



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C1: BUSINESS MANAGEMENT

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MONDAY 8 DECEMBER 2025

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.

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

**Attempt all FIVE (5) questions.**

**QUESTION ONE**

Zed-Mobile (Z) Limited is a new Telecoms company to enter the Zambian market. It prides itself in having the fastest 5G network solutions. Fast and efficient communication is a new competitive edge in any business today. Efficient customer care is better achieved if organizations build up quality internal and external communication networks. Time is an important resource in the communication process.

**Required:**

- (a) Explain any four (4) purposes of communication to any business. (8 marks)
- (b) State four (4) important gains to an organization's management of good use of the span of control. (12 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) Serving target customers what they want is never an exact science. It calls for careful observation and commitment to deliver solutions for identified needs and wants. Different people just want different things. The Marketing Mix, often referred to as the 4Ps, is a set of controllable tactical tools used in marketing that helps businesses strategically plan and execute their marketing efforts. The purpose of the marketing mix is to create the optimal combination of factors that will meet the needs of the target market segment while achieving the company's goals.

**Required:**

Explain how the 4Ps of the Marketing Mix are used to create stimuli to targeted customers. (8 marks)

- (b) Identify two (2) internal and two (2) external stakeholders to an organisation and the interest they protect. (12 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Describe the five (5) forces Porter's model that are used to analyze an industry. (10 marks)
- (b) Explain five (5) benefits of Training to employees. (10 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities. The purpose of a business is to organize some sort of economic production of goods or services. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations. Business organizations are a very important component of any economy as they supply goods and services to the public.

#### **Required:**

- (a) Differentiate with four (4) characteristics for each between formal and informal organizations. (12 marks)
- (b) Identify any four (4) stakeholders of a business organisation that you know. (4 marks)
- (c) What does the acronym SWOT stand for? (4 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

Business management encompasses various practices and disciplines that ensure an organization runs smoothly, effectively, and profitably. Whether it's through strategic planning, managing resources, leading teams, or navigating complex challenges, successful business management is crucial for achieving organizational goals and maintaining long-term success.

#### **Required:**

- (a) Identify any five (5) reasons why the knowledge of financial management is important in business. (10 marks)
- (b) Discuss any five (5) key skills that a business manager must have to be successful. (10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **C1 BUSINESS MANAGEMENT**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

(a) Benefits of effective communication include:

(1) To influence.

To persuade others to work hard and do things that support organizational objectives. For example, the role of the supervisor is to communicate effectively so that employees implement the organization's plans and support the organization's objectives.

(2) To Inform.

To make sure every respective person has the right information to make proper decisions for the organization and their job performance, for example to turn data into information for decision-making.

(3) To control.

To provide clear objectives and to monitor progress towards their accomplishment.

(4) To Inspire.

To display values, model positive attitudes and build commitment to organizational culture. Leaders must lead by example and motivate their charges.

(b) Important gains to an organization's management of good use of the span of control include.

(1) Faster communication and coordination. Information from the lowest level gets to the top-level (or vice versa) faster because fewer layers are involved. It allows for quick coordination and decision-making.

(2) Higher motivation. Managers delegate less essential decision-making to employees. It can lead to high job satisfaction and motivation as employees are more involved in making decisions about their work.

(3) Work flexibility. Managers reduce oversight of their subordinates through delegation. And they place high trust in subordinates and are expected to act according to their expectations.

(4) Lower costs. Managers supervise more people. So, companies need fewer managers and layers in the organizational structure.

(5) More delegates. The span of control is wider, and the manager is responsible for more subordinates. Indeed, it makes their work heavier. But, on the other hand, it should encourage managers to delegate more because it is impossible to do all the important work on their own.

(6) Job satisfaction. With more delegation, employees can make more decisions on their own. It can be more effective because they understand the problems in their job better than the manager. Combined with more autonomy, they have the freedom to manage their working life, leading to higher job satisfaction.

## **SOLUTION TWO**

(a) **Marketing Mix:** This is a set of controllable factors that are manipulated to help make marketing decisions with the purpose of satisfying 5 customers and building a strong customer relationship. Originally the marketing mix consisted of the four variables known as the 4Ps which are product, price, promotion and place. However, additional variables have been included such as People, processes and physical evidence. The following are the variables or elements of the marketing mix:

- (i) **Product** These are goods and services combinations the business organization offers to its target customers. Product will take into consideration quality, features, design, packaging etc.
- (ii) **Place** These are company activities that ensure that the product is made available to the final customer through a distribution channel. These include channel members, transport, coverage, warehousing etc.
- (iii) **Price** This is the amount of money customers have to pay in order to purchase a product. Price will include discounts offered, credit terms, payment period etc.
- (iv) **Promotion** These are activities that communicate the benefits of the product and persuade customers to buy. These activities include advertising, personal selling, sales promotion and public relations.
- (v) **People** This includes the training and motivation of employees who are involved in the marketing activities.
- (vi) **Processes** The systems used in the marketing activities to ensure that the product is readily made available to the target market.
- (vii) **Physical evidence** This refers to what the customer is able to physically see concerning the product and the company itself such as general appearance the organizations premise, quality of advertising leaflets, catalog etc.

(b) Stakeholders

- (i) **Employees:** employees have an interest in the operations of the company as they expect the company to improve the conditions of employment. They expect the company to continue in its existence therefore, guarantying job security.

- (ii) **Shareholders:** shareholders in limited companies, invest with the objective of yielding a positive return. Therefore, expect management to run the company profitably to maximize shareholders value.
- (iii) **Government** The government makes laws that govern the operations of Companies and expect them to comply with the various laws such as taxation law, environmental laws, labour laws etc
- (iv) **Community** The community expects the company to allocate adequate financial resources towards corporate social responsibility. For instance, provision of education services, health services etc
- (v) **Customers** Expect goods and services that are of acceptable quality, price and safe for use.
- (vi) **Suppliers** The supplier expects to have a good relationship with buyers. Therefore, the company is expected to award business contracts on ethical grounds and to be paid as agreed.

### **SOLUTION THREE**

- (a) Describe the Porters 5-forces that are used to analyze an industry of your choice
  - (i) Threats of new entrants
  - (ii) Bargaining power of buyers
  - (iii) Bargaining power of Suppliers
  - (iv) Rivalry among competing firms
  - (v) Power of substitute products
- (b) Benefits of training
  - (i) It enhances the skills of an employee hence an employee becomes more attractive in the labor market
  - (ii) it improves employee competence leading to greater self- esteem and confidence
  - (iii) it meets employee social needs and develops networks of contacts
  - (iv) training helps employees do their job better, thereby increasing job satisfaction and lead to possible promotion.
  - (v) It reduces employee, turnover

## **SOLUTION FOUR**

### **(a) Formal organization**

This is the total pattern of working relationships among organization members that is official. This relationship is represented through an organizational chart that shows the hierarchy of authority, tasks, procedures, communication system, reporting system etc. In a formal organization, all activities are well defined and planned. The following are the characteristics:

- (1) Well defined objectives that the organization is pursuing to achieve.
- (2) Well documented policies and other copies
- (3) A well-defined structure where relationships exists
- (4) A formal organization usually has a long life span.
- (5) There is division of work

### **Informal organization**

This is the structure that evolves out of the formal organization. The relationships in an informal organization are not defined and structured. The organization functions irregularly, characterized not by any complex patterned structure but rather by social relationships. The following are the characteristics.

- (1) They come into existence without pre-planning
- (2) The objectives are not clear or well defined.
- (3) The structure is loose where relationships are less defined.
- (4) Informal organizations are usually small
- (5) There is flexibility in terms of changing the rules and regulations.

### **(b) Potential stakeholders include:**

Interest groups/pressure groups, Employees, Investors/Shareholders, management, lenders, Prospective customers, Government, communities, media, creditors, bankers, owners, Professional associations, Labor unions Suppliers etc.

### **(c) Strength, Weakness, Opportunities and Threat (SWOT)**

## **SOLUTION FIVE**

- (a) (1) Ensures Effective Use of Resources: Financial management helps businesses allocate their resources efficiently, ensuring that funds are used effectively for operations, investments, and growth opportunities. This optimizes returns and minimizes wastage.
- (2) Improves Profitability: Through budgeting, forecasting, and cost control, financial management helps businesses increase profitability. By carefully managing expenses and maximizing revenue, businesses can ensure they remain financially healthy.
- (3) Supports Business Planning: Financial management provides valuable data that informs business planning and decision-making. Accurate financial information helps managers set realistic goals, develop strategies, and plan for future growth.
- (4) Helps with Cash Flow Management: Maintaining a positive cash flow is vital for day-to-day operations. Financial management ensures that a business can meet its short-term obligations, such as paying suppliers, employees, and other operational expenses, without running into liquidity problems.
- (5) Facilitates Investment Decisions: Financial management helps businesses assess investment opportunities by analysing potential returns, risks, and the financial viability of projects. It ensures that investments align with the company's financial capabilities and strategic goals.
- (6) Mitigates Financial Risk: Financial management involves identifying and managing risks, such as market fluctuations, credit risks, and interest rate changes. By using hedging strategies, insurance, and diversified investments, businesses can protect themselves from potential financial losses.
- (7) Ensures Legal and Regulatory Compliance: Proper financial management ensures that businesses comply with financial regulations, tax laws, and accounting standards. It helps avoid legal issues, penalties, and fines, ensuring the business operates within the law.
- (8) Aids in Securing Funding: Whether through loans, investors, or other sources of capital, financial management is crucial for securing external funding. Lenders and investors need to see a clear and professional financial record before providing funding.



- (9) Improves Financial Reporting and Transparency: Financial management ensures accurate financial reporting, which builds trust with stakeholders like investors, employees, and regulators. Transparent financial reporting is essential for making informed decisions and fostering credibility.
- (10) Enhances Long-Term Sustainability: By focusing on budgeting, forecasting, and strategic financial planning, financial management ensures that the business can sustain growth, adapt to changing market conditions, and remain competitive in the long run.
- (b) (1) Leadership Skills: A business manager must be able to inspire and motivate a team, providing clear direction and fostering collaboration. Strong leadership helps build trust, encourages high performance, and ensures alignment with company goals.
- (2) Communication Skills: Clear and effective communication is essential for any manager. Being able to communicate expectations, feedback, and company goals to employees, as well as interacting with stakeholders, customers, and partners, is critical for success.
- (3) Decision-Making Ability: Managers need strong decision-making skills to analyze situations, weigh options, and make informed choices quickly. Good decision-making balances risks with potential benefits and helps navigate complex situations.
- (4) Problem-Solving Skills: The ability to identify problems, analyze their root causes, and implement solutions is vital for a business manager. Creative problem-solving ensures that challenges are addressed efficiently and effectively.
- (5) Time Management: Managing multiple tasks and responsibilities requires excellent time management skills. Business managers must prioritize tasks, meet deadlines, and maintain productivity, all while managing both short-term and long-term goals.
- (6) Financial Acumen: A solid understanding of financial management is essential. Business managers need to read financial statements, manage budgets, forecast cash flow, and make financially sound decisions to ensure the company's financial health.

(7) Emotional Intelligence (EQ): Being able to understand and manage one's emotions, as well as empathize with others, is crucial. High emotional intelligence helps managers build strong relationships with employees, navigate conflicts, and create a positive work environment.

(8) Adaptability: The business environment is constantly evolving, and managers must be able to adapt to change. Whether it's shifting market conditions, new technologies, or organizational changes, adaptability ensures a business stays competitive.

(9) Delegation Skills: Effective managers know they can't do everything themselves. Delegating tasks to the right people ensures that work is distributed efficiently, allows employees to grow in their roles, and frees up the manager to focus on higher-level responsibilities.

(10) Strategic Thinking: Business managers must be able to see the big picture and think strategically about long-term goals. Strategic thinking involves planning for the future, identifying growth opportunities, and aligning daily actions with the company's overall vision and mission.

## **END OF SUGGESTED SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C2: ECONOMICS & FINANCIAL MATHEMATICS

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WEDNESDAY 10 DECEMBER 2025

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

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

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**Attempt all five (5) questions.**

**QUESTION ONE**

- (a) Define the term 'taxation'. (2 marks)
- (b) Outline any three (3) objectives of taxation in an economy. (6 marks)
- (c) Describe any three (3) general functions of a central bank. (6 marks)
- (d) With the aid of a graph, explain the shift in an aggregate demand curve. (6 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) Distinguish between public goods and merit goods, giving two (2) examples of each. (6 marks)
- (b) Outline the three (3) injections into the circular flow of income diagram in an open economy. (6 marks)
- (c) Explain the following exchange rate systems that may be adopted by a country:
  - (i) Freely floating exchange rate system. (3 marks)
  - (ii) Fixed exchange rate system. (3 marks)
  - (iii) Managed float exchange rate system. (2 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

- (a) In a large restaurant an average of 3 out of every 5 customers ask for water with their meal. A random sample of 10 customers is selected. Find the probability that
  - (i) Exactly 6 ask for water with their meal. (2 marks)
  - (ii) Less than 9 ask for water with their meal. (3 marks)
- (b) What is the present value of an annual payment of K2,450 if the interest rate is 15%? (2 marks)

- (c) An investment project promises the following future cash-flows.

Year	1	2	3
Cash flow (K)	1,100	1,100	1,100

Starting the project costs K3,000 today. If the interest rate is 15%, is this a valuable project? (4 marks)

- (d) Suppose a K12,880 deposit is made at the end of each month and the money in the account is compounded monthly at 4.9% interest for 20 years.

- (i) How much is in the account after a 20-year period? (5 marks)
- (ii) What is the total amount deposited? (2 marks)
- (iii) What is the total amount of interest earned? (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) What are the key features of a bond? Give a brief description of each. (6 marks)
- (b) You have a chance to buy ABC bond that has a face value of K1,000. The bond has a 7% coupon rate of interest and matures in six years. Interest is paid semi-annually. Bonds of similar maturity pay an interest rate of 8%. How much should you be willing to pay for the ABC bond? (5 marks)
- (c) Suppose K1,000 is invested every month, starting one month from now for ten (10) months at an interest rate of 18% per annum compounded monthly. Calculate the accumulated amount. (4 marks)

- (d)  $X$  follows a binomial distribution,  $Bin(4, p)$  and  $P(X = 4) = 0.0256$ .

Find the value of  $p$ . (5 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

An auto manufacturing company wanted to investigate how the price of one of its car models depreciates with age. The research department at the company took a sample of eight cars of this model and collected the following information on the ages (in years) and prices (in hundreds of dollars) of these cars.

<b>Age (X)</b>	<b>Price (Y)</b>
8	45
3	210
6	100
9	33
2	267
5	134
6	109
3	235

- (a) Draw the scatter plot of the data. (3 marks)
- (b) Calculate the equation of the regression line for this data. (11 marks)
- (c) Estimate the price of an 18-year-old car of this model. (2 marks)
- (d) Compute  $r$ , the coefficient of correlation and explain what it means. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **C2 ECONOMICS AND FINANCIAL MATHEMATICS**

### **SUGGESTED SOLUTIONS**

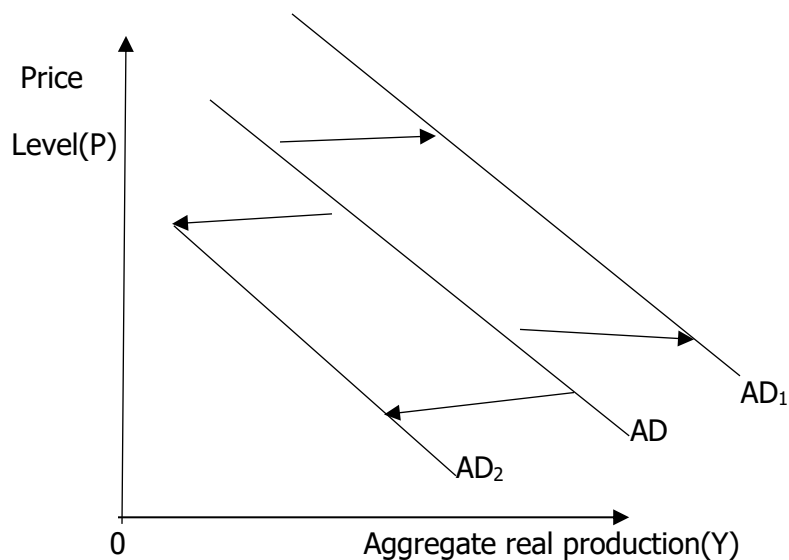
#### **SOLUTION ONE**

- (a) Taxation refers to the act of levying or imposing a tax by a taxing authority. Taxes include income, capital gains or estate
- (b) The objectives of taxation:
  - (1) Raising revenue to fund government operations. Government relies mainly on tax revenues to defray public expenditure and provide goods and services to the general public.
  - (2) Assisting the redistribution of wealth and income. Tax rates may be crafted in such a way as to redistribute income in the country. For example, employees earning less than K4,000 are PAYE pay at 0% while higher salary earners pay as much as 35%
  - (3) Encouraging or discouraging certain activities with favorable tax provisions. To discourage the consumption of certain goods, tax rates may be raised to make those goods more expensive to buyers. The opposite can be done to encourage consumption.
- (c) The general functions of a central bank are:
  - (1) Banker to the government or fiscal agent of the government. The government holds its account with the central bank; this is used both for payments from rest of the economy to the government and payments by the government in the economy. It also borrows on behalf of the government through the issue of Treasury bills and debit repayment.
  - (2) Banker to the banking system. The central bank is the bank all registered banks are required by law to have an operating account with BOZ.
  - (3) Lender of last resort – The BOZ is strategically placed to lend to other banks in the financial system because it manages government account.
  - (4) Regulation and supervision of the banking system. The BOZ is responsible for licensing regulating and supervising the activities of banks and other financial institutions so as to promote safe sound and efficient operation development of the financial system.
  - (5) Monetary policy – The BOZ is responsible for the conduct of monetary policy in Zambia it controls the available supply of liquidity in the banking system on a daily basis to maintain interest rates at the level it considers fit.
  - (6) Issue of currency – The BOZ is responsible for issuing kwacha note and minting the coins as in legal tender in Zambia.
  - (7) Exchange rate policy – The BOZ keeps the nations gold reserves and the international account for money entering and leaving the country as well as the

reserves for foreign currencies it also works closely with central bank of other countries as well as international financial agencies such as World Bank and the IMF.

(8) It is responsible for the promotion of the efficient payment mechanism as well as supporting the efficient operation of the exchange system.

- (c) Aggregate demand refers to the total amount of desired spending on commodities produced by the business sector. Shifts in the aggregate demand curve is caused by a change in the factors that affect aggregate demand other than commodity prices. Expansionary policies shifts the AD curve outward to the right from AD to  $AD_1$  while contractionary policies shifts the Ad curve inwards from AD to  $AD_2$  as shown below:





## **SOLUTION TWO**

- (a) Distinction between public goods and merit goods:
- (i) Public goods: These are goods that are available to everyone and can be used without preventing others from using them. Examples include national defence, public roads, street lighting, law enforcement
  - (ii) Merit goods: These are goods that are considered beneficial to society or individuals, even if they don't have the financial means to pay for them. They do not only benefit the individual who has consumed them but society as whole benefits because of positive externalities. Examples include health care, education, vaccinations
- (b) Injections are economic activities that increase the size of the circular flow of income. Injections into the circular flow of income are:
- (1) Investment
  - (2) Government spending
  - (3) Exports
- (c) Exchange rate systems:
- (i) Freely floating exchange rate system: This is an exchange rate system where the exchange rate is determined by the market forces of demand and supply. The exchange rate is allowed to freely depreciate or appreciate in response to foreign exchange market conditions
  - (ii) Fixed exchange rate system: This is a system where the exchange rate is determined or fixed by the government. The exchange rate is not allowed to depreciate or appreciate as the government uses its official reserves to maintain the exchange rate.
  - (iii) Managed float exchange rate system: This is a system that allows the exchange rate to freely appreciate or depreciate with the acceptable rate. Beyond this range the government intervenes in the foreign exchange rate market.

### **SOLUTION THREE**

(a)  $n = 10, p = \frac{3}{5} = 0.6, q = 1 - p = 0.4$

(i) 
$$P(X = x) = \binom{n}{x} p^x (1 - p)^{n-x}$$
$$P(X = 6) = \binom{10}{6} (0.6)^6 (0.4)^{10-6}$$
$$= 0.2508$$

(ii) 
$$P(X < 9) = 1 - P(X \geq 9)$$
$$= 1 - [P(X = 9) + P(X = 10)]$$
$$= 1 - \left[ \binom{10}{9} (0.6)^9 (0.4)^1 + \binom{10}{10} (0.6)^{10} (0.4)^0 \right]$$
$$= 1 - 0.0463$$
$$= 0.9537$$

(b) Here  $C = 2450$  and  $r = 0.15$

$$PV = \frac{C}{r} = \frac{2450}{0.15} = \text{K}16,333.33$$

(c) We calculate the net present value (NPV) of the project by first finding the Present Value of the future cash flows as follows:

$$PV = \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3}$$
$$= \frac{1100}{(1+0.15)^1} + \frac{1100}{(1+0.15)^2} + \frac{1100}{(1+0.15)^3}$$
$$= \text{K}2,511.60$$

Subtracting the cost today gives the NPV of the project:

$$NPV = 2511.60 - 3000 = -488.4$$

We have  $NPV < 0$ , this is clearly an undesirable project.

- (d) (i) We are given  $R = \text{K}12,880$ ,  $n = 20(12) = 240$ ,  $r = \frac{0.049}{12} = 0.0041$

The future value of the annuity immediate is

$$\begin{aligned} A &= R \left[ \frac{(1+r)^n - 1}{r} \right] \\ &= 12,880 \left[ \frac{(1+0.0041)^{240} - 1}{0.0041} \right] \\ &= 12,880 \left[ \frac{(1.0041)^{240} - 1}{0.0041} \right] \\ &= \text{K}5,245,487.57 \end{aligned}$$

- (ii) The total amount deposited is

$$12,880(20)(12) = \text{K}3,091,200$$

- (iii) The total amount of interest earned is

$$5,245,487.57 - 3,091,200 = \text{K}2,154,287.57$$

## **SOLUTION FOUR**

(a)

Face Value: Is the amount printed on the face of the bond.

Redemption/Maturity Value: Is the amount that the issuer promises to pay on the maturity date.

Coupon rate: Is the rate at which the bond pays interest on its face value at the regular time intervals until the redemption date.

Time to maturity: Is the length of time before the redemption date.

(b)

$$F = 1000, \quad r = 3.5\%, \quad n = 12, \quad i = 4\%, \quad C = 1000$$

$$\begin{aligned} \text{Fair Value} = P &= F \times r \left[ \frac{1 - (1+i)^{-n}}{i} \right] + \frac{C}{(1+i)^n} = 1000 \times 0.035 \left[ \frac{1 - (1.04)^{-12}}{0.04} \right] \\ &= 3.5 \times 9.385 + 625 \\ &= K953.48 \end{aligned}$$

(c)

$$P = 1000, \quad i = \frac{0.18}{12} = 0.015 \quad \text{and} \quad n = 10, \quad \text{therefore}$$

$$A = \frac{P[(1+i)^n - 1]}{i} = \frac{1000[(1+0.015)^{10} - 1]}{0.015} = K10,702.72$$

(d)

For a  $\text{Bin}(n, p)$

$$P(X = r) = {}^n C_r p^r (1-p)^{n-r}$$

Thus, for  $\text{Bin}(4, p)$  given  $P(X = 4) = 0.0256$

Then

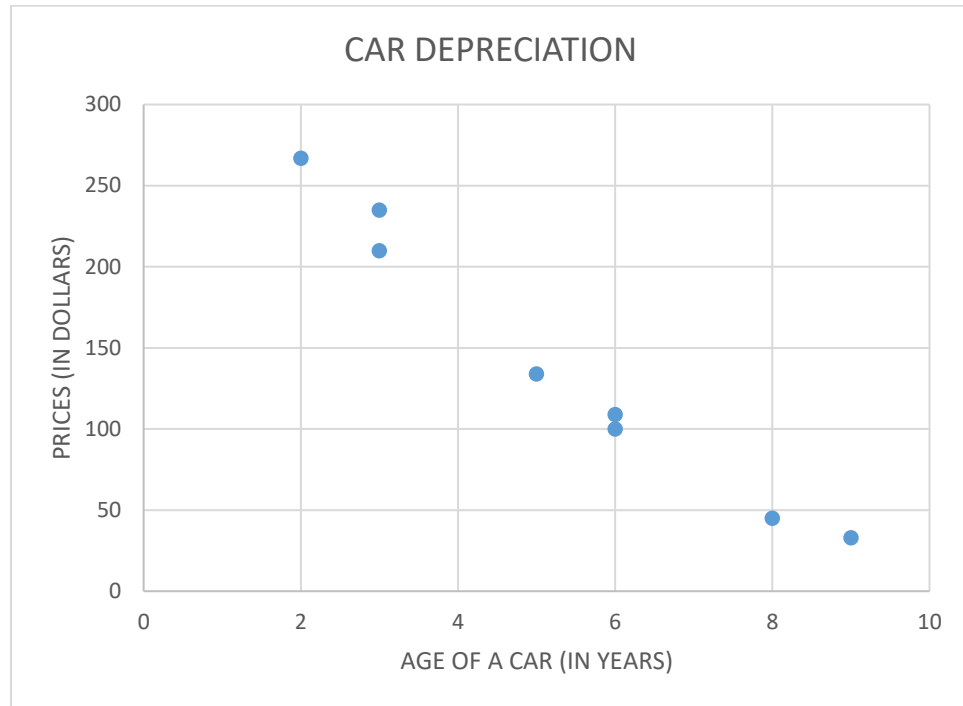
$$P(X = 4) = {}^4 C_4 p^4 (1-p)^{4-4} = 0.0256$$

Therefore,

$$p^4 = 0.0256 \quad \text{hence} \quad p = (0.0256)^{0.25} = 0.4$$

## SOLUTION FIVE

(a) Scatter plot:



(b) Summary statistics table:

X	Y	XY	X <sup>2</sup>	Y <sup>2</sup>
8	45	360	64	2025
3	210	630	9	44100
6	100	600	36	10000
9	33	297	81	1089
2	267	534	4	71289
5	134	670	25	17956
6	109	654	36	11881
3	235	705	9	55225
42	1133	4450	264	213565

Therefore,

$$\beta = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} = \frac{8 \times 4450 - 42 \times 1133}{8 \times 264 - (42)^2} = -34.4$$

and

$$\alpha = \bar{Y} - \beta \bar{X} = \frac{1133}{8} - 34.44 \left( \frac{42}{8} \right) = 322.45$$

Hence, the least-squares regression line is

$$y = \alpha + \beta x = 322.45 - 34.4x$$

(c)

$$y = 322.45 - 34.4 \times 18 = -296$$

The car depreciates to 296 dollars

(d)

$$\begin{aligned} r &= \frac{n \sum xy - \sum x \sum y}{\sqrt{[n \sum x^2 - (\sum x)^2][n \sum y^2 - (\sum y)^2]}} \\ &= \frac{8(4450) - (42)(1133)}{\sqrt{[8(264) - 42^2][8(213565) - 1133^2]}} \\ r &= -0.99 \end{aligned}$$

There is a very strong negative correlation between X and Y.

**END OF SUGGESTED SOLUTIONS**



## TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C3: ACCOUNTANCY FOR TAX PRACTITIONERS

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MONDAY 8 DECEMBER 2025

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

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### INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

**Attempt all FIVE (5) questions.**

**QUESTION ONE**

The most recent statements of financial position of Ndola Ltd for the past two (2) years are set out below.

	<b>2024 K</b>	<b>2023 K</b>
<b>Non-current assets:</b>		
Property, Plant and Equipment at valuation	<u>133,300</u>	<u>95,700</u>
<b>Current assets:</b>		
Inventory	29,160	24,300
Trade receivables	27,000	21,600
Cash and cash equivalents	<u>2,935</u>	<u>-</u>
Total assets	<u>192,395</u>	<u>141,600</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary shares of K1 each	40,000	30,000
Share premium	15,000	10,000
Retained earnings	<u>94,130</u>	<u>74,200</u>
	<u>149,130</u>	<u>114,200</u>
<b>Non-current liabilities:</b>		
Bank loan	21,500	4,000
<b>Current liabilities:</b>		
Trade payables	16,200	17,820
Tax liability	5,565	4,540
Bank overdraft	<u>-</u>	<u>1,040</u>
Total current liabilities	<u>21,765</u>	<u>23,400</u>
Total equity and liabilities	<u>192,395</u>	<u>141,600</u>

**Additional Information:**

1. The profit before tax was K25,495.
2. The total depreciation charge for the year was K16,830.
3. The interest paid on loan was K1,505.
4. The tax charge for the year was K5,565.
5. Property, plant and equipment costing K4,060, with accumulated depreciation of K2,375, was sold for K4,385 in the year.



**Required:**

Prepare a Statement of Cash Flows for Ndola Ltd for the year ended 31 December 2024 in accordance with the requirements of IAS 7 statement of cash flows, using the Indirect method.

**[Total: 20 Marks]**

**QUESTION TWO**

Daka and Phiri are in partnership sharing profits and losses in the ratio 2:1 respectively. The following trial balance has been drawn up to 31 March 2025.

	<b>Dr K</b>	<b>Cr K</b>
Land at cost	100,000	
Buildings at cost	126,000	
Fixture at cost	8,000	
Accumulated depreciation (1 April 2022)		
- Buildings		9,450
- Fixtures		1,600
Inventory 1 April 2022	2,100	
Trade receivables	4,900	
Trade payables		1,300
Bank overdraft		840
Revenue		78,600
Purchases	31,700	
Rent	1,120	
Rates	2,360	
Insurance	3,540	
Heating and lighting	8,020	
Wages and salaries	14,290	
Capital -Daka		150,000
-Phiri		75,000
Current account -Daka	1,750	
-Phiri	2,650	
Drawings -Daka	4,180	
-Phiri	6,180	
	<u>316,790</u>	<u>316,790</u>

**The following additional information is relevant at 31 March 2025:**

- (i) Closing inventory was valued at K4,240.
- (ii) Rent accrued was K400.
- (iii) Insurance prepaid was K720.
- (iv) Depreciation to be provided as follows:
  - Buildings at 2.5% per year on a straight line basis assuming nil residual value.
  - Fixtures at 20% per year on reducing balance basis.
- (v) Partnership salaries were as follows:
  - Daka K2,000 per annum.
  - Phiri K500 per annum.
- (vi) Interest on Capital is allowed at 5% per year.

**Required:**

- (a) Prepare the statement of profit or loss and appropriation account for Daka and Phiri for the year ended 31 March 2025. (12½ marks)
- (b) Prepare the statement of financial position for Daka and Phiri as at 31 March 2025. (7½ marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Given below are the sales day book, sales returns day book and cash receipts book for KDD Ltd for the week ending 28 May 2025.

#### Sales Day Book

<b>DATE</b>	<b>DETAILS</b>	<b>TOTAL K'000</b>
28 May	F. Simpasa	24,000
	T. Wilamu	16,000
	K. Fikasa	<u>30,000</u>
	Total	<u>70,000</u>

#### Sales Returns Day Book

<b>DATE</b>	<b>DETAILS</b>	<b>TOTAL K'000</b>
28 May	T. Wilamu	2,000
	F. Simpasa	<u>3,000</u>
	Total	<u>5,000</u>

#### Cash Receipts Book

<b>DATE</b>	<b>DETAILS</b>	<b>TOTAL K'000</b>	<b>CASH SALES K'000</b>	<b>SALES LEDGER K'000</b>	<b>DISCOUNT ALLOWED K'000</b>
28 May	K. Fikasa	28,000		28,000	1,000
	F. Simpasa	12,000		12,000	400
	Cash Sales	21,000	21,000		
	T Wilamu	<u>8,000</u>		<u>8,000</u>	<u>200</u>
	Total	<u>69,000</u>	<u>21,000</u>	<u>48,000</u>	<u>1,600</u>

The following were the balances brought down for each of the accounts at 21 May 2025.

	<b>K'000</b>
Sales Account	K1,237,000
Sales returns account	105,000
Sales ledger control account (debit)	99,000
Discount allowed account	12,400
K. Fikasa	29,000
T. Wilamu	22,000
F. Simpasa	48,000

**Required:**

- (a) Post the totals of the day books to the main ledger clearly showing the balance carried down. (8 marks)
- (b) Post the individual entries to the subsidiary ledger accounts, clearly showing the balances carried down. (8 marks)
- (c) What are the two (2) effects of each of the transactions below for the purpose of accounting?
  - (i) Payment by cheque of K21,000 for goods purchased for resale.
  - (ii) Purchase of goods for resale on credit for K28,000.
  - (iii) Sale of goods on credit for K34,000.
  - (iv) Withdrawal of K5,000 of cash for the owner's personal living expenses.

(4 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

The following trial balance relates to Lima Plc as a 31 December, 2024:

	K'000	K'000
Share capital K1 each		50,000
Retained earnings		136,300
General reserve		29,823
Receivables and Payables	55,400	34,710
Inventory 1 January 2024	4,155	
Premises at cost	250,000	
Premises accumulated depreciation 1 January 2024		80,000
Plant and equipment at cost	320,000	
Plant and equipment accumulated depreciatin 1 January 2024		60,800
Purchases	122,700	
Discounts	1,900	2,111
Sales returns and purchases returns	8,887	3,500
Revenue		301,400
Rent	9,700	
Administration expenses	41,500	
12% loan		150,000
Distribution costs	72,400	
Loan interest paid	9,000	
Bank		22,219
Cash in hand	1,055	
Allowance for receivables 1 January 2024		666
Water utility	5,897	
Salaries and wages	41,300	
Irrecoverable debts	2,635	
Suspense account		75,000
	<b>946,529</b>	<b>946,529</b>

**The notes below relate to Lima Plc as at 31 December 2024:**

- (i) Closing inventory was valued at K3,125,000 ` on 31 December, 2024.
- (ii) Prepaid rent of K1,115,000 was not included in the trial balance figure above.
- (iii) The November and December water utility bill was not received until 30 January, 2025. The last quarterly utility bill received was on 31 October 2024 for the three months to that date amounting to K2,100,000 only.

- (iv) Depreciation is to be provided at 2% per annum on straight-line basis on premises and 20% reducing balance on plant and equipment.
- (v) Allowance for receivables is to be provided at 10% on the net receivable balance.
- (vi) The suspense account arose when a rights issue of 1 for every two (2) shares was made during the year at a value of K3. The bank account was updated with resulting proceeds but no entry was made in the other appropriate accounts.

**Required:**

Prepare the statement of profit or loss and the statement of financial position for Lima Plc for the year ended 31 December, 2024. **[Total: 20 Marks]**

**QUESTION FIVE**

Accountants play an important role in the development and growth of an economy. They are responsible for the provision of financial and economic information that helps a company to make informed strategic and operational decisions.

- (a) Identify and explain five (5) roles of an Accountant. (10 marks)
- (b) Mwansa has a business which operates with a mark up on cost of 30%. The revenue for the period was K156,000 and the inventory at the start and end of the period was K9,000 and K15,000 respectively.

**Required:**

Calculate the purchases figure for the period. (5 marks)

- (c) Shortly before the year end a business sold a fixed asset for K4,000. The bookkeeper entered the receipt on the cash receipts book but did not know what else to do and therefore credited the suspense account with the amount. The fixed asset sold had an original cost of K15,000 and had accumulated depreciation charged to it at the date of sale of K10,500.

**Required:**

Prepare the journal entry to correct the disposal account for the period and show how the suspense account will be cleared. (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

### C3 ACCOUNTANCY FOR TAX PRACTITIONERS

#### SUGGESTED SOLUTIONS

#### SOLUTION ONE

Ndola Ltd's

Statement of cash flows for the year ended 31 December 2023

	K	K
<b><u>Cash flows from operating Activities</u></b>		
Profit before tax	25,495	
Adjust for:		
Depreciation expenses	16,830	
Profit on Disposal of PPE (4,060 – 2,375 – 4,385)	(2,700)	
Interest charge	1,505	
<b><u>Movements in working Capital</u></b>		
Increase in Inventory (29,160 – 24,300)	(4,860)	
Increase in Receivables (27,000 – 21,600)	(5,400)	
Decrease in Payables (16,200 – 17,820)	(1,620)	
<b><u>Cash generated from other operations</u></b>		
Interest paid	(1,505)	
Tax paid	(4,540)	
Net cash flows from operating activities		23,205
<b><u>Cash flows from investing Activities</u></b>		
Payments to acquire PPE (w1)	(56,115)	
Proceeds on PPE Disposal	4,385	
Net cash flow from investing Activities		(51,730)
<b><u>Cash flows from financing Activities</u></b>		
Issue of new shares (55,000 – 40,000)	15,000	
Issue of new loan notes (21,500 – 4,000)	17,500	
Net cash flow from financing Activities		32,500
Net increase in cash and cash equivalents		3,975
Opening cash and cash equivalents		(1,040)
Closing cash and cash equivalent		2,935

**Workings:**

1.

PPE Account

Balance	b/f	95,700	Depreciation	16,830
∴ Bank – Additions (Bal.fig)		56,115	Disposal (4,060 – 2,375)	1,685
			Balance	c/d
		<u>151,815</u>		<u>133,300</u>
				<u>151,815</u>



## **SOLUTION TWO**

(a) Statement of profit or loss and appropriation account for the year ended 31 March 2023

	K	K
Revenue		78,600
Opening inventory	2,100	
Purchases	<u>31,700</u>	
	33,800	
Less: Closing inventory	<u>(4,240)</u>	
Cost of sales		<u>(29,560)</u>
Gross profit		49,040
Less Expenses:		
Rent (1,120 + 400)	1,520	
Rates	2,360	
Insurance (3,540 - 720)	2,820	
Heating & lighting	8,020	
Salaries & wages	14,290	
Depreciation – Buildings (126,000 x 0.025)	3,150	
– Fixtures (6,400 x 0.2)	<u>1,280</u>	
		<u>(33,440)</u>
Net Profit		15,600
Interest on capital:		
– Daka (150,000 x 0.05)	(7,500)	
– Phiri (75,000 x 0.05)	(3,750)	
Salaries:		
– Daka	(2,000)	
– Phiri	<u>(500)</u>	
		<u>(13,750)</u>
		1,850
Profit share: – Daka ( $1,850 \times \frac{2}{3}$ )		(1,233)
– Phiri ( $1,850 \times \frac{1}{3}$ )		<u>(617)</u>
		<u>-</u>

- (b) Daka and Phiri's  
Statement of financial position as at 31 March 2023

	K	K	K
<b><u>Non-Current assets:</u></b>			
Land	100,000	-	100,000
Buildings	126,000	(12,600)	113,400
Fixtures	<u>8,000</u>	<u>(2,880)</u>	<u>5,120</u>
	<u>234,000</u>	<u>15,480</u>	218,520
<b><u>Current assets:</u></b>			
Inventories		4,240	
Receivables		4,900	
Prepayments		<u>720</u>	
			<u>9,860</u>
			<u>228,380</u>
<b><u>Capital and liabilities:</u></b>			
Capital accounts: – Daka		150,000	
– Phiri		<u>75,000</u>	
			225,000
Current accounts: – Daka		4,803	
– Phiri		<u>(3,963)</u>	
			840
<b><u>Current Liabilities</u></b>			
Payables		1,300	
Accruals		400	
Bank overdraft		<u>840</u>	
			<u>2,540</u>
Net assets			<u>228,380</u>

**Working - Current account**

	Daka K	Phiri K
Opening balance	(1,750)	(2,650)
Interest on capital	7,500	3,750
Salaries	2,000	500
Profit share	1,233	617
Drawings	<u>(4,180)</u>	<u>(6,180)</u>
	<u>4,803</u>	<u>(3,963)</u>

### **SOLUTION THREE**

(a) **Main ledger**

#### **Sales Account**

<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>	<b>Details</b>	<b>Amount K'000</b>
			Balance b/d	1,237,000
28 May	Balance c/d	<u>1,328,000</u>	SDB	70,000
		<u>1,328,000</u>	CRB	<u>21,000</u>
				<u>1,328,000</u>
			Bal b/d	1,328,000

#### **Sales Returns Account**

<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>	<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>
21 May	Balance b/d	105,000			
28 May	SRDB	<u>5,000</u>	28 May	Balance c/d	<u>110,000</u>
		<u>110,000</u>			<u>110,000</u>
1 June		110,000			

#### **Sales Ledger Control Account**

<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>	<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>
21 May	Balance b/d	99,000	28 May	SRDB	5,000
28 May	SDB	70,000	28 May	CRB	48,000
			28 May	CRB discount	1,600
			28 May	Balance b/d	<u>114,000</u>
		<u>169,000</u>			<u>169,000</u>
1 June	Balance b/d	114,000			

#### **Discounts Allowed Account**

<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>	<b>Date</b>	<b>Details</b>	<b>Amount K'000</b>
21 May	Balance b/d	12,400			
28 May	CRB	<u>1,600</u>	28 May	Balance c/d	<u>14,000</u>

1 June	Balance b/d	<u>14,000</u>	28 May	<u>14,000</u>
		14,000		

(b) **sales (receivables) Ledger**

K. Fikasa					
Date	Details	Amount K'000	Date	Details	Amount K'000
21 May	Balance b/d	29,000	28 May	CRB	28,000
28 May	SDB	30,000	28 May	CRB – discount	1,000
		<u>59,000</u>	28 May	Balance c/d	<u>30,000</u>
1 June	Balance b/d	30,000			<u>59,000</u>

T. Wilamu					
Date	Details	Amount K'000	Date	Details	Amount K'000
21 May	Balance b/d	22,000	28 May	SRDB	2,000
28 May	SDB	16,000	28 May	CRB	8,000
		<u>38,000</u>	28 May	CRB- discount	200
1 June	Balance b/d	27,800	28 May	Balance c/d	<u>27,800</u>
					<u>38,000</u>

F. Simpasa					
Date	Details	Amount K'000	Date	Details	Amount K'000
21 May	Balance b/d	48,000	28 May	SROB	3,000
28 May	SDB	24,000	28 May	CRB	12,000
		<u>72,000</u>	28 May	CRB- discount	400
1 June	Balance b/d	56,600	28 May	Balance c/d	<u>56,600</u>
					<u>72,000</u>

**NOTE:**

SDB means Sale Day Book

CRD means    Cash Receipt Book  
SRDB means   Sales Returns Day Book

- (c)    (i)    Decrease in bank account  
             Increase in purchases (or inventory)
- (ii)    Increase in purchases (or inventory)  
             Increase in payables
- (iii)    Increase in Revenue/sales (or decrease in inventory)  
             Increase in receivables
- (iv)    Decrease in bank account  
             Increase in drawings

## **SOLUTION FOUR**

### **(a) Lima Plc**

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

	K'000	K'000
Revenue		301,400
Returns inwards		<u>(8,887)</u>
		292,513
Opening inventory	4,155	
Purchases	122,700	
Purchases returns	<u>(3,500)</u>	
	123,355	
Less closing inventory	<u>(3,125)</u>	
<b>Cost of sales</b>		<u>(120,230)</u>
<b>Gross profit</b>		172,283
Other income - discount received		<u>2,111</u>
		174,394
<b>Less Expenses:</b>		
Rent (9700-1115)	8,585	
Utility (5897+(2100*2/3))	7,297	
Depreciation		
Premises (250000*2%)	5,000	
Plant and Equipment (320000-60800)*20%	51,840	
Allowance for receivables (5540-666)	4,874	
Irrecoverable debts	2,635	
Discount allowed	1,900	
Salaries and wages	41,300	
Interest (150000*12%)	18,000	
Administration Expenses	41,500	
Distribution costs	<u>72,400</u>	<u>255,331</u>
Loss before tax		(80,937)
Tax		<u>-</u>
<b>Loss after tax</b>		<u><u>(80,937)</u></u>

**(a) Lima Plc**  
**Statement of financial Position as at 31 December 2023**

	K'000	K'000
<b>Non-current assets</b>		
Premises (250000-80000-5000)		165,000
Plant and equipment (320000-60800-51840)		<u>207,360</u>
		372,360
<b>Current assets</b>		
Inventory	3,125	
Receivables (55400-5540)	49,860	
Prepaid rent	1,115	
Cash in hand	<u>1,055</u>	<u>55,155</u>
<b>Total assets</b>		<b><u>427,515</u></b>
<b>Capital and liabilities</b>		
<b>Equity</b>		
Share capital K1 each (50000+25000)		75,000
Share Premium (0+50000)		50,000
General reserve		29,823
Retained earnings (136300-80937)		<u>55,363</u>
		210,186
<b>Non-current liabilities</b>		
12% Debenture		150,000
<b>Current liabilities</b>		
Payables	34,710	
Bank	22,219	
Tax	-	
Accrued interest	9,000	
Accrued utility bill	<u>1,400</u>	<u>67,329</u>
<b>Total equity and liabilities</b>		<b><u>427,515</u></b>

## **SOLUTION FIVE**

- (a) (i) Provision of and Audit of financial statements.

Although the law requires owners to prepare financial statements, the process of preparing such statements is usually handled by Accountants. This in turn results in another role for Accountants, the Auditing of accounts. Auditing is necessary to give financial statements legal credibility.

- (ii) Appraisal of investments

An economy is not able to grow or develop without investment being made. Investment appraisal is a process of evaluation of investment. Factors to be considered include financial, as well as non-financial aspects of a possible investment. Accountants perform evaluation with minimum expenditure on resources.

- (iii) Saving costs

Economies only grow if costs are kept at a minimum. Accountants use their knowledge to supply management with the best ways of saving costs in terms of necessary acquisitions, investments and personnel costs. This helps to improve the wealth of the business and in return, shareholders' wealth too.

- (iv) Fight fraud

Embezzlement and misappropriation are a major stumbling blocks within an economy. Accountants play an important role in this through a combination of special training in law, accountancy and Information technology skills. Accountants use their acquired knowledge to establish and implement external and internal controls to prevent fraud.

- (v) Financial services

Accountants provide essential services to business and other members of the community, without which economic growth would be nearly impossible. Such services include preparation of tax returns for companies and or individuals.



(b)

	<b>K'000</b>	<b>K'000</b>	<b>%</b>
Revenue		156,000	130
<b>Cost of sales:</b>			
Opening inventory	9,000		
Purchase balance fig.	<u>126,000</u>		
	135,000		
Less closing inventory	<u>(15,000)</u>		
		<u>120,000</u>	<u>100</u>
Gross profit		<u>36,000</u>	<u>30</u>

(c) Dr Accumulated Depreciation  
Dr Disposal Account  
Dr Suspense Account

K10,500  
K15,000  
K4,000

Cr Fixed assets at cost K15,000  
Cr Disposal Account K10,500  
Cr Disposal Account K4,000

Suspense Account			
	<b>K'000</b>		<b>K'000</b>
Disposal Account	<u>4,000</u>	Balance	<u>4,000</u>

**END OF SUGGESTED SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C4: DIRECT TAXES

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TUESDAY 9 DECEMBER 2025

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

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9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2 to 7 of this paper.

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

**(C4: Direct Taxes Taxation Table for 2025 Examinations)**  
**Income Tax**

**Taxation Table**

**Income Tax**

**Standard personal income tax rates**

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

**Income from farming for individuals**

K1 to K61,200	first K61,200	0%
Over K61,200		10%

**Company Income Tax rates**

On income from manufacturing and other	30%
On income from farming and agro-processing	10%
On income from mineral processing	30%
On income from mining operations	30%

**Mineral Royalty**

**Mineral Royalty on Copper**

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

**Mineral Royalty on other minerals**

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

**Capital allowances**

**Implements, plant and machinery and commercial vehicles:**

Wear and tear allowance –	Standard wear and tear allowance	25%
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	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%
<b>Non-commercial vehicles</b>		
	Wear and tear allowance	20%
<b>Industrial buildings:</b>		
	Wear and tear allowance	5%
	Initial allowance	10%
	Investment allowance	10%
<b>Low cost housing (Cost up to K100,000)</b>		
	Wear and tear allowance	10%
	Initial allowance	10%
<b>Commercial buildings:</b>		
	Wear and tear allowance	2%
<b>Farming allowances</b>		
	Development allowance	10%
	Farm works allowance	100%
	Farm improvement allowance	100%

### Presumptive Taxes

#### Turnover Tax

##### Annual turnover

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

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	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
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	K	K	K	K
<b>Sedans</b>				
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

	<b>Aged 2 to 5 years Customs duty</b>	<b>Excise duty</b>	<b>Aged over 5 years Customs duty</b>	<b>Excise duty</b>
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**Motor vehicles for the transport of goods**

K	K	K	K
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**Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

**Double cabs**

GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
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GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
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#### **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	7,246	5,556	10,963	4,751
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	8,731	6,694	13,156	5,701
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	10,477	8,032	10,817	8,293
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	13,271	10,174	11,744	9,004
GVW exceeding 20 tonnes	21,992	0	19,461	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
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#### **Customs and Excise on New Motor vehicles**

##### **Duty rates on:**

- 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%

- 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
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
<b>3.</b>	<b>Buses/coaches for the transport of more than ten persons</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	<b>Excise Duty:</b>	
	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%
<b>4.</b>	<b>Trucks/lorries with gross weight exceeding 20 tonnes</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%



**Attempt ALL FIVE (5) questions.**

**QUESTION ONE**

Mazyopa Plc is a Zambian resident company which was recently listed on the Lusaka Securities Exchange (LUSE). The company's shares were listed at the start of the year 2025. The company also issued 36% of its shares to indigenous Zambians during the year.

The following is a statement of profit or loss for the year ended 31 December 2025:

	K	K
Sales revenue		5,181,600
Cost of sales		<u>(2,971,400)</u>
Gross profit		2,210,200
<i>Investment income:</i>	(Note 1)	
- Dividends	67,200	
- Royalties	136,000	
- Bank interest	<u>85,000</u>	
		<u>288,200</u>
		2,498,400
<i>Less expenses:</i>		
Wages and salaries	(Note 2)	105,600
Rent and rates		57,600
Repair and renewals	(Note 3)	187,500
Professional charges	(Note 4)	75,000
Sundry expenses	(Note 5)	62,400
Travelling and entertaining	(Note 6)	72,000
Bad debts	(Note 7)	39,500
Depreciation		<u>33,600</u>
		<u>(633,200)</u>
Net profit		<u>1,865,200</u>

**The following additional information is available:**

**Note 1: Investment income**

All investment income above is shown net of withholding tax.

**Note 2: Wages and salaries**

The wages and salaries include the annual emoluments of the Marketing Manager of K52,000 who is accommodated in a company owned house. He does not pay rent for this accommodation.

**Note 3: Repairs and renewals**

Repairs and renewals, which were made up as follows:

	K
Redecoration of existing premises	63,500
Installation of new ceiling to general offices	<u>124,000</u>
	<u>187,500</u>

#### **Note 4: Professional charges**

These consist of:

	K
Debt collection	25,000
Audit and accountancy fees	21,500
Unsuccessful Income tax appeal	<u>28,500</u>
	<u>75,000</u>

#### **Note 5: Sundry expenses**

These consist of:

	K
Chamber of Commerce subscriptions	22,000
Donations to New Dawn political party	18,000
Training staff	12,800
Sundry allowable expenses	<u>9,600</u>
	<u>62,400</u>

#### **Note 6: Travelling and entertaining**

These consist of:

	K
Entertaining loyal customers	21,700
Staff end of year party	20,200
Entertaining special suppliers	14,000
Staff canteen expenses	<u>16,100</u>
	<u>72,000</u>

#### **Note 7: Bad debts**

These include trade debts written off amounting to K18,900, decrease in general provision of K10,200, increase in specific provision of K47,200 and loans to employees previously written of now recovered of K16,400.

#### **Note 8: Implements, plant and machinery:**

At 1 January 2025, the company held the following assets qualifying for capital allowances which were acquired at the following costs:

	K
Plant at cost	230,000
Computers at cost	15,000
Toyota Harrier (2,200 cc)	90,000

During the year the company sold the plant for K96,000. It had an income tax value of K120,000, at 1 January 2025. The computers were sold for K30,000. They had an income tax value of K12,000 at 1 January 2025. The Toyota Harrier was acquired this year and is used as personal to

holder car by the Marketing Manager. It was agreed with the Commissioner General that the private use of the Toyota Harrier was 20%.

#### **Note 9: Premises**

The company acquired its business premises three (3) years ago at a total cost of K4,200,000. This cost consists of a factory building of K2,800,000 and general administration offices of K800,000 whilst the remainder is the cost of land. The cost of installing the new ceiling during the year referred to in note (3) above is included in the cost of general administration offices.

#### **Note 10: Provisional income tax**

The company paid provisional income tax of K92,000 during the year.

#### **Required:**

- (a) Calculate the capital allowances claimable by Mazyopa Plc for the tax year 2025.  
(8 marks)
- (b) Calculate the tax adjusted business profit for Mazyopa Plc for the tax year 2025.  
(8 marks)
- (c) Calculate the final income tax payable by Mazyopa Plc for the tax year 2025.  
(4 marks)

**[Total: 20 Marks]**

#### **QUESTION TWO**

Nachone has been buying and selling miscellaneous commodities for some time now and prepares accounts to 31 December each year. Her estimated taxable business profit for the year ended 31 December 2025 was K1,905,000. However, the actual net profit as per accounts for the year ended 31 December 2025, was K1,310,500 which was generated from a turnover of K11,965,000.

The profit figure for the year was arrived at after taking into account the following items:

- (1) Wages and salaries for workers amounting to K930,200 which included her annual salary of K296,500.
- (2) She took goods at a cost of K26,000 for personal use and it is her business norm to mark-up her goods by 20%. This transaction has not been recorded in the books.
- (3) Motor car running expenses of K51,200 has been agreed with the Commissioner General that 20% of these expenses related to Nachone's private mileage.
- (4) Maintenance expenses of K132,500. These included K10,200 incurred on repainting and decorating her retail shops, K82,100 incurred on making alterations to her existing retail

shops to comply with Covid-19 regulations and K40,200 for making extensions to her recently acquired shop.

- (5) General expenses of K778,000, which included depreciation on assets of K76,100, a loan to a supplier of K65,200 written off, increase in general provision for bad debts of K31,650, an increase in specific provision of bad debts of K41,200 and a donation to a political party of K720. The remaining balance related to general business expenses which were incurred wholly and exclusively for business purposes.
- (6) Profit on disposal of non-current assets of K48,100 and dividends received from shares she owns in a quoted company of K21,500 (net).

**Additional information**

Capital allowances on implements, plant and machinery for the tax year 2025 were agreed with the Commissioner General to be K177,800.

**Required:**

- (a) Explain the reasons why Nachone will be required to pay provisional income tax in the tax year 2025. (3 marks)
- (b) Calculate the amount of provisional tax paid by Nachone in respect of the tax year 2025 and state the due dates and amounts paid on each due date. (5 marks)
- (c) Calculate Nachone's actual taxable business profit for the tax year 2025. (8 marks)
- (d) Calculate the final amount of income tax payable by or refundable to Nachone for tax 2025. (4 marks)

**[Total 20 Marks]**

### **QUESTION THREE**

Tito Diya was employed as a Marketing Manager at Casino Ltd. The company's revenue and business was adversely affected by the Corona Virus Pandemic (COVID 19). As a result of the poor financial performance of Casino Ltd, Tito Diya was retrenched and his final working day was 31 March 2025. His retrenchment package included:

	K
Salary in lieu of notice	30,000
Bonus pay	55,000
Leave pay	81,000
Repatriation pay	15,000
Refund of Pension contribution	250,000

In addition, Tito was given a long service award comprising a gas stove worth K5,200.

Tito Diya has unique skills which enabled him to secure new employment with Carbon Marketing Ltd on 1 May 2025.

His employment contract with Carbon Ltd in the tax year 2025, provided for the following:

	K
Annual salary	480,000
Housing allowance per annum	144,000
Education allowance per month	9,500
Fuel allowance per month	5,000
Airtime allowance per month	500
Medical allowance per month	8,000

School fees allowance for his two minor children of K500 per child per month.

During the course of his current employment he made the following payments:

	K
Subscription to the Zambia Institute of Marketing	7,500
NAPSA contributions	8,500
Tax deducted under PAYE	76,400

#### **Required:**

- Calculate the final income tax payable by Tito Diya for the 2025 tax year. (13 marks)
- Explain the circumstances under which the Commissioner General may make an estimated assessment on a tax payer. (3 marks)
- State any four (4) matters that should be included in a Tax appeal to be lodged with the Tax Appeals Tribunal by an aggrieved tax payer. (4 marks)

**[Total:20 Marks]**

#### **QUESTION FOUR**

- (a) Explain any four (4) Badges of trade. (8 marks)
- (b) State the categories of properties on which Property Transfer Tax (PTT) is charged under the provisions of the Property Transfer Tax Act. (5 marks)
- (c) Chilumba an enterprising SME trader based in Lusaka made the following disposals of property during the tax year of 2025:
- (i) He sold 2,500 shares in Kingspark Plc, a company listed on the Lusaka Securities Exchange, each with the nominal value of K2.00 per share. However, the market per share was K5 per share on the date of the sale.
  - (ii) He sold a residential property located in Sunningdale area of Lusaka at K2,500,000. The open market value of the property was K2,000,000 as determined by a Government valuation expert.
  - (iii) He sold a light truck for K230,000. The open value of the vehicle was determined to be K250,000.
  - (iv) He sold 1,000,000 shares (each having a nominal value of K1) he held in BT Ltd, a private limited company, at a market price of K2.50 per share.

#### **Required:**

Explain the property tax implications of each of the above transactions and calculate the amount of any Property Transfer Tax (PTT) arising in each case. (7 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) A tax year, is the year for which tax is chargeable and runs from 1 January to 31 December of each year. However, businesses do not always prepare accounts to dates ending on 31 December.

**Required:**

- (i) Explain what is meant by a basis period. (1 mark)
- (ii) Explain how the basis period should be determined when a trader ceases to trade and the last accounts are prepared for a period of:

- (1) exactly 12 months (1 mark)
- (2) Less than 12 months (1 mark)
- (3) More than 12 months (2 marks)

- (b) Tom and Don have been in partnership since 2019, sharing profits and losses in the ratio 2 : 3 respectively. On 1 April 2025, they decided to admit their former school mate Jerry into the partnership and the profits and losses were to be shared between Tom, Don and Jerry in the ratio of 2:5:3 respectively. Each partner was entitled to an annual salary of K30,000 and K20,000 respectively up to 31 March 2025. When Jerry was admitted the partners agreed that the partners' salaries be changed to K20,000 per annum each for Tom and Don, while Jerry would be entitled to a salary of K10,000 per annum.

The tax adjusted profits and losses for the most recent years have been as follows:

Year ended 31 December 2024	Loss	(K160,000)
Year ended 31 December 2025	Profit	K240,000

**Required:**

- (i) Explain the tax treatment of tax losses suffered by partners. (2 marks)
- (ii) Calculate the amount of profits on which each partner will be assessed for the tax year 2025. (13 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## C4 DIRECT TAXES

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

- (a) **MAZYOPA PLC**  
**COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2025**

	K	K
<u>Plant</u>		
ITV b/f	120,000	
Disposal proceeds	<u>(96,000)</u>	
Balancing allowance	<u>24,000</u>	24,000
<u>Computer</u>		
ITV b/f	12,000	
Disposal proceeds (restricted to cost)	<u>(15,000)</u>	
Balancing charge	<u>(3,000)</u>	(3,000)
<u>Toyota Harrier</u>		
Purchase cost	90,000	
Wear & tear @20%	<u>(18,000)</u>	18,000
ITV c/f	<u>72,000</u>	
<u>Industrial building</u>		
Wear and tear @ 5% x K2,800,000		140,000
<b>Administrative offices</b>		
Wear and tear @ 2% x K800,000		16,000
Total capital allowances		<u>195,000</u>

**`Workings:**

Industrial building	K
Total cost	4,200,000
Less cost of land	<u>600,000</u>
Total construction cost	<u>3,600,000</u>
10% x K3,600,000 = K360,000	

The cost of General Administration offices is more than 10% of the total construction cost. Therefore, the general administrative offices will not qualify as an industrial building.



(b) **MAZYOPA LTD**  
**COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2025**

	K	K
Net profit per accounts		1,865,200
Add		
Accommodation benefit (52,000 x 37.5%)	19,500	
Replacement of ceiling	124,000	
Income tax appeal	28,500	
Donations to political Party	18,000	
Entertaining loyal customers	21,700	
Entertaining special suppliers	14,000	
Staff canteen expenses	16,100	
Depreciation	33,600	
Personal to holder car benefit	<u>36,000</u>	
		<u>311,400</u>
		2,176,600
Less:		
Dividends	67,200	
Royalties	136,000	
Bank interest	85,000	
Decrease in general provision	10,200	
Loans previously written off now recovered	16,400	
Capital allowances	<u>195,000</u>	
		<u>(509,800)</u>
Tax adjusted business profit		<u>1,666,800</u>

(c) **MAZYOPA PLC**  
**COMPUTATION OF COMPANY INCOME TAX PAYABLE FOR THE TAX YEAR 2025**

	K
Business profit	1,666,800
Royalties (136,000 x 100/85)	160,000
Bank interest (85,000 x 100/85)	<u>100,000</u>
Taxable profit	<u>1,926,800</u>
Company income tax (30% - 2% - 5) @23%	443,164
Less: WHT – Royalties (160,000 x 15%)	(24,000)
WHT- Bank interest (100,000 x 15%)	(15,000)
Provisional income tax	<u>(92,000)</u>
Final company income tax payable	<u>312,164</u>

## **SOLUTION TWO**

(a) Reasons why Nachone will be required to pay provisional income tax because:

- (1) The business generates annual turnover which is well above K5000,000.
  - (2) The amount of the taxable profit from the business is expected to be over the tax free income of K61,200 in the tax year 2025.
  - (3) The amount of the business profit is not chargeable to income tax under the Pay as Earn System.
- (b) The provisional income tax payable by Nachone on the provisional amount of taxable income of K1,905,000.

	K
Estimated taxable profits	1,905,000
Less tax free income	<u>(61,200)</u>
	<u>1,843,800</u>
Provisional Income Tax	
K24,000 x 20%	4,800
K25,200 x 30%	7,560
K1,733,400x 37%	<u>641,358</u>
Provisional tax payable	<u>653,718</u>
Provisional income tax paid	
K653,718/4	163,430

Provisional income tax for the tax year 2025 will be payable as follows	
Due date	Amount K
31 March 2025	163,430
30 June 2025	163,430
30 September 2025	163,430
31 December 2025	163,430

(c) COMPUTATION OF ACTUAL TAXABLE BUSINESS PROFIT FOR THE TAX YEAR 2025

	K	K
Net profit as per accounts		1,310,500
Add:		
Nachone's salary	296,500	
Goods for own use (K26,000 x 120/100)	31,200	
Motor car running expenses (K51,200 x 20%)	10,240	
Alterations to shops	82,100	
Shop extensions	40,200	
Depreciation	76,100	
Loan to supplier written off	65,200	
Increase in general provision	31,650	
Donation to a political party	720	
		<u>633,910</u>
		1,944,410
Less:		
Profit on disposal of capital assets	48,100	
Dividends	21,500	
Capital allowances	<u>177,800</u>	
		<u>(247,400)</u>
Actual tax adjusted business profit		<u>1,697,010</u>

(d) COMPUTATION OF FINAL INCOME TAX PAYABLE BY SICHONE FOR THE TAX YEAR 2025

	K
Actual tax adjusted business profit	1,697,010
Less tax free income	<u>(61,200)</u>
	<u>1,635,810</u>
<u>Income Tax</u>	
K24,000 x 20%	4,800
K25,200 x 30%	7,560
K1,586,610 x 37%	<u>587,046</u>
	<u>599,408</u>
Less provisional income tax	<u>(653,718)</u>
Final income tax refundable	<u>(54,310)</u>

### **SOLUTION THREE**

(a) TITO DIYA FINAL INCOME TAX PAYABLE FOR THE TAX YEAR 2025

			K
Bonus pay	55,000		
Leave pay	81,000		
	136,000		
Annual salary (K480,000 x 8/12)	320,000		
Housing allowance (K144,000 x 8/12)	96,000		
School child allowance (2 x K500 x8)	8,000		
Education allowance (K9,500 x 8)	76,000		
Fuel allowance per month (5000 x 8)	40,000		
Airtime (k500 x 8)	4,000		
Medical allowance (K8000 x 8)	<u>64,000</u>		
		<u>608,000</u>	
			744,000
Less:			
Professional subscription	<u>(7,500)</u>		
Total taxable amount		<u>736,500</u>	
First K61,200 @ 0%	0		
Next K24,000 @ 20%	4,800		
Next K25,200 @ 30%	7,560		
Balance K626,100 @37%	<u>231,657</u>		
Income tax liability	244,017		
Less PAYE	<u>(76,400)</u>		
Tax payable	<u>167,617</u>		

(b) The commissioner general may make assessments under the following circumstances:

- (i) A person has not submitted a return as required by the Act
- (ii) The return submitted does not satisfy the Commissioner General
- (iii) If the Commissioner General has reason to believe that the person is about to leave the Republic

(c) four (4) contents of the Tax Appeal lodged to the Tax Appeals Tribunal by an aggrieved tax payer.

- (i) Details of the decision appealed against
- (ii) The date of the decision
- (iii) The office giving the decision
- (iv) The grounds for appeal
- (v) Any other information as the tribunal shall require

## **SOLUTION FOUR**

### (a) Badges of trade

#### (i) Subject matter of realization

Guidance has been provided that if the item sold is one which is normally held as a trading stock, the presumption that trade exists is high.

#### (ii) The length of period of ownership

Guidance has been provided that trading stock is not normally held for a long period of time as a result, if a person disposes off an asset he/she held for a long period of time it will be quite difficult to determine whether the asset had been held as trading stock. Assets held for long periods of time are normally investments

#### (iii) The frequency of similar transactions

If the frequency of similar transactions is high, chances of classifying a taxpayer as a trader are high.

#### (iv) Supplementary work and marketing

If an asset is acquired when it is poor state and supplementary work is carried out to improve the asset by making it more marketable, then such an asset when sold will give rise to trading profit

#### (v) Circumstances giving rise to realization

If it is established that the asset was disposed off with the intention of making a profit. Then the presumption that trade exists is high

#### (vi) The taxpayers' intention

Intention to trade clearly constitutes trading. However, intention to make a profit may not constitute trading. As such it has to be established as to whether a taxpayer sold an asset because the intention was to trade.

### (b) Categories of properties where property transfer tax is charged

(1) Any land in Zambia including any building on that land

(2) Any share issued by a company in Zambia that is not listed on the Lusaka stock exchange (LUSE)

(3) Any transfer of intellectual property

(4) A mining right for an exploration licence

(5) A mining right for a mining licence

(6) A mineral processing licence

- (c) Property tax implications and calculation of PTT
- (i) Kingspark is listed on the securities exchange, therefore the selling of shares is not subject to property transfer tax. No PTT shall be paid
  - (ii) Selling of a residential property is subject to property transfer tax, therefore Pinky is due to pay PTT. The realized value is the greater of the open market value and the actual price sales price.  
  
(K2,500,000x8% =K200,000) The amount of PTT is K200,000
  - (iii) Sale of movable properties are not subject to property transfer tax.  
Therefore, will not pay any PTT upon disposal of this light truck
  - (iv) Shares in BT Ltd are chargeable property because the company is not listed on the Lusaka stock exchange. The realized value is the greater of the nominal value and the open market value.  
Property tax paid is: (8% x K2, 500,000=K200,000).

## **SOLUTION FIVE**

- (a) (i) A basis period for a given tax year is an accounting period whose profits are to be assessed in that particular tax year.
- (ii) (1) If the last accounting period is exactly twelve months long, then the normal rules will apply.
- (2) If the last accounting period is less than twelve months, then the profits of that accounting period are assessed in the tax year following the one in which the profits of the second last accounting period is assessed.
- (3) If the last accounting period is made up of more than twelve months, then that period should be split into twelve months period ending on the normal accounting date and a short accounting period ending on the date of cessation. The profits of the long accounting period should be allocated to the two resulting periods on a time basis.
- (b) (i) A trading tax loss should be carried forward by each partner and be relieved against each partner's share of future partnership profits.

The tax loss carried forward can only be offset against future profits arising from the same trade or source as the one which incurred the loss.

The loss can only be carried forward for five (5) years, after which it is not possible for the trading loss to be relieved.

(ii) **ALLOCATION OF PARTNERSHIP PROFITS**

	<b>Total</b>	<b>Tom</b>	<b>Don</b>	<b>Jerry</b>
<b>Year ended 31 12.2024</b>				
Salaries	50,000	30,000	20,000	Nil
Balance (2:3)	<u>(210,000)</u>	<u>(84,000)</u>	<u>(126,000)</u>	Nil
Total	<u>(160,000)</u>	<u>(54,000)</u>	<u>(106,000)</u>	Nil
<b>Year ended 31.12.2025</b>				
01.01.2025 – 31.03.2025				
Salaries	12,500	7,500	5,000	Nil
Balance 2:3	<u>47,500</u>	<u>19,000</u>	<u>28,500</u>	Nil
Subtotal	<u>60,000</u>	<u>26,500</u>	<u>33,500</u>	Nil
01.04. 2025 – 31.12.2025				
Salaries	37,500	15,000	15,000	7,500
Balance (2:5:3)	<u>142,500</u>	<u>28,500</u>	<u>71,250</u>	<u>42,750</u>
Subtotal	<u>180,000</u>	<u>43,500</u>	<u>86,250</u>	<u>50,250</u>
Total	240,00	70,000	119,750	50,250
Less loss relief		<u>(54,000)</u>	<u>(106,000)</u>	<u>-</u>
Assessible income		<u>16,000</u>	<u>13,750</u>	<u>50,250</u>

**END OF SUGGESTED SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C5: INDIRECT TAXES

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THURSDAY 11 DECEMBER 2025

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. Cell Phones are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2 to 6 of this paper.

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



## Taxation Table

### Income Tax

#### Standard personal income tax rates

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

#### Income from farming for individuals

K1 to K61,200	first K61,200	0%
Over K61,200		10%

#### Company Income Tax rates

On income from manufacturing and other	30%
On income from farming and agro-processing	10%
On income from mineral processing	30%
On income from mining operations	30%

### Mineral Royalty

#### Mineral Royalty on Copper

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

#### Mineral Royalty on other minerals

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

### Capital allowances

#### Implements, plant and machinery and commercial vehicles:

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

	Wear and tear allowance if used in Mining and Mineral processing	20%
<b>Non-commercial vehicles</b>		
Wear and tear allowance		20%
<b>Industrial buildings:</b>		
Wear and tear allowance		5%
Initial allowance		10%
Investment allowance		10%
<b>Low cost housing</b>	<b>(Cost up to K100,000)</b>	
Wear and tear allowance		10%
Initial allowance		10%
<b>Commercial buildings:</b>		
Wear and tear allowance		2%
<b>Farming allowances</b>		
Development allowance		10%
Farm works allowance		100%
Farm improvement allowance		100%

### Presumptive Taxes

#### Turnover Tax

##### Annual turnover

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 K	Tax per quarter 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

<b>Motor vehicles for the transport of ten or more persons, including the driver</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	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
<b>Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars</b>	<b>Aged 2 to 5 years</b>		<b>Aged over 5 years</b>	
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>
	K	K	K	K
<b>Sedans</b>				
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
<b>Hatchbacks</b>				
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

	<b>Aged 2 to 5 years</b>	<b>Aged over 5 years</b>		
	<b>Customs duty</b>	<b>Excise duty</b>	<b>Customs duty</b>	<b>Excise duty</b>

#### **Motor vehicles for the transport of goods**

K K K K

#### **Single cab**

GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589

#### **Double cabs**

GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991

**Panel vans**

GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589

**Trucks**

GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0
GVW up to 2 tonnes	15,715	12,048	7,246	5,556

**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:**

- 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%

- 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
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	10%
<b>3.</b>	<b>Buses/coaches for the transport of more than ten persons</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	Minimum Specific Customs Duty	K6,000
	<b>Excise Duty:</b>	
	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%
<b>4.</b>	<b>Trucks/lorries with gross weight exceeding 20 tonnes</b>	
	<b>Customs Duty:</b>	
	Percentage of Value for Duty Purposes	15%
	<b>Excise Duty:</b>	
	Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

**Attempt all FIVE (5) questions**

**QUESTION ONE**

- (a) Foreign tourists visiting Zambia are permitted to get a refund of VAT paid on goods purchased from approved retailers that are exported from Zambia. The refund is given provided certain requirements are met.

**Required:**

- (i) Explain the type of tourists eligible for a VAT refund. (2 marks)
- (ii) State the requirements for the tourist to get such a refund. (4 marks)

- (b) The Tax Appeals Tribunal was established under the Appeals Tribunal Act to deal with disagreements that may arise between the taxable supplier and the Zambia Revenue Authority (ZRA). The appeal against any ZRA decision or determination of the ZRA in relation to VAT must comply with the Tax Appeals Tribunal Regulations laid out in the Act.

**Required:**

Explain the grounds on which Tax Appeals Tribunal may hear appeals from taxable suppliers. (5 marks)

- (c) The mining sector is one of the sectors which have greatly contributed to the economic growth of the country.

**Required:**

State any three (3) VAT incentives available in the Mining Sector. (3 marks)

- (d) Libwe Limited is a mining company which operates in the North-Western Province of Zambia. VAT amounting to K87,300 for the month of June 2025 was paid late by 15 days. The minerals were sold to locally based customers.

**Required:**

Calculate the penalty and interest payable by the company.

You should assume that the bank of Zambia discount rate is 16% per annum. (6 marks)

**[Total: 20 Marks]**

## **QUESTION TWO**

- (a) The cash accounting scheme is only available to members of the Association of Building and Civil Engineering Contractors (ABCEC) who can only join the scheme following a written application to the Commissioner General.

### **Required:**

- (i) Explain how the cash accounting scheme operates for VAT purposes. (2 marks)
- (ii) Explain three (3) advantages and two (2) disadvantages of the Cash Accounting Scheme. (5 marks)
- (b) Explain the operation of Reverse Charge (Reverse VAT) and explain how the tax point for Reverse Charge is determined. (4 marks)
- (c) DAX Limited is a Zambian resident company which is not registered for Value Added Tax as it has not yet met the relevant statutory or compulsory VAT registration requirements. The Managing Director of the company has however been advised that the company can still register under the Voluntary Registration regulations.

### **Required:**

- (i) Explain three (3) conditions which should be met for a company to register for VAT under the statutory VAT registration regulations. (3 marks)
- (ii) State two (2) advantages and two (2) disadvantages of voluntary registration. (4 marks)
- (iii) State any two (2) circumstances which may cause the cancellation of VAT. (2 marks)

**[Total: 20 Marks]**



### **QUESTION THREE**

- (a) Explain the meaning of the term '*the Taxable Value of goods and services*'. (2 marks)
- (b) State any four (4) items on which Input Tax is not recoverable. (4 marks)
- (c) Explain four (4) conditions which must be met for a business to claim bad debt relief. (4 marks)
- (d) Mwaume Enterprises makes both taxable and exempt supplies. The business is registered for Value Added Tax.

During the month of May 2025 the business undertook the following transactions:

- (1) Sales for the month were K250,000, out of these 10% were exempt supplies, 20% were zero rated and the balance were standard rated.
- (2) Sold a Toyota canter for K80,000 as it was constantly breaking down.
- (3) Bought a Fuso truck at a cost of K350,000 (VAT inclusive).
- (4) Purchased standard rated goods for the business from various suppliers worth K150,000, 5% of these purchases were from suppliers who are not registered for VAT and the rest were from VAT registered suppliers.
- (5) Standard rated expenses amounted to K25,600. This includes K5,000 for entertaining suppliers. The balance represents general overheads.
- (6) On 31 May 2025 the business wrote off debts totaling K85,000. The debts were in respect of three standard rated invoices of K10,000, K15,000 and K25,000. The invoices were due for payment on 30 September 2023, 31 May 2024 and 30 June 2024 respectively.
- (7) On 2 June 2025, Mwaume enterprises purchased a motor car costing K160,000.
- (8) All motor vehicles are used to make taxable and exempt supplies in proportion to sales.
- (9) Unless otherwise stated, all the figures above are exclusive of VAT.

#### **Required:**

Calculate the VAT payable/claimable by Mwaume Enterprises. You should indicate using a Zero (0) in your computation all items on which VAT is not chargeable or claimable.

(10 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) The Customs and Excise Division of the Zambia Revenue Authority administers excise and customs duties.

**Required:**

- (i) Explain the specific powers of a Customs officer in the process of protecting and proper administration of the Customs and Excise Act. (4 marks)
- (ii) State any four (4) types of goods which are prohibited from importation into Zambia. (4 marks)
- (b) Maselino imported a second hand Toyota Mark X Sedan car having a cylinder capacity of 2000cc which was manufactured in 2023. The cost price of the car was US\$8,500 paid and motor vehicle inspection fees in Japan amounted to US\$202. He further paid US\$1,530, for freight and US\$595 for insurance up to port of Dar-es-salaam.

When the vehicle arrived at the port of Dar-es-salaam he further paid US\$560 and US\$240 for transportation and insurance respectively to the point of entry at Nakonde. He paid K4,000 for fuel and transportation costs from Nakonde to Lusaka. The Commissioner General approved exchange rate was K17.75 per US\$1.

**Required:**

- (i) Explain the circumstances under which Zambia Revenue Authority will invoke its rights to revalue the imported vehicle and explain the purpose of such a revaluation. (3 marks)
- (ii) Calculate the import duties and other related taxes paid by Maselino. (9 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

The Government of the Republic of Zambia is a member of various regional and global trade agreements such as COMESA and SADC.

#### **Required:**

- (a) Explain five (5) major focus areas of the COMESA UNION. (5 marks)
- (b) Explain the four (4) objectives of the Preferential Trade Agreement (PTA). (4 marks)
- (c) Explain four (4) matters a Customs Station Manager will consider when inspecting a Bonded Warehouse (4 marks)
- (d) Explain any three (3) advantages of a Bonded Warehouse. (3 marks)
- (e) Describe the operation of the Duty Drawback (DDB) and explain its purpose in relation to the exportation of goods. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **C5 INDIRECT TAXES**

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

- (a) (i) The eligible tourist is a person who:
- (1) Is not a resident of Zambia (i.e. has been in Zambia for more than 12 months)
  - (2) Does not hold a Zambian passport
- (ii) The eligible tourist is refunded upon production of the following:
- (1) The goods
  - (2) An export tax invoice
  - (3) His/her passport
  - (4) An Airline ticket (required if using airline to exit Zambia)
- (b) The following are the grounds on which the Tax Appeals Tribunal may hear the appeals:
- (1) Registration of taxable suppliers, or cancellation of registration, or refusal to register a supplier.
  - (2) Tax assessed on any supply of goods/services or importation of goods.
  - (3) Input tax that may be claimed by a taxable supplier.
  - (4) The application of any rule providing for the apportionment or disallowance of input tax.
  - (5) Notice requiring early payment of tax or security.
- (c) Exports of the mines are zero-rated. However, minerals sold locally attract VAT. Hospital charges in mine-run hospitals are zero-rated.
- Input such as electricity, coal, haulage services, mining contractor costs, copper concentrates, loader spares and other items directly linked to production including consumable items used in the production process are standard rated. However, the input tax on them is recoverable.

Standard rated non-claimable items are usually those that are not processed further, including transport, uniforms, paper beverages etc.

(d) For the late submission of the VAT return, the penalty would be:

1,000 penalty units x 15 days

= K400 X 15 days

= K6,000

- For the late payment of VAT, the penalty would be:

= 0.5% x K87,300 x 15 days

= K6,547.50

- There will also be interest on overdue tax as follows:

= (16% +2%) x K87,300 x 15/365

= K646

## **SOLUTION TWO**

- (a) (i) A trader who is under the cash accounting scheme accounts for VAT on the basis of the receipts and payments of cash. And as such VAT payments and recoveries are dealt with in the return for the tax period in which cash is paid and received.

(ii) Advantages of cash accounting scheme

- (1) VAT is only payable if the customers have made payments.
- (2) It is easy to prepare the VAT return as the cash book can be used to do so.
- (3) Bad debts relief occurs automatically since no VAT is payable if the customers have not made payments.

Disadvantages of the cash accounting scheme

- (1) Input VAT cannot be reclaimed until payment has been made to suppliers.
- (2) The scheme is not open to all kinds of traders and therefore small scale traders in sectors other than members of the ABCEC cannot benefit from it.

- (b) Reverse charge Tax, also known as Reverse VAT, is a transfer of liability to account for and pay VAT on imported services from the person making the supply (i.e. the supplier) to the person receiving the supply (i.e. the recipient).

It only applies in cases where the non-resident supplier has not appointed a local tax agent and where VAT has not been charged on the supply of service in the country of exportation. The recipient of the services raises a Tax invoice based on the value of the services received from the non-resident supplier.

The value of the services is the taxable value to which VAT at 16% is to be added and the VAT will be declared on the relevant return.

The reverse charge cannot be claimed back as input tax.

The tax point related to reverse charge is the earliest of the following events:

- (1) Time when payment is made
- (2) Time when an invoice is received from the supplier
- (3) Time when the services are actually rendered or performed.

- (c) (i) A supplier can register for VAT under statutory registration provided:
  - (1) The trader makes a turnover of at least K800,000 in any 12 months period.
  - (2) K200,000 in any three consecutive months; or
  - (3) Taxable turnover is expected to exceed either of the above limits in the subsequent 12 or 3 months respectively.
- (ii) Advantages of voluntary registration
  - (1) The impression of a substantial business activity may be created.
  - (2) The trader will be able to reclaim input VAT on expenses as long as that input VAT is recoverable
  - (3) The business will compete well with other businesses which are registered for VAT in that their costs will not be distorted by being VAT inclusive.

#### Disadvantages of Voluntary registration

- (1) VAT registration results in increased administration. The trader's administration costs will rise as a result of registering for VAT purposes.
  - (2) Non-registered customers who get supplies from the trader will have an increased cost.
  - (3) Penalties will be charged if the trader fails to pay or submit the VAT return.
- (iii) Circumstances which can cause the cancellation of VAT
    - (1) If one has been granted registration in anticipation of commencing a business on a certain date but do not carry out any business on or before the due date.
    - (2) When the value of taxable suppliers falls consistently below the VAT registration threshold.

### **SOLUTION THREE**

(a) Definition of Taxable Value

- (1) The taxable value is the price that is charged for good and services onto which VAT at 16% is added.
- (2) For goods and services which attract excise duty it is the net selling price plus excise duty
- (3) For goods and services which do not attract excise duty, the VAT is on the net price excluding excise duty

(b) Expense items on which Input Tax is non-claimable:

- (1) Motor cars and expenses thereon
- (2) Consumables such as stationery, lubricants and spare parts
- (3) Business entertainment, food and beverages to staff and clients
- (4) Telephone and internet connectivity bills
- (5) Expenses for domestic accommodation of directors.

(c) The following conditions must be met for a business to claim bad debt relief;

- (1) A supply of goods and services must have been made for consideration in money or by barter.
- (2) Output VAT must have been accounted for and paid by the supplier,
- (3) The whole or part of the debt must have been written off as bad in the records of the supplier,
- (4) At least eighteen (18) months must have elapsed since the time when the payment was due.
- (5) The debtor must have been declared insolvent by the courts of law.

(d) Mwaume Enterprises VAT payable/claimable

OUTPUT VAT	K	K
Sales ( exempt sales, K250,000 x 10%)		0
Sales( zero rated,K250,000x 20% x0%)		0
Sales (K250,000x 70%x16%)		28,000
Sale Toyota canter (K80,000 x16%)		<u>12,800</u>
		40,800



#### INPUT VAT

Purchase of Fuso truck ( $K350,000 \times 4/29$ ) $\times 90\%$	43,448
Purchases ( $K150,000 \times 95\% \times 16\%$ )	22,800
Overheads ( $K25,600 - K5,000 \times 16\%$ ) $\times 90\%$	3,296
Bad debt write off ( $K10,000 \times 16\%$ )	1,600
Entertaining suppliers	0
Motor car (irrecoverable)	0
	<u>71,144</u>
VAT payable/claimable	<u>(30,344)</u>

#### WORKINGS

The amount of the recoverable non attributable input VAT will be restricted to 90% given that 10% of the company's sales are exempt supplies.

## **SOLUTION FOUR**

- (a) (i) The specific powers of a customs officer:
- (1) Enter any shop, office, store, structure or enclosed area for making such examination and enquiry as he considers necessary.
  - (2) Demand for any book, document or thing which is required under the Act.
  - (3) Examine and make extracts from and copies of such books and documents
  - (4) Take with him onto such premises an assistant who may be a police officer.
- (ii) The following are some of the items prohibited from importation:
- (1) Base or counterfeit coins
  - (2) Any goods which are indecent, obscene or objectionable
  - (3) Any goods which may tend to corrupt the morals of the inhabitants, or any class of the inhabitants of Zambia
  - (4) Any goods whose importation is prohibited by, or under the authority of any law
- (b) (i) Circumstances under which ZRA may invoke its powers to revalue an imported motor vehicle.
- (1) The vehicle is acquired in circumstances other than the usual course of business.
  - (2) The importer or customs clearing agent provide insufficient or unsatisfactory information.
  - (3) The purpose of the revaluation is to determine the equitable transaction value in the country of supply

(ii) Maselino's duty paid

		\$
Cost price		8,500
Freight		1,530
Insurance		595
Inspection		202
Transportation		560
Additional insurance		<u>240</u>
		<u>11,627 1</u>
	K	K
Value for duty purpose (\$11,627 x K17.75)	206,379	
Customs duty	<u>18,695</u>	18,695
	225,074	
Excise duty	<u>24,304</u>	24,304
	249,378	
Import VAT (K249,378x 16% )	<u>39,900</u>	39,900
	<u>289,278</u>	

Total taxes paid

82,899

### **SOLUTION FIVE**

(a) The COMESA UNION is focused on five (5) major issues:

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

(b) Four (4) objectives of PTA

- (1) To promote cooperation and integration covering all areas of economic activity, particularly trade and customs, industry, transport and communications, agriculture and monetary affairs.
- (2) To raise the standard of living of the people of the region by fostering closer relations among member states.
- (3) To create a common market by the year 2000 in order to allow the free movement of goods capital and labour within the sub region
- (4) To contribute to the progress and development of all other African countries.

(c) Matters to be considered when inspecting a Bonded Warehouse.

- (1) The warehouse must be conveniently situated, within 20km from the controlling station.
- (2) The warehouse must be secure and separate from retail outlets.
- (3) The doors must be strong (grilled doors are recommended) and have a provision for a custom lock.
- (4) Access into warehouse must be restricted.

(d) Advantages of a Bonded Warehouse

- (1) Goods are stored without payment of duty, giving the exporter enough time to source for funds.
- (2) Goods can sell slowly due to fluctuating demand, hence duty can be paid according to demand.
- (3) Constant supply of raw materials can be assured in the manufacturing industry by importing in bulk and payments being made to production demands.

- (e) The Duty Drawback System is an export support program by the government that enables local manufacturers to get back any taxes incurred either directly or indirectly on any goods produced for export.

Under the DD system duty paid on imports used as imports to manufacture goods for export or the implicit duty incurred on exports is refunded to the registered exporter who make a claim and supports his claim by the requisite documents.

Both the duty on imported inputs and excise duty on domestic items used to produce goods which are exported must be calculated using draw back duty coefficient.

The purpose is to avoid double taxation. DDB also improves the exporter cash flow.

### **END OF SUGGESTED SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C6: LAW FOR TAX PRACTITIONERS

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FRIDAY 12 DECEMBER 2025

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

**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

**Attempt any FIVE (5) questions.**

**QUESTION ONE**

Y2K Consultancy Ltd is a registered financial and accountancy training institution based in Chingola. In September, 2024, it placed an advert in the newspaper inviting applications for various positions, which included lecturing positions in various courses. Lumba a Chartered Accountant, applied for the position of lecturer and was recently employed by Y2K Consultancy Ltd to be lecturing in Tax Law and Financial Accounting. His contract of employment shows that he was engaged on 1 October, 2024.

**Required:**

- (a) On his first day in class, Lumba taught about '*The Three Organs of State*'. Explain these organs of State. (6 marks)
- (b) On his second day in class, he taught about '*control over delegated legislation*' by Parliament and Courts. Explain two (2) ways by which this is done. (4 marks)
- (c) Other than 1 October, 2024 being on his contract of employment, state four (4) other express terms that should have been on it. (4 marks)
- (d) Under what circumstances would Lumba be unfairly dismissed? (6 marks)

**[Total 20 Marks]**

**QUESTION TWO**

- (a) State three (3) disadvantages of Partnership Business you know. (3 marks)
- (b) Explain the doctrine of Intra –vires in company law and the importance of Articles of Association. (7 marks)
- (c) Explain the conditions precedent for agency by Estoppel to stand at law. (5 marks)
- (d) Describe three (3) duties of a Receiver. (3 marks)
- (e) Define the word "law". (2 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Douglas Kabbudula has taken out a life assurance policy with African Eagle Insurance Company. The policy is to provide a lumpsum to his dependants in case of his death and pay for any sickness to himself during the subsistence of the policy. At the time of signing the policy, one of the questions asked to him was, 'Do you suffer from hypertension'? His answer was in the negative, but in fact he was hypertensive. He also insured his best friend, Ambrose's car, a 'Toyota Camry, 2024 Model, Bullet Proof', with the same insurance company. He said to himself that in an event that the car is stolen or damaged, his friend would suffer some huge loss and may end up dying from depression.

#### **Required:**

- (a) Owing to his hypertensive condition, Douglas Kabbudula has developed a very serious breathing and blood flow complication condition which needs his heart to be operated on. Following the principle of *utmost good faith*, should African Eagle Insurance Company pay his medical bills for the heart operation? Explain your answer. (8 marks)
- (b) Was Douglas Kabbudula right in insuring the friend's car? Explain your answer. (6 marks)
- (c) Define a promissory note. (6 marks)

**[Total 20 Marks]**

### **QUESTION FOUR**

- (a) State and explain the elements of a simple contract. (8 marks)
- (b) Differentiate between choses in action and choses in possession. (4 marks)
- (c) Explain in brief, the advantages of partnership business. (4 marks)
- (d) List any four (4) sources of law you know. (4 marks)

**[Total 20 Marks]**

### **QUESTION FIVE**

MIMZ Cosmetic Company have manufactured a cream which they are calling 'SMOOTH' meant for brightening, smoothing and making skin look younger. The company advertised the product both on TV and in newspapers. According to the advert, anyone who applies the body cream twice daily for fourteen (14) days, would have bright, smooth and vibrant skin. The advert further stated that if anyone developed rash, acne or any other skin problem after using the product, the company would pay them K10,000.00 as compensation. The company has further deposited K1,000,000.00 in its ZANACO Bank account to that effect.

Nancy an 18 years old University student bought the cream in Shoprite and applied it as instructed in the advert, however, she developed rash all over her body after using the body cream for five (5) days. Nancy went to MIMZ Cosmetic Company to claim the K 10,000.00 compensation, however the company has refused to compensate her as they claim that no contract exists between the company and Nancy.

**Required:**

- (a) With reference to the **prerequisites** of a valid contract, explain to Nancy if MIMZ Cosmetic Company's claim is true or false. (10 marks)
- (b) Discuss the main remedies of the buyer under the sale of goods. (10 marks)

**[Total 20 Marks]**

**END OF PAPER**



## C6 LAW FOR TAX PRACTITIONERS

### SUGGESTED SOLUTIONS

#### SOLUTION ONE

- (a) The three organs of government which Lumba taught on his first day are: **The Executive, The Legislature** and **The Judiciary**.

*The Executive* is headed by the Republican President who then appoints a cabinet from amongst members of parliament. The Cabinet is made up of ministers who run ministries and civil service on a day to day basis.

*The Legislature* is also known as Parliament is headed by the Speaker of the National Assembly and made up of Members of Parliament. The purpose of the Legislature is to make laws.

*The Judiciary* is headed by the Chief Justice and made up of all the courts of the Republic of Zambia. Its main purpose of resolution of disputes either criminal or civil matters

- (b) Two ways by which Parliament and Courts Control over delegated legislation are as follows:

**Control By Parliament:** - Parliament controls delegated legislation by having a Select Committee on Statutory Instruments which reviews all of them and decided whether it should be reviewed by Parliament or not.

**Control By Courts:** - Courts determine the reasonableness of the Statutory Instruments when they are brought before them for judicial review or by petition by any interested party. If it is found that the statutory instruments are unreasonable, the Courts may quash them or make an order as to its correct interpretation.

- (c) **Other than '1 October, 2024'** the other express terms that could have been on his contract of employment include: Name of employer, name of employee, nature of business, duration of contract, salary, working hours, place of contract and where work is to be done from, nature of work, etc.

**N.B: Answer should not include the date as it is excluded.**

- (d) Unfair dismissal occurs when an employee is dismissed for unfair reasons, i.e. against the laws of the land such as the Labour Law. This is dismissing an employee based on their personal status, without having done any wrong. The aim of this law is to promote fair labour practices in work places. Lumba may be unfairly dismissed if he is dismissed on account of his sex, race, marital status, religion, political opinion or affiliation, tribal extraction, joining a trade union or going on strike.

## **SOLUTION TWO**

- (a) Disadvantages of a partnership include that: the liability of the partners for the debts of the business is unlimited. each partner is 'jointly and severally' liable for the partnership's debts; that is, each partner is liable for their share of the partnership debts as well as being liable for all the debts. The business has no independent status and has perceived lack of prestige, Limited access to capital, potential for differences and conflict, difficult decision making, sharing of profits
- (b) In company law, intra vires is a legal term that means an action is within the legal authority of a corporation. It is the opposite of ultra vires, which means an action is beyond the legal authority.

How is intra vires used in company law?

- Intra vires is used to describe actions taken by a corporation that are within the scope of its authority.
- It is used to describe actions that fall within the objects and purposes specified in a company's memorandum of association and articles of association.
- For example, calling a shareholders' meeting is an intra vires function of the board of directors.

What are the documents that define intra vires?

- The memorandum of association and articles of association set out the permitted activities and legal capacity of the corporation. A company must stick to that which is contained in its Articles of Association.
- These documents define the limits of the powers conferred on the corporation by statute or some other constituting document.

- (c) Agency by estoppel is a legal principle that holds a principal responsible for the actions of an agent, even if there was no formal agreement. It's also known as apparent agency.

How it works

- The principal leads others to believe that the agent has the authority to act on their behalf.
- Third parties rely on this impression and do business with the agent.
- If there are disputes, the law prevents the principal from denying the agent's authority.

- (d) A receiver has many duties, including managing assets, preparing reports, and overseeing business processes.

Managing assets

- Administering assets to preserve them for the benefit of a creditor
- Collecting income and profits to avoid misappropriation
- Accounting for receivership property

Preparing reports Preparing and filing reports on the status of the receivership, reporting serious problems, and Preparing a final report.

Overseeing business processes Overseeing business processes, Facilitating the resolution of disputes between parties, and Protecting a creditor from liabilities.

- (e) Law is defined as asset of rules followed by a particular group of people usually to regulate conduct.

### **SOLUTION THREE**

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

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

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

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

- (c) A written undertaking signed by the maker to pay a fixed sum of money only to or to the order of another person (the payee) or bearer on demand or at a specified time.

## **SOLUTION FOUR**

- (a) The key elements of a simple contract are: offer, acceptance, consideration, capacity, legality, and intention to create legal relations; essentially, one party makes an offer, the other party accepts it, both parties provide something of value (consideration), are legally capable of entering a contract, and have the intention to be bound by the agreement.

Explanation of each element:

- **Offer:** A proposal made by one party to another, outlining the terms of the agreement.
- **Acceptance:** The agreement by the other party to the terms of the offer, signifying their willingness to be bound by the contract.
- **Consideration:** Something of value exchanged between the parties, demonstrating that each party is giving something in return for the promises made.
- **Capacity:** The legal ability of a person to enter into a contract, meaning they must be of sound mind and not a minor.
- **Legality:** The subject matter of the contract must be legal and not violate any laws.
- **Intention to create legal relations:** Both parties must have the intention to be legally bound by the agreement.

Key points to remember:

- A simple contract can be formed verbally or in writing, depending on the circumstances.
  - For a contract to be enforceable, all the essential elements must be present.
  - If any element is missing, the contract may be considered void or unenforceable.
- (b) In legal terms, a "chose in action" refers to a personal property right that can only be claimed or enforced through legal action, meaning you can't physically possess it, while a "chose in possession" is a tangible personal property that you can physically hold and possess, like a piece of furniture or money in your pocket.

Key points to remember:

- **Chose in action:**
  - Examples: A debt owed to you, a right to sue under a contract, an insurance claim.
  - You can only "claim" this right by initiating legal proceedings.
- **Chose in possession:**
  - Examples: A car, a piece of jewelry, cash in your wallet.
  - You have physical control and possession of the item.

- (c) A partnership business has many advantages, including cost savings, tax benefits, and access to more resources.

Cost savings

- **Setup costs:** Partnerships are inexpensive to set up and run.
- **Taxation:** Partnerships are pass-through entities, so the business itself doesn't pay income tax. Instead, profits and losses are passed through to the partners.

Tax benefits

- **Avoids double taxation:** Partners report profits and losses on their personal tax returns, which avoids the double taxation that corporations face.

Access to more resources

- **More funding:** A partnership can raise more money than a sole proprietorship.
- **More knowledge:** Partners can share their knowledge, skills, and contacts.
- **More business opportunities:** A partnership can explore new business opportunities.

Other advantages

- **Flexibility:** Partnerships are easier to form and manage than companies.
- **Risk sharing:** Partners share financial investment and responsibilities.
- **Improved management:** Partners are involved in the day-to-day operations of the business.

- **Emotional support:** Partners can provide emotional support to each other.

A partnership is a legal arrangement where two or more people or entities manage a business together.

- (d) (1.) Constitution
- (2.) Delegated Legislation
- (3.) Common Law and Equity
- (4.) Judicial Precedent any 4



## **SOLUTION FIVE**

- (a) A contract is an agreement between two or more parties that creates mutual legal obligations. A contract can be either oral or written. For a contract to be valid, the following must exist; offer, acceptance, consideration, legality, capacity and formality.

### **1. Offer**

An offer is a definite promise to be bound by terms once the other party (offeree) agrees to those terms. The person who makes the original offer is the offeror; the person who receives it is the offeree, although the parties can change roles in the course of their negotiations. The offer sets out the terms upon which the offeror is willing to enter into contractual relations with the offeree. The essential thing to emphasise about an offer is that, once it is accepted by the offeree, a legally binding contract has been entered into, and failure to perform what has been promised will result in breach of contract. The usual definition of an offer is a promise, capable of acceptance, to be bound on particular terms. The first consequence to note from this definition is that the promise to be accepted must not be too vague. The classic case on this point is **Scammell v. Ouston[ (1941)]**, in which the court was unable to decide on the precise nature of the offer that was supposed to have been accepted by the plaintiff. Ouston had ordered a van from Scammell on the understanding that the balance of the purchase price could be paid on hire-purchase terms over two years but the actual terms of Ouston's agreement were never actually fixed.

### **2. Acceptance**

Acceptance is necessary for the formation of a contract. As stated above once the offeree has assented to the terms offered, a contract comes into effect and both parties are bound by the terms offered and accepted. Any acceptance must correspond with the terms of the offer; otherwise the attempt to introduce new terms into the acceptance will operate as a counter-offer and will revoke the original offer. The general rule is that acceptance must be communicated to the offeror. As a consequence of this rule, silence cannot amount to acceptance as was seen in the classic case of **Felt house v. Bindley [ (1863)]** The complainant, Paul Felt house, had a conversation with his nephew, John Felt house, about buying his horse. After their discussion, the uncle replied by letter stating that if he didn't hear any more from his nephew concerning the horse, he would consider

acceptance of the order done and he would own the horse. His nephew did not reply to this letter and was busy at auctions. The defendant, Mr. Bindley, ran the auctions and the nephew advised him not to sell the horse. However, by accident he ended up selling the horse to someone else. There are, however, exceptions to the general rule that acceptance must be communicated. Thus in unilateral contracts, such as *Carlill v. Carbolic Smoke Ball Co*, where the offeror has waived the right to receive communication, acceptance occurs when the offeree performs the required act and they do not have to specifically notify the offeror of their acceptance. Where acceptance is through the postal service, acceptance is complete as soon as the letter, properly addressed and stamped, is posted. The contract is concluded even if the letter subsequently fails to reach the offeror. In *Adams v. Lindsell* [ (1818)], the defendants wrote to the plaintiffs on 2 September, offering to sell them some wool and requested that the plaintiffs reply 'in course of post'. The letter which contained the offer was wrongly addressed and therefore the plaintiffs did not receive it until 5 September. As a result of this delay, the letter of acceptance was not received until 9 September by the defendants, and this was two days later than the defendants would have expected to receive it. Because of this, on 8 September the defendants had sold the wool to a third person.

### **3. Consideration**

Consideration was defined by Sir Frederick Pollock, a definition adopted by the house of Lords in ***Dunlop v. Selfridge* [ (1915)]** as: "An act or forbearance of one party or the promise thereof, is the price for which the promise of the other is bought and the promise thus given for value is enforceable." Consideration can be divided into the following categories:

#### **Executory consideration**

This is the promise to perform an action at some future time. A contract can thus be made on the basis of an exchange of promises as to future action.

#### **Executed consideration**

In the case of unilateral contracts, where the offeror promises something in return for the offeree's doing something, the promise only becomes enforceable when the offeree has

actually performed the required act. Thus if A offers a reward for the return of their lost watch the reward only becomes enforceable once it has been found and returned to them.

### **Past Consideration**

This category does not actually count as valid consideration. Normally consideration is provided either at the time of the creation of a contract or at a later date. In the case of past consideration, however, the action is performed before the promise that it is supposed to be the consideration for. Such action is not sufficient to support a later promise. In **Re McArdle [ (1951)]** William McArdle left a house to his five children in equal shares, subject to a life interest for his widow. The wife of one of these sons, Mrs. Marjorie McArdle, carried out improvements to the house amounting to £488. She also bore the cost of these repairs. After the repairs had been carried out, she got all the five children of McArdle to sign a document in which they promised to repay Mrs. McArdle the £488 out of the estate when it was eventually distributed. After the testator's widow died, Mrs. McArdle asked for payment. However, the other four sons refused to pay her. She tried to enforce her interest in the property in court. The Court of Appeal held that the transaction had not been completed and was imperfect. Therefore, it was only a promise to pay and not a gift. Mrs. McArdle had already performed the work before she asked for payment. Her consideration was in the past. Past consideration is not good consideration. Therefore, the agreement was unenforceable.

### **4. Intention to Create Legal Relations**

In order to limit the number of cases that might otherwise be brought, the courts will only enforce those agreements which the parties themselves intended to have legal effect. Although expressed in terms of the party's intentions, the test for the presence of such intention is an objective, rather than a subjective, one. In deciding cases the courts will apply different presumptions depending on the context of the agreement.

#### **Domestic and social agreements**

In this type of situation, the presumption is that the parties do not intend to create legal relations when they exchange promises. Thus in *Balfour v. Balfour* [ (1919)] when a husband returned to Ceylon to take up his employment he promised his wife, who could not return with him due to ill health, that he would pay her £30 per month as maintenance.

When the marriage later ended in divorce the wife sued for the promised maintenance. It was held that the parties had not intended the original promise to be binding and therefore it was not legally enforceable. A similar presumption was applied to decide the case of *Jones v. Pandavatton* [ (1969)] in which a daughter failed in an action for breach of contract against her mother. The mother had promised to provide for the daughter whilst she completed her legal study, but had later refused to keep the promise.

It is essential to realise that the intention not to create legal relations in such relationships is only a presumption and that, as with all presumptions, it may be rebutted by the actual facts and circumstances of a particular case. Thus the presumption applied in *Balfour v. Balfour* was successfully rebutted in ***Merritt v. Merritt* [ (1970)]** where it was held that the agreement between a married, although separated, couple was enforceable, as in the circumstances the parties had clearly intended to enter into a legally enforceable agreement.

Similarly, in ***Simpkins v. Pays* [ (1955)]** what appeared to be a social agreement between members of a household in relation to entering a competition, was held to be a binding agreement.

### **Commercial agreements**

In commercial situations there is a strong presumption that the parties intend to enter into a legally binding relationship in consequence of their dealings. An example of the operation of the presumption is *Edwards v. Skyways* [ (1964)]. In this case the plaintiff's employers had promised to make him what they referred to as an *ex gratia* payment as a result of his redundancy. It was held that in such a situation the use of the term *ex gratia* was not sufficient to rebut the presumption that the establishment of legal relations had been intended. *Edwards* was, therefore, entitled to the payment promised.

As with the presumption relating to domestic and social agreements, this one is also open to rebuttal. In commercial situations, however, the presumption is so strong that it will usually take express words to the contrary to avoid its operation. An example of just such wording can be found in *Rose & Frank Co v. Crompton Bros* [ (1925)] in which it was held that an express clause stating that no legal relations were to be created by a business transaction was effective. Another example involves agreements, such as football pools

coupons, which are stated to be binding in honor only (see *Jones v. Vernon's Pools Ltd* (1938)).

Collective agreements between employers and trade unions make up a distinct category of agreement, for although they are commercial agreements, they are presumed not to give rise to legal relations, and, therefore, are not normally enforceable in the courts (see *Ford Motor Co v. AUEFW* (1969)).

Letters of comfort are documents used by parent companies to encourage potential lenders to extend credit to their subsidiaries by stating their intention to provide financial backing for those subsidiaries. It is generally the case that such documents merely amount to statements of present intention on the part of the parent company. They do not amount to offers that can be accepted by the creditors of any subsidiary companies and therefore are, by and large, not worth the paper they are written on (*Kleinwort Benson v. Malaysian Mining Corp* (1989)).

## **5. Capacity**

Capacity refers to the fact that the law does not recognise the ability of some people to enter into binding contractual arrangements, or at least limits their capacity to enter into such arrangements. The reason for this is the paternalistic one that such individuals might not be in a position to fully appreciate the terms of any agreement they might enter into and consequently there is the possibility that they will be taken advantage of without their even realising it.

### **Minors**

In general terms, adults of sound mind have full contractual capacity and are free to enter into such agreements as they wish and will be required to comply with any such. Minors, however, those under the age of 18, do not have full capacity. The rules which apply to minors are a mixture of common law and statute, and depend on when the contract was made. In considering the cases cited in relation to capacity of minors it should be remembered that the age of majority was only lowered to 18 from 21 in 1969, so in the early cases minors were significantly older than they are now. Agreements entered into by minors may be classified within three possible categories:

- (i) Valid contracts.
- (ii) Voidable contracts.
- (iii) Unenforceable contracts.
- (ii) Valid contracts

These are agreements that can be enforced against minors and involve one of the following:

Contracts for necessities. Minors are under a legal obligation to pay for things necessary for their maintenance although even then they will only be required to pay a reasonable price for any necessities purchased. Necessaries are defined in the Sale of Goods Act, Section 3, as goods suitable to the condition in life of the minor and their actual requirements at the time of sale. The classic case on this point is the wonderfully anachronistic *Nash v. Inman* [ (1908)] in which a tailor sued a minor to whom he had supplied clothes, including 11 fancy waistcoats. It was decided that, as the minor was an undergraduate at Cambridge University at the time, the clothes were suitable according to the minor's station in life. Unfortunately for the tailor, however, it was further decided that they were not necessary, as he already had sufficient clothing.

Beneficial contracts of service. A minor is bound by a contract of apprenticeship or employment, as long as it contains an element of education or training and is, on the whole, for their benefit. In *Doyle v. White City Stadium* [ (1935)], a minor who had obtained a professional boxer's licence, attempted to avoid some of the rules contained in the agreement by having it declared unenforceable due to his lack of capacity. In deciding the case, not only was the licence treated as a contract of apprenticeship, but it was also held that, taken as whole, it was beneficial to him.

- (i) Voidable contracts

These may be avoided by the minor, but if no steps are taken to repudiate the contract during the time of their minority, or within a reasonable time after reaching the age of majority, then they are binding and cannot be avoided subsequently. Voidable agreements relate to transactions in which the minor acquires an interest of a permanent nature with obligations continuing into the time of their majority: examples are contracts for shares,

or leases of property, or partnership agreements. The minor will only be able to recover money paid out under the terms of the agreement before repudiation of the contract, where there is a total failure of consideration. In other words, they will not be able to recover the money unless they received no benefit whatsoever from the agreement. For example, in *Steinberg v. Scala Leeds* [ (1923)] in which a minor, applied for and was allotted shares in the defendant company. After paying some money on the shares she repudiated the contract. Although the company agreed to remove her name from its register of members, it refused to return any of her money. It was held that the plaintiff had benefited from membership rights and thus, as there had not been a complete failure of consideration, she was not entitled to the return of the money paid.

(ii) Unenforceable contracts

Under the Infants Relief Act (1874) the following contracts were stated to be absolutely void:

Contracts for the repayment of loans;

Contracts for goods other than necessities;

Accounts stated: i.e., admissions of money owed.

In addition, no action could be brought on the basis of the ratification, made after the attainment of full age, of an otherwise void contract. Although the Infants Relief Act stated that such contracts were absolutely void; in effect this simply meant that they could not be enforced against the minor. The Minors Contracts Act 1987 now declares that the contracts set out in the Infants Relief Act are no longer to be considered as absolutely void. As a consequence, unenforceable contracts may be ratified on the minor attaining the age of majority. The Minors Contracts Act has also given the courts wider powers to order the restoration of property acquired by a minor. They are no longer restricted to cases where the minor has acquired the property through fraud but can order restitution where they think it just and equitable to do so.

In the current scenario, all the elements are present therefore a valid contract exists between Nancy and MIMZ Cosmetic Co, MIMZ Cosmetic Co.'s claim is false. Also, Nancy is entitled to the K 10,000 compensation.

(b) The main remedies of a buyer under the sale of goods are:

- ✓ Reject the goods
- ✓ Rescission for innocent misrepresentation
- ✓ Damages
- ✓ Specific performance

**END OF SUGGESTED SOLUTIONS**