incorporation of exclusion clauses in a contract (5 marks)
- (b) Failure to speak as a form of misrepresentation at law (5 marks)
- (c) Unilateral mistake (5 marks)
- (d) Liquidated damages (5 marks)

[Total 20 Marks]

END OF PAPER

DA 6 – BUSINESS LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) This question is based on Sale by Sample as provided for under section 15 of the Sale of Goods Act. It provides that:

- Implied condition that goods shall correspond with the sample
- Implied condition that the buyer shall have reasonable opportunity to compare the bulk with the sample.
- Implied condition that the goods shall be free from any defects which may render them unmerchantable.

In the case at hand, the mattresses were not fit for the purpose even if they were exactly the same in every aspect with the ones Ningi took Malasa as a sample. Therefore, Malasa can refuse to pay for the mattresses only as they were not fit for the purpose or take them back to the seller for not being fit for the purpose. The other remedy is rescission of the contract or sue for damages suffered by buying defective products as in ***Priest v Last (1903)***

(b) The beds are not defective, what is defective are the mattresses. Therefore Malasa must pay for them unless the contract was tied to having the mattresses and beds together. As an unpaid seller, Sleep Tight Ltd as an unpaid seller has the following rights:

- (i) the right to sue Malasa for the price of the beds,
- (ii) the company can sue for damages for not being paid as agreed,
- (iii) can collect the beds back from Malasa and resale them to any other available customer, and
- (iv) the company can sue for payment for any defects arising from their being used by her.

[NB: *Right to lien, stoppage in transit are not acceptable as the goods are already with the buyer*]

- (c) The *nemo dat* rule - is that, one cannot sell what he does not have. This is provided for under section 21 of the Sale of Goods Act. Ningi being an agent has authority to sell the principal's goods which are not hers. Therefore, she can sell the beds, mattresses and any product from Sleep Tight Ltd despite the goods not being hers.

SOLUTION THREE

- (a) Identify four (4) sources of Law in Zambia

The candidate should be able to explain on any four of the following:

- (i) The Constitution
- (ii) Acts of Parliament
- (iii) Case law
- (iv) Equity
- (v) Common law
- (vi) Textbooks
- (vii) International conventions

- (b) The Sale of Goods Act of 1893 deals with situations where a seller who has no right to the goods can transfer goods title to a third party.

Explain three (3) exceptions to the "nemo dat quod non habet rule.

The exceptions to the nemo dat rule are as follows:

- (i) Estoppel

If the seller or buyer, by his or her conduct, makes the other party believe that a certain fact is true, and the other party alters his or her position, then that same party will later be estopped (or prevented) from saying that the fact is untrue. This has arisen where a party has, for complicated reasons, signed a statement that their own property belongs to someone else and then ends up 'buying back' their own property. They may be estopped from denying the statement that they made falsely about the ownership of the property (*Eastern Distributors Ltd v Goldring* (1957)). In order to make a successful claim, estoppel can only be raised against a person who had actual knowledge of the facts and actually agreed to them knowing that a third party might rely on the 'apparent' authority.

- (ii) Agency

If a principal appoints an agent to sell his or her goods to a third party, then any sale by the agent, in accordance with the instructions given, will pass on a good title to the third party. If, however, the agent has exceeded the instructions in some way, then no title will pass to the third party unless the agent had apparent authority (*Central Newbury Car Auctions v Unity Finance* (1957)).

- (iii) Mercantile agency

A third party has an even stronger claim to the title of the goods where the agent is a mercantile agent. A mercantile agent is one 'having in the customary course of business as such agent, authority either to sell goods or to consign goods for the purposes of sale or to buy goods, or to raise money on the security of goods' (s 1(1) of the Factors Act 1889). So, for example, where the third party, as a consumer, buys a car from an agent who is in the car trade, this provision may apply.

- (c) Monde Nalishuwa delivers a consignment of goods which she has contracted to sell to David Mwale. The goods are off-loaded in Mwale's premises by Nalishuwa's driver. Later that day Mwale examines the goods and discovers that they do not comply with the contract description.

Advise Mwale on his rights.

Section 13 of the Sale of goods Act provides that where goods are sold by description, there is an implied condition that the goods shall correspond with the description, and if the sale is by sample, as well as by description, it is not sufficient that the bulk of the goods correspond with the sample if the goods do not correspond with the description.

Description are words used to indicate or refer to the quality quantity or attribute of the goods. **Moore and Co Ltd v. Landauer and Co. (2 KSB 519)**. The buyer's remedy for breach of this condition is either to claim damages or to reject the goods.

The right of rejection is exercisable even when the goods are merchantable. This is mostly applicable where the buyer has not seen the goods offered to him and relied only on the description of the goods as was in the case of **Varley v. Whipps**. On the other hand, it also applies where the buyer has seen the goods but relies on the seller's assessment of the goods. See *Grant v. Australia Knitting Mills Ltd* (1936) AC 85.

SOLUTION FOUR

- (a) Using appropriate examples, state six (6) ways under which a contract can be discharged.
- i. Discharge by Performance. ...
 - ii. Discharge by Mutual Agreement. ...
 - iii. Discharge by the Impossibility of Performance. ...
 - iv. Discharge of a Contract by Lapse of Time. ...
 - v. Discharge of a Contract by Operation of Law. ...
 - vi. Discharge by Breach of Contract.
- (b) With the aid of practical examples, explain the following principles under the law of contract;
- (i) Consideration must be sufficient but need not be adequate.
- Consideration is one of the crucial prerequisites for validity of a contract. This means that in order for the agreement to be enforceable by law must have a valid and lawful consideration among other things. The law requires that the parties to have entered into bargain where each side has to provide something of value that the court can see.
- (ii) Consideration may be executed or executory, but must not be past.
- Executory consideration in effect consists of a promise in return for a promise. Executed consideration is a promise in return for an act.
1. Executory consideration arises where there consists a promise from a mutual bargain and the act is not performed.
- For example Zimba orders potatoes from Fresh Farms and promise to be paid for when they are delivery the following week.
- For example There are two promises for the law to enforce. |For example A promises to deliver geysers to B who promises to pay for them.
2. Executed consideration arises where the promise is performed.
- For example A orders geysers from B and pays for them and it is agreed that they will be delivered in 5 days. If delivery is delayed, the A may sue.

SOLUTION FIVE

- (a) *Redundancy*:- This is a method by which an employee loses his employment when an employer intends to stop carrying on his business, or is reducing employee numbers because of poor business or to save on costs so the business remains viable. The employee is entitled to redundancy payment based on how long he has worked among other factors.
- (b) *Termination of Contract of Employment by Frustration*:- Frustration of a contract occurs when, without the fault of either part, it becomes incapable of being performed. Thus a contract of employment becomes frustrated when the employee is incapable of performing the contract e.g. when he is sick, dies, imprisoned etc and cannot carry on the work.
- (c) *Divisions of the High Court*:- The High Court for Zambia is established pursuant to Article 133 of the Constitution and is the third highest court in Zambia

It has four (4) divisions:

Industrial Relations Court – For labour and industrial disputes

Commercial Court – Commercial/business related matters

Family Court – For Family matters like divorce.

Children's Court – For matters relating to custody of children, adoption, etc.

- (d) *Persuasive precedents*: A past court decision which a judge is not bound to follow but may just inspire or influence him to make a decision.

SOLUTION SIX

- (a) *Incorporation of exclusion clauses in a contract* – This means making exclusion clauses part and parcel of the contract. This can be done by having the document containing the exclusion clause being an integral part of the contract document, the term must be put forward before a contract is made, the other party must be sufficiently made aware of the exclusion clause and onerous terms must be highlighted.
- (b) *Failure to speak as a form of misrepresentation* – This happens when failure to speak or keeping quiet amounts to misrepresentation. For example where there is a relationship of utmost good faith between parties, e.g. partners, contracts of utmost good faith like insurance, where half-truth is offered and where there has been a change of circumstances between the time of negotiation of contracts and conclusion of the contract. Failure to speak in these circumstances amounts to misrepresentation.
- (c) *Unilateral Mistake* – This is a mistake as a result of misrepresentation by one party. The party misled is entitled to rescind the contract. The misstate usually is by one party, the other party knows the truth, one party only is mistaken as to identity, subject matter, etc. The party misled can recover the goods, claim damages, rescind the contract, etc.
- (d) *Liquidated Damages* – **Liquidated Damages** are monetary compensations in case of breach of contract where parties agree, way before the contract is breached, how much/ the amount of damages payable, should there be a breach. For example parties may agree that should you not pay in full by next week, you will have to pay us a K200, that becomes a liquidated damages agreed by parties. The case of Ford **Dunlop Pneumatic Tyre Co. Ltd v New Garage & Motor Co. Ltd (1915)** where the liquidated damages were held to be enforceable as it was not extravagant.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 8 SEPTEMBER 2025

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A - COMPULSORY

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1. 1 The following are advantages of a sole trader **EXCEPT**

- A. The business is easy to set up.
- B. The owner has limited liability.
- C. Decision can be made quickly and independently.
- D. The owner is entitled to all profits of the business.

(2 marks)

1.2 PESTEL framework is used to analyse the general macro- environmental factors in external environment of an organisation. Which one of the following is **NOT** an economic factor?

- A. Exchange rate.
- B. Tax rate.
- C. Inflation.
- D. Tax policy.

(2 marks)

1.3 Henri Fayol made a contribution to the management by identifying (14) principles of management. Which **ONE** of the following principles is likely to be in conflict with matrix structure?

- A. Discipline.
- B. Authority and responsibility.
- C. Unity of command.
- D. Subordination of individual interest to the general interest.

(2 marks)

1.4 One of the core function of an organisation is marketing. From the following statements, identify one which best describes the main function of marketing.

- A. To identify, anticipate and satisfy the needs of customers.
- B. To increase sales by persuading customers.
- C. To improve the image of an organisation to the general public.
- D. To show courtesy, care and love to customers.

(2 marks)

1.5 Kucheba, an assistant accountant, felt very happy and motivated when his good performance was recognised by being named the employee of the week. According to Maslow's hierarchy of needs theory, which level of needs was satisfied for Kucheba?

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

(2 marks)

1.6 The following are factors that determine the extent of centralisation and decentralisation **EXCEPT**

- A. Emotional intelligence of a manager.
- B. Management style.
- C. Size of the organisation.
- D. Nature and type of the organisation.

(2 marks)

1.7 Leadership involves influencing others to do things willingly. Which source of power will be most useful to a leader?

- A. Legitimate power.
- B. Referent power.
- C. Coercive power.
- D. Expert power.

(2 marks)

1.8 The overriding purpose of an organisation is

- A. An objective.
- B. A Vision.
- C. A strategic intent.
- D. A mission.

(2 marks)

1.9 David McClelland identified three types of needs in his motivational model. Which of the following is NOT one of the identified needs?

- A. Need for self-actualisation.
- B. Need for Power.
- C. Need for achievement.
- D. Need for affiliation.

(2 marks)

1.10 An organisation owned and run by government are best classified as

- A. Public limited companies.
- B. Public sector organisation.
- C. Government departments.
- D. Open system organisation.

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

- (a) Describe the role of the Human Resource Manager in an organization. (8 marks)
- (b) Explain the importance of training and development to the organization. (6 marks)
- (c) Some parastatal organizations have been under- performing in terms of profitability but have continued operating. State the reasons the government has allowed them to continue operating. (6 marks)

[Total 20 Marks]

QUESTION THREE

One of the responsibilities of Managers is to allocate resources between tasks in order for tasks to be accomplished effectively and efficiently.

Required:

- (a) Discuss the three (3) key resources needed for a unit or organization to function and complete tasks. (9 marks)
- (b)
 - (i) Explain the meaning of Planning as a function of management. (2 marks)
 - (ii) Explain any three (3) key features of Co-operatives. (6 marks)
- (c) Explain the term Span of Control. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

Delegation of authority is common with formal relationships between jobs and the individuals who do the jobs. Employees are loyal to Managers who are considerate even at personal level.

Required:

- (a) Explain any five (5) benefits of effective delegation of authority. (10 marks)
- (b) With the help of the diagram, discuss Maslow's hierarchy of Needs Theory. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

Company C has a very high employee turnover and this has caused its reputation to go down because very few people are attracted to the company. The situation has forced the company to advertise job vacancies and interviews are held in public places where other people carry on with their business. These interviews are solely conducted by the Manager.

Required:

- (a) Apart from poor company reputation what are other three (3) disadvantages of human resource shortages that may be caused by high employee turnover. (3 marks)
- (b) Identify any four (4) disadvantages of the kind of interviews conducted by the company. (4 marks)
- (c) Poor selection of candidates may be one of the reasons for high employee turnover in the company. What are the other four (4) reasons of poor selection in this company? (8 marks)
- (d) List any five (5) the reasons for high employee turnover in the company based on the fact that it has a poor reputation? (5 marks)

[Total: 20 Marks]

QUESTION SIX

Shareholders play a very critical role in the existence of a business organisation.

Required:

- (a) Explain any five (5) interests that the shareholders tend to defend in any business entity. (10 marks)
- (b) State any four (4) elements in the social and cultural environment that affect the way business is done and the behaviour of various stake holders. (4 marks)
- (c) PESTEL analysis is a helpful tool for identifying and assessing the external influence of businesses. However, there is a limitation to the value of the technique.

Explain any three (3) limitations to the value of PESTEL analysis. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 7 - PRINCIPLES OF MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

- (a) The following are the roles of Human Resource Manager
 - (i) To ensure that employees are oriented and comply with the culture of the organization.
 - (ii) To formulate human resource policies that create industrial harmony between the employer and employees such as terms and conditions of employment.
 - (iii) To carry out orientation trainings to newly employed workers on the organization's policies.
 - (iv) To organize and facilitate trainings on organization change
 - (v) To ensure that supply and demand of human resource is balanced.

- (b) Training and development has the following benefits to the organization.
 - (i) It increases productivity, by increasing the output of goods.
 - (ii) It enhances the labor retention rate, as employees feel motivated to continue working for the organization.
 - (iii) It reduces industrial accidents, as workers are trained in safety measures.
 - (iv) Training help the organization to easily make its employees to adapt to change.

- (c) The government has allowed them to continue operating because of the following reasons:
 - (i) To ensure that rural areas that are not serviced by the private sector access goods and services.
 - (ii) To ensure that prices of goods and services are stabilized and affordable e.g ZNS mealie meal selling at K230 per 25 kg bag.
 - (iii) To provide employment to its citizens.

SOLUTION THREE

- (a) **Fully discuss the three (3) key resources needed for a unit or organization to function and complete tasks.**

The three main areas of resource management are:

1. **Human Resource Management:** Human resource management focuses on managing the organization's workforce effectively. It involves activities such as talent acquisition, employee onboarding, performance management, training and development, compensation and benefits, and employee engagement. The main objective of human resource management is to ensure that the organization has the right people with the right skills and capabilities to achieve its goals.

2. **Financial Resource Management:** Financial resource management involves managing an organization's financial assets and resources. It includes activities such as budgeting, financial planning, cash flow management, financial analysis, cost control, and financial reporting. The primary goal of financial resource management is to optimize the allocation and utilization of financial resources to support the organization's operations, growth, and profitability.

3. **Material Resource Management:** Material resource management focuses on the efficient management of physical materials and inventory. It includes activities such as procurement, inventory control, supply chain management, demand forecasting, and logistics. The objective of material resource management is to ensure that the right materials are available at the right time, in the right quantity, to support the organization's production or operational needs while minimizing waste and costs.

(b) (i) **Explain the meaning of Planning as a function of management.**

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives.

(ii) **Explain any three (3) key features of Co-operatives.**

- 1) They are open and voluntary association which means that new members can join at any time by purchasing a share, and individuals can leave if they wish to do so.
- 2) They have a democratic structure, with each member having one vote irrespective of the number of shares one holds at any particular time.
- 3) Distribution of Surplus: Apart from rendering services to their members, cooperative societies also earn some profits, which are a by-product of their business activities. Profits, however, are not earned at the cost of the members' welfare. Profits are distributed among the members not on the basis of the capital holdings, but in proportion to the participation of each member in the functioning of the society. The entire profits are, however, not distributed to the members.
- 4) Separate Legal Entity- A cooperative society is required to be registered under the Co-operative Societies Act. Registration provides it a separate legal entity. Its existence is quite different from its members.
- 5) Principle of Self and Mutual Help- Cooperative society promotes the common interests of its members through self-help and mutual help.

(c) **Explain the term Span of Control.**

Span of control refers to the number of staff members that report to a particular manager. This means a manager who supervises five employees would have a span of control of five. Businesses work to implement an ideal span of control which depends on the work being completed.

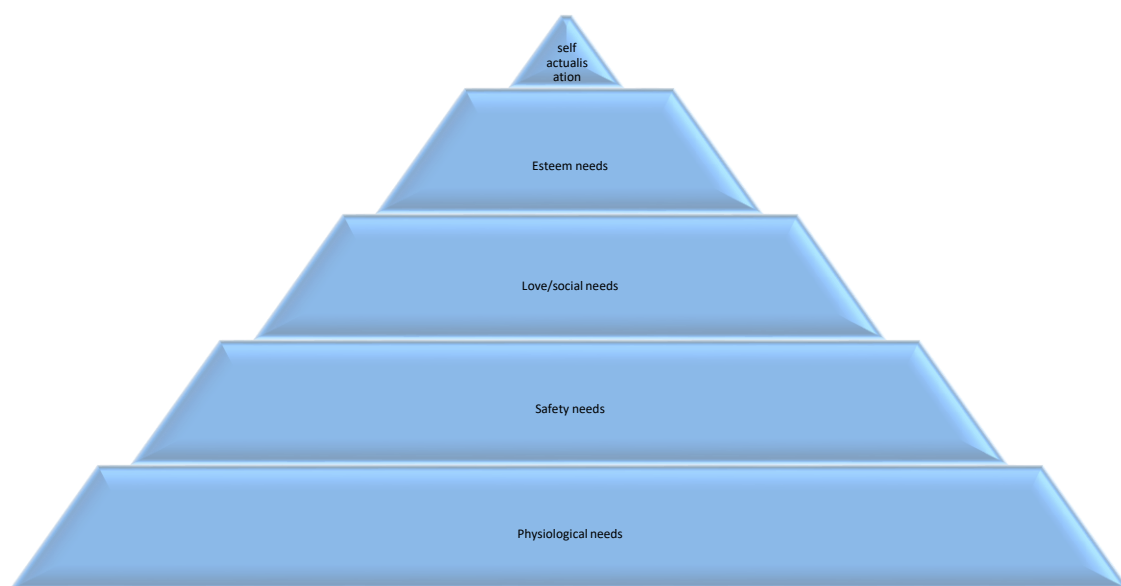
SOLUTION FOUR

(a) Benefits of effective delegation of authority.

- It offers an opportunity to train and develop staff in the organisation
- More functions can be effectively performed by skilled people with specialised knowledge.
- It saves time by allowing senior management to spend time with more strategic issues and other matters of greater importance.
- There is also limited time for senior managers, otherwise there would be too much work for manager, which can only be done through delegation of authority.
- It assists to have stronger business continuity. Teams at work places are likely to run businesses without a senior staff and without any difficulties.

(b) Maslow suggested that five needs of individuals can be arranged in hierarchy. The need at a lower the dominant motivating factor for the individual until it has been satisfied. When the need at one level has been satisfied, the need at the next level becomes dominant and the most important for the individual. A need at a higher level is not important for the individual until the needs at lower levels are satisfied.

Diagram: Maslow's Hierarchy of Needs



SOLUTION FIVE

- (a) The following are the three (3) disadvantages that may be caused by human resource shortages caused by high employee turnover:
 - (i) Shortage of production capacity
 - (ii) Shortage of skilled employees
 - (iii) Lack of proper continuity

- (b) The following are the disadvantage in company D conduct of interviews:
 - (i) The jobs are no longer as attractive because of the bad reputation of the company and may attract wrong candidates
 - (ii) Having only one person as interviewer may disadvantage the candidate due to errors in judgement
 - (iii) Conducting the interview in a wrong place exposes the candidates to a lot of distraction making the interview unfair
 - (iv) They fail to provide accurate predictions of how a person will perform in the job.

- (c) The following are the four (4) reasons of poor selection in this company:
 - (i) Poor designed application tools
 - (ii) Inappropriate selection techniques
 - (iii) Allowing an individual to make selection like the way it is done in company D
 - (iv) Lack of monitoring and review of the selection process

- (d) The following are some reasons for high employee turnover in the company based on a poor reputation?
 - (i) Low wages
 - (ii) Poor management
 - (iii) Poor work performance
 - (iv) Lack of concern for customers
 - (v) Poor work relationships

SOLUTION SIX

- (a) Interests that the shareholders tend to defend in any business entity include:
- They are interested in the value of their shares.
 - Dividends
 - The profits of the business
 - The risks of the survival of the company
 - To inspect the company's books and records when need be.
 - They also take interests in attending the annual general meetings to resolve any pressing issues.
- (b) Elements in the social and cultural environment that affect the way business is done and the behaviour of various stake holders.
- Attitude to leisure and what people like doing during their leisure time
 - The distribution of populations in terms of age and gender
 - The literacy levels.
 - Issues of gender equality and women in employment
 - The effects of HIV on society and on the work force.
 - Tribal influences
 - The values of customers. Employees and generally the public.
- (c) The limitations to the value of PESTEL analysis.
- It does not quantify the significance of environmental factors. It is difficult to compare environmental factors and decide which one is more significant than the other.
 - It may not be easy to identify the key factors that will affect the business environment in future because it usually analyses environment that exists today or that have existed in the past.
 - It may not provide any answers to problem, it is only used as a tool for analysis by management.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 8 SEPTEMBER 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

You are the Group Accountant of the Panga Co (Panga) Group. Your Finance Manager has given you the summarised statements of profit or loss for three (3) companies, Panga and its investees, for the year ended 31 December 2024 and other relevant financial information.

Statements of profit or loss for the three companies for the year ended 31 December 2024:

	Panga	Sunya	Aba
	K' 000	K' 000	K' 000
Revenue	150,000	78,000	80,000
Cost of sales	<u>(94,000)</u>	<u>(51,000)</u>	<u>(60,000)</u>
Gross profit	56,000	27,000	20,000
Distribution costs	(7,400)	(3,000)	(3,500)
Administrative expenses	(12,500)	(6,000)	(6,500)
Finance costs (note (ii))	<u>(2,000)</u>	<u>(900)</u>	<u>-</u>
Profit before tax	34,100	17,100	10,000
Income tax expense	<u>(10,400)</u>	<u>(3,600)</u>	<u>(4,000)</u>
Profit for the period	<u>23,700</u>	<u>13,500</u>	<u>6,000</u>

The following information is relevant:

- (i) On 1 May 2024 Panga Co (Panga) purchased 18 million of the 24 million equity shares in Sunya Co (Sunya). The acquisition was through a share exchange of 2 shares in Panga for every 3 shares acquired in Sunya. Both companies have shares with a nominal value of K1 each. The market price of each Panga's share on 1 May 2024 was K5.50. Panga will also pay cash equal to K2.42 per share acquired on 1 May 2026. Panga's cost of capital is 10% per annum. Sunya's reserves on 1 January 2024 were K69 million. The fair value of a 25% holding in Sunya's equity on 1 May 2024 was K6 million. Panga wishes to use the full goodwill method in respect of its investment in Sunya.
- (ii) The fair values of the net assets of Sunya at the date of acquisition were equal to their carrying amounts with the exception of property and plant. Property and plant had fair values of K5.3 million and K1.2 million respectively in excess of their carrying amounts. The increase in the fair value of the property would create additional depreciation of K200,000 in the consolidated financial statements in the post-acquisition period to 31 December 2024 and the plant had a remaining life of 2 years (straight-line depreciation) at the date of acquisition of Sunya. All depreciation is treated as part of cost of sales.

Note: The fair values have not been reflected in Sunya's financial statements. No fair value adjustments were required on the acquisition of Aba.

- (iii) The finance costs of Panga do not include the finance cost on the deferred consideration.

- (iv) Panga has held an investment of 30% of the equity shares in Aba for many years.
- (v) Prior to its acquisition, Sunya had been a good customer of Panga. In the post-acquisition period, Panga sold goods at a selling price of K10 million to Sunya. Panga made a profit of 20% on the cost of these sales. On 31 December 2024 Sunya still held 30% of inventory purchased in the post-acquisition period from Panga.
- (vi) An impairment review of the goodwill on acquisition of Sunya conducted on 31 December 2024 concluded that it should be written down by K2 million. The value of the investment in Aba was not impaired.
- (vii) All items in the above statements of profit or loss are deemed to accrue evenly over the year.
- (viii) Ignore any deferred tax.

Required:

- (a) Calculate the goodwill arising on the acquisition of Sunya on 1 May 2024.
(5 marks)
- (b) Prepare the consolidated statement of profit or loss for the Panga Plc Group for the year ended 31 December 2024.
(17 marks)
- (c) Explain the alternative methods of measuring Non-Controlling Interest (NCI) according to IFRS 3 *Business Combinations* .
(3 marks)

[Total: 25 Marks]

QUESTION TWO

The trial balance below relates to Aljan Plc (Aljan) as at 31 December 2024:

	K'000	K'000
	Dr	Cr
Ordinary shares of K1 each		25,000
Retained earnings on 1 January 2024		55,600
Current tax		6,520
Revenue		384,000
Trade receivables/Trade payables	65,320	32,400
Cost of sales	162,280	
Inventories at 31 December 2024	27,360	
Distribution costs	22,700	
Loan note interest	400	
Administrative expenses	35,700	
Property at valuation	140,000	
Plant and machinery:		
at cost	80,000	
Accumulated depreciation at 1 January 2024		30,000
5% loan notes		8,000
Ordinary dividends paid	6,000	
Deferred tax		13,400
Bank	<u>15,160</u>	
	<u>554,920</u>	<u>554,920</u>

The following additional Information is relevant:

- (1) Property was revalued for the first time to a fair value of K140 million on 31 December 2023. The revaluation resulted in a deficit of K5 million which was charged to administration expenses. The remaining economic useful life of the property was 50 years on that date. On 31 December 2024, the property must be revalued to a fair value of K135 million. Depreciation on property is charged in cost of sales.
- (2) The Directors have estimated the income tax liability on taxable profits for the year ended 31 December 2024 as K68.2 million. As at 31 December 2024, there is a net deductible temporary difference amounting to K10.8 million before taking into account any temporary difference arising from the gain or loss on revaluation of the property on that date. The applicable income tax rate for Aljan is 25%. The balance on the current tax account in the trial balance represents an under/over estimation of tax for the year to 31 December 2023.

- (3) Aljan Plc issued K8 million 5% Loan notes on 1 January 2024 at par. Issue costs incurred amounted to K160,000 and were included in administration expenses. These loan notes are redeemable after eight (8) years at a premium which will give the effective rate of interest of 8% per annum. Interest is paid annually on 31 December each year.
- (4) On 1 January, 2024, Aljan Plc sold a piece of equipment, whose carrying amount on that date was K30 million, for K50 million. The disposal proceeds and the carrying amount have been included in revenue and cost of sales respectively in the above trial balance. On the same day, Aljan Plc entered into an agreement leasing the same equipment over its remaining life of 5 years at an annual instalment payable in arrears of K12 million on 31 December each year, commencing 31 December 2024. However, application of IFRS 15, *Revenue from Contracts with Customers*, indicate that the sale transaction does not have commercial substance.
- (5) On 1 January 2024, Aljan commenced leasing of an item of plant on a 5 year lease term. The equipment has a useful economic life of 5 years. Aljan Plc incurred an additional cost of K2 million to have the plant commissioned for commercial use. Aljan Plc is required to pay annual rent of K0.7 million in arrears. The present value of the future lease payments at 1 January 2024 was K2.8 million. The lease has not yet been recorded in the books of Aljan, except the first annual rental payment and additional costs which are included as part of the cost of sales. The lease has an implicit interest rate of 8%.
- (6) It is the company policy to charge depreciation on plant, machinery and equipment at the rate of 20% per annum on a reducing balance basis.

Required:

Prepare for Aljan Plc:

- (a) The Statement of profit or loss and other comprehensive income for the year ended 31 December 2024. (12 marks)
- (b) The statement of changes in equity for the year ended 31 December 2024. (3 marks)
- (c) The statement of financial position as at 31 December 2024. (10 marks)

[Total: 25 Marks]

SECTION B

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

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

QUESTION THREE

Muliro Ltd operates in the 'Clean Energy' sector. The energy crisis in Zambia in the recent past has led to Muliro Ltd's intentions to boost its finance through issuance of more shares and is now in the process of increasing its loan finance. The financial institution that Muliro Ltd has approached for this finance requires a recent statement of cash flows. You are the Financial Accountant for Muliro Ltd. You are given the task of preparing the statement of cash flows for presentation to would-be lenders, from the following financial statements:

Muliro Ltd's statement of profit or loss for the year ended 31 March 2025.

	K'000
Revenue	62,000
Cost of sales	(38,000)
Gross profit	24,000
Other income (vi)	1,160
Administrative expenses	(8,560)
Distribution costs	(5,200)
Operating profit	11,400
Finance costs	(2,604)
Profit before tax	8,796
Income tax	(4,198)
Profit for the year	4,598
Other comprehensive income:	
Revaluation surplus (ii)	3,000
Total comprehensive income	7,598

Muliro Ltd's statements of financial position as at:

	31 March 2025	31 March 2024
	K'000	K'000
Non current assets:		
Property, Plant and Equipment (2)	38,320	36,000
Intangible assets (3)	17,000	20,000
Financial assets (1)	<u>3,000</u>	<u>4,200</u>
Total non current assets	<u>58,320</u>	<u>60,200</u>
Current assets:		
Inventory	5,428	5,000
Investments (6)	818	540
Trade receivables	4,212	3,600
Cash at bank	<u>13,106</u>	<u>100</u>
Total current assets	<u>23,564</u>	<u>9,240</u>
Total assets	<u>81,884</u>	<u>69,440</u>
Equity and liabilities:		
Equity shares of K0.50 each	24,000	14,000
Share premium	20,000	10,000
Revaluation surplus	8,400	5,400
Retained earnings	<u>6,018</u>	<u>3,020</u>
	<u>58,418</u>	<u>32,420</u>
Non current liabilities:		
8% loan notes	14,000	26,000
Deferred tax	<u>1,998</u>	<u>1,600</u>
Total non current liabilities	<u>15,998</u>	<u>27,600</u>
Current liabilities:		
Trade and other payables (iv)	3,640	3,400
Bank overdraft	-	2,400
Income tax payable	<u>3,828</u>	<u>3,620</u>
Total current liabilities	<u>7,468</u>	<u>9,420</u>
Total equity and liabilities	<u>81,884</u>	<u>69,440</u>

The following additional information is relevant:

- (i) Muliro Ltd did not make further investments in financial assets during the year ended 31 March 2025. However, there was a fair value gain on subsequent measurement of financial assets of K300,000. As at 31 March 2025 Muliro had also made a profit of K500,000 on disposal of non current Financial Assets. All non current financial assets have been classified as fair value through profit or loss (FVTPL) items in accordance with IFRS 9 *Financial Instruments*.

- (ii) Properties were revalued by K3 million during the year ended 31 March 2025. Depreciation expense for the year ended 31 March 2025 on items of property, plant and equipment was K4.14 million. There were no disposals of tangible non current assets during the year ended 31 March 2025.
- (iii) Intangible assets with the carrying amount of K190,000 were disposed of for K236,000. Amortization charge on intangible non current assets for the year ended 31 March 2025 was K3.97 million. Depreciation expense and amortization charge are included in cost of sales figure in the above statement of profit or loss.
- (iv) The trade and other payables balance includes interest accrued on loan notes of K1.3 million at 31 March 2024 and K700,000 at 31 March 2025.
- (v) During the year ended 31 March 2025, Muliro paid final dividends for the year ended 31 March 2024 and interim dividends for the year ended 31 March 2025.
- (vi) The whole amount in respect of the other income in profit or loss relates to results on non current financial assets. This includes remeasurement gains/losses, gains or losses on disposal of financial assets and dividend income.
- (vii) The current asset investments are highly liquid short term investments with an original term to maturity of not more than 3 months.

Required:

Prepare for Muliro Ltd, a statement of cash flows for the year ended 31 March 2025, in accordance with IAS 7 statement of cash flows. (25 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) Malefant Plc was incorporated into a public limited company on 1 January 2024. The CEO has a task of implementing a planned re-organisation. She is also informed that financial statements for the year to 31 December 2024 will have to comply with the content of the Conceptual Framework for Financial Reporting and International Financial Reporting Standards (IFRSs) in issue. In particular, she is concerned about the following matters:
 - (i) The Accruals basis of preparing accounts.
 - (ii) Accounting for Government Grants.
 - (iii) When revenue must be recognized in respect of contracts with customers.
 - (iv) Recognition of a provisions in respect of a legal case.

In the absence of the CFO, you are given the task of preparing notes that will be used in the discussion of the matters outlined above.

Required:

- (i) Explain the relative advantages of accruals accounting over cash basis in preparing financial statements according to the *Conceptual Framework for Financial Reporting*. (4 marks)
- (ii) Explain how Government grants are accounted for according to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. (2 marks)
- (iii) A sale is deemed to have taken place when **control** of the underlying goods or service has been passed on to the customer.

Discuss any two (2) factors to consider in determining whether a sale has taken place according to IFRS 15 *Revenue from Contracts with Customers*. (5 marks)

- (iv) Malefant has brought the following matters to your attention:
 - (1) An employee has sued the company, Malefant Plc, after a car accident whilst on duty and is claiming K50,000 as compensation. The company is only prepared to pay K20,000. (2 marks)
 - (2) As part of the re-organization of the operations, there would be redundancies to be paid of K 80,000 and remaining employees would have to be retrained at a cost of K 25,000. (2 marks)

Explain how the matters above will be reported in the financial statements, in the event of a re-organisation, according to IAS 37 *Provisions: Contingent Liabilities and Contingent Assets*.

- (b) The International Public Sector Accounting Standards Board (IPSASB) was established to promote reliable and consistent accounting practices within the public sector.

Required:

- (i) Explain two (2) objectives of private sector entities. (4 marks)
- (ii) Explain three (3) objectives of the international public sector accounting standards board (6 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) The Executive Director of Mekelani Limited attended a ZICA workshop for Non-Finance Executives recently where one of the resource persons emphasized the need for Accountants and Non-Accountants to familiarize themselves with an IASB document known as the conceptual framework. He also learnt about IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The Director has approached you as a finalist student in the diploma in Accountancy program to provide more detail on what he learnt at the workshop and specifically he wants you to:
- (i) State three (3) purposes of the IASB Conceptual Framework. (3 marks)
 - (ii) Identify and explain with practical examples, the four-measurement bases for elements within the financial statements as guided by the IASB Conceptual Framework. (8 marks)
 - (iii) With reference to IAS 21, explain the difference between monetary and non-monetary items, providing appropriate examples. (4 marks)
- (b) The public sector remains the largest employer and buyer of goods and services thereby complimenting and supporting private sector development.

Required:

Briefly explain five ways of measuring the financial performance of public sector entities. (10 marks)

[Total: 25 Marks]

END OF PAPER

DA 8 – FINANCIAL REPORTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Goodwill at acquisition of Sunya	K' 000	K' 000
Consideration		
Parent:		
Shares (18,000 x 2/3 x K5.50)		66,000
Deferred payment (18,000 x K2.42 x 0.826446 (see below))		36,000
Non-Controlling Interest		<u>6,000</u>
108,000		
Equity shares	24,000	
Pre-acquisition reserves on 1 January 2024	69,000	
To date of acquisition (13,500 x 4/12)	4,500	
Fair value adjustments (5,300 + 1,200)	<u>6,500</u>	
<u>104,000</u>		
4,000		
Impairment loss		(2,000)
Net Goodwill		2,000

End of year 2 PV factor at 10% = $1/1.10 \times 1/1.10 = 0.826446$

(b) Panga Group consolidated income statement for the year ended 31 December 2024

K' 000	
Revenue (150,000 + (78,000 x 8/12) – 10,000)	192,000
Cost of sales (w (i))	<u>(119,100)</u>
Gross profit	72,900
Distribution costs (7,400 + (3,000 x 8/12))	(9,400)
Administrative expenses (12,500 + (6,000 x 8/12)+2000 imp loss)	(18,500)
Finance costs (w (ii))	(5,000)
Share of profit from associate (6,000 x 30%)	<u>1,800</u>
Profit before tax	41,800
Income tax expense (10,400 + (3,600 x 8/12))	<u>(12,800)</u>
Profit for the year	<u>29,000</u>
Attributable to:	
Equity holders of the parent	27,400
Non controlling interest (w (iii))	<u>1,600</u>
<u>29,000</u>	

(c) Non-controlling interest measurement

The acquirer (parent) measures any non-controlling interest either:
At fair value

At fair value as determined by the directors of the acquiring company (often called the 'full goodwill' method); or

At proportionate basis

At the non-controlling interest's proportionate share of the acquiree's (subsidiary's) identifiable net assets.

Workings

		K' 000	K' 000
(i) Cost of sales			
Panga			94,000
Sunya (51,000 x 8/12)			34,000
Intra group purchases			(10,000)
Additional dep: plant (1,200/ 2 years x 8/12)	400		
Property (per question)	<u>200</u>		
600			
Unrealised profit (3,000 x 20/120)			<u>500</u>
<u>119,100</u>			
(ii) Finance costs			
Panga per question			2,000
Unwinding interest (36,000 x 10% x 8/12)			2,400
Sunya (900 x 8/12)			<u>600</u>
<u>5,000</u>			
(iii) non controlling interest			
Sunya's post-acquisition profit (13,500 x 8/12)			9,000
Less post-acquisition additional depreciation (w (i))			(600)
Less goodwill impairment loss			<u>(2,000)</u>
<u>6,400</u>			

$$6,400 \times 25\% = 1,600$$

OR

NCI share of Sunya's post acquisition profit after tax (25%*(8/12*13,500)	2,250
Less NCI share of post acquisition additional depreciation (W(i) 25%*600)	(150)
Less NCI share of impairment loss (25%*2,000)	<u>(500)</u>
	<u>1,600</u>

SOLUTION TWO

(a) **ALJAN Plc:**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the year ended 31 December 2024

	K 000	K 000
Sales (384,000-50,000)		334,000
Cost of sales (Working)		<u>(146,540)</u>
Gross Profit		187,460
Distribution costs		(22,700)
Administration expenses		<u>(40,540)</u>
Operating profit		124,220
Finance costs		<u>(851)</u>
Profit before tax		123,369
Income Tax expense		<u>(45,030)</u>
Profit for the year		<u>78,339</u>

(b) **STATEMENT OF CHANGES IN EQUITY**

	Share capital	Retained earnings	Total equity
Balances at 1.1.2024	25,000	55,600	80,600
Total CI for the year		78,339	78,339
Dividends paid		<u>(6,000)</u>	<u>(6,000)</u>
Balances at 31.12.2024	<u>25,000</u>	<u>127,939</u>	<u>152,614</u>

(c) **Aljan:**

STATEMENT OF FINANCIAL POSITION as at 30 September 2024:

K000 K000

Non Current Assets:

Property, plant and equipment (135,000+64,000) 199,000

ROUA on Lease	<u>3,840</u>
	202,840

Current Assets:

Inventories	27,360	
Trade Receivables	65,320	
Cash and Cash equivalents	15,160	
Deferred tax asset	<u>3,250</u>	
		<u>111,090</u>
Total assets		<u>313,930</u>

Equity:

Ordinary shares of K1 each	25,000
Retained Earnings	<u>127,939</u>
	152,939

Non Current Liabilities:

5% Loan note	8,067	
Lease liability	1,810	
Loan secured on Equipment	<u>50,000</u>	
		59,877

Current Liabilities:

Trade Payables	32,400	
Income Tax liability	68,200	
Lease Liability	<u>514</u>	
		<u>101,114</u>
Total equity and liabilities		<u>313,930</u>

W1:Operating Expenses Schedule

	COS	Distribut	Admin
K	K	K	
Per Trial Balance	162,280	22,700	35,700
Amortisation-ROUA	960		
Depreciation -Equipment	16,000		
Additional lease costs reversed	(2,000)		
Lease rental reversed	(700)		
Sale and lease back equip. amount reversed	(30,000)		

Issue costs -Loan notes reversed			(160)
Depreciation –Buildings (140000/50)			2,800
Loss on revaluation of property			2,200
	<u>146,540</u>	<u>22,700</u>	<u>40,540</u>

W2: Non Current Assets:

Schedule of Non Current Assets

PROPERTY

K000

Balance at start	140,000
Depreciation CHARGE Y/E 31.12.24 140000/50	<u>(2,800)</u>
Carry amount at 31.12.24 before revaluation	137,200
Revaluation loss (charge in PL, COS)	<u>(2,200)</u>
FV as new carrying amt at 31.12.2024	<u>135,000</u>

Schedule of Non Current Assets

PLANT K000

Balance as per TB	80,000
Add sale and lease back plant	30,000
Less Accumulated Depreciation 1.1.24	<u>(30,000)</u>
	80,000
Depreciation expense (0.2 x 80,000)	<u>(16,000)</u>
Carry amount at end	<u>64,000</u>

Right of Use Asset

K000

ROUA

Cost

Lease liability	2,800
Additional costs	<u>2,000</u>
Total costs capitalised -ROUA	4,800
Amortisation 4800/5	<u>(960)</u>

Carrying amount at 31.12.2024 3,840

(W3). Finance costs on.

5% loan notes	(8000-160)*8%	627
Lease liability	2,800*8%	<u>224</u>
		<u>851</u>

W4: Calculation of Deferred Tax

Temporary differences before revaluation loss	10,800
Revaluation loss	<u>2,200</u>
	<u>13,000</u>

Deferred Tax asset at 31.12.2024 25% x 13,000 3,250

W: Income Tax expense

Deferred tax b/f	(13,400)
Over provision for y/e 31.12.23	(6,520)
Current year estimate	68,200
Deferred tax asset c/f	<u>(3,250)</u>
Expense charge to SPL	<u>45,030</u>

W5. Loan Notes: Amount outstanding after the initial deposit 8,000 – 160 = 7,840

Year	Open Balance	Interest At 8%	Repayment	Closing Balance
	K000	K000	K000	K000
2024	7,840	627	(400)	8,067

W5. Lease Liability:

Year	Open Balance	Interest At 8%	Repayment	Closing Balance
	K000	K000	K000	K000
2024	2,800	224	(700)	2,324
2025	2,324	186	(700)	1,810

SOLUTION THREE

Muliro's statement of cash flows for the year ended 31 March 2025

	K'000	K'000
Cash flows from operating activities:		
Profit before tax		8,796
Adjust for : dep'n expense		4,140
Amortization expense		3,970
Fair value gain of F.A		(300)
Dividends received		(360)
Profit on disposal-financial assets		(500)
Profit on disposal-intangible assets		(46)
Finance cost		<u>2,604</u>
		18,304
Increase in inventory (5428-5000)		(428)
Increase in Receivables (4,212-3,600)		(612)
Increase in payables (2,940-2,100)		<u>840</u>
Cash generated from operations		18,104
Interest paid (W4)		(3,204)
Tax paid (W8)		<u>(3,592)</u>
Net cash inflow from operating activities		11,308
Cash flows from investing activities:		
Cash paid to acquire PPE (W1)	(3,460)	
Proceeds from disposal of intangible asset	236	
Proceed from disposal of financial asset (W2)	2,000	
Dividends received	360	
Cash paid to acquire intangible asset (W7)	<u>(1,160)</u>	
Net cash out on investing activities		(2,024)
Cash flows from financing activities:		
Proceeds from issue of shares (W6)	20,000	
Loans repaid (26,000-14,000)	(12,000)	
Dividends paid (W5)	<u>(1,600)</u>	
Net cash inflow from financing activities		<u>6,400</u>
Net increase in cash and cash equivalents		15,684
Add cash and cash equivalents at start (W9)		<u>1,760</u>
Equals cash and cash equivalents at the end (W9)		<u>13,924</u>

WORKINGS:

- Cash paid to acquire PPE:

	K'000
Balance c/f	38,320
Depreciation expense	4,140
Less: Balance b/f	(36,000)
Less revaluation gain	<u>(3,000)</u>
Cash paid to acquire PPE	<u>3,460</u>

2. Disposal proceeds from sale of financial asset:

	K'000
Balance b/f	4,200
Plus fair value gain	300
Less balance c/f	(3,000)
Equals carrying amount of disposed asset	1,500
Profit on disposal	<u>500</u>
Disposal proceeds	<u>2,000</u>

3. Trade payables excluding accrued interest:

	2025	2024
	K'000	K'000
Trade and other payables per question	3,640	3,400
Less interest accrued on loan	<u>(700)</u>	<u>(1,300)</u>
Trade payables	<u>2,940</u>	<u>2,100</u>

4. Interest paid on 8% loan notes:

	K'000
Interest accrued b/f	1,300
Plus finance cost for the year	2,604
Less interest accrued c/f	<u>(700)</u>
Interest paid	<u>3,204</u>

5. Dividends paid during the current year:

	K'000
Retained earnings	3,020
Plus profit for the year	4,598
Less retained earnings c/f	<u>(6,018)</u>
Dividends paid	<u>1,600</u>

6. Proceeds from the issue of shares:

	K'000
Share capital and share premium c/f (24,000+20,000)	44,000
Less share capital + share premium b/f (14,000+10,000)	<u>24,000</u>
	<u>20,000</u>

7. Cash paid to acquire intangible assets:

	K'000
Balance c/f	17,000
Plus amortization charge	3,970
Plus disposed intangibles	190
Less balance b/f	<u>20,000</u>
Equals cash paid to acquire	<u>1,160</u>

Profit or loss on disposal of intangible asset.

	K'000
Proceed	236
Carrying amount	<u>190</u>
Profit	<u>46</u>

8. Income tax paid:

	K'000
Deferred tax liability b/f	1,600
Current tax liability b/f	3,620
Income tax charge	4,198
Less deferred tax liability c/f	(1,998)
Less current tax liability c/f	<u>(3,828)</u>
Tax paid	<u>3,592</u>

9. Cash and cash equivalents:

	2025	2024
Cash at bank	13,106	100
Short term investments	818	540
Bank overdraft	0	(2,400)
	<u>13,924</u>	<u>(1,760)</u>

SOLUTION FOUR

(a)

- (i) Financial statements prepared on an accruals basis also account for and reports transactions on credit, such as unpaid arrears of obligations rather than keeping them as notes only. Financial statements are comprehensive in that they provide balances of non-current assets, what customers owe and what the entity owes suppliers. Reported profit is from all activities captured throughout the organization, including losses arising from loss in value of non-current assets. For this reason, financial statements prepared on an accruals basis are more informative and more reliable, because they are more representative of performance than financial statements prepared on a cash basis as is the case in public sector organisations.

Reports prepared on the cash basis fall short in all these areas, although they are administratively quicker, more objective and cheaper. They are easy to understand than those prepared on an accrual basis.

- (ii) IAS 20 *Government grants and government assistance* provides guidance on how grants should be accounted for. Government grants comes in the form of provision of cash, or other assets in exchange for compliance to stipulated conditions. They may be revenue grants which support operations, or capital grants intended to finance acquisition of non-current assets.

IAS 20 recommends that government grants be accounted for on an accruals basis. What is earned as income because performance obligations have been met will be reported as income in the statement of profit or loss of the current period. What has not been earned as income because performance obligations are yet to be met is deferred to a future period for recognition as income. Deferred income is reported in the statement of financial position under equity.

- (iii) The following are the indicators of the transfer of control:

- The entity has a present right to payment for the asset
- The customer has legal title to the asset
- The entity has transferred physical possession of the asset
- The customer has the significant risks and rewards of ownership of the asset
- The customer has accepted the asset

- (iv) A provision according to IAS 37 *Provisions: Contingent liabilities and Contingent Assets*, is a liability of an uncertain amount and timing. A liability is recognized when there is a present obligation or a constructive obligation and it is highly probable that an outflow of economic benefits will flow out of the entity, and the amount involved can be measured reliably. The following will be accounted for as follows:

1. Applying the rules in the standard Malefant Plc should first consultant the lawyer to find out the likely amounts that they would pay in such circumstances. The amount the lawyer will recommend will be the most objective, and will determine the amount of the provision for legal costs to create in the accounts. The amount that the insurance company will mention can only be reported when it is virtually certain that they will pay it.
2. The amount of redundancies of K 80,000 will be accrued as a provision arising on the reorganization. The amount of K 25 000 to be spent on training will be charged as an expense when it is actually spent, since training can be done even when there is no reorganization.

(b) (i) The primary objectives of private sector enterprises include profit maximization, economic growth, increasing market share, maximizing shareholder value, and, increasingly, corporate social responsibility (CSR).

The private sector has a goal of making business viable for owners to maintain their capital or increase their capital investment. A private-sector organization is created by forming a new enterprise or privatizing a public-sector organization. The shares of a large private-sector corporation may be privately or publicly traded.

(ii) The International Public Sector Accounting Standards Board (IPSASB) aims to improve public sector financial reporting worldwide by developing international accrual-based accounting standards (IPSAS) for governments and other public sector entities, thereby enhancing transparency and accountability.

IPSASB share the same values promoted by the IFRS Foundation Constitution the govern the operations of the IASB, whose objectives are: to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles.

IPSASB focuses on the accounting, auditing, and financial reporting needs of national, regional, and local governments, related governmental agencies, and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance, conducting educational and research programs, and facilitating the exchange of information among accountants and those that work in the public sector or rely on its work.

SOLUTION FIVE

purpose of the IASB framework

(a) (i) **Provide a Conceptual Foundation:** It establishes the concepts that underlie the preparation and presentation of financial statements, ensuring consistency across accounting standards.

Guide Standard Setting: It helps the International Accounting Standards Board (IASB) in developing and interpreting accounting standards, ensuring they align with fundamental principles.

Enhance Transparency and Comparability: By promoting consistency in accounting practices, it enhances the transparency and comparability of financial statements across different entities and countries.

Assist in Financial Statement Preparation: The framework offers guidance for preparing financial statements, helping entities apply accounting standards and deal with situations not covered by specific standards.

Support Decision-Making: It provides useful information for investors, creditors, and other users of financial statements to make informed decisions regarding the financial position and performance of entities.

(ii) four measurement basis and examples

1. Historical Cost

Definition: Assets and liabilities are recorded at their original purchase cost.

Example: A company buys machinery for K 1,000,000. It will remain recorded at this amount, even if its market value decreases over time.

2. Current Cost

Definition: Reflects the cost to replace an asset or settle a liability at current market values.

Example: A machine purchased for K 1,000,000 last year may now cost ZMK 1,200,000 to replace. The asset would be adjusted to K 1,200,000.

3. Realizable Value (Net Realizable Value)

Definition: The amount expected from selling an asset or settling a liability, minus any selling costs.

Example: Inventory bought for ZMK 1,000,000 might only sell for K 800,000 due to market conditions. It would be recorded at K 800,000.

4. Present Value (value in use)

Definition: The discounted value of future cash flows using an appropriate rate.

Example: A company expects K 2,000,000 in 5 years. The present value of that amount, discounted at a certain rate, may be K 1,600,000.

(iii) Monetary and non-monetary items

In accordance with IAS 21, monetary items are assets and liabilities that are fixed in terms of currency amounts and are affected by changes in exchange rates. Examples include cash, receivables, and payables, where their value in the functional currency fluctuates with exchange rate changes.

On the other hand, non-monetary items are assets and liabilities that are not fixed in terms of currency amounts and are not affected by exchange rate fluctuations. These items are generally measured at historical cost or fair value. Examples include property, plant, and equipment, inventory, and equity investments, whose value remains unaffected by changes in exchange rates.

The key distinction is that monetary items are subject to exchange rate variations, while non-monetary items are not.

(b) measuring performance of public sector bodies

The financial performance of public sector entities can be measured in several ways, each focusing on different aspects of their financial operations.

- Budget Adherence - Consistent adherence to the budget ensures effective use of resources and can indicate good financial management and planning.
- Revenue Generation - A well-performing entity should be able to meet its revenue targets while ensuring equitable tax collection.
- Cost Efficiency - By minimizing unnecessary expenditures, the entity ensures that resources are used efficiently in fulfilling its public service mandate.
- Return on Investment (ROI) ROI helps to determine whether public funds are being allocated to projects that provide value to the public
- Liquidity and Financial Stability - A strong liquidity position ensures that the entity can continue to provide services without financial disruption, even in times of fiscal stress.
- Debt Management – a public sector entity which sustainably manage its debt without compromising its financial stability or ability to deliver services demonstrates better financial performance.
- Financial Transparency and Accountability - High transparency fosters trust and ensures that public funds are used appropriately.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 9 SEPTEMBER 2025

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

- (a) You are a Management Accountant for XY Company. The company has existed for a number of years and in its quest to improve performance measurement, you have been nominated to attend a workshop organized by BMK solutions to enhance your understanding of budgeting in an organization. During the workshop the following matters were subject of discussion:

- (1) Top-bottom approach to budgeting (Imposed style).
- (2) Bottom-up approach (Participative approach).
- (3) Behavioral aspect of budgeting.

At present management prepares its budget and directs it to the lower-level management for execution. This approach has received mixed views among employees and some middle management staff.

Required:

Write a report to XY Company's management that explains which of the approaches to budgeting is better for the organization considering the behavioral aspects of each approach. Use an appropriate report format. (8 marks)

- (b) Another issue that was raised at the said workshop was the lack of identification of the limiting factors during budget preparation.

Required:

- (i) Define a limiting factor and give an example. (2 marks)
- (ii) Explain the stages involved in functional budget preparation. (5 marks)

- (c) The following budget of XY Company for the year ended 31 December 2023 was prepared at the following levels:

	80%	90%
	K	K
Direct material	80,000	90,000
Direct labour	88,000	99,000
Production overheads	20,000	22,000
Administration costs	120,000	120,000

Assuming that activity level at 60% is 3,000 units.

Required:

- (i) Prepare a budget at 70% level of activity. (5 marks)
- (ii) Assuming that the sales value of the doing the job at 60% level of activity is budgeted at K365,000. compute the budgeted profit/loss for XY company for the year ended 31 December 2023. (5 marks)

[Total: 25 Marks]

QUESTION TWO

- (a) Kay Ltd makes and sells a single product, Product K, with the following standard specification.

		K
Material X	12 kg x K40	480
Material Y	8 kg x K32	256
Labour	20 hours x K10	200
Fixed Production overheads	20hrs x K6	<u>120</u>
Standard Production cost/unit		<u>1,056</u>

Budgeted production per period is 200 units.

Actual results of the most recent period are as follows:-

Actual Production 220 units:	'K
Material X 2500 kg x K42	105,000
Material Y 1800 kg x K30	54,000
Labour 4600 hrs x K9.85	45,310
Fixed Production overheads	23,000

Required:

Calculate the following variances:

- (i) Material usage and price variance for each material type. (4 marks)
- (ii) Labour efficiency and rate variances. (2 marks)
- (iii) Fixed Production Overhead Expenditure and volume variances. (2 marks)
- (iv) A statement, for management reconciling the budgeted Production cost with the actual production cost. (4 marks)

- (b) Hara Ltd operates a standard costing system.

The standard direct material mix to produce 1,000 units of output for the period under review is as follows:

Material	Input	Standard Price
----------	-------	----------------

type	Quantity (units)	per unit of input K
X	600	22.00
Y	240	48.00
Z	360	30.00

During October 2024, the actual output of the product was 21,000 units.
The actual materials issued to production were:

Material type	Quantity (units)
X	14,000
Y	5,500
Z	5,500

Required:

- (i) Calculate material mix variances for each material type and in total, using the budgeted weighted average material price per unit as the variance valuation base. (10 marks)
- (ii) Calculate the material yield variance. (3 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

- (a) Lakeside is a company that specializes in the production and supply of a single chemical used by farmers to treat goats from infectious diseases. The selling price per 5 litre container of the chemical is K312. The materials cost of making each container of the chemical is K117 whilst the labour cost is estimated to be K70.20. Other variable costs associated with making and selling the chemical are anticipated to be K46.80 for each container. The annual fixed costs have been estimated to be K6,240,000. For the forthcoming month, it is anticipated that company will sell 90,000 containers of the goat treatment chemical. The company's Managing Director is very expectant that with the increase of diseases affecting the rearing of goats in the region, the company can target achieving a profit of K3,120,000 in the next budget period.

Required

- (i) Calculate the budgeted profit. (2 marks)
 - (ii) Calculate the breakeven point in number of containers. (2 marks)
 - (iii) Using C/S ratio, calculate the breakeven sales revenue. (2 marks)
 - (iv) Calculate the margin of safety. (2 marks)
 - (v) Calculate the required sales to achieve the target profit. (2 marks)
- (b) Lakeside has a policy of producing customers' needs for chemicals as special orders. The company categorizes these special orders as jobs. Lakesides has received three (3) special orders, namely, job A, job B and job C, the details of which are as follows.

	Job A	Job B	Job C
	K	K	K
Sales price	336	192	288
Materials cost	144	72	144
Direct labour cost	120	96	96
Weekly sales demand	4,000 units	4,000 units	5,000 units
Machine hours per unit	0.5 hours	0.2 hours	0.3 hours

Machine time is a bottleneck resource and maximum capacity is 4,000 machine hours per week. Operating costs are K1,108,640 per week. Direct labour workers are not paid overtime and work a standard 38-hour week. The company uses throughput accounting.

Required:

Determine the optimum production plan for Lakeside and calculate the weekly profit that would arise from the plan. (10 marks)

(c) In relation to relevant costing, explain the following terms.

- (i) Variable Costs. (1 mark)
- (ii) Incremental costs. (2 marks)
- (iii) Contribution. (2 marks)

[Total: 25 Marks]

QUESTION FOUR

- (a) PIG Ltd is launching a new innovative product on the market and is trying to decide on the right launch price for the product. Given the high level of costs which have been incurred in developing the product, PIG Ltd wants to ensure that it sets its price at the right level and has therefore consulted a market research company to help it do this. The research, which relates to similar but not identical products launched by other companies, has revealed that at a price of K120, annual demand would be expected to be 250,000 units. However, for every K4 increase in selling price, demand would be expected to fall by 4,000 units and for every K4 decrease in selling price, demand would be expected to increase by 4,000 units. A forecast of the annual production costs which would be incurred by PIG Ltd in relation to the product are as follows:

Annual Production (units)	200,000	250,000	300,000	350,000
	K	K	K	K
Direct material	4,800,000	6,000,000	7,200,000	8,400,000
Direct labour	2,400,000	3,000,000	3,600,000	4,200,000
Overheads	2,000,000	2,300,000	2,600,000	2,900,000

Required:

- (i) Calculate the variable cost per unit and total fixed overheads. (3 marks)
- (ii) Calculate the profit maximizing selling price for the new product and calculate the resulting profit for the period.
Note: If $P = a - bx$ then $MR = a - 2bx$. (7 marks)

- (b) The Marketing Director on the other hand believes that since the product is new and unique, the market skimming pricing method would be better than the optimum pricing method.

Required:

Explain the meaning of market skimming pricing method and outline the conditions suitable for this pricing method to be effected. (5 marks)

- (c) PIG management are contemplating the introduction of throughput Accounting.

Required:

- (i) Describe throughput accounting. (1 mark)
- (ii) Explain three (3) advantages and three (3) disadvantages of throughput Accounting. (9 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Senga Hill Limited is a company that is involved in the manufacture of spare parts commonly used by speed boats on Lake Tanganyika in Mpulungu district of Zambia. The company has been approached by a customer who would like a special job to be undertaken and manufacture a batch of spare parts for the fleet of speed boats it owns. The customer is intending to make a payment of K572,000 for this special order. The job would require the following materials:

Material	Total required	Kilos already in inventory	Book Value of Kilos in inventory K/Kilo	Realizable Value K/Kilo	Replacement Cost K/Kilo
A	2,000	-	-	-	156
B	2,000	1,200	52	65	130
C	2,000	1,400	78	65	104
D	400	400	104	156	234

Notes:

- (1) Material B is used regularly by Senga Hill Limited, and if units of B are required for this job, they would need to be replaced to meet other production demand.
- (2) Materials C and D are in inventory as the result of previous overbuying, and they have a restricted use. No other use could be found for material C, but the kilos of material D could be used in another job as substitute for 600 kilos of material E, which currently costs K130 per kilo of which the company has no units in inventory now.

Required:

Determine the relevant costs of material, in deciding whether or not to accept the special order. (10 marks)

- (b) Sportswear Limited, a manufacturer of soccer boots is in the process of introducing a new version to the market and has undertaken market research to find out about customers' views on the value of the soccer boots and to obtain a comparison with competitors' products. The results of this research have been used to establish a target selling price of K1,560 per pair. This is the price that the company thinks it will have to sell the new version of soccer boots in order to achieve the required sales volume. Cost estimates have been prepared based on the proposed product specifications.

Manufacturing cost	K
Direct material	84.00
Direct labour	625.00
Direct machinery costs	30.00
Ordering and receiving	6.00
Quality assurance	120.00

Non-manufacturing costs:

Marketing	210.00
Distribution	85.00
After-sales service	34.00

The target profit margin for the game is 30% of the target selling price.

Required:

Calculate the target cost of the new soccer boot and the target cost gap. (5 marks)

- (c) Cash is a critical component of an effective system of working capital management for any organization. A cash budget is one such tool used by organizations to estimate the future cash requirements and disbursements. It effectively highlights potential instances of cash surpluses or shortages thereby enabling organizations to develop appropriate strategies well in advance of dealing with the risks associated with cash surpluses or shortages.

Required:

State five (5) ways of managing cash shortages. (5 marks)

- (d) Management accounting is 'the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information'.

Required:

Outline five (5) differences between Financial Accounting and Management Accounting.

(5 marks)

[Total: 25 Marks]

END OF PAPER

DA9 - MANAGEMENT ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Report

To: Management of XY Company
From: Management Accountant
Date: Date of examination
Subject: Approaches to budgeting

Top bottom

It is a budget prepared at the top level and imposed on the lower management for implementation.

Advantages

- . It is easy to prepare
- . It captures the aspirations/plans of top management accurately

Disadvantages

- . There is no sense of belongingness from the lower-level management
- . Employees may want to frustrate the budget to prove a point

Bottom up

It is a budget that is prepared at the bottom level and forwarded to top management for approval

Advantages

- . It brings in a sense of belonging since employees participated and therefore likely to support the budget
- . Targets set are likely to be realistic

Disadvantages

- . Budgetary slack is likely to be incorporated in the budget and as such make a budget of no use

It consumes a lot of time because of the participation of many employees

(b) (i) **Limiting factor**

It is a factor that restricts or limits an activity for example sales could be a limiting factor when budgeting.

(ii) **Stages in budget preparation (functional)**

- Sales budget preparation
- Production budget
- Material usage budget
- Material purchases budget
- Labour budget
- Production overhead budget
- Master budget

(C)

(i) Flexed budget at 70% level of activity

	K
Direct material	70 000
Direct labour	77 000
Production overhead	18 000
Administration costs	<u>120 000</u>
Total	<u>285 000</u>

(ii) At 60% activity

	K
Direct material	60 000
Direct labour	66 000
Production overhead	16 000
Administration costs	<u>120 000</u>
Total cost	<u>262 000</u>

	K
If the sales value is budgeted at	365 000
Budgeted costs	<u>(262 000)</u>
Budgeted profit	<u>103 000</u>

Workings:

80% - 4,000

90% - 4,500

70% - 3,500

60% - 3,000

SOLUTION TWO

	Material X	Material Y
(a) (i) Material usage variance (std Qty X qty) std price	(2640 – 2500) x K40 K5,600 (F)	(1760 – 1,800) x K32 K1,280 (A)
Material price (std price Act. price) Act. Qty	(40 – 42) x 2,500 K5,000 (A)	(32 – 30) x 1,800 K3,600 (F)

(ii) Labour efficiency variance = (std Hrs – Act Hrs) x std Rate
= (4,400 – 4,600 Hrs) x K10
= K2,000 (A)

Labour Rate variance = (Std Rate – Act. Rate) x Act hrs
= (K10 – K9.85) x 4,600
= K690 F.

(iii) Fixed overhead expenditure variance = (Budgeted – Actual)
= (200 units x K120) – K23,000
= K1,000 (F)

Fixed overhead volume variance = (Budgeted volume – Actual volume) x FOAR
= (200 units – 220 units) x K120
= K2,400 (F)

(iv) Cost reconciliation statement

Standard cost (220 units x k1,056)			232,320
	<u>Fav.</u>	<u>Adverse</u>	
Material x usage	5,600		
Material y usage		1,280	
Material x price		5,000	
Material y price	3,600		
Labour efficiency		2,000	
Labour rate	690		
Fixed overhead expenditure	1,000		
Fixed overhead volume	<u>2,400</u>		
	13,290	8280	<u>5,010(F)</u>
Actual cost (159,000 + 45,310 + 23,000)			<u>227,310</u>

(b) (i) <u>Mix variance</u>	x	y	z	total
Actual input (units)	14,000	5,500	5,500	25,000
Std mix (wi) (50%,20%,30%)	12,500	5,000	7,500	25,000
Difference in quantity	1,500	500	- 2,000	-
Difference in weighted				
Price and std Price (w2)	7.6 F	18.4 A	0.4 A	
Mix variance	11,400 F	9,200 A	800 F	3,000 F

(ii) Yield variance	units
Std yield $\frac{1000}{1200} \times \frac{25000}{1}$	20,833.33
Actual yield	21,000.00
Quantity variance	166.67 F
Std cost per unit of output (w3)	35.52
Yield variance	<u>K5,920.12</u>

Working

$$(1) \text{ Std mix } X \times \frac{600}{1200} \times \frac{25000}{1} = 12,500 \text{ units}$$

$$Y \times \frac{240}{1200} \times \frac{25000}{1} = 5,000 \text{ units}$$

$$Z \times \frac{360}{1200} \times \frac{25000}{1} = 7,500 \text{ units}$$

$$(2) \text{ Weighted average price} = \frac{(600 \times 22) + (240 \times 48) + (360 \times 30)}{1200} = \text{K}29.6/\text{unit}$$

$$\begin{aligned} \text{Therefore difference in price } X & 29.6 - 22 = \text{K}7.6 \\ Y & 29.6 - 48 = -\text{K}18.4 \\ Z & 29.6 - 30 = -\text{K}0.4 \end{aligned}$$

$$(3) \text{ Std cost per unit of output} = \frac{(600 \times 22) + (240 \times 48) + (360 \times 30)}{1000} = \text{K}35.52$$

SOLUTION THREE

- (b) (i) *Calculation of budgeted profit*

	K
Contribution (90,000 containers@K78(w1))	7,020,000
Less fixed costs	(6,240,000)
Budgeted profit	<u>780,000</u>

- (ii) *Calculation of breakeven point in number of containers*

Fixed costs/contribution per unit

$$K6,240,000/K78$$

80,000 containers

- (iii) *Using C/S ratio, calculate the breakeven sales revenue*

Fixed Costs/Contribution to sales ratio

$$K6,240,000/0.25$$

K24,960,000

- (iv) *Calculation of the margin of safety*

$$\text{Margin of Safety} = \frac{\text{Budgeted Containers} - \text{Breakeven Containers}}{\text{Budgeted Containers}} \times 100$$

$$= \frac{90,000 - 80,000}{90,000} \text{ containers} \times 100$$

$$= \mathbf{11.1\%}$$

- (v) *Calculation of sales revenue to achieve target profit*

$$\frac{\text{Fixed Costs} + \text{Target profit}}{\text{C/S Ratio}}$$

$$\frac{K6,240,000 + K3,120,000}{0.25}$$

K37,440,000

Notes & Workings

- Contribution per unit = sales price per unit – Variables costs per unit
= K312 – K234
= K78
- Contribution Sales Ratio = K78/K312

$$= 0.25$$

(b) Determination of the optimum production plan for Lakeside

Step 1: Determine the bottleneck resource

Machine hours required

Job A (4,000 units x 0.5 machine hours)	= 2,000
Job B (4,000 units x 0.2 machine hours)	= 800
Job C (5,000 units x 0.3 machine hours)	= <u>1,500</u>
	4,300
Machine hours available	<u>4,000</u>
Short fall	<u>300</u>

Step 2: Calculate the throughput per unit for each product

	Job A	Job B	Job C
	K	K	K
Sales price	336	192	288
Materials cost	(<u>144</u>)	(<u>72</u>)	(<u>144</u>)
Throughput/unit	<u>192</u>	<u>120</u>	<u>144</u>

Step 3: Calculate throughput per unit of limiting factor (machine hours)

	Job A	Job B	Job C
Machine hours per unit	0.5 hours	0.2 hours	0.3 hours
Throughput per machine hour	K384*	K600	K480

* K192/ 0.5 hours = K384

Step 4: Rank products

Job A	Job B	Job C
3rd	1st	2 nd

Step 5: Allocate resources to arrive at optimum production plan

The profit-maximizing weekly output and sales volumes are as follows.

Job	Units	Bottleneck Resource hours/unit	Total Hours	Throughput per hour K	Total throughput K
B	4,000	0.2 hours	800	600	480,000
C	5,000	0.3 hours	1,500	480	720,000
			2,300		
A (bal)	3,400	0.5 hours	<u>1,700</u>	384	<u>652,800</u>
			4,000		1,852,800
				Less: operating expenses	(1,108,640)
				Profit per week	<u>744,160</u>

(c) Explanation of relevant costing terms

(i) *Variables Costs*

These are costs where the total will vary with the volume. In the case of production costs, the total will vary with the level of production, whereas in the case of selling costs the total will vary with the level of sales. These are relevant because they influence decision making.

(ii) *Incremental costs*

Incremental means extra, or additional. These are any extra costs which would be incurred as a result of the decision and will therefore be relevant to the decision.

(iii) *Contribution*

The contribution per unit is the difference between the selling price and all variable costs per unit. It is of fundamental importance in decision making, because it is this element of profit that will vary with volume – the fixed costs, by definition, staying fixed.

SOLUTION FOUR

$$\begin{aligned} \text{(a) (i) – Variable cost per unit} &= \frac{\text{Change in cost}}{\text{Change in output}} \\ &= \frac{2\,900\,000 - 2\,000\,000}{350\,000 - 2\,000\,000} \\ &= \frac{900\,000}{150\,000} \\ &= \text{K6 per unit} \end{aligned}$$

Other direct costs = K 7 200 000 ÷ 200 000 units = K36

Total K 42. 00

- Fixed overheads	High	Low
	K	K
Total cost	2,900,000	2,000,000
Les variable costs (QTY x K6)	<u>(2,100,000)</u>	<u>(1,200,000)</u>
Total Fixed overheads (K)	<u>800,000</u>	<u>800,000</u>

(ii) Calculate the “b” value where $b = \frac{\text{Change in Prices}}{\text{Change in Qty}}$

$$b = \frac{K4}{4000} = 0.001$$

Calculate the “a” value, given that when P = K120, Qty = 250000 units

$$\text{and } P = a - bQ$$

$$K120 = a - (0.001 \times 250000 \text{ units})$$

$$120 = a - 250$$

$$a = 120 + 250$$

$$a = K370$$

Establish the demand function where MC = MR

$$\text{But } MC = 42 \text{ (w1) and } MR = a - 2 bQ.$$

$$42 = K370 - 0.002a$$

$$\text{Re – arrange } 0.002Q = K370 - 42$$

$$Q = 328 \div 002$$

$$Q = 164\,000 \text{ units}$$

$$\begin{aligned}
 \text{Optimum selling Price} &= P - a - bQ \\
 &= P = K370 - (0.001 \times 164000) \\
 &= K370 - 164 \\
 &= K206
 \end{aligned}$$

Profit statement

	K
Sales (164,000 units x K206)	33,784,000
Less variance costs (164,000 x K42)	<u>16,888,000</u>
Contribution	26,896,000
Less fixed overheads	<u>(800,000)</u>
	<u>26,096,000</u>

- (b) Market skimming pricing involves charging high prices when a product is first launched and spending heavily on advertising and sales promotion to obtain sales. As the product moves into the later stages of its life cycle, progressively lower prices will be charged and so the profitable "cream" is skimmed off in stages until sales can only be sustained at lower prices.

The aim of market skinning is to gain high unit profits early in the product's life.

Circumstances in which such a policy may be appropriate:

- Where the product is new and different, so that customers are prepared to pay high prices so as to be one up on other people who do not own it.
- Where the strength of demand and the sensitivity of demand to price are unknown.
- Where high prices in the early stages of a product's life might generate high initial cash flow. A firm with liquidity problems may prefer marked skimming for this reason.

Where products may have a short life cycle, and so need to recover their development costs and make a profit relatively quickly.

- (c) Throughput accounting

(i) **Throughput accounting**

Throughput is the difference between sales and materials cost. This accounting system treats material costs as the only variable cost. The rest of the costs including labour are treated as fixed in the short term. The throughput accounting ratio (TPAR) is the performance measurement. TPAR is the rate at which income is generated. If rate above 1 means that the product or service is financially beneficial.

(ii) Advantages and disadvantages of throughput accounting.

Advantages

1. Helps to formulate the best possible production plan. This plan leads to maximum utilization of scarce resources and maximum profit.
2. It helps closely understanding contribution, production procedures, and cost behavior.
3. Throughput concepts can be applied quickly; it's flexible in terms of application and greatly help in decision making.
4. Its rational and considers product demand while making a production plan.

Disadvantages

1. It can be difficult to understand the concept of throughput accounting for non-financial people.
2. It is not easy to compile detail such as variable and fixed production elements.
3. The concept is only applicable when you have bottleneck resources and multiple products.
4. It is short-term approach to profitability that does not consider long-term objectives that might be achieved by selling some other product mix rather than suggested by throughput.
5. The application can be more complicated if there are multiple bottlenecks.
6. It can only be successfully applied in a just in time (JIT) environment of inventory.

SOLUTION FIVE

(a) Determination of relevant costs of materials

- (i) **Material A:** this is not owned and would have to be bought in full at the replacement cost of K156 per unit.
- (ii) **Material B:** this is used regularly by the company. There is existing inventory (1,200 units) but if these are used on the contract under review a further 1,200 units would be bought to replace them. Relevant costs are therefore 2,000 units at the replacement cost of K130 per unit.
- (iii) **Material C:** 2,000 units are needed and 1,400 are already in inventory. If used for the contract, a further 600 units must be bought at K104 each. The existing inventory of 1,400 will not be replaced. If they are used for the contract, they could not be sold at K65 each. The realizable value of these 1,400 units is an opportunity cost of sales revenue forgone.
- (iv) **Material D:** these are already in inventory and will not be replaced. There is an opportunity cost of using D in the contract because there are alternative opportunities either to sell the existing inventory for K156 per unit (K31,200 in total) or avoid other purchases (of material E), which would cost $600 \times K130 = K39,000$. Since substitution for E is more beneficial, K39,000 is the opportunity cost.

Summary of relevant costs

	K
Material A (2,000 units x K156)	312,000
Material B (2,000 units x K130)	260,000
Material C (600 units x K104) plus (1,400 units x K65)	153,400
Material D	<u>39,000</u>
Total	<u>764,400</u>

(b) Calculation of the target cost of the new soccer boot and the target cost gap

	K
Target selling price	1,560
Target profit margin (30% of selling price)	468
Target cost (1,560 – 468)	1,092
Projected cost	1,194
Target cost gap (target cost – projected costs)	102

(c) Five (5) ways of managing cash shortages within the context of working capital management include:

- (i) Readjusting the business plan or model in order to improve revenue generating lines.
- (ii) Accelerating receivables collection initiatives
- (iii) Negotiating longer period for payables
- (iv) Consider borrowing options such bank overdraft or short-term loan
- (v) Slashing expenses by prioritizing expenses related to operations and generation of revenue.
- (vi) Selling off non-essential assets.

(d) Five (5) differences between financial and management accounting.

S/N	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
1	It's a legal requirement. Thus, it is mandatory.	Entirely optional and at the discretion of management
2	Reports on the whole part of the business	Reports on small parts or segments of the business
3	Financial Statements (FS) conform to prescribed formats	Management reports formats are at the discretion of management
4	Historically oriented	Both historic and future orientations in the reports
5	Reports published annually or semi-annually	Reports maybe prepared daily, weekly, or monthly.

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 11 SEPTEMBER 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%

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%
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Industrial buildings:

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

Low cost housing (Cost up to K100,000)

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%
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Farming allowances

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

Presumptive Taxes

Turnover Tax

Annual turnover

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

Motor vehicles for the transport of ten or more persons, including the driver	Aged 2 to 5 years		Aged over 5 years	
	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	Aged 2 to 5 years Excise duty	Aged over 5 years Customs duty	Aged over 5 years Excise duty
---	---	--	---	--

K	K	K	K
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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
Motor vehicles for the transport of goods	Aged 2 to 5 years Customs duty	Aged over 5 years Excise duty	Aged over 5 years Customs duty	Aged over 5 years Excise duty
Single cab	K	K	K	K
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

AQUA Plc is a Zambian resident company engaged in manufacturing. The company listed its shares on the Lusaka Securities Exchange (LuSE) in 2021 when 38% of its issued equity shares were taken up by indigenous Zambians, and this percentage was still held by indigenous Zambians as at 31 December 2025. The annual turnover of the company has always exceeded K5,000,000. The following is the statement of profit or loss extract for the year ended 31 December 2025:

		K
Gross profit		16,210,000
Other income	(Note 1)	<u>920,000</u>
		17,130,000
Expenses		
Sales and distribution	(Note 2)	(1,650,000)
Administration expenses	(Note 3)	(5,250,000)
Other operating expenses	(note 4)	<u>(6,840,000)</u>
Profit before tax		<u>3,390,000</u>

The following additional information is relevant:

Note 1 – Other income

This figure is made up of dividends amounting to K57,800 (net), management consultancy fees of K620,075 (net) and profit on disposal of assets of K242,125. Withholding tax had been deducted at source in each case where applicable.

Note 2 – Sales and distribution expenses

This figure includes advertising expenses K430,000, free trade samples given to the public during a sales promotion K590,000, entertainment of customers K290,000, gifts to customers of company calendars costing K100 each totaling K120,000, and gifts of food hampers to customers costing K80 each totaling K220,000.

Note 3 – Administration expenses

Included in this figure are salaries and wages of K3,600,000, employer's NAPSA contributions of K180,000, employer's NHIMA contributions of K36,000 and skills development levy of K18,000. The balance is made up of revenue expenses which are all allowable for tax purposes. The figure for salaries includes the Managing Director's gross emoluments amounting to K680,000. The Managing Director is accommodated in a company owned house for which he does not pay rent.

Note 4 – Other operating expenses

These expenses comprise the following:

	K
Fines for breach of labour laws	108,900
Accountancy and audit fees	622,000
Staff Christmas party	130,000
Depreciation	544,000
Loans to former employees written off	272,100
Increase in general provision for irrecoverable debts	204,600
Loans to former employees previously written off now recovered	(116,800)
Donations to approved public benefit organisations	1,530,000
Staff canteen expenses	487,200
Other revenue allowable expenses	<u>3,058,000</u>
	<u>6,840,000</u>

Note 5 – Buildings

The company owns a building which it acquired in 2022 at a cost of K2,800,000. The cost was made up of land valued at K300,000, a factory valued at K1,700,000, staff canteen valued at K200,000 and administration offices valued at K600,000.

Note 6 – Implements, plant and machinery

At 1 January 2025, the company held the following implements, plant and machinery:

Asset	Original cost	Income tax value at 1 January 2025
	K	K
Toyota Camry car	220,000	Nil
Mitsubishi Truck	500,000	100,000
Manufacturing equipment	2,300,000	1,150,000
Office equipment	170,000	127,500

During the year ended 31 December 2025, the company entered into the following capital transactions:

	Cost/(proceeds)
	K
Sold Toyota Camry	(190,000)
Sold Mitsubishi Truck	(550,000)
Bought Toyota Prado Car (2800 cc)	450,000

The Toyota Prado car is used by the Finance Manager on personal-to-holder basis. It has been agreed with the Commissioner General that the manager has private use of 45% in the car.

Note 7 – Provisional income tax

The company paid provisional income tax amounting to K711,020 during the year ended 31 December 2025.

Required:

- (a) Calculate the amount of capital allowances claimable by the company on:
 - (i) Buildings (5 marks)
 - (ii) Implements, plant and machinery (6 marks)
- (b) Calculate the taxable business profits for the year ended 31 December 2025. (9 marks)
- (c) Calculate the amount of company income tax payable by AQUA Plc for the tax year 2025. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Salome had been employed at ZPP Ltd as an Electrical Engineer until 30 September 2025, when she retired from employment. During the year ended 31 December 2025, she was entitled to a basic salary amounting to K373,200 per annum, housing allowance of 20% of the basic salary and transport allowance of 10% of the basic salary.

The company has always paid education fees for her children. During the year ended 31 December 2025, the company paid total fees amounting to K44,800 towards her children's school fees.

In addition, the company paid personal life insurance premiums amounting to K2,900 per month on her behalf during the year ended 31 December 2025. The company bought airtime for her amounting to K1,000 per month to be used solely to make business calls.

On 1 May 2025, the company awarded her a labour day award comprising of a four (4) – plate gas cooker valued at K16,000 and cash amounting to K7,000.

On retirement, the company paid her pension amounting to K2,100,000, repatriation pay amounting to K45,000, severance pay amounting to K122,000 and leave pay amounting to K80,000.

She had always used her privately owned motor vehicles in the performance of duties of employment. During the tax year 2025, she used her Nissan Murano Car (2600 cc) in the

performance of her duties of employment up to the date of retirement. She acquired this motor car in 2023 at a cost of K250,000. It has been agreed with the Commissioner General that Salome used her motor vehicle 40% in the performance of her employment duties.

The following deduction and payments were made from her gross emoluments during the year ended 31 December 2025:

	K
Income tax deducted under PAYE	131,119
Employee's NAPSA contributions	18,194
Employee's NHIMA contributions	3,732
Professional subscription fees	6,000
Donations to approved public benefit organisation	5,800
Motor car running expenses	18,900

In addition to her employment income, Salome received the following income from Zambian sources during the year ended 31 December 2025:

	K
Dividends from LuSE listed companies	16,000
Dividends from companies not listed on LuSE	23,800
Copyrights royalties	50,150
Management consultancy fees	26,775

The above amounts represent the actual cash received in each case. Withholding tax had been deducted at source where appropriate.

Required:

- (a) State the tax treatment of each of the following income received by Salome for the year ended 31 December 2025 and compute the amount of withholding tax deducted at source in each case:
- (i) Dividends from LuSE listed companies (1 mark)
 - (ii) Dividends from companies not listed on the LuSE (2 marks)
 - (iii) Copyrights royalties (2 marks)
 - (iv) Management consultancy fees (2 marks)
- (b) Calculate the amount of income tax payable by Salome for the tax year 2025. You should indicate using a zero (0) all amounts of employment benefits that are exempt from income tax. (18 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

- (a) Timwe Zulu owns a number of residential properties in Lusaka which are let out specifically to University and College students. In 2025, he let out fifteen (15) residential flats to students at the nearest private university. Each flat comprises forty (40) bed spaces and all the bed spaces were occupied by the students in all the properties during the tax year 2025. He charges rentals of K750 per bed space per month.

Required:

Calculate the amount of rental income tax payable by Timwe Zulu for the tax year 2025.
(4 marks)

- (b) Turnover tax is a direct tax charged on gross turnover of persons whose annual business annual earnings are K5,000,000 or less.

Required:

State any four (4) types of persons who are not liable to turnover tax. (4 marks)

- (c) Chatika Limited is a Zambian resident company which is registered for Value Added Tax (VAT). It trades in both taxable and exempt supplies.

The following information is provided in respect of the month ended 30 June 2025:

- (1) Sales invoices totaling K3,750,000 were issued to customers. Included in this figure were standard rated sales amounting to K2,450,000, while exempt sales were K562,500. The remainder of the sales were all zero rated.
- (2) The company received an advance deposit of K143,000 for a special order in respect of standard rated goods that were to be delivered by the end of July 2025. The total value of goods, as indicated on the invoice issued, was K640,000 inclusive of the deposit.
- (3) Standard rated purchases totaling K362,000 and exempt purchases of K126,000. Included in standard rated purchases are goods amounting to K78,000 bought from suppliers who are not registered for VAT purposes.
- (4) General standard rated expenses amounted to K162,400 (VAT inclusive). Included in this figure is a sum of K46,400 (VAT inclusive) incurred on entertaining suppliers. Input VAT on all standard rated expenses is recoverable for VAT purposes.
- (5) The company wrote off a bad debt amounting to K54,000 on 30 June 2025. The bad debt arose from two (2) invoices of K27,000 each in respect of which payment was due in August 2023 and in March 2024.

- (6) The company bought a delivery van at a cost of K348,000 (VAT inclusive). The cost of diesel used in the van during the month of June 2025 was K69,600 (VAT inclusive). In the same month the company also bought a Toyota Corolla at a cost of K220,000 as a pool car. Non-current assets are used to make both taxable and exempt supplies in proportion to sales.
- (7) All the general expenses are incurred in making both taxable supplies and exempt supplies.
- (8) **Unless stated otherwise, all of the above figures are exclusive of VAT.**

Required:

- (i) Explain the meaning of the basic tax point for goods and services and the circumstances when it can be amended. (4 marks)
- (ii) Calculate the amount of VAT payable by Chatika Limited for the month of June 2025. You should indicate by the use of zero (0) all items on which VAT is not chargeable or recoverable. (13 marks)

[Total: 25 Marks]

QUESTION FOUR

Peter Mwakoi has been a farmer for some time now. The average turnover from his business in the last four (4) years has been around K10,300,000. For the year ended 31 December 2025, he made a tax adjusted farming profit of K1,450,000, after deducting capital allowances.

At 1 January 2025, he had a tax loss brought forward from farming of K330,000, which arose from 2024 farming season as a result of the drought. Peter does not intend to make an election to average profits generated in the tax year 2025, with the loss suffered in the previous year.

Peter is also a successful artist in the music industry. During the year ended 31 December 2025, he received royalties amounting to K42,500 (net).

He paid provisional income tax amounting to K54,300 in respect of the year ended 31 December 2025.

Other information

Peter Mwakoi entered into the following capital transactions during the year ended 31 December 2025:

- (1) On 26 June 2025, he sold 35,000, K1 equity shares in Supershake Limited, a private limited company for K10 each being the market value as determined by approved share valuation methods. He bought these shares six (6) years ago at a total cost of K80,000.
- (2) On 20 July 2025, he sold 10 hectares of land in Mkushi for K500,000. This was the market value as determined by the Government valuation experts. He bought the land five (5) years ago at a cost of K165,000.

- (3) On 31 July 2025, he sold a Toyota Corolla for K45,000 being the open market value of the car. The car was acquired seven (7) years ago at a cost of K90,000.
- (4) On 22 September 2025, he gave his first born son a two (2) bedroomed house as a gift after graduating from the University. The house was acquired twelve (12) years ago at a total cost of K350,000. The market value of the house was determined to be K1,600,000 as at the date of transfer.
- (5) On 15 October 2025, he sold 10,000 K0.5 equity shares in Kariba Plc, a company listed on the Lusaka Securities Exchange (LuSE) for K8 each. The shares were bought from an Initial Public Offer (IPO) in 2015 at a price of K3.00 per share.

Required:

- (a) Explain the circumstances under which income from farming may be averaged. (2 marks)
- (b) Calculate the amount of income tax payable by Peter Mwakoi for the tax year 2025. (10 marks)
- (c) State the due date when the tax you have computed in (b) above is payable and the consequences of paying this tax late. (3 marks)
- (d) Explain the property transfer tax implications of each of the transactions above which Peter Mwakoi undertook during the year. Your answer should include a computation of the amount of property transfer tax paid on each transaction. (10 marks)

[Total: 25 Marks]

QUESTION FIVE

- (a) Professional code of ethics for the accountancy profession is designed to provide guidance to professional accountants. The International Ethics Standards Board for Accountants (IESBA) a body of IFAC, lays down fundamental principles in the Code of Ethics for Professional Accountants.

Required:

Explain the meaning of the following fundamental principles:

- (i) Integrity (2 marks)
 - (ii) Professional behaviour (2 marks)
 - (iii) Objectivity (2 marks)
- (b) Taxes in Zambia are administered by the Zambia Revenue Authority (ZRA). It falls under the Ministry of Finance and National Planning and is managed by an independent board. The Chief Executive officer of ZRA is the Commissioner General who is appointed by the Republican President. He has several powers provided to him by the Act.

Required:

- (i) State any three (3) powers of the Commissioner General of the Zambia Revenue Authority (ZRA). (3 marks)
- (ii) State any three (3) circumstances under which the Commissioner General may exercise the right to make an estimated assessment of tax. (3 marks)
- (c) Limbani imported a brand new twenty-six (26) seater Rosa Mini-bus at a cost of \$15,000 (Free on board) on 1 April 2025, from a motor car dealer in Japan. He paid insurance charges amounting to \$1,100 and freight charges amounting to \$1,900. Other incidental costs incurred up to Nakonde Border Post were \$600. He paid transport costs from NAKonde to Lusaka amounting to K11,000. The bus was registered comprehensively for K8,500 per annum, while road tax was K1,800. The bus has a cylinder capacity of 3,000 cc and was manufactured in 2024.

The Commissioner General had advised that for the month of April 2025, the exchange rate to be used was K26.50 per \$1. However, most of the local Bureau De Change had quoted an exchange rate of K27.40 per \$1 at that time.

Required:

- (i) Explain any three (3) methods that may be used to value imported goods other than the transaction value method. (6 marks)
- (ii) Calculate the Value for Duty purposes of the Rosa mini-bus and the total import taxes paid by Limbani on the importation of the motor vehicle. (7 marks)

[Total: 25 Marks]

END OF PAPER

DA 10 – TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Capital allowances for the tax year 2025

(i)	Buildings	
	Factory	K
	Wear & tear: (K1,700,000 x 5%)	85,000
	Staff canteen	
	Wear & tear: (K200,000 x 5%)	10,000
	Administration offices	
	Wear & tear: (K600,000 x 2%)	<u>12,000</u>
	Total capital allowances	<u>107,000</u>

Workings

Qualifying expenditure = K2,800,000 – K300,000 = K2,500,000.

K2,500,000 x 10% = K250,000.

The cost of non-industrial building, administration offices, is more than 10% of the qualifying expenditure; therefore, it should be classified as a commercial building.

(ii) COMPUTATION OF CAPITAL ALLOWANCES ON IMPLEMENTS, PLANT & MACHINERY

Toyota Camry Car	K	K
Income tax value b/f	Nil	
Disposal proceeds	<u>(190,000)</u>	
Balancing charge	<u>(190,000)</u>	(190,000)
Mitsubishi Truck		
Income tax value b/f	100,000	
Disposal proceeds (restricted to cost)	<u>(500,000)</u>	
Balancing charge	<u>(400,000)</u>	(400,000)
<u>Manufacturing equipment</u>		
Wear & tear: K2,300,000 x 50%		1,150,000
<u>Office equipment</u>		
Wear & Tear: K170,000 x 25%		42,500
<u>Toyota Prado Car</u>		
Wear & tear: K450,000 x 20%		<u>90,000</u>
Total capital allowances		<u>692,500</u>

(b) AQUA PLC

COMPUTATION OF TAXABLE BUSINESS PROFITS FOR THE YEAR ENDED 31 DECEMBER 2025

	K	K
Profit before tax		3,390,000
Add:		
Entertainment of customers	290,000	
Gifts of food hampers	220,000	
Free accommodation benefit (K680,000 x 37%)	251,600	
Fines for breach of labour laws	108,900	
Depreciation	544,000	
Loans to former employees written off	272,100	
Increase in general provisions	204,600	
Staff canteen expenses	487,200	
Personal-to-holder car benefit	<u>57,600</u>	
		<u>2,436,000</u>
		5,826,000
Less:		
Dividends	57,800	
Management consultancy fees	620,075	
Profit on disposal of assets	242,125	
Loans previously written off now recovered	116,800	
Capital allowances on:		
Buildings	107,000	
Implements, plant and machinery	<u>692,500</u>	
		<u>(1,836,300)</u>
Taxable business profit		<u>3,989,700</u>

(c) AQUA PLC

COMPANY INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	K
Taxable business profits	3,989,700
Add:	
Management fees: K620,075 x 100/85	<u>729,500</u>
Total taxable income	<u>4,719,200</u>
Company income tax K4,719,200 x (30% - 5%)	1,179,800
Less:	
Provisional income tax paid	(711,020)
WHT – Management fees (K729,500 x 15%)	<u>(109,425)</u>
Income tax payable	<u>359,355</u>

SOLUTION TWO

(a) The following is the income tax treatment of the amounts of other income received by Salome and the amount of Withholding tax paid on other income for the tax year 2025.

(i) Dividends from LuSE listed companies

Dividends received from companies that have listed their shares on the Lusaka Securities Exchange are subjected to withholding tax at a rate of 0% and this is the final tax. Therefore, there was no withholding tax paid by Salome on these dividends.

(ii) Dividends from companies not listed on LuSE

Dividends received from companies that are not listed on the Lusaka Securities Exchange are subjected to withholding tax at a rate of 15% and this is the final tax. This means that these dividends are not subjected to further assessment.

The amount of withholding tax paid on these dividends amounted to: $K23,800 \times 15/85 = K4,200$.

(iii) Copyrights royalties

Copyright royalties received are subjected to withholding tax at a rate of 15% and this is not the final tax. This means that the gross amount of royalties received will be added to employment income received by Salome and subjected to further income tax assessment.

The amount of withholding tax paid on the royalties amounted to: $K50,150 \times 15/85 = K8,850$.

(iv) Management consultancy fees

Management consultancy fees are subjected to withholding tax at a rate of 15% and this is not the final tax. This also means that the management fees received will be added to employment income received by Salome and subjected to further income tax assessment.

The amount of withholding tax paid on management consultancy fees by Salome amounted to: $K26,775 \times 15/85 = K4,725$.

(b) SALOME'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

Income from employment:	K	K
Basic salary: $(K373,200 \times 9/12)$		279,900
Housing allowance: $(K279,900 \times 20\%)$		55,980
Transport allowance: $(K279,900 \times 10\%)$		27,990
Education fees		44,800
Life insurance premiums: $(K2,900 \times 9)$		26,100
Airtime		0
Labour day awards		0
Pension		0

Repatriation pay		0
Severance pay		0
Leave pay		<u>80,000</u>
Gross income from employment		514,770
Other income		
Copyrights royalties: (K50,150 x 100/85)	59,000	
Management fees: (K26,775 x 100/85)	<u>31,500</u>	
		<u>90,500</u>
		605,270
Less:		
Professional subscription fees	6,000	
Donations to approved public benefit organization	5,800	
Motor car running expenses (K18,900 x 40%)	7,560	
Capital allowances: (K250,000 x 20% x 40%)	<u>20,000</u>	
		<u>(39,360)</u>
Taxable income		<u>565,910</u>
<u>Income Tax</u>		
First K61,200 @0%		0
Next K24,000 @20%		4,800
Next K25,200 @30%		7,560
Excess (K565,910 – K110,400) x 37%		<u>168,539</u>
Income tax liability		180,899
Less:		
Income tax paid under PAYE	131,119	
WHT on:		
Royalties: (K59,000 x 15%)	8,850	
Management fees: (K31,500 x 15%)	<u>4,725</u>	
		<u>(144,694)</u>
Income tax payable		<u>36,205</u>

SOLUTION THREE

(a) TIMWE ZULU

COMPUTATION OF RENTAL INCOME TAX FOR THE TAX YEAR 2025

	K
Rental income (15 x 40 x K750 x 12)	<u>5,400,000</u>
First K12,000 x 0%	0
Next (K800,000 – K12,000) = K788,000 x 4%	31,520
Balance (K5,400,000 – K800,000) x 16%	<u>736,000</u>
Rental income tax	<u>767,520</u>

(b) The following persons are excluded from turnover tax:

- (i) Any person carrying on a business where the annual turnover is over K5,000,000.
 - (2) Any individual or partnership carrying on the business or public service vehicle for the carriage of persons.
 - (3) Any partnership carrying on business irrespective of whether the turnover is over K5,000,000.
 - (4) Income of partners arising from the partnership since the partnership producing that profit is excluded from turnover tax.
 - (5) Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
 - (6) Any person who is involved in mining operations as provided under the Mines and Minerals Development Act.
- (ii) 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:

- (1) 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.
- (2) Where a tax invoice is issued within a period of 14 days after the basic tax point, the basic tax point is the time when the invoice is issued.

(c) COMPUTATION OF VAT PAYABLE FOR THE MONTH OF JUNE 2025

	K	K
<u>OUTPUT TAX</u>		
Standard rated sales (K2,450,000 x 16%)		392,000
Exempt sales		0
Zero rated sales (K737,500 x 0%)		0
Special order (K640,000 x 16%)		<u>102,400</u>
		494,400
<u>INPUT TAX</u>		
Standard rated purchases (K362,000 – K78,000)x16%	45,440	
Exempt purchases	0	
General expenses (K162,400 – K46,400) x 4/29 x 85%	13,600	
Entertaining suppliers	0	
Bad debts (K27,000 X 16%)	4,320	
Delivery van (K348,000 X 4/29) x 85%	40,800	
Diesel (K69,600 X 4/29) x 90% x 85%	7,344	
Toyota Corolla	<u>0</u>	
		<u>(111,504)</u>
VAT payable		<u>382,896</u>

Working:

$$\begin{aligned}\text{Proportion of taxable supplies made} &= \frac{\text{Taxable supplies}}{\text{Total supplies}} \times 100 \\ &= \frac{\text{K3,750,000} - \text{KK562,500}}{3,750,000} \times 100 \\ &= 85\%\end{aligned}$$

SOLUTION FOUR

(a) Income from farming or fishing may be averaged if:

- (1) The farmer made a loss in the first consecutive tax year and a profit in the second consecutive tax year; or
- (2) The profit for the first consecutive tax year is substantially lower than the profit for the second consecutive tax year.

(b) PETER'S

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2025

	Total	Non-farming	Farming
	K	K	K
Royalties (K42,500 X 100/85)	50,000	50,000	
Profit from farming	<u>1,450,000</u>	-	<u>1,450,000</u>
	1,500,000	50,000	1,450,000
Trading loss b/f	<u>(330,000)</u>	-	<u>(330,000)</u>
	1,170,000	50,000	1,120,000
Less tax free income	<u>(61,200)</u>	<u>(50,000)</u>	<u>(11,200)</u>
Taxable income	<u>1,108,800</u>	-	<u>1,108,800</u>
Tax on non-farming income:		0	
Tax on farming income:			
10% X K1,108,800		<u>110,880</u>	
		110,880	
Less tax already paid:			
WHT –Royalties (50,000 X 15%)		(7,500)	
Provisional income tax		<u>(54,300)</u>	
Final income tax payable		<u>49,080</u>	

WORKINGS

The loss brought forward from the previous year can only be offset against 50% of the taxable profits of K1,450,000 generated in the tax year 2025. 50% of K1,450,000 gives K725,000. Since the loss of K330,000 is lower than K725,000, the whole loss will be offset.

(c) The final income tax of K49,080 for the tax year 2025 should be paid not later than 21 June 2026.

If the tax is paid late the consequences are that:

- (1) A penalty at the rate of 5% of the tax due per month or part thereof will arise.
- (2) Interest at the BOZ discount rate plus 2% per annum will arise.

(d) The following are the property transfer tax implications:

- (1) The transfer of shares in a company not listed on the Lusaka Securities Exchange (LUSE) is chargeable to Property Transfer Tax. The realised value is the higher of the nominal value and the open market value. Therefore, the realised value is K350,000 being the higher value than the nominal value.

$$\text{Property transfer tax} = \text{K}350,000 \times 8\% = \text{K}28,000$$

- (2) The transfer of land is chargeable to Property Transfer Tax. The realised value is the higher of the actual price paid and the open market value. Therefore, the realised value is the open market value of K500,000.

$$\text{Property transfer tax} = \text{K}500,000 \times 8\% = \text{K}40,000$$

- (3) The transfer of a Toyota Corolla car is outside the scope of PTT, being a movable asset. Property tax is not chargeable on movable assets or chattels. The realised value is nil and no PTT is payable.
- (4) The transfer of property to a member of an immediate family is not chargeable to property transfer tax unless a consideration was paid. The son qualifies as a member of an immediate family. The realised value is nil and no PTT is payable.
- (5) The transfer of shares in a company listed on the Lusaka Securities Exchange is not chargeable to PTT. The realised value is nil and no PTT is payable.

SOLUTION FIVE

(a) (i) Integrity

Members shall be straightforward and honest in the professional and business relationships. The principles of honesty and integrity impose an obligation on the practitioner to ensure straightforward, fair dealings, a commitment not to mislead or deceive and truthfulness. This means that a member providing tax services shall ensure that their own personal tax obligations and those of any associated entities for which the member is responsible are properly discharged.

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

(ii) Professional behavior

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession. Members shall act in a manner consistent with the good reputation of the Institute and the tax profession, refraining from any conduct that might bring the profession into disrepute.

Members shall conduct themselves professionally with due consideration towards clients, third parties, other members of the tax profession, staff, employers and the general public.

(iii) Objectivity

Member shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements. Members shall be impartial and not allow prejudice or bias conflict of interest or the influence of others to over-ride their objective judgement in relation to tax matters.

In situations where a member is required to act as an advocate for a client when representing or assisting them before tribunals or courts of law, the member shall ensure that the client is aware that the member has an obligation not to mislead the court or Tribunal and safeguard their professional objectivity.

(b) (i) The following are the powers of the Commissioner General:

- (1) Power to request a return to be submitted at any time
- (2) Power to request financial statements and other documents to be submitted for examinations.
- (3) Power to examine any person for the purpose of obtaining information
- (4) Power to search and seize money, documents and property

(ii) The Commissioner General may make an estimated assessment of tax in the following circumstances:

- (1) A person has not submitted a return as required by the Act.
- (2) The return submitted does not satisfy the Commissioner General.
- (3) The Commissioner General has reason to believe that the person is about to leave the Republic.

(c) (i) The other methods that may be used to value imported goods are as follows:

- (1) Transaction value of identical goods

This is the price of identical goods imported by another importer into Zambia from the same source, including insurance, freight and other incidental costs.

- (2) Transaction value of similar goods

This is the price of similar goods imported by another importer into Zambia from the same source, including insurance, freight and other incidental costs.

- (3) Deductive value

This is the price at which identical or similar goods are sold in their quantity in Zambia.

- (4) Computed value

This is the price based on cost of production, insurance, freight and other costs incurred in the delivery of the goods to Zambia.

- (5) Residual basis of value (fall – back)

This is the price arrived at by going through the above five methods flexibly.

(ii) COMPUTATION OF VDP ON IMPORTATION OF ROSA BUS

	\$
Cost	15,000
Insurance charges	1,100
Freight charges	1,900
Incidental costs	<u>600</u>
CIF	<u>18,600</u>
Value for Duty purposes ($\$18,600 \times K26.50$)	492,900

COMPUTATION OF IMPORT TAXES PAID

Value	Taxes paid
K	K

VDP	492,900	
Customs duty (K492,900 x 15%)	<u>73,935</u>	73,935
	566,835	
Excuse duty	<u>0</u>	0
	566,835	
Import VAT (K566,835 x 16%)	<u>90,694</u>	90,694
Total value	<u>657,529</u>	
Total import taxes paid		<u>164,629</u>

END OF SUGGESTED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 11 SEPTEMBER 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 (2) COMPULSORY questions in this section.

Attempt Both questions.

QUESTION ONE

You are an Audit Manager of Bamba & Co. (Bamba) and you are conducting a review of the internal control system of Vanga Co. (Vanga) for the year ending 31 December 2024. Vanga Co, a listed company specializing in the manufacture of copper cables, employs three hundred (300) production staff across its factories in Lusaka. The audit firm currently documents the internal control system of Bamba & Co. using narrative notes but plans to transition to flowchart documentation.

Vanga Co. pays its production employees weekly through the bank online system. Employees are issued electronic staff identification cards which they are required to swipe in and out to record their working hours. The Payroll Supervisor closely monitors this process. The staff identification system automatically transfers the hours worked to the main payroll system for computation of wages. Due to the automated nature of the system and its inbuilt controls, no additional checks are performed on the hours transferred.

The Human Resource (HR) department generates a payroll schedule from the system and submits it to the finance department for wage payments. The Payroll Supervisor performs sample checks to verify the completeness and accuracy of the payroll schedule, focusing on gross-to-net pay calculations. Any necessary amendments to payroll data are made by the Payroll Supervisor, who is most familiar with the system. Although the system generates a weekly report of amendments, this report is not reviewed, as all amendment requests are approved in advance of processing by the Human Resources Director. The Accounts Payments (AP) Accountant prepares the weekly bank payments for wages. The Chief Financial Officer (CFO) reviews and authorizes the total amount on the payments list before forwarding it to the Financial Accountant for processing.

Vanga Co. maintains a petty cash float of K5 million for sundry purchases. Employees requesting petty cash receive the approved amount and sign for it. While employees are required to return any excess funds to the Petty Cash Cashier, there is no requirement to provide receipts for expenditure incurred.

Vanga Co. operates six (6) bank accounts with different banks to facilitate financial operations. The Financial Accountant reconciles the main bank account monthly and the remaining five (5) bank accounts are reconciled quarterly. The Finance Manager reviews these reconciliations and evidences the review by signing off on them.

Raw materials for copper cable manufacturing are purchased from various suppliers. Vanga Co. does not maintain an approved suppliers list. Purchase orders are raised by the Procurement Officer and approved by the Procurement Supervisor who reports to the Procurement Director.

At the year-end, significant work-in-progress (WIP) is expected, which is likely to be material in the financial statements. Vanga Co. values WIP based on the percentage of completion and applies standard costs to these percentages. As part of the audit, Bamba & Co. has agreed with Vanga Co's management to attend the year-end inventory count.

Required:

- (a)
 - (i) Explain one (1) advantage and one (1) disadvantage of documenting an internal control system using narrative notes. (2 marks)
 - (ii) Explain one (1) advantage and one (1) disadvantage of documenting internal control systems using flowcharts. (2 marks)
- (b) In respect of the system of internal control of Vanga Co:
 - (i) Identify and explain five (5) internal control deficiencies. (5 marks)
 - (ii) Recommend a control activity to address each of these deficiencies. (5 marks)
 - (iii) Describe a test of control the auditor should perform for each of the control activities in (ii) above. (5 marks)
- (c) Explain two (2) inherent limitations of an internal control system. (2 marks)
- (d) Describe two (2) substantive procedures the auditor should perform in relation to valuation of work in progress. (4 marks)

[Total :25 Marks]

QUESTION TWO

Zebra Transport Ltd is a newly established transport company primarily focused on the transportation of cargo from Zambia to neighboring countries. The company's Board of Directors has yet to implement robust internal control measures, particularly in areas such as expenditure authorization for truck-related costs.

The company operates in a highly competitive environment, facing significant pressure from foreign transporters in the Southern African region. In response, Zebra Transport Ltd has been actively lobbying the Ministry of Transport for tax concessions or increased taxes on foreign trucks to create a more favorable operating environment for local transport companies.

A critical issue within the organization is the lack of adherence to governance protocols. Management frequently makes decisions without obtaining the necessary approval from the Board of Directors, leading to the overriding of internal controls. A recent internal audit conducted uncovered collusion between two (2) employees in the accounts and sales departments, resulting in the theft of company assets. This prompted the company to invest K65,000 in a computerized security system and the engagement of a security firm in order to reduce theft, particularly that of spare parts.

Bruce Chartered Accountants have been appointed as the external auditors. One (1) of their initial tasks is to observe the stock taking process at Zebra Transport Ltd. During this exercise, it was noted that a portion of the inventory was obsolete. If sold, this inventory would likely fetch a price below the original cost.

Zebra Transport Ltd buys its fuel supplies on credit and currently has trade payables amounting to K85, 000. Zebra Ltd has provided the audit team with a schedule of accounts payables at the

period end. There is an accounts payables control account in the general ledger and there are individual supplier records containing the monthly supplier statements and reconciliations done by the accounts staff. The majority of the supplier reconciliations show differences between the balance per supplier statements and the balances in the individual supplier ledger accounts.

Despite operational challenges, including asset losses due to theft and intense competition from foreign transport companies, Zebra Transport Ltd declared and paid a dividend of K750, 000 for the year ended. Additionally, the company is facing a legal dispute with a customer who claims that goods were damaged while in transit. Legal advisors have recommended the recognition of a provision in the financial statements because the likelihood of an unfavorable outcome of the case is high.

Required:

- (a) Suggest one (1) audit procedure for each of the following assertions to be performed on the value of the computerized security system:
 - (i) Completeness. (2 marks)
 - (ii) Existence. (2 marks)
 - (iii) Rights and obligations. (2 marks)
 - (iv) Accuracy. (2 marks)
- (b)
 - (i) Explain four (4) audit procedures to be performed on inventory after the inventory count. (4 marks)
 - (ii) Explain two (2) situations in which the net realizable value of inventory is likely to be less than the cost. (4 marks)
- (c)
 - (i) Explain four (4) audit procedures to be performed on trade payables. (4 marks)
 - (ii) Suggest three (3) audit procedures to use when obtaining audit evidence on the provision for the legal case in the financial statements of Zebra Transport Ltd. (3 marks)
- (d) Explain two (2) audit procedures to be performed on the amount of dividends paid in the year. (2 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Home Appliances Plc is a company in the manufacturing industry involved in the manufacture of a wide range of domestic appliances. The company has been operating for more than ten (10) years and has seen a rapid increase in profitability during this time until recently when the company faced competition from a company importing similar products and selling them at lower prices. The revenue of the company has dropped significantly during the current year impacting the liquidity position of the company.

The major shareholders of Home Appliances Plc are concerned about the drop in revenue and profitability and have indicated that unless measures are put in place they may consider divesting and selling off the company. The Board of Directors was tasked to come up with a strategy in the short and medium term to turn around the company.

The Board of Directors met and made a number of resolutions with a view to turning around the company and avoid the intended divestment by the major shareholders. Below is a summary of the resolutions made:

- (1) In order to boost sales revenue and attract customers, the company will extend thirty (30) days credit to its retail customers who previously were on cash on delivery basis.
- (2) The company should meet set profit target levels by reducing on administration overheads by ten (10) % in the next two (2) years. If this will be achieved, a bonus of 2% of the increase in profit as a result of the cost reductions will paid to management and staff.
- (3) The company will be required to undertake extensive refurbishment of the production equipment. This will involve replacement of some equipment and also repairing other pieces of equipment. There has been a noted increase in the number of defective items in the recent past.
- (4) In order to retain its major customers the company should with immediate effect give a one (1) year warranty on all products sold. This will involve repairing or replacing defective items.

Ruth & Associates Chartered Accountants were auditors of Home Appliances Plc until the previous year when the company decided to change auditors. Chris & Co are the new auditors of Home Appliances Plc. and they will be auditing the financial statements of a manufacturing company for the first time. In considering accepting appointment as auditors of Home Appliances Plc. the firm took into consideration the fact that Chris who will be assigned Engagement Partner worked for Home Appliances Plc. until recently when he joined Chris & Co. as partner.

In coming up with the audit plan for the audit of the financial statements of Home Appliances Plc. for the year ended 31 March 2025, the senior members of the audit team suggested that the

audit team should consider audit risk as high and this should be taken into consideration when determining the materiality levels to be used in the conduct of the audit.

The audit team will be required to obtain sufficient appropriate evidence which will form the basis of the audit opinion. In doing so, the audit team will be required to seek external evidence in specific audit areas including accounts receivables and bank balances. Among the audit procedures that will be conducted is the re-computation of the year end bank reconciliation by the audit team and where necessary obtaining written representations from management. The audit team will also be required to inspect relevant documents to support the figures in the financial statements to enable the auditors to obtain sufficient appropriate evidence which will be the basis for the audit opinion. In performing audit procedures, the audit team should consider the necessary factors in deciding on the reliability of the evidence to be obtained.

Required:

- (a)
 - (i) Explain the level of materiality that should be set at the planning stage of the audit of Home Appliances Plc considering the high level of audit risk. (2 marks)
 - (ii) Explain two (2) possible uses of the materiality level set at the planning stage of the audit of the financial statements of Home Appliances Plc. (4 marks)
- (b)
 - (i) Describe three (3) audit risks in the audit of the financial statements of Home Appliances Plc. and for each audit risk suggest a suitable audit response. (6 marks)
 - (ii) Describe two (2) business risks in the operations of Home Appliances Plc. (4 marks)
- (c) Explain the meaning of sufficient and appropriate audit evidence that should be obtained in the audit of the financial statements of Home Appliances Plc. (4 marks)
- (d) Explain five (5) generalizations that will help assess the reliability of the audit evidence that will be used in obtaining evidence in the audit of the financial statements of Home Appliances Plc. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Impala Engineering Ltd (Impala) operates a network of garages and fitment centers across the country. There was a disagreement between management and the auditors of Impala Engineering Ltd over accounting treatment of some transactions which prompted the auditor to issue a modified opinion. This did not please the Board of Directors which resolved to remove the auditors without any notice or compensation. OBI Chartered Accountants (OBI) has been appointed as the new auditors following the removal of the previous auditors.

The Board of Directors of Impala Engineering Ltd requested management to evaluate the need for the company to establish an internal audit department. The Managing Director tasked the Finance Director to consider setting up an internal audit function to enhance monitoring of controls due to the increased scale of operations. The Finance Director formed a team to evaluate the factors necessary for establishing an internal audit function. He suggested that if an internal audit function is not established, the company should consider outsourcing internal audit services.

OBI Chartered Accountants recently took on more than four (4) new audit clients, resulting in an increased workload for its audit team. To manage this, OBI employed five (5) additional Audit Assistants, most of whom are new to auditing. During a review of previous audit files, an intern encountered the terms "true and fair" and sought clarification from senior auditors regarding their meaning.

During the current year audit, OBI Chartered Accountants encountered several challenges, including:

- (1) Disagreements with management over the application of certain accounting policies and bases.
- (2) Disagreement over the wording form and content of the audit report and
- (3) Obtaining the requested written representations.

The audit team is considering communicating matters of concern to those charged with governance in accordance with the provisions of ISA 260 *Communication with those charged with governance*.

During the year, an Accountant who was conversant with tax computations resigned. OBI Chartered Accountants has been approached to help with tax computations at an additional fee. Impala Engineering Ltd has also engaged a firm of valuers to provide valuation services. A Partner at OBI has shares in the firm that is conducting a valuation on behalf of Impala. Additionally, the Engagement Partner is a board member of a local golf club where the Managing Director of Impala Engineering Ltd serves as treasurer.

A customer filed a lawsuit against Impala Engineering Ltd, alleging that their vehicle was not properly repaired at one (1) of the company's branches. Management requested that OBI Chartered Accountants act as witnesses in the case, as they had previously inspected documents confirming that the work was completed to the customer's satisfaction. Furthermore, OBI entered

into a new contract with Impala Engineering Ltd, under which the audit fee would be an agreed percentage of the company's profits after tax.

Required:

- (a) (i) Explain the meaning of the terms 'true' and 'fair' used in the audit opinion paragraph of the audit report. (2 marks)
- (ii) Explain three (3) procedures that should have been followed in removing the previous auditors from office. (3 marks)
- (b) Explain three (3) matters that auditors need to communicate to those charged with governance in the audit of the financial statements of Impala Engineering Ltd. (6 marks)
- (c) Explain four (4) ethical threats being faced by OBI Chartered Accountants during the audit of Impala Engineering Ltd and suggest a suitable safeguard for each threat. (8 marks)
- (d) (i) Explain three (3) factors that should be considered when assessing the need for establishing an internal audit function. (3 marks)
- (ii) Explain three (3) benefits that Impala Engineering Ltd would get if it outsourced its internal audit services. (3 marks)

[Total: 25 Marks]

QUESTION FIVE

You are an Audit Supervisor at Samba & Associates (Samba) and are responsible for the audit of Mukwa Co. a timber manufacturing company with factories across the country. Mukwa Co's customer base consists of both retailers and individual customers, and its financial year ends on 31 December 2024. As part of the audit planning process, your Audit Manager has provided you with key audit matters to consider.

Samba & Associates recently hired audit juniors, and the audit Engagement Partner has proposed a training session on ISA 210: *Agreeing the terms of audit engagements*. The training aims to ensure that audit juniors understand the preconditions for an audit, the contents of an audit engagement letter, and situations that require amendments to the engagement letter. Additionally, during the training, you are expected to explain the concepts of low balling, materiality, and professional skepticism. One (1) of the audit juniors suggested that low balling should not be permitted as it may compromise audit quality. Following the training, the audit juniors will be assigned to the audit of Mukwa Co.

In the past three (3) months, Mukwa Co. modified its manufacturing process to meet increased production demands. As a result, new equipment was purchased, with purchase requisitions raised by the Production Clerk and authorized by the production supervisor.

Mukwa Co. significantly increased its prices during the current year, leading to a decline in sales from key customers. This decline affected the company's cash flow, causing delays in payments to major suppliers. Some suppliers have withdrawn credit facilities, requiring Mukwa to operate on Cash on Delivery (COD) basis. One (1) of the main suppliers issued multiple demand letters and is now threatening taking legal action for overdue payments. The increasing accounts payable balance has resulted in the company's current ratio falling to 0.5, a significant decline from the required benchmark of 2.

To assess its financial position, Mukwa Co's Finance Director prepared a cash flow forecast up to 30 June 2025, which projects net cash outflows. The Finance Director acknowledges that the company's weak liquidity position may impact its ability to repay a K350 million loan due on 31 March 2025. Additionally, the Finance Director informed the Audit Manager of a potential change in legislation that may prohibit the manufacturing of one (1) of Mukwa Co's top timber products, as it would no longer comply with the proposed law. However, the impact of the change in legislation has not been reflected in the cash flow forecast. Mukwa Co. management's assessment on the ability of the company as a going concern concluded that it is a going concern and prepared the financial statements on that basis.

Mukwa Co. relies on a bank overdraft facility from its bankers, which is renewed every three (3) months. Management remains confident that the facility will be renewed in January 2025 due to a strong business relationship with the bank.

Required:

- (a) (i) Explain three (3) main preconditions that should be present prior to accepting the audit of Mukwa Co. (3 marks)
- (ii) State two (2) matters which should be included in an audit engagement letter. (2 marks)
- (b) Explain the terms materiality, low balling and professional scepticism. (6 marks)
- (c) Describe four (4) substantive procedures that auditors should perform at the year end to confirm equipment additions. (4 marks)
- (d) (i) Explain five (5) potential indicators that Mukwa Co. may not be a going concern. (5 marks)
- (ii) Describe five (5) audit procedures that auditors should perform to assess whether or not Mukwa Co. is a going concern. (5 marks)

[Total 25 marks]

END OF PAPER

DA 11 – PRINCIPLES OF AUDITING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) Advantages of using narrative notes:

- They are simple to record after discussion with members of staff.
- They can be used for any system being recoded.

Disadvantages of narrative notes:

- They are difficult to change whenever the system changes requiring rewriting which can be cumbersome unless they are computerised.
- They are time consuming in preparing compared to other methods.

(ii) Advantages of using flowcharts:

- It is easy to view the system as a whole because it is presented in one diagram
- Standard controls symbols mean missing controls are easy to spot.
- With experience they can be drawn quickly.

Disadvantages of flowcharts:

- Changes can be difficult as often the whole flowchart needs re-drawing.
- Narrative notes will still be needed to explain the flowchart and hence it can be time consuming.
- They are usually suitable for recording standard systems only.
- Time may be wasted in charting systems that are of no audit significance.

(b) Deficiencies, recommendations and test of Control of Vanga Co

S/ N	(i)Deficiencies	(ii)Recommendations	(iii)Test of Control
1	No checks are performed on the transfer of hours worked from payroll card system to the main payroll system. There is a risk that errors and overpayments could be made.	The transfer of hours worked from the payroll card system to the main payroll system should be checked by a senior official in the payroll department. This check should be evidenced by a way of signature.	Review a sample of weeks hours worked transferred from the payroll card system to the main payroll system for evidence that they have been checked by a senior official before the payroll is finalised.
2	The payroll officer makes amendments to the payroll data. There is a risk that the officer may wrongly amend the data or fraudulently inflate the pay of friends and family	The amendment to the payroll data should be done by a senior official within the payroll department such as a Payroll Manager. This manager should have a	Perform test data by asking the payroll clerk to access the system using his username and password and amend the payroll data. If the payroll clerk is denied by

	members, leading to wrong payments been made and the company losing funds/money.	unique password to avoid unauthorised amendments to the payroll data.	the system, it would mean the control is effective.
3	Amendments report is produced weekly by the system, but it is not reviewed. There is a risk that errors or fraudulent amendments such as inflated pays of friends or family members may go un-noticed or undetected, since there is no control activity.	Amendments report should be reviewed by a senior official within the payroll departments such as Human Resource Director. In this way, errors and fraudulent amendments can be detected.	Review the amendments report for evidence that it was checked by a senior official within the payroll department such as the Human Resource Director. This check should be evidenced by a way of a signature.
4	The Chief Financial Officer (CFO) reviews the total amount of the bank payments list and authorises it. There is a risk that incorrect/wrong payments could be made to suppliers or fictitious/ghost suppliers could be paid, leading to loss of funds/money.	The CFO should review the whole supplier payments list before authorising the list and agree the amounts to be paid to supporting documentation. The CFO should also review the whole list to avoid any duplication of payments. This review should be evidenced by signature.	Inspect a sample of payments listings for evidence that they were checked i.e. amounts agreed to supporting documentation and approved by the Chief Financial Officer. The checks and approvals should be evidenced by away of signature.
5	No requirement for receipts to be provided. There is a risk of purchasing goods or items for personal gain or use, since it is not possible to verify how petty cash is used because no receipts are required to be submitted to the petty cash cashier by the petty cash recipients.	For all petty cash paid, receipts and excess funds/money should be submitted to the petty cash cashier timely and recorded in the petty cash book, clearly stating the amount, date, recipient details, and purpose of the petty cash payment. Supporting documents should be part of the documents supporting the retirement of petty cash.	Review a sample of petty cash payments for evidence of receipts retirement and review the recording of the petty cash payments in the petty cash book for evidence of records of the amount, date, recipient details, purpose of the petty cash payment, etc.
6	Financial Accountant reconciles the main bank account on a monthly basis and the other 5 bank accounts per quarter. He is also the same person processing the payments. There is a risk of errors or	There should be segregation of duties so that errors and fraud can be detected. The reconciliations of all bank accounts should be done on a monthly basis and reviewed by a senior	Review the organisation chart/structure for evidence that there is segregation of duties and for a sample of months enquire of evidence of monthly bank reconciliations and

	fraud going un-noticed or un-detected since there is no segregation of duties.	official. The review should be evidenced by a way of signature.	inspect the bank reconciliations for evidence (signatures) that these were reviewed.
7	There is no approved suppliers list. There is a risk that goods or items of poor quality may be purchased, which will affect the quality of products produced or goods/items may be received from unreliable suppliers, who may not deliver on time which may affect production, leading to loss of customers' orders and revenues. The best prices may also not be paid.	There should be an approved suppliers list in place so that goods/items are purchased from approved suppliers so that quality goods are purchased at best prices and the delivery time is as per contract or agreement, so that production is not affected and customers' orders not lost.	Review a sample of suppliers who were given orders and supplied goods/items and agree these suppliers to the approved suppliers list.
8	The purchase order is raised by the Procurement Officer, and it is approved by the Procurement Supervisor. There is a risk of staff collusion, and this increases the possibility of fraud as the two may agree to raise and approve fraudulent purchase orders, leading to loss of funds/money.	The procurement supervisor should not be approving the purchase orders as he is a junior member of staff. All purchase orders should be approved by a senior official such as director or head of procurement to ensure that only valid purchase orders are raised and approved.	Inspect a sample of purchase orders for evidence that they were approved by a senior official such as director or head of procurement. This approval should be by a way of signature.
9	There is a risk that staff may swipe for staff that may be absent for example swiping for a friend who is absent for whatever reason.	The company should consider introducing bio-metric identification systems whereby no one can register an absent person as present.	Observed staff using the bio-metric identification system to be introduced.

(c) Inherent limitations of internal control systems:

1. Human errors – This is normal mistakes made by staff that could result in the controls failing to prevent or detect fraud and error.
2. Management override – Management can override internal controls.
3. Staff or employees' collusion - Employees may decide to work together to override the controls.
4. The costs vs benefits – This arises in a situation where the cost of putting in place a desired control is higher than the benefit that will be obtained.

5. Non - routine transactions – Controls are not designed to cope with non-routine transactions.

(d) Substantive procedures on work in progress – WIP

1. Prior to attending the inventory count, discuss with management how the percentage completions are determined.
2. During the count, observe the procedures carried out by assessing the level of WIP and consider the reasonableness of the assumptions used.
3. Discuss with management the basis of the standard costs applied to the percentage completion of WIP, and how often these are reviewed and updated.
4. Cast the schedule of total WIP and agree to the trial balance and financial statements.
5. Agree sample of WIP assessed during the count to the WIP schedule, agree percentage completion is correct.
6. Recalculate the inventory valuation or use any independent expert to value inventory.
7. Agree or compare a sample of the standard costs to actual invoices or payroll records to assess their reasonableness.
8. Review the level of variances between standard and actual costs and discuss with management how these are treated.

SOLUTION TWO

- (a) (i) Completeness:
 - Obtain a summary of details of computers regarding the gross value, accumulated depreciation, net book value and reconcile with the opening balances of the computer.
 - Compare balances on the computer account in the general ledger with values recorded in the non-current asset register.
- (ii) Existence:
 - Inspect the records in relation to computers and confirm that they were actually bought and used for business purposes.
 - Inspect physically a sample of computers bought in order to confirm that computers that were bought actually exist.
- (iii) Rights and obligations:
 - Obtain invoices or documents for the purchase of computers to compare the names written on the documents and that of the company is the same.
 - Review the minutes of the meetings to confirm that the computers that were bought were those needed and ordered during the year.
- (iv) Accuracy
 - Recalculate the amount of depreciation by using the rate of depreciation that was used and compare with what was reflected in the financial statements.
- (b) (i) The following tests must be performed on inventory after the count:
 - External auditors should trace the items that were test counted to final inventory sheets.
 - External auditors need to verify whether all count records have been included in the final inventory counts.
 - External auditors need to get details of last serial number and ensure that transactions relating to inventory around the period end have been recorded in the correct accounting period.
 - The auditors will need to confirm that the inventory records have been amended to show the physical counts and that any adjustment to the inventory value arising from the count has been correctly done.
 - External auditors need to confirm final inventory valuations have been calculated correctly.
- (ii) Situations in which the net realizable value will be less than costs are:
 - When there is an increase in costs or a fall in selling prices.
 - When there is a physical deterioration of inventory or products.
 - When Zebra Limited makes a marketing decision and sold goods at a value less than the cost.
 - When the company products are obsolete.
 - Cast the schedule of accounts payables for arithmetical accuracy.
 - Review the balance in the accounts payables control account and confirm the balance agrees with the total in the schedule of payables.
- (c) (i) The following audit procedures can be performed on trade payables:

- Obtain permission from management in order to obtain confirmations from trade payables.
- Cast the schedule of accounts payables provided by the client for arithmetical accuracy.
- Agree the total of the payable's listing to the payables control account in the general ledger.
- Vouch a sample of balances to supporting documents, such as purchases orders and supplier's invoices in order to obtain audit evidence in relation to rights and obligations-
- Cut-off- obtain as sample of vouchers to compare with orders they were recorded in the ledgers in order to confirm correct cut-offs-
- Occurrence - For a sample of vouchers, inspect supporting documents such as authorized purchase orders.

(ii) The following audit procedures to be performed on the provision involving the court case:

- Make appropriate enquiries of management and others including in house legal advisers.
- Review minutes of meetings of those charged with governance and correspondence between the entity and its external legal advisers.
- External auditors need to review legal expenses accounts.
- If the case is disposed of and determined post year end compare the actual amount determined by the court with the provision made.

(d) The following are audit procedures to be performed on dividends paid:

- Review minutes of the meeting so as to agree the amount of dividends were authorized.
- Agree the dividends paid to the bank statements and the cash book.
- Recalculate the computation of the total dividend and dividends paid to individual shareholders using the information on the declaration of the dividend per share.
- Test distribution of dividends in order to confirm that the payments of dividends did not contravene existing regulations for payments of dividends.
- Inspect tax returns to ensure that imputed tax (where applicable) has been accounted for to the ZRA and has been treated correctly in the financial statements.

SOLUTION THREE

(a) (i) Level of materiality:

The level of materiality set at the planning stage of the audit is determined based on the level of audit risk assessed. In the audit of the financial statements of Home Appliances Plc, audit risk has been determined as high. The materiality level that will be set as a result will be low.

(ii) Use of materiality figure computed at planning stage:

The auditors set materiality figures at the planning stage of the audit and the main use of the materiality figures computed include the following:

- The materiality figure is used at evaluating the uncorrected misstatements at the end of the audit to determine whether or not they are material and could result in the misstatement of the financial statements.
- The materiality figure is also used in deciding on the sample sizes for testing during the extraction of samples.

(b) (i) Audit risks in the audit of Home Appliances Plc:

	Audit risk	Audit response
1	Home Appliances Plc is a publicly listed company and is subject to the securities exchange listing rules. Non-compliance with the listing requirements could result in the operating licence being revoked giving rise to going concerns and impacting the basis of preparing the financial statements.	Emphasis to the audit team to look out for any non-compliance with listing requirements during the audit.
2	Extension of credit to retail customers who previously were not on credit terms could result in irrecoverable debts. There is a risk that financial statements could be misstated due to inadequate allowances for receivables.	There will be need for the audit team to evaluate the customer age analysis and assess the adequacy of the allowances for receivables and that it has been computed in line with the relevant accounting standard.
3	The bonus promised to management and staff on reducing overheads by 10% could result in creative accounting in order to meet the target cost reduction. There is a risk that accounting	The audit team should be alert and perform procedures on accounting estimates to ensure that there is no management bias in determining these figures.

	estimates could be understated in order to achieve the desired cost reduction.	
4	There is an audit risk that the funds spent on refurbishment of equipment could result in misallocation of expenditure. Revenue expenditure may be capitalised in order to meet the cost cutting target and this will result in the misstatement of the financial statements.	The audit team should be alert and look out for correct allocation of expenditure between capital and revenue. This can be done during the stage of performing substantive procedures on cost items in the profit or loss account.
5	The financial statements may be misstated on account of understating the warranty provision at the period end. This is an accounting estimate and there could be management bias in determining the accounting estimates.	The audit team should be sceptical in reviewing accounting estimates for warranty provision. The audit team may need to assess the reliability of management's estimates in the past by comparing with actual costs of repairs and replacing appliances.
6	The fact that this will be the first time for Ruth & Associates to audit of Home Appliances and the first to audit in this industry there is a risk that the auditors may not detect material misstatements.	Experienced audit team member should be assigned to this audit and there should be close supervision of the work carried out.

(ii) Business risks in Home Appliances Plc:

1. The entry into the industry a competitor selling similar goods as those of Home Appliances Plc could impact the company in terms of reduced sales and profitability.
2. Extending credit to customers that previously were not on credit terms will impact the liquidity of the company and result in operational difficulties.
3. The increase in the number of appliances returned by customers could impact the reputation of the company and could result in customers switching to the competitors which will negatively affect the company.

(c) The meaning of sufficient appropriate evidence:

Sufficient – this relates to the quantity of evidence that will be obtained by the auditors. It should be enough considering the risks that exist and the quality of the evidence to enable an appropriate opinion to be reached.

Appropriateness – this in in relation to the quality of the evidence and its relevance to meet the audit objective.

(d) Generalizations regarding reliability of audit evidence:

1. External third party evidence is more reliable than evidence obtained from within the entity. For example in the audit of accounts receivables the evidence obtained through confirmation will be more reliable than that from the client accounting information.
2. During the inspection of documents of the client, original copies will be more reliable than photocopies which may be forged.
3. Written evidence is more reliable than oral evidence. The auditors will obtain evidence from management and other in planning the audit and in conduction the audit. Written representations to support such evidence will be obtained and is more reliable.
4. Evidence obtained by the auditors is more reliable than evidence obtained indirectly. For example re-computation of the year end bank reconciliation will be more reliable than relying on the reconciliation performed by the client.
5. Evidence that is obtained from the client company is more reliable when the related control systems operate effectively.

SOLUTION FOUR

(a) (i) The following are the meanings of the terms 'True and Fair'.

- The word **True** means that the information contained in the financial statements of Impala Engineering Ltd is factual and conforms to reality. It also confirms that standards and appropriate laws with regards to industry have been correctly followed. It also means that the financial statements of Impala Engineering Ltd have been correctly extracted from the books and records of Impala Engineering Ltd.
- **Fair** –this implies that the information contained in the financial statements of Impala Engineering Ltd is free from bias and the preparer of this information was not influenced by anyone. It also means that financial statements show the commercial substance of significance or underlying transactions of the company

(ii) The removal of the previous auditors was not done properly and the following procedures should have been followed:

- A notice of removal should have been served on the auditor
- The registrar of company should have been served with a notice of removal as well
- The removal of the auditors should have been approved by the shareholders passing an ordinary resolution to that effect.

Since none of the above took place, we can conclude that the removal the previous auditors were not correct.

(b) The three significant matters from the audit that should be communicated to those charged with governance are as follows:

- OBI Chartered Accountant's view on important aspects of Impala Engineering Ltd.'s accounting policies, activities and its disclosures in the financial statements.
- Significant challenges faced by auditors during the audit of Impala Engineering Ltd.
- Significant matters that arose during the audit that were discussed between management and OBI chartered Accountants.
- Written representations that were requested by OBI Chartered Accountants from Impala Engineering Limited's management.
- Situations and circumstances that affected the form and content of OBI's audit report.
- Other matters that OBI Chartered Accountant observed as significant and affected the overall financial process of Impala Engineering Ltd.

(c) Ethical threats and safeguards in the audit of the financial statements of Impala Engineering Ltd:

Ethical threat	Safeguard
1. Contingent fees- OBI Chartered Accountant should not have entered into a fixed contract based on contingent fees. This is not allowed as the fees are only going to be payable when the event occurs.	OBI should not accept contingent fees and should redraft and commence fresh negotiations for audit fees.
2. Valuation services-A partner in OBI has shares in a firm that offers valuation services for property owned by Impala Engineering Ltd. This will no doubt compromise independence and objectivity and will lead to financial interest or self-interest.	The partner involved should consider selling the shares or alternatively a different partner should be assigned to this engagement.
3. The relationship between the Engagement Partner on the audit team and Managing Director of Impala Engineering Ltd. The Engagement Partner is a board member of the golf club where the Managing Director of Impala Engineering Ltd is a treasurer. This creates a familiarity threat which is likely to affect the objectivity of the partner.	The Engagement Partner should be removed from this audit and replaced by a different partner. The firm should rotate or replace the Senior Auditor in order to reduce familiarity threats.
4. Customer suing Impala Engineering Limited and OBI being asked to be a witness OBI will not be independent if the firm agrees to be a witness in the case before the court. This will result in an advocacy threat.	OBI should not accept to be a witness in a case that involves a client. This can affect the independence of OBI which may lead to an advocacy threat
5. Impala engaged its auditor to prepare tax computations for them. This will result into a self-review threat and impair the objectivity of OBI.	OBI should not accept this additional task of tax computations.

(d) (i) The following factors should be considered when assessing the need for establishing an internal audit function:

- Costs of setting up- the company should determine the amounts involved in setting up an internal audit function. If the financial resources can allow, then it should go ahead and establish the internal audit function.
- Experience of staff available-the available skills and expertise of accounting staff should be assessed carefully if they are able to carry out the services or not.
- The company should consider whether there are any external factors or pressure for setting up of an internal audit function.
- The complexity and size of Impala Engineering Ltd.'s and internal system that support those Engineering activities.

(ii) Advantages of outsourcing internal audit services:

- Internal audit experts are readily available when called for an engagement
- Management only call up on them when need arises. Therefore, saving can be expected in terms of costs.
- Quality internal audit work can be guaranteed.
- They can also provide an immediate internal audit function

SOLUTION FIVE

(a) (i) Preconditions for an audit:

1. The financial reporting framework to be applied in the preparation financial statements should acceptable.
2. Management should acknowledge and understand its responsibility for the following:
 - Preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation.
 - To establish internal control necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error.
 - To provide auditors with access to all relevant information, explanations and documents and personnel which the auditors deem necessary to obtain audit evidence.

(ii) Matters to be included in an audit engagement letter

1. The objective and scope of the audit.
2. The responsibilities of the auditor.
3. The responsibilities of management.
4. Identification of the financial reporting framework for the preparation of the financial statements.
5. Expected form and content of any reports to be issued.
6. Elaboration of the scope of the audit with reference to legislation.
7. The form of any other communication of results of the audit engagement.
8. The expectation that management will provide written representations.
9. The basis on which fees are computed and any billing arrangements.
10. Any restriction on the auditor's liability.

(b) Materiality, lowballing and professional scepticism

Materiality means misstatements and omissions, are considered to be material if they (individually or in the aggregate) could reasonably be expected to influence the economic decisions of users of the financial statements.

Lowballing is a term used to describe a situation where an audit firm submits a tender to provide an audit service at a very low fee, in order to win the tender. IFAC's Code does not prohibit this practice, but the audit firm should not compromise audit quality.

Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

(c) Substantive procedures on additional equipment:

1. Cast the list of additions and agree to the non-current asset register to confirm completeness of plant and equipment (P&E).
2. For a sample of additions, agree cost to supplier invoice to confirm valuation.

3. Inspect the supplier invoices of additional equipment to verify rights and obligations or ownership.
4. For a sample of additions recorded in P&E, physically inspect the equipment to confirm existence.
5. Recalculate the depreciation of additions to verify accuracy and agree this amount to the amount recorded in the financial statements.
6. Recalculate the carrying amounts of additions to verify the accuracy and agree these amounts to the amounts recorded in the financial statements.
7. Review the list of additions and confirm that they relate to capital expenditure items rather than revenue expenditure.
8. Review board minutes to ensure that significant capital expenditure purchases have been authorised by the board.

(d) (i) Going concern indicators in Mukwa Co.:

1. Fewer purchases by major customers. There is a risk that customers may continue to reduce the level of their purchases, this will reduce future cash flows, revenue and profit.
2. Delayed supplier payments and withdraw of credit terms. The company must now pay cash on delivery. This puts additional pressure on the company's cash flow.
3. Major supplier threatening legal action to recover the sums owing. If this occurs, then the entity will have legal costs, and this will further increase the pressure on cash flows and will affect its reputation.
4. Current ratio has fallen below 2 to 0.5. This shows that the current assets are not sufficient to pay the current liabilities. This is another indication of the worsening liquidity position of the company.
5. Cash flow forecast to 30 June 2025 shows net cash outflows. Continued negative cashflow will increase the risk of running out of available cash and failing to meet obligations when they are due.
6. Significant loan (K350 million) due for repayment in full by 30 March 2025. With the falling levels of sales and negative cash flows forecast, it is difficult to see how they will be able to raise alternative finance to pay this amount.
7. Possible change in legislation which will result in one of its top product lines becoming prohibited. If the law is enacted, this result in reduced sales, profit and cash flows.
8. Bank overdraft facility renewal. The company finances its operations using the bank overdraft facility. There is a risk that this may be renewed and may affect the going concern of the entity.

(ii) Going concern audit procedures:

1. Discuss with management the basis for their going concern review or assessment and them to extend their cash flow forecast up to 1 year.
2. Review this extended cash flow forecast and review the cash in and outflows for accuracy and completeness.
3. Assess the assumptions used in the preparation of the forecasted cash flow for reasonableness.
4. Discuss with management, if they have the other sources of funds or cash to meet its liabilities as they fall due.

5. Discuss with the directors whether they have contacted any banks for finance to assess whether they have any other means of repaying the loan of K230 million due in March 2024.
6. Review post year-end correspondence with suppliers to identify if any others have threatened legal action or refused to supply goods.
7. Enquire of the lawyers of Mukwa as to the existence of any additional litigation and request their assessment of the likely amounts payable to the supplier.
8. Enquire of the lawyers as to their view with regards to the proposed change in legislation, which may prohibit a key product line.
9. Review the post year-end board minutes to identify any other issues which might indicate further financial difficulties for the company.
10. Review post year-end management accounts to assess if in line with cash flow forecast.
11. Obtain a written representation confirming the directors' view that Mukwa is a going concern.

END OF SUGGETSED SOLUTIONS



DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA: 12 GOVERNANCE AND COMPANY LAW

FRIDAY 12 SEPTEMBER 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 – TWO COMPULSORY QUESTIONS

Attempt both questions.

QUESTION ONE

- (a) Corporate governance may be defined as a system through which organizations are directed and controlled. It is further believed that if all organizations could uphold the rules of corporate governance; this will lead to better and stronger institutions in the world.

Required:

In light of the above statement, discuss the relevance of corporate governance in today's modern company management. (10 marks)

- (b) Kudu Ltd is a company that renovates dwelling houses. The Board of Directors of Kudu Ltd consists of five (5) members. Tito, one of the Directors, takes care of the actual day-to-day running of the business. Tito then simply reports back to the board on the business he has transacted. Tito refers to himself as the Managing Director of Kudu Ltd, although he has never been officially appointed as such. He is assisted in the running of the business by Pinkie, Kudu Ltd's company secretary. Six (6) months ago Tito entered into a contract on Kudu Ltd's behalf with Chris to produce plans for the renovation of a house that it hoped to acquire. However, Kudu Ltd did not acquire the house and due to its current precarious financial position, the Board of Directors has refused to pay Chris, claiming that Tito did not have the necessary authority to enter into the contract with him. The board is also refusing to complete a contract with Ayanda for the supply of a new cement mixer Pinkie had ordered on Kudu Ltd's behalf. They have also learned that Pinkie has entered into a contract on Kudu Ltd's behalf to have an extension built onto her own house.

Required:

Analyse the situation with regard to the authority of both Tito and Pinkie to enter into contracts on behalf of Kudu Ltd and in particular advise the Board of Directors if the company is liable for each of the contracts. (10 marks)

- (c) Explain the meaning of the stockholder theory in Corporate Governance. (5 marks)

[Total: 25 Marks]

QUESTION TWO

A company is an incorporated business entity that offers its owners limited liability and they can only be liable once the veil of incorporation has been removed. The company's Directors are appointed or removed at annual general meetings.

Required:

- (a) Briefly explain five (5) features of a limited liability company. (10 marks)
- (b) Explain redeemable shares. (5 marks)
- (c) Explain how the office of a Director in a company can be vacated. (10 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

DDT limited was incorporated in 2009 and its main object was to manufacture blankets. The company has been making profits from inception. Challenges came in 2020 when a Chinese company imported blankets from China and sold at half price with better quality and a variety of designs. DDT's sales have drastically dropped as majority of DDT's clients are now buying from the Chinese company. Yuyo, 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 the best mode of winding up in his circumstances. (2 marks)
- (b) Explain to him the grounds for compulsory winding up. (10 marks)
- (c) State to him the advantages of dissolution of a company by striking it off the register. (3 marks)
- (d) Suppose they wanted to sell their shares to the public, explain to him the contents of a prospectus. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

You have been invited as a consultant at Y2K Ltd's annual general meeting (AGM) and you have been tasked to explain to the meeting the following:

- (a) The functions of Audit Committees. (8 marks)
- (b) The effects of separate legal personality on a company and shareholders. (10 marks)
- (c) The characteristics of a rules- based approach. (7 marks)

[Total: 25 Marks]

QUESTION FIVE

Your classmate in this course has challenged you to prove to your colleagues during a drink at Kabwata's popular Chi – Cup Bar as to whether you are really cooked in Governance and Corporate Law.

Required:

Prove your understanding of this course by explaining the following:

- (a) Limited liability. (5 marks)
- (b) Voluntary disclosure. (5 marks)
- (c) Active stakeholders. (5 marks)
- (d) Power of Directors. (5 marks)
- (e) Prospectus. (5 marks)

[Total: 25 Marks]

END OF PAPER

DA 12 – GOVERNANCE AND COMPANY LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

- (a) Corporate governance is defined as, 'the system by which organizations are directed and controlled' (Cadbury report) or; 'a set of relationships between a company's directors, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring the performance, are determined.' (OECD). It is important to the modern day organizations for the following reasons:
- (i) It ensures adherence to strategic objectives of the organization thereby aiding effective management.
 - (ii) It promotes integrity in the operations of the company.
 - (iii) It provides for an adequate and appropriate system of control in a company.
 - (iv) It promotes best practice guidelines thereby enhancing overall performance arising from good supervision and management.
 - (v) It promotes ethical and effective pursuit of the company's strategy thereby offering safeguards against resource misuse.
 - (vi) It ensures adherence to the law in the conduct of the business of the company.
 - (vii) It encourages the infusion of new investments into a company.
 - (viii) It promotes accountability in the management of the company.
 - (ix) It promotes confidence in the capital markets.
 - (ix) It promotes the independence of those who scrutinize the behavior of the company and its managers and especially of the external auditors.
- (b) This question requires candidates to consider the authority of company directors and other company officers to enter into binding contracts on behalf of their companies.

Tito

The Companies Act provides that the business affairs of the company shall be managed by the Board and that the board has all the powers necessary for the managing, and for directing and supervising the management of the business affairs of the company. It is important to note that this power is given to the board as a whole and not to individual directors and consequently individual Directors cannot bind the company without their being authorised in some way to do

so. There are three ways in which the power of the Board of Directors may be extended to individual Directors.

(i) The individual Director may be given *express authority* to enter into a particular transaction on the company's behalf. To this effect the Companies Act allows for the delegation of the board's powers to one or more Directors. Where such express delegation has been made then the company is bound by any contract entered into by the person to whom the power was delegated. However, in the present situation it does not appear that Tito has been expressly given the power to enter into the contract with Chris, and so the company cannot be liable on this basis.

(ii) The second type of authority that may empower an individual director to bind his company is *implied authority*. In this situation the person's authority flows from their position. The Board of Directors can appoint a managing director and the board of directors can delegate to any managing director such powers as they may consider desirable to be exercised by that person. Thus the board of directors may expressly confer any of their powers on the managing director as they see fit. The mere fact of appointment, however, will mean that the person so appointed will have the implied authority to bind the company in the same way as the board, whose delegate he or she is. Outsiders, therefore, can safely assume that a person appointed as managing director has all the powers usually exercised by a person acting as managing director.

Implied actual authority to bind a company may also arise as a consequence of the appointment of an individual to a position other than that of managing director. In *Hely-Hutchinson v Brayhead Ltd* (1968), although the chairman and chief executive of a company acted as its *de facto* managing director, he had never been formally appointed to that position. Nevertheless, he purported to bind the company to a particular transaction. When the other party to the agreement sought to enforce it, the company claimed that the chairman had no authority to bind it. It was held that, although the director derived no authority from his position as chairman of the board, he did acquire such authority from his position as chief executive and thus the company was bound by the contract he had entered into on its behalf.

Once again, however, it would appear that Chris cannot make use of this method of fixing Kudu Ltd with liability for her contract as Tito has not been appointed to any executive office in the company.

(iii) The third way in which an individual director may possess the power to bind his company is through the operation of ostensible authority, which is alternatively described as apparent authority or authority by *estoppel*.

This arises where an individual director has neither express nor implied authority. Nonetheless, the director is held out by the other members of the board of directors as having the authority to bind the company. If a third party acts on such a representation, then the company will be *estopped* from denying its truth. In *Freeman and Lockyer v Buckhurst Park Properties (Mangal) Ltd* (1964), although a particular director had never been appointed as managing director, he acted as such with the clear knowledge of the other directors and entered into the contract with the plaintiffs on behalf of the company. When the plaintiffs sought to recover fees due to them under that contract, it was held that the company was liable: a properly appointed managing director would have been able to enter into such a contract and the third party was entitled to rely on the representation of the other directors that the person in question had been properly appointed to that position.

The situation in the problem is very similar to that in *Freeman and Lockyer v Buckhurst Park Properties (Mangal) Ltd*. The board of Kudu Ltd has permitted Tito to act as its managing director and he has even used the title. The board has therefore acquiesced in his representation of himself as managing director and consequently they and Kudu Ltd are bound by any contracts he might make within the scope of a managing director's implied authority. As entering into a contract to draw plans would clearly come within that authority, Kudu Ltd will be liable to pay Dudu or face an action for breach of contract.

Pinkie

As has been stated, authority to enter into contracts on behalf of companies can be implied from positions other than the managing director and one such position is that of the company secretary. Therefore with regard to the contracts that Pinkie entered into, whether Kudu Ltd is liable on them depends on the extent of her implied authority. Although old authorities such as *Houghton & Co v Northard Lowe & Wills* (1928) treated company secretaries as having little authority to bind their companies, later cases have recognised the important role of the modern company secretary. It would appear that the order for the cement mixer would come within Pinkie's implied authority but the building of the extension onto her house would certainly not be covered.

(c) Discuss the meaning of the stockholder theory in corporate governance.

- This is the theory that looks at the interest of shareholders. The theory states that shareholders have the legitimate claim or control over the company. The theory stresses the fact that directors are merely agents and have a moral and legal obligation to champion the interest of shareholders. It espouses the view that directors' sole duty to ensure profit maximization for the benefit of the shareholders. Hence, all the duties of the director as an agent of the shareholders are reduced into this one theory. The relationship between the agent and the principal is always to be for the benefit of the principal and the agent should not do anything that jeopardize the interests of the principal.

SOLUTION TWO

(a) The features of incorporation other than *limited liability* are as follows:

- (i) *Separate Legal Personality* means that a company is regarded as a legal entity or artificial person distinct from its shareholders or members. Thus, the company will be able to buy and sell assets using its own name, without using the owner's name as a shareholder, the company will be able to be sued or sue using its own name without using the shareholder's name - *Salomon v. Salomon (1897)* and *Macaura v Northern Assurance Co. Ltd 1925*.
- (ii) *Limited Liability* – The owner will not be held responsible for the debts of the company outside the capital invested or pledged. *Salomon v. Salomon (1897)*.
- (iii) *Perpetual succession*:- This means an incorporated will have a continuous existence and can outlive its original members, the company does not die with the death of its members.
- (iv) *Can own property in its name*:- As a legal person, a company can own property in its own name, enjoy such property and dispose of it. The property of the company is not the property of the shareholders as they are distinct from each other – *Macaura v Northern Assurance Co. Ltd 1925*.
- (v) *Transferability of shares*:- This feature means that shares can freely be transferred from one person to another in the share market. It means one can freely sell his/her shares or buy shares freely.
- (vi) *Common seal*:- A common will have a common seal, to act as its signature bearing its logo as an artificial person distinct from its owners.
- (vii) Capacity to sue and be sued:- As a separate legal entity, a company can file suits against individuals and other companies in its own name and can be sued in its own name without involving shareholders.

(b) Redeemable are shares issued by a company with a right to buy them back at a stipulated time and at a stipulated rate of interest. These type of shares are used to raise short term funds without intending to make the members permanent members of the company. Redeemable shares may not be issued unless the articles permits their issue. They may also not be issued unless the company has issued other shares which are not redeemable. Redeemable shares cannot be redeemed unless they are fully paid for.

(c) The office of a director can be vacated through:

- (i) *Death* :- There will be a vacancy in the office of a director when the person holding that office dies.
- (ii) *Appointment of a liquidator* – Once a liquidator is appointed, he takes over the operations of the company and it means the office of the director will become vacant as he/she will have no work at the company.
- (iii) *Disqualification* – A director will vacate the office he is disqualified in one way or the other from holding the office, e.g. declared bankrupt, does not attend meetings for six months, holds an office of profit, etc.

- (iv) *Retirement*:- There will be a vacancy if the director retires either on his own or by the rules of the company.
- (v) *Removal*:- Sometimes a director may just be removed for failure to work or gross misconduct.

SOLUTION THREE

- (a) The best mode of winding up in his circumstances is by compulsory winding up.
- (b) The grounds for compulsory winding up are as follows:
- The company has by special resolution resolved that it be wound up.
 - The company does not commence its business within 12 months after its incorporation.
 - The company is unable to pay its debts.
 - The period fixed by Articles for the duration of the company expires.
 - The number of members is reduced to below 2.
 - In the opinion of the court, it is just and equitable that the company should be wound up.
- (c) These are the advantages;
- It is less costly.
 - It is less procedural.
 - It is quicker.
- (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.
 - Minimum subscription amount.

SOLUTION FOUR

- (a) The following are functions of an audit committee
- The primary purpose of a company's audit committee is to provide oversight of the financial reporting process.
 - They audit process.
 - They audit the company's system of internal controls.
 - They audit levels compliance with laws and regulations.
- (b) The following are the effects of separate legal personality;
- Shareholders have limited liability.
 - Property and assets of a company belong to the company.
 - Profits belong to the company.
 - Debts and liabilities of the company belong to the company.
 - Shareholders have no right to manage the business or enter into Transactions on behalf of the company.
 - A company may enter into contracts with its shareholders because it's a person separate from its shareholders.
 - A company may sue or be sued in its own name.
 - A company enjoys perpetual succession.
- (c) A rules-based approach to corporate governance is based on the view that companies must be required by law (or by some other form of compulsory regulation) to comply with established principles of good corporate governance. The rules might apply only to some types of company, such as major stock market companies.

SOLUTION FIVE

The explanations are below:

- (a) *Limited Liability* – This means that the liability of members is limited to the amount of unpaid, if any, on the shares they hold or amount guaranteed. The liability is limited either by way of shares or guarantee. Where it is limited by guarantee, the member must sign a declaration of guarantee specifying the amount he undertakes to pay. Therefore, the members of the cooperative once turned into a company will have limited liability.
- (b) *Voluntary disclosure* – This is disclosure above the mandated minimum. It is disclosing information voluntarily, going beyond what is required by law or listing rules. This is good in that it provides wider information, different focus of information, assurance about management, consultation with equity investors.
- (c) *Active stakeholders* – Stakeholders are people or entities that can affect or are affected by the business' activities. Active stakeholders are those stakeholders who seek to participate in the organisation's activities. Active stakeholders include managers, employees and institutional shareholders, etc
- (d) *Powers of directors* – Directors have the duty to manage the business and exercise all powers that are not required by the Companies Act 388. They have the power to borrow money, appoint an attorney and sign cheques, etc. They must exercise their powers in what they honestly believe to be the interests of the company and the power must be exercised for proper purposes for which it was given.
- (e) *Prospectus* – A prospectus is any notice, circular, advertisement or any other document inviting or offering to the public for subscription or purchase of any shares or debentures of a company. It is an invitation to the public by the company, offering them an opportunity to subscribe or purchase shares or debentures of the company. This is done by a public limited company.

END OF SUGGESTED SOLUTIONS